ECONOMY — 1990

APRIL — MAY

INTEREST REBATES TO FALL AWAY?

B|Day 7/4/90 (49)

The Budget announcement that dividends would be exempt from tax in fiscal 1991 raises the question of how interest on money borrowed to buy shares will be treated.

Accountants KPMG Aiken & Peat partner Alister MacKenzie says the normal test for deductibility of an expense is that it should be laid out for the purpose of producing income.

As dividends will no longer constitute income, any interest on a loan used to buy shares would — on the basis of the normal tests — *not* be deductible.

MacKenzie says this is not unlike the tax position of companies.

"Under the Income Tax Act, Section 10 (1) (k), dividends received by a company are tax exempt. Because the dividends do not in consequence of this constitute income, any interest or borrowings to purchase the shares is not tax deductible."

There are many share incentive schemes where executives are paying normal interest, low interest or, in some cases, no interest.

Before the Budget proposals, the actual level of the interest was measured against the "official rate" and any difference was taxed as a fringe benefit.

Any amount so taxed is deemed to be a deduction if the loan was used for qualifying purpose, he says.

On this basis, if shares were purchased on loan account any interest — actual or deemed — would be deductible up to two-thirds, since the dividends are taxable to the extent of two-thirds of the dividend.

"Under the new arrangement, because no amount is taxable, no interest — either actual or deemed — would be deductible."

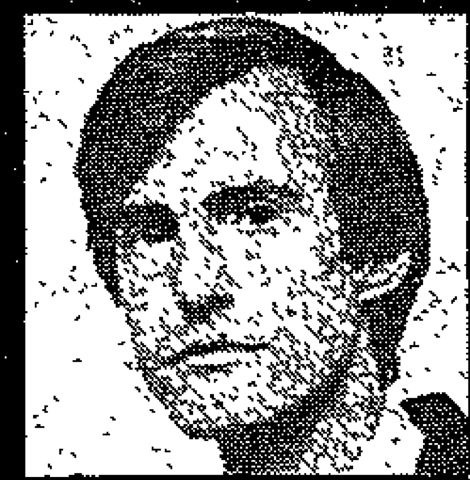
Case law suggests that it could be argued that since the original purpose was to produce taxable income, this will continue to be a qualifying purpose for old loans.

SUNDAY TIMES, Business Times, April 1, 1990

(49)

In search of the best of both worlds

REX



Cees Bruggemans reviews the local and world scene

IT seems appropriate on April Fool's Day to examine some of the assumptions underlying the inflation and spending agendas.

The Reserve Bank has announced an M-3 money-supply growth guideline of 11% to 15% for the coming year. This range is half the reality of the past two years, and serves as a reminder that the bank's task has only begun.

This throws cold water over those who have continued to insist on business as usual: economic softness, together with a strong balance of payments and rising foreign reserves, translating into easier liquidity in the banking system and consequent downward pressure on interest rates.

The day will indeed dawn when the Reserve Bank will allow financial markets to reflect such an outcome. But not yet. A couple of weaknesses are to be ironed out of our financial condition first.

However, not everyone agrees about how successful those policy intentions will be. Much may depend on the tenacity of Reserve Bank Governor Chris Stals and the political constraints on him — despite the current image of a united front at the top.

There can be no quibble about the intention to rebuild the foreign reserves and the transformation of the foreign debt. By keeping the economy back for at least two years to a sub-par 1% growth rate, it should be relatively easy to generate a strong external cash-flow surplus and accumulate it.

This assumes a decline in imports, assured by domestic stagnation, while the world economy may in fact do better than expected, and our exports with it, notwithstanding a relatively low dollar price of gold.

[redacted]

It is fashionable to talk of a slowing world economy and the reverberating disturbances in the various financial markets, but that may after all prove to be too fearful by far when assessing our export prospects.

There are some powerful forces churning out there, and not all of them are negative.

There should also be no questioning the intention to reduce money-supply growth, provided fiscal spending does not go off the rails and the Reserve Bank is prepared to keep the cost of money high.

However, here the first quiver of uncertainty presents itself. Will declining money-supply growth and associated bank lending pull the inflation rate after it to First World levels, or will the real world also have a say in the matter?

If unit costs were to continue to rise at more than 15%, reflecting nominal wage increases and nearly no productivity gains, a heavy-handed monetary policy would presumably increasingly translate into lower sales and production levels rather than unit costs and inflation.

Most analysts will argue that a lead given by the public sector in annually lowering its remuneration growth, together with a slowing in company profit growth and easing of labour market conditions, will erode wage settlements. Over three years, real headway should this way be made in eroding unit labour cost growth.

However, while fully acknowledging that inflation can be frogmarched to single digits along this way, especially if "easy" depreciation of the currency were to be disallowed, industrialists and trade unionists may have some doubts.

In essence, labour is vigorously demanding a better deal. To tell the unions to earn their way to a higher standard of living is quaint politics, but not necessarily realistic.

[redacted]

Subterfuge may be applied, by keeping the economy soft and replacing labour with machines, so undermining the negotiating position of the unions. But this may not succeed in fully neutralising the emotional political demand for redress now of past injustices.

The game plan for bringing down inflation sounds excellent, except that it does not at all attempt to acknowledge the political agenda which will have its own say in this matter, and will not be a pushover.

These conditions generate a large spectrum of opinion about what will happen in the next three years. The one extreme sees single-digit inflation as possible and sustainable. The other sees nothing of the kind, indeed more of the past 15%-to-20% range.

The temptation is to say, with a wan smile, that the middle ground may be the only one realistically achievable. So many guns trained on a target for so long are bound to achieve something, and the political agenda will be as intense and insistent on achieving its objectives.

On that point we will have to discover what kind of government, and especially what kind of Reserve Bank, we really have.

In a letter to the Economist last week, the Governor of the Reserve Bank of New Zealand said his country now had probably the best of both worlds: independent monetary discipline combined with democratic control.

Its minister of finance and central bank governor have to fix precise monetary targets for five years ahead (they have decided on nil-to-2% inflation).

The central bank has complete independence in achieving this target. The Government can direct the central bank to change its policy, but this must be done by an order in council, subject to parliamentary debate. The public at all times will know who to blame for things not working out.

It remains to be seen how our inflation rate will respond to the forces gathered against it. We cannot yet know how policy will respond when the going gets tough, as it will.

So far, we only have sincere intentions on all sides, not all of them aimed at helping the inflation rate lower.

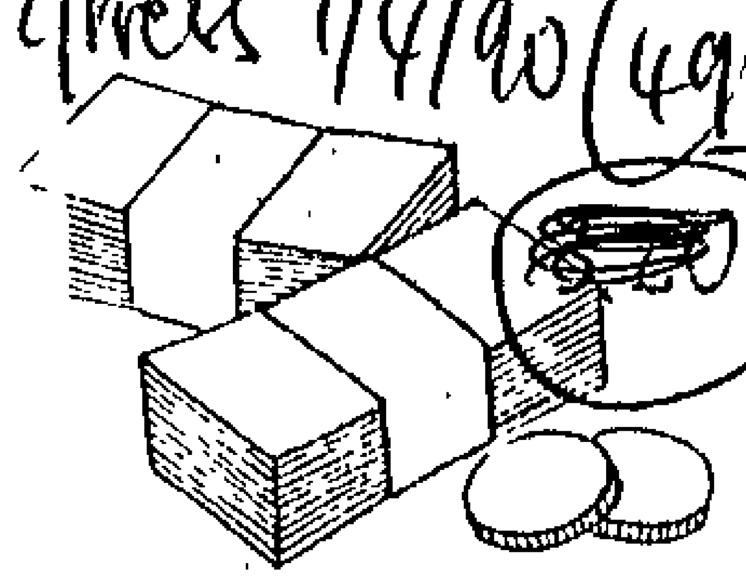
There remains the question of how stimulatory the Government's finances will become. The spending agenda has not as yet been fully aired, except in conceptional terms. Politically, there is still much to be agreed on, with a little bit more spending always the temptation to grease the political wheel.

[redacted]

This does not question the sincerity of the Government's intentions or black aspirations. It merely draws on the rich experience in many social democracies before us, many with a fraction of our agenda or timetable.

These things bear remembering when fondly contemplating First World inflation norms once more. Therefore, be bold, but never lose sight of the realities.

C Press 1/4/90 (49)



MONEY TALK

Now is the time to start saving again

TRADITIONAL saving went out of fashion in South Africa during the 1980s because of the high rate of inflation and high taxation.

I want to draw the attention of readers to the Budget proposals discussed in Parliament this week. They contain, in effect, a new deal for savers.

The most important measure is probably the abolishing of tax on company dividends, while the tax exemption on interest from income has been increased from R1 000 to R2 000.

I believe this figure is still too low, but at least it is a beginning. At current rates of interest it means about R11 000 can be saved without having to pay tax on the interest.

If an investor has R11 000 in a savings account at (say) 18,5 percent interest, the end result would be a real return – that is 18,5 percent less the inflation rate of 15 percent – of 3,5 percent.

At least the purchasing power of your money saved will not decline as has been the case for so many years.

Lack of a real return on savings has been the major reason why the flow of savings to building societies – the most important medium for ordinary savers – has declined so dramatically.

The present monetary policy is to keep rates at a level that would ensure a real return. So make hay while the sun shines!

ANC welcomes direct contact with industry

(49)

Cape Times 2/4/90

Own Correspondent

BISHO. — Direct contact between organised commerce and industry and African National Congress-aligned organisations on local problems would be welcomed, Mr Nelson Mandela told businessmen here on Saturday.

At a specially organised meeting between Mr Mandela and the businessmen at the Independence Stadium here, attended by more than 100 000 people, Mr Mandela said the ANC would not object to local discussions on regional problems.

Referring to the controversial question of the ANC aim of nationalising the mines and other monopolies, Mr Mandela said nationalisation did not mean that the ANC would simply take over the enterprises concerned. He said nationalisation could mean also a partnership or shareholding by the state in the mining sector and other monopolies.

Mr Mandela said he wanted to make it clear that it was not the policy of the ANC to take over businesses generally. It favoured a free-market system.

He said the ANC's aim was to bring economic benefits to all the people of the country, and the ANC regarded nationalisation as a strategy to achieve this.

On ANC support for sanctions, he said: "If you can tell me a better peaceful way to force the government to allow me to vote, I would be happy to embrace it."

Rand set to fall slower, not to firm — review

BDay 21/4/90

(49)

NEIL YORKE SMITH

A SIGNIFICANT strengthening of the rand is not yet on the cards but potential exists for the currency to "at least fall more slowly than over the past few years", according to Standard Bank's March review.

"A slowdown in domestic economic activity is under way and this is likely to result in a further fall-off in imports."

It was therefore likely the current account surplus would approximately equal capital outflows, the review said.

Also, improved political perceptions could result in capital outflows smaller than the R2,4bn initially estimated, it said.

This would imply less downward pressure on the rand than previously feared.

This would enable the authorities to resist calls for rand depreciation which aimed at boosting exports, it said.

"While the short-term benefits of the higher exports may be attractive, these are outweighed by the long term benefits to the economy of a lower inflation rate."

"Appropriate policy for the rand should be one of neutrality: the decline of the rand should be limited to as much as prevailing capital flows allowed, the review said.

"In this way, increases in domestic productive efficiency will be encouraged and the exchange rate will become an important policy tool in fighting inflation."

Despite sanctions and policies to encourage self-sufficiency, SA's economy remained heavily reliant on foreign trade and foreign capital flows, the review said.

As a result, changes in the rand exchange rate had an enormous impact on SA's economic activity and prices, it said.

The dual exchange rate, implemented in 1985, had succeeded in protecting gold and foreign exchange reserves against massive capital outflows and protected the economy from the impact of an excessive decline in the rand's value, it said.

A move away from exchange controls was desirable, the review said. It would foster long-term economic efficiency and remove disincentives to new foreign investment.

However, the low value of the finrand and the knowledge that large capital outflows would result in its further depreciation, acted as disincentives to disinvestment, the review said.

More money needed for roads

Star 2/4/90

Own Correspondent 49

DURBAN — The Durban Metropolitan Chamber of Commerce today warned that unless road funding was increased substantially "the entire national road system will deteriorate into a chaotic state".

The Chamber revealed that only R1,6 billion of the R3,4 billion tax collected on fuel was used for roads in 1988, and that only a third of the funds needed annually for Natal roads were being made available.

Calling for a separate road fund to meet short- and long-term plans for the maintenance and construction of roads, the Chamber pointed out that the delaying of necessary road maintenance led to greatly increased costs.

Indications were, however, that the funding situation would deteriorate further as education, health and housing were given a higher priority than provincial roads.

"Meanwhile, costs of road construction and maintenance have risen because of inflation plus the ageing of the existing road network," said the Chamber in its weekly news digest.

"If this trend continues, not only Natal roads but the entire national road system will deteriorate rapidly into a chaotic state."

The Chamber maintained that the principle of "user pays" for road maintenance and development was the only equitable way to ensure that sufficient money was available.

In 1989 the income from fuel taxes was expected to reach R3 400 million. This was more than double the R1 650 million spent on roads.

You awaken the hyena in Afrikaners, CP is told

STAR 3/4/90

49

South Africa's problems had to be solved by strategies, not laws, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Replying to the first reading debate on the Budget, he said that although there was not peace in South Africe yet it was not necessary to think that what had happened since February 2 was the cause for this unrest.

In reply to the CP leader, Dr Andries Treurnicht, he said the CP did not wake the tiger in the Afrikaner, but the hyena.

"The tiger and lion are noble animals and work out a strategy to find food. But Dr Treurnicht wakes an ignoble animal in the Afrikaner — the hyena."

Bullets

Mr du Plessis said he had received an anonymous letter, signed only "CP", that promised bullets for Mr F W de Klerk, Mr Pik Botha and Dr Gerrit Viljoen. This was the ignoble animal which the CP had woken in the Afrikaner.

The Afrikaner had won when he put his weapon down and took up the weapon of intellect, initiative and strategy.

The Bill was read a first time with only the CP voting against it in all three Houses. — Sapa.

... was read a first time with only the CP voting against it in all three Houses. — Sapa.

Best we could do, pensioners told

The Government acknowledged that the increase in social pensions announced in the Budget was too low, but it was the best the Government could do at this stage, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Replying to the Budget debate he said the increase had to be seen in the total perspective of care of the aged.

Star 3/4/90

Treasury loss

49

The Treasury had lost R14 billion a year in making it possible for people to make provision for their old age through policies and pension funds.

The allowance was not meant to provide for all the necessities of life.

There was an obligation on children to support their parents, and also on employers to show compassion in situations where their employees were unable to save for their old age. — Sapa.

Mr du Plessis . . . apartheid equivalent to socialism.

'High interest rates still necessary'

3/4/90 (49)

It would not be possible to bring down inflation unless high interest rates were maintained, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Replying to the first reading debate on the Budget, he said such interest rates were a nec essary pain.

Turning to disparities in State spending, he said while this Budget was the best the Government could have done at this stage, it was reviewing its five-year fiscal plan and would look at disparities again.

The State did not see its way clear to paying a bonus at this stage, but if ever it did, it would be directed at the elderly.

Referring to a statement that the Government's revenue was determined for it and not by it, Mr du Plessis said his colleagues regularly came to him to see how moves could be made within the Budget.

He had received no such representations from Ministers in the Houses of Representatives and Delegates, to which the Chairman of the Ministers' Council in the House of Representatives, Mr Allan Hendrickse, interjected: "We submitted a budget and you cut it."

Turning to privatisation, Mr du Plessis said its aim was to loosen available fixed capital for the socio-economic upliftment of all South Africans; for such capital to be used more efficiently and for the tax base to be broadened.

A mechanism had also to be found to deal meaningfully with any State surpluses.

Care had to be taken not to fall into the trap of ideology, so that wrong options could be prevented. — Sapa.

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SACP, Cosatu to work together

South 4/4 - 10/4/90

49

THE South African Communist Party (SACP) and the Congress of South African Trade Unions (Cosatu) have agreed on a broad framework for economic reconstruction in South Africa.

A 28-person SACP delegation, led by SACP general secretary Mr Joe Slovo, met a 31-person Cosatu delegation led by Cosatu vice-president Mr Chris Dlamini in Harare at the end of last week.

The meeting was the first of its kind between the two organisations.

A statement issued by Cosatu after the meeting said both organisations had agreed decisive action was needed to build political organisation and that most people viewed the ANC as a de facto government.

The meeting agreed Cosatu should retain its independence as "a matter of principle and practice" and that the federation would work in alliance with the ANC-SACP on a programme of action against apartheid.

The meeting analysed events in Eastern Europe.

The statement said that, while events in Eastern Europe provided important lessons, both organisations remained convinced that socialism was a more acceptable solution than capitalism.

This was linked to an examination of the South African economy and discussion about its reconstruction.

Both organisations agreed that nationalisation, the market and the private sector were "essential components" of a programme of economic reconstruction.

Work on this programme in consultation with the ANC is to be a priority for both organisations.

Victory in metal strike

South 4/4 - 10/4/90

MORE than 130 Paarden Eiland metalworkers who have been on strike for more than three weeks return to work this Wednesday, having won a demand for plant level negotiations.

Sacob forms task force to examine nationalisation

(49) BD4 464/90.

ANDREW GILL

THE SA Chamber of Business (Sacob) has set up a task force to examine the issues involved in nationalisation and the redistribution of wealth.

Speaking at the Tygerberg Chamber of Commerce and Industry AGM last night, Sacob director-general Raymond Parsons said the task force would operate within seven broad parameters in investigating the issues surrounding a future economic system for SA.

He said there was a need to look at what legitimate concerns lay behind the preoccupation of the ANC and other black groups with regard to nationalisation and redistribution of wealth.

Business, he said, should be prepared to deal with the nationalisation arguments as robustly and critically as they previously dealt with interventionist government policies.

"We must not attempt to appease anti-private enterprise radicals who are driven only by ideology," he said. Businessmen should, however, be prepared to look at ways in which the performance of the market economy in SA could be improved or restructured.

Parsons said a private enterprise economy was essential to maintain an economic system which would ensure economic growth, create jobs and ultimately raise standards of living for all.

It was important to realise that it was apartheid, and not capitalism, which was on trial in SA. "What blacks in the SA economy have experienced as 'the rules of the game' is the antithesis of a free enterprise economy."

☐ Sacob officials yesterday declined to name the people on the "task force".

● See Page 10

BRIGHT FUTURE FOR SA — KAHN

(0810) GERALD REILLY (49)

PRETORIA — SA had all the components of a massive economic generator, SA Breweries chairman Meyer Kahn said here last night.

At his inauguration as a professor extraordinary of Pretoria University's post-graduate management school, Kahn said it was the economic muscle of the large companies that would ensure economic survival over the next five years. (80)

He said there was no way a healthy and growing informal sector could develop without a strong formal sector. If the one died, the other would too. (1182)

Currently, there were about 700 000 small business undertakings. In a climate of real deregulation this number could multiply dramatically and job creation could also dramatically increase.

Against this background, the task of finding 400 000 new jobs every year would no longer be an anxious nightmare, but an attainable objective, Kahn said.

Threats facing large companies included nationalisation; reaction from white right-wing radicals; an acute shortage of skills; deeply set radicalism among young blacks; serious confrontation between labour and capital; no shortcut to the lifting of sanctions, and a lack of foreign capital. B/Day 4/4/90

Fortunately, Kahn said, the picture was not all dark and sombre. There were enough opportunities on which to build a bright future.

Kahn said for the first time in living memory the country had leadership in an economic-political front that wanted to go in the right directions.

He expected the new spirit in government would soon have an impact on the black consumerism. SA already had a core of middle-class blacks that had to be expanded.

Kahn said estimates were that the lower 40% of the population received less than 10% of total income. If the economy could maintain an annual growth rate of 5% or more, the income of this section could double within two or three years without a decline in incomes of other sections of the population.

Kahn also said the collapse of the East European power block presented tremendous export opportunities. However, exports should not be a gimmick to fall back on when the local market was in decline.

Business must be heard in the search for political solutions

(49)

B|Day 4/4/90

RAYMOND PARSONS

THE search for a peaceful solution to SA's problems cannot be left to the politicians. Business also has a necessary role to play at all levels and in helping to shape the debate.

There are two aspects in which business has a critical stake: the shape of any new constitution and the economic values and principles it will embody; and the kind of economic system that will emerge from the political bargaining process.

What is important in a new constitution from the business viewpoint is the focus it gives to people's rights and responsibilities in economic affairs. The concepts of private property, right of contract and personal culpability are all relevant to the constitutional debate.

In the field of public institutions there would be a need to concentrate on people's political rights — such as collective services and taxes — at all levels of government.

Thus the future of SA business will require the highest degree of sensitivity to the constitutional framework within which it will eventually function. These are key matters to which business will have to give attention. The substantial work already done by the former FCI and Assocom bodies will now have to be brought up to date by the new SA Chamber of Business (Sacob).

More immediate is the debate on what kind of economic system should result from the eventual political negotiations. There is a big gap between politics and economics which still needs to be bridged.

A task force within Sacob is examining the issues involved in the current discussion about nationalisation and the redistribution of wealth. This group is drawn from top businessmen and economists within Sacob and its research and consultations will help formulate the Sacob view.

I do not wish to pre-empt the outcome of their deliberations, but it is not difficult to visualise the parameters within which they will conduct their study. In their search for the appropriate answers I suspect the task force is likely to bear the following factors in mind:

☐ There is a need to look at what legitimate concerns lie behind the preoccupations of the ANC and other black groups with nationalisation and the redistribution of wealth.

There are historical injustices to be addressed and social backlogs to be rectified. The question will be whether the methods — within the framework of the market economy — can be evolved to solve these problems. The recent Budget, through its allocation of R3bn to black socio-economic development, is a major first step in that direction.

We must not underestimate the powerful emotional feelings that underpin these needs. Business will have to see what more it can do and what it can contribute to the debate.

☐ There is a need to maintain an economic system in SA which will ensure economic growth, create jobs and ultimately raise standards of living for all. Such an economic system will have to be private enterprise-orientated.

We must avoid dubious paths which will lead not to wealth-creation but to a destructive loss of the opportunities which would otherwise exist. We must avoid opting for measures or policies which do no more than threaten the wealth-creating mechanisms of the market economy.

Nationalisation is simply not acceptable to the bulk of SA businessmen. It will also destroy SA's ability to attract overseas capital in the future. Nationalisation is not an effective instrument for making new resources available to the underprivileged — whether or not compensation is paid to the nationalised sectors.

☐ It will be necessary to examine the economic experience of Eastern Europe and Africa and evaluate their relevance for SA. The disenchantment with collectivism elsewhere will have to be put under the microscope. It will be especially important to study economic collapse in those comparable countries where apartheid did not exist.

☐ It will be important to realise that it is apartheid, not capitalism, which is on trial in SA. What blacks have experienced as "the rules of the game" is the antithesis of a free enterprise economy.

It will be essential to clarify the debate on this level. But that does not mean that business should not be prepared to look at ways and means in which the performance of the market economy in SA can be improved or restructured. Markets facilitate restructuring if they are allowed to do so.

We need to broaden and deepen black participation in the economy. Hopefully it will be possible to shift the debate off the ideological level on to a more empirical level.

Business must be prepared to deal with the nationalisation arguments as robustly and critically as they previously dealt with interventionist government policies.

☐ Although there are serious imbalances to be addressed, this does not change certain economic realities. Nor does it mean that all injustices can be corrected overnight.

Expectations must remain realistic. SA needs to survive and grow in a competitive global economy.

☐ We are often told that change is inevitable and irrepressible and that we have to get on the side of the forces of change. There is merit in these propositions. The restructuring of the system of education and training is one high priority, but we must not lose sight of a crucial distinction.

Business has a vital stake in the nature of that change, and in the success of those who support peaceful change and market economy principles. We must not attempt to appease these anti-private enterprise radicals who are only driven by ideology and will not be charmed out of their hostility to us by professions of our goodwill.

☐ A coherent public policy must address with equal insight the requirements of stability and of change.

Unless a framework of law and order can be preserved, business cannot thrive. Private fixed investment needs the assurance of long-run stability. It is bound up with the question of business confidence. If stability is not maintained, the process of change is jeopardised.

SA has entered an era of great hope — but also of great uncertainty. Businessmen have a vital stake in the outcome of the conflicting forces at work. It remains important that political leaders manage the process of change in ways that retain the confidence of the main players, including the business community.

Parsons is director general of the SA Chamber of Business. This is an excerpt from his address to the Tygerberg Chamber of Commerce and Industry last night.

LETTERS

Major deliberations in Harare (49)

ANC talks to shape policy on economy

B/Day 4/4/90

SIXTY economists representing or associated with the ANC and Cosatu will meet in Harare for four days from April 28 at a workshop whose deliberations are likely to form the basis of detailed economic policy for the ANC and its allies.

ANC economics department head **Max** Sisulu said yesterday the last two years had seen a growing emphasis on economics and the new political situation had focused attention closely on the organisation's economic policy.

He said the workshop aimed to increase the ability of ANC/MDM leadership to formulate economic policy.

A memorandum on the workshop states that the ANC "feels very strongly the need to urgently fill the policy vacuum in relation to their position on the economy".

In addition to Sisulu, ANC participants are likely to include Tito Mboweni, Vella Pillay and Rob Davies. Executive members Thabo Mbeki and Pallo Jordan will also be there as will the SACP's Joe Slovo.

Among the Cosatu delegates will be Numsa education officer Alec Erwin and NUM education officer Kgalema Motlanthe.

A number of prominent university-based economists who have served on Cosatu's Economic Trends project are also scheduled to attend. They include Fuad Cassim, Doug Hindson, Stephen Gelb and Mike Morris.

ALAN FINE

SA specialists at UK universities including Ben Fine, Raphie Kaplinsky and Laurence Harris have also been invited.

It is envisaged working groups at the seminar would examine in detail such areas as international trade and finance, monetary and fiscal policy including investment policy, control over monopolies and employment creation, industrial restructuring, mining, agriculture, food production and the land question, industrial relations, and education and training.

Sisulu has stressed the ANC wanted the gathering to be policy-oriented, and academic treatises would be inappropriate.

The memorandum says written proposals — policy guidelines — emerging from the workshop should form a basis for debate within participating organisations.

The emphasis would be "very heavily on substantive discussion of the economic issues facing SA, and even more so on the elaboration of policies to address these problems".

The content "would have to be broad enough to encompass the concerns and interests of the various groupings and social forces which the ANC alliance aims to embrace".

Sisulu said the workshop was in line with the ANC's view that policy should be formulated only after broad consultation.

☐ At a meeting in Harare last weekend,

☐ To Page 2

ANC policy

B/Day 4/4/90 (49)

☐ From Page 1

Cosatu and the SA Communist Party made a thorough assessment of the implications for socialism of recent events in eastern Europe, Cosatu said yesterday.

Both organisations agreed that events provided important lessons, "but remain convinced that socialism still offered vastly more acceptable solutions to the social and economic problems of SA than those offered by capitalism."

They examined the present SA economy and a programme for its democratic reconstruction.

"A broad consensus on the framework for how such a reconstruction could be undertaken was reached. In such a reconstruction nationalisation, the market and the private sector would all be essential components," Cosatu said.

● See Page 3

'Alter Act to avoid Delmas-type wastage'

Star 4/4/90

An amendment to the Criminal Procedure Act could prevent a recurrence of a Delmas treason trial-type situation where the Appellate Division (AD) nullified proceedings of SA's longest criminal hearing, says a leading law magazine.

The proposal is put forward in an editorial in the April 1990 edition of Consultus, the official mouthpiece of the General Council of the Bar of SA.

Convictions and sentences following the Delmas treason trial were set aside by the AD after it decided that the trial judge's decision to discharge an assessor half-way through the hearing was legally incorrect.

The writer bills the trial — of UDF and Vaal Civic Association leaders for their alleged role in the September 1984 uprisings — as the longest criminal hearing ever, and probably the most expensive.

"Commonsense suggests that the trial should have been postponed temporarily and the relevant decision of the trial judge be referred to the AD."

Detention

The trial could have been finally abandoned, or another decision could have been taken after a ruling by the AD.

The editorial asks if it could be justified to the general public that the trial court — while a "nullity in law" after the discharge of the assessor — could continue for more than a year.

The editorial further questions the possibility of justifying the "even more thousands of rands" spent on the case and the continued detention of the accused who had already been in detention "for some years".

"Wholesale waste of time, wholesale waste of money and considerable deprivation of freedom were thus the result."

The procedure suggested for preventing this could not be followed because South African law does not allow for adjudication by the AD on questions of law or appeals regarding the decisions of a trial court about interlocutory matters.

While it would be unsound for questions of law or appeals to be submitted to the AD before a trial's conclusion, provision should be made for extraordinary cases, the editorial argues. — Sapa.

Time for bold management

As the reform process speeds up, relations between workers and managers will be severely tested in most companies. But this offers a golden opportunity to create a powerful competitive advantage for the future, says Johannesburg management consultant and author, TONY MANNING.

STAR 4/4/90

Strike action escalated dramatically last year, and all the signs point to even more problems this year. Add to that the sudden sharp increase in township violence, and a new feeling of political confidence among blacks, and you have a potentially explosive situation.

The ANC's views on nationalisation and the redistribution of wealth have made managers extremely edgy and uncertain about the future.

Foreign companies are unlikely to invest in South Africa in the short term, as it seems a high risk arena. Local managers will of necessity become even more short-term in their thinking.

But any time of change is a time of great opportunity.

Those managers who have the foresight and the courage to commit themselves to a bold new course of action will gain a valuable competitive advantage for the future.

Participation

It's senseless trying to repeat strategies that worked in the past. What's needed now is fresh thinking and real commitment to a totally new way of managing.

A priority for every firm should be to introduce participative management as fast as possible. Every worker should be exposed to the harsh realities of business and involved in decision making.

If workers are attracted by socialist ideology, it's because they haven't been shown an attractive alternative.

Most of them don't understand how business works, they don't know enough about their own firms, and they are kept out of the decision making processes.

The unions have done a masterful job of selling their point of view. They are expert communicators. They've been shaping work force attitudes for years, while managers have sat back and done nothing or, at best, tried to communicate in a totally amateurish way.

The solution is to develop a total communications stragegy and to treat information as a key strategic resource.

Every worker should go through a thorough induction programme which explains the company's competitive position and its strategy. In addition, they should get far more on-the-job training than is currently the norm, and they should be encouraged to set their own goals, to measure their performance and to suggest new ways of working.

Only when the new management style has been totally accepted and implanted should share schemes or other financial incentives be introduced. Money is an important motivator, but psychological rewards must come first.

When people are "counted in", they develop a sense of pride and commitment. When they're treated like adults, they deliver the goods.

But we're rapidly running out of time, if we're to secure our economic future. If it's tough coping with change today, it'll be far more difficult and dangerous in the years ahead.

The future is a matter of choice, not chance. But we must empower people to make informed choices, and give them the experience of thinking about wealth creation. Only when that happens will we have a hope of building robust companies and a dynamic economy.

Impressive

Participative management has yielded impressive results in many other countries. Some South African companies practise it to a degree, but there's a dangerous — and growing — gap between management and the workforce.

Most formal sector workers are adults who take total responsibility for major personal decisions about finance, housing, education and welfare. They're also being increasingly called upon to make far-reaching socio-political decisions.

At work, however, they're treated like children. The "us and them" feeling is perpetuated in virtually every encounter with management.

International experience shows that on-the-job learning is the most vital part of any manager's development. Participative management is a great way to grow people. It's also the most sensible way to cope with the nationalisation threat.

Star 4/4/90 (49)

Wealth redistribution

By Roy Cokayne

It would possibly be counter-productive if attempts to redistribute wealth in South Africa in future years included higher taxes on qualified and well-motivated people, says economic advisor to the Reserve Bank Dr Roger Gidlow.

"Such tax measures would run the grave risk of demotivating such labour and precipitating a fresh wave of emigration of skilled personnel," Dr Gidlow told a Damelin Management School graduation ceremony in Pretoria.

"The end result could then be an even greater shortage of skilled labour, reflected in further upward pressure on wages and salaries.

"At the same time the scope for economic growth would be stifled, which in turn would curtail job opportunties for other sections of the community."

Dr Gidlow said in spite of the pedestrian performance of the economy in the 1980s, the shortage of highly skilled labour remained a striking feature.

Shortages of labour were present in a surprisingly wide variety of areas and were not confined to highly skilled occupations.

The skills shortage had manifested itself in various ways apart from statistics on job vacancies.

One indication was the age of many people who were in high-level jobs in the 35 to 40 age bracket. Many senior executives in South Africa were much younger than their counterparts elsewhere in the world.

The proliferation of fringe benefits was another manifestation of the skills shortage. Such benefits were designed to retain key personnel within specific organisations.

South Africa was searching for a new political dispensation and if the country experienced a peaceful and evolutionary reform of its political institutions, with a strengthening of the free enterprise system, its economic prospects could improve markedly.

NEV

'Poverty, joblessness behind rural violence'

BLOEMFONTEIN — The degree of violence that had spread to the rural areas was a violence caused by the frustration of poverty and unemployment, Professor Francis Wilson of the department of economics at the University of Cape Town told the 54th conference of the National Council of Women of South Africa in Bloemfontein yesterday.

The sheer degree of armed robbery, assault, rape, wife and child-battering and incest were part of the product of an intolerable position.

Sickness in society

What was being witnessed at present was the degree to which this violence was manifesting itself in the rural areas of South Africa.

Professor Wilson said one could not point to cultural differences in this respect. This was the visible manifestation of a deep and underlying sickness in South African society. These were the realities with which black South Africans were faced, particularly if they were poor.

Poverty could not be reduced to a single number or statistic. The consequences of the migrant labour system also had the effect of impoverishing the rural areas. There had not always been terrible poverty in the rural areas.

The anti-black urbanisation policy had had two consequences. It had the effect of freezing housing in the urban areas when the natural population growth required more houses. The other, more serious, consequence was that those who were pushed off the farms by improved technology were not allowed into the cities. The only places they could go to were the reserves, which were already overpopulated.

Professor Wilson said poverty was not only a South African problem. However, the rate at which people were coming on to the labour market was greater than that at which jobs were being created. This was a new phenomenon in SA.

Since 1975, South Africa had, as a result of population growth, lost its capacity to generate sufficient jobs.

There was a need for economic growth, but SA did not have the type of political stability that the rest of the world required for investment.

Professor Wilson said the new motto should be "Growth through redistribution".

It was a process that required political legitimacy. If South Africans were concerned about poverty, then a necessary condition to deal with it was a redistribution of political power.— Sapa.

Professor Wilson ... The poor must get a real share in South Africa's political process.

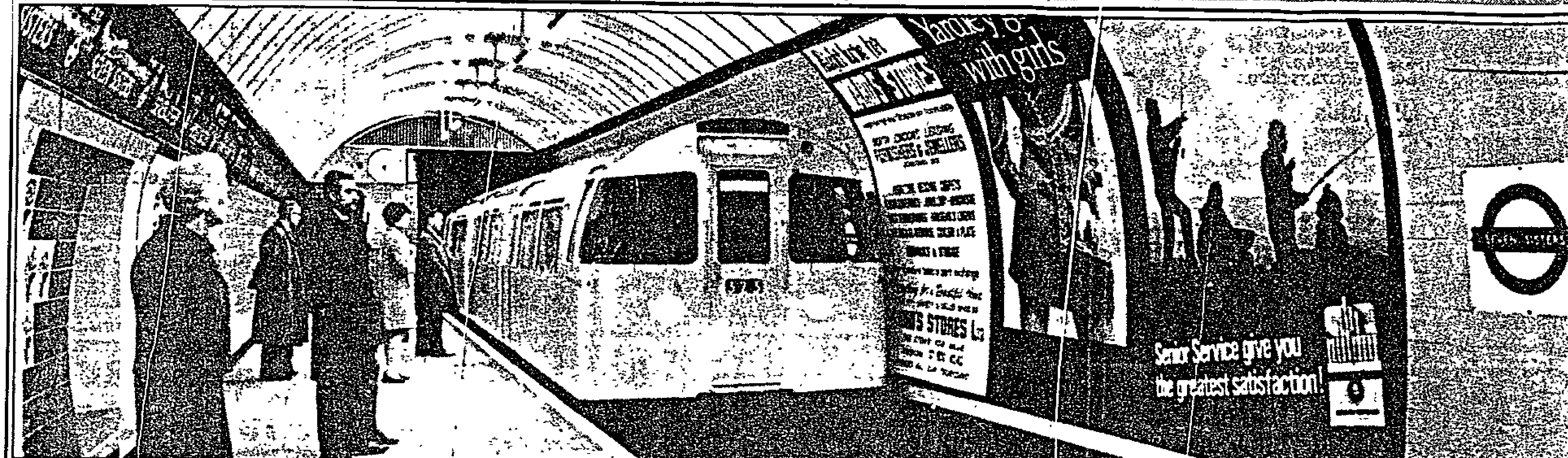
Women told

Star 4/4/90 By Winnie Graham

South Africans have been told to
view of the "setbacks and mass
ments" which are inherent in any
the rebuilding of a divided country

Miss Isabel Direko, first woman
ed as principal of a high scho
State, delivered the Bertha Solo
Lecture on "From Fear to Hope
lenge" at the National Council of
al conference in Bloemfontein last

"Let us face the future in a sp
difference," Miss Direko told the
accept there are differences betw



Will it come to this . . . passengers in London about to board their underground train, known universally as "the Tube". It is said to be subsidised by the taxpayer to the tune of R650 000 every day.

The fastest track to multimillion losses

Star 4/4/90 (49)

By James Clarke

The consortium currently studying mass-transport options for Johannesburg would do well to take note of a World Bank report which found that "metro" train systems can become massive drains of financial resources. JAMES CLARKE reports.

An underground train system for Johannesburg? Forget it.

Throughout the world these systems are proving to be not only cripplingly expensive, but they are very much hit-or-miss solutions to the problem of getting people to work.

The Star's London Bureau says even the famed and efficient London Underground is now being subsidised to the tune of R650 000 — a day.

Ramsay Milne, The Star's New York Correspondent, says New York's well-established subway is being subsidised by around R6 million a day

But the biggest shock of all has come from a study, financed by the World Bank, that recently surveyed 21 mainly Third World cities with metro systems. The survey has particular relevance to Johannesburg

Unchanged

All but three cities overran their budgets — some by incredible amounts. And not one carries anywhere near the number of passengers it had hoped for.

As for easing traffic congestion, only in one city — Pusan in South Korea — was any difference noticed. Bus services throughout remained more or less unchanged

Generally all the metro systems were well run and provided good service and all greatly improved the availablity of public transport.

The greatest single benefit, according to the study, was the saving of commuting time.

But the bank noted that because metro fares are frequently higher than for the bus they are usually unaffordable to the poor.

In a report on the survey, the bank's chief of transport planning, Jeffrey Gutman says: "Providing public transport options at low fares, whether metros or buses, is not enough to lure people from their cars."

He says to reduce traffic congestion, cities will have to charge motorists for bringing their cars to town. Singapore has done this effectively and more and more cities are working towards pricing unessential cars out of the CBD

What is the alternative? The report says in cities where no metro systems are built traffic will cease to grow when roads reach saturation point and driving becomes intolerable.

This will curb city growth. If the authorities then wish the city to grow further, a metro system may be necessary.

Most city authorities that now run metros, it transpired, were led to believe they would be financially viable, "which they certainly are not"

In Calcutta and Rio the cost overrun exceeded 500 percent. Only in Hong Kong, Singapore and Porto Alegre were the systems completed within budget.

Cost overruns are not unique to the Third World: Washington's metro was supposed to cost about R9 billion but the final cost was more than R16 billion. Operating costs were supposed to be about R145 million a year but proved to be R440 million. Atlanta, Baltimore and Miami, all with relatively new systems, recorded similar experiences.

In the 21 Third World cities there was an enormous gulf between the projected number of passengers and the actual number. Cairo expected 566 million a year but attracts only 150 million, Hong Kong came nearest: it expected 683 million and gets 553 million. Pusan expected 350 million but gets 79 million and Santiago expected 330 million but gets 139 million.

The World Bank notes that governments traditionally set low fares to attract passengers. Then, when they raise them, there are tensions and even street riots.

One of the major drawbacks of a metro is that it runs in tunnels and on tracks that must be built and maintained by the system. In the case of buses, the roads already exist and maintenance is not the responsibility of the operator.

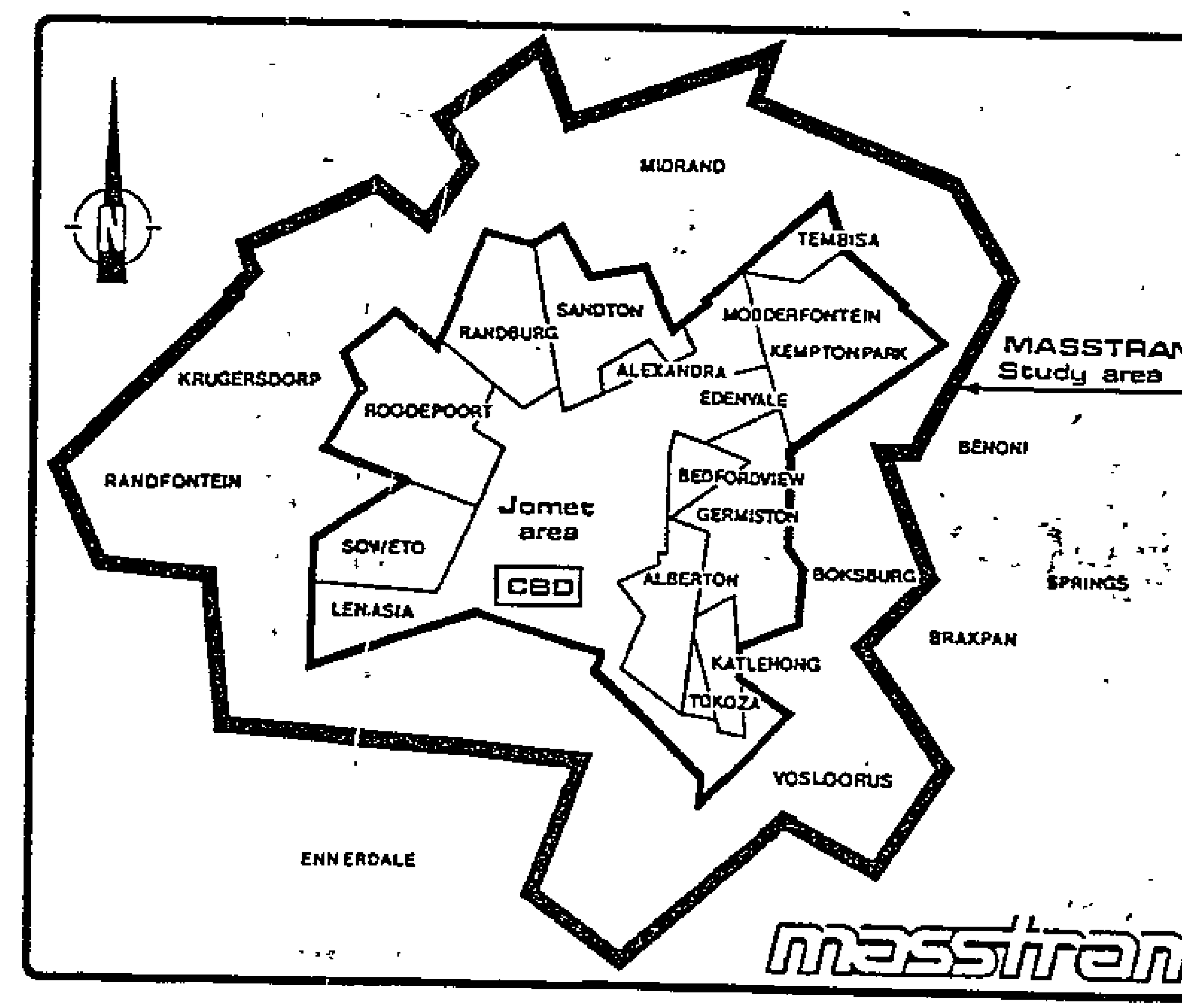
The report says only Hong Kong's system can be considered financially successful — even so, it received R2,2 billion in equity contributions from the government and free land

Linked

Among the lessons to be learned from all this is that locating people in flats on top of the stations provides a captive market. Another tip offered by the bank is that a single fare should be charged by the city to allow a person to travel his daily route and switch from one mode of transport to another without having to dig into his pocket for more fare.

Ideally, buses and trains should be linked. Richard Scurfield, urban transport specialist with the World Bank suggests that before cities embark on metro projects they should study and price the alternatives, such as bus lanes, segregated busways, improvements in the road network, light rail systems, and extensions to suburban rail lines

"Further," he said "because metros tend to benefit middle-income groups — since the poorest don't ride them — governments must decide if they really want to subsidise this part of the population."



The thick line represents the outer limits of the region covered by Masstran — Masstran being a consortium of transport planners, engineers and others who are working on a mass transit system for the inner Witwatersrand.

After months of intensive homework Masstran is now forming regional public interest groups to discuss public needs and aspirations regarding commuting.

Hough fears attack on provincial services

BiDay 5/4/90

EDYTH BULBRING

A VIOLENT onslaught would be launched on health services and local government in the province, Transvaal administrator Danie Hough told the Extended Public Committee on Provincial Affairs in Pretoria yesterday.

He warned agitators that they would carry the responsibility if provincial authorities could no longer provide health and bulk services due to political action.

Hough said organisations bent on undermining black local government were the mass democratic movement (MDM), the UDF and the Soweto People's Delegation.

The organisations hitting at health services, especially in the labour and service rendering side, were the SA Health Workers Congress and the Cosatu-affiliated National Education Health and Allied Workers Union, Hough said.

The R4,3bn budget announced by Hough yesterday was a 9% increase over last year's budget and had a strong emphasis on community develoment and museum and library services.

Community development funds would be increased by 21% over last year to R1,2bn while library and museum services would receive a 30% increase to R20,303m.

Funds for health services increased by 0,8% to R1,9bn.

Hough said Transvaal hospitals had not escaped the labour unrest situation as certain groups used the labour field to promote their political aspirations.

Their methods of action mainly consisted of strikes, stay-away action, mass meetings and protest marches.

While valid grievances did exist, there were a number of actions that were entirely politically inspired and which were being launched outside the existing liaison

□ To Page 2

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Hough's fear

B/Day 5/4/90

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□ From Page 1

channels, Hough said.

"I make an appeal to the agitators to stop those actions immediately," he said.

If the province was prevented from treating patients, "these politically inspired agitators will then have to realise that they would have to carry the responsibility for the detrimental results their actions are having on the inhabitants of this province", Hough added.

In respect of black local government, there was a politicaly inspired onslaught on councillors on two fronts, Hough said. Councillors were being intimidated openly to resign and residents were encouraged not to pay the normal municipal tariffs.

This meant that councils did not have sufficient funds and had to approach the provincial authorities to pay for their bulk services and normal municipal expenses.

The agitators should realise that the source of funds would soon be depleted and it would mean that the rendering of services would be stopped.

"If those great upholders of democracy who are now intimidating councillors to resign really do value democracy, they should make use of he democratic process in order to gain control of local government," he said.

Funds for general administration increased by 5,7% to R10,290m, funds for nature and enviroment by 6,8% to R27,189m and funds for roads and bridges increased by 1,7% to R561,275m.

● See Page 3

Workshop on ANC economic policy

Cape Times 5/4/90 (49)

Own Correspondent

JOHANNESBURG. — Sixty economists representing or associated with the ANC and Cosatu are to meet in Harare for four days from April 28 at a workshop whose deliberations are likely to form the basis of detailed economic policy for the ANC and its allies.

ANC economics department head Mr Max Sisulu said yesterday that with growing emphasis on economics, the new political situation had focused closely on the ANC's economic policy.

A memorandum on the workshop states that the ANC "feels very strongly the need to urgently fill the policy vacuum in relation to their position on the economy".

In addition to Mr Sisulu, ANC participants are likely to include Mr Tito Mboweni, Mr Vella Pillay and Mr Rob Davies, and Executive members Mr Thabo Mbeki, Mr Joe Slovo and Mr Pallo Jordan.

Among the Cosatu delegates will be Numsa education officer Mr Alec Erwin and NUM education officer Mr Kgalema Motlanthe.

A number of prominent university-based economists, who have served on Cosatu's Economic Trends project, are also scheduled to attend. They include Mr Fuad Cassim, Mr Doug Hindson, Mr Stephen Gelb and Mr Mike Morris.

SA specialists at various UK universities — including Mr Ben Fine, Mr Raphie Kaplinsky and Mr Laurence Harris — have also been invited.

It is envisaged that working groups at the seminar will examine in detail such areas as international trade and finance; monetary and fiscal policy, including investment policy, control over monopolies and employment creation; industrial restructuring; mining; agriculture, food production and the land question; and industrial relations, and education and training.

Mr Sisulu has stressed that the ANC wants the gathering to be policy-oriented, and that "academic treatises" will be inappropriate.

He said the workshop was in line with the ANC's view that policy should be formulated only after broad consultation.

● Cosatu and the SA Communist Party, at a meeting in Harare last weekend, made "a thorough assessment of the implications for socialism of recent events in Eastern Europe", Cosatu said yesterday.

Both organisations agreed that events provided important lessons, "but remain convinced that socialism still offered vastly more acceptable solutions to the social and economic problems of SA than those offered by capitalism".

They examined the present SA economy and a programme for its democratic reconstruction.

"In such a reconstruction nationalisation, the market and the private sector would all be essential components," Cosatu said.

● The ANC said yesterday that a meeting was being arranged between its guerilla leaders and former South African Defence Force officers, reports Sapa-Reuter.

The talks would consider the role of former SADF officers in moves towards ending apartheid, ANC spokesman Mr Tom Sebina said.

Breweries head predicts bright future for SA

Argus 5/4/90

49

The Argus Correspondent

JOHANNESBURG. — A bright future has been predicted for South Africa by the chairman of South African Breweries, Mr Meyer Kahn.

At his inauguration as professor extraordinary of the post-graduate management school at the University of Pretoria last night, Mr Kahn said: "With ingenuity and a little luck" South Africa could become a paradise at the southern tip of Africa.

The economic muscle and energy of the country's big companies would help South Africa survive the next five years, he added. They had to continue to play a dominant role so that the economy would remain healthy and, in turn, yield the tax needed to generate the "oxygen" needed to bring about orderly constitutional changes.

There was no way in which the informal sector would grow without the support of a strong formal sector. The two were closely intertwined, with one feeding the other. If one died, the other would quickly follow.

THREATS LISTED

Mr Kahn listed the threats — as well as the opportunities — facing big companies as: nationalisation, reaction from rightwing white radicals, an acute shortage of skills, inadequate black infrastructure, deeply rooted radicalism among black youth, serious confrontation between capital and labour, and no shortcut solution to sanctions.

There was also a lack of foreign capital, delay in economic growth resulting from moves to cut inflation, risks in paying foreign debt while the aspirations of the majority rocket, possible political shifts in black leadership positions to neutralise opposition parties or ignite revolutions.

Mr Kahn said there were about 700 000 small businesses in South Africa. The number would increase dramatically following deregulation. "When this happens the need to create 400 000 new jobs a year will be an attainable goal," he added.

Cape 'must make do with less cash'

8/04/
5/4/90

Political Staff (49)

CAPE TOWN — Major cutbacks in services in the Cape will be necessary if the province is to stay out of the red this year, Administrator Mr Kobus Meiring warned Cape MPs yesterday.

Already, the province had decided to postpone the final phase of the Groote Schuur Hospital and the purchase of equipment, and not to go ahead with the commissioning of 20 community health centres which had been nearly completed.

Certain subsidies to agricultural associations and nature reserves had been stopped.

Health and hospital services would be limited to those who really needed them. He warned that the era in which large sections of the population used expensive health services at academic hospitals free of charge "will now come to an end".

Road construction was being cut and the emphasis would be on maintenance.

He said that with a budget of just more than R3 billion — which was only 1,8 percent higher than last year — the Cape had to meet an increased demand for services with what in real terms amounted to less money than in 1989.

Free State budget over R1-bn

By Esmare van der Merwe, Political Reporter

BLOEMFONTEIN — The Free State has been allocated a provincial budget totalling almost R1,1 billion, 40 percent of which will be spent on health services and 24 percent on community services.

The budget, up only 8,6 percent on that for the bookyear 1989-90, was presented to the Extended Public Committee on provincial affairs yesterday.

Expenditure on health services will go up by 1 percent to R434,9 million, community services by 10 percent to R260,5 million, general provincial services by 22 percent to R163 million, and road network provision and traffic administration by 0,8 percent to R434,9 million.

The biggest revenue source, a transfer from the State Revenue Fund, will amount to R984,5 million — up R86,8-million from last year.

During the joint provincial sitting of Parliament, political parties of all three Houses concentrated on national political issues rather than debating the proposed Free State budget.

The Democratic Party (DP), Solidarity and the Labour Party called for the desegration of public amenities such as hospitals and public resorts in the province.

Calling for the abolition of the Group Areas Act, Mr Tian van der Merwe (DP, Greenpoint) asked why no free settlement areas had been proposed for the province as an interim measure.

Mr Mohanlal Bandulla (Sol, Havenside) said free settlement areas could be demarcated in Bloemfontein, Welkom and Bethlehem.

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Collapse

Dr Frederick van Heerden (NP, Bloemfontein North) replied that there was no need for free settlement areas in the Free State.

Commenting on the virtual collapse of black local authorities in the province, Conservative Party deputy leader Dr Ferdi Hartzenberg (CP, Lichtenburg) said the ANC had already established alternative government structures in many of the province's 70 black local authorities.

The Government was allowing itself to be intimidated by the ANC, which he described as an organisation with less power than even the smallest self-governing state.

F/M

who has collated figures on judgments, which clear the way for sales in execution. He says they increased by 152% to 888 between December 1988 and the end of last year. However, not all judgments end as sales in execution — "We have found at the Perm this happens only to around 50% of our judgments," says Hibbit.

Lamont also points out many homes are used as collateral for business loans from banks. So sales in execution figures are deceptive and need to be kept in perspective.

Many problems arise, says Information Trust CE Paul Edwards, through "borrowers who neglect to disclose all their commitments and inflate earning capabilities." Failures to meet payments also stem from developers who sell homes without asking for an initial deposit. The UBS's Piet Kruger says: "Terms are offered which make monthly repayments easier for a period but, when this falls away, instalments automatically become higher."

The only society to show a decline in properties in possession, as a percentage of total book, is Saambou, 0,56% to 0,52%. "We have made a concerted effort to get rid of them. We have priced these houses on the basis of loss of interest and have offered them to those renting them to get them off our books. This has paid off."

Institutions are determined to cut down on repossessions and sale of execution is a last resort, says Allied GM Geoff Bowker. "We are surprised at the difficulty in getting borrowers to come in and talk to us."

Information Trust has mooted a centralised database with full credit rating information on clients fed by banks, retailers and HP concerns along the lines of those in the UK and US. Edwards says this would enable them to assess a borrower's ability to service a debt more accurately.

☐ Figures originally submitted by the Allied, on BSA11 forms, for properties in possession were not accurate because the division between sold and unsold properties was incorrect. The NBS's reported figures are not directly comparable with those of other organisations, says Olivier, because properties sold are not moved from the unsold category until transferred. The chart shows correct figures. ■

CONFIDENCE MERGER

Anyone worried by the non-appearance of the SA Chamber of Businesses' Business Confidence index (BCI) can take heart. It will appear this Thursday and, thereafter, on the first Thursday of each month, accompanied by the Industrial Confidence index (ICI).

Consolidation of the two indices follows the January 1 merger of Assocom and the Federated Chamber of Industries. The BCI is a quantitative statistical measure based on a number of market indicators, while the ICI is a qualitative measure based on responses of industrialists.

PRIVATISATION F/M 6/4/90

Art of the possible

Selling off the State is big business. From being the ideological preserve of the free market right, privatisation has become central to policy in developed and developing countries with governments of widely varying views. (49)

This does not mean it has been depoliticised. Indeed, if politics is the art of the possible, then privatisation has become pure politics. Questions over what to sell, how, and ways to regulate the resulting enterprise are more controversial than ever, even if the

F/M 6/4/90

decision to privatise is less so.

This trend has much in common with the corporate reaction to conglomerates created in the Seventies. In the Eighties, corporate raiders "unbundled" these groups, hoping to realise their value and, in the process, create more efficient units. (49)

Privatisation has become entangled with the peculiarities of dozens of different State-owned enterprises, many in Third World countries, with capital markets in various degrees of financial maturity and with vagaries of local politics.

Objectives are one factor determining the methods. Others are the condition of the enterprise — a rundown railway in Africa cannot be sold off like a larger European telecommunications company — and the availability of local and foreign capital.

External assistance — through multilateral institutions such as the World Bank or foreign merchant banks, many of them British or American — has been vital to the success of many privatisation programmes.

Four general sets of problems have been encountered in privatisation, in developed countries such as Britain as much as in Mexico or Mali:

☐ How to adjust market forces where they operate inadequately — a privatised company may be entangled in the same bureaucratic regulatory structures it faced when it was State-owned;

☐ Maintaining employment and services such as telecommunications to communities from which the market might shy away;

☐ Correct pricing; and

☐ Foreign ownership of domestic assets which have been State-owned. Often the reason for nationalisation was to reduce foreign influence, or because the industry was considered strategically sensitive. Reversing this is controversial.

In eastern Europe — where all or the vast majority of the economy has been State-owned and there is no guide to pricing, little local capital and a resistance to foreign ownership — finding appropriate methods of sale and creating new regulatory structures will be a huge task. ■

FM 6/4/90

(49)

What big business must do

Paul Browning is a Pretoria-based transport consultant and author of "Black Economic Empowerment: Shaping SA Business for the 21st Century."

Since President F W de Klerk's opening address to parliament events have made it clear that real political change is on the way. But there must also be changes of equal substance in business.

The ANC has stated plainly that it will insist on a complete restructuring of the economy in order to redistribute wealth. It has placed nationalisation on the table as its starting point but ANC leaders have sent strong signals that they no longer see this as the best means of creating fairer shares for all. They have, in effect, challenged business to come up with practical and demonstrably effective options.

A more balanced distribution of wealth must be created, not by artificial means, but as an integral part of the process of expanding the economy. The best means of achieving this is the emergence, in a very short time, of a large black business movement operating in the mainstream economy.

By 1995, at least a significant minority of firms listed on the JSE must be owned by black entrepreneurs. They will be the third wave of businesses to complement today's English and Afrikaans giants.

If the small enterprise of today is to become the big business of tomorrow, it must acquire general management skills — finance, administration, personnel, marketing and production control skills. This can be achieved only with the co-operation of established businesses. They must seek interaction with black business to help it grow and, at the same time, to pass on the skills and culture of formal business.

One of the best means of achieving this is through subcontracting on a large scale. This can be either internal, such as assisting the company's truck drivers to become self-employed contractors, or external.

Another way is through the creation of franchises in a wide range of fields — construction, travel, electrical contracting, passenger and freight transport, for example. Franchises enable the entrepreneur to remain independent but acquire necessary management skills through the support and guidance of the franchisor.

Franchises would be developed to meet the market needs of established businesses that wish to sell their products and services to blacks, buy products and services from black businesses, or provide specialist training and other services to the franchises.

In either case, subcontracting or franchising, the established company must be prepared to become deeply involved in transferring business skills to the black entrepreneur.

That will not be without cost, so the established businesses must be able to see direct financial benefits in at least the medium term from its interaction with emerging black businesses. It could then view development expenditure as investment. The funds could be found in the budget now devoted to social responsibility activities.

A large and profitable black business sector will be able to undertake educational and housing projects within its own community without them being seen, as they often are today, as paternalistic handouts from the profits of apartheid.

Established businesses cannot afford to divert too much time or effort to these new developments, so a new kind of intermediary is needed.

Some of the giants of business have set up their own inhouse small business units to act as this intermediary. Second-tier companies won't be able to afford this. They will be looking for a consultancy service specialising in interaction.

This will be provided by profit-orientated companies filling a clear market need, derived from the proposition that established businesses can gain calculable economic benefits from encouraging black economic growth. These consultancies will offer specialist services for a fee, just like an advertising agency or PR firm.

This mechanism of interaction will help to create, in the shortest possible time, a large group of black entrepreneurs who have the ability and confidence to act in the mainstream economy and the staying power to grow big.

Moves of substance on the political front will take place rapidly in order to achieve a constitutional settlement later in the decade. Equally, changes in the shape of business must begin now so that they advance in harmony with the political changes.

FRIDAY
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Johannesburg

The Star

South Africa's largest daily newspaper.
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LATE

Help to end jitters, ANC is urged

6/4/90 Star (49)

By Michael Chester

The SA Chamber of Business (Sacob) has urged the African National Congress to make a clear-cut declaration of its economic policies in order to end business jitters about a future political scenario.

Sacob economic consultant Mr Roelof Botha yesterday said it was also vital for the Government to take urgent moves to scrap the Group Areas Act. This would further its reform programme and remove a justified cause of black bitterness.

He urged political and business leaders to shift the debate from its high emotional overtones. What was needed was realism about the inevitability of change and a pragmatic attitude towards coping with it.

Uncertainty about prospects was also hitting the level of new job opportunities, with the number of vacancies advertised in the newspapers, measured by the column, now running at the lowest in three years.

Mr Botha said the dramatic impact of political statements on the business mood had been fully demonstrated in the past few days:

● On April 2, the Johannesburg Stock Exchange overall share index was mauled badly when the ANC announced the cancellation of April 11 talks with the Government.

● Within 24 hours, the JSE index shot back higher when President de Klerk outlined moves to stamp out the violence that was sweeping across the country.

Much of the nervousness was based on ANC talk about nationalisation — yet the fact that the ANC had announced talks on its stance suggested that the issue was still not settled as a policy objective.

Sacob economist Mr Keith Lockwood said the lack of precision about ANC policies was feeding a sense of uncertainty in the business world.

"It is important that the ANC gets the message that now they are operating freely, they must take responsibility for the actions and statements of their leaders," he said.

"The ANC must co-ordinate and set out a precise set of policies to end the political tension. It's vital for economic stability."

Mr Botha said uncertainty was also delaying a potential reversal of capital outflows to a surge of new capital inflows.

Overseas investors were delaying decisions until there was more clarification about the political outlook.

The sharp drop in the value of the financial rand on currency markets since the release of Mr Nelson Mandela had been attributed to overseas nervousness about the ANC's nationalisation statements and its continued commitment to armed struggle.

Since the beginning of February, the financial rand had depreciated by than 26 percent in dollar terms.

"Political uncertainty has, predictably, replaced the euphoria after President de Klerk's watershed speech at the opening of Parliament," Mr Botha said.

He said business confidence levels were likely to remain vulnerable until a number of critical factors had been addressed:

● Progress had to be made in meaningful negotiations between the Government and key leaders in the black, coloured and Indian communities and the envisaged constitutional model needed to be developed.

● A lasting end to anarchy in certain

● To Page 3.

ANC urged to spell out its policy on economy

(49)

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● From Page 1.

black townships via the stamping out of criminal syndicates and a truce between rival ethnic/political factors.

● Clarity on the true nature of the ANC's envisaged economic policy.

"Although socio-economic upliftment will remain high on the country's agenda for some time to come, the problems surrounding the *modus operandi* to be followed may be semantic rather than substantial."

Grievances

"While the Government has rightly been lauded for its recent reform measures, the continued existence of the Group Areas Act and other statutory measures which discriminate on the basis of colour remain a just cause for black grievances.

"The next step on the road to reconciliation and negotiation should be regarded as a priority by all participants in the debate surrounding a new South Africa, and these steps should be taken in haste," Mr Botha said.

More attention should be fixed on the positive outcome of the inevitable ultimate end of apartheid — the release of an enormous pent-up demand for housing, education and health services that would generate a dramatic expansion of economic activity.

Business confidence takes a knock after ANC statements

By Jabulani Sikhakhane 6/4/90

After showing signs of optimism in February, business confidence and manufacturing activity declined sharply in March due to increased political violence and statements by the African National Congress about nationalisation.

The South African Chamber of Business and Seifsa's (Steel and Engineering Industries Federation of SA) index of manufacturing activity fell to 118 from a high of 132 in February.

The SACB's business confidence index, which held steady at 95,9 for the three months to February, fell 1,7 percentage points in March to 94,2.

SACB and Seifsa blame increased political violence and statements by the ANC for the increased uncertainty in business.

They add that the Budget has also increased the effective tax rate of most companies and this is likely to exert a negative influence on the manufacturing index.

Nervousness in world stock markets, particularly the very large falls in the Nikkei Index served to highten the uncertainty of investors worldwide and "the JSE has not been impervious to these developments".

"Political developments within the country had also caused uncertainty among investors. "In recognition of the ANC's perceived importance in a future SA, significant weight is being placed on the statements of its senior officials and the financial markets have responded accordingly".

Other negative factors sapping business confidence were a sharp fall in the dollar price of gold, the weakening in the rand/dollar exchange rate, declining imports, falling indices on the JSE and a 1,5 percent fall in real retail sales.

Manufacturing output and the number of new registered companies also declined.

Positive factors were a decline in the rate of inflation, a downward movement in the three-month's Bankers Acceptances Rate and an increase in the seasonally adjusted value of building plans passed.

Summarising, the SACB says it is clear that the real economy is slowing down and that pressures on the balance of payments should subside. It adds that as the gold price has started to recover, the level of the business confidence index could well improve in the coming month, but political developments will be chief determinants of business sentiment.

Time for investors to go on the defensive

Star 7/4/90 (49)

Money Matters

MAGNUS HEYSTEK

ON Saturday February 17 I wrote in this column that it was time to take a defensive posture on the Johannesburg Stock Exchange.

I predicted that the uncertainty surrounding the release of Mr Nelson Mandela, the unbanning of the ANC, the SA Communist Party and several other former radical organisations would not create the right environment for equity investments.

This bit of advice did not even take into consideration the possible effects of a sharp drop in the Japanese market, which, at that stage was very vulnerable.

In the approximately two months since the mentioned article, both local and international equity markets have become increasingly volatile, with the turbulence on the Tokyo market continuing to rock markets worldwide on a virtual daily basis.

Added to this, South Africa's lifeline in times of financial uncertainty, gold, once again behaved in a contrary way, dropping sharply to six months' lows. This certainly did not do much to boost confidence in equity investments.

In real terms, equity prices have dropped only slightly, with the overall index declining from 3139 on February 16 to 3129 at the close on Thursday. The gold index was down from 1942 to 1857 over the same period, while the industrial market, however, sagged from 3073 to 2893 — a drop of about 6 percent.

But these figures belie the underlying weakness of the market. The performance of the overall index has been artificially boosted by the sharp rise in the price of De Beers, which has a very large weighting in the index. During this period the share price of De Beers soared from R65 to its current price of R83 a share, which boosted the market.

The market will remain volatile and uncertain for a great deal of the year. The events surrounding the unfolding of the political drama in South Africa will no doubt have a major impact on the current market.

Business confidence, as measured by the Business Confidence Index of the SA Chamber of Business, shows clearly that businessmen are greatly concerned by the widespread anarchy and lawlessness in black townships. Normally this is not helpful to perceptions on the equity markets.

I use the word "normally", because the JSE has in the past often behaved totally contrary to investment fundamentals. In times of uncertainty the JSE has in the past attracted interest due to the liquid nature of the investment. It might happen again, but I consider that possibility rather remote at this stage.

The largely unforeseen weakness in the gold price is bound to remove much of the euphoria surrounding gold shares and the economy in general. International stock markets are still very volatile and further shocks can be expected from market-makers like Tokyo and New York.

This brings me to the essence of this article: what should one's investment strategy be in such an environment? Is it time to enter the market in a big way, or should one sit on the sidelines in the hope of entering the market at or close to the bottom?

I was asked this question on Monday on Radio 702 by a listener who suggested that one should take advantage of the high levels of interest rates being paid by banks and building societies. Banks, finding themselves under considerable pressure from the Reserve Bank, are paying up to 19 percent on six months' deposit.

There's no doubt that these rates are indeed attractive and are made even more attractive by the added concessions announced in this year's budget, which increased the tax-free limit on interest on savings from R1 000 to R2 000. But these rates are bound to come down much sooner than most people think and with inflation as high as it is, will wipe out the real return people are getting now.

Anybody with a large amount of money to invest should try and spread this exercise over six to 12 months. Somewhere in that period one should, hopefully, find the bottom of the market.

This approach is called rand-cost averaging in the case of unit trusts and has proved to be a very successful strategy for long-term investments. I would not enter the market in a big way right now, especially if one's constitution is rather shaky and you are prone to sleepless nights.

Currently the market is as nervous and volatile as I've seen it for many a year. Even steel-nerved traders are showing signs of cracking under the pressure.

For the average equity investor, which includes unit trust investors, it is time to remain defensive, although there are several shares that are looking very attractive at current prices (Iscor, for instance, at 210c a share is very cheap).

Unit trust investors with regular commitments should continue investing in the market. If one is concerned about a dramatic collapse in equity prices, switch from general equities to a fixed-income fund. This will preserve all capital gains at very minimal costs (roughly about one percent of the market value of the investments) and allows one the opportunity to buy back more units at a later stage, should the market decline.

I have been advocating this approach for most of the year and still think it is sound advice.

Alternatively, one should start building up cash with the purpose of re-entering the market at some later stage, if one is of the opinion that the market is going to decline even further.

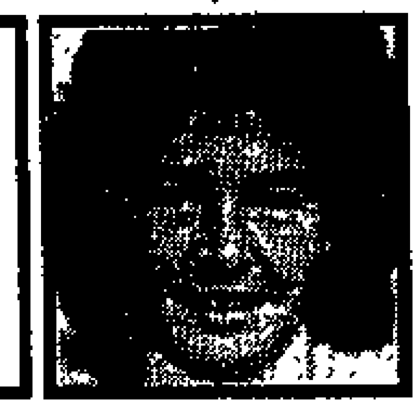
But this strategy has definite disadvantages in that the market could suddenly take-off, leaving one stranded.

Also, trying to read the market and finding the bottom of a bear market, is very difficult.

Another shortfall

Inside Out

ANNE CROTTY



GLAD that was a short week; couldn't have coped with a whole five days of it.

The market's gone into soporofic-hold mode again; none of the local bods want to take a decision on whether to buy or sell — which means that they just hold and wait for some direction from overseas. Star 7/4/90

Not that Mandela's team isn't giving them a lot to think about on the local front but even on that score there's a tendency to wait for a response to filter through from overseas.

The gold board did relatively well but industrials were almost ignored — word from the technical guys is that the signs aren't encouraging. Myles reckons that things have to be touching bottom when the technical guys are trotted out to try and shake some response from investors.

Speculation about what the Duros/TGH team might be selling off provided some light relief and quite a lot of trading activity in the form of just over half a million Gants' shares changing hands. Towards the end of the week some of the attention switched to Arwa — TGH's hosiery and textile subsidiary.

There's talk that the hosiery operations have already been sold off to Burhose (part of the FSI group) but that the parties are waiting for Competition Board approval before making any announcement.

If the board does not give the go-ahead, it's difficult to imagine what other potential acquirers there might be. Then there's all of Arwa's textile interests ... presumably a new home will have to be found for them also.

Given all the talk about it, Myles was quite surprised that Gant's hadn't been bought and sold at least twice during the week. According to rumours at the beginning of the week, the list of suitors for the company included: HLH; Tiger; Premier; SAB; Fedfood; FSI; Brian Joffe's Bidcorp; Royal Corporation; Kanhym; Lever Bros; Anglovaal. And the price being suggested was a massive 190c a share. (Myles reckons that the inclusion of FSI has to be a knee-jerk reaction to any takeover speculation.)

Response from the suitors? The HLH board was tied up at a meeting for most of the week; Tiger gave a firm denial; as did Premier, SAB, Fedfood and Anglovaal.

Brian Joffe is currently overseas and Cecil Smith couldn't be contacted; Lever Bros wasn't taking it too seriously. So this seemed to leave just Royal and Kanhym in the running and indications from those two sources are that they're not running too hard.

Some sort of official statement from Gant's and/or TGH seems long overdue.

Talking of Kanhym, it looks as though Mielie-Kip is the smallish, listed acquisition that Kanhym chief executive Dirk Jacobs was referring to when he released the interims during the week.

Competition in the chicken market is fairly tough these days with Rainbow reasonably well ahead of the flock but presumably the Kanhym guys reckon that the Mielie-Kip operation is small enough to provide the raw materials for value-added chicken products so they won't be competing head-on with the big guys.

Myles heard that the Landlock negotiations were close to a conclusion and that a deal had been struck at a fairly good price. Management wouldn't comment except to say that a second cautionary would be published on Monday — repeating what had been stated in the first one a few weeks ago.

Nothing more about the UAL/Projec saga. Does this mean that somebody has been apprehended and UAL's finrand position has been covered? Or does it mean that the scam was so easily perpetrated that all the official bodies involved would prefer to see the story die a quiet death.?

Picapli's share price took a bit of a knock this week. This isn't a very good omen ... the results are due out next week and presumably the market reckons that Picapli is going to look just about as sick as it hears Tek is.

BD 11/4/90

Agriculture boom aided GDP growth

GRETA STEYN

A BOOM in agriculture was the main reason for the relatively comfortable rate of 2% growth in real gross domestic product (GDP) achieved last year.

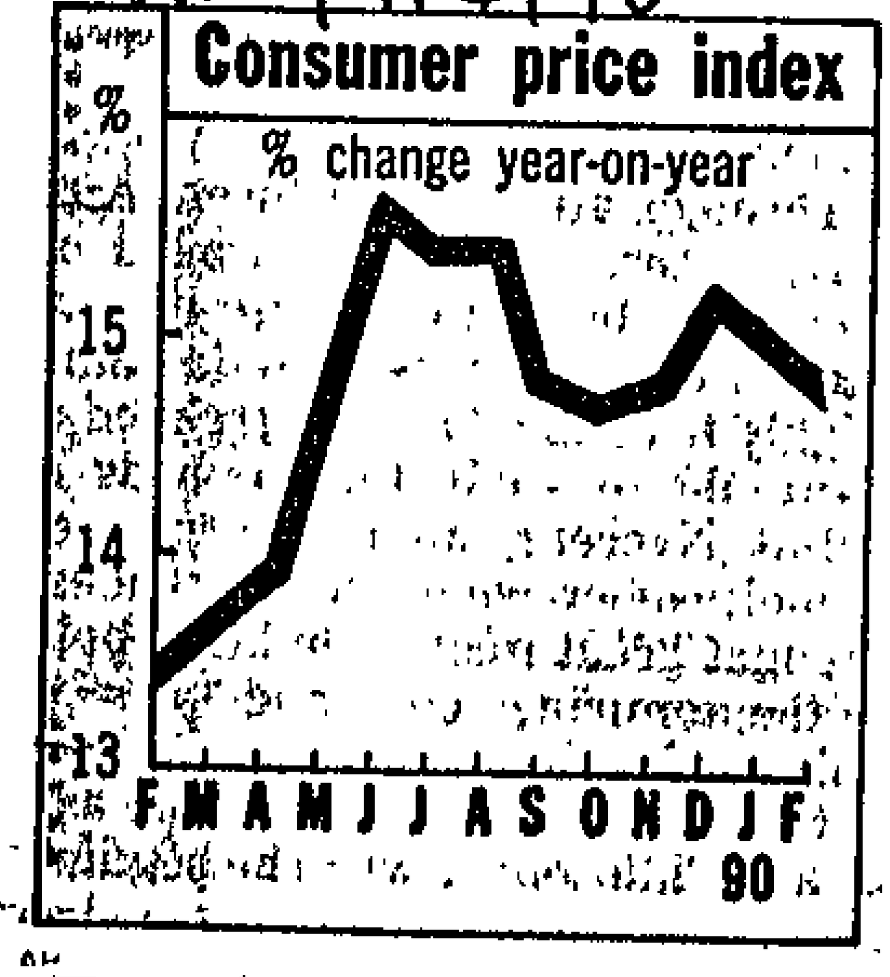
According to the latest Reserve Bank Quarterly Bulletin, output in the agricultural sector grew by 10% in real terms in 1989 while lower (but still positive) rates of real growth were recorded in other major sectors of the economy.

An econometric simulation done by the bank suggested the increase in agricultural output had contributed 0,8 percentage points to the real growth rate of the overall economy of slightly more than 2%. The reason for the buoyancy of the sector was a record maize crop.

"Allowance should, of course, be made for a return to more normal crops and harvests in 1990," the bulletin said. (4-9)

The sector's performance started to pale in the last quarter of 1989. Less favourable weather at the year-end resulted in a wheat crop that is likely to be about 40% smaller in volume terms than in 1988.

BDay 9/4/90



Redistribution of wealth 'could be inflationary'

49

NEIL YORKE SMITH

ECONOMIC policy-makers would battle to curb inflation because of demands for high wage increases and the wealth redistribution problems, economists said at the weekend.

Commenting on Reserve Bank Governor Chris Stals's anti-inflation policy, Econometrix economist Azar Jammine said: "Stals has expressed determination but so far the results have yet to be seen.

"Also, the potential redistribution of wealth could be inflationary, especially if wage increases for the masses are not matched by increases in productivity," he said.

FNB economist Cees Bruggemans said: "We expect inflation to reach 13% by the second half of this year. This should be obtainable given the positive inflationary impulses of the past few months."

TrustBank's Nick Barnardt said: "High wage increase demands make single-figure inflation unlikely in 1991."

It was unlikely authorities would be able to contain the rate of increase to below 10%.

"If the authorities aim for single figures they will have to retain strict financial policy, risking unemployment and social instability," Barnardt said.

According to Bruggemans, the large number of unknown factors influencing the inflation rate made long-term predictions difficult.

Inflation indicators like the consumer price index (CPI) and the producer price index (PPI) had recorded reduced rates of increase recently, largely as a result of a more stable rand exchange rate.

Said Barnardt: "The stable exchange rate over the past nine months has been important in controlling import price inflation."

Jammine confirmed short-term indicators appeared positive, but stressed they did not mean an end to high inflation rates.

"Money supply growth remains a major problem. This combined with excessive wage demands could have a negative impact on the inflation rate," he said.

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Political tensions could further erode confidence

BDay 9/4/90

SYLVIA DU PLESSIS

CONTINUED socio-political tensions can lead to a dramatic fall in business confidence, the SA Chamber of Business (Sacob) says.

While the low gold price — the main reason for declining confidence in March — has begun to recover, other factors will be the chief determinant of whether business sentiment follows suit, it says.

These include political developments, the level of unrest and the impact of these factors on the JSE.

The chamber's note of caution follows the results of its latest business and industrial confidence indices — released simultaneously for the first time at a Press conference on Thursday — which reflect waning optimism.

Its business confidence index, measured against 16 economic indicators, tumbled 1,7% to 94,2 last month — its second lowest level since mid-1987.

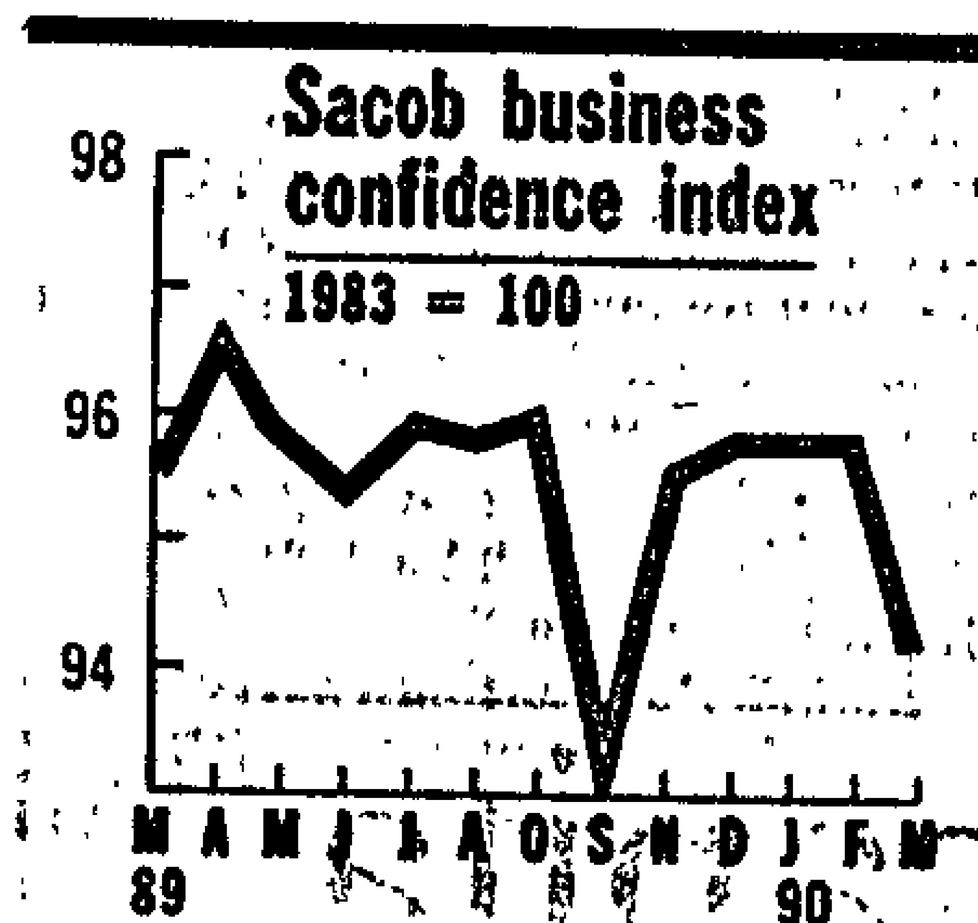
But political developments within the country also heightened nervousness on the market, Sacob says.

"In recognition of the ANC's perceived importance in a future SA, significant weight is being placed on the statements of its senior officials, and the financial markets have responded accordingly," it says.

It is important in these times of socio-political upheaval that the economy provide a stabilising influence.

However, both foreign and local investors have shown reluctance to invest in SA, either on the JSE or in new business ventures, in view of the uncertainty. If this persists, it will "undoubtedly" impact on future economic growth.

Escalating violence in some areas and ANC statements which saw share prices fluctuate sharply and created deeper uncertainty — coupled with the Budget's failure to provide much tax relief for manufacturing concerns — dampened confidence in the manufacturing sector.



Graphic FIONA KRISCH Source: SACOB

Sacob's manufacturing activity index, after rising sharply to 132 in February, fell to 118 in March, while its chief indicator of industrial sentiment — that of expected sales — declined to 120 from 132.

Expected sales indices for the next year in Maritzburg, highest overall in February, registered the sharpest fall — 36 points to 136.

However, the chamber says it may be that confidence levels in the sector have reached more realistic levels. On the basis of current economic expectations the sector should enjoy positive growth in 1990.

Sacob economic consultant Roelof Botha, commenting on overall prospects, told the conference it was important for business to bear in mind that the death of apartheid would induce two major beneficial economic effects.

One was a "post-apartheid dividend", in the form of savings on public expenditure aimed at supporting apartheid policies and the reversal of the costs of sanctions.

The other was the release of pent-up demand for housing, education and health, leading to more economic activity in areas with low import-propensity.

'Perestroika will force rethink among SA socialists'

ALAN FINE

ECONOMIC reforms in the Soviet Union will force socialists everywhere, including in SA, to find new ways of giving expression to their ideals, says Wits Business School (WBS) senior lecturer Mark Addleson. BDay 9/4/90

In a paper published by the WBS, Addleson contends that *perestroika*, occurring while the SA political system was crumbling and a new one was being negotiated, could not have come at a more opportune time for the business community.

Soviet reform and the revolutions in Eastern European politics should lead to more flexible attitudes to negotiations in SA, particularly among those who looked to the Soviet Union for guidance and, possibly, material support.

(49)

Addleson warns, though, that a policy of complete *laissez-faire* would be neither suitable nor acceptable. "There are too many vestiges from the past which will prevent free enterprise from redressing basic economic problems to the satisfaction of many.

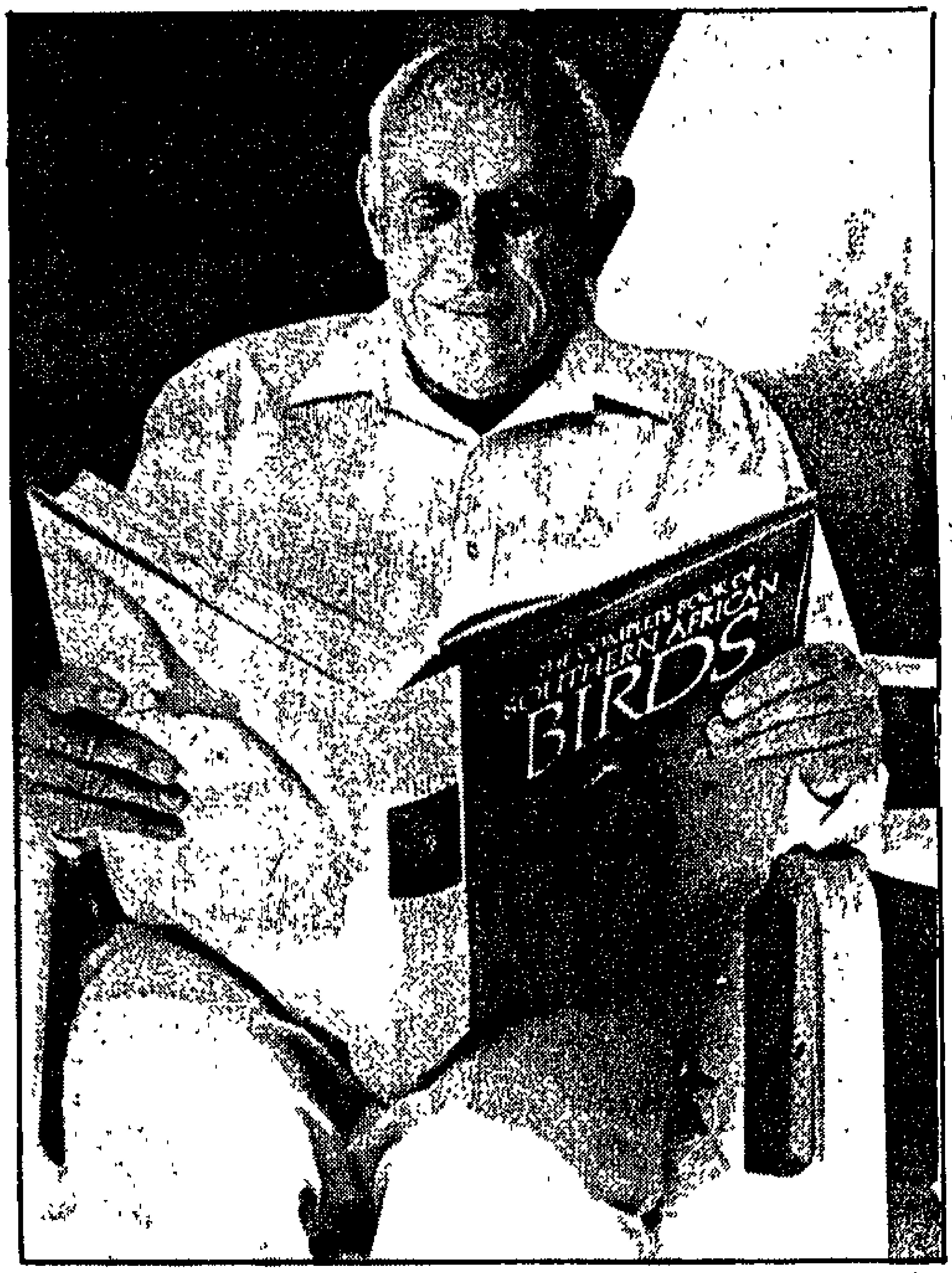
"The distribution of income is one such obstacle. We have an enormously skewed distribution. Students of economics are taught early on that the ability of the market economy to allocate resources and to satisfy wants effectively is crucially dependent on the distribution of income.

"If the latter is not 'right' then the market economy will not allocate resources in an appropriate manner."

Addleson says SA has economic structures which will serve it well in the future. There are, nevertheless, areas where important changes need to be made — particularly with regard to education and the development of skills, including management skills.

Graaff's 'bid to nationalise gold mines' is recalled

Star 9/4/90 (49)



Mr Abe. Hyman, a retired attorney ... wrote about experiences in PoW camps during World War 2.

By Joe Openshaw

Sir de Villiers Graaff was once leader of a party which proposed the nationalisation of the gold mines.

This vignette comes to light in the March issue of De Rebus, the South African Attorneys' Journal, in an account by Mr Abe Hyman (76), a retired attorney writing about his experiences in PoW camps after being captured outside Tobruk during World War 2, the day before the garrison fell to the Afrika Korps.

Interviewed by The Star, Mr Hyman said that as a lieutenant in the Cape Field Artillery he and most South African officer PoWs were taken to Italy and held in PG 47 at Modena.

"We realised that faced with a long period of idleness it was essential for stability to keep their minds as active as possible and the lawyers among us immediately formed the Modena Law Society," he recalls.

Members included Sir de Villiers Graaff; Bill Seymour, a Natal lecturer and rugby player; Gordon Beale, who had been in the Attorney General's office; and Morris Kaplan and Ronnie Millin who later became leading Johannesburg attorneys.

"We lawyers were prominent in the Modena parliament with Div Graaff as the Prime Minister and I as leader of the radical opposition.

'Universities'

"When he and his governing party proposed the nationalisation of the gold mines we opposed the 'Bill' on the grounds that the capitalists had extracted every last ounce of gold from the mines and now wished to palm a valueless shell on to the people.

"Universities" were set up at camps in Italy, Czechoslovakia and Germany and lawyers played a big part in directing the university activities — lecturing on 'Law for the layman', 'Law for the farmer'; and 'Law for the policeman', the latter for the benefit of members of the South African Police Brigade in the camp."

Call for economic policies to . . .

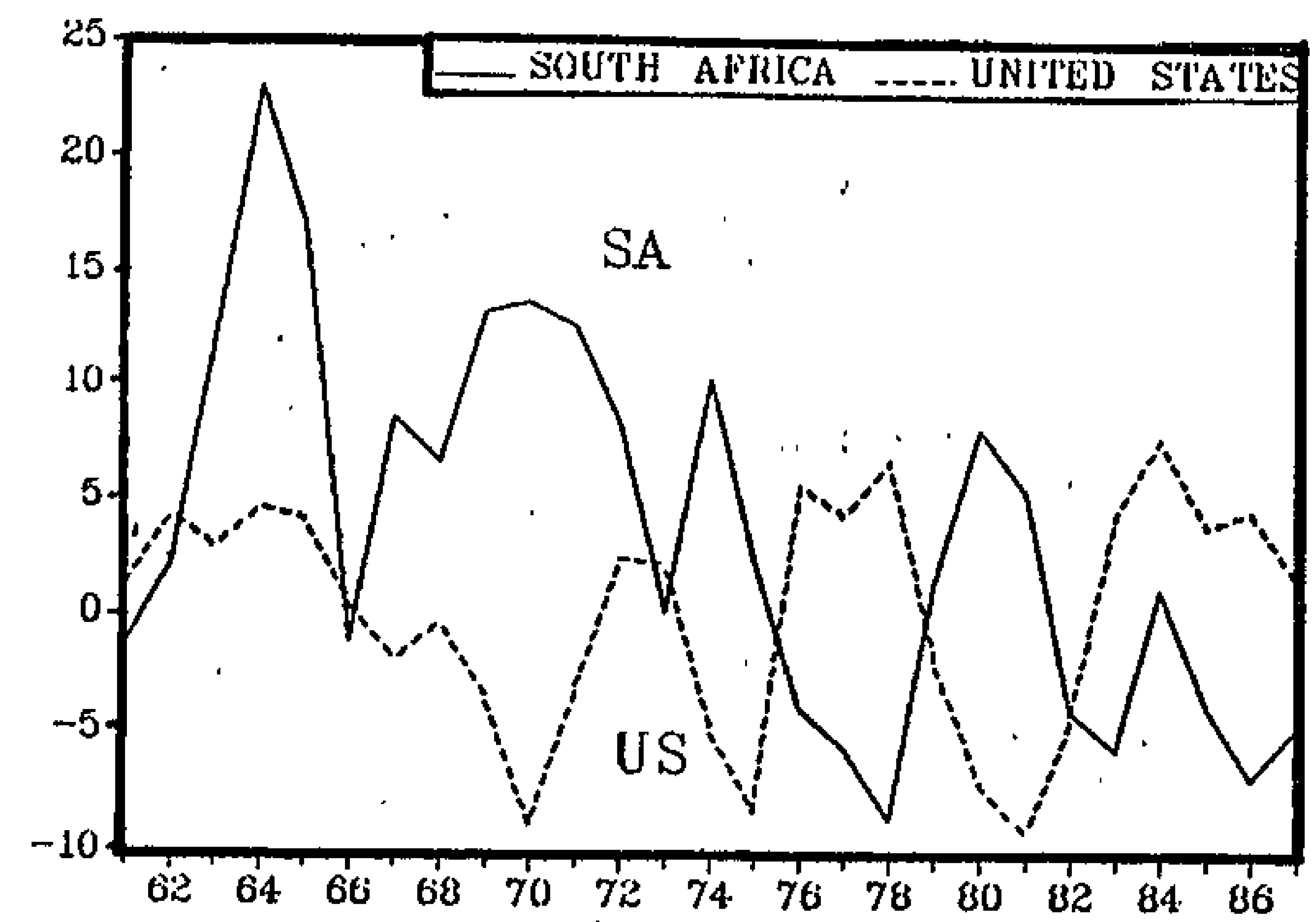
Encourage foreign investment in new SA

49

Cape Times 10/4/90

By AUDREY D'ANGELO
Financial Editor

GROWTH IN REAL CONSTRUCTION ACTIVITY



The ups and downs of the construction industry in the US are a mirror image of those in SA, economics professor Brian Kantor pointed out to delegates to the SA Institute of Civil Engineering congress in Cape Town yesterday. "When the US economy does well ours is doing badly, so it would pay to diversify into an American practice," he advised them. "When it becomes respectable for them to do business with SA again, you may find you are up against competition in the good times from American engineers who have realised that our economy dances to a different drum from theirs."

GOVERNMENTS in the new SA will be under pressure to accommodate the short-term needs of the majority rather than take a long-term economic view, Brian Kantor, professor of economics at the University of Cape Town, said yesterday.

But — provided there is stability and economic policies designed to attract foreign investment — South Africans of all races may be able to spend and invest more than now.

"I am comforted by the thought that political stability can compensate to an important degree for something less than first rate economic management."

Kantor was speaking at the annual congress of the SA Institute of Civil Engineers, at the Cape Sun.

He told delegates that "future governments will be far more sensitive to majority opinion. Clearly, such sensitivity will reveal itself most directly in economic policies.

"A fundamental difference between richer and poorer people is in their willingness or ability to take the long view, to save and invest.

"Economic policies in the new SA will be under greater pressure to accommodate shorter time horizons, to deal with the shortages of today, at the expense of prospectively greater abundance in the future.

"It is consumption rather than saving and investment that will be given more encouragement by the emerging political developments."

However, Kantor said, provided a peaceful transition to representative government were achieved and economic policies likely to encourage foreign investment adopted, South Africans of all races would find themselves better off.

Foreign investment had stayed away in the past because of a belief that violent confrontation was inevitable.

"An opportunity has now opened up for us to break open what has been the great barrier to faster economic development."

Explaining: "The expectation has long been held that the transition to representative government required a confrontation between blacks and whites that would severely, perhaps fatally, have disrupted the economy," Kantor continued: "There is surely now a much better chance of avoiding this disaster.

"If so, we now require the wit and good sense to prevent economic decline by avoiding the wrong set of economic policies.

"I certainly have not given up hope that we can miss the obvious pitfalls into which so many African and South American economies have fallen."

It would be possible for the majority of South Africans, black and white, to consume and invest more in the future "if the country can achieve both political stability and also adopt the right kinds of economic policies.

"These are policies that, above all, would encourage foreigners to trade with an invest in SA. It is only by way of openness to foreign trade and investment that South Africans can hope to enjoy more consumption today and tomorrow."

Failure to ensure this would mean that "our people will be condemned to greater poverty in the years to come."

He warned that nationalisation would create inefficiency and also make SA "a no-go area for foreign investors."

Discussing the present state of the economy, Kantor said the black share had increased significantly in the '80s.

But one of the most surprising effects of sanctions had been the extraordinary growth in earnings achieved by SA business since 1987.

The withdrawal of foreign savings had resulted in a highly profitable, more productive use of the surviving capital. "Margins have improved for want of competition from newly created capital."

Shareholders had benefited from much better operating results and the much higher prices for theoir shares registered on the JSE.

"The surely unintended, but perfectly understandable, consequence of sanctions and disinvestment is that it has been good for capital and hard on workers and consumers."

SA economy has achieved soft landing

Star 10/4/90 (49) (85)

Finance Staff

One of the most consipicuous features of recent developments in the South African economy this year was the quite remarkable softness of the cyclical "landing" in economic activity from late 1988, says the Reserve Bank in the March edition of its *Quarterly Bulletin*.

"Economic activity has in fact been 'coasting' — along an essentially sideways trajectory, although at diminishing rates of real economic growth — rather than adjusting downwards as abruptly in response to the authorities' more restrictive monetary and fiscal policies," says the Bank.

It adds that in ~~its~~ consolidation phase to date, the economy has been "moving in the right direction" satisfactorily as regards the balance of payments, foreign reserves and exchange rate situation in particular.

But it says less satisfactory progress had been made thus far in, among other things, subduing inflation, moderating wage adjustments and slowing down the expansion of bank credit and the money supply.

The soft landing of the economy up to the early months of this year came about in spite of the progressive tightening of monetary policy since 1987 and the de facto quite restrictive posture of fiscal policy in the fiscal year 1989/90, the Bank said.

It said this appeared to have been due to a variety of factors, including:

- The sharp rise in real agricultural production from 1988 to 1989.
- The vigour of South African merchandise exports last year.
- The increased average age — and more markedly depreciated value — of businesses' stock of fixed capital goods and of households' stock of consumer durables last year compared with 1984/85, implying reduced deferability of new acquisitions for replacement purposes.
- The more positive business mood and higher level of consumer confidence last year.
- The rise in the real wage per non-agricultural worker and the increased share of labour remuneration in total factor rewards, that are likely to have supported household spending and the average propensity to consume.
- The public's view of the authorities' recent policy actions as arising from a need for tempering buoyancy in the economy rather than from a need for coping with an acute crisis.

Not enough resources to take over mines

Nationalisation debate: common ground emerges

Sowetan 2/4/90

49

FOCUS

SOUTH Africans have plunged into a fierce debate about whether a post-apartheid government should nationalise the white-owned economy to raise the living standards of impoverished blacks.

The debate promises to be every bit as tough as impending negotiations on political reform.

The economic issue is seen as crucial by blacks and by the many whites who are more fearful of losing a privileged lifestyle than of ending formal racial segregation.

The argument may also determine whether Africa's most powerful economy, with its giant gold mining and industrial corporations, will fulfil a long-heralded destiny as the engine of economic growth for the sub-Saharan region.

Debate

Amid the fury of the debate, some common ground is emerging.

On one side are government and business leaders opposed to the policy of nationalising major industries advocated by the ANC.

Finance Minister Barend du Plessis called nationalisation "theft". Attie du Plessis of the powerful Afrikaanse Handelsinstituut business lobby dubbed it "highly irresponsible".

Business leaders say plans to sink up to 19 new gold mines, many of them deep and therefore expensive, and six new platinum mines and expand chrome, granite and diamond mining over the next 20 years would be harmed if mining was nationalised.

"Of one thing you may be certain. There will be no deep-level gold mines in a nationalised industry," said Brian Gilbertson, head of the mining division of Gencor Ltd.

Michael Spicer, an executive of the country's largest company, Anglo American Corporation, said social welfare for all South Africans was a legitimate long term aim.

"But as a practical system to be introduced short term it is pie in the sky. Housing education, jobs - there just aren't the resources," he said in an interview.

Blacks see increased government welfare as the only way out of grinding poverty affecting many of them. At least 35 percent of blacks are unemployed and up to a third live in informal settlements of tents and corrugated iron shacks with restricted access to running water and electricity.

Health care and education for blacks are confined largely to underfunded and overcrowded hospitals and schools.

On another side of the debate stand radical black youth, Africanist and Trotskyite groups demanding state ownership of the economy and redistribution to blacks of the 87 percent of South African land reserved for whites under apartheid.

Many blacks equate capitalism with apartheid, which they say provides business with cheap black labour and encourages harsh work practices outlawed in many Western countries.

Peter Mokaba, influential president of the anti-apartheid South African Youth Congress, believes the economy belongs to its overwhelmingly black workforce. He says it is strange to think of nationalisation as theft.

"Who are we stealing our own wealth from?" he asked.

On yet another side of the debate stand the ANC, its ally the Communist Party and a large number of trade unions. They demand greater state control of the economy but admit widespread government ownership of private companies would be unworkable.

Business leaders say a future government could not afford to pay adequate compensation for nationalising their companies, while a refusal to pay compensation would kill foreign investment and discourage domestic investment.

Some unions and black leaders seem to have taken the point.

"Our solutions lie neither in free market capitalism nor in centrally planned command economy socialism," wrote Alec Erwin, education officer of the National Union of Mineworkers.

Communist Party general secretary Joe Slovo told the *London Financial Times*: "Foreign capital will remain crucial to development and guarantees of stability and security will be offered to ensure investors do not avoid South Africa."

Nelson Mandela, the deputy president of the ANC, says the economy will continue to be based on private enterprise and any changes would be discussed thoroughly with business leaders.

A future government would find it hard to pay compensation if it decided to nationalise Anglo American, which controls up to a third of world gold production and has a market capitalisation of R29 billion.

A 51 percent stake would cost R14.9 billion, which is one and a half times total spending on defence and far exceeds the education budget.

Julian Ogilvie Thompson, Anglo's chairman designate, says he is confident blacks can be persuaded against nationalisation.

An alternative foreseen by some economists is acquisition without compensation of up to 20 percent of some giant companies, giving government a strategic hold on the economy.

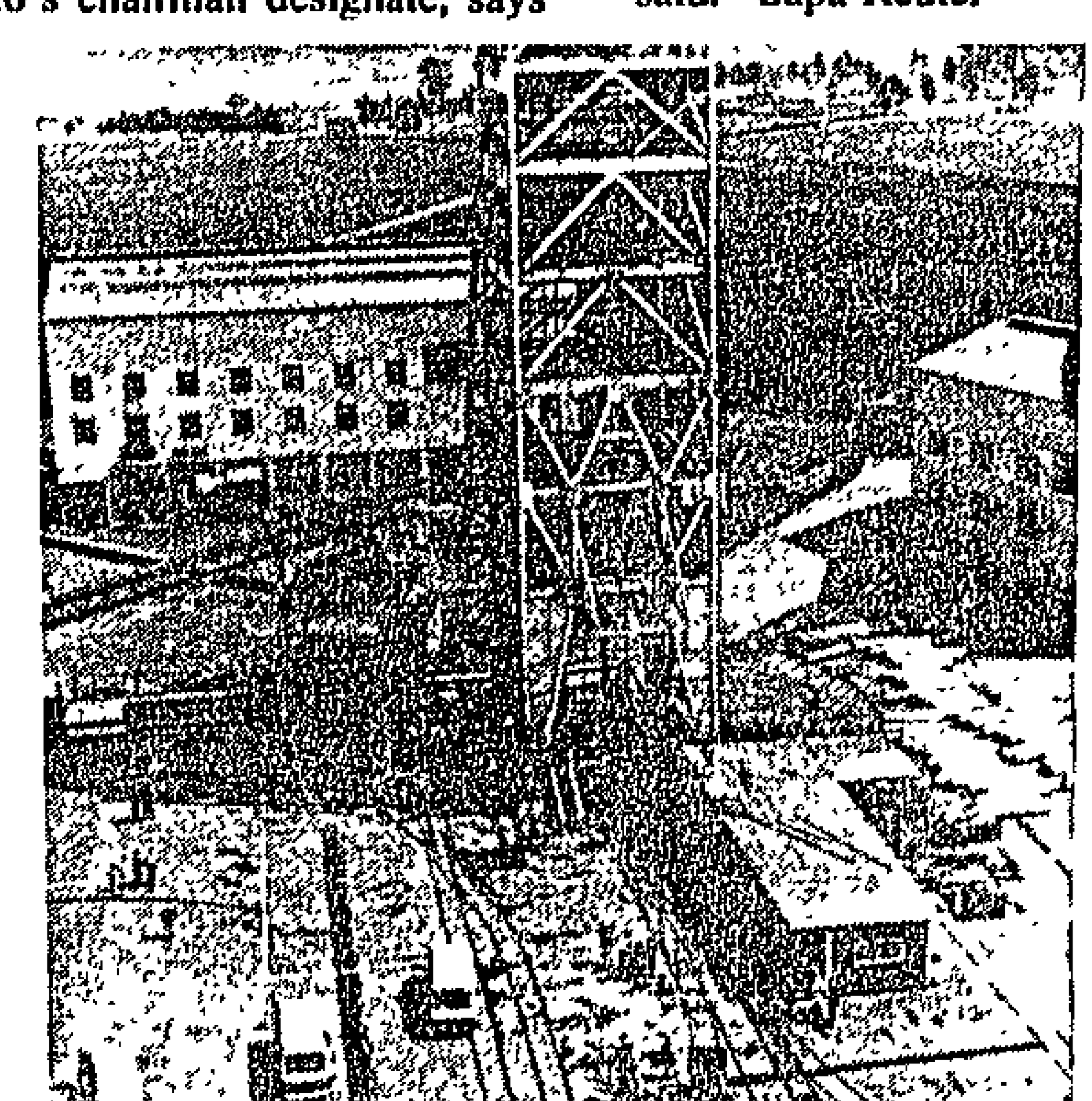
Development studies professor Pieter le Roux said another alternative would be indirect state control through fiscal, monetary and wage policies and trade union and government representation on company boards.

"Ownership of enterprises is...not as crucial as the need to ensure workers have a say in determining policies," said Jay Naidoo, general secretary of the country's largest labour organisation, the Congress of South African Trade Unions.

Structures

Spicer said he suspected black leaders envisaged structures that would coerce business involvement in state projects rather than consultative forums that would merely make suggestions.

"But if it is the 'suggest' model, backed up by a belief in the profit motive with social responsibility, then we are starting to talk the same language," he said. - Sapa-Reuter



Plans to open 19 new mines hang in the balance.

CAPE ... 8/4/90 (49)

Call for alternative to nationalisation

JOHANNESBURG. — Chamber of Mines president Kennedy Maxwell yesterday urged SA businessmen to provide alternatives to nationalisation and, as a matter of necessity, begin talks with organisations poised to shape the political and economic future of SA.

"It is not enough for us to point out African and European failures and expect black leaders to accept that having floudered in other countries, nationalisation must automatically be abandoned as an option in SA," Maxwell said.

In an address to the annual general meeting of the Association of Mine Managers, he named far-reaching issues the business sector had to overcome involving the inequalitites in wealth distribution, saying priorities would have to be reshuffled and a more equitable distribution of wealth considered.

He also urged the mining industry to improve the wealth of its employees, saying the latest national bubget had presented opportunities which would enable business to move in the direction of greater economic growth, prompt new mines and create thousands of jobs.

A clear priority for business in looking for alternative choices was to identify the areas where the greatest deprivations had occurred.

He said it seemed universally accepted that the central cause of deprivation had been the educational system.

Other areas where imbalances would have to be put right were housing, job creation, and the rapid promotion of qualified blacks into management.

Facilities for the care of the aged needed to be improved, so did health services, and linked to education, practical training programmes which gave people the correct qualifications to progress in their chosen careers.

Reverting to means of wealth distribution, Maxwell said more attractive employee share-option schemes were a possibility as were profit sharing incentives.

Assistance with home ownership, education, training, health care and pensions were other benefits business would have to look to provide.

Maxwell warned that if the mining industry was to improve its employees' wealth merely by paying higher wages without regard for productivity and costs, many mines could be closed, resulting in unemployment.

He added: "We are compelled to adopt a more long-term approach because the only way to improve the income and hence the wealth of all in SA is by greater productivity and by economic growth."

Nationalisation may not be the option — ABASA

Cap Times 4/4/90

Financial Staff

IT is essential to promote the ownership of the country's resources by as many of its people as possible, says the executive director of the Association of Black Accountants (ABASA), Mashudu Ramano.

Speaking on "ABASA's Role in the New Economy", Ranamo said, at a lunch organised by Young & Rubicam in Sandton, that SA's wealth distribution was far too uneven, with 98% of assets owned by 20% of its people. "This cannot continue. We are promoting the concept of a new, efficient and effective economy."

Ramano said, however, "nationalisation may not be the option," judging by what has happened in certain other African countries.

Quoting Zambia as "the classic example", Ramano said since that country's economy had been nationalised it had declined very rapidly.

He further contended that the threat of nationalisation in SA is encouraging some of the country's major groups to remove their assets.

"We need capital to generate wealth," he said, adding that "great tact" would have to be exercised in this area.

He said ideas of immediate transfer of wealth from the haves to the have nots were "absurd". Instead the new economy should promote "a just and equitable distribution of wealth in rewards and benefits based on individual work and judicious use of resources for both the individual and society's welfare."

Abasa's goal is to "facilitate and encourage the entry of blacks (the so-called blacks, coloured and Indians) into the accounting profession and to promote their academic excellence.

Accountants provide information for the administration and management of a country's socio-economic activities at both the micro and macro level. This information is critical now and will be even more so in the new SA."

With lack of finance being one constraint faced by most blacks wishing to study, ABASA is already doing much to help promote accountancy as a profession by providing financial support through several schemes.

One such scheme is Female Accountants' Bursary Scheme. "We have been accused of being sexist for singling out females for special attention," said Ranamo. "However, this shceme is warranted as there is only one black female chartered accountant in SA."

Weekly Mail 5-11 Oct 1990

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Some lessons from abroad in redistributing wealth

A comparison of various world economies shows clearly that nationalisation is no guarantee of a fair distribution of wealth. Welfare policies, unionisation and taxation are far better tools, argues economist PETER MOLL

SWEDEN is one of the world's most egalitarian economies.

This has been achieved through centralised collective bargaining, free education and taxation. Women in Sweden earn 90 percent of what men do, in contrast to the United States, USSR, South Africa and most other countries, where women's wages are only 65 percent of men's. This is despite the fact that Sweden has very little state-owned industry.

Brazil is one of the most inegalitarian economies, despite the existence of a huge state-owned sector.

So it seems nationalisation is not a guarantee of economic equality.

In most economies labour income accounts for about 60 percent of total gross national product, property income for about 15 percent and share income for about 25 percent. Nationalisation typically consists of the transfer of shares from shareholders to government, with or without compensation.

Although trade unions would wish it, nationalisation does not usually result in significant changes in the labour market.

In the Tanzanian sisal industry, wages and working conditions remained virtually unchanged after nationalisation. There was little change in wage structures in the Brazilian nationalisations of the 1950s or the French nationalisation of 1981.

So although threats to nationalise "mines, banks and monopolies" sound like fighting talk, they are likely to encompass at most 25 percent of the economy represented by the share market (and less if only big firms are nationalised).

A strategy that misses the biggest market — the labour market — cannot redistribute much. Redistribution is better achieved by policies focused directly at raising and equalising the incomes of the 60 percent of the economy represented by labour.

Labour incomes of individuals are determined mainly by their productivity. Their productivity is determined by the quantity and quality of education, plus on-the-job training and work experience.

Policies of redistribution are most likely to succeed if they focus on improving the access of the poor to high quality education, day-care for children and similar labour market interventions — as in Sweden.

The other reason nationalisation cannot be regarded as a major redistributive tool is that wages in big "nationalisable" firms are higher than wages in small firms, the informal sector and agriculture. Consider the annual average wage of African workers in South Africa in 1990. In manufacturing it is R12 000, in mining R9 200. Informal sector operators make R4 800 while employees of these operators get R2 700. Labourers on white farms earn R2 400 (in-kind and subsistence included).

Even within the manufacturing sector, large firms pay better than small. In 1979, firms with less than R20 000 output paid a wage of R1 138 to blacks, while firms with over R4-million output paid a wage of R4 186. Nationalising the "commanding heights" is too broad-brush: it misses the poorest.

Nationalisation may increase the wages and improve the job-security of big-firm formal sector employees, but these people — while often poor — are already better off. Land reform, rural education and policies aimed at increasing formal sector employment are better anti-poverty instruments.

But aren't there other objectives for nationalisation?

As a way to worker control of factories, for example?

Nationalisation has rarely done much in this direction. Nationalisation of the Tanzanian sisal industry did not improve worker participation "because of what was perceived as the united front of party and employers against the furtherance of workers' demands", writes Diane Bolton in her book *Nationalisation: a Road to Socialism?*

In Europe, voluntary co-operatives, legislation providing for "worker directors" and incentives for share ownership by employees and trade unions have gone further to produce worker control than has nationalisation.

What about nationalisation as a weapon against monopoly pricing?

This was one of the motives of the British Labour Party's nationalisation moves of the 1940s. But this is a roundabout way of getting rid of monopolies. The direct method is cheaper and incurs less political risk. It entails using a beefed-up Competition Board to split firms up.

What about nationalisation as a way of raising revenue to be redistributed as wages or educational spending? This may work in the short term. However, if any and all business is subject to the risk of confiscation, capital would leave the country in the longer term as business people here and abroad saw their investments endangered. Economic growth would decline, unemployment would rise. The government would be back to square one as its tax revenues declined. Development aid from the rich north would come to a halt.

There is a political danger. The "unintended consequences" of nationalisation are such that governments which nationalise too widely are at risk of being voted out of office. Mitterand's socialist government nationalised much of the French economy in 1981. Massive capital flight followed and the economy catapulted into decline. In 1985 the right-wing Jacques Chirac became prime minister and proceeded to re-privatise.

If revenue is needed, it is better raised directly through taxation. South Africa taxes about 24 percent of gross domestic product. This could be increased, in time, to European levels of 30 to 40 percent. Of course not all nationalisation drives out foreign and local investment. Much depends on the perceived stability of the property rights arrangement. If the property rights structure is perceived as (relatively) fair and lasting, incentives for investment may be strong. But if the property rights environment is thought to be unpredictable or if the penalties or taxes are excessively high, capital flight follows.

This means limited forms of nationalisation, which have clear ends in view, will not keep the desperately needed foreign investors away.

An example is the confiscation which occurred in the spectacularly successful post-war land reforms of Japan, Korea and Taiwan. Thousands of big land-owners lost practically everything, but agricultural and industrial growth rates soared. Another example is the "eminent domain" laws in all capitalist countries, enabling confiscation of property, usually with compensation, for road-building.

However, arbitrary nationalisation, and nationalisation as an end in itself, have severe disincentive effects. They ultimately penalise workers in the form of low wage growth and high unemployment.

An example is the land reforms of Mexico, which were repeated decade after decade from 1919 to 1970, hobbling agricultural progress.

It would be foolish to discard nationalisation *voetstoots*. Arbitrary nationalisation, pursued as an end in itself, is unlikely to satisfy the expectations of the working class. But goal-directed nationalisation could play a crucial role as a bargaining chip for government in the pursuance of other policies.

It could be used as a threat against firms with racist personnel practices. Firms which repress black job advancement or victimise unions could be nationalised without compensation. Just one or two cases of this would be enough to send shareholders scurrying to press management to upgrade its personnel practices. Nationalisation could be vital as a Sword of Damocles over recalcitrant managements.

● **Dr Peter Moll is a South African economist based at Northwestern University, where he is a Visiting Scholar.**

Talk of nationalisation tempers unit trust euphoria

By Derek Tommey

A more positive political outlook initially sent investors rushing to put their savings into unit trusts in the March quarter.

But when the ANC said its policy would be to nationalise major industries, the mood changed and many investors rushed to get their money out again, says the Association of Unit Trusts.

Investors put a record R638 million into unit trusts in the March quarter, much of it in the first six weeks.

This was a 74 percent increase on the R366.2 million inflow in the December 1989 quarter and comfortably exceeded the previous record of R599.3 million in the September 1987 quarter.

Roy McAlpine, chairman of the association, says: "The mood in the country was euphoric — the gold price was rising, the socio-political climate was extremely optimistic and share markets were firm internationally. In addition, investors were attracted by some new unit trusts.

But repurchases from mid-February started to rise, jumping to a record R273,9 million. This was a 32,6 percent increase on the December 1989 outflow of R206,6 million.

Mr McAlpine says the mood of optimism was tempered by a lower gold price, the poor performance of international markets, especially Tokyo, and the ANC's public pronouncements on nationalisation.

"This had an impact on unit sales, which slowed quite noticeably."

Nonetheless, although the resultant net inflow inflow of R364,7 million was below the record R453,8 million achieved in the September 1987 quarter, it was still more than double the net inflow of R159,6 million in the December 1989 quarter.

In the March quarter, the total value of assets managed by the unit trust industry rose by almost R1 billion from R6 643 billion to R7 624 billion.

Mr McAlpine said there were now more than 600 000 unit trust accounts in South Africa, an increase of 15 percent on a year ago.

One reason for the increase was the excellent performance of unit trusts.

The seven general equity trusts that were operating in 1986 have achieved compound average annual growth (including dividends) of 27,2 to 32,5 percent.

Over the past 12 months the 13 general equity trusts have shown 21 to 44,3 percent growth. The average is 35,4 percent.

The specialist equity trusts have also performed well, achieving a compound average annual return over the past five years of 25,2 percent and an average of 30,3 percent over the past 12 months.

But Mr Alpine feels it would be unrealistic for investors to expect unit trusts to continue achieving the returns of the past 12 months, saying that investors have become more cautious.

This view appears to be shared by Standard Bank. Although its general mutual fund must hve shared in the huge inflow of funds in the March quarter, its only purchase in the quarter with this additional money was 3 500 Liberty Life shares, bringing its holding up to 3 500.

Instead of buying shares it went liquid, and at March 31 had R100,3 million (30,5 percent of its total assets) in cash.

The bank says uncertainties caused by the pressure on gold and the difficulties likely to arise from socio-economic changes are causing it to maintain its current asset mix.

The Standard Extra Income Fund was highly liquid, with 66,79 percent of its portfolio in cash.

This was designed to maximise income while protecting the capital value of its portfolio in a market which is not likely to show much appreciation in the near term.

The Standard Bank Gold Fund showed no changes in its portfolio, the fund managers saying the drop in the gold price has increased concern about operating margins in the mines.

This points to the need for increased caution in gold share investment.

Star 12/4/90

(49)

JCI unruffled by nationalisation talk

Sta 16/4/90 (49)

By Stan Kennedy

Despite all the political and economic uncertainties and threats of nationalisation, Johannesburg Consolidated Investment (JCI) has refrained from slamming on the brakes of disinvestment.

To prove it, there is unfilled space in the pending tray of the chairman designate, Pat Retief, who says it is still "all systems go". And to support this sanguine outlook, JCI plans to expand production at its Rustenburg and Lebowa platinum mines and to open a new coal mine at Phoenix.

It also proposes spending R2 billion on a new gold mine at South Deep.

"We are taking a good look at our strategic objectives and want to try to pin down just where the boundaries of potential business should be.

"Should we restrict it to mining here, to Southern Africa or, if it seems a sensible thing to do, overseas?

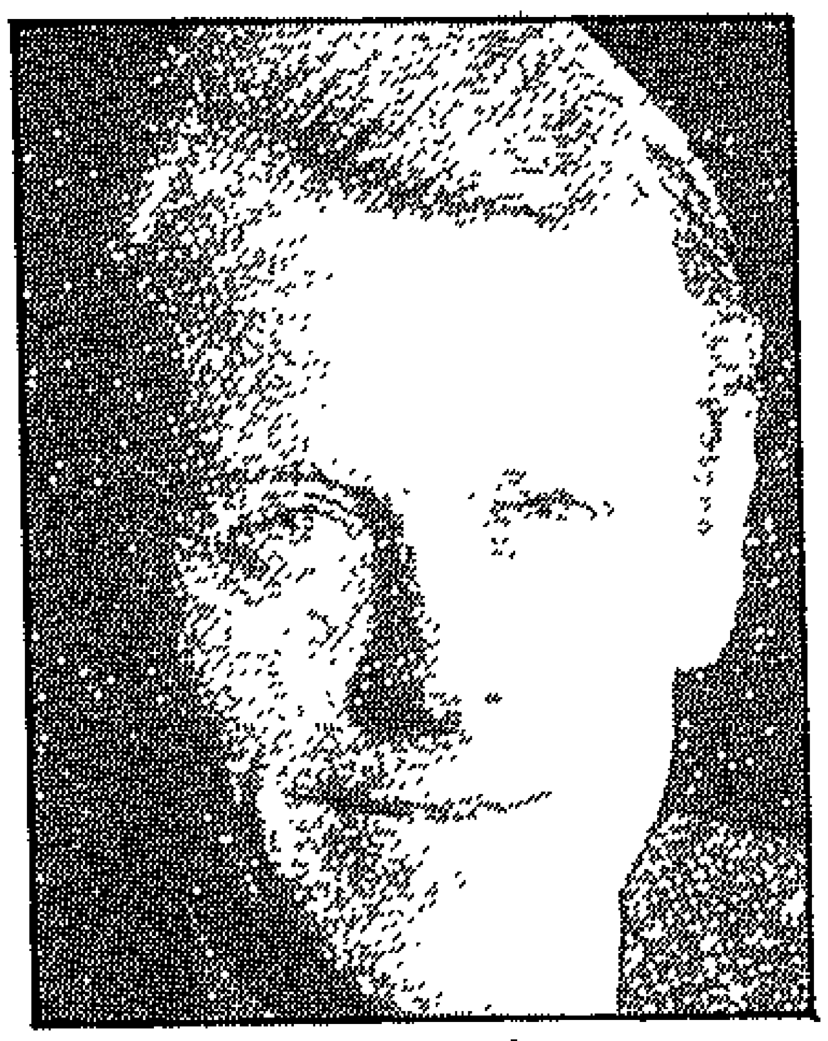
"There are many areas we are examining, particularly in the non-mining sectors. We are not large in the industrial sector and that is possibly something we should be looking at."

He says there will not be diversification for the sake of it. But if JCI comes across suitable and sensible acquisitions it will consider them.

On nationalisation, he says: "We have to assume good sense will prevail in the end. I think people are really positioning themselves for negotiations when they talk about the armed struggle and nationalisation.

"There are aspects that can be conceded in return for something else and I don't think there will be a 100 percent free market economy."

While not maintaining the



Pat Retief

same high political profile as retiring chairman, Murray Hofmeyr, he wants to be fully informed about socio-political developments.

Mr Retief's background is different from that of other mining house executives.

He spent three years in the British Army as an officer in the Kings Royal Rifle Corps before joining Metal Box UK and SA.

From there he went to Chloride SA as marketing manager, where he worked with Sir Michael Edwardes, then general manager.

In 1962, he became personal assistant to David Watson, then JCI chairman. He has had to work a little harder than others as he didn't have an academic background, which is traditionally a prerequisite for an executive in a mining house.

Bad luck dogged him on three occasions when he developed cancer, but each time he pulled through because of his courage and powers of endurance, qualities which are evident in his approach to work.

Unassuming almost to the point of modesty, he has a supreme ability to remain calm, whatever the circumstances.

Getting to the top has not been quick and easy, although he was MD Rustenburg Platinum Holdings at 39 and a JCI director at 40.

Mr Retief is clear thinker, who analyses problems to the nth degree, a quality which seem to have rubbed onto him from his long association with Sir Michael Edwardes.

Did he ever have a hankering to do something else?

"I don't think the individual really knows what he wants to do. The fellow who does is rare, unless he happens to have a particular talent in the arts and spends his whole life in his chosen career.

"Most of us tend to drift into situations. I have always been interested in the mining finance area in the SA environment be cause it covers such a wide range of activities.

"The weight of the large mining houses is substantial. One feels that if you do reach a position of authority you can, in some small way, influence events in the economic environment, as well make some sensible decisions which are meaningful for the country."

His role as chairman, when he takes over on July 1, will be enlarged slightly. He will spend more time thinking about the broader issues confronting the company, as opposed to the operating side in which he has been involved for many years.

Among the new range of responsibilities he is most enthusiastic about is the training and education of the 65 000 workers.

"If we don't start doing something quite soon in these areas, we will have serious problems in the industry.

"We must bring blacks into skilled occupations, not only because it is the right thing to do, but because if we don't, there is no way we will survive as a semi-industrialised, second-world country.

"It is impossible for whites to carry this load on their own."

He is a great believer in personal contact with his staff and tends to be uncommonly informal for a man in his position.

He never writes memos to anyone. If he wants to ask a question, he gets out of his chair and goes along the corridor to the person concerned, or he phones him. If someone sends him a note, he replies in his own handwriting.

The result of this style of management is that when a decision has to be taken, most of the people involved are aware of all the factors that will influence the decision without having to be formally, and often suddenly, presented with a major document.

He recalls his days at Harvard Business School when he was given free rein by the professors to get worked up and express his enthusiasm for a subject.

As chairman of JCI he would prefer to remain cautious and pragmatic on some of the more contentious topics.

However, he finds some compensation for his frustrations. His position as chairman of TML for the past five years has brought a new dimension to his life and some new challenges, he says.

"It is a stimulating environment and I have learned a lot through my exposure to the newspaper world and those who run the industry. It is a regular tonic to me."

Financial Mail

CHARITY AND NATIONALISATION FM 20/4/90 (LP) (49)

Donald Gordon's own Banquo

There is nothing wrong with charity. It was an important means of mitigating the harsh and less salubrious occurrences of the Industrial Revolution, which released the creative energy that broadened ownership of wealth and led ultimately to the great prosperity of the West today.

It is an admirable Christian virtue, unjustly denigrated by socialists like George Bernard Shaw who, with more wit than wisdom, stigmatised it as paternalism — or worse. His views bear about as much relevance to politics today as those of another witty exponent of the collectivist good, John Kenneth Galbraith, have to do with economics.

But it is also true that the creation of wealth is more important to those who will be charitable and to those receiving charity, than the other way around. That may be very clear to Liberty Life chairman Donald Gordon, who has set up a R67m charitable trust to help those disadvantaged by apartheid. We are not at all sure, however, that Gordon has gone about his work in a manner that will be equally convincing to the ANC and those demanding nationalisation as a panacea to our economic ills.

First, the fund is not a R100m one, as first reported. Liberty has put in R65m of shareholders' funds and R2m from another trust that will grow over some years to R100m, which suggests that it is not going to be of immediate value to recipients — whoever they might be. For that too is not clear.

Secondly, Gordon certainly leaves us with the impression that, in his view, big businessmen on their own authority have a right to appropriate shareholders' funds for purposes other than preserving assets or maximising returns. That is an ANC argument in support of nationalisation.

The fund is also a commentary on Gordon's high-handed attitude to minority shareholders, which is not the view on shareholder equity taken by the authorities administering most Western equity markets. He will have to forgive us for believing that at least an extraordinary general meeting giving small shareholders the opportunity to have a say in the matter might have been more appropriate, even if it be cosmetic. Instead, he may have created a precedent that could come back to haunt him — and other businessmen — in the future.

Third, the impression has been given that because shareholders' funds are involved, policyholders have not been prejudiced. That indeed is strange, in view of the fact that Liberty has consistently argued that policyholders' interests are identical to those of shareholders, especially when taunted by the mutual life offices that shareholders' interests could clash with those of policyholders.

We believe that Liberty was right and the mutuals wrong. Policyholders have every reason to want to know that their underwriter is adequately capitalised.

Now Gordon seems to have changed sides. Maybe he has created another ghost capable of haunting him like Banquo at Macbeth's feast.

Fourth, availability of capital per se has not been a problem in Africa's emergence from colonialism. The supply has been prolific, especially in the form of aid. The problem is that it has been misspent and misappropriated. Gordon appears to have no definite plans to prevent this happening to his charity. If he has, they haven't yet been given detailed public expression.

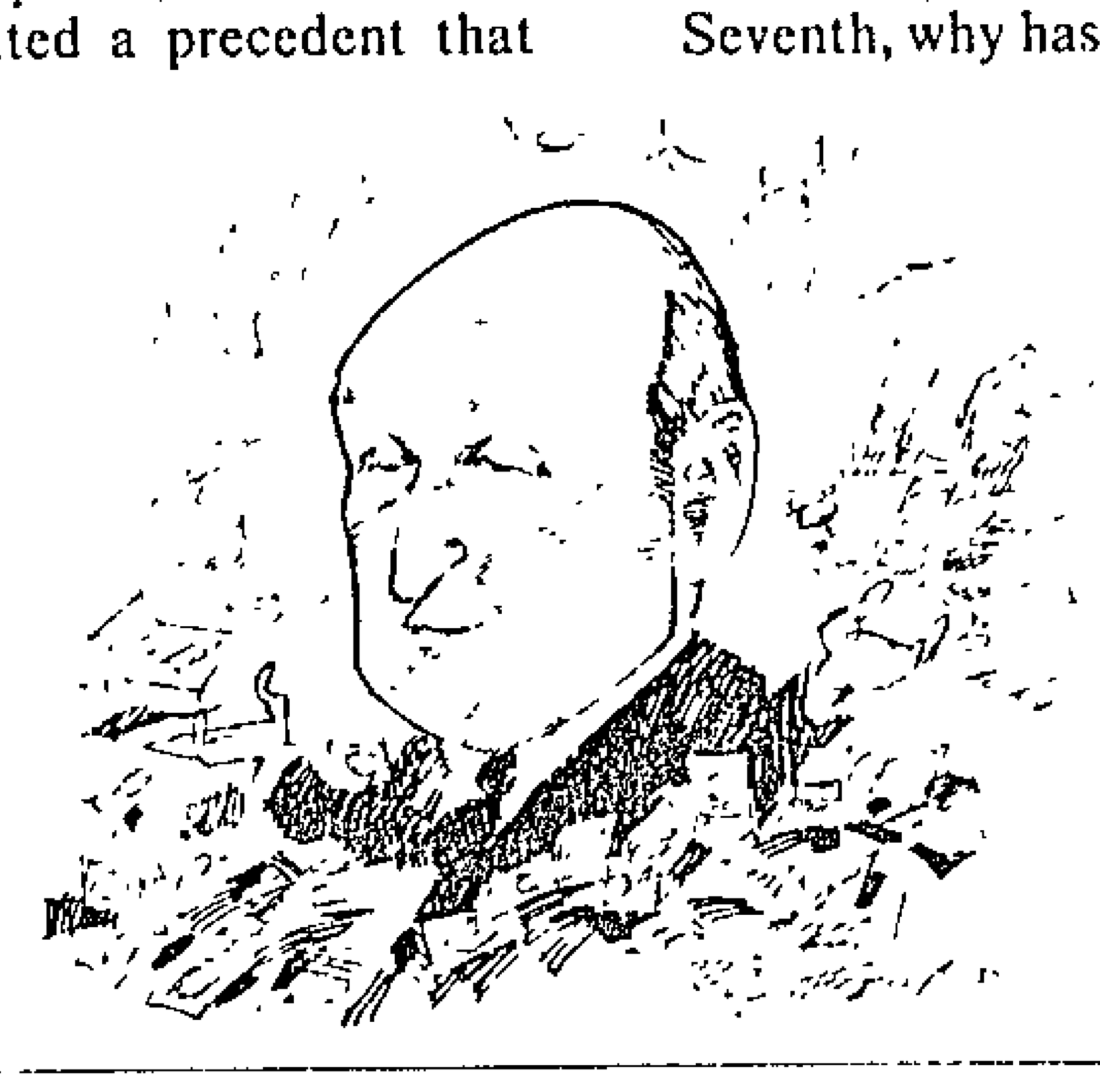
Fifth, there are not many people with the knowledge and skills available to use funds such as Gordon is donating to practical and enduring advantage. There are no indications that these skills exist in Liberty Life or that Gordon is about to acquire them. There are about a dozen such people so skilled in the Anglo American Chairman's Fund and probably an equal number in the Urban Foundation. Perhaps the rewards of Gordon's charity would be more tangible if he had channelled shareholders' money towards those two established organisations.

Sixth, we assume that Gordon knew that moves were far advanced among big business to establish a joint fund so constituted and administered that it would not violate the ownership principles we have outlined. He might have been better advised both politically and economically to fall in with those plans.

Instead, of course, he has himself grabbed the limelight. We have no doubt that that wasn't his intention and that his motives were admirable, even if we believe his methods clumsy.

What is strange, moreover, is that Gordon should have sought the public eye when he himself has been uncomfortable with the way former Premier chairman Tony Bloom haplessly attracted melodrama to every expression of his own leftwing sympathies.

Seventh, why has he taken so long to be so charitable? The need is by no means new.

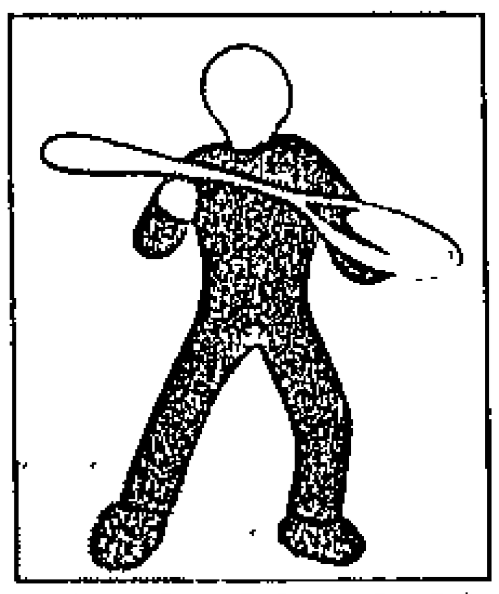


Gordon has shown an extraordinary ability to create great wealth in a relatively short time. He has, through sound life assurance policies and investment initiatives, preserved and increased the wealth of tens of thousands of South Africans. In so doing, he has done this country an enormous service, equalled by very few. But clearly the politics of wealth distribution is not his forte. If he wants to know what he should be doing, we recommend to him our cover story.

REDISTRIBUTION FM 20/4/90 (49)

Sharing SA's wealth

■ Here are some practical, helpful suggestions. Nationalisation is no answer



Late-April and early-May could be crucial for SA. From April 28, 60 ANC economists and economics advisers will be at a four-day pow-wow in Harare to advise the organisation's leadership. On May 2, Nelson Mandela leads his delegation to talk to President F W de Klerk.

Basically, the ANC and other liberation organisations are at one with the people and business in wanting a redistribution of wealth for the under-privileged black majority. Trouble is that most proposals are pretty nebulous, remain enmeshed in the ideologies of Left and Right, or seek to promote vested interests. Few address the contention that wealth redistribution is possible only in a growing economy.

The debate must focus on how best to get high growth. Until now, ANC policy statements have owed more to Sixties rhetoric of liberation movements and the Freedom Charter than to economic realities. In contrast, many of the business sector's policies smack more of charity than of contributing towards an environment in which black incomes and wealth can move ahead strongly.

Both appear to be founded on the notion that a quick fix can do the trick — whether it be nationalisation or throwing millions of rands at social upliftment schemes. And both start to founder on dogma. The ANC's colours remain firmly nailed to the mast of nationalisation, while business maintains that greater State ownership will lead to the economic shambles of eastern Europe.

If anything is going to work, it has to be appropriate to our resources. SA is not a basket case likely to struggle from one dollop of foreign aid to the next. But nor is it likely to be a prime target for foreign investment, even were sanctions lifted immediately. The West is preoccupied with rebuilding Europe's collapsed socialist economies and will tend to avoid a country where the rhetoric of black empowerment is synonymous with nationalisation and where potential entrants to the local market are likely to be dissuaded by the clout of existing operators.

We have to achieve our economic miracle largely through our own efforts. We should be able to count on technological inputs from abroad along with foreign loan finance as we cease to be a pariah nation. But we are unlikely to see large-scale industrial development based on inflows of foreign equity.

We already have legal structures which guarantee ownership of property, even if laws such as the Group Areas Act are racially skewed. It must be scrapped soon but most other legal changes should be directed towards facilitating wealth creation and redistribution — designed to promote equal access to economic opportunities.

We also have appropriate organisations, particularly the black unions, with the muscle to win larger shares of the economic cake for their members. In turn, that implies businesses will have to take the reality of redistribution into account rather than simply paying lip service to the concepts of equality.

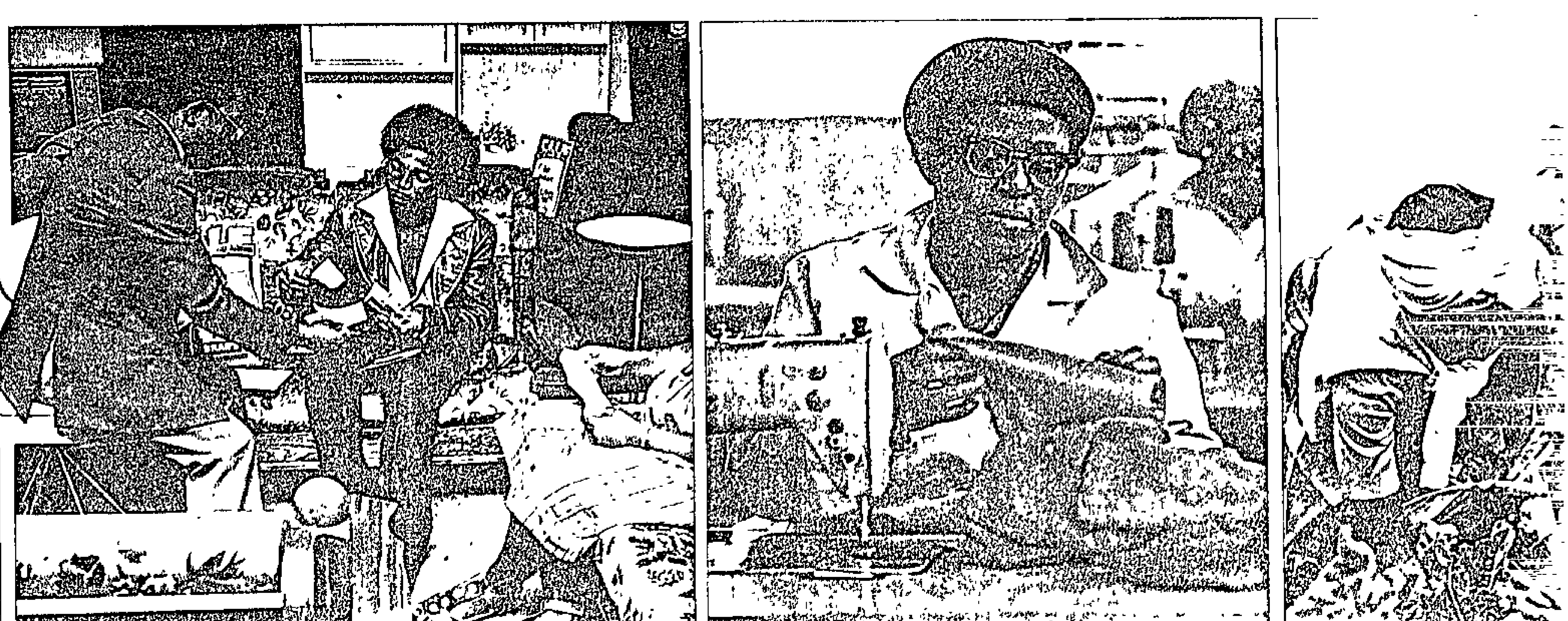
The danger is that unions which back the ANC could suffer the fate of, for example, their counterparts in Zambia — emasculation and subservience to the party which restricts their ability to enhance members' positions. Anglo American's Michael Spicer subscribes to the concept of union representation on boards or inside corporate management structures. But as he points out, there is little to be gained if union representatives are committed to the destruction of capitalism.

Development Bank of SA special adviser Freek van Eeden points to one appropriate change — lifting restrictions on subdivision of agricultural land. He takes the pragmatic view that peasant farming is an efficient means of generating wealth for large numbers of comparatively ill-educated rural blacks. But they cannot acquire land unless some large white-owned farms can be subdivided into smaller, more-manageable plots.

It worked in Zimbabwe, even though the rest of that economy is creaking to a halt. And some other policies appropriate for Zimbabwe seem appropriate here. The Zimbabwean government did not succumb to the temptation of subsidising townspeople by artificially restraining food prices — rather, it allowed market forces to determine prices.

Of course, it worked but only with the help of State intervention on another level. Agricultural extension services in place since the days of Southern Rhodesia were built upon to provide farmers with the infrastructure needed to get produce to markets; extension services also concentrated on developing appropriate business and agricultural skills; encouragement was given to peasant cooperatives, which led to joint ownership of relatively costly farm implements; and credit availability was ensured so that small farmers could afford inputs such as fertiliser.

It worked, in contrast to Zimbabwe's for-



Appropriate technologies and small-scale developments will

mal sector. Small farming output has grown faster than that of commercial farming, admittedly from a small base. That contrasts with the rest of the economy, which is shifting almost imperceptibly into the hands of Robert Mugabe's Zanu party.

Zanu has bought up businesses across the economy at bargain basement prices acceptable to former owners largely because of guarantees that sales proceeds could be externalised immediately, in hard currencies.

Zimbabwe's treasury was depleted, foreign exchange shortages exacerbated the problems of an ageing industrial base and, in 1989, formal sector employment numbers were little different from 1973 even though the population had doubled. Even more to the point, Zimbabwe has shown that State ownership is elitist and little different from party ownership which, in turn, means jobs for cronies and to hell with the people in whose names nationalisation was done.

Economic policies have to be appropriate. Which does not mean a fatuous choice between capital- and labour-intensive industries. Both are appropriate in their place. Rising black incomes won't lead to rapid growth in demand for European holidays or sophisticated imports; demand will more likely be directed at simple products such as housing, household goods and clothing easily made in labour-intensive factories. Using Henry Ford's dictum, the workers will themselves become the market for factory goods.

In counterpoint sophisticated, capital-intensive manufacturing processes are required by most export industries. You cannot avoid the fact that a stainless steel plant needs a couple of billion rands of specialised equipment and can't be labour-intensive.

Cosatu attacks the matter from a different angle. It believes industrial wages should be raised by 30% or 40% almost overnight, arguing that the spending power that puts in black hands will be a powerful stimulant. Unfortunately, this begs the question of the effect on inflation and would skew cash distribution in favour of organised workers away from the rest of the population.

Rising black incomes have to be based on employment, for that is where redistribution becomes possible. JCI economics adviser Ronnie Bethlehem reckons that if we could sustain an economic growth rate of around 7% and create 4,5% more new jobs each year we would eliminate unemployment by the turn of the century.

How it's done is another matter. Bethlehem argues for make-work schemes such as labour-intensive highway construction or housing projects. That is fine as far as it goes, but who will pay for the houses? In its latest *Update*, the SA Institute of Race Relations notes State subsidies for first-time home owners are increasingly being granted to blacks rather than whites.

Can one follow Afrikanerdom's model, the romantic notion that Afrikaners dragged themselves up by their own bootstraps because they mobilised their own savings? There are few signs that black South Africans are about to take the same route

Stokvels and union-run provident funds manage tens of millions in cash flow a month But when it was suggested recently that Numsa's provident fund should invest in subeconomic housing projects, effectively subsidising housing for the less privileged, the response was an unequivocal and pragmatic "no." The fund's managers asked why they should accept greater risk when members' interests were best served by investing for inflation-beating yields.

Perhaps subsidised housing should be a prime target for funds such as the R100m one launched by Liberty Life Joint MD Dorian Wharton-Hood says R65m will be taken from shareholders' funds and invested along with a further R2m from the Donald Gordon Trust to generate R100m over five years. Wharton-Hood says trustees have still to be appointed; there are no plans how the money shall be spent except that it will be to help under-privileged communities

This is not paternalism, Wharton-Hood adds, but an investment in the future, to help create a society in which Liberty itself can flourish. But the bottom line is that the fund's spending will be charitable — Liberty could not justify giving away policyholders' funds, just as Numsa's provident fund managers could not prejudice their members.

Deregulation is the current buzz word. Peruvian economist Hernando de Soto argues in his book *The Other Path* that deregulation unleashes individuals' entrepreneurial drives. We can see it working here privately owned black taxis and hawkers thronging city centres. Still, deregulation is not a magic wand which produces wealth at a wave We had deregulation when thousands were forcibly dumped in Dimbasa and no one there made money out of small businesses. No, deregulation of the sort that leads to spaza shops and black taxis can only work when juxtaposed with a formal sector which provides jobs and wages.

The informal sector alone cannot pull the economy along. The State must encourage the growth of formal manufacturing, particularly in the cities, which daily draw thousands of migrants from rural poverty.

SA can surely develop along this road but we still have to ask whether development and wealth redistribution will be fast enough to satisfy black aspirations De Klerk's perestroika has sharply raised black expectations. But if the economy is unable to deliver to a pretty tight schedule, there is the real danger of politicians opting for the grand gestures of inappropriate quick fixes. That is why privatisation aimed at achieving greater economic efficiencies mustn't now be stalled for imagined political benefits.

The key to this difficult question is leadership Ordinary people will exercise extraordinary patience if they are convinced that equitable policies will eventually be to their advantage. Mandela and the ANC bear as much responsibility for that as De Klerk and the Nats.

SA . . . but we also need the formal sector's capital muscle

FM 20/4/90

BANKING

Pricing the product

Stals's latest move could wrap up his policy package

If Reserve Bank Governor Chris Stals opts to free the prime rate at which banks lend to customers from Bank rate — the official rate the Central Bank charges at the discount window (see "Skinning a cat") — much of what he has done in recent months will fall into place.

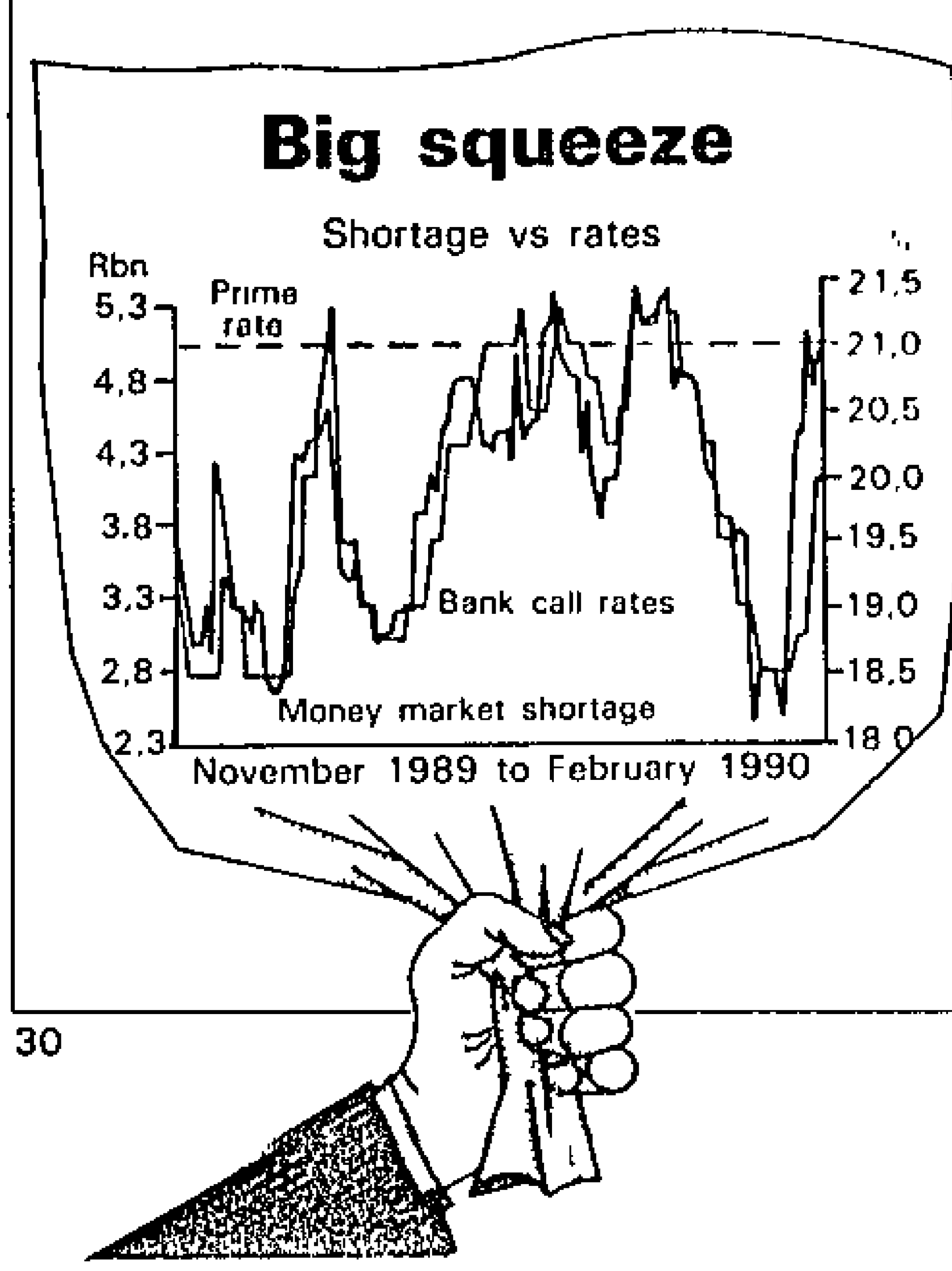
A surprise one percentage point increase in discount rate, to 18%, in October established his credibility as a central banker intent on coming to grips with inflation. But of late he has caused some confusion; while no one doubted his objectives, bankers and observers were puzzled by his means.

He has maintained a stiff penalty rate at the discount window since October, so banks which ran out of liquid assets and borrowed against the security of prescribed assets have had to pay 22,75%. To give this maximum effect, he created a huge shortage in the money market. The month-end shortage, the extent of the Bank's accommodation at the discount window, was already over R3bn by August. Towards the end of 1989 it soared. It has topped R5bn several times this year and has never been under R2bn.

The surge came when higher exchequer revenues and lower government spending sucked money out of the system. At the same time, Treasury, via the Bank, raised far more in the markets than was required to finance government spending. Revenue flows to exchequer account so far exceeded expectations that R754m appropriated from this year's surplus after borrowing was channelled into the stabilisation account. Another R1,8bn was paid directly into that account solely as a monetary policy measure.

These were the first allocations to stabilisation account since fiscal 1982-1983, says Nedcor chief economist Edward Osborn. "In 1980-1981, R1,2bn was allocated to it, and R1,1bn two years later."

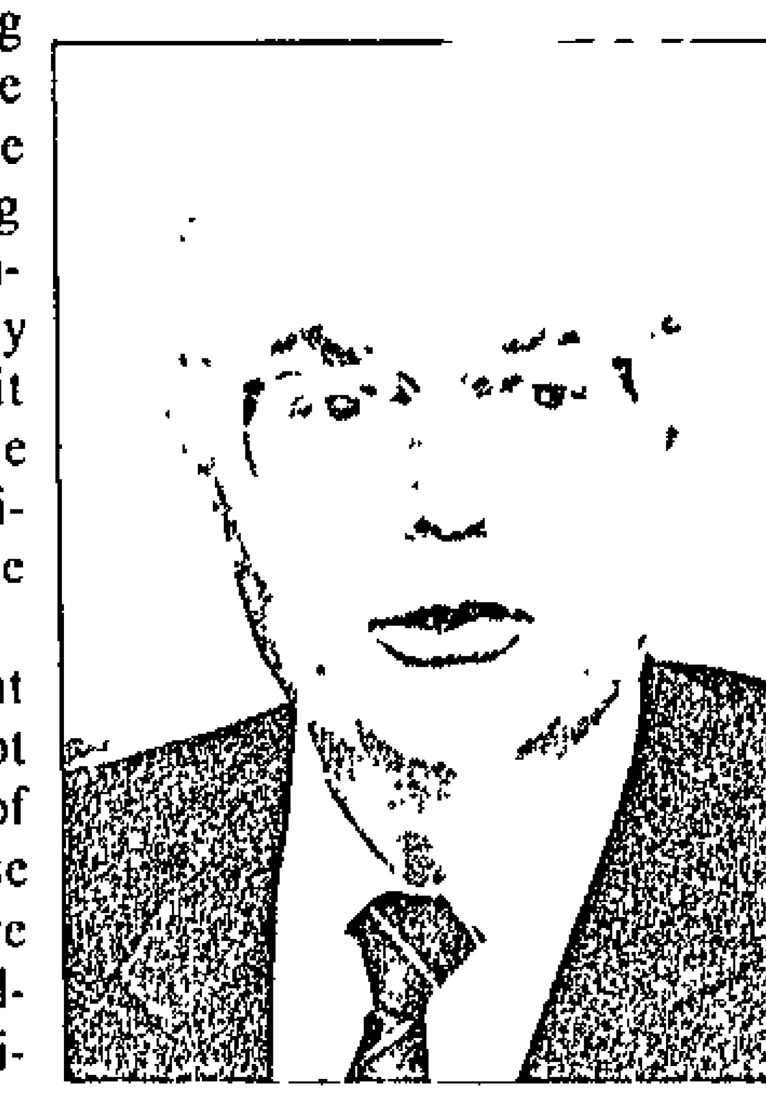
The recent outflows have forced illiquid banks to borrow a greater proportion of money at penalty rather than discount rate.



To what extent this has reduced lending is not clear In Sechold's latest *The Securities Markets*, editor Pierre Faure argues: "It is the cost of money at margin that is important to banks. A high money market shortage at a given Bank rate is the same as a low shortage at a higher Bank rate."

But while Stals is keeping a tight rein on the market, he has not moved discount rate again. Though the banking sector as a whole has continued to exceed the monthly average 1% growth in credit extension requested of it, he has made it clear no immediate increase in discount rate can be expected.

He has told bankers to put up the price of loans not linked to prime, but this is of limited help. First because much of their portfolios are based on prime; and secondly because, without an official signal, competing banks hesitate to be the first to move.


Strauss

So, at certain points, seasonal outflows of money have forced banks to borrow money at higher interest rates than they earn As an alternative to the discount window, they have turned to the market, pushing the price of call money over 21% on occasion. Clients have thus been able to borrow at prime and lend to other banks at a profit. This round-tripping has distorted money supply figures and is responsible, in part, for the big increases in M3 in the first months of the year.

And it's played havoc with bank margins.

The latest development is Stals's suggestion that certain transactions, previously off-balance sheet, be brought above the line. This will effectively increase reported liabilities to the public, so will affect cash reserve and liquid asset requirements.

From a prudential point of view, this is wise. As an instrument of monetary policy it could be effective. But by increasing banks' cost of funding and scraping even more off margins it will hit profitability

It will also open the grey market to non-banks, which are not subject to as much regulation. In a keenly competitive market, banks will have to contend with outsiders who can operate on much tighter margins because of lower capital and other requirements. This is to be remedied by new legislation, which will define deposit-taking more specifically. But if banks have to redefine certain transactions ahead of the legislation, an attractive gap will open up to others eager to broke in the inter-company market.

Banks, already operating in a hostile environment, are unhappy at the prospect. Standard Bank Investment Corp MD Conrad Strauss points out that banking has not been particularly profitable of late. Though the bottom line may sound impressive, it is not the crucial number. What counts most is return on equity.

Banks, he says, "are not generating enough profit to provide shareholders with a real return on investment and, through retentions, support real growth in assets. As a rule of thumb, return on shareholders' funds should be equivalent to the growth rate in assets, plus 30%. Given three times dividend cover and a ratio of capital to total assets of 4%, and with 15% inflation, a bank needs a return on year-end shareholders' funds of almost 21% to be self-funding

"No SA bank comes near that, which is why some have to ask shareholders fairly often for additional capital to fund growth. This is unhealthy in the longer term."

The fundamental problem is that inflation has dried up the natural source of funds — savings. People have turned to contractual savings which offer better after-tax returns. Dearth of retail deposits has driven banks to the wholesale market, where they have raised funds from clients with more bargaining power than the retail saver.

At the same time they have had to bear:

- The cost of new technology;
- The cost of building market share to ensure the economies of scale needed to support this technology; and
- The imperatives of monetary policy which have not allowed the pricing system to operate freely.

While the first two problems are containable, the third has had effects not only directly — on margins — but indirectly, via inflation. By restating figures for the past five years to take account of inflation, FNB vividly illustrates this in its latest financial report. This cut reported compound growth in:

- Net income from 31,4% to 13,7%;
- Earnings per share from 21,4% to 5,1%;
- Total assets from 13,9% to a negative 1,2%; and
- Shareholders' funds from 8,9% to a negative 5,5%

If the relationship between prime and the discount rate is abandoned, the entire rate

Taking the debate on nationalisation into the market

49

BDay 24/4/90

TONY MANNING

THE current debate about nationalisation is largely being conducted at an intellectual level by whites who agree that it's a lousy idea. Black politicians say that so far it's the only option on the table. The black masses, who will bear the brunt of any nationalisation efforts, are at best spectators.

A great deal of damage has already been done to the SA economy by the statements of black leaders like Nelson Mandela and Walter Sisulu. Foreign investors take their threats seriously, and respond fast. SA is not their only investment opportunity, and they shift their funds with the speed of light. Nor will they rush back here while this remains a high-risk country.

More serious, though, is the fact that local managers are becoming increasingly edgy. In just a few weeks their mood has changed from one of excitement over the prospects of the "new" SA, to one of alarm.

In public they must say that things will work out; after all, many of them have large blocks of shares in their companies and they must talk those shares up rather than down. But of course, they delay new investments — using recession as the reason.

In private, they worry about getting their money out of the country and resettling overseas.

There's also a change in the attitudes of many black workers, who think the revolution is over. Industrial relations action in the first quarter was up four times over the same period last year. Experts warn that more problems are on the way. Township violence and recent events in the homelands do little for confidence.

In short, the national will is being sapped. We are in terrible, terrible trouble.

So where do we go from here?

The swing to black rule in SA is unlikely to take longer than most people think. President F W de Klerk is a thoroughly nice chap, but he won't hand over the keys to Tuynhuys without a fight.

Already we see serious rifts in black society, and the various contenders to the throne have yet to lay their complete proposals on the table. More fragmentation is inevitable as they stake out their positions. The potential is there for irreversible damage to this economy and this society.

Unfortunately, the world isn't on hold while we squabble. Our competitors won't wait for us to catch up. During the past decade, countries everywhere have been muscle-building their competitive edge; we've systematically whittled away at virtually any advantage we might have had.

White South Africans can never atone for 40 years of horrendous social engineering. All of us enjoyed the fruits of National Party policies, even if we proclaimed ourselves against them.

Black South Africans are right to be angry. Their call for the redistribution of wealth is entirely understandable.

Their soaring expectations should be no surprise; nor should any white underestimate the emotional importance of Mandela's release and the unbanning of various resistance movements.

However, there's one fact that none of us can get away from, and that we must cope with together. If we don't take immediate steps to rebuild the SA economy — and to bake a much larger economic cake — all of our dreams will come to nought.

There will be nothing for anyone to share. There will be no equal education, no new housing or hospitals or pensions. The waBenzi might be black, but the masses will not revere them.

Threats of nationalisation might make the uneducated masses cheer, but they won't strengthen us for the future. We have a crisis on our hands.

It's time that every politician acted responsibly, and made every last citizen aware of the extent of our problems — and how high the cost of resolving them will be.

Marshall McLuhan once said that, as the world becomes a global village, "There are no longer any passengers on Spaceship Earth; everybody is crew." Equally, if this country is to be a player in tomorrow's global economy, there can be no passengers on "Spaceship SA"; everybody must be crew.

Natal University's Prof James Moulder recently calculated that whereas countries like South Korea and Taiwan are able to double their GNP every 10 years or so, it's likely to take SA 150 years.

Government recently voted R150m for black education; the NECC calculates that R21,5bn is needed to close the gap between black and white education.

No one should underestimate the size of the task that lies ahead. Nor should we put off tackling it.

If our collective goal is to create a bigger, more equally distributed economic cake, the place to do it is in the business arena. After all, that's where we learn to get on with each other — and where we stand shoulder to shoulder against the competitive world.

Starting right now, every business leader should look long and hard at how his organisation is managed. People should be drawn into the management process, and exposed to the realities of business life.

For starters, steps should be taken to see that every individual understands five critical things: 1 What to do; 2 Why to do it; 3 How to do it; 4 How well to do it; and 5 How well he or she is doing.

Most people in most companies cannot perform because they don't understand these basics. Most people in most companies have been systematically disempowered. They have been forced into a position where they have to say, "You can't trust me because *I* can't trust me."

The change we need won't come about through "sexy" or sophisticated programmes, processes, or training. It hinges on giving people the fundamental bits of information without which they cannot perform.

If the rank-and-file worker is to be convinced that capitalism works, he must experience it working for him. Share schemes and other incentives are vital components in the process of wealth redistribution.

Healthy debate about wealth redistribution is necessary. It's being waged in many countries besides SA, as the walls of socialism crumble everywhere.

But before we can share riches, we must share dignity, responsibility, and information. Without those, there will be no wealth for anyone.

A propaganda war is being fought. If business is to survive, business must join the fight.

☐ **Tony Manning is a business consultant and author on business issues.**

☐ **The weekly column by Business Day's Washington correspondent Simon Barber, who is visiting SA, will appear tomorrow.**

ANC warned on nationalisation

Star 27/4/90 (49)

By Michael Chester

The African National Congress was warned by an investment expert yesterday to expect a severe international backlash if it pressed ahead with nationalisation of South African gold mines in any political takeover.

The warning came from Mr Mike Brown, director of the Johannesburg stockbroker firm of Frankel Kruger and Vinderine and former chief economist of the SA Chamber of Mines.

He told a special seminar held in Sandton to examine the nationalisation issue, called by the Achievers Efforts management consultancy, that seizure of gold mine assets would be an automatic invitation to retaliation from abroad.

"Some 20 percent of South African gold shares are still in the hands of foreign investors," he said.

"Nationalising their assets would invite retaliation through seizure of South African assets abroad — and would terminate all chances of fresh foreign investment."

Moreover, with the market capitalisation of gold shares standing at around R60 billion, South African taxpayers would need to shoulder enormous new burdens to foot the bill of compensation payments.

And the ANC would be in grave error if it reckoned on huge windfalls from the dividends paid out by the gold mines, which last year climbed no higher than R2,2 billion.

"Seizing current shareholder assets without compensation seems scarcely worth it for such a small income stream," he said.

Nor did nationalisation make sense when any new government had to weigh the high risk of the development of new mines, at a cost of between R1 billion and over R3 billion, with long waits of five to 10 years for profit returns.

Its most urgent need would be for immediate finance to cope with social programmes aimed at better black housing, education, health services and community projects.

Struggling

Nationalisation would bring few benefits to the 400 000 unskilled workers employed on the gold mines, when current high production costs ruled out major wage advances without productivity improvements.

Even now, more than half of the 46 major gold mines were struggling to meet break-even point because of soaring costs.

Mr Ronnie Bethlehem, chairman of the Economic Affairs Committee of the SA Chamber of Business, said it was naive to believe nationalisation would provide solutions to racial inequalities.

"There is a danger in thinking that a restructuring of the economy will alone solve all our problems," he said.

"There is no fairy godmother who can wave a magic wand and convert more than 20 million poor people into high-income professionals overnight. The processes of economic improvement have to be stretched out over a long period of time."

The objective of restructuring had to be a far higher economic growth rate to avoid an even worse unemployment crisis.

An annual increase in gross domestic product of only one percent would sweep the unemployment total to about 9 million inside the next 10 years. In contrast, a growth rate of 8,5 percent a year — within the capability of a sound formula — would wipe out the problem.

"We need both market socialism and people's capitalism in a unique blend of political and economic democratisation," he said.

Mr Eugene Nyathi, director of the Centre for African Studies, pleaded for a radical change in white attitudes towards the vital steps to racial equality.

He found it curious that many whites regarded moves towards equality in Britain or West Germany or the United States as "democratic" when similar moves in Africa were branded as "anti-white Marxism".

He also urged the ANC to allow far more internal dialogue about shaping its policies — "taking care not to substitute the despots of the National Party with a new generation of autocratic black despots".

Dire warning against nationalising farming

STAR 1/5/90

(10) (49/6)

Those who wanted to nationalise the agricultural industry were motivated more by a desire to seek redress for past wrongs than by a desire to make agriculture more efficient, Mr Errol Moorcroft (DP Albany) said in Parliament yesterday.

Speaking in debate in the Extended Public Committee on Agriculture, he said an attempt to redress these wrongs by simply nationalising the agricultural and other industries would change the country overnight.

"We will be transformed from a proudly independent country which feeds and clothes itself into just another bankrupt African state holding out our begging bowl to the Western world, dependent on alms for our existence.

"Ethiopia, Tanzania, Mozambique and a host of other countries have learnt this lesson the hard way. Let us hope that whatever new government we might have in the future will heed these lessons of history lest we condemn ourselves to repeating them all over again." — Sapa.

Gold mines 'not worth nationalising'

Star 4/5/90

(49)

By Jabulani Sikhakhane

Nationalising gold mines to gain control of dividend income has few positive attractions as total dividends paid by gold mines in 1989 amounted to only R2,2 billion or 2,7 percent of current State expenditure.

Mike Brown, an economic consultant at Frankel Kruger & Vinderine, said in Randburg yesterday that in its present state the gold mining industry holds little attractions for nationalisation.

Gold mines now account for only some nine percent of gross national product and their after-tax profits (before dividend payments) in 1988 amounted to R1,81 billion.

The equivalent figure for other private business entreprises was R26,7 billion and this meant that the gold mining industry accounts for only 6,8 percent of total private business returns.

Mr Brown added that the development of gold mines at a cost of between R1 billion to over R3 billion with lead-times of five to ten years, slow paybacks thereafter and high possibility of reefs not meeting projected grades, are not risks that the Fiscus should expect taxpayers to bear.

High risk ventures require the risk/reward profile of venture capitalists rather than the State with its more pressing near-term social and economic obligations, he said.

Compensation

"The market capitalisation of South African gold shares is approximately R60 billion. The cost of paying compensation to existing shareholders in order to lay claim to a dividend flow of some R2 billion per year would scarcely seem worthwhile."

Mr Brown added that some 20 percent of SA gold shares are still in hands of foreign investors. Nationalising their assets would invite retaliation through seizure of SA assets abroad and would terminate chances of fresh foreign investment.

☐ PUBLIC OR PRIVATE?

Nationalisation has poor history in the Third World

C Pitto 6/4/90

(49)

By PATRICK MAFAFO

NATIONALISATION of companies or industries should not be tackled on ideological terms alone, says Prakash Sethi, an American based third-world economic expert.

He was speaking at a seminar on nationalisation, held in the Transkei this week. The conference was organised by Nafcoc at the request of the ANC.

Cautioning supporters of nationalisation, Sethi said the objectives of nationalisation should first be identified.

He said nationalisation involved transfer of ownership, and unless it was done through confiscation of private property, compensation had to be paid to owners at market prices.

Because of this, a country had to use scarce public sector funds which could be better spent on building infrastructure.

On the experience of Third World nations, he said nationalisation was supposed to bring major advantages.

"Nationalisation seemed an excellent weapon with which to attack a world economic system perceived to be operated by the rich and for the rich."

Third World countries also hoped to wrest control over key national resources from foreigners.

"It was assumed countries would be able to extract higher profits in international markets through controlling export of basic minerals and regulating supplies.

"Extra earnings generated through nationalisation would allow governments to diversify their economies. Nationalised companies would also be motivated by public concern and social welfare rather than by corporate greed and profit."

However, he said, the brief history of nationalisation in developing countries showed the terrible financial drain public sector enterprises had imposed.

Sethi said nationalisation in Zambia and Zaire had strong ideological appeal, but resulted in weak economic performance.

Both countries, he said, seemed to be the model of the Third World country for which nationalisation promised many benefits.

"Indeed, at independence foreign copper mining operations were, to all intents and purposes, the national economies of these two countries.

"Between 1965 and 1975 copper generated on average 35 percent of Zambia's gross domestic product, accounted for 95 percent of the total value of exports and contributed 45 percent of total government revenue.

"In Zaire, copper had traditionally accounted for 60 to 70 percent of total export earnings. Export taxes – of which 90 percent derived from mineral exports – generated 70 percent of the national budget."

In both countries the pressure of nationalism pushed the governments to full nationalisation of the mines.

"Zambia paid for the nationalisation by issuing long-term bonds based on the book value of the nationalised companies' assets. These bonds were later redeemed by borrowing heavily in international capital markets."

After 15 years it is clear nationalisation in both countries has inflicted unanticipated costs and brought none of the expected benefits.

"In Zambia, government revenues from mining have fallen sharply. In 1974, despite a boom in copper prices, the mining sector contributed just 39 percent of government revenues – six percent less than the annual average of the preceding decade."

Between 1975 and 1976 this figure dropped to 13,3 percent and finally came to rest at zero percent in 1978.

Sethi said the nationalisation of copper mining in Zaire and Zambia thus failed to deliver on its promise of control over the economic future in the two countries.

But what policy framework should a post-apartheid government follow? Sethi said more benefits could be gained from private enterprise through careful use of tax and regulatory measures.

Nafcoc president Sam Motsuenyane.

These would be designed to gain specific goals without creating management inefficiences or disincentives to further growth.

He said the excess profits of existing industries could be siphoned off by higher taxes.

"New performance criteria and regulations can be introduced to channel business in directions considered more socially desirable.

"At the same time, the profit motive propels companies to remain competitive and protects them from the political pressure and bureaucratic inefficiency endemic to public sector enterprises."

ANC's stance on nationalisation 'political and strategic'

Star 7/5/90

(49)

The ANC has not taken a clear ideological stance on nationalisation, despite its rhetoric, says the chairman of the American Chamber of Commerce in SA, Wayne Mitchell.

Speaking at the annual meeting of the Vaal branch of the Black Management Forum (BMF), Mr Mitchell said the ANC's stance on this issue should be seen as a political and strategic reaction to their perception of the economic realities in SA.

ALTERNATIVE

Business must not merely oppose nationalisation, but should come up with an alternative, Mr Mitchell said.

"It is a waste of time to sing the praises for a completely free market system, or for that matter, socialism.

"Disadvantaged South Africans need to experience material benefits of sound economic practice. This, and not ideological jargon, will have an impact on people's perceptions."

He recommended that business should jointly seek a way of pooling resources under one united umbrella rather than become competitive about their social responsibility programmes.

Foreign business, representing foreign investment, had expertise which could be incorporated into the debate on the future economy.

"Whichever government is in power it will need foreign capital and technology transfer if economic growth is to be achieved at a growth rate high enough to provide sufficient employment," Mr Mitchell said. — Sapa.

Cape Times 7/5/90. 49

ANC more flexible on nationalisation

Own Correspondent

JOHANNESBURG. — Less than three months after ANC deputy president Nelson Mandela reiterated the ANC's committment to the nationalisation of monopoly industries on February 12, recent policy statements indicate a softening in the organisation's economic thinking.

In his first public statements after his release on February 11 Mandela confirmed that the ANC was still committed to the nationalisation of SA's mines and other sectors of the economy.

His stand on nationalisation led Finance Minister Barend du Plessis to say in Parliament on February 14 that the ANC's nationalisation policies amounted to nothing other than theft.

At the same time Constitutional and Development Minister Gerrit Viljoen described Mandela's comments on nationalisation as "naive and irresponsible".

Since then, however, public statements by Mandela and other senior ANC officials have indicated a more flexible approach in determining an economic system which will ensure a more equitable distribution of wealth in SA.

In an address to businessmen in Johannesburg on March 11 Walter Sisulu reiterated Mandela and the ANC's commitment to nationalisation.

In an interview two days later Sisulu was less inflexible.

"When we talk of nationalisation we are laying down a policy which should be a guide and we are not specifying the mechanics of it," he said.

In the same week senior ANC member Albie Sachs in an interview with the Financial Mail said business was going to have a very important role to play in a democratic SA — partly through its economic activities and partly because it could become a major agent for nation building by contributing towards breaking down inequalities.

"We are not keen on the idea of a purely passive or beleaguered business community," Sachs said.

In an interview on February 21, little more than a week later, Mandela himself assured businessmen that the ANC would make no changes to any sector of the economy without full discussions with the private sector.

"We are very keen not to do anything without proper discussion with those interested and involved," he said.

Mandela also said he would welcome a debate among the business community on the nationalisation issue.

"This is an extremely important matter and in any democratic situation a free expression of opinions is absolutely vital.

"I also expect compromises on both sides," Mandela said.

The same week, February 18, press reports quoted a "senior ANC source" as saying that the ANC's main economic priority was to address the historical injustices and distortions caused by racism.

"There are many reasons why we cannot nationalise even if we wanted to.

"We do not want our economy to collapse into nothing."

the source was quoted as saying

Public statements by ANC representatives in recent weeks also indicate a flexibility in the ANC's economic thinking.

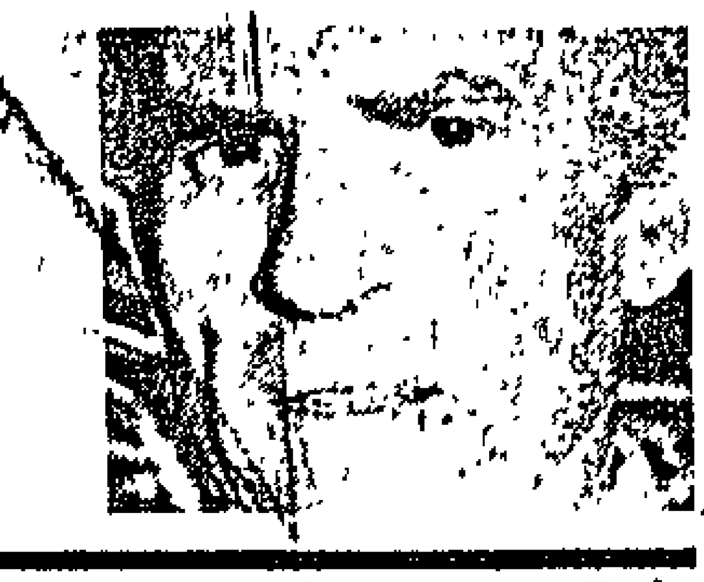
At a conference almost two weeks ago ANC representative Mike Roussos said the nationalisation of certain sectors of the economy would only occur if an ANC led post-apartheid government believed no alternative would achieve its objective.

His remarks followed a speech made by Mandela to a group of Transkei businessman in Umtata on April 25 in which he told them the ANC would only nationalise certain business sectors if this would strengthen the economy.

No money to be made out of nationalisation

(49) S/Times 13/5/90

Nationalisation is not the only threat to South Africa's future prosperity, says **Prof Lawrence Schlemmer**, who is director of Wits Centre for Policy Studies



IN ALL the argument about economic policy, the anti-nationalisation school has won most rounds.

It is noteworthy, for example, that Alec Erwin, a professional economist for the Mass Democratic Movement, cautiously stops short of arguing for nationalisation.

He says that "... neither the unfettered ownership rights of free market capitalism, nor the bureaucratic control arising from State ownership, provides for effective social control of the economy" (SA Labour Bulletin).

It is worthwhile to briefly recapitulate the arguments for and against nationalisation of the "commanding heights" of the economy.

It is argued that nationalisation will enable the State to redistribute wealth. If the State assumes control of a major conglomerate, even assuming that no compensation is paid, it seems fairly obvious that it will acquire very little capital to use for discretionary purposes.

At best the State acquires what it would have taken in taxes, plus the profit after taxes. To stimulate growth, the State will have to reinvest at least some of its profits, which is what private shareholders do.

Hence the State may end up with little more than it would have in company taxes to spend on mass needs. If compensation is paid, the State will have even less to spend.

Others argue that nationalisation will enable the State to determine employment policy. If nationalised, labour forces could be artificially increased to aim at fuller employment.

Alternatively, wages could be increased or particular categories of employees could be advanced rapidly and artificially. These objectives are probably achievable if the new government owners are willing to sacrifice profitability.

But will the effect be greater than, say, leaving the operation in private ownership and offering tax incentives for increased labour-intensive methods of production?

Since even the most idealistic of governments would not wish to run inefficient industries, the effects on wealth redistribution are likely to be less than many expect.

Suffering

In fact, more social benefits can be achieved through State intervention and taxation than through assuming ownership.

Industrial production, banking, insurance, mining and other targets for nationalisation are all competitive operations. Nationalisation would undermine competition.

Today's wealth may be available to redistribute, but what of tomorrow's? In time, the benefits become constrained and everyone suffers — the nationalised capitalist, consumer, worker, shareholder and the welfare-hungry mass public alike.

The dominant feature of free-market entrepreneurship is that there are ruthless criteria for success — the bottom line of the income statement and the balance sheet.

Hence private entrepreneurs and their managers are anxiety-driven and it is this extra "business adrenalin" which makes capitalistic enterprises relatively efficient.

Managers in public enterprises, on the other hand, can relax in the knowledge that the State is the final guarantor.

Logic

It is predicted that there will be a flight of investment capital under nationalisation.

There are many other arguments but the above will suffice. That virtually all countries which have nationalised are now seeking to introduce or reintroduce market factors must have some effect on a future government.

The ideological/analytical war between public and private control will not necessarily be won through logical persuasion and debate. The motive to control the economy has large political components which are immune to economic logic.

In its long period of exile, the ANC survived the political drought sustained by revolutionary theory which it shares with other liberation movements, including the PLO and the IRA.

This theory, as many universities know, becomes a total mode of thought in which all problems are traced back to some central evil, the capitalist mode of production. The ANC has never been alone in this theoretical obsession. It is less blameworthy for its persistence than other agencies — such as the Western bourgeois universities.

There are factors running contrarily to nationalisation. For example, current Western disapproval of this policy might intensify to a point at which international support might become conditional on acceptance of continued private ownership of large companies.

Nationalisation is not the only threat to prospects for growth in the economy. Here one is talking about "socialisation" as opposed to "nationalisation" of production.

Joe Slovo argues that "the destruction of the political and economic power of capital are merely first steps ..." He quotes Mikhail Gorbachev as calling for "real socialisation and the real turning of working people into the masters of all socialised production".

A great deal of informal public debate suggests that a mixed economy is seen as the compromise between nationalisation and market-related capitalism. The radical mixed economy is clearly highly State interventionist and could entail a veto of management decisions by organised labour on the shop floor.

Most boards of companies would probably prefer to be nationalised, with compensation obviously, than to struggle under socialisation of production.

If anything is likely to be a formula for capital flight, a collapse of business confidence and falling growth, it is the kind of mixed economy that some interests in the MDM have in mind.

Terrifying

JCI economist Ronnie Bethlehem probably comes closer to the mixed economy concept that most businessmen have in mind.

He argues that "it is the duality of capitalism and socialism that South Africa will have to incorporate in its mixed market system system" (Business Day 28 February).

These words no doubt sound terrifying to investors, but Dr Bethlehem specifies that the market system must be dominant and that both capitalist and socialist institutions should be subject to the disciplines of the market.

Dr Bethlehem suggests that a "restructuring of ownership" takes place to give blacks a substantial stake in entrepreneurship. In the article, however, he does not indicate how such structuring should take place.

If it is to be significantly at the cost of existing shareholders or taxpayers, then it will, like most other mixed economy models, simply inhibit the growth that South Africa requires.

I am also not convinced that the extension of entrepreneurship to individuals will have the symbolic appeal to outweigh the powerful, if economically irresponsible, symbolism of ANC economic policy.

It might be far more appealing, and effective, for the State to expand its current privatisation strategy to empower black communities in the field of social services.

Loan funds, even larger than the recently created R2-billion "social upliftment" fund, might enable identifiable collectives, such as civic associations, and trade unions, to become co-operative owners of service companies, peri-urban or urban housing estates, shopping centres, economically viable production operations and perhaps even urban service companies in fields such as refuse removal, electricity and water reticulation.

Dangers

A condition for a loan to establish an economic collective would have to be that a suitable management team be in place.

I am not suggesting privatisation to community collectives as the only strategy. It is merely an example.

The imprecision of the mixed economy concept and the consequences which are masked by good intentions, hold very grave dangers to the future prosperity of all South Africans.

● *An edited extract from Mixed Signals: The Nationalisation Debate, in the Autumn edition of Indicator SA published by the University of Natal.*

ANC still backs nationalisation

By PATRICK MAFAFO

Citizen 27/5/90 (49)

THE ANC was not rethinking its policy of using nationalisation as an option to address inequalities, said ANC deputy president Nelson Mandela this week.

He was addressing a meeting between the ANC and the country's 300 top businessmen, including blacks, convened by the Consultative Business Movement.

It was the third in a series of "economic options" seminars and Mandela shared the platform with former chairman of the Anglo American Corporation Gavin Relly.

Mandela said the ANC had no blueprint that decreed which assets would be nationalised, or what form nationalisation would take.

And it would be "a tragedy" if, when democratic changes had taken place, the question of government participation was carried out unilaterally without the co-operation of the corporate sector.

"Therefore this is a question we feel should be negotiated – that there are different forms of government participation in industry," said Mandela. "All these questions will be thrashed out not only with the business sector but with the people of South Africa."

On uses and abuses of power, Mandela said: "In the political sphere, I think we all agree on a united, democratic and non-racial South Africa. The specific manner in which this will take place will have to be negotiated."

He said economic power was one of the thorniest issues that must be addressed. It was said that less than 10 businesses controlled almost 90 percent of the shares listed on the Johannesburg Stock Exchange (JSE) and probably the total number of people on the boards of those companies was fewer than 1 000.

If South Africans were genuinely interested in ending the old social order and bringing in a new one, based on justice and a significant black stake in the economy, it was obvious that this concentration of economic power in a few white hands would have to change.

To make this change, he said, the ANC might have to consider United States anti-trust laws and such mechanics as the British Monopolies Commission.

Mandela said the ANC was firmly opposed to privatisation. It would be reasonable for the disposal of State industries to be held over until a truly representative government was in place. Privatisation could only reinforce the over-concentration of wealth in a few hands.

On land use, he said both Land Acts would have to be repealed before anything else was done.

Discussions and planning would take place among rural people and their representatives, government, those who owned the land, and the country as a whole, in order to make land available to the masses, while ensuring necessary increases in the production of food and agricultural raw materials.

Relly, the first senior big business representative to begin dialogue with the ANC in 1985, said the debate had moved from capitalism versus socialism to a recognition that, as with all other societies in the world, the future economy would be a mixed one. However, it would depend on which sector dominated the economy – the public or private sector. He said a trade-off would have to be struck between equality and growth.

He supported the argument that economic growth was necessary – but not itself sufficient – to reduce poverty and inequality.

Evidence pointed to the need for a carefully balanced combination of State and private sector roles.

The State had an important role to play in distributing resources through transfer payments from one taxpayer to another, and through government spending on health, education and housing.

He pointed out that a balanced tax system provided for this distribution.

Relly said instead of contemplating nationalisation, the private sector should be seen as the source of wealth and job creation, with the State acting as an allocator of resources raised through taxes.

He said all countries used taxation as a redistributive mechanism and collective bargaining was another widely practised redistributive mechanism.

On land distribution, he said abolition of the Group Areas Act and the Land Acts would not be enough to solve the problem. It would have to be supported by a system that made the land affordable.

"History shows that land reform benefits societies only when it achieves a transfer of ownership of unutilised or under-utilised land from absentee landlords or the State to efficient peasant proprietors.

"The worst thing that can be done is to transfer efficiently-farmed land to inefficient peasant cultivators. It is worth bearing in mind that only 15 percent of South Africa's land is classified as arable."

He said business was in favour of privatising those State businesses capable of producing profits.

"However, there are difficult cases like transport and Eskom, which need far more debate and investigation."

JCI chairman Murray Hofmeyr (left) with ANC deputy president Nelson Mandela, former Anglo American chairman Gavin Relly and ANC External Affairs leader Thabo Mbeki. Pic: TLADI KHUELE

Market hedges its bets on nationalisation

GRETA STEYN

STOCKBROKERS with a "just-in-case" approach to the new SA have come up with a new strategy for cautious investors — nationalisation hedges.

They have stuck a new label on some of the old common-or-garden rand hedge shares, including Richemont and Fugit, in response to lingering fears of nationalisation. Bday 29/5/90

The popularity of some of the nationalisation hedge shares is obvious from their rating in the market — Richemont's price to earnings (p:e) ratio of 26 far outperforms the rest of the industrial sector and Liberty's Fugit Investment Trust is also highly rated with a p:e of 34,9.

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Stockbroker Mike Brown, of Frankel, Kruger Vinderine, mentions nationalisation hedges as the first of four options in a defensive investment strategy.

In a recent report, he defines "nationalisation hedges" as "companies with a substantial basis of earnings and ownership based abroad. Such companies are largely insulated from nationalisation fears."

Other stockbrokers said yesterday that the chances of nationalisation seemed remote.

However, they were emphasising rand hedges in the current environment.

Says Brown: "The uncertain political climate provides both cause for hope and despair — undoubtedly it provides an indeterminate background for investor confidence and sentiment tends to drive markets in phases of economic slump."

He also notes that the ANC's talk of nationalisation rests on the premise that substantial capital exists for redistribution.

"Unfortunately, this assumption is not strictly true. The economic vicissitudes of the past decade have significantly eroded capital formation in SA."

Bank's forward market role plugs a capital outflow

49

B/D 11/4/90

E J VAN DER MERWE

DEFICITS have generally been incurred by the SA Reserve Bank on its so-called forward book over at least the past 20 years. Only over relatively short periods has the Bank been able to show surpluses on its forward operations.

The size of these deficits has depended on the strength of the spot exchange rate of the rand; they increased substantially from 1985 with the sharp depreciation of the rand.

The Bank has been an active participant in the forward exchange market since the market's inception, mainly aimed at the development of the market. Despite various attempts to improve the forward exchange market in SA, it can still be described as highly administered, relatively underdeveloped, artificial and tightly restricted by exchange control rules and regulations.

The Bank has therefore maintained its role as "market-maker" even though attempts have been made to make the market less heavily administered. The ultimate objective nevertheless remains to bring about "a forward market outside the Bank in which both residents and non-residents are at liberty to deal forward freely with one another and in which as a result of arbitrage transactions, forward rates for the rand would tend to be the same in SA and overseas and to settle close to interest rate parity".

This would eliminate the two main deficiencies of the forward market: the imbalance in the Bank's forward book and the fact that forward transactions do not play their full part in determining spot and forward exchange rates.

The monetary authorities have sought to withdraw from the forward market gradually. However, the Bank was forced by international and domestic circumstances to extend its operations in the forward market to protect the foreign exchange reserves.

The main justification for the current system of forward exchange cover is that it encourages an inflow of foreign capital without making an increase in interest rates necessary to achieve the same result. The fact that authorised dealers can cover their positions prevents a substantial outflow of capital.

The losses on the forward book of the Bank do not affect the financial position of government immediately; they are not paid by government as they are incurred. At the end of each financial year losses are transferred to the Gold and Foreign Exchange Contingency Reserve Account, where they are offset against profits or added to losses in respect of gold and liabilities and assets denominated in foreign currencies.

The calculated net loss can be carried forward until the Treasury and the Bank deem it desirable to settle the outstanding balance or part of it. Although these losses are not immediately recorded in the accounts of the Treasury, they represent government debt.

Three approaches can be followed by the authorities regarding the forward losses already incurred:

☐ Government can continue to repay these claims from current income. Such payments will have to be spread out over a period of time.

Raising additional taxes for redeeming the total outstanding losses would have a large deflationary effect on the economy. It would also severely disturb the money market and force the Bank to provide extensive assistance;

☐ Government can issue new securities against the claims arising from forward losses. These securities can be provided directly to the Bank or can be sold in the market. The net result would again be a substantial increase in the security holdings of the Bank in exchange for the Bank's claims against the Treasury;

☐ The third approach is to do nothing about the exchange losses, based on the argument that there is no urgent reason why these losses should be repaid: they have already had their effect on the economy.

It may also be argued, however, that for the sake of financial discipline government should be required to make good its financial commitments.

Various measures may avoid future losses on the forward book. However, most of these solutions — including keeping the rand artificially high, adjusting forward rates to take account of expected inflation rate differentials, increasing interest rates or withdrawing from the market immediately — can be ruled out because of possible adverse effects on the economy.

The immediate withdrawal of the Bank from the market under present circumstances could have serious macro-economic implications. It would probably lead to a substantial depreciation of the rand and to higher interest rates.

Higher inflation rates could, in turn, lead to expectations of a further depreciation of the rand, an outflow of capital, depletion of the gold and other foreign reserves and a further acceleration of inflation.

Probably the only truly satisfactory solution is to bring the inflation rate down to levels at least as low as those in trading partner countries.

The authorities may find it difficult to achieve this immediately. In the meantime, probably the best approach would be to maintain a combination of realistic interest rates and exchange rates. This should minimise losses while a more lasting solution is found.

At the same time the authorities should carry on with the development of a sophisticated private forward foreign exchange market and with the gradual withdrawal of the Bank from that market.

The sustained upward trend in losses on the forward book of the Bank during the past 20 years is mainly due to the fact that the central bank has remained heavily involved in the market.

As a "market-maker" the Bank normally has a net oversold forward position and this cover is provided to the market at "market-approximating" rates. Although these are basically set at levels reflecting differentials between domestic and foreign interest rates, they do not take expected changes in spot exchange rates into account.

The sharp depreciation in the exchange value of the rand during most of the 1980s has usually exceeded the discount of the forward rates against spot rates, resulting in considerable losses on the forward book.

The authorities continued to make these large capital transfers to residents in order to protect the gold and other foreign reserves of the country, and therefore also the exchange rate of the rand.

The best way to prevent further losses on the forward book would be a gradual withdrawal of the Bank from the forward market, preferably as soon as the level of the foreign reserves allows.

In the meantime, the authorities should continue to redeem losses already incurred from current income in accordance with broad policy objectives, and maintain realistic interest and exchange rates.

The losses on the Bank's forward book have had important macro-economic implications. They have probably included a higher volume of imports, lower domestic production, increased domestic expenditure and unstable conditions on the BoP.

At the same time the forward losses have had an expansionary effect on the money market not essentially different from those of the Bank's open-market operations or its accommodation of the banks at the discount window.

The rationale for carrying on with the Bank's heavy involvement in the forward market is that the Bank's withdrawal from the market could lead to substantial capital outflows.

☐ Dr van der Merwe is deputy head of the economics department at the Reserve Bank. This is an excerpt from an article in the Bank's current Quarterly Bulletin.

Post-apartheid SA poses questions

Sowetan 11/4/90

49

Looking at the lessons of Africa, Gerald L'Ange of *Sowetan* Africa News Service, suggests that the Western nations should should put as much into promoting their version of democracy in a post-apartheid South Africa as they have to fighting apartheid.

IF apartheid is indeed on the way out then the fight against it must start waning as a cause - not immediately, perhaps, but possibly early in the current decade.

Another cause presents itself, however, for those claiming an interest in the fostering of human rights and the promotion of freedom and democracy as these are defined in Western culture.

The other cause has as much to do with human rights as does the fight against apartheid. Some might consider that it has even more to do with the prevention of human suffering than the anti-apartheid battle ever did - and that it is more urgent.

It is nothing less than the cause of freedom of choice in politics and economics. Democracy itself, in short, as related to South Africa, would be a matter of seeking to ensure that the evils of apartheid were not replaced by what could be the greater evils of political autocracy in a one-party state and of economic deprivation through policies of extreme socialism.

These evils are dreadfully evident in Africa from the plight into which they plunged every country in which they were applied. Their effects are to be seen in economies wrecked by excessive state interference, in human rights trampled by monolithic parties and by dictators operating falsely in the name of "the people."

Socialist extremism and monopartyism are arguably the greatest afflictions to have been visited on Africa since the dawning of independence in the continent. It is possible that that they have caused more human misery in independent African countries than apartheid has caused in South Africa.

Idealism

On this basis, a good case could be made out for the energy and idealism that have been devoted to the fight against apartheid, being directed at least in equal measure to the promotion of basic freedoms in a post-apartheid South Africa.

What would give this cause greater importance and urgency than the fight against apartheid is that if economic and political freedom are denied to post-apartheid South Africa, the consequences will be appalling not only for this country, but for the whole of Southern Africa - and perhaps far beyond.

And it might be far more difficult to reverse them than it was to destroy apartheid..

Interests

It seems to be generally accepted now that the economic interests of South Africa and its neighbours are interlocked.

Given that it is essentially economics that shapes day-to-day politics, their political interests, too, are intertwined.

And given further that the future stability and prosperity of the region will best be promoted through free market systems, then it would be in the interests of South Africa's neighbours to promote and protect such systems.

Chances

An international campaign in support of Western democratic ideals in a post-apartheid South Africa, which was waged with the same intensity as the fight against apartheid would virtually guarantee basic freedoms in this country -and perhaps the region as a whole.

But the chances of it happening seem slim at present.

Most Africanists expect that this continent will get little economic or technical aid from a Europe obsessed with economic unity in 1992 and with repairing the ravages of socialist autocracy in Eastern Europe.

W/Mail 12/4-19/4/90

Zimbabwe in fear of SA democracy

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By JOHN MORRISON

WORRIES about competition in the 1990s from a democratic South Africa are lending a new urgency to plans to liberalise Zimbabwe's tightly controlled economy.

Liberalisation has been talked about since the mid-1980s when a post-independence boom fizzled out and it became clear that Zimbabwe was failing to meet its economic targets.

Now, after several years of waiting, it looks as though action by the government is imminent.

"What we are working on and what we plan to implement in the middle of this year is a phased and targeted opening of the economy," Finance Minister Bernard Chidzero said.

Majority rule in South Africa could open wide the doors to black Africa for South African exporters, who at operate under a political handicap.

Mike Humphreys, economist for the Confederation of Zimbabwe Industries, believes that change in South Africa is making Zimbabwe's policy rethink even more urgent.

"Within the region our major competitor is South Africa. It's a Third World country in trade with the rest of the world, but in terms of the region it is a First World country selling manufactured products."

"This makes it more and more crucial that we get our act into gear. The time we have got left until South Africa has a settlement, we have got to use to get our industry much more competitive, much more efficient," Humphreys says.

Fifteen years of international sanctions up to 1980 against the rebel Rhodesian regime created an industrial sector based on import substitution, making a broad range of products for the domestic market. But efficiency was low and costs high.

Starved of foreign exchange for years, industrialists now will get the chance to re-equip their factories — but only if they export. Since independence textile and clothing manufacturers have plunged into cut-throat international markets, but other industries have stood still, cushioned against competition from imports.

— Sapa-Reuter.

QUARTERLY BULLETIN (49)

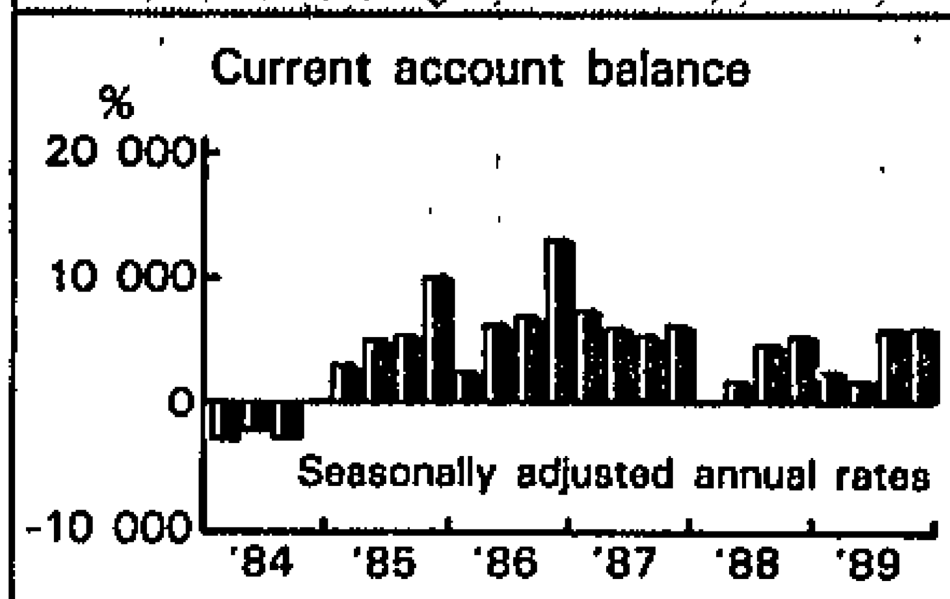
Softly softly FM 13/4/90

Reserve Bank Governor Chris Stals is clearly heeding the advice of predecessor Gerhard de Kock. The economy may be headed for a soft landing but it will be foolish to open the door too soon. So, despite some encouraging numbers in the latest Bank *Quarterly Bulletin*, Stals has been keeping a tight rein on the market (see **p21**).

Positive signs reported by the *Bulletin* are an increase in exports and a build-up of the surplus on the current account of the balance of payments (BoP), a decline in GDE and, consequently, imports and the first quarterly decline in GDP since quarter one of 1986.

An increase of 17% in export volumes in 1989 made a major contribution to the

Spot on



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R4,1bn surplus on the BoP current account. The annualised fourth-quarter surplus was R5,89bn, due to a marked further decline in value of merchandise imports. "With debt repayments in mind that figure is spot on," says Econometrix's Tony Twine. "But it leaves nothing to spare."

Detracting from fourth-quarter BoP performance was a substantial increase in outflows of capital not related to reserves. "Much arose from larger outflows of short-term capital; more than half of these ... appear to have consisted of increases in foreign asset holdings by residents."

Together with a reduction in short-term foreign liabilities, this caused a fall in gross gold and other foreign reserves in the first two months of 1990, reserves rose (falling again in March).

The increasing surplus reflects a gradual slowdown in the economy. GDP contracted in the fourth quarter by an annualised 1,5%, following annualised growth of 1%, 1,5% and 2% in quarters three, two and one. This compares favourably, says the *Bulletin*, with abrupt changes in quarterly annualised growth in the past:

- ☐ From expansion of 4,5% in the four quarters immediately preceding the cyclical upper turning point of August 1981, to contraction at 1,5% in the next four; and
- ☐ Expansion of 7,5% in the four quarters immediately preceding the upper turning point of the 1983-1984 mini-boom in June 1984, to contraction at more than 2,5% in the following four quarters.

Growth in 1989 was 2%, down on 1988's 3,5% but better than the 1,5% average for 1980-1989. Sectoral trends were reversed in the fourth quarter. A "substantial decline in real value added by agriculture" was due to poorer weather, which clipped the wheat crop 40% in volume terms from 1988. Real value added in agriculture also fell back in the quarter for statistical reasons — nearly 80% of the near-record maize crop was harvested in the previous three months.

Overall growth in the earlier quarters of 1989 was sustained only by agriculture. Other sectors performed poorly.

An encouraging sign of subsiding demand was a 7% annualised decline in GDE, after falling 7,5% in the preceding three months. For the calendar year the drop was 1%.

Bad news, though, is that 1989 average real government consumption expenditure was 4,5% higher than in 1988. Impetus for

FINANCIAL MAIL APRIL 13 1990

this came in January-March, when government consumption expenditure soared by an annualised 40%. Thereafter, it declined. In the fourth quarter, "reductions in spending on intermediate goods and services more than offset further increases in real remuneration of employees" brought about a decline of 5,5% annualised, following declines of 8% and 6,5% in the previous quarters.

Money supply, of course, remains a worry, after the re-acceleration in growth in October and again in January. Observed monetary expansion in late-1989 to early-1990 was fuelled by, among other things, higher deposit rates, reintermediation, "liquidity preference proper" and expectations of further interest rate increases. So the alarming growth in M3 is partly technical.

Gross domestic fixed investment fell by 3%, "mostly accountable for by reductions in outlays by the private sector" — inevitable when growth slows.

What happened in first-quarter 1990 is not yet clear. Reserve Bank economics head Jaap Meijer says reports are conflicting. "Some observers believe there was a sharp brake after recent political developments. But this is not yet seen in the indicators." ■

Foreign capital vital for new SA

(49)

S Times 15/4/90.

By Robyn Chalmers

THE real hope for economic growth and upliftment in the new SA is foreign capital, says economist Brian Kantor.

Professor Kantor told the Institute of Civil Engineers in Cape Town this week that most people would prosper only if SA achieved both political stability and adopted the proper economic policies.

"These are policies that, above all, will encourage foreigners to trade with and invest in SA. It is only via openness to foreign trade and investment that South Africans can hope to enjoy more consumption today and tomorrow.

"If our economic policies or a lack of political stability make SA unattractive to foreign traders or investors our people will be condemned to greater poverty in the years to come."

Government moves towards reform had opened up opportunities for SA to break down what had been the great barrier to faster economic development, said Professor Kantor.

A marked lack of confidence in the capacity of South Africans to avoid a prolonged violent transition to majority rule had held the economy back.

"The belief has long been that the transition to representative government required a confrontation between blacks and whites that would severely, perhaps fatally, have disrupted the economy.

Outdated

"There is surely now a much better chance of avoiding disaster. If so, we now require the wit and good sense to prevent economic decline by avoiding the wrong set of economic policies."

The Reserve Bank's Quarterly Bulletin showed that foreign sentiment had already become more bullish towards SA. In the first two months of 1989, net inflow of foreign money reached almost R3-billion.

Professor Kantor said competition for resources in SA was bound to intensify. More intensive use of the existing capital stock was one likely outcome.

Greater reliance on user charges to finance infrastructure would help greatly to meet the competition from the demands for Government spending on education and welfare.

The idea of capital versus labour was as outdated as Marxism itself, said Professor Kantor.

"Much thought needs to be focused on the shortage of capital in SA and on how this may be relieved. More intensive use of the existing capital stock will be part of the solution.

"Investment from abroad, especially direct investment, will be indispensable for more rapid growth."

S Times 15/4/90

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Bumps in long road to economic health

Business Times Reporter

THE haul back to economic health could be longer than predicted.

As economists take stock of the first quarter, national accounts data show that the domestic economy entered the downward phase of the business cycle in 1989. The downswing gathered momentum in the second half of the year.

Although the deceleration in real economic activity has achieved some success in relieving pressure on the balance of payments, it is crucial that in the short term at least, the consolidation phase be extended to show more improvement in the foreign-currency reserves and to curtail inflationary pressures.

Old Mutual's Economic Research Unit says the potential for improvement in the gross reserves will be determined by two factors: the size of the current account surplus during the year and the actual extent of SA's foreign debt commitments.

In all, a current account surplus of more than $2-billion will probably have to be generated to accommodate total capital outflows and at the same time improve the foreign-exchange reserves.

[redacted]

SA's export revenue is determined largely by foreign developments. The gold price outlook appears at best to be cautiously favourable. The major factor militating against a sustained rise in the price is the continued disinflationary world environment.

Gold reached an all-time high of $850 in 1980 when inflation in the major economies was averaging 12%. Given low inflation rates of about 4% there is little pressure for investors to move into gold, says Old Mutual.

OLD MUTUAL ON WHAT LIES AHEAD

The low interest in gold is enhanced by the high returns offered on government long bonds in most major economies.

These conditions are likely to last for the foreseeable future, providing little fundamental support for gold. It seems, therefore, that future support for the dollar price of gold will depend largely on a weaker American currency. The vulnerability of the US dollar implies that the gold price could improve from current low levels.

For various reasons — mainly related to concern about inflation — short-term interest rates in most major industrialised nations are expected to remain high this year, and may even rise. The slowdown in world growth is expected to continue this year and possibly even next year.

[redacted]

Generally speaking, growth rates will be lower than the average since 1983, but at this stage a repetition of the severe recession that occurred in the early 1980s is not foreseen.

On balance, however, total export revenue in rand terms in 1990 should not rise as much as in 1988 and 1989 when growth of 15% and 19% respectively was recorded.

Old Mutual says growth in the rand import bill will have to be curbed to attain the required current account surplus. This implies further curtailment of real domestic demand and the maintenance of stringent economic policy measures.

All this means that there is limited scope for a fall in short-term interest rates in 1990. Moreover, because the greater part of this year's foreign debt matures before July, any decline that may occur will be in the second half.

Cyclical inflationary pressures in the domestic economy are still very much in evidence. Any significant decline in the inflation rate will depend on the relative stability of the rand exchange rate and domestic demand conditions.

The rand's international value remains vulnerable because of the large inflation differential between SA and its big trading partners.

Consequently, it is vital that domestic economic activity be restrained by tight economic policy to curb demand-pull inflation.

[redacted]

Overall, the latest Budget seems to fall in the stimulatory category. Tax concessions are significant enough to provide real relief to individuals, while the eventual increase in total spending is unlikely to be much lower than the expected inflation rate.

Clearly, the burden of shouldering responsibility for stabilisation of the economy by restricting domestic demand has shifted towards monetary policy.

An imminent relaxation of monetary policy appears unlikely. A continued slowdown in domestic economic activity should, however, allow for some decline in short-term interest rates in the second half of 1990 to provide a soft landing.

A steep decline would, however, be both imprudent and unexpected because of the authorities' commitment to positive real interest rates in line with those of SA's major trading partners.

On the whole a further moderate decline in real domestic expenditure is foreseen in 1990 after last year's 1% decline.

Domestic production could, however, register a small increase through a moderate rise in foreign demand and SA producers providing a larger portion of domestic demand.

Old Mutual says a worse agricultural year should, however, restrict the improvement in domestic production to below last year's growth rate of 2,0%.

Major conglomerates 'may be carved up'

Star 16/4/90 (49)

The Star Bureau

LONDON — The African National Congress is considering radical proposals for South Africa's major quoted conglomerates when it takes power, according to a report in the Observer yesterday.

The newspaper quoted Mr Vella Pillay, one of the ANC's leading economists, as claiming that the planned moves would lead to an inflow of foreign capital as economic sanctions are lifted.

But he said the ANC may introduce legislation to curb monopoly power and dismember some key conglomerates.

The big six

Mr Pillay would not mention names, but the Observer pointed out that six concerns — Anglo-American, Rembrandt, SA Mutual, Sanlam, Liberty Life and Anglovaal — account for 80 percent of the market capitalisation of the Johannesburg Stock Exchange.

Mr Pillay said: "In the case of mining, and where it would be uneconomic to apply anti-trust legislation, the state would seek a role in such enterprises with a view to safeguarding the public enterprise.'

He added that the ANC would renationalise the iron and steel industries, as well as electricity generation and parts of the transport industry which the government plans to privatise.

But he emphasised that the key to economic recovery was political reform.

Economic hopes raised by reform, study shows

ADELE BALETA

THE rise in political aspirations has not resulted in a massive increase in political hopes but rather an increase in economic expectations, the 1990 SA Township Annual has found.

The annual — compiled by Steuart Pennington and Associates and designed to close the information gap between management and labour — was based on a study of 36 townships serving major industrial areas.

In the annual's Industrial Relations (IR) review, Wage Bargaining Issues for 1990, the authors said the poltical climate, moves towards industry-wide bargaining, the housing and education crisis and the revival of "pension inadequacy perceptions" would be major influences on wage bargaining this year.

In addition, increasingly inflexible employment practices and poor business understanding would exacerbate these influences.

It appears progressive socio-political changes had created the expectation that similar changes in the economic environment would occur. "Demands for a fairer share" would intensify.

The wage bargaining agenda would change this year.

Employers needed to be more creative, flexible and aggressive and to move away from the "demand/response" syndrome of wage bargaining to a process of "exchange".

Adopting a more creative approach to granting increases was required, and suggestions included combining percentage with across-the-board increases, considering differential rand amounts per job grade, creating a reasonable differential between the increase on the minimum grade and the general increase for the grade. The myriad of leave demands should be rationalised, they said.

It was critical employers embarked on a "business awareness campaign" to empower all employees with a thorough knowledge of the business process they were involved in.

This year, the determination with which the union movement pursued centralised bargaining would increasingly conflict with the "purist view" of decentralised bargaining held by some employers, to the point of confrontation, the authors said.

It would be important for those employers opposed to and those for centralised bargaining to develop a consistent view in order to facilitate meaningful bilateral talks.

Housing, which had become an IR problem, was now second only to wages on the bargaining agenda.

Retirement

Employers needed to consider a wider range of assistance than bond collateral or other such "arms-length" facilities. Finding land and houses, providing assistance with purchase and bond "red tape", lending deposits and assisting with the fluctuating bond rates were some areas employers needed to consider.

Business had to focus on the quality of their pension/provident fund benefits and would need to recognise that demands for a reduction in the retirement age were a reality.

While the education crisis persisted, the need for workers to supplement the services provided by the Department of Education and Training by paying fairly substantial school levies would increase and employers would be expected to contribute, they said.

Despite positive political developments, the year ahead was fraught with political dangers, the authors predicted.

Economic sacrifices bear fruit

The present downturn in the economy had been weathered much better than the previous one in the middle 1980s, the **Finance Minister** ~~Mr Barend du~~ **Plessis** said yesterday. 49

He said the private sector was much better geared to the required stabilisation measures and the regrettable, but unavoidable, toll of the downswing had been much lighter.

"One could say that confidence has continued so high through 1989 and into 1990 that the cooling-down measures have taken some time to bite."

The foundation was now being laid for a new period of economic growth.

The sacrifices inevitably involved in a process of consolidation — high interest rates, retrenchments, insolvencies — were bearing their fruit for the common good.

"The Government is keenly aware of these sacrifices, but now that our broad macro-economic objectives are being attained we look for a new and sustainable round of growth at the earliest opportunity." — Sapa.

Majority support police, survey finds

Although 94 percent of whites regard the police as their friend, only 59,1 percent of blacks held the same view, according to figures released by the Minister of Law and Order, Mr Adriaan Vlok, yesterday.

He said in debate on the police budget vote that most South Africans had a particularly positive image of the police, as opposed to an average of 5,2 percent of all races who had a negative impression.

These figures came from an opinion survey commissioned by the Bureau for Information through the Human Sciences Research Council. 49

Although the results exposed deficiencies, most of the report was astonishingly positive.

Most South Africans — 94 percent of whites, 80,3 percent of Indians, 80,4 percent of coloureds and 59,1 percent of blacks — regarded the police as their friend.

More than 90 percent of South Africans were, however, concerned that there were too few policemen and policewomen.

This led to more than 70 percent of Indians, 52,5 percent of whites and 57,6 percent of coloureds feeling unsafe. — Sapa.

Business interrupted in accordance with Rule 180C (3) of the Standing Rules of Parliament.

*10. Mr P G SOAL — Law and Order. [Question standing over.]

Transkei: criminal prosecutions

*11. Mr F J LE ROUX asked the Minister of Foreign Affairs:† Hansard 17/4/90

Whether he has at any stage made any requests or representations to Gen Bantu Holomisa of Transkei regarding criminal prosecutions in Transkei against certain companies, organisations or persons; if so, (a) when, (b) against what companies, organisations or persons and (c) with what result?

B701E

The MINISTER OF FOREIGN AFFAIRS:

I wish to refer the honorable member to my reply dated 4 April 1990 to parliamentary question no 255.

Constitution: drafting by certain persons

*12. Mr L F STOFBERG asked the Minister of Constitutional Development:†

Whether he has commissioned certain persons, whose names have been furnished to the Minister's Department for the purpose of his reply, to draft a constitution for the new South Africa; if so, (a) when, (b) what are the names of the two persons concerned, (c) how much time have they been given to submit a draft and (d) what was the purport of this commission?

B702E

The MINISTER OF CONSTITUTIONAL DEVELOPMENT:

No.

(a) falls away

(b) falls away

(c) falls away

(d) falls away.

Government-controlled assets: privatising

*13. Mr H J COETZEE asked the Minister of Mineral and Energy Affairs and Public Enterprises: Hansard 17/4/90

(1) Whether it was announced on or about 16 March 1990 that the Government would raise approximately R1 billion by privatising Government-controlled assets; if so, which assets are to be privatised in order to realise this sum;

(2) whether the Government is considering the sale of South Africa's strategic oil reserves; if so, what are the relevant details;

(3) whether he will make a statement on the matter? Hansard 17/4/90

B706E

The MINISTER OF MINERAL AND ENERGY AFFAIRS AND PUBLIC ENTERPRISES:

(1) Yes, by the State President through a media statement. Various investigations are being carried out and it is envisaged that the amount will be realised out of different privatisation proceeds.

(2) No, the Government is not considering the sale of South Africa's strategic oil reserves in order to obtain the R1 milliard. However, I wish to point out that in terms of regulation 2 of Government Notice No R1614 of 19 July 1985, no person shall, except with the written permission of the Minister, publish, release, announce, disclose or convey any information regarding a wide range of actions in respect of petroleum products. The Government, naturally, does not comment on the strategic oil reserves of the RSA.

(3) Not at this stage. Statements in respect of question 1 will be issued when deemed necessary.

Protest marches: liability for damages

*14. Mr L F STOFBERG asked the Minister of Justice:† Hansard 17/4/90

(1) Whether the organisers of protest marches are held liable for the damage caused by participants in such marches; if not, why not; if so, under what (a) legal rules and/or (b) statutory provisions;

(2) whether any claims in this regard have been put in by the relevant authorities; if so, against what organisations?

B708E

The MINISTER OF JUSTICE:

(1) (a) and (b) At present the civil liability of organisers of protest marches for damage caused to another is governed mainly by the common-law rules regarding delicts.

Claims against organisers of protest marches for damage caused by participants in such marches will consequently have to be founded on such common-law rules. It is further known that some local authorities require under their municipal by-laws from the organisers of processions an indemnity in the form of a cash deposit or an insurance policy with a view to compensating for damage caused by participants in the processions.

In a press statement on 30 March 1990 as well as earlier in this House I however announced that legislation regarding the regulation of orderly meetings in accordance with notifications as a prerequisite is at present receiving attention. The various problems regarding damages that accompany these meetings is one of the aspects that has been identified and which specifically has been noted to be addressed in this Bill. The Bill is at present in an advanced stage and I contemplate to introduce it in Parliament in the near future.

(2) Particulars of such claims, if any, are not readily available.

*15. Adv T LANGLEY — Defence.† [Withdrawn.]

Fanie Botha Dam at Tzaneen

*16. Adv T LANGLEY asked the Minister of Public Works and Land Affairs:†

Whether the odd pieces of land of the Fanie Botha Dam at Tzaneen have been allocated to any person or persons for utilisation; if so, (a) on what conditions, (b) at what compensation and (c) for what term?

Hansard 17/4/90 B7[illegible]0E

The MINISTER OF PUBLIC WORKS AND LAND AFFAIRS:

Yes.

(a) The pieces of the land which remained in the possession of the State were allocated for nature conservation and recreational purposes as well as a recreation resort for Coloureds and Indians and placed under the control of the Transvaal Provincial Administration.

(b) No compensation. Hansard 17/4/90

(c) For as long as it is used or required for the relevant purposes.

Police action: Khutsong

*17. Adv J J S PRINSLOO asked the Minister of Law and Order:†

(a) How many persons were arrested in terms of the emergency regulations in the Police action in Khutsong on Wednesday, 14 March 1990, and (b) (i) how many of these persons are illegal immigrants and (ii) what are their countries of origin?

Hansard 17/4/90 B714E

The MINISTER OF LAW AND ORDER:

(a) 25

(b) (i) None

(ii) Falls away.

Contingency reserves

*18. Mr D G H NOLTE asked the Minister of Finance:† Hansard 17/4/90

(a) How were the contingency reserves spent in the 1989-90 financial year and (b) (i) what amounts were paid out and (ii) to whom?

49

B716E

The MINISTER OF FINANCE:

The information appears on pages III to V of the Estimate of Additional Expenditure, document R.P.1-1990, which was Tabled in Parliament on 19 February 1990 and which was further elucidated in my speech to Parliament on the same date.

Coastal dune area at St Lucia: mining activities

*19. Mr J CHIOLÉ asked the Minister of Mineral and Energy Affairs and Public Enterprises:† Hansard 17/4/90

(1) Whether he intends taking any steps to stop proposed mining activities in the coastal dune area of St Lucia; if not, why not; if so, (a) what steps and (b) what are the motives for these steps;

Shortage of cash blamed for Natal holiday stayaway

Star 17/4/90 49

Own Correspondent

DURBAN — With trade dropping off by at least one-quarter, hoteliers in Durban are hardly laughing all the way to the bank this Easter.

However, Federation of Hotel, Liquor and Catering Associations of South Africa chairman Mr Keith Boshi said yesterday that the Easter holiday season was a positive lesson in race relations.

Natal's holiday trade could expect a boom at the end of the year, he added.

Secure

While trade was down by at least 25 percent, the happy, secure atmosphere contributed to establishing a very positive image of the local holiday industry, Mr Boshi said.

"While the Transvaal family holidaymaker seems to have kept away this Easter, I believe it was due to economic reasons.

"There is a shortage of money, but at the same time we have had people of other races, especially Indians from up-country, who came to the province for holidays during this season," Mr Boshi said.

There had been no major racial disturbances, he added.

The Easter Fiesta in Durban, which provided a varied programme of free entertainment, was a drawncard for those who had taken their holidays at the Natal coast.

"Perhaps it was a very costly lesson for Natal, but it was well worth it because here we had people of all colours finding a place in the sand and enjoying themselves without any problems," Mr Boshi said.

He felt that the unrest in the province's townships had not contributed to the slump in Easter trade.

"The economy is somewhat stagnant and there is very little movement. Most of the people who would have come, but did not make it, did so because of cash problems," Mr Boshi said.

The peaceful nature of the Easter holiday season was a very good advertisement for the coming Christmas season and he was expecting a major boom.

Meanwhile, up-country visitors' rush to get home began yesterday, with people returning home from early in the morning.

Many residents from the coast who went inland to resorts left their destinations yesterday and a heavy traffic build-up to the coast was expected until late last night.

Taking a closer look at the lessons of Africa

Fight for freedom of choice after apartheid battle is won

Soweten 18/4/90 (49)

Looking at the lessons of Africa, Gerald L'Ange, Editor of the Argus Africa News Service, suggests that the Western nations should put as much into promoting their version of democracy in a post-apartheid South Africa as they have to fighting apartheid.

IF apartheid is indeed on the way out then the fight against it must start waning as a cause - not immediately, perhaps, but possibly early in the current decade.

Another cause presents itself, however, for those claiming an interest in the fostering of human rights and the promotion of freedom and democracy as these are defined in Western culture.

The other cause has as much to do with human rights as does the fight against apartheid.

Some might consider that it has even more to do with the prevention of human suffering than the anti-apartheid battle ever did - and that it is more urgent.

It is nothing less than the cause of freedom of choice in politics and economics. Democracy itself, in short.

Replaced

As related to South Africa, it would be a matter of seeking to ensure that the evils of apartheid were not replaced by what could be the greater evils of political autocracy in a one-party state and of economic deprivation through policies of extreme socialism.

These evils are dreadfully evident in Africa from the plight into which they plunged every country in which they were applied.

Their effects are to be seen in economies wrecked by excessive state interference, in human rights trampled by monolithic parties and by dictators operating falsely in the name of "the people."

Socialist extremism and monopartyism are arguably the greatest afflictions to have been visited on Africa since the dawning of independence in the continent.

It is possible that that they have caused more human misery in independent African countries than apartheid has caused in South Africa.

Idealism

On this basis a good case could be made out for the energy and idealism that have been devoted to the fight against apartheid being directed at least in equal measure to the promotion of basic freedoms in a post-apartheid South Africa.

What would give this cause greater importance and urgency than the fight against apartheid is that if economic and political freedom are denied to post-apartheid South Africa the consequences will be appalling not only for this country but for the whole of Southern Africa - and perhaps far beyond.

And it might be far more difficult to reverse them than it was to destroy apartheid.

It seems to be generally accepted now that the economic interests of South Africa and its neighbours are interlocked.

Interests

Given that it is essentially economics that shapes day-to-day politics, their political interests, too, are intertwined.

And given further that the future stability and prosperity of the region will best be promoted through free market systems then it would be in the interests of South Africa's neighbours to promote and protect such systems.

An international campaign in support of Western democratic ideals in a post-apartheid South Africa which was waged with the same intensity as the fight against apartheid would virtually guarantee basic freedoms in this country - and perhaps the region as a whole.

But the chances of it happening seem slim at present.

Once apartheid goes and the Western democracies can no longer get any moralistic satisfaction out of combatting it they are likely to lose interest in South Africa and its neighbours.

Promoting

Their interest in promoting democracy in South Africa may be no stronger than it has been in promoting democracy in Cambodia or anywhere else where people were oppressed by regimes that were not white.

They might, however, be persuaded that it is in their interests to promote both economic and political freedom in Southern Africa - if for no other reason than that this will promote stability, since the current view in the major Western capitals is that disorder anywhere in the world is against their interests.

By the same token, they might consider it in their interests to help spread stability and prosperity throughout Africa.

Population explosions and economic decline across the continent have set it on an accelerating course into what some authorities see as a "Malthusian nightmare."

It would not cost much in monetary terms, however, for Europe and America to give political encouragement to the promotion of democracy in the new South Africa in the same way that they supported the fight against apartheid.

But who is to persuade them to do it once the spur of guilt has been removed with the passing of apartheid?

Decline

Perhaps the only light of hope in the gloom is that the main causes of the economic decline are being recognised as monopartyism and extreme socialism. And that efforts are being made to switch to free market economies and multiparty political systems that give the people the power to change the government when it is deemed to have failed or to force changes in its policies through the ballot box.

If these systems were to be entrenched in a post-apartheid South Africa the efforts to adopt them elsewhere in Africa would probably be given enormous encouragement.

Most Africanists expect that this continent will get little economic or technical aid from a Europe obsessed with economic unity in 1992 and with repairing the ravages of socialist autocracy in Eastern Europe.

BDay 18/4/90 (49)

Foreign investor returns play role in knocking GNP

GRETA STEYN

HIGH interest and dividend payments to foreign holders of SA gilts and shares combined with deteriorating terms of trade to knock SA's gross national product (GNP) last year.

Reserve Bank figures show GNP dropped by 0,5% between 1988 and 1989. GNP is used as a measure of a country's welfare rather than gross domestic product (GDP), which shows the total amount of goods and services produced over the year. GNP, before adjustment for inflation, equals GDP less net factor payments to the rest of the world.

Net factor payments to the rest of the world jumped by 23% to R9,5bn — reflecting higher interest and dividend payments to the rest of the world.

According to the Quarterly Bulletin, purchases of SA gilts on the JSE alone — excluding the banks — amounted to R2,9bn last year.

The total foreign holding of SA gilts is estimated at more than R6bn. These transactions take place through the financial rand, so that there is no capital inflow or outflow, but interest is paid in commercial rands and represents an outflow on the current account of the balance of payments (BoP).

Dividend payments to foreigners were higher partly because of good results of companies in the first half of last year.

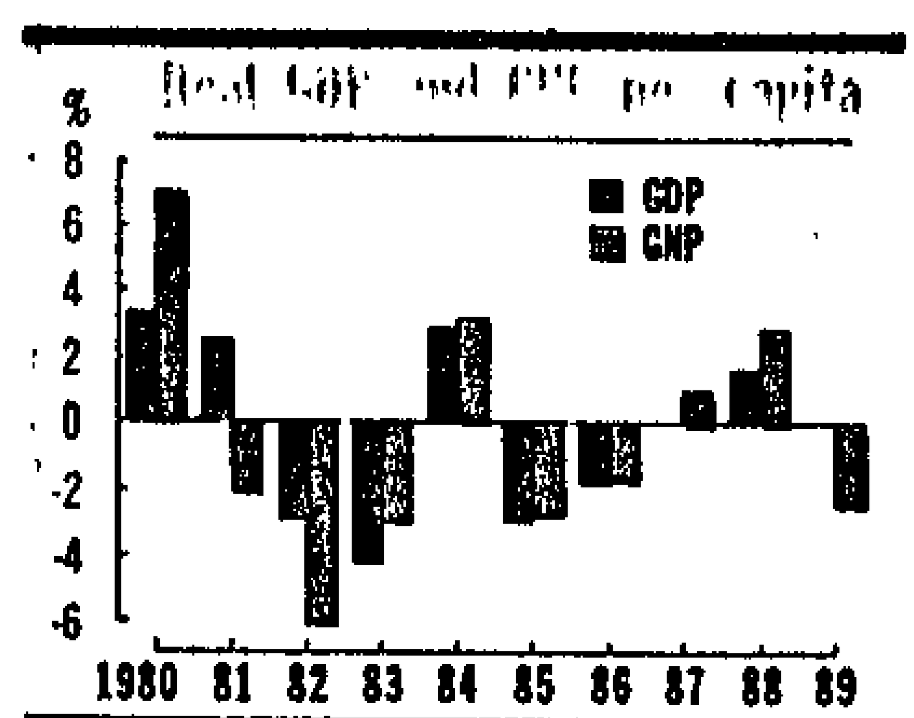
The other reason why GNP declined last year while GDP grew (by 2%) was a worsening in SA's terms of trade — the ratio of export prices to import prices. A deterioration occurs when export prices rise more slowly than import prices.

The terms of trade affects GNP once nominal figures are adjusted for inflation.

TrustBank economist Nick Barnardt, explaining how import and export prices affect GNP, said: "To arrive at a real value for GNP, the rate of increase in import prices is used to deflate nominal GNP. At the same time, higher export prices imply an increase in national income."

The importance of the terms of trade for SA's GNP illustrated SA's vulnerability to international prices, he said.

Per capita, real GNP dropped by 2,5% last year — almost wiping out the 2,7% increase of the year before. In three of the past five years, GNP per capita has declined.



Graphic FIONA KRISCH Source: DEPT OF FINANCE

Sats pay-off cost R105-m

ST 18/4/90 (49)

A total of R105,45 million had been paid out to the employees who retired voluntarily in terms of the retirement package offer of SA Transport Services, the Minister of Public Enterprises, Dr Dawie de Villiers, told the House of Assembly yesterday.

Replying to a question from Mr Jurg Prinsloo (CP, Roodepoort), he said that 6 806 people had retired voluntarily in terms of the retirement package offer from February 1 1990. — Sapa.

Simple concept could change SA's economy

A Japanese concept could be one of the solutions for redistribution as this country heads for a new dispensation. Sowetan 19/4/90

It made Japan what it is today - the envy of the Western world, and of the communists too. Simply called "shitauke", its impact on and benefits to the economy are enormous.

Ask any Japanese businessman, and he will tell you that small and medium size businesses have the flexibility to respond rather than to remain insensitive to changes in product planning, designs, business trends and industrial structure.

"Shitauke", or sub-contracting, has been responsible for the structural flexibility and adaptability of the Japanese economy to the environment.

Japan's small business sector contributes about 67 percent of the country's GDP; in South Africa the corresponding figure is a mere 17 percent.

But local businessmen are catching on to the trend amd trying to tap the enormous potential for the creation and distribution of wealth and job opportunities.

Companies, mostly mining houses, already involved report savings of between 5 and 10 percent by sourcing from small suppliers or sub-contracting some of their operations.

Estimates are that if all the mining houses were to source about 10 percent of their supplies from smaller suppliers, it could generate more than R1 billion of business.

Ian Hetherington, managing director of Job Creation, a joint venture between Nafcoc and Barlows, says sub-contracting in South Africa hasn't even reached one percent of its potential.

The problem is that small suppliers lack marketing skills. Big corporations are also cautious about new sources of supply, but many lack the knowledge about how to make the initial contact.

Another factor is that buying departments of corporations are geared towards dealing with sophisticated, large-scale suppliers.

Available sources of information on small manufacturers include the Urban Foundation's director of small manufacturers, and the SBDC's contact-maker.

Hetherington, however, says what is covered in these directories is not even 10 percent of the total small suppliers countrywide.

(49)

Nevertheless they have proved useful sources with the SBDC contact-maker generating an average of six inquiries a day.

He sees a direct correlation between the level of small business and the country's economic growth rate.

"We need a strong business sector for high economic growth. Small business brings competition, which drives forward the country's economy."

In a joint venture with Anglo American Corporation, the SBDC last year established a sub-contracting unit which tries to bridge the gap between small suppliers and big corporations.

Anglo put up a contingency fund of R250 000 for use in sub-contracting deals.

It also established a small business unit which has simplified tender documents, adjusting the payment period to 15 days and a maximum of 30 days after delivery.

To facilitate deliveries Anglo donated a bakkie.

Products supplied to Anglo by the small suppliers include canvas, haversacks, lamp belts, clothing, seat protectors, wires hoses, plastic wrist straps, underground sidings, signate, pipe connectors and buckles.

Andrew Rolfe, who heads the SBDC's sub-contracting unit, says the biggest success of the programme has been the provision of services. Other areas include construction and retailing.

He says entrepreneurs are making good money, while companies find they are saving. For instance, a timber-reclamation project at President Brand Mine in Welkom saved the company an estimated R50 000 in the first week, with a potential of over R1 million in the first year.

The project employs between 70 and 80 people. Another is a hostel-cleaning contract worth R350 000 a year, and another contract over R380 000 is pending.

An added advantage is that while these projects use local labour, they also help to nurture entrepreneurial talent.

BDay 19/4/90

MAJOR ROLE OF BUSINESS IN REDISTRIBUTION

(49) LESLEY LAMBERT

CAPE TOWN — The private sector would have to bear the brunt of wealth redistribution in SA, Sanlam MD Pierre Steyn said in his opening address at a Round Table Conference here yesterday.

He said businessmen had to accept an increasing role in the improvement of education, training and housing if the country was to "emerge from its past history and from the present bewildering times with hope for the future".

They would have to eliminate prejudice and create an environment in which all employees, regardless of race or sex, could be assimilated.

"We must create opportunities for our employees, through training and all other available methods, to progress faster — but this will have to be based on merit and not on tokenism," he told delegates.

"If one accepts, as I do, that good sense will prevail and that the intended actions to redistribute wealth will not be via large-scale socialism but rather through the forces of a free market economy, then a great responsiblity rests on the private sector.

"It will have to bear the brunt of wealth redistribution and of general social upliftment."

But to perform this vital task, Steyn said the private sector had to be assured of an environment in which it could flourish.

19/4/90

"We have to contribute to the maintenance of a business environment in which we can continue to exist, not only for our own sake but also — and this is not always sufficiently appreciated — in the interest of our country," he said.

If the environment was hostile or unacceptable, private enterprise would have no future, he said.

South Africa's daring free trade leap of faith

(49)

By ALAN HIRSCH

WITH South Africa seemingly set to embark on a freer trade policy than ever since 1925, world trading conditions are becoming increasingly uncertain. South African economic policy makers must be more than a little concerned that international negotiations to establish a new General Agreement on Tariffs and Trade are facing severe obstacles.

GATT talks are scheduled to be concluded later this year, but participating countries and trading blocs seem far from agreed on many crucial issues.

Though the government has not yet publicised the details of its new trade policy, aspects of it are leaking into the public arena, probably derived from briefings with the private sector. The philosophy behind the new trade policy was summarised in an appendix to the Budget Review reported on these pages. The government believes that the inefficiency and uncompetitiveness of South African manufacturers is the product of the distortion of the prices of capital and labour. This distortion was partly caused by tariffs which favoured the importation of machinery and intermediate goods so that imported final goods could be made domestically.

One way of rectifying factor prices proposed by the government is the abolition of a range of tariffs protecting locally made manufactured goods. Among the products mentioned by economists as candidates for losing their protection are paper and pulp, pharmaceuticals, and textiles.

At the same time exports are to be promoted through the General Export Incentive Scheme, launched at the beginning of this month, which rewards firms that succesfully enter the export market. In short, the government is abandoning an import substitution policy for an export promotion policy, but through minimal intervention in markets.

Critics might fear that loss of protection could threaten employment in some manufacturing sectors, though it is intended to encourage the substitution of capital with labour in uncompetitive sectors. With the added uncertainties faced by potential exporters reflected in the GATT talks employment growth in the export sectors is less than certain.

The current "Uruguay round" of GATT talks began in 1986 and is due to be concluded early in December, 1990. The weighty questions would have to be settled by July to allow time for fine-tuning. But divisions are still so great that some commentators wonder whether the agreement will be concluded on schedule.

A major line of division indicated in reports in international business publications and GATT monthly bulletins, is that between the advanced industrialised countries and the "developing countries". The issue is not simply free-trade vs protectionism; the industrialised countries are calling for controls over the trade and exchange of certain commodities, and free-trade in others, while the developing countries hold similar views about different commodities and services. W/Mail 20/4 – 26/4/90

For example, the European Community and the United States want the more developed countries of the Third World (the newly industrialised countries — NICs) to give up their right to impose trade restrictions when faced with balance of payments problems. The EC also wants to change a key clause which allows countries facing a sudden surge of imports to take temporary blocking action. Instead of blocking imports from all countries manufacturing the relevant category they want to be able to act against individual countries. The industrialised countries also want to free the international trade in services (banking, transport, telecommunications etc) and restrict the international transfer of "intellectual property rights" (patents, computer software etc).

The developing countries, on the other hand, want to end the present restrictions on the international trade in textiles (under the Multi-Fibre Arrangement); to lift restrictions on the export of tropical products; to prevent the imposition of so-called voluntary export restraint agreements; and to have anti-dumping rules obeyed.

While Third World tariffs are the chief targets of the industrialised countries, the Multi-Fibre Arrangement (MFA) which controls world trade in clothing and textiles, beyond GATT rules and in defiance of GATT principles, symbolises for the developing countries the protectionism of the industrialised countries. The US has proposed a very gradual phasing out of the MFA which is unacceptable to the developing countries.

Another major stumbling block to the completion of the Uruguay round is the dispute over agricultural subsidies. Here the major antagonists are the US, which wants to end all farm support by 2 000, and the EC, which has agreed to a partial removal of concessions, with increases in protection on certain products such as soya beans and other cereal substitutes. The EC's position has been rejected by all other delegations.

South Africa is launching a drive to market manufactured goods internationally in an environment not altogether conducive to free trade, especially when it comes to selling manufactured goods to the industrialised countries. In the context of the stable international monetary and trade order of the 1950s and 1960s an export drive in manufactured goods might have made sense. Today it is a daring leap of faith in free trade.

Now fears for the future begin to disperse the hopes

BDay 20/4/90.

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MIKE ALFRED

PRESIDENT F W de Klerk's famous speech on February 2 delighted me. My sense of humanitarian indignation was at last assuaged. Now, but a few weeks later, I'm beset by a nagging anxiety about our country.

Maintaining one's principled indignation is a simple task when the world changes little. Now that the next era stands stark before us, there's no alternative but to face the ugly realities of the new politics.

The most distinct possibility is that within a few years we'll exchange one monolithic central government for another. Supplant one nationalism with another, one which will doubtlessly perpetrate a further series of arbitrary actions made kosher by the appelation "democratic".

As the Afrikaner protected his own, so will the black African. The public service will become an even larger sponge mopping up the poorly educated unemployed. Once ensconced, bureaucrats will have to find something to do; using their limited capacities, they'll create new systems, new rules, new regulations. It will take three years to obtain a driver's licence.

Given the urgent need to develop the black sector, so criminally neglected, funds hitherto flowing to maintain white privilege will be severely limited. The ANC may well honour its principles of non-racism but the inevitable shift in power and resource allocation will cause many of us to feel even more like *bywoners*

While the rest of the world shakes off the excesses of totalitarian socialism, our new government, unduly influenced by a powerful labour movement, will continue to be seduced by its unrealised possibilities. I believe we'll hear a great deal of, "Yes, well, they didn't do it right in Hungary. We shall be more effective." It will be a variation on the ugly sisters trying to force their feet into the glass slipper. Hope in all its forms is an unquenchable human condition.

I believe that the stated goal of nationalisation is seriously offered. Its proponents, the leaders of the black trade union movement, have amassed considerable clout these 10 years past. I fear they mistakenly equate power with business acumen.

The populace at large will suffer the creation of a political economy of state control. The reasoning is seductive: whence comes the money for reconstruction if the state may not play businessman and banker?

The ideologues haven't twigged that business really isn't about making money; rather it's the single most significant opportunity arena in which ordinary people can create meaning from life's mystery. Excise that chance and state-initiated dehumanisation wins another victory.

They also haven't acknowledged that business is willing to pay for reconstruction voluntarily. The private sector disbursed R600m on social investment spending in 1989 and intends spending R800m this year.

Business, while conservative, is not stupid. While not democratic, while having been grossly exploitative of labour in the past, it is highly pragmatic, non-ideological and can move and adapt far faster than any state institution.

But of course, this will all have to be learned by our new masters. My words won't help. Maybe several generations will develop and fade before a state-run economy will cyclically succumb to normal human cussedness. By then its well-meaning proponents will be interred in heroes' mausoleums and our well-educated children will be seeking their own idealistic solutions to right the mistakes of the past, instead of letting well alone.

And what of our present masters, those sly devils smelling so strongly of roses? Soon they'll be able to ascribe the problems they spent so much talent, time and our money creating on a bumbling black government. (The ANC would be smart to insist on a lengthy interregnum of joint responsibility.) Moreover, a black government of their making and choice. Talk about nepotism!

Seldom has a political figure been as completely created by his opponents as ANC deputy president Nelson Mandela. Seldom has so much total onslaught been directed at creating a hothouse in which the opposition has so thrived.

Once again, the Nats, showing their incomparable political acumen, have made a unilateral choice, this time designating a favoured child. An infant with no tangible political organisation, with no measurable constituency. As a political party the ANC has much to accomplish.

The other children, who by implication have been rejected, are beginning to resent the game being played without them. So down we go into anarchy and confusion, using the cannon-fodder created by the iniquities of apartheid and the remnants of tribalism. The horrible, headline-grabbing Natal violence will afford both the Nats and the ANC the chance to punt the necessity for strong central government, law and order and other rhubarb.

While the heroics of politics occupy the front pages, AIDS picks its stealthy way among us. Domestic crime, also fuelled by apartheid's injustices, is a greater problem for ordinary citizens than political unrest. Facing mobs sharpens the brutalities and blunts the effectiveness of our police force, opening doors for white vigilantes playing a dangerous game of their own. We'll see the virtuous and oh-so-reasonable-sounding right venturing ever further, seeking people to bully and kill in self-defence.

For me potential tragedy lies in politicians perceiving themselves as saviours, such self-assessment carrying with it the aura of arrogant omnipotence. Strong on power needs, low on intellect, conceptualisation and sensitivity, the universe of politics hasn't been assailed by a new thought for 150 years.

Alas, politicians are the gods who'll engineer our socio-economic reconstruction — the perfect beings who believe they hold the monopoly on correct methods. Methods grounded in outmoded, ineffective ideologies, the defence of which becomes the main task rather than the seeking of optimum solutions.

Socio-economic development should be apolitical. All should share in it, thus creating a cornerstone of true democracy. The priorities in socio-economic development should be based *ab initio* on problem definition, and then managed by goal-setting and strategy formulation rather than being predetermined by some restrictive "ism".

Yes, I espouse managerial rather than political methods.

Social reconstruction should be managed by teams chosen from society at large: multiracial, multidisciplinary, multi-party. Their plans should be made public. Only after wide debate and approval should projects begin.

Teams should be disbanded once they have completed their task, lest they begin to relish the perks of power.

My hopes are mixed. On balance I suppose that as a relatively privileged member of society I shall suffer relatively less in the equalisation process unless my livelihood and assets are wrested from me. After the initial white-heat of political and social adjustment, I foresee a more relaxed, less aggressive, less racist society in which we'll have to find our satisfactions in less materialistic ways.

My greatest hope is but an unrealistic dream: That for 10 years there'll be a moratorium on party or race politics; that a council of wise leaders committed to the common good will be chosen from all sections of our society, to set SA well on the path of pragmatic adaptation and development.

☐ **Mike Alfred is publisher of The Manpower Brief.**

FINANCE

B'Day 20/4/90

Emerging economic growth 'on way'

49

LIZ ROUSE

WHILE the present economic slowdown is expected to continue through most of 1990, it is not the same animal as the recession in 1985.

Therefore, although productivity is generally low, there is an emerging growth on the way which is expected to gain momentum, according to Davis Borkum Hare analyst Lindsay Lurie.

An improvement in expenditure is projected for 1991/1992, although the increase will be moderate since interest rates are not expected to decline sharply.

Private consumption expenditure (PCE) will almost stagnate this year — projections put 1990 growth at 0,19%, down from 1989's 2,78%. Expenditure on durable and semi-durable goods will suffer the most.

Semi-durables will remain almost at the same level as in 1989 or might show a decrease up to 3%, while a decrease in the range of 8% to 10% in the durable market might be experienced, projections say.

There will, however, be a 2% growth rate in expenditure on non-durables. The expenditure on services is expected to show a 2% increase.

Debt

Lurie's optimism about the future is based on the overriding importance of the capacity to pay off foreign debt as the chief determinant of interest and exchange rates.

The trade account, current account, short-term capital inflows and holdings for foreign exchange are performing better, which gives a sounder base for economic growth, says Lurie.

The increased capacity to pay back foreign debt should have a positive effect on consumer spending.

Another important factor is, hopefully, an improved political situation. At the moment, dissatisfaction to the left and the right will continue to throw an aura over uncertainty on the economy.

However, since SA's foreign debt capacity has improved, the money supply will not be so harshly restricted by forbidding interest rates as in 1984/1985 when foreign debt seemed overwhelming. This should have a positive effect on investments and savings.

Main reasons why private consumption expenditure remains at a low level are:

- □ The official policy of positive real interest rates which will cause a decrease in inventories and consequent lower levels of profitability due to a sales reduction;
- □ The effect of high interest rates, which will decrease the positive effects of easing hire purchase restrictions;
- □ Inflation will remain at about 14,5%, resulting in a real income decline;

Other negative factors are the phasing out of the Lifo reserve, which means that companies carrying credit reserves will have to pay tax on those reserves; lack of skills, which is inflationary; the strain of population growth on scarce economic resources for investment; and the increase in excise duties.

Mining

Positive factors are the more than R4bn tax relief; tax measures to increase personal savings as a percentage of personal disposable income; reduced government expenditure; the easing of hire purchase restrictions; the phasing out of differential surcharge rates; the abolition of the 20% excise duty on locally made jewellery; and the encouragement given to the mining industry.

Land reform vital — Relly

20/4/90

SA's economic prosperity demanded a more stable and equitable political dispensation, former Anglo American Corporation chairman Gavin Relly said yesterday.

Speaking at a Witwatersrand Agricultural Society luncheon at the Rand Show, Relly said the well-being and continued growth of the economy would provide an essential underpinning to the difficult political process facing the country.

Political liberties on their own were meaningless unless there were economic opportunities for all — including in agriculture.

There could be no justification for the existing racial restrictions on ownership of farmland and ways would have to be found to give people of all races access to the land market. — Sapa.

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Sanlam calls for lid on pay rises

(49) S/Times 22/4/90

Business Times Reporter

INFLATION, named public enemy No 1 by the Reserve Bank early this year, is still top of the hit list.

So much so that one of South Africa's top economists suggests that wage and salary increases might have to be limited — "as a short-term measure" — to below the inflation rate.

Sanlam chief economist Johan Louw writes in the group's Economic Survey that the "unacceptably high" inflation rate can be lowered only if strong monetary and fiscal discipline is supported by a more stable rand, restrained pay increases and and real efforts to increase productivity.

Unrest

"Everyone will have to make a contribution to lowering the high inflation rate to more acceptable levels.

"There is growing realisation that a significant drop in the inflation rate can be effected only by a comprehensive package involving the public and private sectors."

There is no instant solution to the deep-rooted problem, particularly for SA with its open economy, relatively small domestic market, extensive socio-economic problems and the strong unrest potential stemming from large-scale unemployment.

Mr Louw says it is generally appreciated that the maintenance of monetary and fiscal discipline must form the cornerstone of any anti-inflation policy.

In monetary policy the Government has been trying hard to limit excessive credit and growth in the money supply for a long time. This has been joined by the maintenance of positive real interest rates. It is official policy not to lower interest rates until there is a significant fall in the inflation rate.

Indication

The Budget was an indication that fiscal discipline is being used to curb inflation. The Government was trying to maintain a fairly stable external value of the rand to limit increases in the cost of imports and to give domestic prices more stability.

"This could make a significant contribution to lowering the inflation rate," says Mr Louw.

Salary and wages represent a large cost input for nearly all industries.

"Adjustments — against a background of productivity changes — play an important role in cost and price levels of goods and services.

"The higher inflation rate, which consists of higher labour and other costs, is simply built into the next round of wage and salary adjustments, and so, with the help of a rise in the money supply, perpetuated.

JOHAN LOUW ... sacrifices to beat inflation

"To break this undesirable spiral we believe that — apart from all the other steps to lower the rate of price hikes — it might be necessary as a short-term measure to limit wage and salary increases to a rate even lower than the prevailing inflation rate.

"To achieve the desired results business will have to pass the 'savings' in labour costs on to consumers by means of smaller price increases.

"We are convinced that such action is essential to force the unacceptably high inflation rate down to lower levels."

Foreceful promotion of productivity could also make an important contribution to lower inflation.

Competition

"An imaginative programme to achieve this can be postponed no longer. That includes better tuition and training of manpower and the greater involvement of managements and trade unions in productivity programmes," says Mr Louw.

The promotion of effective competition should also help to reduce inflationary pressure.

It would include the promotion of the informal and small-business sector by accelerating the deregulation programme. Mr Louw says that in spite of steady progress in this direction, some laws, rules, regulations and practices hamper competition.

Privatisation, which could lead to more effective application of production factors and result in greater cost effectiveness and price stability, could also help to contain inflation.

Finally, the Competition Board could do more to promote competition, says Mr Louw.

Liquidity

Persistently high inflation is also adding to pressure to maintain high interest rates Mr Louw does not expect any decline in prime overdraft rate before the third quarter of this year. He believes prime will stand at 19% at the end of the year.

Other factors militating against any early reduction in prime are the upward trend in foreign interest rates, indications that demand for credit is still strong and the fact that foreign reserves are still too low for comfort.

"It can be expected that the Government will take steps, if necessary, to rid the system of excessive liquidity to prevent interest rates from dropping too rapidly," says Mr Louw.

"If the present poor performance of the gold price continues, it will obviously defer any decline in interest rates."

Sanlam envisages long-term interest rates fluctuating around current levels for the next few months.

Sowetan 23/4/90

'Socialism has not had chance in Africa'

49

By ALI MPHAKI

SOCIALISM has not been given a chance in Africa, an Azanian Students Movement (Azasm) seminar held at the Medunsa University heard at the weekend.

Attended by about 200 members and observers, the seminar was told that while socialism was being repressed, the failure of capitalism in both Africa and the West were swept under the carpet.

Addressed by several exponents of the Black Consciousness Movement (BC), including former presidents of Azapo, Nkosini Molala and Lybon Mabasa, delegates heard that capitalism was in direct opposition to socialism therefore the answer to the problem lay in socialism.

"Capitalism has not done anything for the working class. And we have reason to suspect that nationalisation without worker control is not going to benefit the working class," a speaker, Mr Oupa Ngwenya said.

Sipho Maseko, Azasm publicity secretary.

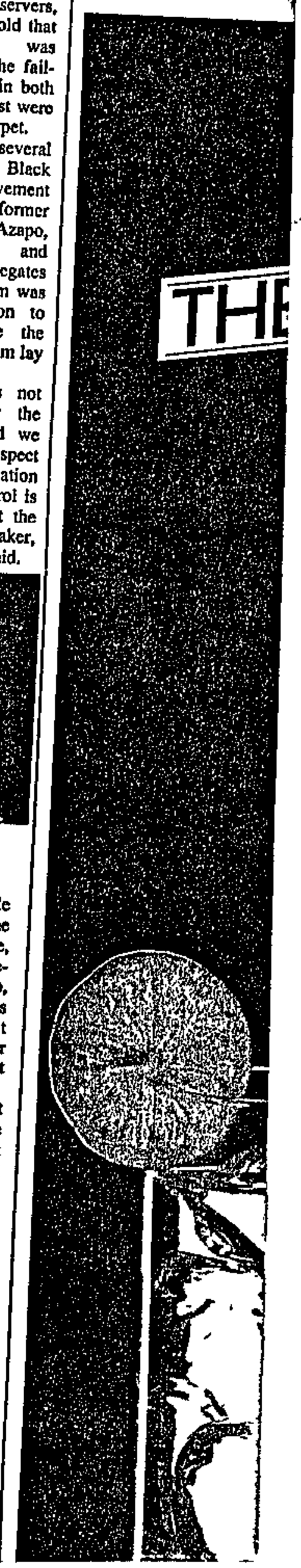
Speaking on the role of the students in the liberation struggle, Azasm publicity secretary, Mr Sipho Maseko, said unity among students was imperative but it should not be unity for the sake of unity, "but unity in principle".

Maseko warned about white liberals joining the struggle adding that "just because a white has read 100 pages of Karl Marx then he thinks he can identify with us.

"We need to discourage this parochial, misinformed thinking from the broader liberation struggle," he said.

Dr Gomolemo Mokae, Transvaal vice president of Azapo, said in some quarters you could only be called progressive if you were progressing towards a white person.

Mokae also criticised Namibia for not adopting socialism, adding that it was ironic that Swapo still maintained its name while the country had changed its name to Namibia.



NP's preconditions 'jeopardising talks'

BLOEMFONTEIN — Government would insist on a free enterprise system in a new political dispensation and would not hand the country over to a socialist, Marxist government, Foreign Minister Pik Botha said at the weekend.

Botha was speaking at a Bloemfontein City Council function for about 400 visitors from Australia, New Zealand, Europe and South America, who were attending the Coopers International Small Stock and Textile Expo. B/Day 23/4/90

Government also wanted a bill of rights and an independent judiciary to guarantee human rights, he said.

MATTHEW CURTIN reports DP co-leader Denis Worrall, commenting yesterday, said the NP was jeopardising the negotiating process by seeking to "monopolise the preconditions".

Worrall said the NP was just one increasingly isolated, minority party. Its insistence on preconditions and the manipulation of negotiations were counterproductive. The ANC could be expected to remain committed to the armed struggle if they continued.

The NP had to take its place with all other parties in agreeing on a negotiating process — and there would have to be an "independent facilitator" to oversee the

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☐ To Page 2

Preconditions

(49)

☐ From Page 1

process. B/Day 23/4/90.

In his speech, Botha said South Africans realised the NP's past dreams of partition and trying to create black independent homelands did not work.

"We stand ready to negotiate to remove obstacles," Botha said.

Govt had no illusions that the road ahead would be smooth. It knew it had taken a risk, but a bigger risk would be to nothing.

"We will remove the iniquities and injustices, but then we want to rely on your support and understanding. We will not hand over this country to a socialist, Marxist government," Botha said.

"We will bring in a bill of rights based on fundamental human freedoms."

"We hope that as we remove apartheid and racial discrimination we can count on friends to support all South Africans to bring about a government based on freedom — a government with an open society and not a government based on nationalisation that will take away the right of the individual," he said. — Sapa.

B|Day 23/4/90.

FW: free enterprise the key to SA's future

(49)

LONDON — A free enterprise system and assured property rights should be embedded in a new constitution, but neither the purpose nor the effect would be to entrench existing imbalances in favour of the white minority, State President F W de Klerk said yesterday.

"There's no question of entrenchment or disadvantage," he said in reply to questions from Brian Walden broadcast by London Weekend Television.

"Free enterprise has proven itself to be a success across the world; redistribution of wealth is a socialistic term ... I'm absolutely against that."

De Klerk said this did not mean there was not a problem: "We have got to solve the problem of backlogs of poverty in another way.

"... We sincerely believe that stability will ... be built on broadening private ownership, so we need economic growth-... such as you have in Britain, which (Prime Minister) Mrs (Margaret) Thatcher so marvellously succeeded in reviving.

"We do not want economic inequality ... through growth we will open opportunities for all South Africans," De Klerk said.

If negotiations with the ANC and others on a new SA broke down, government would continue gradual reform to revitalise a climate conducive to their resumption.

"If negotiations break down, they will just have to be resumed again because it is the only viable alternative for SA."

De Klerk reiterated his "basic principles" for the negotiation table, and his commitment to put any agreed model to the electorate of the present Parliament.

"I do not intend to go to them with a model which will mean suicide for them," he said.

□ To Page 2

SA's future

B|Day 23/4/90

□ From Page 1

(49)

The whole process of negotiation was going to be "unbelievably difficult", in view of government's concept of power-sharing being so far from what many understood by majority rule.

On the ANC's insistence on majority rule, nationalisation, continued sanctions and the armed struggle, De Klerk said he was "strongly opposed to war talk — even if it is just rhetoric, I regard it as a stumbling block in the way of negotiations which must be removed".

He said there was also another side to it: "We must also distinguish what is positioning and what is reality."

On government's insistence on built-in protection for minorities, De Klerk rejected as "absolutely wrong" a suggestion that his real objection to majority rule was that it would take away from the white minority power what enabled them to protect their privileges.

"There is no question of the whites, in any way whatsoever, trying to cling to a situation where the real power will be in their hands. It won't be a solution for SA."

Returning to his outline of basic principles for minority protection, De Klerk said a Bill of Rights was needed.

"We cannot only secure individual rights, but certain collective rights with regard to cultural and religious matters could be safeguarded through a Bill of rights, coupled with certain provisions in a constitution."

□ Constitutional Development Minister Gerrit Viljoen arrived at D F Malan Airport in Cape Town yesterday after four days of top-level discussions with US Secretary of State James Baker in Washington and with Thatcher in London.

He said one of the chief concerns voiced to him was about violence in Natal. — Sapa.

Private consumption spending 'set to drop'

Bday 24/4/90

SYLVIA DU PLESSIS 49

PRIVATE consumption expenditure (PCE) on durables could drop by between 8% and 10% this year and expenditure on semidurables by about 2%, says Davis Borkum Hare analyst Lindsay Lurie.

There will be a 2% growth rate in expenditure on non-durables and services, she says in a report on 1990 PCE and household expenditure patterns.

"A conservative forecast for growth this year is based on the determining influence of interest and inflation rates," she says.

The economy's lower level of activity will determine reduction in PCE: with a growth rate of about 1,2%, total PCE can be expected almost to stagnate from 2,78% in 1989 to 0,19% in 1990, she says.

According to Lurie, an improvement beyond these rates is expected in 1991, with the biggest changes being in the durable and semidurable markets.

Positive economic factors impinging on growth and productivity include the R4bn tax relief introduced by the Budget, which will increase disposable income for the lower and middle-income groups, she says.

"When the benefits of this have been realised, it will mean a probable increase in the sales of some durables, for instance, stoves and fridges."

Other positive factors include proposed tax measures to increase personal savings, reduced government expenditure, easing of HP restrictions, lower import surcharges and the abolition of ad valorem excise duty on locally manufactured jewellery.

Ultimately, it is the results of government's negotiated settlement, including an overall restructuring of the socio-political economy, that will "cast the final die" on the fate of the GDP and PCE.

"However, the Budget and the commitment to negotiate have already demonstrated the bona fide intention of the government to address the restructuring of the socio-political economy," Lurie says.

Unrest will add to SADF costs

STAR 24/4/90 By Craig Kotze 49

The violence in Natal would be a drain on Defence Force resources and could become an even heavier burden with the phasing out of the two-year national service period, Vice-Admiral Bert Bekker, the SADF chief of staff (finance), said yesterday.

He told military correspondents in Pretoria the recently announced doubling of Citizen Force commitments would increase defence expenditure.

The cost of extra Citizen Force call-ups would depend on how many men were called up.

"We will try to absorb the extra costs as we absorbed the extra costs incurred in the past, such as the withdrawal from Angola."

SA reserves hit 30-month high

Star 25/4/90 (49)

By Peter Fabricius

CAPE TOWN — South Africa's gold and foreign exchange reserves climbed by R2,9 billion in January and February to reach R8,3 billion — their highest level since October 1987.

Finance Minister Mr Barend du Plessis disclosed this in Parliament yesterday during the debate on his Budget vote.

He indicated that it was partially due to the improvement in the international political attitude to South Africa.

But Mr Du Plessis said that despite the increase in foreign reserves there could be no question of relaxing exchange control.

The reserves represented only about 1,5 month's import cover and the Government was hoping to double this ratio.

He said the tight fiscal and monetary measures to cool down the economy were working but a further period of consolidation was still indicated.

The government would continue with "an appropriate mix of fiscal and monetary policies".

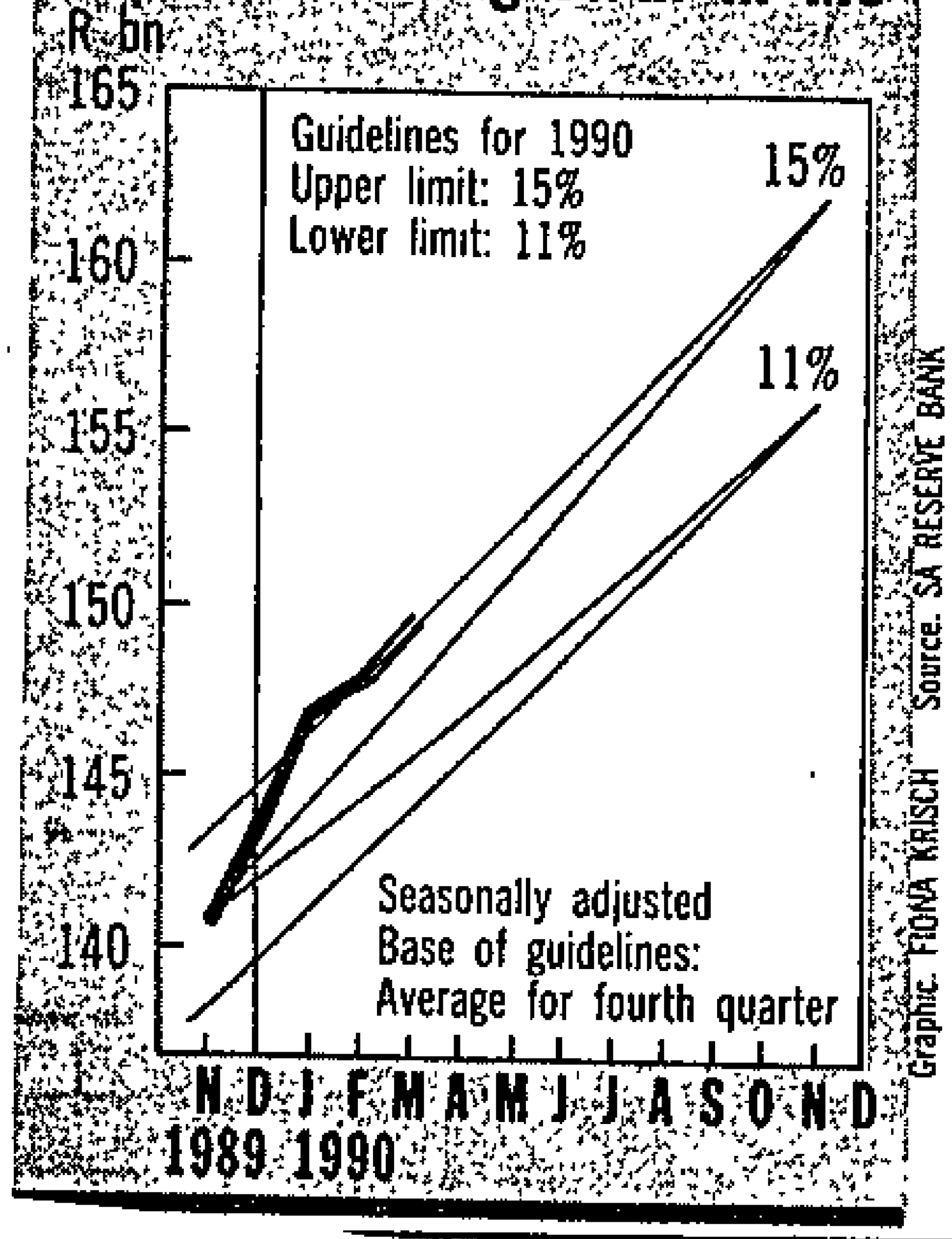
Mr Du Plessis said the positive results of the measures were now being seen in the form of a "soft-landing" for the economy.

The present downturn had been weathered much better than the one in the mid-1980s and the private sector was better geared to the measures.

In fact confidence had continued so high through 1989 that the cooling measures had taken some time to bite. The foundation was being laid for a new period of economic growth.

The government was now looking for a new and sustainable round of growth at the earliest opportunity and would continue to seek a good balance of payments surplus and curb inflation.

Guidelines for growth in M3



M-3 growth hits two-year low

GRETA STEYN

MONEY supply growth in March edged closer to the levels the Reserve Bank wants to see, with the year-on-year rate of increase falling below 20% for the first time in about two years. (49)

Preliminary figures for March, released by the Bank yesterday, showed growth in M-3 down to 19,02% (February: 21,36%). This is a sharp slowdown, as in the three months to January the year-on-year increases averaged 23,22%.

The monetary growth guidelines for the current year are 11%-15% — and the growth in M-3 from the base period of the guidelines was close to this range at 16,39% (annualised) in March. M-3 comprises all deposits with banks, building societies and the Post Office as well as cash in circulation. BDay 25/4/90

First National economist Cees Bruggemans said: "This bears out if you push long enough, you'll eventually get there."

The markets responded positively to the figures with capital market rates falling a further six points.

Total M-3 (seasonally adjusted) stood at R149,75bn at the end of March — only 1,07% higher than February. This small monthly increase yields an annualised 13,7%, which is right on target.

However, Nedcor economist Edward Osborn warned against making too much of one month's figure.

"The monthly figures are notoriously erratic and subject to revisions and it will be some time before we can safely say growth in the money supply has slowed enough."

This note of caution is confirmed by the non-seasonally adjusted figures which saw a 1,6% month-on-month increase (annualised 21%).

SAP support govt of the day – Vlok

Star 25/4/90 (99)

The South African Police were an instrument of the State and supported the Government of the day, the **Minister of Law and Order, Mr Adriaan Vlok**, said.

Speaking during the debate on the Law and Order budget vote, he was replying to a question from Mr Moolman Mentz (CP, Ermelo) as to whether a statement that the force supported the State President and his new policies did not amount to interference in party politics.

He said he could not convince Mr Mentz of the correctness of the Government's actions regarding the ANC — which amounted to "good government" in seeking a political solution.

Investigations into alleged irregularities in the force were being undertaken to clear the SAP's name.

More black members were needed in the force, and he wanted to assure Mr Doug Josephs (LP, Riversdal) that the platteland was not discriminated against. — Sapa.

(49)

Freedom
- in our time -

Business view

CAN anyone doubt that South Africa stands on the threshold of momentous events?

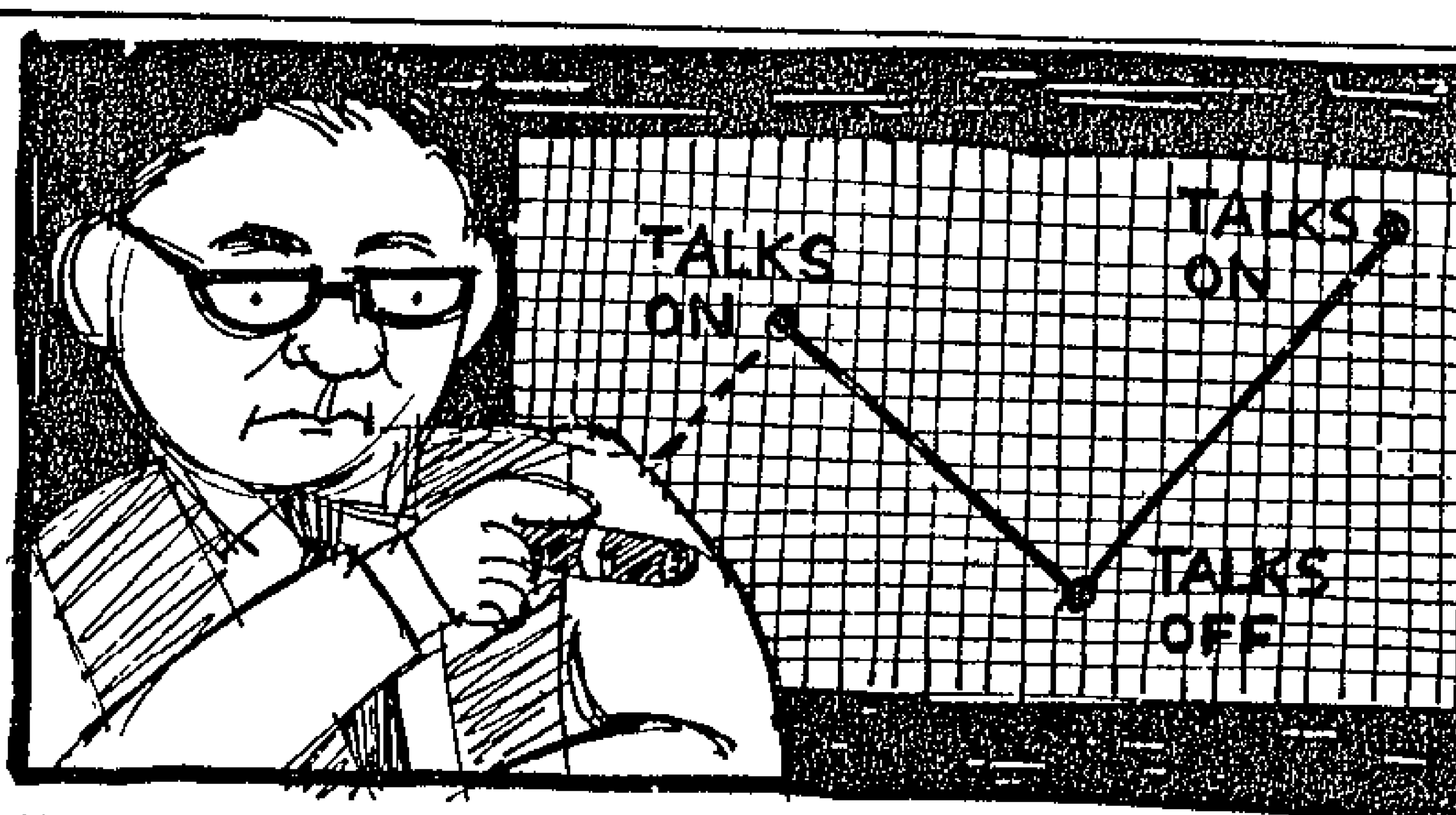
Since February 2 this year, the way has been cleared not only for a needed restructuring of the country's economy but also, and perhaps more importantly, for a political restructuring that will establish the foundations for a durable, non-racial and multi-party democratic future.

Ronnie Bethlehem

The South African business community has blown hot and cold — if the indices on the JSE are used as a guage — since the release of Nelson Mandela and the February 2 speech of FW de Klerk.

Hopes of world markets opening and great economic prosperity have been tempered by the nationalisation "bogey".

But special contributor RONNIE BETHLEHEM detects a sense of optimism now that the ANC/government talks are back on the rails:



Indeed, a political restructuring has become an essential precondition for any economic restructuring given the continued internal political conflict and the external imposition of economic sanctions.

Growth

Against a background of demographic change, at the heart of which is an inexorable growth of population, any extended failure of the South African economy must mean a continued increase in unemployment.

That, in turn, must threaten attempts to return the country to a situation of social and political normality.

The hopes of millions, black and white, rest on our collective ability now to seize the opportunity that has been created by two men, President F W de Klerk, the NP leader, and Deputy President of the ANC, Nelson Mandela.

The popular view of February 2, 1990 was that it was solely an initiative of De Klerk. While nothing should be said to diminish the vision, courage or wisdom of the State President, this is too one-sided an interpretation.

The initiative would never have been taken in the first place had De Klerk and his senior government colleagues not found in Mandela a leader whose own integrity, courage and authority they felt they could trust.

Certainly, had Mandela not come to the independent judgement that the moment now was ripe for a change, De Klerk's initiative would never have been taken.

All the evidence suggests that the understanding achieved between De Klerk and Mandela is still in place despite the strain that has been placed upon it during the past month.

Not only has the increase in violence, especially in Natal, tested that understanding, but attempts have also been made by extremists of both the left and right to subvert it by increasing fear and confusion within the constituencies of both men.

Also important has been their realisation that time is running out for both their parties. For the NP, time is of the essence because if it fails to deliver on a constitution negotiated with credible black leaders, it will forfeit control of Parliament to the CP.

Domination

In other words, in opting for democracy and abandoning white domination, it has abandoned any possibility of a second chance being given it by an exclusively white electorate.

For the ANC, time is of the essence too because if it fails, the initiative in black politics must shift towards the PAC to whose uncompromising black nationalism the younger generation of radical township youth must logically orientate.

The ANC's commitment to non-racialism needs to be seen by white, and the business community especially, despite the organisation's reaffirmation of nationalisation, in this harsh perspective.

While in present circumstances the ANC remains the major force in black politics nationally and would probably secure between 50 and 80 percent of the vote in an exclusively black election, its following among those in the eight to 18 age group must be more doubtful. And more than 60 percent of the black population is under the age of 20!

The policy gap between the NP and the ANC has been dramatically narrowed and could easily be bridged by compromise in eventual constitutional negotiations. The likelihood has also greatly increased of an NP-ANC cooperation in a Government of National Unity (GNU) the task of which would be to oversee such negotiations.

Embrace

Once talks-about-talks are successfully past, a GNU will become necessary to attend to the ongoing administration of the country.

It would logically include all parties able to embrace the idea of democracy. It could even, conceivably, include the CP were its vision of some kind of territorial underpinning of Afrikaner political identity or national sovereignty to be placed on the negotiations agenda.

In the context of a GNU, the issue of nationalisation, too, would be more rationally dealt with. It has to be considered in the broader-perspective of a restructuring of the economy which all are agreed now is necessary.

Given a GNU, prospects for the economy change dramatically, and for the better.

Mineral

With a rich mineralogical base, an excellent infra-structure, an already established market system, a not insubstantial skilled labour force and a business community which can hold its own with the best in the world, South Africa has a lot going for it economically.

It also has a degree of underdevelopment that offers the prospect of considerable growth from a low base given the right external circumstances and internal policies.

There is every reason to believe, therefore, that if the difficult road to a new constitution can be negotiated, SA will become one of the economic success stories of the first quarter of the 21st century.

The salvation of the whole of southern Africa, in the context of a restructured global economy, depends on that.

(Dr Bethlehem is group economic consultant at Johannesburg Consolidated Investments)

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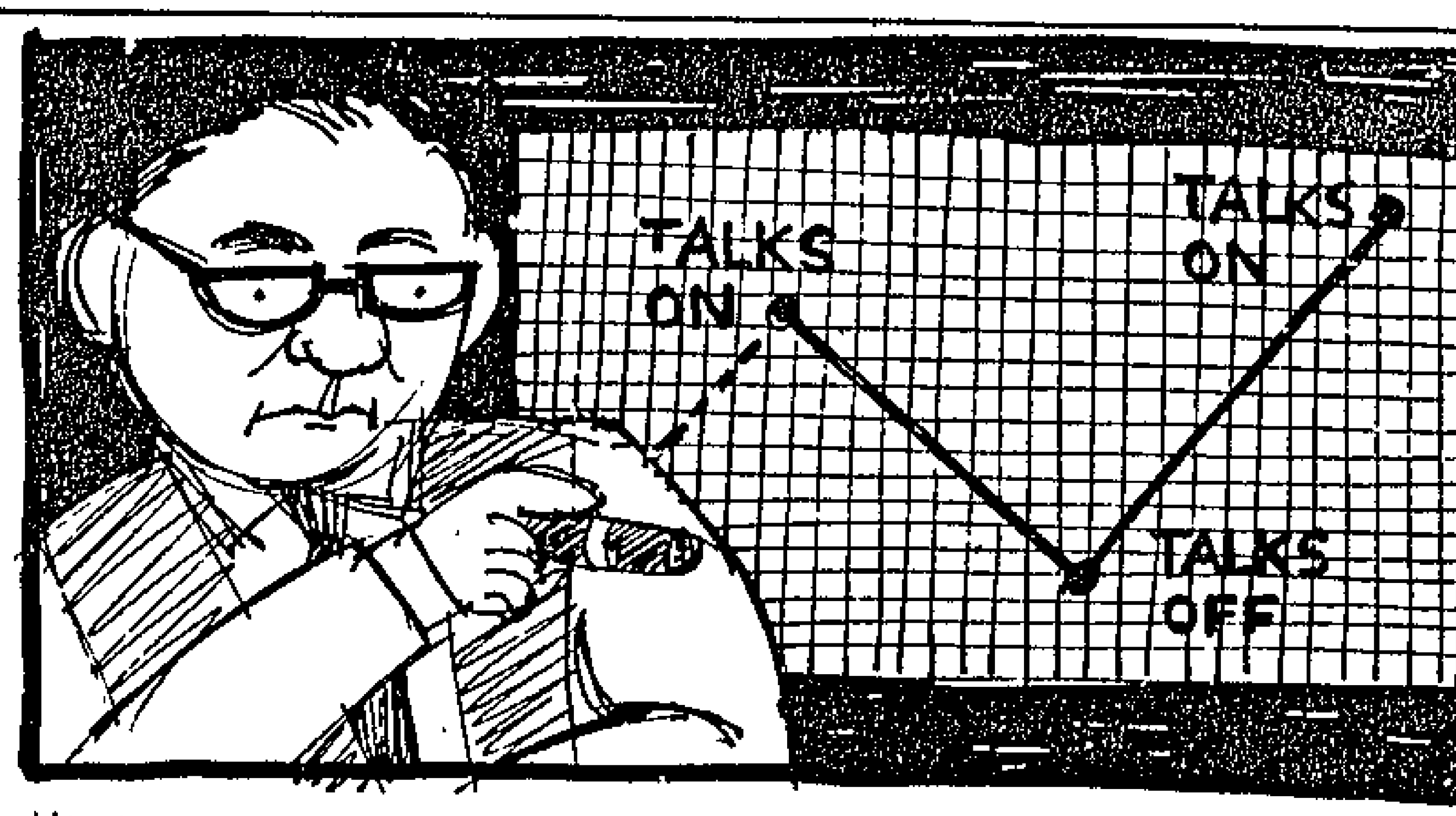

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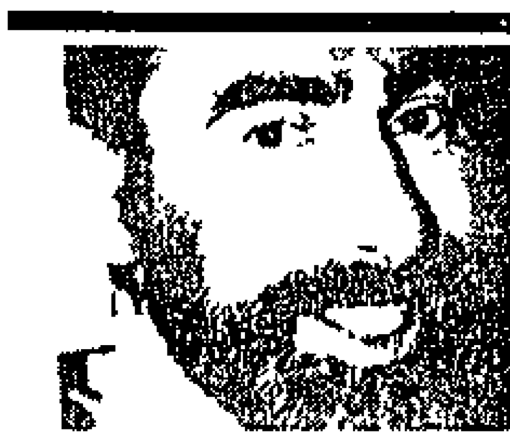
(Dr Bethlehem is group economic consultant at Johannesburg Consolidated Investments)

SOWETAN BUS
Building the Nation

Managing scarce, limited resources

Sowetan ~ 26/4/90 (49)



OUR writer on the economy, Mark Addleson, this week gives the first in several articles that will look at various economic systems. Addleson is economics lecturer at the Wits Business School, and we hope his articles will give a better understanding of what the economy is about, and how different systems function.

ALL societies have limited resources and face the problem of managing the scarce resources.

An economic system develops over time and influences how resources are used. Because the government is a part of the economic system, the economic system is also firmly tied up with the political system of the country.

The workings of an economic system are extremely complex and people are often highly critical of an economic system because it influences their living standards and welfare.

Limited

South Africa is no exception, and as there is a lot of debate about what is a suitable economic system for the future, a useful starting point for us is to examine the purpose and requirements of an economic system.

What an economic system has to do.

The task of an economic system is to manage the society's limited resources. The system determines how the basic choices in the society will be made.

The limited manpower and skills, equipment, factories and raw materials have to be managed in order to produce those things that are needed by everyone.

Divided

Resources have to be divided among the production of food, housing, transport, medical care and the many other goods and services that we need for our day to day living.

All the types of goods mentioned here are made to be consumed; they are things which satisfy our needs.

Because the population is growing, and in our case the growth is rapid, we also must try to ensure that the economy grows so that there are more goods and services available in the future.

To achieve growth, it is necessary to invest some of our resources in developing the skills of people through education and training and also in building factories and shopping centres, houses and roads as well as dams for water and electricity.

Unfortunately, if resources are used in the construction of, say, a road or a house, both of which will improve some people's lives in the future, those same resources are not available to produce food and things to drink, which contribute to people's current living standards.

So an economic system is not only used to decide whether to produce, say, more meat or more bread for consumption now, the economic system also has to allocate resources between our present needs and our future needs, to provide for a bigger population and ideally to raise living standards.

Why there is disagreement.

Making these choices between the production of different consumption goods or between consumption and investment is no simple matter, and because people's welfare is affected by all these decisions it is extremely important that the right decisions are made.

In other words, it extremely important that the country's resources are used as efficiently as possible, in order to make the greatest possible contribution to welfare.

Choices

In addition it is quite clear why any economic system inevitably gives rise to a lot of disagreement because not everyone agrees on what are the right choices to make.

Unless there is agreement among everyone about the priorities of the society - what should be produced, who should get the fruits of the production and that the system is unfair.

Promote welfare.

Unfortunately because an economic system is built around the need to make choices, which will not please everyone, there is always an element of inequality in the system and the potential for conflict is always there.

What we would look for in an economic system?

In the light of our discussion we can identify a number of ingredients which are necessary to make up a good economic system.

We want a system which is efficient in providing for the needs of the population. It must ensure that resources are used well to produce those things that people need most so that resources are not wasted and people's welfare is advanced.

Democratic

Another important feature of a good economic system would be whether it is democratic or not. A democratic system is one where the largest number of people possible have a say in how the resources are managed, in what is produced, and how the fruits of the production system are divided up.

A democratic system would also permit people

*To Page 17

P.T.O.

Managing our scarce resources

Sowetan 26/4/10

*From Page 14

who are unhappy with the outcome of the production process to express their dissatisfaction, so economic freedom and political freedom and political freedom to dissent go hand in hand.

Tied to the previous requirement is the need for the economic system to be seen to be fair.

Although not everyone will be able to satisfy all their needs, the system must not be one which discriminates arbitrarily. If peole are excluded from participating in the economy because of the colour of their skin, or even their gender or religion, then the system will not promote the general welfare of the population.

Such a system will be undemocratic and will probably also not succeed in using resources as productively as possible.

Productivity

A final and important requirement of an economic system is that it promotes productivity.

The right skills must be developed over time because the country has to keep abreast of technological advancements.

All the people who use resources and manage the different organisations within the economy must be motivated to pursue the goal of using the resources to their full potential and of finding out where they will do the most good.

Economic and political systems usually mixed

Sowetan 26/4/90

(49)

SHAPING A Future South Africa - A Citizen's Guide to Constitution Making, **edited by Bobby Godsell, is a new book which explores democratic options. This is the fifth in a series of six articles by Margie Keeton highlighting some of the book's themes. She is a member of the team which produced the book.**

WHAT is the relationship between a country's economic system and its political system? How does the one impact on the other? If we opt for a particular economic system, does it mean certain political systems are then impossible or, alternatively, inevitable?

An economic system confers power on the government, the political system sets the rules for the use of that and defines the people in whose interests it will be use.

Under a given economic system a monarchy, a democracy and a dictatorship will have different economic consequences because the common economic powers will be used to different ends in the interests of the different people who control the government.

The choice of economic systems is sometimes presented rather starkly - either socialism or capitalism.

In fact, things are more complicated. Neither system exists in a "pure" form anywhere in the world and most countries have a mix of the two.

Under socialism the "means of production" are owned by the state or by the people

Under capitalism they are privately owned and may be bought or sold. The "means of production" are simply those things which are used to make other things or to produce wealth, including all kinds of machines and tools.

In a socialist system wages, prices and patterns of employment are set by the state.

In a capitalist system they are determined by the competition between the owner of capital and the workers for jobs, labour and customers.

Business

In most socialist countries, there is a good deal of private business activity within the limits set by the state on prices, the scale of operations and the like.

Equally, in capitalist countries, the government often owns a sizeable portion of the economy. Indeed, South Africa has always had relatively high levels of state ownership.

One form of state economic activity is common to both systems. In socialist and capitalist countries, governments use a portion of money raised from taxed paid by the better off to help the disadvantaged.

These "transfer payments" include welfare, pension and unemployment benefits, as well as free or subsidised state health care and education.

The extent of transfer payments varies from country to country. It is not something linked to whether a country is socialist or capitalist Nor is it necessarily determined by the extent of the state's role in the economy or the level taxes.

Generosity

Rather the scale and generosity of these payments is linked to the wealth of the country.

What about the compatibility of capitalism and socialism with different political systems?

Both systems are to be found in countries with democratic and undemocratic governments, although all democratic countries in the world are capitalist to a significant extent.

Certainly, there cannot be meaningful democracy in a society where most of the economy is owned by the state.

Free elections are impossible when an all-powerful government, whose members will succumb to the inevitable and human desire to remain in power, control all means of communication and can deny opposition elements the necessary resources to ensure a free and fair contest.

Clearly the fundamental question is one of power - how much to give a government and how to control it so that the power (economic and political) is used for the purposes for which it was given.

An economic system on its own will not provide the solutions and indeed may deliver the opposite of what is intended in the hands of an undemocratic government.

Socialism is often thought to bring equality, but in circumstances where the people do not control the government which then acts in the interest of those who do control it, socialism could well lead to greater inequality.

Here it is important to remember that there are limits to what governments can achieve - no matter what politicians may say!

And the most fundamental limits are set by economic reality. Economic rules are the one set of rules which cannot be broken, although many governments have tried, to their country's great cost.

No country has unlimited resources and the extent to which a government wants to meet "need A", limits its ability to address "need B".

As South Africa is not a wealthy country by world standards this means some difficult trade-offs will have to be made.

In the debate about the country's future economic and political systems, South Africans must indicate what they expect from their government.

In the "game of life", do we want the government to act as coach, player or referee? Or do we envisage the state as our fairy godmother, able to provide our every need?

We must also begin to set economic priorities and set goals against which government action can be judged. This will be far more helpful in setting a meaningful agenda for a future South Africa than sterile exchanges over political and economic ideologies.

FW's velvet glove was lined with steel...

It's my business

THAMI MAZWAI

IT appears President FW De Klerk's velvet glove was lined with steel when he made his dramatic announcements in parliament on February 2.

When he unbanned the African National Congress, Pan Africanist Congress and South African Communist Party; and then ten days later he released Nelson Mandela, all of us cheered for here was a man to our liking.

Now three months later, he makes statements on British TV that shock us out of our euphoria.

After scrupulously going through his interview, I have this sinking feeling we are back to square one.

De Klerk linked calls for redistribution to socialism. He said he and his party did not support this concept.

Although taken aback by these statements, expecting better of the man, I am not surprised. The leopard does not change its spots.

Before the general election last year, *The Star* newspaper compared the Democratic Party, Conservative Party and National Party election manifestoes.

They all rejected redistribution, talking of opening opportunities to all.

Let us take a brief look at this opening of opportunities to all.

Opportunities can be only be utilised by those equipped to take advantage of them.

As De Klerk and his cabinet ministers have publicly admitted that black education has serious shortcomings, how does he expect our children to take advantage of those opportunities?

The country's major employers; the mining houses, industrial giants and even his parastatals, all complain of the poor crop of graduates that flow from black universities and high schools.

Our children thus hardly have a chance when they vie for jobs with graduates from Pretoria University, Wits, UCT, Rhodes and Rau.

Yes-men

Employers end up giving them jobs because they are black, further denuding the esteem they have of themselves.

Some of the more ambitious turn into yes-men.

Our kids are not stupid or slow thinkers, as the disciples of apartheid claim, but the dice has been loaded against them since their birth.

This imbalance has affected every aspect of our lives.

According to Mark Addleson, an economist at the Wits Business School, income distribution in this country shows that 20 percent of South Africans earn 60 percent of the country's income.

Forty percent, which includes a small number of blacks, share 33 percent.

The remaining 40 percent, and this means blacks, must make do with the remaining seven percent.

The unemployed, millions of our people, hardly feature much in these differentials.

De Klerk then tells us redistribution cannot be part of the new deal.

In township lingo I can only say: *Uyadlala.* We simply cannot expect a perpetuation of this status quo.

Also, as far as I know, redistribution is as much a part of socialism as it is of modern capitalism.

White South Africa wants to have its cake and eat it too. They talk of change, but this change must not affect their privileges.

De Klerk says you cannot take from those who have.

We agree, but those who got more than the share they were entitled to must now be prepared to forgo this extra cash. Not unless we are being told they have got so used to the extra cash, that it would be cruel robbing them of it.

Our need

No sir, I reject this.

According to the NECC we need R21.5 billion to bring black education on par with that for whites. This simply means white education must only get that little to coast along, and everything must be thrown into black education.

We cannot overlook, as in the education example I have just given, that Government expenditures in the past maintained white living standards at the expense of those of blacks.

To equate black living standards with those for whites, the Government must now reverse the process.

More money per head must be channeled our way. Is this unreasonable?

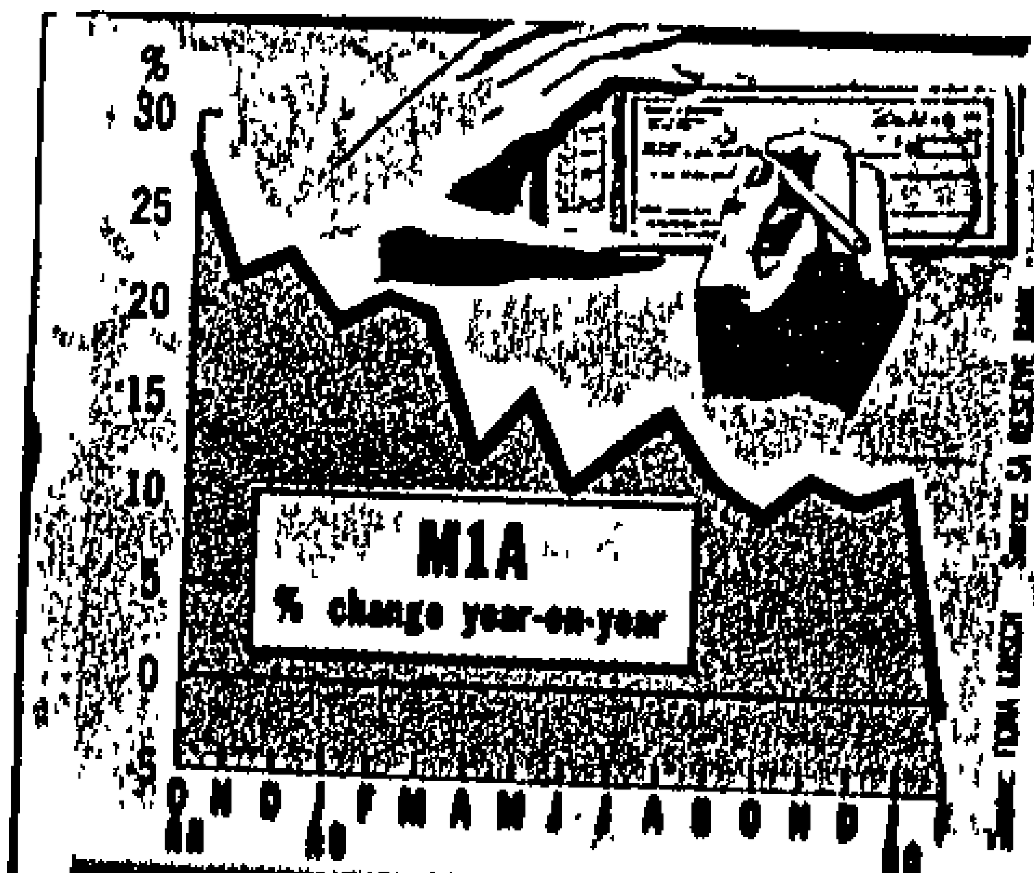
Getting funds for your new concern

*From Page 14

is used to calculate what the financial requirements of the business will be. Under receipts you will show how much money you intend putting into the business and how the money from the sales made will flow into the business.

If you intend selling for cash only then it is easy to show, but if the nature of the business is such that you will grant your customers credit then you have to make assumptions about how they will pay.

Under payments you must detail, in addition to your monthly expenses, the cost of any assets the business will need to purchase. These could include furniture, equip-



27/4/90

Growth of spending money is slowing

GRETA STEYN

SLOWING growth of money held purely for spending purposes confirms the general slowdown in the economy, as does the drop-off in credit expansion by banks and building societies.

Reserve Bank figures show a marked fall in the growth rate of the narrow measure of money, M1A — notes and coins in circulation plus cheque and transmission account balances. In other words, money that is generally spent rather than saved, or money for transactions purposes.

While the Reserve Bank targets the broadly defined money supply, M3, the Bank is increasingly looking at other monetary aggregates when formulating policy. M3 comprises all deposits, including long-term, with the monetary banking sector.

From an average year-on-year growth rate of 24,28% a month in the last quarter of 1988, growth in M1A slowed to an average 10,85% annual increase a month in the last quarter of 1989. Latest figures show negative growth of 0,3% in February from the year before.

By contrast, growth in M3 dropped below 20% for the first time in March.

UCT's Brian Kantor notes that a smoothed M1A was growing at 25% in mid-1988 and was down to 15% in January this year. Kantor, who is known as a monetarist, reiterated his call for targeting of a narrower measure of money than M3.

"M1A would be better than M3 but the best would be to target the supply of notes. M3 is distorted by changes in banks' off-balance sheet activities," he said.

Credit growth has slowed markedly from a 12-month rate of 30% in October 1988 to 18,6% in February this year.

SA getting poorer, (49) says Bank

WMail 27/4 - 3/5/90

Weekly Mail Reporter

THE economic position of South Africans deteriorated during last year, as per capita incomes fell.

According to the latest Reserve Bank *Quarterly Bulletin*, gross domestic product per capita fell in real terms by a marginal 0,1 percent in 1989. This followed a 1,5 percent rise in 1988 but declines for three years prior to that.

Gross national product per capita, however, fell by 2,5 percent, after rising by 2,7 percent in 1988. GNP is a more appropriate measure of people's well-being because it includes the net effect of South Africa's imports and exports as well as domestic production.

The average South African's disposable income — after tax — dropped by 0,6 percent last year.

Since 1982, the country's GDP has been increasing by an average 1,5 percent a year, while the population is growing at 2,7 percent a year. By definition, average living standards have fallen.

Last year's figures reflect the slowdown in the economy from the end of 1988. The economy, measured by GDP, grew in real terms by around 2,1 percent last year, down from 3,7 percent in 1988. For this year, growth of only around one percent is forecast.

South Africans must look for unity — Durr

SOUTH Africans needed now to find those overarching values that united them, Trade, Industry and Tourism Minister Kent Durr, said yesterday.

Addressing an Industrial Development Corporation (IDC) design awards function, he said: "We know what divides us in SA — we must find and build upon those things that bring us together and unite us."

Government stood unequivocally for free enterprise "with a human face".

It was the only proven engine, seen in a longer perspective, of economic growth that had to supply the wherewithal to address the grosser inequities and disparities in SA society. B/Day 27/4/90

Durr said a display of business confidence in SA was also now justified.

"Aside from social responsibility programmes, we need new investments in additional productive capacity, and the typical ingenuity and risk-taking ability of our business community should now be unleashed as never before," he said.

Durr said wealth creation and the inclusion of all within a successful economic system in SA, with economic justice and equality of opportunity, clearly remained the "great challenge of our time".

He said while the informal sector had a vital role to play, SA had to recognise the huge importance of its formal First World sector. "We must do nothing to weaken it, everything to strengthen it," he said. — Sapa.

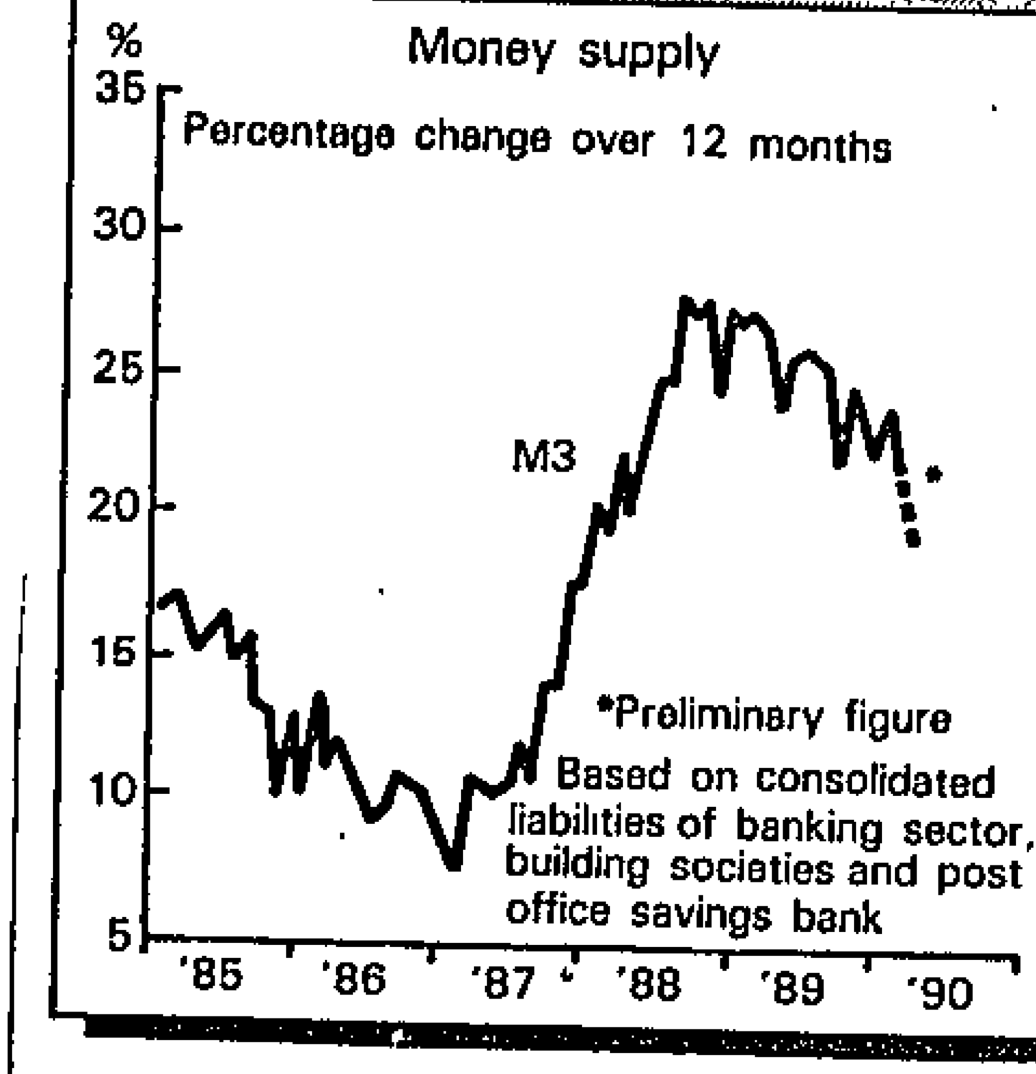
MONEY SUPPLY F/M 27/4/90

New profile (58) (49)

The Reserve Bank's decision to reduce its emphasis on monetary targeting is reflected in the graph published this week with money

F/M 27/4/90 (58) (49)

New look



supply figures for March. It does not illustrate how actual growth in M3 from the base of the current target year compares with the guideline growth of 11%-15%. The Bank has reverted to a graph showing only percentage change over 12 months.

Not only does the change de-emphasise the target, it also de-emphasises the Bank's inability to hit the target — actual growth has consistently missed the various ranges since targeting was introduced in 1986 (*Economy* April 20).

May will see a further change, if not in format, in the level of the monetary aggregates, when figures for April are published, excluding Namibia.

Range of aggregates

The range of aggregates the Bank monitors may also be expanded. If previously off-balance sheet bank transactions are brought above the line, a broader aggregate, which includes other private sector assets, could be analysed. Both moves will require revision of figures for earlier months. Revisions for earlier years will be published later, eventually as far back as 1970.

The provisional figures show an encouraging decline in growth in M3 in the 12 months to March — 19,02% (compared with February's revised 21,36%) to R148,4bn. From the base of the current guideline year (at a seasonally adjusted annual rate) growth was only 16,39% (17,9%).

In the 12 months to February, M1A recorded an absolute decline of 0,29% to nearly R23bn, M1 rose 20,22% to R48,6bn and M2 26,8% to R121,7bn.

The discrepancy between the performance of M1A, which comprises only notes and

F/M 27/4/90 (58) (49)

coins in circulation and cheque and transmission deposits, and M1, including call money, is largely explained by "technical and transitory reasons," says a Bank spokesman. Fundamentally, however, when nominal interest rates are high and call deposits yield substantially more than cheque deposits, this differential tends to arise. ■

Financial Mail

OFF-BALANCE SHEET FINANCING (49) FM 27/4/90

Church Square's red herring

What Reserve Bank Governor Chris Stals is doing to the banks is not far off what the ANC's Nelson Mandela did to mining and financial companies soon after he came out of prison. Both appear to have contrived, out of economic frustration, to put the skids under the share prices.

Mandela threatened nationalisation of the mines and banks and "monopolies" as a means of appeasing the rowdy comrades, whose desire for the spoils of liberation the ANC appears to be unable to assuage. Stals, for his part, seems to be blaming banks for the inability of the Central Bank to curb money supply growth and thus reduce inflation.

That control is firmly in the hands of the authorities. All that prevents it being used are the political and economic consequences of so doing — as well, perhaps, as a reluctance to allow market forces to prevail, especially in the forward exchange market. It is plain that if money supply growth is to be held within the target range — without revised figures belatedly letting the cat out of the bag — domestic interest rates will probably have to rise.

If the Bank and Treasury would only accept that, there would be no need for all this fuss over off-balance sheet finance which, if re-intermediated under prevailing liquidity and other requirements, would swipe bank profits and, in turn, create the eventual need for even more capital.

The problem with off-balance sheet financing is not so much that it frustrates money supply control; it is that bank supervision has been so slipshod for so long that conditions were created — and tacitly acknowledged by Church Square — which encourage this type of financing. Of course, it would be better had it not occurred. But it is there and has been around in one form or another — and from one bank to another — for a long time. The way to reduce it is not by redefining banking or outlawing operators in the grey market. That would amount to re-regulation. It is to allow the market more accurately to determine the cost of money and to reduce the capital, liquidity and other constraints on banks that force them to run their businesses with such wide margins between the cost of deposits and earnings from loans.

The market itself will take care of banks which are under-capitalised. It will be reflected in their ability to secure foreign credit lines and in their share prices. They will, in consequence, become progressively less competitive.

By allowing more banks and semi-banks into the market, competition will increasingly keep banking margins in reasonable check. Once that happens, scope for disintermediation will be correspondingly reduced.

If the Reserve Bank's knowledge of what is occurring in the market, its adherence to market forces and general supervision were sharpened up, off-balance sheet financing could be dealt with individually and quickly.

The plain fact is that no reasonable economist can say with justification that interest rates are at acceptable levels when the authorities cannot even keep money supply growth within their own limited parameters and the modest decline in inflation appears to have run out of steam. In these circumstances, it is not sufficient for interest rates to be positive; they have to be substantially so.

The best any Bank economist can do, because of his access to confidential and advance data on lending, is make an educated guess at the extent of excess demand. Assuming the Bank is applying adequate open market restraints.

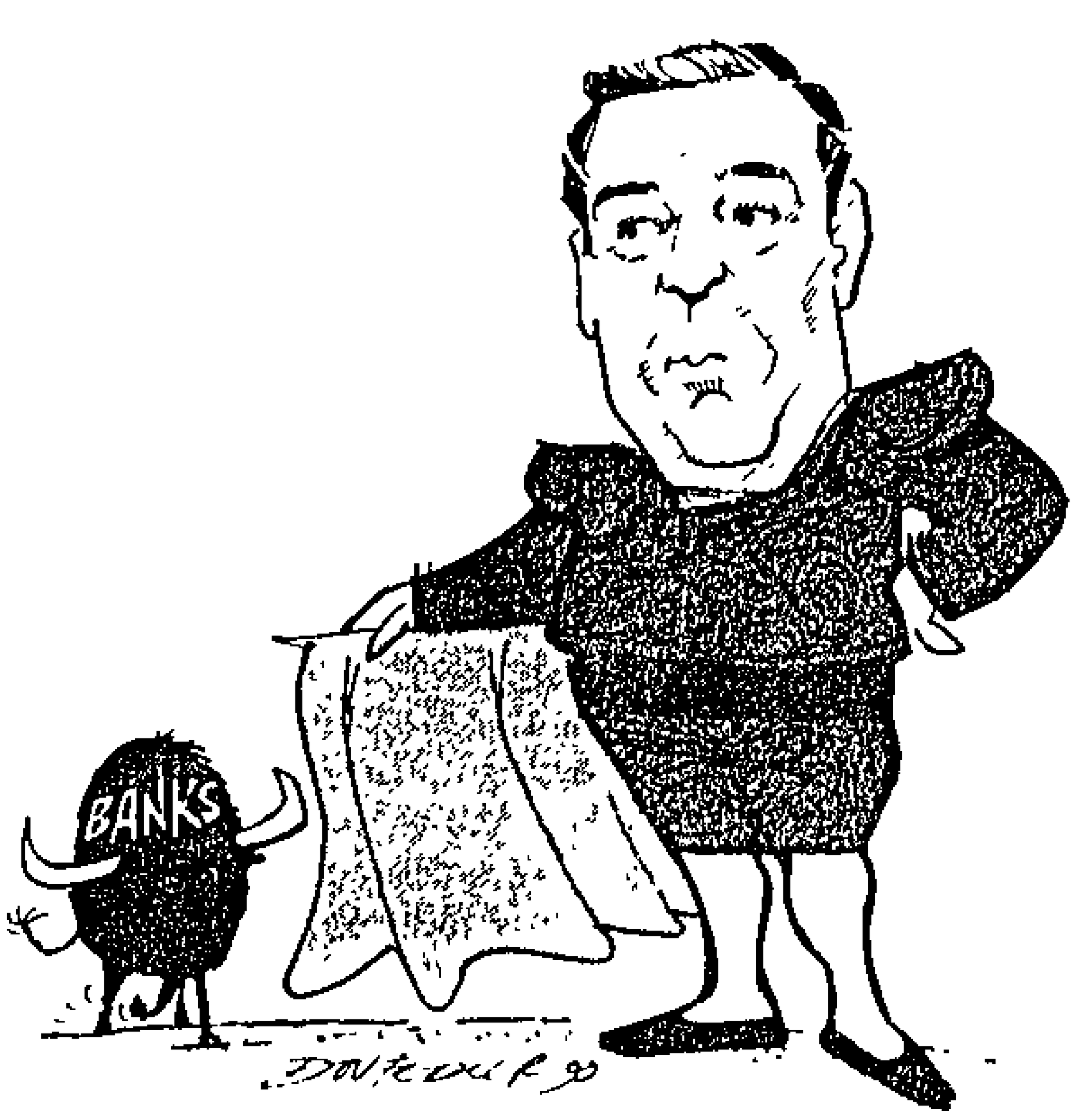
That really is the key to the whole matter. Now that greater fiscal discipline has been applied to heavy spenders in the Union Building, the Bank should be able to sell adequate and appropriate stock into the market to absorb sufficient liquidity to check money supply growth. If this is partially frustrated by off-balance sheet financing, it will take more sales to achieve a given target.

It is well known that if a money supply target is the object of Central Bank control, it cannot hope also to control the level of interest rates and, for that matter, the exchange rate. That is just not economically possible. So if the Reserve Bank is serious about getting the rate of monetary growth down, it must stop saying that the level of interest rates is adequate. That level must be determined by the market.

Moreover, if it is to remain credible, it must not only allow prime rate to rise; it must keep Bank rate within realistic market levels. For it remains a guide to what government pays for its funds. And if government is not paying a market rate, the whole delicate relationship of market orientated monetary control gets thrown out of kilter.

Until the Reserve Bank targets monetary aggregates and allows prime rate and the exchange rate to find their own market level, it will be seen as an instrument of political endeavour rather than as an independent economic agent.

The questions of off-balance sheet financing and subsidised (or artificially cheap) forward cover are no more than a ruse to cover up the fact that, politically, it still cannot do to the money supply what, economically, it should be doing. For that would mean higher interest rates. ■



Conference focus on economic alternatives

By MATSHUBE MFOLOE

THE African National Congress's economic guidelines and the alternatives for restructuring the South African economy will come under the spotlight at a three-day conference in May organised by Nafcoc.

The conference follows a resolution of the 25th annual conference as well as an outcome of discussions between Nafcoc and the ANC held in January this year. Sowetan

Nafcoc president, Dr Sam Motsuenyane, said the conference aimed at bringing to the table debatable issues arising from the need to restructure the economy. 27/4/90

A joint Nafcoc - ANC economic commission was established, among others assignments to examine nationalisation and the alternatives for restructuring the SA economy with a view to redress the historical wealth imbalance.

International speakers invited to the conference include Dr Prakash Sethi, who is professor of international business at the Rochester Institute of Technology. (49)

Local speakers will include Barlow Rand economist, Dr Pieter Haasbroek, Anglo American's Michael Spicer, and representatives from Nactu and Cosatu.

The conference will be held at the Wild Coast Sun from May 1 to 3.

Mandela: We'll nationalise only if it boosts economy

W/Mail 27/4-3/5/90

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THE African National Congress would only nationalise businesses if such a move would strengthen the economy, ANC Deputy President Nelson Mandela told a gathering of businessmen in Umtata this week.

Mandela's comments follow an announcement that the ANC will meet leading businessmen next month to discuss options for a political economy.

Mandela said the ANC, mobilising mass popular support, did not have the resources to rectify the glaring economic imbalances caused by apartheid and would have to nationalise sectors of the economy to provide the masses with housing and education.

Only the mines, banks and monopoly industries would be nationalised following thorough research by teams of experts. If their findings did not encourage nationalisation, then the ANC would listen carefully to their advice, he said.

Mandela said while his references to nationalisation had stirred controversy, people did not question the fact that the railways, airways and steel industries were nationalised.

The government, realising blacks would soon play an effective role in government with a right to share in South Africa's wealth, had chosen to privatise the iron and steel sector.

The ANC believed this move had been made to impede the full realisation of blacks' political rights, since the ANC did not have the money to buy substantial amounts of shares.

It rejected the move as a unilateral decision which was not in the interests of the majority.

When the National Party came into power in 1948, it too had had plans to nationalise, but it became a bourgeois party and shelved the idea, he said.

Regarding the ANC's position in relation to businessmen, Mandela said the organisation was not anti-capitalism and rejected the commonly-held belief that the Freedom Charter was fundamentally socialistic.

Mandela said the youth had perpetuated the belief that the ANC opposed businessmen.

It was not ANC policy to reject any sector of the community, least of all the business community, which was being looked to to help provide jobs, housing and education for returning exiles. "And I am talking of some 20 000 people," he said. — Sapa.

Freedom Charter not socialistic - Mandela

49

Sowetan 27/4/90

The business community and the ANC will hold high-level discussions on May 23 on options for a future political economy.

The gathering in Johannesburg, organised by the Consultative Business Movement, will include 400 top businessmen and 25 ANC leaders from in and outside the country. Keynote speakers include Nelson Mandela and former Anglo American chairman Gavin Relly. Thabo Mbeki, the ANC's international affairs director, and Tradegro MD Donald Masson will take part in a panel discussion.

The discussion, designed to elicit broad participation by the participants - attending by invitation only - will be chaired by Murray Hofmeyr, former JCI chairman. This article looks at the ideas on nationalisation Mr Nelson Mandela shared with businessmen in Umtata this week.

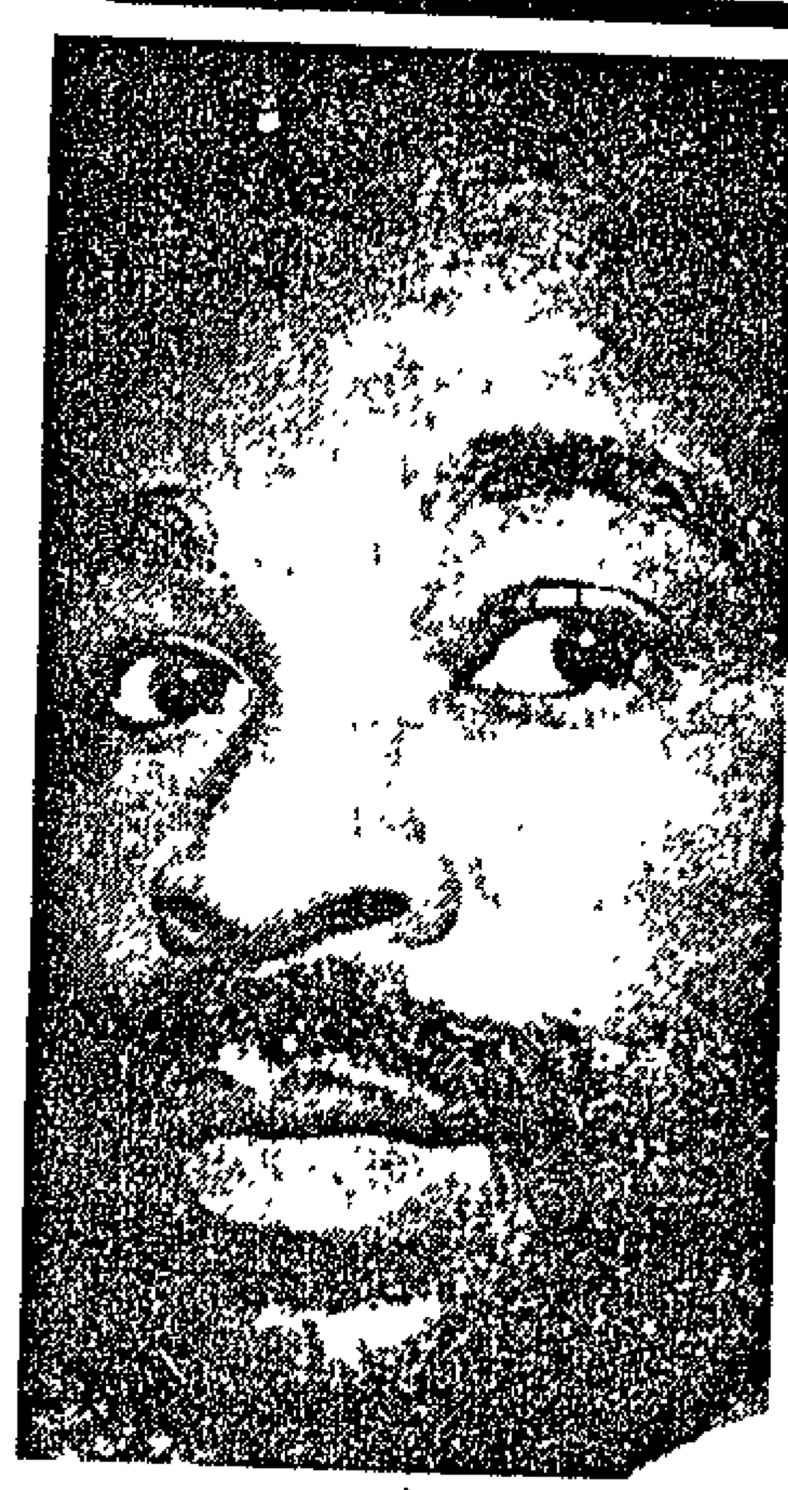
THE ANC had not detailed how nationalisation of sectors of the economy would be implemented, but had only declared its intention to do so, and would do so only if nationalisation would strengthen the economy.

This was said in Umtata on Wednesday by ANC deputy president Mr Nelson Mandela, in an address to businessmen.

Mandela said the ANC, mobilising mass popular support, did not have the resources to rectify the glaring economic imbalances occasioned by apartheid and would have to nationalise sectors of the economy to provide the masses with equitable housing and education.

Only the mines, banks and monopoly industries would be nationalised following thorough research by teams of experts, and if their findings did not encourage nationalisation, the ANC would listen carefully to their advice, he said.

The approach of the ANC on the nationalisation issue was "let's do this together" and the ANC intended to share South Africa's wealth with "its white brothers and sisters".



ANC international affairs director Thabo Mbeki and former Anglo American chairman Gavin Relly will speak.

Privatise

Mandela said while his references to nationalisation had stirred controversy, people did not question the fact that the railways, airways and steel industries were already nationalised.

The Government, realising blacks would soon play an effective role in government with a right to share in South Africa's wealth, had chosen to privatise the iron and steel sector.

The ANC believed this move was made to impede blacks' full realisation of their political rights, since the ANC did not have the financial muscle to buy substantial portions of shares.

It rejected the move as a unilateral decision which was not in the interests of the majority.

When the National Party came into power in 1948, it too had plans to nationalise, but it became a "bourgeois" party and shelved the idea, he said.

Socialistic

Regarding the ANC's position in relation to businessmen, Mandela said it was not anti-capitalism, and other sectors of the community would operate on a free enterprise basis.

He rejected the commonly-held belief that the Freedom Charter was fundamentally socialistic.

If this was so the ANC would effectively halve its membership which comprised those who advocated capitalism and those who went beyond socialism.

Mandela again said the youth had perpetuated the belief that the ANC opposed businessmen.

He said the ANC was currently involved in clarifying its policy on all matters with its members and he added that blame could not be

FOCUS

squarely placed on their shoulders because they were victims of apartheid.

Many of the youth had been detained, some for long periods and forced to abandon their studies, so it was understandable that they were bitter.

Mandela said it had been pointed out to the youth that the business community were "our friends and deserved our support".

He appealed to the meeting to let bygones be bygones, and allow the ANC to reach the youth and give it time to put it on the footing it held before its leadership was exiled or imprisoned.

It was not ANC policy to reject any sector of the community, least of all the business community, which was looked to to help the smooth return of exiles to decent houses and jobs so they could afford to educate their children.

Miners

"And I am talking of some 20 000 people," he said.

Mandela said black miners were subjected to discriminating and humiliating work conditions, including an "acclimatisation process" which involved standing naked for hours in front of other people, a process to which white miners were not subjected.

Black miners were forced to queue to catch lifts from underground, and were barred from entering the deck reserved for white miners, even if it was empty.

"Why should we tolerate an industry which treats our people with such degradation?" he asked.

Mandela expressed disappointment at the handful of white businessmen who attended the meeting, organised by the Transkei Chamber of Commerce, and said he hoped it did not reflect the attitude of white businessmen in the region. - Sapa.

Education for a new nation

Star 27/4/90 (49)

Teach children skills to make change a challenge

Excerpts from an address by DR JAMES MOULDER, professor of philosophy at the University of Natal, Maritzburg, at a seminar arranged by Eskom at Michaelhouse yesterday.

President de Klerk has challenged us all to help create "a new South Africa". If we accept the challenge, we have to create an education for a new nation.

The first step is to accept where we are. The next is to go to where we should be.

Far too many South Africans refuse to accept five facts that have an impact on education:

- South Africa is more like the other nations of Africa than like the nations of Europe or America.

Only about 26 percent of Europe's population is less than 15 years old. In South Africa about 40 percent is.

Less than a quarter of South Africans have a culture, a language and a set of traditions that are rooted in Europe or America.

A new education must reflect these realities.

- Far too many South Africans have basic needs: basic physical needs for food, water and housing; basic security needs for health and employment.

These South Africans also have growth needs. They need to be able to enjoy their family and their friends. They need to be treated with dignity and valued for what they are. They need opportunities to become the best they can be.

Until they have satisfied their more basic needs, they won't have the time or the energy to attend to their growth needs. A new education must meet their basic needs.

- About 50 percent of South Africa's adults are neither literate nor numerate. They cannot do a job that requires one to read, write or count. They cannot help their children with their homework. They cannot hunt for bargains in the newspapers, use a DIY book, or study by correspondence. They cannot read what politicians are asking them to vote for.

We are like a rugby team that is playing without its forwards. It is impossible to beat the opposition with half a team. It is impossible to have a strong economy if half the adults cannot read, write or count. A new education must aim for universal literacy and numeracy.

- The education system lacks legitimacy and is unfairly funded. It lacks legitimacy because it is designed and controlled almost exclusively by white South Africans.

It is unfairly funded because, when salaries are removed from the comparison, in 1987 nearly three times as much was spent on a white pupil (R561) as on a DET pupil (R178). And nearly four times as much was spent on a DET pupil (R178) as on a pupil in kwaZulu (R44). A new education must remove these inequalities and be administered democratically.

- South Africa is not a wealthy nation. In 1987, if Japan's GDP had been distributed equally, every person would have had R120 a day. In the same year, if South Africa had done the same, every person would have had only R16 a day, which does not buy a good education.

A new education must be affordable, as well as appropriate. This is where we are.

"Education for a new nation" is the slogan that points us to where we should be. We must face reality as it is, not as we would like it to be.

Blacks must drop their naive belief that a government they help to elect will be able to spend as much on their children's education as this government spends on white children. It is impossible until our economy is very much stronger.

Whites must stop taking more than a fair share of the money that is available for education. The very least they can do is to ask the Government to stop investing more than salaries and basic operating costs in their children's education. If this had happened in 1987, there would have been an extra R234 million to spend on black education. This is not as much as it seems. But it would have paid for 1 000 classrooms.

More significantly, it would have told blacks that whites had decided to stop being greedy and to start carrying their share of the hardship and inconvenience that is required to build "a new South Africa".

Good primary schools are a secure road to being able to read, write and count. It is impossible to be "a winning nation" without good primary schools. They pave the way to increased productivity in all sectors of the economy. They promote attitudes and values that reduce fertility and improve health.

This is why the ANC's priority is "to promote literacy and basic numeracy for all in a minimum programme of six years that includes fundamental life skills and work skills".

We must educate for self-reliance. An education for self-reliance is a balance between the world of work and the world of books. It is neither purely technical nor purely academic.

It concentrates on what pupils must be able to do. It teaches them how to read critically and to write clearly. It enables them to use mathematical and scientific ideas to solve their problems.

And we must educate for change and diversity. South Africa has started to change. It is going to change more rapidly as we gallop towards 2000.

Our schools, technikons and universities, and in particular our colleges of education, must help their students not to be afraid of change. They need to learn what it is and why it is necessary. They need to be taught how to manage change, as well as how to overcome resistance to it.

South Africa is a land of great diversity. We have many cultures, languages and traditions. In the past, this diversity has frightened us. We have hidden ourselves and our children in ethnic kraals. This must stop.

We need to learn how to celebrate our diversity. We need to blend how we are alike and how we differ.

"Education for a new nation" is more like a bumper sticker than a blueprint for an education system. It is to make us think.

It is a slogan that points us to a process that has hardly begun rather than to a product we already have. It invites us to have new ideas about what education is, as well as about what it is for. It presents us with challenging goals.

Henri Bergson, a French philosopher, insists that our thinking should be dynamic instead of static: "The tools of the mind become burdens when the conditions that gave rise to them no longer exist."

The conditions that produced the education system we have no longer exist. This is why we need a new approach.

The other challenge comes from Arie de Geus, the head of the world's leading think tank on future scenarios: "Countries that improve their people's physical and mental health, as well as giving them easy access to education, move rapidly towards having a strong economy."

Increases for Justice officials

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An amount of R11,14 million has been made available for additional allowances for various posts in the Department of Justice, including Clerks of the Court and magistrates, the Minister of Justice, Mr Kobie Coetsee, said yesterday.

He said in debate on his vote that prosecutors, magistrates, clerks of the court, interpreters and other legal personnel in the first and second categories as well as various clerical categories would be affected.

A new structure for clerks of the court would come into effect on July 1. — Sapa.

Vital to keep ball rolling, says Worrall

It was critically important that the momentum for change should be maintained in South Africa, Dr Denis Worrall (DP Berea) said yesterday.

Speaking during the debate on the Foreign Affairs budget vote, he said South Africa had to continue to hold international attention.

Star 27/4/90 (49)

The Democratic Party supported the visits overseas of the State President, Mr F W de Klerk, as well as those of ANC deputy president, Mr Nelson Mandela — the latter was equally important for South Africa's image.

Foreign countries had a role to play in South Africa's transition process, by, for instance, contributing to the R3 billion trust fund created by the Government.

Dr Worrall ... SA must keep holding world's attention.

Dr Worrall said that as South Africa moved to the post-apartheid era, its diplomatic representation would expand and its diplomatic corps would become more representative of South African society.

The DP welcomed the opposition expressed by the Minister of Foreign Affairs, Mr Pik Botha, to apartheid, but regretted that he had not made this known "some eight, nine years ago".

Dr Worrall said he had come away from his career in the foreign service with a "tremendous respect" for South Africa's career diplomats, and a realisation of the difficulties they experienced. — Sapa.

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Sanitaryware hit by sag in demand

Star 27/4/90 (60) (49)

The sanitaryware industry, along with other industries connected to the building sector, is being hit by falling demand.

Cobra Bathrooms sales and marketing director Mr Ronald Ford says demand is down about 15 percent against 1989 figures.

"The main reason for the drop is the unstable political situation, which has resulted in unrest in some areas. This has stopped builders from going on site.

"For example, there is development of 3 000 houses at Pietermaritzburg which was due for completion in March this year. Only 130 units are finished. Sanitaryware such as baths and basins are installed in the final stages of a development so delays in construction adversely affect sales.

"Interest rates are another contributing factor leading to a lower demand for housing and thus lower sales for us. Distributors are not holding stocks. Instead, they are treating us as their bonded warehouse. They are placing small orders and demanding immediate delivery," says Mr Ford.

He says the main contribution to sales is being generated by a slight increase in demand as a result of home renovations but this has not been as significant as was hoped.

Cobra has cut back to a four-day week because of the lack of product demand.

Sanitaryware is made using local clays, which are poured into plaster-of-paris moulds and allowed to set for about 24 hours.

The mould is removed and the product is dried out for about five to seven days. The rough edges are cut off each piece and it is sanded to leave a smooth suface suitable for glazing.

The glaze is sprayed on and allowed to dry.

The piece is then fired for 36 hours — Cobra uses a tophat kiln. The temperature is increased slowly until it reaches 1 200 centigrade, cooling also takes place gradually.

Each piece is then inspected and imperfections in the glaze are ground out and over glazed. The product is then re-fired for another 36 hours, though at a slightly lower temperature.

Should the product still have defects it would have to go through a third firing.

"Three firings is all we allow — if there are still problems with the product then it is scrapped. Products can only be recycled before the glaze is sprayed — wastage is about 10 percent," says Mr Ford.

Sanitaryware is, like many other ceramic products, subject to fashion.

The trend is away from hard colours and towards pastels with white as the most popular.

In addition to white, Cobra produces pieces in seven colours.

In terms of design Mr Ford says people are looking for something different.

"Although they are not made in South Africa, the wealthier buyers are looking for baths with a Victorian look to them. We have had considerable success with our square look which we introduced about eight years ago.

"In general the sleek look is popular. People's taste in basins has changed, with a move away from the basin on a pedestal towards "vanity" basins fitted into a slab or cabinet," says Mr Ford.

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ANC 'will intervene in key areas of economy'

By Jabulani Sikhakhane

A future African National Congress government will seriously consider re-nationalising recently privatised companies like Iscor, a representative of the ANC said in Johannesburg yesterday.

Breaking up of the vast concentration of economic power would also be a key priority in post-apartheid South Africa, trade unionist Mr Mike Roussos told a conference on "Aspects and implications of nationalisation" in Sandton yesterday.

Nationalisation, he said, would be undertaken to increase the size or nature of the State's intervention in the economy in order to tackle some of the injustices and inequalities inherited from apartheid.

This could help the State directly to extend services and infrastructure, control strategic industries like gold mines, derive extra revenue from ownership, take direct control of investible funds and provide increased employment opportunities.

The State will intervene via regulation and possibly even directly in key areas to ensure that this broad framework is adhered to, he said.

Pros and cons

However, Mr Roussos said the future government would have to weigh up the benefits against the problems of nationalising.

"Alternatives would have to be considered. The fact that all this will be occurring within the framework of a capitalist economy means that limitations will exist. Capitalist economies depend on the private owners of capital being willing to invest it," he said.

"If private owners of capital are not confident that their money or their new business ventures will not be taken away from them, they will not invest.

"If these conditions do not exist then economic growth will be very difficult."

Turning to monopolies, he said: "One of the priorities of a democratic government must surely be to break up the vast concentration of economic power."

But he said this concentration of power could afford the State a unique opportunity to guide the economy if it assumed control of the conglomerates.

Methods that could be used included requiring all companies controlling more than five percent of the Johannesburg Stock Exchange to appoint one-third of board members from trade unions, one-third from the State and one-third from its shareholders.

Political Staff

South Africa was unequivocally committed to free enterprise, but free enterprise with a "human face", said Minister of Trade and Industry and Tourism, Mr Kent Durr.

"Even the most dedicated free marketeers would not argue that the State has no responsibility towards the less fortunate in the race of life: such thoroughgoing laissez faire would be unthinkable in any civilised country," he said at an awards ceremony at the Industry Development Corporation in Johannesburg.

Star 27/4/90 (4.9)

Let us settle our conflicts, says Botha

It was important that South Africa's conflicts were not laid before the international community for settlement, the **Minister of Foreign Affairs, Mr Pik Botha**, said yesterday.

"We must settle them ourselves," he told an extended public committee debating his budget vote.

"We ought to reach a far better settlement among ourselves than that which people would foist on us from outside."

"For as long as there are people who feel aggrieved, for so long the struggle to set it right will continue," Mr Botha said.

For as long as a given party wished to retain the exclusive right to decide what was injustice or to control the police and military, for so long strife would continue.

"If the aim remains to dominate over others ... we will remain subjected to a battle which no-one can win." — Sapa.

Star 27/4/90 (49)

Stals offers no relief on interest rates for some time

By Tom Hood

Businesses and home-buyers who are crippled by high interest rates should not expect any relief yet.

Dr Chris Stals, governor of the Reserve Bank, warned in Cape Town yesterday that the country's restrictive monetary policy measures could not be relaxed and the present level of interest rates should not be reduced — "at least not until some further progress has been made in reaching our objectives for the foreign reserves, the amount of bank credit extended and the rate of increase in the money supply.

"We also still have great concern for the high rate of inflation. At about 15 percent, our rate of inflation is still well above the average rates that now exist in the economies of South Africa's major trading partners."

Dr Stals said, however, the first four months in 1990 gave reason to be satisfied with the progress made so far on the course to greater financial stability in South Africa.

In the first quarter, the net gold and foreign exchange reserves increased by almost R3 billion and prospects were good for the country's balance of payments for 1990.

"Our foreign creditors should now be satisfied that South Africa will be able to meet the heavy capital redemption programme for this year without any serious problems.

"We can claim with justification that the economy is on course and that the phase of consolidation is in the process of restoring financial discipline, needed as a base for future growth," he added.

"The patient is reacting in a very satisfactying way to the prescribed therapy. However, there are still signs of fever and the body needs some further recuperation."

Hold on! — It will be a bumpy landing

Star 28/4/90 (49)

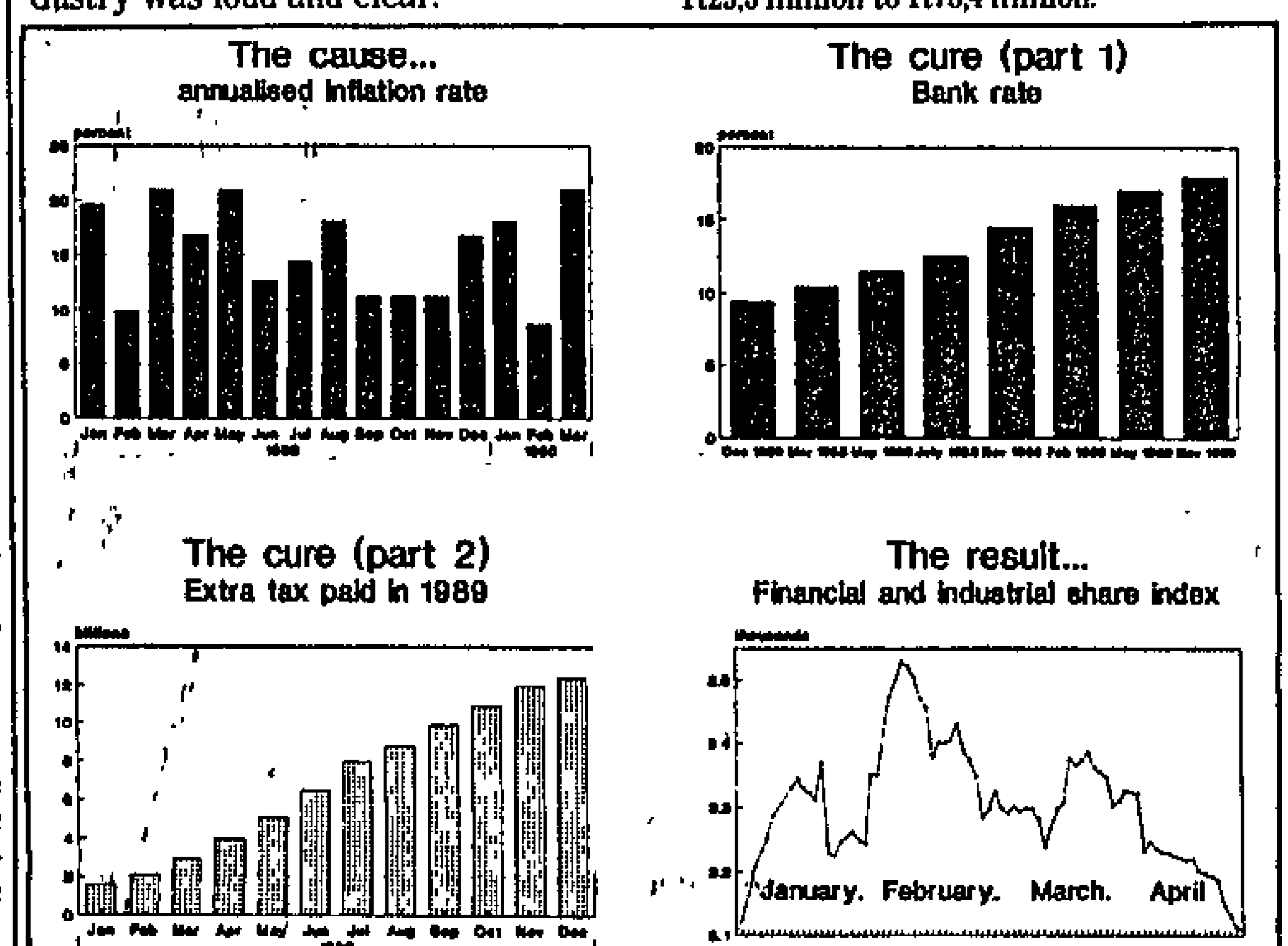
FASTEN your safety belts. All the signals from commerce and industry show that the economy is rapidly sinking into a recession and that the so-called "soft landing" could be a great deal harder than hoped for.

There have been indications for some time that the economy is in trouble, but this week the message of woe coming from commerce and industry was loud and clear.

DEREK TOMMEY

A strong indication that the recession is expected to be of greater severity than first thought came this week from bankers — who of all businessmen probably have their ears closest to the ground.

First National announced that it is to almost double its provision against doubtful debts from R76 million a year ago to R142 million, and Nedcor is to almost treble its bad debt provision from R25,3 million to R73,4 million.



Reserving sums of this size for possible bad debts suggests that the banks are already finding the going tough and are expecting even tougher times ahead.

This is not to say the banks aren't doing nicely, thank you.

Latest reports from leading lending institutions report big profits in spite of having to cater for those bad debts.

These good profits were earned from the upsurge in lending, at ever-increasing interest rates, to consumers at a time when the Reserve Bank, as part of its overall strategy to curb inflation, was trying to reduce the growth of bank credit.

Against this tougher economic scenario, and despite high bond rates, it may appear surprising that the demand for home loans remains strong — which can only please the banks.

However, the squeeze on consumer spending is hitting hardest at grass roots level. Retailers are reeling, unable to move stock, whether it be men's clothing or carpets for the house.

Malbak, a major industrial conglomorate, is forecasting lower profits this year and also textile manufacturer Romatex, which reports a 26 percent drop in earnings in the six months ended March.

Boymans, a major clothing retailer, had to pass its final dividend after paying an interim of 6,5c a share.

The chairman, Mr E Ellerine, reports that retail sales fell sharply in January and February, the last two months of the company's financial year and resulted in its net profit falling almost 40 percent.

But this slump in sales at the beginning of the year appears to be only the start of the bad times. Retailers around the country report marked drops in sales of consumer goods which has jolted business confidence.

It means that the Government and the Reserve Bank's bid to curb enemy number one, inflation, is slowing the economic pace far to quickly. The surprising aspect of the recession — and that's what it is — is that business failed to see it coming, in spite of warnings and the actions by the authorities.

As can be seen from the accompanying graphs, the bank rate has almost doubled in the past two years increasing to penal rates the cost of borrowing money.

At the same time the Government has been taken increasingly large amounts out of the economy by way of higher taxes. Last year it took R12 billion more from taxpayers than in 1988 — and not all of it went back into circulation.

While this way going on the gold mining industry, the country's most important generator of economic activity and which probably accouts for about 25 percent of South Africa's gross domstic product, ran into serious trouble.

The drop in the gold price put increasing pressure on the industry and its role as a generator of real wealth contracted significantly — which also took some of the stuffing out of the econoy.

Yet the business community, possibly not believing that the authorities were really determined in their fight to curb inflation happily continued to expand last year. Bank borrowings rose by some 31 percent from R87,3 billion to R114,8 billion to be spent on new equipment and larger holdings — in spite of the cost of money rising sharply.

With many businesses now heavily over-borrowed at a time when consumer demand is dropping, plusthe gold mining industry's problems, that soft landing is not going to happen.

Mandela factor

The Mandela factor has also played its part.

Retailers report that the outbreak of black unrest has had a major impact on sales in the troubled areas. However, the unrest has also resulted in a general decline in consumer spending by blacks.

It is understandable that signs of weakness in the economy together with the political uncertainty should lead to concern about the future and to a reluctance to spend.

Looking ahead a little, the next few months could be a period of sharply falling retail prices as shop-keepers, realising their profits are likely to shrink, try to convert their stocks into cash in order to reduce their expensive bank overdrafts.

Should the de-stocking be heavy, it could result in reduced production in factories and unfortunately, in some staff retrenchments.

It also means that pay rises this year are likely to be much lower than last year which will leave the consumer with even less money in real terms, to spend.

The idea was to get inflation down. Unfortunately, a lot of businesses will go down with it, along with the consumer spending, before the benefits filter through.

The brighter side is that the Government's policy appears to be working and analysts forecast that interest rates will decline later this year.

Hoteliers feel the squeeze too

Star 28/4/90

WITH disposable incomes of domestic tourists taking a hard knock from the downturn in the economy, the hotel industry is turning to foreign visitors to help off-set the decline in the local market.

This trend has been shown by the poor perfomance during the traditional boon Christmas and Easter periods. Over Christmas revenue from all grades of hotels declined 11 percent in real terms.

High food prices, combined with the declining disposal incomes of the locals, is also knocking what is usually a profitable part of hotel business.

In 1989 food prices rose 14,9 percent on a year-on-year basis, with vegetable prices up a staggering 47,8 percent.

Fred Thermann, executive director of the Federated Hotel Association of South Africa (Fedhasa) says hotel food and beverage sales (adjusted for inflation) in 1989 did not increase over the 1988 figure. Most affected were country hotels where food and beverage sales declined by three percent in real terms.

JABULANI SIKHAKHANE

He also notes that even though a few new hotels came into the market, room capacity declined by 1,1 percent in 1989 over the 1988.

"The hotel industry is no money spinner. We hope that the growth in the number of foreign visitors will help offset the declining spending power of the domestic tourists," he said.

Foreign visitors

The number of foreign visitors to SA has shown a steady increase over the last three years. According to the South African Tourism Board, the number of foreign visitors increased 15,9 percent in 1989.

Between January and December 1989, 930,393 foreign visitors arrived, which is 3,8 percent up on the previous record set in 1984.

Their spending has also increased, from R904 million in 1985 to more than R1,9 billion in 1989, excluding air fares and domestic tourism.

Mr Thermann is optimistic that the number of foreign visitors will increase up to 1,2 million this year and is pinning his hopes, among others, on a recent study which showed that SA hotels still offer the cheapest accommodation in the world.

Figures by the CSS show that the total number of bednights sold to foreign visitors in January 1990, increased by 10,4 percent to 124,572 from 112,863 in December.

But this was 1,3 percent lower than the number of bednights sold to foreign visitors in January 1989.

Hoteliers recognise the growth potential of the black market.Increased urbanisation, fast improving living standards and increased disposable incomes of most black urban families are helping re-shape black holidaying patterns.

Mr Thermann sees quite a big potential in the affluent black urban market and estimates that there could be up to five million blacks ready to make use of holiday resorts and hotels.

queries

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Socialism the only way says Joe Slovo

49

29/4/90

S/Times

By KURT SWART

JOE SLOVO's favourite South African dishes are boerewors and snoek, and he still believes socialism is the only way forward for mankind.

At a plush hotel in Somerset West the ANC ideologue, reviled by many South Africans as a bloodthirsty communist bogeyman, talked quietly about the pain of three decades in exile.

The friendly and youthful-looking politician, 64, said his image as Public Enemy Number One was undeserved.

"The intention has been to rubbish me, but I've had a very positive response from the majority. While Thatcher had Saatchi and Saatchi for public relations, I had Botha and Botha."

Mr Slovo said he was concerned about the violence sweeping South Africa, although his political views reflected the ANC's hardline approach to next week's talks with the Government.

Only if the preconditions in the Harare Declaration were met could there be grounds for suspension of the armed struggle, he said.

The Lithuanian-born lawyer said he started believing in the possibility of returning to South Africa a year ago.

"I was certain we'd be back in my lifetime, but not necessarily under Nationalist rule. In a sense one can say that is at least some kind of tribute to the courage of De Klerk."

The visits by SA delegations to the ANC leadership in exile triggered off severe bouts of homesickness.

Failed

"We had wonderful times when the locals came to visit. It was the first taste of things to come. When the pilgrimages to Lusaka began, I really started believing that perhaps there'd be one in the other direction."

Mr Slovo said he didn't believe the introduction of socialism in South Africa would kill "the golden goose".

"If you look at South Africa, you see that what has failed here has not been socialism but capitalism. Although I don't believe that socialism is immediately on the agenda in South Africa, it's the only rational way for humankind to order its life in the long term.

"On the question of redistributing wealth, the ANC is acting in a tradition which was actually set by the NP when it first came to power in the 1940s.

"It proceeded immediately to redistribute wealth in the interests of disadvantaged Afrikaners."

SA breaking new economic ground worldwide — Durr

(49) Star 1/5/90

South Africa was doing all it could to develop the southern African market, which held benefits for all in the sub-continent, the **Minister of Trade and Industry and Tourism, Mr Kent Durr**, told Parliament yesterday.

Introducing the debate on his budget vote, he said South Africa was moving ahead in the Balkans, the Baltic, central and Eastern Europe, in Africa, South Africa and the Far East.

"We are aware that a winning nation must remain a global player."

His department had been busy with a host of activities in these areas, including opening several new trade representative offices in Africa and facilitating trade and joint projects.

South Africa differed from the rest of Africa in that it had the capacity to absorb investment profitably. He said he had been the first South African Cabinet Minister to visit East Berlin and Poland since World War 2.

"All the time we've been breaking new ground."

Mr Anver Essop (LP Nuweveld) said that more black entrepreneurs had to be encouraged by the Small Business Development Corporation.

There was no reason why South Africa should not take its place among the leading industrial countries in the West.

Mr Daniel Nolte (CP Delmas) said inflation and President de Klerk's reform process were busy destroying South Africa.

While the Government was busy with the reform process, it should also think about the economies of African countries.

"The black governments in Africa are poorer now than before, and the Government must see this as an example." — Sapa.

1/5/90

Observers see ANC softening on economy

African National Congress deputy president Mr Nelson Mandela last week said nationalisation would be embarked upon only if, on experts' advice, the move would strengthen South Africa's economy. Does that constitute a shift in policy? Observers say Yes, but the ANC says No. KAIZER NYATSUMBA reports.

When African National Congress deputy president Mr Nelson Mandela told businessmen in Transkei last Thursday that his organisation favoured nationalisation only if the move would strengthen South Africa's economy, he probably did not anticipate the fanfare and enthusiasm with which his statement was received.

The statement, observers believed, marked an important strategic shift in either the ANC's economic emphasis or in its policy of nationalisation itself.

Mr Mandela had barely said the ANC would ask experts to investigate nationalisation of the country's mines, banks and monopoly industries and that if their findings did not encourage nationalisation the ANC would listen carefully, when he was cautiously applauded by some politicians and the business community for the "pragmatic attitude."

Feeding the speculation of a possible low-key policy shift was another statement made in Johannesburg on the same day by an ANC representative, Mr Mike Roussos, at a conference on "Aspects and Implications of Nationalisation".

Although Mr Roussos came out unequivocally in favour of nationalisation and strongly against privatisation, he also said an ANC government would weigh up the benefits of nationalisation against the problems that might be en-

"Alternatives that may be able to achieve the same effect, but result in fewer problems, would have to be considered. The fact that all this will be occurring within the framework of a capitalist economy means that fairly severe limitations will exist. Capitalist economies depend on the private owners of capital being willing to invest it in new ventures," he said.

Do these utterances constitute a shift in policy or economic emphasis on the part of the ANC? Observers believe so. The ANC, however, is adamant that there is no shift in its policy whatsoever.

The internal leader of the ANC, Mr Walter Sisulu, told The Star last Friday that nationalisation was still the ANC's policy.

Said Mr Sisulu: "Nationalisation was never meant to be a mechanical thing. It is intended to improve the economy of the country, and it should therefore be seen in that light. The policy of nationalisation still stands as spelt out in the Freedom Charter."

However, Finance Minister Mr Barend du Plessis appeared to have thought otherwise. He was quoted on Friday as welcoming "the new moderate line on nationalisation" taken by Mr Mandela, saying it appeared to be "an important shift in emphasis if not in policy" by the ANC.

"Any such moves towards a policy that more closely resembles reality and the prevailing wisdom are to be welcomed," he said.

A political science lecturer at the University of South Africa, Mr Clive Napier, shared the Finance Minister's view. Mr Mandela's statement, he said, was "a softening on the insistence of the organisation on nationalisation".

The head of the Political Studies Department at the University of the Witwatersrand, Professor Alf Stadler, said Mr Mandela's statement definitely constituted a policy shift.

"The whole debate about nationalisation has been very important and has brought to the fore issues and concerns over how power is distributed."

Capital project spending slows down

LESLEY LAMBERT

CAPE TOWN — Spending on capital projects will show limited growth this year and may even decline as the economy slows down and business conditions deteriorate, Old Mutual economists say in their latest Economic Monitor.

While the expected deterioration in general business conditions is likely to affect investment expenditure which increased at a slow rate of 4% last year, compared with 8,6% in 1988, a repeat of the 24% cutback during the 1985/86 recession is unlikely, they say.

This is because the cyclical bottlenecks in the economy — inflation, the balance of payments and the exchange rate — do not call for the same degree of constraint in domestic demand as in the previous downward phase of the business cycle.

On the whole Old Mutual economists, lead by Dave Mohr, expect a further moderate decline in aggregate real domestic spending this year after a 1% decline last year.

B/Day 25/5/90 (49)

Private

Domestic production could, however, register a small increase as a result of an anticipated moderate increase in foreign demand and, thus, export volumes. A poorer agricultural year may, however, restrict the scope for any improvement in domestic production.

The economists say it is essential that the current economic consolidation phase is extended to provide a further boost to the foreign exchange reserves and to curb inflationary pressure.

In addition to the continued stringent monetary policy, certain established economic forces should also contribute to a further slowdown in real economic activity, they say.

As far as private consumption expenditure is concerned, they feel that this year's total wage and salary bill will show a smaller increase than last year's 18,4%. Besides the relatively low 10% general salary increase for civil servants, salary adjustments in the private sector should also become more moderate as business conditions become tighter and profits are pressured.

After rising by an estimated 1% last year, total employment in the economy is expected to show little, if any, growth.

NP warned a future govt could reverse its privatisation measures

B/Day 2/5/90

ALAN FINE

HARARE — A future ANC government would review and, where necessary, reverse all economic measures implemented by the NP that it felt constrained its ability to reconstruct SA's economy.

For this reason, according to a joint statement issued yesterday by Cosatu and the ANC after a workshop on post-apartheid economic options, government would be advised not to go ahead with various privatisation and deregulation measures now in the pipeline.

Apart from plans to privatise state corporations, the ANC-Cosatu alliance was also concerned about, for example, the Minerals Bill, deregulation of the financial markets, technical changes to export incentives, changing tax policies, and the privatisation of social services.

The major objective of the Harare gathering was "to begin the process of supplying the liberation movement with economic options".

Tito Mboweni and Vella Pillay of the ANC's economics and development department and Cosatu spokesmen Alec Erwin and Khetsi Lehoko said the workshop had begun formulating a policy aimed at "economic growth through redistribution".

It had explored the building of a mixed economy through which reconstruction could be financed.

The workshop believed government's privatisation and deregulation programme threatened the ability of a future government to tackle these issues. Hence, said Mboweni, the ANC and Cosatu would begin immediately, through mass mobilisation and attempts to persuade business and government, to seek to have the programme halted.

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Pillay said also, given the probability of major political change, "if our organisations take a public position that privatisation will be reversed, it will make it difficult for government to carry it out as no one will want to buy".

On the question of nationalising existing privately owned assets, Erwin said it would be necessary to examine each area to see if nationalisation would assist reconstruction of the economy.

The statement said the workshop had examined macroeconomic policy, including sound monetary and fiscal policy, planning and nationalisation, international economic relations, labour legislation, the provision of social welfare, industrial restructuring and local government financing. Its recommendations would not be made public yet as they still had to be debated within the two organisations.

The workshop was attended by about 60 people, including local and foreign academic economists associated with Cosatu and the ANC.

Sanctions have cost R70 billion — IRRC

CT 2/5/90

Own Correspondent

WASHINGTON. — Import substitution arising from the fear of international sanctions has cost SA up to R70 billion over the past 20 years, the highly influential Investor Responsibility Research Centre finds in what is claimed to be the most comprehensive analysis ever of sanctions' impact.

But having paid this price — representing 1,5% of lost real income growth a year — SA presents "no realistic Achilles heel" to further sanctions. "The economy is much less vulnerable than it was 20 years ago, or even 10 years ago," the report states.

This does not stop the IRRC from suggesting that certain forms of sanctions — on oil, computers and capital inflows — might still be practical ways of inflicting pain on whites without disproportionately harming blacks.

SA 'will pay for apartheid'

That such pain has already been effective is indicated by a poll of 1 600 whites conducted for the study last May by UCT's Mr Jan Hofmeyr. The survey shows a plurality of 48% favouring compromise with sanctions advocates, while only 9% opt for total intransigence. Forty-one percent said government should ignore sanctions pressures and "do what is right".

SA will be paying for the structural distortions caused by apartheid and the sanctions threat for many years to come and "even a shift in world opinion may not give rise to rapid growth in the SA economy".

"In the early 60s, SA had all the opportunity to grow like one of the Asian tigers," said University of Colorado economist Mr Charles Becker, one of the report's authors. "Instead, it restructured its economy to look like a sick Latin American country."

The need to run an economy "exceptionally" closed to imports — in constant dollars, SA's imports grew by only 14% between 1967 and 1985, compared with 185% in the case of the US — has "greatly curtailed" SA productivity growth and led to "technological stagnation".

It has also prevented SA from developing those sectors where it has the greatest comparative advantage over its trading competitors, leading to further "invisible" losses.

Using an input-output model to assess the short-term effect of further sanctions, IRRC finds boycotts of SA goods either selectively or comprehensively to be "somewhat regressive". This also applies to embargoes on sales to SA.

"Black South Africans will suffer a somewhat larger decline in real incomes than will whites."

Exceptions to this include bans on the sale of computers and oil to SA because both are used intensively only in "modern sectors where capital and skilled labour shares are high, and which produce goods consumed by the relatively wealthy".

Likewise, capital sanctions "are far more effective than existing or likely trade sanctions in targeting whites" because they chiefly hit "high income urban groups" that are mainly white and Asian. They also have "desirable income distribution effects".

The report, published yesterday, has been delayed for several months. It was to have included an overview by economist and former IRRC analyst Ms Merle Lipton. This was missing because of "editing problems".

Capitalism's goal is the betterment of society as a whole

(49)

BDay 2/5/90

GRAHAM BELL

IN THE free market-socialist debate, capitalists often seem insensitive. A perverse side effect is that capitalists succumb to feelings of guilt and water down their views on creating a better society. But at its heart, capitalism seeks the improvement of the whole society as its primary goal.

Capitalism will always have an "ugly face". The law of the market is simple. In the words of Heilbronner, author of The Wordly Philosophers, self-interest is the driving power to guide men to whatever work society is willing to pay for. To many people this is an unpalatable thought; to harbour such thoughts in SA is just plain bad.

For anyone who believes in good winning over evil, the joy of giving and the miracle of life, such selfishness is pure heresy. But there is another element: competition. The market itself controls the excesses of self-interest. The natural restraint of competition channels the resources of society to wherever they are best used.

Capitalism is hard-headed in application but fundamentally benevolent in philosophy.

Capitalists antagonise people when they talk scathingly of the failure of socialism in Eastern Europe, Latin America, Africa and Asia. Because the tactics of capitalists are essentially selfish, their criticism of failed systems appears pompous and uncaring. But this does not change the fact that state planning has made the lives of generations of people pure misery. The recent joyful scenes around the Brandenburg Gate are testimony to this.

SA, too, is experiencing the changing of an era. But the misery of the majority of South Africans has not been caused by capitalism. It has followed from SA's own unique blend of state socialism and elitism. Millions of people have been deprived of the freedom to move, to work, to learn, to do the best for themselves. Because that is what they want most, the mere sniff of it is energising the entire society.

Now the question is: will the new system perpetuate, in another form, the concentration of power and the restriction of individual choice that has dragged this country down for so long?

The natural inclination of the leaders of the disenfranchised is to say: "The downtrodden must be given their share of the wealth from which they have been excluded all this time. This society is unfair — there are too many poor and too few rich. The way to achieve redistribution is to take control of the wealth-creating system and refashion it so that there is more for everybody."

Here, the capitalist philosophy should bring us to our senses. For the benefit of society as a whole, state planning should be studiously avoided. No group of people can ever know better than the market how things should be moved around the economy. Wherever this has been tried it has led to one error compounding another, to the ultimate detriment of all except a tiny elite.

SA is a good case. Successive SA governments have decided where people should live and work and what they should learn, what businesses should be controlled (Sasol, Iscor, Mossgas, IDC, airways, railways, electricity, posts and telecommunications, agriculture, etc.), whose jobs should be protected (urbanising Afrikaners). This has been political patronage and economic meddling of the worst kind.

The counterpart to this political behemoth has been the enormous concentration of "private" business and, more recently, labour. The small-business sector in SA is tiny: big business controls most of the assets and employs most of the labour in the economy. Likewise, the trade union movement has grown exponentially over the past decade and labour power is being concentrated in relatively few hands.

These heavily centralised power groupings make the practice of free enterprise very difficult. The sadly lamented "worker" gets the worst deal of all: government has restricted his freedom of movement and right to education; big business has replaced him with machinery and the trade unions impede his right to choose his own wage. Unemployment is the biggest problem any new government will have to face.

In the middle of all this are the people of the nation, voters and non-voters alike. Individuals have no option but to throw in their lot with whichever giant power structure might represent their interests. The individual has no individual voice.

Instead of co-operation between selfish capitalists seeking to improve their combined lot, we have huge, inflexible power structures pursuing group interests.

The argument for nationalisation is dressed up to appear selfless. But, in reality, is it not just a manifestation of self-interest? As such, it is self-interest of the wrong kind because it is concerned with the interest of a group rather than the individual. We may be replacing one form of destructive patronage with another.

Political democracy is not at odds with capitalism. In a free enterprise economy, the process of "creative destruction" is continually regenerative. Companies that do not make the best use of society's resources are replaced by those that do. (The Japanese reinvest around 20% of total economic output every year, implying that the economy is "replaced" every few years).

In a progressive political system, the same applies. New ideas replace outdated ideas. Because thoughts and ideas have been controlled in SA for so long, it is a breakthrough to have political debate that is now exceptionally fluid.

We can only hope that this political freedom is nurtured and seeps into the economy as well. The final arbiter will be our ability to compete in the international community.

☐ Bell is an economist with Ivor Jones, Roy & Co Inc.

Star 25/7/90 (49)

Privatisation, deregulation to be fought

The Star's Africa News Service

HARARE — A three-day meeting of the ANC and Cosatu to draw up economic policy options in post-apartheid South Africa heard of the deep concern felt by policy makers over privatisation and deregulation moves by Pretoria.

Sixty delegates attended the workshop in Harare and will recommend to their organisations that they fight moves by the Government to proceed along these lines.

Newsmen were told at the end of the closed meeting that detailed proposals for a programme of reconstruction within the framework of a mixed economy would be submitted to the ANC and Cosatu.

Planners were not looking to any one country or system as a model. In formulating policies the planners would have to take account of the realities of the economy as it existed. The economy was in very serious crisis.

There would be a role for private enterprise but State intervention would obviously be necessary to deal with the enormous expectations of the people.

Delegates declined to identify specific targets for nationalisation, beyond saying they would be in strategic areas of the economy.

They said a future government would have to reverse policies of privatisation and deregulation which were only adding to the devastation of the economy. Delegates spoke of learning with horror of how widespread were the changes being introduced by Pretoria.

MONETARY POLICY

Pennies from Heaven

FM 4/5/90 (49)

Two events last week aroused optimism about interest rates. One was Reserve Bank Governor Chris Stals's decision to allow banks time to reorganise portfolios, before they have to bear the full reserving costs of repurchase agreements (repos). The other was First National Bank's announcement that it was reducing its home loan rate by 0,25 of a percentage point.

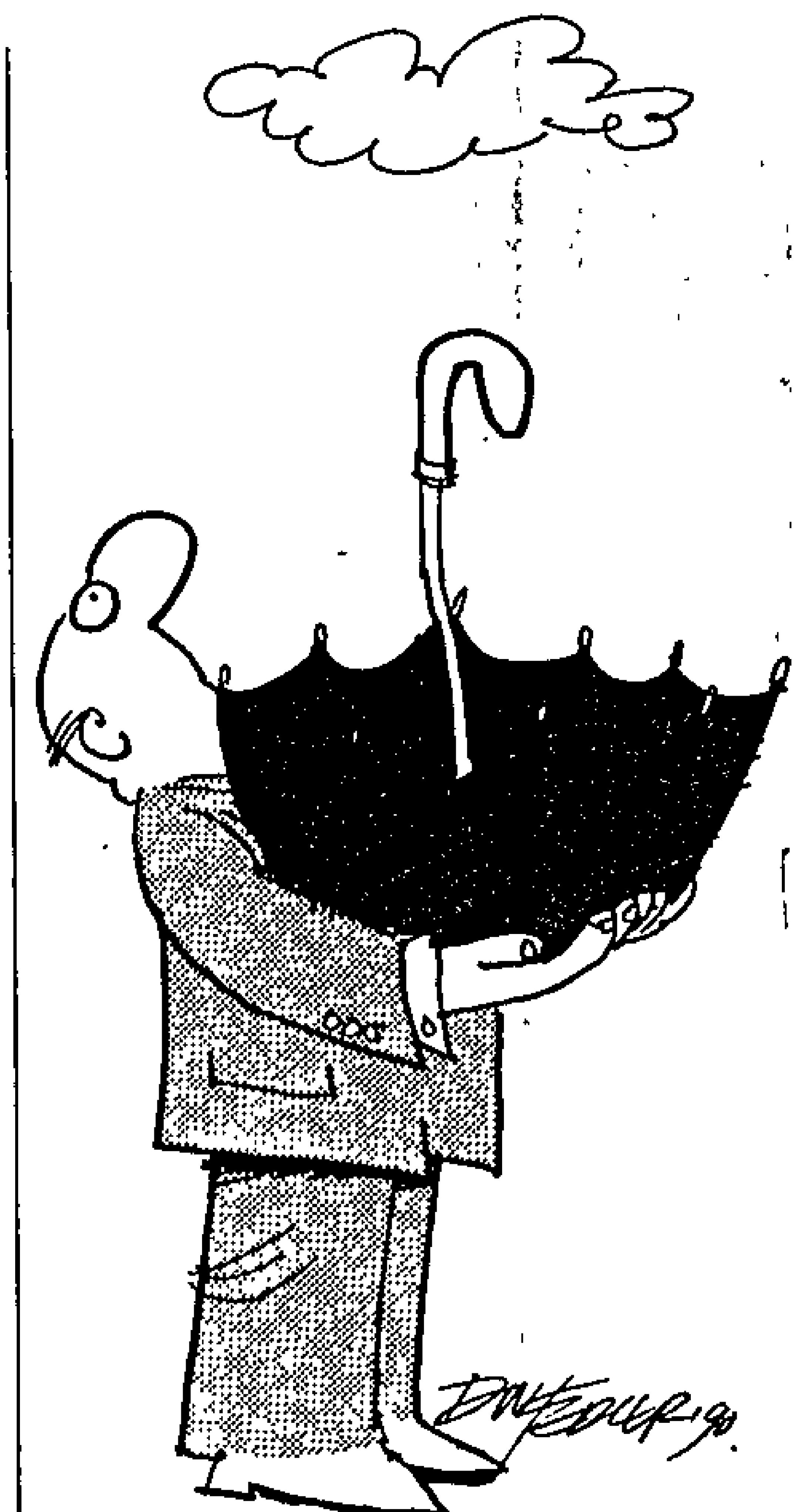
There was speculation that this was the start of a new round of cuts in interest rates, encouraged by comments from people who should know better.

This included the remark of an analyst in a radio interview that "despite Dr Stals, interest rates will have to come down." This is an internal contradiction because the pattern of interest rates can't come down as long as the Central Bank continues to keep the market illiquid.

Deputy Governor Chris de Swardt says the Bank is still concerned about high growth in credit extension and the broad monetary aggregate M3. "So there is no immediate justification for relaxing monetary policy."

The Bank is determined to bring M3 growth within the 11%-15% "guideline range." This implies average monthly growth in credit extension will have to be around 1%. And if M3 growth doesn't respond appropriately to existing policy, the Bank will have to reassess its monetary stance, he says.

The reason for the original confusion was no doubt the technical nature of the debate over repurchase agreements.



The bottom line, however, is that, though banks have been given until the introduction of the new Deposit-taking Financial Institutions Act before they have to hold full cash and liquid asset reserves against their repo books, they will eventually have to face this added expense.

The burden may be lightened by an adjustment in the ratio of liquid assets and cash reserves they have to hold but they would be rash to rely on this development right now.

FNB's cut in its loan rate was also not seen in perspective. Despite the fanfare accompanying the announcement, the move simply brings it into line with most other institutions already charging 20,75%. A further cut of 0,25% is available only to full customers — clients with cheque accounts who use two additional products.

FNB's new sales thrust — it is offering up to 90% of purchase price for loans of up to R150 000 — is also arousing expectations that lending institutions will revive a marketing drive. This, too, seems unlikely. Not only is there the 1% monthly credit growth constraint to consider but most banks have become wary of asset growth. Capital adequacy is the major challenge now facing banks worldwide. So most local institutions are focusing on their capital and reserves, to ensure they to meet this prudential ratio.

FNB may well have room to manoeuvre (see *Fox*). It has drastically reduced asset growth and reports it is fully capitalised. Perhaps the moment has come for it to adopt a higher profile. But it seems unlikely there will be much ripple effect in the markets.

With sentiment volatile, expectations of interest rate increases tend to alternate regularly with rumours of declines. But with a long road ahead, from this week's talks about talks to a final settlement, the monetary authorities will continue to nurse the current account of the balance of payments. And as gold slid below US$370/oz, opening in New York at $367/oz on Monday, there was little prospect of relief from this source.

As long as extension of credit continues strong there is little likelihood they will slacken their constraints on growth. ■

EXCHEQUER UPDATE

A lot can happen in a month. Revised 1989-1990 exchequer figures compiled for the Budget, about a month before the financial year-end, show large discrepancies with the final figures to March 31, published on Friday. Inland Revenue collections are R423m higher than in the Budget; Customs & Excise revenue lower by R36m.

On the expenditure side, in 1989-1990 the fiscus spent R617m more than the figures revised at the time of the Budget speech in March. The excess is largely attributable to more spending from the Department of Finance and interest payment on debt of about R82m.

DEVELOPMENT BANK

Solid stocks

The Development Bank of SA says funds invested in its coming stock issue will be as safe as any other government stock, despite the weakness of homeland structures and black local governments, to which most loans have been made.

GM André la Grange says 84% of the SBDC's R1,8bn callable shares are held by government and can be called only to meet obligations on loans in the financial market.

These capital shares effectively offer a government guarantee and also represent a limit to which the bank can seek private-sector funds. FM 4/5/90

The assurance came with the announcement at the bank's new R26m Midrand headquarters of plans to raise R1,5bn on the capital market in the next three to five years. Stock of R175m in R100 units will be issued on May 9, with an additional R125m issue later — allowing the bank to disburse almost R800m this year. The first issue will carry a coupon of 14,5%, term of 20 years and redemption date of September 30 2010. The effective rate to be announced the day before issue is expected to be nearer 17%. It is hoped they will trade at the same level as other government stocks.

The bank minimises risk by allocating development aid in increments as projects proceed, says La Grange.

Close communication and support from all elements in the black community are essential. Contacts with the ANC "have been maintained for some time."

Executive chairman Simon Brand says in the latest annual report that the years ahead will see continued demand for development aid. Planned projects will continue despite

Redistribution the way, agree ANC, Cosatu

49

Staff Reporter

A post-apartheid government would seek growth through redistribution and ensure that organised workers played a key role in the economy and society, it was agreed at the recent ANC/Cosatu workshop on economic options for a future South Africa.

In a statement released after the three-day Harare workshop, which has just reached The Star, delegates also agreed that privatisation was immoral and that the Government "should not be allowed to shape our future" by selling state enterprises.

More than 60 representatives attended the workshop, which was addressed by Cosatu's Mr Jay Naidoo, ANC executive committee member Mr Pallo Jordan and other union and political leaders. Its findings will be referred to the ANC and Cosatu for adoption as policy.

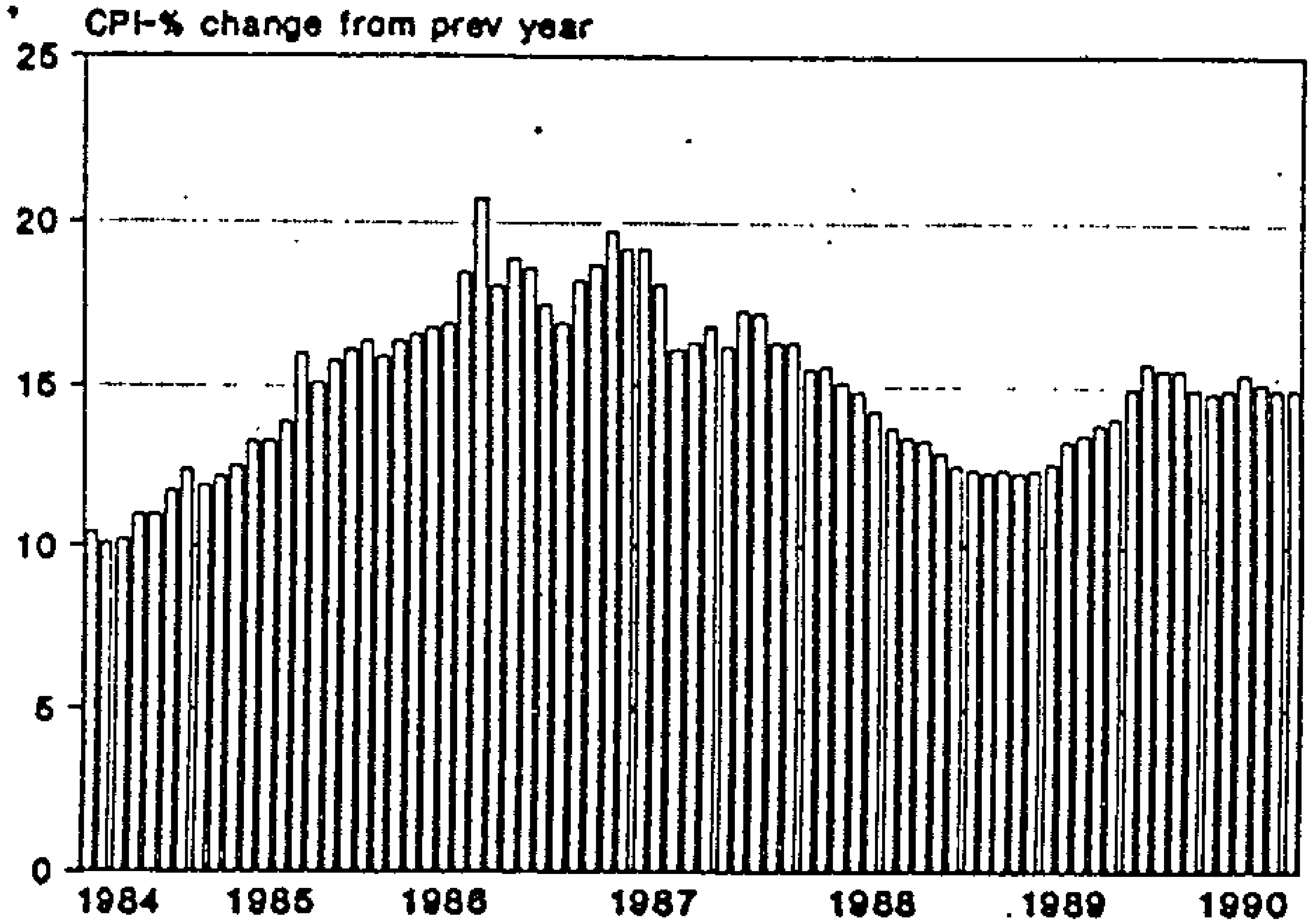
Economic reconstruction

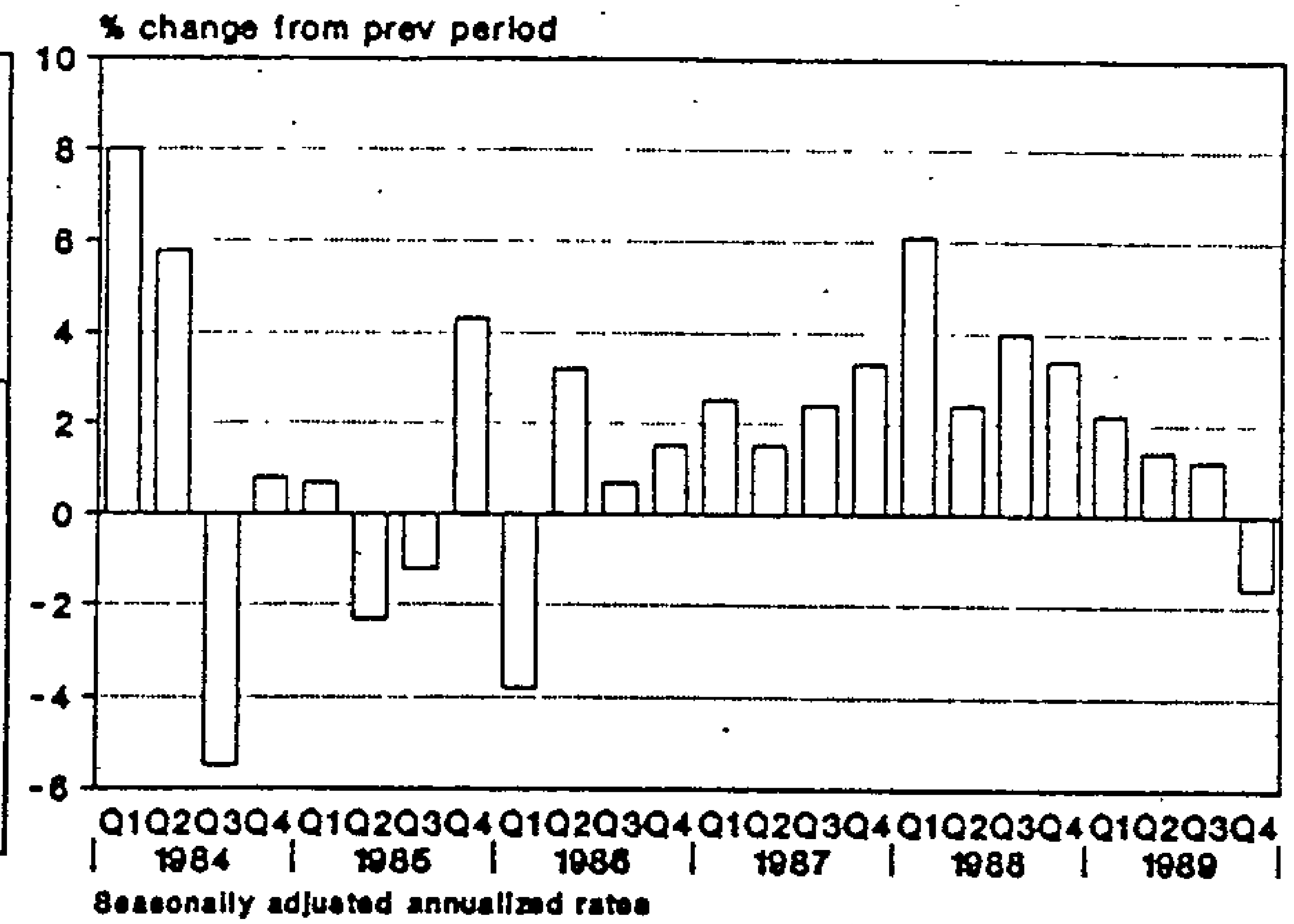
The statement said discussion had focused on immediate issues such as the building of a mixed economy and the financing of economic reconstruction.

It was agreed that the state would have a vital role as economic agent and creator of the economic environment, although the private sector would also have a part to play.

Support was expressed for campaigns against privatisation, deregulation and the Minerals Bill. These would "seriously inhibit" the ability of a future government to realise its aims, the statement said.

Other critical areas debated included industrial restructuring and planning, agriculture, the land question, nationalisation and the relationship of worker organisations to a future government.





The graphs indicate that consumer price inflation has eased (left) while real GDP (right) has slowed

w/Mail 4/5-10/5/90

(49)

Battle against inflation will keep interest rates high

Weekly Mail Reporter

BUSINESSES and individuals with high levels of credit should prepare to tighten their belts. Interest rates are likely to stay high for some time, concludes the Standard Bank in its latest *Review*.

This is a consequence of the switch in emphasis of economic policy from boosting the surplus on the current account of the balance of payments to combating inflation.

The main priorities in 1988 and last year were the short-term needs of slowing the real economy and boosting the current account surplus.

The government can change tack in the direction of economic policy, towards longer term objectives, because of an improvement in the current account surplus, to the point where gold and foreign exchange reserves rose in the first three months of this year, reversing the downward trend which began at the end of 1987.

The slowing of the economy in response to the progressive tightening of monetary conditions since the beginning of 1988 has reversed the growth of domestic demand and imports have fallen.

"Moreover," the *Review* continues, "more favourable political perceptions of South Africa abroad have resulted in improved access to foreign capital markets and it now seems probable that foreign debt repayments in 1990 will be met without undue difficulty."

Monetary policy is now directed at combating inflation and, to this end, reducing the high rates of growth in money supply and credit extension of recent years.

The emphasis of fiscal policy has also changed. "Thus, although the the 1990/91 Budget will attempt to maintain a pattern of government spending and income that is compatible with short-term economic stabilisation, new emphasis has been given towards attaining longer-term structural and socio-economic priorities.

"The shifts in policy will have important economic consequences. They will impact on both the level and direction of government spending, and interest rates will remain higher for longer than was previously anticipated because significant declines in inflation are unlikely in the short-term."

The good news is that the dampening effect on domestic demand of higher interest rates will continue to boost the current account surplus, the *Review* says. This is fortunate because the continuing weak gold price and weaker international commodity prices are likely to cut into export earnings this year. Also, big foreign debt repayments are due beyond 1990 and, despite recent increases, gold and foreign exchange reserves are still too low.

"Thus," the *Review* cautions, "while the prime policy objectives for the remainder of 1990 will be the reduction of inflation and the achievement of socio-economic goals, the authorities will be forced to steer a narrow line between reducing inflation and avoiding economic recession."

BIDay 4/5/90 (49)

Flagging GDP per capita poses 'biggest SA crisis'

Business Day Reporter

THE economy is expanding at a much slower rate than the population and, as a result, the share of the GDP per capita decreased by 2,5% between 1985 and 1986 alone, says Self-Employment Institute director Theo Rudman.

Speaking at a Small Business Advice Centre conference in Empangeni last night, Rudman said that from 1975 to 1985 SA's per capita share of the GDP dropped by 8,5%, at constant 1980 prices in rand terms.

He said that over a 10-year period which took in economic booms as well as recessions, SA's population growth rate of 2,7% outstripped the economic growth rate.

"This crisis is potentially the most devastating SA has ever faced," Rudman said.

Economists estimated that a growth rate of more than 6% over the next 15 years would be necessary to create the required number of jobs in the formal sector. This would take an investment in fixed capital of over R800bn at constant 1988 prices over that period merely to achieve a real GDP growth rate equal to the population growth rate.

At the moment, there was little chance of this happening.

"A much higher growth rate than this has been achieved by countries such as South Korea, Taiwan and Singapore. These are, like SA, developing countries with a high population growth rate and a large poor population.

"Studies undertaken in various parts of the country show that street traders account for 40% to 50% of all the business transacted in the informal sector. Surveys also show that not all street traders in large urban areas are part of the informal sector; many larger businesses take advantage of street trading to extend their marketing," Rudman said.

It had been calculated that the urban informal market was worth about R9,84bn a year.

Rudman said this was an approximate figure as many traders left cities to spend up to a month per year in the TBVC countries, or worked part-time.

Harassment

Takings a day averaged R100, but could be as low as R50 or as high as R4 000 a day during the Christmas season.

Rudman said this success was achieved in spite of limited education and extreme harassment by council officials and police.

The SA Reserve Bank, he said, estimated that the total expenditure on goods and services of blacks in formal employment was about R30bn in disposable income.

"This is an income expenditure larger than those of the national economies of any other country in so-called sub-Saharan Africa. The economy of the black urban community in SA is by far the largest economic system in the whole of Africa, except Nigeria and three countries on the Mediterranean — Egypt, Algerian and Libya.

Informal traders in SA handled 33% of the disposable income of all blacks employed in the formal sector. This figure was slightly distorted as informal traders did a small amount of business with whites, he said.

"However, as far as I am concerned this fast growing sector is the area that is going to give most of you your growth in real terms. Many formal retailers in the Johannesburg CBD, unlike those in most cities in SA, have realised that the informal sector, far from being unfair competition, is a challenging opportunity. The result is that the number of licensed hawkers has grown dramatically."

Rudman said at the end of the 1985/86 financial year there were 781 licensed hawkers in Johannesburg. This rose to 1 004 by the end of the 1987 financial year. However, at the end of last year, more than14 000 licences had been issued.

"There is no doubt that it is in the interest of SA to create and encourage a black middle class. The easiest way to do this is to encourage and educate the informal sector.

"To integrate our Third World economy with our First World economy is vital if SA is to prosper and develop. This integration could provide a shot in the arm to our ailing formal economy in the absence of foreign investment," Rudman said.

MAY • 4 • 1990

Financial Mail

ANC ECONOMIC POLICY (49) F\M 4\5\90.

A breath of commonsense

Nelson Mandela's statement that an ANC government will practise nationalisation only "if it would strengthen the economy" is, if taken literally, an admission that the organisation has dropped the policy; for there can be no doubt that nationalisation will weaken the economy and further empoverish the masses.

The beneficial impact of this admission, however, is overshadowed by SACP secretary general Joe Slovo's "return" speech on Sunday, which contained a strong, if implicit, continued commitment to this outmoded concept.

Several conclusions may be drawn from these events.

In the first place, it's clear that the ANC still has no coherent, let alone logical, economic policy. It is to be hoped that this week's brainstorming session in Lusaka will help overcome this lack. It's just a pity that Slovo will be haranguing President F W de Klerk instead of learning about the collapse of his beloved socialist dogma in eastern Europe.

In the second place, it seems any confusion in ANC economic policy reflects not just a failure to think things through, but a real split in ideology. The SACP still shows no signs of losing its role as virtually the only organisation in the world not to recognise the failure of socialist economics in eastern Europe.

As long as that blind spot persists Slovo will be unable to accept that the caravan has moved on and have to keep making doctrinaire public statements of total unreality.

Perhaps the most important conclusion is that, to the extent that Mandela *has* changed tone, it justifies the strident opposition of businessmen (and others) to the whole nationalisation campaign. Some have criticised this, apparently on the grounds that we mustn't upset the ANC and torpedo negotiation before it starts.

The fact is that negotiation means exactly that. It is not just a question of how to hand over power to the ANC. The ANC is far from being the only player government has to contend with and has weaknesses as well as strengths — an inability to enforce its calls for an end to violence in Natal being a vivid illustration of this.

The ANC is not in a position to dictate by force its blueprint for a post-apartheid SA, nor does it have a monopoly of ideological purity. Those whose vision is a democracy that goes hand-in-hand with free enterprise can take heart from Mandela's apparent reconsideration. It doesn't show that they have won the battle yet, but it does show that there is no reason for them to surrender, or even feel ashamed of continuing forcefully to advance their viewpoint. ■

DEVELOPING AFRICA (49) F/M 4/5/90

Go and do likewise

■ Africa's renunciation of socialism is good news — for a non-socialist SA

A revolution is afoot which could remould the troubled economies of Africa — but it's not the one Marxists have been dreaming of. Instead it could lead to more freedom and higher standards of living, which is what independence promised but failed to deliver.

SA is the economic powerhouse of sub-Saharan Africa and can only gain from enhanced continental prosperity. But it lacks the educated work force necessary to sustain a sophisticated private sector — and this will constrain the pace of development. But if it maintains its commitment to free enterprise — and the system's benefits become apparent throughout Africa — it will help create and share in a great expansion of wealth.

Countries which have begun the transformation into market economies include:

□ Nigeria, which abolished all its commodity marketing boards in 1986 and saw farm exports surge and which has embarked on a massive privatisation programme;

□ Mozambique, where GDP has grown 4,5% annually since an International Monetary Fund (IMF) reform programme was introduced in 1987, after GDP plummeted 40% the previous six years;

□ Senegal, which has liberalised trade, slashed subsidies, tightened monetary policy and frozen public-sector employment and wages since 1985;

□ Guinea, where reforms resulted in the GDP growth rate going from zero in 1980-1984 to 5% in 1985 and 6% in 1988; and

□ Tanzania, where reforms have cut real food prices by half since 1986.

Africa began its fragile turnaround in the mid-Eighties, according to the World Bank. Sub-Saharan food production from 1985 to 1988 grew faster — at 4% a year — than population for the first time since 1970. The period 1985-1987 saw non-petroleum exports rise by more than 10% — reversing a 15-year decline — and reach their highest level since 1970.

According to JCI's Ronnie Bethlehem, "Failure and pain are great teachers. Marginal economic growth and an increasing population have created a degree of poverty and political and social unrest that has compelled a re-examination of discredited dogmas."

A major factor is the passing of the first generation of leaders after the colonial era. The current reforms are being undertaken by a new generation of leaders, more educated and pragmatic than their predecessors.

Guinea's President Lansana Conte chose economic reform in response to demands for radical change, as did Mozambique's Joaquim Chissano after the death of hardliner Samora Machel. "This is not a religious conversion, but a very practical matter of economic growth," says Edward Jaycox, the World Bank's vice-president for Africa.

Gradual economic liberalisation was long overdue in rigidly socialist Tanzania, but only began after the resignation of Julius Nyerere, and even then his shadow prevents current President Ali Hassan Mwinyi from introducing radical economic and political reform. Last month, in a sign of the times, even Nyerere admitted that debate on the introduction of a multiparty system should not be regarded as treason.

New leaders look to examples such as Botswana and, to a lesser degree, the Ivory Coast, Kenya and Malawi, which have somewhat open markets and have managed to sustain growth. Botswana was one of the poorest countries in Africa at independence, but a free-enterprise system allowed development of its diamond wealth and it's now among the wealthiest.

Though the shift was already under way, the upheavals in eastern Europe and the Soviet Union have underlined the failure of socialist economies and one-party States. Mozambique renounced Marxism-Leninism as the country's official ideology in January, joined by Benin in February. Ethiopia, Africa's poorest country and also its oldest, followed suit last month.

The East-West tensions African leaders exploited to extract military and other aid have also been reduced. Western donors no longer fear African allies will look East for funds and are keeping closer track of aid, or even diverting money to eastern Europe. Total aid to sub-Saharan Africa decreased in real terms from US$19,8bn in 1982 to $17,9bn in 1987 — and this compelled some long-needed discipline.

The trend was reinforced by the increasingly tough line taken by the IMF and World Bank. The two organisations insist on measures aimed at shrinking government deficits, lowering exchange rates to market levels, raising prices paid to agricultural producers, deregulating on a grand scale, creating programmes to fight corruption, reducing spending on large prestige projects and cutting the military. (In the Eighties, Africa spent more money on weapons and armed forces than it received in aid.)

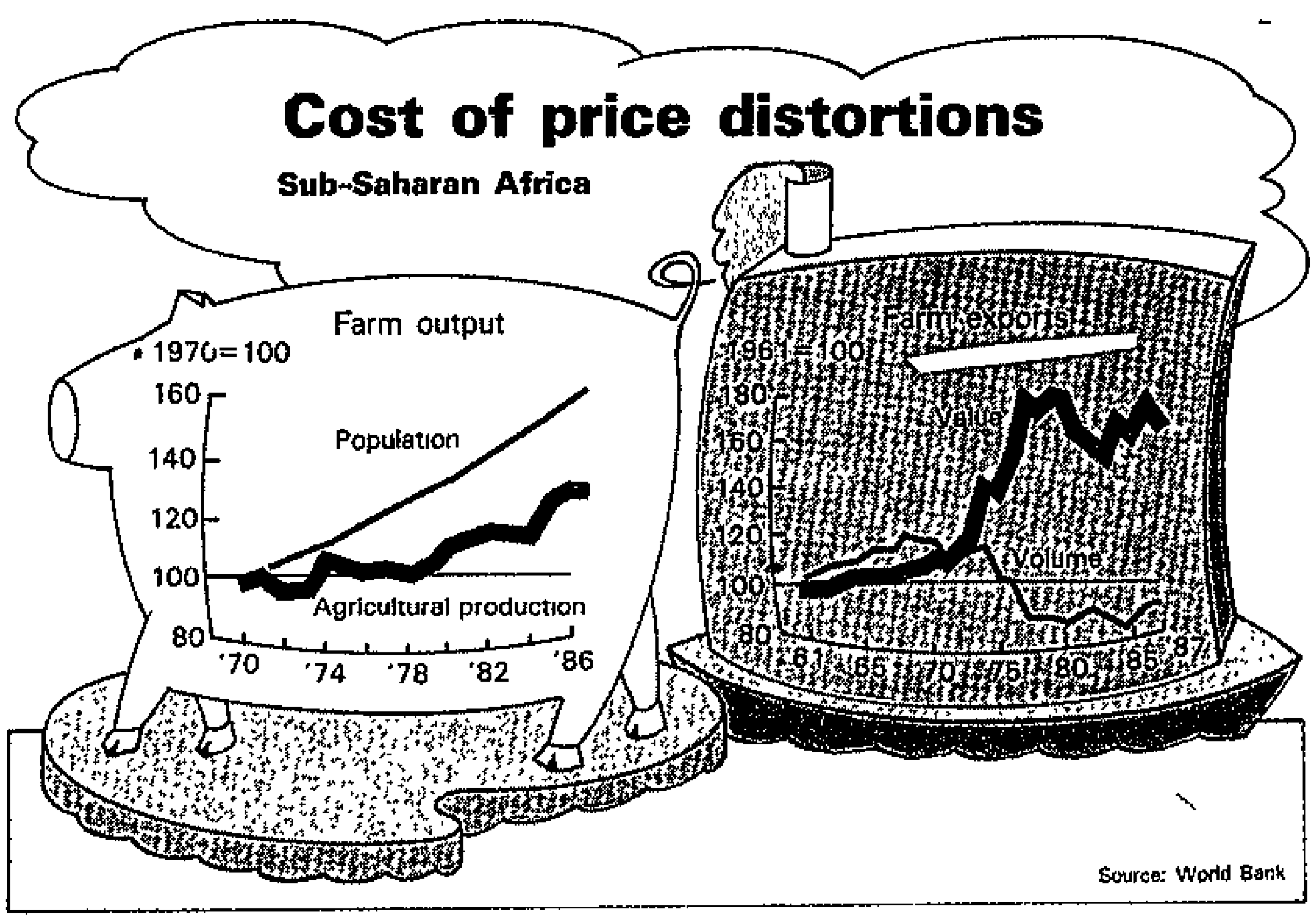
As Africa slowly emerges from this morass, it is clear that colonialism, poor soil conditions, harsh climates, wildly fluctuating commodity prices, rapid urbanisation and unprecedented population growth had less to do with the continent's sorry state than abysmal government, and the bankrupt economic policies it implemented.

Post-independence Africa has enjoyed little economic freedom. Instead, leaders nationalised much of their economies, regulated prices, controlled foreign exchange, subsidised favoured industries, and pumped up the bureaucracy. Last year, per capita income was 15% lower than in 1979.

And of course, political opposition was outlawed and free elections were ruled out.

Former US ambassador to SA, Herman Nickel, says: "It is this lack of accountability — and the resultant profusion of corruption, bloated bureaucracies, underperforming public corporations and abuse of power — that has become Africa's common denominator."

Kenya and Tanzania provide a case study. They were both former British colonies that received their independence in the early Sixties and are very similar in terms of location and population (20m and 22m). Though socialist Tanzania has almost 250% more arable land per per-



(49) FIM 4/5/90

was spent by the public sector, with governments and State-owned enterprises receiving 80% of the region's foreign aid grants and 87% of subsidised loans.

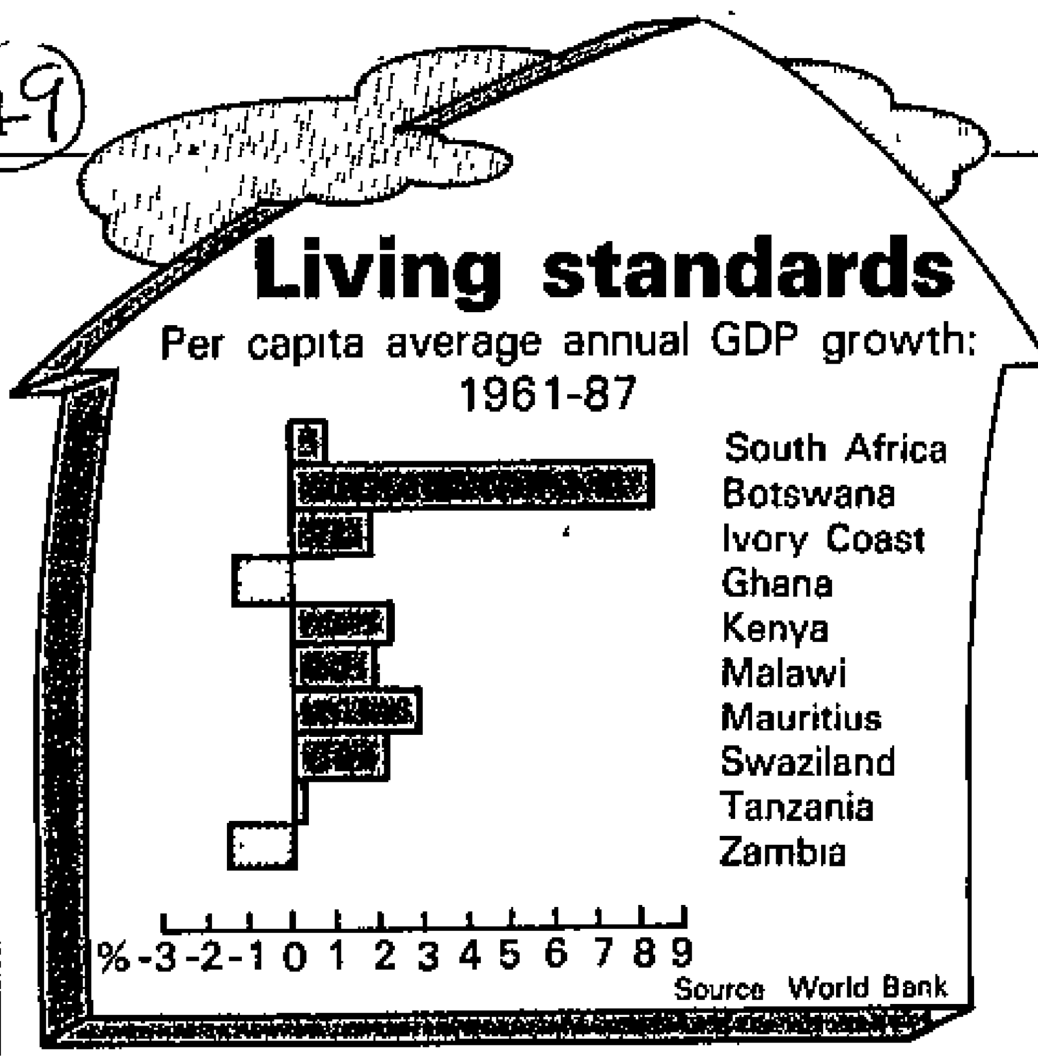
With this in mind, a branch of the World Bank, the International Finance Corp, has provided loans to nearly 500 private enterprises in developing countries (about $3,5bn worth). In 1987, it received a 14% return on its investments, suggesting profits and development are not incompatible.

How fast should reform proceed? Some economists favour the example of Poland, which transformed a centrally controlled economy into a market system virtually overnight. They hope to avoid the problems encountered in Ghana, which introduced a gradual programme eight years ago and has struggled to maintain stability as people lose patience with continued austerity.

But critics, while acknowledging the need to foster private initiative, say IMF terms are too harsh. Unlike eastern Europe, the margin between life and death is too small to cushion the sudden, though transitional, shift to higher unemployment and prices that economic reforms would bring.

However it is achieved, to the degree that Africa turns itself around, SA will profit. Glenn Babb, a Nat MP and former deputy D-G for Africa in the Foreign Ministry, estimates that the country's trade with the continent tripled to about $6bn from 1985 to 1988. Hubs for the distribution of SA goods were established in the Ivory Coast, Zaire and Rwanda-Burundi.

The SA Foreign Trade Organisation's Paul Runge predicts a steady rise in trade as SA itself reforms and increasing economic pragmatism lures African leaders and businesses south. "However, we must avoid inflated expectations, with Europeans concentrating on their eastern neighbours and African countries still severely constrained by a lack of foreign exchange."



In fact, Sally Gallagher, director of Johannesburg-based Business Development Africa, believes the jump in African trade is deceptive, largely the result of price increases rather than rising volumes. "But the potential for increase is there, with SA offering quality products at competitive prices and fast delivery."

According to Nickel: "As African countries see the attentions of the First World shifting away from Africa, they are developing a heightened awareness the continent needs greater economic co-operation and that Africa's most advanced and powerful economy must play a key part in it."

Unfortunately, SA lacks capital for direct investment abroad and suffers from sanctions, disinvestment and political and social upheaval, so there are limits to what the country can do to encourage this trend.

But what if SA itself — under an ANC-dominated government, say — tries to turn the ideological clock back and ventures into socialism? As Bethlehem notes: "It's hard to tell deprived people — for whom hopes have been raised — that socialism has been discredited."

SA has been warned. Mozambique PM Mario Machungo says: "If the ANC were to ask me, I would tell them nationalisation is not the way to go" (*Leaders* March 16). Mozambique under Machel tried nationalisation, central planning and collective agriculture. They are now decentralising, privatising and welcoming private investors, including South Africans.

Angolan Foreign Minister Pedro de Castro van Dumen said recently: "The biggest mistake we made was to make the State sector larger and larger when we did not have the capacity to manage it. There will be a very big reduction of the State's participation in the economy."

But empirical evidence and wise words may not be enough. Socialism still attracts SA blacks who associate capitalism with apartheid here and poverty throughout Africa. Diehard (but wavering) communist Joe Slovo recently said: "Over 90% of the people on the African continent live out their wretched and repressed lives in stagnating and declining capitalist-orientated economies."

Never mind that labelling a handful of African countries capitalist is absurd.

To further discredit centralist ideas and contribute to the liberalising trend, SA must successfully redistribute wealth without destroying the means of creating it. It has to prove that social upliftment and free markets are compatible. With so many African governments having apparently learnt this lesson, why should we be left out? ■

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son, it has had to import food while market-orientated Kenya is self-sufficient. Despite the lack of diamonds, gold, iron and hydro-electric power found in its southern neighbour, Kenya's annual GDP growth was 3,1% from 1980 to 1985 while Tanzania's languished at 0,8%. Kenya has lower infant mortality, greater life expectancy, more physicians and nurses per capita and higher school enrolment.

The World Bank stresses reform measures can be effective only if African leaders become accountable to their people through judicial reform and multiparty elections. Without political reform, not much foreign aid, which buoys reform, will be forthcoming, it warns.

And political reform should aim to encourage the private sector, responsible in 1987 for roughly 70% of sub-Saharan Africa's GDP and 85% of employment, but receiving only 30% of the credit advanced by domestic financial institutions. It did almost all the saving, but two-thirds of investment

Growth is government aim

BDay 4/5/90

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WIM de VILLIERS

GOVERNMENT has set as its highest economic priority the achievement as soon as possible of the highest attainable level of economic growth, and to maintain it insofar as it is reconcilable with the maximum creation of new prosperity and additional jobs.

It is clear that the economy will have to go through a period of extensive restructuring. Government's economic objective must be to restore the vitality and productivity of the production and employment processes in SA.

South African industries must be cost efficient on an international level. They cannot be dependent on permanent protection against foreign competition for their survival. On the contrary, they must have the potential to compete, price-wise, internationally.

Government's interference with the economy must not undermine this need for cost effective local industries. Inflationary elements have to be removed from tariff protection and surcharges.

The markets for SA products have to be broadened. The State President's initiatives and events in especially Eastern Europe create opportunities that have to be grasped.

It is government's fundamental objective to reduce the role of the public sector in the economy and to give the private sector the opportunity to flourish. In this process, market forces and a healthy competitive structure must be allowed to bring about the necessary adaptations.

By cutting capital expenditures in parastatal institutions, privatisation, deregulation and reducing state expenditure, appreciable progress has already been made to reduce the authorities' role in the economy.

Economic growth in the medium and short term should be based on:

☐ Optimal use of capacity in heavy industry to produce for export while switching as far as possible from a one-shift basis to a two- or three-shift basis.

☐ Provision of basic infrastructure to improve, within existing resources, the urgent socio-economic backlogs, especially those caused by urbanisation;

☐ Urbanisation and the provision of basic infrastructure create a demand for labour-intensive low import content goods and encourage inward industrialisation which reaches the small business undertakings and the informal sector.

While these processes are under way, the policy of restructuring the economy will be carried through so that the comparative longer-term advantages can be enjoyed as soon as possible.

Restructuring the economy's production side involves, in particular:

☐ As a high priority and in preparation for sustained stable growth, the gradual lowering of inflation to levels comparable with those of our leading trading partners;

☐ Reinstatement of the savings pattern, particularly discretionary saving by households;

☐ Reduction of the tax burden on households relative to that on companies;

☐ Reform of the structure, and the raising of the level, of savings to promote capital formation and job creation, and to channel available capital in more productive directions;

☐ Promotion of responsible wage determination which will help in combating inflation and boosting employment;

☐ Promotion of competitiveness of SA industry, which will require a rationalisation of industrial protection policy; and

☐ Elimination of factors preventing the relative prices of production factors (especially labour and capital) from faithfully reflecting their relative scarcity.

In the area of monetary policy it means that interest rate levels should, in principle, be positive in real terms, and the rand should not be overvalued. In the determination of the level of the exchange rate, the competitive ability of SA exporters must be taken into account.

I believe this policy creates a purposeful approach which will be supported by the private sector.

☐ De Villiers is Minister of Economic Co-ordination. This is an excerpt from a speech prepared for delivery in Parliament yesterday.

LETTERS

Economic debate begins the shift away from slogans

B/Day 4/5/90 · **ALAN FINE** (49)

THE ANC/Cosatu economics workshop in Harare this week, and the meeting between the ANC and 400 top businessmen on May 23, are confirmation that the debate on a future economy has now moved beyond sloganising.

These events, together with other developments, are also signs that it has gone beyond pure debate. Long before a new SA constitution has been negotiated, it appears some important NP economic (and other) policy decisions are beginning to take into account the views of the ANC/Cosatu alliance.

It will probably be another few months before the detailed proposals discussed in Harare are made public.

Until then, it will be difficult to get clarity on precisely where on the economic spectrum — between pure free enterprise and central state control — the ANC and Cosatu's vision of a "mixed economy" fits.

There are initial indications, though, that new, agile interpretations of the 1955 Freedom Charter's main economic clause are making it possible for these organisations and their advisers to distance their policies from the stereotyped and discredited versions followed in pre-Gorbachev Eastern Europe. These interpretations suggest ANC economic policy will develop in a way that will make its possible implementation cause far less dislocation than may appear at face value.

That clause, it will be recalled, calls for the mines, banks and other monopoly industry to be transferred to the ownership of the people as a whole. While the charter remains a cornerstone of ANC policy, ways will have to found to ensure that policy detail is not incompatible with it.

Today it is difficult to find anyone who seriously contemplates the state taking over ownership and control — through seizure or with compensation — of the hoists, tunnelling equipment and refrigeration units owned by the country's mining houses.

The emphasis has shifted perceptibly to the question of mining rights which could be leased to the private sector. If the state can claim to own the rights to the mining of the country's mineral wealth, it is argued, this would meet the requirements laid down by the charter.

It so happens that this idea is not altogether removed from the status quo, and appears to be one with which Leon Louw, one of SA's best-known free-market purists, could live.

"The mines already belong to the state. All former governments have decided that the best way to mine their own mines is to subcontract them to the competing mining houses under mining leases. If they negotiate a favourable lease formula and impose high taxes on mine profits, they will make much more money out of their mines than if they mine them themselves," said Louw in a speech last week.

"Among the remarkable benefits of this ingenious scheme is that private investors will take all the necessary risks of prospecting and provide the phenominal amounts of capital required at no cost to the state."

This is not to suggest that a post-apartheid ANC government would be a docile lessor. The intention would be to regulate against over-mining, so as to extend the economic life of the industry, and to ensure mining was as environmentally friendly as possible.

This is why the Harare workshop took a strong stand against the passage of the Minerals Bill, whose provisions are seen as threatening to limit the ability of a future government to intervene in this fashion.

As far as the banks are concerned, many policymakers and advisers are interpreting the Freedom Charter more loosely than may have been intended 35 years ago. State intervention in the economy in general, they argue, is not a matter of principle. Rather, it is something to be embarked upon where developmental priorities make it a necessity. The state requires control over part of the financial sector to facilitate development work, they say.

It so happens SA already has an institution designed for that role — the Development Bank of Southern Africa. The ANC and Cosatu would probably take issue with some of bank's priorities and methods, but as an institution it already exists for moulding into whatever shape a new government feels desirable.

There are other key areas of the economy likely to be only marginally affected by the would-be future ruler. For example, one ANC source has said that in the present circumstances he could not see any alternative to the existing foreign exchange system.

The statement released after the workshop mentioned discussions being held on "sound fiscal and monetary policy", suggesting recognition of a need for disciplined policies. But all this is not to suggest that the ANC and its allies do not intend a dramatic rearrangement of economic strategies and spending priorities.

"Industrial restructuring" is becoming a familiar phrase, and in months to come we can expect to hear in more detail how it is envisaged this would be achieved.

Welfare and infrastructural development would naturally be a top priority. Where the money for such expenditure would come from is obviously a critical question. But it is one every political party has to explain.

Of greatest concern to the ANC and its allies right now is the belief that government's privatisation and deregulation policies are designed purely to "sell off the family silver" to, and facilitate quick and exploitative profit-taking by, the white elite before political power falls into the hands of the majority.

This, it is feared, would be an obstacle to the ANC's reconstruction plans particularly, as Numsa's Alec Erwin put it, where privatised institutions are involved in infrastructural work. Examples here are Eskom and hospitals. Hence the proposal that these policies be made a major focus of Cosatu and ANC activities in the months to come.

This battle has, of course, been partially won with the statement by Mineral and Energy Affairs and Public Enterprises Minister Dawie de Villiers, which followed the widespread anti-privatisation marches, that certain "monopoly" public enterprises might not be privatised.

The point slowly emerging is that, in the period of negotiation for the "new SA", the NP is taking substantial notice of the views of the disenfranchised where new policy initiatives — including economic ones — are concerned.

Government sources have emphasised the NP will continue to use its power to ensure stability in SA during this period. But that does not mean it will go out of its way to create new areas of conflict.

It is in this light that the apparent climb-down on privatisation can perhaps be explained: rule by (implicit) consensus.

While public positions are being taken — such as the ANC threat to renationalise privatised corporations — compromises are possible. The labour movement, the private sector and government have already begun showing the way in a closely related area — that of developing new and mutually satisfactory labour legislation.

BUSINESS

W/Mail 4/5 - 10/5/90

Stop the privatisation, says Harare conference

(49)

The Harare conference on a post-apartheid economy has called for a campaign to stop privatisation, reports ANDREW MELDRUM

AN appeal for campaigns to oppose the South African government's privatisation policies and a warning that those companies will be re-nationalised in a post-apartheid South Africa were issued at a conference of ANC and Cosatu economists in Harare this week.

"In order to plan an equitable economic order in South Africa, action has to be taken now to resist the government's privatisation," said African National Congress economist Vella Pillay. "Demonstrations of mass indignation could make it extremely difficult to privatise because that would reduce possible buyers. A firm position by the ANC and Cosatu (Congress of South African Trade Unions) that a future government would re-nationalise would itself be an obstacle to privatisation as it would discourage potential buyers."

Sixty delegates attended the conference and, at its conclusion on Tuesday, issued a statement spelling out their opposition to privatisation.

"It was noted with grave concern that the apartheid state is currently implementing a series of policies which will seriously inhibit the ability of a future non-racial government to achieve its objectives. These measures being undertaken now by the apartheid regime include privatisation, deregulation, the introduction of the Minerals Bill and others," said the closing statement.

"These measures are immoral and are unacceptable and this present government must not be allowed to shape our future in this way," said the statement which added that the much of the privatisation would be "reversed".

The conference participants said they particularly objected to the privatisation of Iscor, the social services and mining activities through the Minerals Bill.

The conference participants agreed that South Africa should have a mixed economy with the new democratic government being "an active economic agent" as well as the private sector. That organised workers should play a major role in guiding the economy was also agreed upon.

A major area of consensus, according to Tito Mboweni of the ANC's economics and planning department, was that economic growth should take place through redistribution. For instance, by increasing minimum wages a new larger market would be created for food, clothes, cars and many other consumer goods.

"An example of growth through redistribution would be if a new government undertook a project to provide housing for the people, it would spur a boom in the construction industry," said Mboweni.

He said consensus was reached on other economic issues, including that minerals should be a national property which could be mined privately but under state controls and regulations. They also agreed the economy should be reconstructed to reduce its overdependence on exports of minerals in their raw stage. Instead, the minerals should be processed or beneficiated to the most finished stage possible.

The participants included economists from the ANC and Cosatu as well as the Economic Trends group, Economic Research on South Africa, the Centre for Development Studies and the Industrial Strategy group. Economists from Britain also attended. Thirty-four formal papers were presented but it was agreed none would be made public.

Speakers included Max Sisulu, Pallo Jordan and Sindiso Mfenyane of the ANC, Jay Naidoo of Cosatu and Alec Erwin of the National Union of Metalworkers. Pillay presented a paper on macro-economic policies entitled *Year one of a post-apartheid economy*. In it he outlined how the huge amount of funds spent on the military could be re-channeled.

Professor Lawrence Harris of Britain's Open University, presented a paper on how to build and finance a mixed economy.

De Villiers announces govt department restructuring

CAPE TOWN — Government has started the restructuring programme of its own departments with the appointment of private sector managers to trim fat and improve cost efficiency.

This was announced in Parliament yesterday by Administration and Economic Co-ordination Minister Wim de Villiers, who was appointed to co-ordinate an economic policy for future maximum growth.

De Villiers said the process of creating a leaner, more efficient public service had started in the SA Prisons Services, the SA Police and the Finance Department, where members of the private sector were introducing management accounting methods.

LESLEY LAMBERT

He said the process was being phased in gradually.

Speaking in the Administration and Economic Co-ordination vote in Parliament, De Villiers said SA's medium and long-term economic growth would depend largely on its ability to boost exports, make provision for socio-economic backlogs created by past policies and develop the process of inward industrialisation.

Export growth depended on the optimal use of production capacity, particularly in heavy industries, and on the ability of SA companies to compete on international markets.

De Villiers said improvement of the economy's production capacity would rely on the gradual lowering of inflation to levels comparable with those of leading trading partners, the reinstatement of the savings pattern and the reduction of the tax burden on households.

Other necessary measures included the promotion of responsible wage determination to help combat inflation and boost employment, the promotion of competitiveness within industry, the rationalisation of industrial protection policy and the elimination of factors preventing the

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De Villiers

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relative prices of production factors from reflecting their relative scarcity.

High on the list of recommendations for government policy were the rationalisation of the industrial protection policy, continued fiscal discipline on expenditure and tax reform which promoted savings and discouraged the subsidising of capital versus labour.

The financial authorities would have to apply a monetary policy ensuring positive real interest rates and a stable rand which was not overvalued for the sake of exporters, he said.

DP finance spokesman Harry Schwarz launched a scathing attack on De Villiers's statement, saying it did not address the vital issue of wealth income and the skills gap, which were of vital significance to current political changes in SA.

He said government had no economic policy to bring to the negotiating table and called for the abolition of the Administration and Economic Co-ordination Ministry and the transfer of its function to the Finance Department.

● See Page 10

Thatcher, during a previous visit to Britain.

Working in the informal sector . . . street traders in South Africa now have an annual sales turnover of almost R10 billion.

Plea to harness the power of a R10-bn informal sector

Star 4/5/90 (49)

By MICHAEL CHESTER

New figures from the Self Employment Institute on the phenomenal spread of the informal sector have underlined the growing role of the small black entrepreneur in business and the emergence of a potential new economic powerhouse.

Mr Theo Rudman, director of the institute, who has battled with the bureaucrats about red tape hindering black enterprise ever since the informal sector peeked over the apartheid barriers in the 1980s, has disclosed that the sales turnover of black street traders is now running at almost R10 billion a year.

He puts the precise total at R9,84 billion, and says if all business operations are taken into account — spaza shops, back-street workshops, shebeens and home industries — the informal sector now handles as much as 33 percent of the total spending of the black urban community.

Moreover, Mr Rudman reminded a small business conference in Empangeni last night, the dramatic progress by the informal sector had been in spite of obstacles erected by police and municipal officials in many towns and cities.

What could be achieved, he wondered, if harassment were converted into active encouragement with sweeping initiatives to allow the informal black business operations to flex their full muscle as a new economic powerhouse?

The result, he argued, would at last be a solution to the gradual erosion of living standards of all South Africans over the past 10 years.

Impossible target

The dilemma was made loud and clear in simple statistics. Between 1975 and 1985, South Africa's gross domestic product, measured on a head count, sank by 8,5 percent — all as a result of the population growing faster than a feeble economy. It dropped another 2,7 percent in 1985/86 alone, while politicians and bureaucrats held the brakes on black enterprise.

Mr Rudman believed many economists had been staring in the wrong direction for solutions. What had alarmed them were calculations that the formal sector, if it had to carry the full load, faced the impossible target of ploughing R800 billion in new investments in fixed capital to wipe out unemployment over 15 years.

The real need, Mr Rudman insisted, was to recognise that it was informal, not the formal sector, that had by far the best chance of pushing the economy into the faster tempo that had become crucial.

There was a huge reservoir of hidden wealth to be tapped if SA allowed the unrestricted integration of the Third and First World elements of its economy.

"It would turn our black population from what many people see as a huge liability into an enormous asset," he said.

"In turn, by freeing small businesses and removing the monopolistic protection of control boards and marketing boards, big business would be forced to be as productive and efficient as possible.

"Big companies would see that it would be vital to their survival to use small enterprises as an important part of their activities and in the process reduce their capital and running costs."

Training programmes

Many large retail businesses had now dropped their initial opposition to hawkers and were using street traders as new sales outlets.

Now the time had come for them to consider programmes to train the hawkers in modern business methods.

Financial institutions also needed to become more involved by allowing new and simplified lines of credit to informal sector businessmen.

And South African manufacturers were urged to follow the lead taken by Japan and Taiwan in bringing the full potential of both big business and small informal operators into harness.

Both of the Far East economic giants owed their successes to a system of encouraging large factories to form central core operations that concentrated on assembly of final products and relied on a network of small satellites run by the informal sector to supply components.

Even high technology industries could use the system. In Japan, more than half of all components in Sony TV sets were produced by small businesses. In Taiwan, no less than 99 percent of all manufacturers were classed as small or medium-sized firms.

In South Africa, the system could be adapted to the production of everything from furniture, clothing and footwear to engineering products.

Foreign as well as local investors would soon spot the economic merits of helping to finance whole networks of satellites when they realised the cost of creating a new job in a handcraft trade cost as little as R500 — compared with around R2 200 in big steel and engineering companies.

Nationalism shakes the foundations of the Soviet empire

The Soviet May Day demonstrations erupted from the gathering storms of unaccustomed political feeling, reports QUENTIN PEEL from Moscow.

Star 4/5/90

The sight of Soviet demonstrators openly defying President Mikhail Gorbachev and his ruling Communist Party on a May Day parade before the hallowed tomb of Lenin, was symbolic of the explosion of political debate across the Soviet Union.

It was not just anti-communist slogans which were bellowed by radical protesters in front of the mausoleum.

The supposedly loyal trade unionists paraded their own hostile criticism of the economic reform process, demanding a national referendum on the plan to switch to a market economy. In the end, that challenge may be far more of a threat than the denunciations of the Communist Party.

The event illustrated dramatically how Mr Gorbachev's attempts to promote a genuine devolution of power from the centre have set off an often chaotic debate.

The plethora of nationalist flags at the parade, including dozens from rebellious Lithuania, showed the clamour for national autonomy.

The political decision by the Baltic republic of Lithuania to secede was clearly a rebellion against the power of Moscow, although perfectly legal in terms of the Soviet constitution as it stood on March 11. The effect was compounded by President Gorbachev's decision to impose an effective economic blockade on the republic, in order to bring it to heel.

Yet Lithuania is only an extreme example of a process now under way in many parts of the Soviet empire.

The rule and the laws of Moscow are now being more or less openly defied by everybody from individual republics, to regions, cities, enterprises and workers' organisations.

All the Baltic republics now impose restrictions on the goods and foodstuffs that can be bought by non-residents on their territory and taken to other parts of the union.

They have imposed what amounts in efect to an economic blockade of the rest of the Union.

On April 20, the Central Asian republic of Uzbekistan, ruled by a loyal Communist Party, suspended deliveries of many vegetables, fruit and dried fruit to the rest of the USSR until June 1 "in an effort to stabilise its domestic market".

Exports of locally produced goods including furniture, cars and electrical appliances have been drastically cut.

The Western Ukraine, now ruled at the local level by dedicated Ukrainian nationalists, is contemplating doing exactly the same.

In Azerbaijan railway workers have been imposing a blockade on the neighbouring republic of Armenia in total defiance of Moscow for months.

Mr Gorbachev, and the Supreme Soviet in Moscow, have ordered that it shall cease. A law was passed outlawing any strike action on the railways and other essential services. All the power of the ministry of the interior's troops has failed to lift the action.

In Armenia, protesters have been dismantling all road signs bearing the name of Lenin. In Georgia, they have demolished every statue of Lenin in every major town except Tbilisi itself, where it is under permanent guard.

The average number of workers on strike each day this year has reached 130 000, compared with 100 000 a day last year, in spite of legislation which sought to outlaw such action.

The Financial Times News Service.

contact Renamo so we can

Indaba on economy

Star 5/5/90 (49)

A FOUR-DAY conference on economic justice in a post-apartheid SA will take place in West Germany tomorrow.

Organised by the Institute for a Democratic Alternative for South Africa, the conference will include SA representatives from business, universities, the ANC and labour.

The conference will focus on nationalisation, weaknesses and strengths within the economy, and future options.

Among 24 delegates are:

Dr Alex Boraine, Idasa executive director; Mr Pallo Jordan, ANC head of information; Mr Aubrey Dickman of Anglo American Corporation; Mr Christo Nel of PG Wood; Mr Ronnie Bethlehem of JCI; Professor Colin McCarthy and Professor Sampie Terreblanche of the University of Stellenbosch; and Professor Dennis Davis of the University of Cape Town.

Economic growth 'linked to health'

Star 5/5/90 49

JOVIAL RANTAO

ECONOMIC and socio-political growth in South Africa vitally depend on improved health status for the entire community, according to Dr Joe Variawa, Senior Physician at the Coronation Hospital.

Speaking at a meeting of the Institute of the Marketing Management's Health Care branch in Johannesburg, Dr Variawa critisised the effects of the Government's apartheid and homelands policies on health care in southern Africa. He said it had resulted in whites enjoying First World health care while blacks had to cope with Third World treatment.

Dr Variawa said the current life expectancy of a black man is 50 to 55 years compared with the 67 of his white counterpart. "The tragedy is that almost 24 percent of blacks die of illness that could have been prevented compared with only 2 percent among whites. More than 40 000 blacks, for example, die of malnutrition every year.

"The infant mortality rate among blacks is equally disturbing. As many as 124 blacks die before their first birthday compared with only 12 among whites," he said. He attributed this to the fact that only 2,3 percent of South Africa's total health expenditure was spent on prevention.

A lack of access to health care was another major problem — particularly in the homelands. In Kangwane, there was one general practitioner for every 3 200 people and in Lebowa and KwaZulu, one GP for every 1 400.

Dr Variawa called for urgent attention to the increasing health problems and a move away from privatisation of health services.

Democracy as a business

S/Times 6/5/90

Norman Kemp

an industrial and personnel relations consultant, says business leaders must decide on socialism or democracy

IT seems pertinent to ask whether South African business leaders are doing much to influence their employees to prefer free enterprise to socialism and if they are managing the problem better than the authorities.

Most business leaders have reacted with horror to statements by Messrs Mandela and Sisulu that the ANC will nationalise certain businesses.

The ANC leaders contend that business has paid nothing but lip service to the eradication of apartheid, and that employers and shareholders in South Africa have not, in any significant way, distributed wealth equitably. They believe that nationalisation will solve this.

Nationalisation is anathema to free enterprise, and democracy has been shown to thrive best in a free enterprise economy.

It has long been believed that business leaders are more liberal and democratic than their counterparts in government. This may not be true. Let us take a closer look at democracy in business.

Because the right of freedom of association is entrenched in labour law, and workers may belong to the union of their choice, because the rule of law exists in that equity and fairness must prevail in company rules, democracy is believed to exist in business.

These are important principles, but there are other issues. Few employers ensure that equal opportunities are available for all. Many still prefer to promote whites.

Freedom of speech is also seriously curbed by many business leaders, who permit worker representatives to address workers only with their prior permission. Permission is granted or withheld depending on the agenda.

The trade unions have long called for more democracy in the work place. They have demanded that workers be given an equal say in the running of the company — management by consensus as opposed to management by consultation, as is the case in many organisations.

Management by consensus would go so far as to give workers a say in the selection of management and in determining wage rates. Most managements are totally opposed to this.

Democracy at work means involving workers and gaining their participation, which some would contend means management by consensus while others say it means management by negotiation. Most managers who advocate participative management draw the line at management by consensus.

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Platitudes

Participative management is in vogue and every with-it executive supports it. Most mission statements endorse it. Unfortunately, more often than not they remain statements of good intent or mere platitudes, which are not practised.

The average worker believes that he must do as told and that is it. Much of the struggle between unions and management revolves around this. The labour force wants management to be less authoritarian, and to become more egalitarian, hence so many strikes.

It is a struggle for more democracy, which is not always recognised by management. Too often industrial action is ascribed to political motives, with management taking the view that political factors are outside its control.

Management is defined as the achievement of objectives through influencing others.

They frequently run to the industrial court to get interdicts with which to control their workers. That is a sure sign of an undemocratic organisation, because a court interdict is an autocratic remedy.

The demand for managers to be more democratic is a problem for many because authority and power go with supervisory and managerial positions, and they do not know how to behave other than in an authoritarian way.

Another explanation for authoritarian management is that managers are of necessity orientated to results, which leads to a tendency to "push" subordinates and in the heat of the moment the easiest style to use is the autocratic one.

When democracy at work is viewed in this light it becomes evident that pitifully few organisations are democratic.

There is an adverse relationship between constructive conflict management and autocracy. The more autocratic management is, the worse industrial relations are.

There are two types of autocracy. The one is exploitive autocracy, where the well-being of the workers is not considered at all. We do not see much of this, and where it is found the unions will eventually change it.

The other type of autocracy is benevolent and the benevolence behind it makes many managers mistake it for democracy or think that is justified.

The high incidence of industrial conflict in the country suggests that our leaders are not managing properly and most of it stems from their own autocratic styles.

Autocratic remedies, such as obtaining interdicts and issuing ultimatums, provide interim relief. They do not lead to long-term stability. The best remedy is to become more democratic.

The tell-tale signs are all there that democracy and constructive management of conflict is absent in many of our largest corporations. The consequence could eventually be that they become nationalised.

Outlook still gloomy, say experts

BiDay 7/5/90

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LESLEY LAMBERT

CAPE TOWN — The economic downswing is likely to continue through the first half of 1991, but interest rates should start falling in the second half of this year as bank lending slows.

That is the view of leading economists who spoke at a Stellenbosch Business School seminar on Friday.

Many people regarded First National Bank's recent decision to bring its mortgage rate down by 0,25%, and in line with that of its main competitors, as an indication that lending institutions were ready to start making some small interest rate concessions.

But Rand Merchant Bank economist Rudolf Gouws cautioned that while the interest rate cycle had peaked, rates were expected to remain at present levels until at least the end of the third quarter as a result of the monetary authorities' determination to tame inflation and build up the gold and foreign exchange reserves.

Gouws said interest rates were expected to continue to decline through 1991, but, the

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Gloomy

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decline was expected to be slow, since monetary policy would remain tight.

Both Gouws and Stellenbosch University Business School professor Attie de Vries painted a gloomy picture of the likely economic conditions during the remainder of this year.

There would be a further decline in consumer spending, inventories and private fixed investments. With international economic growth tapering off, the growth in export volumes would be lower than in 1988 and 1989, while salaries and wages would probably continue to rise rapidly.

Of the business sectors, the motor, transport, furniture and clothing industries were expected to come under most pressure.

But all agreed that the downturn was not as severe as in the period between 1984 and 1986. Inventory levels in commerce and industry were much lower in relation to sales, corporate financial ratios were healthier, interest rates, expressed in real terms, were lower and the tax cuts announced in the Budget would have a mildly expansionary effect.

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'Demonstrate benefits of a free market'

MATTHEW CURTIN

SA BUSINESSES must unite and not simply denounce nationalisation, but counter it with a positive alternative.

Addressing the Vaal Branch of the Black Management Forum on Saturday, SA American Chamber of Commerce executive director Wayne Mitchell said the ANC's stance on nationalisation was a political and strategic reaction to the economic realities of SA.

Business response to calls for nationalisation had so far been an "over-hasty knee-jerk" reaction, and it was pointless to sing the praises of a completely free-market or socialist system.

Mitchell said businesses had to pool their resources rather than compete over social responsibility programmes, and demonstrate the benefits of sound economic practice. BDay 7/5/90

Business could play a crucial role in creating the resources for education and training, as government was no longer able to meet the demands for these.

Investor confidence is vital

B|Day 7|5|90 (47)

MICHAEL SPICER

FIRST and foremost, we in the corporate sector believe the retention of domestic and international investor confidence is critical to economic growth.

While the criteria for such confidence, including the levels of state participation in the economy, might vary from country to country, if business concludes that state intervention and regulation stifle initiative, entrepreneurial activity and the ability to make profit, then capital and skills flight will ensue.

As the world increasingly turns from Africa, SA has the potential to emerge as the only African country capable of attracting capital either for its own development or for projects in neighbouring countries but under its management control.

Secondly, the economic system that SA adopts must be market-oriented. This does not mean the state has no role, but that the primary role in making investment and other resource allocation decisions be taken by the market and through market mechanisms.

Interest rates must be market-related, i.e. positive; wage rates should be market related, though productivity is an important variable; and exchange rates should be market-related and not overvalued as in so many African countries.

The trading system should be fully open to capital flows — a goal here being the relaxation and ultimate abolition of exchange controls.

Finally, the corporate sector believes, in the light of general international experience, that the size of government is critical to the well-being of the economy.

One of the major factors leading to changed economic policies by government was the realisation in the late 1980s that the country could no longer afford a bureaucracy of the current size without serious inflationary implications and the continued decline in infrastructural investment in favour of non-productive consumption expenditure.

If these guidelines are followed, then targeting inflation should also be an economic priority. The differential between SA's inflation rate of 15% and those of her major trading partners of 4%-5% will lead to a vicious circle of inflationary pressures as SA tries to juggle the need to keep exports competitive with the inability to sustain higher import costs.

The inevitable result of policies proposed without regard to limited resources is hyperinflation of a South American kind.

A prime example of this kind of voodoo economics is the mooted rapid change from what some have described, in my view somewhat inaccurately, as a high-cost, low-wage structure to a low-cost, high-wage structure. As a means of boosting manufacturing industry and consumption, thereby spreading wealth and boosting economic growth, it is an illusion.

The outcome without concomitant gains in productivity would be a massive boost to inflation more than negating any gains.

Prioritising productivity gains by accelerating political change, allocating greater resources from state, trade union and employer resources to appropriate education and training, and devising a range of participatory schemes to give workers a greater sense of engagement and "ownership" will be the precursor of the ability to pay higher wages, to reduce costs, to achieve more equitable wealth distribution and to move up the development ladder.

The above policies, together with the abolition of apartheid, will provide an environment conducive to the work ethic, without which required economic growth gains cannot be made.

Free enterprise gives SA the best chance of generating high economic growth and distributing wealth more equitably. The only way to raise growth rates is to optimise the use of production, capital, labour, land and entrepreneurship.

An emphasis on combating poverty and creating more wealth through economic growth, rather than redistributing existing wealth, is essential.

☐ **Spicer is public affairs consultant at Anglo American. This is an excerpt from his address at the recent Nafcoc conference at the Wild Coast.**

Opinion

ANC has flexible views on economy

Capt. Times 7/5/90

By ALAN FINE

THE ANC/Cosatu economics workshop in Harare last week, and the coming meeting between the ANC and 400 top businessmen on May 23, are confirmation that the debate on a future economy has now moved beyond sloganising.

These events, together with other developments, are also signs that it has gone beyond pure debate. Long before a new SA constitution has been negotiated, it appears some important NP economic (and other) policy decisions are begining to take into account the views of the ANC/Cosatu alliance.

It will probably be another several months before the detailed proposals discussed in Harare become public knowledge.

Until then, it will remain difficult to get clarity on precisely where on the economic spectrum — between pure free enterprise and central state control — the ANC and Cosatu's vision of a "mixed economy" fits in.

There are initial indications, though, that new, agile interpretations of the 1955 Freedom Charter's main economic clause are making it possible for these organisations and their advisers to distance their policies from the stereotyped and discredited versions followed in pre-Gorbachev Eastern Europe.

These interpretations suggest ANC economic policy will develop in a way that will make its possible implementation one day cause far less dislocation than may appear at face value.

Ownership

That clause, it will be recalled, calls for the mines, banks and other monopoly industry to be transferred to the ownership of the people as a whole. While the charter remains a cornerstone of ANC policy, ways will have to found to ensure that policy detail is not incompatible with it.

Today it is difficult to find anyone who seriously contemplates the state taking over ownership and control — through seizure or with compensation — of the hoists, tunnelling equipment and refrigeration units owned by the country's mining houses.

The emphasis has shifted perceptibly to the question of mining rights which could be leased to the private sector. If the state can claim to own the rights to the mining of the country's mineral wealth, it is argued, this would meet the requirements laid down by the charter.

It so happens that this idea is not altogether removed from the *status quo*, and appears to be one with which one of SA's best-known free market purists, Leon Louw, implied in a speech last week he could live with.

"The mines already belong to the state. All former governments have decided that the best way to mine their own mines is to subcontract them to the competing mining houses under mining leases.

"If they negotiate a favourable lease formula and impose high taxes on mine profits, they will make much more money out of their mines than if they mine them themselves.

Risks

"Among the remarkable benefits of this ingenious scheme is that private investors will take all the necessary risks of prospecting and provide the phenominal amounts of capital required at no cost to the state," said Louw.

This is not to suggest that a post-apartheid ANC government would be a docile lessor. The intention would be to regulate against overmining, so as to extend the economic life of the industry, and to ensure mining was as environmentally friendly as possible.

This is why the Harare workshop took a strong stand against the passage of the Minerals Bill, whose provisions are seen as threatening to limit the ability of a future government to intervene in this fashion.

As far as the banks are concerned, many policymakers and advisers are interpreting the Freedom Charter more loosely than may have been intended 35 years ago.

There are other key areas of the economy likely to be only marginally affected by the hopeful future ruler. For example, one ANC source has said that in the present circumstances he could not see any alternative to the existing foreign exchange system.

But all this is not to suggest that the ANC and its allies do not intend a dramatic rearrangement of economic strategies and spending priorities.

"Industrial restructuring" is becoming a familiar phrase, and we can expect to hear in more detail exactly how it is envisaged this would be achieved.

Welfare and infrastructural development would naturally be a top priority. Where the money for such expenditure would come from is obviously a critical question. But it is one every political party has to explain.

Of greatest concern to the ANC and its allies right now is the belief that government's privatisation and deregulation policies are designed purely to "sell off the family silver" to, and facilitate quick and exploitative profit-taking by, the white elite before political power falls into the hands of the majority.

This, it is feared, would be an obstacle to the ANC's reconstruction plans if it were to come to power, particularly, as Numsa's Alec Erwin put it, where privatised institutions are involved in infrastructural work. Major examples here are Eskom and hospitals.

Hence the proposal that these policies be made a major focus of Cosatu and the ANC's activities in the months to come.

Economic growth expected to stop

B/Day 7/5/90

SA's economic growth rate is expected to come to a halt during 1990, the United Building Society says in its latest Economic Monitor.

The United says the strains on the country's reserves do not allow for an economic growth rate in excess of 1%. Moreover, the authorities' determined anti-inflation stance, including their opposition to fiscal stimulation, may depress gross domestic expenditure by about 1,5%.

Real expenditure on fixed investment may deteriorate even faster, and may be accompanied by reduced inventory levels.

These declines in aggregate demand are expected to reduce real imports by about 3%, the United says, but the lacklustre performance of gold and a weakening in the world economy will result in only a 2,5% increase in the country's real exports.

The outlook for inflation, however, is more encouraging than it was for 1989. The effects of the current anti-inflationary policy of the monetary authorities is already evident in the tapering off of the money supply growth, which is likely to fall about 17% at year-end.

Major inflationary pressures remain the real wage increases in excess of any improvement in productivity and the anticipated fall in the dollar rand exchange to about R2,95 at year-end.

The United notes the downward adjustment of the M3-growth target from an 18%-14% range to 15%-11% for 1990, reflects the seriousness of the current anti-inflationary policy.

The Bank rate is foreseen to remain at its current level of 18% until well into the third quarter of 1990. In the second half of the year, a moderate decline in interest rates my be expected, and a Bank rate of about 17%, or a prime rate of 20%. — Sapa.

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'Reform needs economic growth' 49

GERALD REILLY

PRETORIA — The resuscitation of economic growth had become a major pre-condition for successful political reform, Reserve Bank Senior Deputy Governor Jan Lombard said yesterday.

Speaking at the National Association of Home Builders conference in Pretoria he stressed growth was undermined by structural inflation above 5% and certainly above 10%.

The lack of growth over the past decade had resulted in the loss of a million jobs and at today's prices a loss of prosperity of more than R50bn.

These figures should be remembered when economic upgrading of other races and alternatives to futile ideas such as nationalisation were sought.

On public response to a significant rise in the cost of credit and the rate of interest, Lombard said the initial reaction was bound to be not a drop in price and wage increases but a drop in output and employment.

Against a background of ingrained inflationary expectations this could not be avoided.

"This is the reason why the Reserve Bank cannot attempt to eliminate inflation in one fell swoop during 1990."

The interest rate shock needed would probably drive the initial downturn in output and employment to alarming proportions, socio-politically speaking.

The spending momentum had to be turned around more gradually over a period of a few years before the mission could be completed.

There was clearly no single cause of structural inflation. Among the powerful forces operating in the process were bureaucracy, producer concentrations, trade unions and public opinion articulated in the media.

On fiscal policy, Lombard said since goverment had in recent years been directly responsible for between 30% and 80% of the total increase in gross domestic expenditure, disciplined action in this sphere was crucially important.

In all the EC countries strategies consisting of fiscal and monetary discipline, supported by structural adjustment programmes in the labour and goods markets, were firmly adopted and successfully carried through.

The specific nature of strategies needed to eliminate inflation could not differ basically from those which succeeded in all the industrial countries a decade ago — and more recently in Spain, New Zealand and Chile.

Administration and Economic Co-ordination Minister Wim de Villiers had received Cabinet approval for a strategy of economic reconstruction including a programme of deflation which repeated the same policy principles.

Lombard stressed what had changed downwards primarily was the public's willingness and ability to buy goods and services at continually increasing prices.

BUSINESS DAY, Monday, May 7 1990

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Govt to make funds available for 'extras'

LESLEY LAMBERT

CAPE TOWN — Provision would be made within the budgetary limits for additional spending requirements, including salary increases for police and medical staff, which had arisen since the Budget announcement in March.

This undertaking was made by Finance director-general Gerhard Croeser at a Stellenbosch Business School economics seminar on Friday.

Croeser said that if the additional costs exceeded the R1bn put aside in the Budget for unforeseen circumstances, the departments would be asked to make contributions. If the additional spending requirements were too much to ask of individual departments, the authorities would look to the large departmental votes for additional funds.

Croeser was adamant the R3bn fund set aside in the Budget to reduce socio-economic backlogs which had arisen as a result of past discriminatory policies would not be used to meet public sector wage and salary demands.

While government had committed itself to public sector salary increases below inflation, pressure for higher wage increases in the private and public sectors remained a major problem.

As a result, government would not achieve its target of single figure inflation by the end of this year. The best it could hope for was a rate of 12% to 13%.

Speaking at the same seminar, Stellenbosch University African Studies professor Willie Breytenbach said foreign investors were providing development aid to African nations on condition they indicated a move towards democracy, free market economics and environmental conservation.

He said this condition for development aid was a part of broader changes in the sub-Saharan region.

But, while the changes were helped along by historic changes in Eastern Europe, the opening up of new markets in Europe also meant African nations were becoming increasingly marginalised on a global basis.

This made it easier for Western investors and aid donors to apply conditions. With SA's political reputation improving, it also opened opportunities for more trade with neighbouring and northerly countries.

ANDREW GILL reports Anglo American's senior economic consultant Aubrey Dickman said at the seminar SA must expect lower export volumes and prices, and thus lower dollar earnings.

For this reason, bearing in mind the gold price, a more cautious view of export earnings should be taken than predicted in the Budget Review.

On the face of it, he said, predicted world trade trends and the Organisation for Economic Co-operation and Development gross domestic product suggested a further modest increase in export volumes.

However, although SA's export volumes and world production were broadly related over the long term, this was not necessarily so over the short term.

Turning to the gold price, Dickman said: "Some shaving of the expectation that an average level in excess of $400 can be sustained is perhaps called for."

Economic growth rate expected to come to a halt this year

Star 7/5/90

South Africa's economic growth rate is expected to come to a halt this year, the United Building Society says in its latest Economic Monitor.

It says the strains on the country's reserves do not allow for an economic growth rate of more than one percent.

Moreover, the authorities' determined anti-inflation stance, including their opposition to fiscal stimulation, may depress gross domestic expenditure by about 1,5 percent.

Real expenditure on fixed investment may deteriorate even faster and may be accompanied by a substantial reduction in inventory levels.

These declines in aggregate demand are expected to reduce real imports by about three percent.

On the other hand, the lacklustre performance of gold and a weakening in the world economy will result in only a 2,5 percent increase in the country's real exports.

The outlook for inflation, however, is more encouraging than it was for 1989.

The effects of the monetary authorities' anti-inflationary policy is already evident in the tapering off of the money supply growth, which is likely to fall about 17 percent by year-end, or two percent above the upper M3 growth target.

Major inflationary pressures remain the real wage increases greater than any improvement in productivity and the expected fall in the dollar-rand exchange to around R2,95 at year-end.

Commenting on expected developments in the money market, the United says the downward adjustment of the M3-growth target from a 14-18 percent range to 11-15 percent for 1990 reflects the seriousness of the monetary authorities' current anti-inflationary policy.

The bank rate is expected to remain at its current level of 18 percent until well into the third quarter of 1990.

In the second half of the year, a moderate decline in interest rates my be expected, and a bank rate of about 17 percent, or a prime rate of 20 percent, the United says. — Sapa

Black illusions about SA's wealth

Argus 8/5/90

By KENNEDY MAXWELL, President of the Chamber of Mines

THE South African mining industry welcomes Mr Cyril Ramaphosa's proclamation of 1990 as the Year for Justice, Democracy and Peace on the mines.

It agrees with the general secretary of the National Union of Mineworkers when he mentions the social and economic damage done by apartheid, especially to black people.

And, yes, it agrees that a new ray of hope has emerged; that resolution of conflicts through peaceful means is "the new international norm of our time."

Assumptions

Regrettably, that course is not served by the emotional tenor and sweeping assumptions that colour some of Mr Ramaphosa's recently expressed views on the mining industry.

The first and most dangerous assumption, because it ingites unrealistic expectations that cannot be fulfilled, is that South Africa is a wealthy country, and that a fairer division of its wealth would ensure prosperity for all.

The hard fact of the matter is that this is not a wealthy country; that if all personal wealth were pooled and equally divided, most whites and many blacks — including the majority of his union members — would lose, but the gain spread among the masses would be minimal

Resources

And those with the skills which generate wealth and create employment would take those skills elsewhere — leaving behind a further improverished country.

The answer is not to rob the rich but to uplift the poor. A look at the wealthy nations of the world will indicate that a country's most valuable asset is not its mineral or other natural resources but its human resources The only way to increase wealth, or the size of the cake to be divided, is by greater productivity and economic growth.

Education

South Africa has one of the lowest productivity rates in the world, and part of the reason for this has been inferior black education under the apartheid system — exacerbated by the township dictum of "liberation before education."

Mr Ramaphosa refers indirectly to the changes in Eastern Europe, where socialism has so dramatically failed, and then proposes that failed system — including nationalisation — for South Africa. He does not say how nationalisation of the mines is going to be achieved or how it will create more wealth, but it is worth looking at some facts.

Revenue

During 1989:

☐ 33 percent of the revenue earned from gold sales was paid in wages.

☐ 39 percent was paid to suppliers of stores, materials and services required to produce the gold.

☐ 15 percent was spent on capital expenditure items to keep the mines going.

☐ 8 percent went to taxation and lease payments.

☐ That left 5 percent for the shareholders which meant that they earned 3,2 percent return on the market capitalisation of all the gold mines Hardly profiteering!

How would Mr Ramaphosa propose to rearrange these figures? How would he compensate shareholders if the industry was nationalised? How would he retain the confidence of local and international investors without whom new mines will not be opened up to create more jobs and more wealth?

It is patently absurd to write off the economic contribution of the mining industry with the comment that it has enriched only a tiny minority.

Some R7 000 000 000 was paid out to 513 000 employees in the gold and coal mining companies during 1989 and two thirds of all foreign currency earned by exports came from the mining industry.

It has given birth to whole towns, to educational and medical institutions, dams, roads and railways. It is the backbone of the economy.

At the same time, the eighties have not been good for South African gold mining. During this decade inflation has seen our mines move from being the lowest cost producer of gold in the world to the highest.

Since 1980 real annual profits have fallen every year, and the fall in the price of the metal means that by July half the mines will be operating at a loss.

Efficiency

What is needed now if further improvement in productivity and efficiency, not political rhetoric which provocatively seeks to place the Chamber of Mines and "the apartheid State" in the same camp.

The mining industry fully supports peaceful moves toward the creation of a non-racial, democratic post-apartheid society. Its opposition to apartheid has been expressed frequently and effectively: through representations to win full and equal trade union rights for all employees, irrespective of race; through successful efforts to secure the abolition of the "scheduled person" definition from the statute books, scrapping statutory job reservation; and through numerous other motivations including the scrapping of the Group Areas Act.

Restrictions

The industry has also initiated legal action against government and conservative unions over the training of coloured winding engine drivers; the segregation of change houses, retrictions on the number of people employed with blasting licences (which could restrict the entry of blacks into jobs requiring this certificate); and on the admission of qualified blacks, Asians and coloured people to the Mine Employees Pension Fund

When Mr Ramaphosa wilfully confuses recruitment with abduction, employment with slavery and hostels with prisons; when he makes totally unfounded allegations about workers being denied the right to organize themselves or elect their own representatives; then he mocks the peace he proclaims.

Aspirations

The government has conceded that apartheid is doomed. What is now at stake is what is to take its place, and how.

Only if we work together constructively will we be able to match our common aspirations of building a prosperous nation in which democracy and an equitable distribution of wealth is fully realised.

Govt borrowing on market totals R2,5bn so far

BIDay 8/5/90 (49)

GRETA STEYN

GOVERNMENT has sold R500m of stock since the Budget in March to bring the total borrowings on the private capital market for fiscal 1990/91 to R2,5bn so far.

These figures were supplied by Finance Department chief director Estian Calitz. At the time of the Budget, government said it would need R3bn from the market over and above the R2bn which had been pre-borrowed.

Government's limited need for finance has been a bullish factor for the capital market, although its stock has traded at a higher rate than Eskom's equivalent.

According to the latest Government Gazette, the Exchequer ended the fiscal year with less money in the bank than it expected to in the Budget speech. But this is not expected to be a problem.

Government expected a surplus "after borrowing" of almost R7bn. Calitz calculates government ended the fiscal year with about R6,2bn surplus.

The reasons for this lower surplus were slightly higher issues (about R400m) and slightly lower revenue than expected.

"It is important to note that it was said in the Budget speech that the balance of the surplus on the State Revenue account is to be carried over to the Stabilisation Account," Calitz said.

"This means, if the surplus is R6,2bn, nothing will be carried over to the Stabilisation Account."

The latter account was created to keep money "sterilised" for monetary policy purposes.

The bulk of government's total long-term borrowing requirement of R11,25bn will be financed by the investment arm of government's pension funds, the Public Investment Commissioner (PIC).

Tension

In an interview, Calitz said government was studying the role of the PIC with a view to creating a healthier pension fund situation.

The government pension funds are reported to have actuarial deficits exceeding R20bn.

"There is a tension between the return on investment needed by the pension fund and the lowest possible borrowing costs the Exchequer seeks when he borrows from the PIC. We are looking at ways to resolve this tension," Calitz said.

Although the PIC was being given greater "leeway" at this stage, this did not mean that it would be able this year to invest in instruments other than government stock. Legislative changes would be necessary to allow greater investment freedom.

New SA needs 'enlightened free market'

(49)

TANIA LEVY

A FUTURE bill of rights should not entrench an economic policy based on socialism or Marxism, Mr Justice M M Corbett (Chief Justice) said last night.

However, the SA Law Commission had concluded a future bill of rights should contain an affirmative action clause, he said during the Diamond Jubilee Hoernle Memorial Lecture delivered to the SA Institute of Race Relations in Johannesburg.

Although affirmative action in a sense constituted discrimination in reverse, it was justifiable in view of past discrimination and inequalities.

Mr Justice Corbett said he believed most people had probably been attracted at some stage to the economic and social theory of socialism.

"I am not an economist but evidence — particularly that emanating from Eastern Europe in recent times — would seem to conclusively show the actual practice of socialism has never been able to match the theory," he said.

Bureaucratically controlled industry and commerce, lacking the stimulus and competition of free market forces, had proved wasteful and corrupt.

There had been little or no wealth to re-distribute. Economic stagnation, poverty, hopelessness and unhappiness had been the hallmarks of socialism.

Those in political control had been unwilling to allow political dissent, while at the same time there had been the emergence of a ruling political caste, cushioned by privilege from the privations of their fellow citizens.

What the new SA needed was not socialism but an enlightened form of the free market system which ensured economic growth instead of stagnation, efficiency instead of incompetence and the creation of new wealth instead of impoverishment, Mr Justice Corbett said.

B Day 8/5/1990

While he put his faith in a free market system, he realised a good portion of wealth created by it would have to be ploughed back into uplifting communities, into education, housing and encouraging entrepreneurship.

Mr Justice Corbett said the SA Law Commission draft bill of rights article 14 appeared to entrench the principle of a free market economy. Article 2 included an affirmative action clause.

● See Page 8

STAR 9/5/90 (45)

Challenge is finding right economic policy – DP

By Esmaré van der Merwe, Political Reporter

The Democratic Party's greatest challenge was to facilitate an economic policy which would ensure growth, socio-economic upliftment and redistribution, regardless of the government in power.

This was said last night by DP co-leader Wynand Malan and Houghton MP Tony Leon, who examined the party's future role at a public meeting in Highlands North.

Mr Malan said the DP's first challenge was to break the political deadlock between "system" and "struggle" politics, which had been achieved in the recent talks between the Government and African National Congress.

The Government was already adopting the DP's second agenda of a democratic constitution, devoid of race, with democratic checks and balances and a spread of power over various levels of government.

The challenge now was to develop a socio-economic policy which could simultaneously address the issues of growth and distribution.

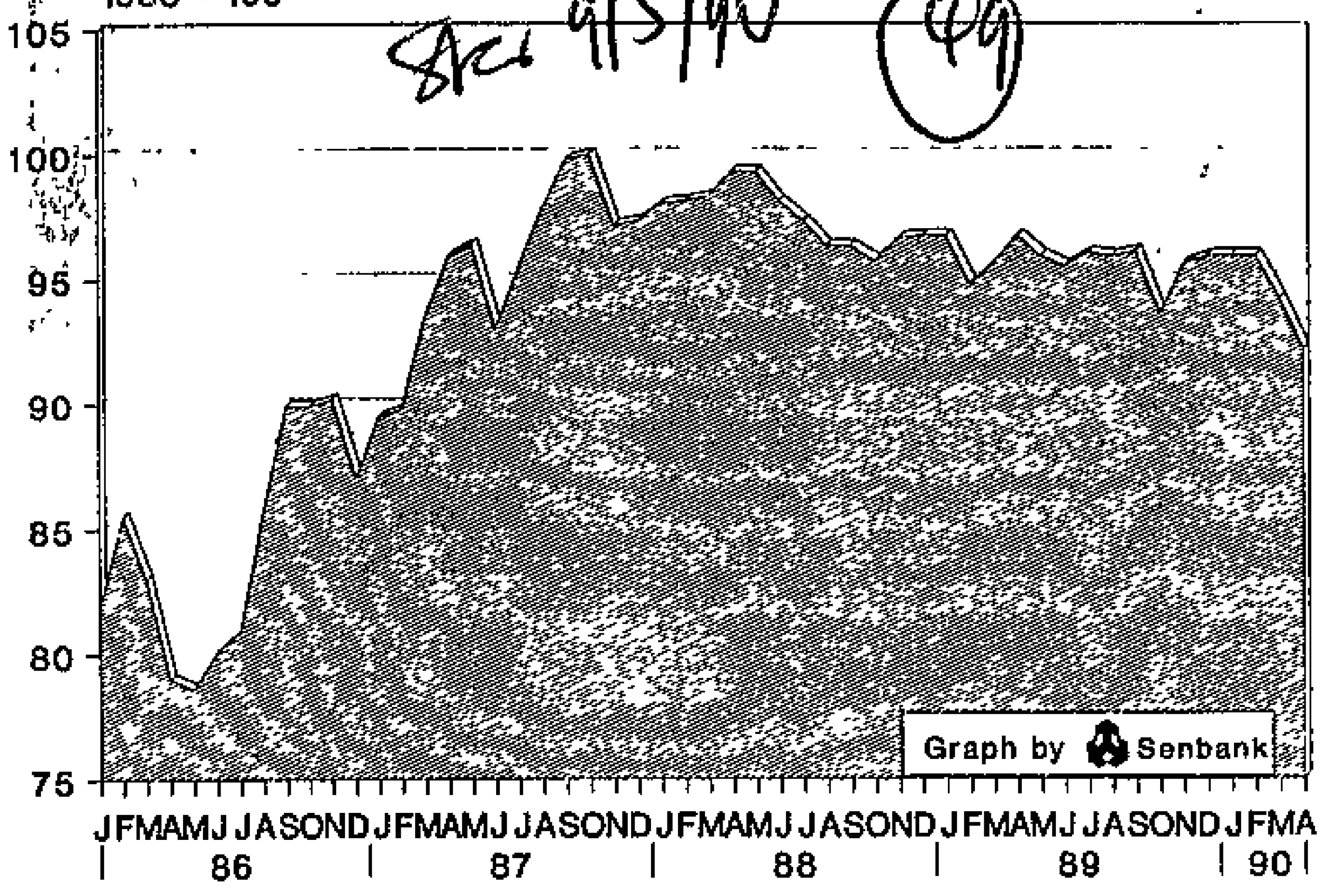
Mr Leon said the DP should ensure that remaining apartheid laws were eliminated and were not replaced with new statutes which attempted to perpetuate privilege and discrimination.

Turning to economic policy, he said real growth could only emerge in free and competitive markets.

The Star
Finance

Business confidence continues to decline

Star 9/5/90 (49)



Business confidence index (1983 - 100).

By Jabulani Sikhakhane

Continued political and economic uncertainties further depressed business and manufacturing confidence levels in April.

For the second consecutive month, business confidence, as measured by Sacob's Business Confidence Index, declined from 94,2 in March to 92,1 — its lowest level since February 1987.

The index for manufacturing activity also fell 22 points to 102, but this is largely attributed to the relative large number of public holidays which fell in April.

However, the SA Chamber of Business (Sacob) and Seifsa (Steel, Engineering Industries Federation of SA) believe that the results of the recent negotiations between the government and the African National Congress could serve to underpin business and manufacturing confidence in the coming months.

Sacob and Seifsa say undertakings by the ANC to desist from calling for further sanctions against the country could lead to some inflow of foreign investment into the manufacturing sector, particularly as this sector has never been earmarked for nationalisation.

But they warn that prevailing uncertainties and competition for international investors' funds from the eastern European countries also make significant foreign investment unlikely.

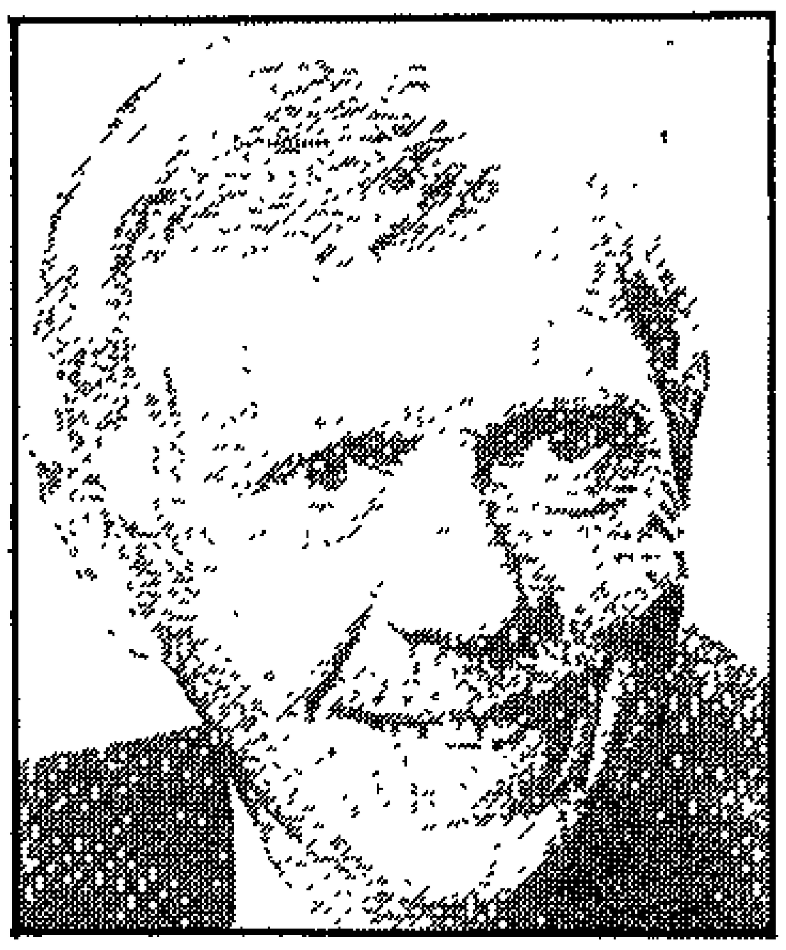
Among the negative factors on business confidence were the continued decline in the dollar price of gold and further deterioration in the rand/dollar exchange rate.

Seasonally adjusted registered unemployment of all races increased, while the physical volume of manufacturing production and the real value of building plans passed showed declines.

Other factors were considerably falls in exports for March, further declines in migration figures, while the small net immigration figure continues to decrease.

The number of insolvencies of individuals and partnerships showed a small decline and the number of new companies registered increased, the Sacob says.

In summary the Sacob says the deterioration in the business mood can be ascribed to clearer indications and stronger perceptions that the economy is slowing down.



Professor Ben van Rensburg of the University of SA has been appointed chief economist of the SA Chamber of Business during his sabbatical from Unisa.

Call to scrap curbs on Sunday trading

By Michael Chester

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The Government has come under renewed pressure from the SA Chamber of Business (Sacob) to scrap all remnants of red-tape restrictions on Sunday shopping.

The Minister of Administration and Privatisation, Dr Wim de Villiers, has been asked to intervene and order the deregulation of all legislation that hampers Sunday trading.

Sacob has taken note that original proposals to sweep away red-tape blockages were abandoned by the Government because of pressure "from certain religious quarters" — and has warned that the result is total confusion in most provinces.

While all restrictions had been lifted in Natal, shopping on Sundays was still hamstrung by regulations laying down what may or may not be sold in the Transvaal, the Free State and the Cape.

Lists of specified goods differed from province to province and did not take mass merchandising into account — which made it difficult to comply to the letter of the law.

Sunday trading was sorely needed by consumers as many working housewives had little time for shopping during the week.

Total freedom on Sunday shopping would also give families a chance to escape the worst of inflation by having more time to compare prices and use more judgment on purchases — all made impossible if shopping had to be crammed into busy weekday lunch breaks.

Statisticians at work — proceed with caution

BDay 9/5/90

49

GRETA STEYN

LIES, damned lies and statistics recently prompted Natal University's Durban economic research unit to organise a get-together of the users and providers of official figures. The sometimes dubious reliability and questionable interpretation of SA statistics were the main themes to emerge at the symposium.

Two cynical quotes by participants summed up the main themes. John Lynch, Central Statistical Service (CSS) director of statistical advice, quoted Moser's law: "If a figure looks interesting, it's probably wrong"; while Unisa's Philip Mohr quipped: "If you torture the data long enough, they'll confess."

The conference showed delegates how the same figures can be presented in different ways to tell hugely different stories — depending on your ideological premise, your enemy, who is paying you or simply your mood.

And quite often the figures themselves are open to scepticism. Another problem is that users simply do not always realise the limitations of the data.

The way in which Budget figures are presented was the topic of one paper. Durban's Prof Jack Heyns argued that government presented its 1990 Budget in such a way that it hopelessly understated its true deficit before borrowing.

Inconsistencies in its budgeting gave rise to Heyns's suspicion that it was indulging in "window dressing".

Heyns called for the elimination of government's "confusing" distinction between the "deficit before borrowing" and the "surplus after borrowing", which will be used, among others, for the social fund and reducing forward cover debt.

He argued that all the spending financed from the "surplus after borrowing" should be added to normal government outlays — mainly on the grounds that they produced changes in the size of the state debt.

Looked at from Heyns's perspective, government's deficit is actually 4% of GDP, instead of the official 2,8%.

"It is particularly when budgetary transfers to off-budget accounts, for instance to the new capital fund, are made that there is a considerable potential for the Budget to give an inaccurate or distorted picture of the government's true fiscal stance," he said.

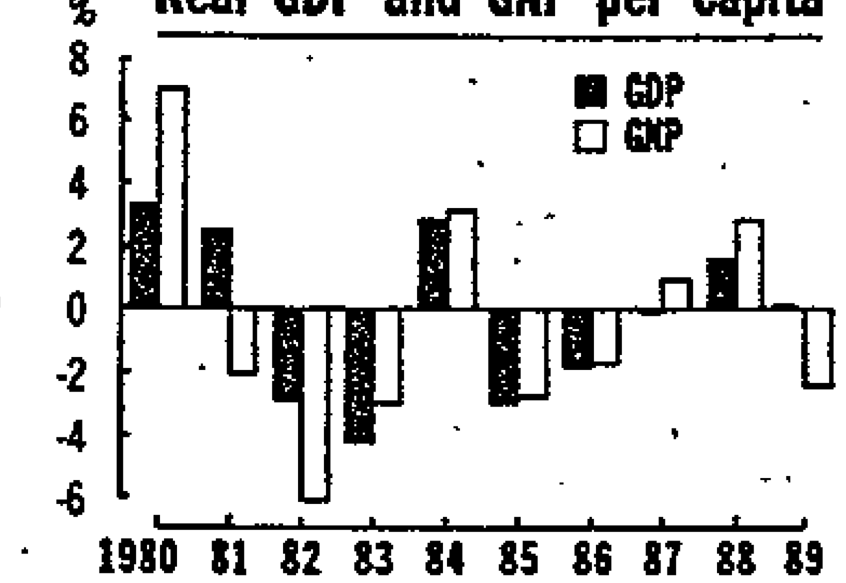
While the method of presenting data creates a distorted picture in some cases, in others the "true" picture cannot be ascertained from the official figures.

Unemployment data are a celebrated example.

University of the Western Cape academic Lieb Loots, referring to the CSS's Current Population Survey (CPS), said: "Considering that this is perhaps the only large survey specifically aimed at collecting labour force data in SA, it is a terrible disappointment that the user of employment and unemployment statistics can get so little of use out of the published CPS statistics."

Stellenbosch's Servaas van der Berg was quite blunt: "SA population and labour statistics are in somewhat of a mess."

Real GDP and GNP per capita



Graphic: FIONA KIRSCH Source: DEPT OF FINANCE

Real GDP and GNP per capita are often used interchangeably as indicators of welfare in SA. But which is the better measure? And are the growth rates a fair reflection of the actual welfare of South Africans? These were some of the issues discussed at a recent symposium on the production and use of socio-economic statistics.

He notes, among others, that the 1985 census is officially acknowledged to contain an undercount of almost a fifth.

"Against this background, social scientists have to spend much of their time producing, mending, splicing or simply guessing statistics."

Another problem mentioned by many of the participants was the exclusion of the four so-called independent homelands from many of the official statistical releases.

CSS's Lynch acknowledged that criticism was in many cases justified but mentioned the problems faced by the producers of official statistics. These included a lack of co-operation from respondents and inadequate access to address lists.

A symposium on official figures would not have been complete without UCT's Brian Kantor's scepticism over growth and income statistics. He reiterated his belief that gross domestic product calculated from the expenditure side (GDPE) was a superior measure of economic activity to GDP calculated from the income side (GDPI).

He questioned the Reserve Bank's practice of reducing expenditure GDP to correspond to income GDP, saying GDPI should be raised to correspond to GDPE.

The difference between the two, known as "the residual", was almost R5bn at current prices last year.

The Reserve Bank's Joseph van Dyk responded: "We could resolve the issue by publishing both growth rates or by providing an average between the two."

Kantor also argued there was too great a focus on GDP as a measure of welfare. GNP — GDP less interest and dividends paid to foreigners and salaries remitted abroad — was the superior measure of national income.

And he said SA's real GNP growth figures were probably understated — because of the way in which the Reserve Bank transforms (deflates) nominal GNP into real GNP.

Depending on which index is used to deflate nominal GNP, real growth will be higher or lower.

Are we richer than we thought we were? What is the "real" unemployment rate? Is fiscal policy expansionary or neutral?

It seems these questions have no clear-cut answers. The uncertainty about the figures makes the Austrian economic school's scepticism of mathematics seem an attractive escape.

But even if we are left with a sense of not knowing where we are and where we came from, what is really missing is the detail.

The broad brush strokes are there — per capita incomes declined during the '80s, unemployment is higher than 20%, blacks' share of national income is only about 30% and government's share of GDP is about 25%.

While the quest for detail continues, the available data are obviously still useful. The message from the Durban get-together is: the figures should be handled with care.

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What is best for profits may not be best for the people

BILL FREUND B|Day 10|5|90

EVER since Nelson Mandela had the temerity to reiterate the position for which the ANC has stood since the proclamation of the Freedom Charter on the nationalisation of industry in SA, a great deal of heat has been generated in a controversy that has generally not been very helpful to the understanding of the bystander.

There are a number of ways of looking at nationalisation which might enable a more rational view of the subject to emerge. Firstly, far from being a wild and woolly idea, nationalisation has been debated by economists aware of the pros and cons for a long time.

There is a kind of spectrum to be found in any economy, between a minimum and maximum of state intervention and state ownership. In the wake of the Great Depression and the Second World War, there was little reason to think that the market by itself simply advanced economic growth; an acknowledgement of the desirability of central planning and national intervention in the economy was fairly universal.

Politicians as removed from revolutionary purpose as Harold Macmillan and Jan Christiaan Smuts certainly favoured major state intervention in this era. The old United Party played a big role in the development of the parastatals during and after the war in SA.

Today we are in a phase where the state is obviously unable to do all that is wanted of it. The desirability of hiving off and privatising enterprise has enormously increased and privatisation is the international trend. This doesn't mean, however, that the future will be one where all firms will everywhere be privatised or that the pendulum may well not swing back again.

Not all privatisation is good for the public (as opposed to the new owners) and not all nationalisation is parasitic or ineffective. The world contains plenty of well-run nationalised firms and private enterprise disasters. Indeed, the state-run companies in SA contain some positive examples. Where would secondary industry be in SA today if Iscor had never come into being?

What does need to be stated somewhat dispassionately is that it is necessary to consider why nationalisation should take place. In the SA case, three main reasons can be given for past policies:

- Developmental — the need to build up a strong independent economy that would have a different orientation than one just selling minerals and agricultural products to the West;
- Security — particularly crucial in the context of SA's pariah status; and
- The desire to create decently paid employment for whites with the vote.

SA state corporations have been relatively successful because they shaped their policies fairly effectively; they played the game the capitalist way.

The nationalised company in the market economy has to be competitive and cannot defy the normal workings of supply and demand. It cannot simply consume funds and employ as many workers as may want jobs without generating corresponding wealth, or produce goods that are not wanted, or produce so inefficiently that costs become uncompetitively high.

Thus, despite initial hopes, companies such as Iscor have in fact long since abandoned any idea of exclusive white employment.

Of these three ends, only the first or developmental end would likely remain paramount to the ANC. However, it will also be concerned with employment for all sectors of the population.

There is nothing unusual with wishing to see the state play a big role in economic development. Comparisons around the world suggest this is exactly how things work in countries at our level of economic development, whether one looks to the Asian success stories, or to Mediterranean and Latin American industrialising countries.

"Late developers" have needed the state for effective guidance in many departments to stimulate and to channel growth, not to stifle it. Some sort of partially co-operative and partially competitive relationship between the state, local and multinational capital typifies these economies.

However, there is no single answer to the form this relationship should take or formula to give us the ideal role of state ownership in finance or industry within the broader picture of essential state intervention.

It does need to be said, however, that some statements from proponents of nationalisation seem naive. Profits from business do need in the interests of growth to be ploughed back into technology and plant. Managerial salaries, divided among a large work force, would not yield much to the individual worker.

No company, without courting disaster, can simply be a repository for hiring uneconomic numbers of workers or maintaining internationally uncompetitive techniques just because they are labour-intensive. These very problems have, for instance, surfaced in worker-run firms in Yugoslavia and proved hard to correct. Radicals in countries as diverse as Hungary and Britain have rightly pointed out that state management can exploit or alienate workers as much as private management.

The business critics of nationalisation, in other words, do have much of sense to say. But they should not crow too much. It is essential to realise that no thinking black observer will be impressed with an economy in which blacks seem to hold no real power.

A bit of affirmative action and the promotion of a trickle of blacks who have been shaped into the dictates of SA "corporate culture" are not a sufficient answer. Deracialisation alone is apt to dent white domination of the corporate heights very little.

Nor will the mass of workers accept the kind of differential in wages and other conditions that continues to prevail between management and labour in this country. In the countries where such differentials are smallest and where the cultural gap between boss and worker the least you will find almost by definition the stablest democracies and happiest work environments in the capitalist world.

Demands for a living wage and for more democratic workplace situations cannot be dismissed by simply pointing to what may be best for profits. Whether growth benefits working people depends on the power relations inside society; it is never automatic.

If capital wants to move forward in and with SA, it must find creative and sympathetic ways of coping with these very natural urgings and this will hardly happen if it simply fits itself into a suit of armour labelled "privatisation". A more thinking way of responding will inevitably involve engagement with the state, whether this is the ideal trajectory for this year's profit chart or not.

SA needs a climate of social co-operation where the mass of people feel the system has some kind of economic justice to it.

Prof Freund is Professor of Economic History at Natal University, Durban.

Only the rich have a 'vote' in the market

Sowetan 11/5/90

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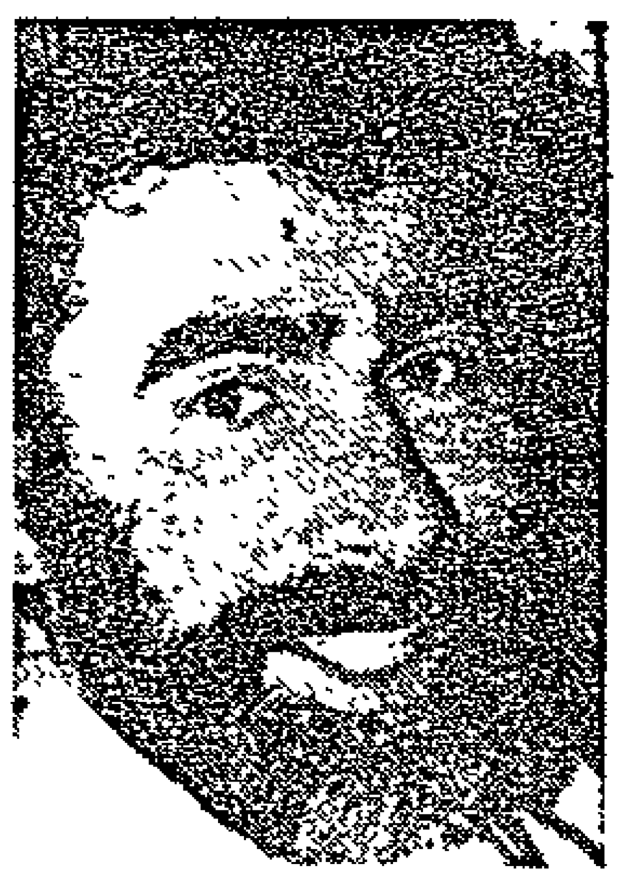


Our writer on economic affairs, MARK ADDLESON (left) of the Wits Business School, continues his series on economic systems.

ALTHOUGH each country has a unique economic system, all economic systems are made up of the same basic parts, which are combined differently and so take different forms in each country.

Components of any economic system

The three components of any economic system are the activities of people who buy and sell in markets, the plans and policies devised by government, and structures created by tradition.

Together they define the characteristics of an economic system for producing and distributing things to satisfy people's needs.

Fruits

When someone talks about a planned economy, such as that of the Soviet Union, he means that the decisions about what to produce and how to divide the fruits of production are made by government. It is the plans and policies devised by the state which are the most important element in managing the society's scarce resources. The other two elements, markets and tradition, also play a part in the decisions, but it is a much smaller role.

In a market economy on the other hand, which is sometimes referred to as a 'free enterprise system', people's buying and selling activities in markets plays a major role.

The market activities are also influenced by government policies. Sometimes the role of the state is very important in this type of economic system and tradition also plays a part, but this is usually very small. Under a traditional system each generation is expected to follow in the footsteps of the previous one and to do the same work as the parents and grandparents. Custom also determines what share of the produce goes each person.

Market activity.

For many centuries markets have served as a means of allocating resources. Whenever people get together to exchange things, or buy and sell, they create a market.

A market can be very well organised and can take place at a particular location, like a stock exchange - where shares of ownership in companies are bought and sold - or a municipal fresh produce market where fruit and vegetables are traded.

A market can also be informal. When a doctor or plumber sets up a business these people (the sellers) and all their patients and customers (the buyers) represent the markets for the services. In the same way a hawker on a pavement and the people who buy from her, or a shebeen owner and her customers, each constitute a market.

Why people trade

Markets exist wherever people trade. That trade can occur through direct exchange (also called barter) where one person exchanges something that he has for something which another person has. For example, I might be willing to trade a pair of my shoes for a pair of trousers which you have.

Because I place more value on the trousers than on the shoes, and you vice versa, we both gain through the exchange.

Today the principles are exactly the same but most of the transactions involve money instead of direct exchange.

These transactions influence the use of resources in the society. In a market economy the buying and selling decisions of many hundreds, thousands, or even millions, of people influence what things are produced and also how they are distributed among the households in the society.

Prices and Profits

In our example the 'price' I was willing to pay for a pair of trousers was one pair of shoes. Essentially this is the same as if the price of a pair of trousers was R40 and a pair of shoes cost R40. Although we are talking about the money and prices, one pair of shoes exchanges for one pair of trousers.

Prices

The prices and the money which sellers get from the transactions actually serve to guide the use of trousers in markets. Sellers will always try to sell those things which give them the biggest income or the highest profits. When you spend your money you are indicating to the seller what you like to buy, and the seller will then order or produce those things which sell best.

When people spend their wages and salaries they are voting for the goods that they buy and their spending influences what is produced.

The weakness of the system

Through the money 'vote', producers or sellers are motivated to respond quickly to what people want. The big drawback of the market system, however, is that if you do not have the money you cannot afford to buy the goods and you will have to do without.

If you are rich you have a very big 'vote' in the marketplace, but if you are poor you have no 'vote' at all. So a market system often does not serve the needs of the very poor.

This creates tremendous problems in a society like South Africa's where there are a few very wealthy people and many very poor ones. Because apartheid laws have prevented blacks from gaining a bigger share of income, apartheid has also prevented many blacks from participating in and benefitting from the market system.

SA IN BLACK AND WHITE

FM 11/5/90

(4A)(47)

The racial structure of SA society has played a major role in the production of economic data which can't "capture the complex reality of socio-economic transformation," says the Small Business Development Corp's Wolfgang Thomas.

He suggested at a symposium in Durban last week that deracialising the framework, recognising gaps such as the informal sector, reintegrating the homelands and including more regional, sectoral and enterprise data would produce more accurate figures.

Not only is academic research hampered by these questionable statistics but compilation is complicated by the many different cultures in the community, the existence of the homelands and recent wide-ranging structural changes, including "rapid urbanisation, demographic transition, a reorientation of imports and exports and the rapid growth of self-employment and the small enterprise sector."

Thomas says ethnic differentiation of data is "totally unnecessary" and misleading.

He believes GDP growth rates, the primary indicator of economic growth, are distorted by an over-emphasis of macro-economic aggregates which are heavily influenced by cyclical or abnormal changes in agriculture and mining. Thomas says GDP figures should look at a far wider range of variables because the narrow focus has led to a gross understatement of GDP.

"The same points can be made about other macro-trends. These include black urbanisation, which may have reached 60% rather than the official rate of about 48%, unemployment (1989 estimates range from 700 000 to 6m), skilled manpower needs, new or gross investment, personal savings and the housing stock."

Another problem is the time lag in publishing data. "It is common to be presented with trend figures covering the Seventies and early Eighties." Researchers often base conclusions on these though they are irrelevant to the changing environment.

B.Day 11/5/90 (49)

'Economic wealth only created by production'

PRETORIA — If the ANC and other groups wanted to serve South Africans, they should embark on a policy of freedom, free enterprise, and limited government, Pretoria University economist Geert de Wet said yesterday.

Speaking at the Security '90 conference organised by the university's Institute for Strategic Studies, De Wet stressed the dire economic consequences of nationalisation and government intervention.

He said government intervention in homeland economic policy was carried too far.

Separate development failed because it went against normal economic trends and was too dependent on government intervention and bureaucratic decision-making. When the ANC referred to nationalisation the aim was control of profits of institutions to bolster their wealth redistribution programme.

If they had their eye on the money-creating capability of banks, this would spell "absolute disaster".

GERALD REILLY

Studies had shown SA's long-term growth potential was 5% and higher which was enough to bring economic prosperity to all.

"Yet the bureaucracy established by nationalisation would, as in the past, fail to realise this potential.

"If the aim was to uplift all South Africans it had to be acknowledged that economic wealth was created through production only."

The market or private initiative might fail at times, but government intervention would always fail.

At the same conference RAU Institute for American Studies director Carl Nofke said sanctions against SA would not be removed in the near future except by one or two countries.

He said the inclination would be to wait for the outcome of negotiations for a new constitution.

Even then it was doubtful if a new constitution based on anything but majority rule would be acceptable to the politicians and sanctions pressure groups.

With the approach of the 21st century, SA would have to accommodate to new trading patterns and technologies to retain its competitiveness and relevance.

SA had overcome economic restrictions with the possible exception of farm products, coal and access to foreign financial resources.

SA's exports last year totalled R57,9bn while imports reached R44,5bn, leaving a safe margin for overseas loan repayments.

SA stood to gain from the programme calling for beneficiation of critical metals and minerals.

In the next five years the IDC would allocate R9,5bn, mostly to import replacement projects, to increase economic independence.

Iscor was also involved in a three-year, value-added expansion programme totalling R3,6bn, Nofke added.

He said the number of US companies with direct investment in SA declined from 326 at the beginning of 1983 to 131 at end-May last year.

Fiscal constraints needed to protect SA economy

BDay 14/5/90

Business Day Reporter (49)

PARTICIPANTS in the final negotiations for a new political order in SA should try to reach agreement on entrenched fiscal constraints to protect the economy from fiscal "overload".

Writing in the April edition of the SA Foundation publication SA International, Stellenbosch economics professor Sampie Terreblanche says a nationalisation policy should be discouraged as strongly as possible as it would be detrimental to SA's international image.

"We will need a market-oriented economic system with a large and relatively free private sector because this kind of system has the best chance of inviting foreign investment and of maintaining a high growth rate for the sake of maximum job creation and the broadening of the tax base."

He says after the apartheid bureaucracy has been successfully dismantled it will be desirable to rebuild an efficient and effective public sector in which bureaucratic red tape and patronage will be excluded as fully as possible but in which the state will provide the necessary investment in human capital.

"A policy approach towards the high and unhealthy degree of economic concentration in the hands of fewer than 10 conglomerates should be formulated."

Terreblanche says during the transitional phase the question of the unequal distribution of property should be addressed.

"A policy approach that could be explored, is to link a Marshall Aid programme to progress in this field. Another way to tackle this thorny problem is in terms of a land reform programme," he says.

Negative real growth in second quarter

GDP figures dash hopes of soft landing

B Day 15/5/90

(49)

GRETA STEYN

HOPES of a soft landing for the economy were dashed with the release of yesterday's GDP figures, which showed negative real growth for the second quarter in succession.

Central Statistical Services (CSS) said real GDP dropped by an annualised 1,4% in the first quarter of this year from the preceding quarter (seasonally adjusted).

The figure showed what would happen if the economy continued along the same track for the rest of the year: SA would suffer negative real growth.

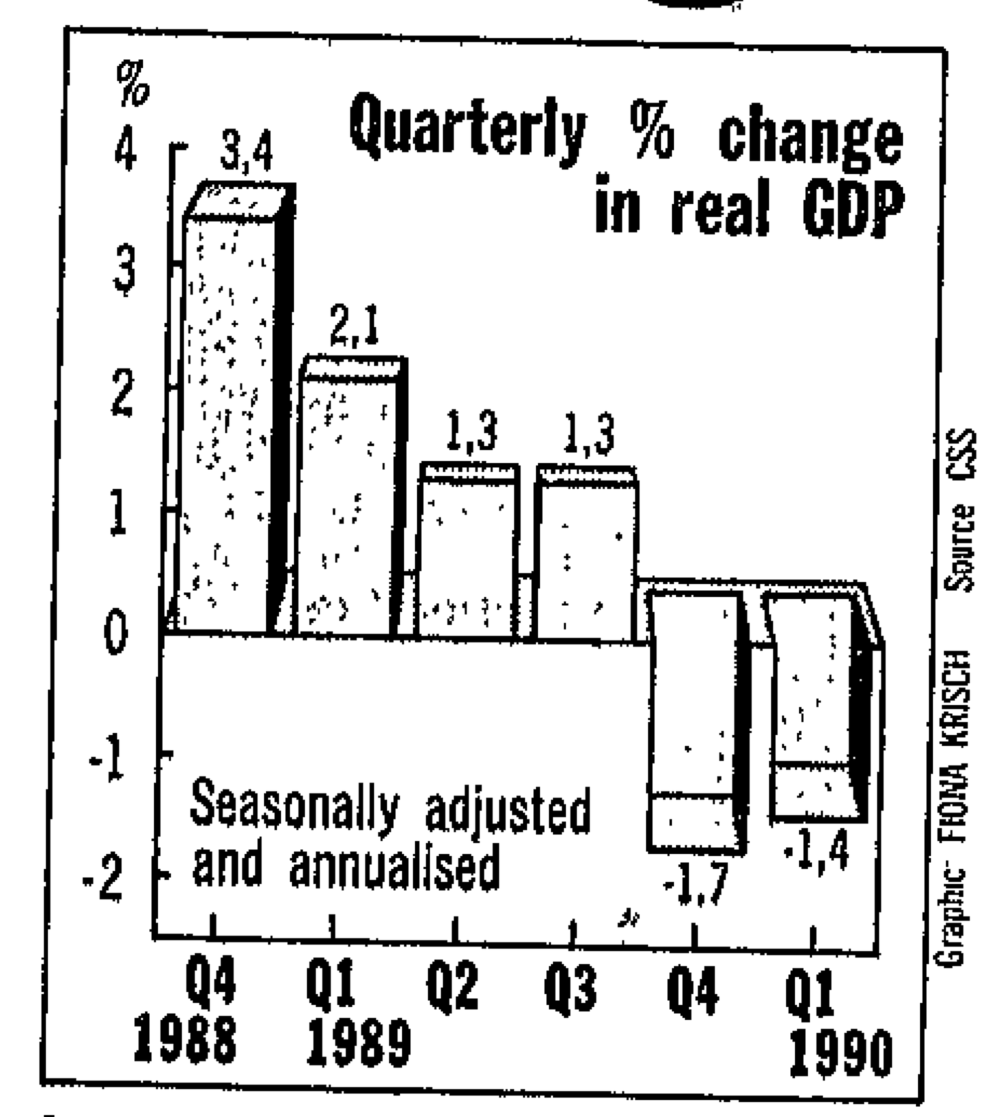
Huge declines in agriculture (almost 10%) and mining (almost 12%) were the main factors pushing GDP lower. The first quarter's overall decline comes after a 1,7% drop in the fourth quarter of 1989.

Economists hesitated to describe the current state of the economy as a recession, but said "the soft landing has turned bumpy". It was unlikely SA would reach the projected 1% real growth for the full year, and an upper limit of 0,5% was more likely — a sharp drop from last year's 2%.

SA Chamber of Business economist Keith Lockwood said it was worrying that the downturn was as severe as the figures indicated.

"The slowdown has been faster than anticipated, and probably goes a long way towards explaining the sharp drop in inflation at the producer level. But the Reserve Bank is not likely to ease interest rate policy before the slowdown is reflected in consumer prices," he said.

Although the figures should be bullish for the capital and money markets, the weak gold price and the current monetary policy stance are counteracting evidence of a sharp downturn.



Discount House of SA economist Chris Greyling said the figures were undoubtedly bullish, "but we cannot expect anything on interest rates before money supply and inflation figures are also in line with the Reserve Bank's aims".

Lockwood said the year-on-year drop between the first quarters of 1989 and 1990 (0,1%), although low, confirmed the economy was cooling down more rapidly than anticipated.

"It is especially worrying that the manufacturing sector shows the biggest drop from the first quarter last year. The sector makes the biggest contribution to GDP, and even the increase in exports of manufactured goods did not counteract the huge fall-off in domestic demand."

According to CSS, manufacturing output fell by 3,6% between the first quarter of 1989 and this year (before adjustments).

his own benefit. This implies an accrual of income to the taxpayer if amounts are received in respect of the delivery of goods or the rendering of services before the delivery of the goods or the rendering of the services has occurred[50].

Owing to the interpretation of the phrase "received by or accrued to" quoted above, the commissioner had the approach to tax income, subject to his own discretion, either on accrual or receipt. This approach had its quietus in the decision of the Appellate Division in SIR v Silvergreen Investments (Pty)

Group Areas Development Act, No 69 of 1955, and had been sold by public auction in December 1962, subject to the pre-emptive right conferred by section 16(1) of that Act. The board exercised its pre-emptive right to purchase the stands and the conditions of sale were finally settled on some date prior to the end May, 1962. In terms of the sale the board undertook to pay the purchase price, as well as the amount payable under the Act by way of depreciation contributions, upon registration of transfer. The transfers were completed on 7th August, 1963, and payment was made on the following day. The taxpayer disclosed the amount derived from the transaction, as accrued income, in its tax returns for the year ended on 30th June, 1963. The secretary, however, excluded the income from the taxpayer's gross income for that year, and included it in its gross income for the next year, in which it was received[50].

THE ECONOMY AFTER APARTHEID

DAVID YUTAR, Staff Reporter, went in search of a vision of what the South African economy would look like by the end of the century.

This is the first of a two part series.

"THE future is at once both dramatically different and yet much the same," says Professor Wolfgang Thomas of the Small Business Development Corporation about the the current economic developments and the next 10 years in South Africa.

Professor Thomas makes the point that one cannot compartmentalise economic and political change and that often a process of change has already been happening without our noticing it.

"Often what looks dramatic now is part of a broad and gradual process," he says.

Frequently, we think nothing has happened, but when we look more closely, change has been happening for some time.

According to him the next 10 years and a post-apartheid economy are already being shaped at this very moment.

He cites labour relations as an example.

Management

"Although it may seem that it is still the management at the top that make all the decisions, on closer examination it becomes evident that for the last 10 years there has been a gradual democratisation especially with regard to decision-making in the more successful companies.

"And today, much more than before, company decisions take cognisance of the needs and demands of labour."

"Today if there is a strike, management will be much more inclined to ask whether they are perhaps responsible for it."

Professor Thomas says the debate about econonomic democracy or democratic socialism is often a call for greater participation in the workplace at every level.

"I think we are learning ... our business schools are churning out people with a different philosophy, our universities and personnel consultants are too ..."

Vociferous

"That is why I say that things are at once dramatically different and yet the same."

Although Professor Thomas may be right in saying that this process of change is already occurring, the fact remains that private enterprise in this country is and has for some time been at the receiving end of vociferous and well-articulated criticism from the ANC and other similar organisations.

Mr Walter Sisulu of the ANC recently told South African businessmen in Johannesburg: "In our view, what you would call 'private enterprise' has done a lot to shape the basic structures of apartheid.

"Apartheid stands on the pillars of private capital which have been heavily protected by the state.

"The point we make needs to be answered, that the history of our country has been marked by a grotesque sense of social irresponsibility on the part of the business sector towards black people."

Mr Jim Buys, economic advisor to the Anglo-American Corporation, feels that the accusation that private enterprise has been the hand-maiden of apartheid is without justification and points out that it is rather that many government policies which have had stong socialist tendencies have detrimentally affected a large segment of the community.

Visions

What we need, says Mr Buys, is not a curtailing of the market economy but rather its *extension* to include those hitherto excluded from its operation.

"The accusation that private enterprise has colluded with the apartheid system to the detriment of black South Africans is completely misplaced," says Mr Buys.

"The real problem in South Africa is that the market-based system has not operated for the majority of South Africans who have been excluded (by governmental legislation) from the operation of market forces.

"They have in fact suffered more from the effect of policies which are more akin to socialist policies than to market-based policies."

Mr Raymond Ackerman, MD of Pick n' Pay, the country's largest food chain, which expects to have a turnover in excess of R5 billion this year, shares many of Mr Buys's visions but starts off from a different premise.

"We have seen 80 years of naked capitalism in the last century with the colonisation of Southern Africa by the English, the Portuguese and others," says Mr Ackerman.

"That was real rampant capitalism seeking only the maximisation of wealth and taking no account of the needs of the people.

"That, in turn, brought about the rise of socialism and communism, both of which we've now seen on the decline."

Mr Ackerman says he foresees this country, together with the nations of the western world, moving away from the "naked and rampant capitalism" of the last 80 years towards a more human-orientated social economy.

Imbalances

Mr Ackerman, like several other business leaders and economists I spoke to, sees a post-apartheid South Africa choosing a via media in the form of a social economy in which there is as much government intervention as is necessary to redress the imbalances of the past.

"Now what's forming in its place is a combination of the two (socialism and communism) and I believe that's what we and the western world are moving towards."

Mr Ackerman, like Mr Buys of Anglo American, believes that the market-based system has to have a "social underpinning" and Mr Ackerman has certainly put this belief into practice.

He says his company could in fact make substantially more profit than it has done but has "spent an absolute fortune on housing and bursaries.(Pick 'n Pay has invested between R60m and R70m in housing schemes and education and has expanded membership of its employee share scheme from 2 000 to 9 000 last year.)

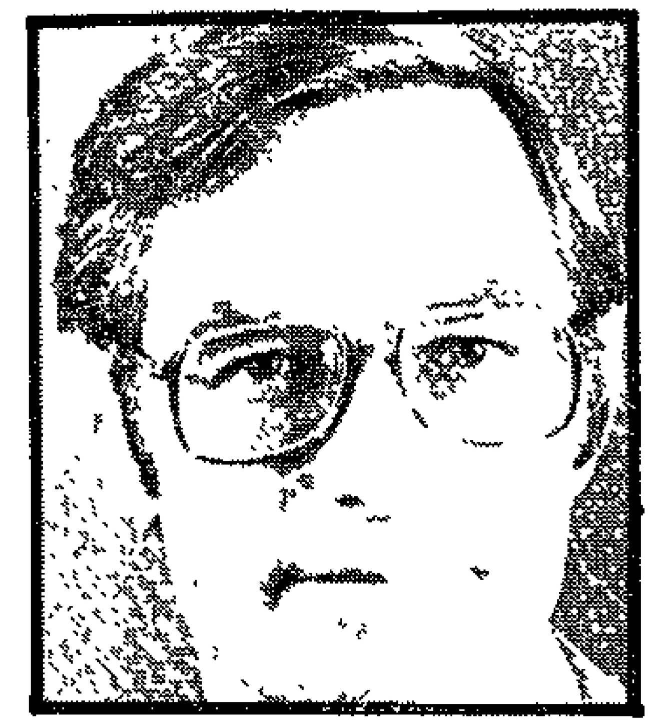
He says that if private companies embark on the kind of upliftment programmes that his company has, then there can be an "automatic redistribution of wealth" within the next 10 years — a process he says his company has been engaged in for the last 20 years, "long before the new South Africa."

Coalition

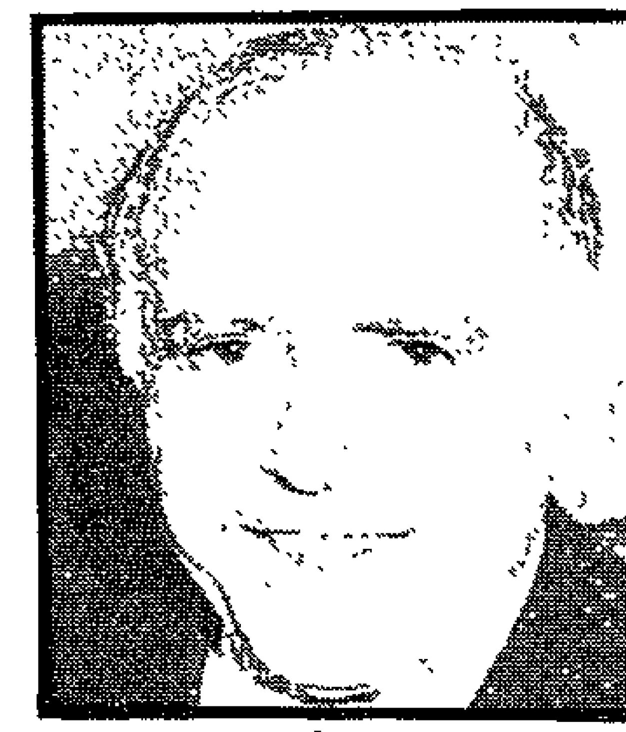
Professor Thomas of the SBDC agrees that we are moving in the direction of a mixed economy which will be essentially a market-orientated one albeit with certain socialist features.

"Even if South Africa is about to enter a phase when socialist ideas take on and when the economy may reflect the socialist ideas of a

Professor Thomas .. "Often what looks dramatic now is part of a broad and gradual process. Frequently, we think nothing has happened, but when we look more closely, change has been happening for some time."



Mr Jim Buys .. "The real problem in South Africa is that the market-based system has not operated for the majority of South Africans who have been excluded (by governmental legislation) from the operation of market forces."



Mr Raymond Ackerman .. foresees South Africa, together with the nations of the western world, moving away from the "naked and rampant capitalism" of the last 80 years towards a more human-orientated social economy.

coalition government, I think that in 10 years' time we will have come out of such a phase.

"We will then have a mixed economy where government plays a fairly important role but the private sector is still the "dominant sector in the economy."

Professor Thomas compares South Africa, "optimistically" to Spain which he says "has been going through pretty dark ages and has come out with a nominally socialist economy which is essentially market-orientated and with Spain being a happy member of the EEC."

A theme that pervaded the views of most of the people I spoke to was that even if the ANC was now talking in terms of a a truly socialist economy, by the time all the parties had emerged from the process of neotiations, the economy would in essence resemble a market economy compromised by having strong elements of governmental intervention to redress past imbalances.

Experience

Professor Thomas says he does not think the ANC is proposing a truly socialist economy and given the experience of other semi-developed countries, he does not think a socialist system will emerge from the negotiating process.

"But we wont have a free-market economy either," he points out.

The social market economy has been described by its proponents as "as much of the market as possible, together with as much government as is necessary."

It is contrasted to the socialist economy in which the definition is turned around to read "as much government as possible, with as much of the market as necessary" and the free market economy, which has been defined as "as much of the market as possible with as limited government as possible."

The businessmen I spoke to as well as economist Professor Thomas all spoke in terms of what amounted to some form of social market economy. They were all critical of a controlled or command economy in which widescale nationalisation and government intervention replaced the rule of market forces.

Intervention

But then neither did they argue that in the post-apartheid South Africa we would have a totally free market economy since they all perceived the important role that limited government intervention could play in a post-apartheid period, with many economic imbalances needing to be redressed.

Having compared South Africa's 'high road' to that of Spain, with a 'nominally' socialist economy which is essentially market-controlled, Professor Thomas spells out his vision — one which is quite compatible with the ideas of Mr Jim Buys and Mr Raymond Ackerman.

"What we will probably see is a so-called social market economy, where the market mechanism dominates but where there is quite a lot of intervention and where companies have a fairly strong feeling of responsibility, or if they don't, they will be bullied into doing so.

"The Social market economy, which was introduced in Germany after the war, stems from a recognition of the need for a combination between the social responsibility of the government and the private sector and the market mechanism.

"It is very different from the socialist model or command economy where government controls the market and which has mostly been a failure for a variety of reasons.

Employees

"The redistribution process will take place largely through companies having to do far more for employees and also having to give in on wage issues and other labour demands."

This view accords with that of Mr Ackerman's view of a market economy with a "strong social underpinning".

Professor Thomas warns that in such an economy government will have to spend far more on education and will not be allowed to privatise as much as they would have liked.

Mr Jim Buys shares Mr Ackerman's confidence that "all those sitting around the negotiating table will be persuaded that solutions to our problems can best be found within a market-based economy".

He adds that he would not try to push the idea of the pure free market too much "even though I fully accept that that the free market should be promoted as an ideal".

Both Mr Buys and Mr Ackerman agree with Professor Thomas's prediction that expenditure on such items as housing and education will increase rapidly in a post-apartheid economy and both feel that large corporations have an important role to play.

"I am quite happy about a future government untroducing laws to force companies to redistribute wealth by means of tax structures and employee-benefit schemes .. that is different to direct government intervention, says Mr Ackerman.

"If the government says 'Mr A you have spent so many million on housing and bursaries — we want to see you increase that by 10 percent and we want you to increase your existing 42 percent black management to 60 percent — that I'm quite amenable to because that is the way in which individual companies can and should participate in the redistribution of wealth and power."

Mr Buys agrees with this idea but adds that the "redirection" of wealth will always have to be done "within the constraints of broader economic efficiency".

"Because the moment you start impairing the potential for the economy to grow, you set in motion a vicious rather than a virtuous circle, your tax-base doesn't grow and you dont have the wherewithal to do all such things," he says.

Mr Ackerman says the profit-motive should always remain dominant and that "redirection" should occur within the constraints dictated by the need to make a profit.

"It (redirection) must never be at the expense of building profits because it is profit that will generate more growth of the economy."

Opposed

He cites his own company, Pick n' Pay, which expects to make a profit of over R5 billion this year, saying: "But remember that while my company is doing more, I think, than any other retail company in the area of employee welfare programmes, it can do this *because* it is making more profits than any of its competitors too.

Both Mr Buys and Mr Ackerman are equally opposed to the idea of intervention in the form of introducing government representation on the boards of companies with a view to influencing investment and labour policy.

Says Mr Buys: "Unless government has a stake in the business, in the sense of having invested capital, I see no reason why it should have a right to place representatives on the board of private companies.

"Government already takes a large chunk from the organisation by way of taxes and as an enterprise expands so that chunk will increase."

● Tomorrow: Specific visions for the future.

Fears of recession as GDP declines for successive quarters

15/5/90 (49)

By Sven Lünsche

Further evidence emerged yesterday that the South African economy is heading for a prolonged slowdown, if not a temporary recession.

The Central Statistical Services reported in Pretoria yesterday that the seasonally adjusted total real gross domestic product (GDP) dropped for the second consecutive quarter.

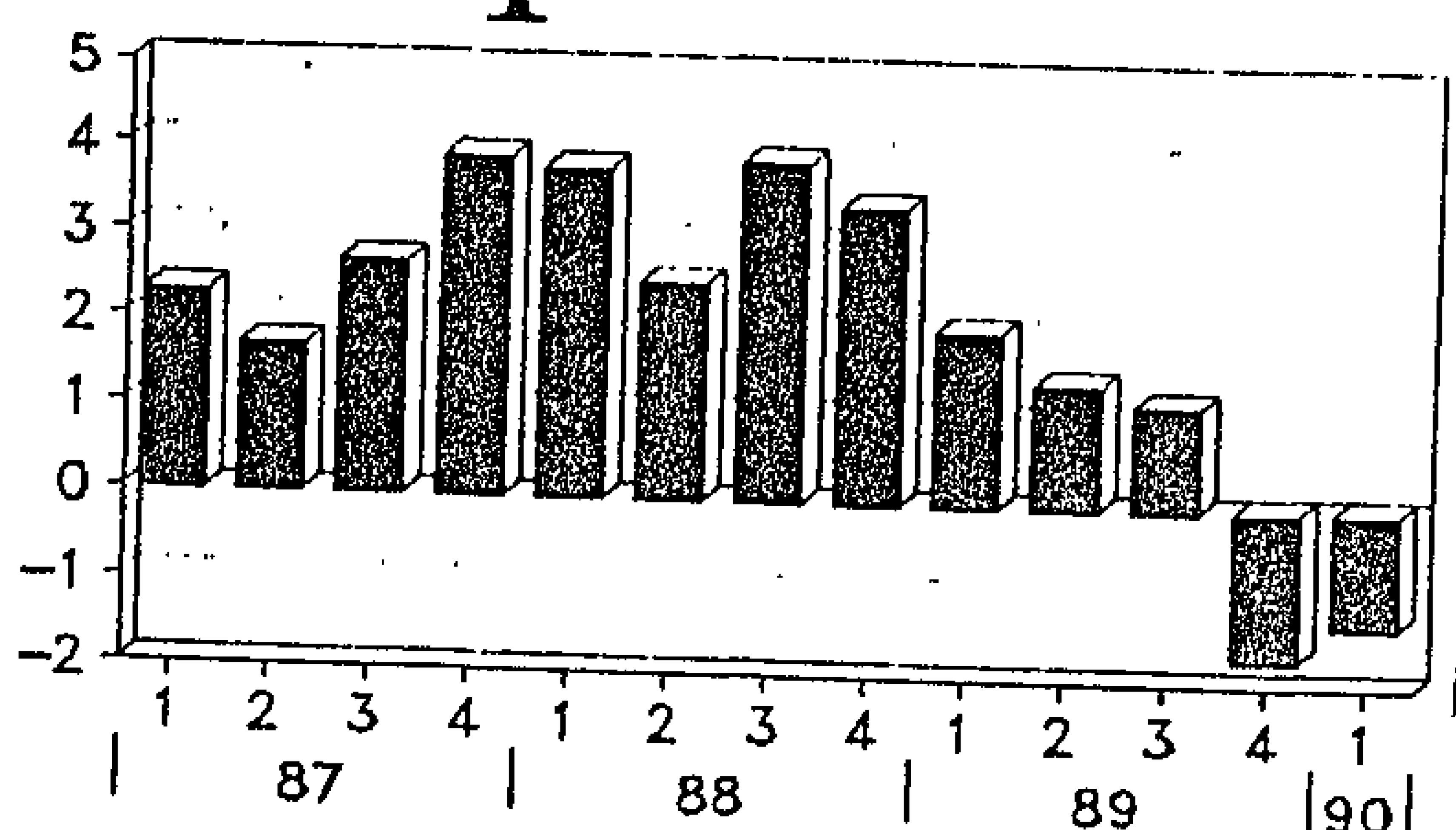
According to preliminary indicators, GDP dropped by 1,4 percent in the first quarter of 1990, against a decline of 1,7 percent in the fourth quarter of 1989 — at both seasonally adjusted rates and at market prices.

Growth in GDP has slowed since the third quarter of 1988 in response to the tighter fiscal and monetary policies applied by the authorities.

As economic growth for the whole of 1989 still managed a respectable 2,1 percent it seemed likely that the authorities had achieved their goal of guiding the economy to a soft landing before a more robust upswing could be initiated.

However, latest economic evidence suggests that hopes for the recovery later this year seem premature.

The squeeze has been felt mostly at grassroot level. Liquidations in the first quarter this year were up by a massive 40,5 percent on the same period last year, banks have been increasing their provisions for bad debt and car sales plunged by a year-on-year 20,2 percent in April.



Quarterly percentage change in real GDP

Most importantly, the results of major retailing groups are beginning to look extremely unhealthy.

OK Bazaars reported a sales decline in real terms of about two percent for the year to end-March.

While many economists continue to suggest that South Africa will prove to be in a technical recession defined as two successive quarters of negative growth, some are revising their initial estimates of GDP growth of about one percent this year.

The Bureau for Economic Research at Stellenbosch University for one is likely to readjust its growth prediction of 0,8 percent this year — it is based on a first quarter positive GDP growth estimate of 0,7 percent.

The CSS figures show that seasonally adjusted real GDP of the non-agricultural sector declined by 0,7 percent in the first quarter of 1990, compared with the fourth quarter of 1989.

The real production of the mining sector dropped sharply by about 12 percent in the first three months of the year, while agricultural production decreased by about 10 percent.

For second consecutive quarter . . .

SA's GDP drops 1,4%

CAPE TIMES 15/5/90 49

By AUDREY D'ANGELO
Financial Editor

THE seasonally adjusted real gross domestic product (GDP) has dropped for the second consecutive quarter, the Central Statistical Services (CSS) announced yesterday.

It said the GDP had dropped by 1,4% in the first quarter of 1990 "against a decline of 1,7% in the fourth quarter of 1989, both at annual rates and at market prices."

Boland Bank chief economist Louis Fourie pointed out that in the past, two such steep falls would have indicated that the economy was in recession.

He did not think SA was in a recession yet. The present monetary policy of the Reserve Bank showed that it did not consider the economy was in one, and was determined to continue to give priority to bringing down inflation.

But, Fourie warned, he shared the opinion of the SA Chamber of Business (Sacob) that there was a danger of falling into a recession if interest rates remained at their present high level for too long.

He agreed with a recent statement by Old Mutual chief economist Dave Mohr that the SA inflation rate was unlikely to be brought below 10%.

And although it was necessary to bring inflation down "in the present political circumstances we cannot afford to drop into a recession".

"Growth is already tapering off. And the rate of bankrupticies is picking up — the signs are there.

"I think inflation will come down because of the stability of the rand.

"On the other hand the demands on the economy, as a result of wage negotiations and the need to upgrade living standards, are too heavy for inflation to come down very much.

"Another factor keeping it up is the protection given to so many manufacturers. That means real competition is limited in SA.

"And falling consumer demand means higher unit costs of production.

"I see the danger signals and I think it cannot be very long before priorities must change from bringing down inflation to stimulating growth."

The director of the Stellenbosch Bureau for Economic Research, Ockie Stuart, said he tended to agree that inflation would not come down below 10%.

But he thought it too soon to stimulate the economy. The March Budget had been mildly stimulatory and its effects had not yet worked through.

There was always a time lag, and tax cuts would not affect salaries and wages until July.

"And we do not yet know whether we shall be able to roll over the foreign debt repayments due this year. If we cannot roll them over, we cannot afford to stimulate the economy."

A 'different' economy

ARGUS 16/5/90 (49)

Business leaders optimistic that nationalisation can be avoided

WERE majority rule to be introduced in South Africa tomorrow, the country would probably see a socialist-orientated economy with widescale government intervention in the form, for example, of government appointees on company boards and extensive nationalisation of key industries, it is often said.

I put this proposition to those interviewed.

"The economy will look different from the present one, not because of the changes wrought by nationalisation, but because privatisation will increase and the fruits thereof will be used more to redress the imbalances of the present economic dispensation," says Pick 'n Pay boss Mr Raymond Ackerman.

"I think privatisation will prove to be an effective tool to redistribute wealth and we are going to be able to put aside the idea of nationalisation, which I believe will kill this economy."

Negotiation

He adds that such a system will not be achieved easily but will take "a hard two or three years of negotiation".

"But I believe we will have sufficient skill and power to negotiate that with black leadership to come".

Mr Jim Buys, economic adviser to the Anglo-American Corporation, echoes Mr Ack-

THE ECONOMY AFTER APARTHEID

IN this, the last in a two-part series on how the South African economy might look by the end of the century and beyond, Staff Reporter DAVID YUTAR canvasses some personal visions ...

that he too doesn't believe that this country will follow the route of widescale nationalisation.

"The evidence worldwide that such (command) economies don't work is so overwhelming that although I understand why some people are attracted to such ideas, I think it's extraordinary that those in leadership positions should still be in favour of a regulated economy," he says.

Professor Brian Kantor, director of the School of Economics at UCT, says such policies would have a disastrous effect on the economy in that they would drive away the savers in the country's economy.

"The savers in South Africa are the high-income people

you are going to drive away your savings.

"And unless the tax-base grows the basis for redistribution will become limited."

Professor Kantor says the problem is that the aspirations of a large sector of the population just cannot be met because "one can't make poor people without skills rich".

He says that although South Africa may be able to make the transition to majority rule without too much of a violent revolution, the prospect of majority rule has however, brought with it the new uncertainty of what a post-apartheid government will do with the economy and also the threat of rampant consumerism.

"When the economy becomes more representative of poor blacks there will be a strong push for more consumption — for consumption now rather than later.

"This will of necessity be at the expense of consumption later ... if you consume more and save less you will be better off today but you will have to forego opportunities for growth.

Professor Kantor says the only way of "untying that knot" is a to attract foreign investment.

And that is another reason why he says he is opposed to nationalisation as a means of attempting to redistribute wealth — it will scare away

He stresses that the dearth of foreign investment has been one of the most constraining factors operating against economic growth in South Africa and that if South Africa wants to follow the "high road" for the next 10 years and after that, it will have to make conditions far more attractive to foreign investors.

Professor Kantor feels very strongly about what he calls "economic naivete" in South Africa at the moment and says that people who are expounding the virtues of nationalisation and a state-controlled economy "need to be exposed".

Optimistic

"Someone like Mr Sisulu will get up and speak economic nonsense and white guilt-ridden journalists will just accept it because it's coming from this lovely old man who's spent most of his life in prison," says Professor Kantor.

But at the end of the day Professor Kantor, like others interviewed, feels optimistic that South Africa might just manage to keep to the high road.

"The really hopeful factor is that we could get through this transition phase without scorched earth ... that is a tremendous plus and we could put up with a lot of economic inefficiency if we can

Professor Brian Kantor ... "The dearth of foreign investment has been one of the most constraining factors operating against economic growth"

that we are not going to be totally stupid."

He says the country has immense potential for growth given not only its mineral resources but also its "core of experienced, competent management".

"It's the core of students we are training here," he says with emphasis.

"We also have a well-developed system of institutions that can easily accomodate more growth, like banking systems and the stock exchange.

"In many ways we have a first world structure with a third world community .. but that's an advantage."

He points out that while many developing countries their skills

South Africa has them right here.

Mr Ackerman echoes this optimism when he says that " if private enterprise is prepared to look after the new South African stake-holders, South Africa will end up not only with a growing economy but also a great growing country."

Professor Wolfgang Thomas of the Small Business Development Corporation warns however that the process of rapid urbanisation will have a profound effect on the economy of the future.

Ubanised

Whereas just under 60 percent of all Africans are urbanised today, this figure will have increased to 67 percent by the turn of the century, he says.

But this will have a beneficial result in that we will have improved literacy levels as well as a larger reservoir of entrepreneurial skill from which to to draw.

Professor Thomas feels confident that as South Africa becomes more and more semi-developed it will be able to increase its economic growth to a healthier four percent.

These are some of the broad predictions he makes for the decade ahead:

● By the year 2 000 foreign investment will have increased considerably and South Africa will receive as much foreign investment as other semi-developed countries such as Mexico, Chile and Venezuela.

● The division between the formal and informal sectors of the economy will be less clear and the latter will be far more important insofar as its contribution to the economy is concerned.

● The number of people "in absolute poverty" will probably increase but the number of poor people as a percentage will probably decrease from the present 40 percent to approximately 30 percent of the total population.

● The "entrepreneurial and management bottleneck" will become smaller.

● The mining sector may decline from its present contribution of eight percent of the GDP.

● Agriculture as an economic activity will increase in magnitude and importance.

● Trade unions will have reached the zenith of their power and will become less powerful by the year 2005.

● South Africa may still have a fair amount of "class-related unrest" because not all socio-political demands will have been met.

● South Africa's economic role in Southern Africa will be crucial with its export role to the rest of Africa having greatly increased and with other African countries still "having a love-hatred relationship" with South Africa.

The 'best of capitalism, socialism'

ENTREPRENEUR Mr Albert Koopman believes that neither capitalism nor socialism can provide the solutions to our problems.

He has his own ideas that might be seen as an amalgam of the best in both ideologies.

Mr Koopman started Cashbuild Wholesalers in 1978 and tells how by 1985, when profits were very low, he started to look for new ways of increasing profit.

Within a year he managed to turn Cashbuild into a highly efficient and profitable concern.

In doing so he also developed some innovative ideas on how to structure the workplace and the economy.

His book on Management in Third World Societies is about to be published in the UK and is intended for use by the Business School of City University in London.

Mr Koopman describes how man — the worker — has become increasingly alienated from the product of his work as society has progressed from an agrarian into an industrial one.

He says that both capitalism and socialism are "guilty of the crime of stifling the creative efforts of people".

"What one wants to do is to make both (capitalist and employee) have a sense of ownership through active involvement in decision-making.

A system that succeeds to a great extent in doing this is the Sabatsu Company's in Japan.

"Every small worker is a sub-contractor and he has a symbiotic relationship with the workplace.

"Instead of travelling to the grey-smoke-stacked factory where he works as an alienated cog in the system, the company moves the machinery he needs to his home and the worker works on a sub-contracting basis from there."

"He can now roll out of bed, spend some time playing with his children and still do the same amount of work and more."

Mr Koopman says the system has succeeded in lowering costs and increasing production.

He is also a great believer in changing our low wage/high cost structure by increasing the volume (by broadening the market), lowering overheads and sub-contracting work in the production process.

Mr Koopman starts by rejecting the contemporary industrial society structure with the traditional structure of community, capital and the state in which labour and capital are "pitted against each other as adversaries".

Mr Koopman believes one has to "transcend the mindset" of this structure which makes it impossible to release the potential of all humans to create wealth.

To replace this structure Mr Koopman advocates what he calls a "rights culture" in which the common interests of labour and capital are expresssed in creating wealth.

Mr Albert Koopman ... Innovative ideas on how to structure the workplace and the economy.

According to him "shared values" become the basis of the new system, in which the primary goal is no longer profit for the entrepreneur or a living wage for the employee but rather a combined effort to create wealth which will be shared by labour and capital.

The essence of the new system, says Mr Koopman is that labour and capital combine in a joint effort to create wealth and to determine how the wealth should be consumed.

"That is why at Cashbuild we could make statements like 'the workers have a right to fire management'."

He says the system is such that it is no longer a case of he who owns the land or he who owns the means of production being the one with the power to make decisions but rather those who are jointly involved in creating the wealth.

He explains how skills are rewarded in the new system.

"If X has innovative ideas about production then because his talent is worth more to the company than that of a floorsweeper, he will be better rewarded."

But the greater remuneration will *not* be because of the person's class affiliation, says Mr Koopman.

"The structure I advocate is in fact classless and wageless."

He adds that rules apply to labourer and emloyer alike.

"In the present system, if a worker happens to come back from lunch five minutes late, he will get hauled over the coals.

"And yet the director of the same company may come back at 3pm with impunity.

"That will not happen in the system I am talking about."

He says that during lean times, across-the-board cuts in salary will replace mass retrenchment.

Turning to the great nationalisation debate, Mr Koopman says:

"It's neither socialism nor capitalism themselves that are at fault but rather the restrictive mechanisms that both impose on people.

"The beauracracy in both systems is what limits creativity to produce wealth."

"That's why some nationalised industries are able to be more efficient than highly beauraucratic capitalist ones."

Dendy Young J A, in an minority judgment supported De Wet and Yeats'
submission that a spes may not be ceded. De Wet and Yeats are of opinion

Time to market the true benefits of privatisation

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BDay 16/5/90

LEON LOUW

THE dark ages of dinosaur economics appear to have returned to SA. People are talking seriously about nationalisation as if it hadn't already failed worldwide.

Parties officially for a market economy, including government and the Democratic Party, have regressed in their apparent understanding of privatisation and deregulation. This is in part due to a desire to please the ANC and the unions.

The quality of discussion reported in the media has deteriorated lamentably. It is time to pause and remind ourselves what the case for privatisation is.

Allowing and protecting private ownership and control is both morally and economically superior. Global experience suggests:

- Private ownership tends to generate positive incentives where government owership generates negative incentives;
- Even where a government finances goods and services, it is preferable that they be privately and competitively funded;
- A market mechanism is the best or only way to prevent serious under- or overprovision and to achieve the highest attainable level of "optimality";
- With private financing governments do not need to take the risk or provide the capital with taxpayers' money; and
- The closer any country gets to a pure free market, the better its economic performance will be — and the more justly wealth will be redistributed.

There is no known way of determining "need" priorities without a price mechanism. There is also no better way to motivate innovation and productivity than competition and the prospect of profit, or, perhaps and much more importantly, the risk of loss and insolvency.

These free market truths are equally true for roads. There is no way of knowing whether a socialised road is a good use for vast amounts of scarce resources.

People love to say the construction of a given road "creates" so many jobs, or that is satisfies a particular important "need". But every rand spent in one direction is a rand not spent in another which might have "created" more jobs; needs are individual and subjective, and cannot be determined except by way of a price mechanism.

By having private toll roads, a number of benefits are achieved at the same time:

- An effective price mechanism, i.e. private enterprise and free competition, reveals the real relative value of a road. This is revealed by what people are willing to pay to use a road. A few people may be willing to pay a high price (toll) for road X but many people may be unwilling to pay even a low price for road Y. This, and only this, will tell us that road Y is a bad allocation of scarce resources;
- When private investors make bad decisions — and only the market can identify bad decisions reliably — it is they who lose, not taxpayers or "society". Privatisation shifts risk from the state and thus taxpayers to private risk-takers; and
- The loss motive may be more important than the profit motive. Loss avoidance is the unique way in which the market penalises bad decisions. Contrary to popular myth, insolvency is a good thing. It is the market's way of transferring resources from people who tend to make bad decisions to those who tend to make better decisions.

One of the great benefits of a free market is its propensity to implement new ideas and the rapidity with which it discards bad ideas. There is no way of knowing what will happen in a truly free and competitive market.

Privatisation should itself be privatised. It is as a rule not a good idea for only the contracting parties, the state and the private sector, to be involved.

Firstly it is very unlikely that a government department will have the necessary expertise. Privatisation is a very sophisticated concept and the relative merits of a multiplicity of alternative methods of privatisation can best be evaluated by independent experts, of whom there are many in the private sector, locally and abroad.

Since privatisation is a new concept, and since it is mistakenly perceived to be contrary to the interests of consumers and labourers, there should be a significant budget devoted to marketing it. Much can be learned from the successful marketing of privatisation in various other countries, most notably New Zealand and the UK.

We all know of the ANC's controversial and outdated advocacy of nationalisation. There are a few observations which the "alternative" political movements might make in regard to road privatisation.

Nationalisation is presumed erroneously to be a way to help historically disadvantaged people, i.e. blacks. However, privatisation has so far produced only benefits for blacks, and nationalisation would have consumed wealth from which blacks would otherwise have benefited.

The R3bn additional budget for black advancement is part of the gross privatisation revenues received by government at all three levels in recent years. Road privatisation and quasi-privatisation have not only enabled government to divert expenditure from roads to upgrading black areas, but have generated revenue from roads.

It is my view that this diversion of road revenue is a bad thing. But it is evidence that privatisation is more likely to be good for blacks than nationalisation.

A point which needs elaboration is the importance of not only choosing the optimum methods of privatisation out of the large number of alternatives, but to market the principle and the strategy to be used.

Marketing the principle requires public education. The strategy is a completely distinct question. We know that privatisation is a good idea in principle, but this does not tell us how to do so.

This requires a great deal of skilful attention, a bitter lesson which has hopefully been learned already at great cost to government and the private sector.

Privatisation is neither a panacea nor is it automatically successful. When it is done wrongly, it discredits the entire process. Unfortunately a great deal of damage has already been done in SA.

There is no objectively correct or universally acceptable way to privatise roads or anything else. Each situation is unique. With the best will in the world, and the best experts giving advice, errors will be made.

It is therefore important to be flexible, so that changes can be made at minimum cost. To this end careful monitoring of each situation should occur.

Since there is no way of knowing which is the best method in advance, I strongly urge that a variety of methods be used simultaneously and the results compared. With a diversity of methods there is a better chance of identifying the best method and there is damage control for less preferred approaches.

□ Louw is executive director of the Free Market Foundation. This is an excerpt from his address to the SA Institute of Civil Engineers at Halfway House this week.

BDay 14/5/90

POLI

Schwarz warns on GDP drop

LESLEY LAMBERT

CAPE TOWN — The 1,4% annualised drop in GDP in the first quarter of this year held serious implications for the economy and for stability in SA, DP finance spokesman Harry Schwarz said yesterday.

In per capita terms, the reduction meant a drop of almost 4%, Schwarz said. This was serious at a time when political change required stability and such stability was threatened by increasing unemployment and acute poverty among sections of the population, he said.

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Inflation

Schwarz confirmed reports that hopes for a soft landing for the economy were receding.

"That there is a need to control money supply and that this is necessary to combat inflation is accepted, but it was hoped that this would be managed in such a manner that there would be a soft landing," he said.

He said the economy was close to a recession and the authorities needed to ensure the delicate balance between fighting inflation and the need for job creation was maintained in the interests of maintaining stability in difficult political times.

SMA sees drop in interest rates by third quarter

CAPE TOWN — Syfrets Managed Assets (SMA) believes interest rates must start coming down by the third quarter of this year — earlier than forecast by some other financial institutions — to avoid a risk of recession. B/Day 16/5/90

Analyst Elmien de Kock explained yesterday there were clear signs the economy had already slowed down sufficiently for either monetary or fiscal policy to be relaxed.

This could not happen until after the large repayment of foreign debt due next month.

But the authorities would "definitely be running a risk of plunging the economy into recession if they do not act in the third quarter".

Own Correspondent

De Kock said the continued decline in gross domestic product (GDP) by 1,4% in real terms in the first quarter of this year was not cause for alarm.

Together with the declines in monthly manufacturing production figures, cash in circulation and bank credit, it merely provided confirmation of the slowdown in the economy.

"It is important to note that gross domestic expenditure (GDE) has been declining since the second quarter of 1989, resulting in a total real decline of 0,8% for the year."

The main reason GDP had not reflected slowdown signs earlier was the strong net increase in exports.

What was of greater importance was the tactics the Reserve Bank would choose to adopt, "as the respective economic variables are signalling that there is undoubtedly room for a relaxation in either monetary or fiscal policy", she said.

"Considering that the production price index (PPI) rose at an annual rate of only 9,9% during the past three months, it is clear there are definite signs of a levelling off in the inflation rate. (149)

"Once the heavy debt repayment commitments due in May and June are out of the way it may be easier for the Reserve Bank to act on fundamentals. At this stage the over-riding variable still remains the level of the gold and foreign exchange reserves — which are too low."

Lifting of sanctions 'a boon for growth'

GRETA STEYN 49

THE lifting of financial sanctions had the potential to add at least one percentage point to SA's average annual growth rate over the next decade, economists said yesterday. B|Day 16|5|90

Financial sanctions put a brake on growth in the past five years by forcing SA to become a net exporter of capital — to the tune of R30,5bn.

If the capital haemorrhage was stopped, potential for growth and job creation would be enhanced, economists said.

This would take place even if there were no net inflow of capital.

TrustBank's Nick Barnardt said the assumption that the capital account was zero instead of a huge negative figure, yielded a projected average annual real growth rate of 3% to 4% a year over the next few years, instead of 2%.

All other assumptions, for instance on the gold price, remained the same.

"New job creation at this higher rate of growth is roughly five times more than at a growth rate of 2% per annum," Barnardt said.

An econometric model run by the Reserve Bank last year showed that, with no need to yield a surplus on the BoP every year, real GDP should be able to grow at an average rate of about 3% per year.

If the SA economy experienced a net capital inflow equal to about 4% of GDP — a reversal of the current situation — an average growth rate of between 4% and 5% per year could be achieved.

Nedcor economist Edward Osborn said the present constraints limited SA to an average annual growth rate of about 1,5% and that this could be lifted to a growth potential of about 3% — if the position of SA as a net exporter of capital was stopped.

Whole economic set-up is rotten – Zeph

CPress 17/5/90

(49)

City Press last week published an edited version of AMEEN AKHALWAYA's interview with PAC president Zeph Mothopeng on the beliefs and policies of the movement. Here is the second, concluding part of the interview:

THE PAC has been talking about a constituent assembly. If government were to say, "right, we are now allowing everybody to vote, and everybody gains representation in Parliament", will that not have the same effect as a constituent assembly?

I don't know. So far the government hasn't talked about universal franchise. It is talking about guaranteeing the rights of the minority. That means incorporating the right of the oppressor.

PAC policy on the repossession and redistribution of the land has been a major bone of contention. There seems to be very little clarity on this. How exactly would land be repossessed and redistributed, and who would determine the redistribution?

Liberation in guerrilla warfare moves silently. When people want to free themselves, they don't go about shouting how they will do it.

But the average person wants to know what this redistribution is all about? Some construe it to mean that people are going to be told: "You move out of your houses and now we are going to re-allocate these houses."

Land will be redistributed by the people who work the land; the peasants, the workers, and people who are going to be prepared and taught.

We have centres where they learn every day. We are teaching those who are willing to do it, because they will be in touch with the people.

It is not what Mothopeng says or what he wants, it is what the people say and what they want, and that will be revealed by their representatives.

There has been much controversy about Nelson Mandela's reiteration of ANC policy on the nationalisation of mines, financial institutions and monopoly industries. What, broadly, is the PAC's economic policy?

He confined it to mines and whatnot. Our economic policy is that the whole set-up is rotten. It has to be restructured; there must be a complete clean-up.

We are not confining our economic policy to nationalisation. We are there to see that the people get what they deserve.

I do not want to go into detail, because ecomomics is a living science in a practical world. Its success or failure depends on its application. The premise from which I start is socialism.

We are completely socialist and we are going to continue that way.

The ANC, PAC and Azapo talk about the "unity of the oppressed". The ANC and PAC are regarded as the two major organisations of the oppressed people in South Africa. What is the common ground between them, and what is keeping them apart?

We cannot see major parties agreeing on common ground. What is important is who has support among the people and what action they take on behalf of the people.

Why must the ANC and PAC unite? Nowhere in the world has there been unity of the parties. It is a good thing but it doesn't just come about, because you'll find that some people misuse the oppressed, impose their own views as those of the oppressed.

We do not wish to collaborate with anybody unless we can have principled co-operation and collaboration. This being so difficult, we are prepared to go it alone and get what we want because we are confident that we have the African masses behind us.

Are you saying it isn't really necessary for the ANC, PAC and Azapo, or Inkatha for that matter, to achieve a joint approach on any particular issue?

To me this call for joint approach is becoming a farce, probably because the rich man has the Press and money so he now wants to compel everybody to belong to one or another or to narrow the spectrum of differences.

Let each organisation take up its own cudgels, forget about other organisations, and do its own thing in consulation with the grassroots. These are the people that let us rule. Unfortunately, most of us have outgrown the grassroots level; we no longer even fit in.

It is being claimed in some quarters that every time there's been a flare-up in the townships, the PAC has probably instigated it because it doesn't want talks to go ahead between the NP and the ANC.

PAC president Zephania Mothopeng . . . 'the people must rule'.

That is a foolish statement, because PAC doesn't force anybody to do what PAC thinks is right. We have always said that if ANC want to talk to the government, let them do so. Those who want to negotiate, let them go, man, let them go and do what they want to do with the government.

If we say we allow different groups to do whatever they feel like, are we not preparing the ground for further clashes between the oppressed?

Well, there has always been machinery for liaison between organisations. Those things can be attended to by various committees of the oppressed.

What is your scenario for the country over the next five years – not what you would like to see, but what you think is going to happen?

I think this is the beginning of the real struggle. There will be a realignment between those who support genuine liberation and freedom and those who give the illusion of freedom.

There will also be a decline of the opresssor's power and authority, because the masses shall have enough opportunity to upgrade their ability to resist oppression and confront the government on an almost equal basis.

There will be a genuine rethink by the oppressors of their position because they will realise they can no longer maintain the status quo through force.

The PAC's grassroots membership will continue to grow.

When you talk about a constituent assembly and grassroots, and you suddenly find that the PAC does not have the majority, what then?

The PAC's losing is an impossibility because of the amount of organisation, effort and dedication of our forces, which will be the main agent of that change. They will command the support of the grassroots.

In any case, the PAC is a democratic organisation, so the rules of democracy – the will of the people – obtain.

Reserve Bank stops fall in interest rates

B/Day 17/5/90

GRETA STEYN

THE Reserve Bank has moved to counteract rising liquidity in the money market to signal it wants to keep interest rates high to combat inflation.

The result of its actions has been to keep interest rates in the market abnormally high — given the current liquidity situation. Call rates are about 0,75 percentage points higher than they should be, one dealer said yesterday.

Fears that the shortage will widen further will continue to prop up rates in the short-term market. Talk is that the Reserve Bank wants to see the cash shortage back at R4bn by month-end.

The Bank yesterday estimated the money market's shortage at R2,64bn on Tuesday — up from Monday's R2,45bn despite huge liquidity inflows into the market, put at R1,5bn by some sources.

The main reason for the cash inflow was the maturing of government stock and the payment of government salaries. The market is also more comfortable as the demand for credit has abated. But the Bank took action to ensure the greater supply of cash would not put downward pressure on interest rates.

Through a combination of different "open market operations" it mopped up the liquidity.

Its actions included sales of dollars to banks — which takes rands out of the system — under an agreement to buy the dollars back later. It also timed the settlement date of its sales of government stock for mid-May.

One chief dealer said that without the Bank's open market operations, the market would have been close to a surplus cash position.

In the capital market, the weak gold price is putting a dampener on sentiment which might otherwise be bullish. Positive factors to push gilt yields lower include the shortage of paper, a positive outlook for inflation and the balance of payments, and evidence that tight monetary and fiscal policies are working.

Mining, farming slumps force GDP down again

Sowetan 17/5/90

(49)

THE seasonally adjusted total real Gross Domestic Product (GDP) dropped for the second consecutive quarter, the Central Statistical Services announced on Monday.

According to preliminary indicators released, the GDP dropped by 1,4 percent in the first quarter 1990 against a decline of 1,7 percent in the fourth quarter of 1989, both at annual rates and at market prices.

The seasonally adjusted real GDP of the non-agricultural sector declined by 0,7 percent in the first quarter of 1990 compared with the fourth quarter of 1989.

The real production of the mining sector dropped sharply in the first quarter and contributed greatly to the decline.

The GDP at current prices for the first quarter will be published in a separate news release, the CSS says.

The estimates exlude for the first time the national accounts estimates of Namibia. The difference between the figures thus reflects the exclusion of Namibia and is not as result of the revision of the estimates.- Sapa

Star 17/5/90 (49)

Business spells out Charter of Rights for social, political and economic issues

By Michael Chester

The new South African Chamber of Business (Sacob) moved into the central arena of the debate about the shaping of a new South Africa with the release in Johannesburg yesterday of a dramatic document that could well go down as a landmark in progress towards a new constitution.

It spells out a Charter of Rights — not only on political issues but also on social and economic matters.

Since the charter claims to reflect the views of the business world, its influence in the current dialogue between white and black leaders is bound to be considerable.

Sacob, formed out of the merger of the Association of Chambers of Commerce and Industry (Assocom) and the Federated Chamber of Industries (FCI), has sound footing in laying claim to be the biggest voice of business in South Africa.

And the voice is likely to increase in volume in the political debate as copies of the Sacob charter are circulated to about 33 000 companies in South Africa. All of them are asked to follow the principles laid out.

Insiders see the charter as the most important declaration made yet by business leaders on the process of reform.

New guidelines

Observers believe it will provide key new guidelines in the preparation of any Bill of Rights that emerges out of negotiations on how South Africa sets a course away from apartheid and towards new socio-political programmes.

Sacob lays stress from the outset that a main ambition is the promotion of human rights and the freedom of all races. And its first declaration covers the aspect of economic rights and principles.

The charter says everyone should be entitled to equal work opportunities and freedom in the choice of employment, as well as equal pay for equal work.

It also deals with social and cultural rights and principles, and educational opportunities — while the State says parents are entitled to protect their own religious and philosophical convictions.

The charter adds more fuel to the current debate when it turns to civil and political rights and principles. Among the main items:

- No-one shall be subjected to arbitrary arrest, detention or exile, and everyone shall be entitled to a fair and public hearing by an independent and impartial tribunal.
- Everyone has the right to freedom of movement and residence.
- Everyone has the freedom to leave the country and, if having the right of permanent residence, to return.
- Everyone has the right to freedom of opinion and expression. This right includes freedom to hold opinions without interference, and to seek, receive and impart information and ideas through any media.
- Any advocacy of national, racial or religious hatred that constitutes incitement to discrimination, hostility or violence shall be prohibited by law.

Minority protection

- Everyone has the right to freedom of association and freedom of peaceful assembly.
- The form of any new constitution shall be the subject of negotiation between interested parties, and it is essential that any future political system provides necessary checks and balances, safeguards basic human rights, and protection for minorities.
- The State shall not be above the law, but shall, through decentralisation and devolution of State powers, be close to the people and responsive to their needs.
- The State shall not be above the law, but shall, through decentralisation and devolution of State powers, be close to the people and responsive to their needs.
- Business endorses the view that economic freedom and the private enterprise ethic should be entrenched in an appropriate future political system.
- The institutions of democratic government, and in particular the separation of State powers, independence of the judiciary and the supremacy of the law, freedom of the press, and the free formation of political parties shall be the foundations of South African statehood.

JSE favours worker shareholdings

Star 17/5/90 (49)

By Ann Crotty

In the ongoing debate over nationalisation versus free market economics, the JSE has come down firmly on the side of equity participation by workers.

In his presidential address to the JSE, Tony Norton said last night the JSE had taken a policy decision to do everything reasonable to enable companies to involve workers, and other relevant stakeholders, in their equity performance, be it as regards shares or profits.

To this end, the issue of free or subsidised shares would be agreed to by the JSE provided existing shareholders had been informed of all the factors involved and had agreed to waive their usual rights (of a pro rata uptake of the newly issued shares) in the interests of the company.

"Obviously, wise companies will consult their unions and other relevant interests to render any such exercise meaningful, and we might in the fullness of time even see worker representatives reversing the initiative and approaching their employers about legitimate participation in the fortunes of their company.

"The JSE will act as a facilitator and not a negator of legitimate worker involvement in the performance of listed companies, provided the basic principle of shareholder sovereignty is upheld."

Looking to political and economic developments, Mr Norton said he had a positive view of the future.

"Many of the shackles of the past look like being removed. Some new ones might be imposed by political compromise, but on balance we see better overall economics in the future than in the past.

"The politics of power are vastly different from the politics of opposition and our rulers of the future are going to need massive wealth as the cement for our future society."

Because of this, Mr Norton believed the agencies for wealth creation and efficient transfer were going to be more, not less, important.

 F/M 18/5

A way over the chasm

Coalition between the NP and ANC is emerging as a serious possibility

Who could blame President F W de Klerk for being so cheerful last week when he stepped out into the French sunshine in the amiable company of Francois Mitterrand? No Nationalist leader has ever before been welcome at the Elysée Palace: F W's European tour had begun on a triumphal note.

The Europeans want him to succeed. So do most South Africans, though he obviously cannot deliver *everyone*'s idea of the best possible future. As for those who oppose him . . . their potential for disruption will one day have to be met head-on.

It is appropriate to consider where De Klerk is leading us; and whether he can completely shed his inheritance of 42 years of Nat misrule in order to get us there.

In some ways, victory overseas — certainly in the short term — seems almost assured. That is a matter of convincing world leaders of his sincerity and he is scarcely lacking in that department. De Klerk seems to impress world leaders (and the ANC's Nelson Mandela), which begs the question: are we witnessing, possibly for the first time in history, a Western leader voluntarily negotiating himself out of power?

It looks that way to many Afrikaners. Long-serving Nat-watcher and confidant of the party hierarchy, Naspers chairman Piet Cillie, comments: "Recent developments are the most far-reaching ever in the history of the Afrikaner." Cillie voices concern that De Klerk may not have fully calculated the risks — or that he is not completely clear on what the end of the reform road holds in sight. "It is imperative that De Klerk's reforms result in material benefits, economic growth and peace. Continuing violence in 1977 broke John Vorster," he says.

More outspoken on the downside is Gerrit Veldhuysen, editor of the Pretoria-based *Transvaler*, flagship of the Perskor stable. Government, he feels, is not doing enough to eradicate the fears of white voters: "The people are in the dark. They believe that government itself does not have the answer. They believe that they do not know where they are going."

That's why many turn to the CP, ideological heir of Malan, Strijdom and Verwoerd.

Nic Rhoodie, head of the Human Sciences Research Council's Centre for Conflict Analysis and Management, is not overly concerned about an exodus to the CP. In *Democracy in Action*, Rhoodie says the NP is no longer seen as a tribal party; it has a high degree of viability, he feels.

Voter fears are partly due to ignorance, he says, which "leads them to interpret the crisis wrongly — as well as the claims of the ANC, (and) the pronouncements of President De Klerk."

In some ways the Afrikaner is demoralised. After all, *Die Burger*, under Cillie's editorship, endorsed Verwoerd's vision of blacks streaming back from the cities to "their" homelands. This was what Grand Apartheid was all about, giving it a tenuous moral legitimacy. But, Cillie notes wryly, it "didn't happen — we did not have the will or ability to succeed and the vision of such a policy was systematically dismantled."

The resultant about-turn which confronted Nat thinking took place in 1982 when leading Afrikaner academic Flip Smit prophetically denounced the homeland policy. "We were confronted with the idea of a united SA," Cillie recalls. "The message, however, was never relayed by politicians, who often ration the truth."

Pik Botha, F W, Viljoen . . . reform beyond the party

One implication of accepting this failure of policy — and all that goes with it — is that the days of Afrikaner hegemony centred upon Tuynhuys might be numbered. That is what De Klerk is apparently willing to risk. While some British politicians (Enoch Powell is one) have been willing to sacrifice the highest office because of principles, such scrupulousness is not common in the NP where many have waited out their time under rulers with whom they have sometimes violently disagreed.

Stellenbosch political philosopher Willie Esterhuyse attributes the change to De Klerk's strong moral convictions. They could be part and parcel of his make-up as a Dopper, a member of the Potchefstroom-based Reformed Church group, he believes. "I do not think that De Klerk is just busy with fancy footwork; I think there is a strong moral commitment on his part. The fact that Nelson Mandela says he accepts De Klerk's integrity is more revolutionary than his statements on nationalisation."

Esterhuyse — who along with other influential Stellenbosch academics became an outcast towards the end of the P W Botha regime — says the difference of style between Botha and De Klerk is that of coercion and conviction. "The disappearance of the domineering personality of Botha resulted in the psychological emancipation of the political culture within the Nat caucus. Intellectuals like De Klerk's chief negotiator, Gerrit Viljoen, are now for the first time enjoying their rightful position. The same can be said for the influential role business leaders are playing. All this is strengthening De Klerk's hand."

This seems true of the NP caucus — but what of the electorate?

To whites it may seem as if concessions are being made from one side only. Mandela has said the ANC would *reconsider* the armed struggle but De Klerk has announced that the Group Areas Act would be scrapped. Responding to Mandela's hard line on group rights — that they are not even for discussion — Nat insiders have meekly said the issue was not a sacred cow, forgetting that guarantees on group rights were precisely what De Klerk and Viljoen held out to the white minority not all that long ago.

Voters have come to understand that what is said during election rallies, congresses and in parliament may differ vastly from agreements actually reached at negotiation tables. From that they can easily draw their own conclusions about the consequences of fully-fledged negotiations. In terms of sheer numbers, the NP's chances of winning an election under universal franchise must be zero. Not even protection of group rights would avert that — unless of course the group concept is a disguised form of entrenching white rule, like the tricameral parliament. De Klerk knows that would wreck the talks.

An imaginative leap seems necessary — and possible.

Esterhuyse sees no other alternative for the NP but to open its ranks. "I am sorry that they have not done so now. I would go as

Financial Mail

THE ECONOMY FM 18/5/90 (49)

Yet another last chance?

Soft landing, hard landing: in a way it's academic. Fact is, the economy has now been contracting for two consecutive quarters and to most economists that means it's in a recession (see ***Economy***). Some still hope for real growth for the year as a whole but, as we're already halfway into the second quarter and all the anecdotal evidence (not only anecdotal, either — consider the April new vehicle sales) suggests conditions are still slackening, that looks a pretty forlorn hope to us.

Realistically, both this quarter and possibly the next are likely to extend the trend. The most we should look for is a turn-up in the fourth quarter — which, if the political portents by then are looking favourable, could presage a new growth cycle that could finally relegate the disappointments of the Eighties to history.

Of course, nobody enjoys a recession, especially after a decade in which even the cyclical upturns were as disappointing as ours were in the Eighties.

The latest estimates put unemployment — concentrated almost entirely among blacks — as possibly as high as 30%. The informal sector — however much worse we might be without it — is a poor substitute for the millions of jobs the formal sector isn't providing. Advocates of sanctions may deny it but only a cursory glance is needed to establish that, to the extent that sanctions have had an impact, it's been hardest on those who could least afford it.

That's simply not a situation that can be tolerated indefinitely. It's a tragedy that the combination of external pressure and misguided domestic policies robbed us of a decade's growth and left a whole generation with little hope of escaping penury.

Unfortunately, none of this destroys the need for the restrictive policies government is now following. We simply ran up against physical constraints and to allow demand to keep growing unchecked can only defeat attempts to bring the rate of inflation down. Inflation just debases the currency. It was always wrong to think that we could indefinitely rely on currency debasement to stimulate our export industries; now that the gold price has gone ex-growth, possibly permanently, it's even less feasible.

In a world of low inflation and high real interest rates, an individual economy as dependent on international trade as ours cannot remain out of step. There's much talk of when the authorities will be able to relax monetary policy, but the truth is they'll never be able to get back to the times in the Eighties when policy was so laid-back as to be invisible.

We now have a Cabinet that puts economic realities above military adventurism, a minister of finance whose understanding and influence have both increased exponentially in recent years, and top officials who not only know (and say) what needs to be done, but actually manage to do it.

That does not mean the conduct of policy is beyond reproach. The notorious import surcharges are still too fresh in the memory (and not entirely extirpated) for that. Little has been done to eradicate the expensive bureaucratic trappings of apartheid. And though the economy is slowing, few economists expect this to do much for the inflation rate.

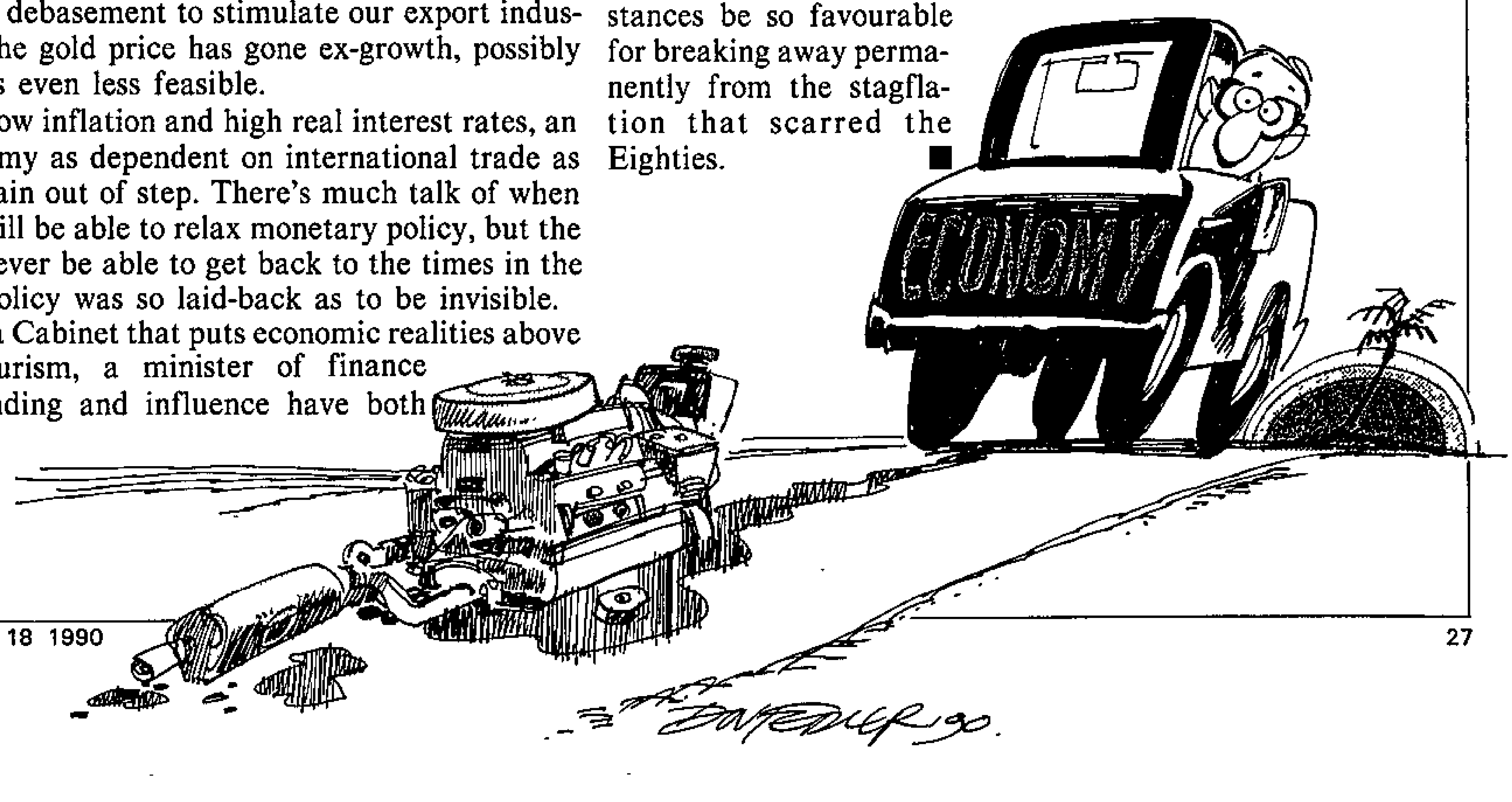
Equally, progress on deregulation and privatisation remains slow and it will be a disaster if apparent fears of upsetting the ANC artificially extend the life of our socialist enterprises just as the rest of the world is hastening to get rid of its. The need to negotiate with blacks (and sometime we will have to face the fact that the ANC may be no more representative of blacks than the NP of whites) must not become an excuse for paralysing vital economic reform.

But on balance, our current slowdown is evidence of the success of government economic policies, not failure. It's not an end in itself, though, but a necessary precondition for basic economic restructuring.

That in fact is the heart of the task: to create an environment in which we can sustain a growth rate usefully ahead of the rate of population growth, so that once again the bulk of the population can look forward to rising living standards. When that becomes an expectation that will be fulfilled rather than disappointed, the task of a future government — of whatever complexion — will be much eased. Redistribution must come from growth and wealth, not stagnation and poverty.

There's no escaping that the next few months will be difficult. What we must escape is a return to the old stop-go cycle and making all the same old mistakes, over and over again, when the economy starts to recover.

Repeated claims that this is our last chance become tedious, but the fact is that never again will the combination of domestic and external political and economic circumstances be so favourable for breaking away permanently from the stagflation that scarred the Eighties. ■



ECONOMIC OUTLOOK F/M 18/5/90 (49)

Window of opportunity

A **technical** definition of recession is two consecutive quarters of declining GDP. With a seasonally adjusted annual decline of 1,5% in the last quarter of 1989, followed by a further 1,3% drop in the first quarter of 1990 (see "In decline"), we are thus officially in a recessionary phase.

The degree of slowdown is sharper than one would wish but nevertheless spells the success of a policy implemented by authorities and encouraged by economists. Without it there would be no hope of bringing inflation under control.

Econometrix economist Tony Twine says negative growth of over 1% indicates a full-scale recession. However: "The authorities achieved the slowdown with more precision than previously — perhaps because the economy was not too overheated when they started applying the brakes. Had they chopped off the peak of the growth phase, we may not have had a trough at all."

The issue now is whether the recession will damage the economy's recovery potential or whether we can still hope for a "growth recession" — annual growth below the long-term trend but still positive.

Trust Bank chief economist Nick Barnardt believes: "We are more likely to have negative than positive growth in 1990. For technical reasons, the first quarter is the most important in determining the annual average. Even modest quarterly growth thereafter usually can't reverse the trend."

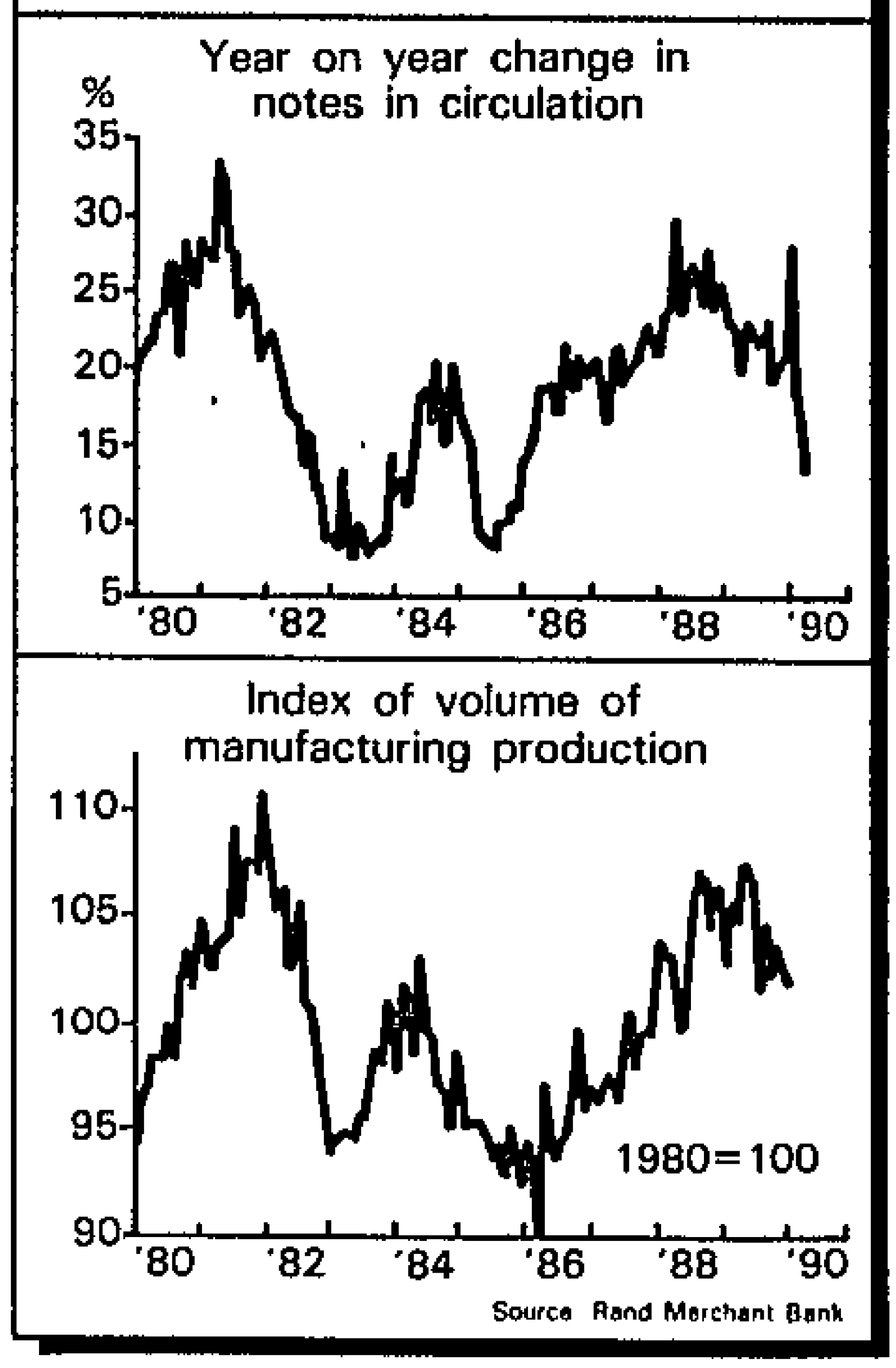
With a GDP fall sharper than hoped, other signs must be carefully evaluated. Many crucial indicators, such as manufacturing statistics published by the Central Statistical Service, are months out of date, so much reliance will be placed on money supply figures for April, which will be published by month-end. Unfortunately, M3 growth last April was fortuitously low, so this year's growth rate will be distorted.

An indication comes from Standard Bank deputy MD Denzil Busse who says, though it will be a few months before credit extension actually declines, growth is now tending downwards.

Rand Merchant Bank economist Rudolf Gouws sees notes in circulation continuing to come down sharply (**see graph**). "Historically, there is a close correlation between the rate of increase in notes in circulation and the broad swings of the business cycle."

Gouws says: "This is certainly not a recession of the proportions of 1984-1986." He points out 1984 saw a turnaround from positive growth of 5,8%, seasonally adjusted and annualised, in quarter two, to negative growth of 5,6% in quarter three." But, he concedes, "the slowdown has been more drastic than most of us expected."

Going down



Reserve Bank economics chief Jaap Meijer is, however, reasonably optimistic. He argues poor performance in mining and agriculture, the major contributors to first-quarter negative growth, should not be seen in the same light as poor performance widely spread through most sectors.

"Though they cannot be disregarded because they affect the rest of the economy, they do not reflect what was already happening in the economy.

"They were the result of exogenous factors: bad weather and a falling gold price. For the full year we may still have an essentially sideways movement."

Nedcor chief economist Edward Osborn is also not alarmed. "Though other statistical indicators support the view that the economy is very flat, actual estimated changes lie well within the limits of statistical accuracy."

What does worry him is "evidence pointing to a downturn in capital formation which has significance for future growth. For this reason, it is important that confidence be restored for the future health of the economy."

Barnardt points out the downturn can bring inflation "to a structurally lower level and improve long-term recovery potential. Every downswing in the past decade has lowered the inflation rate, with a time lag. But unfortunately each was followed by a dramatic easing of monetary policy, which reversed the gains."

Ethel Hazelhurst

COMPANY TAX F/M 18/5/90

Self-assessment

Inland Revenue has taken the first step in a fiscal revolution. A press release says 1990 company tax returns, to be posted within two weeks, will be accompanied by a new section (Part 8) "to be used for the capturing of data" for a system of self-assessment.

Revenue emphasises self-assessment will not be introduced until all interested parties have been fully informed and comprehensive information is available.

Self-assessment cannot be introduced without restructuring the system.

Kessel Feinstein tax partner Ernest Mazansky points out that many administrative discretions will have to be removed or defined objectively. Some issues may have to be dealt with through published rulings, binding on the commissioner but not on the taxpayer. This provision has been accepted in other countries which have gone to self-assessment and was proposed by Margo.

Arthur Andersen's Pierre du Toit says this by-product may be as big a step forward as the introduction of the system. But it must be done with great technical care and — most importantly — without diminishing taxpayers' existing rights.

Mazansky also draws attention to the many extra-statutory Revenue practices, only some of which are recorded — in a secret handbook. These will have to be disclosed for self-assessment to work.

NEW PLAYER

Subject to official authorisation, Discount House Financial Services, a new project and corporate finance services company, is to start on June 1. A wholly owned subsidiary of Discount House Group, it will be headed by Mark Thompson and Vaughan de la Harpe and includes Sarel Oberholster, Cliff Lawrenson and Selwyn Singer. All recently resigned from Senbank's project finance division.

Executive chairman Colin Dunn says: "This is another step towards establishing a more broadly based financial services group and is in anticipation of the proposed amendment to the Banks Act."

WMail 18/5-24/5/90. (47).

Lower expectations to deal with the economic paradox

By ALAN HIRSCH

THERE is an economic paradox confronting South Africa, the resolution of which is critical for South Africa's future: while a new phase of economic growth seems impossible without a legitimate and stable new goverment, the establishment of such a government for anything but the short-term seems impossible without a sound economic foundation.

The root of the paradox is that even a government formed by the African National Congress with overwhelming popular support will see its political capital eroded quickly if it does not respond to the needs of the poor population of South Africa.

Some economists ignore the paradox and call for economic policies that will entice foreign investment, which exclude any "socialistic" measures. The new investment will trickle down and the poor will be less poor.

Others, such as Servaas van den Berg, in a paper shortly to be presented to a meeting of the Association of Democratic Economists in Cape Town, argue from the radically pessimistic point of view that the resolution of the paradox depends on lowering people's expectations.

Van den Berg argues that "a major challenge faces a post-apartheid society and lies in reducing demands to realistic levels". The social services currently provided to black South Africans are so poor, especially in relation to services provided to whites, that they cannot be brought up sufficiently with potentially available resources, he argues. The market will fail because it is unrealistic to expect growth rates to be sufficiently high. The state will fail because its fiscal resources would be much too small.

In backing up his argument, Van den Berg dispels the myth that by Third World developing country standards poor South Africans are well off. Though South Africa is classified as an "upper middle income country" by the World Bank, it performs like a "lower middle income country" as regards most social services, "while its health service is even worse than that of some of the poor countries".

While South Africa, with per capita gross national product (GNP) of $1 850 in 1986, has an average life expectancy of 61, Sri Lanka, with a per capita GNP of $400, boasts an average life expectancy of 70. South Africa's infant mortality rate of 74 (infants in a thousand likely to die before their first birthday), Sri Lanka has an infant mortality rate nearly three times lower. Zimbabwe, with a per capita GNP of only $620, has the same infant mortality rate as South Africa.

Part of the reason for poor health, education, housing, and welfare provision in South Africa is the existence of duplicated apartheid structures, but the unification of these structures will not solve the problem on its own.

The major obstacle is overall expenditure inequalities along racial and urban/rural lines. The likelihood of a powerful urban constituency cornering a substantial proportion of the fruits of freedom, argues Van den Berg, may add to urban/rural inequalities in a post-apartheid society.

The cost of bringing services to the mass of the population up to acceptable conditions by today's standards will be extremely high. By a conservative estimate, expenditure on education will have to be almost quadrupled, expenditure on pensions doubled, and expenditure on housing and health increased by at least half. Social expenditure by the state will rise from about 11 percent of the gross domestic product to close on 28 percent. Even eliminating military expenditure altogether will make a small contribution to this amount.

Van den Berg's radical pessimism provides a welcome corrective to those on the economic left and right who expect liberation to unleash economic shackles to such an extent that the political and economic expectations of the masses will simply be resolved together.

It may be, though, that the "growth through redistribution" formula that emerged from the Congress of South African Trade Unions/ANC Harare meeting on the economy offers a more positive way out of the paradox. The Cosatu/ANC approach suggests that the mode of redistribution can and must be designed in such a way as to stimulate the productive energies of the masses, but the slogan "Growth through redistribution" has yet to be unpacked publicly.

GDP FM 18/5/90 (41)

In decline

GDP fell 1,3% in the first three months of 1990, largely due to a 9,9% decline in agriculture and an 11,8% fall in the mining sector. But for these losses growth would have been about 1%.

Figures are calculated at factor incomes (net indirect taxes), seasonally adjusted, annualised and in constant 1985 prices, says the Central Statistical Service.

Agriculture's poor performance compares badly with a 42,6% increase in the same period last year but is better than the 42,7% decrease in the 1989 fourth quarter. In the same quarters, mining decreased 13,2% and increased 10,6%.

Much of the 1990 mining decline can be attributed to the gold price fall from a London high of US$423 in early February to a five-and-a-half month low of $362 by end-March. Chamber of Mines economist Ivor Leibowitz says production is also down, as gold mines keep capex to a minimum in anticipation of further political and economic developments. "Output will continue to fall, probably by more than 20 t in the next two to three years."

According to chamber figures, fewer than 140 t of gold were produced in the first quarter of 1990, compared to 142 t in the same period in 1989 (a 1,7% decline), while capex fell from R557m to R540m (3%).

The decline in agriculture is largely due to the lower 1989 wheat harvest, says the De-

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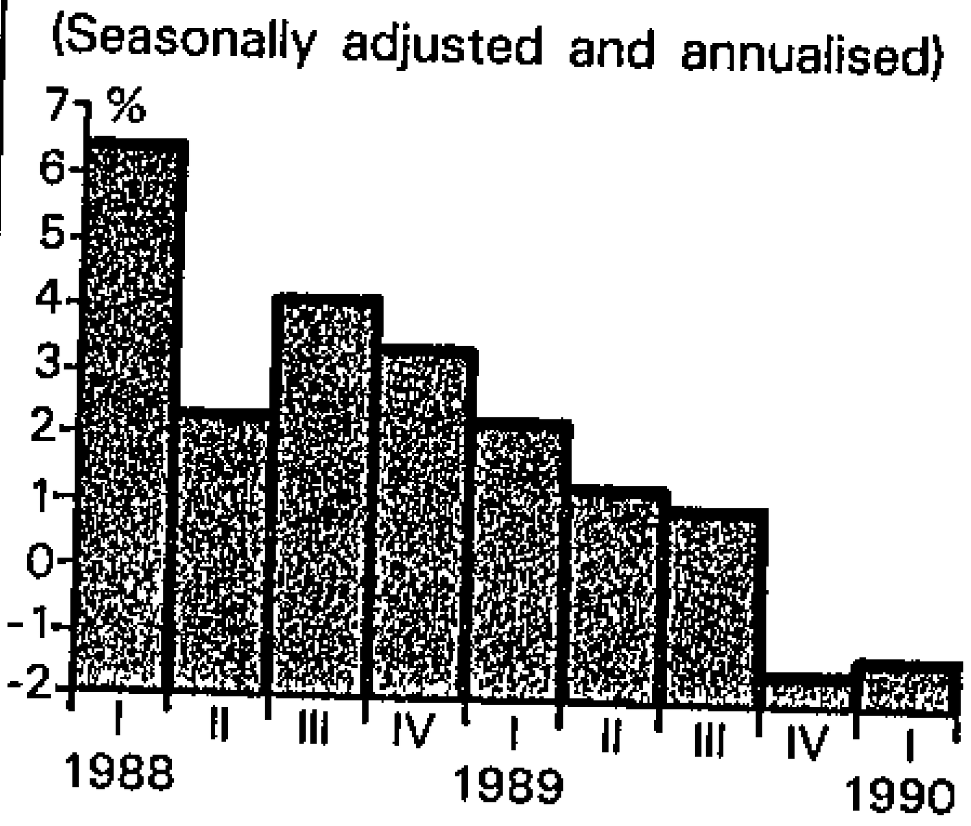
partment of Agriculture, much of which was marketed in the first quarter of 1990. Sales of R315m from a healthy 1988 harvest in the first three months of 1989 compare to only R94m in the same period in 1990. Wool was also down, with first-quarter sales of R198m (R276m). Meanwhile, expenditure on intermediate goods and services (fertiliser, feed, fuel, and so on) is up R237m from the first quarter of 1989, to R1,8bn. ■

Negative growth

% change in real GDP at factor incomes (Seasonally adjusted and annualised)



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WIM' DE VILLIERS FM 18/5/90 .(49)

Heretic in public service

With his background, De Villiers has the right stuff for economic reform

For more than 10 years it has been the policy of government to reduce its role in the economy, curb its spending and reduce the public service. But only in the very recent past has discernable progress been made. To achieve this, it has taken a new State President, a reshuffled Cabinet — and the thrifty Wim de Villiers.

He may be a junior Cabinet minister, but he is not a man to trifle with. Indeed, among the directors-general in their stately apartments, a call from Wim is about as welcome as a headmaster's summons to an errant schoolboy.

Wim, we are told, is going about asking senior public servants questions which to them smack of pure heresy. He has been suggesting, for instance, that the market (or consumers) might be a better judge of the provision of public-sector services than the public servants themselves.

Simply put, Wim appears to have become to the public service what Graham Boustred is to Anglo American — a brilliant industrialist but a most difficult man. And that is probably what is needed.

Wim, of course, does have a background in industry. He was a senior Anglo manager before he aspired to the heights of Gencor, from whence he was unseated by the late Fred du Plessis, a god among those to whom Sanlam entrusted its investments. Since then, government has used his undoubted talents in some of the less tractable of its enterprises.

Subsequently, he became Minister for Administration & Economic Co-ordination in President F W De Klerk's new reforming government. Delving into his rich stock of

P.T.O

FM 18/5/90 (49) [redacted]

experience as one of SA's most successful industrialists, he had been quietly hammering out the new policy guidelines since his appointment last September, when he entered the Cabinet as privatisation minister.

After launching Iscor into the private sector (with what can best be described as mixed success), he was given the task of reducing the private sector and co-ordinating economic policy. Neither tasks are enviable or easy, given the entrenched power and political influence of this country's bureaucracy.

So far as we can tell, Finance Minister Barend du Plessis still calls the shots at Finance (where he is strongly supported by DP finance spokesman Harry Schwarz, who has called for the abolition of De Villiers' department and the appointment of Du Plessis himself as SA's sole economic tsar.) But De Villiers has behind him, in his new role, the full blessing and support of the Cabinet.

In his first Budget address to parliament, De Villiers said that any of his responsibilities which could "affect the line functions of any other minister have been cleared out with each of the ministers concerned. (The policy) approach . . . therefore represents the combined policy of the government as a whole, and is approved by all the ministers and their departments."

The brief is comprehensive:

☐ Top priority is to maximise economic growth, with the highest possible levels of concommitant welfare growth and job creation;

☐ To achieve this, economic restructuring must first be achieved by means of a co-ordinated, comprehensively targeted economic policy;

☐ Reducing inflation is target number one in restructuring the economy for future growth, with Reserve Bank-enforced discipline on the banking sector a vital ingredient. And flagging productivity must be addressed;

De Villiers

Du Plessis

Schwarz

☐ The growth strategy also rests on the recovery of the internal and external stability of the rand, "both as currency and as savings medium;"

☐ SA must exploit the "formidable, fundamental" comparative advantages of its minerals by beneficiating these riches locally into manufactured exports. Export markets must be "broadened" to areas like eastern Europe;

☐ Better use must be made of SA's well-developed transport, electricity and communications infrastructures, by combining them with available, cost-effective production capacity in industry;

☐ Costly import replacement policies of the past, aimed at self-sufficiency by using tariff protection, must now be "replaced by a new approach aimed at SA's comparative advantages so that our exports can compete in

FM 18/5/90 (49) [redacted]

world markets;"

☐ "Permanent" tariff protection "for survival" of industries will be done away with. "Inflationary elements have to be removed from tariff protection and surcharges," De Villiers said. Tariff policies are being examined by the IDC;

☐ Protected industries charging local consumers higher prices than their overseas customers — so-called import parity pricing — "undermine SA's industrial growth and also the agricultural sector.

"In fact, it also destroys the comparative advantages of this country. Government will have to act against these practices with an appropriate tariff protection policy and incentive schemes;"

☐ The shortage of adequately trained and skilled manpower must be urgently addressed by means of education and training;

☐ Other structural problems include the artificially low past cost of capital, reduced by low interest rates in the past and an overvalued rand. This led to a preference for capital investment, which must now be turned around;

☐ State spending must be cut back and the public sector's role in the economy reduced, although the State's essential "socio-economic developmental role" must continue; and

☐ The tax burden on households must be

FM 18/5/90 [redacted]

reduced.

"Government policy measures to achieve these aims would include fiscal discipline on expenditure, tax reforms to promote savings and to discourage subsidising of capital versus labour and a rationalisation of industrial protection policy," says De Villiers.

Apart from his economic restructuring portfolio, De Villiers' other major role is to promote efficiency and management accountability in the public sector.

This, he says, will lead to cost (and tax) savings, and the scaling down of service operations where these are uneconomic, unnecessary or duplicate other services. De Villiers has co-opted some top private sector men, such as Gencor executive director (finance) Tom de Beer to achieve this.

"The new approach is to look at State departments along business lines, at management accountability and also the cost-effectiveness of services rendered and possible wastage of resources.

"For example, in the case of SA Transport Services, De Villiers found that assets to the value of about R8 bn rendered no return," says De Beer.

Such massive resource waste will hopefully now become a thing of the past. For, although the task is a formidable one, De Villiers is a determined and dedicated man without, we suspect, political ambitions of his own — which makes a pleasant change.

Consequently, he probably does not have the politician's way of drawing rapid attention to his achievements — or masking his setbacks.

It is probably too early to expect much success. But all those who understand the urgency of his task are waiting anxiously for signs of progress.

All that can be said with any certainty at this stage, is that he is making his presence felt.

That is a good start. ■

Economic policy comes under spotlight

(49) Star 18/5/90

By Derek Tommey

Several of the country's top economists, businessmen, bankers and public servants are meeting in Cape Town today to attend what is seen as one of the most crucial meetings of the State President's Economic Advisory Council for several years.

Recent figures from business show that as a result of the Government's restrictive measures the economy is cooling far more rapidly than was expected even a month ago.

Several economists believe the economy has now reached a cross-roads. As a result there is an urgent need to have a close look at the Government's current economic policies to ensure that they are still the correct ones for current circumstances.

The economy initially showed extraordinary resilience to the tough monetary and fiscal policies. But bankers and businessmen report that business activity has now started to contract sharply. This has raised fears that unless the Government's starts to ease its economic policies there could be a serious risk of overkill.

Talk a few weeks back of a soft-landing for the economy is beginning to look increasingly like wishful thinking.

One of the main aim's of the Government's policies has been to curb inflation. It is for this reason that it has kept interest rates high. This policy is likely to be debated at some length at today's proceedings.

Bankers say that but for Reserve Bank intervention interest rates would already have started to ease.

The question that will have to asked at today's meeting will be whether the current high interest rate are starting to do more harm than good?

While the Government wanted the economy to turn down — it did not want it to fall through the floor.

The answer to this, however, will depend upon the extent the Governor of the Reserve Bank, Dr Chris Stals, believes that business has at last accepted that interest rates will be real in future and that inflation will be increasingly contained.

Other matters that are likely to be discussed will be the sharp drop in confidence among black people and the sporadic unrest.

Retailers report that since mid-February black spending has declined significantly. The drop has been particularly noticeable in the areas where there has been unrest, but spending has contracted even in the "quiet" areas.

While this lack of confidence could be partly political, the running down of the economy and increased black unemployment is also believed to having some effect.

The falling back of the gold price to around $370 an ounce will also be casting a shadow over the Council's proceedings. The lower gold price will reduce this country's foreign exchange earnings and this could be a constraint on any decision to ease the economic pressures.

On the other hand, the council might find some good news in the friendly reception being given to the State President, Mr FW de Klerk, on his European tour.

Any lifting of sanctions against South Africa and a prospect of a bigger inflow of foreign money would make the EAC's decision-making task much easier. But for the moment it is unlikely to let this influence its decisions.

The only overseas development that is likely to have any bearing on today's proceedings will be the news that interest rates in the United States appear to have peaked.

Any possibility of their rising further could have restrained any move to lower rates here. Now that this possibility is unlikely, perhaps rates in this country could fall a little sooner than this has been predicted.

CCB spent over R6-m in less than a year

By DESMOND BLOW

C/Pres 20/5/90

SECTION 6 of the Civil Co-operation Bureau (CCB), the alleged hit squad, under the command of Staal Burger, spent well over R6 million rand on "projects" in 11 months between April last year and February this year, according to documents handed to the Harms Commission last week.

By far the largest amount was spent on two projects outside the country – R5 386 804 was spent on one project and R413 934 was earmarked for another.

Judge Louis Harms agreed to a request by lawyers representing the CCB that newspapers be forbidden to publish details of these external projects.

Large sums of money were also spent on "internal" projects. It appears that only one signature was needed to approve vast sums. Most were signed by a B Brummer, but another sole signature was that of Christo Brits, the code-name of the co-ordinator for Section 6, who gave evidence to the commission last week.

Very often Brits signed for large amounts of money to be paid over to himself for projects.

The files of all these internal projects have gone "missing" it was revealed before the commission this week, although the files for the external projects, which the commission is not investigating, have not.

Project Choice was set up to recruit and install Staal Burger, Slang van Zyl, Chappie Maree and Calla Botha as an internal wing of the CCB. Two large amounts were drawn for this – R20 611 and R5 200, plus a running account of R2 064 a month. No indication is given as to how this money was spent on recruiting the four ex-policemen.

A project name and funds were given to each member of Section 6 personally.

Each member of Section 6 was also established in a business to give him a cover, Brits said in evidence, and project names were given to the businesses.

Each member also received money to establish and run his cover business.

Sagging economy bodes ill for Barlow Rand performance

Star 21/5/90 (49)

By Ann Crotty

Barlow Rand seems to be having a tough time of it right now, with the ERPM shadow lurking ominously in the background and a series of disappointing interim figures due for release tomorrow.

Analysts, who expect Barlows to report disappointing results, are forecasting a drop in earnings of 10 to 25 percent in some cases.

At R38,15 the share is close to its 12-month low of R33 and way off the high of R54,75.

The slide began in March when chief executive Warren Clewlow made a presentation to the Investment Analysts' Society. At that stage he made it clear to the analysts that things would be very tough for the group in financial 1990.

The 1989 annual report had already carried a warning of the difficulties facing the group in 1990, but by end-February the picture had obviously deteriorated even further.

By then it seemed the financial 1990 performance would be severely dented by a substantially lower earnings contribution from Middleburg Steel & Alloys — this division had been the star profit-generator of the group for a number of years.

The extent of the damage suffered on this front will only be known tomorrow.

Figures from the listed subsidiaries were generally down on fairly pedestrian expectations — particularly the two big money spinners Rand Mines and CG Smith.

The latter only managed a three percent increase in attributable earnings.

Romatex and Nampak (both subsidiaries of this division) turned in particularly disappointing contributions and there wasn't much help from the food division.

	% Holding	Rm Sales	% Change	Rm Pre-tax Profit	% Change	Rm Att Earnings	% Change
C G Smith	60,0	6 862,6	+ 14,0	509,7	− 0,4	177,5	+ 3
Rand Mines	74,0	755,5	+ 45,0	149,6	+ 3	98,3	− 1
PPC	61,0	358,8	+ 14,8	96,3	+ 18,3	47,0	+ 16
Reunert	79,0	651,4	+ 21,0	41,3	+ 16,0	25,0	+ 32
RIH	84,0	402,7	+ 17,0	24,6	+ 8,0	22,3	+ 15
TSI	30,5	541,8	− 13,3	49,8	− 27,9	26,0	− 33,3
Barprop	80,0	24,3	+ 12,2	9,4	+ 28,2	4,7	+ 10,2

Difficult trading conditions in the base minerals market, a squeeze on coal margins and a substantial increase in interest payments knocked performance at Rand Mines.

PPC again succeeded in pipping expectations and managed a slight real increase in earnings.

But management there warns of a tough second-half, with an increase in the tax burden and a reduction in interest income adding to the impact of the weakening economy.

Reunert reported a very good performance, with strong export earnings more than countering difficult trading conditions.

RIH did better than expected in maintaining real earnings.

TSI was a major disappointment. Nothing very exciting had been expected on this front.

But the 33 percent drop in earnings took most analysts completely by surprise — it is the sort of surprise the market is ill-prepared to cope with.

Barlow Properties' performance was in line with forecasts.

The UK operation, Bibby, did well to post a slight nominal increase in sterling earnings.

The combined effect of performances from the listed subsidiaries is likely to be an increase of around R12 million — from R282 million at the last interim to about R294 million.

But this increase is expected to be more than wiped out by the weak results from wholly owned subsidiaries, particularly Middleburg Steel.

This is a major change on previous years when the wholly owned subsidiaries provided a massive boost to the strong earnings reported by the listed operations.

Earthmoving equipment is on line to report a nominal increase. Consuler electric products will struggle to hold last year's earnings.

The overall effect will be a drop of about 10 percent in earnings for Barlows at the interim.

Looking to the full year figures, things are even bleaker, with one analyst forecasting a fall in earnings of around 25 percent.

As Barlows represents something of a microcosm of the economy, this forecast should not surprise too many investors because it is in line with the generally grim outlook for the economy and world commodity prices.

Adding to the bearish sentiment is the ongoing ERPM saga, which is not reflecting well on management as it struggles to find a long-term solution for the ailing gold mine.

On a brighter note, long-term investors in Barlows are showing good real returns.

East Europe beware..the West is moving in...

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ON THE LINE

Aggrey Klaaste

THE big story in America, and by extension in the Western world, is not South Africa. The biggest story of the century is Eastern Europe.

There is a historical sense of deja vu about the way the Western world is looking at investment opportunities in Eastern Europe.

When Africa was the gateway to development and investment, there was a scramble for the continent.

Potential

From the days of the Dutch East India Company when Africa was considered prime territory for imperialistic adventures, the continent became the playground of the West.

The First World is now turning its formidable resource potential - this normally includes financial investment and a combination of ideological and religious expansionism - to Europe and Asia.

The major Western powers are run by their racial kin and kith. Perhaps they will stop short of raping the Europeans the way they did with people not of their colour. And then again we cannot forget that such imperialism was behind the horror of white people decimating whites in the First and Second World Wars.

Belief

It is my belief that if South Africans finally get their very difficult act together, we will become the economic, political and even cultural engine of the continent. That being the case we should start the process that has been part of my more idealistic thinking, without yielding.

Not only we can rejuvenate the elements, cultural, social and political that make the African different from the European - and I am not posting a racial separation of South Africans, as we all should consider ourselves African - we must start the new historical epoch.

A Japanese American scholar, Francis Fukuyama, has recently become controversial by postulating that history as known to the East and Western worlds has ended.

His thrust smacks of American arrogance that says liberal democracy has "defeated" communism and Marxist Leninism. As America is believed to be the crucible of that ideological stance, the conclusion is that that continet has defeated Russia and the Eastern world.

Arrogant

What we should say is this is true to the extent that both liberal Africans should not feel unhappy at being dumped by the West, especially as the West has created and left white elephants, both physical and mental of some moment, on the continent.

There is extensive underdevelopment with a distinct smell of decay in Africa.

The Western world and its "civilisation" has bequeathed us with things, like the fight against disease, the preaching of the Gospel and literacy, that are valuable.

We are, however, urged not to blame the West for the obvious mistakes and inefficiency of the African.

We are told to disregard what 500 years of colonisation - five generations of pillage, rape and death - from which most African countries are recovering.

Disregard

We are told to disregard what happened post colonisation when one country after the other was left to struggle with Western impositions, Western systems, Western values that were plainly alien to the continent.

We are urged to forget neo-colonial adventurism, which, linked to "developmental aid" packages, devastated Africa and large parts of the so-called Third World.

We can forgive most of that. I do not think we need, nor can, forget.

And while our memories are still smarting we could be warning Eastern Europeans about the dangers of imperialist adventurers, who have self- interest as their major motive.

The objective reality though is that the Eastern Europeans are white. democracy and the ideologies of the East have failed. We are not arrogant to speak about losers and winners.

It is crazy to wish to make believe that liberal democracy, or more correctly capitalism has "won" over the communist world and its fellow travellers, while the rich in America are getting richer and the poor, poorer.

I was forcefully struck by the number of able-bodied young men and women who beg on the streets and trains of America.

It is not only begging, it is demanding, cadging for alms. If democracy and capitalism have been so successful, why are the class contradictions so graphic?

History as we know it has really ended. This "endism" as Fukuyama's thesis is called should start the birth of the new world. The new world led by "non-whites" or non-Caucasian peoples of the world.

Decentralisation Board is to be streamlined, says Minister

(49)

The Cabinet had decided to restructure the Decentralisation Board into a streamlined body in terms of generally accepted corporate principles, the **Minister of Trade and Industry and Tourism, Mr Kent Durr**, announced in Parliament yesterday.

Introducing debate on his budget vote, he announced the appointement to the board of eight private sector and other experts on regional industrial development.

The chairman is Mr J J de Bruyn, senior general manager of the Industrial Development Corporation.

Other members are: Mr D C B Bredenkamp, Mr B de Jager, Mr A S Nkonyeni, Professor P Palmer, Mr J J Pienaar, Mr E Thorrington-Smith and Mr J G Toerien. — Sapa.

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Finance

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Outlook brightens for 1992 and beyond

By Michael Chester

The economic tempo is set to be locked in low gear for up to 18 months ahead, but the business outlook beyond next year has begun to appear a lot more promising, forecasts by the Econometrix research unit suggest.

With the political log-jam now broken by the talks between President F W de Klerk and Nelson Mandela, two years from now sanctions may well have vanished, say the think-tank experts.

FRESH FLOWS

Econometrix director Dr Azar Jammine is confident that if political negotiations stay on track, new economic boosters may be provided as fresh flows of investment capital resume from overseas sources.

"Foreign perceptions of the government have improved and are likely to continue to do so," he says in a new review of the business outlook.

"In two years, South Africa could be in a position to roll over most of its overseas debt or alternatively gain access to new foreign loans.

"In such circumstances, South Africa might be in a position by 1992 where it no longer has to run a current account surplus.

"We feel confident that the 1990s will see an accelerated gross domestic product growth rate of some three percent a year — compared with the dismal 1,5 percent recorded for the 1980s."

Even then, however, the official growth may not be strong enough to alleviate the chronic unemployment. That in turn may mean an even faster spread of the informal sector in the next decade.

Dr Jammine says caution about predicting a growth rate of more than three percent is based on dangers of persistent high inflation in the 1990s — especially as the government launches massive but vital social upliftment programmes in education, housing and health services.

"Moreover, in an environment in which attempts are made at redistributing income from the rich to the poor, without there being commensurate increases in productivity, inflation is bound to be rife.

"Inflation is also likely to be spurred by a shortage of skilled manpower which is bound to emerge once growth accelerates."

The government, whatever its political creed, was likely to find itself continuously called upon to cool off economic activity to prevent inflation getting out of hand.

Vast spending on social upliftment schemes could accelerate the economic tempo by three to five percent a year in the next few years.

But by the mid-1990s the authorities might well be forced to clamp down again with restrictive fiscal and monetary policies to counter the inflationary forces that could be unleashed.

"We might therefore have to endure another period of slow growth in the mid-to-late 1990s," says Dr Jammine.

"Perhaps by the end of the decade one can contemplate a sustained period of rapid non-inflationary growth, spurred on by the entry into the labour market by then of a vast pool of skilled black manpower.

"Recent political developments have provided a semblance of hope, where there was none before.

"However, many hurdles need to be overcome and it seems difficult to contemplate a sustained period of growth in the South African economy until the 21st century.

"In trying to paint scenarios for the future of South Africa it is apparent that one is delving into the unknown in which no historical precedent exists.

"South Africa is moving into unchartered waters, with political and economic history in the making."

Plunging profits signal downturn in economy

By TOM HOOD, Business Editor

SIGNS of the economic downturn gathering momentum came today as tens of millions of rands were clipped from the profits of the country's largest industrial company, Barlow Rand, and the Cape-based Morkels furniture chain.

After four years of growth, Barlow reported a 9 percent (R39 million) drop in bottom-line profits to R404 million for the six months to March 31.

However, the interim dividend is being maintained at 51c a share.

Turnover grew by 11,4 percent to a record R13 827 million but weaker profit margins sent operating profits down by R51 million (4 percent) to R1 234 million.

Most sections of the industrial giant's operations showed a decline.

Main loss-makers

Main loss-makers were its ferro-alloys and stainless steel division which were plagued by tough times on world stainless steel markets.

Like many businesses, Barlow was hit by high interest rates — its interest bill soared by R80 million (39 percent) to R288 million.

The biggest loss recorded was in mining and mineral beneficiation at R220 million (R253 million), a drop of 13 percent.

Industry companies' profits were down by 9 percent to R154 million, packaging and textiles companies profits were down 8 percent at R115 million, while profits from property, finance and administration showed a loss of R22,4 million against losses of R20,3 million a year ago.

Gains were recorded by the international division which was up 16 percent at R56 million and food and pharmaceuticals which rose by 2 percent to R211 million.

Morkels dividend slashed

The Morkels furniture chain, hit like the rest of the industry by stringent hire-purchase restrictions and high interest rates, reports a R3 million (54 percent plunge in net profits to R6,1 million for 12 months.

Its dividend has been slashed by 30 percent from 10c to 7c a share.

Interest paid was 28 percent higher at R4,22 million and high interest rates had adversely affected consumer demand as had the import surcharge on electrical goods.

Managing director Carl Jansen said yesterday the industry had been plagued by a variety of economic restraints imposed by the government since August 1984.

The period had been characterised by the loss of fully one-third of available furniture manufacturing output, he said.

Furniture industry production in the last quarter of 1989 was 10 percent lower than in the preceding three months.

CITY NATIONAL

22/5/90

South Africa ready to face 'real issue'

49 188 365

Argus 22/5/90

From DAVID YUTAR, Staff Reporter

LANGEBAAN. — The return of foreign investment, increased competition, privatisation and a system that puts the interests of the consumer rather than the producer first, are the ways to ensure economic growth and prosperity in South Africa.

Professor Brian Kantor, director of the School of Economics at UCT, said this while addressing the Federated Hotel Association of South Africa's Western Cape congress which opened here yesterday.

Professor Kantor said that for too long apartheid had reduced the political debate to one of white versus black.

For the first time South Africans were now able to face the real issue, which was the interests of producer versus the interests of the consumer, particularly the poorest consumers who were most vulnerable to exploitation by the producers.

Professor Kantor

Professor Kantor said the interests of trade unions were not always representative of the interests of all South Africans and of the poor.

Often by demanding higher wages they had put a lot of people out of jobs.

"They represent a relatively privileged group of people with jobs — and with relatively well paid jobs, too — which has meant fewer jobs for all."

Professor Kantor said wage policies had to recognise the fact that the labour force was growing at a much faster rate than the number of people in registered employment.

"Trade unions as well as employers will have to take responsibility for creating more jobs — and paying higher wages may not always be a solution to the problem of unemployment."

He also made a plea for greater privatisation and larger shareholdings, saying that the larger the shareholding, the greater the protection for consumers.

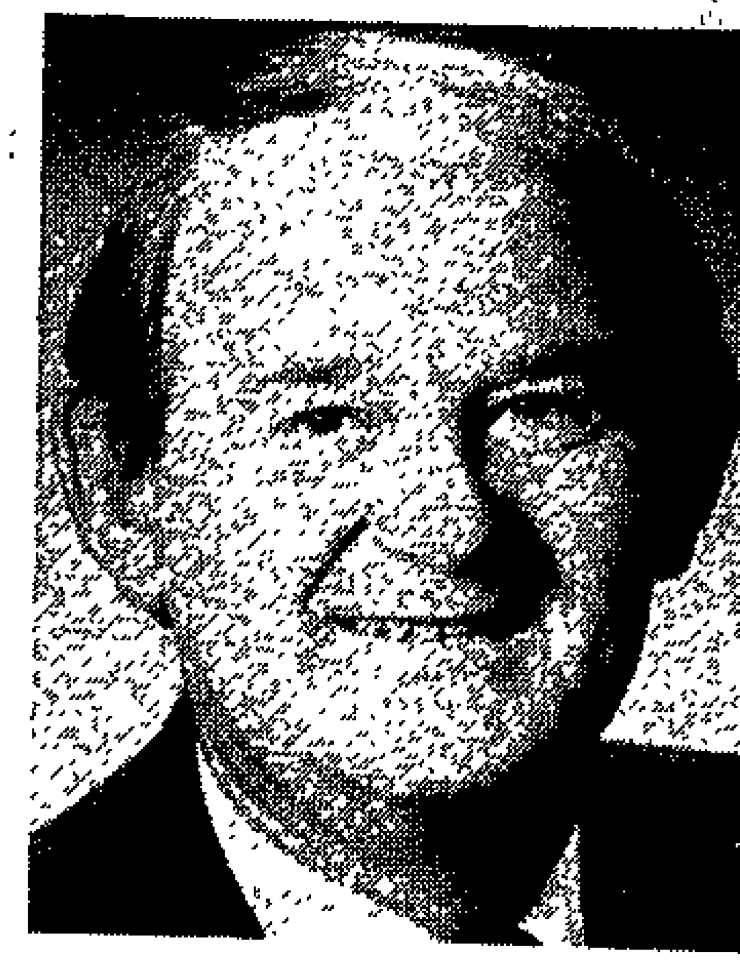
"Managers need strong shareholders to discipline them. Parliament is a poor substitute for shareholder control if one wants to look after the consumer."

Professor Kantor said the one major factor that had deterred foreign investors from South Africa in the past, namely the fear of a violent political confrontation, which would result in a "scorched earth" scenario, now seemed to be diminishing.

He expressed his suspicion of too much bureaucracy and government intervention, saying that bureaucrats were in the first instance "answerable to themselves".

"The way to impose the public interest upon all producers, whether they be inside or outside of government, is through the competitive process, where the consumer becomes the most important participant in the system.

"Only this can promote economic growth in this country."



Mr Kobus Meiring

Cape is in shape politically — Meiring

From DAVID YUTAR
Staff Reporter

LANGEBAAN. — The Cape Provincial Administration was not merely paying lip service to the idea of the new South Africa and would not "drag its feet" in this regard, says Administrator of the Cape Mr Kobus Meiring.

Its intentions were clear, from the opening of Cape beaches and other facilities to all races, the call on local authorities to remove all discriminatory practices, and the CPA's recent decision not to give any financial aid for development of facilities that discriminated on the basis of race.

Opening the Western Cape regional congress of the Federated Hotel Association of South Africa (Fedhasa) here yesterday, Mr Meiring said:

"Preparing for a democratic, peaceful and prosperous South Africa is also our earnest task and responsibility.

"My administration has no intention of dragging its feet in this regard."

Mr Meiring expressed the hope that tourism would grow as never before with the ushering in of a new period in South Africa's history.

He called on those involved in the tourist industry not to be content to relegate the Cape's winter season to the status of an "off season" but rather to strive towards making the region as popular and marketable during winter as during summer.

Put the money where it matters — into homes and jobs

B/Day 23/5/90 49

RONNIE BETHLEHEM

THERE is a case for a major public works programme in SA to address two critical areas: the shortage of jobs and the shortage of housing. This can be justified both on pragmatic, political grounds and on grounds of economic theory and policy.

The two shortages need to be linked. They are inseparably part of the same problem: the distortion of the SA economy under apartheid.

While it is probably fair to argue that capitalism, with apartheid removed, and allowed to function without regulation in a market setting, would quickly begin to address the problem of acute imbalances like those to be found in housing, education and health in SA, it is doubtful whether it would address such imbalances quickly enough given the pressures of politics.

In other words, it will not suffice merely to abolish apartheid and deregulate the economy. There is a legacy of historical injustice that has to be dealt with and there is a need to do something substantial to improve immediately the lot of masses of people living under conditions of extreme poverty and deprivation.

Nationalisation might not make sense from a business point of view, but if the ANC, PAC et al are to be persuaded by the logic of business argument, an answer will first have to be found to this human problem.

We can solve the problem without killing the goose that lays the golden egg. Indeed, we can solve the problem by actually increasing the goose's egg-laying capacity. Sustained economic growth has all the possibilities of wish-fulfilment and the generation of the benefits of a virtuous circle.

The justification for a major public works programme on pragmatic, political grounds has to do with the state's role as servant of the people.

In SA, the state has been able to ignore the problem of mass black unemployment until now only because its obligations have not been to a majority electorate and because it has allowed itself to be guided by policy models based on the post-war experience and policy adaptions of Western European and North American countries.

The rise in structural unemployment in such countries has been essentially different from that in SA.

To pay people to dig holes only to fill them up again would create jobs, but it would not create the output desperately needed in the SA situation. It would, therefore, be highly inflationary and so a threat not only to the currency (internally and externally) but also to the country's social and political stability.

Any increased spending on employment creation must come from a restructuring of state expenditure. There is scope for a massive release of funds.

No less than R20bn, spread over three years, could come from a scrapping of Mossgas, reduced defence spending and reduced spending on bantustan bureaucracies alone, without any increase in taxes or strong-arming of financial institutions into holding government debt securities issued for the purpose.

Continued high levels of government spending on such items, compared with the need for mass job creation, must be seriously questioned. There is no more urgent priority than restoring internal social and political stability in SA.

Since February 2 this year and the May 2 talks between government and the ANC, that priority far exceeds the need for strategic and defence expenditures that made sense only in terms of an internally embattled, and internationally isolated and sanctioned, apartheid state.

The 1980s witnessed an extraordinary failure of the SA economy. This was only partly due to exogenous factors such as a collapse of the gold price, drought and sanctions. Policy mistakes could be seen as the major factor.

Real GDP growth averaged only 1,5% annually compared with 3,1% annually in the 1970s and 5,8% in the 1960s.

More important was that, while the economically active population increased at an annual average rate of 327 000 between 1979 and 1989, the comparable increase in employment was less than 81 000. In manufacturing, net new job creation was zero.

Any continuation of such a trend is a prescription for disaster. In the 1990s, it will be necessary to create nearly 500 000 jobs a year on average just to keep pace with the numbers of people entering the labour market. To the extent to which job creation falls short of this figure, unemployment will rise.

An extrapolation of past trends suggests that 2-million jobless people could be added to the more than 5-million already formally without work by the end of the century if nothing is done.

To meet this crisis of unemployment, a major national state-sponsored but private sector-supported public works programme should be initiated, not to build roads, railways or dams, but to build houses.

Unemployment aside, homelessness is the urgent social priority. In a sense it exceeds in importance even education and health, for how can children study when the domestic environment to which they return from school is hostile to learning, and how can they keep healthy when that same environment, in its lack of sanitation and its overcrowding, promotes disease?

Given the R20bn mentioned above, a million subeconomic but upgradeable homes could be constructed in three years. That, not a desperate but misguided planning for a mass extension of the squatter population, should be the national goal.

The emphasis should be on labour-intensive methods of construction. Homebuilding needs to be linked to job creation and not the importation of capital goods that would weaken the balance of payments.

An army of artisans, from the ranks of the unemployed, should be mobilised, trained and put to work in a huge effort comparable to meeting a serious external military threat. SA is at war; the enemies are poverty and inequality, and the threat they pose is no less than hostile neighbouring states or foreign powers could mount.

It is in poverty and inequality that the violence of Natal and other places, and increasing urban crime, is rooted. It is only through an eradication or reduction of these causes, not through the application of increasingly costly repressive countermeasures, that they will eventually be eliminated.

If SA rose to this historic challenge, everybody would be surprised by the diversity of benefits that could flow from the dynamics of a strongly flowing economy.

Finally, housebuilding on the scale proposed here would extend the scope for home ownership among blacks. In the restructuring of ownership that must come in the new SA, home ownership will itself be a priority adding to social stability and the democratisation of the economic system.

But ownership should also carry responsibility. Houses built by government should not be given away; they should be sold on terms that the benefiting families can reasonably sustain, and the debt then securitised and absorbed into the asset portfolio of the financial sector.

In this way, too, any inflationary threat of increased state spending or restriction of the state's own finances would be minimised.

□ **Bethlehem is group economics consultant at JCI and chairman of the economic affairs committee of the SA Chamber of Business.**

(49)

Still too soon to ease constraints, says Jacobs

BDay 23/5/90

GERALD REILLY

PRETORIA — Conclusive evidence that could justify a relaxation of monetary and fiscal constraints at this stage was lacking, the Finance Minister's special adviser Japie Jacobs said here yesterday.

Speaking at an Afrikaanse Sakekamer lunch, he warned that great caution should be given to the view that the economy was no longer headed for a soft landing, but was already "beached" and moving into a recessionary phase.

He said it was correct that the economy and inflation had reacted to the fiscal and particularly the monetary constraints and that the economy had begun to cool off.

But he stressed there were no convincing indications at this stage to support a relaxation of existing policies.

Jacobs said it was argued that the price for the strategy was too high — taking into account the expectations associated with the initiatives for a new political dispensation. But this argument ignored the fundamental economic principles involved.

A relatively high inflation rate, he said, was a drag on economic growth and it was untenable to attempt to compromise.

"We must therefore remain alert not to repeat the blunders of the '80s by relaxing the limiting monetary and fiscal measures at the first signs that the economy is cooling off."

The economy was moving into a consolidation phase, which would be a basis for a restucturing programme aimed at raising the long-term growth potential.

Jacobs said the main aim of the monetary and fiscal measures remained the lowering of the inflation rate.

On monetary policy, he said that spending in SA, which depended to a greater or lesser extent on the state of the business cycle, the increase in real earnings, the inflation rate and inflationary expectations, was being financed through bank credit.

As a consequence, the economy had overheated and demanded the introduction of restraints.

The aim in such circumstances was to make credit less available and more expensive.

On complaints of unreasonable competition between financial institutions, Jacobs said: "If we succeed in materially lowering the inflation rate, many of these complaints will disappear."

If the fiscal policy failed to make its rigthful contribution, this would indicate that the monetary policy, through the interest rate mechanisms, had a greater role to play to slow down spending in the private sector as well as individual spending.

Jacobs said the rate of increase in the money supply — accepted as a guideline for monetary policy decisions for 1990 — varied between 11% and 15%.

● JACOBS

Although it rose by 20% to 28,5% in March 1988, the rate of increase had begun to fall.

He pointed out that inflation and inflationary expectations had an important influence not only on total domestic savings, but also in the marshalling of savings and the way in which they flowed through the financial system and, eventually, into the economy.

W/M 25/5-31/5/90

Is big also bad? ANC and industry agree to differ

The historic meeting between business and the ANC this week made it clear that a major obstacle remains: The ANC wants anti-trust legislation on the lines of the US or British models, business considers this 'perfectly foolish'. REG RUMNEY reports

Two sides of the coin ... Nelson Mandela shakes hands with an ideological adversary, Gavin Relly

THE African National Congress has made an anti-monopoly drive part of its agenda.

This became clear at the press conference after the Consultative Business Movement's "Options for Building an Economic Future" meeting between businessmen and the ANC.

It also became clear that apart from sanctions and nationalisation this was an issue on which big business parted company with the ANC.

The 270 people paid to be at the meeting, which was also attended by 50 to 70 guests, including an ANC delegation of 40 people.

Anglo American executive director Gavin Relly's speech, released at the conference, contained much of what has already been said by the private sector about the limits imposed on redistribution by the economic state of the country and outside investment.

ANC deputy president Nelson Mandela's address to the meeting covered a number of economic issues. He stressed that the structure of economic power as well as political power would have to be altered.

He said the "excessive concentration of power in a few white hands" had to change.

"It is said that less than 10 corporate conglomerates control almost 90 percent of the shares listed on the Johannesburg Stock Exchange. If somebody did any arithmetical calculation, he or she would probably find that the total number of people who sit on the boards of these companies as directors is far less than 1 000. These will almost exclusively be white males. If you add to this fact that 87 percent of the land is by law white-owned and is in fact owned by a minority even among the whites, then the iniquity of the system we have all inherited becomes even more plain."

Mandela's speech played down the issue of nationalisation — though in the press conference later he affirmed it had not been dropped from the ANC's agenda.

Nationalisation and redistribution were not the only words in the ANC's economic agenda. One of the many other issues the ANC would have to consider was whether South Africa might learn from United States anti-trust laws or the work of the Monopolies Commission in Great Britain to ensure no unhealthy over-concentration of economic power.

At the press conference Relly reacted to the idea that Anglo might be broken up in terms of anti-trust laws: "I think the idea perfectly foolish." A distinction had to be made between monopoly and bigness. "Bigness can't help itself."

He said he did not think South Africans were stupid enough to kill the goose that lays the golden egg.

In his speech, Mandela did qualify the anti-monopoly drive suggestion by adding that South Africa's economic realities might dictate various optimal sizes for different firms. Among factors to be considered in looking at economic concentration were economies of scale, the capacity to generate large enough funds for investment, the strength to compete on international markets and the ability to do research and development.

Mandela raised the possibility of putting government appointed directors on the boards of privately owned companies.

He said the state might establish new public corporations or strengthen existing ones. One area for public involvement might be housing.

But, he added, enormous savings would be made in abolishing apartheid administrative structures and thinning down the security forces.

He said too that small and medium business would have to be encouraged.

Other points made by Mandela were that privatisation would have to stop, at least until a new government was in place, especially since it would reinforce unequal power relations.

There was, he said, agreement on the need to generate sufficient domestic savings, attract foreign investment and keep inflation low.

He expressed concern at reports of domestic companies exporting capital from South Africa — the propagation of "a gloomy picture of South Africa" would sink South Africa into the economic crisis afflicting many African countries.

Mandela emphasised the need for a democratic parliament and the public to work out a macro-economic national plan.

"We are saying, in other words, that the process of growth cannot be left to develop spontaneously because it would ineluctably result in the structural distortions and imbalances which have to be corrected."

Growth by itself would not ensure equity, he said, apparently in response to a liberal economic stance.

Mandela warned that public finances would come under pressure from a future state's social responsibility to provide some sort of material cushion for the disadvantaged.

Concerns about the capacity of the tax base to carry an increased state budget were legitimate but with envisaged rapid economic growth, the tax system would have to be reviewed. (4 9)

"The aim would be to reduce the burden of direct and indirect taxation on sections of the community least capable of looking after themselves and to shift more of the load on to the corporate sector without, of course, producing a situation of diminishing returns."

Reparation is the way to reconciliation

B/Day 23/5/90

(49)

MERTON DAGUT

THE relationships making up the SA economy reflect the priorities and attitudes of those who wield effective political power. The economy is what it is because of the dualism that has been built into it. It is a system in which the "haves" have because the "have nots", have not.

The economy is the unacceptable face of apartheid. It is not the market system, privatisation, or any "ism" present or lacking that is out of kilter with the needs of the "new SA"; these are merely mechanisms. What is out of kilter is the apartheid nature of the economy.

The core issue of the SA economy and the route to a reconciliation of opposing views, is that of reparation which is defined as "the action of restoring to a proper state; the action of ... mending, the action of making amends for a wrong done".

At the Faculty of Law graduation ceremony last month Arthur Chaskalson dealt with "the transition from a repressive to a democratic order" and with issues of principle on which we must be clear "if we hope to put down firm foundations on which to build a stable society".

The reparation which is essential is not a policy or political "ism". It is a moral, legal and political principle. And it is an entitlement, but one which can be exercised effectively only if the party making reparation both wishes and is able to do so. Free marketeers and redistributive interventionists have to see that yesterday's logic is no longer appropriate.

If we wish to be business leaders who make things happen, to involve ourselves in the process of national reconciliation, we have to acknowledge the injustice of the past and present and, by consistent action in our daily business lives, prove we understand what we have acknowledged and show we will not permit injustice to continue.

"First", said Chaskalson, "there should be a clear acknowledgement of the injustice of apartheid and of what it has done to the majority. There can be no half-measures. Apartheid has caused poverty, degradation and suffering on a massive scale. It has among others denied the majority access to ownership and occupation of land, to proper education, and to fundamental rights and freedoms essential for the development of self-esteem."

The economy will be reshaped and put in healthy order by reparation.

There is no pool of funds with which to pay. Reparation must take the form of a priority in resources allocation to create appropriate output and as a prior charge on the allocation or distribution of future income. It must be understood to be an entitlement, not a handout; a compensation for past wrongdoing and a continuing acknowledgement that all is not yet right. It must continue until all is right.

Reparation has many positive consequences. It is a means of enlarging effective demand for basic essentials immediately, to be paid for by non-essentials forgone; and because it is an investment in human capital and public goods, it enhances output potential and present and future aggregate welfare.

☐ DAGUT

It is only one element in a package of economic policies but crucial because it carries with it catalytic potential. The concept also shows that economic stategies of "inward industrialisation" and of "growth through redistribution" can be blended into a single coherent approach.

As the reparation would be measured and allocated as a percentage of total income, all involved in the economy would have a shared and mutual interest in creating a precondition for rapid real growth. The environment would be conducive to capital/worker partnership experiments. The economy would be pulled by a competitive market-based private sector in tandem with planned public sector involvement in seeing to the provision of basic needs and public infrastructure.

The resultant rapid growth rate will intensify competition and stretch our resources.

☐ **Prof Dagut is head of Wits University's economics department. This is an excerpt from a graduation address last night.**

LETTERS

B/Day 23/5/90

Unemployment reduced by growth rate — Sanlam

(49)

CAPE TOWN — The past year's rapid economic growth rate led to a marked decline in unemployment this year, Sanlam reports in its economic survey for May released in Cape Town yesterday.

The number of registered unemployed whites, coloureds and Asians had, for instance, dropped from more than 82 000 in August 1986 to less than 43 000 by the end of 1989, with black unemployment following the same falling trend.

But the report warns that "it remains alarming that — according to official figures — almost three-quarters of a million blacks, or less than 10% of the economically active black population, are still unemployed".

Sanlam chief economist Johan Louw adds that unofficial estimates put this number substantially higher.

He says creating employment in the formal sector in the next 12 months will become appreciably more difficult. The informal sector is likely to become an increasingly important source of job opportunities.

Retail sales had dropped markedly since the latter half of 1988, although spending had stayed relatively high, but real spending on most consumption categories was "declining noticeably".

Sales of new passenger cars were down and were expected to drop further due to "continued high financing costs and high prices of new vehicles".

Factory output had also declined in volume recently, and the report expected business conditions in the industrial sector to deteriorate further this year.

"There are growing signs that the downturn in general economic activity is gathering momentum. We expect that real gross domestic spending will decline by about 3% in 1990, which will not be as bad as the drop of almost 8% in the previous downturn in 1985," the report says.

The real gross domestic product is expected to rise by approximately 0,5% this year against 3,7% in 1988 and 2,1% in 1989.

"The estimation that the real GDP will still show a positive growth rate this year is closely tied with the expectation the foreign trade sector will contribute positively to growth. We envisage the slower rate of expansion continuing until about the middle of 1991."

Inflation was expected to run at around 14% for 1990.

Although the rand was expected to perform "fairly firmly" in the next few months, it was necessary in the long term for SA to "push its inflation rate to considerably lower levels if it wishes to protect its currency and keep its products competitive on foreign markets".

The current account on the balance of payments was expected to show a surplus of around R6bn in 1990. — Sapa.

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Trade-union role in politics 'increasing'

CPT Times 23/5/90

(49)

By DAVID YUTAR, Labour Reporter

TRADE unions will play an increasing role in the political future of this country, says Mr Ted Frazer, general secretary of the Hotel, Bar and Catering Trades Employees' Association.

He was addressing delegates to the Federation of Hotel Associations of South Africa (Fedhasa) Western Cape regional congress at Langebaan yesterday.

The use of collective bargaining and legitimate strike action had shown "that the unions have the proven ability to challenge employers in a contest of power" and they would continue to do so.

Mr Frazer said that while capitalism was possibly the most effective system for producing wealth, it ultimately failed because it was unable to effect an equitable distribution of that wealth.

He said socialism was the only system that could promote a fair distribution of wealth.

Mr Raymond Ackerman, chairman and chief executive of Pick 'n Pay, told the congress that deregulation of the liquor industry would encourage competition and would benefit the whole industry as well as the entire economy.

He said he welcomed Trade and Industry Minister Mr Kent Durr's latest proposals which would "bring certainty to the liquor industry — for the first time in 10 years".

Education is key to economic development

Star 24/5/90

By Marguerite Moody

South Africa's ability to offer adequate educational opportunities to everyone is one of the key elements of a programme of managing our future economic development to the best advantage of all its people, Standard Bank Investment Corporation MD Conrad Strauss said on Tuesday.

Speaking at the OFS Goldfields Chamber of Commerce and Industry's annual dinner, Dr Strauss said a well-educated population was a prime requirement for a successful economy, and that South Africa's education system was so poor that most observers believed it would prove the biggest single constraint on national development.

"Of our total workforce of about 11 million, 30 percent have no education at all, 36 percent have primary schooling only and 31 percent secondary schooling. Only three percent have degrees or diplomas, and possibly 45 percent of black South Africans cannot read or write."

He cited several reasons for this, one being the rapidly rising demand for educational services.

"The Government says that the growth rate in education client numbers at schools run by the Department of Education and Training exceeds the annual economic growth rate by three percent, which implies growth of about five percent. The annual demand growth for education in the TBVC territories and the 'homelands' is at least six percent," he said.

The second major problem was that the South African educational structure was "one of the last remnants of old-fashioned apartheid."

"At present, South Africa tries to support 19 educational departments and six different examining authorities, and it has been estimated that there might be as many as one thousand different individual syllabuses."

Other obstacles to educational progress were the gross distortion of resources and funding in favour of whites, negative environmental factors including an unsettled political climate, the failure of the educational system to supply the skills needed by the future South Africa, and the failure of the system to produce the right quality or quantities of potential managers.

Swift action

Dr Strauss said actions which could be taken fairly quickly to correct the flaws in the educational system included reducing the "wasteful and inefficient" duplication of services, and introducing compulsory and free primary education for all children.

He called on the business community to make a substantial contribution to the funding required to reform educational structures.

"Businessmen should recognise that the market economy will not survive in South Africa if it does not offer its benefits to the mass of our people. The right to the same education as their white fellow-countrymen is possibly the most important of these in the eyes of black South Africans. We shall not enjoy peace and stability in this country until their sense of grievance is addressed," Dr Strauss said.

PARLIAMENT

Economic power 'must change'

Argus 24/5/90

49

The Argus Correspondent

JOHANNESBURG. — While the African National Congress had no blueprint that decreed privately-owned assets be nationalised, it was obvious the concentration of economic power in a few white hands would have to change, Mr Nelson Mandela said in Johannesburg last night.

About 40 ANC officials and 400 South African business leaders met at a landmark conference at the Carlton Hotel yesterday, organised by the Consultive Business Movement, to discuss South Africa's future economic policy.

ANC deputy-leader Mr Mandela told the conference he would not present any argument about nationalisation.

"The view that the only words in the economic vocabulary that the ANC knows are 'nationalisation' and 'redistribution' is mistaken.

"There are many issues to consider in the question of democratisation and deracialisation of economic power."

He said it was important to stop propagating a gloomy picture of a future South Africa which would sink into the economic crisis that afflicted many African countries.

Mr Mandela said it would be necessary to review the system of taxation. The burden of taxation on sections of the community least capable of looking after themselves should be shifted to the corporate sector — without producing a situation of diminishing returns.

Shared values

He said defence spending would have to be reduced, which must lead to the conversion of military production facilities to civilian needs and he would fight against the creation of a "bloated and unproductive" civil service.

Anglo-American's Mr Gavin Relly, representing the business sector, told the conference that business and political movements would have to seek a new set of jointly-held values which would enable them to confront the challenges of building an economic future together.

These would have to share elements of individualism, competitiveness, consensus, co-operation and social conscience.

Mr Relly said the economic debate had progressed from a "capitalism versus socialism dogfight" to a recognition that South Africa had a future in a mixed economy.

Mr Relly said that instead of contemplating mechanisms like nationalisation, the private sector should be seen as the source of wealth and job creation, with the Budget acting as an allocator of resources raised through taxation.

CBM chairman Mr Murray Hofmeyr said the conference accepted the need for political transformation which must be accompanied by economic changes of the same character.

Capital talks

Cape Times 24/5/90 (49)

ANC, big business discuss future

JOHANNESBURG. — The ANC and top South African business executives met yesterday in landmark talks on how best to generate and share wealth in a post-apartheid economy.

Mr Nelson Mandela and some 50 ANC colleagues met 400 mainly white businessmen following a warning that unless the ANC reassured nervous investors it would inherit a "slum" nation, sapped by a flight of skills and capital.

The two main speakers were the deputy president of the ANC, Mr Nelson Mandela, and the former chairman of Anglo American Corporation, Mr Gavin Relly.

Mr Mandela said after the conference that the ANC was not re-thinking its nationalisation policy.

"Our stand is exactly the same," he told a press conference.

He said, however, that the ANC was keen to explain its position on nationalisation, which is what it did yesterday at the conference.

Mr Murray Hofmeyr, joint chairman of the Consultative Business Movement which organised the conference, said the meeting had highlighted "a lot of disagreement between the business community and the ANC".

The conference yesterday was the first such meeting between the business community and the ANC in South Africa.

Mr Thabo Mbeki, international director of the ANC, said part of the discussion was "to identify problem areas".

'Basic confidence'

Another part of the process "is to see how to address those problem areas", he added. A structure was needed to address the problems.

Mr Relly said afterwards that he had "a basic confidence".

In his address, Mr Mandela said legislation to curtail and control economic monopolies was an issue to be considered in transforming the South African economy.

"One of these is whether we should not draw on such lessons as we might learn from the anti-trust laws of the United States or the work of the monopolies commission in Great Britain.

He said another issue which might have to be considered was the possibility of directors appointed by the government on to the boards of privately owned companies.

He said the reason for such a move would be "to

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see whether it is possible to balance pursuit of private gain with the need to promote common good".

Mr Mandela emphasised that the ANC did not want everything in the economic sphere "done by the new government".

He said there were areas which could benefit society if the government established public corporations. One of these was housing.

Mr Mandela said the ANC was "firmly opposed to the process of privatisation on which the (National Party) government has embarked.

"It is said that less than 10 corporate conglomerates control almost 90% of the shares listed on the Johannesburg Stock Exchange.

"If somebody did any arithmetical calculation, he or she would probably find that the total number of people who sit on the boards of these companies as directors is far less than 1 000," Mr Mandela said. "These will almost exclusively be white males."

The ANC believed "there must be further discussion of the issue of nationalisation of assets that might at the moment be privately owned", Mr Mandela added.

He also said the ANC was concerned "at persistent reports that some of our own domestic companies have been and are involved in a process of exporting capital from this country".

Mr Relly said in his address that a mixed economy was the way toward a democratic South Africa.

"In the debate about our economic options, we have fortunately progressed away from the crudities of a capitalism versus socialism dogfight to the recognition that we have today, and will have in the future, a mixed economy," said Mr Relly.

On the question of nationalisation, Mr Relly warned that the private sector should be seen as the source of wealth and job creation, with the budget "acting as an allocator of resources raised through the taxation system".

He also issued a stern warning on wholesale land reform. "The worst thing that can be done is to transfer efficiently farmed land to inefficient peasant cultivators, or worse, to inefficient collectives." — Sapa

EXCHEQUER ACCOUNT (49)

Head start

FM 25/5/90

One month isn't a lot to go on, but figures published in last Friday's *Government Gazette* show the fiscal year is off to a good start. Unlike April 1989, when government issues rose by 28,8% on the previous year, this April showed a nominal fall of 7,8% to R5,9bn — before adjustments for changes in the balance of the Paymaster-General's account.

Given inflation, the decline is far steeper in real terms.

Nedcor chief economist Edward Osborn points out first-month figures may reflect developments at the end of the previous year, so should be seen in that context. "But it certainly looks promising."

Revenue is up 17,9% to R4,4bn (far higher than the budgeted increase of 5,5%), compared with last April's 32,3% leap. The figure is the result of revenue collected under the previous tax rates as new tables are not yet in operation.

The imbalance between in- and outflows troubles some economists. "Though, in the long term, the fall-off in expenditure is desirable, it would have been better had revenue been down in line with expenditure," says Chamber of Business chief economist Ben

FM 25/5/90 (49)

van Rensburg. "At this point in the cycle, a net outflow could be damaging, as it may push the economy too far into the trough."

Because of the reallocation of functions between departments, a full comparison of this year's Budget breakdown with last year's is not appropriate. However, some votes are not subject to this distortion, among them Defence, where spending declined from R930m to R714m. ■

Reduce inefficiency in private sector, says economic expert

49

THERE could be no argument that whites had enjoyed far too much privilege, but to take their wealth away to make others better off was no viable long-term solution to rising aspirations.

Mr Graham Bell, a company director and a former economic adviser to the Prime Minister, said this at the 3rd national convention of the Institute of Life and Pension Advisers in Bloemfontein on Tuesday.

Bell said a better solution for any new government would be able to reduce inefficiencies inb the puplic sectore. For years, this economy had been burdened by expensive duplication of government services in the name of apartheid.

If just the education and health departments and the parliamentary system were streamlined, billions of rands could be saved. More could also be saved in the area of defence, now that the external threat had passed.

Bell said experience in many countries had shown that small businesses created the most jobs. Government could help by the removal of restrictions on small businessmen and their employees.

There was also a case to be made out for Government to identify areas where business was most likely to be successful and to lend qualified support in those areas. It could also play a major role to develop export markets.

It should also not be forgotten that the domestic market was expanding rapidly. Spending power in Southern Africa appeared to have achieved critical mass. Economies of scale were becoming sufficient to manufacture products in bulk for domestic and international consumption.

Bell said while a restructuring of the economic priorities of government was widely acceptable, it did not address the problem of rising expectations.

A time would come when the emergent leaders of South Africa would realise that redistribution could only be achieved through growth. As growth took time, expectations would be disappointed.

Bell said the world was peppered with developing countries that were now realising these basic realities.

"To be part of that successful group, South Africa needs to look forwards, not backwards. We need to remove the protection enjoyed by the privileged in our society, not replace one protected group with another," said Bell.

He was not saying that Government was the enemy of a successful economy. Governments could play a decisive role as a catalyst for growth. In South Africa education was an absolute priority. education was a priority. - Sapa.

B|Day 25/5/90 (49)

Investment funds could double, says Lombard

BLOEMFONTEIN — A coherent programme of political and economic reform in SA could see the flow of funds available for investment doubling and should improve the productivity of investment by about 30%, Reserve Bank Deputy Governor Jan Lombard said on Wednesday.

As a result, the rate of economic growth would rise from 1,25% to about 3,3%, he told the Institute of Life and Pension Advisors' (Ilpa) annual convention.

Savings for investment would grow from 5% of GDP to 10%.

Essential to restore economic growth was "the scrapping of the legal edifice of separate development or apartheid and the return of the rule of law to the SA order of economic affairs", Lombard said.

He said it was imperative that there be a comprehensive and co-ordinated attack on the inflationary expectations in the SA economy by fiscal, monetary, industrial and labour policy centres of government.

"Thirdly, the economic reconstruction urgently requires the readjustment of four basic prices in the market to properly reflect the relative scarcities of four basic resources in the economy. These are the rate of interest properly reflect the relative scarcity of savings, the wage rate with regard to manpower, the exchange site with regard to imports and the tax rate with regard to reqired collective services."

It was urgently necessary to restore a positive real yield after tax to household savings and a realistic ratio between the relative costs of capital and labour.

The inflationary effects of industrial protection on domestic costs of production would have to be got rid of and the financial markets would have to be liberalised.

Reports by LINDA ENSOR

'Pension funds'

Tax Advisory Committee (TAC) chairman Michael Katz told the convention the tax-free status of pension funds was being investigated.

● LOMBARD

It had been estimated the cost to the fiscus of the present dispensation with regard to pension funds was about R14bn.

"That is a staggering figure and raises the question as to whether this is a right allocation of tax expenditure."

There was "a total lack of consistency" in the treatment of the four types of private pension fund as regards build up, the tax-deductability of contributions and the taxation of withdrawal benefits.

The TAC was also investigating the possibility of a minimum tax system, he said.

The TAC had looked at the effective and nominal rates of tax in eight sectors of the economy. In some sectors the average effective tax rate in 1988 was 14%.

SANCTIONS FM

Invisible costs

The proportion of intermediate goods imported is unusually high — as much as 59% of the value of total imports in a year — says a report on *The Impact of Sanctions on SA*, by the Washington-based Investor Responsibility Research Centre. (49)

But growth in total imports, says the report, including intermediates, is "stunningly small." It rose 14% between 1967 and 1985 while SA's real GDP rose 87%.

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This can be accounted for only by "dramatic import substitution," says the report. "Excluding the petroleum sectors, SA has made extraordinary strides in import substitution . . ." making the country far less vulnerable to sanctions than it was 20 years ago.

A summary of the report points out the adjustment was possible because of "Western nations who have long threatened to apply sanctions but have resisted imposing stringent sanctions."

SA's success with import substitution has incurred a significant opportunity cost, says the report, as resources were diverted from sectors in which the country had a comparative advantage to less productive activities. Though invisible, the costs are real — possibly as much as 35% in additional GDP growth which researchers believe would otherwise have taken place between 1967 and 1985. (This estimate is too simplistic, say some economists, as it is based on a straight-line projection from growth in earlier decades. This is not valid, they argue, as this rate of growth would anyway have slowed because of factors other than import-substitution.)

The dominant intermediate import since the mid-Seventies has been the category *other mining*, which excludes gold and coal. "About 90% of these imports go into one sector — *fertilisers and petroleum products*. In other words, the most important single import is crude petroleum. In 1985, unrefined petroleum imports alone comprised roughly 22% of intermediate imports and 13% of total imports . . . In contrast, in the cheap oil days of 1967, unrefined crude comprised only 2% of all imports."

The changing composition of imports over the years demonstrates the maturing of the economy. *Transportation and communication equipment*, was the major import until 1981 — "the leading final demand good and the second most important intermediate import." As domestic capacity increased, however, *machinery* became the most important final import and third leading intermediate.

"The most important sectors involved in import substitution . . . were the *glass and non-metallic minerals* industries, *metal* industries, *textiles, food, transport and communication equipment.* Significant import reductions due to import substitution were also recorded in gold, services, utilities and agriculture."

☐ The centre was established in 1972 as an independent, non-profit corporation financed primarily by annual fees paid by about 400 investing institutions for the SA Review Service, the Social Issues Service and the Corporate Governance Service. ■

Broad consensus with business

ANC accepts need to boost confidence

B1084 25/5/90

(49)

ALAN FINE

THE ANC had now apparently accepted that SA would have to build an economic system which attracted investment, Consultative Business Movement (CBM) co-chairman Murray Hofmeyr said yesterday.

He was commenting on Wednesday's CBM-organised conference between more than 300 top businessmen and 40 representatives of the ANC and its allies in Cosatu and the UDF.

At the meeting, ANC deputy president Nelson Mandela moved the ANC further away from commitments to nationalising "the mines, banks and other monopoly industry", and emphasised the need for economic growth and investor confidence.

Broad areas of consensus between the businessmen and ANC on future economic structures were revealed in keynote speeches delivered by Mandela and former Anglo American chairman Gavin Relly — and later statements by the two, Hofmeyr and ANC leader Thabo Mbeki.

However, major differences clearly remained, particularly on the role of the state, and the degree to which it or market mechanisms should be allowed and encouraged to manage economic affairs.

In refining the ANC's stance on nationalisation Mandela said the question was worthy of further discussion.

But, he added, if the question of nationalising any particular industry arose, "we would prefer to entrust this to a committee of experts which will command the support of all sections of the population".

"It would be a tragedy if this was carried out without the participation of the private sector," he added at a media conference.

Relly said he did not think there should be fear at the use of the the word "nationalisation".

He said there were areas now where the state played a major investment role and there might be such areas in future.

Mandela made a strong call for government to halt its privatisation programme "until a truly representative government is in place".

Relly said business, on the whole, remained in favour of privatising those state sector businesses "with a bottom line, though there are difficult cases like transport and Eskom which need more debate".

While Mandela called for "a macro-economic indicative national plan to provide a framework within which to determine the directions of growth policy", Relly warned against repeating past mistakes where, due to state intervention, "factors of production were not priced according to relative scarcity (and) distortion took place".

Mandela argued that the concentration of economic power in white hands would have to change "if we are genuinely interested in ending the old social order".

He said the ANC was "very conscious of the critical importance of such matters in

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Confidence

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the confidence in the future of both the national and the international business communities and investors" and would not go out of its way to undermine confidence.

However, investors had to be sensitive to the fact any democratic government would respond to concerns about the unequal distribution of economic power.

Both Mandela and Relly emphasised the importance of good union/management relationships.

Mandela, apparently plugging Cosatu's anti-Barlow Rand campaign, said legislation should allow strong unions to bargain centrally. However, "questions of a living wage, job security and industrial restructuring must be dealt with in the bargaining process", implicitly dismissing union demands for a national minimum wage.

Mandela said there could be no doubt that the public finances would come under enormous pressure for increased spending on such areas as education, housing, health, unemployment benefits and pensions.

However, an ANC government would fight against the creation of "a bloated and unproductive public service".

Hofmeyr said the CBM would continue arranging smaller meetings between business and the ANC/MDM groupings.

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● Comment: Page 6

High interest doesn't gel with reform

W Mail 25/5 - 31/5/90

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The government's current deflationary policy of high interest rates may conflict with the process of reform and negotiations, reports ALAN HIRSCH

AS the downturn in domestic spending bites into the manufacturing sector it appears increasingly likely that the government will be forced to counteract the severity of the economic slowdown.

The monetary policy of high interest rates which aims at containing domestic expenditure is the required response to the twin problems of foreign debt obligations and inflation, but the timing of the strategy does not mesh with the government's reform and negotiations programme.

Government economists, such as Japie Jacobs, special advisor to the Minister of Finance, continue to insist that they can see no reason to depart from the current deflationary policy of high interest rates. Sources indicate that Finance Minister Barend du Plessis had expected lower interest rates in the third quarter of this year, and he might feel politically pressurised to push for such a move if the economy continues to decline.

Economists Johan Louw of Sanlam and Edward Osborne of Nedcor both have revised their predictions of 1990's gross domestic product growth rate to 0,5 percent. In other words, the output of the economy will increase marginally over the course of the year. As Osborne points out, if one takes into account the way the growth rate is calculated, 0,5 percent is tantamount to zero growth.

1990 will be a year of standstill and consolidation, but not recession, the economists both argue.

Yet Johan Louw estimates a decrease in gross domestic expenditure of 3 percent. This means that South Africans will be spending less this year than last year, inevitably leading to declining living standards. Louw argues that the downturn will not be as severe as the 1985/86 period when domestic expenditure fell by 8 percent, and that wage increases in recent years will soften the blow. Also, the budgetary income tax breaks announced in March will only filter through in July.

Edward Osborne believes that the Central Statistical Services (which provide the estimates of quarterly growth trends) may have factored an expected decline in agricultural output too strongly into the estimates of the economy's performance between January and March.

The performance of the mining sector also seems less sluggish than the first quarter estimates indicate. So, although the South African economy seems to have experienced two consecutive quarters of negative growth (to the end of March), the most recent estimates might be too pessimistic.

But if there is positive growth this year it will only be because of the continuing strong performance of exports relative to imports. So the marginally positive growth rate by no means indicates a relatively healthy domestic economy.

Barend du Plessis

Moreover, the low gold price might weaken export levels, not only damaging the growth rate, but also South Africa's balance of payments position. Louw now estimates that the current account will meet the maximum requirement of a R6-billion surplus to match potential capital outflows (rather than exceed it as he predicted earlier this year). But Louw's estimate is based on a gold price which averages $390 over the year, which it may not judging by its performance this week.

One of the reasons for the relatively low level of imports is the fact that because of an extremely low level of investment in the manufacturing sector there have been very few imports of productive machinery in the past year. The low rate of capital formation in manufacturing is a most disturbing feature of the contemporary economy, notes Osborne.

So far, says Osborne, the collapse of investment in industry has not resulted in widescale lay-offs (though the *Weekly Mail* described disturbing trends in the clothing and textile industries two weeks ago). If the retrenchment trend grows the government might be forced to restimulate the economy.

Alex Boraine, co-director of the Institute for a Democratic Alternative in South Africa (Idasa), is very concerned that the condition of the economy might jeopardise the negotiations strategies of both the government and the African National Congress.

The government, he argues, was pressured into talks partly by the economic crisis, but socio-economic degeneration leading to widespread militant discontent may dissolve the climate for negotiations, weakening both the government and the ANC.

Boraine believes the the ANC will have to join with the government in short-term initiatives to alleviate the conditions of the very poor. The dispersal of the state sponsored two billion rand "Independent Development Fund" might bring some relief, and indicate that the negotiations are bearing fruit. In the absence of such an intervention, says Boraine, the Pan Africanist Congress could begin to mobilise the discontent in the townships.

Yet Osborne notes that it will take time for the fund to become operative, and he does not expect it to have any impact before 1991.

Job losses set to spark state and labour conflict

WM 25/5-31/5/90

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By BRIAN GOLD

JOB losses are set to become a major point of friction between the government and labour as the recession sets in.

Even though unemployment will probably not fall to the levels of the mid-1980s, the hardships created by the present downturn are likely to be more controversial. Economic policies are increasingly being subjected to debate and eventually to national "negotiation".

It is likely that the Congress of South African Trade Unions (Cosatu) will be represented in future talks between the African National Congress and the government.

The ANC and Cosatu are developing a more sophisticated economic agenda. For the first time the views from such quarters will be taken seriously by business and the government.

Whereas the ANC and Cosatu, among others, focus on the plight of their members and constituency — and in this have the advantage of the moral high-ground — for the government and most private sector economists the seriousness of the downturn and the resultant unemployment is primarily its repercussions for long-term economic policy.

Will the government opt for premature relief in the form of easier monetary and fiscal policy which in turn will upset its economic policies that are only now enjoying widespread credibility among business?

The government is under increasing pressure as constitutional negotiations near and ANC/Cosatu strength grows. The question is whether the resurgence of the "econocrats" (under Finance Minister Barend du Plessis and Economic Co-ordination Minister Wim de Villiers) can be sustained.

The econocrats and their supporters worry that a greater burden on government funds and/or easier monetary policy is inflationary. Inflation is to them enemy number one. Easier economic policies are primarily lower interest rates and/or reductions in government spending.

Such policies boost the economy. In so doing they are not only inflationary but, by encouraging spending and hence imports, put pressure on the current account of the balance of payments at a time when there is limited foreign capital to finance a deficit. Given the government's improved international image and higher reserves the authorities now consider this a secondary constraint.

According to this argument, for short-term gains the long-term effects are inflation and balance of payment problems, and these means lower growth. The government and business believe the pain endured now is vital to lay a solid foundation for the future. The indicators of recession are seen as encouraging omens.

The increasingly criticised easy economic policies of 1986 and 1987 are being trotted out as an example of the danger of adopting too stimulatory a policy. The argument is growth in subsequent years was not sustained because inflation was not brought down far enough.

The econocrats believe with inflation as high as it is, it is even more dangerous to adopt an easier economic policy. We are warned that inflations would exceed 20 percent and in five years time unemployment would be higher than ever.

Yet these critics often forget just how difficult it was to get any investment even when prime was 12,5 percent.

The main threat to the econocrats are the government's constitutional mandarins, who will push for an economic easing before the econocracts because it suits their interests.

However, the difference should not be overemphasised. There is agreement within government on its unemployment stance, represented by the R2-billion Jan Steyn fund, state unemployment benefits and training schemes.

But the ANC and Cosatu see things differently. They believe the state has a responsibility to care for the unemployed. The government believes it is only responsible for interim relief and that long-term solutions are the province of business.

This leads to another fundamental difference between the government and Cosatu and the ANC.

That difference arises from the government's drive to reduce inflation by calling for an end to what it considers excessive wage rises. This is unacceptable to unions who reject the trade-off between jobs and wages.

Economy will remain sluggish — economists

(49)

BDay 25/5/90

ANDREW GILL

THE SA economy would continue to be sluggish for most of next year and the downswing would still be in place in a year from now, economists said this week.

Although the Reserve Bank's composite index of leading indicators appeared to have stopped falling, stabilising in January and December, economists said it was too early to interpret this as signalling the start of a renewed upward trend.

The index, which serves to signal the country's expected future economic activity, is composed of various indicators. These include share prices, net gold and foreign reserve holdings, the gold price, new vehicle sales, credit extension, unemployment and trade.

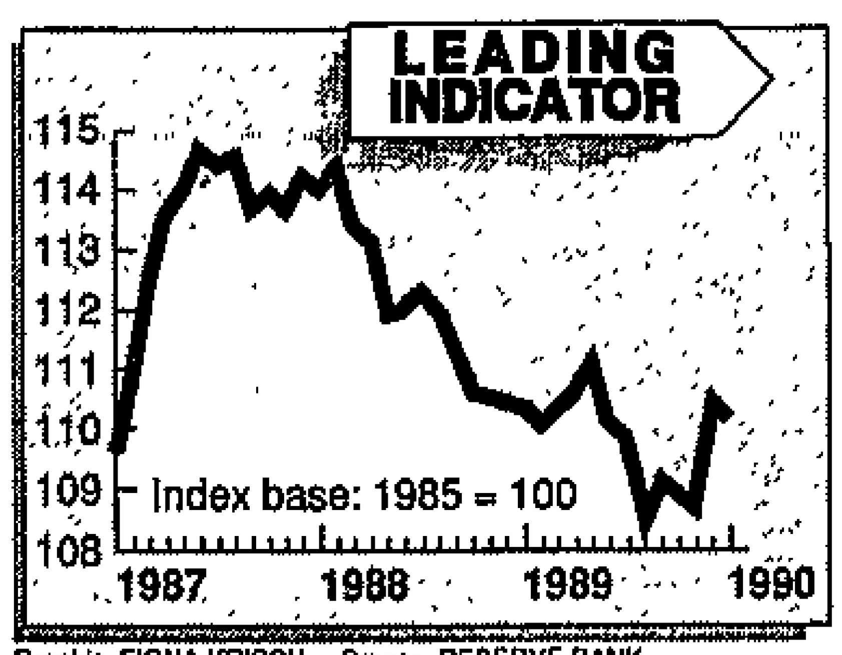
It stood at 110,1 points for January, virtually unchanged from December's revised 110,4 points.

It is only the second month the index has held above the 110 point level since June last year.

On seeing the figures, however, economists sounded warning bells saying the next few indices could show a marked downtrend.

Their reasoning is that many of the index's components, which were looking much stronger in December and January, have now fallen back to earlier meagre levels.

TrustBank chief economist Nick Barnardt said the past few months had seen marked decreases in various components and the higher index was merely reflecting their earlier upswing.



Graphic FIONA KRISCH Source RESERVE BANK

New vehicle sales, which stood at 26 435 in January, fell 24% in April to 23 096 units.

The London gold price, which ended trading in January at $412,25, was trading nearly $50 lower on Wednesday at $363.

The Reserve Bank's holdings of gold and foreign reserves stood at R5,48bn in April, well down from January's R5,7bn while the JSE overall index stood at 3 173 points on Wednesday compared to January's 3194 points.

A Reserve Bank economist said the index at the moment was by no means indicative of a trend adding that the following few months were likely to see a decrease.

Barnardt concluded the present stage of the index seemed merely to be a "hiccup" and that he saw the economy on a downtrend trend until at least the early months of 1991.

Options for a new SA economy

(49)

Sowetan 26/5/90

Today we carry an edited version of the statement ANC deputy president Nelson Mandela made at the Consultative Business Movement conference in Johannesburg on Wednesday. On Monday we will publish Mr Gavin Relly's paper, entitled: "There shall be an economic order to promote and advance the well-being of all South Africans".

FOCUS

THE issue we are addressing is the one of power and the uses and abuses of power.

Those among us who are white come from that section of our population that has power, and in a sense, total power over the lives of black people. Nothing within the sphere of human endeavour is excepted - be it political, economic, military, educational and other. Indeed, this even extends to the right to decide who shall live and who shall die.

These may sound like harsh words, but the reality that is unseen inside the boardrooms, by those who exercise power, across the length and breadth of this country, is harsher still. The anger in the heart of a Shylock is abroad in our society. This is a fact to which we should be very sensitive, without any attempt at self-deception.

One of the fundamental issues that the process of transformation must address is the question of the structure of power. Within the political sphere what has to be done seems clear enough. I think we would all agree that we must have a united, democratic and non-racial South Africa. The specific manner in which this would be expressed in a constitution is something that will have to be negotiated, preferably within an elected Constituent Assembly.

White males

But then, what about economic power? This, obviously, is one of the thorniest issues that must be addressed.

It is said that less than 10 corporate conglomerates control almost 90 percent of the shares listed on the Johannesburg Stock Exchange. If it were calculated, the total number of people sitting on the boards of these companies as directors, would probably be far less than one thousand - almost exclusively white males.

If you add to this the fact that 87 percent of the land is, by law, white-owned and is in fact owned by a minority even among the whites, then the iniquity of the system we have all inherited becomes even more plain.

If we are genuinely interested in ending the old social order and bringing in a new one, characterised by the notions of justice and equity, it is quite obvious that the economic power relations, the excessive concentration of power in a few white hands, have to change.

It might be said that international experience shows that it is wisest not to tamper with this power structure. What we would like to say is that, while we look at economic models and study the experiences of other countries, we should not forget that we are dealing with South Africa, with its own history, its own reality and its own imperatives. One of these imperatives is to end white domination in all its forms, to deracialise the exercise of economic power.

We may have to consider drawing lessons from the Anti-Trust Laws of America or the work of the Monopolies Commission in Great Britain to ensure that there is no unhealthy over-concentration of economic power.

Trade unions

Another issue we might have to consider is the advisabilty or otherwise of the placement on the boards of privately-owned companies of directors appointed by the government, to see whether it is possible to balance the pursuit of private gain with the need to promote the common good.

I would also like to stress that we do not want to have eveything done by the new government. A healthy relationship between employers and trade unions is crucial to the country's future. We agree with the view that progresive labour legislation, allowing strong unions to carry out centralised bargaining, will help to solve many important issues. The questions of a living wage, job security and industrial restructuring must be dealt with the bargaining process.

Yet another question we might consider is whether there are no areas in which it would benefit society at large if the state established public corporations or strengthened existing ones. One of these areas might be housing, where it seems clear that there is an urgent need for vigorous state intervention rapidly to expand the country's stock of habitable accommodation.

Another area is suggested by the need for state encouragement of small and medium business as well as the co-operative sector, especially as there is a crying need for the multiplication of economic activities that will lead to the creation of new jobs.

Land question

We are firmly opposed to the process of privatisation on which the Government has embarked. It seems to us eminently wrong for it to engage in this important restructuring exercise precisely at the moment when the whole country and the world expect that fundamental political change is in the offing. It would seem only reasonable that so important a question as the disposal of public property should be held over until a truly representative government is in place.

The land question must also be addressed within the context of the restructuring of the old economic power relations. Before anything else is done, the racist and discriminatory Land Acts have to be repealed. Furthermore, serious discussions and planning must take place, involving the rural people and their representatives, the democratic government, those who own land, and the country as a whole, so that we can all address the related issues of making land available to the masses, while ensuring the necessary increases in the production of food and agricultural raw materials.

We still believe that there must be further discussions of the issue of nationalisation of assets that might at the moment be privately owned.

The ANC has no blueprint that decrees that these or other assets wil be nationalised, or that such nationalisation would take this or the other form. But we do say that this option should also be part of the ongoing debate, subject to critical analysis. It should not be ruled out of the court of discussion simply because of previous bad experience or because of a theological commitment to the principle of private property.

Very conscious

We are very conscious of the critical importance of the confidence in the future of both the national and the international business communities and investors. We accept that both these sectors are very important to the process of the further development of our economy.

We therefore have no desire to go out of our way to bash them and to weaken their confidence in the safety of their property and the assurance of a fair return on their investment. But we believe they too must be sensitive to the fact that any democratic government will have to respond to the justified popular concern about the grossly unequal distribution of economic power.

There should be no debate among us about the centrality of the issue of ensuring a rapidly growing economy. To ensure a rising standard of living, the Gross Domestic Product must grow at rates that are higher than the rate of growth of the population.

We hope that what we have said might assist in the process of building a national consensus of the direction we have to choose in order to end the agony of apartheid and racism, of poverty and deprivation, of internal conflict and international isolation.

Star 26/5/90 (49)

Great expecta

. . . but economic realities in a new Sou Africa may not satisfy a hungry black

SOUTH Africa's first black Government will inherit a country where a white minority lives rather well and a black majority rather badly. Eager to even things up, will it recognise that wealth must be created before it is shared — and that within the black majority some live much worse than others? THE ECONOMIST reports.

LONDON — Pity South Africa's first black ruler. Despite Eastern Europe's revolutions and the disasters of centrally planned economies nearer home, he will be under immense pressure to make the same mistakes.

His followers expect the conquest of apartheid to bring more than just the vote. Activists want jobs in the new bureaucracy, unions want a minimum wage.

The country's seven million squatters want legal homes, and many even of those whose homes are legal are still waiting for electricity and water.

Besides these expectations, the new leader — let's call him Nelson Mandela — will inherit the problems that plague politicians all over Africa, and which helped to undermine South Africa's white regime.

The population is growing at 2,5 percent a year, which means that the need for new houses and schoolrooms will be mushrooming even as he struggles with the backlog.

A black president will not be able to tame the tiger of black wretchedness just because he is black. To ensure that the violence of apartheid is not replaced by violence among blacks, President Mandela will have to keep his people's loyalty by providing for their needs. Can he?

Start with social services. A black Government will wipe out inequalities in social spending. Until now the state has lavished five times as much on each white citizen as it has on each black, with Indians and mixed-race people coming in between.

Correcting this inequity should appease blacks' sense of injustice, but it will hardly dent black needs. If the 7 400 white classrooms empty in 1987 had been opened to blacks, just a fifth of the shortage in black schools would have disappeared. Equally, a few thousand hospital beds will not make blacks healthy.

Next, the bill for housing. The black housing shortage is said to total 1,8 million units. Countrywide, more than four black households in five have no electricity. In 1988 the Government managed to build just 1 300 houses.

The demands on the exchequer will be bottomless. On one estimate, it would cost around R55 billion (about a fifth of the country's GDP) to bring black housing, health, education and pensions up to the standards enjoyed by whites. That figure will swell with the growth in population.

How much of this bill could President Mandela hope to meet?

He could save a bit by axing apartheid's parallel bureaucracies.

But he will be under pressure not to abolish bureaucratic jobs but to create new ones to satisfy his friends. He may also save money by trimming the defence budget.

A black president will not be able to tame the tiger of black wretchedness just because he is black.

Beyond that, he will have two options: New borrowing or higher taxation.

Thanks to a half-decade of sanctions, South Africa is relatively unburdened by foreign debt, though too much borrowing to pay for recurrent social-service spending could soon change that.

As to taxes, South Africa's Government collects 27 percent of the country's GDP, as against 32 percent in Chile and 42 percent in Britain That seems to leave room for an increase.

But no amount of tax-raising could bring enough into the kitty to meet all the demands that will be made on it. The black Government will therefore have to abandon any hope of making everyone comfortable and concentrate on tackling the basic needs of those who need most.

That will mean compromising standards.

If it wants its money best spent, the black Government will have to embrace the white Government's site-and-service policy, not try to build everyone a house, to train nurses and village health workers rather than doctors, to make better-off pupils pay school fees, so that the education ministry can afford schooling for all. And so on.

The only way out of these compromises is long-term: fast economic growth.

Some in the ANC still favour nationalisation. They are unlikely to prevail, if only because foreign governments would try to insist on compensation for shareholders, and — even if that meant only government bonds — the State could not afford it.

Moderate ANC advisers therefore talk instead of directing big companies' investment, either through Government appointees in the boardrooms or through control of investment finance.

Since the big companies own large stakes in the big banks, the second idea implies forcing them to shed control.

The obvious snag is that the ANC's economists are less likely to hit on sound investments than the businessmen whose decisions they would like to direct. If South Africa's giant conglomerates need gingering up, what they need is competitors, not state direction.

The ANC could usefully consider imposing tougher anti-monopoly legislation.

Equally, South Africa would profit from rules that made it harder to control companies through minority stakes.

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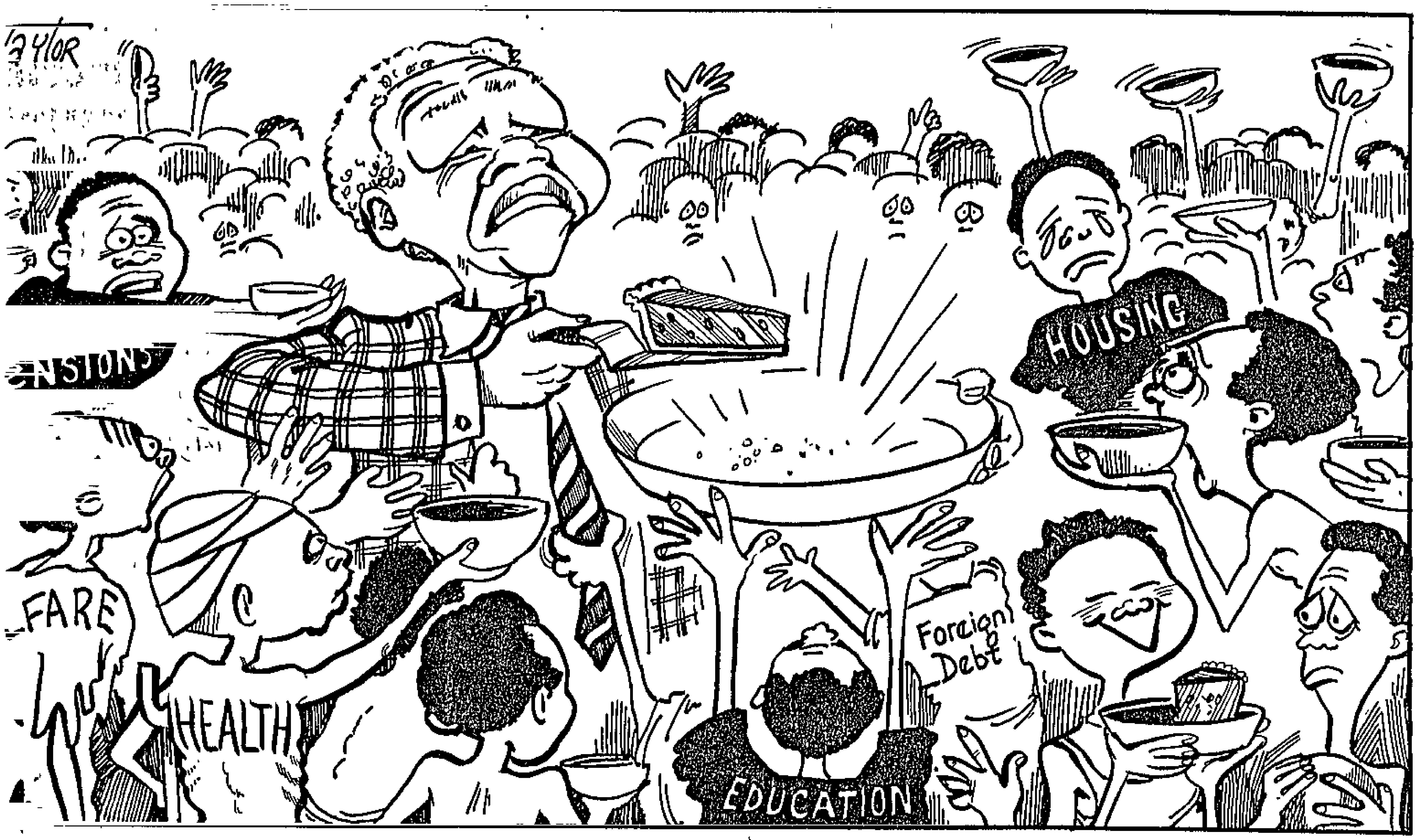
but economic realities in a new South ica may not satisfy a hungry black 'tiger'



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The ANC could usefully consider imposing tougher anti-monopoly legislation.

Equally, South Africa would profit from rules that made it harder to control companies through minority stakes.

Far further down the heap, if South Africa is to encourage black enterprise it should deregulate small business.

How about sharing the cake out? Next to directing investment, the ANC's fondest wish seems to be a minimum wage. In public at least, the movement does not acknowledge the short-term trade-off between wages and unemployment: Higher wages, fewer jobs.

No amount of taxing could bring enough into the kitty to meet all the demands made on it.

In the late 1980s, when pretty well every black leader in South Africa was in exile or in jail, the unions were left to carry the torch of black pride in South Africa

Now the unions' clout is in danger of making the ANC overlook the truly poor.

The best available estimates suggest that 15 percent of the workforce is completely unemployed and that another 30 percent scratches a living from the unoffocial economy.

A minimum wage, if it were set high enough to change things at all, would change them for the worse.

Already the higher wages won by the unions have prompted talk of mechanisation from South Africa's big companies, which claim that rising labour costs are blunting their competitive edge

The costs of land reform could be huge. Yet the ANC is led from cities, and Marxism's emphasis on the proletariat has reinforced its urban bias.

It will be hard to escape from this. If President Mandela has to face disorder among his own people, he will find, like his white predecessors, that it comes from the people in the urban slums.

So he will be tempted to please articulate town-dwellers first, and let the investment needed to make a success of rural reform take second place. Yet if Mr Mandela neglects the country people, they will flock in desperation to the towns.

Then the tiger would be harder still to tame.

SA faces 'big six' economic problems

C Times 27/5/90

SIX big problems face the South African economy, says National Union of Metalworkers education officer Alec Erwin.

Writing in the latest issue of the South Africa Foundation's quarterly *South Africa International* Erwin highlights these areas as he examines the country's post-apartheid economy as it plans for prosperity.

The problems, according to the trade unionist, are:

■ Unemployment. Nobody knows the true level of unemployment. Official statistics are about 800 000, while other estimates range from half-a-million to one million;

■ Poverty. Again there are no reliable statistics. What we do know is that more than 50 percent of wage earners earn less than the minimum subsistence levels;

■ Housing. Critical shortages exist. Officially, this is estimated at one million units. The truth is that we have no idea what the position is;

■ Population. National data has been fragmented by the proliferation of apartheid structures. What we know is that the growth rate is high and the rate of urbanisation even higher;

■ Health. Critical shortages of facilities exist for most of the population, alongside very sophisticated facilities for a minority; and

■ Education. Yet again there is an abysmal shortage of facilities. However, even more serious are the profound structural distortions that have developed as a legacy of apartheid.

Erwin points out: "Our solutions lie neither in free market capitalism nor in centrally planned command economy socialism."

However, it is important to define which economic and social programmes can effectively develop and benefit South African society.

He argues that this means there must be particular, but not exclusive, development for "the working class majority".

Secondly, "central to our thinking is the development of a democratic political process that will entrench mass participation and involvement in the formulation and implementation of economic policy."

Erwin says of the Cosatu grouping, to which his union is affiliated:"We are unashamedly socialist."

The challenge is to develop inclusive programmes "that will build a productive, prosperous, ecologically stable and culturally vibrant society where everyone benefits.

"We have to open out the agenda of debate beyond ideological cliches if we are to avoid a future economy where mass poverty exists side-by-side with minority affluence."

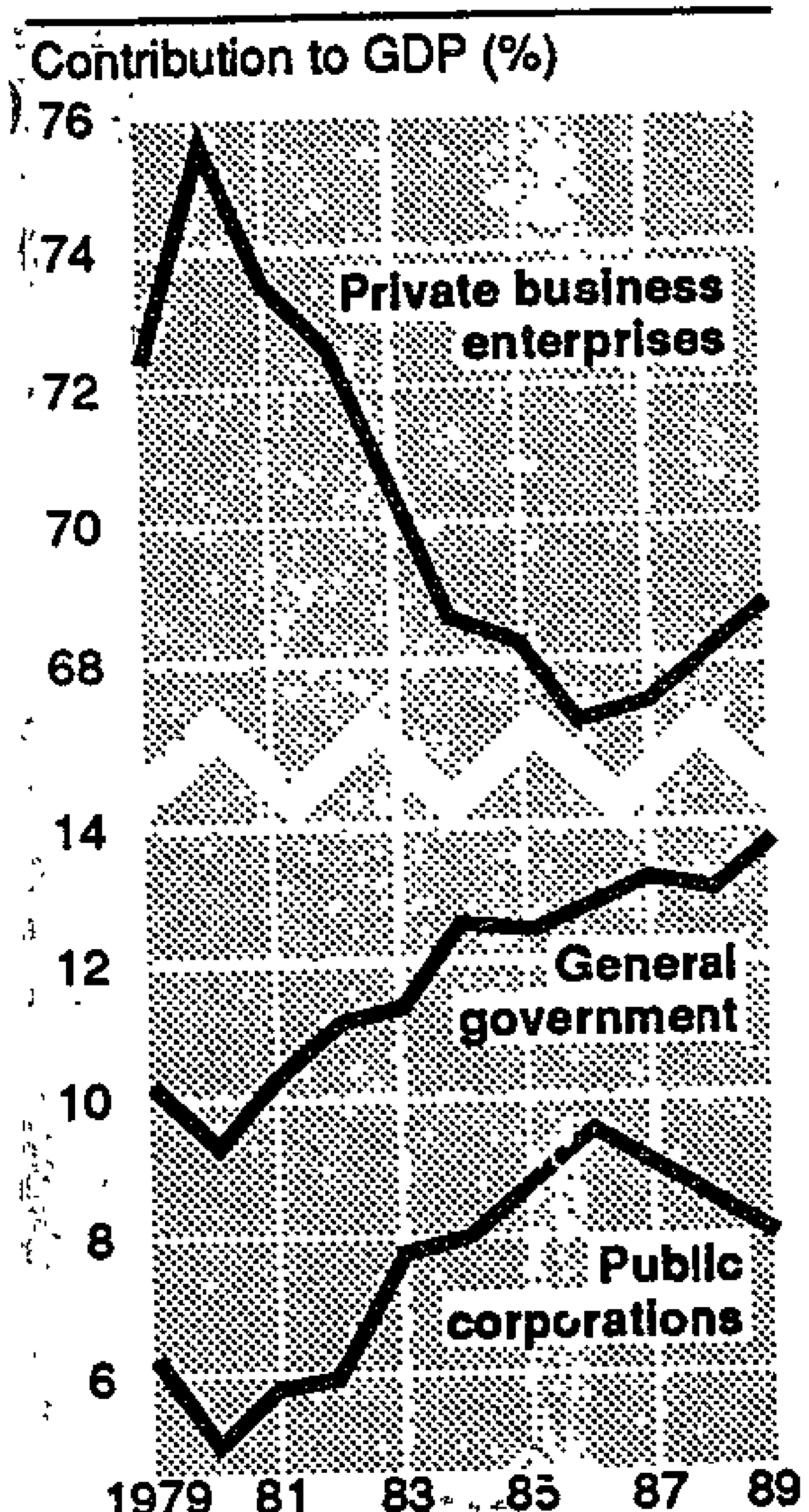
Cosatu research has shown the South African economy, even without apartheid, will not attract massive or sustained capital or foreign aid, says Erwin.

It faces a much more serious problem of a capital outflow.

Erwin concludes: "We must start now on the work of restructuring and developing our economy rather than delaying in the expectation of foreign aid relief."

Alec Erwin

Threat of political price for privatisation



Since 1973, the fixed investment required to produce R1 of gross domestic product was twice that of the period 1946-72.

The historic political developments that have taken place in South Africa in the past few months have made a more than usually contentious issue of a privatisation programme born of economic necessity.

The African National Congress and other organisations on the left are implacably opposed to a policy they believe will frustrate their plans for a redistribution of wealth under a non-racial government. Much of privatisation will have to be "reversed", they say.

With the government and the ANC having recently completed a first round of talks, the programme is vulnerable. One side does not like it; the other is unlikely to let it impede progress in negotiations.

Many supporters of privatisation would probably agree with Mr Harry Schwartz, Democratic Party finance spokesman, who said recently: "It is necessary not to use existing political power to impose economic objectives which are the subject of dispute, if we hope that in the future political power will not be used to reverse the processes."

Dilution of economic principle is seen as a price worth paying for enhanced progress on the political front. Already the Government has shown itself sensitive to the political environment by stating that R1 billion of future privatisation proceeds will be put towards social upliftment projects.

A slowing of the privatisation programme would anyway be more symbolic than real since there are few short-term candidates for sale. Even in the long term, there are not many — the country has never had a large nationalisation programme that needs unravelling.

When then President PW Botha announced the programme in February 1988, he named only five big candidates: the Electricity Supply Commission (Eskom); the Iron and Steel Corporation (Iscor); South African Transport Services (then Sats, now Transnet); the Phosphate Development Corporation (Foskor) and Posts and Telecommunication. In 1989 they had cumulative book assets of R73 billion.

The list could be lengthened considerably. One estimate, probably optimistic, is that there are government bodies worth R250 billion which could be privatised.

Public flotations

So far there have been two big public flotations. Sasol, the oil from coal company, was privatised in 1979. At the time it was the biggest listing the Johannesburg Stock Exchange had seen, with Sasol gaining 26 000 shareholders.

But a privatisation policy to speak of emerged only with the tabling of the White Paper in 1987. This represented one of the Government's first responses to the fact that the country was in serious economic difficulty and required drastic change.

The 1985 debt crisis, when foreign banks refused to roll over the country's debt, was pivotal. Until then the country relied on 20 percent of capital for fixed investment coming from abroad.

Two other figures highlight adverse economic trends which had to be reversed. First, in the period 1970-85, 63,7 percent of all net fixed investment in the economy came from government. Second, post-1973, the fixed investment required to produce R1 of gross domestic product was twice that of the period 1946-72.

Privatisation was only one part of a much wider strategy of economic reforms embracing greater fiscal and monetary stringency, tax reform, less intervention by way of protection and subsidy, real interest rates and deregulation.

One key decision in the Government's programme was the realisation that it had to privatise the process itself, and a Privatisation Unit was formed.

The only listing to date under the policy was that of Iscor in November 1989. It raised R3,7 billion, 1,85 billion shares at R2 each. It was 4,16 times oversubscribed and saw 150 000 investors coming to the market, an increase of 50 percent in the number of private investors active in the market, according to Tony Norton, JSE chairman.

Distant prospects

Iscor's share price, the flat state of the JSE and the dampening effect of ANC threats of renationalisation all mitigate against another listing in the short term. Foskor will probably be next up, but Transnet, Eskom and Posts and Telecommunications are more distant prospects.

Transnet recently took a big step towards privatisation by dividing itself into five separate business units and changing its status from a state corporation to a private company.

But it will be some time yet before any division has built up a sufficient business record to justify a listing.

Eskom has been run on commercial lines for some years now, but worries about lack of competition have put its sale on the backburner.

However, as Mr Norton, puts it: "Privatisation is the crowning of the commercialisation process. You can defer the coronation so long as you get on with the commercialisation."

Given the political sensitivities of the moment, the Government is likely to agree. — **Financial Times.**

Bank in tight spot over gold

BDay 28/5/90

MERVYN HARRIS

THE Reserve Bank, already under pressure to reduce interest rates because of the cooling of the economy and rising black unemployment, has been placed in a tight spot by the sharp drop in the gold price, say senior brokers.

John Liackman, senior partner of stockbrokers Max Pollak & Freemantle, said: "The monetary system must be under increasing pressure as it has to absorb the effects of the lower gold price, either through a lower currency or defer any possibility of a relaxation in interest rates.

"While interest rates will probably not go higher, the monetary authorities are unlikely to bring them down in the third quarter as markets had expected," he said.

The steady tone of gold shares on the JSE on Friday reflected expectations that gold would go up, and it clawed its way back to the $367 level. But analysts said share prices' resilience could also indicate investor reluctance to accept that gold has more downside than upside potential.

They were concerned that gold should come down so easily and swiftly after its $14 mid-week plunge. Such behaviour would be expected from a gold price of more than $500, but not at levels where the metal was recommended as a buy.

This gave rise to suggestions the market was not difficult to manipulate and that the price was in a disorderly area, fuelling concern that if gold broke through resistance at $355/$350 it could drop to $310.

David Meades, of stockbrokers Meades, De Klerk Inc, said gold was technically in a highly sensitive area and at a point where it would be tested more rigorously than at any time during the past 18 months.

"A gold price below $350 would put the Reserve Bank in a tight spot. Pressure would mount to lower the rand, which could then fall to R3 to the dollar.

"This would have inflationary consequences and make policy-makers' task more daunting. With rising black unemployment, they have to decide how far they are prepared to let the economy decline without creating an overkill situation."

Bullion markets are expected to remain subdued until after today's public holidays in Brussels, London and New York.

A need to reconcile traditional and Western views

Let's stop talking past each other

Sowetan 28/5/90

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This is an edited version of Mr Gavin Relly's address to last week's indaba between the African National Congress and business leaders.

FOCUS

THAT the economic imbalances in South Africa are enormous is common cause. I think there are few, if any, in South Africa who do not accept that the normal socio-economic problems of modernising, urbanising society have been considerably exacerbated by the apartheid system under which we have laboured so long, and that this poses a particular challenge as we look to creating economic structures and policies which will lead to a rapid economic growth and more equitable distribution of wealth.

The business community remains predominantly driven by the individual/competitive values which are key elements in the mainstream of Western society - individual freedom, responsibility and enterprise to name a few. However, other groups observe matters from a tradition, both cultural and intellectual, which has stressed, if it can be codified, what one might call group/co-operative or even egalitarian/collectivists values.

It is important to recognise these differences and the different assumptions that they have led to in the past, since much of the confusion in the debate about South Africa's economic future has been caused by participants talking past each other.

Vision

We are united by a vision of South Africa where there is:

. A growing economy capable of generating the resources to address socio-economic need.

. A strong, diversified economy which creates more wealth by competing successfully in international markets and attracting foreign investment.

. Meaningful, productive economic opportunities for all South Africans to share in wealth creation.

. A more equitable distribution of resources.

. The elimination of racial imbalances in the economy through equal opportunity.

. Growing national and individual prosperity i.e. improved standards of living.

. Freedom for all to promote their own interests as workers, consumers and creators of wealth.

. Effective strategies to combat poverty and under-development.

We in business are dedicated to debate and discussion on the options so that we can build a common economic future. What the debate should really be about therefore is the means to the above ends and the circumstances in which they may be more readily secured.

Trade-off

Given the inequalities in South Africa and the political and economic need to address these urgently while maximising growth (remembering our common goals) we have to confront the old problem of the trade-off between equality and growth. Where to strike the balance? I believe that economic growth is a necessary but not sufficient condition for a reduction in absolute poverty and or a reduction in inequality.

Tax

The other decisive factor is the kind of growth rather than the rate itself. This emphasises the need to get the mix right - the tax system, the efficiency and manner in which we deploy tax revenue, the country's legal and institutional framework, the need for a predominantly market-based pricing system, the encouragement of investment, etc.

The reason why South Africa has had a poor record of investment in the 1980s is precisely because the policies pursued by the State then were inappropriate in both scope and nature and so distorted the market. To apartheid legislation was added a wide array of controls via such mechanisms as administered prices, marketing boards, exchange controls and an expanding public sector, as well as a reliance on inflation to expand nominal government revenues.

Unhappy

This unhappy story raises the question of what business sees as the fundamental requirements for growth.

First and foremost we in the corporate sector believe that the retention of domestic and international investor confidence is critical to economic growth. While the criteria for such confidence - including the levels of State participation in the economy - may vary from country to country, the universal experience is that investors conclude that State intervention and regulation stifle initiative, entrepreneurial activity and the ability to make profit and skills flight will ensue.

Resources

Secondly, the State has an important role in distributing or redistributing resources for reasons of equality as mentioned through transfer payments from one tax payer to another (for pensions, subsidies and interested on public debt and through government spending (health, education, low cost housing etc.).

Thirdly, the corporate sector believes in the light of general international experience that the size of government is critical to the well-being of the economy.

Fourthly, if these three guidelines are followed in economic policies, then the key issue of inflation should also be satisfactorily addressed. Unless inflation continues to be targeted as an economic priority, the differential between South Africa's high inflation rate of 15 percent and those of her major trading partners of 4-5 percent will lead to a vicious circle of inflationary pressures.

Gains

The above policies, taken together with the abolition of apartheid, will also provide an environment conducive to a new work ethic, the fifth fundamental, without which required economic growth gains cannot be made.

There is no short cut to development yet, in a sense, nationalisation is proposed by some in our economic debate precisely as one of the elements of such a short cut. Of course it has its emotional attraction, given the acts of omission and commissionof the past.

Instead of contemplating mechanisms such as nationalisation, the private sector should be seen as the source of wealth and job creation, with the Budget acting as an indicator of resources raised through the taxation system.

Values

All this leads me to conclude that business and political movements will both have to seek a new set of jointly held values which will enable them to co-operatively confront the challenges of building an economic future.

In conclusion I would like to make a plea for pragmatism rather than ideology to govern our decisions. Blending competitive individualism and broader societal co-operation will allow the First World part to develop dynamically too, while making use of those areas of communal interests and cooperative endeavour, whichever may be desired or useful.

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Privatisation: workers to protest

Public-sector workers will step up their push for a new labour deal and an end to privatisation today, with nationwide protests during working hours.

Designed to coincide with today's meeting in Cape Town between Cosatu's public-sector unions and the Minister in charge of privatisation, Dr Dawie de Villiers, the protests could take the form of marches and pickets.

Cosatu said workers would also protest against the exclusion of State employees from the Labour Relations Act.

Today the general secretaries of the federation's postal, rail, municipal and health affiliates will urge Dr Dawie de Villiers to scrap the privatisation programme. — Labour Reporter.

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ST 24/5/90

'Blacks need cash to acquire land'

— The removal of restrictions on the occupation and ownership of land would not be sufficient to satisfy black people, Les **Abraham (LP, Diamant)**, said yesterday.

Speaking in the debate on the budgetary and auxiliary services vote, he said black people did not have access to the financial backing required to acquire a reasonable portion of the land in South Africa. Only when they had access to sufficient land at prices they could afford would there be lasting peace. — Sapa.

'SA business lacks a social conscience'

29/5/90

By BOB TUCKER, Managing Director of The Perm division of NedPerm Bank

ECONOMICS

THE South African industrial and commercial "machine", made up of everyone from the housewife to the smallest informal business unit to the largest conglomerate, generates what may broadly be described as the "wealth" of the nation.

That wealth comprises a wide spectrum of "outputs" — from child development and education to various products and services; from salaries and wages to social enrichment and responsibility programmes; and from personal fulfilment to the profits, measured in money, available for distribution to the shareholders.

As a consequence of our heritage and our circumstance, we as a business community are infatuated with only one component of that wealth output, namely bottom-line profit.

That infatuation is primarily attributable to the concentrated structure of the South African economy and the consequent control exercised by the portfolio managers of the large institutional investors.

Those fund managers carry no responsibility for any component of wealth output apart from the monetary return on the administered portfolio measured in the very short time frame.

They have no interest in whether the industry in which they have invested is labour or capital intensive, offers fulfilling or unfulfilling work opportunities, or sells products and services which enrich, or impoverish, society.

In short, the nature, amount and distribution of the total wealth output is of no concern, only the amount of short-term profit is.

It is a truism that you only get what you measure and, even more importantly, what you reward.

Since it is only short-term profits which are measured, and consequently rewarded, the overwhelming concern of the professional managers of the formal sector of the economy is the maximisation of that short-term profit, again without any real concern as to whether "wealth" is generated and fairly distributed in the process, or not.

Incentives

Regrettably, in my view, the attention of the fiscus has likewise been diverted away from the nature, or "mix", of wealth-generating activities towards the quantification of bottom line profits and the application of the fiscus' share of those profits on public expenditure.

In fact, since the mid-1970s there has been a consistent trend away from tax incentives which influence the nature and direction of economic activity, even though such incentives have the advantage of only being accessible by businesses which are profitable in the first place.

Consequently, no one who has the power to do so is prepared to influence the mix and distribuiton of wealth, and yet large sections of the population are sorely deprived.

It is hardly surprising, therefore, that their spokesmen should stake an immediate claim to that asset which would give them capacity both to exert that influence and to appropriate the profit flow which they have been induced, by our behaviour, to believe is the only component of any real value.

The potential tragedy of nationalisation (primarily because it severely inhibits individual freedom and the freedom to be enterprising) is obvious from recent history.

Alternative

But then an alternative mechanism for "redistributing wealth" or, in my terms, generating a different "mix" and distribution of wealth outputs, must be offered.

Merely running strong side programmes and projects would amount to "paternalistic fish feeding" and would be unlikely to do much towards equipping the people with fishing rods or with the knowledge to use them.

If an appeal to the "social conscience" of managers is anathema to our business ethic; if government is not prepared to influence the wealth and distribution mix by way of tax incentives; and if expenditure side programmes amount to paternalistic "fish feeding", it would seem that the only real option is to apply the money which the government and others are now making available in a catalytic way to mobilise the very considerable wealth-generating potential which does exist.

Opportunity

A recent visit to a squatter camp, for example, revealed the ability of 5 000 families to establish that many homes in a matter of weeks. What would happen if that resource could be matched with the capacity of their employers, pension funds, the building material suppliers, small contractors and the financial institution, all of whom are looking for an opportunity to do good business?

And what catalytic action is necessary to bring about the effective interaction of those resources?

The first task would be to identify the most urgent needs of the affected communities.

Community

Historically, we have tended to sit in our ivory towers and have determined those needs for the people concerned. If, however, that identification is undertaken with them, the potential for integrated and synergistic co-operation is significantly enhanced.

Having identified the needs, all the resources, ranging from the finances, skill and human energy of the community itself to the capacity for all other sectors of the economy which could be directed towards the satisfaction of those needs, would have to be evaluated.

Obviously if those resources were interacting effectively in generating the optimum range of wealth outputs, the community need would have been satisfied in the first place — but there must be some inhibiting factors.

Time for a change

SOUTH AFRICA'S status as the world's "Pariah" State is ending and businessmen should begin preparing for the changes, says DERYCK SPENCE, the head of Castrol SA.

Mr Spence said: "We have long said that reform in South Africa was way overdue until President De Klerk's address to Parliament in February, it had been a case of too little, too late.

"But events have moved quickly since then and his current visit to Europe has been a tour de force. It appears we are on the brink of a major international breakthrough which could result in South Africa regaining its place in the community of nations. This must bring about a boom.

He said that British-owned companies in South Africa welcomed the meeting between President De Klerk and Premier Margaret Thatcher because it allowed them to "get on with the job".

"The change places a major responsibility on business. We are the standard bearers of reform. We have to get our houses in order.

"We have to persuade our fellow South Africans that free enterprise is better than nationalisation, that we are serious about generating and sharing wealth.

"We have to run our businesses efficiently and responsibly, treating our employees with dignity and striving to train and educate our workers — allowing them to transcend years of discrimination and, bluntly, an inferior quality of life."

'Reparations' appropriate – economist

20/5/90 By Janet Heard

The debate about what type of economy was appropriate to post-apartheid South Africa was through reparation, "the action of mending", according to Professor Merton Dagut, the head of the Economics Department at the University of the Witwatersrand.

Reparation, or compensation, was not a policy or a political "ism", Professor Dagut said at a graduation ceremony at the university this week.

"It is a moral, legal and political principle. It is an entitlement which can be exercised effectively only if the party making reparation both wishes to do so, and is able to do so.

"This involves the leaders of the 'left' to 're-perceive'. Both sides — the free marketeers and the redistributive interventionists — have to be made to see that 'yesterday's logic' is no longer appropriate."

In order for business people to get involved in the process of national reconciliation, they had to acknowledge the injustice of the past and present, and then, by consistent action, demonstrate that that injustice will not be allowed to continue.

'Disgraceful conduct'

He said "shameful" acts by business included the price extracted for the stability of the economy in the '50s, the growth and industrialisation of the '60s, the sophistication of the '70s, the non-adjustment of the '80s, "and all the while for the privilege enjoyed by those on the top side of the apartheid economy".

"Justice demands that reparation be made for dozens if not hundreds of years of disgraceful conduct ... and that the economy be reshaped and put in healthy, good order by that reparation.

"It must be understood by all to be an entitlement, not a handout; a compensation for past wrongdoing and so a continuing acknowledgement that all is not yet right. It must continue until all is right."

Professor Dagut said through reparation the economic strategies of "inward industrialisation" (the Pretoria policy supported by top public sector economists) and of "growth through redistribution" (the policy of the Left) could blend into a single approach.

The State would have the duty to deploy a large but predefined proportion of South Africa's gross income as a reparation transfer with which to command resources to provide social services and physical infrastructure to the deprived of the apartheid years.

Privatisation protests a damp squib

Labour Reporter

Nationwide anti-privatisation protests threatened by Cosatu's public sector unions appear to have been a damp squib. Star 30/5/90

The protests were to coincide with yesterday's meeting between the general secretaries of Cosatu's rail, health, postal and municipal affiliates and the Minister responsible for privatisation, Dr Dawie de Villiers.

The Post Office said small demonstrations had taken place at depots in Milner Park, Bryanston and Randburg. There had been no action in other centres. Transnet said no protests were reported.

Star 31/5/90

Defiant Ministers anger Cosatu

The Congress of SA Trade Unions (Cosatu) is to step up its anti-privatisation campaign after a "completely unsatisfactory" meeting with two Ministers this week on the privatisation issue.

A heavyweight Cosatu delegation held two-hour talks with Dawie de Villiers and Wim de Villiers, respectively responsible for privatisation and the public service, in Cape Town.

The unions' aim, said a Cosatu statement, was to state members' "total opposition" to the Government's privatisation programme and to secure a commitment that it would be halted.

Describing the Ministers' response as "a recipe for confrontation", Cosatu said they had shown little interest in hearing the union view.

Cosatu said the Ministers had denied that privatisation was taking place. — Labour Reporter.

Cape Times 31/5/90 49

Spending patterns improving — P 'n P

Financial Editor

PICK 'N PAY has detected an improvement in spending patterns, with turnover growing much more quickly than at this time last year, MD Hugh Herman said at the general meeting yesterday. He was confident that the group would have another successful year.

Chairman Raymond Ackerman said: "I believe we are on line to achieve real growth — above the inflation rate — again this year although it will not be easy."

Ackerman said the directors had been "delighted" to achieve growth of 22,4% in earnings in the year to February 28. He had not been certain this would be possible, from the high base of the 21st birthday year in 1988-89 and with interest rates rising.

It was not easy for a company with a turnover of R4,5bn, which was a huge figure even by world standards, to achieve further growth above 15%.

Pointing out that Pick 'n Pay invested between R68m and R70m a year in giving shares to staff and in bursaries and housing schemes, Ackerman said that if it were not for this earnings would be higher. But the board considered it right to make this investment in SA's future.

In answer to questions from the chairman of the Shareholders Association of SA, Issy Goldberg, Ackerman confirmed that Pick 'n Pay stores sold between R11m and R12m worth of goods a day. But of every R1 passing through the tills, the group retained only three-quarters of 1c.

Financial director Chris Hurst said the stock turnover of 12% a year was one of the best in the country and above average for the industry.

In answer to a shareholder who asked if market share was growing, Ackerman replied: "I am not a great believer in market share and I have never gone out deliberately to increase it. You could open 10 new stores and increase market share but lose money."

However, he said, the group's market share was in fact growing.

Herman said it had grown against that of major competitors. But it was impossible to measure market share against that of the informal sector.

ECONOMY — 1990

JUNE — ~~July~~ Aug.

Tight monetary policy 'will cost production and jobs'

S Times 5/6/90

49

ANDREW GILL

THE Reserve Bank's tight monetary policy was more likely to bring about lower production and higher unemployment than reduce the inflation rate appreciably, Senbank chief economist Johann du Pisanie said in a Senbank economic review.

High interest rates would put suppliers in a squeeze, forcing them to reduce prices because of lower consumer demand, and to meet high interest payments.

Thus a situation would develop where total revenue would not match total costs at any level of output and no profit would be attained.

Suppliers could not survive under these conditions and, he said, "they would eventually have to close their doors", resulting in severe cutbacks in production and employment.

Du Pisanie said the obvious counter-argument to this was that input costs would be reduced (thus reducing overall cost), but in SA terms input costs had very little to do with demand.

Labour costs, the major input cost, he said, rose in SA regardless of economic conditions with wage demands and strikes increasing labour costs per unit of output.

Du Pisanie hoped the monetary authorities would rethink the policy because its negative effects would be seen as a result of the market system rather than a consequence of policy intervention, "which may strengthen the hand of socialist negotiators".

Boost in savings vital to SA growth — UBS expert

B Day 11/6/90 (49)

NEIL YORKE SMITH

LOW rates of saving and investment over the past decade crippled SA's economic growth potential, says UBS economist Hans Falkena.

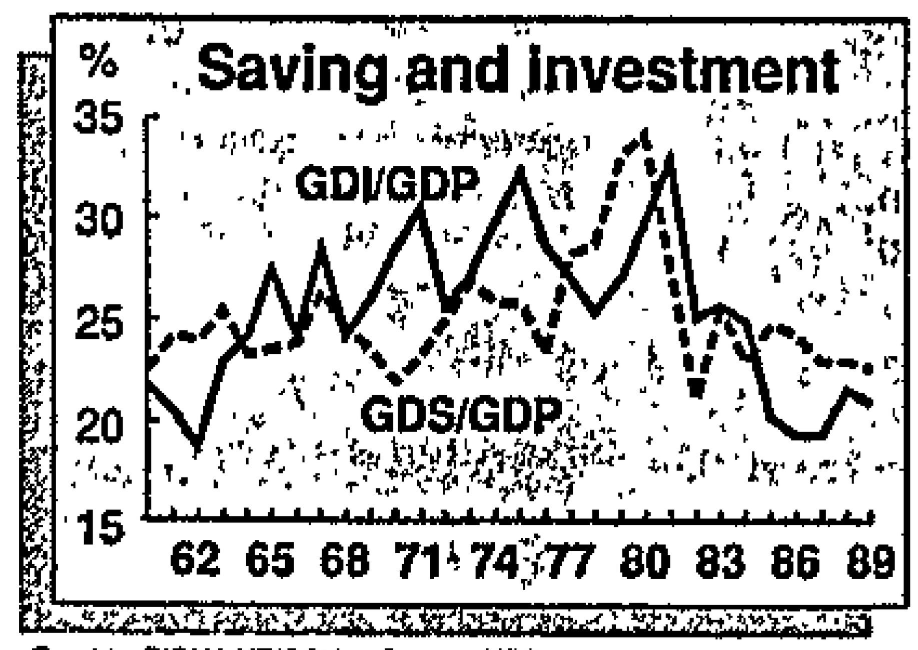
"Unless this country can boost gross domestic saving (GDS) — and related gross domestic investment (GDI) — we will not exceed the low growth levels which have plagued us in recent years," Falkena said in an interview this week.

"Between 1980 and 1989 SA's net savings as a proportion of gross domestic product (GDP) averaged 8,2% compared with 17,5% for Japan.

"Declining investment lowered SA's potential growth rate to about 2% a year during the late 1980's," he said.

"We need to save about 19% of GDP to enable this economy to grow at 4% a year," Falkena added.

"The problem is that too much South African saving is on a contractual basis



Graphic: FIONA KRISCH Source: UBS

with organisations which manage funds and do not take them onto their balance sheets," he said.

There was a significant difference between savings which were kept in a bank and those "managed" by an organisation like an insurance company or pension fund, Falkena added.

"Fund managers generally invest in low risk areas which may provide good returns to investors but do not generate substantial economic activity."

"Discretionary savings, on the other hand, may be used to finance more risky projects including manufacturing and industry, which if successful generate economic activity and spur growth," he added.

To encourage discretionary saving investors needed inflation beating rates of return, said Falkena.

"This implies positive real interest rates and a realistic tax structure which does not over tax income from discretionary saving," he added.

Some countries which had boosted saving and investment had generated real economic growth of more than 8% a year, said Falkena.

However, he confirmed the process was lengthy and that economic policies would necessarily be stringent while the foundations for growth were set in place.

"The economy, including government, would have to bite the bullet in the short term," he said.

FIM 1/6/90 (49)

MONEY SUPPLY FIM 1/6/90

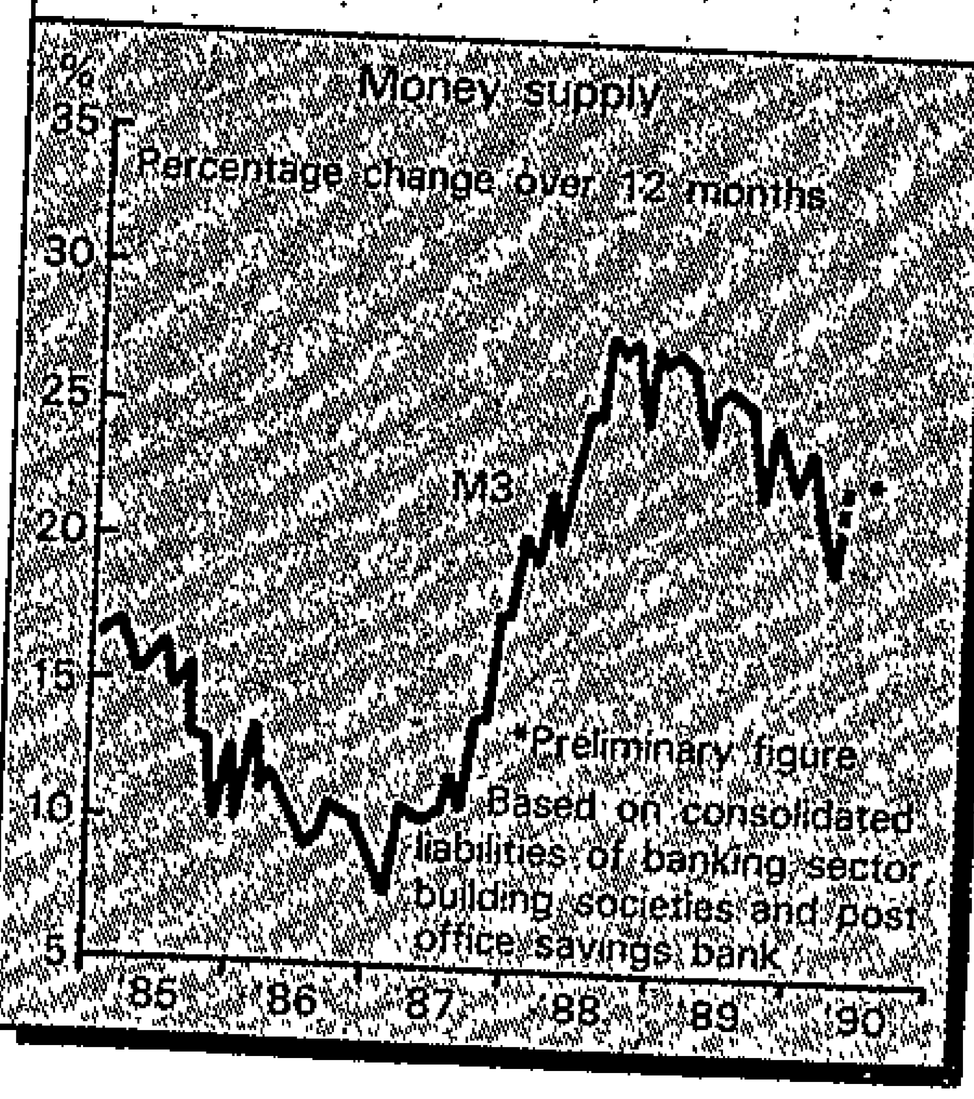
On the one hand (49)

It is difficult to distinguish the real message of the latest money supply figures. According to provisional estimates by the Reserve Bank, growth in the broadest aggregate M3 in the 12 months to April was 22,71% (19,96% to March). However, the year-on-year figure is distorted by a technical factor — particularly low growth in April 1989.

Annualised seasonally adjusted growth since November, the base of this target year, eliminates this. On that basis M3 grew 17,67% to April: up on the 15,95% growth in the 12 months to March and well outside the guideline range of 11%-15% — but also well down on the annual growth rate.

Also interesting is the discrepancy between growth in M3 and the narrowest measure, M1A (money held for transactions purposes — coins, notes and cheque and transmission deposits). It grew much less than inflation — 6,73% in the year to March.

Rebound



Another figure which helps identify the exact point of the economic cycle is growth in credit extension.

The monthly increase in credit granted by all monetary institutions to the private sector rose 0,5% in March, 0,1% in February and 1,9% in January. Seasonally adjusted annualised growth between end-December and end-March is 12,9% — almost within the 1% average monthly limit requested by the Bank.

So there is much confirmation in these figures that the economy is now in recession. ■

Financial Mail

THE ANC INDABA

What business needs to do

(49)

The role that businessmen ought to be playing in the transition to a post-apartheid society became very clear at the meeting between the consultative business group and the ANC in Johannesburg last week. It is one of patiently and systematically educating blacks into the economic realities of the modern world.

Both the trend of questions and the statements made by ANC leaders indicate that while the ANC may have more than the words "nationalisation" and "redistribution" in its economic vocabulary, it hasn't much more. But the fact that it is prepared to discuss these matters with a large number of businessmen suggests that the minds of its leaders are not entirely closed.

Whether this is because the ANC has had its liberation so thrust upon it by President F W de Klerk that it hasn't yet had time to consider the implications of turning slogans into policy, or because it is tactically masking a more radical agenda, is hard to say. We are, for the time being, prepared to give it the benefit of the doubt and assume it falls short of the bigotry of rightwing whites.

Having achieved political equality, the ANC has made it clear that it will seek also the democratisation of business so that economic power is not concentrated in white hands. By economic power it appears to mean wealth. So, in the circumstances of this country, it will take from the whites and give to the blacks.

To the extent that this means a re-allocation of government spending so that the minority whites cannot command the lion's share being spent in their interest, we cannot quarrel with the proposition. What every citizen of this country has a right to expect in a democratic society is opportunity and the freedom to grasp it.

But it is a very dubious proposition to suggest that wealth which has been legally accumulated should be turned over to others simply because, in the view of some, it has grown too much. That should not be a criterion at all. In any successful and prosperous society, there are large differences in the amounts of wealth owned by individuals. The important thing in a free enterprise society is that competition, enterprise and technological advance ensures that the ranks of the rich are not static: all the time new people become rich while the rich, if they do not look sharp, easily become less so.

What is also a dubious proposition is whether the rich in a sovereign democratic state have more power than the poor. It appears to be an obsession with the ANC. Hence it talks about the unhealthy concentration of economic power and cites the American anti-trust laws in support. The object of these laws was to stimulate competition to broaden the opportunity to create wealth, not to place a ceiling on the individual accumulation of wealth.

Another proposition is that government appoint commissars to the boards of business enterprises — Nelson's fifth column. Precisely what good this will do, or what powers they will have, is still within the realms of conjecture. According to Nelson Mandela, they will balance the pursuit of private gain against the promotion of the common good. That sounds beguiling, but does not bear serious economic analysis. For the enlightened pursuit of private gain provides the common good.

The ANC is against privatisation until government is more representative. The consequence of this is that some large economic units will remain poorly run and economic growth will remain stunted until a more representative government can rectify matters. But what about those who are meanwhile suffering from poverty?

The ANC is against the exporting of capital from this country. In other words, it wants the continuation of exchange controls. Or to be more blunt, it will give citizens the freedom to vote but not the freedom to seek the best and safest returns on their savings.

The ANC is muddled and confused. It needs to be guided and educated — taught to face harsh economic reality and the need to modify the expectations of its cadres. That can't be avoided simply by offering ransom money.

What gives us reason for hope is that we have over the past 30 years heard all this sort of confused economic reasoning so often before — from National Party ministers and their grasping public servants. The belief that every businessman is sitting on a private hoard of doubloons which, once distributed evenly, will eradicate poverty, is as prevalent around the Voortrekker Monument as it is in the townships.

So if, as Mandela says, the economy is in "crisis" as a result of the policies of the past 40 years, the last thing we assume he would want to do is perpetuate the sort of economic reasoning that supported the apartheid regime.

President De Klerk has seen the errors of his own party's policies — both social and economic — and it is largely his declared willingness to reject them that has turned his journey to Europe into a triumph.

As Lord Keynes said, it is only a fool who, when confronted with new evidence, will not change his mind.

If Mandela is going to aspire to the leadership of this country, he is going to have to be as intellectually resilient as De Klerk, who is in danger of eclipsing him — certainly in the eyes of the West — diplomatically, pragmatically, and in the realm of constitutional initiative.

Academic throws some light on ANC anti-trust proposals

49

WMail 1/6-7/6/90

By REG RUMNEY

AN anti-trust policy that effectively restructures the economy has been suggested by an academic economist.

Stephen Gelb, of the Economic Trends Research Group at Durban-Westville, suggests a policy that may throw some light on the African National Congress' recent adoption of anti-trust measures as policy.

In a speech at the Institute of Race Relations he advocated "redistribution of investment". This, he said, would need the state to be a dominant actor, and the conglomerates could not be left in their present form.

Experience in both the advanced capitalist economies and the East Asian NICs (Newly Industrialised Countries) suggested, he said, that the capacity of the state to direct private sector investment depended on the nature of the financial system transforming savings into investment.

The state, he argued, could shape industrial development through central bank regulation of bank lending policies. But in South Africa the concentrated corporate structure dominated the provision of external finance to industrial firms, because of financial linkages within the various conglomerates.

Business and black leaders opt for dialogue

Star 1/6/90 (49)

By Michael Chester

Gradual shifts away from confrontation and towards deeper dialogue between business leaders and black political leaders have started to stir a new mood of mutual confidence about the chances of accord in shaping the economic future of South Africa.

The new mood was generated by the success of the landmark talks held between the Consultative Business Movement and the African National Congress and its allies at the Carlton Hotel in Johannesburg on May 23.

More encouragement has been added by disclosures of agreement to keep the dialogue alive in a series of behind-the-scenes meetings where experts from all sides will set out to seek solutions to the formidable list of priorities that need to be tackled.

Since both sides have agreed to draw a curtain across details about when and where the workshops are being held, it means that there is now more going on than meets the eye.

Slipping away from fanfare and the rhetoric of playing to the gallery, the discussions are now delving into the real nitty-gritty — a more equitable school system, better job opportunities, racial equality at both work and play, ways to ensure a fairer sharing of wealth without the risks of merely sharing the poverty.

The agenda stands wide open. Confidence about the ultimate outcome has had a significant boost by signals from both sides that they are willing to drop the rigidness of earlier stances on such issues as nationalisation versus privatisation.

"Fortunately," says Gavin Relly, former chairman of the Anglo American Corporation, "we have progressed away from the crudities of a capitalism versus socialism dog-fight to a recognition that we have today and will have in the future a mixed economy. Our interest now is in the details of the mix."

The deepest sigh of relief among most businessmen is that the ANC now shows willing to be flexible in its stance on nationalisation, first mention of which by Nelson Mandela made the business world freeze in terror — as displayed by the jolt it gave to share prices on the Johannesburg Stock Exchange and in the way the financial rand exchange rate plunged as a result of international reaction.

Observers believe the ANC had cause to pause when they took deeper note of the possible consequences. Economist Mike Brown, of the Frankel Kruger Vinderine stockbroker firm, fired off one of the first cautions when he trotted out a few facts setting out to show the errors of nationalisation of the mines.

More snags were listed by Leon Louw, executive director of the Free Market Foundation, who advised the ANC to reconsider the virtues of private enterprise as a better avenue towards properity for all.

Mr Mandela, though now stressing a loosening in hard-and-fast stances on the formula for the new South Africa, stays firm about a determination to hammer out a dramatic new deal on both the political and economic fronts.

Nationalisation is still a card held in reserve.

"We still believe that there must be further discussion of the issue of nationalisation of assets that might at the moment be privately owned," he says.

The message from Mr Mandela coming out loud and clear to business leaders is that the ANC alliance is in no mood for more shilly-shallying about a new deal for black society — and in a hurry to see results rather than promises.

SA starved of capital

S/Times 3/6/90 49

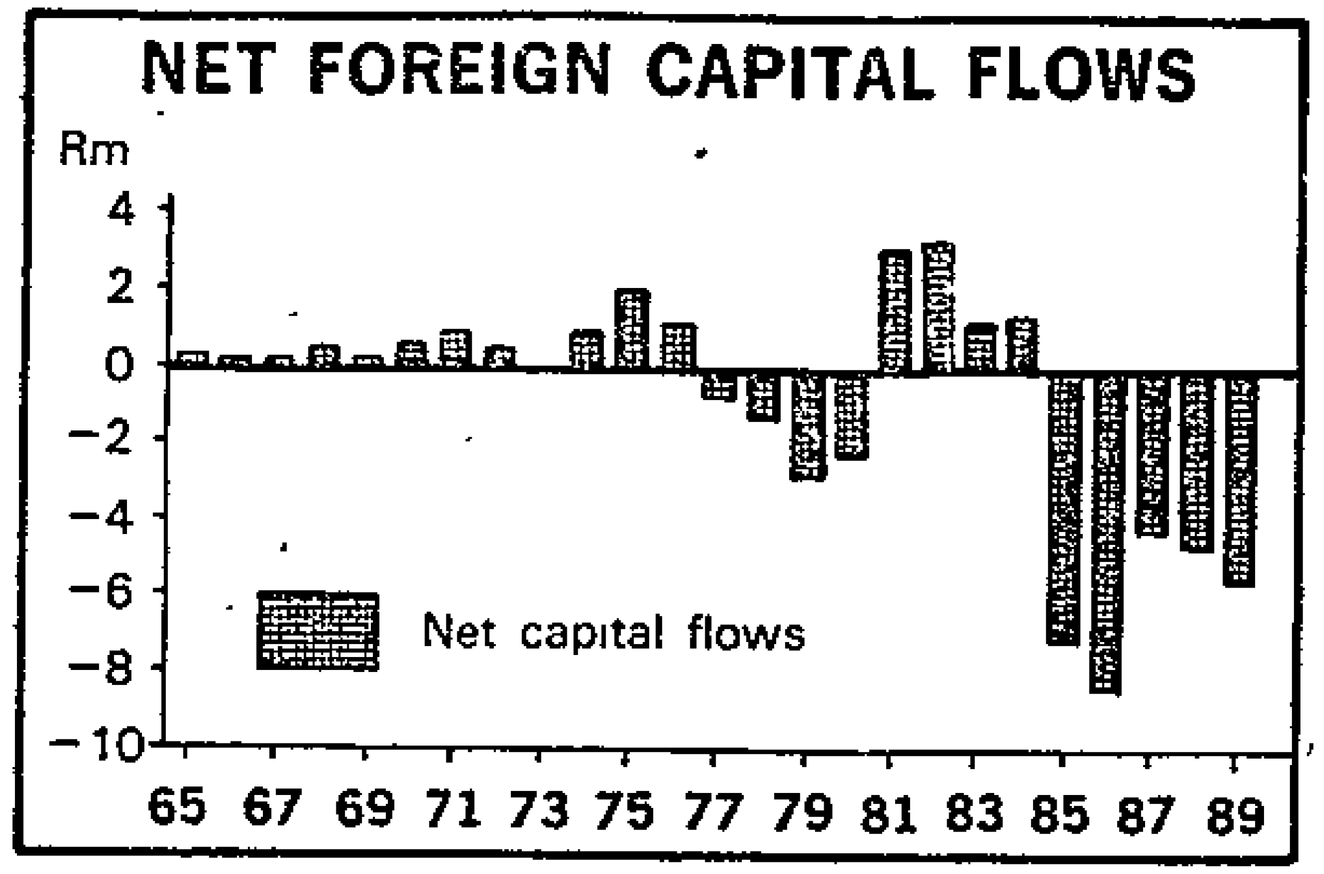
THE South African economy's anaemic performance in the past decade has left a legacy of structural economic deficiencies. One of the most serious is the slowdown in the rate of capital formation.

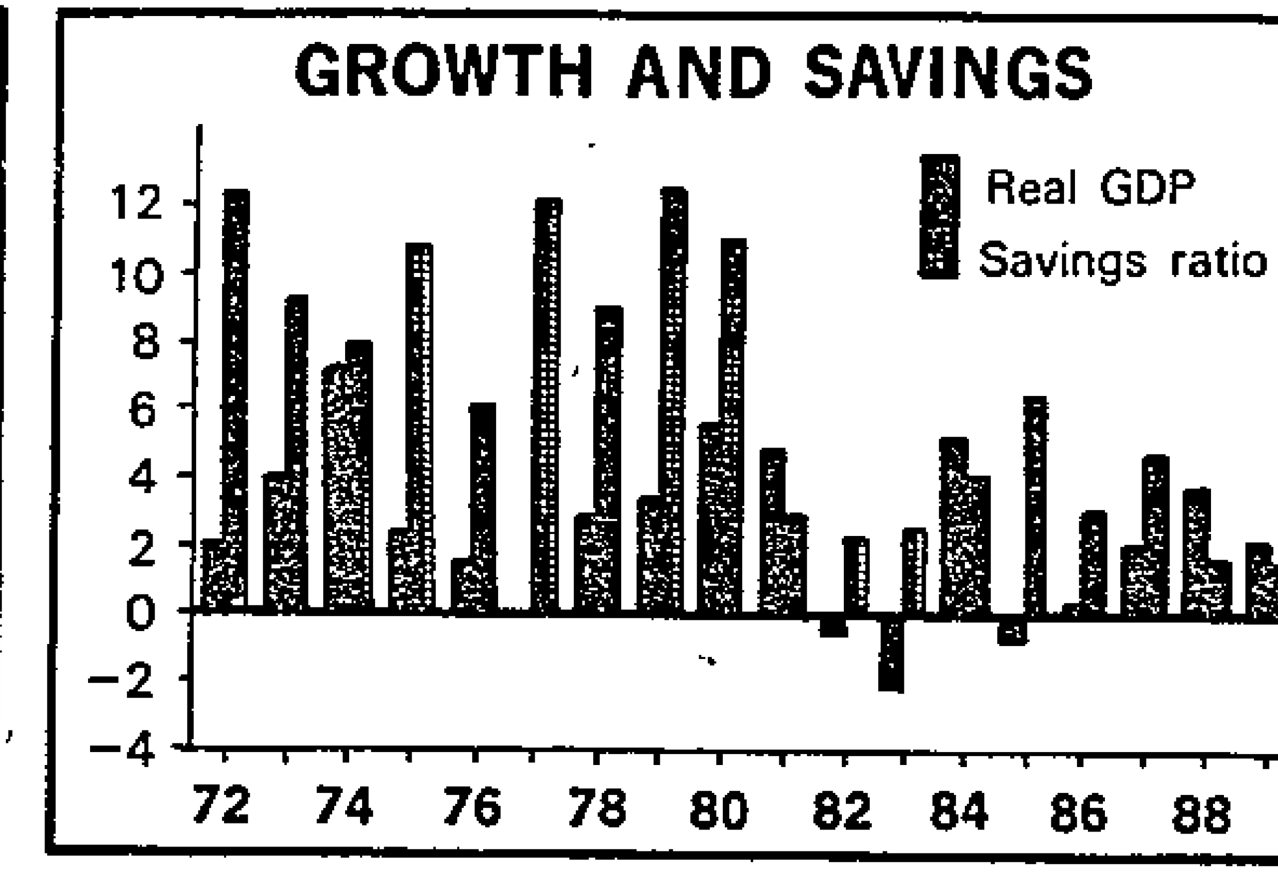
Annual growth in fixed capital stock in real terms, after allowing for inflation, over the past 15 years has been dismal.

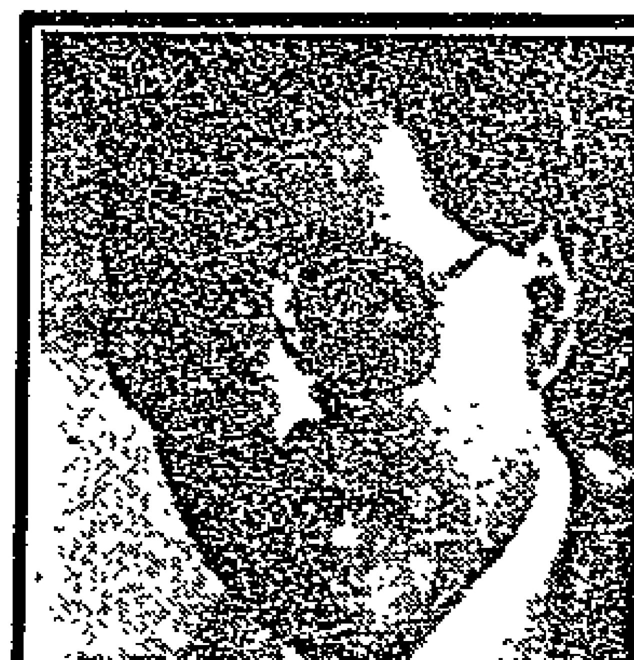
Fixed capital stock is the value of such assets as buildings, plant and equipment and machinery in the entire economy.

In essence, the rate of growth in fixed capital stock reflects the level of new investment in the economy.

Accordingly, the gradual slowdown in fixed capital stock formation in the 1980s, most notably since 1985, shows the severe slackening in the rate of fixed investment growth.







MIKE BROWN, economic consultant to stockbroker Frankel, Kruger Vinderine Inc, believes South Africa's slow rate of new capital formation curtails the economy's ability to create jobs and meet the aspirations of a growing and rapidly urbanising population

Spade

Virtually all growth models and development strategies take the rate at which capital stock can be created as the starting point for expansion of economic activity and job creation.

The failure of the post-Rubicon economy to maintain a realistic rate of capital formation has severely circumscribed its growth potential.

Even relatively labour-intensive jobs require capital investment. A labourer, for instance, needs the investment of a spade and a wheelbarrow.

There appear to be two main causes for the rundown in capital formation — sanctions and record low savings.

The effect of sanctions has been contrary to its objectives, and exports have hardly been affected — their rand earnings have trebled since 1984. Even allowing for exchange-rate movements, real exports rose by 135% between 1984 and 1989.

The chief sanctions weapon has been a net outflow of foreign capital since 1985 of R30-million. The first graph shows that only once before in recent history — 1977-80 — was there a period of sustained capital outflow.

Rising gold prices and generally good growth performance offset the impact of disinvestment in the late 1970s without affecting total capital formation.

The flight of capital has unfortunately damaged the economy's capital stock growth and job creation potential.

The capital boycott has been the main sanctions factor causing economic pain. The resumption of foreign capital investment would be an important turning point for the economy's growth.

Too long and too harsh a capital sanctions campaign could cause irreparable structural damage to the economy and make speedy recovery in a new SA difficult.

● See net foreign capital flow graph.

The acute capital shortage is shown in the personal savings ratio which stands at a record low of 1,5%.

The second graph shows the fall from double-digit savings ratios in the 1970s.

Inflation and the battle to maintain living standards severely eroded the private savings propensity in the 1980s. Unfortunately, the relatively high corporate and personal savings rates of the 1970s fell by the wayside in the disinvestment of the 1980s.

Accordingly, the quest to revive savings — and in the macro-economic sense savings equal investment — will be a long, hard slog.

● See growth and savings graph.

Present official economic strategy appears to be tilting towards encouraging savings and investment in the economy, as indicated by:

☐ The supply-side emphasis of the latest Budget seeks to improve the formation and allocation of capital;

☐ The State is trying to reduce its claim on capital resources by limiting the Budget deficit. Unfortunately, the 1990-91 Budget still contains an element of "dis-saving" — using loan capital to finance current expenditure;

☐ SA remains committed to repayment of foreign debt to preserve access to international capital markets;

☐ The Government's strategy of progressive tax reduction is intended to boost savings, enterprise and investment;

☐ The new focus of State spending appears to be on raising the quality and total of socio-economic infrastructure, thereby expanding the stock of capital and human resources;

☐ Monetary policy seeks to encourage savings and productive investment through real interest rates and better

the non-productive impact of the growing public service is a sharp lesson for the architects of future strategy.

Perhaps the shock treatment to get the economy out of its inertia needs a phase of higher State capital spending on direct job-creation projects and upliftment of human capital, a strategy which had some success in the 1960s and 1970s.

The socio-economic fund set up in the recent Budget, its administration taking place largely outside government, could be a pointer to State capital spending strategy.

The size and scope of such social infrastructure spending would need to increase, as would efforts to ensure its trickle-down effects to all corners of the economy.

A more interventionist economic nature of greater direct State spending in capital projects would probably need guidelines to:

☐ Limit overall spending growth. If State capital spending rises, current expenditure on the bloated public service must shrink;

☐ Higher State borrowing

capital. Talk by ANC and other black leaders about nationalisation rests on the premise that large capital exists for redistribution and reallocation to the "people".

Unfortunately, this is not strictly true. The economic vicissitudes of the past decade have heavily eroded capital formation, accentuated by foreign disinvestment.

Far from a fat cow waiting to be carved up, the economy is a poor animal indeed.

The cow needs to be fattened to make redistribution worthwhile. The adverse effects of overt nationalisation strategies on foreign capital inflows and domestic capital formation must also be kept in mind.

Mire

The economy's capital leanness and the relative old age of much of its capital stock, given the current new growth in real stock replenishment, means that an adverse climate for new investment could rapidly push it further into the mire.

The slow pace of capital formation provides few hopes for the economy in view of the significant future needs and wants it has to fulfil.

Current government policy seems to be tilting towards supply-side economic strategies which could in time alleviate the capital starvation problem.

The need for quicker solutions will focus on the ability to attract foreign capital and on switching emphasis from consumption spending to greater concentration on capital expenditure.

This more direct supply-side focus on State spendin to finance current expenditure;

□ SA remains committed to repayment of foreign debt to preserve access to international capital markets;

□ The Government's strategy of progressive tax reduction is intended to boost savings, enterprise and investment;

□ The new focus of State spending appears to be on raising the quality and total of socio-economic infrastructure, thereby expanding the stock of capital and human resources;

□ Monetary policy seeks to encourage savings and productive investment through real interest rates and better discipline.

Logjam

Finally, the Government appears to have identified capital scarcity and its non-optimal allocation as the chief restraint on the economy's growth potential.

The reform programme and the political negotiation process seem to have as an economic objective the loosening of the capital shortage logjam.

In meeting the challenge of accelerating capital formation and investment in job-creating activities, three broad avenues appear to be open:

□ Creating a political dispensation that will attract foreign capital;

□ Speeding the pace of State capital spending;

□ Nationalisation.

First, foreign investment, which requires a negotiated political settlement providing a comfortable business environment, could quickly supplement the rate of capital formation.

Unfortunately, the sanctions-damaged economy might look less attractive to potential foreign investors (even with a large discount on the financial rand) and there may be a wait-and-see attitude.

Lesson

In a changed political environment, SA might try to negotiate sanctions compensation from governments and international agencies.

Second, there is public-sector investment. The "consumption biased" strategies of the 1980s appear to have been a relative failure and are likely to be replaced by supply-side policies aimed at boosting the productive element in the economy.

A particular policy failure has been the Government's switch from capital to current spending in the past decade.

In 1979-80, current expenditure (wages, purchase of goods and services, etc) accounted for less than 80% of total spending. But by 1989-90 it had risen to 91,6%. This meant a significant fall in State spending on capital assets in favour of consumption.

The strategy switch has largely failed to provide the expected through-flow effects on the economy, and its administration taking place largely outside government, could be a pointer to State capital spending strategy.

The size and scope of such social infrastructure spending would need to increase, as would efforts to ensure its trickle-down effects to all corners of the economy.

A more interventionist economic nature of greater direct State spending in capital projects would probably need guidelines to:

□ Limit overall spending growth. If State capital spending rises, current expenditure on the bloated public service must shrink;

□ Higher State borrowing might be needed, in which case public debt should not be allowed to rise much faster than GDP growth;

□ Privatisation might still prove the best way of raising

...

The slow pace of capital formation provides few hopes for the economy in view of the significant future needs and wants it has to fulfil.

Current government policy seems to be tilting towards supply-side economic strategies which could in time alleviate the capital starvation problem.

The need for quicker solutions will focus on the ability to attract foreign capital and on switching emphasis from consumption spending to greater concentration on capital expenditure.

This more direct supply-side focus on State spending might strike a receptive chord with ANC and other black leaders who share a similar wish to speed the rate of job creation and income redistribution.

Peter Foaden, of Stocks & Stocks, says market research established the demand for a hotel in the Verwoerdburg area.

The rapid development of Verwoerdburg and Midrand in the past five years means there is a need for a hotel. Custom will also come from Sandton and Pretoria and possibly Jan Smuts Airport.

The developers and architect J D Maresch have worked closely with the council to ensure the hotel fits in with the area.

Natural materials and landscaped terraces will enhance the lakeside setting. A waterfall will cascade into the lake from the hotel's pool and the entertainment area. Paths will link the hotel and offices.

Growth is the key to investment

(49)

ONLY a country having superior economic growth and thereby uplifting its citizens would be able to attract foreign investment, says Clem Sunter of the Anglo American Corporation. Sowetan 4/6/90

He was debating the future of South Africa's economy in the *Innes Labour Brief* and argued that the determining factor should be based on the practical assessment of the needs of all citizens rather than ideologies.

Sunter said the key aspect of the long-term fortunes of a nation was the standard of its education system.

Regarding the environment, Sunter said a practical balance should be established between the claims imposed by the need to improve the quality of life of this generation of people and by the need to sustain that improvement into the next century.

Future SA needs a sound economic basis

EDWARD WEST

49

FOR the future SA economy to be productive, sound financial and accounting practices needed to be maintained, irrespective of the political and economic system, the latest Standard Bank Review said.

SA would be best served by effective resource allocation through a market based financial system and not by the introduction of new distortions to the financial sector.

A problem financial institutions encountered was that ordinary commercial practice rated potential lending to disadvantaged communities as risky and unjustifiable except at very high interest rates.

A solution to this problem was applying a principle of "equivalence". This could involve finding ways of making loans available where ordinary criteria relating to security could not be met in the normal way.

This could mean making a mortgage loan to several mortgagees rather than to one person or a married couple, or extending a number of small loans, such as for the purchase of a taxi, against security by a group of owners.

Another dimension to establishing "equivalence" would be to provide assistance to disadvantaged borrowers directly in specific subsidy form, ouside interest rate mechanisms.

This could necesitate the creation of new institutions. Areas which were then deemed necessary to subsidise, should be subsidised directly and overtly.

In addition to promoting the principle of equivalence, three specialist banks could be created. A rural bank could be established, using the existing Land Bank and catering for the needs of small- to medium-scale agriculture and other rural enterprises.

Similarly a specialist bank to cater for small-scale lending to the informal sector in urban areas ought to be established using the Small Business Develoment Corporation structure as a nucleus for the bank.

The National Housing Trust could be used as a basis in partnership with private financial services sector, corporations and state to create another specialist bank to provide funds for informal and subeconomic housing.

If a future government wished to foster specific areas of the economy, it should use open subsidisation via a fiscal mechanism, or partnerships with the private banking system for special purpose lending.

Nationalisation still cornerstone

ANC's plan for economy 'SA's ruin'

Cape Times 5/6/90 49

Dr De Beer

By ANTHONY JOHNSON
Political Correspondent

THE ANC's economic policies would lead to ruin for South Africa and its people, the parliamentary leader of the Democratic Party, Dr Zach de Beer, said last night.

Speaking at a DP fund-raising dinner for the Claremont constituency, Dr De Beer said the ANC still retained "widespread nationalisation" as its official policy.

"Whether they mean nationalisation or confiscation is not, in truth, clear.

"What is clear is that either would be ruinous to South Africa and all who live here."

Dr De Beer said it was a fortunate co-incidence that the collapse of socialist governments in Eastern Europe and the crisis in the Soviet Union should have become obvious in recent months.

"It is absolutely vital to the future of our country that the ANC should accept an economy based on free enterprise — as the Democrats have always done."

Dr De Beer said that to get a legitimate, stable and successful government in the new South Africa there had to be "unadulterated democracy" and free enterprise.

"Now the ANC seems to have fully accepted democracy, but not yet free enterprise.

"And the Nats seem to have accepted free enterprise, but they still have to prove that they have established a democracy."

Democrats had accepted both these conditions for years.

Dr De Beer said Democrats were faced with "three great tasks" in the new South Africa.

Firstly, Democrats had to oversee, supervise and monitor the final dismantling of apartheid. "There is just too much of it still about."

Not only was ongoing apartheid "thoroughly offensive" in itself but it also seriously impaired the climate for negotiations.

Secondly, Democrats had to "influence the negotiations decisively" so that the new constitution and the new agreed policy reflected both "unadulterated democracy" and a free enterprise society.

Thirdly, once the new South Africa had been achieved, the role of Democrats would be to maintain democratic government.

ANC economic ideas revealed

ALAN FINE

(49)

A FUTURE democratic state should — in the context of a mixed economy — assume a leading role in the reconstruction of the economy, a draft ANC economic policy document recommends.

The draft arose from the ANC/Cosatu workshop on a post-apartheid economic policy held in Harare a month ago and has been handed to the two organisations' policy-making structures for their consideration.

B/Day 5/6/90

While seeing a key role for the state in building infrastructure, industrial restructuring and regulation of the capital market, the recommendations also propose conservative fiscal policies.

The document proposes a shifting of the tax burden from individuals to corporations to make the system "more equitable and effective."

It recommends the state retain ownership of existing nationalised industries, the possible renationalisation of privatised industries and, "where necessary", the setting up of new state corporations.

Nationalisation "would be effected through due legal and constitutional processes", and state-owned industries would operate within strict budgetary controls.

But the draft steers clear of recommending the nationalisation of parts of the economy until now in the private sector.

The furthest it goes is to recommend "the possiblity of the state making strategic investments in mines" be considered, while consideration should also "be given

□ To Page 2

State role

B/Day 5/6/90

(49)

□ From Page 1

to the extent of state ownership within the financial sector."

The basic goal of economic policy should be "to achieve economic growth through a process of increasing equality in the distribution of incomes, wealth and economic power."

It argues for reconstruction to be financed by domestic, including personal, savings with foreign capital seen as supplementary rather than as a substitute.

The document stresses a future government "would not replicate the recent practice of using borrowings to finance current state expenditure."

It recommends the present system of exchange controls be retained, although in a modified form, to retain domestic savings in the country and prevent "destabilising speculative capital flows".

The document proposes a future government seriously consider countering the volatile nature of mineral prices by the formation of cartels, give high priority to the creation of industries to add value to mineral products, and improve miners' wages and working conditions "without weakening or making less efficient the mining industry."

Redistribution, black upliftment part of PAC economic blueprint

BDay 5/6/90

(49)

PETER DELMAR

THE PAC, in its most explicit statement of economic policy yet, has detailed a sweeping programme of redistribution, coupled with the "massive" upliftment of black entrepreneurs and consumers.

PAC general secretary Benny Alexander revealed the organisation's first detailed policy document in a speech delivered to an Achib dinner at the weekend on behalf of PAC president Zeph Mothopeng.

Elements of the "exploratory" PAC document — which was drafted by its external economists and is currently being circulated for comment — include the "localisation" of the ownership of resources to minimise the role of international finance capital in the economy.

It also proposes active state intervention in the economy and control over natural and economic resources, the redistribution of wealth in favour of the indigenous African people and the redistribution of land for use by all "Azanians". Land compensation will be paid in the form of interest-bearing government bonds.

Other measures envisaged include decentralisation initiatives by the state and efforts to discourage the concentration of assets in individual firms.

Alexander said it appeared a "negotiation stage" was unavoidable. In an interview yesterday he said the PAC believed meaningful negotiations with government were not viable in the short term.

Alexander said the organisation did not wish to promote the illusion that only the state could develop the economy or start new economic organisations. Towards this end an Africanist government would promote businesses owned individually and by co-operatives of indigenous people.

Blacks would be encouraged to acquire managerial, technical and professional skills and to increase their growing ownership of the economy.

Further privatisation of state economic units would "not be encouraged" unless this enhanced the PAC's political and economic aims, he said. Despite this, the PAC preferred a "lean" civil service.

State corporations would be run autonomously by professional managers within the framework of the state's developmental and redistributive goals.

Private sector workers would have the right to participate in all investment and financing decisions, with representatives serving on companies' boards of directors. Workers would hold a "certain percentage" of the company's equity capital, initially to be financed by the state.

To overcome the "exploitative and inefficient activities" of private and state corporations, a strong consumer movement would be mobilised and supported by law.

The precise implementation of PAC economic policy, he said, would depend on conditions when the state's form changed.

PAC details economic policy

Cape Times 5/6/90 49

Own Correspondent

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Compensation for landowners will be paid in the form of interest-bearing government bonds.

Other measures envisaged include decentralisation initiatives by the state and efforts to discourage the concentration of assets in individual firms.

Mr Alexander also said it appeared that a "negotiation stage" was unavoidable.

In an interview yesterday he said the PAC had never ruled out negotiations with the government, but it believed meaningful negotiations were not viable in the short term.

The organisation did not wish to promote the illusion that only the state could develop the economy or start new economic organisations. An Africanist government would promote businesses owned individually and by African co-operatives on a "massive" scale.

Africans would be encouraged to acquire managerial, technical and professional skills and to increase their growing ownership of the economy. This would be achieved by helping Africans own and run their own businesses, by providing training services and by ensuring the promotion of Africans to managerial positions in all sectors of the economy.

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State corporations would be run autonomously by professional managers within the framework of the state's developmental and redistributive goals.

Private sector workers would have the right to participate in all investment and financing decisions, with representatives serving on companies' boards of directors.

Hansard 5/6/90

until such time that they are arrested and appear in court.

Cape Recife Nature Reserve: complaints about SADF members

*14. Mr E W TRENT asked the Minister of Defence: Hansard 5/6/90

Whether the South African Defence Force or the Eastern Province Command has received any complaints about the behaviour or actions of Defence Force members in the Cape Recife Nature Reserve; if so, (a) from whom, (b) when and (c) what was the (i) purport of and (ii) response to each such complaint?

B1171E

The MINISTER OF DEFENCE:

Yes.

(a) The Chairman of the Cape Recife Environment Project Committee and also the Eastern Province Branch of the Wildlife Society of SA.

(b) 21 May 1990.

(c) (i) and (ii) A Board of Inquiry has been convened to investigate the alleged behaviour or actions of members of the SA Defence Force in the area. The investigation has as yet not been completed.

Death sentences

*15. Mr A J LEON asked the Minister of Justice:

(a) How many persons were sentenced to death from 2 February 1990 up to the latest specified date for which information is available and (b) for what crimes in each case?

Hansard 5/6/90 B1175E

The MINISTER OF JUSTICE:

Position as at 28 May 1990:

(a) 39.

(b) Murder 35; rape 4.

TV news bulletins

*16. Mr P G SOAL asked the Minister of Home Affairs:

Whether the Government has considered any applications to broadcast news bulletins received from any television broadcasting organisations; if so, (a) from whom were such applications received and (b) what was the result of such consideration in each case?

B1176E

The MINISTER OF HOME AFFAIRS:

(a) and (b)

Should the hon member with the words "has considered" mean "finalised" the reply is no.

The hon member is however referred to my replies of 29 May 1990 to Question 13 and follow-up questions when I have indicated that details are being obtained with regard to an application received from M-Net, whereafter the matter will be considered by the full Cabinet and hopefully be finalised within the next few weeks.

Transfer duty (49)

*17. Mr A A B BRUWER asked the Minister of Finance:† Hansard 5/6/90

(1) What amount did the State collect by way of transfer duty during the 1989-90 financial year;

(2) whether the Government intends abolishing transfer duty; if not, why not; if so, what are the relevant details?

B1180E

The MINISTER OF FINANCE:

(1) R675 332 729,76

(2) No. Transfer duty remains an important source of revenue and if it was abolished it would mean that tax would have to be levied in another manner to recoup the tax sacrificed.

SADF: propagation of policy of certain political party

*18. Mr H J COETZEE asked the Minister of Defence:† Hansard 5/6/90

(1) Whether any officers of the South African Defence Force in their capacity as such officers hold information sessions for Commando and/or Citizen Force members in which they propagate the policy of a certain political party, the name of which has been furnished to the Defence Force for the purpose of the Minister's reply; if so, of which political party;

(2) whether he is taking or has taken any steps to prevent this; if not, why not; if so, (a) what steps and (b) when?

B1181E

Hansard 5/6/90

The MINISTER OF DEFENCE:

(1) No.

(2) The guidelines and instructions regarding the participation of members of the SA Defence Force in political activities, are laid down in the SA Defence Force Personnel Code, which is available at all units and is strictly adhered to.

ANC/SACP: policy

*19. Mr H J COETZEE asked the Minister of Defence:†

Whether the policy of the (a) ANC and (b) South African Communist Party is in accordance with the staff regulations of the South African Defence Force relating to employment in the Permanent Force; if not, why not, what are the points of difference?

Hansard 5/6/90 B1182E

The MINISTER OF DEFENCE:

The conditions of employment in the SA Defence Force are laid down in Chapters III and IV of the General Regulations of the SA Defence Force. All appointments/employment in the SA Defence Force in a permanent capacity is, therefore, subject to a variety of requirements.

Foskor: privatisation

*20. Mr P J PAULUS asked the Minister of Mineral and Energy Affairs and Public Enterprises:† Hansard 5/6/90

(1) (a) When will Foskor be privatised and (b) what is the present value of Foskor's assets;

(2) whether he will make a statement on the matter?

B1183E

The MINISTER OF MINERAL AND ENERGY AFFAIRS AND PUBLIC ENTERPRISES:

(1) (a) Pending the outcome of an investigation by consultants on the feasibility of the privatisation of Foskor, no indication can be given at this stage when Foskor will be privatised.

(b) R329 927 000, based on share capital and reserves as at 30 June 1989.

(2) No. Hansard 5/6/90

Employees of Department: accommodation

*21. Mr C B SCHOEMAN asked the Minister of Environment Affairs:†

Whether White and Black unmarried employees of his Department are accommodated together in the same single quarters; if so (a) why and (b) where?

B1184E

The MINISTER OF ENVIRONMENT AFFAIRS:

No.

(a) Falls away.

(b) Falls away.

INTERPELLATIONS

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, dicates the original language.

Own Affairs:

Colleges of Education: administration

Mr K M ANDREW to ask the Minister of Education and Culture:

Whether he is prepared to transfer the administration and control of colleges of education to universities of their choice; if not, why not?

Hansard 5/6/90 B1231E.INT

The MINISTER OF EDUCATION AND CULTURE: Mr Speaker, the answer is no. Fundamentally the missions of the two types of institutions are at variance. Universities are scientific institutions which focus primarily on the teaching and development of the various sciences. Colleges of education, on the other hand, are professional institutions specifically geared to the training of teachers for the primary school. In doing so, a very close relationship needs to exist between the colleges and their client schools.

In the fulfilment of their mission, colleges of education educate from a particular cultural perspective. This is required in order to maintain cultural continuity between home and school. Universities, on the other hand, are focused on a

Redistribution, black upliftment part of PAC economic blueprint

B Day 5/6/90

49

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The precise implementation of PAC economic policy, he said, would depend on conditions when the state's form changed.

BDay 5/6/90 (49)

ANC economic policy 'would lead to ruin'

Political Staff

CAPE TOWN — The ANC's economic policies would lead SA to ruin, DP parliamentary leaderZach de Beer said last night.

Speaking at a DP fund-raising dinner, De Beer said the ANC still retained widespread nationalisation as its official policy.

"Whether they mean nationalisation or confiscation is not, in truth, clear. What is clear is that either would be ruinous to SA."

De Beer said that to get a legitimate, stable and successful government in the new SA there had to be "unadulterated democracy" and free enterprise.

Suzman, the economist

BDay 5/6/90 (49)

HARRY OPPENHEIMER

WHEN Helen Suzman was first elected to Parliament in 1953, it was her grasp of economic issues and the clarity with which she expressed her views on them which first impressed.

Although she quickly became more prominently involved in the moral questions which were — and remain — the main stuff of South African politics, throughout her career she kept a sharp eye on the economic implications of government policy.

It was this component of Helen Suzman's intellectual armoury that gave such an effective tendency towards pragmatism and realism in politics. There is no better way to analyse abstract political theory than to think it through to its effect on everyday life — in jobs, standards of living, national product, distribution of wealth ... in short, economics. This understanding continued to guide and define Helen's attitude in matters of race, and in the manner in which her condemnation of apartheid was expressed.

She saw clearly that apartheid was "worse than a crime, it was a blunder". The governing party, though called the National Party, never had true national aims or policies at heart. It was, until recently anyhow, a tribal party which tried to force its tribal interests on the whole nation. It asserted, and probably believed, that anyone with different ideas was unpatriotic.

Helen Suzman is tough and unsentimental; she fought for blacks' rights not only because she detested injustice but because she saw there could be no secure future for white people in SA unless the black majority was free, prosperous and content.

She knew freedom was indivisible and could not be reserved for whites only, and as a trained economist she was always conscious that a very important element in freedom as a whole was freedom from want.

It was this clear grasp of the importance of economic realities that caused her to condemn the efforts by well-meaning people to help black South Africans through a policy of sanctions, which ignored their basic need to be preserved from the slow death of poverty and unemployment.

There was a time when migrant labourers were essential for the introduction of industrialisation to SA, and until fairly recently there may have been businessmen who did not grasp how completely the situation had changed. But Helen Suzman had a clear grasp of the real situation.

The system, she emphasised, flew in the face of industry's needs. She condemned it not only for tearing families apart but also because it held back the economic growth on which the welfare of all South Africans depended.

When, in 1983, she detected changes for the better in government policy she noted that this was not due to any change of heart, but to the pressure from an economy which could not move forward so long as most black workers were prevented from living permanently with their families near their places of employment.

Similarly her attacks on the Group Areas Act, job reservation, inferior black education and the pass laws were never separated from a solid material base in her understanding of the needs of the economy. From the same perspective flowed her advocacy of freedom of movement for all and of equal treatment for black and white trade unions.

Helen Suzman never lost sight of the link between a socially just system and a sound economy. She saw clearly, as most South Africans do not, that there is no meaning in freedom if it is tied to an economic system incapable of supporting the people in decent material conditions.

She was always conscious of the elementary economic errors behind the advocacy of racial separation. It was obvious to her that in a country with great national resources and a serious shortage of skilled workers, the provision of a sound education and technical training for black South Africans and the opening of equal opportunities would be calculated not to decrease but to increase the number of skilled jobs available to whites.

On exactly the same grounds she argued for the encouragement of the immigration of skilled workers because it would make economic expansion possible. Similarly she advocated improved wages for blacks on the grounds that this would broaden the economy.

Helen Suzman never tired of pointing out that the relationship between black and white in the South African economy was not a zero-sum system but one of opportunity without boundaries for co-operation for the common good.

Nowadays all this seems simple and obvious, but it was not when she started to hammer relentlessly on the theme; and in so doing she introduced a new and powerful element into the battle against apartheid.

Her theoretical rejection of a state-controlled economy was powerfully reinforced by personal observation of this system in action in the context of Africa.

SA is now on the move. The risks and the opportunities are greater than at any time in my memory.

Progress will require idealism, certainly, and a love of justice and hatred of intolerance and bullying. It will call for deep human compassion and courage to stand up for individual freedom and dignity.

But all this, however beautiful and high sounding, will, as Helen Suzman saw so clearly, be no more than insubstantial froth unless it is founded on and supported by a clear understanding of the economic requirements of a modern democratic state.

☐ SUZMAN

☐ This is an edited excerpt from a chapter in Values Alive, in which various contributors honour Suzman. The book is published by Jonathan Ball at R79,95.

LETTERS

Call to halt devaluation of rand

BDay 5/6/90

MERVYN HARRIS

GOVERNMENT should start spending the R3bn allocated in the Budget for black upliftment, and call a halt to the process of devaluing the rand even if this resulted in the closure of some unprofitable gold mines, according to economists and stockbrokers.

These were some of the remedies suggested in the wake of the gold price fall to eight-month lows below $360.

They said gold was the key to other economic factors such as interest rates and currencies and had a confidence effect on all other markets. The recent downturn's impact had still to be felt.

Mike Brown, economist at stockbrokers Frankel, Kruger, Vinderine, said rising black unemployment would have to be tackled through fiscal rather than through monetary policy.

Spending the funds earmarked for black socio-economic development "would open the dam walls and allow money to flow through to the economy".

"We are in a bad period until the end of June when $2,8bn of debt standstill payments fall due. The hope was that once the payments had been made, there would be more liquidity which would result in an interest rate decline in the third quarter. Now net reserves will remain under some pressure and the balance of payments surplus will not be as high as previously anticipated.

Probable

(49)

"The difficulty facing the Reserve Bank is that if interest rates are brought down too early, demand for imports will grow which would aggravate the balance of payments position.

"The declining trend of the gold price and the rapid slowing of the economy will tend to make the authorities more cautious," he said.

Brown said that given current constraints of the balance of payments and debt repayments, it was probable the rand would tend to move in the direction of R2,7500 to the dollar.

David Meades, of stockbrokers Meades, de Klerk Inc, said the question was how long SA could afford to devalue the rand before there was nothing left of the currency.

"If the market does not push the rand down, some gold mines will have to close. At present we are keeping gold mines running artificially by indirectly subsidising the rand gold price. The closure of unprofitable mines would result in declining production which would be positive for the gold price.

"Increased unemployment on the mines could be softened for local workers by the Chamber of Mines regulating the flow of foreign mine workers.

"When the outside world realises SA will not keep on producing gold at any price, it will be bullish for gold."

Meades said a rate of R2,20 to the dollar would be a more accurate reflection of SA's true position in the world relative to other currencies on the back of the positive sentiments after President F W de Klerk's successful recent European trip.

Tito Mboweni of the ANC's department of economics and planning. Picture. ROBERT BOTHA

BDay 5/6/90

Tax, sexism worry ANC economist

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ALAN FINE

ANC department of economics and planning (DEP) official Tito Mboweni dropped into the chairman's office at 44 Main Street for an hour last week, just prior to his return to Lusaka after his first visit to SA in 10 years.

Although he holds strong views on the excessive power of local conglomerates, his visit to Anglo American HQ was not for the purpose of selecting an office for his occupation after nationalisation.

Rather, he said, he went at Anglo's invitation and expected to continue the debate on economic issues which he believed necessary for achieving a "national consensus" in SA.

Mboweni, 31, was the ANC's top DEP representative at the recent Carlton conference. Now Lusaka-based, he plans to spend the next few months establishing the DEP in SA.

He holds an MA in economics from the University of East Anglia in Norwich.

Mboweni said while gatherings like the Carlton conference had their uses they also had limits.

On the one hand, it was important for the two groups — the ANC and the business community — to have received the messages they did from leaders such as Nelson Mandela and Gavin Relly.

At the same time, Mboweni believed, the process through which the ANC would develop detailed economic policies would rather occur in smaller, more focused surroundings.

He expressed unhappiness with Relly's attitude to two specific issues — taxation and gender.

"I am very worried about Relly's suggestion that our taxation system should be based increasingly on indirect rather than direct taxes," Mboweni said.

Interaction

"More indirect tax dumps more of the burden on the poor and relieves the tax burden on the wealthy. We think such policies are based on pure self-interest."

He was also unhappy with the "frivolous" attitude both Relly and Donald Masson — the two business panellists at the conference — took to the question of women's advancement in the economy.

Mboweni emphasised that, as the the ANC's main constituency was the black working class, discussions on these issues with Cosatu were very important and would continue very soon.

The ANC also was committed to further interaction with business, especially at company or industry level.

Mboweni used a trip to the cane growing areas of Natal last week to illustrate how he thought a future government should use such knowledge to determine the best form of state intervention in the economy.

He visited a Tongaat-Hulett mill and saw some of the farming done by 30 000 small growers.

He said a future government would have to devise ways of assisting the small farmers.

Powerful conglomerates and the vertical integration they had achieved in the sugar industry would have to be investigated in terms of the national interest, Mboweni added. "But we will not rush into breaking them up without careful consideration," he said.

The whole question of "conglomerates" (the ANC uses that word and "monopolies" interchangeably and not according to the strict economic definition of the latter, Mboweni explained) was critical for a future government.

"We cannot be blind to the fact that the power that Anglo and others hold is an issue. They are so all-powerful one cannot talk of free competition. They can squeeze and crush any smaller competitor ..."

He said not only the ANC was concerned. The point of anti-trust legislation for SA had been made "many times" by white SA businessmen outside the major corporations.

Growth 'must back reform'

CAPE TOWN — The reform initiative would have to be supported by maximum possible economic growth, Finance Minister Barend du Plessis said yesterday.

Own Correspondent

Speaking at the formal opening of Plessey SA's new R4m research and development centre, Du Plessis said: "It is too risky to release the economy before we are absolutely certain we have contained the money supply and inflation is on its way down.

"On average we are on target with our economic policy and particularly our money supply. We are on course, and the moment we can release the economy we will do so."

(49)

It was important to create additional wealth and, in the process, to create new job opportunities. Ends eco.

Cit 16/5/90

Police need far more funds, says NP

The additional R100 million budgeted for the police in the Supplementary Estimate was a mere drop in the ocean compared to the needs of the force, Mr F P Smit (NP, Algoa) said yesterday.

"We can't allow the safety of the public and the maintenance of law and order to be affected by a shortage of roadworthy vehicles in the SAP," he said.

Star 5/6/90 (49)

More should be budgeted for computer services and better use should be made of the advanced technology available. — Sapa.

ANC's priorities for restructuring the SA economy

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B/Day 6/6/90

These are excerpts from economic policy recommendations devised at a Harare workshop by ANC and Cosatu economists and being considered by the two organisations.

THE SA economy is in fundamental crisis. This arises out of the distortions of the apartheid system, problems in domestic production and the changing international environment.

It has been unable to meet the needs of the mass of the people, and current strategies are unlikely to alleviate poverty and mass deprivation.

A non-racial and democratic state would follow an economic strategy that aims to achieve economic growth through increasing equality in the distribution of incomes, wealth and economic power. This calls for the active restructuring of production to meet basic needs, expand employment, redistribute incomes and provide social services.

Within a mixed economy, the state would assume the leading role in the reconstruction of the economy to facilitate the realisation of developmental objectives. This necessitates some form of overall planning and co-ordination.

The main emphasis in financing reconstruction would fall on domestic savings. Foreign capital should supplement domestic savings and not be seen as a substitute.

The new state would undertake tax reform to make taxation more equitable and effective. The expected expansion of income and employment will widen the tax base. At present the tax burden is carried disproportionately by individuals through direct and indirect taxation. The new state would begin shifting the burden of taxation, especially towards corporations.

Macro-economic imbalances, including inflation and balance of payments deficits, have been an important factor contributing to SA's economic crisis. Economic stabilisation policies, including monetary and exchange rate policies, would be used to manage imbalances.

State expenditure and overall fiscal policy are especially important. A future government would not use borrowings to finance current expenditure.

The current capital market does not sufficiently direct investment into productive activity or into critical areas of infrastructure, such as housing.

The new government would seek to rationalise and restructure the financial sector and to develop new institutional arrangements for the primary and secondary bond markets, to direct them more to meeting developmental objectives.

Current financial deregulation policies and monetary policy exacerbate present problems. This requires direct state intervention. Consideration will be given to the extent of state ownership in the financial sector.

The present system of exchange controls would continue, but would have to be modified in ways consistent with development objectives.

The existing extreme concentration of economic power has been detrimental to balanced economic growth. The government would investigate this concentration with the objective of promoting a more efficient and effective use of resources.

Where feasible, a policy of dismemberment of conglomerates would be pursued.

Foreign investors would be encouraged to invest in activities which lead to increased employment and development of local technological capabilities. They would also be required to follow labour practices acceptable to the trade unions.

Transformation of the economy will require a viable state sector. Nationalisation would be an essential part of the reconstruction.

The state would retain existing nationalised industries and would be prepared to renationalise privatised state assets. It would set up new state corporations where necessary.

Nationalised industries would operate within strict budgetary controls and would not become vehicles for bureaucratic enrichment.

The democratic forces find morally reprehensible the present government's attempts, through privatisation, deregulation and other means, to weaken the new state's ability to restructure the economy.

Industrial restructuring would be directed at meeting domestic needs and increasing international competitiveness.

A first priority would be to meet basic needs in food, housing, welfare and employment. This should be done in a sustainable way, for example creating new production capacity through employment linkages rather than simple income supplements.

The state would develop industrial policies aimed at transforming imbalances between blacks and whites, between urban and rural areas and between regions. The failure of the industrial decentralisation policy should not detract from the need for rural industrialisation.

In the mining industry the state would initiate measures to root out racist labour practices and improve wage levels and living conditions, without weakening or making the industry less efficient.

The state would investigate using fiscal policy to encourage venture capital in new mines, and consider making strategic investments in mines.

In view of the declining and volatile nature of mineral prices, a policy of stabilising prices through the formation of cartels would be considered. High priority would be given to the creation of resource-based industries to further add value.

The concentration of monopoly mining finance capital is a great impediment to alternative means of controlling mining. To control investment strategy and labour practices, the state would encourage research into the benefits of disaggregating the monopolies, taking the efficiency of the economy as a whole into consideration.

The recent shift of De Beers' control to Switzerland is a serious development and potential disinvestment of this type should be an urgent item in negotiations with capital.

Agriculture is facing a major crisis in both the advanced capitalist sector and in the black rural areas. Land distribution is a central national grievance and raising agricultural production is vital to future economic prosperity.

The future state commits itself to the development of a high employment, high wage and productivity economy, with economically viable, competitive enterprises. It will seek to empower organised labour, and to promote greater industrial democracy.

A comprehensive programme of education, training and skills for workers in industry and within the state sector is needed. Technical, professional and managerial skills among blacks will be promoted.

A massive injection of finance is going to be required to meet basic social needs (ie welfare, housing, health, education).

Determination of priorities in meeting social requirements will have to take account of several conflicting objectives.

These include the relief of poverty; the expectations and demands of people and communities; promotion of economic development strategies; the need to avoid inflationary spending policies and promotion of employment and training opportunities.

The state would bear ultimate responsibility for the provision of welfare and pensions. This would be exercised in the negotiated provision of welfare benefits between capital and labour, and private provision by those groups able to provide for themselves. The role of the state would be to provide a minimum level of social services at a reasonable rate for all.

The provision of affordable housing for all can be costly. The role of the state would be based on establishing conditions for providing low-cost housing (ie subsidisation of land and services) rather than direct state construction of houses. This would not rule out the establishment of a national state housing company.

ANC plans state role in economy

CAPE TIMES 6/6/90

49

Own Correspondent

JOHANNESBURG. — A future democratic non-racial state should — in the context of a mixed economy — assume a leading role in the reconstruction of the economy, a draft ANC economic policy document recommends.

The draft arose from the ANC/Cosatu workshop on a post-apartheid economic policy held in Harare.

While seeing a key rôle for the state in building infrastructure, industrial restructuring and regulation of the capital market, the recommendations also propose conservative fiscal policies.

The document also proposes a shifting of the tax burden away from individuals towards the corporations in order to be "more equitable and effective".

It recommends the state retain ownership of existing nationalised industries, the possible renationalisation of privatised industries and, "where necessary", the setting up of new state corporations.

But the draft steers clear of actually recommending the nationalisation of parts of the economy until now in the private sector.

It argues for reconstruction to be financed by domestic savings, with foreign capital seen as supplementary rather than as a substitute.

The document stresses a future government "would not replicate the recent practice of using borrowings to finance current state expenditure."

Because the capital market "does not sufficiently direct investment into productive activity", the new government would seek to rationalise and restructure the financial sector to overcome this.

It recommends the present system of exchange controls be retained, although in a modified form, to retain domestic savings in the country and prevent "destabilising speculative capital flows".

The document proposes a future government seriously consider countering the volatile nature of mineral prices by the formation of cartels, and give high priority to the creation of industries to add value to mineral products.

W Cape goes against trend . . .

Cape Times 6/6/90

Confidence index drops

(49)

By AUDREY D'ANGELO
Business Editor

THE Western Cape is going against the trend in the rest of SA, with a buoyant retail sector and more exports passing through the harbour, says Alan Lighton, director of Cape Town Chamber of Commerce.

The SA Chamber of Business (Sacob) business confidence indicator continued to move downwards in May, although the drop — from 92,1 to 92 — was very slight. In March the index dropped from 95,9 to 94,2 and in April it came down a further 2,1 points to 92,1.

Lighton commented: "On a national level the recession is showing signs of deepening. But the feedback we are getting is that there is still a lot of money around, certainly as far as retail sales are concerned, and the market is holding up very well indeed in Cape Town.

"All the exhibitors at our Design for Living exhibition last week reported better results than last year, which shows there is plenty of buying power in Cape Town.

"The local property market is gaining momentum all the time and the tourist sector is performing as well, if not better, than last year.

"Another interesting fact which shows the Western Cape is bucking the trend in the rest of the country is that tonnages shipped out of the harbour in the first three months of this year have risen by 66%. This compares with a much smaller increase in the total export tonnage shipped from all SA harbours, which rose by only 5% in the first three months of 1990."

The Sacob report blames the downward trend of the business confidence index on uncertainty about the future, continuing high interest rates and a perception that the economy is unlikely to improve before the beginning of next year.

Sacob economist Keith Lockwood says: "Apart from the impact of the decline in the gold price and the further evidence of an economic slowdown the level of uncertainty over the course of future economic and sociopolitical developments remained high."

He points out that "the policy approach adopted by both the fiscal and monetary authorities will also be of crucial importance to the shaping of the business mood."

Lockwood says that while there is general agreement in business circles that the country is moving in an appropriate direction, the extent and speed of change have caused uncertainties which have made business decision making and longer term planning more difficult.

"As a result many expansion projects and new ventures are being postponed until there is a clearer indication of the path ahead."

Discussing interest rates, he says: "It seems unlikely that the bank will allow interest rates to fall until there are clearer indications that the rate of inflation has entered a declining trend and until the gold price shows a stronger performance.

"Although the rate of increase in producer prices has declined significantly in recent months, this has not yet been carried through to consumer prices in any noticeable way."

However, Lockwoods point out, "Because interest represents a substantial cost to both business and the individual, the rate of inflation could decline more rapidly once interest rates enter a declining trend, provided the reduction does not lead to a significant increase in the demand for credit.

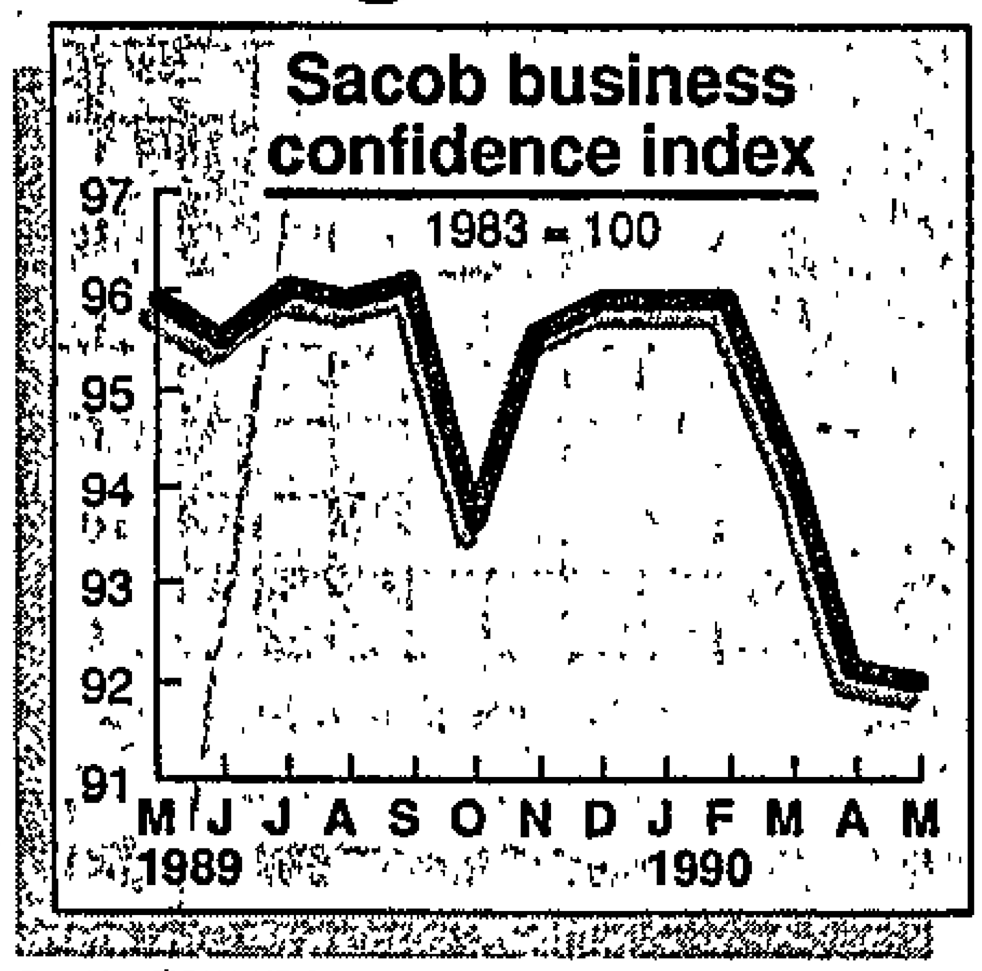
"But in view of the fact that much of the credit extended to individuals in recent months seems to have been used to maintain living standards and to finance earlier borrowings, it seems likely that savings resulting fromn a lower interest rate will first be used to reduce debt and should therefore not result in an increase in inflationary pressures."

The weaker gold price will reduce export earnings. This means that imports will continue to be curbed, to maintain the balance of payments, and efforts to attract short-term overseas funds will continue. "As a result, it seems unlikely that interest rates will be allowed to fall for at least two to three months."

Lockwood sees no fundamental reason for optimism over the price of gold in the next 12 months "and SA's economy is therefore unlikely to obtain significant support from gold-generated foreign exchange in the current year. There should, however, be a slight firming in the gold price in August, September and October as a result of a seasonal increase in demand."

Marginal drop in business confidence

(49)



Graphic: FIONA KRISCH Source SACOB

SYLVIA DU PLESSIS

THE SA Chamber of Business (Sacob) business confidence index deteriorated further in May after registering sharp declines for two consecutive months.

That it declined only marginally despite new developments — to 92 points from 92,1 — could be ascribed to the "balancing out" of positive factors by negative ones, Sacob economist Keith Lockwood said yesterday.

"The steadier business mood was the net result of a number of influences, both positive and negative, on the economic and political fronts, with the slowdown in the economy providing the overriding influence," he said.

Apart from the impact of a weakening gold price and further evidence of an economic slowdown, the level of uncertainty over the course of economic and socio-political developments remained high.

There was also uncertainty on other countries' attitudes towards recent SA reforms and the degree to which such changes in attitude would be reflected in the policies adopted in their dealings with SA, he said.

Lockwood said President F W de Klerk's recent European visit helped emphasise SA was still part of a "wider community of nations" and that it could no longer afford to adopt isolationist policies.

"Much of the future economic growth of the country will depend on strategies aimed at improving the export performance of the SA economy.

☐ To Page 2

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Confidence

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☐ From Page 1

"While it appears unlikely there will be a significant easing of sanctions pressures from official quarters until further reform steps have been taken, the prospect of their removal is significantly brighter," he said.

However, it was important to recognise that if sanctions were dropped some SA businesses they protected from competition could experience difficulties.

Lockwood said business sentiment might drop as the economic downturn deepened, but political developments and more favourable international relations flowing from these would serve to underpin confidence levels.

Sacob's manufacturing activity index rose to 98 in May from April's 68. This level, still below 100, implied manufacturers expected orders received to be slightly lower than in April, and confirmed the downturn was firmly in place, he said.

The chamber's expected manufacturing production index for May and the year ahead showed manufacturers' longer-term outlook was significantly more pessimistic compared to earlier surveys.

For the first time, the aggregate expected production index indicated that, in response to the fall-off in demand for consumption and investment goods, manufacturers expected to produce fewer items in the coming year than they did in the previous year, Lockwood said.

"This has serious implications for the supply-side of the economy, and suggests the downturn will be longer and deeper than was initially anticipated."

● See Page 3

Experts: Bank will resist any pressure to ease policy

Bday 7/6/90 NEIL YORKE SMITH (49)

THE Reserve Bank is unlikely to bow down to any political pressure either from government or other groups to ease monetary policy, experts said yesterday.

They confirmed calls to reduce interest rates soon would increase as the economy cooled and consumers and businesses felt the pinch.

Pressure was also expected to mount due to political factors associated with a slowing economy including increased unemployment, violence and unrest.

Rand Merchant Bank (RMB) economist Rudolph Gouws said Reserve Bank policies would remain independent of political aims.

"Reserve Bank Governor Chris Stals and President F W de Klerk have emphasised the Governor will do the job he was appointed to do without being influenced by political factors. Any actions contradicting these statements would result in a massive loss of credibility."

Trust Bank economist Nick Barnardt confirmed this, saying: "The authorities are aware of the consequences of strict policies but they will not bow down to calls for inappropriate measures."

Monetary policy would remain tight at least until year-end, but this did not exclude the possibility of some downward interest rate movement, Barnardt said.

"The important thing is that real interest rates remain positive. If inflation continues its downward trend interest rates could fall slightly while positive real rates are maintained," he said.

Both Gouws and Barnardt confirmed the ground was being layed for a timeous reduction in interest rates.

"The economy is moving in the right direction, inflation is coming down, foreign reserves are rising and growth in credit extension is slowing," Gouws said.

Barnardt said any decision was likely to be based on sound economic judgment.

The export sector can be used to fuel economic growth

(47) BDay 7/6/90

BRUCE DONALD and GAD ARIOVICH

As SA is increasingly accepted by the international community, the potential for using our export sector as the locomotive for economic growth and development looks more promising than ever. The encouragement of exports will also be a vital aspect of SA's industrial strategy.

It is essential that we understand the structure of our export sector and identify the factors underlying the success of specific sectors. In so doing, we can ensure that assistance is well-directed and that we do not harbour grandiose illusions about the benefits of a successful export strategy for SA.

Safto recently investigated structural changes to SA's exports over the past decade by comparing annual averages for two periods, 1977 to 1979 (period one) and 1987 to 1989 (period two). These are some of the findings.

The ratio of total merchandise exports to GDP decreased from 26% during period one to 24% during period two, reflecting a not unexpected decline in the contribution of exports to the overall economy during the sanctions years.

More disturbing was the drop in the relative contribution of several manufactured exports to total exports between periods one and two, and a relatively poor performance by the agricultural sector over the past decade, in spite of recent bumper crops.

Exports by SA's mineral concerns, which many experts saw as sunset industries, rose significantly in the 1980s. Growth in mineral exports continued in the late 1980s despite falling gold revenues, due to the outstanding performance of base metals.

Mineral products, base metals, pulp and paper and chemicals grew in importance over the past decade, while live animals, vegetable products, fats and oils, and prepared foods and tobacco showed declining relative contributions to total exports. The worst performing category was jewellery, coins and precious stones, mainly due to a worldwide ban on Krugerrands.

That SA's comparative advantage still rests on its abundance of natural resources is clearly illustrated by trends in the structure of SA's exports over the past decade.

This is not to say that SA is as reliant on the export of primary products as it was 10 years ago. A great deal of success has been achieved in the beneficiation of raw materials. The processing of base metals is a case in point, and is to a large extent responsible for the outstanding performance of the base metals category. Pulp and paper, and chemicals are further examples of successful downstream processing of SA's exports.

Encouragement can also be drawn from achievements in vehicles and transport equipment, machinery and professional and scientific equipment, though the absolute contribution of these categories to total exports is small.

But it should be remembered that an important common denominator to success in beneficiation and more isolated cases of successes in manufactured exports is the extremely capital-intensive nature of the industries involved. Another important common denominator is that they are industries dominated by large corporations.

If the international competitiveness of SA relies on its abundance of natural resources, capital-intensive production processes and the economies of scale enjoyed by big firms, SA policy-makers face several difficult policy issues.

The table illustrates the success of export-led growth strategies, by highlighting the relationship between growing contributions of exports to GDP and high rates of economic growth among Asian newly industrialised countries (NICs). This contrasts with a declining ratio of exports to GDP and pedestrian economic growth in SA over the past decade.

The rationale for export-led growth is clear. What is not clear, however, is whether the same strategies used by Asian countries will work in SA, and what adaptations will be necessary to guarantee that they do.

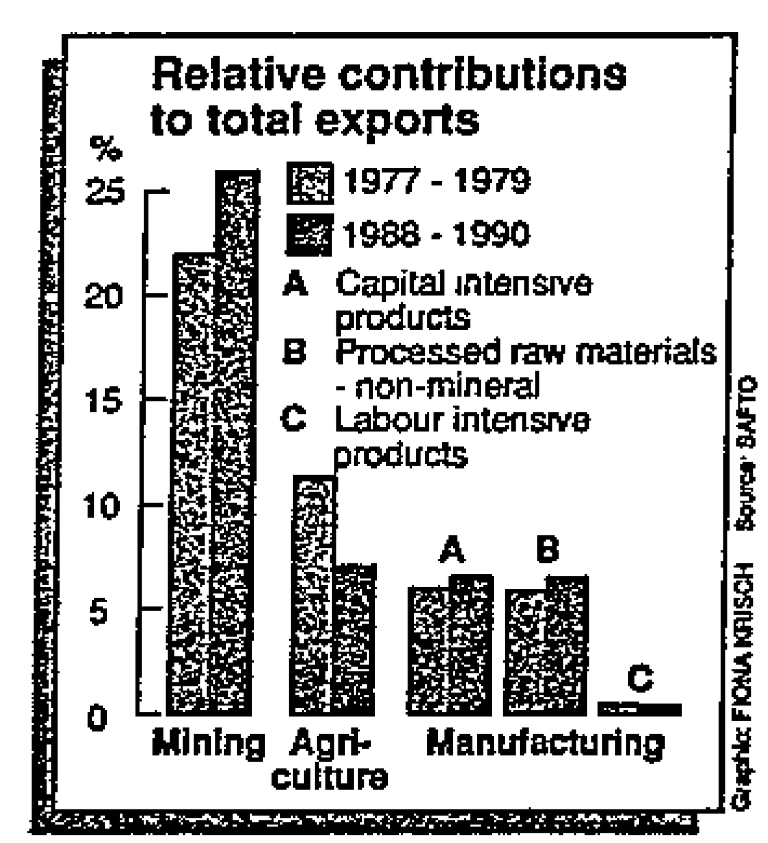
SA does not enjoy a comparative advantage in labour-intensive products, as do the NICs of the Far East, and in the short to medium term (at least five years), this will not change. Major changes to structural patterns of a country's exports occur only over decades, if not generations. This means that export-led growth, while greatly benefiting the balance of payments, economic growth and wealth creation, will in the foreseeable future only marginally affect unemployment.

Another conclusion is that SA exporters will have to continue building export capacity in capital-intensive industries to ensure an export growth trend.

To increase the relative contribution of capital intensive exports to GDP will require massive capital spending — even maintaining the same relative contribution of exports to GDP will require substantial capital outlay.

Country	Relative contribution of exports to GDP (per cent) 1977-1979	1987-1989	Economic growth rate (per cent) 1977-1989
Korea	25	37	8,2
Malaysia	45	57	6,0
Thailand	18	23	7,0
Singapore*	125	143	7,5
Taiwan	27	38	10,0
South Africa	26	25	2,3

* Exports for Singapore exceed GDP due to the large proportion of re-exports.



Joint ventures recently announced (but still in the balance) by Samancor and Highveld with Taiwanese and German partners are good illustrations. Stainless steel production is highly capital intensive, and will not provide many jobs for unskilled workers, but will instead demand more scarce skilled manpower. However, that SA should go for such schemes is irrefutable, as this is an area in which our industries are able to compete internationally.

To be internationally competitive, industries are compelled to bow to the dictates of international technology standards, and opportunities to substitute unskilled labour for either capital or skilled labour are extremely limited.

In the next few years, SA demand for scarce capital goods is likely to increase. This comes at a time when the transformation of Eastern European economies is expected further to strain the international supply of capital.

Due to the rigours of international competition and high business standards that exporters face in world markets, SA's export sector is its most efficient. But with rising political and social aspirations, the government will be hard-pressed to balance the need to expand external trade with the temptation to transfer resources to less efficient labour intensive sectors. In our current stage of development, these will provide only short-term solutions to long-term employment problems.

With increasing shortages of international capital, inefficient import substitution schemes need to take a back seat, unless they are precursors to export development projects.

To achieve an optimal allocation of recources, and of scarce capital in particular, SA must make use of the market mechanism. By encouraging our "natural advantage" growth sectors we will be able to generate the income and resources needed to address the social and educational backlogs currently hampering our development.

Any attempt to inhibit the market mechanism will be to the detriment of the export sector and thus to the creation of wealth for the people of SA.

☐ **Donald and Ariovich are economists with the SA Foreign Trade Association.**

LETTERS

LIVING STANDARDS FM 8/6/90

Double measure (49)

South Africans are even worse off than recent GNP figures indicate — but the country still ranks second in Africa, after Mauritius, in terms of affluence, reports *The Economist*.

This is based on a Human Development Index, created by the UN Development Programme, which takes into account quality of life when calculating living standards. The index is a combination of life expectancy at birth, percentage adult literacy and real GDP per capita (at purchasing-power-parity). Using GNP per head, SA ranks 48th on a list of 130 countries, but under the extended index moves to 62nd position, behind Mongolia and Lebanon and just ahead of China and oil-rich Libya.

Top-ranked Japan has a life expectancy of 78 years, literacy of 99% and US$13 135 real per capita GDP; lowest-ranked Niger stands at 45, 14% and $452. SA is somewhere in the middle at 61,70% and $4 981. The eight poorest countries are in Africa and the continent contributes 24 of the world's 30 lowest ranked countries. Mauritius ranks 49th at 69 years, 83% literacy and $2 617 real GDP per capita. ■

Black business to examine rebuilding SA's economy

(49)

THEO RAWANA

REPRESENTATIVES of black business will discuss reconstructing the SA economy at the 26th annual conference of the National African Federated Chamber of Commerce (Nafcoc) in Durban next month.

Nafcoc public affairs manager Gab Mokgoko said yesterday the conference would "attempt to bring to the fore what the real issues ought to be in the reconstruction of a mixed SA economy, the extent of the mix and the mechanisms required to ensure and hasten full black participation in such an economy in the '90s".

The destruction of black business property during riots would get special attention, Mokgoko said.

The conference would also address the role of women in the national strategy for economic liberation.

"The president of Nafcoc (Sam Motsuenyane) is expected to give an insight into what he considers should be the framework of an economic agenda to be pursued during the 1990s, as well as the key elements of such an agenda in order to achieve economic parity among South Africans," Mokgoko said.

Chambers of commerce in the southern African region would also attend the congress,' he added.

With an eye on its future role in Africa, Nafcoc has established a Joint Working Committee with the Lesotho Chamber of Commerce.

Mokgoko said the committee met last month to examine closely the unfolding political situation in SA and its economic impact on Lesotho and the southern African region.

Assist

It also considered mutually beneficial projects and programmes.

"The committee recognised the urgent need to assist indigenous Africans to share in the Lesotho Highlands Water Project beyond the level of worker," Mokgoko said.

Another matter discussed was the membership of Nafcoc on various regional and Pan-African business formations.

"The committee was also briefed about the discussions held between Nafcoc and the ANC in Lusaka and in Johannesburg, discussions with the PAC in Johannesburg and the Wild Coast Conference on restructuring the economy," he added.

Mokgoko said Motsuenyane led the Nafcoc executive to Lesotho last year to lay the foundations for mutual cooperation.

He said the binding principles of the two chambers were:

- To serve the indigenous African business community and to ensure the advancement of members in commerce and industry;
- To evolve a framework for utilising the strengths of each chamber for the betterment of the collective membership;
- To develop the talents and abilities of members through education and thereby enable them to compete more efficiently in commerce and industry, domestically, regionally and internationally; and
- To form joint business projects and programmes to harness scarce resources.

Mokgoko said the principles were the "pivotal reasons of Nafcoc's thrust in its relationship with various African chambers of commerce on the continent".

Nafcoc members serving on the committee are A S Nkonyeni, Sy Kutumela, E F T Maahlo and Mokgoko, while the Lesotho chamber is represented by A Majara, M Putsua and Z A Tsotsi.

ture. ROBERT BOTHA

... attention as the pressures for nationalisation and distribution

"Squatting is now a solution to housing backlogs," he said.

... could do at school level, especially to increase the number of matriculants with subjects such as maths and science.

Implementing the right policies could bring real growth back

B/Day 8/6/90

(49)

DANIEL FELDMAN

THE collapse of apartheid policies and their replacement by policies more appropriate to a developing society could make it possible for real economic growth to return to SA, Urban Foundation CEO Sam van Coller said yesterday.

Van Coller, formerly executive director of the Steel and Engineering Industries Federation of SA (Seifsa), spoke on changing industrial relationships at the Natal Chamber of Industries Conference in Durban yesterday.

He said: "The dynamic of increased growth generated by rapidly expanding urban areas and a move towards normal market forces could create opportunities for a more constructive relationship between employers and trade unions."

Collective bargaining and industrial relations as a whole in SA had come to the end of one phase, and a new phase in which "workers would not only have basic worker rights but would also have democratic rights as full citizens in a non-racial society was in sight".

Regarding the future of collective bargaining, he said: "It is to be hoped that in the volatile years that lie ahead, a reasonable power balance can be maintained in the collective bargaining arena.

"The process of negotiation between equally powerful parties offers what is probably the most stabilising element in our country."

Withdrawal

He identified five themes which he foresaw would be present in that arena: the tensions between power balances and control, surplus generation and surplus distribution, market and intervention forces, the roles of the private and public sectors, and between life at work and life at home.

The withdrawal of key companies in the metal industry from their membership of the employer body could signal a growing view among employers that the power balance as manifested in centralised bargaining could be shifting in favour of the trade unions, thereby justifing efforts to fragment trade union bargaining strength.

He commended recent remarks by trade union leaders which demonstrated that "the worker leadership is strategising in terms of how to achieve growth, which presents an opportunity for employers to engage trade unions in the how of inceasing income, and thereby increasing the chances of generating surpluses".

Housing and health care were two largely unaddressed issues which employers might feel increasing pressure to focus on if the state proved unable to provide them, he said.

While advocating collective bargaining as a way to identify priorities for the future, Van Coller said: "There is a real possibility that circumstances will enable both labour and management to engage in more constructive responses than has been possible in a society with divisions as deep as SA's have been."

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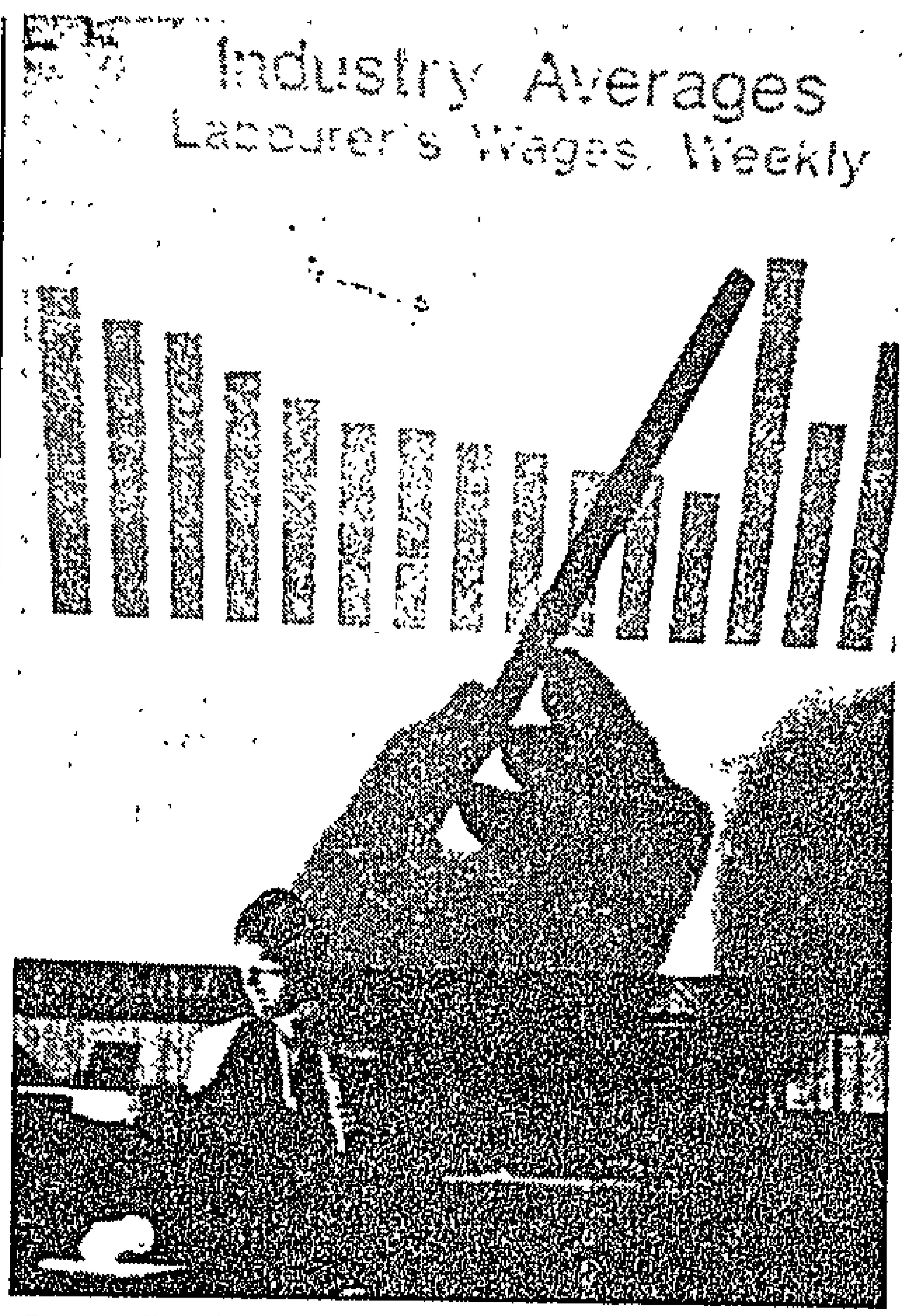

Stouart Pennington illustrates a point. Picture: ROBERT BOTHA

State intervention 'necessary' to reorganise finance network

WILSON ZWANE

RESTRUCTURING private sector investment would require direct state intervention, Wits senior economics lecturer Mark Addleson said yesterday.

Speaking at a seminar on wage bargaining in Johannesburg yesterday, Addleson said the restructuring of financial networks comprising the conglomerates would not be accomplished by nationalisation.

"This would be best carried out by the use of anti-trust policy, specifically the dissolution of the holding companies which are the critical feature of SA's conglomerate structure" Addleson said.

"The controlled sale of the holding companies' shareholdings in operating companies would achieve a more equitable ownership distribution, especially if affirmative action was used to to promote black business ownership at the same time."

Also speaking at the seminar, industrial relations consultant Stuart Pennington said it would appear that the central reality for many workers was that the current wage was a quest for survival.

Employers should give this issue priority attention as the pressures for nationalisation and distribution mounted, Pennington said.

Addressing SA's housing problem, SPT Housing Consultants director Mike Morkel said the crisis was forcing the homeless and the underhoused to resort to squatting.

Morkel said the current housing backlog in black, coloured and Indian communities in the urban areas was acknowledged to be in excess of 1-million units.

"To meet these backlog requirements, plus to cope with the demand for additional homes from a growing population, requires that about 200 000 formal units be constructed annually for all groups till the turn of the century or beyond.

"The sad reality is that the construction sector is only delivering one-fifth of the required units annually," Morkel said.

"Access to land and housing underpins the very foundation of the economic power in SA," Morkel said.

SA Institute of Race Relations official John Kane-Berman said the state had to change its attitude to squatting.

"Squatting is now a solution to housing backlogs," he said.

B/Day 8/6/90

Meeting the man behind ANC economic policy

(49)

PETER DELMAR

MAX SISULU yesterday recalled the day — 27 years ago — when a policeman walked into his solitary confinement cell and announced that the force had caught up with his father, Walter.

Three members of his family — his mother included — were behind bars.

Interviewed at the ANC's new offices in Sauer Street, Johannesburg, where Sisulu works as ANC economics department head, he discussed his return to SA from Lusaka last month after being granted temporary indemnity by government. He had spent 27 years in exile.

Politics is in his lifeblood. His father, Walter, is the ANC's internal leader. His mother, Albertina, is a UDF president, and brother Zwelakhe is well-known as an outspoken editor. Yet it is the quietly-spoken Max, 45, who is increasingly attracting attention as the ANC's economic policy moves to centrestage.

He left SA in 1963, after serving a month in prison and not knowing whether his father would be sentenced to death for treason. The intervening years he spent as something of a roving diplomat, representing the ANC in Europe, the Soviet Union and Africa.

Today he is the ANC's chief economics guru and the central figure in the unfolding search for an economics policy. Yet Sisulu's immediate future is uncertain. His indemnity expires in August and Sisulu does not know what his status will be after that.

"It all seems a little ridiculous. Foreigners can come and stay as long as they like, but I can't," he remarks.

He has a Soviet masters' degree in economics, was a research student at the University of Amsterdam, and recently studied at the University of Sussex's Institute for Development Studies.

He complains that he hears a constant stereotyped argument from businessmen that economic growth and redistribution are incompatible. He believes one can have both growth and redistribution. The ANC's economic recommendations are not a blueprint but open to discussion.

"So many things have to be taken into account. For instance, we don't yet know how the political process is going to unfold. That is just one of the variables."

He is at pains to point out that the ANC is not hooked on "isms". It is concerned with finding an equitable economic dispensation to rectify the state of affairs which permits whites to have "tens of thousands of swimming pools when there is not even enough piped drinking water for blacks".

Finding that formula, he promises, will be as democratic a process as humanly possibly. No-one's voice will go unheard.

□ Five top ANC exiles — NEC member James Stewart and four members of the organisation's legal department — spent Wednesday night at Jan Smuts airport after a technical hitch concerning visas.

A Home Affairs spokesman said four of the five were admitted to SA yesterday. The fifth's case was still being considered.

BUSINESS

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We'll be rich. But do the figures add up?

South Africans' expectations are being raised. But there are a number of myths surrounding redistribution of wealth.

By PETER MOLL

DON CALDWELL, associate editor of the *Financial Mail*, imagines South Africans could be the "freest and richest people on earth", given the "right economics" — growth-orientated free-market policies.

If there were annual growth rates of 12 percent, the average South African could be richer within 25 years than the average American is now.

Contrast this vision with that of the Congress of South African Trade Unions' general secretary, Jay Naidoo, who argued that nationalisation would "enable a democratic government to have access to resources in order to redress the inequalities caused by apartheid".

While not excluding contribution from economic growth, he stressed the importance of direct redistribution through state control or ownership of capital.

What do the numbers say? Supposing both these visions are politically feasible, does the data confirm their economic feasibilty? Will growth and/or direct redistribution help the poor? And if so, by how much?

Perhaps one should begin by looking at what would happen, over 20 years, to the incomes of the poorest 40 percent of the population.

Most of South Africa's trading partners have had real growth rates of two to five percent. If South Africa avoids the convulsions following the Rubicon speech of 1985, we too could have growth like this.

From this the population growth rate is subtracted. This is 2,8 percent for blacks but is decreasing. It would not be unrealistic to assume an average of two percent over 20 years.

The mean income of the poorest 40 percent of income recipients in 1990 is about R3 000 a year.

Growth of, say, four percent, minus two percent for population increase, yields an income in the year 2010 of R4 500. This represents a 50 percent improvement.

Now take direct redistribution. Don't touch reinvested profit as investment is necessary.

Seize remaining profits, the portion paid out as dividends. In 1987 this was R20,6-billion, or 13 percent of the gross domestic product.

Seize half the housing stock and make the occupants pay rent to the state. (Half because it would be pointless taking away from the poor.) In 1987 this was R9,5-billion.

Then give this annual income to the poorest 40 percent of income earners (4,03-million people).

This gives R8 695 a year, in 1990 rands. It's a small fortune for rural blacks, who earn R1 400 a year. It doubles the income of informal sector operators, who make about R4 800 a year. However, it would not make them rich: R8 695 is less than the mining wage of about R9 200 a year.

But investors, who know they will be expropriated, will rapidly disinvest, and housing confiscation would lead to an exodus of skilled individuals. The economy would contract, by how much nobody knows.

What we do know is the annual payment of R8 695 to the poor will be made only in year one; it would decrease in year two and, before the government's electoral term was up, it would be forced to discontinue because its tax base would have eroded. The political dangers are such that no ruler with a sense of self-preservation would embark upon it.

It appears that, apart from political hazards, the modest benefits of direct redistribution would be short-lived.

What is of real interest is not how much the government can redistribute but whether the structure of the economy can be modified in favour of the poor. The government could aim at institutional change resulting, after 20 years, in a distributive pattern similar to social democracies.

The income share of the poorest 40 percent of income earners is about nine percent. But suppose there is no growth, which means a two percent annual decline in incomes due to population growth. If the share of the poorest 40 percent could be raised from nine to 20 percent, the average income of individuals in this group rises from R3 000 to R4 000. This is hardly opulence but it is as good as any growth which ensures a rise to R4 500.

The best would be to combine the two, giving an income of R6 500 after 20 years.

Their quality of life could be raised, without excessive expense, through national health and the provision of water and electricity services.

Despite the notoriety of national accounting statistics these results are not so sensitive as to undermine two major considerations: direct redistribution would not even succeed in moving the poor into the middle class, and would not be politically sustainable; economic growth and redistribution through institutional change are feasible and would considerably better the position of the poorest 40 percent in the long term.

Political jolt predicted for industry

Sow 9/6/90 (49)

'But there's hope in the new SA'

THE widespread political changes sweeping this country are likely to impact strongly on marketers and the media, demanding a new approach to advertising and research.

Denis Huskisson, chairman of the SA Advertising Research Foundation (SAARF), said in Johannesburg recently that in spite of the threat of nationalisation, he did not expect adspend to diminish "as we pursue a path to a new South Africa.

"It is naive to say simply that nationalisation is not a real threat, or that ANC comments to date are mere posturing. But by the same token, it is naive to expect full nationalism.

"Leaders of political parties across the board could not be so senseless as to demand — or even want — that.

"Suffice it to say that, in this country, some kind of mixed economy will emerge. And so long as it is geared at the economic growth and development that we all need, it is likely to support the sophisticated marketing and advertising infrastructure that this country has so far developed."

Mr Huskisson said he anticipated a situation of great volatility in all areas, not least in marketing and the media.

"The SABC has itself acknowledged that it can no longer expect to dominate the electronic media. Some radio stations may be privatised, and new ones will emerge.

"These will be run by entrepreneurs in the community and are likely to have a strong regional bias.

"High entry costs — and the very high standard of broadcast television to which viewers have become accustomed — may delay the entry of new players in the television arena.

"However, the power of television to change the hearts and minds of men makes it an immensely attractive medium for those who for so long have been voiceless.

"In the case of print media, South Africa will experience major shifts and changes.

"Nasionale's Ton Vosloo said recently that two broad trends are likely to merge: on one hand, the consolidation of a few extremely strong broad-based English newspapers covering the total spectrum of attitudes and, on the other, the activities of niche publications serving specific groups.

"Afrikaans newspapers, like black papers, are likely to become more community-oriented, addressing niche markets.

"I believe this to be a highly likely scenario."

In the coming months, Mr Huskisson added, the Group Areas Act will be removed from the statute books. "This does not mean that, overnight, blacks will move in next door. But changes in living patterns and the increased mobility of blacks will impact significantly on the work of publishers, advertisers, agencies and researchers.

"We are going to have to take a long hard look at the tools we are using to measure consumption and usage trends, and decide whether these will continue to give us meaningful information.

"This is particularly important since new political developments mean more uncertainty, and the more uncertainty there is, the greater is the need for sound research."

'M-factor' knocks direct mail

DURING the weeks which followed the releasing of Mandela and the unbanning of the ANC, local direct marketers noticed a sudden and dramatic drop in response ratings.

Matthew Fisher, managing director of DRA Exclusives, believes that this was yet another side-effect of the "M-factor" or "Mandela-factor" which swept the country.

"Although one cannot minimise the overall decline in major purchases, recent political factors have had an important impact. The relaxing of media restrictions, together with some very relevant political change, meant that once more there was a point in reading newspapers and watching the news," says Fisher.

"In the midst of all the competition for reading time, direct mail became a much lower priority."

Fisher senses that there are some valuable indicators inherent in this observation. Only well-branded products, he believes, were able to survive this decline in response ratings because it is these products which command attention and compel action. The messages of products which were badly branded, however, became lost altogether.

"Of all the people that read mailings, 50 percent will actually consider the offer. Naturally reading can cease at any stage and this is where strong creative copy becomes indispensable. But where branding is weak and the mailing package is not even opened, the chances of failure increase dramatically. This, in turn, means that the cost per response factor increases."

NELSON MANDELA: His release, among other factors, diverted reader interest.

He insists, therefore, that a well-established brand identity becomes essential in the current period of social and economic flux. "As more companies become strapped for cash, weak brands will disappear. Only a strong, well-established brand will be able to survive a volatile socio-political climate."

Failing the survival of the brand, Fisher believes that attention to the "M-Factor" demonstrates a further advantage which is intrinsic to direct response: "Direct response has the ability to detect weakness in the brand or advertising campaign. It acts as an early warning-system which enables the implementation of pre-emptive action."

Expanding on this theme, Fisher asserts that while all advertising must have suffered as a result of diverted consumer attention, there is a distinct advantage in being able to measure the extent to which a campaign actually suffered. Unlike direct response, advertising which is not measurable could experience severe setbacks which are perceived only at a much later stage.

"Because direct marketing can detect a change in consumer attitude immediately, it enables a far quicker reaction than most other indicators too. For example, the recent detection of a decline in retail and motor industry sales figures is a trend which was forecast by direct marketers as early as February this year".

The knee-jerk reaction to political volatility and financial insecurity is a heightened awareness of budget. Fisher believes that one of the financial advantages of direct marketing is that it has the ability to conduct its own research. Consequently, it can provide clues for above-the-line advertising and other marketing functions.

"One way of stretching the rand is to get better synergy through the advertising mix," he says. "Direct response, when synergistically applied, can build and help the brand. The net effect is that the rand works that much harder and smarter."

Wealth redistribution is the overall aim

49 Star 11/6/90

Under a future PAC government, "the African economic interests (would) move to an ascending position in the country as soon as possible".

Its economic policy aims to be corrective of past injustices and to be developmental.

After coming to power, a priority would be "the effective localisation of the ownership of the economic resources of the country" to minimise the role of international financial capital in the country's economy.

The State would take part in the country's economy, and the overall aim would be wealth redistribution "in favour of the indigenous African people".

The State would "act as a countervailing force" against capitalist and market forces which did not accord with the PAC political/economic mission.

The PAC, which does not want "to promote an illusion that the State alone can develop the economy or start new economic organisations", would massively promote individually owned firms as well as co-operatives by blacks.

Privatisation of economic units currently owned and run by the State would not be encouraged unless it enhanced the PAC's mission.

In the private sector, workers would have the following constitutionally guaranteed and legally protected rights:

- To take part, through representatives, in all the investment and financing decision-making processes, and to have access to relevant information.
- To hold certain percentages of companies' equity capital.
- To elect people to represent them in the companies' management teams. These people would be "managers accountable to top management and to workers at a shop-floor level".
- To appoint their representatives to the companies' board.

The implementation of this policy, the PAC says, is dependent on the nature of the change which would take place between now and the organisation's coming to power.

B/Day 11/6/90

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Corrections to reports

STATEMENTS by Durban-Westville University economist Stephen Gelb, presented in a paper on wage bargaining at a Johannesburg seminar, were incorrectly attributed to Wits economics lecturer Mark Addleson in a report on Friday. Business Day regrets the error and apologises for it.

□□□

THE number of additional staff authorised for the Commissioner of Inland Revenue office to cope with VAT (value added tax) was, because of a transmission error, stated on Friday to be 12 000 instead of 1 200. The error is regretted.

No reason to deny unused land to blacks — Schwarz

PETER DELMAR (49)

THERE was no reason why unused and unoccupied land could not be used to resettle black farmers in the same way that poor whites were resettled in the 1930s, DP finance spokesman Harry Schwarz said at the weekend.

Addressing a Rotary International conference at Sun City, Schwarz said a settled black agricultural community could be created on unused and unoccupied land through help with agricultural education and the co-operative use of machinery.

He said black political leaders realised political power would not satisfy empty bellies. That was why the ANC and PAC working documents on economics dealt with programmes of land redistribution and nationalisation.

The nationalisation and privatisation debate, he said, was a false and irrelevant one. The real issue was how to uplift, educate and employ people, while closing the wealth, income and skills gaps. "Nationalisation will not solve this. It may place existing wealth under the control of other people, but in itself it will produce no new jobs," Schwarz said.

Merely confronting capitalism and socialism was meaningless, as most people did not really know what these systems implied.

There was also not much point in talking about a mixed economy as it depended on the mixture. What was needed was to look at problems, taking what was good out of the system and producing the right recipe for SA.

The State had a role to play, Schwarz said, but not the dominant role. Private enterprise was essential, but could not be let loose "in a 19th century capitalist jungle without rules". Certain social services had to be be provided, but they should not become a socialist crutch which prevented initiative.

Schwarz said that with a successful policy of inward industrialisation, even if those not employed in the formal sector earned as little as R500 a month, the country's growth rate would increase by over 2% per annum.

SA had vast internal markets available if purchasing power was created — as it could be by inward industrialisation. With the application of economics of scale, SA could also become a major exporter.

Concerning social services, Schwarz said there had to be a plan with a timetable linked to the growth rate, to eliminate discrimination in the provision of state services.

Whites would have to realise that until services for blacks caught up with those for whites in real terms, the level of services could not be increased.

PAC does about-turn: Talks are 'inevitable'

ARGUS 11/6/90 (49)

The Argus Correspondent

JOHANNESBURG. — The Pan Africanist Congress, known for its radicalism and outright rejection of negotiations at this stage, has acknowledged the inevitability of talks and the irreversibility of political change in the country.

These surprise acknowledgements are made in the PAC's comprehensive economic policy document, believed to be the first major position document to be released by the organisation since its formation in 1959.

The document, "The Economic Policy of the PAC: An exploratory, diagnostic and contingency exposition", was unveiled by general-secretary Mr Benny Alexander at a dinner hosted by the African Council of Hawkers and Informal Businessmen.

Failure recognised

In it the PAC analysed the strengths and weaknesses of the broad South African liberation movement.

It concluded that the movement had "failed to overthrow the South African State through revolutionary means". This, the PAC said, made negotiations inevitable.

"The most important thing to consider, with respect to the political dispensations taking place in occupied Azania, is that whatever will be the outcome of a negotiated political accord the Africans sooner or later will be the beneficiaries."

The political change which had taken place in the country since February 2 was irreversible, and this was one of the strengths of the liberation movement, the PAC said.

But the PAC also listed some of the major weaknesses:

- The movement had failed to overthrow the government through revolutionary means. "The military force of the State is intact and is there to protect the political and economic interests of the European settlers."
- The PAC did not have a strong military presence either inside the country or in neighbouring states "to promote and protect the interests of Africans".
- The movement and its constituency lacked the necessary technical, professional and managerial know-how to run the country's economy, and were handicapped by a host of other deprivations.
- Blacks in the country did not speak with one voice, and hitherto sympathetic African states were "tired of waging war" with South Africa and wanted to see a negotiated political settlement.

Meanwhile, scores of activists have fled Vosloorus on the East Rand in the wake of new friction between supporters of the ANC and the PAC.

Five dead

The peace agreement between the two organisations suffered a blow on Saturday when chanting youths — allegedly ANC supporters — ransacked the house of Mr James Mndaweni, president of the National Council of Trade Unions. No one was injured in the attack.

At least five people, including three members of the same family, died recently in bloody clashes between the ANC and the PAC.

B'Day 12/6/90 (49)

'More to business than profit'

Own Correspondent

DURBAN — Business could no longer exist just to make profits while having no interest in social concerns and the community in which it operated, JSE executive president Tony Norton said yesterday.

Opening the congress of the SA Sugar Technologists' Association, he warned that the community would probably have to accept a drop in standards as change took place.

There was a tremendous lack of the relevant skills in SA which would require skilled people "not to work harder, but to work smarter". Training would have to start at the bottom so that a company's resources could be stretched.

Norton warned that unless companies moved to meet the unfulfilled needs of the community the "enormous promise of the future could be destroyed".

SA was in the fortunate position that the world itself was changing and needed only to tag along in its programme of change — rather than standing out as the exception.

● NORTON

Government was showing it understood the economic scene, and he had confidence that the team of Finance Minister, Reserve Bank Governor and other leading officials had "got the economic show on the road"

If the economy could grow at 2% a year under mismanagement the possibility for much better growth under proper financial management was strong.

And Norton considered that SA would get access to foreign capital as the political situation normalised.

Business had the responsibility to espouse the economic system of the future. It was plain that the old "capitalist" system was self-destructing, but a socialist centrally planned system was no better.

Britain was a good example of responsible free enterprise to which the rest of the world was moving.

Business had to be innovative, productive and competitive.

It had to be moral with directors being recognised as the custodians of assets as well as value systems; they should pay tax and should not spend undue effort to avoid tax. They should set an example to their staff and community in paying tax.

Business needed to pay attention to its stakeholder's needs and to relevant issues (not party political matters) in the community.

Fruit Board 'not privatised'

Star 12/6/90 (49)

The special exemption in respect of privatisation of the Deciduous Fruit Board in the Taxation Laws Amendment Bill, did not mean that this board had been privatised, the **Deputy Minister of Finanace, Dr Org Marais**, said yesterday.

Introducing the first reading debate on the Taxation Laws Amendment Bill, he said privatisation did not fall in the ambit of his department.

According to an explanatory memorandum on the Bill, the amendments provided for a once-only exemption in respect of:

- Transfer duty and stamp duty in relation to the transfer of assets from The Deciduous Fruit Board to Unifruco Limited.
- Stamp duty in relation to the first issue of shares by Unifruco Limited.

Les Abrahams (LP Diamant) said during the debate on the Bill that the faster South Africa moved to a point where all people could be part of agriculture, the faster suspicion would disappear. — Sapa.

TOP OF FINANCE

Star 13/6/90

Retrenchments at Loraine

(49)

In order to minimise losses at its Loraine gold mine at Allanridge in the Free State, Anglovaal is embarking on a rationalisation programme.

It says that because of the low gold price, combined with escalating costs, it has become imperative to reduce total costs and minimise the extent of future losses.

The rationalisation means that about six percent of the mine's 10 000 employees will be retrenched over the next four months. The retrenchments will be concurrent with a reduction of 10 percent in mill throughput to 120 000 tons a month.

Argus 14/6/90 (49)

SA's 'engine' for African economies

A South Africa freed from sanctions could bring peace and prosperity to the whole of southern Africa, says RICHARD DOWDEN of The Independent in London.

ANC leader Mr Nelson Mandela is currently hurrying through Europe and North America asking for sanctions to be maintained against South Africa until the ANC feels change has become irreversible.

Margaret Thatcher, the British Prime Minister, is fond of pointing out that the last thing South Africa needs is to have its economy wrecked by sanctions.

South Africa is not exactly bleeding to death from the effects of sanctions but, if its economy is to expand at a rate sufficient to fulfil the economic expectations that will come with more political freedom, it will need an injection of confidence. That will not happen until sanctions, a symbol of world disapproval of apartheid, are lifted.

Prosperity

The minds of Western leaders are so concentrated on finding the politically correct moment to lift sanctions that no one is looking at a more important long-term question for Africa. Can a South Africa, freed from sanctions and at peace with itself and its neighbours, bring development and prosperity to the whole of southern Africa?

The *quid pro quo* of a successful political settlement in South Africa is not just the end of apartheid, it might also include the end of a number of particularly destructive regional wars. More than 100 million people live in southern Africa — many of them in absolute poverty. In Mozambique and Angola there is famine again this year. Could the region be transformed into a prosperous economic community driven by South Africa's economic might?

The prospect of peace opens up the possibility of South Africa's skill, capital and manufacturing capacity riding the wave of political reconciliation and reviving the enfeebled economies of the region.

From 1978, South Africa invited its neighbours to join a "Constellation of States", a concept of political and economic co-operation between Pretoria and southern African countries that offered them trade and co-operation in return for their acceptance of apartheid.

They refused and instead set up the Southern African Development Coordinating Conference (SADCC) whose aim was to improve co-operation between its members and thereby reduce their dependency on South Africa. Pretoria responded by backing rebel movements in the two regional states, Angola and Mozambique, thus helping to destroy rail and road links to the coasts — the vital economic arteries of the SADCC members.

Some people believe that southern Africa's economic weakness is entirely caused by South African aggression — a theory contradicted by the fact that African countries a long way from South Africa, such as Ghana, suffer from the same problems as some of its neighbours. Botswana, South Africa's nearest neighbour, meanwhile, is one of the few prosperous nations in Africa with a growth rate of over 8 percent.

Peaceful

From the early 1980s, they poured arms and supplies into the Unita rebel movement in Angola and the Renamo rebels in Mozambique and raided Maputo, Gaborone and even Lusaka at will. But more peaceful voices have prevailed in Pretoria and now President De Klerk is seeking a settlement inside South Africa and again offering co-operation with its neighbours.

"SADCC without South Africa is like a car without an engine," said Neil Van Heerden, director of the Department of Foreign Affairs. "We are not opposed to it (SADCC). Anything which helps them will help us. If they eat better we sleep better but we regret the negative premise on which it was based. We don't think it will work without South Africa."

Nor will South Africa work without the region. The formation of a common market in the region would mean the merging of the SADCC, the South African Customs Union — which includes Botswana, Lesotho and Swaziland — and the Rand Exchange Area. It would require huge investment.

Testing zone

Some South African economists are floating the idea of a Marshall Plan for the region. According to Professor Sampie Terreblanche of Stellenbosch University, South Africa needs R250-billion in 10 years to turn the country's economy around. "But only if Nelson Mandela asks for it can we expect it ... we won't get Marshall aid for South Africa alone, it must be for the whole southern Africa area. Now is the time to develop a southern Africa common market to justify getting that aid."

Mr Van Heerden puts it more modestly: "I quietly hope that the First World might see southern Africa as a testing zone for continuing involvement in the developing world."

He is quick to kill any suggestion that South Africa is joining a gravy train for aid. "It's damned hard work but we have to succeed or we are going to end up as a banana republic."

Anglo American already invests in Zimbabwe and Zambia and sees prospects opening up in tourism and mining in Mozambique. Its partner company De Beers owns Namibia's diamond mines and jointly owns Botswana's.

Many companies in South Africa regard the end of South Africa's isolation as a challenge to trek into the rest of Africa. South African Breweries, for example, already doing good business in Africa, can look forward to even better trade once the taboos are gone.

South African businessmen, some of whom are already to be found as far north as Kinshasa or Abidjan, are gearing up for a more open, aggressive pitch at Africa's markets. Several transnationals, such as Shell and BP, who have to base their Africa operations in London and their South African operation in South Africa, will now be able to combine the two.

Although some have pulled out of South Africa because of disinvestment pressure, the situation is not irreversible. But it is not only the private corporations that are preparing to move.

A vision

Ian McRae, the Chief Executive of Eskom, the parastatal South African electricity company, for example, has a vision of South Africa transforming the rest of Africa.

Africa has a way of swallowing up grandiose plans devised for its betterment — especially by people removed from its realities — but Mr McRae counts himself an African. When the people of Soweto refused to pay their electricity bills he went to talk to them, alone and at night, to find out what the problem was and if he could solve it.

He believes electrical power could be the catalyst in the region and is already working on a scheme to unite Africa as far north as the Equator in one power grid. Although 60 years old and heading a company of some 55 000 employees Mr McRae sounds like an enthusiastic young man with a big idea.

between the two organisations, it was by no means the first pact

Before that, Inkatha and Cosatu concluded a peace treaty at the Durban Supreme Court in Septem-

... will be forgotten in a few months, or even weeks, from now.

One thing is clear: the leaders of

ANC advocates a mixed economy

A future non-racial and democratic ANC government would play a leading role in the reconstruction of the country's economy, according to recommendations made to the ANC. KAIZER NYATSUMBA reports.

CK 15/6/90 20/49

After a three-day workshop between the ANC and the Congress of South African Trade Unions (Cosatu) in Harare last month, delegations from the two organisations drew up recommendations on a post-apartheid economic policy.

The recommendations in the document, which has yet to be discussed and adopted by Cosatu and the ANC, were based on the observation that the South African economy was in a crisis and was consequently unable to meet the needs of the country's people.

The document advocates a mixed economy in which the State would play a leading role. Mass-based organisations and trade unions would, however, also be involved.

The document recommends that an ANC government makes taxation "more equitable and effective in many areas".

The expected expansion of income and employment would widen the tax base over time, and the burden of taxation would be shifted from individuals to corporations.

An ANC goverment, says the documment, was not to borrow money from abroad to finance State expenditure, but would instead have to manage the overall budget and the budget deficit in accordance with its objective of socio-economic reconstruction and the re-distribution of income and wealth.

No details are given of how the State will raise money to finance its activities.

The document comes out in favour of the ANC's policy of nationalisation. The State, it is recommended, would retain existing nationalised industries and would be prepared as a matter of fundamental policy to re-nationalise privatised State assets. New public corporations would also be set up in areas where they would be necessary.

Foreign investment in activities which led to increased employment and the development of local technological capabilities would be encouraged. However, foreign investors would be required to follow labour practices acceptable to the trade union movement.

An ANC government's first priority would be meeting the basic needs of the population such as food, housing, pensions, welfare and employment.

Recognising that land distribution was "a central national grievance", an ANC government, it is recommended, should commit itself to the immediate return of land to those removed from black freehold farms and the repossession of land by certain categories of labour tenants, as well as the redistribution of land and relocation of people by a land claims commission with grass-roots participation.

READERS' VIEWS

Gold and GDP growth

(49) F/M 15/6/90

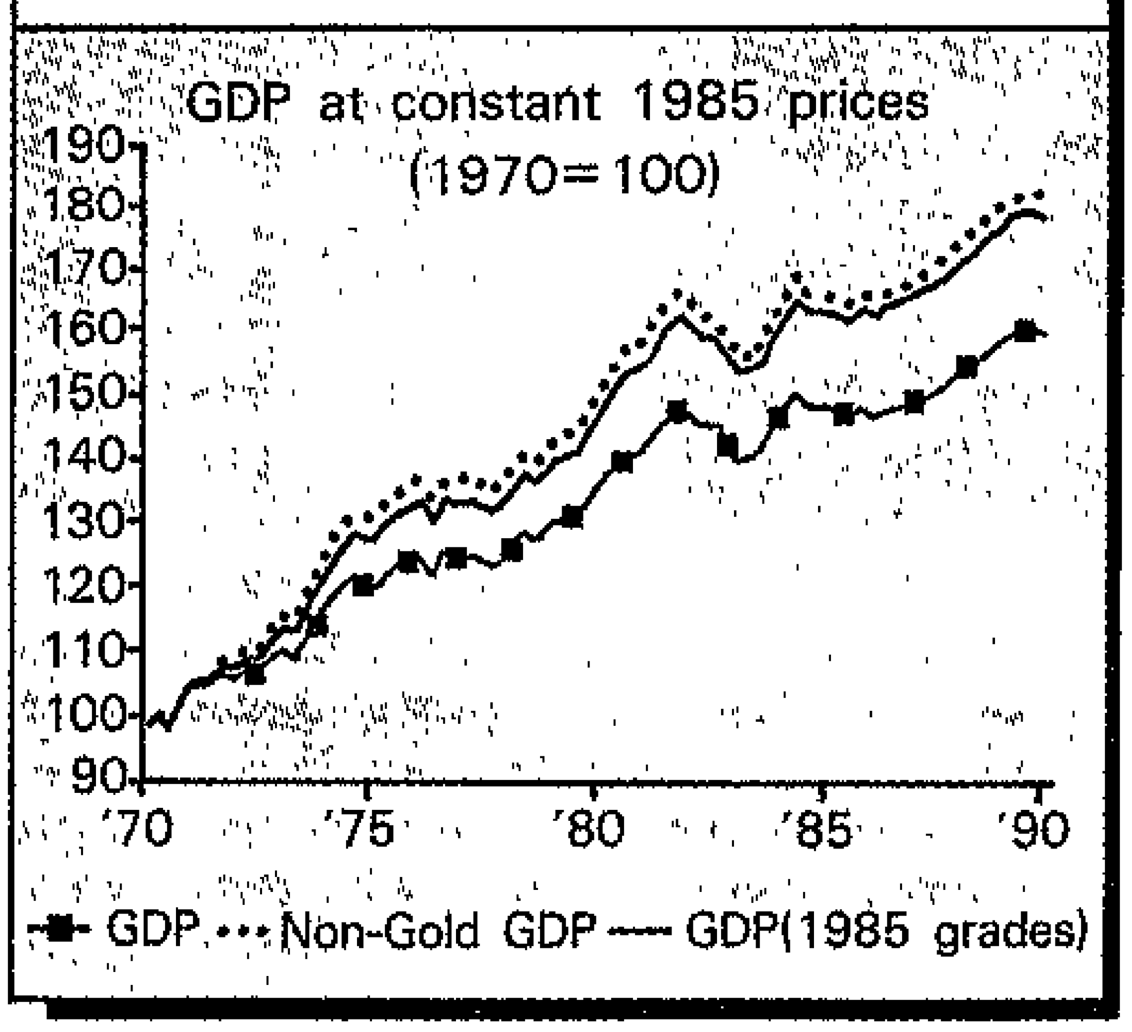
Edward Osborn is Nedcor chief economist

The customary measure of economic growth is the official GDP estimate at constant prices. The measure is correct, as far as conventional concepts are concerned, though everyone agrees there are omissions in respect of the informal sector.

Those aside, GDP correctly reflects levels of and changes from one period to another in incomes, product and expenditure — in concept, but not, of course, with exact accuracy.

GDP is, however, misleading as a measure of what one might call economic activity because of the domination of a single industry: gold mining. This is most evident, for example, in international comparisons of productivity changes, where productivity is simplistically measured as the ratio of GDP to numbers employed. SA compares unfavourably because of the ageing of the gold mining industry.

Good measure



It is nonsense to argue that productivity has fallen in gold mining because the end-product of pure gold has fallen from 1 000 t in 1970 to 610 t in 1989. There have, on the contrary, been great technological strides over those 19 years in overcoming problems of deeper mining, lower grades and raising the volume of ore milled from 75 Mt in 1970 to 106 Mt in 1989.

Clearly, the level of economic activity in gold mining in particular, and in SA as a whole, has risen more than is indicated by the conventional GDP measure.

Two questions arise: what has been the rate of growth in the rest of the economy and what has been the growth rate in economic activity for SA as a whole? An attempt to answer these questions has been made on the basis of:

- An assessment of value-added in gold mining for 1985, based on Chamber of Mines information; and
- Value-added estimates obtained for the entire period by extrapolation with recorded gold production and tonnage milled. These series were then applied to the official quarterly estimates of GDP (**see graph**).

The bottom curve shows official GDP estimates. The top curve shows non-gold GDP at a much higher level of growth and the adjacent curve shows the modified GDP of SA as a whole as if economic activity in the gold mining industry were measured by tonnage milled — the equivalent of assuming constant 1985 grades.

The respective rates of growth are given in the following table:

	GDP Official	GDP 'Economic activity'	GDP Non-gold
1970-1979	3,11	3,98	4,24
1979-1989	1,96	2,34	2,28
1970-1989	2,51	3,12	3,20

For the period as a whole, ageing of gold mining tended to understate the growth of economic activity by as much as 0,6% a year. Furthermore, the economy, other than gold mining, has been growing significantly faster that generally assumed. The non-gold economy has averaged 3,2% over the long haul but with a much faster 4,24% in the Seventies slowing down to 2,28% in the Eighties.

Economy not in recession, says Barend

BDay 15/6/90

MIKE ROBERTSON

CAPE TOWN — Despite the collapse in the gold price, the SA economy was still on course for a soft landing and a current account surplus of between R5bn-R6bn could still be expected this year, Finance Minister Barend du Plessis said yesterday.

Speaking in the debate on the second reading of the Budget, Du Plessis said the most recent data suggested that economic activities were continuing to level off. The contention that the economy had already entered a recession was an exaggeration of the cooling down process.

Even allowing for the lower gold price, there was no need to tighten government's monetary and fiscal policy stance. Nor, he added, was there any justification for relaxing that stance.

In the first quarter of this year, the gross domestic product (GDP) fell by 1,5% as against the preceeding quarter at a seasonally adjusted rate.

There was a significant fall in real value added in the primary sector. In the first quarter mining output was down by 12% at a seasonally adjusted annual rate.

Real output in the secondary sector fell marginally, while the tertiary sector posted an annualised increase of more than 2%.

Real gross domestic expenditure fell by 2,5% in the first quarter as opposed to 7% in the last two quarters of 1989.

Du Plessis said real gross domestic fixed investment had contracted further in the first quarter and further reductions were estimated to have taken place in real inventories. ([illegible]) (49)

Gross domestic saving in the first quarter was at the same level (22%) as in the first half of 1989, he said.

So far, Du Plessis said, the balance of trade had been encouraging with a cumulative trade surplus of R5bn being recorded in the first quarter.

"The recent lower gold price will adversely affect our gold export earnings, but we should nonetheless still be able to post a current account surplus of between R5bn and R6bn for 1990," Du Plessis said.

Getting down to business

(49) (49)
FM 15/6/90

Max Sisulu heads the ANC's economics department, which is due to set up an office in Johannesburg next month. He spoke to the *FM*'s Amarnath Singh.

***FM:* What does the ANC mean by "restructuring the SA economy" — and could you outline practical steps to achieve this?**

Sisulu: The need to restructure the SA's economy arises out of the fundamental crisis in this economy. It is an economy that has been racked by the distortions of the apartheid system, problems in the sphere of domestic economy and the changing and destabilising international environment. It has not been able to meet the needs of a great mass of the people.

To alleviate poverty and the mass deprivation of the black people, the ANC would follow an economic strategy that aims to achieve economic growth through a process of increasing equality in the distribution of incomes, wealth and economic power. This strategy calls for the active restructuring of production and investment to meet basic needs, to expand employment, to redistribute incomes and to provide social services.

Furthermore, the restructuring of production would take into account the need to transform SA's international economic linkages. The aim would be to increase competitiveness and develop dynamic linkages with domestic industries and markets.

How would the ANC go about increasing "equality of income distribution"?

Our policy is one of redistribution through growth. This means that we want to widen the pool of employed labour. To do this we will take steps to stimulate investment and, more important, to redirect investment flows from speculative ventures into industrial sectors. Coupled with this will be the strategy of increasing indirect income by enlarging the social security net.

We would also focus on existing labour practices with a view to achieving and maintaining an acceptable living wage for all.

What would breaking up conglomerates entail — scrapping holding companies?

This would entail more than the scrapping of holding companies. It requires an assessment of a number of factors: the capital structure of companies, the controlling interests and the market; that is, size of company, number of players, domestic, regional and international dimensions, strategic contribution to GDP, access and control of finance capital and labour practices. Our policies will be guided by the overall economic goals of redistribution through growth.

Will foreigners invest here if they have to fulfil conditions like increase employment and follow "acceptable" union practices?

Foreign investors will invest if it is profitable to do so. In many countries, foreign investors participate where they have to fulfil stringent wage and labour conditions. Such conditions can in fact reduce uncertainty and increase stability for foreign investors.

Would an ANC government subsidise loss-making nationalised enterprises or marginal mines to keep up jobs?

The ANC's economic policy would be along cost-efficient lines and not on the basis of subsidies to bolster bureaucracies. However, we would have to give consideration to strategic enterprises in which private enterprise is unwilling to invest. But priority will have to be given to cost-efficient enterprises.

The case of mines is rather more complex. Here not only domestic market conditions, but also the international market needs to be taken into consideration. Due to the volatility and the strategic nature of mining, a set of stabilisation mechanisms and policies will need to be put in place. These will aim to minimise the impact of changes in world prices and demand on the domestic economy. Such mechanisms could include a stabilisation fund, cartels and the formation of a State minerals marketing authority.

Nevertheless, the important criterion in all sectors will be long-term cost efficiency.

How would you "encourage domestic savings" — with high interest rates?

It is a fallacy to think that interest rates are the only mechanism available to influence savings. One of the critical variables in the saving function is income. Attempts will have to be made to increase real disposable income.

To this end, policies will have to be aimed at decreasing inflation, increasing the level of contractual savings and other, more innovative, savings mechanisms, like co-operative banking structures. In addition, the incidence of taxation will need to shift away from the individual towards the corporate sector. In recent years, an increasing burden of taxation has fallen on individuals through indirect taxation.

How could wage levels on the mines be improved significantly without compromising their viability?

The ANC would initiate measures to improve wage levels as well as the non-wage conditions of mine workers in consultation with the National Union of Mineworkers. This would include rooting out racist labour practices, policing mining health and safety, as well as paying attention to the living conditions of migrants and their families.

These steps would be taken without weakening or making less efficient the mining industry. We recognise and will seek to enhance the role of the industry as a job creator, foreign exchange earner and raw materials supplier. To this end, stabilisation policies will be considered.

How would you control inflation?

First, we need to establish the cause of inflation. Some of the major causes, in my view, are: the reliance of the SA economy on imported capital goods with an ever-declining rand; the ease with which firms faced with escalating costs transfer this burden on to the consumer; government's ongoing subsidisation of capital imports as evidenced by the large losses on the forward cover book and erratic fiscal and monetary policies on the part of government.

Instead of pursuing the much vaunted policy of trimming State expenditure, our focus would be on redirecting it towards more productive ends. Moreoever, we would avoid the practice of using borrowings to finance current State expenditure. Subsidisation of capital imports via the mechanism of the preferential forward cover rates will have to be reviewed on the basis of its impact on domestic stability.

In addition, astute monetary policy will be pursued to regulate and control the actions of the financial sector, rather than the pursuit of arbitrary monetary targets.

Why should State intervention and economic control under the ANC succeed when the East Bloc experience evidently shows they fail?

Any discussion of possible increased involvement by the State in the economy is smeared as "socialistic." Any discussion of a mixed economy is similarly smeared as "covert socialism." Though this may be a useful way of propagandising against something that one may find unacceptable, it is neither correct nor very honest.

There is a debate — among those who believe that a capitalist economy is the only way to go — about the extent to which the State should intervene within the economy.

There are some on one extreme who argue that the State should have little or no role in the economy and that market forces will result in the best possible redistribution of resources in society. There are others who argue that, though capitalism is the best economic system, it does not make sense to leave everything to market forces as the market is very bad at certain things. For this reason, they would advocate a capitalist system with a high degree of State involvement in the economy.

State involvement can mean anything from progressive taxation to a high level of social services provided by the State. The social democratic countries are obvious examples of the State intervening through the provision of an extensive social security net. I assume you do not regard all the social democratic countries as being failures. If so, then you do not have a case against all types of State intervention in the economy. ■

'Reform' won't spark SA economic recovery

The shock waves caused by the plunge of the world gold price below $350 an ounce yesterday has alerted South Africa to start a major rethink about its massive dependence on bullion to pull her out of economic trouble. **MICHAEL CHESTER** looks behind the scenes to find the search has started for new solutions to the dilemma when gold lets South Africa down.

As chairman of the technology committee of the SA Chamber of Business, on a constant search for the best signposts for future economic targets, Ted Adlard has amassed graphs and bar charts galore.

The bundle that regularly keeps cropping up at the top of the heap sets out the economic performance of South Africa compared with a number of Pacific Rim countries, that have startled outside observers with their spectacular successes.

In particular, he points to a graph that traces how South Africa's share of world export markets has stayed on a remorseless declining trend over the past 10 years while the slices claimed by Taiwan and South Korea have grown bigger and bigger.

Sanctions

Both started off in 1980 with smaller shares than SA. How did they leap from relative oblivion to join the front-runners in the international export league?

"Of course, South Africa has been handicapped by sanctions and boycotts," says Mr Adlard. "But now that we are nudging ourselves back out of political isolation we need to generate a sense of urgency about planning a brand new economic scenario.

"Taiwan and South Korea, like Hong Kong and Singapore, carved their successes out of radical new approaches to industrial planning.

"There are lessons to be learned — and we must find the time to sit down and put in a lot of homework.

"History may show that the economic tigers of the Pacific Rim owe much of their success to the fact they each set out without the prop of much mineral wealth. They had to pull themselves up by the bootstraps.

"The formula they moulded was to import raw materials, at relatively low cost, and build an industrial base to process them into finished manufactured products — all with a far higher export value.

"Perhaps a first lesson for South Africa is the need for a new look at its massive mineral wealth — gold and platinum to

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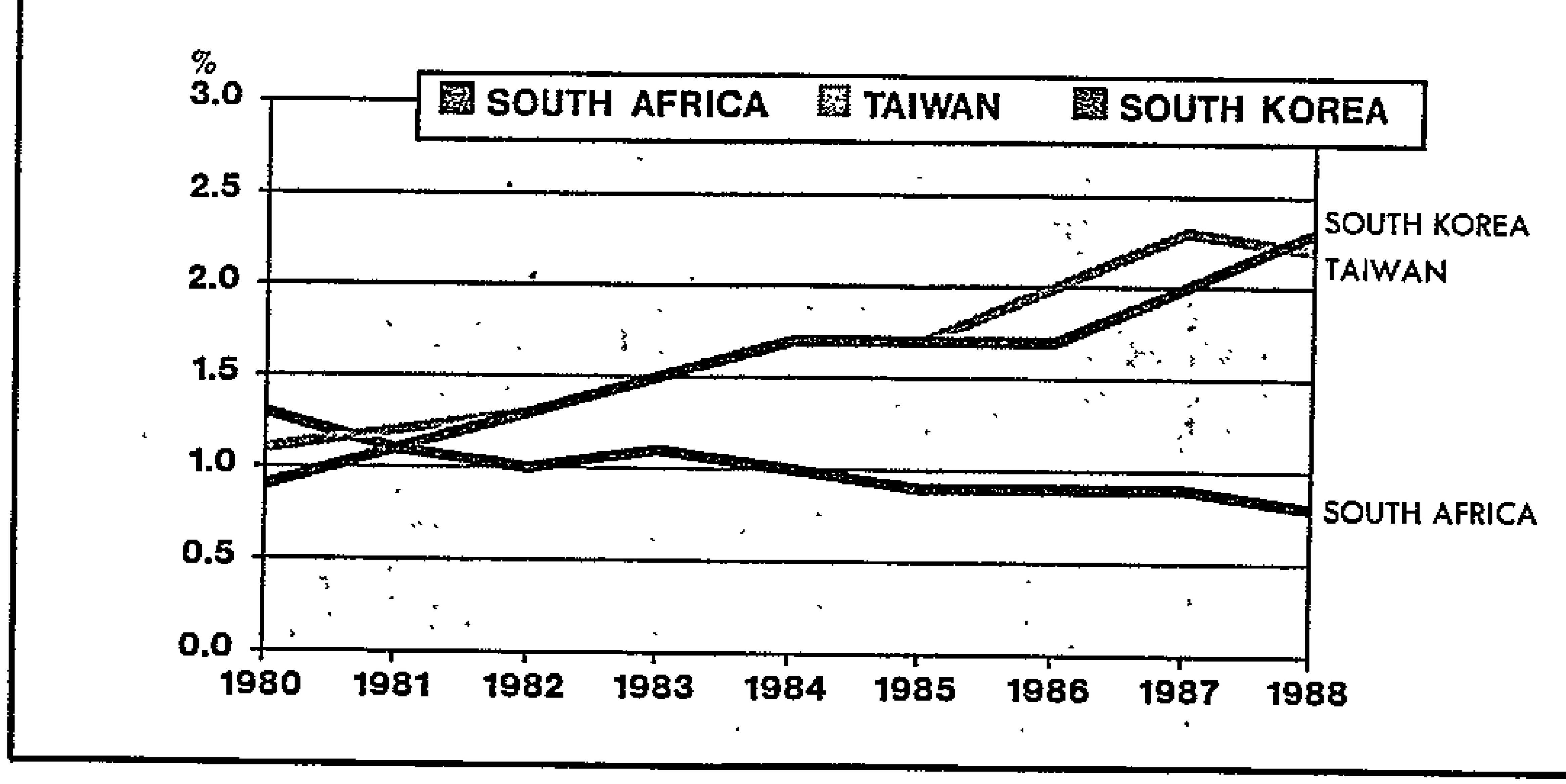

iron ore and copper.

"Raw materials will always be a major bread-winner. But why not follow suit and learn how to switch emphasis from shipping out natural resources in their basic form to using more of them ourselves in beneficiation programmes?"

Sacob studies illustrate the point:

- When SA, which owns 77 percent of global chrome reserves, sells the mineral in raw form, it is worth a modest R178 a ton.
- Processed into ferrochrome, it is worth R1 500 a ton.
- Further along the industrial pipeline, used in stainless steel plate its value leaps to R6 250 a ton.
- Turned into finished products — pots and pans to sophisticated components used by the chemical industries — it becomes worth R25 000 a ton.

What irks Mr Adlard is that very often South Africa has all the know-how to carry out the beneficiation — but has not been using it, at least on the scale needed.

That brings him to pull out a set of graphics to show how Taiwan, as an example, seized the initiative. They rivet on the allocation of expenditure on research and development programmes.

At the latest count, more than half of Taiwan's R & D cash went into the development of new ideas in high technology. No less than 73 percent was steered into the development of better engineering products.

Almost two-thirds of its import bills went into buying raw materials — but the industrial products into which they were processed in turn accounted for a whopping 95 percent of soaring export earnings from around the world.

Where did Taiwan muster all the brain-power and talent? Mr Adlard reaches for more graphics.

Taiwan has laid the foundation by concentration on its education system. It now has virtually 100 percent of its children going through primary school and ready for secondary school.

More important, its annual production of engineering graduates is already running at no fewer than 500 per one million of its population. The South African total: 40.

Mr Adlard believes that South Africa will come to the crunch of a worsening shortage of skilled manpower by the end of the 1990s unless it charts a new course.

On current trends, only a fragile one percent of the national labour pool will be equipped for roles as executives — compared with an average 9 percent in industrialised western economies.

Only 7 percent will be classed as highly skilled, meaning matriculants with at least two years experience in skilled jobs. Semi-skilled workers will account for 34 percent of the total — and the unskilled labour pool will equal a phenomenal 58 percent, against a western average down to 17 percent.

Exports

"South Africa will ignore the size of its problems at its peril," says Mr Adlard. "It's time to turn round and confront them.

"For years exporters have bragged about their performance — but when one strips away the influence of a weakening rand exchange rate, it is not so hot when measured by volume rather than rand value.

"Now there's the danger of being lulled into a mood that reform will wave a magic wand and guarantee economic revival. Not so. There's a tremendous lot of new thinking that has to be tackled.

"The delving for solutions needs to start in the primary school classrooms, through to the role of technikons and universities, and on to radically new attitudes at business level," Mr Adlard says.

African National Congress and Cosatu economic recommendations for a post-apartheid South Africa were released yesterday. Weekend Argus special writer CHRIS MOERDYK reports on the 11-page document that evolved from the two organisations' Workshop on Economic Policy held in Harare in April this year.

ANC, Cosatu spell out economic plan

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TAX and agricultural reforms, nationalisation and the "dismemberment" of the concentration of economic power in the hands of the country's major industrial conglomerates are a few of many necessary steps needed to bring peace and economic revival to South Africa.

According to African National Congress (ANC) and Congress of South African Trade Unions (Cosatu) economists, present-day South Africa is in a state of fundamental economic crisis largely brought about by the "distortions of the apartheid system" as well as domestic production problems and a changing and destabilising international environment.

And, they say, none of the stategies of the incumbent government are likely to alleviate "poverty and mass deprivation".

To address these, a future "nonracial and democratic state" would have to follow an economic policy that aimed to achieve economic growth through a process of increasing equality in the distribution of incomes, wealth and economic power.

According to the recommendations, this strategy calls for the active restructuring of production to meet basic needs, the expansion of employment and the redistribution of incomes, wealth and economic power.

"Within the context of a mixed economy, the State would assume the leading role in the reconstruction of the economy in order to facilitate the realisation of its developmental objectives."

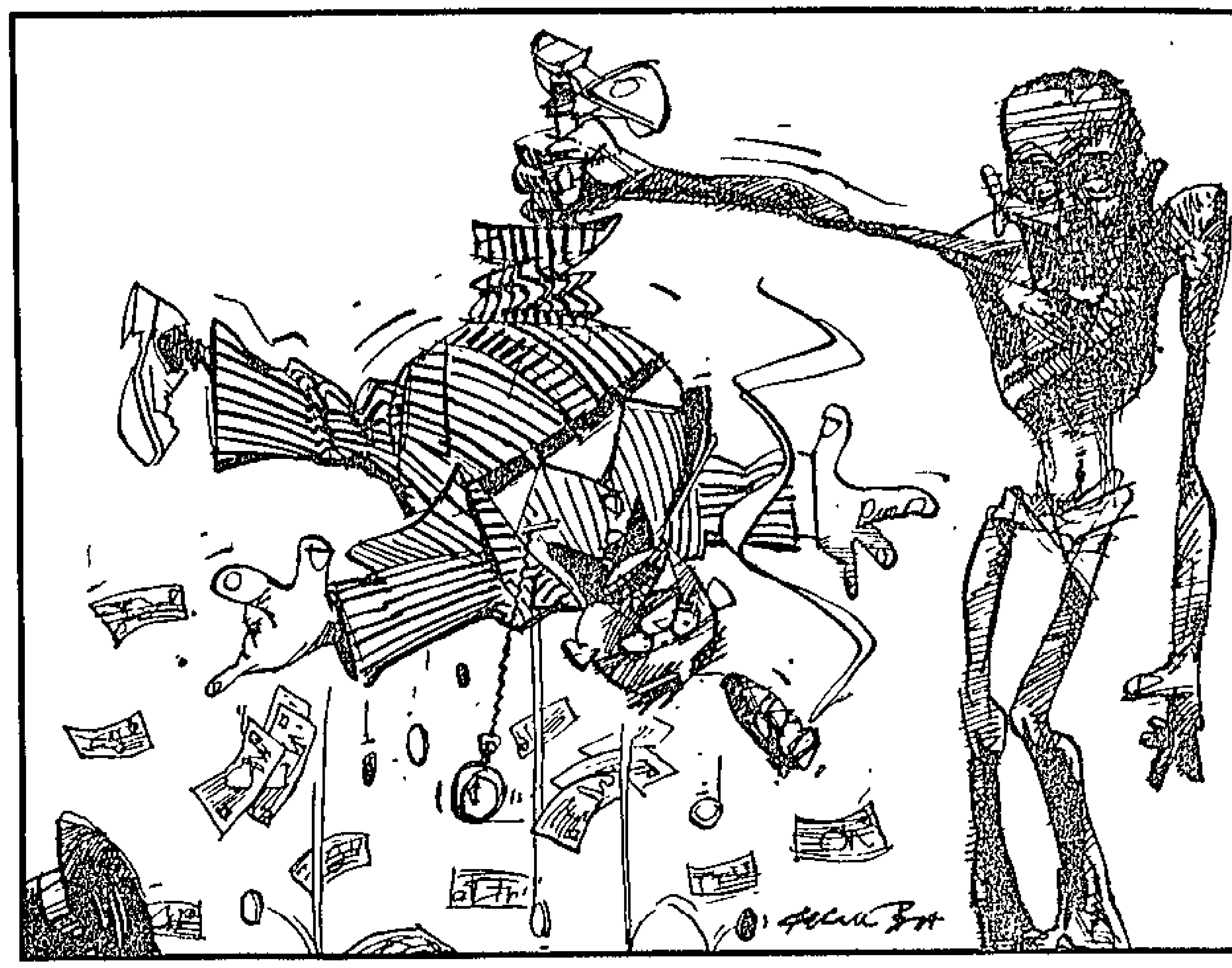
THIS would necessitate some form of overall macro-economic planning and co-ordination in which the State would involve mass-based organisations in planning with the criteria for State involvement being "efficiency and effectiveness".

ANC and Cosatu economists recommend that the financing of the reconstruction of a mixed economy should fall on domestic savings — including personal savings.

"Foreign capital should support domestic savings and not be seen as a substitute"

Nationalisation, they say, should be an essential part of the economic reconstruction programme. The new government should retain existing nationalised industries and should be prepared, as a matter "of fundamental policy", to renationalise privatised State assets. It also should set up new State corporations where necessary.

"Nationalised industries would operate within strict budgetary controls and they would not become vehicles for the enrichment of a large bureaucracy. In addition to these measures the (new) government would also facilitate forms of collective ownershop including co-operatives."



POLICY IS TO NATIONALISE, REFORM TAX, BOOST ROLE OF WOMEN

be an urgent item in negotiations".

The new State should also undertake tax reforms to make taxation more equitable and effective in many areas

"At present, the tax burden is carried disproportionately by individuals through personal direct taxation and indirect taxation. The new State would begin the process of shifting the burden of taxation, especially towards the corporations."

They also see the existing "extreme concentration of economic power" as being detrimental to the achievement of balanced economic growth in the interests of all the people of South Africa.

A new government, they say, would have to investigate this concentration of economic power with the objective of promoting a more efficient and effective use of resources.

"Where feasible, a policy of dismemberment of (industrial) conglomerates into units would be pursued to make the operation of conglomerates more compatable with the overall development objectives of the State."

According to the ANC and Cosatu recommendations, the issue of State expenditure and overall fiscal policy was particularly important with regard to current macro-economic imbal-

ANC and Cosatu economists believe that the current State strategy of seeking to create employment through deregulation and privatisation is not a solution and should be opposed.

A (new) government should encourage the trade unions to play a role in employment creation through collective bargaining over resources for employment creation and by encouraging the direction of pension and provident fund investment capital towards productive investments in employment creating activitues.

Government also would bear ultimate responsibility for the provision of welfare and pensions. This would be exercised in the context of the negotiated provision of welfare benefits between capital and labour, and of private provision by those groups able to provide for themselves

"The possibility of a national compulsory retirement scheme, underwritten by the State, would be investigated."

IN the only section of the document that refers to the plight of a specific sector of society, the economists believe that one of the legacies of apartheid and its economic system is discrimination against women.

"Women have been marginalised and relegated to being victims of unemployment and low wage employment The new State would strive to promote the rapid integration of women into economic activity and promote the removal of gender inequalities in employment. A programme of action would be mounted by the State to address the problems of gender discrimination in and outside the workplace and to provide support for women, especially in areas such as ante- and post-natal care"

The ANC and Cosatu economists believe that agriculture is facing "a major crisis, both in the advanced capitalist sector and in the black rural areas."

Land distribution, they say, is a "central na-economic power in the the country's major in- conglomerates are a few necessary steps needed peace and economic re- South Africa.

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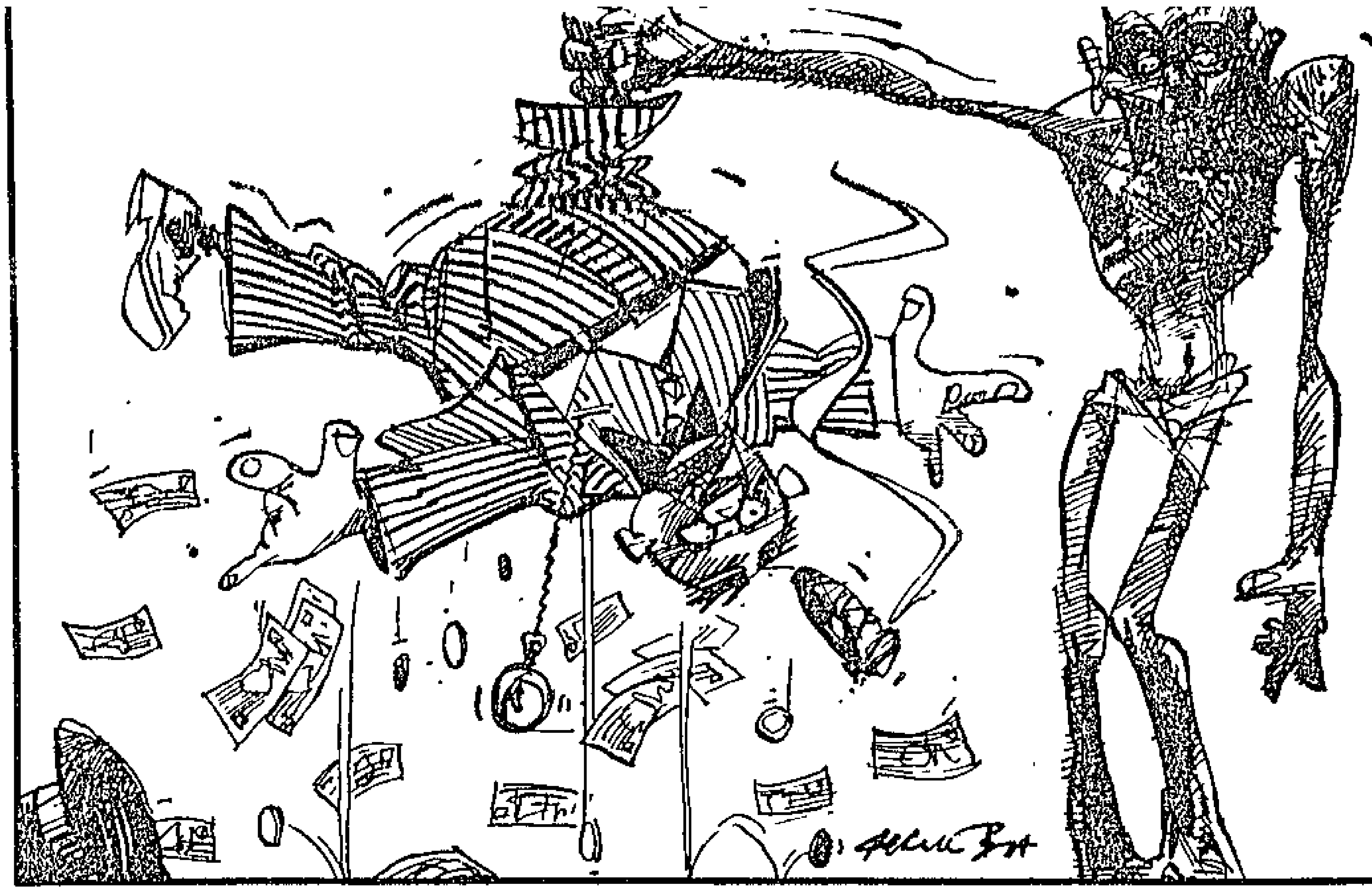
"Nationalised industries would operate within strict budgetary controls and they would not become vehicles for the enrichment of a large bureaucracy. In addition to these measures the (new) government would also facilitate forms of collective ownershop including co-operatives."

With regard to mining, they believe mine workers' demands should be acknowledged. Measures should be initiated to root out racist labour practices on the mines.

The new government should investigate the use of fiscal policy to encourage venture capital in new mines and the possibility of the State making strategic investments in mines also should be considered.

The document also referred to the "recent shift of De Beers control to Switzerland" as a serious development. "Potential disinvestment of this type should be an urgent item in negotiations".



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According to the ANC and Cosatu recommendations, the issue of State expenditure and overall fiscal policy was particularly important with regard to current macro-economic imbalances including inflation and balance-of-payments deficits.

"The new government would seek to rationalise and restructure the financial sector and to develop new institutional arrangements for both the primary and secondary bond markets. Current financial deregulation policies and monetary policy exacerbate the problems of the present financial system. To correct this requires direct State intervention, including State regulation."

The organisations' economists also recommend pursuing exchange control measures in order to retain domestic savings within the country and to prevent destabilising speculative capital flows. In essence, the current exchange controls would continue in modified form.

They believe that foreign investment on terms consistent with developmental goals should be encouraged

THE State and the trade union movement also should be legislatively empowered to ensure that foreign investors reinvested productively to promote continued growth.

ANC and Cosatu economists believe that the current State strategy of seeking to create employment through deregulation and privatisation is not a solution and should be opposed.

A (new) government should encourage the trade unions to play a role in employment creation through collective bargaining over resources for employment creation and by encouraging the direction of pension and provident fund investment capital towards productive investments in employment creating activitues.

Government also would bear ultimate responsibility for the provision of welfare and pensions. This would be exercised in the context of the negotiated provision of welfare benefits between capital and labour, and of private provision by those groups able to provide for themselves.

"The possibility of a national compulsory retirement scheme, underwritten by the State, would be investigated"

IN the only section of the document that refers to the plight of a specific sector of society, the economists believe that one of the legacies of apartheid and its economic system is discrimination against women.

"Women have been marginalised and relegated to being victims of unemployment and low wage employment. The new State would strive to promote the rapid integration of women into economic activity and promote the removal of gender inequalities in employment. A programme of action would be mounted by the State to address the problems of gender discrimination in and outside the workplace and to provide support for women, especially in areas such as ante- and post-natal care."

The ANC and Cosatu economists believe that agriculture is facing "a major crisis, both in the advanced capitalist sector and in the black rural areas."

Land distribution, they say, is a "central national grievance" and raising agricultural production is vital to the future economic prospects of the country.

A future government should, among other things, commit itself to:

- The immediate return of land to those removed from black freehold farms and to the repossesion of land by certain categories of labour tenants;
- Redistribution of land and relocation of people by a land claims commission with grassroots participation;
- Promoting various forms of production, including smallholder production, co-operatives and joint ventures;
- Providing a secure food supply at affordable prices;
- Promoting rapid unionisation and encouraging rural community orgaisation to redress historical injustices, protect jobs and worker rights; and
- State intervention on environmental issues to sustain the long-term production capacity of land

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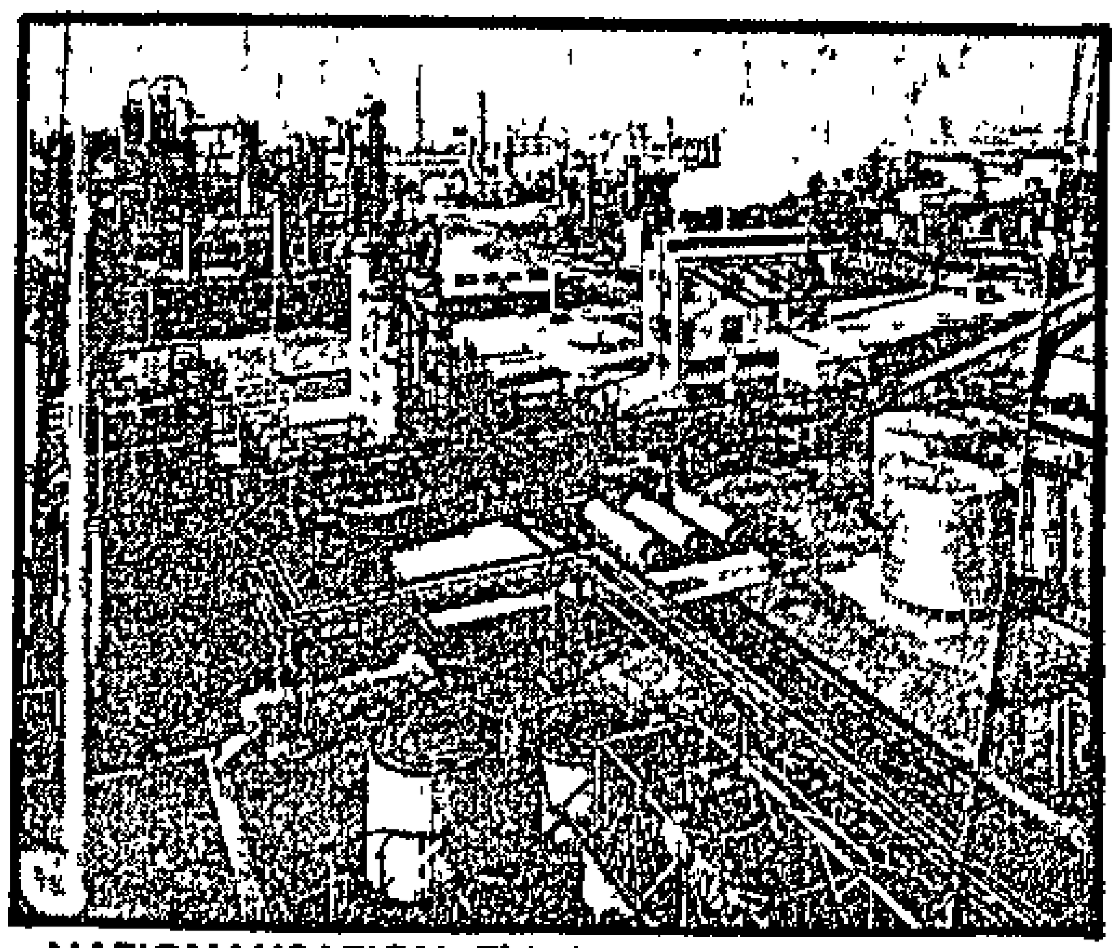
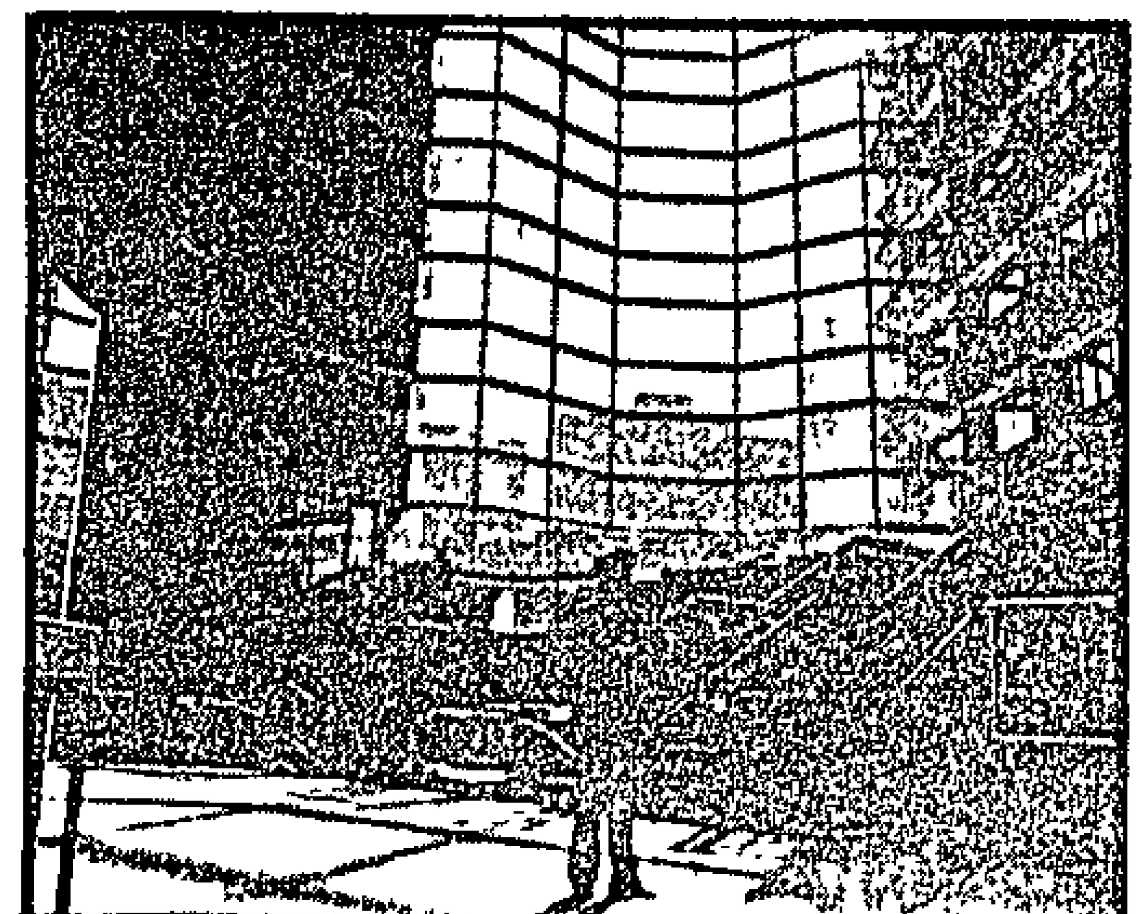
ANC's economic b

How it proposes to redistribute income, wealth

The ANC's and Cosatu's economic plans for a post-apartheid South Africa were released yesterday. Saturday Star special writer CHRIS MOERDYK reports on the 11-page document that evolved from the two organisations' workshop on Economic Policy held in Harare in April this year.

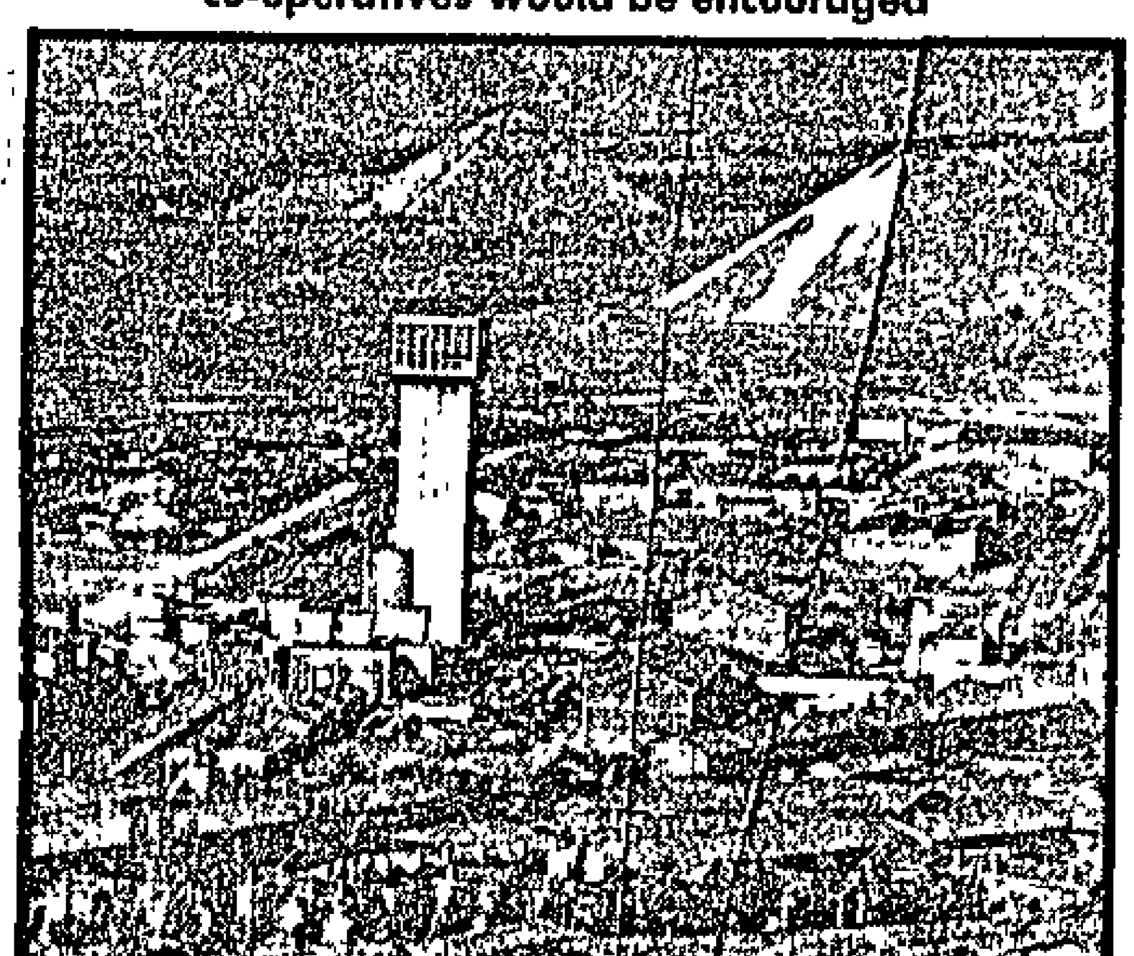


NATIONALISATION: This is essential for ecoromic restructuring. State assets that have been privatised will be re-nationalised. Existing Stde organisations would be retained and new oies set up where necessary. Collective ownership and co-operatives would be encouraged

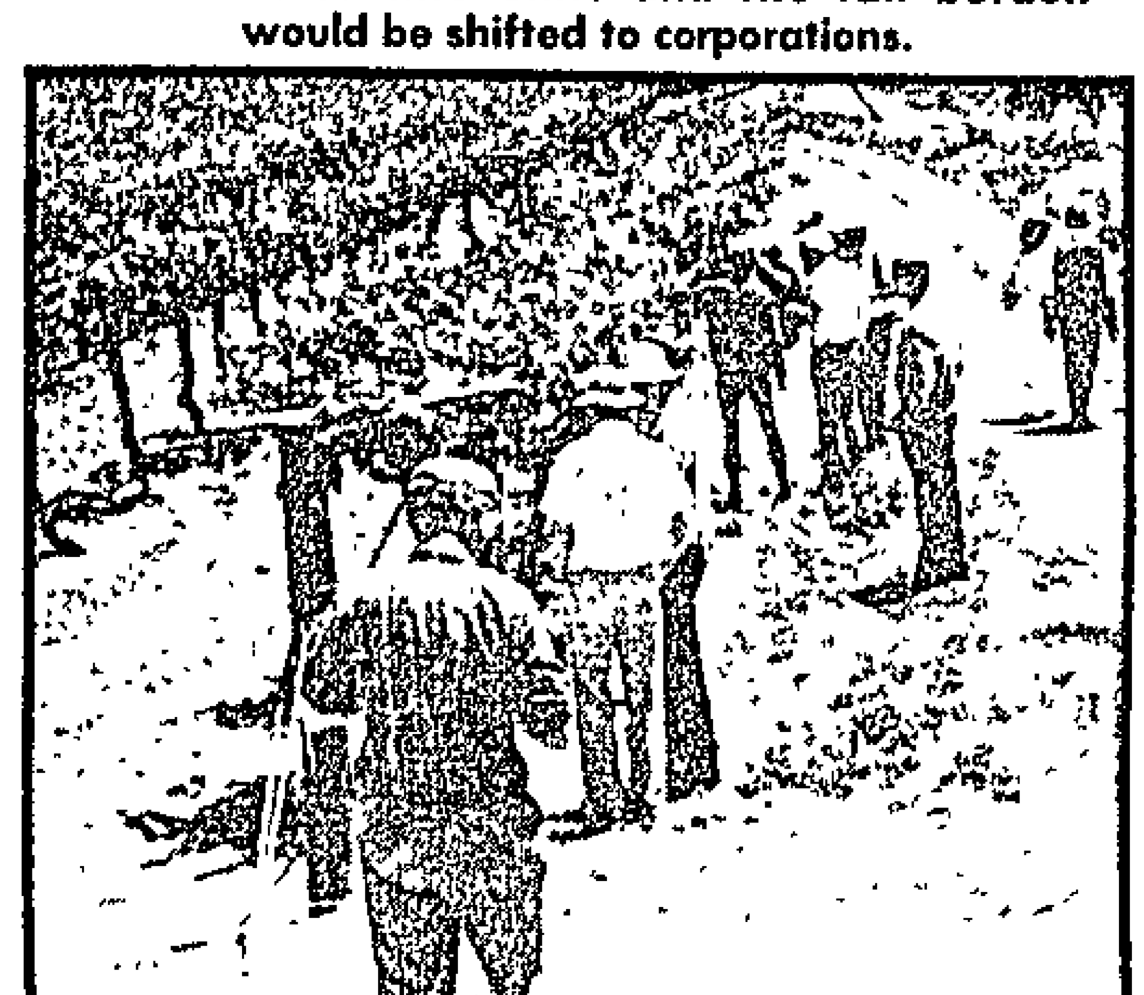


CORPORATIONS: The extreme concentration of economic power is detremental to growth, so there would be a re-distribution of wealth, incomes and power. Certain corporations would be dismembered into units and the tax burden would be shifted to corporations.

FISCAL POLIC... in which ... volved. ... current State of ... on domestic ...



MINING : Workers demands would be acknowledged and discrimination removed. Strategic State investment in mines, the stabilising of mineral prices through cartels and the creation of a State Marketing Authourity to handle all marketing of minerals with other producer countries.



LAND RE-DISTRIBUTION: A Land Commission would be established to oversee re-distribution of land and relocation of people. Land would returned to those removed from freehold farms and land would be repossessed for certain categories of labour tenants.

WOMEN: ... relegated to ... action would ... the problems side the wo... women as ...

TAX and agricultural reforms, nationalisation and the "dismemberment" of the concentration of economic power in the hands of the country's major industrial conglomerates are a few of many necessary steps needed to bring peace and economic revival to South Africa.

According to ANC and Cosatu economists, present-day South Africa is in a state of fundamental economic crisis, largely brought about by the "distortions of the apartheid system" as well as domestic production problems and a changing and destabilising international environment.

And, they say, none of the current stategies of the incumbent Government are likely to alleviate "poverty and mass deprivation".

To address these problems, a future "non-racial and democratic state" would have to follow an economic policy that aims to achieve economic growth through a process of increasing equality in the distribution of incomes, wealth and economic power.

According to the recommendations, this strategy calls for the active restructuring of production to meet basic needs, the expansion of employment and the redistribution of incomes, wealth and economic power.

"Within the context of a mixed economy the state would assume the leading role in the reconstruction of the economy in order to facilitate the realisation of its developmental objectives."

This would necessitate some form of overall macro-economic planning and co-ordination, in which the state would involve mass-based organisations in planning, with the criteria for state involvement being "efficiency and effectiveness".

ANC and Cosatu economists recommend that the financing of the reconstruction of a mixed economy should fall on domestic savings — including personal savings.

"Foreign capital should support domestic savings and not be seen as a substitute."

Nationalisation, they say, should be an essential part of the economic reconstruction programme. The new government should retain existing nationalised industries and should be prepared as a matter "of fundamental policy" to re-nationalise privatised state assets. It should also set up new state corporations where necessary.

"Nationalised industries would operate within strict budgetary controls and they would not become vehicles for the enrichment of a large bureaucracy. In addition to these measures, the (new) government would also facilitate forms of collective ownershop including co-operatives."

The democratic forces, say the economists, do not recognise, and find morally reprehensible, the present government's attempts — through privatisation, deregulation and other legislative means — to weaken the new state's ability to intervene to restructure the economy.

With regard to mining, they believe that demands of mine workers should be acknowledged. Measures should be initiated to root out racist labour practices on the mines.

The new government should investigate the use of fiscal policy to encourage venture capital in new mines and the possiblity of the state making strategic investments in mines should also be considered.

"In view of the declining and volatile nature of mineral prices, the policy of stabilising mineral prices through the formation of cartels would be seriously considered. The formation of a State Minerals Marketing Authority would be investigated. Such an agency would control all minerals marketing and enter into marketing agreements with other producing countries."

The document also referred to the "recent shift of De Beers control to Switzerland " as a serious development. "Potential disinvestment of this type should be an urgent item in negotiations."

The new state should also undertake tax reforms to make taxation more equitable and effective in many areas.

"At present the tax burden is carried disproportionately by individuals through both personal direct taxation and indirect taxation. The new state would begin the process of shifting the burden of taxation, especially towards the corporations."

The economists also see the existing "extreme concentration of economic power" as being detrimental to the achievement of balanced economic growth in the interests of all the people of South Africa.

A new government, they say, would have to investigate this concentration of economic power with the objective of promoting a more efficient and effective use of resources.

"Where feasible, a policy of dismemberment of (industrial) conglomerates into units would be pursued to make the operation of conglomerates more compatible with the overall development objectives of the state."

According to the ANC and Cosatu recommendations, the issue of state expenditure and overall fiscal policy is particularly important with regard to current macro-economic imbalances including inflation and balance of payments deficits.

"A future non-racial democratic government would not replicate the recent practice of using borrowings to finance current state expenditure.

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economic blueprint

redistribute income, wealth and economic power

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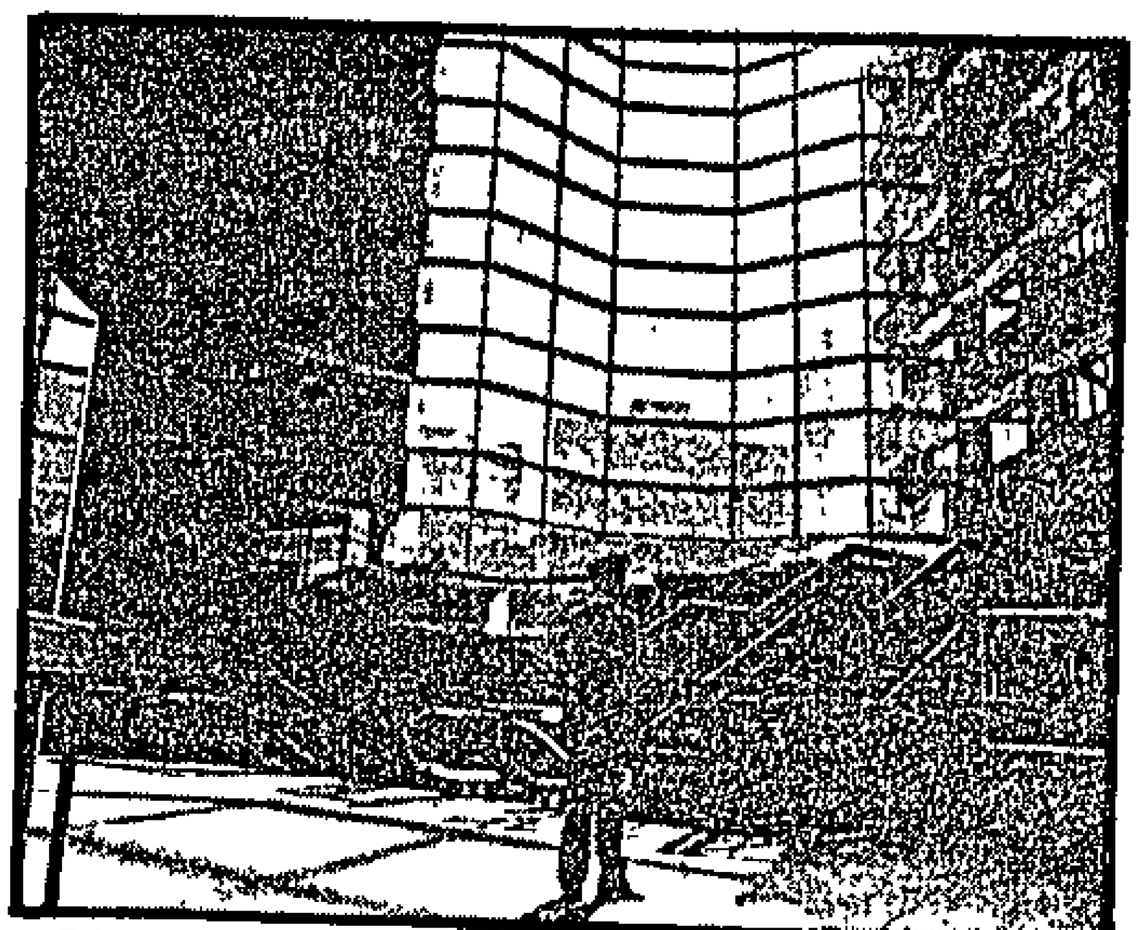

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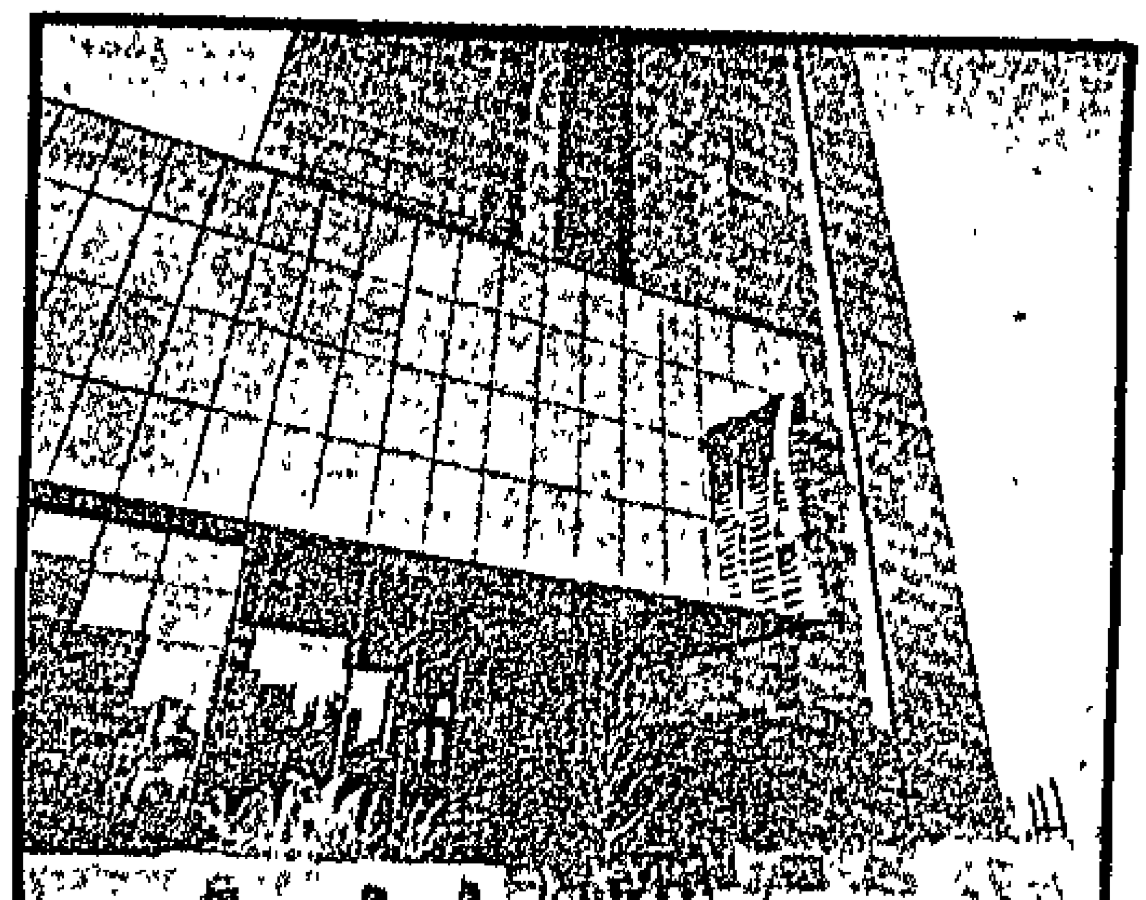

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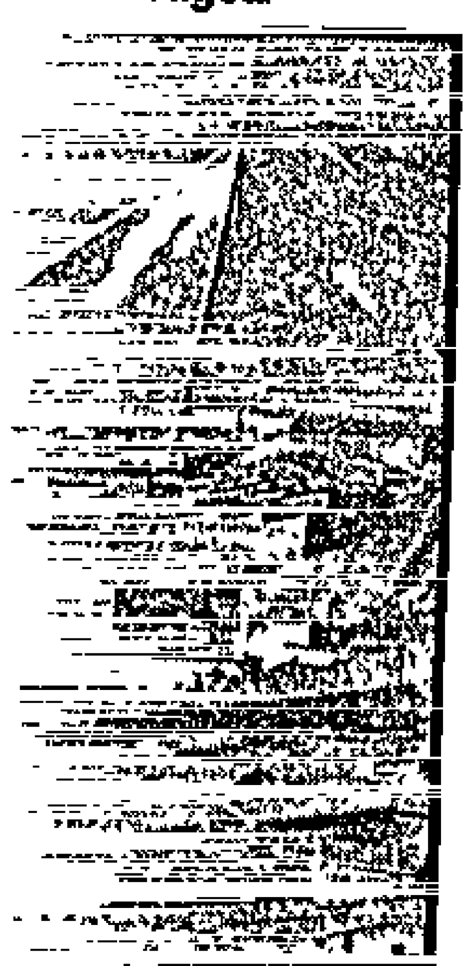

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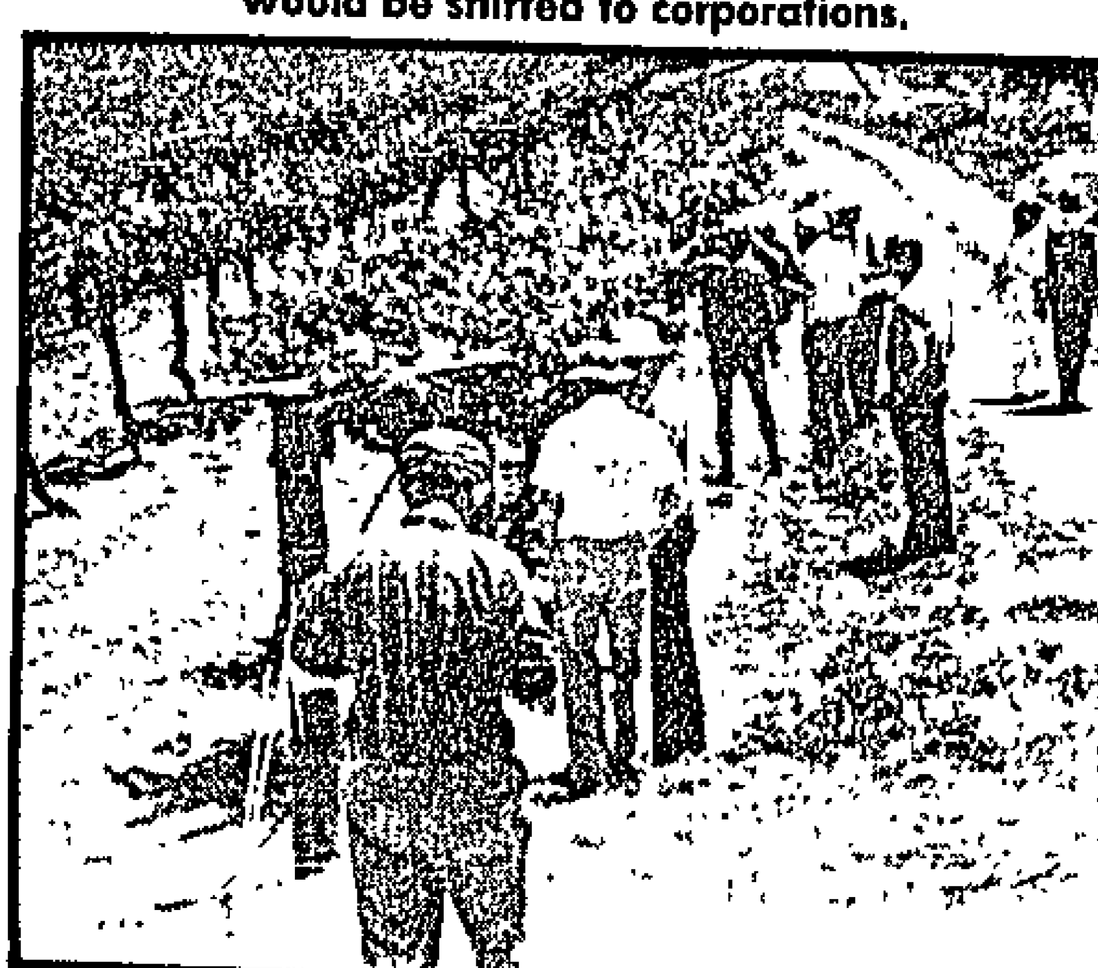

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The current capital market, say the two organisations, does not sufficiently direct investment into productive activity nor into crucial areas of infrastructure, such as housing, which a new government would want to develop.

"The new government would seek to rationalise and restructure the financial sector and to develop new institutional arrangements for both the primary and secondary bond markets.

"Current financial deregulation policies and monetary policy exacerbates the problems of the present financial system. To correct this requires direct state intervention, including state regulation."

The organisations' economists also recommend pursuing exchange control measures in order to retain domestic savings within the country and to prevent destabilising speculative capital flows. In essence, the current exchange controls would continue in modified form.

They believe that foreign investment on terms consistent with developmental goals, should be encouraged.

Foreign investors should particularly be asked to invest in activities which lead to increased employment and the development of local technological capabilities. They would, however, be required to follow labour practices acceptable to the trade union movement.

The state and the trade union movement should also be legislatively empowered to ensure that foreign investors reinvest productively to promote continued growth.

ANC and Cosatu economists believe that the current state strategy of seeking to create employment through deregulation and privatisation is not a solution and should be opposed.

They say employment creation should be addressed through public works programmes (of which housing projects hold distinct advantages), retraining and the deployment of resources from apartheid-oriented projects into employment-creating economic activities.

A (new) government should encourage the trade unions to play a role in employment creation through collective bargaining over resources for employment creation and by encouraging the direction of pension and provident fund investment capital towards productive investments in employment creating activities.

Government would also bear ultimate responsibility for the provision of welfare and pensions. This would be exercised in the context of the negotiated provision of welfare benefits between capital and labour, and of private provision by those groups able to provide for themselves.

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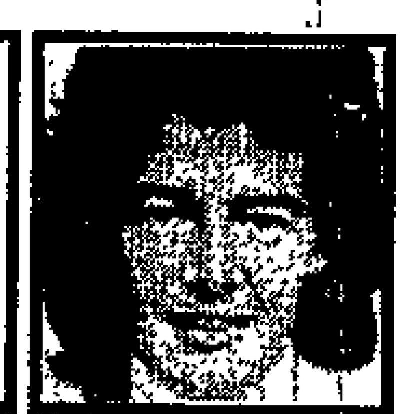
A slight touch of shell-shock

Inside Out

49

ANN CROTTY



Star 16/6/90

THE market was a bit shell-shocked this week — the gold price is looking very sick and there are as many good reasons why it should go down as up.

A lot of the heavyweight golds look as though they're now offering good value, but if gold hovers at its present level or lower, then they're looking expensive.

Even blue-chip industrials felt the weak sentiment. SAB was down, as were Remgro and Barlows — suddenly they are all looking overpriced.

At its current level it seems certain that Southern Sun minorities will plump for the cash offer and leave the SAB shares alone.

It certainly was a lovely deal for the Southern Sun minorities, particularly those who were persuaded by its presentation to the Investment Analysts' Society last year.

Myles thought it was a bit strange that last year the Southern Sun guys were highlighting the benefits of being a shareholder and this week they've decided that the benefits of being a former shareholder are considerably greater.

The fact that Southern Sun will get a chance to move into the homeland casino market next year doesn't look quite so attractive in current circumstances.

And if it remained listed it probably wouldn't even have the funds to take advantage of the opportunity.

Myles couldn't make head or tail of the Allied/Sage saga. Both parties appear to have lost a considerable amount of money as a result of being involved with each other.

Why they don't just cut their losses and go their separate ways is a mystery to him. But it's all great sport for the audience.

Allied does seem ripe for a takeover, given the enormous number of shareholders, with very few having any reasonable stake.

According to Myles the institutions aren't one bit enamoured of the insider trading regulations currently being put through Parliament.

They see it as massive overkill that will prevent them from even acting on information from brokers' research.

It's going to paralyse the market and have everybody acting in unison (even more so than they're currently doing).

What with that and the weak gold price, it's little wonder that the punters at the JSE are turning more and more to horses, soccer and tennis.

The Landlock deal has certainly helped the Jasco share price — it's moved up to 60c against the market trend.

Myles couldn't establish the identity of the purchaser of Arwa (except that it's not Burhose). Something should be known next week.

Sowetan
18/6/90

(49)

Clearing the confusion on ANC's stand

'Nationalisation will destroy capitalists'

SINCE ANC deputy president Nelson Mandela restated his party's programme of nationalising the commanding heights of the South African economy, the country's leading businessmen have been thrown into a state of high anxiety.

These hard-nosed men who normally spend their waking hours pondering the bottom line (profits), suddenly find themselves also spending sleepless nights writing treaties to newspapers about the alleged havoc that nationalisation would bring onto South Africa .... Well done Madiba!

As in most such spirited defences, more heat - nay, hot air - has, however, been thrown on the subject of nationalisation by the 'captains of industry' than light.

Attempts by unnamed sources in Lusaka to "clarify" Mandela's statement have if anything added more mist on the hot air thus creating a thoroughly foggy situation.

Objective

In this confusion what has been lost is the role nationalisation plays in the socialist or Marxist view of the world. That explanation we will not, however, get from the 'captains of industry' as they do not know it.

Let me explain. Most contributions to the nationalisation debate assume that the objective of Marxism in devising the concept of nationalisation was to redistribute society's wealth in the favour of the poor. This couldn't be further from the truth.

The purpose of nationalisation, at least in Marxist thinking, was not wealth redistribution at all. The purpose was to destroy the social foundation on which the capitalist class developed, that is, private ownership of the means of production.

Redistributing wealth would not achieve that objective, at best it might create, more though less rich, capitalists. The class itself would remain in existence as a capitalist class and its means of reproducing itself would in turn remain intact as private capital.

THIS article was written by Moeletsi Mbeki, a South African journalist who is living and working in exile in Zimbabwe. He is the son of ANC leader Govan Mbeki.

OPINION

But why should Marxism want to destroy the capitalist class?

This question goes to the very heart of modern history including the history of South Africa since the infamous Jan van Riebeeck settled at the Cape.

According to Marxist theory, human society develops through historical periods. There was the ancient period of communalism, another period of slavery, a period of socialism, and so on onto the highest period of human development and happiness - communism.

Marxism argues that every historical period is characterised by specific forms of exploitation of the many by the few.

Non-workers

Capitalism, which is our modern period, is characterised by the exploitation of the labour of workers by non-workers. These non-workers; known as capitalists; are owners of means of production - land, mines, factories, offices, power stations, etc.

In order for the non-workers to exploit the labour of the others, they must first deprive the workers-to-be (peasants) of any capability to work for themselves.

In other words the workers must have their land taken away from them. The oxen which they would use to plough must also be taken away from them. In a nutshell this was what happened in South Africa between Van Riebeeck's arrival and today.

Having deprived the workers of independent means of earning a living, workers therefore have no alternative but to work for the capitalists then call the shots and fix what the workers will earn.

The workers may bargain to try to improve their wages but that does not change the essence of system capitalist system as a system of exploitation.

Interestingly, for capitalists to obtain the means of production, especially land, they did not just dispossess the peasants. They also dispossessed kings and queens, feudal lords and their ladies. In countries like England and France they went even further and took away the land from the church and executed bishops and archbishops when they tried to resist.

Property

History has marched on; now it is the turn of the capitalists to lose their ill-gotten gains. Not surprisingly, they are ferocious in their self-defence and in their efforts to discredit nationalisation. Hence the sleepless nights.

The lords and bishops of old also wrote long treatises denouncing capitalist private property and capitalism - Sir Thomas More in England and Honore' Balzac in France, for example - but that did not stop capitalism emerging in Europe from the ruins of feudalism and spreading to the far corners of the globe such as South Africa.

Would nationalisation and the destruction of the capitalist class benefit South Africa?

If we look at countries like the Soviet Union, China and Cuba where the capitalist class was indeed destroyed, the answer is definitely yes.

With the elimination of the capitalist class, development and industrialisation would continue at a quicker pace because there would be no capitalists to cream off the profits for their own lavish consumption.

Equally important, the hundreds of millions of rands that every year are exported out of South Africa either as dividends for foreign capitalists or as capital flight shipped to the peaceful haven of Switzerland by the likes of De Beers and Rembrandt would be stopped dead on its tracks.

MANDELA

That money would be invested in South Africa instead which is why thorough-going nationalisation would lead to greater economic development rather than the opposite as the 'captains of industry' have been at pains to argue.

Revolutions

Before their revolutions Russia, China and Cuba were backwaters riddled with malnutrition and tuberculosis rather like South Africa now. Today the Soviet Union and China can send a man to the moon and Cuba has more doctors that South Africa, a country three times its size? Why? Because these countries got rid of the capitalists who used to export vast amounts of capital from their countries and squandered millions in the consumption of expensive luxury imports and in riotous living rather like the white capitalists have been doing in South Africa for more than a hundred years now.

All this talks of nationalisation does not of course mean every shebeen owner, taxi driver, grocery storekeeper should also start worrying about their future. They hardly qualify for the label of capitalist.

Numsa man expounds on economy

TIM COHEN

(49)

NATIONAL Union of Metalworkers of SA (Numsa) education officer Alec Erwin has rejected centrally planned economic policies as inappropriate to SA's political situation and its economic resource base.

In an article published in the latest edition of SA International, Erwin also rejected nationalisation as an incomplete answer to the restructuring of the SA ecomomy.

And he rejected the "unfettered ownership rights of free market capitalism".

"There will have to be social controls over production effected through a range of ownership forms and where the market plays critically important roles.

"The stress here is the need for such planning to be coherent and integrated and not piecemeal. This planning process will have to learn from planning experience in both socialist and capitalist mixed economies."

Erwin said the Korean state had intervened in capital investment decisions in order to develop a manufacturing sector that could compete on the international market.

In contrast, SA state intervention in the ecomomy in relation to capital was to create favourable supply conditions, he wrote.

"Manufacturing grew behind the protective wall of tariffs and the manpower and technology policies were left in the hands of racially divided and materially unequal education systems.

"The effects of such a pervasive intervention in the supply conditions in the form both of apartheid and more narrowly economic policies such as import substitution are to create a manufacturing sector that can produce more than the high income white (and a small black) strata of society can purchase, but at a set of prices that the vast majority of our people cannot afford."

Manufacturing, he said, was therefore structurally incapable of providing for the needs of the mass market and also incapable of competing on international markets.

He said it had become a declining sector preventing the possibilities of economic growth.

On planned economies Erwin wrote "there can be little doubt that command economies were capable of effecting relatively rapid structural changes and attaining high levels of employment.

"This was particularly true in the resource-rich economies such as the Soviet Union," he said.

However, it was now reasonably clear such economies did not accelerate the growth of the standard of living, and productivity was static and the quality and variety of products were increasingly unacceptable to people.

He said SA's economic future would not be stable if it was not based on democracy.

Mixed response to ANC economic plan

Argus 19/6/90 49

By MICHAEL MORRIS, Political Correspondent, and GRAHAM LIZAMORE, Staff Reporter

NEW economic proposals by the African National Congress — spelled out in a document — have provided a fresh assessment of its post-apartheid vision, but key doubts remain, politicians and economists say.

The joint ANC/Cosatu document, arising from a workshop on economic policy in Harare in April, says tax and agricultural reforms, nationalisation and the "dismemberment" of concentrated economic power in the hands of industrial conglomerates are a few of many steps needed to bring peace and economic revival to South Africa.

ECONOMICS

It blames apartheid for many of the country's economic ills and says none of the government's stategies is likely to alleviate "poverty and mass deprivation".

The document recommends increasing equality in incomes, wealth and economic power through redistribution, the restructuring of production to meet basic needs and the expansion of employment.

It advocates overall macro-economic planning by the State, but involving mass-based organisations.

ANC and Cosatu economists suggest reconstructing a mixed economy should be financed by domestic savings — including personal savings — and that nationalisation should be an essential part of the reconstruction.

The proposals have evoked wide reaction from politicians and economists.

The government has yet to digest the report.

Finance Minister Mr Barend du Plessis, who was fully engaged yesterday in responding to two day's of debate on the Budget, said he had not had time to study the report in depth. However, he has made the government's position clear.

Speaking in the Budget debate — in which he accused the ANC of naivety in its attempt to use sanctions as a "trump card" — Mr Du Plessis warned against the impression created by talk of nationalisation, reparation, redistribution "or similar high-sounding euphemisms".

Were businessmen, he wondered, "really encouraged to plan ahead and to invest when lying under a cloud, not only of nationalisation rumblings, but also, and more gravely, of the mindless destruction, physical and economic alike — such as is damaging the confidence both here and abroad — that is playing itself out under the ANC's paternal eyes?"

Veteran Democratic Party finance spokesman Mr Harry Schwarz's reaction was mixed.

Objectives

He found some "very sound proposals" in the statement and "many aspects one can agree with", but felt there were some aspects which were "counterproductive to the creation of wealth, growth and even to redistribution".

Mr Schwarz believed there should be a thorough debate, not so much of the objectives, over which there was a high degree of common cause, but about the methods to achieve them.

He added: "There are some sound fiscal principles in the document, such as the commitment to no funding of current expenditure from loan capital, but in regard to the deficit before borrowing, the document is somewhat vague and one is fearful that with the demand on them to fulfil expectations, this could result in unacceptable levels, and very substantial inflation.

"The major problem is that if you remove discrimination in State services and try to close the income, wealth and skills gap — which should be done — then if you do not tread carefully, you will enter an era of high inflation, which would have a destructive effect on the economy, and not help the people who will need to be helped."

He said: "The document is correct when it says apartheid has distorted the economic system and that action has to be taken to correct that, but we have to be careful that the correction of the distortion does not create further distortion.

Nationalisation

"The issue of nationalisation is still a major one. Even though the ANC advocates nationalisation, it recognises the need to attract venture capital and that no-one is going to provide it and be a pioneer if he cannot anticipate getting adequate rewards for the risk he takes.

"While the threat of nationalisation and major state intervention hangs over them, the venture capital investors are not likely to be encouraged.

"On the question of redistribution of income and economic power, one needs to be careful that this does not frighten off people," Mr Schwarz said.

Professor Brian Kantor, of the Department of Economics at UCT, said he did not see the document as terribly radical.

"It is consistent with policies in mature industrialised countries. There is not much to argue about the goals the ANC has set. It is the means or the tactics that will have to be used to achieve these ends that will have to be found," he said.

He said it was important that the ANC/Costatu workshop had identified the importance of foreign investment.

"This is now a time for cool heads and debate on how they expect to attract foreign investment," he said.

Disaster

However economist, Dr Cedric Nathan, also of UCT, dismissed the document as a Marxist guideplan for economic disaster.

He said government interference in economics was outdated, inefficient and kept everyone, except the politicians, poor.

He warned that re-distribution led to greater inefficiency because capital left the country and the value of productive resources declined.

"In the end there will be nothing to re-distribute," he said.

Referring to the ANC/Cosatu document he asked what was meant by increasing equality in the distribution of incomes, wealth and economic power?

"Do they want equality of income or equality of opportunity?" he asked.

He warned that too heavy corporate taxation would bankrupt companies and the government would lose out on taxes anyway.

Commenting on the ANC/Cosatu desire to attract foreign investment in activities which led to increased employment, Dr Nathan said: "You can ask for the moon but it doesn't mean you will get it. Investors look at risks and expect returns. On the basis of this document the ANC can forget about foreign investment and start worrying about disinvestment."

Economists warn govt to exercise discipline

NEIL YORKE SMITH

GOVERNMENT spending appeared to be under control, but discipline would be required if government was to resist increasing calls for social spending, experts said yesterday.

Government spending figures for April and May show expenditure amounted to R12,044bn — 5,8% higher than for the corresponding period last year.

The relatively small rate of increase is well within government's stated target of increasing total spending for the fiscal year by 11,9% (in nominal terms) to R72,9bn.

"It is too early to look for definite trends, but I feel quite satisfied with recent spending levels," the Finance Department's chief director of fiscal affairs, Coen Kruger, said yesterday.

He stressed the relatively low increase had not been adjusted for inflation.

Regarding possibilities for further spending cutbacks, Kruger said: "We are constantly looking to economise, but in view of the policy to improve socio-economic services, and the financial demands of structural development, we have to be realistic."

Rand Merchant Bank economist Rudolph Gouws confirmed it was too early to look for trends, but said government's potential to meet spending targets had improved.

"Government seems more able to control its own spending. Improved systems have been installed and are working which should assist them in controlling expenditure," he said.

B Day 19/6/90 (49)

Intense

One implication of more disciplined spending was that the public was less likely to encounter monetary and fiscal surprises from government, said Gouws.

But Southern Life economist Mike Daly argued intense demand for spending on social services would limit government's ability to reduce spending in real terms.

"We have already seen increased spending on police and nurses. Expectations are increasing along with demands so spending is unlikely to be contained," he said.

ANC policy aims at a 'common market'

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KIN BENTLEY

LONDON — THE ANC is developing a policy on economic and other inter-state relations in southern Africa — and in terms of it SA could become part of a regional "common market" with a common currency. BDay 19/6/90

But, with SA becoming the powerhouse of the region as Africa opens up and sanctions are lifted, its large conglomerates cannot expect to reap increased benefits at the expense of the poorer nations in the region.

This is the essence of a letter by the ANC's chief representative in the UK and Ireland, Mendi Msimang, published in The Independent.

Writing in reaction to an article last week on the role of a post-apartheid SA as a "catalyst for economic growth" in the region, Msimang said "the condition for such a role cannot be a domestic political settlement that is simply acceptable to our people in SA".

Rather what was called for, he said, was a "fundamental recasting of SA's foreign policies ... into one which is indubitably based on a structure of equal and non-exploitative relations" between nations of the region.

Nationalising mineral rights for a free market

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BDay 20/6/90

HELOISE HENNING

AS SA looks to a post-gold economy, a senior geologist believes that mineral exploration, economic development and protection of the mines from nationalisation could all be achieved by nationalising the country's mineral rights.

Johan Kruger, a staff member at the Bernard Price Institute (Geophysics) at Wits, maintains that nationalising SA's mineral rights, while leaving the right to mine in the hands of the private sector, would also have the political benefit of helping reconcile the ANC's Freedom Charter with free enterprise.

Kruger and Maarten de Wit, now head of Geology at UCT, propose that all mineral rights be vested in the state or preferably a National Minerals Corporation (NMC).

Kruger maintains that nationalising mineral rights would free exploration from the current "bureaucratic nightmare" of confusing, forgotten and often overlapping multiple rights ownership. It would open mining to small prospectors and entrepreneurs and offer employment to the thousands of skilled miners losing their jobs as the gold mining industry contracts.

Mining houses and their lawyers spend hours tracing the ownership of mineral rights, which are often separate from surface rights and may have been divided and subdivided by being bequeathed to descendants of the original owners. In one celebrated case there are more than 3 000 owners of the mineral rights of a particular tract. These problems can also hold up township development for years while mineral rights owners are traced.

Kruger says the present system is inefficient, as mineral rights follow the surface boundaries of the original farms, presenting geological or engineering problems for those trying to extract ores.

He wants to solve these problems by vesting mineral rights in a public corporation in which all rights holders, including the state, would own shares related to their current holdings. Shareholders would receive a pro rata "dividend" from payments to the corporation for prospecting and mining licences.

"This would release the vast amount of capital locked up in unproductive and illiquid mineral rights, while releasing for exploration vast areas of land now sterilised by the current system. It would change the new South Africa into a country where mining entrepreneurs of all sizes would flourish in a freed market," he says.

Kruger and De Wit published their views in the International Affairs Bulletin in 1987. They have since presented the proposal at conferences and to private sector bodies. The National Union of Mineworkers has a similar idea, based not on the economic efficiency in a free market but on the Freedom Charter's call for ownership of SA's mineral wealth.

In an interview about their original thesis, Kruger said the exploitation of minerals demanded investment by entrepreneurs and, unless mining companies had security of tenure to an ore body, no such investment would occur. Nevertheless, he believes that nationalising the mineral rights would not only satisfy the ANC but be of positive benefit to the mines.

Kruger maintains that the current law on mining rights cannot survive the negotiating process; it is against everything the ANC stands for.

"The ANC wants to nationalise to return to the people the mineral wealth beneath the soil. If the mines own that mineral wealth, the easy way is to nationalise the mines. But if the mines are renting that mineral wealth from the state there is no point in nationalising the mines or the mining houses, which are only operating companies.

"I am trying to insulate the mining companies from nationalisation. Anglo and De Beers operate in Botswana, on mineral rights on which they have security of tenure but which are state-owned, and do incredibly well. We have got to protect the operating companies from direct government interference."

Vesting mineral rights in an NMC would unlock entrepreneurial opportunities, resulting in competition to explore and exploit SA mineral resources by small and large companies. It would also broaden the SA minerals base and lead to more job and wealth creation, he says.

Under his proposal, current mineral rights would not be confiscated but would become NMC shares, tradeable on the JSE. The myriad of rights holders would gain useful assets rather than retain mineral rights of unknown and capricious value.

The income from royalties and exploration licences would be distributed to the state (for social and other programmes) and the private shareholders, as well as funding research into SA geology and mineral beneficiation industry which Kruger says is vital for sustained health of the industry.

Prospecting licenses issued annually by the NMC following mineral rights consolidation would be based on geologically defined parameters and not farm boundaries. Once a viable deposit is discovered security of tenure can be conferred on the discoverer, who can then mine or trade the deposit. When mining started, royalties would be payable to the NMC. Existing mines would have part of their tax liability converted to royalties.

Kruger cites parallels between this type of nationalisation and the mineral codes of other successful mining countries such as Canada, Australia and Botswana where mineral rights are state-held but SA mining companies operate profitably.

He says the alternative is nationalisation of the mines, as was done in Zambia, with disastrous effects. The state would not have the funds to acquire the market capital of the mines, while confiscation would lead to a large-scale loss of confidence, expertise and investment.

Kruger believes the Minerals Bill, currently before Parliament but unlikely to be passed this session, is equally wrong and "is an act of stupidity in the current climate of negotiation".

He contends that the Minerals Bill might lead to a proliferation of rights holders, but more probably a concentration in the hands of the large companies with attendant further "sterilisation" and a greater temptation by a future government to nationalise.

Either way, obtaining land to prospect would become more difficult, turning exploitation into an effort for lawyers rather than geologists. Small prospectors, dependent on state land and proclaimed diggings would virtually be eliminated.

The Department of Mineral and Energy Affairs defends the Bill as a major step towards "privatisation" (because it proposes that all rights be transferred to private ownership) and deregulation through consolidation of various laws relating to different minerals — excluding diamonds.

Kruger says the only answer, politically and economically, is to nationalise mineral rights as countries like Australia and Ireland have done, with huge benefits to their mining industries.

"It's no good storing up minerals deposits for future exploitation — by the time this is done the use for those minerals may have passed. And there are rare minerals, currently in demand, which need to be found and exploited.

"If we do not increase our minerals discovery rate over the next 10 years, we will lose ground to the other large minerals producers. We have our backs to the wall and it's time to think our way out of the situation," Kruger says.

STAR 20/6/90

Mandela 'won't use ANC line in US'

It was fairly certain that the ANC's deputy president, Nelson Mandela, would not be talking about nationalisation while he was in Washington, the Deputy Minister of Finance, Dr Org Marais, said yesterday.

"I cannot see what the ANC will attain by its nationalisation propaganda. I'm sure he will not be talking about this while he is in Washington," Dr Marais said during the second reading debate on the Income Tax Bill.

Referring to a complaint from Casper Uys (CP Barberton) about the expensive, double-page newspaper advertisements for the proposed VAT, Dr Marais said the department had an advertising budget of R10 million for the next 18 months, of which 40 percent would be used to educate people on the new system.

"This has been talked about for a long time, and we are working with a marketing project." — Sapa.

Sandtonians will have to pay more

(49)

By Guy Jepson

Star 21/6/90

Sandton homeowners will have to fork out an average of about 10 percent more in monthly rates and service charges to pay for the town's substantially increased operational budget for the 1990/1991 financial year.

The Sandton Town Council this week approved a budget of R146 377 000, a 21,8 percent increase on last year's figure of R120 202 800.

This figure is also considerably higher than the 13 percent increase recommended by the Minister of Finance, Barend du Plessis.

Management committee chairman Perry Oertel said the budget increase was necessary to keep pace with a phenomenal growth rate in the town.

Sandton's daily-increasing popularity as a residential and business location had produced a series of "unavoidable commitments beyond our control".

Property hike

These accounted for 91,8 percent of the R26 174 200 in increased expenditure.

The town's popularity was reflected in escalating property values — properties had increased in value by an average of 100 percent over the past three years.

Market-related property value increases resulted in significant variations in monthly assessment and service rates increases.

Whereas the monthly increase on a 1 519 sq m property in Gallo Manor amounted to 1 percent, the rate on a 1 880 sq m property increased by 18 percent.

Objections to the rates laid down in new valuations should be lodged before July 6.

Nationalisation not the answer - Fraser

(49) Star 21/6/90

By Neil Behrmann

LONDON — The ANC should de-merge rather than nationalise giant corporations, says Malcolm Fraser, former Australian prime minister.

"Nationalisation is clearly not the solution to South Africa's economic problems," he said at a recent meeting publicising a key United Nations report, "Africa's Commodity Problems — Towards a Solution."

"African nations are beginning to privatise their government-owned enterprises in their economic reform programs," he said.

"The ANC should follow the example of the US free enterprise economy where large companies with effective monopolies are broken down into smaller units.

"The huge telephone company AT&T is an example."

"To solve the distribution-of-wealth problem, black employees of South African companies could be allocated shares in the companies via trusts.

"The shares would be allocated on a favourable price basis."

Mr Fraser said he intended writing to ANC deputy-president Nelson Mandela.

"Mr Mandela is highly intelligent and I am sure he will be responsive to constructive suggestions."

Mr Fraser is in a good position to understand the failure of nationalisation in African economies.

Malcolm Fraser

He chaired the UN Secretary-General's Expert Group on African Commodity Problems to help find a solution to poor economic growth, high inflation, surging population, rising debt and a decline in standards of living.

The UN report concludes that African nations should concentrate on production of commodities rather than industrialise.

Reversing previous policy recommendations which had advised stricken African countries to reduce their dependence on commodities, the report says it would cost billions of dollars and be extremely difficult for the countries to diversify into manufacturing.

"We studied the problem for a year and despite world commodity price trends and an excess of supply of many raw materials, there just isn't any alternative," said Mr Fraser.

The study says: "Nations must use commodity production and trade as a motor for expansion."

Commodity production and distribution should be privatised or decentralised.

Local and foreign investment should improve transport, storage, agricultural research and education facilties.

Producers should help counter commodity gluts by allowing local prices to fluctuate in line with international quotes and by co-operating with other African nations and international consumers.

The US and Europe should reduce barriers to African produce, Mr Fraser said.

Africa's population will grow to 740 million in ten years' time from its present 550 million, the report says.

Debt has surged to $220 billion from $108 billion in 1980 and economic growth has fallen.

Africa is more dependent upon commodities as export income than any other region. Its raw materials normally account for about 90 percent of the total, says the report.

In 1988 commodities earned $18 billion for Africa, the study says.

Adjusted for inflation, this was 26 percent lower than in 1980 and 35 percent below levels seen in 1970.

The decline reflects lower price levels and much smaller international market share.

White business has a vital role to play in black empowerment

B Day 21/6/90 (49)

JOHN R WILSON

South Africans need to understand the depth of black resentment which underlies the calls for economic retribution to eliminate the evils of capitalist exploitation. Surveys have clearly shown blacks believe that free enterprise does not work in their favour and that capitalism is not capable of moral judgment.

They further believe that: free enterprise is organised taking away from blacks; free enterprise is preoccupied with bottom-line profit without concern for the work force or for the social environment in which it operates; big business is a white free market system with its own racist norms; and free enterprise ensures that 20% of the population owns 80% of the land of SA.

The consequences of these beliefs expressed in terms of business are disturbing. In the first place, apartheid and business are seen to be inseparable and black business success is bracketed with this.

Secondly, abolishing apartheid will not make the poor rich overnight, and the redistribution of wealth does not mean "taking away from them that have and giving to them that have not". The redistribution of wealth means complete equality of access to ownership of assets without restriction. Abolishing apartheid makes this possible.

☐ WILSON

In post-apartheid SA the negotiated compromise between free enterprise and socialism could well lie in the greater involvement of capital and labour in industrial planning, strategy formulation and the allocation and productive utilisation of resources for the benefit of all.

Business organisations, through their members, could play a leadership and co-ordinating role in changing the perceptions that blacks have formed of a free market economy by encouraging them to join and become active participants in traditionally white business organisations and by teaching the basics of business through, for example, training programmes and business games. This could lead to direct involvement in the economy by promoting "investment stokvels", or syndicates for direct participation in developing black businesses, or in share ownership on the JSE.

If we don't start today to educate and train blacks to play a major role in the economic life of the country, then we will be the ones who will ultimately be to blame for the failure of the economy.

Key in this is the adoption of an affirmative action programme by companies for total equality in the work place and the advancement of blacks to management levels, not as a right but purely on merit. Such plans should specify targets, designated jobs and detailed career paths. I would view this as an essential step in the redistribution of wealth.

There is no quick fix to inadequacies in black education because the nub of the problem is a dearth of qualified black teachers. This is a problem that cannot be solved by money alone, but will also take time, in fact as long as it takes to obtain a primary, secondary and tertiary education. We will have to find nonconventional solutions to this problem to speed up the process, as time is not on our side.

Apart from adopting a single educational system with integrated schools dedicated to maintaining standards, what about a crash programme using all the facilities of white education, including teachers in a second session each day as well as in school holidays? We must also give serious thought to using the teaching methods of cram schools as well as using the television network in a high profile educational drive.

First priority, however, is going to be to remotivate black youth to want to go back to school. Calls by black parents, the ANC and Nelson Mandela for youth to return to the classroom have been ignored and we have a major problem which requires an imaginative solution. The solution has to be an alternative to the excitement of gang warfare and being rulers of the townships while school boycotts are in progress, which has been the situation for most of the decade of the 1980s.

Late as it is, we have got to avoid the tragedy of an uneducated generation who will be in the prime of life in the 21st century.

If we aspire to winning nation status, then we need to study the economic success of Japan and Korea. In both of these countries the economic miracle was preceded by a restructuring of the educational systems and a massive drive to educate the whole work force for the economic needs of the country.

We are way out of step with the job needs of SA by offering as the norm a classical education.

People's education is a misunderstood concept. It is not a call for the lowering of educational standards, but rather a call for the participation and involvement of blacks in designing an educational system relevant to their needs and aspirations.

The voice of business needs to be heard loudly and clearly on the relevance of our present educational system in meeting the needs of a developing technological society.

The urgency of economic empowerment of the black community is that more than 50% of SA's population is under the age of 16 and a growth rate of at least 8% a year is necessary to provide jobs.

Economic empowerment of blacks is predicated on eliminating the morass of financial and legislative barriers erected by white SA since the last century to keep blacks in serfdom. While progress has been made in deregulation, free competition will come about only when the Group Areas Act is abolished and there is equality in access to the ownership of land and other assets.

In the meantime, the development of the informal sector and small black business is seen by many as the answer to the unemployment problem as well as the introduction of blacks to the free enterprise system.

While there is no doubt small black business is very significant in the economy, much of it provides a service activity that keeps money in circulation but does not create wealth. As a result of deregulation this position is changing, and black entrepreneurs are moving into manufacturing, which is the real generator of wealth in the economy.

These new businesses are important contributors to the GDP and to alleviating unemployment. It is important to note that co-operatives are favoured by blacks over small individual businesses, because of the concept of collective responsibility and the sharing of scarce human resources that is possible in this business model.

However, the growth of black business in SA in the near term is constrained by factors such as a lack of general management skills; a lack of financial and marketing expertise; and a shortage of venture funding for new business enterprises.

If we are serious about growing the economic cake through black economic empowerment as the most effective means of wealth creation and redistribution, then we must be concerned about these limiting factors. We must also be concerned as to how to grow black business so that it becomes an integral part of SA's economic activities.

A blueprint for this will be a priority for our economy to flourish in a post-apartheid society.

White business has an important role to play in this through the establishment of a skills base for the transference of business expertise to speed up the process of black economic empowerment.

☐ Wilson is former chairman of Shell SA. This is an excerpt from his address to the Institute of Directors in Johannesburg yesterday.

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Star 21/6/90

THE EXTRA COST OF KEEPING A ROOF OVER YOUR HEAD

UTILITY	RATES (ASSESSMENT)	WATER	ELECTRICITY	SEWERAGE	BUS FARES	GAS	CLEANSING
INCREASE	9,8%	11,5%	DOMESTIC 9% OTHER 13%	45%	HIGHER TARIFF 17,5% LOWER TARIFF 20%	14%	DOMESTIC 12% OTHER 25%

AVERAGE OVERALL INCREASE = 13,4%

AVERAGE HOUSEHOLDER WILL PAY R25 EXTRA PER MONTH

City proposes R2-billion budget

By Louise Burgers, Municipal Reporter

A "reasonable" record R2,1 billion budget was announced in the Johannesburg City Council yesterday, adding R25 a month to the average ratepayers monthly bill.

The 13,4 percent increase in rates and taxes is below the inflation rate of about 15 percent.

The "average ratepayer", presently paying R186,50 for rates and services, will now pay R211,50 a month.

The figures are calculated on an average householder using 30 kl water and 900 kW electricity a month on a stand in Roosevelt Park valued at R25 000.

This is only an average as ratepayers living in Orchards and Parkhurst will pay up to 16,2 percent more and Lenasia residents only 13,2 percent. The higher increase is attributable to the large rate remissions at present applying to such properties.

Managment committee chairman Ian Davidson said in his maiden budget speech he hoped his budget would be favourably received by ratepayers.

Most of the proposed increases are below the inflation rate, with the exception of bus fares, cleansing and sewerage tariffs.

Mr Davidson said enormous financial problems faced the city and bold steps were needed.

'Unrealistic and unfair'

The city budget had not been able to remain within the 13 percent limit imposed by the Government on the capital and operating budgets, Mr Davidson said.

"To put a cap of 13 percent on a thriving metropolis like Johannesburg with huge obligations is unrealistic and unfair.

"This is a new management committee which has largely inherited the budget from the previous committee. At best we have tinkered with the budget, rather than attempt to restructure it."

Mr Davidson said he was fairly confident the budget would be passed today without any amendments.

Leader of the Conservative Party opposition in the council, Jacques Theron, described the budget as "unimaginative".

Deputy leader of the NP in the council, Marietta Marx, said the former NP management committee had been involved with the preparation of the budget and would therefore support it.

"I feel it is a very good budget. The former management committee took the bold steps to set things right. Last year's harsh budget enabled the committee to produce a good, reasonable budget this year," Mrs Marx said.

Bill for use of surplus revenue tabled

MIKE ROBERTSON

CAPE TOWN — A Bill which gives effect to government's R2bn contribution to Jan Steyn's socio-economic upliftment fund was tabled in Parliament on Friday.

The Finance Bill also gives effect to other Budget proposals regarding the utilisation of surplus state revenue from the previous financial year.

In addition to a R2bn contribution to the socio-economic upliftment fund, the Bill will make it possible for: R3bn to be put into the Gold and Foreign Exchange Contingency Reserve Account; R215,7m to go to the Development Bank; and R1bn to be allocated to the Government Service Pension Fund to offset shortfalls.

As an interim measure, the Bill provides for dividends accruing to the state as a shareholder in Transnet to be paid to the SA Commuter Corporation.

Prior to the conversion of Sats into a public company, operating losses in respect of commuter services were defrayed out of the Transport Vote and by means of cross-subsidisation.

The arrangement in the Bill will remain until a final decision has been made on future subsidisation of commuter services.

The Bill will also enable the Reserve Bank to make a market in options on government stock.

The explanatory memorandum attached to the Bill states: "In view of the declared policy to promote the development of derivative markets in government stock, for example in options, which have become an important instrument in risk management, it has become necessary for the SA Reserve Bank, which is the appointed agent for the issue, management, repurchase and repayment of securities, to become actively involved in these markets."

BDay 18/6/90 (49)

Economists hopeful tight policy will soon pay off

B/Day 21/6/90

(49)

INFLATION and money supply statistics to be released within a week would be key figures, said economists who were cautiously optimistic the Reserve Bank's tight monetary policy would soon pay dividends.

Banks were noticing a distinct slowdown in credit extension across the spectrum, and only another technical "hiccup" would stop M3 from coming close to Chris Stals's 11% to 15% rate of increase target range, they said.

Bullish

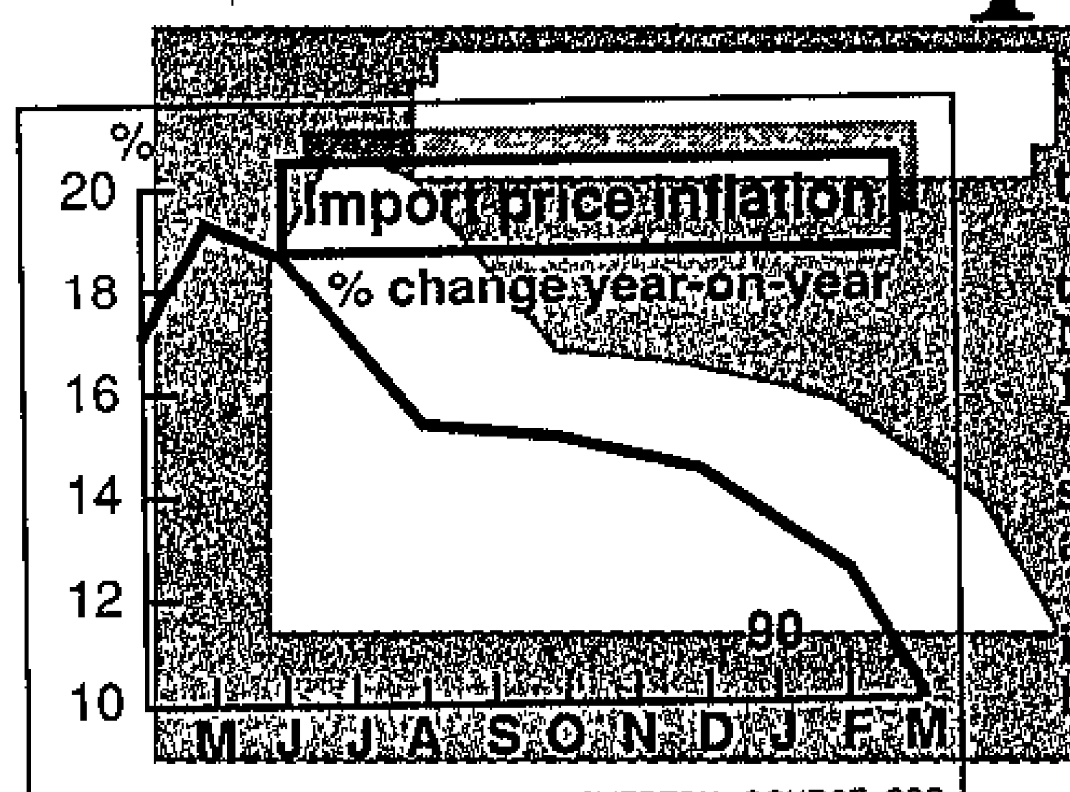
Consumer price inflation (CPI), which dropped to 14,6% in April from 14,9% in March, could also drop sharply.

But this was dependent on food inflation which would have to stop its perpetual sharp increases, they said.

Their outlook was bullish despite disappointing statistics so far this month.

Local producer inflation was up 1,6% on a monthly basis and reserves were down R149m in May (down 10,4% since February).

Confidence indices were also down, with the SA Chamber of Business index for manufacturing sales expectations



Graphic: LEE EMERTON SOURCE: CSS

ANDREW GILL

down 12 points to 100 points.

Trust Bank chief economist Nick Barnardt said in the bank's latest economic release the import price inflation rate was a major CPI leading indicator and had shown actual monthly deflation in May's producer price index (PPI).

It had been dropping sharply for nearly a year.

He expected the statistics to show an inflation rate of 14%, and said the decline would pave the way for a drop in interest rates later in the year.

He said M3 growth would drop sharply to about 20% in May from April's 22,71%.

This would have a downward effect on the annualised growth from the base of November, thus bringing it closer to Stals' 11% to 15% target.

First National Bank's Sias Bruggeman said credit growth was down noticeably across the spectrum lately.

But any calls to loosen monetary policy if the statistics were favourable would not be heeded by the Reserve Bank.

Trend

He said there had been a distinct slowdown in the rate of increase in CPI recently except for food prices which had been a disappointment, and if this was curbed the rate would decrease.

Rand Merchant Bank economist Rudolf Gouws said although it was difficult to evaluate one month's figures, the trend was sharply down and the demand for credit was now doing what it was expected to do in an economic downturn.

He said the inflation rate should look healthier this month and most of Stals's goals now seemed to be in sight of being achieved.

State's strict spending curbs to remain

Star 22/6/90

49

By Sven Lünsche

The strict controls on government spending will remain in place although this will have an adverse impact on economic growth this year, the deputy director general of the Department of Finance, Dr Estian Calitz, said yesterday.

He said at a seminar organised by the Economic Society that the forecast GDP growth rate of one percent this year now seemed "on the optimistic side".

The government was committed to limit its expenditure increases to a real rate of one percent, which would allow for more stable longer-term economic growth.

In the current fiscal year even the R1 billion contingency reserve and R1 billion proceeds from the privatisation fund would push up state spending by only 14,1 percent, assuming that all the money in the privatisation fund was spent.

"All in all, the financing requirements of the Treasury will therefore rise by at most two percent to about R75 billion.

"Given current inflation forecasts this would still limit the rise in spending to one percent, but would push the deficit before borrowing as a percentage of GDP above the targeted three percent level.

"However, this is a pessimistic forecast. Revenue collections are set to surpass the budgeted estimates and we are also evaluating further cost cuts in various departments.

"It seems possible therefore to limit the deficit before borrowing to the three percent guideline," Dr Calitz said.

Economic growth of 1% is 'on optimistic side'

EDWARD WEST

(49)

GOLD price and government expenditure trends could have an important influence on economic growth this year and the predicted 1% real economic growth was on the optimistic side, Finance Department deputy director-general Estian Calitz said yesterday.

He was delivering a speech on the mid-year economic outlook from the public sector's perspective at a seminar organised by the Economic Society of SA and the SA Chamber of Business yesterday.

He said interest rates would have to stay at their present level for some time because the pattern of government expenditure and its financing would affect economic activity and stabilisation policy during 1990/91.

Regarding government expenditure, Calitz said even the additional contingency reserve of R1bn and the R1bn to be spent from privatisation proceeds would at most result in a nominal increase of only 14,1% on the revised expenditure of R65,6bn for 1989/90.

"If we are to accept inflation forecasts, this represents a small real increase — less than 1%. To the extent that not all privatisation funds may be spent this year the rate of expenditure will naturally be lower," he said.

The Reserve Bank was investigating the effect on financial markets should the R2bn allocated to the Independent Development Fund be re-invested once it was released by the Bank which is holding it in the Exchequer account.

Financing requirements of the Treasury would, at worst, increase by R2bn from the budgeted 2,8% of GDP, if all of the R1bn related to privatisation proceeds spent and no allowance made for possible savings on other expenditure items, he said.

However, this scenario might not eventuate.

There were indications that revenue collections for 1990/91 would surpass estimates, while government was also involved in a re-evaluation of all expenditure categories with a view to making further cuts.

Calitz said it would be possible to contain the deficit before borrowing to the guideline of no more than 3% of GDP.

There were various means of financing the eventual increase in the deficit, privatisation proceeds being linked to R1bn of the additional expenditure.

He said SA had embarked on a twin policy of economic restructuring and socio-economic upliftment.

Calitz said he knew of no other modern day state which had tackled such an immense undertaking without foreign investment, access to international goods and financial markets, and tangible support from such international bodies such as the IMF and World Bank.

Bus/Day 20/6/90

Economic disparity among blacks in SA set to widen

B'Day 29/6/90

MOSCOW — Racial divisions will blur and economic cleavages among blacks will widen, SA Institute of Race Relations (SAIRR) executive director John Kane-Berman told a conference here yesterday.

Delivering a paper at a joint conference with the Institute for African Studies of the Academy of Sciences of the USSR, Kane-Berman said the closing years of the 20th century were likely to see "a growing number of better educated, better housed, and better paid blacks".

On the other hand, "there will be a large black underclass — the unemployed, the illiterate, and the malnourished". (49)

Financial and economic neglect of the homelands would make the black underclass even larger, and would push some of its members into starvation, Kane-Berman said.

He said that devising appropriate economic strategies to deal with black demands for material improvement necessitated a wider debate than one simply between unions and management or between business and the ANC. — Sapa.

FORM 2	MEMBER ORDER FORM NO.		AFLEWER DATUM	
LID	ADRES	REP	ADRES	
	NAAM		NAAM	

ATLANTIS BUYERS' CO-OPERATIVE

Is the case for export-led growth really so clear?

B 1024 22/6/90

(49)

MIKE DALY

SO MUCH has been written on the merits of an export-oriented development strategy for SA that it has become an article of faith in most quarters.

Tables of statistics regularly crop up purporting to prove the link between growth in the contribution of exports to GDP in the newly industrialising Asian countries, and their rapid economic growth rates. While not always so stated, the claim is that relative export growth and policies designed to promote exports "cause" superior economic growth.

A bias which immediately comes to mind regarding these statistics is that if good export performance is used as an index of commitment to export promotion, then countries that have unsuccessfully pursued an export-oriented growth strategy are automatically excluded.

While most studies in the economic literature confirm a statistical correlation between relative export growth and economic growth, some find no statistical support, even for countries popularly thought to be export promoters par excellence.

In addition, correlation is not the same as proof of causality. Some statistical tests for causality (Granger-Sims) in fact reverse the supposed line of causality by showing that growth "causes" exports, reflecting the apparent "law" that all econometric evidence is equivocal.

To make a case that exports growth causes economic growth and hence higher employment and income growth, one has to build up a theoretical model to that effect. This will inevitably rely on a historical examination of the actual processes involved in those countries held to be examples of successful export orientation. Here many factors intrude.

In Taiwan, state ownership of industrial output was high during the miracle years, and levies on domestic sales to subsidise exports played an important role in winning foreign markets. These are hardly options for SA in the 1990s.

It could well be that in observing some countries' expanding relative contribution of exports to GDP and high growth rates, one is observing more than mere exports at work. A more optimal allocation of resources and general efficiency in production could result from ongoing industrial evolution regardless of which industrial development policy is chosen.

Many non-quantifiable aspects of any sound development policy, namely an economic framework that encourages entrepreneurship, vocational training and a commitment to raising productivity, which could be pursued in their own right and independent of any particular trade policy, could be the real underlying cause of rapid economic growth.

While export-oriented trade policies or even a commitment to a "neutral" free trade position may well raise efficiency and lower production costs in an economy, trade may not be so much an engine of growth, a term which involves expectations which cannot be fulfilled by trade alone, as a "handmaiden of growth", to use Kravis's phrase.

There may also be a fallacy of composition in arguing that export success enjoyed by a limited group of newly industrialising countries may be emulated by other countries that are late on the bandwagon. Much of the expansion in the Asian economies' exports occurred when world trade was growing rapidly and protectionism was moderate.

In the last decade of this century, protectionist forces are far stronger as the intellectual case for free trade has become less secure, and the free trade champion US suffers inroads into its domestic market.

It is difficult to believe that SA, with its rising level of trade union militancy and labour-management conflict reflecting deep social divisions, will achieve a competitive edge internationally for anything more than traditional exports.

STRIKES PER MILLION EMPLOYED

Country	1979-80	1987-88
Korea	11,4	150,7
Malaysia	7,6	2,8
Thailand	2,1	0,4
SA	20,2	102,0

While Korea's average strike intensity surged during 1987-1988, it was a period of unusual political turmoil. In the previous two-year period, intensity had only risen to 176,7 per million workers compared to SA's 58 for the same period. Compared to Malaysia and Thailand we have a problem.

The term "compulsive work ethic", used to describe certain Far Eastern workforces, is becoming hackneyed but is nonetheless true. A survey by The Economist in May 1990 reported that "the standard South Korean working week is meant to be 40 hours, but the average is 54. At nearly 2 500 hours a year, South Koreans work 25% more than the industrious Japanese and nearly half as long again as Americans".

By contrast, in SA local strike demands generally include, apart from the closing of the wage gap, an ever shorter working week, longer paid holidays and less overtime.

Here the emphasis in industrial relations focuses largely on the redistribution of income rather than on the generation of additional income. Until labour and management engage in more constructive responses to conflict in the workplace with an eye to the long-term viability of the economy based on a powerful appreciation of the importance of productivity, a superior economic growth rate will not be ours.

☐ **Daly is Southern Life's chief economist.**

Tighten belts for hard times ahead, economists

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W Mail 22/6/90

By ALAN HIRSCH

SOUTH AFRICA was running the danger of entering a cycle of economic recession and political unrest as in 1960, 1976 and 1985, warned economist Ronnie Bethlehem yesterday.

The group economist of Johannesburg Consolidated Investments was speaking at a meeting of the Economic Society of South Africa in Johannesburg.

"Government ministers and civil servants cannot ignore the fact that we are into that kind of situation at the moment," he said.

His growth forecast of 1990 of 0,1% was disturbing, he said, in the context of a 3% growth rate of the African population, a 7,5% growth rate in black urbanisation, and a 20% growth rate in African matriculants.

Even more worrying was the fact that he forecast a 0,3% decline in private consumption expenditure in this context.

"Some people will be eating less this year," he said.

Anglo American economist Aubrey Dickman, who looked at world market prospects for South Africa, was also pessimistic, for the short-term. The expected growth rate of 2,9% for the industrialised economies, while not that low, was likely to deepen the trend towards low commodity prices, which would adversely threaten South Africa's exports. In the longer term exports prospects should improve, he noted.

The third contributor to the Economic Society's deliberations was Dr George Calitz, a senior official in the Department of Finance. Calitz agreed that the economy was going through an extended period of difficulty but indicated that in the short-term the government was still committed to combating inflation, protecting foreign reserves, and restraining government expenditure.

He did, however, suggest that the recent moderate relaxation of some hire-purchase restrictions, the reduction of import surcharges and tax adjustments which would benefit middle and low income South Africans might provide a counter to recessionary conditions.

Calitz emphasised that the government planned to continue following the twin paths of economic restructuring (which meant fiscal and monetary restraint) and social upliftment. This would only be possible if South Africa received support from the international economy which led to improved trading and capital flow conditions.

He acknowledged that even if sanctions were lifted the amount of capital flowing into South Africa would be limited. Capital inflows into the developing world had generally declined, with the possible exception of Eastern Europe, and foreign investors would be wary of South Africa's prospects during a period of political transition.

Calitz noted that the example of Chile suggested that, with special access to export markets, and credit assistance form the World bank and private sources, recovery and growth were possible. But the financial community needed firm assurance that South Africa was firmly on the path to economic restructuring and political reform.

Go for higher liquidity level, says Syfrets

Star 23/4/90

49

The volatile nature of equity markets, uncertainty over political developments and a poor outlook for company profits suggest that investors should raise their liquidity levels to protect past gains.

This advice comes from the Syfrets Group's investment department in its review of economic conditions published in its quarterly newsletter, Money Matters.

Syfrets identifies several disquieting factors emerging within the economy on which it advocates caution:

- It appears that interest rates will stay higher for a longer period than initially expected.
- Labour disruptions are likely to increase.
- There will be few tangible short-term benefits for the economy from the current political changes.
- Expectations are for a softening of the gold price.
- Company profit growth is likely to be lower than originally forecast.

Against these factors Syfrets suggests that one must still consider the weight of funds looking for an investment home.

Rights issues and privatisations will be lower during the rest of 1990 and, with state pension funds now being independently mananged, institutional cash flow should be strong.

Syfrets emphasises that it is clear from events over the past few months that the economy will be politically driven more than ever in the next few years, reflecting the sort of volatility displayed by the financial markets in the first quarter of 1990.

The institution forecasts that real GDP growth will slow to about one percent for the year, against an average growth rate of two percent last year and 3,7 percent in 1988.

With the consumer price index edging down to 15,1 percent in February and the exchange rate of the rand remaining relatively stable, Syfrets forecasts that the inflation rate could decline below 14 percent in 1990.

Although positive signals are emerging on the inflationary front, and via the growing strength of the current account of the balance of payments, Syfrets remains doubtful that foreign exchange reserves will strengthen sufficiently to allow interest rates to ease in the short term. It is expected that prime will decline to 17 percent from its current 21 percent at end-1990.

W/C Argus 23/6/90

(49)

Dear Sir

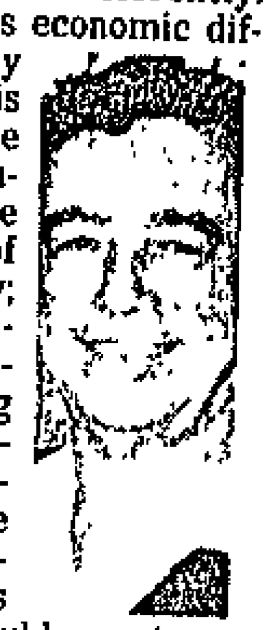
Weekend Argus letters

Economics: Reading between the lines

THE Weekend Argus of June 15 carried on its leader page a report by Chris Moerdyk on the African National Congress/Cosatu economic policy document. Since the question of economic policy is probably the most difficult and complex one facing the new South Africa, it seems right to comment in some detail on the report, with a view to stimulating constructive debate.

There is an introductory statement that South Africa is in "a state of fundamental economic crisis brought about by the 'distortions of the apartheid system' as well as domestic production problems and a changing and destabilising international environment".

I would put this rather differently. South Africa is in serious economic difficulties because of a very low growth rate, which is due to the disappearance of what used to be a regular capital inflow and the appearance in its place of a regular forced outflow; because of low productivity which is due to a number of factors including poor education and training, and due to poor motivation, and because of the massive transfer of resources over many years from the private to the public sector



ANC, Cosatu spell out economic plan

TAX and agricultural reforms, nationalisation and the "dismemberment" of the concentration of economic power in the hands of the country's major industrial conglomerates are a few of many necessary steps needed to bring peace and economic revival to South Africa

According to African National Congress (ANC) and Congress of South African Trade Unions (Cosatu) economists present day South Africa is in a state of fundamental economic crisis largely brought about by the "distortions of the apartheid system" as well as domestic production problems and a changing and destabilising international environment

And they say none of the strategies of the incumbent government are likely to alleviate poverty and mass deprivation

To address these a future "nonracial and democratic state would have to follow an economic policy that aimed to achieve economic growth through a process of increasing equality in the distribution of incomes wealth and economic power

Zac de Beer, left, comments on the report and cartoon that appeared in the Weekend Argus on June 16.

I would certainly agree with the ANC-/Cosatu that almost all the adverse factors are apartheid-related I must also point out that what makes the low growth rate so intolerable is the high population growth which we have.

ANC/Cosatu next point out that economic growth must be achieved through a process of increasing equality in the distribution of incomes, wealth and economic power. Now it is certain that we need both the growth and the increasing equality referred to To my mind, though, the former will not be primarily the consequence of the latter.

Both will be the virtuous effects of policies which restore international confidence and capital inflow, which boost productivity through improved education and training and through healthy industrial relations, and which strictly limit State expenditure

Moerdyk quotes the document as follows. " .. the State would assume the leading role in the reconstruction of the economy" Now if this means that the legislation and the fiscal and monetary policies of government will establish the framework within which the economic actors must operate, I have no quarrel with it. What is wrong and undesirable is for politicans to interfere in the decisions business people must take — not because the politicians are wicked but because their motives generally have nothing to do with the success or failure of the businesses concerned, so that these decisions tend to prove disastrous.

I am not reassured by Moerdyk's next paragraph, which refers to macro-economic planning involving mass-based organisations. Recent events in the communist countries have dramatised the disastrous results of the central planning and direction of national economies. (By this I do not at all deny the value of purely indicative, research-based planning by government departments.)

Next, there is a reference to the importance of domestic savings, which I am happy to support. There then follows a longish and not very clear passage about nationalisation. Clearly, the ANC-/Cosatu are not as gung-ho for nationalisation as they used to be, and for this we should no doubt be grateful. There is a case to be made against privatising great State undertakings if one thereby creates private monopolies, but in any other circumstances it is very difficult to see what possible advantage the State or the people can achieve by nationalising industries.

There is a flat statement that "mine workers' demands should be acknowledged". I don't know what this means If it simply means that there must be collective bargaining machinery where such demands can be dealt with, that is fine. If it means that the State will interfere with the management of the mines, I fear the worst

There then follows a most intriguing piece "The new government should . encourage venture capital in new mines" This is absolutely fine but I must point out that we shall get no venture capital whatever if there is going to be widespread nationalisation or direct interference in management

The references to taxation call for no special comment They are followed by a ritual denunciation of the "extreme concentration of economic power". The ANC and Cosatu are by no means alone in taking a hostile view of large business corporations People are much clearer about their dislike for big organisations than they are about just what to do with them.

Whenever it can be shown that size leads to monopoly or other abuse, then certainly action should be taken But size alone is not a sin otherwise one would have to dismember Eskom, which would have no very obvious advantages. More study and debate are clearly required here, to prevent foolish things from being done as a result of emotionalism rather than reason

Moerdyk reports a somewhat ambiguous statement which seems to suggest that excessive State expenditure has contributed to inflation and a balance-of-payments deficit. If this is indeed what was meant, one can only say a fervent Amen. But this is followed by one of the most frightening propositions in the whole piece "Current financial deregulation policies and monetary policy exacerbate the problems of the present financial system" (whatever that may mean). "To correct this requires direct State intervention, including State regulation."

The history of the past 45 years shows conclusively that direct State intervention in economic enterprises is something to be avoided as far as is humanly possible. It often results in rank injustice, and almost invariably in gross inefficiency.

Next, there is again some good news foreign investment is to be encouraged But immediately the bad news follows "The State and the trade union movement should be legislatively empowered to ensure that foreign investors reinvested productively" This seems to mean that these investors are going to be prevented from repatriating their proceeds if it does mean that, of course, we can forget about ever getting any new foreign investment at all

The second statement simply makes a nonsense of the first

The section on pension funds and state pensions is at least a reasonable basis for discussion, though it raises in what could be a dangerous way the issue whether pension fund investment should be directed towards "desirable" goals as distinct from being aimed purely at the benefit of the contributors

There is an admirable piece about the need to provide opportunities for women, and an interesting section on agriculture and land The latter expresses some admirable aims like the promotion of food production and the preservation of the environment, but also includes some suggestions about redistribution of land and relocation of people, which at the very least need closer examination

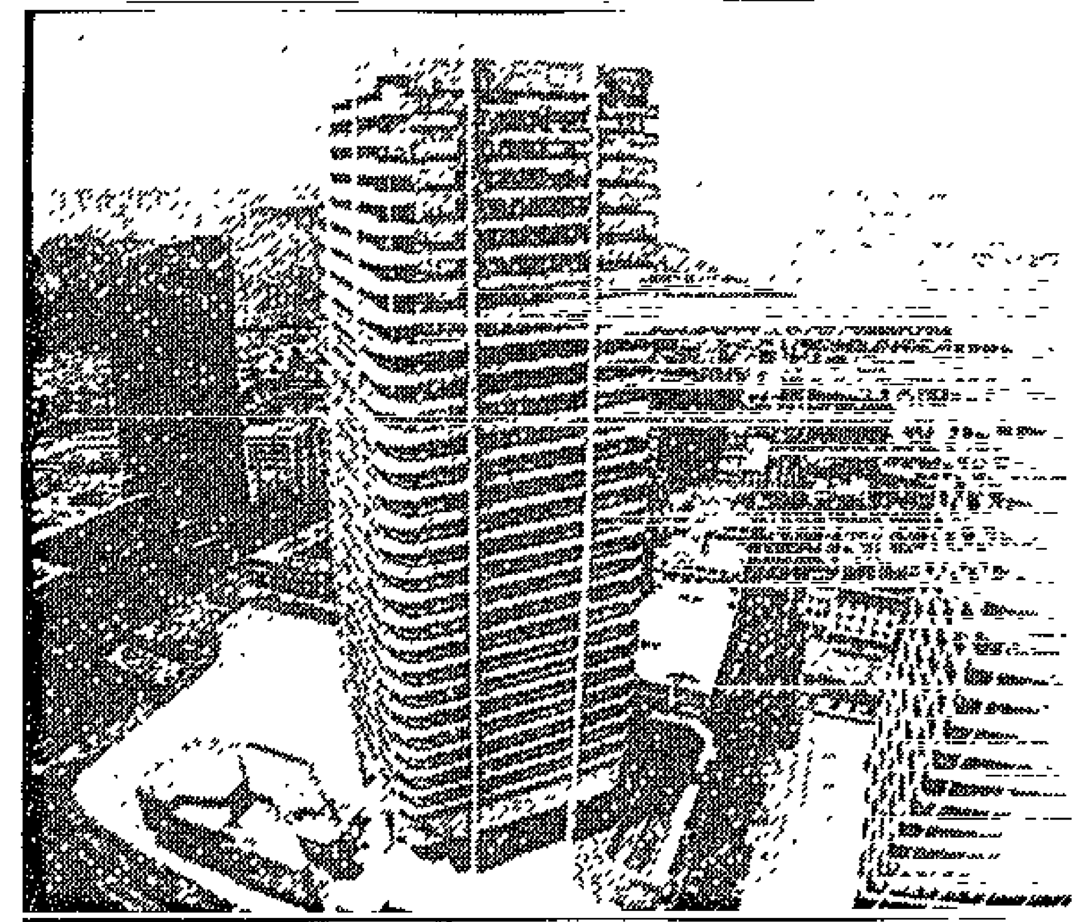
All in all, it may be said that the document has its quota of platitudes and a few sensible suggestions, along with a few passages which are frightening in their Marxist implications Much more debate about economic policy in the new South Africa is certainly needed I hope it will be urgently held

Z J de BEER, MP
Houses of Parliament
Cape Town

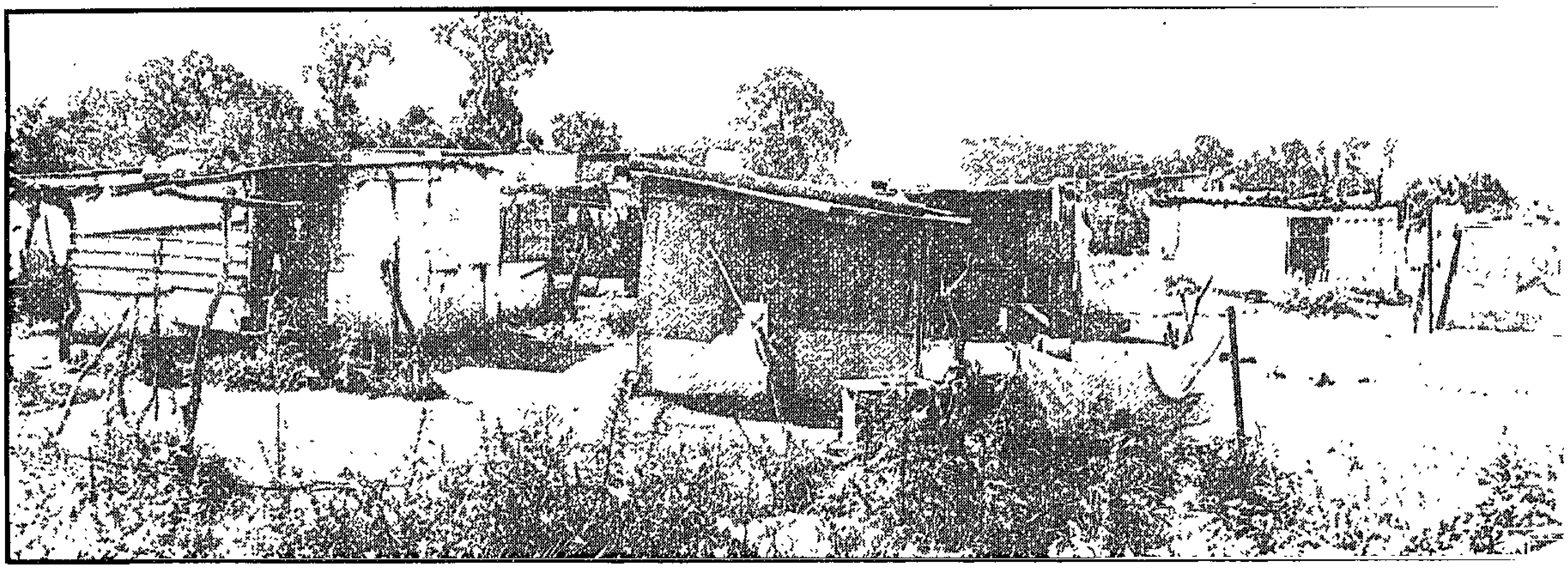
Getting the 'haves' message across to the 'have-nots'

(49)

ST Times 24/6/90

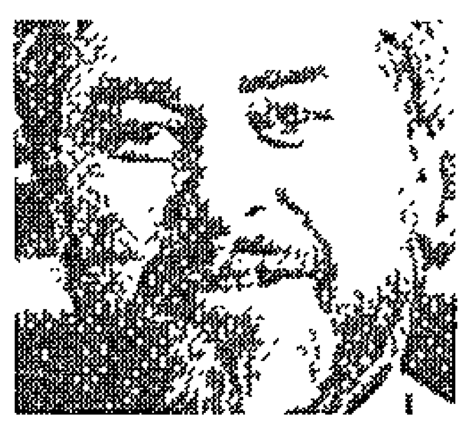


WEALTH ... capitalism must be marketed



POVERTY ... SA's blacks must be convinced that socialism does not guarantee an equitable distribution of wealth

John Kane-Berman, executive director of the SA Institute of Race Relations, calls on the business community to prove that capitalism can work for all



THE African National Congress, following much criticism by the business community it is trying to woo, has been interpreted as softening its stance on nationalisation. It is difficult to know whether this is a tactical position or a genuine change of heart.

Not even the South African Communist Party, hitherto notorious for its Stalinist approach, can avoid admitting that things have gone seriously wrong in Central and Eastern Europe.

But the admission seems limited. What the SACP is saying is not that socialism as a policy is unsound, only that it has been distorted in its application.

Enormous

This sounds like National Party politicians of 10 years ago who admitted that apartheid was not all that it was cracked up to be but said it was a fine policy in principle — what had gone wrong was that it had been harshly applied.

South Africa faces huge disparities in wealth. Any government will face enormous pressures from black people to match political with material liberation.

The Afrikaners used the power of the state as soon as they got it in order to uplift their people socially and economically.

Black people saw them do it and many blacks, therefore, believe that they should get control of the state and also use it to uplift their people.

Attraction

But South Africa does not have the resources to do this even moderately quickly. A black government will then be very strongly tempted to do all the symbolic things to address the question, one of which is to confiscate from wealthy whites what is seen as their ill-gotten gains.

Indeed, nationalisation seems to have for some black South African politicians the same attraction that sanctions had for American politicians.

Adoption of nationalisation or sanctions is a quick way of demonstrating that you are on the side of the oppressed and deprived.

The question whether either nationalisation or sanctions is actually going to solve problems becomes of secondary importance.

The business response to the nationalisation demand is to point to the failure of the socialist monopolies in Central and Eastern Europe.

All the evidence is indeed against that policy. But, in my view, the proponents of nationalistion will not easily abandon their viewpoint.

After all, one needs only to remember that all the evidence was against apartheid, but that it took 20 years before the NP was finally persuaded to abandon it, despite the great cost it inflicted on the country, not least in human lives.

In any event, black people say: "Well, our experience in South Africa under capitalism is no better than that of Eastern Europe under socialism."

And they have a point, with a 50 percent adult illiteracy rate, high and rising unemployment, and seven-million people living in shacks because there aren't enough formal housing. And this is what has happened under capitalism, or so many black people say.

The business response to this, of course, is: "Well, we haven't really had a proper capitalist system in this country. We've had a peculiar form of socialism called apartheid."

Stable

In my experience, however, many blacks in South Africa equate apartheid with socialism. Everybody now is only too eager for a photo opportunity with Mr Nelson Mandela, but it wasn't always like that.

It's not so long ago, when the going was good, when the economy was performing better than it is now, when the country was basically stable, that many businessmen were just as eager to play golf with Mr John Vorster — no matter how many people he'd locked up before teeing off.

Most businessmen were initially just as hostile to black trade unions as was the Government. Now, of course, you can't find a businessman in town who ever supported apartheid!

It is perhaps just as well that Mr Mandela raised the nationalisation issue when he did because it gives time to prepare a counter-strategy to the superficial attraction that nationalisation may have as a kind of symbolic quick fix.

What business needs to do is make out a convincing case that under a capitalist system growth will be higher than under some other system.

It needs to show that a capitalist system can distribute fairly and equitably, and to convince black people that they will share in the benefits of rapid economic growth.

Devising appropriate economic strategies to deal with black demands without damaging the economy obviously necessitates a debate, but that debate has to be much wider than simply between unions and management or between business and the ANC or between business and what is called "community organisations" or "crisis committees" with unknown electoral histories and unknown political support.

The debate needs to encompass a wide range of other people, too. These include the Azanian People's Organisation, the Pan-Africanist Congress and Inkatha.

Error

It must encompass the other stakeholders in South Africa's future — the illiterate, the unemployed, small black business, the informal sector and rural people, both in and outside the homelands.

These groups are all stakeholders and their interests do not always coincide.

Future economic policy is not itself a constitutional matter and is, therefore, unlikely to be decided formally at a constitutional negotiating table.

Whether or not South Africa is going to pursue a socialist economic system in the post-apartheid era will not depend on whether the business community can convince the ANC at this stage of the error of such ways.

It will depend largely on the nature of the future political system.

Should the post-apartheid system be characterised by a single-party government, it is a foregone conclusion that South Africa is heading for a one-party, socialist state — if not immediately, then within a fairly short peric afterwards. The best way ensuring the survival both democracy and fr enterprise in South Afric is to ensure that it has multiparty system.

☐ *Extracted from speech delivered at th Institute for Africa Studies at the Academ of Sciences of the USS in Moscow this week.*

Full-scale recession for some

Downswing 'faster than predicted'

CIT-TIMES 25/6/90

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Financial Staff

SOME sectors of the economy are experiencing full-scale recessionary conditions, says Johan Louw, chief economist of Sanlam. According to the latest available information the SA economy is cooling considerably faster than was foreseen just a few months ago.

He says, in the company's latest economic review, that the world economy's growth is decelerating, but there are no signs of a severe recession.

As far as South Africa is concerned, he expects total real domestic spending on goods and services to decrease by between 2% and 3% this year.

Foreign sector

"Although this points to a marked weakening in general economic activity, the downturn will not be as severe as in 1985, when real gross domestic expenditure fell by almost 8%."

He also believes that the foreign sector (exports less imports) will perform so well that 1990 should still yield a small positive real economic growth rate of about 0,5%. He adds: "We expect the downturn in the economy to continue until about the middle of 1991."

As regards inflation, Mr Louw envisages that the year-on-year increase in the total consumer price index will gradually tend lower. Changes in food prices could have a seriously disruptive effect on the inflation rate — mainly owing to the weight of food in the consumer price index and the large dependence of food on favourable climatic conditions.

"In our opinion, the inflation rate, with the exclusion of food, therefore, gives a more accurate indication of the underlying inflationary pressure in the economy. This rate has already declined from more than 17% in the middle of 1989 to 13,9% at present."

South Africa's inflation rate is still about 2½ times that of countries of the OECD. This, he says, naturally has an adverse effect on the external value of the rand.

"We expect the scenario will improve gradually as South Africa's inflation rate tends downward in the next year or so and those of the OECD countries rise slightly as a result of capacity problems, tighter labour markets, etc. At this stage we doubt, however, whether the ratio will be much lower than 2:1 in the foreseeable future."

To remain competitive on international markets it is essential that South Africa should reduce its inflation rate significantly, since continual depreciation of the rand offers no solution in the long term, says Mr Louw.

Cut in rates unlikely

In view of the high priority that the government and the SA reserve bank place on the reduction of the inflation rate, and the current weakening of the gold price, it is clear that interest rates will probably be kept high longer than necessary simply to bring about the desired cooling of the economy. In fact, the SA reserve bank is apparently determined to maintain positive real interest rates, also during the downward phase of the business cycle.

Mr Louw says official cuts in interest rates before clear signs of a reduction in the inflation rate, therefore, seem to be unlikely. "In conjunction with our feeling that the increase in the consumer price index will decelerate appreciably only later this year, we do not envisage decreases in the prime overdraft rate of banks before well into the third quarter or early in the fourth quarter of 1990."

Further drops in the short-term interest rates can be expected in 1991. "We think that there is a good chance that the prime overdraft rate will be in the region of 16% to 17% at the end of 1991."

Land reform on the cards

(49)

ANC's thinking about setting up a body to deal with agricultural claims

Sowetan 25/6/90

By MATHATHA TSEDU

THERE was no way in which a black government could survive in a post-apartheid South Africa without having redistributed the wealth, a Soweto businessman said at the weekend.

Addressing the 21st annual meeting of the Lebowa Chamber of Commerce (Lebcoc) at a Potgietersrus hotel, Mr George Negota said financial institutions such as banks and strategic industries would have to be state-controlled to safeguard the interests of the people.

Programme

Speaking at the same conference, the deputy head of the economics department of the ANC, Mr Tito Mboweni, said the organisation was considering a proposal for a Land Claims Commission (LCC) which would work towards a land redistribution programme.

Mboweni, who arrived in the country from Zambia on Friday on a temporary indemnity, said the ANC was primarily an organisation for the liberation of black people and could not, therefore, be expected to ignore their land hunger.

He said the LCC would work out a land reform programme that would result in:

* The abolition of racial restrictions on land ownership and usage.
* Implementation of an affirmative action programme which would take into account the status of victims of forced removals, and
* take full cognisance of the need for food production in the economy.

The ANC, he said, wanted a mixed economy where private capital and state ownership would survive side by side.

The present trend in government policy of privatising the state sectors of the economy was unacceptable to the ANC and should be stopped and reversed, he said.

He said while blacks formed about 80 percent of the population, 86 percent of the assets listed in the Johannesburg Stock Exchange were owned by six white conglomerates. Black business owned a mere one percent of productive assets throughout the country. This imbalance was unacceptable.

(49) (68) Star 25/6/90

Mandela still vague on economic plans

BOSTON — Nearly halfway through his US tour, Nelson Mandela basked yesterday in personal triumph but questions remain whether he can achieve his economic and social goals in a post-apartheid South African society.

Since arriving in the United States on Wednesday, the 71-year-old former political prisoner with the patrician bearing has been cheered as a hero by hundreds of thousands of people in New York and Boston.

On Saturday evening, Mr Mandela drew more than 250 000 admirers — most of them white — who chanted, danced to drum beats and waved the black, gold and green colours of his African National Congress on a grassy stretch beside the Charles River here.

"Apartheid is falling into pieces," he told the crowd, noting reforms instituted by President de Klerk since he released Mr Mandela from prison in February after 27 years of a life sentence.

"We are on the eve of a great beginning, indeed, victory is in sight," Mr Mandela said.

But on his trip and during interviews, he never has clearly spelled out what type of economic or political system he envisions if blacks win the vote and a black president is elected.

Nationalist

Mr Mandela has denied he is a communist and calls himself a nationalist, but many people say they are puzzled by that term.

There have been suggestions he would nationalise some industries, but Mr Mandela has avoided any direct answer on this subject to date on his eight-city US tour.

Mr Mandela has big economic ambitions, suggesting on this trip that he wants South Africa to be a world-class international competitor.

But how is another question, and he has not clearly allayed fears he would not nationalise industries.

He told American television interviewer Ted Koppel that he was not interested in economic models when asked about a post-apartheid system presumably ruled by blacks.

"We are not concerned with models. We are practical men and women," he added.

"We don't care if the cat is black or white as long as it catches mice."

But Mr Mandela, showing he is aware of international concerns, also has attempted to assure governments and investors that the influx of funds needed for the South African economy in a post-apartheid system will be secure.

He told an audience at the John F Kennedy Library here that a post-apartheid nation would need a big infusion of foreign risk capital, managerial training and technology. — Sapa-Reuter.

Stars sing for ANC leader

Stevie Wonder ... royalties to be donated to the ANC.

By David Braun,
The Star's Foreign News Service

BOSTON — Big entertainment stars performed at various events in Nelson Mandela's honour in Boston at the weekend.

At a luncheon hosted by the Kennedy family, Stevie Wonder sang his latest song, "Keep Our Love Alive". He said he was inspired to write the song after hearing about Mr Mandela's release in February.

Wonder's royalties from the song are to be donated to the African National Congress.

Later, at an outdoor rally on Boston's Esplanade, about 20 000 people heard Paul Simon and Ladysmith Black Mambazo sing "Amazing Grace" and a song from their "Graceland" album, "Homeless".

Johhny Clegg and Savuka were also among the dozen or so other acts which performed.

A choir sang "Nkosi Sikelel' iAfrika" and when the crowd danced, Mr Mandela joined in by swaying and laughing.

Rosy vision of Cub
is challenged by

Staff Reporter

The International Freedom Foundation (IFF) ran a half-page advertisement in today's Washington Post newspaper, saying it was vital Americans knew how much Nelson Mandela's views differed from those who had fought for "real freedom" in Eastern Europe.

The advertisement is timed to coincide with Mr Mandela's arrival in Washington.

The advertisement quotes statements made by ANC deputy leader Mr Mandela since his release from jail in February.

They include his praise for the Cuban government's "love for human rights and liberty" and his commitment to the armed struggle in South Africa.

The advertisement contrasts Mr Mandela's statements with those of Czechoslovakian President Vaclav Havel and Solidarity chairman Lech Walesa.

Under the heading "In Congress they championed freedom", the advertisement quotes addresses by both Mr Havel and Mr Walesa on the total failure of communism to solve problems, and the importance an approach of non-violence played in their struggles.

Real growth could reach 0,5% in 1990 — Sanlam

BDay 26/4/90 Business Day Reporter (49)

SANLAM expected the economic downturn to continue until the middle of 1991 while real annual growth in 1990 could reach 0,5%, Sanlam economist Johan Louw said in the company's latest economic review.

Some sectors of the economy were experiencing full-scale recessionary conditions and sectors of the economy were cooling considerably faster than foreseen a few months back, Louw said.

World growth was decelerating, but there was no sign of a severe recession. Louw expected real domestic spending on goods and services to decrease between 2% and 3% in 1990.

"Although this points to marked weakening in general economic activity, the downturn will not be as severe as in 1985, when real gross domestic expenditure fell by almost 8%," he said.

The foreign sector — exports less imports — should perform so well that 1990 could still yield a small positive real economic growth of 0,5%, but Louw expected the downturn to last until mid-1991.

Food

The year-on-year increase in the consumer price index (CPI) would gradually drift lower. Changes in food prices could have a disruptive effect on inflation owing to the weight of food in the CPI and the large dependance of food on favourable climatic conditions.

"The inflation rate, with the exclusion of food, gives a more accurate indication of underlying economic inflationary pressure. This rate has declined from more than 17% in the middle of 1989 to 13,9% at present," said Louw.

It was essential that SA reduce its inflation rate in the long term to remain internationally competitive since rand depreciation offered no solution in the long term.

Interest rates would be kept high for longer than neccesary to bring about the desired cooling of the economy due to the low gold price and government's plans to reduce inflation.

Further drops in short-term interest rates could be expected in 1991. "We think there is a good chance the prime overdraft rate will be in the region of 16%-17% at the end of 1991," said Louw.

SA will need massive injection of capital and skills, says Mandela

B Day 25/6/90

10

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BOSTON — ANC deputy president Nelson Mandela tried on Saturday to allay fears that a post-apartheid SA would be unstable, saying he knew the business community needed confidence about the security of its investments.

Mandela, whom critics fear would support the nationalisation of SA industry, said his country would need a massive infusion of capital and management skills to rebuild after years of international sanctions.

"A post-apartheid democratic country will require massive economic and social reconstruction," Mandela, in the middle of a gruelling 13-nation tour, told a blue-ribbon crowd at the John F Kennedy presidential library, overlooking Boston harbour.

"At the same time a post-apartheid society will need improved productivity, but this can only be done if we have management skills, technology and risk capital," he said.

"But we are sensitive to the fact that investors in a post-apartheid SA will need confidence in the stability of the society which they are to build."

Mandela said it was the policy of racial segregation that was destabilising SA and that his people would not be satisfied with anything less than its total dismantling.

"They cannot be satisfied with piecemeal reform," Mandela said.

"Indeed it seems to us impossible to reform something that is inherently evil."

Mandela was speaking at a reception in his honour hosted by Senator Edward Kennedy and attended by Jacqueline Onassis, Joseph Kennedy Jr and other members of the Kennedy family, Massachusetts governor Michael Dukakis, Boston mayor Raymond Flynn and entertainers Tracy Chapman and Stevie Wonder.

Mandela has undertaken in six-week tour, despite recent bladder surgery, to press his message of continued pressure against the SA government and to raise at least $6m for the ANC.

He plans to visit eight US cities in 11 days.

Mandela was due yesterday to travel to Washington for meetings with President George Bush who, while acknowledging legal constraints against lifting US sanctions against SA, wants to find a way to acknowledge the progress President F W de Klerk has made.

Mandela, released from prison four months ago, will also address a joint session of Congress, an extremely rare honour usually reserved for world leaders.

During a three-day visit to New York, Mandela was feted by about 750 000 people who lined the city's Wall Street business district for a ticker-tape parade and 40 000 more who packed Yankee Stadium for a rally on his behalf.

About $1,5m was raised for the black SA cause in New York and organisers were hoping another $500 000 would be collected in Boston, largely from a $5 000 per couple evening reception.

Mandela was also due to speak to a crowd estimated at about 250 000 at the Charles River Esplanade, where an all-day free concert was being held.

Mandela's extremely tight schedule, made tighter by his arrival two-and-a-half hours later than originally scheduled, gave short shrift to thousands of blacks who had gathered at a high school to meet him.

Instead of the 90 minutes they had been promised, Mandela could spare them only 20 minutes, disappointing 1 500 students and parents who had waited more than four hours in a sweltering gymnasium to see him. — Sapa-Reuter.

● Picture: Page 2

Beneficiation of exports vital, says BTI

STAR 27/6/90 (49)

The expected drop in growth rate of the world's major economies to 2,75 percent in 1990 has already started affecting commodity prices, which began declining in 1989, says Board of Trade and Industry (BTI) chairman Dr Lawrence McCrystal.

In the BTI's annual report Dr McCrystal says that this, together with tight monetary and fiscal policies in South Africa, is likely to impact negatively on the industrial sector.

He believes, however, that there is an underlying soundness which developed in the economy in 1988 and 1989 and which should continue in 1990.

He says world markets for raw and processed materials are growing more slowly than are markets for finished products.

This emphasises the urgent need to move the composition of exports into higher value added products.

As import replacement is no longer the growth force it was in previous decades, greater emphasis will have to be placed on exports, Dr McCrystal says.

"It is the board's view that an outward-oriented policy will best promote a high rate of industial development, together with concerted efforts to achieve more value added within South frica prior to exporting products."

Dr McCrystal urges that priority be given to the supply-side economic policy to avoid periodically having to cut back severely on demand in the economy when it gets out of line with supply.

He feels that the Government's emphasis on combating inflation with sound fiscal and monetary policies will go a long way to assist in building up the supply side of the economy.

In 1989, the economies of GATT member countries grew at a combined rate of 3,25 percent, while South Africa's economy expanded at a rate of about two percent, the report says.

World trade and South Africa's foreign trade both increased at the rate of about seven percent in 1989.

South Africa's imports and exports rose by about 2,5 percent and 11 percent respectively in volume terms, the report says. — Sapa.

Growth through redistribution, rather than greed

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BDay 27/6/90

RAFE KAPLINSKY

THE inefficiency of apartheid as a generator of wealth is obvious when SA's economic growth performance is measured against that of other semi-industrialised countries, particularly since the beginning of the 1970s.

A major contributing factor to this unsatisfactory relative performance has been the poor track-record of SA's manufacturing sector. This has fallen down in three major respects.

Firstly, unlike the newly industrialising economies, SA failed to make the transition to export-led manufacturing growth in the 1970s and 1980s. Its share of global manufacturing exports fell from 1,1% to 0,48% between 1855 and 1985.

Secondly, although unevenness of industrial growth is a characteristic of many semi-industrialised economies, it has taken an extreme form in SA. Millions are unemployed, demand is highly skewed (and capacity utilisation in industry is consequently often poor) and there is a poor technological and organisational bridge between producing for the mass of the population with low per capita incomes and for the narrow segment of rich.

A third characteristic of poor manufacturing performance is the retreat back into minerals-processing — in 1960 raw and processed materials accounted for 69% of exports; by 1988 this had risen to 88%.

The apartheid economy is responsible for these failures. Income inequality has reduced demand, holding back consumer demand and blocking the transition from micro- to medium- to large-scale enterprises. Political opposition has led to sanctions abroad, blocking the development of export markets in many sectors; this has not only held back export earnings, but has reduced the "learning through exporting" experienced by the Asian economies.

Political opposition has also led to growing shop-floor conflict. This has undermined productivity growth and has also led to the business community adopting short planning horizons, holding back development of indigenous technological capabilities.

In those sectors where we have detailed knowledge of SA's relative industrial capabilities — automobiles, machine tools, telecommunications, garments, shoes — we can readily see the negative economic consequences of apartheid.

If the negative impact of apartheid on industrial growth is clear, so too is the likely failure of the SA state's current initiatives to remedy it. These are modelled on the policy agenda set out by Thatcher and Reagan — deregulation, privatisation, a lowering of real wages and a depreciation of currency.

But these countries are a poor source of strategy for industrial restructuring; instead it would be better to learn from the successful industrialisers. "Neo-liberal" policies have been a striking failure in the West — Britain now has the largest proportionate BoP deficit ($34bn) of any major economy, high inflation, growing unemployment and a rapidly declining relative technological capability.

The US has made little comparative progress since the devaluation of the dollar, and in most sectors has either fallen further behind, or is rapidly losing its comparative advantage; it is the world's most indebted economy.

The successful industrialisers (West Germany, Korea and Japan) have either had a strong central state or, like Italy, have experienced strong regional state interventions. State-owned enterprises have also not been the unmitigated failure they are made out to be. France's state-owned telecommunications utility is the most progressive in Europe; many of Britain's newly-privatised utilities made their substantial productivity gains while they were still under state-ownership.

Comparative experience shows technology is now much too complex to be mastered across the board. Some form of targeting of industrial sectors for development is essential, as the Japanese (and the Koreans) have shown with respect to garments, ship-building, automobiles and electronics. The state has a key role to play in this targeting process, including the assembling of co-operative consortiums to spread costs.

But, perhaps most importantly, there has been a major change in the nature of industrial competitiveness in world markets. Price competition is now less important than the ability to innovate, to produce to high levels of quality with short lead times and high levels of predictability.

Successful firms in the newly industrialising countries have clearly demonstrated that this pattern of competitive behaviour can only be achieved when labour is treated as a resource, not as a cost. Flexible work practices and quality at source — the prerequisites for modern competitiveness — require consent, not untrammeled authority.

Finally, those countries which have successfully addressed basic needs have shown that micro-enterprise has an important role to play, not only in creating employment, but also in manufacturing basic wage goods. The expansion of this sector is linked to more equal forms of income distribution, and to greater political empowerment of all, for the two cannot be separated.

These experiences provide policy insights for a democratically elected government in SA. The following conclusions stand out:

□ The first priority should be to meet basic needs. In part this can be met through the modern sector operating at high levels of capacity utilisation; in part through an expanded role for the micro-enterprise sector. But since even production for domestic markets requires imports, manufacturing export markets must be expanded. These must be based upon high value-added, rather than low-wage, low price products. There is a need to diversify manufacturing production beyond the minerals sector;

□ Industrial ownership is highly concentrated and monopolistic tendencies are pronounced. More competitive markets and a deconcentration of ownership are likely to contribute to industrial growth;

□ Instead of state initiatives directed mainly to the reduction of wages, policy must be directed towards increasing the skills of the labour force and promoting a relationship of mutual interdependence on the shop floor;

□ Some room for manoeuvre exists in a post apartheid SA to redirect resources which are currently geared to the military sector. Many of these resources have high opportunity costs and can be usefully deployed in other sectors;

□ Past industrial expansion has been excessively destructive of the environment. Some resources will have to be put into reclaiming wastelands but, more importantly, policies will be have to be fashioned to avoid further degradation;

□ Policies towards industrial decentralisation have been designed to prop up homeland economies and to reduce real wages. A post apartheid economic strategy will aim to maximise regional industrial development, perhaps through the networking of small firms; and

□ The state has an important role to play in industrial competitiveness. In some sectors this will be as a direct investor, in other sectors the state will act more indirectly to ensure the direction of investment.

One final conclusion stands out. Apartheid represented an attempt to pursue a path of "growth through greed". This has led to its collapse. Moreover, it is highly inappropriate to contemporary competitiveness.

Instead, a path of growth through redistribution offers far greater prospects, not only for reasons of equity, but also in order to reinvigorate industrial accumulation.

□ Kaplinsky is a Fellow at Sussex University's Institute of Development Studies. He is also a member of the ANC/Cosatu team of economists investigating industrial restructuring. The views expressed here, however, are his own.

ANC won't be dogmatic

Sowetan 28/6/90

By JOSHUA RABOROKO

THE chairman and chief executive of Pick 'n Pay, Mr Raymond Ackerman, yesterday said that it was his belief that there were strong signals coming for the African National Congress which suggested that they would realise only too well that dogmatic socialism in South Africa was not in Africa's interest.

Addressing guests at the Manchester University in Britain, Ackerman said: "From recent statements, one can discern that the ANC is challenging proponents of free enterprise to come up with an effective option to socialism and the centrally-planned economy.

He said: "The ANC leadership is really saying that their economic policy is flexible, and they are challenging us all to come up with new ideas outside the rigid capitalist and traditional socialist ideological models.

"This gauntlet is one we simply must take up. If we in business are to continue in our role of developing and safeguarding democracy, we must address this challenge, because if a new black government finds it necessary to restrict economic freedom through central planning and interventionist policies, it will surely find it necessary to limit other freedoms as well as to enforce its unpopular policies.

He said already individual entrepreneurs were realising the opportunities which South Africa afforded. The country was the economic gateway to Africa, and a number of companies were about to re-invest or start up.

Northern governments, and institutions like this business school, should be aware that the ANC's challenge was also a golden opportunity to make Africa work.

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Appeal

It was only a prosperous society that would be able to afford urgent social expenditure and only the market system could generate prosperity. That had been demonstrated so obviously by the Germans, as he only saw last week once again. There could be no development without democracy, and importantly, no democracy without development, he said.

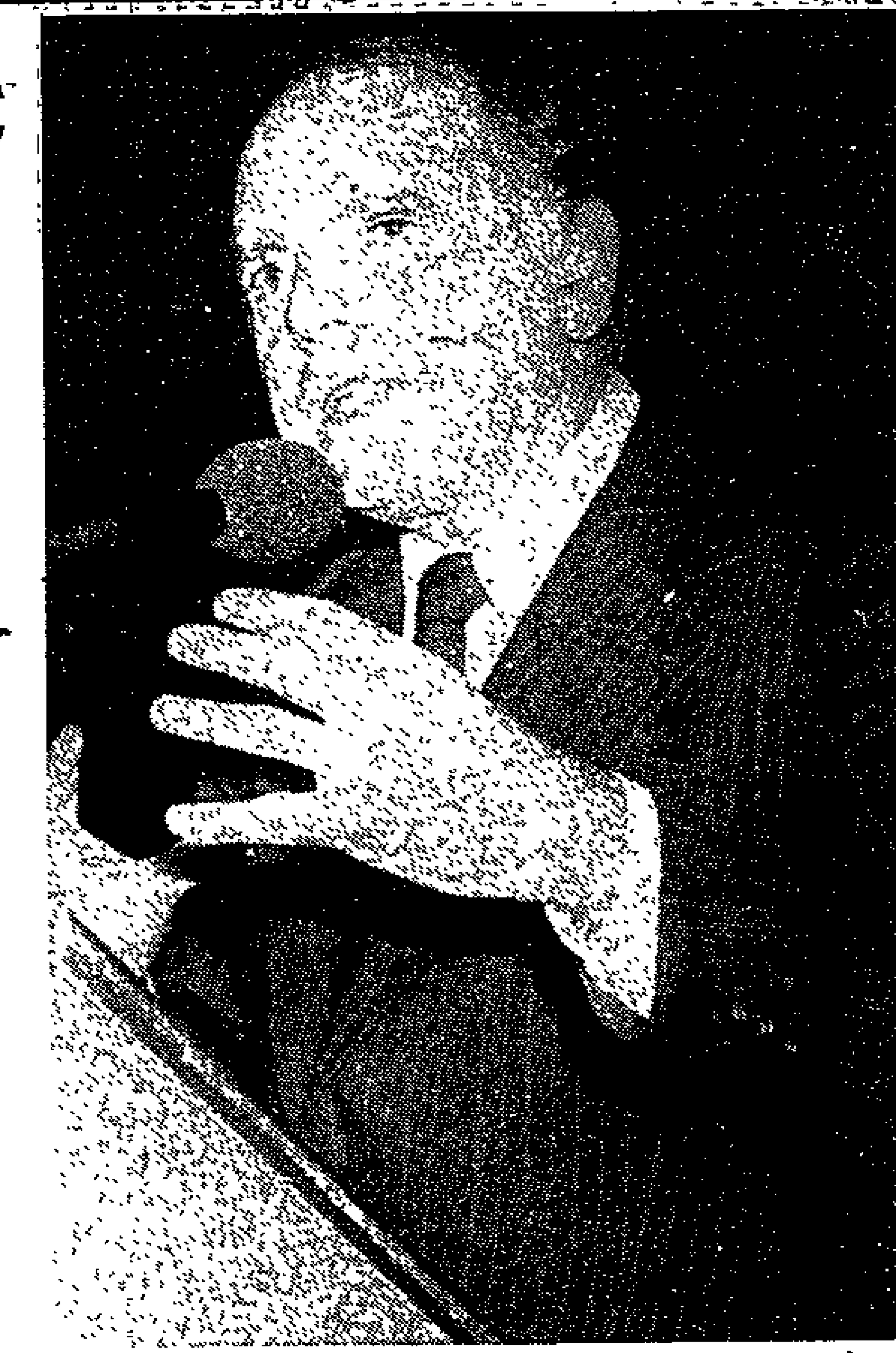
Ackerman appealed to market-orientated Northern nations to respond to the ANC's challenge by investing in South Africa, which had the infrastructure and political will to spearhead a democratic and economic resurgence in Africa.

"Help us to emulate the democratic and economic revolution we have seen and admired in eastern Europe," he said, adding, "if South Africa, with northern help and encouragement, can achieve a peaceful transition to democracy, it may be possible to implement a South Africa-led economic revival through a coordinated 'Marshall Plan' package to coincide with economic restructuring in Europe in 1992."

However, he said, should punitive economic measures by Europe and America persist, a new - and possibly impoverished - black government in Pretoria might inherit an economy not even able to satisfy the demands and expectations of its own population, let alone be able to stimulate economic activity elsewhere in Africa.

Moreover, economic decay will almost certainly make it impossible for an already-fragile democracy to survive in a new South Africa, he said.

Northern governments were therefore in a position of awesome responsibility. They could appreciably advance the process of peaceful transition to a viable; or by neglect, apathy, or lack of political courage, they could encourage conflict and economic destruction, not only in South Africa, but elsewhere in the much troubled continent.



RAYMOND ACKERMAN

The Ups and Downs of business

Sowetan 28/6/90

ECONOMISTS use all kinds of fancy words to explain what is going on in the economy.

Graham Bell, director/ economist - Ivor Jones, Roy & Co. Inc.

One phrase that often crops up is the "business cycle". Although the business cycle can be complicated in practice, the principle is simple. All economies experience a cycle which consists of an upswing phase and a downswing phase.

Why is there this cycle? The reason is that each upswing creates in itself a situation that leads to the next downswing, and vice versa.

During the upswing, business activity picks up, new jobs are created, people buy more goods, new factories are built, new shops open up.

In an upswing, confidence in the economy improves and both individuals and companies are more willing to borrow money from the banks.

Also, the increase in economic activity creates rising demand for goods from overseas picks up.

Once the economy is really humming, certain shortages develop. Banks are forced to increase interest rates as demand for bank loans rise and money becomes tight. The exchange rate of the rand (against the dollar or other currencies) begins to weaken because imports have to paid in foreign currency.

Skills

In many industries, there are not enough skilled workers to meet the extra demand for goods: this causes salaries and wages to rise.

Eventually, the pressure of rising interest rates, falling exchange rates and rising wage rates act together to slow the economy down.

At the beginning, the downswing is hardly noticeable. But gradually it picks up steam. Jobs are lost, factories and shops close down. The borrowing from banks falls off and imports decline.

This leads to lower interest rates and a higher exchange rate while the growth in salaries and wages slows down too.

Inflation

So far, I have not mentioned one critical factor that we all experience daily: inflation. When the economy swings up, inflationary pressures increase.

At first, people have more money so they are not too concerned about rising prices. But, as prices rise faster and faster, people are discouraged from buying. So, once again, the upswing sows the seed for the next downswing.

As the economy cools again, prices rise more slowly and inflation comes down.

Right now, the SA economy is in a downswing. It started slowly last year and is getting worse. It is only likely to hit bottom during the second half of next year. In the meantime, things are going to get tougher.

The business cycle in SA is affected a lot by movements in the gold price. It is unfortunate that the price of one single commodity can have such an important influence on us.

In the years ahead it will be very important to reduce our reliance on gold and produce a much wider range of goods.

Land for all in SA the aim, chamber told

THE ANC's economic programme had to seriously address the land question, delegates at the 20th conference of the Southern Transvaal African Chamber of Commerce and Industries, were told in Johannesburg yesterday. SO we ten 28/6/90

A member of the ANC's department of economic planning, Mr Tito Mboweni, said their proposals were for reform which would include the redistribution of land to all South Africans. (49)

Referring to agricultural production, Mboweni suggested there should be a combination of different productive forms.

For example, there should be small-scale family units, co-operatives, individual farms of different sizes, state farms and joint ventures between the state and private enterprise.

He said the current situation in which productive economic activity was dominated by few conglomerates was unacceptable.

SOWETAN Times
SOWETAN BUSIN
Building the Nation

Protection for the worker comes first

Sowetan 28/6/90

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APARTHEID required regulations and licence control. To enforce separation of the race groups and suppress the black people, laws and rules were necessary.

Initially these racially discriminatory rules assisted business. The market for goods produced was adequate and the White people could supply the skills needed for the economy. But from late 1960's economic growth also became constrained by apartheid rules.

Furthermore the 1973 Natal demonstration strikes and 1976 Soweto uprising worried business because they strengthened the international campaign against South Africa.

Business formed pressure groups to lobby Government to change to what it saw was needed, eg. Urban Foundation and Free Market Foundation (FMF).

FMF argued that regulations should go and state enterprises be privatised. This argument was accepted in the wider society because in the examples to explain those principles, the racial constraints on the Black people were quoted.

Hence initially the ideology of free markets and individualism was not challenged. But as a new South Africa starts to emerge with no racial constraints the impact of that ideology as solutions for the country's problems has to be questioned.

Federations

The union federations have warned against privatisation and deregulation. The assumption that no rules are necessary and collective needs of people are not the State's responsibility has to be challenged.

Other pressure groups such as Job Creation and the Sunnyside Group want no restrictions to be placed on the small businessman in his employment practices. Whose interests are they protecting?

Industrial relations

Unions fight for and have achieved throughout the world protection of their members against exploitation and industrial injustices. Black unions fought for recognition in the last two decades.

Industrial relations principles of due process and fairness, which procedures of the recognition agreement requirements are now supported by the Courts.

WHY is deregulation seen as the answer to all problems? Should small businesses not be responsible to those who work for them? Will the removal of minimum working conditions create more jobs? This article raises the issues around the questions.

The minimum wages and working conditions in agreements negotiated by unions and employers' associations for an economic sector improve the quality of life of most workers covered by the LR Act.

Civilised societies develop institutions such as the Industrial Courts, industry training boards and collective bargaining forums (industrial councils) because it is recognised the individual worker is powerless. He has to beg for work and cannot protect himself.

Contract

The employment contract between the individual worker and the employer cannot be equal unless :

* there are minimum job protection requirements;

* there is enforcement to ensure that employer adheres to these minimum requirements.

What are they?

Who does the checking?

The conditions of work and quality of life which have to be protected include:

* hours of work; control over amount of overtime; payment for overtime; paid holidays; mutual funds to pay for doctors and medicine and other medical costs; some protection when injured on duty; safety in the workplace; risks against dangerous substances which damage health;

* social security schemes to give sick leave when off work because of illness; when old age forces retirement; when unemployed; when there is retrenchment; when the factory is on slack, ie. shortage of work because of unforeseen circumstances;

* a training levy to set up training institutions to help people learn a wide range of skills.

This is why over the decades labour laws have been developed such as: Basic Conditions of Employment Act; Guidance and Placement Act; Wage Act; Workmen's Compensation Act; Machinery and Occupational Safety Act; Unemployment Insurance Act; Manpower Training Act; Labour Relations Act.

Apartheid

The removal of apartheid laws must not be used to quietly retrench social citizenship protection and rights of the above laws.

Business pressure groups must not remove protection in the name of profit as the only goal to guide society.

Are those business people prepared to say the following are not entitled to protection:

The injured worker; the worker with a lung disease or cancer from chemical substances; the worker who is not paid on time; the worker who is paid for an unskilled work but does a responsible job; the widow whose husband was killed because of employer negligence; the worker retrenched after 10 years service; the worker who is sick, etc.

Regulations require enforcement to ensure adherence. In the field of industrial relations this is best done through shop stewards, agents of industrial councils, inspectors of the Department of Manpower.

Since the 1980s the department's statutory institutions are emphasising ideas such as self-regulation by the parties in occupational health; devolution in the establishment of industry training boards.

Industrial relations is concerned with social rights and procedural and regulatory requirements which cannot be compared with licensing controls.

Pressure

The pressure from the current Government through the Department of Manpower to force industrial councils to give permanent exemptions for small business defeats the principles of labour policy of the Government.

The present principles are: tripartism; freedom of association; maximum measure of self-government; minimum measure of state intervention; etc.

The present Government cannot claim to protect public interest in the deregulation and privatisation policies as they were set by a white Government in response to interest of business pressure groups.

Should the Department of Manpower not stop all privatisation and deregulation plans?

The exemption process and renewal

The business lobbyist for free enterprise, deregulation and privatisation can no longer hide behind apartheid restrictions and inappropriate licences requirement to promote their ideology.

The social context for the situation has to be acknowledged. The FMF attempts to deregulate everything in the Ciskei ignored the social context.

The above concerns do not mean certain situations do not require special consideration and exemption from regulations. A number of industrial council agreements might require renewal.

Process

Now that black unions are party to industrial councils this renewal process can be started.

But those situations and the disputes caused by them can be processed. Industrial councils do grant exemptions to small business or companies making specialised products.

In the 1960's industrial councils did exempt certain employers in consultation with the workers, from certain clause of wage agreements - but for a specified period.

If these exemption processes are not working or cumbersome, then they should be and can be simplified. There might be a need for an independent objective arbitration procedures for temporary exemption from certain rules established in the name of protecting of social rights, if industrial councils are believed to be unfair.

The idea of a body like a small claims court but, then for the employment relationship, could be considered.

The experience of a decade of industrial relations can be brought together by federations such as Saccola, Nactu and Cosatu to negotiate a code of conduct to help small business.

Such a code could ensure specific agreement clauses of certain industrial councils are not restrictive for a small business in the first year of its operation.

Business

Small business faces financial costs to ensure the social rights of the ordinary worker are protected. But they are not exorbitant and do not prevent their operation.

At the same time they are for the common good. And the new South Africa is a South Africa where privilege cannot be maintained for a select few.

NATION BUILDING The p

Klaaste urges action to resolve economic shortcomings

49

Sowetan 26/6/90

UNLESS the majority of the people are developed to become the creators of wealth and are given political freedom and assistance, redistribution in the conventional form will not work, *Sowetan* Editor Aggrey Klaaste said yesterday.

By JOSHUA RABOROKO

Opening the 20th annual conference of the Southern Transvaal African Chamber of Commerce and Industries at the Jan Smuts Holiday Inn, he said process must be done jointly and now.

He told the two-day conference, whose theme is "The Creation and Distribution of Wealth in the Post-Apartheid South Africa", that black leaders were forced to speak on various forms of redistribution which did not have a hope of satisfying everybody.

"The economic cake, even if scrupulously divided in equal terms to all people of this country, is terribly insufficient.

"Apartheid has ruined the country's economy. Instead of moaning, of breast-beating and piously pointing fingers at those responsible for the disaster, we should start now."

Klaaste said his concept of nation building meant that "we should engage in creatively aggressive ways to repair the damage done by so many decades of apartheid."

Most of black political heroes, from Steve Biko, had spoken that way.

They were constrained to locking their excellent thinking into ideological strait-jackets that led to them being killed, or jailed.

The debate had been opened, democracy would slowly become fact. It was a process that would and must take time.

"The latest political shifts in South Africa will not lead to peace and prosperity, even if all the pillars of apartheid were to go.

"The exciting thing is, the closed system which we lived under has been opened. Perhaps those who have been spectators to developments in the country will now act.

"Perhaps we will be able to give strength and support to our politicians, not only in echoing, mostly timidly, fearfully, sometimes shamedly their views, but in building the type of nation that will make the political kingdom last," he said.

He said South Africa was the last act in the history of the African continent and colonialism, and a disaster would result in the collapse of the sub-continent and lead to intolerable suffering, if the race war was not stopped.

"The war in Angola came to an end and the nightmare of Namibia was eventually resolved," he said, adding, South Africa was the last in the continent.

"In an ironic way the world is looking at South Africa as the conduit for development in the continent. They have reason for that, as this country has the infrastructure to become the economic engine of the continent.

"In other words the responsibility on South Africa is not simply limited to getting the act together here or on the sub-continent.

"The responsibility to getting it right here will impact on millions of people throughout Africa.

"This is the kind of responsibility that lies on the shoulders of leaders like Nelson Mandela, Zeph Mothopeng and others.

"We cannot allow the political leaders to bear this responsibility alone. It is the job of each one of us to share this burden," he said.

He said that responsibility was underlined in the nation building which he described as "a unilateral declaration of independence in style, in shifts of thought, and in the crucial role that blacks will play in the country's future."

National programme launched

A PROGRAMME focusing on issues of national importance will be launched at the Wilgespruit Fellowship Centre next month, Dr Mokgethi Motlhabi said yesterday.

The programme, to be known as the Ubuntu Social Development Institute (USDI), will involve monthly seminars.

Among the proposed topics are:
* Talks about talks;
* Disparities in South African university education;
* Demotivating factors in the SA school system;
* The future of Black Theology in SA: its relevance and significance;
* The future of the liberation struggle: a workers' perspective;
* The church as an agent of change in situations of political injustice and oppression;
* The significance of the media in the struggle for political change, with special reference to SA;
* The impact of the reform initiative on political programmes of change;
* Inter-relations between labour and civic organisations in the political struggle.

A Soweto hawker, Mr Calphus Mpofu (centre), was awarded R500 and a "Keep Clean" certificate for keeping the best stall at the Baraqwanath bus terminus. The contest was organised by "8-Pack Apple" company and the ceremony was held at Diepkloof Hotel. He is been flanked by here by the organisers (from left) Mrs Charlotte Moeketsi, Mrs Cynthia Sixolo, Mrs Grace Ramanyi and Mrs Pearl Motile.

ANC ponders role of state in future economy

Star 28/6/90

By Jabulani Sikhakhane

As the controversy over the African National Congress's stand on nationalisation appears to be cooling off, some consensus is emerging on the maintenance and role of the State in a future economy.

Addressing the annual conference of the Southern Transvaal Chamber of Commerce (Soutacoc) in Johannesburg yesterday, Dr Simon Brand, chief executive and chairman of the Development Bank of Southern Africa and ANC economist, Tito Mboweni gave their views on the pivotal role of the public sector in a post-apartheid economy.

Dr Brand said the State or the public sector had long commanded and directed a large part of the resources of the country.

Government expenditure, he said, accounted for over 20 percent of gross domestic expenditure and the share of the broader public sector in gross domestic fixed investment had been between 50 and 60 percent for several decades.

"The State is already playing an important role in the economy and the debate should therefore be more about the way in which, and the purposes towards which, the state exercises its intervention in the economy, both in terms of regulation and the use of resources," Dr Brand said.

Bodies like the chamber should evaluate the present extent, direction and effect of the State's role in the economy and suggest ways in which the State's role can be adjusted towards goals such as more equitable participation in the economy.

STATE'S ROLE

Dr Brand's views complemented those of Mr Mboweni in hisoutline of ANC economic strategies. According to Mr Mboweni, ANC thinking is that the State's role will have to be maintained in the future.

However, he warned that a future "democratic government" will need to change the current relations within the State sector and "direct it towards the people as a whole.

"Democratic control, efficiency and openness should characterise a democratic State sector," he said, with the proviso that "the democratic state may intervene if needs be."

Mr Mboweni also added that the ANC's department of economics and planning, which worked closely with the Congress of SA Trade Unions, and a wide range of other organisations, including Nafcoc, had identified a number of areas for further research into policy alternatives.

These included:

- Economic stabilisation policies — monetary and exchange rate policies — to manage macro-economic imbalances, including galloping inflation and balance of payments deficits, which he said have been important contributory factors to the current economic crisis.
- Alternative industrial strategies which will seek to achieve an intergrated regional economic development.
- Various policies to boost the country's mineral production, including the formation of a State Minerals Marketing Authority to control mineral marketing and promote a higher level of mineral beneficiation.

M3 growth rate lowest in three years

SA downturn shows up in money supply

B/Day 25/6/90 49

ANDREW GILL

THE annual rate of increase in SA's money supply fell by 2,6 percentage points in May to its lowest level since 1987, providing further evidence that the economic slowdown is deepening.

Growth of broadly defined money supply (M3) dropped to a provisional 19,03% from April's revised 21,67%, while the 15,82% rate of growth from the current guideline year (base: 4th quarter 1989) was marginally above Reserve Bank governor Chris Stal's 11% to 15% guidelines.

"There is a good chance we will be within those guidelines at the end of the year," Reserve Bank economic head Jaap Meijer said. The last time the guidelines were met was in 1987.

Total money supply for May was R150,8bn, less than 1% above April's R149,4bn.

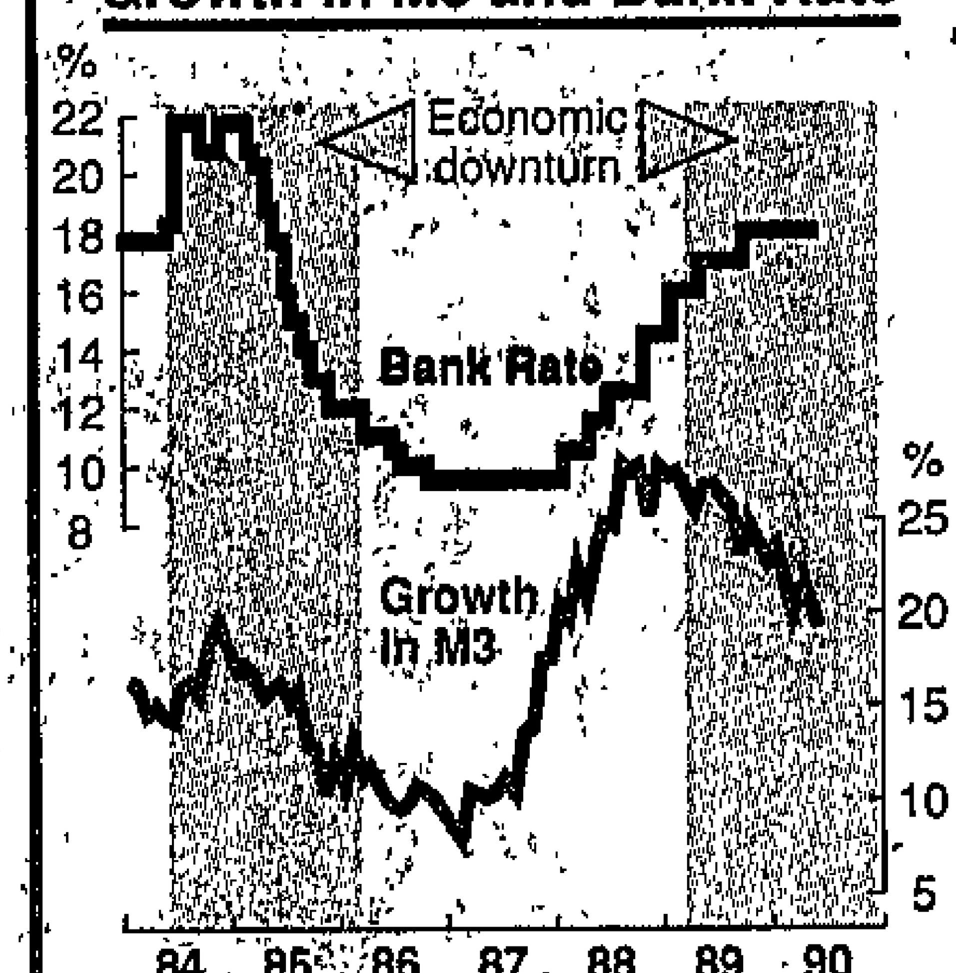
The slowdown is further illustrated by a decline in overall bank deposits which fell by R137m in May from April and registered an annualised 3,3% fall, suggesting the continued inability of the public to save.

Total domestic bank credit extended increased by 15,4% to R118,6bn in May from May 1989. This is compared to a 26,1% increase in April.

Hire purchase credit growth, although positive, was only 0,5% up from April and 15,7% up from last May (16,4% in April).

Meijer said although the figures were were impressive, it was not time to let up on current policy. Interest rates were unlikely to be revised for at least the next few months.

Growth in M3 and Bank Rate



Graphic FIONA KRISCH Source: RAND MERCHANT BANK

Rand Merchant Bank economist Rudolf Gouws confirmed that the figures showed a steepening downturn. He said there would be further decreases in the coming months as the slowdown was reducing the demand for credit.

First National Bank chief economist Cees Bruggemans also expected the rate of increase to continue dropping, and endorsed Meijer's view that money supply growth rates would meet Stals's 11% to 15% targets by year-end.

The domestic economy was slowing considerably, he said, but interest rates were unlikely to be lowered until the fourth quarter.

ANC still backs nationalisation

By PATRICK MAFAFO

Citizen 27/5/90 210

THE ANC was not rethinking its policy of using nationalisation as an option to address inequalities, said ANC deputy president Nelson Mandela this week.

He was addressing a meeting between the ANC and the country's 300 top businessmen, including blacks, convened by the Consultative Business Movement.

It was the third in a series of "economic options" seminars and Mandela shared the platform with former chairman of the Anglo American Corporation Gavin Relly.

Mandela said the ANC had no blueprint that decreed which assets would be nationalised, or what form nationalisation would take.

And it would be "a tragedy" if, when democratic changes had taken place, the question of government participation was carried out unilaterally without the co-operation of the corporate sector.

"Therefore this is a question we feel should be negotiated – that there are different forms of government participation in industry," said Mandela. "All these questions will be thrashed out not only with the business sector but with the people of South Africa."

On uses and abuses of power, Mandela said: "In the political sphere, I think we all agree on a united, democratic and non-racial South Africa. The specific manner in which this will take place will have to be negotiated."

He said economic power was one of the thorniest issues that must be addressed. It was said that less than 10 businesses controlled almost 90 percent of the shares listed on the Johannesburg Stock Exchange (JSE) and probably the total number of people on the boards of those companies was fewer than 1 000.

If South Africans were genuinely interested in ending the old social order and bringing in a new one, based on justice and a significant black stake in the economy, it was obvious that this concentration of economic power in a few white hands would have to change.

To make this change, he said, the ANC might have to consider United States anti-trust laws and such mechanics as the British Monopolies Commission.

Mandela said the ANC was firmly opposed to privatisation. It would be reasonable for the disposal of State industries to be held over until a truly representative government was in place. Privatisation could only reinforce the over-concentration of wealth in a few hands.

On land use, he said both Land Acts would have to be repealed before anything else was done.

Discussions and planning would take place among rural people and their representatives, government, those who owned the land, and the country as a whole, in order to make land available to the masses, while ensuring necessary increases in the production of food and agricultural raw materials.

Relly, the first senior big business representative to begin dialogue with the ANC in 1985, said the debate had moved from capitalism versus socialism to a recognition that, as with all other societies in the world, the future economy would be a mixed one. However, it would depend on which sector dominated the economy – the public or private sector. He said a trade-off would have to be struck between equality and growth.

He supported the argument that economic growth was necessary – but not itself sufficient – to reduce poverty and inequality.

Evidence pointed to the need for a carefully balanced combination of State and private sector roles.

The State had an important role to play in distributing resources through transfer payments from one taxpayer to another, and through government spending on health, education and housing.

He pointed out that a balanced tax system provided for this distribution.

Relly said instead of contemplating nationalisation, the private sector should be seen as the source of wealth and job creation, with the State acting as an allocator of resources raised through taxes.

He said all countries used taxation as a redistributive mechanism and collective bargaining was another widely practised redistributive mechanism.

On land distribution, he said abolition of the Group Areas Act and the Land Acts would not be enough to solve the problem. It would have to be supported by a system that made the land affordable.

"History shows that land reform benefits societies only when it achieves a transfer of ownership of unutilised or under-utilised land from absentee landlords or the State to efficient peasant proprietors.

"The worst thing that can be done is to transfer efficiently-farmed land to inefficient peasant cultivators. It is worth bearing in mind that only 15 percent of South Africa's land is classified as arable."

He said business was in favour of privatising those State businesses capable of producing profits.

"However, there are difficult cases like transport and Eskom, which need far more debate and investigation."

JCI chairman Murray Hofmeyr (left) with ANC deputy president Nelson Mandela, former Anglo American chairman Gavin Relly and ANC External Affairs leader Thabo Mbeki. ■ Pic: TLADI KHUELE

Slide in fixed investment continuing — economists

CHARLOTTE MATHEWS

GROSS domestic fixed investment (GDFI) for the first and second quarters of 1990 is likely to remain in the region of -3,2% annualised, according to economists.

They believe figures due from the SA Reserve Bank within the next few days will show the downward trend evident since the first quarter of 1989 is continuing.

Factors contributing to the decline were fluctuations in consumer demand and expectations of the future, high interest rates, changes to the depreciation allowance, and uncertainty about the export market.

Dunlop Heywood director of machinery evaluation David Read believed there had already been a slowdown in the purchase of new equipment by large industrial concerns "due to the high cost of bringing the equipment in from overseas".

Barlow Rand chief economist Piet Haasbroek said there was likely to be a reduction in prime towards the end of this year, possibly down to about 19,5% or 20%, depending on sustained decline in the demand for credit as well as political factors.

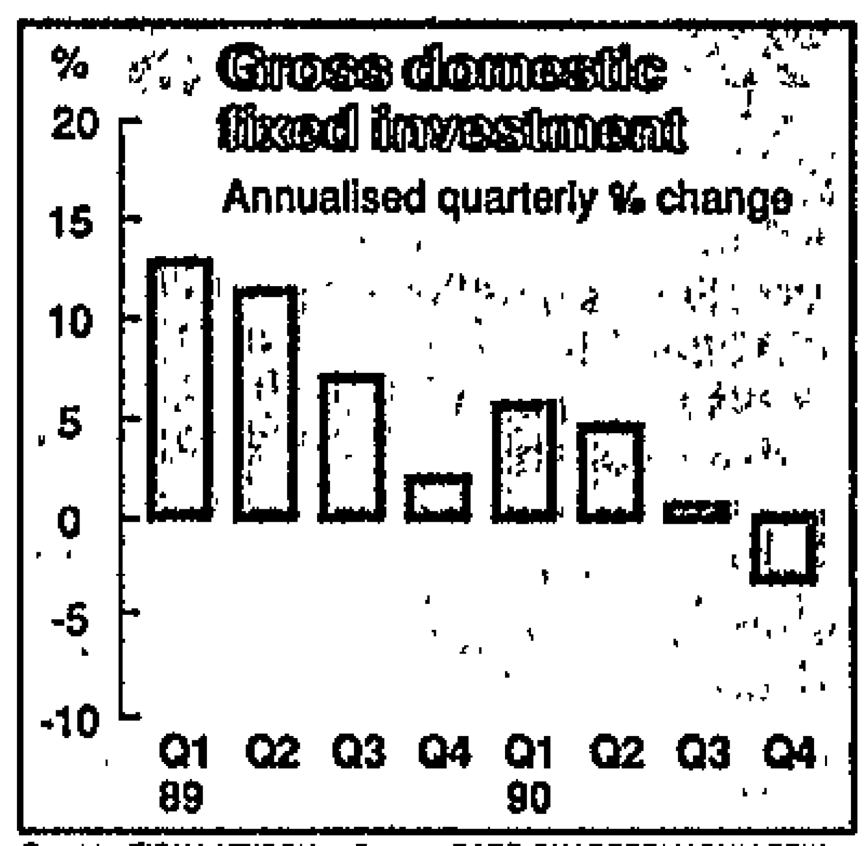
"But in 1985/6 the decline in interest rates was not sufficient to make businessmen invest in capital equipment. Politicians should do their best to stop bedevilling business decisions by making demands for sanctions."

Trust Bank economist Nick Barnardt said in studies undertaken by his department a correlation had been found between declining corporate profits and a decline in fixed investments over a long period. They foresaw corporate profits deteriorating this year and next year.

SA Federation of Civil Engineering Contractors (Safcec) executive director Kees Lagaay said about three-quarters of the industry's activity was in government projects and the remainder was in mines- and manufacturing-related work.

Lagaay's impression was that private sector work was, on the whole, being maintained while public sector work was showing a downturn.

In the immediate future he foresaw a less healthy situation as the effect of an economic slowdown and the lower gold price on mining activity was felt.



Graphic: FIONA KRISCH Source: BARB QUARTERLY BULLETIN

Privatisation in education will save tax, says Senbank

Star 29/6/90

The privatisation of school education could enable South Africa to maintain the present white education and to extend this, without raising taxes, Senbank says in a report on key economic issues.

Pointing out that the country has not got enough resources to maintain the present standard of white education and to extend this to all race groups, Senbank believes that a different system, namely private education, will be able to achieve this. It could be achieved without extra input and therefore without higher taxes.

However, there are certain critical premises, such as:

- The Government sets certain minimum standardsm which are internationally comparable, and guarantees it through subsidies.
- Local communities have the right to introduce their own values into the education of children over and above the minimum standards.

Rationalisation

- The subsidy per pupil will be higher for lower-income groups.

The report adds that taxes financing education should be made available as school subsidies to privatised school communities. Rationalisation of education authorities into a single department of education will lead to enormous savings.

The report warns that the costs involved in raising overall levels of education are enormous.

It notes that to finance black education at the same expenditure a pupil as in the case of whites, will cost four times as much as at present, and the total expenditure will be two and a half times more.

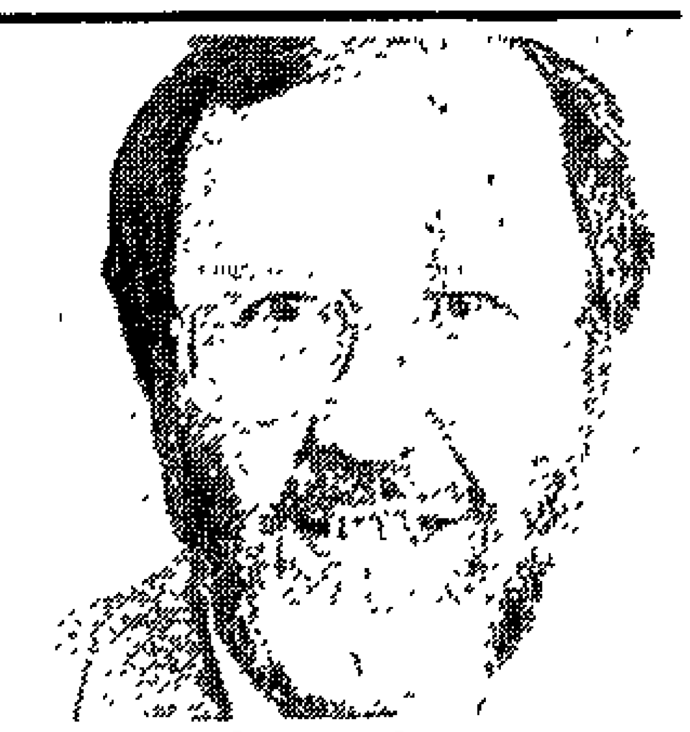
Total expenditure on primary and secondary education will therefore rise from R9,3 billion to R25,6 billion.

Education expenditure comprised 13,3 percent of the Government's Budget for the financial year. Equal expenditure would increase this proportion to 42 percent. — Sapa.

Car sales figures falling off

BER: Lean times ahead

49



Ockie Stuart

By AUDREY D'ANGELO
Business Editor

Cape Times 29/6/90

BOTH the wholesale and retail scenes "are more lively than I expected them to be by now", Ockie Stuart, director of the Stellenbosch Bureau for Economic Research (BER), said yesterday. But he expects the situation to worsen soon.

And the motor industry is going through hard times, with sales of second-hand cars falling off and fewer orders being placed for new cars.

Commenting on the results of recent surveys carried out by the BER, Stuart said he expected consumer resistance to slow down the rate of price increases, in spite of forecasts by wholesalers that prices would rise more rapidly in the current quarter.

The survey of the wholesale sector shows that growth in sales is levelling off rapidly and has already turned negative in many subsectors. "Examples are building materials and hardware as well as chemicals and raw materials for agriculture and industry."

Wholesalers report that the second quarter's level of orders was, in real terms, on a par with those at the same time a year ago. But a majority expect the level to fall in the third quarter.

Almost four out of 10 said their stock levels were too high for expected demand, making them reluctant to place new orders. Growth in employment opportunities in this sector was tapering off rapidly.

"As a result of these conditions, wholesalers were successful in negotiating somewhat lower price increases with their suppliers," the report states.

"The respondents have indicated that the rate of increase in selling prices during the post-survey quarter is likely to be higher than that of a year ago. A study of the responses of the past few surveys has shown, however, that the tempo of increase is decelerating."

About half the wholesalers considered business conditions to be "satisfactory" and the other half said they were worse than a year ago. "The implication is that even though conditions have deteriorated during the past 12 months they have not yet reached a point which indicates a sharp fall in the tempo of activity.

"This should be read, however, in conjunction with the finding that four out of 10 of the participants anticipate a further deterioration during the third quarter. There can be no doubt whatsoever that the tempo of activity in the wholesale sector is slackening fairly rapidly."

The survey of the motor industry showed, says the report, that "business conditions in the industry are poor" with sales of passenger vehicles — particularly used cars — "becoming very sluggish," and even demand for parts falling off.

Again, the BER expects the situation to get worse. "Sales of new vehicles did not live up to the anticipations expressed by the BER's respondents in the previous survey and no fewer than 66% said that they have sold fewer vehicles than a year ago. A further decline in sales is projected for the third quarter".

Stuart said sales of used cars "took a nose-dive during the second quarter, with a mere 4% reporting that sales were up on those of a year ago and 83% reporting poorer sales.

"As a result, dealers in used cars were heavily overstocked at the time of the survey."

Pointing out that this is "a reflection of the tight financial situation at the lower end of the market," the report says respondents to the survey do not expect any improvement in sales in the third quarter.

"Even the spare parts sector seemed to find the going a little bit tougher than usual. Markedly fewer respondents than in the previous survey reported increased sales, and a situation of slight overstocking has arisen."

The report says that 60% of respondents found sales of new vehicles unsatisfactory, and "a massive 88%" said the same of used car sales.

"Sales of cars remain a good leading indicator of developments in the macroeconomy and it would thus appear as if the latter is in for a particularly lean period in the months ahead."

SACP wants mixed economy — Slovo

CAPE TIMES 29/6/90

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JOHANNESBURG. — The South African Communist Party is not mesmerised by the concept of nationalisation, and in fact supports a mixed economy, SACP general-secretary Mr Joe Slovo said yesterday.

The transfer of legal ownership from private hands to the state does not, in itself, really bring about any fundamental economic change, he said in an extensive interview with local and foreign journalists.

"It's got to be combined in those areas where it is justified, and it is not necessarily justified in all areas.

"We support a regulated market economy and we support a mixed economy in a post-apartheid South Africa in which there will be a place for private domestic and foreign capital. We are not opposed to the market.

"The market mechanism is an effective mechanism for the realisation of surplus... but not an effective mechanism for the fair distribution of that surplus."

Therefore, "the state has got to play a very important role in ensuring that the surplus which society generates is not just appropriated by 2% of the people who happen to own the means of production".

Mr Slovo maintained that the SACP's economic policies were attractive to foreign investment, but admitted the party had to do more to explain its standpoint.

Despite the structural economic problems facing the country at present, a post-apartheid South Africa could become an industrial giant.

"We believe that with the dismantling of apartheid — with South Africa no longer being the polecat of the world — there will be prospects for the South African industrial base to grow in a very dramatic fashion," he said. — Sapa

Slovo says SACP supports a mixed economy in SA (49)

W/Mail 29/6/90

It's time to abandon the cliche of 'nationalisation', says Communist Party leader Joe Slovo in an interview with **DAVID GREYBE**

THE South African Communist Party is not mesmerised by the concept of nationalisation, and in fact supports a mixed economy, SACP general secretary Joe Slovo said yesterday.

"The transfer of legal ownership from private hands to the state in itself does not really bring about any fundamental economic transformation, Slovo said.

"It's got to be combined in those areas where it is justified, and it is not necessarily justified in all areas.

"Let's get away from this cliche 'nationalisation'. It's caused an enormous amount of confusion," Slovo said.

"We (the SACP) do support a regulated market economy and we do support a mixed economy in a post-apartheid South Africa, in which there will be a place for private domestic and foreign capital."

Slovo said one of the mistakes of the now-collapsed Eastern European socialist countries was that they did not properly use the economic market.

"The market mechanism is an effective mechanism for the realisation of surplus," he said, adding "it's not an effective mechanism for the fair distribution of that surplus". Therefore, "the state has got to play a very important role in ensuring that the surplus which society generates is not just appropriated by two percent of the people who happen to own the means of production".

The SACP realised that big business is not a charity. "In order for them to play a role they will not do so as philanthropists, they will do so if they feel there is a good return on their investment, on their stability and security," Slovo said.

"Post-apartheid society will have to order its structures in such a way as to ensure that private capital, (and) foreign investment, continue to play a role.

"In contrast to what has gone on up to now, we of course cannot accept a situation where private capital and foreign capital determine the whole course of development in the country."

Slovo maintained the SACP's economic policies were attractive to foreign investment, but "we cannot allow that factor to prevent us from using state mechanisms to begin to redress the kind of internal economic imbalances from which the majority have suffered".

Despite the structural economic problems facing the country, a post-apartheid South Africa could become an industrial giant, the SACP general secretary contended. "I think South Africa can become the sort of manufacturing dynamo, for example, of Southern Africa and of the African continent."

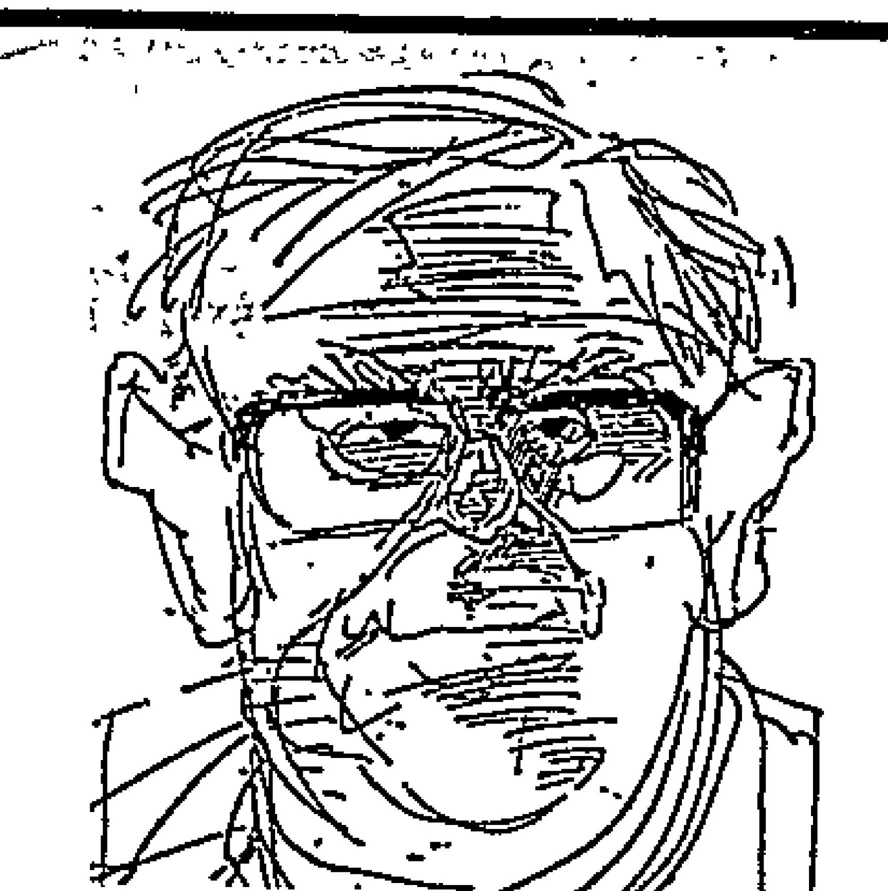
The reason why the South African economy had been prevented from expanding in this way was basically because of political reasons, not economic reasons. "And with the removal of these political obstacles, we think that there are great, great prospects for the South African economy to, on the one hand, develop in terms of growth, and on the other hand, using that growth to satisfy the basic needs of people."

But according to Slovo, "a fetish is being made out of economic growth". "People say ... you need so much percent economic growth per year. They've said that to meet South Africa's economic needs in the next decade or two, you need a minimum of five to six percent regular growth annually ...Yet the country had experienced periods in the past when this had been the case.

"Between 1960 and 1975 the average growth rate was over five percent, which was a period of an even growing gap between the races and greater repression. So you know, the growth rate is an irrelevant statistic to the majority of people, unless it is combined with some fair regulation in relation to the distribution of that growth in the economic sphere."

Expanding on his earlier statements on nationalisation, and the growing debate around it, Slovo referred to the seventh SACP congress last year "when we drew up our new programme, we debated the question of nationalisation.

"If you read through that programme,



Joe Slovo ... speaking about eclectic economics with a human face.

you'll find that the word (nationalisation) is not mentioned. And it's not by an oversight," Slovo stressed.

"We deliberately decided that nationalisation, just as a concept which means the transfer of legal ownership from private hands to the state, in itself doesn't really bring about any fundamental transformation.

"It's got to be combined with proper participation on the ground. It doesn't necessarily mean that the state then runs the thing as the state, without being touched by other sectors, including private sectors.

"Participation of private capital in nationalised industries is something which is not alien to us. So just (as) a phrase, nationalisation has become a distorted kind of concept.

"And of course we've seen from the practice in the socialist world, where there has been the transfer of ownership from a board of directors to a board of bureaucrats, where the conditions of the workers ... the actual producers ... has not changed one little bit.

"In some cases (circumstances) even got worse," Slovo said.

According to him, "nationalisation — if one understands by it the state places itself in the position where it can control the direction of a major sector — doesn't necessarily have to always be done through state ownership, whether it be 100 percent or 70 percent state ownership.

"It is a much more complex concept than the kind of image which is evoked when you use the word nationalisation — just confiscating without compensation, to hell with all private participation ...

"It's not our concept," Slovo said.

FW in appeal to business during Sacob meeting

49

B Day 29/6/90

PETER DELMAR

PRESIDENT F W de Klerk yesterday appealed to the business community to help settle a number of national economic and socio-political issues, including the question of land distribution.

De Klerk met a high-level Sacob delegation for talks which were described as "very positive".

According to Sacob legal adviser Ken Warren, De Klerk was told the business community was not a monolithic entity, but that Sacob completely endorsed government initiatives taken since February 2 this year.

The president, he said, recognised that business was an extremely important player in the process leading to a new constitution.

Land distribution was just one of the issues which would require intensive research and in which the private sector's resources could be used for further study, he said.

In a statement after the meeting, Sacob CE Raymond Parsons said the delegation emphasised the important stake which the business community had in the outcome of the negotiations.

A positive exchange of views on the future constitutional negotiating process took place, he said.

The talks were wide ranging, said Parsons, and covered such topics as economic aspects of any new constitution, the question of poverty and inequality of wealth and the removal of remaining obstacles to constitutional negotiations.

The problems arising from the violence in Natal were also discussed.

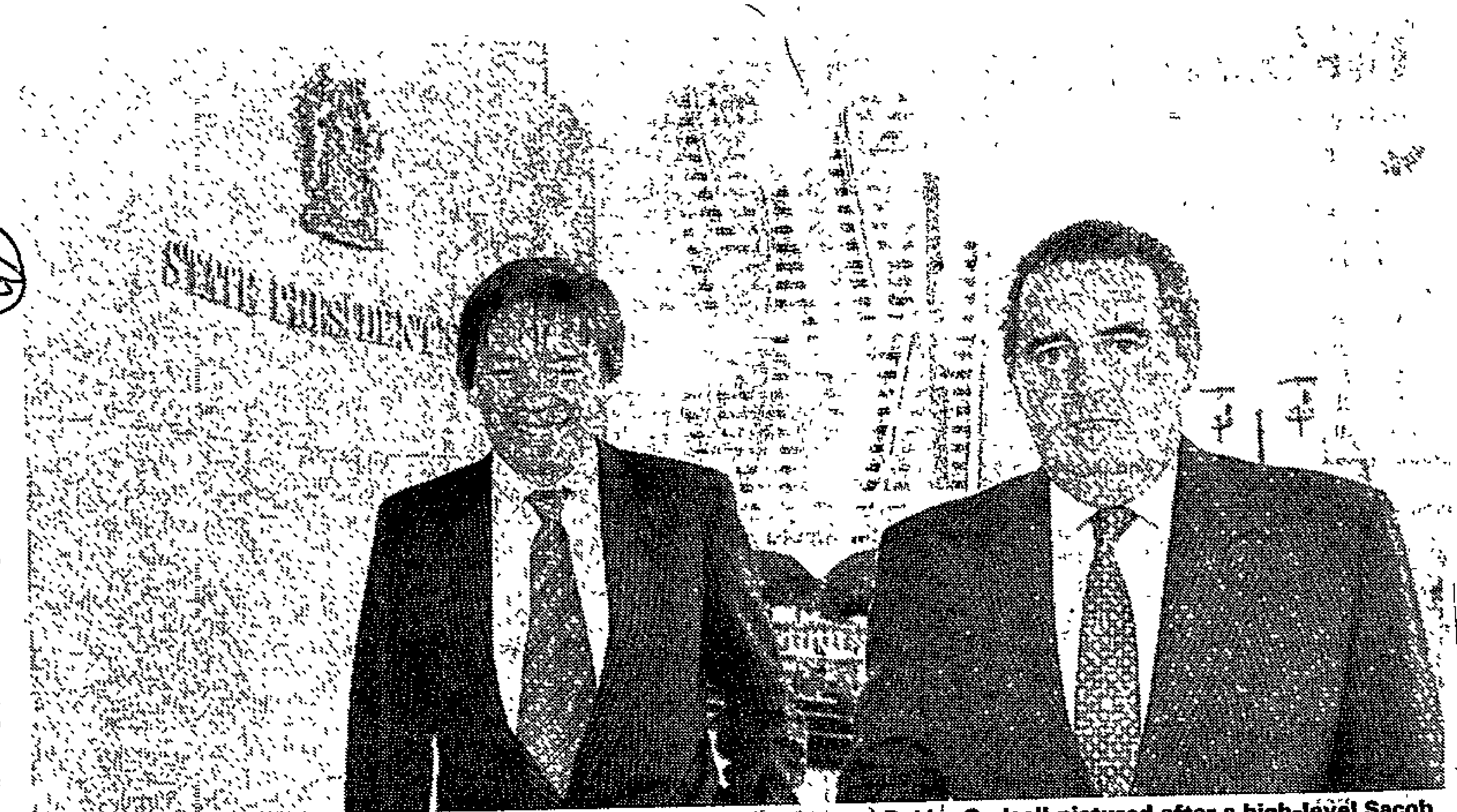
Views

Sacob president Leslie Boyd said the business sector could make a major contribution to the process of settling political differences through discussion, negotiation and compromise.

Boyd said a positive exchange of views on the current and future political process took place during the hour-long meeting.

Sacob reiterated the significance of the constitutional and political process from a business confidence and business perception point of view.

He said his organisation agreed that law and order was necessary in the process leading up to negotiations.



Sacob president Leslie Boyd, right, and manpower committee chairman Bobby Godsell pictured after a high-level Sacob delegation met President F W de Klerk in Pretoria and told him the organisation completely endorsed the initiatives government had taken since February 2.

Picture: ROBERT BOTHA

Reserve Bank seeks answer to R2bn spending dilemma

(49)

GRETA STEYN

THE Reserve Bank wants to find a way of transferring government's R2bn social spending fund to the private sector without interfering with monetary policy or disrupting the markets.

The Independent Development Trust has not yet received the money allocated at the end of the previous fiscal year from the exchequer's account at the Reserve Bank.

The trust, chaired by Jan Steyn, is losing interest on the money while it lies idle at the Bank — lending some urgency to finding a solution to the dilemma.

Bank Deputy Governor Chris de Swardt said yesterday:

"If the money is placed on deposit with a private bank, it will mean a substantial injection of liquidity into the money market.

"Such a development would contradict the current monetary policy stance. We are therefore holding discussions with the trustees in an effort to find a way around the problem."

There is talk in banking circles that the money might be kept out of the market by investing it in short-term government stock via government's investment agency, the Corporation for Public Deposits — a move which would ensure the trust no longer lost interest. B10ay 29/6/90

Once the money is spent on development infrastructure, however, it will have an expansionary effect on the economy and the Reserve Bank is expected to keenly monitor the timing of the actual spending.

The Bank has maintained a tight stance in the markets despite firm signs that credit demand is dwindling fast.

Bankers say most of the R2bn-R3bn money market shortage (the amount the banks need to borrow from the Reserve Bank) has been created by the Bank to keep its policy effective.

De Swardt confirmed the Bank had continuously been draining liquidity in the form of dollar repurchase agreements, but added the last agreements expire at the end of this month.

He also noted the Bank had been selling government stock on an ongoing basis, and that the heavy foreign outflows in June would also reduce liquidity in the market.

Market estimates put the sale of government stock in June at R300m-R400m, but foreign outflows in the form of interest and capital payments are less easy to estimate as the amount of rollovers secured has not been revealed.

MONEY SUPPLY F/M 29/6/90

Touching sides (49)

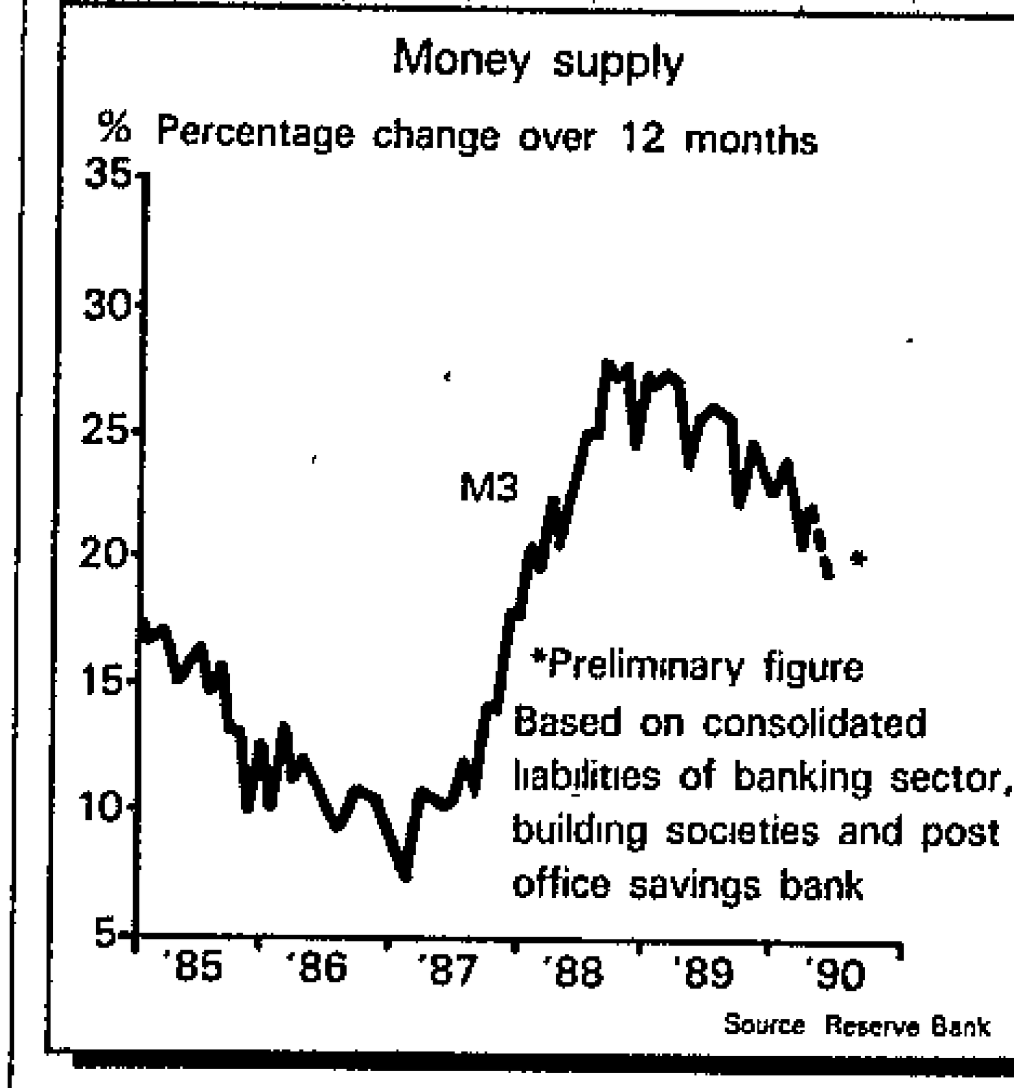
While year-on-year growth in the broad monetary aggregate M3 in May was 19,03%, there is an important indication that it has decelerated sharply in recent months. Seasonally adjusted annualised growth since the base of this target year (mid-November) was only 15,82%. As this is the measure for which the Reserve Bank set an 11%-15% guideline, it seems as if the upper limit is almost within reach.

Reserve Bank Deputy Governor Pierre Groenewald is optimistic the target can be reached by year-end. He points out that, since March, growth rates have been only marginally above the upper guideline.

"The figures are encouraging but mone-

F/M 29/6/90 (49)

Turning point?



tary policy will be maintained."

United's Hans Falkena says it will still be a long uphill battle. "We're definitely on the right road. But year-on-year growth is still 5% above CPI, so the liquidity ratio (M3 over GDP) is still increasing. Interest rates will have to remain high."

Though relatively low, seasonally adjusted annualised growth to May is higher than April's 15,5% (a figure revised down from a preliminary 17,67%).

The 12-month figure to May is down from April's 21,67% (revised from 22,71%).

Total M3 was R150,8bn, up 1% in the month, while seasonally adjusted M3 was R151,9bn, up 1,4% from April.

In the 12 months to April, M1A increased 13,84% to R24,9bn, M1 was up 19,97% to R48,7bn and M2 rose 23,87% to R121,7bn. ■

Narrowing the gap between economic and political goals

BDay 29/6/90 (49)

CHARLES SIMKINS

THE 1980s have seen both a rise in worker militancy and disinvestment, resulting in a sharply reduced rate of economic growth. This erodes the room for the class compromise on which a negotiated political settlement must be based.

The beginning of the 1990s sees the search for a political settlement in difficult economic conditions.

Deputy Reserve Bank Governor Jan Lombard recently put forward a plan to double the investment rate and to increase capital productivity by 30%. This should have the effect of increasing the growth rate to 3,3% a year.

His proposal can be characterised as a classic liberal approach. It seeks to make the economy more efficient by making it thoroughly market-oriented. It seeks to remove, via a process of deregulation, restrictions on black entrepreneurial activities.

Its implicit view is that the rate of interest should be kept appreciably positive in real terms, that the wage level should be more flexible than it is at present and that tax rates should be relatively low.

By contrast, the left-wing alternative is considerably more interventionist. It seeks to raise the rate of investment through state intervention in the entire investment process, wresting control from private concentrations of economic activity and directing funds to support development of physical and social infrastructure as well as small business.

Implicit also are high and sharply progressive income tax rates, to finance improved levels of social services to the poor. State control of financial markets is also implied.

The importance of inflows of capital from abroad cannot be neglected. The SADCC countries have increasingly come to realise that a liberalised disinvestment policy is necessary to attract this investment.

It would be very difficult to run an economy with two sets of rules: a liberal dispensation for foreigners and a high degree of state intervention in domestic enterprises.

If state intervention in the investment process is appropriate, there are different approaches which would have very different implications. Across the board intervention is one possibility; specialised intervention in sectors in particular need of a development effort is another.

Such intervention will usually require reconstruction of state policy; it may often create new opportunities for private sector involvement.

Take the provision of housing in cities and towns in the context of rapid urbanisation. For many years, state policy discouraged black urbanisation by locating infrastructural development in the homelands. The consequence has been the emergence in our cities of overcrowding and the growth of backyard and free-standing shack settlement.

The state cannot hope to build modest houses to accommodate the increase in the urban population, let alone deal with the backlog. This would require tripling the current state allocation to housing, putting its proportion of government spending way above what other countries have been able to sustain.

What it can do is to offer to all households needing it, a subsidy equal to 90% of the price of a modestly serviced site, thereby offering secure tenure, tolerable housing densities and essential services. Households can then construct the dwellings they can afford.

Such a programme requires reorientation of state assistance from the building of a small number of conventional houses to the provision of subsidies in support of private development. What is required from the private sector is a change in the practices of financial institutions so they are able to lend smaller amounts of money than at present.

Critics of a strategy of maximising economic growth often observe than this growth can occur without reducing relative inequality or even without improving the absolute position of the poor. This is certainly a possiblity, especially during the early stages of development.

But there are mechanisms which suggest that the goals of growth and improvement of the position of the poor may not lie too far apart in a semi-developed country such as SA.

The spread of education, if it is accompanied by equality of opportunity in the labour market, is one such mechanism: it endows a large number of people with modest quantities of "human capital" on which a return may be expected. Development also brings a reallocation of labour from the poorly paid agricultural and domestic service sectors to the better paid modern sector.

Working against these mechanisms in SA is a high level of unemployment and the continued reliance of many people on low-income informal sector activity. What may happen under these circumstances is both a considerable movement of people into the middle income range and the impoverishment of people near the bottom of it. More rapid growth, insofar as it creates more employment, strengthens the former tendency and weakens the latter.

These observations should not be taken to imply a "laissez faire" approach to poverty. Every effort needs to be made to ensure that each household is able to consume the highest possible minimum package of essential goods and services, no matter what its income.

As has been argued in the case of housing, this does not necessarily entail direct state provision. One of the most important objectives of a programme to reduce poverty must be the creation of equality of access to opportunities for production and consumption, particularly between rural and urban people.

Poverty in rural areas is much worse than poverty in the cities and the more dynamic small towns. A new constitutional dispensation will not necessarily guarantee that the problems of rural poverty are adequately dealt with.

Power may well concentrate itself in the hands of a coalition between an aspirant urban middle class and the unionised section of the working class. It is therefore possible that programmes of direct state provision may be more inequitable at the level of distribution than market-oriented policies.

The most effective anti-poverty programmes will depend on the roles of the state and the market being carefully thought out on a sector-by-sector basis.

A rich menu of possibilities for economic development is potentially available to SA. Realising a selection from them depends on a negotiated settlement during which it comes to be realised that objectives can be reached, but only over a longer time scale than many people at present believe necessary.

It will take a generation, given a sustained growth rate of 4% a year, to eliminate mass poverty. It will take two generations for the average standard of living to reach the level historically achieved by white people.

There are no reasons to suppose a fundamental conflict between the objectives of economic growth and of removing poverty, though there may be trade-offs at the level of detail. The political requirement for economic development is the hardest to satisfy.

It will be necessary for SA to be governed democratically from a centre composed from groupings that have historically faced each other in a highly antagonistic fashion. This centre will be under challenge from both the left and the right, as were the governments of the Weimar Republic in Germany and the Fourth Republic in France.

Whether we can succeed where they failed remains to be seen.

□ **Simkins is economics consultant to the Urban Foundation. This is an excerpt from a paper presented at the Africa Institute in Moscow last week.**

B/Day 29/6/90

Role of govt questioned

(49)

4

THEO RAWANA

DEBATE must come on how government exercises its influence on the economy, Development Bank of Southern Africa (DBSA) chairman Simon Brand said this week in Johannesburg.

Addressing the AGM of the Southern Transvaal African Chamber of Commerce (Soutacoc) he said the debate should not be on whether government should play an important part or increase its share.

He said the public sector had long commanded and directed a large part of the resources of the country.

"Government expenditure has long amounted to over 20% of gross domestic expenditure and the share of the broader public sector in gross domestic fixed investment has been in the order of between 50% and 60% for several decades.

"The real question is therefore not whether the state is supposed to play an important part in the economy and neither is the argument strong in favour of further increasing the share of the state in the economy for whatever purpose," Brand said.

The facts were that the state was already playing an important role in the economy, he said.

The debate should be more about the way and the purpose with which government intervened and influenced the economy — in terms of regulation and of the use of resources, he said.

Brand said an important part of the policy agenda of bodies like Soutacoc (an affiliate of Nafcoc) should be to evaluate the extent, direction and effect of government's role in the economy.

It should also suggest ways in which that role could be adjusted towards more effectively serving goals such as more equitable participation and sharing in the benefits yielded by the economy.

He listed other areas in which government's role should be subjected to scrutiny were access to economic opportunities and resources, access to land and the increasing level of unemployment.

The DBSA had given a lot of attention to these issues over the past years through basic research and would like to offer the bank's facilities, Brand said.

Worrall on public service

CAPE TOWN — A heavy responsibility rested with the public service as SA entered a period of profound transition, DP co-leader Denis Worrall said this week. B/Day 29/6/90

Addressing the AGM of the Public Servants' League in Brackenfell on Wednesday, he said that in times of great transition public servants had often kept the state running while political parties and even whole generations of politicians had been swept out of office.

"Public policy in this country must now increasingly reflect the interests of a constituency in excess of 35-million people." — Sapa.

A DECADE OF FACTS

FM 29/6/90 (49)

In the past 10 years personal income has increased from 71,9% of net national product to 82,94%. In the same period corporate profit has fallen from 41,25% to 22,16%. "This marked redistribution from profits to remuneration is a major structural change," says TrustBank chief economist Nick Barnardt.

"Both exports and imports are lower in dollar terms in 1989 than in 1980, which shows how the low gold price and low economic growth have hurt our balance of payments. It also reflects unfavourable trends in world commodity prices."

These statistics and many others appear in *Facts at Your Fingertips*, in tables devised with help from TrustBank Economics Division.

Data has been extracted from the Reserve Bank *Quarterly Bulletins* and enhanced with additional calculations. Balance of payments statistics, for example, have been calculated in dollars to eliminate the effect of variations in the value of the rand over the years.

Options for SA are becoming clearer — Brand

(49)

W/Mail 29/6/90

By MZIMKULU MALUNGA

TRENDS towards defining more accurately the options for the country's future economic system have emerged recently, said Development Bank of Southern Africa chairman Dr Simon Brand.

Brand said a debate had started about the way in which the South African economy should be organised and this has been an important consequence of recent political developments.

"The debates started with rather extreme standpoints, ranging from calls for nationalisation at one end and pleas for a completely free-market system on the other," he said.

Addressing the 20th annual conference of the Southern Transvaal African Chamber of Commerce and Industry (Soutacoc) this week, Brand said the roles which should be played by both the State and the private sector in the future economy was a key issue which required deep analysis in the debates about the future economy.

Although the current economic system in South Africa did at times yield impressive results in terms of overall growth, technological development and other macro-economic measures, it had failed to yield the equal benefits it produced. This was evident in the unequal levels with regard to provisions of services such as education.

However, said Brand, it was important to remember that South Africa did not have a completely free market economy.

"As we all know, the economy has for many years been heavily regulated and in many respects that regulation was specifically directed against the participation of blacks."

Access to land appeared to be another issue on the agenda of a future economic system for South Africa. "Even though agriculture only accounts for some 5 percent of the gross domestic product, it is still an important source of sustenance, while existing restrictions to agricultural land is clearly an emotional political issue."

ANC plan ignores the basics

Nelson gets human rights award

Nelson Mandela receives the Martin Luther King Jr. International Freedom award from King's widow Coretta Scott King during a ceremony at the Big Bethal AME Church in Atlanta this week. Mandela is the first recipient of the award. ■ Pic: AP

It's a recipe for economic ruin, says expert

By LUIS EMILIANO

MANY of the Third World countries that championed socialism and the corporate State since the 1940s are still paying for their mistakes.

Instead of creating a stable business environment that encourages private investment and export-led growth, most have created inward-orientated economies – discouraging exports and foreign investment.

Many Latin American countries are finding it difficult to get rid of vast and corrupt bureaucracies running unproductive public enterprises.

There are some basic economic principles that should be considered for a successful macro-economic programme. All of these rely on pragmatism: What has and what has not worked?

■ First principle: Do not transfer resources from those who produce to those who consume.

This will only make everybody worse off, leading to less production, less total consumption, less enthusiasm to work hard, to save and to invest those hard-earned savings.

■ Second principle: Do not try to replicate the market mechanism of demand, supply and price with central planning.

This always leads to sectoral imbalances and losses in productivity, and consequently to lower economic growth and balance of payments problems. The market has proved to be the most efficient mechanism to signal to producers what and how much to produce and to consumers what and how much to consume.

Any distortions to the efficient working of the market have proven costly to the overall standard of living. That is why Eastern Europe is moving away from central planning to free markets. This is a hard-won lesson that should not be forgotten.

■ Third principle: A successful long-term deal between capital and labour has to be based on a win-win situation.

A deal where one party wins while the other loses does not last long. Thus, equity policies should not take from productive capital, but should provide everyone with better opportunities to work and profit, thus financing consumption from productivity gains.

There are a couple of specific issues in the ANC's economic blueprint that I would like to refer to. These are the roles of planning, the private and public sectors, fiscal policies and agricultural reform.

The ANC's economic blueprint proposes "... over-all macro-economic planning and co-ordination in which the State would involve mass-based organisations in planning ..."

That may read well on paper, but in practice it leads to economic chaos. In all successful developed countries this type of planning has not been a contributing factor. However, in all experiences of failed economic policies this planning strategy has been a determining factor.

The decline of several countries has its origin in trying to go against the realities of the market. Many countries nationalised public utilities, commercial and industrial concerns, established communal farms and set up vast import-substitution schemes, only to see these concerns lose money and contribute to inflation, public indebtness and foreign exchange scarcity.

The best role for the State is not to direct economic activity through central planning but to regulate it to avoid unfair business practices and to provide the necessary economic incentives to achieve a self-sustaining process of economic growth.

THE ANC's economic blueprint ignores basic premises of economic efficiency and is full of old socialist and populist ideas that are being left behind everywhere else in the world, says LUIS EMILIANO, a Mexican economist specialising in Third World development. Emiliano, who was in South Africa recently wrote an open letter to *City Press* to "share some ideas in the hope that I may help to prevent the repetition of those policy errors we committed in Latin America".

The economic blueprint proposes that "... where feasible, a policy of dismemberment of (industrial) conglomerates into units would be pursued ..."

However, in an open economic system, the market should determine the optimum size of an industry – not a bureaucracy. The ANC's proposals would lead to protective trade barriers, higher prices for consumers, less overall employment and lower economic growth.

Private enterprise is generally more productive and a better manager than the public sector for the simple reason that private businessmen have more to lose than public managers.

Therefore, it is with profound consternation that I find in the ANC blueprint proposals such as:

■ "... the State should assume the leading role in the restructuring of the economy ..."

■ "... the financing of a unified economy should fall on domestic savings ..."

■ "... nationalisation should be an existing part of the economic reconstruction programme ..."

■ "... the government should be prepared as a matter of fundamental principle to re-nationalise privatised State assests and set up new State corporations where necessary ..."

To reverse the process of privatisation of nationalised companies is a step backwards. Re-nationalisation and new nationalisation would only foster mismanagement, inflation, lower economic growth and balance of payment difficulties.

In the context of a mixed economy the measures of performance in public enterprises become more political than economic. Management is appointed on political merit and managers become less concerned with the efficient running of their industries and more with politics.

Furthermore, the idea of collective ownership – as suggested in the economic blueprint – is a vehicle for waste and inefficiency. There are very few examples of efficient collective ventures and quite a lot of failures.

The State should be the provider of last resort; it should supply those goods and services that the private sector cannot provide, such as public goods and services – defence, domestic security, public education, housing, and so on.

The purpose of taxation is to finance public expenditure and investment. Some taxes reduce consumption, while others reduce investment, eventually reducing future output.

In terms of the ultimate policy objective of economic development, taxes should induce productive investment, not prevent it. The tax load should rely more on incomes and consumption than on productive investment such as corporations, as proposed by the ANC.

Property alleviation and long-term productive employment can only be sustained through productive investments. Public investment over and above the required expenditure on infrastructure and public goods should be avoided at all costs.

The development of the agricultural sector is particularly difficult, as proven by the experiences of the Soviet Union, China, Mexico and India, to name a few countries. Thus, any policy destined to increase agricultural production should leave alone what works and concentrate on what does not.

Only through raising productivity is the economy going to ensure an adequate food supply at affordable prices and avoid the famines suffered elsewhere in Africa. Taking away land from productive owners to give to less-productive farmers will lead to a decline in agricultural investment and output, higher food imports and balance of payments problems.

The ANC has to forget about unionisation of production, formation of rural co-operatives and so-called grass-roots participation. These ideas have not worked before, are not working now and will not work in future.

The purpose of agricultural development is to raise the productivity of those who produce less, not to lower the productivity of those who produce more to the level of those who produce less. To deliberately make everybody worse off because of the existence of inequalities is not rational and is a self-defeating policy choice.

The State is not a better manager than the private sector, thus it should not compete against private enterprise. It should foster competition among the units of the private sector to strengthen the domestic economy.

South Africa has a long and conciliatory road ahead. It has achieved levels of productivity which are the envy of many other developing countries and there is no reason it should not achieve higher productivity levels and standards of living by dismantling apartheid, which after all is a barrier to free labour movement and economic development.

But in order to build a better and fairer South Africa efficient and proven economic policies should be implemented. As the ANC's economic blueprint stands presently, it is a recipe for disaster.

11/7/90

By KEN OWEN

Cit Times 2/7/90

49

ANC plans the conquest of the private sector

THE ANC has been discussing, in darkest secrecy, a set of options put forward by one Robert Davies, a British Marxist, to gain control of the post-apartheid economy. As a blueprint, it is remarkable more for the duplicity it proposes than for originality.

The Davies plan (dated December 18, 1989) was one of several which have come to me from the inner circles of the ANC, where economist Max Sisulu (trained, I believe, in East Bloc economics) is leading the struggle to define the "mix" of the mixed economy which the ANC envisages.

Davies himself studied and lectured at Rhodes but has been based in Maputo for more than a decade, and contributes to work of the so-called "core group" of the ANC's department of economics and planning (DEP).

To convey the flavour of recent economic debate in the ANC, I can do no better than quote from his paper, "Dealing with Monopoly Capital in a Mixed Economy", in which he sets out very plainly the ANC's true motive for its persistent assault on what it calls "conglomerates" and "monopolies".

"A move of this nature," he says, referring to breaking up the conglomerates, "would in the first instance be directed at changing the balance of power. It would be aimed at consolidating political power . . . the aim, in short, would be to generate a greater isolation among the agents of capital in accordance with the well-established principles of divide and rule."

However, the ANC has recognised that it cannot, in these post-*glasnost* times, launch a direct assault on private enterprise. As Davies says, an attempt to nationalise the economy without compensation would, at the very least, "provoke a major flight of capital and skilled labour power", and it would "draw a hostile response from imperialism", which is the quaint ANC name for democracies like Britain, the United States and West Germany.

Besides, after observing the consequences elsewhere in Africa, the ANC truly fears the political effects of nationalisation. "Can we honestly say that on day one we will be able to replace all the skills, the entire skilled strata, with skilled managers, planners and workers of our own?"

The problems of Day One have exercised the minds of other ANC economists. Laurence Harris, for example, has proposed suspending the financial markets and tightening exchange controls until further changes can be made. Like Davies, he recognises the difficulty of a frontal assault on capitalism.

But the lust for power will not be stilled. Of necessity, therefore, the ANC's planners are cast back on stealth and cunning. They envisage a long-term struggle for "incremental changes" towards control of economic enterprises, a struggle in which the trade unions are assigned a special role.

One of the purposes of the trade union demand to gain greater access to, and participation in, management decisions, says Davies, is to "incrementally change the balance of forces within (those) enterprises". The same purpose underlies the demands for union representation on the boards of companies.

Labour, in short, is assigned the role of a fifth column.

Such strategies are intended to avoid the adverse consequences of a frontal attack. Davies explains how to put a benign gloss on the campaign: "If confiscation or compulsory purchase were resorted to, criteria could be developed which would not necessarily be seen as anti-capitalist as such but as discriminating between different capitals.

"For example, parts of the state sector privatised by the apartheid regime could be re-nationalised on unfavourable terms. This could be explained as restoring the status quo ante, and it may even be worth considering announcing this in advance as part of a campaign against the regime's current privatisation programme." That, I assume, explains the attacks on privatisation; they lay a basis for later "confiscation or compulsory purchase".

Davies proposes also that arguments used by private enterprise should be turned against business. For example, business often argues that it maximises wealth on behalf of "stakeholders", which may include employees, creditors, and suppliers as well as shareholders.

Davies sees a gap for the workers: "Those who defend this proposition," he says, "may find it difficult to argue why boards (of directors) should not include representatives of 'stakeholders' other than shareholders."

Similarly, he notes that where spokesmen for business acknowledge the severe concentration of ownership in South Africa, that admission can be turned against them.

The six options which he outlines for the ANC are: to nationalise most of the economy without compensation; to nationalise only the commanding heights of the economy in order to control the rest; to use anti-trust legislation against business in order to "divide and rule"; to seek representation on boards of directors for government officials, workers and community representatives; to use the state's power in the markets (as a buyer, for example) to favour smaller enterprises; to use workers' organisations and trade union action to achieve "eventual" control.

Except for the first option, Davies observes, all these methods can be used together, complementing each other, in what he calls the "major ideological struggle (that) has already begun in earnest".

The Davies paper drew a response from another ANC economist, Vella Pillay, who recalled that the "core group" had in November posed the question: "Who are likely to be the most inveterate of our enemies, and who our potential (or temporary) friends within and among the so-called 'fractions' of capital in SA?" (Davies promised an answer by March-April, 1990, but that answer has not so far come to me; if it does, I shall pass it on.)

Pillay thinks Davies too moderate. He complains that Davies leaves too much space for private sector business to operate on its own, while the state builds up an alternative productive system beside it, and says this won't work.

Instead, Pillay wants fullscale planning. The state "is duty bound to pursue a longer-term planning role in steering the national economy in a predetermined direction designed (a) to change the balance of forces in the national economy and (b) to provide the most favourable conditions for the reconstruction of the economy".

If you can thread your way through that jargon you will discern, no doubt, that the ANC is trying to decide between a Marxist soft line, and a Marxist hard line: Davies, the soft-liner, offers the conquest of the private sector by the gradual and stealthy extension of control; Pillay seems to offer a more direct route. Either way, the aim is to establish control of economic life in South Arica.

I thought you'd like to know.

ence the naming of Glebe load. In 1909 it was demarcated for public use and recreation in terms of the Rondebosch Church Land's Act, and has been used for this purpose ever since.

To allow any development whatsoever on Rondebosch Common would be a most retrogressive step negating a historical site and resulting in the loss of a priceless natural amenity, thereby degrading the quality of life of the residents of this suburb of Cape Town. It must be accepted that a certain degree of management is essential, however. The invasion of the common by alien plants such as acacias, pines, broom and particularly kikuyu grass must be checked. Litter must be cleared periodically and the pathways require maintenance. This responsibility should not devolve entirely upon the municipality. All users of the common should play their part by not littering or defiling it in any way. We should be prepared to remonstrate with those who do.

We can also assist by weeding out alien invaders we find on our walks and reducing excessive trampling of the veld by keeping to established foot paths. Those who value the common must also be prepared to assist in its conservation by being ever vigilant to the threats to its survival and making their voices heard in the right quarters.

ANC overseas campaign figure could top R25m

49

Mandela ends US tour with aid call

Sowetan 2/7/90


Mandela

Sowetan Correspondent

OAKLAND - The United States could provide the massive foreign resources which would be required to develop South Africa's economy in the post-apartheid society, ANC deputy leader Mr Nelson Mandela said before he left California at the weekend.

At his final Press conference at the end of his 10-day tour of the United States, Mandela said: "I have indicated in my speeches and Press interviews we are going to require large resources in order to develop our economy.

"Our economy at present is not performing well with regard to employment and maximum production.

"If we are going to get our economy to perform in a healthy manner we must get massive resources and you can give us these resources.

"You have already given us massive assistance during the course of our visit. You can double and treble that in a post-apartheid society," he said.

Mandela tour organisers were keeping mum on just how much had been raised during the eight-city tour.

National tour co-ordinator Mr Roger Wilkins said in an interview on board the Mandela aircraft on Saturday he was not prepared to talk about a total until he had received the cheques.

"You can add all the figures that have been promised and talked about as well as I can," he said.

Cities which are said to have raised more than R5 million during the tour were New York and Los Angeles.

Organisers in Atlanta and Detroit claimed to have passed the R2,5 million mark.

Estimates of the total receipts for the tour have varied between R20 million and R25 million.

Guess what the ANC is plotting to do to the capitalists

B10 4 2/7/90

49

KEN OWEN

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I thought you'd like to know.

'National backing necessary to sell new SA to world'

● YOUNG ... there is a need for a national will
Picture: ROBERT BOTHA

LINDA ENSOR

TO CREATE and sell the new "South Africa Ltd" on the aggressive international market will require a mobilisation of the national will and a consensus about goals, which can best be achieved by a tripartite alliance between the state, capital and organised labour, says visiting British businessman Michael Young.

Young was a foreign policy advisor to Ted Heath's government and is currenly City Corporate Financial and Public Affairs chairman.

He believes such an alliance — as has developed in Japan and to a lesser extent in Germany and France — gives countries a head start over their competitors in the international race for markets.

Young says consensus on how best to maximise the country's assets in the national interest will be essential, once the country's political dispensation has been regularised, if SA is to grasp the immense opportunities which exist in Europe and North America.

Transitions

Social cohesion will also be crucial if the new government is to succeed in achieving a fine balance between the need to attract foreign capital by offering a good return on investment and the need to change social expenditure patterns to redistribute wealth.

"SA is undergoing major political and economic change. Clearly there has to be a view of where you are trying to get to, as that is the only way societies hang together when they pass through such difficult transitions."

Another reason why Young stresses the need for a national will, is the danger, given SA's history, that labour out prices itself as it seeks fulfillment of wildly inflated expectations.

"There is not a bottomless purse from which salary increases can be drawn; it has to be paid for by increased production and productivity. That is a difficult message for all people to understand, especially in SA where the state has played such a huge role in the economy, in some cases an even greater role than in Eastern European countries.

"This builds up a notion in the minds of the people generally that somehow the state will provide. It is only people and their efforts that can provide and an understanding of the way these things work needs to be woven into the fabric of the society."

Which is not to say that Young sees no role for the state in the economy, even if it is simply a co-ordinating, facilitating one.

He likes to see himself as an "objective man", steering clear of ideologies.

"We are dealing with many shades of gray. There are very few absolutes, if any," emphasises Young, who says he occupies the centre seat of the political spectrum. He was a parliamentary candidate for the SPD/Liberal alliance in Britain.

He believes a mixed economy will emerge in SA, if only because of the need for fundamental redistribution of wealth. The vital, still unresolved question will be the weighting either towards the private or public sector.

Young feels the priority of a national economic strategy, arrived at through national consensus, should be to create the infrastructure for value-added manufacture. While SA has a virtual monopoly of some mineral resources, it holds a small percentage of the world's value-added manufacturing goods.

Young stresses that the inflow of foreign capital will be vital if SA is to sustain economic growth and develop its economic potential.

"There is going to be renewed interest in this economy by the private sector. Here is a very interesting market which, if all goes according to plan, could well be the economic motor for the African continent."

Companies already here would probably look at further inward investment with a view to developing and shoring up their portfolios.

While admitting that SA will be competing with Eastern Europe for foreign aid, especially as West Germany is deeply preoccupied with the unification of the country and with the development of surrounding countries, Young thinks Britain and America will press for aid for SA.

"If the rest of the world is serious about SA — and I think it is — it ought to be thinking about a programme of sustained aid to the new SA in order to assist in the transition phase.

Access

"I would like to see soft loans, direct gifts tied to specific and agreed upon projects and better trading terms, especially with the EC. I would hope the huge EC market would be made as open as it possibly could be to the new SA's manufactured exports."

Young "guesses" the British government will push for an agreement for SA similar to the Lomes agreement for former French colonies, giving the country special access to the European market.

"I am extremely optimistic that SA will arrive at a new political dispensation and that it will get there sooner rather than later. In my commercial judgment I would want to be preparing now and looking at a changed dispensation within five years.

"There is so much here, there is so much going for South Africans that, unless you are so obstreperous with each other and foul up badly, you have to succeed."

Young says captains of industry in the UK, Europe and North America have no doubt that SA has turned the corner. There is a growing awareness of what can be achieved under a new political order.

Sanlam: economy is in full recession

D Day 3/7/90 (49)

NEIL YORKE SMITH

THE economy is slowing much faster than was expected a few months ago, according to Sanlam's latest economic survey.

"This trend is confirmed by the growing number of poorer company results announced almost daily," it said.

Given negative growth in real GDP during the past two quarters, the economy had entered a "full-blown recession".

Economic activity had slowed across a broad spectrum of industries, but exceptionally large drops in production had been experienced by the mining and agricultural sectors, it said.

Lower figures for new passenger car sales, real retail sales, import volumes and indicators from the building and industrial sectors showed the slowdown was rippling outwards and even gathering momentum.

Deterioration in business conditions was not fully reflected by monetary indicators like extension of credit and the money supply.

Despite recent lower rates of growth, these figures remained unacceptably high and created confusion regarding the actual state of the economy.

The result was that monetary discipline was unlikely to be relaxed soon.

In turn, this would ensure total real production and expenditure on goods, and services remained lower than expected.

The fluid political situation, weaker gold price and continued labour unrest continued to aggravate the political situation, according to the survey.

Total real domestic expenditure on goods and services was expected to fall by between 2% and 3% this year.

This would point towards a marked weakening in general economic activity.

However, the performance of the foreign sector was expected to support the economy and even result in a small positive economic growth rate this year.

The downturn in the economy was expected to continue until about the middle of 1991, the report said.

SHORTER WORKING HOURS

Sowetan 31/7/90

(49)

Theories of Marx and Lenin re-assessed

SACP policies ahead of Gorbachev - Slovo

FOCUS

By ISMAIL LAGARDIEN

FROM the third floor of the main conference room at the head offices of the ANC, three rondels of the faces of Dante, Homer and Shakespeare on the north side of the Johannesburg Public Library are distinctly visible.

The faces are turned sideways, with ears directed towards the conference room, as if listening to whatever is said there.

Inside, the general secretary of the South African Communist Party, Mr Joe Slovo, and eight journalists - two American, two European and the remainder South African - last week discussed the merits and demerits of an idea first propounded and later expanded and applied by three great minds, Marx, Lenin and Engels.

Joe Slovo

Questions

Slovo was comfortable, totally, and the first questions were easy. The correspondent from the Associated Press wanted to know what kept Slovo going through all his years in exile.

"What sustains one is the commitment to the ideals and a certainty that in the end justice does triumph," said Slovo.

There were moments, he said, when he felt bitterness and anger. "But looking at it from the point of view of the future perspective, I don't think one can premise a policy on the basis of bitterness, anger, revenge or any of those emotions.

"I think one has to move into the new period in a constructive way and not allow it to be dominated by individual anger or bitterness.".

The overwhelming emotion when he first returned to the country, he says, "was a feeling of... at last! That itself takes a bit of time to sink in".

The next barrage of questions was inevitable:

What was the programme of the SACP?

The communist governments of Eastern Europe had collapsed less than a year ago, and, on the other side of the world, the socialist government of Daniel Ortega and the Sandinistas in Nicaragua had been bludgeoned to death by US-sponsored Contra terror.

Revolution

In the Soviet Union itself the era of the Russian Revolution was coming to a end, so what was the next move?

How could the SACP reconcile its perpetuation of Marxism and communism in this era of apparent failure in the Socialist world?

The Eastern Europeans, explained Slovo, had a past to be ashamed of, hence their apparent move away from Stalinism and tyranny.

Communism per se had a few skeletons in its cupboard, but "on balance" the SACP has a very good record and long ago moved towards a kind of new thinking that has recently emerged in the Socialist bloc.

"In that respect people think that we're once again following in the tail of the Soviet leader, but in many respects, looking at the practice of our party, although Gorbachev may not even be aware of it, he's following our tail," Slovo explained.

Marxism

But there seems to be a crisis in theory and in practice with regard to Socialism... to what extent has the SACP reassessed the theories of Marx and Lenin?

"We regard the Marxist theory as a tool which remains useful, and in a way indispensible.

" We don't regard it as a catechism. We don't regard it as a dogma. We don't regard the work that Marx, Engels and Lenin wrote as a gospel, we think they made quite a few mistakes," he said.

"Just as a worker can use a tool badly or use it well, we think that Marxism has been used both badly and well. In Eastern Europe it has been used very badly," Slovo said.

Where does the biggest problem lie with the utilisation of Marxim, bearing in mind Eastern Europe?

"Fundamentally the common denominator (with regard to the reported collapse of socialism) was, in all East European countries and for a long period in the Soviet Union, the separation of socialism from democracy.

"And by democracy I don't only mean political democracy, but economic democracy, participation by people on the ground - feeling that they have a say in society and it workings."

"If we do have a parliamentary democracy in a future South Africa - and we've never had one here - the party will regard parliament as an important aspect of the democratic process and will obviously take part," he said.

Socialism

What of the fears of communism and the gargantuan fear of nationalisation? Even the Soviet Union has embraced certain aspects of the free market

Slovo explained that one of the problems which faced the socialist countries was that they rejected the use of the market mechanism for the realisation of surplus.

Socialism alone was not an effective mechanism for the fair distribution of that surplus, therefore, the state had to play a very important role in ensuring that the surplus which society generated was not just appropriated by a small percentage of the people who happen to own the means of production.

The South African Communist Party, the general secretary said, will make sure the works of Marx, Engels and Lenin will regain their rightful place in the world.

Outside, on the north face of the public library, the faces of Dante, Homer and Shakespeare were enshrined in stoney silence. Their words and works too survived a period of acceptance and denial, but today they live forever.

B/Day 3/7/90

Government resources 'outstripped'

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GERALD REILLY

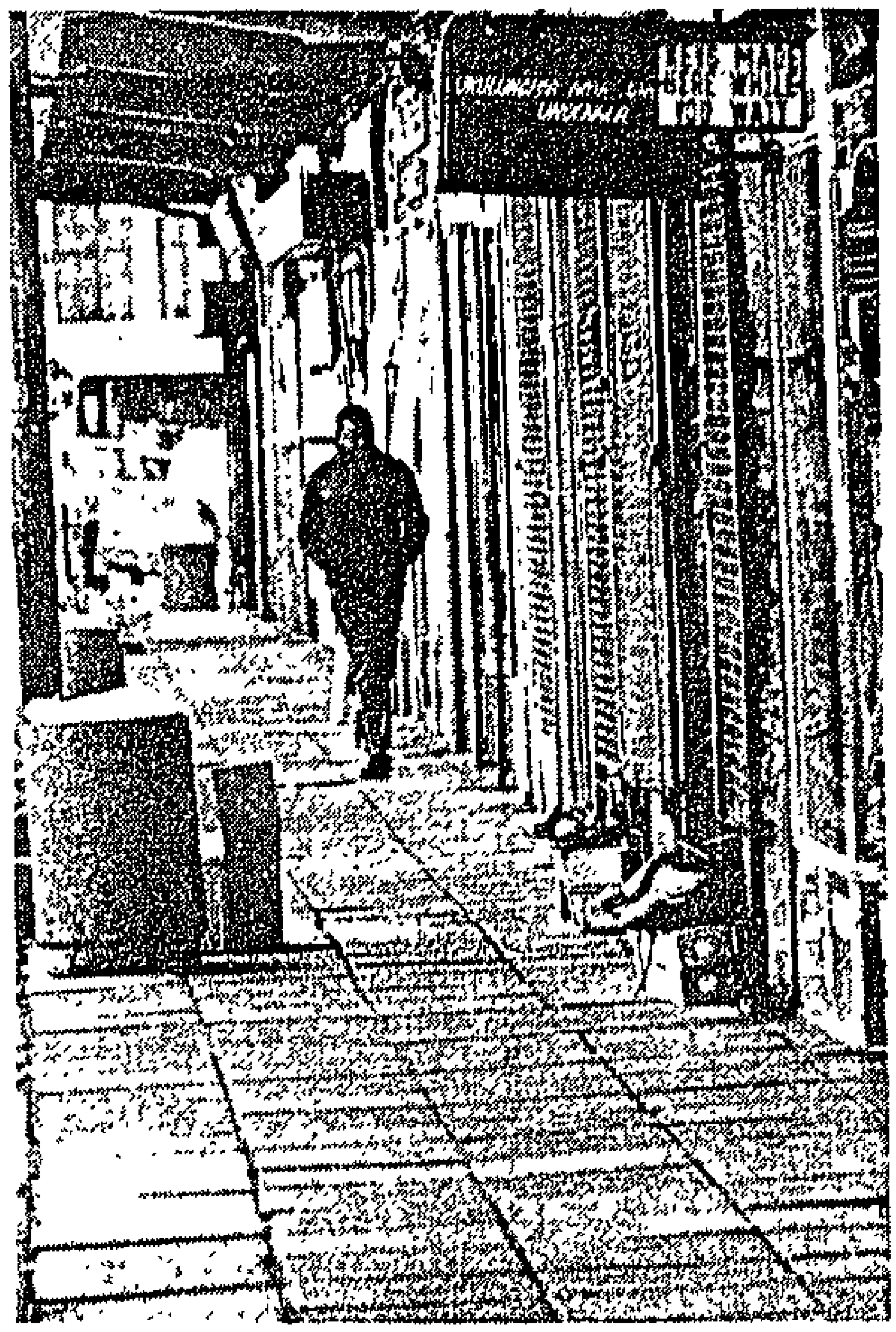
PRETORIA — Runaway population growth and rising expectations of the underpriviliged had outstripped the resources of central, regional and local government in SA, Auditor-General Peter Wronsley said at the weekend.

Speaking to the SA Institute of Government Auditors he said this stark fact was aggravated by international sanctions and politically motivated refusals to pay rents and service charges.

He said the need for the development of a government audit specifically directed at giving value for money had become increasingly apparent.

Wronsley said the expensive duplication and triplication of public services in SA had for decades been demonstrably uneconomical and inefficient.

"Like the little boy in the fairy tale it is sometimes, however risky, necessary to say the king is wearing no clothes," Wronsley added.



Diagonal Street, the heart of Johannesburg's CBD, was relatively deserted yesterday as hundreds of thousands of workers across the country observed the ANC/Cosatu stayaway to protest against the violence in Natal.

Picture: ROBERT BOTHA

Mandela reiterates ANC economic stance

KIN BENTLEY

LONDON — Some measure of state participation in the SA economy would be essential unless another method could be found to "redress the inequitable distribution of wealth", ANC deputy leader Nelson Mandela said yesterday.

Mandela, who reportedly raised more than $7m for the ANC on his eight-city US tour, was addressing the All-Party Parliamentary Group on SA in the House of Commons.

He told the group such state intervention in SA would not be unique, since it had already been the policy of successive governments.

Mandela meets members of the Confederation of British Industry today.

He said the ANC was going out of its way to explain its policy to businessmen in SA "because, if the economy is to grow faster than the population, we must get the support of businessmen."

Mandela, due to meet Prime Minister Margaret Thatcher today, said he hoped they would be able to overcome their differences through discussion.

His optimism came in the wake of a furore in the British media over his suggestion in Dublin on Monday that the UK government talk with the IRA to solve the Northern Ireland problem.

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Process

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Following a 90-minute meeting with Foreign Secretary Douglas Hurd yesterday, both men said they had devoted "only a few minutes" to the IRA issue.

Hurd told Mandela Britain would do what it could to help promote the process which he and President F W de Klerk had started.

Mandela said he had refused to express an opinion on the UK-IRA conflict, confining himself to a statement generally applicable to all conflicts, namely that they should be resolved by discussion.

Mandela yesterday attended a lunch hosted by Hurd, Minister for Overseas Development Lynda Chalker and Minister of State in the Foreign Office William Waldegrave.

Former DP MP for Houghton Helen Suzman, film director Sir Richard Attenborough, Archbishop of Canterbury Robert Runcie and UK ambassador to SA Sir Robin Renwick also attended.

A senior ANC spokesman confirmed yesterday that a number of Mandela's many London engagements had been cut back.

He leaves Britain today.

US warns of dangers of travelling in SA

NEW YORK - The State Department, noting "escalating strife" in South Africa, warned yesterday that the ANC may be preparing to step up the level of violence if talks with the Government broke down.

It issued a travel advisory warning to American citizens of the dangers of travel in South Africa and in Transkei and Ciskei.

The State Department advisory, a warning frequently offered to Americans travelling in or about to leave for foreign trouble spots, also claimed that some Americans in South Africa had been harassed by right wing political groups but gave no details.

A spokesman said in Washington: "There have been reports that the ANC is stepping up preparations to intensify the armed struggle if current negotiations with the South African Government fail.

"There has also been a sharp increase in the number of violent incidents in recent weeks."

Volatile

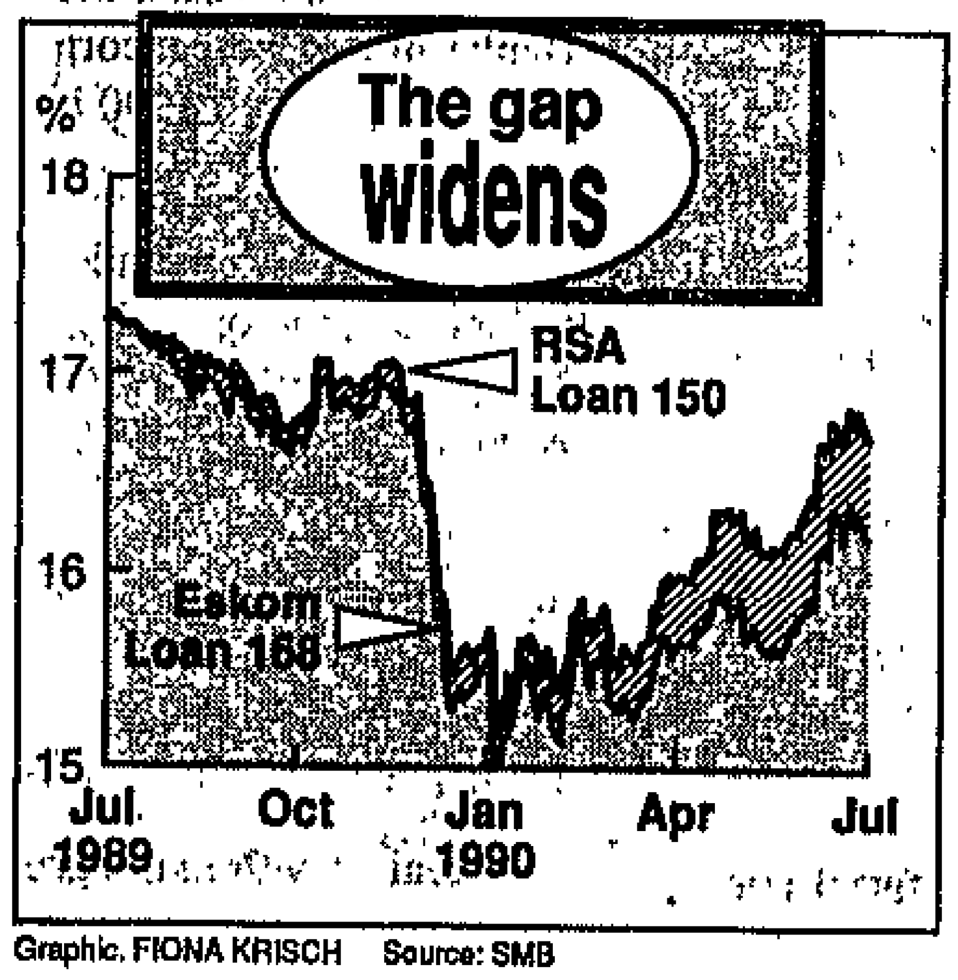
He added: "The political situation in South Africa remains volatile."

In talks with ANC leader Mr Nelson Mandela during his recent visit to the United States, the spokesman told reporters in Washington, the Bush Administration had urged the ANC to end the armed struggle to achieve black majority rule in South Africa.

However, radical elements in the ANC have been urging an end to the talks and a return to the armed struggle to achieve black majority rule in South Africa.

- Sowetan Foreign Service.

Bank plan to boost govt stock



Graphic: FIONA KRISCH Source: SMB

GRETA STEYN

THE Reserve Bank is for the first time employing merchant banks to trade government stock on its behalf in a move towards creating a more active market in RSA paper. B Day 4/7/90

Because government stock is not well traded in the market, government is forced to pay some 50 points more interest on long-term borrowings compared with other borrowers. The Bank has decided it wants to change the situation and is developing a strategy. (49)

Towards the close of trade yesterday, Eskom's E168 was trading at 16,10% compared with 16,57% for government's R150.

☐ To Page 2

Govt stock B Day 4/7/90

(49) ☐ From Page 1

The Post Office, too, is more popular than government with long-term Post Office stock at 16,1050%.

In an effort to narrow the differential, the Reserve Bank has asked the merchant banks for input and is in the meantime employing a number of them to trade on its behalf to create a more liquid market. The practice in the past, with the Bank selling directly to investors, is being discouraged.

The Bank and the market agree on the vital issue — the lack of a "buyer of last resort" of government stock. Other borrowers on the capital market — Eskom, Transnet and the Post Office — are always prepared to buy or sell their own stock. This is known as "making a market". The premium at which government's stock trades in the market reflects particpants' unwillingness to be stuck with stock for which there is no market maker.

As part of its investigation into the gilts market, the Bank has discussed with market participants the possibility of separating securities trading from funding activity. Securities trading would then not fall under the Deposit-Taking Institutions Act and traders would not be subject to the Act's requirements, including those about repurchase agreements. Securities trading companies would then be able to become market-makers in government stock.

The discount houses, would benefit from the legal separation of trading and funding, as they would prefer not to face the stringent requirements of the new Act.

Such a separation, has not been finally decided and in the short-term there will be no market makers. But the Post Office experience indicates the importance of market makers and a "buyer of last resort". The PO's acting senior director, Treasury, Willie Landman, said: "We gave the market our commitment we will always quote buy and sell prices on our stock. The spread between the two prices is kept as favourable to the market as possible and we have a good 'carry' policy to help speculators when they need covering."

Rhetoric from both sides is obscuring the economic debate

(49)

B/Day 4/7/90

An open letter to business from JOE SLOVO

TO HAVE a productive dialogue it is important to minimise ideological rhetoric. You may have grounds for complaint about ours. But you must also examine your own. You might then concede that your choice of future economic options is at least partly influenced by sectional rather than national interests.

For example, it may well be that in our imperfect world — the world we will inherit after a major transformation — the profit motive continues to be a way of generating growth. But, to put it at its lowest, it must surely be conceded that the interests of society as a whole and the uncontrolled generation of private profit do not always lie happily together. This is not a Marxist cliché but an essential ingredient of post-Keynesian economics.

In case you misunderstand what follows, let me say at once that we in the ANC and the SA Communist Party believe the private sector must remain a vital part of a post-apartheid economy.

We fully understand your preference for the private profit incentive as the prime economic mechanism for the creation of wealth. If we leave out the way wealth is apportioned, it must be conceded that the profit mechanism has, historically, played a part in generating both private and social wealth. And without wishing to sound patronising, I do not doubt the sincerity of your belief (immortalised in the words of Henry Ford) that "what is good for Ford is good for the country". But we cannot be blamed for suspecting that there is a degree of confusion in some minds between pure self-interest and the social good.

This confusion encourages a rationalisation which unduly conflates the protection of private vested interests with the interests of the whole community. This, in turn, provides the trigger for the ideological rhetoric to which I alluded. Let me touch on a few categories.

Firstly, the growth rate is too often addressed by you as a thing in itself, ignoring the way the social cake is apportioned. Of course, the rate of economic growth determines the amount that can be milked off for social purposes. But, for the racially disadvantaged, an impressive growth rate is not an impressive statistic if its fruits continue to be appropriated in the same old way.

It is correctly said that for the economy to regain its health and to even begin to develop the capacity to address our serious social problems, a minimum annual growth rate of between 5% and 6% is needed.

From 1964 to 1975 we achieved precisely this. Yet there was no meaningful narrowing of the social and economic gap between white and black. The little narrowing that did take place was greater during the 1980s economic downswing due to struggle and not economic factors.

All this is not intended to downplay the imperative to assure maximum growth. But we do not go along with the thesis that economic development on its own will, in time, somehow naturally erode the inherited racial divide. Without some form of participation in, and control of, the economy by a state committed to the correction of racial imbalances, there can be no beneficial link between growth and real social benefit for the disadvantaged.

The second category of ideological rhetoric is the redistribution of wealth. We want to make clear that, contrary to current media mythology, we do not believe in the "dead cow" approach — whereby we kill the cow, cut it up in equal portions, shutting our minds to the reality that when we have gorged ourselves there will be no cow left to reproduce or to milk.

At the other extreme, some of you spread the fallacy that distribution and redistribution of wealth must be left completely to market forces. No state can be, or has been, neutral in this area even in the so-called models of "free market" economies. Massive state intervention laid the basis of the post-war economies of Japan, South Korea and Taiwan including large-scale land confiscations.

In SA the post-1910 period was punctuated by state economic and fiscal devices to redistribute wealth and land in favour of poor whites and to open space to the Afrikaner middle sections in the upper echelons of the economy. Nationalised industries and parastatals were created partly for this purpose. Now it appears that the sauce which was good for that goose is not so good for the gander.

Now that process is being hastily adjusted through selling off the state silver to the private (overwhelmingly white) sector. You must, at the very least, bear with our suspicion that this is being done to diminish the capacity of a post-apartheid state to intervene effectively to redress some of the economic imbalances.

A note of welcome realism was struck by Gavin Relly when, in 1986, he went on record as accepting the likelihood of some form of mixed economy with "a measure of state planning and intervention" because "there is quite justifiable emphasis on the part of black South Africans on a more equitable distribution of wealth to compensate for the errors of omission and commission of the apartheid era".

If, then, we all agree that there is an apartheid debt to be paid by those who have benefited from what Sampie Terreblanche has called "legalised group plundering", the question is: How is this debt to be paid? The answers we hear on your side are confusing. We are told that the resources needed to address inequality require a dramatic increase in the growth rate which some of you claim will be impeded by large-scale state intervention. Instead, the device of taxation and other fiscal measures are prescribed as a means of beginning the process of correcting the imbalance.

But then we are warned the existing tax base is inadequate to generate the necessary resources. And recently we have been asked to accept a dispensation which will entrench fiscal constraints into a future constitution to prevent what Minister (Gerrit) Vijoen rather insultingly called "the unsophisticated majority" from ruining the "free market system" by "an unjust tax system".

It seems very much like "heads I win and tails you lose". We are presumably expected to be satisfied with devices such as the latest budget for social spending where whites were allocated R2 300 a head, coloureds and Indians R1 000 and Africans R420. The additional R3bn fund is little more than a hiccup.

Democracy is a third concept which lends itself to ideological rhetoric. If democracy means anything it surely means that those who exercise power must be subject to some form of democratic control. So the question you must ask is: To whom should the economic estate be answerable? Only to itself? Much of the rhetoric which accompanies the debate on your side suggests that in a post-apartheid SA there should not be the kind of democratic control over the economy by elected representatives which you say you accept for every other area of social life.

In addressing the restructuring of our economy we are conscious of the need to minimise damage to growth. But we also insist on the need to begin the process of redressing imbalances. The real question for us is: How is wealth to be more fairly distributed without ignoring the problem of how it is to be created?

There is no magic formula on either side of the debate. All concerned must sit down and discuss the complexities of this problem. But one thing is certain: neither the unbridled market economy nor the commandist centralised economy which ignores market forces will lead to an acceptable outcome. Perhaps if we understood one another better we might find more common areas than our rhetoric sometimes seems to suggest.

Our own starting point is that without a meaningful stake by a future state in levels of ownership and control of the engine which drives our economy, the process of correcting racial imbalances will be retarded or will stall completely. It is the precise mechanism of such state intervention which continues to lend itself to being refined both in the interests of economic growth and to a fair distribution of its fruits.

☐ **Slovo is general secretary of the SA Communist Party.**

'SA should not bank on capital inflow'

BDay 4/7/90

Own Correspondent

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CAPE TOWN — Improved perceptions of SA overseas — and even the withdrawal of sanctions — will not necessarily mean an inflow of foreign capital and more export trade, Attie de Vries, professor of economics at the University of Stellenbosch Graduate School of Business, warns.

He thinks the biggest gains will come if bodies such as the World Bank and IMF become interested in SA "not only for development here but as a capital conduit to Southern Africa."

Writing in the Board of Executors investment newsletter, The Wale Street Journal, De Vries points out, however, that bankers are by nature conservative and fear instability in SA.

SACP emerging from the shadows

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South 5/7-11/7/90

The South African Communist Party plans to re-emerge as a mass-based political party at the end of this month. However, it will have to answer several questions about itself as it comes out of the shadows.

CHIARA CARTER raises some issues:

THE red flag of the South African Communist Party (SACP) has been hoisted alongside that of the ANC at countless rallies from Alexandra to Cradock, leaving little doubt of the tremendous emotional support the party commands after 40 years of being silenced.

But, despite the symbolic importance the party has for thousands of South Africans as well as the beleaguered socialist world, little is known about it.

Now the SACP is partially coming out of the shadows and seeking a mass base.

Last month, the party's internal leadership group announced the SACP would re-emerge as a mass-based political party in Johannesburg on July 29.

Invisible

The move means that, for the first time, the party will expose itself to public scrutiny and a degree of mass participation.

Aside from messages of support and SACP insignia, the party has largely operated as an invisible presence in South Africa

Few of its leaders are known, membership has been by invitation only, the party has been structured in cells with vertical lines of command and the identity of party cadres is a well-guarded secret.

The tight-knit character of the SACP is in part a consequence of the severely repressive circumstances under which the it has been forced to operate.

It is also a result of the classic vanguardist role the party has seen itself playing.

It has concentrated on recruiting "quality" cadres from the ranks of the Mass Democratic Movement (MDM) and the African National Congress (ANC) and developing them theoretically, rather than on seeking mass membership.

The acceptance by the SACP of the leading nature of the ANC in the national liberation struggle meant the party did not need to assume a high-profile role.

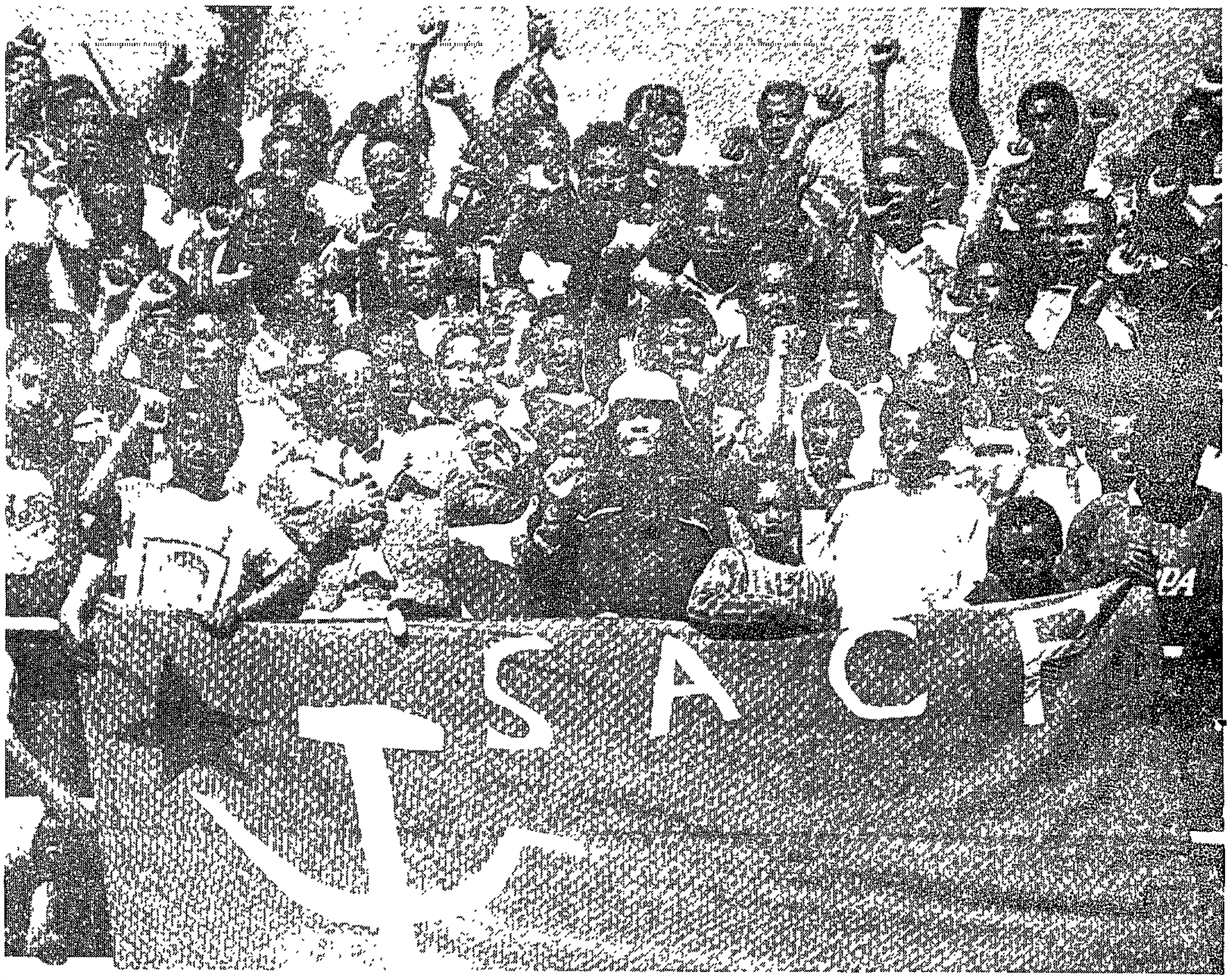
Turmoil

But the party which will re-emerge hopes to have a broader base.

Long regarded as one of the most conventional Marxist-Leninist parties in the world, the changes within South Africa as well as the socialist turmoil of Eastern Europe have caused Africa's oldest communist party to redefine itself.

Following the announcement of its unbanning in February this year, the SACP began a process of discussion about how it would re-emerge as a legal organisation in South Africa.

The party's political bureau produced a report which was discussed at a special consultative conference inside the country earlier this year.



SACP SUPPORT: Young people at the Jabulani Amphitheatre in Soweto to commemorate the June 16 uprising against inferior education nail their colours to the mast. PIC: ELMOND JIYANE

This report was strongly influenced by the new spirit of glasnost heralded in SACP general secretary Joe Slovo's widely-circulated discussion paper: "Has Socialism failed?"

The report called for recruitment on a broader basis.

Echoing the appeal of National Union of Metalworkers of South Africa (Numsa) general secretary, Moses Mayekiso, for a single socialist party, the report said the party should be a home for a wide range of socialists.

The party subsequently committed itself to establishing full internal democracy with a directly-elected leadership at all levels.

It intends to elect a new leadership at its national congress, scheduled to take place on its 70th anniversary next year.

The central executive committee which discussed and endorsed the recommendations of the consultative, committed the party to transforming itself into an organisation with a large membership.

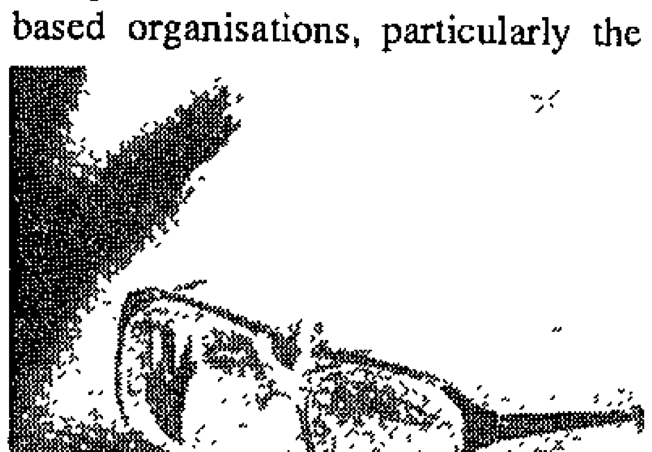
The party hopes to draw on the ranks of those in the union movement, the youth and revolutionary intellectuals for recruits.

It is looking at a broad approach which would reflect a balance between quantity and quality of members.

Criteria for membership will be acceptance of the party's programme and a revised interim constitution as well as its resolutions and commitment to a code of conduct and active work in pursuit of the party's objectives.

The period of probation previously applied to members is to be done away with.

The party also hopes to encourage broader participation in policy-making though consultation with other mass based organisations, particularly the



Joe Slovo

trade union movement, the ANC and community organisations.

Is the SACP's public re-emergence the end of its secret operations?

The answer is yes and no.

Underground

Delegates at the consultative conference argued strongly in favour of retaining a degree of underground work. It was accepted that the underground be retained as a reserve force.

This is intended as a safeguard into which comrades can retreat if the legal party comes under serious threat through repression.

While a similar attempt to build a "rear base" in the 1940s and 1950s failed, the SACP thinks there is more chance of success this time round because party members are so used to operating underground that they will instead find it difficult to emerge in the open.

How an internal wing that uses open and democratic methods will relate to leaders and cadres who retain elements of clandestine organisation remains to be worked out.

Despite the decision to transform into a mass party committed to multi-party democracy, the party has also not abandoned its vanguardist role.

This, however, is to be won, not just asserted.

Alliance

This means it is important for party members to play an active role in other mass-based organisations and for the party, while it maintains its autonomy, to work in alliance with those engaged in the mass liberation struggle.

This does not mean that party members operate as a caucus in other organisations but rather that they win support through their work on the ground.

With a membership drive, the crossover between union and party membership is likely to be vast. This will have profound implications for the future character of the party.

The emergence of a legal SACP does not mean the party intends competing for power.

Instead, it is committed to the position that the path to socialism in South Africa runs through a broad-based liberation struggle.

This "two stage theory" does not mean attempts to effect a socialist transformation must be put on hold until after liberation but rather that the SACP sees the struggle to build socialism as a slow, steady process which will continue after liberation.

Indeed, in the medium term the party favours a mixed economy and has thrown its weight behind the campaign for a constituent assembly.

Stalinist

With socialism on the defensive throughout the world and international capital pushing for a settlement which would safeguard the long-term interests of big business in South Africa, the SACP faces tremendous challenges.

It needs to overcome the legacy of both the Stalinist era and being forced underground to build democratic practices.

At the same time, the party must ensure it retains the means to survive in the face of a crackdown by the state — both now and in the future.

The party has to formulate a definition of socialism which takes into account the lessons of socialist disasters not just in Eastern Europe but also the Third World.

It needs to take into account the tenacity of capitalism which shows little sign of imminent decline and the experience of many Third World states where socialism has not followed the national revolution.

Above all, the SACP has to win mass support if it is to lead the path to socialism in South Africa.

Case for wealth redistribution

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Sowetan 5/7/90

IT was the viewpoint of extra-parliamentary movements that their concern about the distribution of economic power in South Africa emphasises the pressure from these groups for a redistribution of that power, whether through nationalisation or other means.

This was said yesterday by Mr SS Brand, executive head and chairman of the council of the Development Bank of Southern Africa, in an address to the National Student Federation.

He said the theory of the market economy allowed for the fact that market imperfections as well as specific political goals could provide a valid justification for departing from a pure market model.

"At least, to a certain extent, considerations like these can be advanced to explain (or justify) the fact that the South African economy has indeed for many years been characterised by a considerable degree of intervention by Government in the economy, both through the direct command over and the use of resources." – Sapa.

INESS

Sceptism over nationalisation

By JOSHUA RABOROKO

THE stark racial inequalities in South Africa, and particularly the fact that most black people live in extreme poverty arising from systematic racial discrimination, has shaped the country's political landscape for many years.

These were the underlying factors in the political protest and violence and the accompanying general socio-political instability in the country in the past decades, according to an article from Trust Bank's May/June 1990 issue of *Econovision*.

The article says equally, the removal of discrimination and the reduction of inequality and poverty have become central elements in the country's present and future agenda.

Concept

In the past months, the article says, ANC deputy president Mr Nelson Mandela and the movement's leaders have put forward the concept of nationalisation of certain private business sectors as a mechanism of redistribution.

"This immediately sparked business uncertainty as well as extensive public debate.

"From the international business and financial community and from the domestic white population, the response to the idea of nationalisation was generally negative.

"We share the general sceptism surrounding nationalisation as a future option for two main reasons.

"Firstly, domestic financial considerations render any substantial nationalisation impossible.

Debt

"Government's debt already totals some R85 billion, and already some R12 billion tax revenue a year is devoted to paying interest on this debt.

"There is simply no way in which any South African Government can borrow the tens of billions of rands needed to buy the mining industry alone from the private sector, and pay the billions of rands in added interest.

The article says and to pay for the nationalised industries with tax revenue would necessitate so big a tax increase as to kill off much of the private economy - or massive cutbacks in more essential components of existing Government spending.

Furthermore, the need for higher future Government spending on basic services like education, housing and health will be a far greater priority for any future Government than spending billions of rands on purchasing private industries.

On simple fiscal grounds, nationalisation as a future strategy is unrealistic and impracticable.

5/7/90 Sowetan

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Economy in modest recession — Sacob

W Mail 6/7/90

By REG RUMNEY

CONFIRMATION — if confirmation were needed — that the economy is in recession came from both the Reserve Bank and the SA Chamber of Business yesterday.

Speaking at the publication of the Sacob business confidence index (BCI) for June, Sacob chief economist Ben van Rensburg said the economy was delicately balanced between consolidation for an upturn and full-blown recession.

At the moment, the economy is in a relatively modest recession, and the slowdown is milder than the previous two economic downswings of the mid-1980s.

This year, he said, had to be seen as a year of adjustment and consolidation so a sound basis can be laid for growth.

On the plus side, it was pointed out in a Sacob statement that the tax concessions announced in the Budget come into effect in the second half of this year together with a slightly easier fiscal stance.

Against this, the level of liquidations and insolvencies was rising.

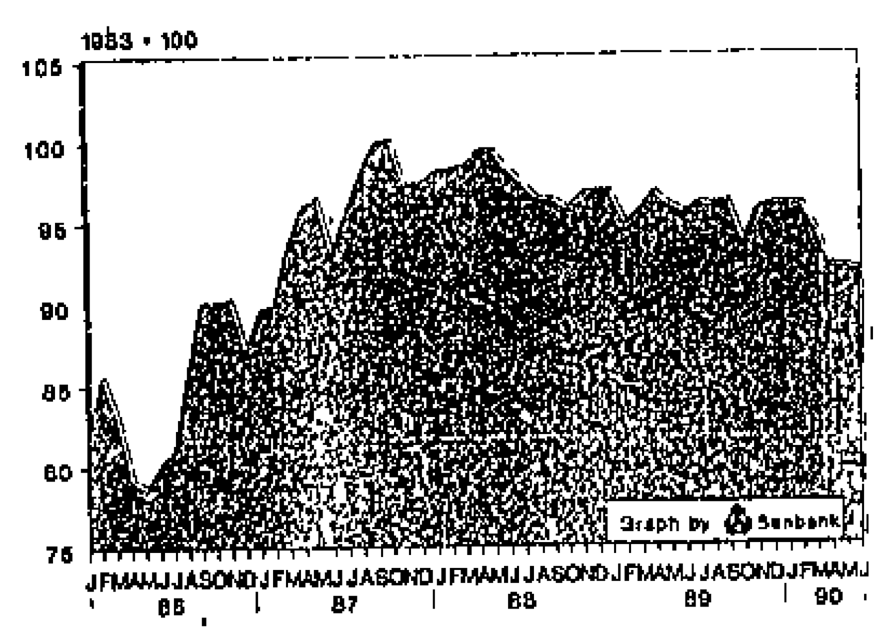
There were three main reasons for pessimism.

One was the weak gold price. Noting the sharply negative influence of the low gold price on business confidence, Sacob noted: "On the basis of prevailing demand and supply patterns within the gold market, there appears to be little reason to expect a significant increase in the price of gold within the year or more."

Another was the length and depth of the recession, the length rather than the depth. The economy is now in its sixth month of recession, and the previous severe downturn lasted for nine months. So, said Van Rensburg, the economy has not duplicated that recession, but it has still proved persistent.

The third reason was political uncertainty.

BUSINESS CONFIDENCE INDEX



A further drop in the gold price and a deterioration in the political situation could push the economy into full-blown recession.

The state of economy has lead Sacob to revise its forecast for the real growth rate for this year to zero or even a slight decline.

The BCI, a short-term barometer of business confidence, declined to 91,8 for June compared to 92,0 in May. It is a combination of various indices, which taken together reflect the business mood.

The Sacob index of confidence in the manufacturing industry differs in that it is an actual survey of manufacturers. It reflects the volume of orders expected to be received in the survey month, compared to the actual orders volume of the previous month.

The survey shows that for June the index stood at 96, compared to an actual value of 90 in May.

The way the index is constructed, with 100 representing a neutral value means that this is not an improvement.

What it does mean, says Sacob, is that slightly more than half those manufacturers surveyed expected the volume of orders received in June to be lower than for May.

"However, given that, because of the large number of public holidays in May, manufacturing activity was down significantly, the decline provides further evidence of the extent of the economic slowdown in recent months, and serves to illustrate the growing pessimism in the industrial sector of the economy."

The Reserve Bank, in its quarterly bulletin, released yesterday, reported the economy was in a light recession and may cool further.

The Bank said the aggregate real output in the economy during the first quarter of the year declined by a seasonally adjusted annual rate of an estimated 1,5 percent.

Technically, two consecutive quarters of declines can be taken to mean the consolidation of the economy in 1989 has now become a light recession, the Bank said.

However, the "soft landing" is not incompatible with a mild fall in aggregate real domestic output and demand.

The moderate further decline in real GDP in the first quarter of this year after the mild drop in the last quarter of 1989 could both be attributed to a further drop in agriculture's contribution, as well as bigger declines in mining's physical output, particularly by the gold mines.

There was only a slight decrease in total real output in the first quarter in the secondary industrial sectors; real value added in the tertiary (trade and other services) continued to grow at an annualised rate of slightly more than 2 percent.

The moderately lower level of total real GDP in the first quarter compared to the average quarterly level in 1989 means a "fairly significantly positive rate" will have to be attained in the remaining three quarters of 1990 if there is to be any positive growth for the whole of this year compared to last.

The economy may have some difficulty achieving that growth, the Bank warns.

Light recession in economy — Bank

B Day 6/7/90

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GRETA STEYN

THE Reserve Bank has sketched a picture of a patchy economy in its latest Quarterly Bulletin, with some sectors in deep recession while others are surprisingly resilient.

The success story of the first quarter was undoubtedly the balance of payments (BoP) — the Bulletin confirms an astonishing turnaround took place. But negative factors which emerged were expectations of zero or negative real economic growth in 1990, high inflation and persistently low savings levels.

The Bank described the current situation, after two consecutive quarters of negative real growth, as "technically a light recession". It pointed out that the overall growth performance was dragged down by depressed conditions in agriculture and mining — real growth excluding these sectors was a positive 1,5% (first quarter from the fourth quarter last year, annualised). By contrast, mining output declined by a corresponding 12%.

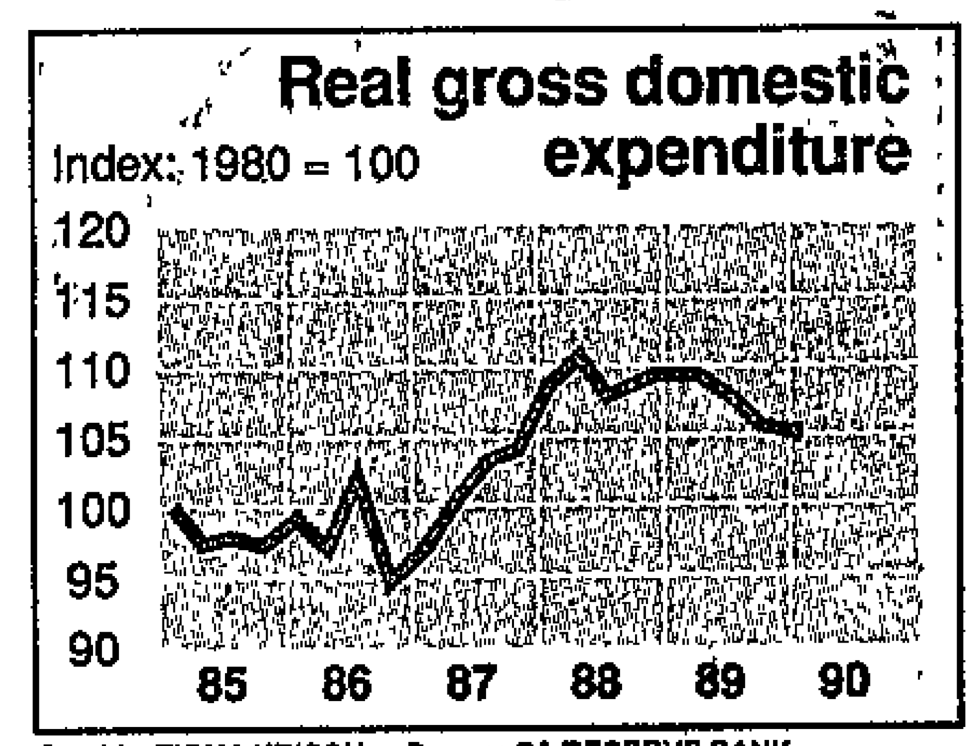
"The relative firmness of real output growth in the tertiary sectors (trade and services) could be attributed ... to the continued strength of foreign demand and to the positive mood regarding the SA socio-political situation that still prevailed ... during the greater part of the first three months of 1990," the Bank said.

But the Bulletin warned the second quarter growth performance would be knocked by the spate of holidays in April and May, as well as by politically motivated absenteeism and industrial action. The economy would be hard pressed to achieve a positive real growth rate for 1990 without the aid of another good agricultural year, as was experienced last year.

Expectations of a slump into zero or negative growth this year contrasts with economists' forecasts of positive real growth of about 1% earlier this year.

On the spending side, negative real growth was recorded for the fourth con-

□ To Page 2



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Economy outlook better says Volkskas chief

(49)

Sowetan 9/7/90

By JOSHUA RABOROKO

POLITICAL and constitutional developments in South Africa have brought about economic and social prospects which would have been almost inconceivable a few months ago, according to Volkskas Group chairman Mr Jan Stegman.

In his 1990 chairman's review of the group, Stegman says these rapid changes will add to the complexity of the business environment and increase the pressure to use economic resources for social purposes.

Profit

He says: "High demands will be placed on the management of the economy if justified social needs are to be met in future.

"This will, however, only be possible if the main thrust of economic policy is at all times directed towards sound economic growth and discipline and recognised economic norms and principles will therefore have to be applied consistently.

"The Volkskas Group is sensitive to changes in the external environment. In these challenging times the group will serve the interests of shareholders to the best of its ability and will make strategic adjustments whenever possible," he says.

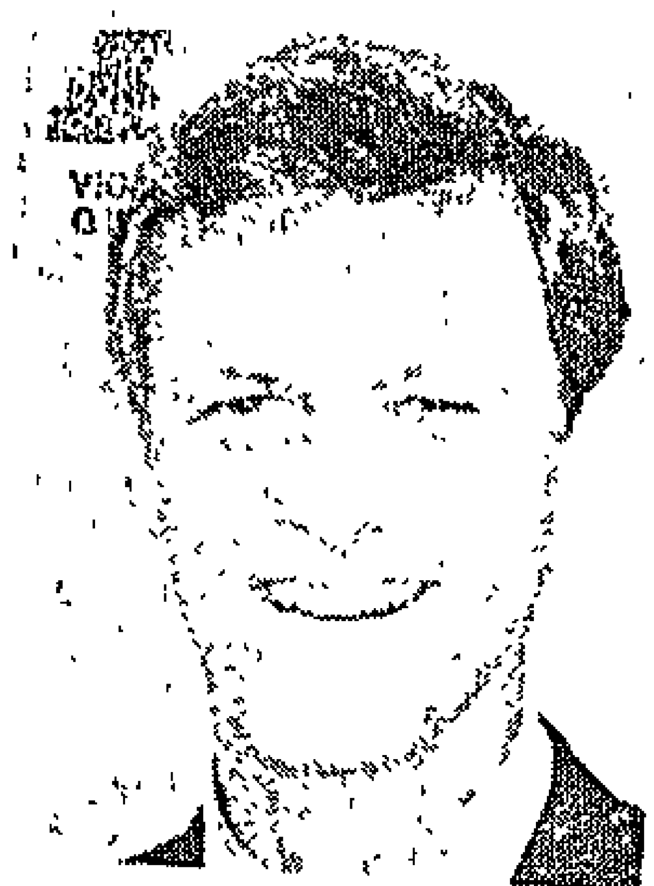
He welcomes the Government's new approach to economic policy-making, aimed at correcting structural problems, saying the long-term economic strategy advocated by the private sector and accepted by the Government as far back as 1986 is, in fact, only now being implemented on a broad front.

Increasingly difficult trading conditions face the banking sector and will lead to a deterioration in banks' credit risks and a decline in the demand for bank credit.

Demands

"Severe competition between financial institutions will keep profit margins under pressure, although it would be expected interest margins to improve moderately in the second half of the financial year," he says.

Turning to the group's interests in Namibia, he says a co-operation agreement was concluded with other banking institutions with interests in that country, in terms of which existing arrangements with regard to Bank Windhoek Limited were amended.

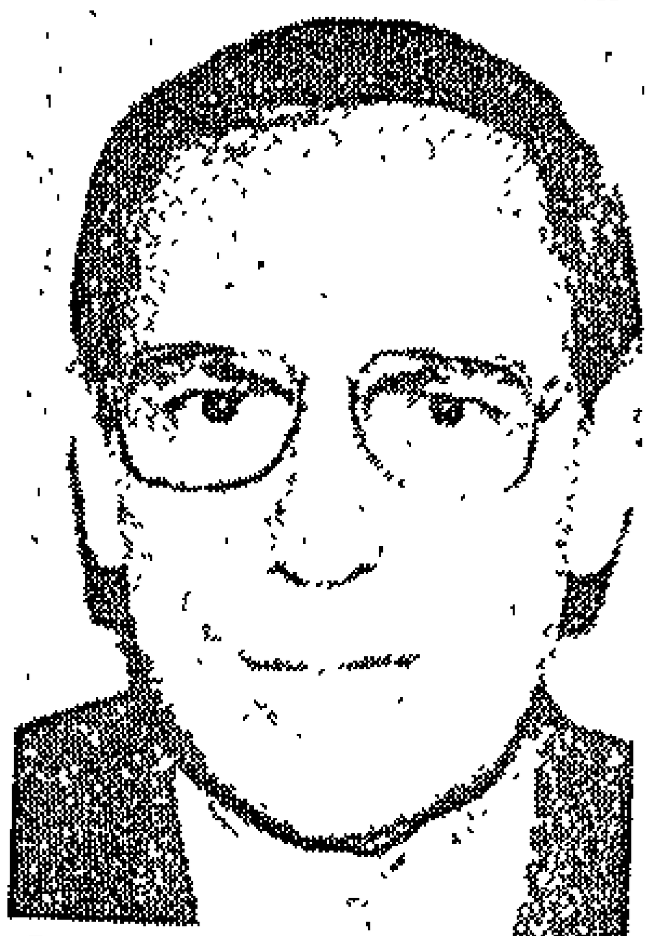


Chris Steyn has been appointed MD of Dairybelle Fresh Milk.

Call for plan to build up exports, jobs

CM TIMES 10/7/90

49



Tony Baiocchi has been appointed senior manager (pension administration) of Sage Life.

Willem Burger has been appointed dealer principal of Auto Atlantic BMW, Kloof St.

By AUDREY D'ANGELO
Business Editor

A CALL for a strategic plan in which SA's business houses would co-operate with each other and the authorities to build up exports and create more jobs — as was done in Germany and Japan — is made by Jeffrey Liebesman, chairman of the FSI Corporation, in the annual report.

"The greatest contribution the business community could make towards easing this process of change would be the creation of jobs and the enlargement of the economic cake that is available for sharing," he says.

"Both could be attained if SA's business houses were to co-operate in the manner that has been so successful in Germany and Japan, namely assessing where the country's competitive advantages lie, then working together and with the authorities so as to co-ordinate SA's resources to build up exports and international activities.

"The politicians have shown a willingness to abandon historic positions and open their minds to new ideas. The time is ripe for business people to change their attitudes to local and international markets in a similarly constructive manner."

Liebesman also warns, in the report, of a need to prepare for an intensification of competition in SA when multinationals which have kept out for political reasons enter the local market.

The report points out how FSI has expanded since 1981, when it had one factory in SA, to become the holding company for international operations with 33 factories and 860 distribution points on five continents.

It says that the process of change in Southern Africa and Eastern Europe is "accelerating the development of a single global market".

Liebesman says that in Southern Africa "the fundamentals are so changed that respected analysts are looking for economic growth in SA to average 3,6% a year in real terms through to the end of the century.

"This welcome improvement could be attained with little inflow of overseas funds."

He continues: "We are alert to the international alliances that are developing as organisations respond on the one hand to the opportunities that are opening up within the major trading blocks, and on the other hand to the intrusion of foreign competitors into their home markets.

"Within SA, FSI companies are taking steps to prepare for an intensification of competition as multinationals that kept out of the country for political reasons enter the SA market when prospects improve."

In spite of these brighter prospects, Liebesman warns that 1990 "will be a difficult year with high interest rates and the preliminary moves in serious negotiations to create a new political dispensation for SA".

But, he says, "despite the current difficult economic environment the '90s hold great promise".

He expects the FSI companies to "benefit materially when there is an improvement in the economic climate and especially from a return to stable conditions in SA".

Slovo advocates radical redistribution of land

By ISMAIL LAGARDIEN

THERE will have to be radical redistribution of land in a post-apartheid South Africa, the general secretary of the Communist Party, Mr Joe Slovo said in a wide ranging interview with *Sowetan*.

The redistribution of land was one of the most vital objectives of the South African Communist Party (SACP) and the whole liberation movement is the land issue. 49

Slovo said redistribution does not necessarily mean collective farming. In certain instances perhaps some form of collectivism will be appropriate while elsewhere it would not be.

"We face a situtation where we've got about five million people unemployed, and there's no way - however effective the economy is run in a post-apartheid society - that within 10 or 15 years you would be able to completely, through urban development, solve that unemployment problem."

A form of collective farming could possibly absorb people to work the land-productively. The land question, he said, was clear... it must be given to the people. Sowetan 11/7/90

Slovo said that it was an historic fact that the land was taken from the indigenous people. The rural policy of the SACP was very fundemental in relation not only to the unemployment problem or productivity, but what is a very emotional and fundamental aspiration of the majority of the people based on the fact that their land was stolen.

"Putting it broadly - the land has to be returned to the people," he said.

Buthelezi in surprise shift

C&G Times 11/7/90 49

JOHANNESBURG. — In a significant shift, Chief Mangosuthu Buthelezi's Inkatha movement yesterday said it would "not reject" nationalisation of strategic industry outright.

The movement, which has been persistent in its support for a free-market economy, would also consider the demand for the redistribution of wealth and land.

Addressing the Inkatha Business Forum in Johannesburg, Chief Buthelezi said there were iniquitous disparities between the relative black and white shares of wealth and land.

"Inkatha will not be able to avoid looking at the realities of the demand for the redistribution of wealth and the redistribution of land in particular."

Chief Buthelezi however reaffirmed Inkatha's support for a multi-party democracy and a "Western-type, enterprise-driven industrial economy" for the future South Africa.

Anything other than South Africa's progression to normalisation attuned to West European and North American democracies "will be altogether too ghastly.... Most certainly, Inkatha does not intend pursuing economic policies which have failed in the USSR and which are now lying in tatters in East Europe".

Chief Buthelezi also positioned Inkatha neatly between its arch-rival, the African National Congress, and the ruling National Party.

Inkatha would make common cause with either political force provided they were involved in the quest for national unity and race reconciliation.

"If the NP is too late in arriving, Inkatha will combine with the ANC ... if the ANC is too late in arriving, it will combine with the NP," Chief Buthelezi said.

He said pragmatism would have to be Inkatha's guide. It had to be accepted that to simply take from the wealthy and give to the poor would be nothing more than the redistribution of poverty.

The redistribution of wealth had to be tackled in part with the redistribution of economic opportunity through education and deregulation strategies. "It must also be tackled by directing the economy in such a way that the development of underdeveloped areas where there are concentrations of the poor, is maximised."

When addressing disparities in land ownership, in which 80% of land was owned by only 13% of the population, consideration had to be given to the fact that blacks were driven off their land at the point of a gun by white settlers, fuelling latter-day demands for land reform.

Inkatha's thinking on the "thorny" land issue was guided by the need to protect private ownership, the need to retain freehold title as a strategy to give everybody a meaningful opportunity of owning land, and the need to keep land as productive as possible by making the ownership of non-residential land a privilege for those who could use it productively.

Chief Buthelezi suggested the establishment of a Land Commission with the task of making it possible for black people to buy land. — Sapa

Whites are joining black union in droves — Sahrwu

Star 13/7/90 (139) (49)

By Thabo Leshilo

The privatisation of the railways and harbours service had disillusioned white workers, whom the service was initially intended to uplift, S A Railways and Harbours Workers Union (Sahrwu) general secretary, Martin Sebakwane, said yesterday.

Mr Sebakwane was speaking at a function in Johannesburg organised by the Afrikaanse Demokrate (AD) to hand over the Afrikaans translation of the union's constitution.

Lucrative

He said because of privatisation, Transnet's white workers no longer received the privileged lucrative benefits they had enjoyed because they were white.

This had resulted in whites joining the 40 000 strong, predominantly black, union in droves.

Johan Beaurain, the first white Afrikaans-speaking railway worker to join Sarhwu, said the translation would help the union reach out to white workers and help them to understand the aims of the union.

The translation was done by AD member Linde Dietrich, who said it was the AD's contribution to the process of helping white workers adjust to a new S A.

It took three months to complete.

Nationalisation: Winners can be losers

W/Mail 13/7-16/7/90 (49)

The nationalisation debate may have been won by those opposing this economic policy, but the battle over the issue is still continuing. **LAWRENCE SCHLEMMER** *focuses on the main arguments in this article from Indicator SA*

IN all the serious arguments about economic policy in the media, the anti-nationalisation school has won most rounds. It is noteworthy, for example, that Alec Erwin, who is perhaps most prominent among professional economists in the Mass Democratic Movement, cautiously stops short of arguing for nationalisation.

The arguments put forward for nationalisation suggest that this policy — in the sense of the state purloining the assets of companies to achieve social ends — is either vacuous and unconsidered rhetoric, or else is based on considerations and goals which do not require nationalisation for their achievement.

Since even the most idealistic of governments would not wish to run hopelessly inefficient industries, with the factors of production distorted, the effects of nationalisation on wealth redistribution are likely to be less than what constituencies would have come to expect. It is probably true to say that relatively more social benefits can be achieved through state intervention and taxation than through assuming ownership.

In terms of fairly basic logic it is very difficult to make a convincing case for nationalisation. If the arguments are insufficient then surely the fact that virtually all countries which have nationalised operations and are now seeking to introduce or reintroduce market factors (from French banks to Chinese agriculture) must have some demonstration effect on a future government.

In the face of the arguments and the international evidence, therefore, it is difficult to see the proclaimed African National Congress policy of nationalisation surviving, in terms of economic logic or as a basis for redistribution. This, however, does not mean that the ideological/analytical war between public and private control will be won through logical persuasion and debate.

The motive to nationalise or control the economy has large political components which are immune to economic logic.

Against a background of universal condemnation of apartheid, and the equally universally condemned economic inequality between races, the ANC feels itself justified in calling for future economic policies which are in terms of political symbolism, diametrically at odds with the present dispensation.

In its long period of exile, the ANC survived the political drought sustained by revolutionary theory, which is shared with other liberation movements, including the Palestine Liberation Organisation (PLO) and the Irish Republican Army (IRA). This theory becomes a total mode of thought in which all problems are traced back to some central evil, the capitalist mode of production.

The ANC has never been alone in this theoretical obsession. Of all the agencies responsible for its persistence as a mobilising dictum, the liberation movements like the ANC are least blameworthy.

The high priests of the cult of centralist dictatorship parading in the name of democracy, with total control not only of the state but of the economy as well, have been the communist dictators themselves, as well as a tradition of political idealism, with its political perfectionism, a secular pietism, at Western bourgeois universities.

Furthermore, for politicians who anticipate assuming power in difficult situations, in which impoverished and discontented mass support may be liable to schisms and fragmentation, the more total the control by the state, the more levers are at hand to use as sanctions. South Africa, a difficult country to keep under control by any standards, is probably seen as a little easier to control if the power elite controls not only the Union Buildings but 44 Main Street as well.

It is not all surprising, therefore, that ANC spokespeople seem reluctant to jettison the ideal of nationalisation. Its political advantages far outweigh its economic contradictions.

There are factors likely to arise, however, which might make the arguments in favour of nationalisation impossible to sustain. For example, the current Western disapproval of this policy might intensify, to a point at which effective international support for the ANC might become conditional on the acceptance of continued private ownership of large companies.

If the countries which are still dominated by public ownership, most prominently the Soviet Union and China, become increasingly disreputable because of continuing state suppression of dissidence in the future, then the moral public image of socialism may be further weakened. It is also conceivable that a sustained information campaign by South African businessmen will contribute to a weakening of the political urge to nationalise leading companies.

This, however, is where the point about winning the argument and losing the war comes in. Nationalisation can easily be jettisoned without sacrificing the capacity to damage the prospects for growth in the economy. Here one is talking about "socialisation" as opposed to "nationalisation" of production.

Joe Slovo, whom one must assume to be very influential in the ANC on the basis not only of his intellect but his membership of the national executive committee, is quite clear on what should happen. He argues that "the destruction of the political and economic power of capital are merely first steps...". He is fully aware of the dilemma of both managers and workers which bureaucratic state control implies. He quotes President Gorbachev in calling for "real socialisation" and the real turning of working people into the "masters of all socialised production".

Writing in the same issue of the *SA Labour Bulletin* (ibid:45-50), editor Karl von Holdt acknowledges the need for caution and compromises in future policy but pleads for what he terms "a radical mixed economy", in which the state's "plan dominates the market and private enterprise...". He distinguishes this mixed economy from social democracy, in which state regulation is subordinate to capitalism.

Not only these quotes but a great deal of informal public debate suggests that a mixed economy is seen as the compromise between nationalisation and market-related capitalism. The phrase "mixed economy" can be heard among the most elevated captains of industry. Certainly, in using the phrase they do not mean to endorse the proposed radical model, but one is not sure what most of them do actually mean.

The radical mixed economy is clearly highly state interventionist and could entail a veto of management decisions by organised labour on the shopfloor. One prediction can be made quite confidently.

Most boards of companies would probably prefer to be nationalised, with compensation obviously, than to struggle under the kind of muddling in management decisions which the socialisation of production would imply. If anything is likely to be a formula for capital flight, a collapse of business confidence and falling growth, it is the kind of mixed economy that some interests in the MDM have in mind.

Economist Ronnie Bethlehem probably comes closer to the mixed economy concept that most businessmen have in mind. He argues that, "it is the duality of capitalism and socialism that South Africa will have to incorporate in its mixed market system".

These words no doubt sound terrifying to investors, but Bethlehem specifies that the market system must be dominant and that both capitalist and socialist institutions should be subject to the disciplines of the market.

It would seem to be essential that convincing models of the market-based duality be found to give content to the well-intentioned but dangerously vacuous endorsement of the "mixed economy" which some capitalists offer.

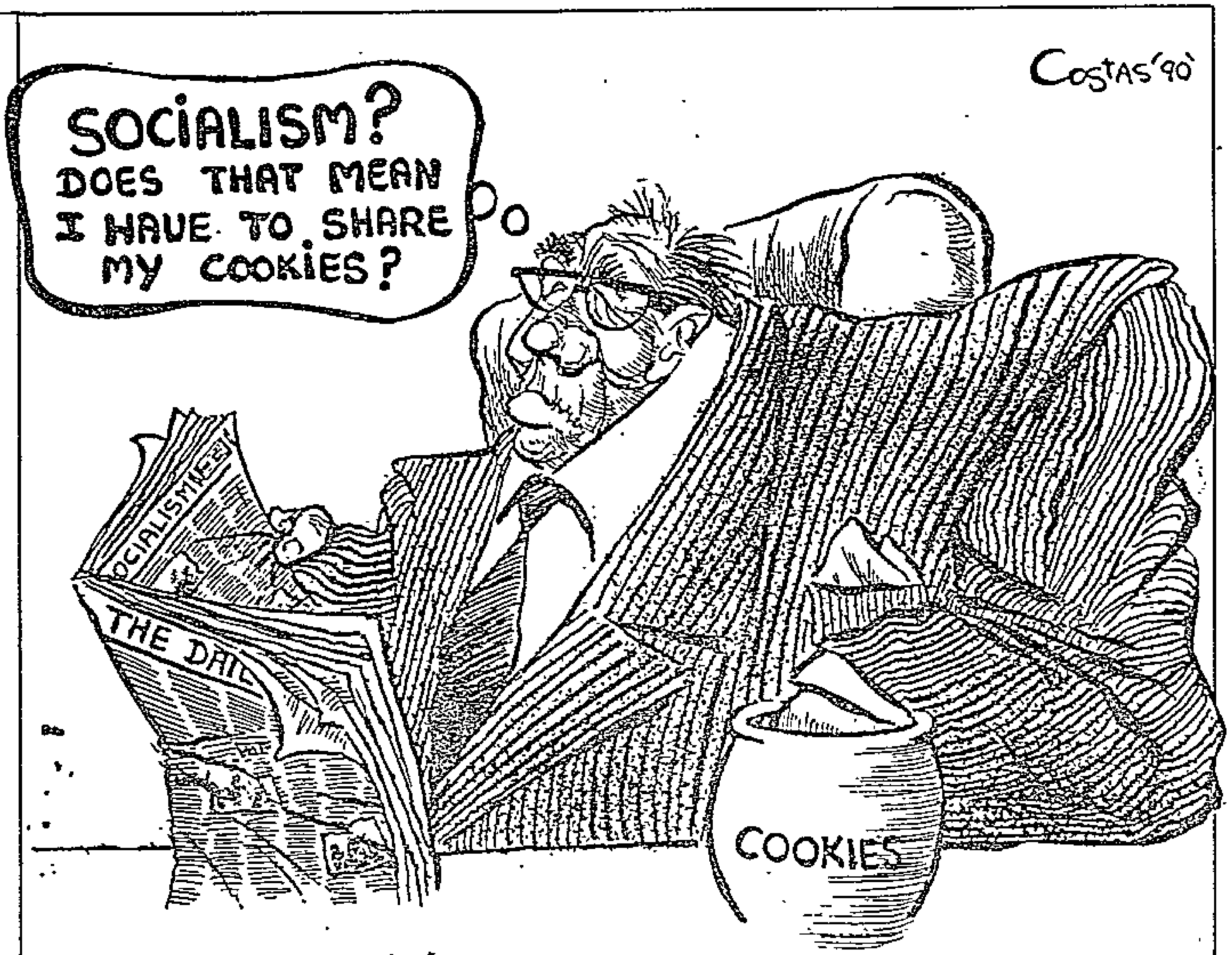
Bethlehem suggests that a "restructuring of ownership" takes place to give blacks a substantial stake in entrepreneurship. In the article quoted, however, he does not indicate how such structuring should take place.

If it is to be significantly at the cost of existing shareholders or taxpayers, it will, like most other mixed economic models, simply inhibit the growth that South Africa requires. I am also not ...

Now the capitalists search their souls

W/Mail 13/7-16/7/90 (49)

Socialist economic policies don't offer real solutions. However, capitalists also have to rethink their responsibilities, argues **JOHN GAUNT** *of the Standard Bank. This is an edited version of his speech to the AIESEC conference*



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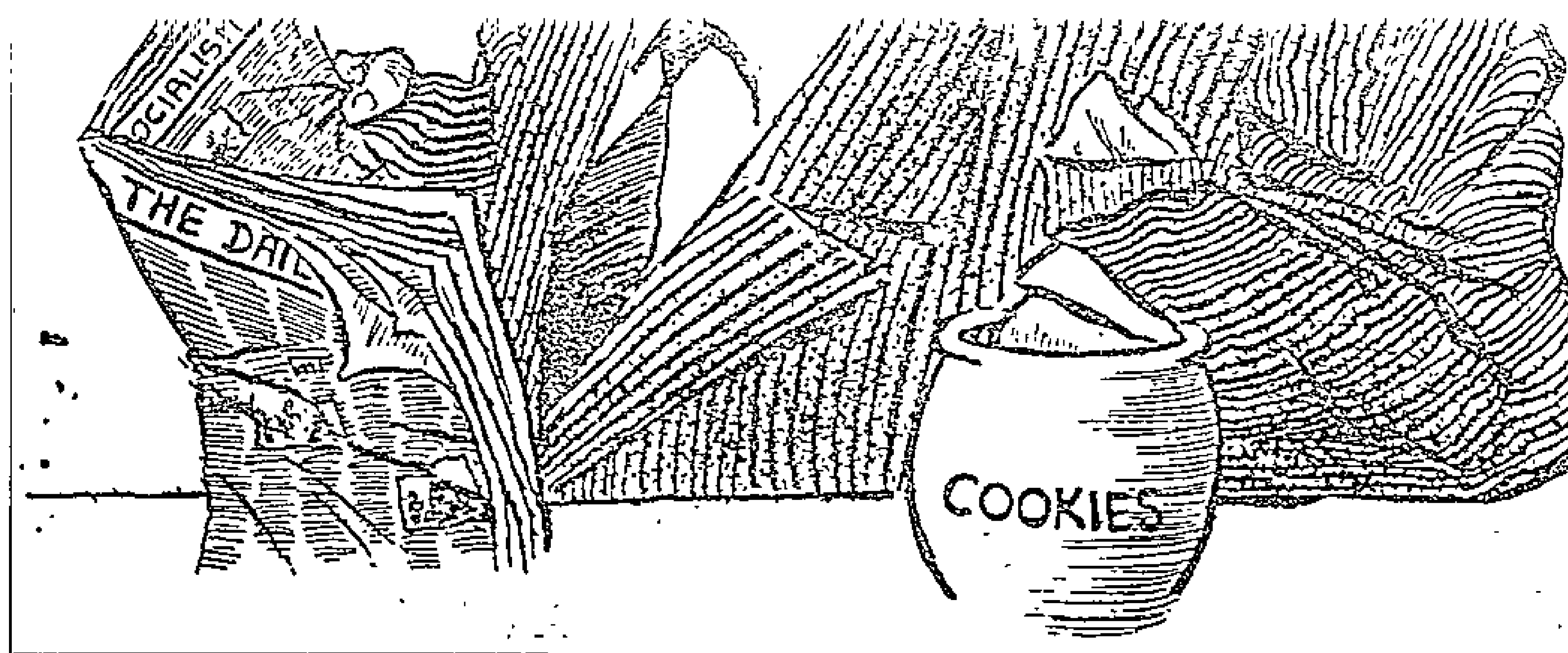

SOME people, in a rather endearing harking back to the dreams of the 1950s or even the 1850s, do not want to forget communism. A good many of these seem to have found a home in opposition groupings in South Africa.

Despite all the evidence to the contrary they still pursue the myth of the efficiency of the socialist state. In their lexicon, elitism is a dirty word and quality is all. But in an imperfect world the issue is not whether or not we want an elitist society. We are going to get one, whether we like it or not, because every society is elitist to some degree.

We can make South Africa once again a good place to do business. If it isn't, foreign capital will not come here and domestic capital will either go away or lie fallow in unproductive, short-term projects. Capital follows perceived profit and businessmen would be very stupid to entrust their shareholders' funds to a new enterprise where uncertainty is high, the reward dubious and the business climate uncongenial.

Given the likely marginalisation of Africa as a result of the opening of markets in Eastern Europe to Western capital and the competition for funds that will ensue, it is an issue of the utmost urgency that we are clear in our minds as to the kind of business environment that we want to create. Business people must make sure that their case does not go by default.

But we know that important as it is, putting the right economic structures in place will not be enough, given our special circumstances. Reluctantly or not, business is going to have to take part in a redistributive process that aims to bring the benefits of the market system of sterility and stagnation in our economic life.

If it does not, the suspicious and cynical attitude taken towards the business community by the poor people will justifiably be reinforced. Business has to become part of the developmental process and this implies a strong social role, much greater than most businessmen would want it to be.

It is obvious that business is going to have to meet a large part of the bill for decades of neglect and misdirection of resources. It is of no consequence to argue that many of these activities should be undertaken by the government. And it is not an impossible task, if we summon the will to face it, for the private sector to begin the process of reparation.

We should consider carefully the likely demands on business of the emergent society of post-apartheid South Africa. Harking back to the requirements of a successful economy, it should be noted that a programme of mass education as a common factor to all. This is lacking in South Africa and because educational programmes are time-constrained, it will be some time before significant progress is apparent. It has been suggested that of South Africa's total manpower of about 10,8-million, 30 percent has no education, 36 percent has primary school and 31 percent secondary. Three percent have a degree or diploma. Ninety percent of graduates are white and 45 percent of blacks are illiterate.

The skills South Africa needs to sustain high levels of economic growth are unlikely to be available in the near term. We are probably 40 percent short of engineers, scientists and people skilled in advanced information systems, engineering management and some professions. We have produced 45 black professional engineers since 1970; South Africa has three black architects. Its ratio of managers to workers is one of the world's lowest (1:42 compared with between 1:3 and 1:10 in developed economies).

The impact of this situation on business will be twofold: first, in its effect on the level of quality of management and second, on the diversion of resources to direct programmes of educational advancement for the workforce at every level. As to the first, it is clear that South Africa will not be able to sustain First World methods of administration and management without a First World management cadre and some deterioration in standards is inevitable in the medium term. This implies a cost to the organisation. As to the second, management will find itself funding internal and external programmes ranging from pre-primary to senior management education. South African institutions spend less on education and training than their British counterparts, can no longer be sustained.

As a corollary of this, fast-track advancement schemes for black staff and pressure through trade unions and other, less formal group for promotion of black staff on grounds of previous disadvantage, are likely to become a permanent feature of business life.

Secondly, in the broader quest for social stability, companies are going to have to fund programmes which ease the process of urbanisation. In this context one refers to housing, health, energy, land acquisition and infrastructure development. It is not in management's interests if its employees are ill-housed with no security of tenure, if their health care is neglected, if their transport facilities are inadequate, if their family life is disrupted. Failure by business organisations to address such issues will perpetuate the perception of business as exploitative, ruthless and uncaring.

It follows that social investment expenditures, already under pressure as competition for funds intensifies, will remain in the medium term a major consideration for senior management. Obviously the aim of the corporation should be to withdraw from this area as soon as circumstances permit and to allow market forces free play. But this is not likely to happen for some years.

Finally, business should take much more time to sell itself to the people. Those who for so long have been denied political channels through which to air their views are likely to attack whatever targets come to hand and corporate South Africa is a sitting duck. That does not mean that the criticism is fair or accurate. Some is, but a great deal is not. The modern business enterprise, especially the multinational corporation, is a remarkable example of efficient, purposeful social organisation. Since its first function is the creation of wealth, it is both an agent of social change and a mirror of the environment in which it operates. But it is not government and although many people believe otherwise, its influence on public policy is limited.

Lacking the options open to the multinationals, which can depart when the cost of their presence exceeded the perceived benefits, South African businessmen have generally done fairly well. Contrary to the image of the cynical profiteer they have, perhaps, been unduly trusting of politicians and one hopes they do not continue to accept without question the bona fides of the latest batch.

But unless businessmen are prepared to recognise their broader responsibilities their organisations will not survive and perhaps do not deserve to. It is counter-productive to try to allocate blame for our present situation. What is important now is that the private sector should carry the main burden of national development in the most cost-effective way. The value added through the market process in terms of jobs, of resources and skills accumulation, in the search for markets and the common interest between workers, shareholders, management and consumers far exceeds that available through any other means.

Businessmen do not have to be apologetic about this. They simply have to carry on their task of wealth creation while being responsive to the legitimate concerns of the broader society.

market system".

These words no doubt sound terrifying to investors, but Bethlehem specifies that the market system must be dominant and that both capitalist and socialist institutions should be subject to the disciplines of the market.

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Bethlehem suggests that a "restructuring of ownership" takes place to give blacks a substantial stake in entrepreneurship. In the article quoted, however, he does not indicate how such structuring should take place.

If it is to be significantly at the cost of existing shareholders or taxpayers, then it will, like most other mixed economy models, simply inhibit the growth that South Africa requires. I am also not convinced that the extension of entrepreneurship to individuals will have the symbolic appeal to outweigh the powerful, if economically irresponsible symbolism of ANC economic policy.

It might be far more appealing, and effective, for the state to expand its current privatisation strategy to empower black communities (and possibly trade unions) in the field of social services.

Loan funds, of the order of or even larger than the recently created R2-billion "social upliftment" fund, might enable identifiable collectives, such as civic associations, trade unions and even voluntary organisations to become established as co-operative owners of a variety of service companies, peri-urban or urban housing estates, shopping centres, economically viable production operations and perhaps even urban service companies in the field of refuse removal, electricity and water reticulation, etc

A condition for a loan to establish an economic collective would have to be that a suitable management team be engaged to undertake the technical tasks and co-ordination that most community collectives are generally not able to cope with. Appropriate government subsidisation would also be included in the case of certain operations.

This would be a way of giving a community board real access to material resources without intervening in and undermining the growth potential of the existing private economy. It would also give communities a sense of ownership, and the collective aspect creates the correct political symbolism.

I am not suggesting privatisation to community collectives as the only strategy, It is merely an example. Without workable models of community empowerment, however, the fall-back position from nationalisation — a "mixed economy" — is likely to become a popular passion in thinking about the "new society".

The imprecision of the concept, and the consequences which are masked by good intentions, hold very grave dangers to the future prosperity of all South Africans.

The 'new' Inkatha moves into politics. Officially

W/Mail 13/7–16/7/90

Inkatha will transform itself from a "cultural movement" into a political party at the weekend. But how much will the organisation really change? **ANTON HARBER** *reports* 113

THE new South Africa is about to get a new Inkatha.

"Inkatha is another one of those South African leopards which will change its spots," Chief Mangosuthu Buthelezi told the press at a special briefing yesterday.

The 14-year-old "national cultural liberation movement" will transform itself into a political party at a national conference in Ulundi this weekend.

"Inkatha will now rise up from whatever it has been and will rise up out of whatever circumstances it has experienced, to become a new Inkatha in a new South Africa.

"Inkatha will transform itself from being a broad-based liberation movement into a political party with an irradicable presence in our country's centre-stage politics from where the forces of transformation will actually come," he said.

The briefing, attended by editors and political reporters, was one of a series given to select audiences in Johannesburg this week as part of the build-up to the Inkatha conference. Earlier this week, Buthelezi also met 150 business leaders for a five-hour discussion over Inkatha economic policy. The meeting was chaired by

- To establish an open, free, non-racial, equal opportunity, reconciled society with democratic safeguards for all
- To harness the great resources of the country to fight the real enemies of the people: poverty, hunger, unemployment, disease, ignorance, moral decay ...
- To establish political and economic structures that encourage enterprise and create more wealth, and make it possible to redistribute the wealth of the country to the benefit of all
- To ensure the maintenance of a stable, peaceful society in which all people can pursue their happiness.

Buthelezi". In its new statement of purpose and objective, the first paragraph states that "the new Inkatha's strength come from the solidarity and purposefulness of the leadership of Dr Buthelezi".

As always, the element of Zulu nationalism in Inkatha politics was not presented to a media audience. The test of whether the new Inkatha will maintain the flavour of Zulu nationalism will lie in whether Buthelezi uses the same tone in his address to supporters at the conference.

That Buthelezi can confidently predict the outcome of the weekend conference in great detail (an invitation to other political groupings to join in alliance with Inkatha, the preparation and launch of a campaign with the theme "Choice is what democracy is about", the launch of new fund-raising campaigns) does not bode well for internal democracy.

And if lack of tolerance is anything to go by, this week's discussion was an eye-opener. Speaking more frankly than anyone has probably spoken to Buthelezi in public before, *Financial Mail* editor Nigel Bruce said that, as a supporter of Inkatha, he was concerned about

Now the capitalists search their souls

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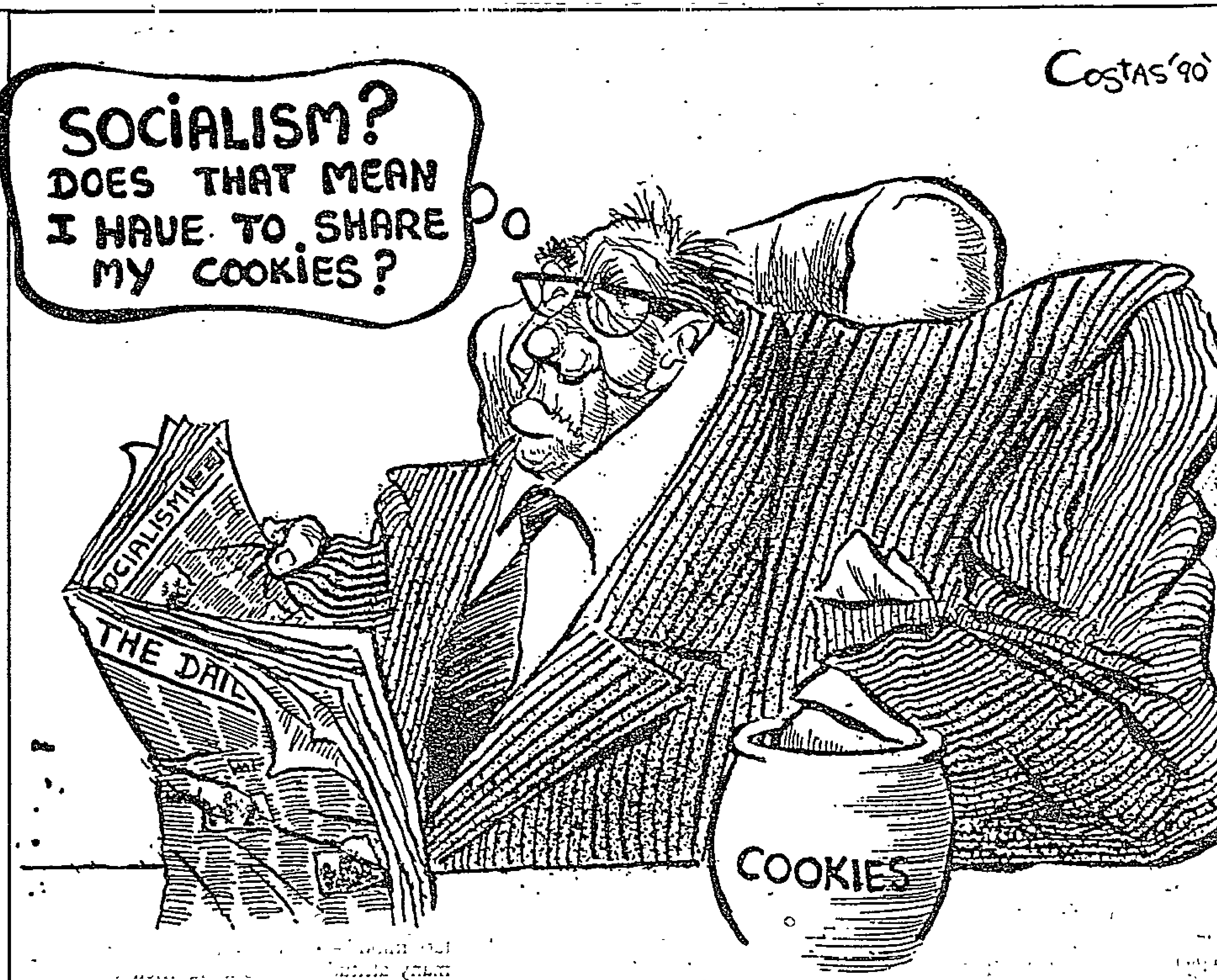

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But we know that important as it is, putting the right economic structures in place will not be enough, given our special circumstances. Reluctantly or not, business is going to have to take part in a redistributive process that aims to bring the benefits of the market system of sterility and stagnation in our economic life.

If it does not, the suspicious and cynical attitude taken towards the business community by the poor people will justifiably be reinforced. Business has to become part of the development process common factor to all. This is lacking in South Africa and because educational programmes are time-constrained, it will be some time before significant progress is apparent. It has been suggested that of South Africa's total manpower of about 10,8-million, 30 percent has no education, 36 percent has primary school and 31 percent secondary. Three percent have a degree or diploma. Ninety percent of graduates are white and 45 percent of blacks are illiterate.

The skills South Africa needs to sustain high levels of economic growth are unlikely to be available in the near term. We are probably 40 percent short of engi- management without a First World management cadre and some deterioration in standards is inevitable in the medium term. This implies a cost to the organisation. As to the second, management will find itself funding internal and external programmes ranging from pre-primary to senior management education. South African institutions spend less on education and training than their British counterparts, can no longer be sustained.

As a corollary of this, fast-track advancement schemes for black staff and pressure through trade unions and other, less formal group for promotion of black staff on grounds of previous disadvan- penditures, already under pressure as competition for funds intensifies, will remain in the medium term a major consideration for senior management. Obviously the aim of the corporation should be to withdraw from this area as soon as circumstances permit and to allow market forces free play. But this is not likely to happen for some years.

Finally, business should take much more time to sell itself to the people. Those who for so long have been denied political channels through which to air their views are likely to attack whatever targets come to hand and corporate South Africa is a sitting duck. That does

SOME people, in a rather endearing harking back to the dreams of the 1950s or even the 1850s, do not want to forget communism. A good many of these seem to have found a home in opposition groupings in South Africa.

Despite all the evidence to the contrary they still pursue the myth of the efficiency of the socialist state. In their lexicon, elitism is a dirty word and quality is all. But in an imperfect world the issue is not whether or not we want an elitist society. We are going to get one, whether we like it or not, because every society is elitist to some degree.

We can make South Africa once again a good place to do business. If it isn't, foreign capital will not come here and domestic capital will either go away or lie fallow in unproductive, short-term projects. Capital follows perceived profit and businessmen would be very stupid to entrust their shareholders' funds to a new enterprise where uncertainty is high, the reward dubious and the business climate uncongenial.

Given the likely marginalisation of Africa as a result of the opening of markets in Eastern Europe to Western capital and the competition for funds that will ensue, it is an issue of the utmost urgency that we are clear in our minds as to the kind of business environment that we want to create. Business people must make sure that their case does not go by default.

But we know that important as it is, putting the right economic structures in place will not be enough, given our special circumstances. Reluctantly or not, business is going to have to take part in a redistributive process that aims to bring the benefits of the market system of sterility and stagnation in our economic life.

If it does not, the suspicious and cynical attitude taken towards the business community by the poor people will justifiably be reinforced. Business has to become part of the developmental process and this implies a strong social role, much greater than most businessmen would want it to be.

It is obvious that business is going to have to meet a large part of the bill for decades of neglect and misdirection of resources. It is of no consequence to argue that many of these activities should be undertaken by the government. Andit is not an impossible task, if we summon the will to face it, for the private sector to begin the process of reparation.

We should consider carefully the likely demands on business of the emergent society of post-apartheid South Africa. Harking back to the requirements of a successful economy, it should be noted that a programme of mass education as a common factor to all. This is lacking in South Africa and because educational programmes are time-constrained, it will be some time before significant progress is apparent. It has been suggested that of South Africa's total manpower of about 10,8-million, 30 percent has no education, 36 percent has primary school and 31 percent secondary. Three percent have a degree or diploma. Ninety percent of graduates are white and 45 percent of blacks are illiterate.

The skills South Africa needs to sustain high levels of economic growth are unlikely to be available in the near term. We are probably 40 percent short of engineers, scientists and people skilled in advanced information systems, engineering management and some professions. We have produced 45 black professional engineers since 1970; South Africa has three black architects. Its ratio of managers to workers is one of the world's lowest (1:42 compared with between 1:3 and 1:10 in developed economies).

The impact of this situation on business will be twofold: first, in its effect on the level of quality of management and second, on the diversion of resources to direct programmes of educational advancement for the workforce at every level. As to the first, it is clear that South Africa will not be able to sustain First World methods of administration and management without a First World management cadre and some deterioration in standards is inevitable in the medium term. This implies a cost to the organisation. As to the second, management will find itself funding internal and external programmes ranging from pre-primary to senior management education. South African institutions spend less on education and training than their British counterparts, can no longer be sustained.

As a corollary of this, fast-track advancement schemes for black staff and pressure through trade unions and other, less formal group for promotion of black staff on grounds of previous disadvantage, are likely to become a permanent feature of business life.

Secondly, in the broader quest for social stability, companies are going to have to fund programmes which ease the process of urbanisation. In this context one refers to housing, health, energy, land acquisition and infrastructure development. It is not in management's interests if its employees are ill-housed with no security of tenure, if their health care is neglected, if their transport facilities are inadequate, if their family life is disrupted. Failure by business organisations to address such issues will perpetuate the perception of business as exploitative, ruthless and uncaring.

It follows that social investment expenditures; already under pressure as competition for funds intensifies, will remain in the medium term a major consideration for senior management. Obviously the aim of the corporation should be to withdraw from this area as soon as circumstances permit and to allow market forces free play. But this is not likely to happen for some years.

Finally, business should take much more time to sell itself to the people. Those who for so long have been denied political channels through which to air their views are likely to attack whatever targets come to hand and corporate South Africa is a sitting duck. That does not mean that the criticism is fair or accurate. Some is, but a great deal is not. The modern business enterprise, especially the multinational corporation, is a remarkable example of efficient, purposeful social organisation. Since its first function is the creation of wealth, it is both an agent of social change and a mirror of the environment in which it operates. But it is not government and although many people believe otherwise, its influence on public policy is limited.

Lacking the options open to the multinationals, which can depart when the cost of their presence exceeded the perceived benefits, South African businessmen have generally done fairly well. Contrary to the image of the cynical profiteer they have, perhaps, been unduly trusting of politicians and one hopes they do not continue to accept without question the bona fides of the latest batch.

But unless businessmen are prepared to recognise their broader responsibilities their organisations will not survive and perhaps do not deserve to. It is counter-productive to try to allocate blame for our present situation. What is important now is that the private sector should carry the main burden of national development in the most cost-effective way. The value added through the market process in terms of jobs, of resources and skills accumulation, in the search for markets and the common interest between workers, shareholders, management and consumers far exceeds that available through any other means.

Businessmen do not have to be apologetic about this. They simply have to carry on their task of wealth creation while being responsive to the legitimate concerns of the broader society.

The 'new' Inkatha moves into politics. Officially

WMail. 13/7–16/7/90

Inkatha will transform itself from a "cultural movement" into a political party at the weekend. But how much will the organisation really change?

ANTON HARBER *reports*

THE new South Africa is about to get a new Inkatha.

"Inkatha is another one of those South African leopards which will change its spots," Chief Mangosuthu Buthelezi told the press at a special briefing yesterday.

The 14-year-old "national cultural liberation movement" will transform itself into a political party at a national conference in Ulundi this weekend.

"Inkatha will now rise up from whatever it has been and will rise up out of whatever circumstances it has experienced, to become a new Inkatha in a new South Africa.

"Inkatha will transform itself from being a broad-based liberation movement into a political party with an irradicable presence in our country's centre-stage politics from where the forces of transformation will actually come," he said.

The briefing, attended by editors and political reporters, was one of a series given to select audiences in Johannesburg this week as part of the build-up to the Inkatha conference. Earlier this week, Buthelezi also met 150 business leaders for a five-hour discussion over Inkatha economic policy. The meeting was chaired by

- To establish an open, free, non-racial, equal opportunity, reconciled society with democratic safeguards for all
- To harness the great resources of the country to fight the real enemies of the people: poverty, hunger, unemployment, disease, ignorance, moral decay ...
- To establish political and economic structures that encourage enterprise and create more wealth, and make it possible to redistribute the wealth of the country to the benefit of all
- To ensure the maintenance of a stable, peaceful society in which all people can pursue their happiness.

Buthelezi". In its new statement of purpose and objective, the first paragraph states that "the new Inkatha's strength come from the solidarity and purposefulness of the leadership of Dr Buthelezi".

As always, the element of Zulu nationalism in Inkatha politics was not presented to a media audience. The test of whether the new Inkatha will maintain the flavour of Zulu nationalism will lie in whether Buthelezi uses the same tone in his address to supporters at the conference.

That Buthelezi can confidently predict the outcome of the weekend conference in great detail (an invitation to other political groupings to join in alliance with Inkatha, the preparation and launch of a campaign with the theme "Choice is what democracy is about", the launch of new fund-raising campaigns) does not bode well for internal democracy.

And if lack of tolerance is anything to go by, this week's discussion was an eye-opener. Speaking more frankly than anyone has probably spoken to Buthelezi in public before, *Financial Mail* editor Nigel Bruce said that, as a supporter of Inkatha he was concerned about

INKATHA

(49) FM 13/7/90

Pitching for business support

Inkatha has pinned its colours to the free enterprise mast. At a meeting in Johannesburg this week, the organisation asked business to support its principles "as these are the same as your own."

Facing more than 100 business leaders, seven of Inkatha's top officials spoke reassuringly to business leaders who have nervously followed ANC announcements on nationalisation and the redistribution of wealth. The meeting was chaired by Steve Mulholland, MD of Times Media, the *FM*'s parent.

Several of the Inkatha speakers boast Harvard Business School and other overseas business qualifications, which helped open channels of communication. But while Inkatha clearly understands the need to get business support for its policies and while business accepted its bona fides, its economic policies did not find automatic acceptance.

"Inkatha still has some homework to do in honing down its policies," said Mulholland in his summing-up address. Apart from such guarded criticism, Inkatha's policies are clearly closer to the hearts of business leaders than, for example, the ANC's threat of nationalising "the mines, banks and monopoly industries." But some questions remain.

Buthelezi and Mulholland . . . the chief and the MD

Inkatha president and KwaZulu Chief Minister Mangosuthu Buthelezi called for a "more dynamic" approach to the demands for redistribution of wealth and land.

"There must be a redistribution of economic opportunity. This must come from a process of deregulation and a medium- or longer-term process in which the provision of education and the imparting of training skills broadens opportunity for the individual," Buthelezi said. "I am coming out to be bold enough to say that, yes, economic development will stop revolution."

But the land issue and the "hideously skewed" distribution of wealth in SA had to be tackled. The way to go, he said, was to maximise the economy's growth potential, support the informal sector and have the right mix of monetary and fiscal policies.

"If political adventurism is a danger for SA, economic adventurism will be far more dangerous. Inkatha will not move away from its basic assumption of the fundamental need for an enterprise-driven economy in SA."

But, buyer beware — while pragmatism is its "basic characteristic," Inkatha is first and foremost a membership-based political organisation that is "rooted in marketplace politics." Therefore, it must also heed the calls from its grassroots support base.

"Inkatha's economic policy will not be based on a felt need to avoid the inclusion of nationalisation of monopoly capital and the nationalisation of strategic industries," Buthelezi said. "The rejection of the economics and the politics that flow from the call for brutal nationalisation cannot become a fundamental point of departure for the formation of economic policy."

This may just be politicking, but it is clear that business can't ignore Buthelezi's focus on "directing the economy in such a way that the development of underdeveloped areas where there are concentrations of the poor, is maximised."

Buthelezi clearly believes that deregulation is essential for "maximising the development of the informal sector." He stressed that artificial barriers to entry and growth must be removed. But his reference to "a whole range of support systems" also presumes a strong role for government to "support the positive aspects of free enterprise."

On the land reform issue, again, Buthelezi leans towards the free-market view. He says Inkatha's land reform policy is guided by the need to protect private ownership as a fundamental principle and the need to retain freehold title as an ideal.

But a measure of socialist thinking creeps in when he refers to "the need to keep the land as productive as possible by making the ownership of non-residential land a privilege for those who can use it productively." Here one should keep in mind that Buthelezi is addressing the issue from the point of view of a tribal chieftain in whose domain communal land holding is the norm.

Lastly, Buthelezi says "huge bureaucracies are never efficient and in SA the elimination of apartheid must lead to a reduction in the size of government. The process of reducing the size of government must also be assisted by a maximum degree of privatisation."

Arnold van Huyssteen

The Star
Finance

Star 15/3/90 (58) 210

Ring-fencing move disappoints mines

By Derek Tommey

Mining industry officials have expressed disappointment with the limited relaxation of "ring-fencing" announced by the Minister of Finance.

The move might encourage the development of small shallow mines, but it would do nothing to stimulate the opening of the large deep level mines South Africa so badly needs, Gary Maude, managing director of Gengold, said last night.

The Minister said 25 percent of the tax base of an existing mine could be used to write off a new mine's development costs in cases where both mines were the property of the same taxpayer.

Mr Maude said there had been no change in the ruling that the tax benefits of such concessions would apply only when the new mine reached production.

This meant, in the case of a deep level gold mine, that the tax benefits might not accrue for 10 to 12 years.

Capital allowance

Mr Marius van Blerck, Anglo American Corporation's group tax consultant, welcomed the increase in the existing capital allowance for new gold mines from 10 to 12 percent.

He said this meant that any capital expenditure that could not be offset against a mine's tax base could be carried forward to the next year and increased by 12 percent.

He also welcomed the announcement of the second step in the phasing-in of a lower tax formula for gold mines and in the phasing out of the surcharge on other mines.

He said it was a further step in the right direction. It reduced the maximum rate of tax on a gold mine from 73 to 71 percent and the maximum tax rate on a non-gold mine from 56 to 54,5 percent.

He believed the conditional exemption from tax of profits from the sale of shares held for more than 10 years would have a considerable effect on the cash flow of the mining houses and other institutions.

They would be able to sell their mature investments to insurance companies and other non-risk investors without penalties and raise substantial sums of money for new investments.

Spur to new mines

The Chamber of Mines has broadly welcomed tax concessions for the mining industry announced in the Budget speech as a spur to the development of new mines, reports The Star's Labour Reporter.

At the same time, National Union of Mineworkers' economist Martin Nicol warned that the concessions were part of a process set in motion by the Marais committee on mining taxation which would lead to the mining of less marginal ore and fewer mining jobs.

"We are seeing a move away from the preservation of mineral resources to a strict emphasis on short-term profit," he said.

Chamber of Mines economist Ivor Leibowitz said the most significant government move was the lifting of tax on the sale of shares held for more than 10 years.

This would enable the mines to sell off large blocks of mining shares where such revenue would previously have been taxed at marginal rates.

Although the partial lifting of "ring-fencing" was to be broadly welcomed, in terms of cost and high risk involved in developing new mines, the 25 percent write-off was too low, Mr Leibowitz said.

Discount houses set for change

Finance Staff

The role of the discount houses will change fundamentally this year, says Finance Minister Barend du Plessis.

He said that a new bill, the Deposit-Taking Institutions Bill, would be tabled in Parliament during the current session to replace the current Banks Bill.

In view of the changes in the traditional functions of discount houses, provision would be made in the proposed Bill for the phasing-out of the investment channel facilities which they offered to banks and building societies.

The discount houses would be given the option of registering as deposit-taking institutions in terms of the proposed legislation.

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Couriers may help out with postal delays

THEO RAWANA

A HUGE backlog in postal deliveries has forced the Post Office to look into the possibility of using private couriers in a bid to speed up deliveries.

Posts and Telecommunications spokesman Amanda Singleton said the probability of contracting couriers to transport mail was being investigated.

She said the Post Office would write out specifics for tenderers and couriers could tender.

"The couriers will only transport mail from main post offices to depots — not do a door-to-door delivery operation," she said.

Sapa reports Western Cape deputy senior director of postal services Jurie Swart as saying courier contractors had helped to deliver to rural area depots for some time.

Referring to business complaints about outdated sorting equipment compounding delays, Swart said: "We believe we have an efficient mail-sorting system at Cape Town and technicians are in the process of further updating our equipment."

Postmaster-General Johan de Villiers said last month the Post Office was giving urgent attention to the problem of delays in mail deliveries.

Prohibited

An effort would be made to expand the in-house transport network and the transport facilities of couriers.

He said private couriers were not allowed to deliver mail. "Private couriers are prohibited from delivering direct mail to the public or mail from individuals to private houses.

Deputy chairman of Sun Courier's holding company Uniserv Barry Saxton said Post Office delivery problems could be solved within price ranges acceptable to the public.

He said his companies had the infrastructure for fast and efficient national delivery, including outlying areas and small towns.

The Post Office could be helped with major problems areas such as speed and reliability in transporting mail to post offices, especially those in outlying areas and also in minimising the sorting delays.

The SA Post and Telegraphs division announced on Friday that a priority mail service between Pretoria and East London was going to be put to the test for six months.

OK gives notice of 570 retrenchments

DANIEL FELDMAN

OK BAZAARS has issued retrenchment notices to 570 employees in the PWV area due to the effects of prolonged striking by SA Commercial Catering and Allied Workers' Union (Saccawu) members.

However, talks will resume this week between the union and OK, Checkers, and Southern Sun in an attempt to end industrial action.

OK spokesman Gavin Brown said wage negotiations with the union would continue on Thursday, but the retrenchments would go ahead as initially planned.

Affected workers were notified on Friday that their employment contracts would be terminated at the end of the month. Brown refused to comment on the nature of the talks, which have been held sporadically over the past two weeks.

Saccawu national organiser Jeremy Daphne denounced the retrenchments and said the company had undertaken at talks held last week to consider the union's demand to withdraw the notices.

As the strike entered its seventh week, Daphne said the union would take an improved management offer to its members for consideration this week.

The union originally demanded a R160 across-the-board monthly increase, as well as an R800 minimum monthly wage, while OK offered service-related increases and a minimum wage of R710 a month after a year's service.

Mediation between the union and Checkers is scheduled to resume today. Saccawu has lowered its demand to a R150 across-the-board increase, and managment has offered R138.

Talks between the union and Southern Sun continued throughout last Thursday night and into Friday. The outcome of the talks could not be established yesterday.

Daphne also said the union had written to Law and Order Minister Adriaan Vlok "in the light of ongoing police harassment". The letter stated that the arrests of picketers were not only without any justification in law, but constituted "a gross interference with workers' rights to picket".

Unless arrests were discontinued, the union would reserve its right to seek relief in the Supreme Court.

Nationalisation of mines must hit economy — expert

DANIEL FELDMAN

NATIONALISATION of the mining industry will inevitably lead to a misallocation of resources, inefficiencies and the detriment of the economy, says Chamber of Mines senior economist David Kennedy.

In the latest edition of the chamber's newsletter, Kennedy said: "The risks involved in tampering with an industry that employs over 750 000 people and provides some 55% of the country's foreign exchange earnings must outweigh any perceived advantages." B/Day 16/7/90

Economic research showed there were no imperative economic or financial reasons for nationalisation, and any government already had the power and the necessary means to exercise fairly effective control without resorting to public ownership, he said.

In addition, the experiences of Eastern Europe, the cost of nationalisation in Western Europe and the failure of nationalisation in Third World countries like Zambia and Burma offered proof that nationalisation did not work.

Modern economic studies had shown empirically that State-controlled industries were almost certain to be less efficient than privately-owned businesses.

"For private enterprise to survive and prosper in SA it may be necessary to depart from its proper and correct role of aiming to maximise profit and to take a more active part in fulfilling socio-economic expectations," said Kennedy.

"This may include allocating more resources to education and training, and perhaps even some kind of affirmative action employment programme. This should help to defuse current antagonisms and help provide an acceptable face for capitalism in SA."

Kennedy said nationalisation was not based on tangible economic/financial criteria, but was in fact an emotional reaction to perceived injustices.

Stals stands firm on interest rates

(49)

Bank 'will not buy SA out of its recession'

B/Day 16/7/90

GRETA STEYN

RESERVE Bank Governor Chris Stals says the Bank has no intention of trying to buy SA out of an economic recession by creating huge amounts of money.

In an interview at the weekend Stals said that if growth was financed with money creation, it would be short-lived and inflation would surge.

"We cannot solve unemployment by printing money. There is nothing the Bank can do in the short term to revive economic growth that will not result in escalating money supply growth followed by an upsurge in inflation."

Ideally, he said, growth should be financed with savings and capital inflows. The available savings should be employed as productively as possible. Business confidence also played a role. Strict monetary policies would create a financial environment conducive to saving and investment, and the productive employment of savings.

Stals vowed to maintain the attack on inflation despite growing pressure to cut interest rates in response to the biting recession.

His comments came as interest rates in both the money and capital markets softened on continued speculation of an imminent cut in Bank rate — the lowest rate at which the central bank provides the money market with cash. It is the benchmark interest rate in the economy.

In the capital market, yields on the key Eskom Loan E168 broke through the 16% resistance level as a stronger gold price added fire to a market keen on a bull run.

In the money market, the Treasury Bill rate dropped further to 17,85% after being stuck at 18% for months. Details of the recession sparked unabated rumours of a cut in official interest rates a week ago.

But Stals said acting on the recession was not the Bank's role — its role was the protection of the external and domestic value of the currency.

He said that in the next six months, it might appear as if there was a conflict between the Bank's priority to protect the value of the currency, and the need for greater economic growth.

"The central bank's territory is pretty well mapped out as the financial side and not the real economy. It is only with a longer term perspective that our positive influence over economic growth and employment can be seen."

Indicators watched closely by the Bank were credit extended by monetary institutions, growth in the money supply, the balance of payments (BoP), gold and foreign exchange reserves and, most importantly, inflation. Indicators of the real economy were of secondary importance to these financial figures.

On inflation, money supply and the BoP he said he was happy with the trends — "but not with the absolute levels. An infla-

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tion rate of 13,9% is still too high. Recent trends on money supply have been encouraging, but I am not yet entirely satisfied with the slowdown in the rate of growth in both money and bank credit. We also need to build up foreign exchange reserves".

Although inflation was the most important indicator, Stals emphasised it was not the only indicator.

"There is no magic inflation target that will immediately indicate a fall in Bank rate should occur. We have to look at a host of factors before taking any such decision. That is the art of central banking."

There was also no special formula for the margin of interest rates above the inflation rate. The margin could vary, depending on whether one wanted to relax policy slightly or tighten it by keeping Bank rate constant while the inflation rate dropped.

Asked about politics, he said the Bank was enjoying a respite from political pressure to reduce interest rates. It was usually in the run-up to an election that such pressure was felt. In the environment of political change, there had been no suggestion that lower interest rates would make the political task easier.

He said a decline in the gold price to an average of $360 for the year could mean SA lost more than R1bn off its current account surplus for the year, an unfortunate development given the need to build reserves.

"But the long-term outlook for the gold price is favourable, as industrial demand for the metal is expected to grow as world production starts falling. Demand and supply conditions would then favour an improvement in the gold price."

Investment warning for SA

KIN BENTLEY

LONDON — A director of one of Britain's largest merchant banks yesterday urged Nelson Mandela to call off sanctions immediately, or let SA run the risk of losing out to Eastern Europe in the "intense" international competition for investment funds. (47)

Kenneth Costa of S G Warburg and Co Ltd, said if the ANC deputy president was serious about his commitment to maintain economic growth ahead of population growth, "this could only be done through foreign investment requiring at least £2,5bn (R11,75bn) per annum in foreign capital. B Day 18 7 90

"It is also interesting to note that every one year's delay adds 1-million people seeking jobs to the population in SA."

Speaking at a seminar on Britain and SA organised by the Centre for Policy Studies (CPS) here yesterday, Costa said it would take time for the various legislative and other sanctions directives to be dismantled.

"This process needs to be put in place immediately in order for the economy to begin the process of readjustment."

Turning to nationalisation, Costa said: "For as long as nationalisation in any of its guises remains a commitment of the ANC, for so long will international investors be deterred from investment in SA.

"This much is clear from the reaction of the business community to Mandela's recent visit.

"Privatisation is a key to the development of a vigorous enterprise economy. This market-led economy is the natural way to help eliminate the disparities between black and white in pensions, housing, social welfare, education, etc.

"The command economy distributes poverty and will not create the wealth necessary to establish an economy in which all can participate."

Costa also called for the estimated £20bn (R94bn) of assets in state-controlled companies to be privatised and for these shares to be distributed free to people in SA as a "peace dividend".

"These shares are, after all, owned by the state on behalf of the people. To distribute, say, R2 000 per head as a peace dividend will be a significant step towards establishing the enterprise culture of the market economy."

He said: "Before the lever of nationalisation is pulled, consideration should be given to the proper deployment of all state-controlled assets.

"In the context of SA, nationalisation is the one option that is not consistent with prosperity."

Investors abroad 'fear stakes in a new SA could be at risk'

B Day 19/7/90

GERALD REILLY (49)

PRETORIA — European businessmen and investors were concerned that, in any new economic dispensation in SA, their funds could be at risk and the repatriation of dividends and profits blocked.

That was the conclusion of an Afrikaanse Handelsinstituut mission just back from west and east Europe. It was led by AHI president Tom de Beer.

In a statement yesterday the mission warned that any revolutionary about-turn or disruption of the existing economic order would be a severe blow to economic and financial ties, even if politial stumbling blocks were removed.

"It was clear that sympathy alone with a new political dispensation in SA would not necessarily mean greater trade and, particularly, greater investment."

The attitude in Europe was that black South Africans should have an equal say at central government level before a start could be made on fully restoring economic and financial ties.

Unless this happened speedily, the mission believed economic and financial action against SA could sharpen further.

Key to regional growth lies in free enterprise — report

BD 19/7/90

(49)

NEIL YORKE SMITH

SOUTHERN Africa must adopt free enterprise and develop strong economic co-operation if the region is to be developed to its full potential, according to the Bank of Lisbon's latest economic report.

Market oriented policies and a greater private sector should prevail, especially after post-colonial experiments in socialism and Marxism in many African countries proved to be failures, it said.

The most striking economic successes had occurred where free enterprise had flourished and prices were determined by market forces.

Referring to SA, the report suggested a greater move to private enterprise would attract foreign investment and much needed skilled people.

Co-operation between government and business would also facilitate growth, it added.

An example of successful co-operation existed in Botswana where, working with the government, major diamond group De Beers had made large-scale investments resulting in substantial corporate and national benefits, it added.

In SA it was disappointing to hear so many calls for nationalisation when free enterprise was so obviously the best option.

"Such threats of nationalisation come at a time when the realisation is dawning elsewhere that private enterprise can be a valuable agent in generating economic recovery in African countries."

The failure of socialist economies was reflected in moves by some African governments to privatise parastatal corporations and develop stock exchanges, it added.

The report expressed concern that ideas linking apartheid and capitalism had become so deep rooted that anti-apartheid leaders could not come to terms with the reality of the failure of socialist systems.

It emphasised the importance of convincing leaders of the widespread benefits of free enterprise.

Tyre sales growth predicted

EDWIN UNDERWOOD

MAJOR growth in steel-belted tyre sales, especially in the commercial vehicles sector, is expected as the public becomes more aware of the benefits of such tyres.

Firestone marketing director Adrian Stanbridge said yesterday the company's sales of steel-belted passenger tyres had risen 80% by 1989 compared to the 1986 base year of 100 indexed units. Sales for fabricated tyres had fallen by 3% after an average rise of 15% for 1987 and 1988.

BDay 19/7/90

Tycon public relations manager Mike London said 73,5% of all new cars in SA came out on steel-belted radials and in the replacement market fabric tyres held 39,9% of the market, steel belts 22,7% and light trucks and bakkies 21,6%.

Durable Treds sales manager Dave Sumner said steel-belted tyres constituted 65% of sales.

The average dealer price of an 80 series passenger vehicle steel-belted tyre is R152 and that of a fabric tyre R128. High performance steel-belts cost about R350 each.

The profitable democracy

BDay 17/7/90 (49)

SIDNEY BORSOOK

DEMOCRACY is a word that is being used freely by representatives of a wide range of political thought and aspirations. Unfortunately, democracy is one of those words which is capable of having a wide and subtle range of meanings.

What democracy means to one person is often not the same as it means to another.

The potential for communication failure is extremely high and for misleading people it is immense. The German Democratic Republic (East Germany) was no more democratic than any other totalitarian state.

It is high time those who use words such as democracy be obliged to define unambiguously what they mean. Then we might see a clearer road to the future.

"Profit" is probably one of the most widely misunderstood concepts bandied about by politicians, businessmen and union leaders. It provides a political football which can be used with great versatility.

The misunderstandings arise from what is understood by different people to constitute profit and how it is determined. The fact that profit plays an important role in sustained wealth creation is often ignored or overlooked.

The word profit is frequently used to conjure up an image of a large bag of money which is shared among the "fat cats" for their personal benefit. Perhaps there would be less room for misunderstanding if one redefined profit, or surplus available for distribution to the shareholders and anyone else, as: Total income less all expenses, interest, corporate tax and *additional investment*.

The additional investment is essential to the sustained growth and survival of the business. This approach is no different to that used by SA mining companies where capital expenditure is treated as a cost in arriving at taxed profits. This would make it clear how much in reality is available for distribution.

In practice, an expanding company will not show a surplus and will have to borrow additional funds to meet the deficit shown by this way of looking at "profit". The additional investment is often much greater than the "profit" calculated on a conventional basis.

This approach may not meet generally accepted accounting principles, but it will make it very clear to the man in the street what profit is all about, its role in expanding the wealth creating capability of SA and its impact on job creation and improving the quality of life for all.

Loose talk about nationalisation as a solution to fair wealth distribution, and strong hints about the need for government interference smacks of central planning. Evidence shows the greater the degree of central planning, the greater the erosion of the personal freedom and choice which lie at democracy's very heart.

There is no place in SA for unsuccessful and outdated ideologies. We cannot afford the luxury of experiments. SA must optimise wealth creation, using the best method possible to achieve this, regardless of any particular philosophy or "isms". We must accept that creating wealth means making real profits and high inflation is counter-productive to real wealth creation.

We must create wealth in a way consistent with fair and just employment practices. We must not confuse the wealth creation process with the goal of achieving a fair distribution of the wealth created.

No government has ever created wealth. Governments are past masters of spending wealth. They do this with varying degrees of wisdom, often motivated by political objectives rather than by goals to improve the quality of life of all the people.

But wealth must be created first. You cannot share a cake that does not exist, and you cannot satisfy those sharing the cake if the cake is not big enough. High population growth does not help, either. But — and it is a large but — even if wealth creation is maximised we must allocate enough of it to ensure the continued growth and development of the entities that create it.

We must not be tempted to eat our seed, for if we do there is no future for SA and its people.

□ Borsook is executive chairman of Saficon Investments Ltd. This article is developed from a theme suggested in Saficon's annual report.

□ BORSOOK

LETTERS

Dear Sir,

World governments shift their focus to the public sector

6|0·4 19/7/90

(49)

MICHAEL PROWSE in London

THE 1980s were a decade of renewed faith in the private sector. Governments around the world praised the efficiency of markets and deregulated industries. There was a wave of privatisation stretching from Mexico to Japan.

At the beginning of the 1990s, attention is switching back to the public sector. This is less a reflection of a desire to expand the sphere of government than a belated recognition that, like it or not, the performance of the public sector is a crucial determinant of the quality of our lives. For most families, the quality of schools, hospitals, community care, the environment, public transport, law and order, town planning and welfare benefits is important.

Concern about the quality of public services represents a third phase in policy towards the government sector. In the early 1980s, the priority nearly everywhere was to reduce the growth of public expenditure. It was partially successful: public spending continued to rise but in most countries it stabilised as a share of GDP.

Attention then switched to the way revenue is raised. In a second phase of reform, policymakers attempted to reduce the disincentive effects of high taxation.

But these phases of reform left most problems associated with government services untouched. Efficiency in the raising of revenue is of limited significance if the programmes thus financed offer poor value and little customer satisfaction. And spending restraint is often a recipe for long-term discord.

This is particularly evident in Britain where the government — by international standards — has been spectacularly successful in curbing the growth of the public sector. Opinion polls indicate deep misgivings about the quality of services.

How should governments respond to such pressures, which are likely to grow steadily more intense? The alternative to abandoning the 1980s policies is to hold the ratio of public spending to GDP at about current levels while seeking to raise the quality of public services through an aggressive reform programme. This would be a promising policy only if big improvements in public sector efficiency were feasible. The scope for such improvements is hard to judge. The root of the problem is the lack of clarity about goals. This is aggravated by a lack of information about outcomes.

Measuring success in the public sector is far more complex than doing so in the private sector. A chief constable has a budget and a general requirement to maintain law and order. How does he judge whether he is using his resources of labour and capital sensibly? How, for that matter, does he measure the "output" of his police force?

There are no easy answers. But this is not to say that nothing can be done. Strategies being implemented or contemplated include:

Managerial reforms. The essential idea is to get public sector employees and departments to behave in a more businesslike manner. The first steps are usually value-for-money and efficiency audits. This is typically followed by an upgrading of cost and management information systems.

Lack of clarity about the ultimate goals of public sector managers can be mitigated somewhat by setting intermediate targets and linking pay to performance so defined.

Thus it would be possible to link the pay of British Rail managers to the punctuality of trains. The remuneration of New Zealand's central bank governor is linked to his success in controlling inflation.

Internal markets. The idea here is to mimic the effects of market forces while keeping the sectors concerned under the overall control of politicians and civil servants. The Thatcher government is pioneering this approach in both health care and secondary education. In the reformed National Health Service (NHS), care will continue to be free.

But hospitals, wherever possible, will be spun off as self-governing trusts and obliged to compete for the contracts of health authorities. The aim is to inject a considerable measure of competition into the supply side of health care.

Something similar is happening in the school system. Under present reforms, state education remains financed by taxation and thus "free" to parents. But various measures are designed to stimulate internal competition. Under the "opting out" rules, state schools can exit from the local authority sector and accept direct funding from Whitehall.

Changes within the local authority sector are equally radical. Under open enrolment, parents can select from a wider range of schools.

The "enabling" state. The logic of this approach is that government has a responsibility for financing many activities but that it should withdraw from the provision of services wherever possible, leaving this to the private and voluntary sectors.

A low-level example is the contracting out of services such as cleaning and waste disposal.

The planned reform of community care envisages delegation on a larger scale. Local authorities are to assume responsibility for the social care of elderly and handicapped people. But they will be encouraged to become "enablers" rather than providers. The plan is that they purchase care from (competing) providers.

Experimentation with training credits is another example of the same philosophy in action. In pilot schemes young people will be given vouchers worth up to £1 500 to buy training of their choice from providers in the public and private sectors.

User charges. The idea is that if individuals are obliged to contribute directly towards the cost of public services, a given subsidy can be spread much further; as a bonus demand will be curbed.

Will these strategies for boosting efficiency and quality succeed? Managerial reforms are widely supported but probably offer only incremental gains in efficiency. Internal markets are harder to gauge. Enthusiasts claim they will expand choice and greatly reduce costs. But there are many sceptics. Critics on the right say markets without private ownership and real profits are a sham and will prove disappointing. Left-wingers worry that sophisticated middle-class users of services will exploit internal markets leaving the poor in even worse shape than today.

The enabling state approach addresses some of the right-wing objections. Yet if the private providers become too dependent on public sector contracts they will soon cease to behave like private sector agencies.

User charges are less a reform than a crude way of reducing costs. Unless accompanied by complex means tests, they are bound to discriminate againt the poor — the class most dependent on the state.

Whatever their pros and cons, the above reforms seem unlikely fundamentally to alter the public sector's worldwide dilemma, which is that it will not be able to offer the quality of service demanded given probable revenue constraints. The biggest risk in this labour-intensive sector is an accelerating decline in the relative pay of public sector employees — and hence in their average quality. This negative impact on efficiency could greatly exceed the positive effects of various micro reforms.

Governments in the 1990s must confront some stark choices. If they raise taxes relative to incomes, they can maintain the range of public services and improve quality in some areas. If they are not willing to raise taxes, they must either accept a general deterioration in quality or radically redefine the public sector's role — for example, by privatising some large programme such as education or by abandoning some cherished ideal, such as universal state pensions.

What they must avoid is the pretence that these hard choices can be avoided by microeconomic reforms such as internal markets. These may bring helpful benefits but they cannot turn the across-the-board squeeze of the 1980s into a sensible long-term strategy. — Financial Times.

NOTICE 582 OF 1990

49

SOUTH AFRICAN RESERVE BANK

Statement of Assets and Liabilities on the 30th day of June 1990

Liabilities	R	*Assets*	R
Share Capital	2 000 000,00	Gold	2 871 395 015,46
Reserve Fund	69 956 766,96	Foreign assets	2 287 461 753,55
Notes in circulation	8 799 848 542,00	Total gold and foreign assets	5 158 856 769,01
Deposits:		Domestic assets:	
Government	8 005 312 383,31	Discounted bills	3 192 100 000,00
Provincial administrations	480 549 954,91	Loans and advances:	
Banks and building societies	2 330 740 971,15	Government	–
Other	94 696 516,05	Other	2 305 156 739,16
Other liabilities	8 353 647 126,41	Securities:	
		Government	623 430 353,86
		Other	1 122 985 056,50
		Other assets	15 734 223 342,26
	R28 136 752 260,79		R28 136 752 260,79

The gold reserves as at 30 June 1990 were valued at R841,26 per fine ounce, compared with the valuation price of R875,09 per fine ounce as at 31 May 1990.

Pretoria, 6 July 1990.

C. J. SWANEPOEL,
General Manager.

(20 Julie 1990)/(20 July 1990)

KENNISGEWING 583 VAN 1990

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

AANSOEK OM REGISTRASIE VAN 'N VAKVERENIGING

Ek, David William James, Nywerheidsregistrateur, maak ingevolge artikel 4 (2) van die Wet op Arbeidsverhoudinge, 1956, hierby bekend dat 'n aansoek om registrasie as 'n vakvereniging ontvang is van die Scottburgh Municipal Employees Association. Besonderhede van die aansoek word in onderstaande tabel verstrek.

Enige geregistreerde vakvereniging wat teen die aansoek beswaar maak, word versoek om binne een maand na die datum van publikasie van hierdie kennisgewing sy beswaar skriftelik by my in te dien, p/a die Departement van Mannekrag, Mannekraggebou 123A, Schoemanstraat 215, Pretoria (posadres: Privaatsak X117, Pretoria, 0001).

TABEL

Naam van vakvereniging: Scottburgh Municipal Employees Association.

Datum waarop aansoek ingedien is: 16 Mei 1990.

Belange en gebied ten opsigte waarvan aansoek gedoen word: Alle werknemers in diens in die Plaaslike Owerheidsonderneming soos onderneem deur die Munisipaliteit van Scottburgh in die landdrosdistrik Umzinto.

"Plaaslike Owerheidsonderneming" beteken die onderneming waarin werkgewers en hul werknemers met mekaar geassosieer is vir die instelling, voortsetting en afhandeling van enige handeling, skema af aktiwiteit wat deur 'n plaaslike owerheid onderneem word.

"Plaaslike owerheid" het dieselfde betekenis as wat daaraan toegeken is by artikel 1 van die Wet op Arbeidsverhoudinge, 1956.

NOTICE 583 OF 1990

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

APPLICATION FOR REGISTRATION OF A TRADE UNION

I, David William James, Industrial Registrar, do hereby, in terms of section 4 (2) of the Labour Relations Act, 1956, give notice that an application for registration as a trade union has been received from the Scottburgh Municipal Employees Association. Particulars of the application are reflected in the subjoined table.

Any registered trade union which objects to the application is invited to lodge its objection in writing with me, c/o the Department of Manpower, 123A Manpower Building, 215 Schoeman Street, Pretoria (postal address: Private Bag X117, Pretoria, 0001), within one month of the date of publication of this notice.

TABLE

Name of trade union: Scottburgh Municipal Employees Association.

Date on which application was lodged: 16 May 1990.

Interests and area in respect of which application is made: All employees employed in the Local Authority Undertaking as undertaken by the Municipality of Scottburgh in the Magisterial District of Umzinto.

"Local Authority Undertaking" means the undertaking in which employers and their employees are associated for instituting, continuing and finishing any act, scheme or activity which is undertaken by a local authority.

"Local authority" shall have the same meaning as that assigned to it in section 1 of the Labour Relations Act, 1956.

Govt debt an unofficial R34bn, says Old Mutual

B Day 20/7/90

GRETA STEYN

GOVERNMENT is liable for R34bn in "off-balance sheet" debt not included in the official figures on government debt, according to an Old Mutual analysis.

Economist Ursula Maritz, writing in the latest Economic Monitor, says official government debt might not seem excessive — but the off-balance sheet liabilities change the picture. These consist mainly of about R23bn on government's pension fund and R11bn owed to the Reserve Bank for its role in providing forward cover to the market.

"Although these liabilities are not included in the official debt statistics, do not carry any interest burden and are not necessarily redeemable within any particular time frame, they are ultimately earmarked for the account of the Treasury and therefore, in the final analysis, the taxpayer."

This was illustrated by the employment of R4bn of the "surplus after borrowing" in the March Budget to redeem some of these liabilities.

The effect of this action to redeem a small part of the off-balance sheet liabilities had been an increase in official government debt.

On the topic of the on-balance sheet debt, Maritz noted that over the past three decades the outstanding nominal value of central government debt had risen thirty-twofold to R81bn.

"Although the absolute level of debt increased, expressed as a percentage of GDP it actually declined from 47% in 1960 to 32,1% in 1989, confirming the fact that the taxpayer rather than excessive deficit financing had borne the brunt of financing this increase. It also demonstrates how the real value of the outstanding debt has been eroded over time by high inflation."

Reluctant

The erosion of the real value of government debt was one of the reasons why institutions were becoming increasingly reluctant to buy government stock with long maturities.

Another reason was that Treasury preferred to issue shorter term debt when those interest rates were below the longer term rates.

As a result, the maturity profile of government debt has shortened dramatically from about 13 years in the early seventies to 9,4 years by 1989.

The present ratio of government debt to GDP (32%) is not excessive by international standards or local historical standards — which means the taxpayer, rather than excessive deficit financing, bore the brunt of financing the rise in government expenditure.

However, government's interest bill rose from 1,6% of GDP in 1960 to about 4,2% of GDP this year.

"A consistent rise in the share of interest payments in total government spending leads to the risk of either a rise in the tax burden or a disruptive cutback in other areas of government spending.

"In this way the flexibility of fiscal policy is undermined, not only by the government's reduced ability to manipulate the discretionary portion of its spending, but also because it limits the ability of the government to reduce the overall tax burden on the economy over time."

Are high interest rates the right medicine?

W/E Mail 20/7 - 26/7/90

(49)

Is the Reserve Bank's high-interest-rate "cure" for South Africa's economic ills more harsh than the disease? In a provocative analysis, **Dr A ROUKENS DE LANGE**, of Stellenbosch University's Institute for Future Research, suggests some other medicines.

The Reserve Bank has prescribed high interest rates for the ailing South African economy ... but the cure seems worse than the disease

HIGH interest rates have put the economic screws on many households and small businesses in South Africa. Seemingly inevitable announcements on increases in the interest rate appear to be accepted without resistance, as if they were "acts of God" to which we must resign ourselves.

In fact, the bank rate is set by the Reserve Bank, in consultation with government, as economic policy.

There may be good or bad reasons for changing interest rates, but there is nothing inevitable about it.

It is only the public's ignorance that suppresses debate and reaction.

What is more surprising is the lack of response from economists. They are probably almost as befuddled about the issues involved as the public.

South Africa's economic problems are indeed complex, but some of the issues relating to interest rates can certainly be looked fairly squarely in the eye.

Small businesses and new home owners suffer severely from high-interest-rate policies. At the same time it is government policy to promote private home-ownership and to encourage informal and small businesses.

These are seen as essential ingredients in establishing stable homes and communities and in providing the personal income and employment opportunities which are not being offered by the formal economy.

Success in these matters is seen as a prerequisite for economic growth and socio-political stability. Clearly, there is an official schizophrenia on these issues.

What are the grounds on which the Reserve Bank bases its interest rate policy?

The argument it offers is that high interest rates are needed to keep excessive consumer credit and spending under control.

Durable consumer goods are import-intensive and, because of the South Africa's huge foreign debt, the country cannot afford too many imports. A balance of payments surplus is absolutely essential.

I have no quarrel with the need for South Africa to keep a positive trade balance. My real concern in with whether this is best effected by high interest rates.

Although this may help to maintain a trade surplus, it is also seriously damaging the economy. We are in danger of winning the foreign debt battle while losing the economic and political war.

Although high interest rates may reduce spending on imported goods, it will also decrease spending on locally produced goods, thereby lowering the general level of economic activity and increasing unemployment.

High interest rates also put acute financial stress on entrepreneurs, new home owners and other borrowers, who are essential to keep the economy moving.

It would appear high interest rates provide a medicine whose cure is worse than the disease and we need to have another look in the medicine chest to see whether there are other remedies available.

Ideally, we want a medicine which will allow spending on imported goods to be reduced and on local goods to be increased.

A policy which would promote such developments might be the introduction of import duties or restrictions.

This could be supplemented by other economic measures to reduce the ravages of high interest rates such as wage and price freezes to control inflation (which is the spur pushing up interest rates), credit restrictions on banks and consumers or inflation-indexed bond and loan repayments.

It must also be recognised that the spending of lower-income groups is much less import-intensive than that of higher-income groups. Thus, while about 25 percent of domestic expenditure in South Africa is on imported goods, for every rand spent, the average white consumer will spend about two and a half times as much on imported goods as the average black consumer.

Policies aimed at redistributing income and wealth towards the poor would therefore also promote local enterprise and improve the balance of payments.

Economic measures such as these are currently out of favour among the leading market economies of the world, but this does not necessarily mean they are inappropriate for South Africa's unique circumstances.

It is probably far more important for the overall health of the economy — and ultimately for the welfare of all South Africans — to provide adequate employment opportunities and basic needs for under-developed communities than to concentrate on maintaining the standards of its First World community.

In any case, in the "new South Africa" major adaptions in this direction will have to be made.

South Africa's interest rate policy has been conceived by the Reserve Bank which is subject to the fashions and concepts which hold sway in the Western market economies.

It is probably justified to say that it has little feeling for socio-economic realities very different from those of the First World.

The Reserve Bank, under governor Chris Stals, is probably also not very aware of the effect which its policies based on economic theory rather than on observation of the realities of daily life, have on individual lives, particularly at the lower socio-economic level.

The Reserve Bank appears to see interest rate manipulation as the only significant tool for addressing the balance of payments and South Africa's foreign debt repayment, but it also has other reasons for keeping its interest rate high.

Within the Reserve Bank it is recognised that serious policy errors were made during the 1970s in maintaining artificially low interest rates. In fact, for many years an effective negative interest rate was maintained, after taking inflation into consideration.

On top of low interest rates, tax incentives were provided to promote capital investment and the rand was overvalued relative to the currencies of its major trading partners.

Because it was so cheap to borrow money, much investment went into wasteful capital-intensive projects which frequently catered for non-essential needs.

Unfounded optimism in the health of the South African economy meant the rand was grossly overvalued, making imported goods and capital cheap. Large sums were borrowed on the overseas money markets.

When the rand plummeted in the mid-1980s, initially as a result of poor economic performance but later fuelled by political turmoil and sanctions, South Africa was left with vast debts which now have to be repaid.

The Reserve Bank recognises the serious effects of its former cheap-money policies and does not want to fall into the same trap again. It therefore wants to make sure real interest rates are charged.

This can only be done by raising interest rates above the inflation rate. Such a policy is also seen as encouraging the public to save (which it has been decreasingly inclined towards in recent years), to encourage more thoughtful investment decisions to be made and to reduce foreign borrowing.

Of course, a tax system which taxes interest at marginal rate is a major discouragement to any investor interested in obtaining a real return on his money andis, again, a manifestation of governmental schizophrenia.

Economic and investment conditions now are very different from those of the 1970s and it is probable that, under present circumstances, a relatively lower interest rate does not hold the same danger to the economy.

Expecting real interest rates to be paid is not unreasonable, but when this is combined with a high inflation rate, the burden — first on the borrower and then on the whole economy — becomes throttling.

The most important issue now is not that credit be contained and real interest rates paid but rather that expenditure be on goods and services produced within the country.

By becoming more self-reliant a different kind of manufacturing and consumption climate will be encouraged which will probably be less like modern First World economies and more in line with the appropriate structures required for South African realities.

Beware of policies which drive away mobile taxpayers

B/Day 20/7/90

(49)

BRIAN KANTOR

APARTHEID has been part, not the whole, of the problem restraining the growth in the incomes of black South Africans. Removing apartheid will only be part of the solution.

The system of apartheid was a shameful abomination. The danger is that the simple correlation of poverty with apartheid will encourage a naive belief in some quick economic fix. A fix, moreover, that will neglect some of the strengths of the South African economic system. Strengths that were gathered not because of, but despite, the interventions of apartheid in the economic system.

The task before South Africans is to make sure that the economy does better for the next generation than it did over the last. Better, that is, for the great majority and especially for the most vulnerable group: the bottom 20% of income earners.

Such an outcome should not be regarded as anything of a foregone conclusion. Indeed, the smart money right now in the financial markets of the world would be betting against it happening.

An indicator of the justness of a particular policy is to determine whether the intervention in the economy will be helpful to the really poor, that is to say the bottom 20% of income earners.

This group is invariably poorly represented in even the most representative of political systems. In SA, quite obviously, by no means all blacks are in this category. The bottom 20% are to be found mostly in the rural areas and outside formal sector employment.

Foreign investors have for long not been particularly impressed by the prospects for the SA economy. As a result, on balance, South Africans have imported very little foreign capital over the past 30 years.

One of the debates is about the distribution of income and wealth. The problem with redistributing income through taxation or regulation is that the economic actors who earn the highest incomes are often the most internationally mobile.

It thus becomes easier to redistribute taxpayers than taxes, to the great disadvantage of those for whom additional income is intended. Mobile earners of relatively high incomes, if unable to achieve their required after-tax and risk-adjusted returns, will take their skills elsewhere.

It would be a grave mistake to underestimate the degree of mobility of the capital, human and financial, currently employed in SA. Many of the skilled are also foreign passport holders and they will leave quicky in response to actual or perceived threats to their standard of living.

The economy would be disastrously affected by such outflows. It is possible to trade off higher taxes for a greater degree of certainty in the economic future. The task should be to provide that certainty so as to retain and increase the commitment of mobile capital.

In this way, more income can be collected from taxpayers primarily through the availability of a much larger income and tax base. The redistribution of income cannot occur, on any meaningful scale, without a strong rate of growth in the tax base.

Owners of physical capital — plant and buildings — are, unfortunately, far more vulnerable to expropriation. They are vulnerable because they can't take all their accumulated wealth away with them.

Paradoxically, what may be fair, redistributing income, is largely impractical and certainly unhelpful to the poor. Redistributing wealth is dangerously possible, but is highly unfair and is also very damaging to the interests of the poor if a long-term view of their prospects is taken.

Claims for the redistribution of wealth from white to black South Africans are based upon the unfairness of the process by which incomes and wealth have been generated.

It can be agreed that the process has been unfair in that some whites were and are able to use their political power to rig the economic system in their favour. Their did so by reserving jobs and protecting markets against entry by blacks. Also the spending of government, especially on education and welfare, favoured whites rather than blacks to their permanent advantage.

Clearly fairness demands freedom for all individuals to compete for jobs or for any other service or resource without interference by other in the process of exchange. Fairness demands also that government spending and hiring practices be colour blind. So much may be regarded as common cause.

It should be recognised, nevertheless, that an unequal distribution of incomes or wealth, the fact that some individuals or groups of individuals are better off than others, does not in itself imply unfairness. A fair race does, after all, go to the fastest runner.

Yet even given that the economic process in SA has been unfair to some degree, the issue of whether some part (which part?) or all of the accumulated savings of SA whites, as revealed in their wealth, could fairly be taken away from them and redistributed to blacks is highly debatable.

Part of the answer may be found in a consideration of the act of saving. Whatever may have been the source of income or wealth, whether income is gained by a fair or unfair process, the wealth owner may choose either to consume or save, that is, to use up resources or to preserve them for later use.

Clearly preserving rather than spending income is of benefit to others, benefits for which an agreed reward (interest) is paid. Preserving rather than consuming wealth is especially helpful to the poor for whom resources are in short supply.

Expropriation is highly damaging to the interests of the poor because it discourages additional flows of saving and investment. The unskilled poor cannot hope to escape poverty without being able to combine their labour with more capital.

Expropriation without full compensation is not only unwise. Because it discourages saving, it is also manifestly unfair because while income or wealth may be unfairly gained, preserving rather than consuming such wealth, is an act of sacrifice that deserves to be respected rather than punished.

The wealth of the saver, the accumulator, is vulnerable to expropriation. The pleasures of the spendthrift are beyond reach.

An unfair economic process is one that keeps out competition, that prevents suppliers from freely supplying their goods or services. As a result prices, including wages, will be higher or the quality of the goods or services supplied will be inferior.

Consumers and taxpayers are called upon to bear the cost of protection. Consumers are always many, producers relatively few. It is the numerous poor consumers who can least afford protection for inefficient production.

While replacing a few privileged white producers or officials with an equal or greater number of privileged black ones may be regarded as inevitable, it will be no more fair than the previous system of patronage. Nor will it be any less damaging to the great many consumers and taxpayers of all colours. And the poor, as before, will bear the greatest burden.

There is, in fact, a simple way to judge whether an act of economic policy is an exercise of political power that redistributes income and opportunity in favour of a small minority of producers at the expense of the majority and has absolutely nothing to do with fairness.

Consider whether the step taken is in the consumers interest. If it means higher prices, wages, taxes or lower standards of service or quality it will clearly represent a gain for a few producers at the cost of the many consumers.

Fairness in practice would mean simply putting the interest of the great majority of consumers first.

☐ Kantor is Acting Dean of the Commerce Faculty at UCT. This is an excerpt from his address to the Idasa conference in Port Elizabeth last month.

ECONOMIC POLICY FM 20/7/90

Still confused (49)

The paucity of ANC economic thought stood out in a debate on restructuring the economy during last weekend's labour law conference at the University of Natal.

Tito Mboweni, of the ANC's economics and planning department, stood in for heavyweight Thabo Mbeki — but even allowing for lack of preparation it was a thin speech. Mboweni stressed that the ANC did not envisage an economy "directed from the top in commandist fashion." But "the State must actively participate as a productive agent to transform current relations of production and influence the direction of the economy." In order to reconstitute the economy, he said, it was important "first to work out how to break up conglomerates and monopolies to redistribute the productive assets of SA."

A middle way was put forward by Wits sociologist Duncan Innes and labour lawyer Martin Brassey. They argued for better distribution of power over monopolies and conglomerates, rather than breaking them up. This would entail greater participation in decisions, policies and ownership. Geoff Schreiner, of the metalworkers' union, suggested that negotiation on worker participation would be central to this.

Mboweni spoke mysteriously about "mechanisms to encourage foreign investment," though "we do not see foreign investment as a panacea." He talked of "huge surpluses in the JSE — which I don't want to

FM 20/7/90 (49)

bring down by what I say — involved in a paper chase." He also repeated the ANC position that the burden of taxation would be shifted off the poor "in an equitable way."

Since the workers of southern Africa have contributed a great deal to the development of the economy, ways will have to be found to enable the regional economy to compete internationally, according to Mboweni. He added that "there is a debate going on in Lesotho about whether to federate" with a new SA. Could this mean that the ANC accepts, at least in principle, the idea of federalism?

The Free Market Foundation's Leon Louw questioned the idea of breaking up conglomerates and spoke of hysteria over the alleged concentration of capital. Breaking up big companies would reduce SA's competitiveness even further, he said, "and in any case our conglomerates are tiny compared to world players: each of Japan's five major banks is bigger than the SA economy."

Louw said a better way to "redistribute productive assets" was by deregulation to open up opportunities for people. He cited the black taxi industry and explosion in the informal, unrecorded sector.

Cosatu's Alec Erwin said that in restructuring the economy, the challenge — particularly to business and Leon Louw — was to beware of dogma. He argued for a more flexible approach to overcome the inequalities of apartheid and to build an economy that was more "democratically regulated."

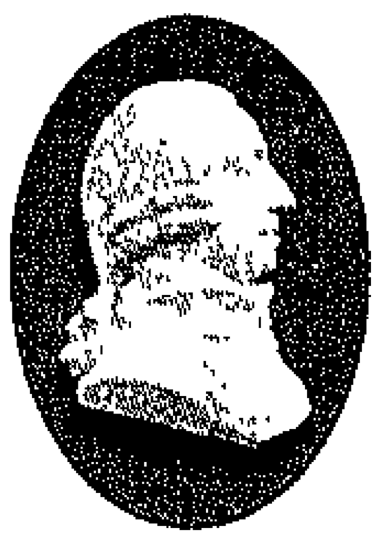
The economy has strengths and weaknesses, said Erwin. Among its strengths are the fact that in many ways we don't have to start from scratch and we are well-endowed with exportable commodities. Weaknesses include high unemployment, a housing shortage and widespread poverty; black education and health are in tatters. Economic reconstitution for a new growth path will require a "package of policies" which must include skills training.

Markets, said Erwin, tend to under-invest in certain activities, like health and infrastructure; the market doesn't respond to people who can't pay, and over-invests in other areas.

Louw disagreed, offering to take anyone to places like Winterveld where they could see the success of "little" people in endeavours like road-making and electricity provision using generators bought at hypermarkets. "The market will provide these needs better than any State," said Louw. ■

The new revolution

■ After 200 years the world still turns to Adam Smith's seminal ideas



Adam Smith's view that economies worked best if market forces (the famous "invisible hand") were given the fullest play has inspired at least one free-market revolution before today's. That was the move in the UK towards free trade and cuts in tariffs and other indirect taxes under Peel and Gladstone. Gladstone in particular took great pleasure in pointing to the extra revenue he would obtain by cutting tariffs — the same argument used by Reagan and Thatcher for their cuts in the top rates of income tax.

Over a century or so from that first supply-side revolution, the prevailing view of economists and politics threw over Smith's principle and became progressively more interventionist, culminating in the central planning of the communist world and the corporatism of many Western economies.

Politicians thought that the free market was too brutal in social terms. Economists also thought that if markets could fail to reflect social costs and benefits, governments could remedy this failure by intervention. After the Great Depression and Keynes's General Theory they thought that governments also should intervene to reduce unemployment, the worst market failure of all.

Marxist governments simply took this logic further and, therefore, provided it with its starkest test. In defining the social good solely by reference to the will of the Communist Party, they justified to themselves the harsh repression needed to induce recalcitrant self-seeking individuals to produce this social good.

What has caused the latest swing in thinking back to Smith's free-market principles? Interventionism has failed in three ways: politically, economically and intellectually.

Politically, the cost in freedom has been impossible to bear. This is most obvious in states which have employed the brutal instruments of mass repression, but it has been true elsewhere, though more subtly, where mere corporatism has reigned; there, high tax rates and the red tape of the nanny state have caused a revolt among ordinary citizens.

Economically, planned or partially planned economies have failed to deliver goods and services as efficiently and innovatively as free-market economies. They have also been prone to inflation — either overt in the case of Western economies with excessive government that has craved the monetary printing press, or suppressed (showing in the length of the queues) in the totally planned ones.

Intellectually, there has been a counter-revolution against the economies of market failure. Economists have begun to understand how rational economic man is capable of using information efficiently to remedy supposed market failures.

New markets are created to fill "gaps" in potential trade (options are an example). Firms can expand vertically and horizontally to "internalise" costs and benefits that they generate in the economy at large, which otherwise they would not properly take account of (causing social inefficiency). The environment will be properly looked after if people have clear property rights in it, as ruining it directly affects their pockets.

In general, practices and institutions evolve under capitalism, as the Austrian economist Friedrich von Hayek has explained, to deal with changing economic problems.

As for unemployment, that is seen nowadays to come about because of government intervention itself. Government sets minimum wages, gives unions power, regulates work conditions and provides unemployment benefits. In the absence of these, workers would bid down wages and bid up productivity until those who wished had jobs. In the presence of so much regulation, they are less willing to do so and unemployment results.

On this analysis, there is no need for extra government spending and monetary injection to stimulate jobs: indeed these will not succeed, merely producing inefficiency and inflation. Instead, government should reduce intervention as the source of the problem.

Finally, economists have rediscovered "government failure." In the old days this was called corruption; nowadays it is dignified as a branch of economic theory, "public choice," to which the American economist James Buchanan has drawn attention. Civil servants and politicians, even the quite incorruptible, are people who respond to incentives like others. These encourage them to take decisions which may well not coincide with the disinterested correction of market failure; in particular they may be induced to offer electoral bribery of key voter or vested interest groups.

If this is the origin of today's return to Smith's free-market principles, what results has it had to date and what are the prospects for the economies now universally adopting them, as we approach the 21st Century?

Some might claim that these modern economies are far from Adam Smith's vision, with large government spending programmes and a high degree of regulation. But Smith was, in fact, a highly pragmatic promoter of free markets. He laid stress on the need for morality in economic affairs as well as family ones and he was deeply concerned about the unscrupulousness of businessmen in overturning fair competition.

Government had, he thought, a major regulative role in policing business morality and maintaining a level of competitive playing field. He was certainly no libertarian, nor was he confident that business left to itself, as urged in the industrial Chicago and Austrian schools today, would give the consumer good value through innovation and "creative destruction" — in Joseph Schumpeter's famous phrase.

What Smith would have thought of comprehensive schools and the National Health Service we do not know, but he probably would not have disapproved. He certainly would have approved of State spending on infrastructure.

So the modern Western state, apart from a few near-socialist exceptions such as Sweden, is fairly close to the spirit of Smith's percepts. Some, including Thatcher's government, want to go rather further in deregulation and private control than Smith might have wished. And we may well discov-

THE FOUNDING FATHER

Minford

Adam Smith, the father of economics and author of *The Wealth of Nations*, died in Edinburgh on July 17 1790. On Monday and Tuesday this week some of the world's most eminent economists and Nobel Laureates gathered there to present papers on his teachings.

They included Paul Samuelson, Lawrence Klein, Franco Modigliani, James Buchanan, Maurice Allais, Theodore Schultz, Sir Richard Stone, James Tobin, Wassily Leontief and Jan Tinbergen. Their papers are to be published by The Institute of Economic Affairs.

The *FM* asked Patrick Minford, Edward Gonner Professor of Applied Economics at the University of Liverpool and a member of the advisory council of the institute, to assess the importance of Smith's ideas today — especially for a country emerging as we are from the central planning of apartheid. Minford addressed the *FM*'s Investment Conference in Johannesburg in October on "The Lessons of Thatcherism."

(49) FM 20/7/90 (49)

er from such experiments that still narrower limits on State power are desirable.

But the bulk of the changes are well in hand. Tax rates have been cut in many countries, both on personal incomes and on corporations. Privatisation has become an international fashion and deregulation is now the norm. Where State programmes are unavoidable, the Thatcher government has created or devolved agencies as far as possible, operating with agreed performance criteria at arm's length from politicians. These attempts to create private incentives within the public sector parallel other attempts to combine regulation with private ownership, as in the recent privatisation of water.

In eastern Europe, the race is on to move to free markets, the difficulties of transition from having virtually none being obvious. The question is how best to introduce markets without economic collapse meanwhile. The experience of Thatcher in her step-by-step approach to Britain's not dissimilar problems shows that effective progress does not have to be by a "Big Bang."

In SA, there has been rapid change, inspired by the same thinking. Apartheid was part and parcel of a refusal to let market forces prevail. It had the same political effects of similar market repression in the communist regimes of eastern Europe.

It is too soon to proclaim the triumphant success of these principles in delivering newly effective economies. Political gains have been sooner to arrive, in SA as in eastern Europe. Incentives, by their nature, operating indirectly to improve economies through millions of dispersed market actions rather than directly by an impressive public act, are bound to take time to show their effects.

Nevertheless, there are signs. In Britain, 10 years after Thatcherism began, though there are still problems with inflation and excess demand, there has been remarkable progress in boosting productivity growth and industrial profitability; inflation has been tamed if not defeated; and unemployment has fallen below 6% with no evidence of the serious overmanning of the late Seventies when it was last around that rate.

Can Smith's principles, revived and adapted as they have been and will continue to be, survive into the 21st Century or is this just another of the recurring cycles of individualism versus State control, liberty versus authoritarianism?

We have enough evidence from the 20th Century to be confident at least that central planning is a failed experiment, that it cannot digest and use the mass of information required to make a modern economy work and progress. Few people need convincing that private markets best handle the vast majority of economic activities. But there remain areas where we are less sure: the environment is the major one today.

To ensure that environmental costs are fully reflected in private decisions requires either that property rights are defined on all relevant aspects of the environment or that taxes are levied at appropriate rates. Even if the property rights route is chosen, the State has to play a large role: most rights can only be exercised collectively, whether locally (green fields), nationally (national parks, trunk roads) or internationally.

The democratic process has to simulate markets (the political markets) for decisions like these, thrust more and more on today's complex global economy. But there are ways of bringing actual market forces to bear as well: for example, auctioning planning consents and trading pollution quotas.

So there is likely to be no return to complete laissez-faire. And there will certainly be no regression back to the discredited ways of planning or corporatism, We are instead involved in Hayek's evolutionary grouping, within the "extended order" of capitalism, towards ways of handling these new challenges that maximise individuals' consent.

Countries like SA that are at the sharp end of political and economic change can have confidence that the market system they are embracing is the best we know of, well supported by evidence and modern economic thought. This does not dispense with the need for political prudence in the difficult transitional process: the art of knowing when it is better to "bear those ills" we have than fly to others that we know not of.

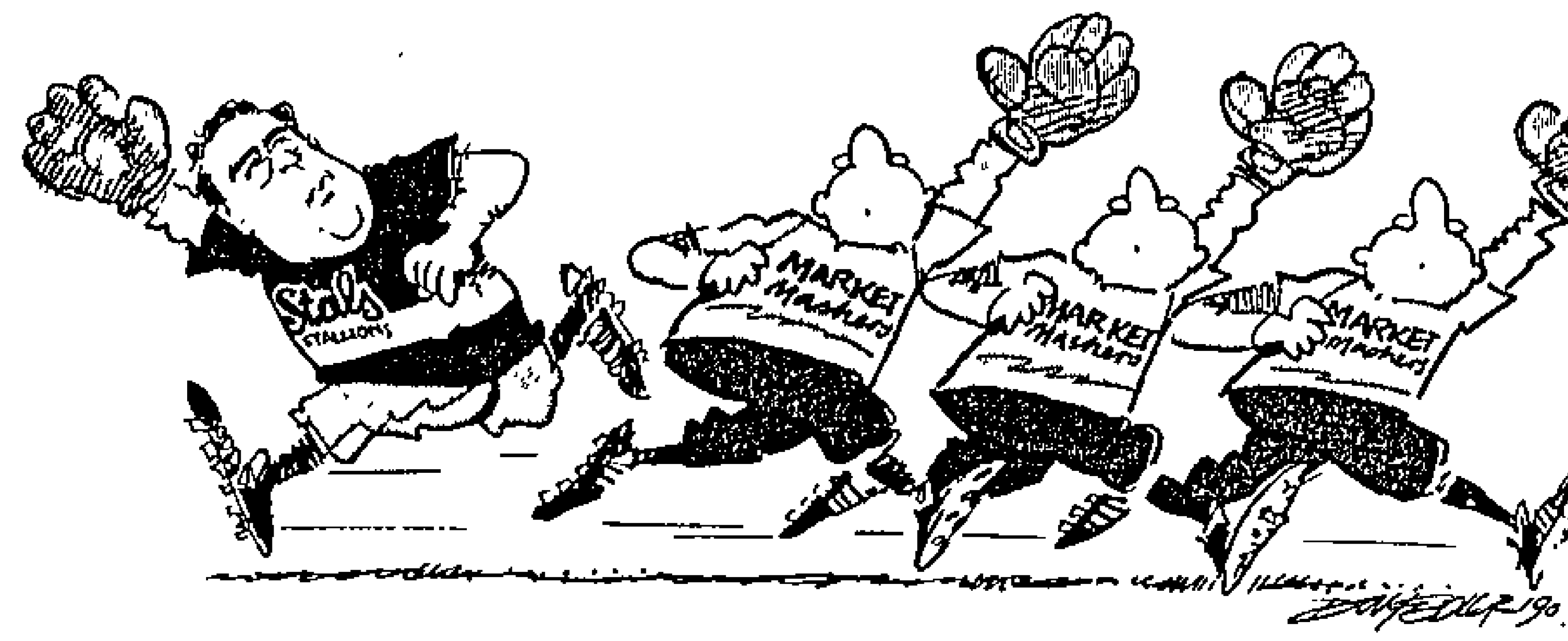
The direction is clear and irreversible. ■

FM 20/7/90

MONETARY POLICY FM 20/7/90

Way out in left field

(49)



Since Chris Stals took over as Reserve Bank governor last year he has doggedly sustained a policy of positive real interest rates. Consistency has been one of the main weapons in his armoury of monetary policy instruments — half the battle against inflation is countering expectations.

Rand Merchant Bank chief economist Rudolf Gouws says: "The Bank must establish the credibility of its new policy. It must look more at the long-term situation than worry about cyclical considerations."

However, with prime at 21% since October, and monetary policy showing signs of success, Stals is coming under increasing pressure to allow Bank rate to fall. Businessmen, who fear continued high interest rates will lead to a severe recession, argue confidence in the economy is more important than the credibility of the Bank.

They point to increases in liquidations and repossessions, static or declining orders, lower production and sales volumes in many sectors, and a slump in gross domestic expenditure — down an average of more than 4% (seasonally adjusted and annualised) in each of the four quarters to March.

Nedcor CE Chris Liebenberg says: "Business confidence has really taken a turn for the worse in the past few months, due largely to various political statements. Stals may have to move sooner than economics dictate." By switching into longer-term investments, money market participants are predicting this view will prevail. The recent fall in the rate for bankers' acceptances, the key market rate (see "Bull hug"), as well as the fall in the Treasury bill rate to its lowest since October, show the market is gearing for a fall — possibly as early as next month.

They may have moved prematurely.

Stals is likely to stick with his policy. There are important indications the downturn in economic growth is not nearly as sharp as the slump in gross domestic expenditure indicates.

In the latest Old Mutual *Economic Monitor*, chief economist David Mohr points out growth in real final private demand (private consumption expenditure plus gross domestic fixed investment), though decelerating, remains positive (see graph).

"Real final private demand is a better indicator of the underlying trend and, given the balance of payments demand, the economy probably has to cool further." He adds the discrepancy between the two indicators is due to a drawing down of inventories.

These were excessive because of buoyant expectations last year. Goods sold from these inventories are reflected in present final demand but were included in gross domestic expenditure in previous accounting periods.

Mohr argues also that seasonally adjusted annualised GDP declines in the fourth quarter of 1989 and the first quarter of this year (-1,7% and -1,4%) do not accurately measure economic activity because they are distorted by the poor performance of agriculture and mining. These sectors responded to exogenous factors like international commodity prices and, in the case of agriculture, to the weather. So, though the drop in revenue is relevant to future growth, it is not a reflection of demand in the economy.

Finally, he says, inflation has dropped only about one percentage point in the past eight months and inflationary pressures remain strong. Wage and salary increases in both the public and the private sectors are estimated at about 17% so far this year.

UBS economist Hans Falkena's latest *Economic Perspective* says: "Bank rate must be 4%-4,5% in real terms to have impact ... which means maintaining the 18% nominal rate until well into 1991."

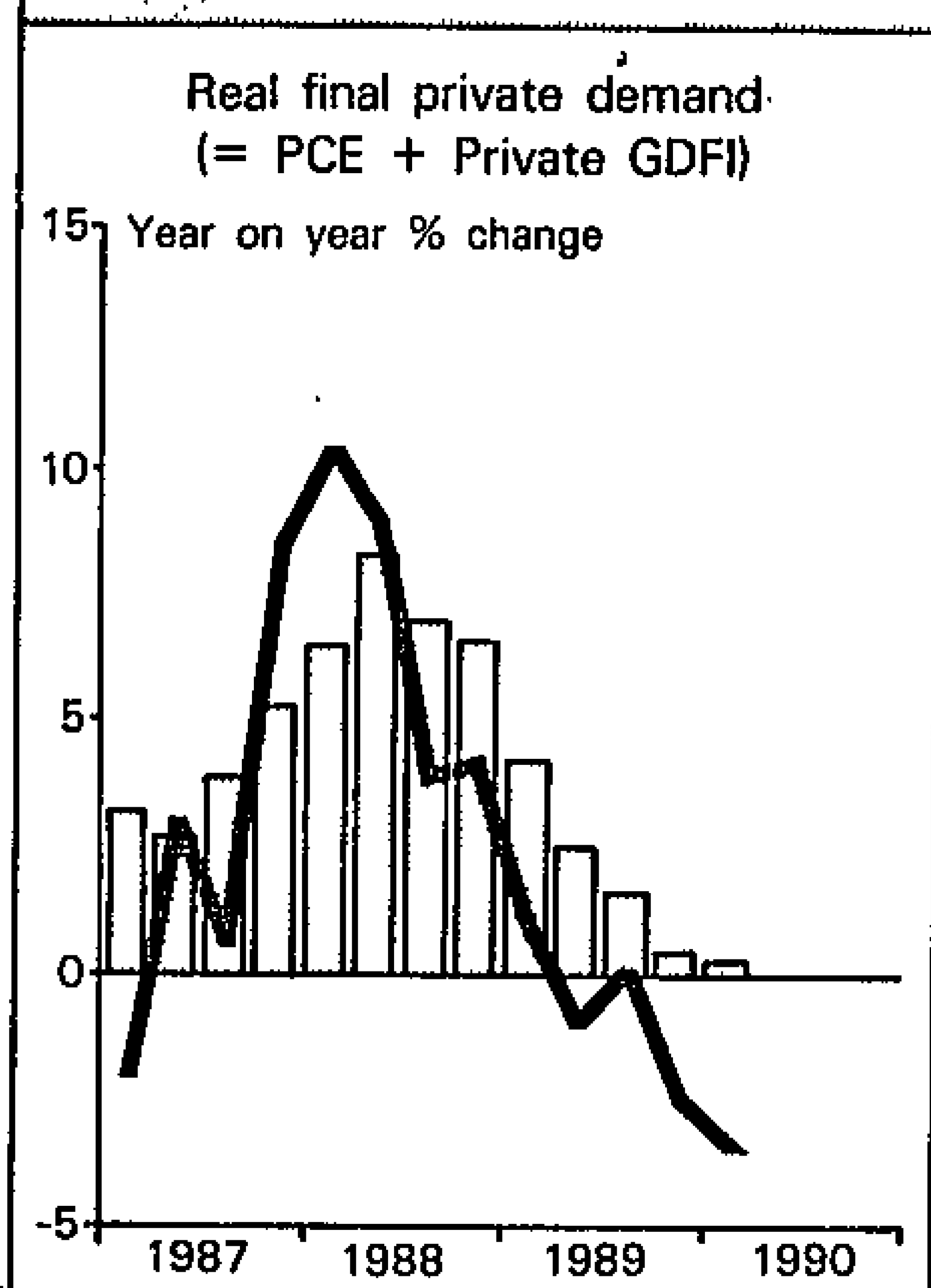
Money supply growth, though decelerating from a 1988 peak of 27,5% to 19% in May, is still well above the inflation rate. Success will be achieved once growth falls into the Bank's 11%-15% guidelines.

Apart from reducing inflation, tight monetary policy aims to replenish foreign exchange reserves. After rising to US$2,3bn (less than two months' worth of imports) in February, reserves fell to just under $2bn in June, as debt repayments in the first half-year were only partially offset by increased flows of short-term foreign capital.

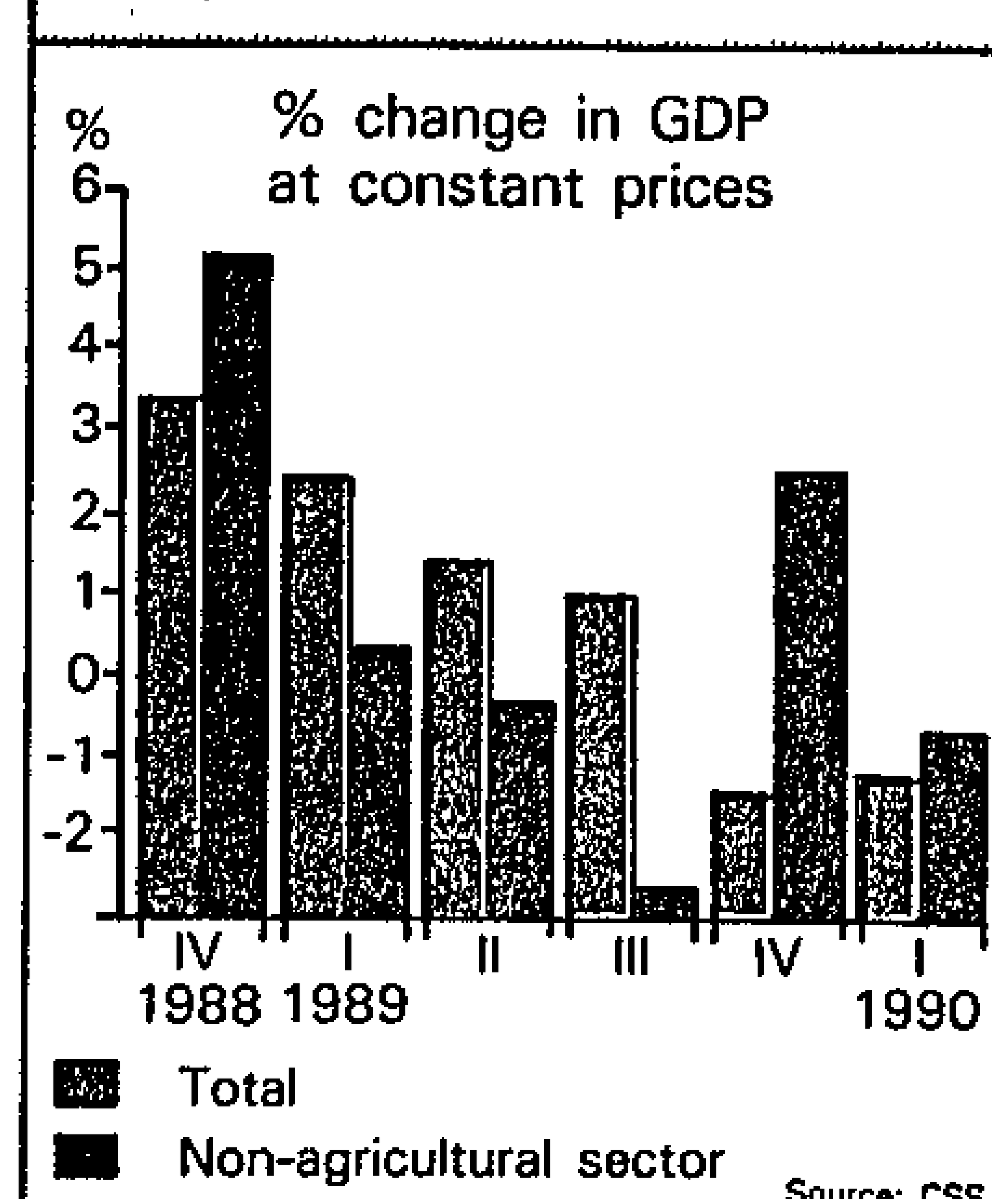
Debt pressure will ease in the second half-year, with only $600m to repay and greater access to foreign funds, but the recent slump in the gold price has complicated matters. Despite an 18% fall in imports since the second quarter of 1989, the trade surplus narrowed considerably in the three months to May, averaging R1,1bn a month, compared to R1,5bn in the previous six months.

Mohr estimates a trade surplus of about R1,4bn a month is needed for the rest of the

Taking the gap



The farm factor



P.T.O.

Heavy sales of govt stock

(49)

GRETA STEYN

HEAVY sale of government stock was a feature of monetary policy in the first months of the new fiscal year, with comfortably more than half of government's borrowing requirement already raised from the capital market.

According to figures provided by Reserve Bank Deputy Governor Chris de Swardt, the Bank has sold stock amounting to R3,5bn in the first three and a half months of the new book year. The funding requirement for the year, on a cash basis, is R5,2bn (including roll-overs of R3,8bn).

The nominal or face value of the stock sold so far amounts to R4,6bn.

Asked how the borrowing exercise had tied in with monetary policy, De Swardt said: "As in previous years, the marketing of government stock during the first quarter of the financial year assisted in offsetting the seasonally high level of government expenditure."

The usual liquidity injection because of high government spending in the first quarter was moderate compared to previous years. The latest exchequer figures show government spending in the first quarter was a little below Budget — only 24% of the total was spent and the increase from last year was only 6,6%.

Another feature has been an increase in money market borrowings by selling Treasury Bills (TBs). The amount of bills on offer at the weekly TB tender has been increased to about R100m from R70m, most importantly because of the strong demand for liquid assets and the fact that the TB had hardly been used as a monetary policy instrument since April 1988.

Banks are experiencing a dire shortage of liquid assets which they need if they want to receive cash from the Reserve Bank's discount window. Bank rate, currently 18%, is the rate at which TB's are rediscounted for cash at the window.

● See Page 3

BD 10/7/90

'Labour costs limit fall in inflation'

Cape Times 20/7/90 (49)

By AUDREY D'ANGELO
Business Editor

INFLATION should continue to fall in the second half of the year, Old Mutual chief economist David Mohr says in his Economic Monitor. But the extent to which it comes down will be limited by rising unit labour costs.

He thinks there is little chance of the problem improving significantly.

"Unit labour costs have increased strongly since the end of 1988 and are currently running at a year on year rate of just under 20%", he explains.

"Given still high wage pressures in a slowing economy, this upward trend may persist for some time.

"As a result of these cost pressures we still think it unlikely that the consumer price index (CPI) inflation rate will decline to below the 10% level (if that) over the duration of the present economic downswing."

Forecasting that inflation will rise again in the longer term, Mohr continues: "The rising demands — particularly from the public sector — on an economy faced with constraints such as a low rate of expansion of the production capacity, shortages of skilled labour and an ongoing requirement to transfer real resources abroad through debt repayment, do not favour meaningful declines in inflation in the longer term."

But, he thinks, positive real interest rates combined with fiscal discipline should keep inflation in the historical range of between 10% and 15%.

Discussing interest rates Mohr, like most other economists, now thinks short term rates will not come down before the end of this year or possibly until 1991 unless there is a serious rise in unemployment.

"Although it is a prerequisite, the slowdown in economic activity is not necessarily a sufficient condition for a fall in short term interest rates.

"In the final analysis, the timing of a decline in money market rates is a monetary policy decision and the major considerations in this regard are the replenishment of the foreign exchange reserves and the curbing of inflationary pressures.

"It is unlikely that the short-term state of the real economy will play a major role in this decision unless the unemployment situation shows a marked deterioration."

Mohr thinks longterm rates could resume their downward trend later this year. But, he warns: "Foreign participants could again play a decisive role in determining the direction of capital market rates.

"Should foreign perceptions regarding the domestic political and economic climate become more negative, foreigners might become large net sellers of domestic capital market assets, thereby retarding any possible fall in longterm rates."

He is concerned about the effect of lower commodity prices including gold, and deteriorating terms of trade for SA.

He points out that SA's terms of trade (export prices divided by import prices) have been deteriorating since the end of 1988.

"SA's exports are highly concentrated in commodities such as gold, coal, platinum and agricultural products. A fall in the prices of these commodities therefore implies a decline in exporters' income, which accounts for more than a quarter of domestic economic activity.

"If, at the same time, importers are paying more for goods (particularly investment-related goods such as machinery and equipment, the demand for which is relatively insensitive to price changes) business conditions in a large segment of the economy may deteriorate to such an extent that the country as a whole experiences a relative decline in welfare.

"This effect on the corporate sector is presently compounded by the fact that businesses are being squeezed by continued high wage demands and other labour problems.

"In addition taxes paid by this sector, excluding mining, virtually doubled over the past two fiscal years."

Mohr says that international commodity prices are expected to weaken further this year, as economies continue to slow down. This means that a further weakening of the terms of trade is likely this year.

"Unless this trend is offset by a meaningful rise in export volumes — which is unlikely in view of the slowdown of world economic grwoth — or a marked depreciation of the rand, which the authorities are reluctant to permit, this means that monetary policy will have to remain tight in order to curb import growth and ensure that the current accounbt position remains manageable.

"This, in turn, will delay the onset of the next cylical upswing in economic activity."

W/Mail 20/7-22/7/90

Govt debt has risen 32-fold since 1960

(49)

OVER the past three decades the outstanding nominal value of central government debt has risen 32-fold to R81-billion.

Focusing on government debt in Old Mutual's latest Economic Monitor, analyst Ursula Maritz said central government spending grew rapidly from R847-million in 1960 to R65-billion in 1989 and was financed largely by a sharp rise in the tax burden as well as borrowing on the local capital market.

"Although the absolute level of debt increased, expressed as a percentage of GDP it actually declined from 47 percent in 1960 to 32,1 percent in 1989, confirming the fact that the taxpayer rather than excessive deficit financing had borne the brunt of financing this increase. It also demonstrates how the real value of the outstanding debt has been eroded over time by high inflation."

Maritz said it was clear from these figures that the present ratio of government debt to GDP was not excessive by local historical standards. — Sapa.

Selected nationalisation only, says ANC expert

ST 23/7/90 (49)

DURBAN — The question of certain important sectors in South Africa being nationalised would have to be given serious thought, Alec Erwin, trade union leader and executive member of the African National Congress, said yesterday.

Addressing more than 1 000 people at the first public meeting of the Umgeni North Committee of the ANC in Greenwood Park near Durban, Mr Erwin said strong consideration would have to be given to the future of sectors such as electricity, sewerage, education and health.

He said most people knew little of the South African economy or of nationalisation.

The country's problems could not be solved by taxing the rich and giving to the poor. If a new government or state was thinking of that, it would go bankrupt.

"Only certain sectors would have to be considered for nationalisation."

South Africa had a wealth of minerals for the benefit of everyone, he said.

At the same meeting, longstanding anti-apartheid activist Billy Nair questioned the recent countrywide detentions of ANC members.

He said the Government had identified certain right-wing bombers, but he felt it strange that they were released or out on bail while ANC members were being arrested.

"Since late last year the ANC has not been involved in any attacks or bombings. So why are we being detained?" — Sapa.

Rally call for nationalisation

(49)

Stov. 23/7/90

MDANTSANE — Freedom for South Africans would mean nothing unless certain sectors of the economy were nationalised, the secretary-general of the National Union of Metalworkers of South Africa (Numsa), Moses Mayekiso, said yesterday.

Addressing more than 50 000 people at the Sisa Dukashe Stadium, he said there would have to be a restructuring of the economy to address the imbalances of apartheid.

He was speaking at an ANC rally held to present the deputy president, Nelson Mandela, with a new Mercedes Benz 500 SE built by Numsa workers.

SA's economic future as seen by the PAC

SIPHO Tshabalala's book, *"An Africanist view of economic emancipation"*, has been released and is available from leading booksellers. It sells for R9,95, excluding GST, and is published by Skotaville.

The book represents one of the PAC's views on the country's future economy and will be used as a base for discussions on the economy at their congress in October. Sowetan 23/7/90

Tshabalala is deputy director of the economic affairs in the organisation and a lecturer in economics in Zimbabwe.

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The book also has a policy statement by Robert Mangaliso Sobukwe on the launch of the PAC in 1959. The foreword is written by Zephania Mothopeng, president of the PAC.

(49)

DP needs to design system to bridge economy choices

Political Staff

THE Democratic Party had to take the lead again to arrest economic deprivation and establish a just economic dispensation in South Africa, the MP for Pinelands, Mr Jasper Walsh, said at the weekend.

"South Africa reflects economic affluence for the few and relative deprivation for the majority," he told the DP's Free State congress in Bloemfontein on Saturday.

"This in turn is reflected in the choice of economic systems: The whites prefer unfettered free enterprise or capitalism; the blacks, a greater degree of socialism."

Mr Walsh said the role of the DP was to design an economic system which bridged this position.

Essential elements of such a system included political freedom, equality of opportunity and an effective market system within the constraints of a social conscience and a healthy environment.

The state's role should be limited to its developmental and regulatory responsibilities and the provision of services not found in the private sector.

"The DP recognises that the current paltry economic growth rate is largely a result of National Party economic mismanagement.

"Additional social expenditure can be financed, not by increasing taxation, but by achieving levels of economic growth of which this country is capable," Mr Walsh said.

The DP had established a committee to develop an economics policy for ratification at its September congress.

Reserve Bank to maintain policy for 'some months'

(49)

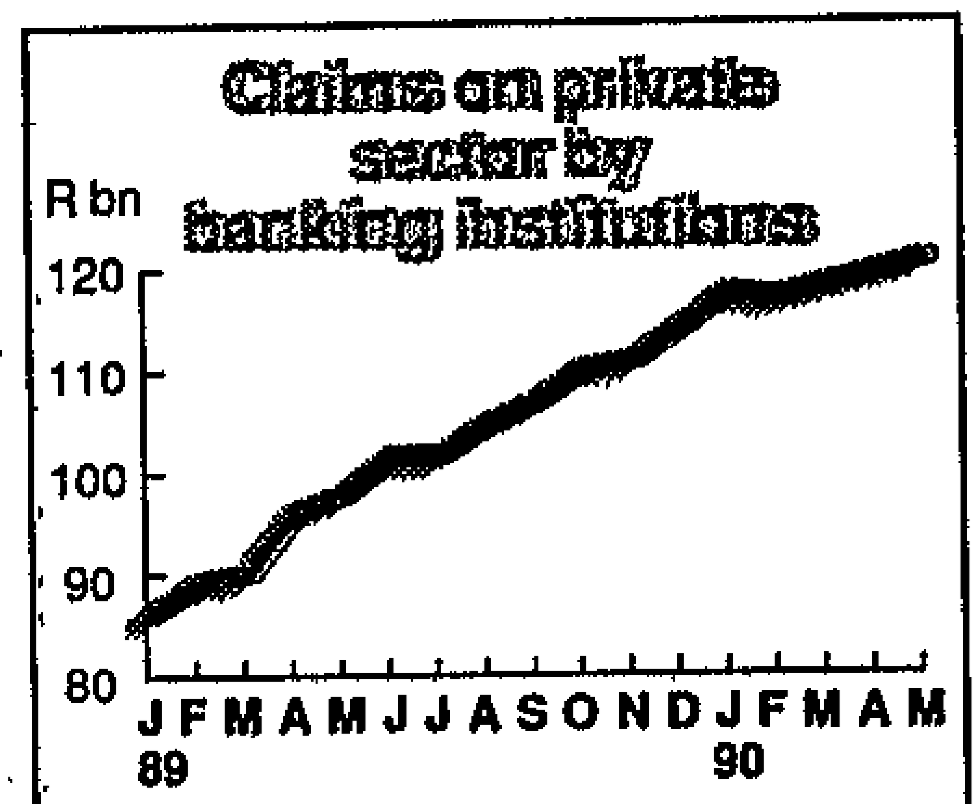
BDay 25/7/90

ANDREW GILL

THE Reserve Bank was satisfied with the progress being made with various economic indicators, including money supply, but the trend would have to continue for some months before any changes were made, Reserve Bank economic head Jaap Meijer said yesterday.

Credit figures released on Monday, along with the sharply lower money supply growth statistics, indicate credit growth continued to slow down, but was still above the Bank's 1% growth per month guidelines.

Monetary institutions' claims on the domestic private sector increased by 1,2% to R149,2bn in May from R147,4bn in April.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Sharply higher net claims on the government sector of R2,07bn from R528m saw total credit extended increase by a relatively high 2,2% to R151,3bn.

Banking institutions claims on the domestic private sector increased 1,1% to R121,1bn in May from R119,8bn in April.

The composite index of leading indicators, which serves to indicate future economic activity, fell back in March to 109,2 points after holding up at higher levels in January and February.

It stood at 111,2 points in February and 111,4 points in January.

Government's deficit before borrowing decreased in the three-month period to June to R3,18bn from R3,4bn in the two months to May.

However, the deficit is on line to exceed the budgeted R7,994bn for the fiscal year.

One of the areas to show resistance to the tight monetary policy of Reserve Bank Governor Chris Stals was an increase in building societies' mortgage holdings of R322m in May compared with R131m in April.

Prospects for '90s still good, says economist

B/Day 25/7/90 (49)

SA CAN expect major economic progress in the '90s despite the need to still achieve a rapidly growing and stable economy, Standard Bank chief economist Nico Czypionka said yesterday.

In his address to the annual Fedhasa Congress in Johannesburg he said SA was on the correct road after a frustrating period which had lasted 40 years politically and two decades economically.

The country's annual economic growth rate since 1975 had been less than 2%, and for the period 1982-89 little more than 1%.

"The harsh reality is that our average real per capita incomes, or living standards, in SA are now back more or less to where they were some 20 years ago," he said.

Czypionka said the change in SA's economic and social policies occurred before the advent of sanctions.

"The changes which have come about appear substantial enough to facilitate the urgently required lifting of the economy's longer term growth performance closer to its true potential of some 5% annually."

ACHMED KARIEM

However, this kind of growth was not in prospect for 1990 because the economy needed to undergo a cyclical slowing to reduce inflationary pressures.

SA was now technically underborrowed due to the reduction of amounts owed to international financial markets. While SA's foreign debt was reduced by 20%, Australia had seen its foreign debt nearly treble to A$110bn since 1985.

SA's modest growth was hard earned, with GDP increasing by 2,1% in 1987 and 3,7% in 1988 before easing to 2,1% last year.

Czypionka referred to the late Reserve Bank governor Gerhard de Kock, who said that with neutral capital movements (inflows matching outflows over a period) growth could move up to 3%, and a healthy growth rate of 4% or more could only be achieved with large net flows of foreign funds and technical expertise.

However, access to world capital markets was not sufficient.

Nationalisation 'will be a crime' (49)

ROBERT GENTLE

ISCOR chairman Marius de Waal and Eskom Electricity Council chairman John Maree yesterday launched a scathing attack on nationalisation and called for stepped up efforts towards deregulation and, ultimately, privatisation.

They were addressing senior business personalities at a seminar entitled The Challenge of Change organised by chartered accountants Deloitte Pim Goldby.

De Waal, who is also Transnet chairman, said nationalisation was an issue "we dare not keep silent on".

It led to overemployment, reduction in capital productivity, the indiscriminate exploitation of raw materials, bureaucratic interference, demotivation of good management and ultimately a brain drain.

"To nationalise a company which previously has been a state corporation but is now holding its own against tough competition and is making a solid contribution to GDP will be a crime against the country and all its people," he said.

De Waal described as nonsense claims that Sweden was a viable example of a socialist economy. Sweden thrived because of its "solidly ingrained free market system", with the resulting wealth being redistributed through taxation.

Supporting De Waal's views on nationalisation leading to overemployment, Eskom's Maree cited the example of the electricity giant's productivity gains despite the workforce decreasing from 66 000 five years ago to 50 000 today — and hopefully to 40 000 within "a couple of years".

The new SA depended on embracing the challenge of change while strengthening the modern sector of the economy.

He said Germany's and Japan's greatness was not created by politicians or armies, but by businessmen. "Businessmen create wealth. Politicians spend it."

Maree and De Waal emphasised that privatisation was the least important element of the much wider process of deregulation and commercialisation.

Business must be sensitive to black economic priorities

B/Day 25/7/90

49

PETER WRIGHTON

WE ARE now nearly six months into the changing South Africa which President F W de Klerk ushered in on February 2. Much has happened in this period, but for the business community it is the debate on the nature and form of the post-apartheid economy which is perhaps the most urgent of all issues.

While there is doubtless a long way to go before a political settlement is in sight, we have witnessed fairly rapid progress in that area, with hitherto sworn enemies apparently finding that they do have much in common after all.

Unfortunately, the same cannot be said of the economic debate, which has been characterised by sloganeering and rhetoric that has clouded the real issue, done nothing for the confidence of business people, and left black political organisations wondering whether the free enterprise system has the capacity to meet this country's unique challenges.

The emergence into public life of left-of-centre political organisations with their own economic agendas — with nationalisation apparently at the heart — has been met with quiet rejection at best, utter disbelief at worst. While the business community's reactions are perhaps understandable, they do not reflect a full appreciation of this country's history nor of the challenges which lie ahead.

The opening shots from the ANC and other black political organisations signal only the beginning of the debate on the post-apartheid economy and not its end. We need to be careful that rejection of failed centrally-planned solutions is coupled with creative proposals on how best we can build a post-apartheid economy that has a material relevance for all South Africans.

To start with, we in business must accept the interdependence between political and economic freedom and enfranchisement, and the implication that, unless the economic challenges are effectively addressed, the stability of any future political settlement could be at stake.

If we acknowledge that political change alone will not lead to socio-economic justice overnight, we must commit ourselves to addressing society's imbalances. It is true that business would have to play a broader role than many think ideal, but the reality is such that if we fail, the future of SA can only be one of economic stagnation, if not deprivation.

Perhaps it would be useful to approach the issue by reviewing some of the facts against which the ANC and others have based their economic proposals. For instance:

- Some 83% of whites earn more than R16 000 a year, while only 5% of blacks are in the same position;
- As little as 5% of South Africans own 88% of the wealth, and the vast majority of the 5% are white;
- Blacks own less than 2% of assets;
- Depending on the region, between 30% and 70% of black children are under weight;
- Some 7,4 million blacks occupy only 400 000 home units, with an average of 16 people per unit;
- Up to 40% of the employable community is unemployed or underemployed and more than 95% of the unemployed are black;
- About 65% of black households earn incomes below the breadline; and
- More than 80% of the population has been allocated less than 15% of the land.

It is against this background that statements on the economy made by political leaders within the ANC, PAC and other organisations — including the DP — should be seen.

WRIGHTON

This is the reality with which those organisations have to contend. Their support comes from disadvantaged communities isolated from the political and economic mainstream.

The solution to the apparent impasse is not to get locked into a directionless debate which exacerbates the polarisation through the adoption of crude capitalist versus socialist positions, but rather to seek common ground from which a more constructive debate might follow.

The interdependence of the various interest groups, from government and business to community and labour, provides an ideal starting point. This interdependence stretches across every aspect of life and must enable us to develop an economy which assures maximum growth, while at the same time distributing wealth and income fairly.

We need to understand that black political organisations will be expected to deliver economically in a post-apartheid SA, while business needs a post-apartheid government to create the economic freedom necessary for it to fulfil its role as a creator of wealth. Somewhere between the two positions is a community of interest which we have to develop and nurture.

Thus the creative challenge to business and government becomes one of understanding the context and motivation for nationalisation and then of exploring and offering alternative means and methodologies for redressing the imbalances.

There are encouraging signs that the middle road, of seeking to understand the other's point of view, is the one that more and more of us are starting to travel on. Business Day has become an important vehicle for the debate.

However, it is important that the debate seeks to open doors rather than keep them closed; it must create an environment in which we can all overcome past prejudices rather than reinforce them.

Commentators, particularly those who are highly regarded by the business community, therefore have the weighty responsibility of not inhibiting the process of change by painting unnecessarily pessimistic scenarios or by quoting outdated statements made during an earlier phase.

On a more practical level, the recent business/ANC Carlton conference convened by the Consultative Business Movement was a successful start to exploring common objectives of a post-apartheid economy.

The issue of black management demonstrates the importance of developing consensus with those who are affected by the creation of a new economic order. The management/worker ratio in 1988 stood at 1:60 and is expected to rise to 1:110 by 2000, while the desired ratio is 1:25.

In general, business has not devoted sufficient attention to the question of black management advancement. Where it has, black managers have often found themselves in the invidious position of being caught between fulfilling management functions and satisfying black community demands. While business must move boldly to address the question of black management advancement, this can happen only if the black community supports such an initiative.

The development of black managers and entrepreneurs can succeed only if they are perceived in their communities as role models rather than as sellouts.

One of the challenges business must accept is that it cannot underestimate the role it can play in restructuring the economy. Companies can influence events internally and business generally can play a role through a commitment to socio-economic initiatives in the community.

The workplace brings together the full spectrum of SA society and is, therefore, an ideal forum for sensitising people to change. Opportunities for reaching each other occur every day — on the shop floor, in board rooms, in staff canteens. All of us must seize these opportunities if we are to attain a future that has something for everyone.

Wrighton is Premier Group chairman and Transvaal regional chairman of the Consultative Business Movement.

R6-m for Natal unrest areas

DURBAN — The Government is to contribute R6 million to reconstruction and rehabilitation in unrest areas in Natal. (114) Star 26/7/90

The Deputy Minister of Provincial Affairs and Planning, Tertius Delport, addressing about 60 businessmen, said yesterday that the money would be used for reconstruction of unrest areas in Natal and the rehabilitation of unrest victims.

He said that the contribution would be subject to peace being restored in the areas. — Sapa.

More jobs in free market, says judge

Sowetan 26/7/90

49

ONLY a free market economy will provide equitable redistribution of the country's wealth, says the Chief Justice Mr MM Corbett.

By ISMAIL LAGARDIEN

In a publication released recently by the South African Institute of Race relations, Corbett said that such a system would grow fast enough to create enough jobs and suggested that socialism was inadequate in this regard.

Referring to Eastern Europe, he said those countries proved that under socialism, the rich became poor and the poor poorer.

Corbett added that economic stagnation, poverty, hopelessness and unhappiness had been the hallmarks of socialism.

In terms of this argument, Corbett said: "What the new South Africa needs is not socialism, but an enlightened form of the free market system, which ensures economic growth instead of stagnation, efficiency instead of incompetence, the creation of new wealth instead of impoverishment."

All of this he believes: "Stimulates and harnesses all the creativeness, inventive genius, and spirit of enterprise which is to be found in the human race."

Corbett contends that only by means of the free market can the economy of the new South Africa grow sufficiently to create the jobs needed to provide the population with employment, economic security and domestic stability.

However, he said, "a goodly portion" of the wealth created by the free market should be ploughed back into society.

This would be for the upliftment of communities, the creation of minimum standards of living, the encouragement of entrepreneurship, education, housing, recreation and in general "redressing the social imbalances inherited from the past".

Inflation down, especial- in the year if the desired — Sapa

Economic growth seen as first priority for SA

Cape Times 27/7/90 (49)

Own Correspondent

JOHANNESBURG. — Redistribution of income was a function of economic growth in well-managed economies and not the reverse, as some influential people in SA argued, Standard Bank Investment Corporation MD Conrad Strauss said yesterday.

Addressing the East London branch of the SA Institute of International Affairs, he said those economies which had put economic growth as their first priority were performing best.

Both Taiwan and Korea, for example, had grown at a "breakneck" pace but had sharply reduced inequalities of income at the same time. Their successes arose from prioritising economic expansion on the realisation that the key to competitiveness was productivity.

The work ethic was an essential weapon in the race towards international competitiveness, he said.

Another had been a move from economic nationalism and protectionism to acceptance of mutual dependency, open international economic links and a guiding perspective of the world as one market.

"It is now understood that unduly heavy protection of domestic industry as a means to rapid growth in the long run is counter-productive. The home market becomes too attractive to potential exporters, prices rise and international competitiveness is lost."

But, he said, sub-Saharan Africa in 1985 accounted for 16% of the world's poor. "By the end of this century this will have risen to over 30%, representing 250m people.

"In the past decade, industrialised countries increased their real GDP by about 3%, developing countries by 4,3%. The corresponding figure for sub-Saharan Africa was 1%.

"In the same period, industrialised countries increased their export volumes by nearly 5% and developing countries by 6,1%. Sub-Saharan Africa's growth was zero," he said.

SA had performed almost equally badly — in real per capita terms it had grown steadily poorer since the early 1970s — but it had "sufficient dynamics" and a strong infrastructure to act as a catalyst for the revival of the region as a whole.

SA in general and Johannesburg in particular would probably become the region's "financial hub".

"The Development Bank of Southern Africa could become a regional development bank, serving not only SA but a new southern African economic community," he said.

The change now under way in this sub-continent was potentially "as profound and unsettling" as that of Eastern Europe.

"One would, however, expect that internal political legitimacy on the part of a new SA government would result in an end to the coercive diplomacy of the past and a move to a more collaborative posture.

"A commitment to an acceleration of economic co-operation could do much to reinforce and sustain this change."

Economic growth 'leads to wealth distribution'

b/day 27/7/90

(49)

SYLVIA DU PLESSIS

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Poorer

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According to Strauss, fields in which common interests could be exploited ranged from the financial, industrial and mining sectors through agriculture, medicine and education and transport to power generation.

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Joint effort the key to growth

B Day 27/7/90 (49)

MIKE ALFRED

SOUTH Africa needs to pursue radical new directions in planning for its economic future.

Given high expectations, population doubling by 2010, massive urbanisation and a creaking economy, our salvation can only lie in growth.

Political mismanagement has not only impoverished the state, but caused a mistrustful distance between government and business, and now lately, an outmoded but unfortunately sincere socialist economic rhetoric, which signals that only worse can follow.

What may the future hold?

Zimbabwe offers a possible clue. Ten years into independence, the Mugabe government is becoming more pragmatic.

Realising that business ultimately pays the bills, the hitherto "uneasy bedfellows" are talking and planning together.

Zimbabwe is not an African disaster and could become a major success story. But it has taken 10 years for white business and black politics to agree economic strategy.

Does that suggest that for SA a similar learning period, is inevitable?

If the answer is yes, then we face a further 10 years of economic chaos. If no, we might envisage one of two scenarios.

The first has it that some time in the future, when it appears that the negotiation process will result in black government, those governors-to-be will call a conference with business leaders. There they will announce the formation of a Wealth Council, which will oversee the creative economic management of the country.

The envisaged council will comprise a central body and regional subsidiaries embracing private sector business leaders, employer-body representatives, trade union representatives, and people from the giant service companies.

The council will be charged with forming a multi-disciplinary strategy group. Such a group will, within a given period, be required to present a blueprint for economic management and national growth through the co-ordination of the vast resources comprising the council.

Ultimately, the council would be responsible for implementing the plan; the strategy group would seek a broad range of local and international advice and present plans for making South Africa wealthy.

In detail, they will be asked to consider optimisation of economic and natural resources; GDP growth rates; adding value to raw materials; new business development and job creation; inflation control; international export marketing strategies; regional development both inside and outside South Africa; investment and aid strategies; productivity; business's social investment strategy; economic incentives; employment; and education and training for economic development.

The blueprint or "wealth paper" will be subject to a democratic process of review, from the strategy group to wealth council, wealth council representatives to their own constituencies (business and the unions, for example), wealth council to Cabinet; Cabinet to parliament and the people; and Cabinet back to wealth council.

Such a structure would give SA's major economic players an opportunity to use their expertise to cooperatively determine their own and the country's economic future.

Once the blueprint had received government's input and sanction those players would commit to managing a participative, as opposed to a command-structure, economy.

Wealth papers would be updated regularly calling for inputs from all.

Not only would government make its own requirements known to the council but the Head of State and the Minister of Wealth Distribution would have the power of veto over proposals.

Hopefully, due to an atmosphe of cooperation between the coun and government, the veto would s dom be used.

Would a new government, b tling at the injustices of a gro exploitative past seek, let alone low, such help from the villain former enemy? Surely it would be open invitation to being ripped Or, on the other hand, would it po bly be a major opportunity to sta process of meaningful recociliat allied to economic re-constructi

The second scenario assumes t a new government, for whate reason, will take no such initiati

Foreseeing that possibility, group of business and union leade will independently develop a weal blueprint for economic constituti which they take with them to t negotiating table.

If business envisages that it m have no place at the negotiatin table it had better ensure it.

Business is far too important a player to allow the future to be determined without it.

☐ **Alfred is a management consultant and author of The Manpower Brief.**

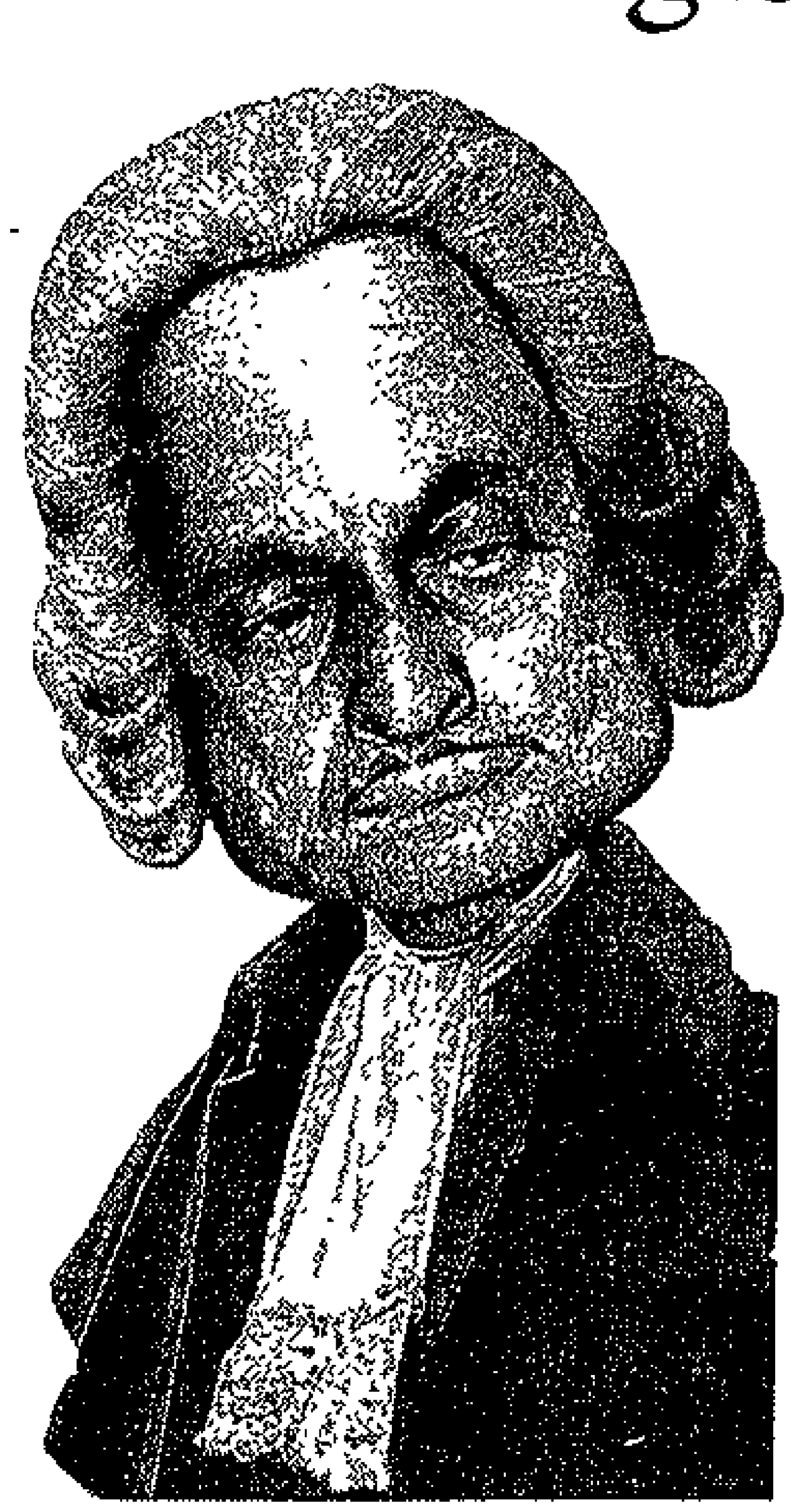
LETTERS

THE WORLD

Adam Smith: Economic fallacies and limited logic

W/E Mail 27/7-29/7/90 (49)

Adam Smith — seen as the father of modern economics — is fashionable again. But **WILL HUTTON** examines why *The Wealth of Nations* should not be taken as Gospel



ADAM Smith's book is very much one of its time. His surprise and delight at the potential abundance resulting from the new forms of industral organisation are evident; but, equally, this is a book written in the shadow of Isaac Newton.

Just as the physical world has its own natural order imposed by the invisible forces of gravity, so claims Smith, the material world has its own natural order imposed by the invisible forces of the market. But this begs a few questions. Is, for example, such order natural? Is the resulting order just? And, pertinently for the economist, is order all that is required for "the wealth of nations"?

These issues have characterised all debates about Smith and his book, and if, at the moment, it is unfashionable to regard any of them as interesting except as a celebration of the market, then be sure they will become fashionable again.

Markets are insufficient guarantors of prosperity or political freedom, even if they are preconditions for them; and we would be wise to examine Smith's omissions as well as his widely-feted successes.

His great, if scarcely original insight, is that specialisation in tasks raises productivity. Herein lies the roots of wealth creation.

Smith cites the example of a pin factory in which each man's production is raised from "perhaps not one pin a day" to 4 800 ... in consequence of a proper division of operations".

But, if this division of labour is to succeed, it is vital that those who specialise can exchange their product for the other necessities of life — hence the inportance of the market.

Producing pins, for example, is not much use unless the pins can be exchanged in a market, so that a man supplies his wants "by exchanging that surplus part of the produce of his own labour, which is over and above his consumption, for such parts of the produce of other men's labour as he has occasion for. Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society."

However, Smith is not content to leave matters there. As a good child of Newtonian physics, he seeks to demonstrate that exchange, like the spheres, would ineluctably approach a balance. Market prices would be driven to "natural" prices (a "natural price" contains all the accumulated labour cost of production) by the forces of supply and demand. When all market prices equal natural prices the system is in balance; and this is the goal towards which the price system is tending.

Many reviewers have focused on Smith's characterisation of the market as an invisible hand, guiding the self-interested actions of individuals.They may not know it, but in their quest to buy cheap and sell dear they form an economic unity that is the greater social good; profit is the fuel in the system.

This is all well and good, but some German reviewers, notably Friedrich List, have drawn attention to Smith's limited notion of profit; and the misguided theory of industrialisation that goes with it.

Capital, says List, is a much more complex idea than Smith's concept of accumulated profits through buying and selling well; He has taken

Adam Smith ... Still a great book, but not the Bible

the word to mean, says List accusingly, the sense in which it is taken by merchants in their balance sheets, namely as the grand total of their values of exchange.

But capital embodies mental as well as material attributes; and to assume that capital is something that is acquired through exchange is to ignore the fundamental and qualitative difference of manufacturing from other forms of activity.

"The power of producing wealth is infinitely more important than wealth itself," wrote List. "It ensures not only the possession of and increase of what has been gained, but also the replacement of what has been lost."

To produce wealth, argued List, is as much a social issue as one of free markets. Citing the example of the pin factory, the point is less that there is a division of labour; more that there is a confederation of energies, intelligence and powers for a common operation.

A successful pin factory needs trained workers, canals and railways to ship the raw materials and finished products — and the brainwork behind the machines that make the pins. None is naturally created by the "exchange", says List, they have to be created by a larger social agency — the state.

But if Smith is naive in this question, he is no less naive about the movement of markets to a point of balance. As both David Ricardo and Lord Keynes have argued, the idea rests on a logical fallacy. Economic agents, unless they are all-knowing (Keynes) or all share the same standard of value (Ricardo) never know when the final balance has arrived. Markets need rules and supervision; left to their own devices they easily malfunction.

Ideas of what constitutes malfunction change. Smith is perfectly happy to contemplate workers dying to keep the balance. If labour is in oversupply "want, famine and mortality" will soon right the balance.

The Wealth of Nations describes the pre-democratic world of burgeoning commerce that Smith could marvel at as he observed the Leith docks in his native Edinburgh but, as a guide to the complex industrial societies of the late 20th century, there are many shortcomings. Perhaps Smith's popularity is because of too uncritical an acceptance of what is still a great book, but not a Bible. — The Guardian

Overseas business still wary of SA investment

49

GERALD REILLY

PRETORIA — European businessmen and potential investors remained cautious and nervous about involvement in SA in spite of recent reforms.

That was the view expressed by Johannesburg Chamber of Commerce and Industry CE Marius de Jager after he returned this week with a group of leading SA businessmen from the International Chamber of Commerce conference in Hamburg.

The group also had talks with the London Chamber of Commerce and other business interests in Britain and the Continent.

De Jager said yesterday the attitude was likely to persist until it became clear that a constitutional settlement acceptable to most South Africans was firmly in place and the risk of nationalisation eliminated.

There was a perception, however, that goverment was moving determinedly towards normalising the socio-political situation and that apartheid was firmly on the way out.

The inflow of investment capital, he stressed, would depend greatly on progress made in constitutional negotiations.

On nationalisation, De Jager said Mandela had spoken on the subject to leading businessmen on his recent overseas tour, but it was apparent that doubts had not been eliminated.

Businessmen had been at pains to make it clear they would have great difficulty with any substantial degree of nationalisation in SA. "On investment, however, the overwhelming impression was that there were a great many other investment opportunities opening up in eastern Europe and Russia."

De Jager stressed competition for development capital would become even tougher in the years ahead.

Conglomerates look safe from carve-up

Star 28/7/90

STAFF REPORTER

ALTHOUGH it was theoretically possible to dismantle conglomerates like Anglo American, as the ANC has demanded, the Competition Board "wouldn't even begin to think about it", the board's chairman, Pierre Brooks said this week.

In an interview at Fedhasa's annual congress in Johannesburg, Dr Brooks said there were "immense practical problems" in breaking up a major company or a conglomeration of companies.

"While one should be careful not to generalise, in certain companies, conglomeration might even be necessary.

"Because of the size of the economy, it might be necessary for a firm to protect its existence and its workers, and it may be obliged to diversify."

The Americans had found that dismantling conglomerates was not as simple as it appeared. In the case of the giant AT&T Corporation, de-conglomeration did not have the desired effect, Dr Brooks said.

The task was found to be more difficult than at first thought, and eight years later it was realised that it was "not such a bright idea and it did not solve any problems or improve matters".

Potential buyers

In South Africa, there were a number of issues to consider, including the fact that a dismantled conglomerate did not have many potential buyers with ready cash available.

Dr Brooks said the Competition Board had "no problem" with the fact that the ANC was not keen on conglomerates.

"Anybody who knows about these things is concerned about the extent of conglomerates. Whereas we see it from

Competition Board has 'no problem' with the fact that the ANC is not keen on conglomerates. — chairman

the point of view that conglomeration is perhaps contrary to effective competition, they (the ANC) might be against conglomeration for political or ideological reasons."

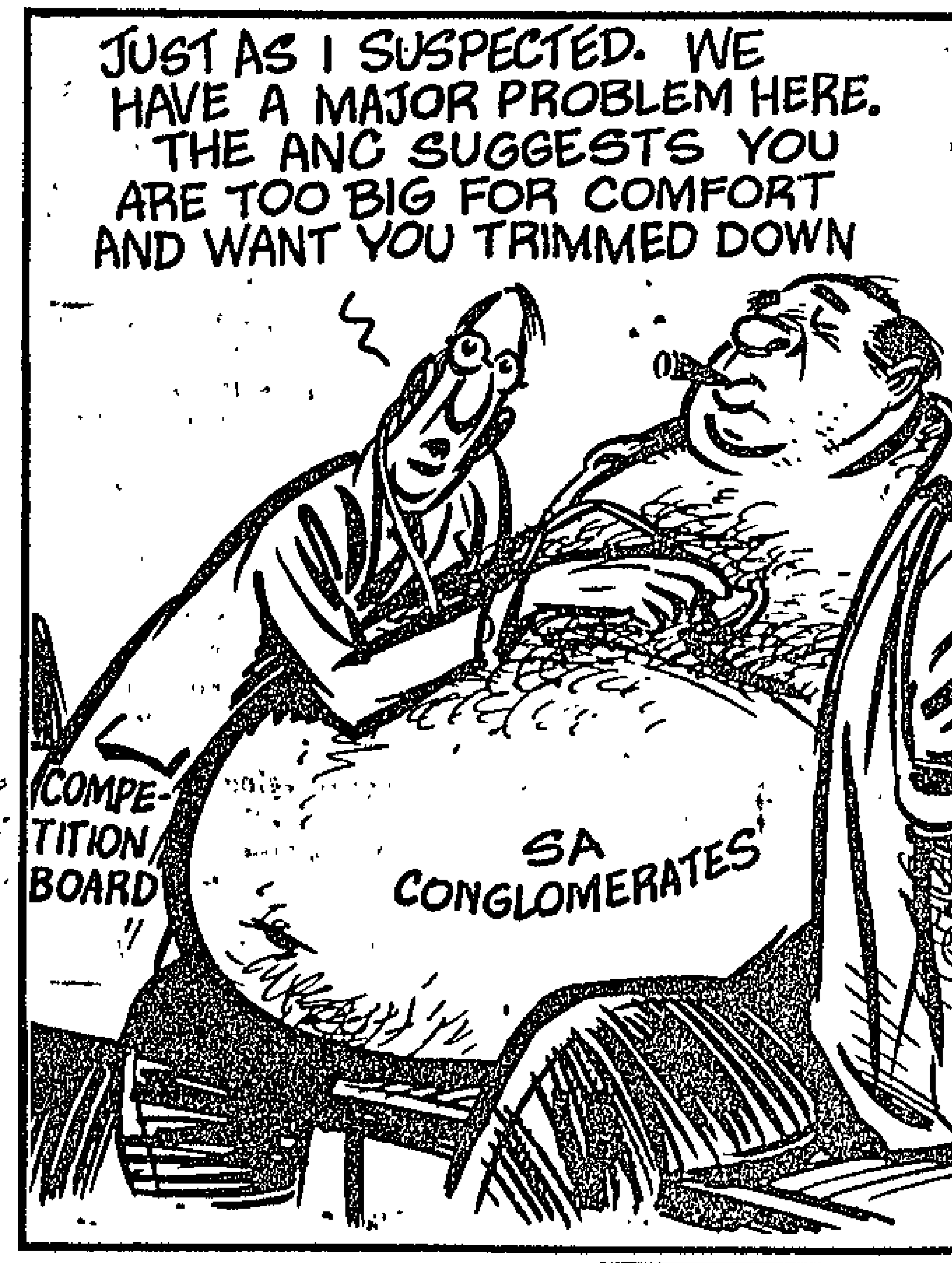
He did not believe South Africa had nationalised industries, as this implied putting a private entity under state control.

For various historical and economic reasons in South Africa, there were industries that could not get off the ground initially had the state not been prepared to put in the money, he said.

"If you do have a nationalised industry, then from a competition point of view one should at least try to see that it is not given a statutory monopoly.

"It might be a problem we still have in this country, where organisations under state control are given a monopoly in terms of legislation.

"In other words, there might be clauses precluding somebody else from coming into that industry. This may be



something we would have to look at in the future."

The first step in looking at the various conglomerates was to ensure that they were in competition with each other.

"Then at least you have some competition in the market and they (the conglomerates) can't take liberties which they would otherwise be able to take," Dr Brooks said.

CT Times 28/7/90

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Gradual restructuring vital for SA

GRAHAMSTOWN. — The South African economy must be fundamentally restructured to address the massive inequalities that existed, Democratic Party economic advisor Professor Sampie Terreblanche said this week.

Speaking at Rhodes University on the road to a post-apartheid economy, he warned however that restructuring had to occur gradually to avoid damaging a "vulnerable economy".

Prof Terreblanche explained that SA was "relatively poor, with a high population growth rate, low economic growth, massive backlogs and a dependence on foreign markets and investment."

He said a democratic parliament striving to address inequality would have to guard against overstraining the tax capacity of the economy as this would lead to lack of growth and eventual economic collapse.

The challenge would be to spend more on the deprived majority, but "not too much too soon".

Prof Terreblanche emphasised redistribution of wealth was not only desirable but also necessary for a future political democracy.

Prof Terreblanche said government and business seemed to be "espousing democratic capitalism, but this is in a very Thatcherite form and is based on the free market philosophy.

"What is needed is democratic capitalism based on the philosophy of social democracy."

Let's look beyond the Rubik solution

S Times 29/7/90 49

Top businessman **Bob Tucker** calls on managements to opt for more social responsibility inside their own companies

SOLVING South Africa's economic and political problems can perhaps best be likened to tackling a Rubik cube.

One of the ways of finding the solution is to attempt to resolve one face of the puzzle at a time. The difficulty is that having resolved one face of the puzzle, when one turns to the second face and attempts to resolve that, one invariably mixes up the first.

That is the traditional approach of what could be described as the formal "enlightened" white business community of South Africa. The first face which is addressed and remains the highest priority is the delivery of a satisfactory monetary return on the investor's capital this quarter.

When we have done that, we might turn to another dimension and take some of those profits and apply them to running a social responsibility officer.

The third dimension might be that we make some contribution to the protection of the ecology — which our profit maximising endeavours damaged in the first place — and a fourth, that in the light of current developments, it would be advisable to go and meet with some of the high profile leaders.

Courage

However, these activities are disintegrated and frequently contradict and undermine the integrity of the whole. On the other hand there are two apparent advantages to resolving the cube in this way. We get six ego boosts as each of the six sides is resolved — albeit that it is extremely unlikely that we ever have more than one side resolved at any one time.

Moreover if we find one side too difficult or if we do not receive adequate acclaim for resolving it, we can always retract and turn to another side.

It is to those enlightened businessmen who are addressing the problem in this way, giving disintegrated attention to the different dimensions of their businesses, that I appeal.

If the problem is to be resolved, it is a question of how we run our businesses not what businesses we run.

In other words, how do we simultaneously respond to the exerted pressures in managing the resources at our disposal so as not merely to maximise the monetary profit but to remain viable in the South African fabric, subject to such inordinate pressures and with such maldistribution, over the next 50 years.

We cannot proceed further on the basis that the only issue of any real importance is profit maximisation.

Our businesses generate a range of outputs some of which are quantifiable and hard — such as the number of jobs, the quantity of products and services and the rand amount of profits — and some of which are very subjective and soft — such as the job satisfaction yielded, the mix of capital and labour, the inter-relationships between staff and the nature of the relationship between the business unit and the community and environment in which the business is conducted and to whom the products and services are sold.

Historically, business courage involved the risking of capital in an unknown venture to yield a return on that capital. In South Africa today, business courage should involve risking ourselves in service to the people of the organisation and the communities which the organisation serves.

Integrated

The fact of it is that each one of us can either play the closed sum game or an open sum game. In the closed sum game we compete intensely with each other to see how big a portion we can get of a declining cake.

In the open sum game we co-operate with each other to see how big we can make that cake — and the distribution of the cake is the outcome of that process of co-operation.

I do not believe the issue is the maintenance and linear increment of current profit levels, or the doubling of our social responsibility budgets or rushing off to meet the most recently identified "new leader" to persuade him why nationalisation is not a good idea.

The real issue is how to fundamentally restructure our businesses and the way in which we do that business so as to be entirely relevant and completely integrated into the reality of this country.

What percentage of all contracts and purchases go to new entrepreneurs? What are our staffing ratios? Who manages the organisation? Where do our staff live? What products do we sell and to whom? How does that enrich their lives? Are our idle buildings and computers used for teaching children and developing adults?

In the first year after a 10 percent drop in turnover, US manufacturers will, on average, cut staff by 7,6 percent — Japanese manufacturers by 2,1 percent. How do we do? And so on.

Only by changing the way we do business can we avoid the fate of the dinosaur which in its time became irrelevant and unadapted to the reality of the environment in which it lived.

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Black look at economic future

By MANDLA TYALA

ORGANISED black business, caught between restrictive apartheid legislation and political violence in the townships, meets over the next two days to consider a future role under what could be an ANC-led government.

The National African Federated Chamber of Commerce, which has championed the cause of thousands of fledgling black capitalists for 25 years, will come to grips tomorrow with the contentious issue of what form a post-apartheid economy should assume.

Unlike the white business community which has been vocal about its disquiet at what it considers the questionable economic policies espoused by the ANC, black business has not yet taken a position on front-burner issues like the ANC's threat to nationalise certain sectors of the economy.

Although Nelson Mandela went out of his way on his recent overseas trip to tone down ANC rhetoric and committed the movement to the quest for a vibrant economy that would enhance the wellbeing of all South Africans, the other components of the tripartite alliance — Cosatu and the SA Communist Party — have made no bones about their commitment to socialism.

■■■

Nafcoc public affairs manager Gab Mokgoko said the organisation would "attempt to bring to the fore what the real issues ought to be in the reconstruction of a mixed economy, the extent of the mix and the mechanisms required to ensure and hasten full black participation" at its crucial congress in Durban.

Keynote speakers will include ANC foreign affairs spokesman Thabo Mbeki and Deputy Finance Minister Org Marais.

S/ Times 29/7/90

Black business leaders have been expressing optimism in the current political climate.

They are encouraged by the prospect of moving closer to the centre of the action in a new economic order, after decades of being confined to corner stores and spaza shops while a huge chunk of the black rand was spent in white businesses.

The Nafcoc indaba comes at a time when some captains of big business, in the midst of the Marxism-Capitalism debate, have been calling on their constituencies to understand the factors underlying black calls for economic retribution to redress deprivation caused by decades of apartheid.

Peter Wrighton, Premier Group chairman and Transvaal chairman of the Consultative Business Movement, this week pointed out in an article, urging big business to be sensitive to black economic priorities, that nearly 90 percent of SA's wealth was owned by five percent of the population which is overwhelmingly white, and that blacks own less than two percent of assets.

Against this background, black business has found itself in a curious position.

■■■

Over the years, black businessmen have been committed to free enterprise, although legislation like the Group Areas Act made a mockery of this principle.

Lately, in the debate on how to redistribute resources, some have been strongly sympathetic towards calls for nationalisation — although they accept that economic wisdom militates against it.

Nafcoc, in particular, has been accused of being over-eager to support ANC positions, sometimes at the expense of its own interests.

But in the volatile political world that is the townships the lot of black businessmen has not been a comfortable one.

Nafcoc Natal regional chairman Rodger Sishi observed:

"So many of our members have described how unpleasant it is to be in business these days. The businessman is caught in the middle of a drama over which he has no control."

Individual businessmen complain that legislation has stunted skills training efforts and political upheavals on their doorsteps have created a climate hostile to good business.

They say they are expected to close their businesses to observe certain protests and are not always told in advance of such activities — with the result that they suffer huge losses.

While big business may have the capacity to absorb such losses, they sometimes sound the deathknell for township businesses — many of which do not adopt no-work-no-pay policies for fear of antagonising activist groups.

On the flipside, there is satisfaction that the threat of nationalisation has jerked big business out of its complacency.

Many spokesmen say there was general silence until the threat of sanctions forced big business to engage in serious discussions on ways and means of bringing blacks on to the playing field.

Wealth creation by companies shows up in value added statements

By Ann Crotty

The debate on nationalisation tends to be long on rhetoric and extremely short on any detail about its implementation.

To some extent (and somewhat simplistically) what is at stake at a company or micro level can be seen in the valued added statements most corporations are now including in their annual reports.

These statements reflect the wealth that has been created by the company during the financial year under review.

The company buys goods and services for conversion into other goods or services that it sells to its customers. In this conversion process it adds value to the goods bought by applying labour and capital in varying proportions.

In the case of SA Breweries (SAB), in the 12 months to end-March 1990 R12,1 billion was earned on the sale of products and services; it received a further R256 million income from investments.

Deducted from this is R8,8 billion which was paid to "outside suppliers of materials, facilities and services". Which means that SAB created wealth of R3,6 billion.

Some 22 percent of this wealth was re-invested within the group — nine percent to cope with inflation and the maintenance and replacement of capital assets and 13 percent to fund further growth and expansion.

Wages, salaries and other benefits to employees accounted for 48 percent; 12 percent went to the State in the form of taxes; nine percent went to the lenders of capital in the form of interest and financing charges; and the remaining nine percent went to shareholders in dividends.

Assuming that, at least initially, the size of the "wealth-created cake" is not at issue in the nationalistion debate, then the issue is how that wealth is distributed.

Killing the goose

The capitalist camp will argue that any tampering with this distribution process risks killing the goose that's laying the golden eggs, so that over time companies' ability to create wealth is steadily diminished.

There may be some scope for massaging the amounts paid in each category. But no matter who owns or manages a company, contributors to its wealth have to be paid out or they will cease to make contributions.

Employees will not work if they are not paid. Financial institutions will not provide fund ing unless they are paid interest on it. State spending has to be funded and companies make their contribution to this in tax.

There may not appear to be a critical short-term need to re-invest funds in the enterprise but if this spending is by-passed for a year or two it could have a crippling effect on the company's ability to produce.

If shareholders are not paid dividends then the company will in future not be able to raise funds in the equity market and will have to get its capital from other sources — which will also have to be paid.

In the overwhelming majority of cases (Sappi is a rare exception, as shown in the table below) employees receive the largest portion of the wealth created. Add in the amount paid to the State and, well over 50 percent of corporate wealth is accounted for.

This would seem to be in line with the aims of a socialist-style nationalisation plan — except that trade unionists will claim that the distribution of salaries and benefits to the workforce is far too skewed in favour of management and there is scope for a more egalitarian distribution.

Management's response is that employees are paid in line with their contribution to company output and in line with supply and demand forces in the market — the forces with which the trade unions are currently interfering.

			PROVIDERS OF CAPITAL		
	EMPLOYEES	STATE	INTEREST	SHAREHOLDERS	RE-INVESTED
AMIC	45	15	2	10	28
BARLOWS	49	15	7	7	22
SAPPI	30	1	19,3	14	35,7
PICK 'N PAY	71	8	0,9	7,1	13
PREMIER	57,2	11,1	7,6	6,6	17,5
SAB	48	12	9	9	22

Table shows in percentages the distribution of wealth creation.

SA economy policy is questioned

Sowetan 31/7/90

(49)

NAFCOC CONFERENCE 1990

THE policies pursued by the South African Government and big business in the country have led to arduous consequences for both the South African economy and the so-called oppressed people, Pretoria advocate Dikgang Moseneke told a National Federated Chamber of Commerce conference in Durban yesterday.

He said foreign capital in this country appeared mainly in the form of ownership of productive concerns and in the provision of financial capital to private and State corporations.

The South African economy was geared to serve only a minority of the population, he said.

The high unemployment and under-employment of the "oppressed people" and the relatively low wages they received had reduced the size of the domestic market and had also depressed the gross domestic product.

Production

The economy placed heavy reliance on the production and sale of gold.

Manufactured products in SA had not been sufficiently competitive in the international market and had thus kept the export trade low.

Foreign capital and direct foreign equity investment capital was the major source of investment.

Moseneke said some of the most striking consequences of the economic policies pursued by South Africa on the oppressed people included:

* Ownership of economic assets by black people was negligible;

* African business undertakings contributed less than one percent of the GDP;

* Unemployment and under-employment of African people was estimated at between 50-60 percent;

* The massive housing shortage was self-evident; and

* Most black South Africans had not practised agriculture since World War I.

A political accord was, for the Government and big business, essential to restore economic growth, Moseneke added.

Any political settlement which did not measure to any of the cardinal objectives was bound to be rejected, he summed up. - *Sapa.*

Nationalisation certain – Slovo

Star 2/8/90

The Star Bureau

LONDON — The African National Congress will fully nationalise some industrial and financial groups as part of its restructuring of the South African economy, says Joe Slovo.

The general secretary of the South African Communist Party and senior member of the ANC's policy-making national executive committee, writing in the Financial Times in London yesterday, said: "Private South African companies and new enterprises will have a strong role to play as well as foreign businesses."

But he added that "we cannot rely on these sectors ... automatically. The State and State-owned industries should have the main responsibility for generating investment by all sectors and carrying out projects within the public sector itself or in partnership".

He said the ANC would extend public sector ownership where it is necessary to achieve its goals.

"The State will take ownership in some industrial and financial groups."

Later, he said the South African economy has not been a free market system: "It was a tightly knit economy dominated by State industries, State regulation and a few all-powerful conglomerate trusts such as Anglo American and Barlow Rand.

"The leading argument for a free market comes from those trusts and, frankly, we doubt their sincerity," said Mr Slovo.

M3 growth down 'but monetary policy must still remain tight'

By Duma Gqubule

23/8/90

Economic figures released by the Reserve Bank yesterday show that the rate of growth of money supply continues to decline. This indicates that credit extension by the financial institutions to the private sector, which has been fuelling inflation over the past few years, is slowing down.

The broadly defined money supply measure M3 rose by a year-on-year 16,32 percent in July. This compares with increases of 21,67 percent in April, 19,12 percent in May and 17,16 percent in June. In cash terms, M3 rose to an estimated R154,16 billion in July from June's R152,78 billion. The June increase for the narrowly defined M1 was 15,49 percent, while the figure for M2 was 21,09 percent.

The M3 increase now indicates that the authorities are close to reaching the targeted growth figures for money supply of between 11 and 15 percent. However Frankel, Kruger, Vinderine economist Mike Brown says: "Although it is nice to see M3 continuing to decline we are only at the top of the targeted range. You have to get to the bottom of the targeted range before you can think about relaxing monetary policy."

Mr Brown continues: "The figure of 16,32 percent is still higher than nominal rate of growth in the economy of 12 percent. There is an excess money supply of just over 4 percent. For the time being the increase in the money supply is still too high to justify any relaxation of monetary policy on that basis alone."

Fergusson Brothers chief economist and investment strategist Mr Gad Ariovich believes monetary policy must remain tight. He says: "If the Reserve Bank can reduce inflation, the sacrifice might be justified. If you try to measure the cost of this exercise so far you could arrive at a figure of maybe 2 percent of Gross Domestic Product (GDP). This translates into R5 billion. If monetary policy is eased now, and we cannot reduce inflation, all the suffering will have been in vain. This has happened many times in the past."

Christo Luus of UBS says: "I think the government does not want the real rate of interest to fall below 7 percent in the near future. This means that if the inflation rate falls to 13 percent the prime overdraft rate could fall to 20 percent. I do not think a one percent fall in the overdraft rate will encourage everyone to go out and spend."

Mr Ariovich says: "Any relaxation of monetary policy would create higher inflationary expectations. Businessmen will think inflation is in a cyclical downtrend and not undergoing a change."

ANC not firm on state control

-Cape Times 2/8/90 Political Staff (49)

DURBAN. — The ANC was not necessarily wedded to the idea of state control over the economy but so far had not been able to find a satisfactory alternative economic policy.

This was said here last night by the convener of the Southern Natal region of the ANC, Mr Patrick Lekota, when he addressed a meeting organised by the South African Perceptions group, a business committee on free enterprise.

Addressing leading businessmen, Mr Lekota also said the ANC had never committed itself to the objective of establishing a communist society.

He said the type of economy that would eventually emerge in South Africa could be negotiated.

The ANC spokesman was emphatic that privatisation could only consolidate privilege.

Govt should hand over many powers — Croeser

B/Day. 2/8/90

(49)

GRETA STEYN

CENTRAL government functions should be devolved to the lowest level of government possible, with the role of the state confined to macro-economic policy making and co-ordination, Finance director-general Gerhard Croeser said in Pretoria yesterday.

Croeser, who heads a committee investigating the extent to which power should be devolved, addressed the issue at a seminar yesterday.

He sketched a "pragmatic budgeting model" which reduced the role of central government to that of determining overall economic policy on stabilisation and redistribution, and executing a limited number of national functions — while lower levels of government would carry out regional and local functions.

Economies of scale and greater effectiveness would be economic reasons to move certain functions to regional or local authorities — perhaps to the extent that there would be virtually no central government.

"Success in implementing such a policy would depend to a large extent on local autonomy and decision-making, accountability and public responsibility, as well as the ability to generate own revenue. Fiscal discipline can be damaged seriously when regional and local authorities see themselves as simply being 'agents' of central government."

Autonomy was linked to factors such as the availability of revenue and the ability to decide the ways in which the revenue was to be raised and spent. Voters, and not a higher level of government, should exercise control over the spending decisions of a lower level of administration.

"Where it does not already exist, changes should be made to bring about a direct link between taxation and spending decisions."

At the very least, a lower level of government should be able to finance current spending from current revenue. Black local authorities, as they existed at present, would not be able to meet that criterion, even if there had been no rent boycott.

He described an approach whereby regional and local authorities would raise tax revenues and decide on their own spending priorities. Not all authorities would be able to raise enough revenue to meet certain minimum standards, but this would be met by inter-governmental transfers.

"Higher levels of government will have to make contributions to the lower levels of government to ensure that certain minimum standards are met in a limited number of high priority services," he said.

He emphasised that the system could not work if lower levels of government were allowed to fall back on central government when they ran out of funds. There would have to be strict principles to guide inter-governmental transfers. On fiscal policy, central government would co-ordinate overall spending and revenue to fit in with short-term stabilisation needs.

Economic blueprint to be put to DP congress

B/D 13/8/90. (49)

PETER DELMAR

THE DP national congress will be asked next week to endorse a social market economic policy which strongly emphasises state action to correct social and economic disparities between the races.

The proposed policy is largely based on the West German economic model and directly addresses the issues of nationalisation, redistribution of wealth and economic growth.

The manifesto states that while it endorses private ownership and entrepeneurship, the DP recognises the state's important role in the "development and upliftment of, and the provision of certain services to all South Africans, and to ensure that there is equality of bargaining power in the market place".

Envisages

The party recognises the existence of "huge" and unacceptable wealth, income opportunity and skills gaps which need urgent attention.

Rejecting nationalisation as a "general rule", the manifesto envisages the state playing an important role in encouraging economic growth, particularly in those sectors where it would help reduce income and wealth gaps. This would reduce the need to use taxation for redistribution.

Within the public sector corrective action should be taken to redress past discrimination and to ensure equality of opportunity. Savings resulting from a reduction of the public service would initially be offset by corrective action programmes.

Supporting decentralisation based on "sound economic principles", the proposals envisage state initiatives to create employment in underdeveloped and neglected areas which would result in a "spiral of new jobs and consumer demand" and make exports, as a result of economies of scale, more competitive.

Share participation schemes and home ownership will be encouraged to avoid concentration and encourage economic participation.

The manifesto rejects monopolies, price fixing and restrictive practices. The economy, it says, should not be a "jungle where only the strongest survive".

It proposes food relief schemes, the diversion of VAT income from foodstuffs to the needy and a general increase in developmental expenditure on health care, housing and family planning programmes.

Further privatisation should be limited and pursued only with "great circumspection after wide consultation and where it has a high degree of acceptability".

Privatisation proceeds should be used for development capital projects and shares in privatised organisations should be made available to all.

Education should be free and compulsory, with special emphasis on technical training.

Employees should be allowed to join the union of their choice and encouraged to participate in employee share ownership schemes.

It also proposes the introduction of a two-tier board of directors system in large companies to give workers more representation on supervisory boards.

The Reserve Bank, it says, should be independent of government, thereby freeing it from political pressures to increase the money supply.

Resettlement

The abolition of exchange control is envisaged as an end goal and a withholding tax at a low flat rate on interest is suggested, with the proviso that the lower income groups be protected.

On agriculture, the party envisages corrective action to help would-be farmers acquire land and finance. State-owned and unused land should be made available for farming and resettlement schemes considered. The DP would also consider phasing out unnecessary control boards and review fixed pricing and single channel marketing of agricultural products.

Finally, the manifesto proposes a federal finance council representing federal and state governments and charged with examining budgets.

sion of ammunition, six for allegedly being protection and service.

Most 'would go for socialism'

PETER DELMAR (49)

THE SA Communist Party is convinced that in a multi-party democracy, most South Africans would choose socialism, says SACP central committee member Jeremy Cronin.

But it also believes the majority should have the right to reject even a communist party. B/Day 3/8/90

Cronin told a Wits University meeting yesterday that the party's commitment to multi-partyism was not just a short-term one. "The working class must have the right to throw out any party.

"Social control of the commanding heights of the economy" would be reached not overnight but through a process, he said. However, one could not talk of democracy in a situation where four monopolies dominated the country's economy.

Cronin said taking control of the economy would partly be "a defensive and patriotic act".

There were signs that some capitalists were "abandoning ship".

The SACP envisaged independent trade unions which would provide checks and balances over the ruling party. Unions should have a key, and possibly a veto, over labour legislation, he said.

CRONIN ... unions would provide checks

Conflict could have beneficial effect on SA economy

(49) Star 3/8/90

By Derek Tommey

A continuation of the present conflict at the head of the Gulf will probably have a more positive, than negative effect on the South African economy.

On the negative side oil prices are likely to move higher as steps have already been taken to reduce Iraq's income from its own and from Kuwait's oil sales.

The Americans have frozen all Iraqi and Kuwaiti assets and banned the purchase of Iraqi oil, a step which most of the Western world is likely to follow.

This could cut Opec's sales by some 20 percent. With this much oil off the market, oil prices must rise.

Some people contend that there is a surplus of oil and the loss of supplies from Kuwait and Iraq will quickly be made good, but only at a price greater than that being charged by these countries, otherwise no one would have been buying Iraqi or Kuwaiti oil in the first place.

So far the international oil price has spurted to $23,30 a barrel, which is bad news for South Africans, but good news for the two JSE-listed oil companies — the synthetic petrol producer Sasol, and the petrol distribution and refining company Engen.

Sasol gets protection up to $23 a barrel. So an increase in the world price to this level does not affect its profits.

But any increase above $23 is a bonsella. An increased oil price will also improve Sasol and Engen's refining profits.

Looking to the longer term, the Iraqi occupation of Kuwait is good news for South African coal exporters such as Trans-Natal, Amcoal and Rand Mines.

The Iraqi move has sharply demonstrated the instability of world oil supplies. As a result, the large number of planned new power stations in the rapidly growing Pacific rim countries are now more likely to be coal-fired than oil-fired.

The good news is that the gold price rallied $7 on news of the Iraqi invasion and could rise further the longer the conflict continues.

For the pst year or so the main factor supporting the gold price has been heavy demand for gold jewellery.

Investment, hedging or speculative demand has been absent, and even negative.

What is happening in the Gulf could generate a sharp increase in investment demand and result in a strong increase in the gold price.

Should people in the West start believing that the occupation of Kuwait will lead not only to higher oil prices but also to inflation-generating defence spending in the US and other Western countries, then investment demand for gold will increase, and so will the gold price.

Any signs that the Iraq-Kuwait conflict could involve other countries in a shooting war will increase demand for managanese, vanadium, ferro-alloys, steel and iron ores.

South African producers of these metals and ores — Iscor, Highveld, Vansa Vanadium, Associated Manganese, Samanco and Usko — would then be able to look forward to more prosperous times.

Businessmen divided on nationalisation

WMail 3/8 - 5/8/90

(49)

By MZIMKULU MALUNGA

AS debates on the economic framework for a future South Africa intensify, black business seems to have mixed feelings on the issue of nationalisation.

While there is a consensus that something needs to be done to tight the existing imbalances in the economy, there appears to be different interpretations of technicalities to correct these inequalities.

Some of them even prefer to use the phrase "government intervention" to "nationalisation".

Tebello Radebe, of the Foundation for African Business and Consumer Services (Fabcos) political desk, says his organisation recognises that nationalising some sectors of the economy is "unavoidable". However, there are other sectors in which government intervention would be "undesirable" but he declines to specify.

"Wholesale nationalisation including a street-corner barber shop is definitely not in anyone's interest," he says.

The question is how far does one nationalise.

He says that when the issue hit the public stage, Fabcos did an extensive study and compiled a position document on the subject.

However, the consensus within Fabcos is that before the contents of the document can be made available to the public, there should be discussions with various political groupings in the country.

Radebe says the document is "definitive and more far reaching" than most people expect.

Last month, Fabcos secretary general Joas Mogale told *The Weekly Mail* he did not mind nationalisation of sectors such as transport and postal services, but strongly objected to the nationalisation of mines and banks.

Businessman and community leader Dr Nthatho Motlana agrees that big monopolies need to be broken down so as to give small businessmen a chance to enter the mainstream of the economy.

He also feels that the some of the big banks have to be broken down. History has shown that big companies do not create jobs, says Motlana.

On whether the mines should be nationalised he says: "Any government going out to nationalise the mines will be digging its own grave. Motlana cites Tanzania and Zambia as classic examples.

He objects strongly to the nationalisation of industries. "The government's duty is to govern not run industries."

Black Management Forum (BMF) president Don Mkwanazi asked during panel discussions at this week's National Federated Chamber of Commerce and Industry (Nafcoc) annual conference: "Why is it that when our political victory is assured people start making noise about a free market economy? South Africa has never had a free market economic system."

Association of Black Accountants of Southern Africa (Abasa) president Israel Skosana says there will definitely be a need for government intervention in some sectors of the economy. For instance, in the financial sector there could a regulation stating that a certain amount of money be used for development of small business.

"There should be government intervention to equalise opportunities," he says, adding that intervention also happens in the United States, Britain and Japan.

"We need an economic system that will not only correct the imbalances, but serve the national interests as well," says Skosana.

Consultant Willie Ramoshaba says one cannot put a man riding on bicycle on the same racecourse with one in a Porsche and expect the one on a bicycle to win a race.

"Whatever happens in the end, the greatest attention, assistance and backing has to be given to the one on a bicycle — which means having to do away with some of the luxuries which the Porsche owner would normally have and applying them to the bicycle rider," says Ramoshaba.

PC to meet on 'economic ownership'

(49)

CAT Times 4/8/90

Political Staff

THE President's Council is to meet on Thursday next week to discuss a Democratic Party motion on the economy which calls for as many people as possible to share in the ownership of the means of production.

The Minister of Finance, Mr Barend du Plessis, will also speak on the motion, the council's secretary, Mr Johan Weilbach, said in a statement yesterday.

The motion, to be moved by the chairman of the DP's national council, Mr David Gant, recognises an urgent need to "sustain a high rate of growth and provide full employment".

Perspectives

MANDLA TYALA  at the Nafcoc conference

Black business: In search of the 'third way'

5/Times 5/8/90 (49)

ORGANISED black business came out of a three-day indaba in Durban this week leaning heavily towards the African National Congress's view of a post-apartheid economy.

Although reluctant to give unqualified support for the ANC's economic policies, the National African Federated Chamber of Commerce and Industry found common ground with the organisation.

At a time when the Government has declared its intention to move towards a *laissez-faire* economy, Nafcoc is adding its voice to the quest for the "third way" between an ubridled free market and a centrally planned economy.

The mood was best summed up by Dr Oscar Dhlomo, former minister in the KwaZulu government, who said at the conference: "We commend Nafcoc for developing and perfecting the philosophy that business must operate in, and positively identify with, a given socio-political milieu.

"If that milieu is iniquitous, business must support and encourage efforts to change it.

"The traditional approach, which maintained that the business of business is business, has long since been discredited and those who still subscribe to it shall not survive the socio-economic challenges that lie ahead."

Although they acknowledge the efficiency of a market economy and reiterate their commitment to free enterprise, black businessmen worry that free markets do not only create growth, but also help to entrench inequality.

Professor Wiseman Nkuhlu, chairman of a Nafcoc economic task force, said: "The solution lies neither with Adam Smith (the father of capitalism), nor Karl Marx (the father of socialism)."

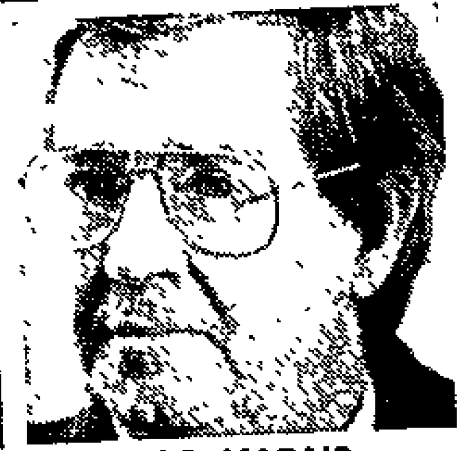
Citing Far Eastern economic successes like Taiwan, South Korea and Japan, black businessmen favour a measure of state intervention in the economy to accelerate black empowerment and to redress the inequalities created by apartheid. They find affirmative action an appealing proposition.

Mr AS Nkonyeni, Nafcoc deputy president, said: "For a start, we could consider a black-biased, apartheid-in-reverse procurement law which guarantees a certain percentage of Government tenders for black contractors.

"There may be many variations to this theme, but the significant point is an aggressive method of correcting historical imbalances in such a way that blacks are placed on a par with their white counterparts."


WISEMAN NKUHLU


OSCAR DHLOMO


ORG MARAIS

Deputy Finance Minister Org Marais told the conference that the problem with the South African economy was "big government" — large-scale social engineering whereby the Government tried to manage all facets of life, from the investor to the consumer to the worker to the retailer.

Mr Marais spent much of his speaking time lecturing the conference on the virtues of unfettered capitalism. He said that through initiatives like privatisation the Government was trying as much as possible to leave the running of the economy in private hands.

But black business was sceptical of Mr Marais's message.

"Black aspirations in relation to the manner in which the ownership of wealth should be restructured go far beyond the fragmentation of big government," said Mr Nkonyeni.

"Black people have deep reservations about what they regard as a unilateral privatisation programme under the direction of an unrepresentative government, more so at this time."

Although hints of the ANC's intentions for a post-apartheid economy have raised a howl of protest in the white business community, Nafcoc is determined to work closely with the movement.

The two organisations have established a joint commission to study models for the economy.

Nafcoc has, however, been cautious in dealing with contentious issues like nationalisation, as Professor Nkuhlu observed:

"The need for state intervention in the economy is accepted, but there is still no unanimity about what the liberation movement refers to as nationalisation. The matter, therefore, requires further research and discussion."

High costs of discrimination

By MANDLA TYALA

STANDING on the threshold of what could be a free-for-all economy, black capitalists looked back this week and took stock of the damage done to black initiative by decades of racial discrimination.

While Deputy Minister of Finance Org Marais sold them on the virtues of free enterprise, black businessmen considered such striking consequences as the R50-billion that will be needed by the state by the year 2 000 to significantly improve black education.

S/Tim 5/8/90 (49)

Food

In a keynote address to the conference Mr Dikgang Moseneke said the bulk of blacks had not practised agriculture since the First World War.

"This is the most telling and saddest statistic," he said. "It explains why blacks are everything else but producers of food."

Mr Moseneke noted that although blacks comprised 80 percent of the population, formal black businesses contributed less than two percent of the gross domestic product. Only 0,5 percent of companies listed on the Johannesburg Stock Exchange had black directors.

A second speaker on the subject touched on another sore point — black access to capital.

Mr Israel Skosana, of the Get Ahead Foundation, said most financial institutions refused to handle small loans, citing high transaction costs.

"On the other hand we are told by advocates of free enterprise that we have to start small," he said.

"However, an interesting characteristic of the financial sector is that they go out of their way to mobilise black savings. They have even come up with special products to make sure they capture this part of the market.

"Unfortunately there is no reciprocity on the part of the financial institutions to deploy capital resources in those very communities which have made their bottom lines look [illegible] political motives during and as part trator-General Louis Pienaar con- grey areas of the definition.

Similarities between SA and Romania outlined

EDYTH BULBRING

PRETORIA — The decline of apartheid in SA and the collapse of communism in Romania occurred not only because of human rights abuses, but also because both countries were at variance with the free market ethos.

That view was expressed by Unisa history lecturer Phillip Eidelberg at a meeting of the SA Institute of International Affairs in Pretoria last week.

Eidelberg said Romania was in ways the exact opposite of SA, being socialist and based on one man, one vote majority rule.

Yet by the mid-1980s, both countries had become out of step with international opinion and were increasingly boycotted, allegedly on the issue of human rights.

However, Eidelberg argued the more fundamental reason was their insistence on existing in as they did in a world increasingly uncompromising towards ideological deviants.

Like Romania, SA's striving for national autonomy and self-determination was made difficult by the semi-developed nature of its economy and neither could compete effectively overseas.

Although SA continued to maintain a relatively vigorous capitalist sector, its market economy existed with a considerable degree of heavily bureaucratised centralised planning, Eidelberg said.

SA, as an exporter of largely primary products, was also vulnerable to long-term worsening in terms of trade, particularly evident in the mid-1960s.

SA's resultant balance of payment deficits made it increasingly dependent on foreign capital.

While Romania chose to repay its loans to reduce its economic and financial dependence on the West, SA agreed to accelerate its repayment in an attempt to maintain its economic links with overseas capitalism.

sector-financed educational institution — has focused on upgrading the qualifications of teachers, and has achieved excellent matric results. Picture: ROBERT BOTHA

R2bn fund to bridge SA's 'first and third world gap'

B Day 6/8/90 (49)

LESLEY LAMBERT

CAPE TOWN — The greatest challenge of the newly launched R2bn Independent Development Trust will be to tap the valuable resources of SA's first world and apply them to the development of the third world, says chairman Jan Steyn.

At the IDT's launch last week, Steyn said the trust would use the leverage it had gained through access to considerable funds to try to bridge this gap.

"SA has a very sophisticated economy which serves the needs of the First World and has not yet found ways of addressing Third World development.

"It is the intention of the trust to use the financial leverage it has to tap available resources in the first world and make these resources work in the development of a new SA. To be able to achieve this in practice will be the greatest single challenge of the trust."

The trust's foremost objective is to promote the development of the disadvantaged people — the very poor — of SA, the TBVC countries and the self-governing homelands.

This means its funds will be directed largely towards housing, health, education and employment.

Steyn has already hinted that two projects, involving the squatting communities and black education, will be initiated by the end of this month.

But, he has made it clear that the trust will not seek instant relief or solutions to the problems of poverty in the form of handouts.

Rather, the trust will initiate a co-ordinated development process, working at a grassroots level through existing community structures and other agencies with a track-record of "delivery".

It will involve employers, financial institutions and the private sector in its projects through grants, investments or loans.

In the interests of the trusts' beneficiaries, Steyn has made his board of trustees as widely representative as possible, including black community leaders, prominent academics and businessmen — people he describes as "caring South Africans with a track record in development".

The trustees are: Old Mutual deputy chairman Len Abrahamse; Natal Indian Congress vice-president and Natal University academic Jerry Coovadia; Durban-Westville University academic Len Konar; SA Institute of Race Relations president Stanley Mogoba; retired industrialist Johan Moolman; Nafcoc president Sam Motsuenyane; consulting engineer Patrick Naylor; UCT academic H Ngubane; Transkei University principal Wiseman Nkulu; UCT academic Mamphele Ramphele; Barlow Rand and Urban Foundation chairman Mike Rosholt; SA Perm MD Bob Tucker; and HSRC president Tjaart van der Walt.

● Comment: Page 6

Socialism is out, says Chief Justice

(49)

Sowetan 6.8.90

By JOSHUA RABOROKO

SOUTH Africa does not need socialism, but an expanding free market system, according to the Chief Justice, Mr Justice MM Corbett.

In a publication released at the weekend by the South African Institute of Race Relations, Corbett says that only a free market economy will grow fast enough to create enough jobs.

Recent events in Eastern Europe had shown that under socialist systems "the rich have become poor and the poor, poorer".

Economic stagnation, poverty, hopelessness, and unhappiness had been the hallmarks of a socialist society, he said.

"Consequently, what the new South Africa needs is not socialism but an enlightened form of the free market system, which ensures economic growth instead of stagnation, efficiency instead of incompetence, the creation of new wealth instead of impoverishment.

"In short, a system which stimulates and harnesses all the creativeness, inventive genius, and spirit of enterprise which is to be found in the human race," he said.

He says only by means of the free market system can the economy grow sufficiently to create the jobs needed to provide the burgeoning population with employment, economic security and domestic stability.

"Only by means of the free market system can sufficient wealth be generated to provide for the socio-economic reconstruction which will be necessary in the new **South Africa," Corbett said.**

The judge says however, that a "goodly portion of the wealth" created by a free market system "must be ploughed back into society, in the upliftment of communities, in the creation as far as possible of minimum standards of living, in the encouragement of entrepreneurship, in education, in housing, in the creation of recreational facilities and, in general, in redressing the social imbalances inherited from the past".

In a separate publication by the SAIRR, Corbett says a future South African Bill of Rights should permit "affirmative action" to rectify past inequality and discrimination.

He acknowledges that affirmative action - which he defines as programmes designed to remedy the consequences of past wrongs and deprivations - constitutes "discrimination in reverse".

However, he points out, affirmative action is an internationally recognised device for the equalisation of opportunity and finds expression in various countries, among them the United States, India, Canada, Zimbabwe, Malaysia and Namibia.

He says the South African Law Commission took the view that a Bill of Rights should contain an affirmative action clause permitting "the legislature to make laws granting a group which had been discriminated against in the past temporary advantages with the object of achieving equality".

A new growth path needed

BDay 7/8/90 (49)

ALEC ERWIN

COSATU, the ANC and the SACP are continually being chastised for the effects their activities might have on business confidence.

In an economy in which the private sector, foreign investment and foreign trade play such a powerful role, it would be unwise to destroy business confidence. Any serious political organisation cognisant of the need to maintain and increase production levels in SA must take this into account.

We now seem to be going beyond this caution — business confidence is being used as a form of political blackmail to defend the status quo.

If business persists in this position without taking into account the aspirations and needs of the majority, they will inevitably impel that organised majority to remove that obstacle by nationalising industry. That might cause problems, but any student of recent history would be unwise to ignore the power of popular frustration and deprivation.

The stress on business confidence remains linked to the preoccupation with the growth rate. This does not take into account the substantial demands that democratisation will open up, and it assumes that existing market forces could sustain a growth rate of some 5%.

Therefore, to sustain business confidence within the existing growth path may be very shortsighted, because it is a recipe for conflict and confrontation which will erode business confidence.

Our argument is that we have to sustain business confidence within the framework of a new growth path. It would be better for all of us if business were prepared to discuss with us how that could be done.

There are two main objectives in the growth path proposed after the Harare economic workshop attended by Cosatu and the ANC. The first is to meet basic social needs through expanded employment and production, the second to develop a greater manufacturing sector export capacity.

This will require a channeling of investable funds into areas that they are presently not reaching.

It is our view that there are particular features of the major South African conglomerates — particularly those based on the mining houses — that are real problems for a future industrially based growth path. For these reasons we would advocate the dismantling of certain conglomerates.

These issues are intricate, and to suggest that such a proposal constitutes an attack on the private sector is deliberately misleading. To suggest that it will automatically affect our economic performance is also a distortion.

The obvious question to be asked of us is how SA's new growth path will be financed. Three critical matters are raised — foreign capital, domestic saving and state expenditure.

We must accept foreign, private and public capital will be in short supply. We must be selective and offer good deals to those prepared to make a long-run contribution to our economy in the form of training, technology and market access.

Given the demands that a new democratic order will generate, there will be great pressure on state expenditure. There will also be pressure for the state to assume responsibility for a wide range of social and welfare activities.

Such an enlargement of the state is expensive and potentially highly inflationary. Both dangers lead to the path of political suicide for a new ANC government if it were to choose this road. Yet, intentionally or unintentionally, it is this path that capital is proposing for the new state.

Recently Julian Ogilvie Thompson spoke of a 5% growth rate providing 200 000 new jobs a year and R9bn-R10bn in additional revenue. He argued that this would allow the state to carry out necessary social expenditure.

In our view such a prospect is remote but, even if achieved, it is inadequate. The 200 000 jobs would only meet the needs of new labour market entrants and an additional R9bn-R10bn would be enough to achieve racial parity at the existing level of inadequate welfare payments. This would force the state into substantial deficit expenditure.

For this reason we seek a growth path based on expansion of the manufacturing sector in particular. We have referred to this as growth through redistribution rather than growth with redistribution. Given the magnitude of our socio-economic problems, they can only be redressed through an overall growth path rather than through state redistributive expenditure.

We have often referred to a "slim state" by which we mean a skilled bureaucracy able to intervene in key areas to provide the framework for a new growth path and able to facilitate organisation and activity in the wider civil society that will contribute to economic reconstruction.

The state will take the lead in the proposed growth path but it is not a statist conception of the economy.

Such a growth path requires changes in present institutions and requires a strong public sector, but it does not follow that the private sector will suffer. It will have to live in a new world, but it will be a world designed to take us well into the 21st century.

Nationalisation is part of such a growth path and different parts of a public sector will be required to meet different objectives. Let us debate these issues fully.

□ **Erwin is a Cosatu economist and Numsa national education secretary. This is an excerpt from his address at Business Day's Business Achievement Award banquet last night.**

LETTERS

'Quick-fix a mirage'

Star 8/8/90 (49)

Proponents of a redistributive quick-fix, a once and for all transfer of wealth as the way ahead for growth in South Africa, were living in a world of make-believe, Anglo American chairman, Julian Ogilvie-Thompson, said last night.

"Any government can plunder the many to enrich the few, but you cannot plunder the few to enrich the many."

The goals of greater opportunity and an equitable distribution of wealth could be achieved only by a growing market economy, where the private sector had the freedom to fulfil its wealth-creating function.

The problem in South Africa, was not that companies were too large, but that in relative terms, the economy was small, he added.

The Anglo chairman was speaking at a function in Springs marking the completion of a R200 million expansion project at Mondi Paper.

Equal wealth distribution 'would not work'

6 Day 8/8/90

ZILLA EFRAT

IF ALL Anglo American's assets were distributed equally to every person in SA, the capital value would amount to less than R1 000, Anglo American chairman Julian Ogilvie Thompson said yesterday.

Speaking at the opening of the BM6 machine at Mondi's Springs Board Mill, Ogilvie Thompson added that such a distribution would severely curtail the productive capacity of these assets.

He said those who argued that the optimum way ahead for growth in SA was a "redistributive quick fix, a once-off transfer of wealth" were living in a world of make believe.

"Any government can plunder the many to enrich the few, but you cannot plunder the few to enrich the many."

Some economists of the left criticised the size of some of SA's bigger companies and saw in "dismembering the conglomerates" a perfect way of redistributing wealth and "democratising" the economy.

However, Ogilvie Thompson said commentators across the spectrum had pointed out that the redistributive effect of such a step was "almost wholly illusory and even counter-productive".

(49)

He said many seriously proposed destroying the competitive advantage of efficient large companies by using crude anti-trust measures to break them up.

The goals of greater opportunity and a more equitable distribution of wealth could only be achieved by a growing market economy, he said.

"Our problem in SA is not that our companies are necessarily too large but that in relative terms our economy is small and, furthermore, the state accounts for as much as 54% which leaves little room for the private sector," he said.

Financial system 'must be allowed to serve new SA'

BDay 3/8/90 (49)

LINDA ENSOR

THE financial system must be allowed to serve as a positive instrument of growth in the new SA — something it could do only through the operation of the market, Anglo American senior economics consultant Aubrey Dickman said yesterday.

Addressing an SA Institute of Management senior executive briefing, he said a post-apartheid government would have to resist the temptation to interfere directly with the growth-creating process in general and the financial sector in particular.

Dickman said progress could be made in improving the allocations to disadvantaged sectors of the community without returning to unwise policies of captive markets and controlled interest rates.

He criticised the proposal of an accumulation strategy based on the redistribution of investment by the withdrawal of funds from financial markets and targeting them to selected sectors.

Intrinsic to this view, he said, was the idea that the capital market did not sufficiently direct resources to critical areas of infrastructure, and that a rationalisation and restructuring was necessary to make for a more ordered and directed flow of funds.

● DICKMAN

In terms of this perspective, SA's abysmal growth and minimal investment were due to a failure of the market system and its financial mechanisms.

According to Dickman, however, "the minimal growth in net real investment (mirrored in the unsatisfactory GDP record) is not due to the failure of the savings system or the mechanism of allocating funds. It reflects decades of inappropriate socio-economic policies."

It was not the system that had failed but the distortions that flowed from apartheid — and then sanctions — which had created a crisis.

"While the efficiency of our financial system ranks high on a world scale, it has shortcomings and distortions that, for various reasons, have prevented an appropriate focus on the needs of the entire community.

"There is no reason to believe that with the elimination of the distortions of inflation and incorrect priorities, and in a climate of renewed growth, financial institutions would not respond in the conventional way to the demand for new capital from corporate enterprises, through new issues of marketable securities, thus reaffirming the stock exchange as prime vehicle for long-term finance."

Redressing imbalances should not be at the expense of efficiency if a future SA was to mobilise international resources for productive advance.

"A form of central planning is no answer," he said.

SPRINGS. — Proponents of "a redistributive quick-fix, a once and for all transfer of wealth" as the optimum way ahead for growth in SA were living in a world of make-believe, Anglo American chairman, Julian Ogilvie-Thompson, said yesterday. GM 7/4/4 8/8/90 (49)

"If one were to distribute all the assets of Anglo American Corporation equally to every person in the country, the capital value will amount to less than R1 000, and it is certain that the productive capacity of those assets would be severely curtailed."

The problem in SA, Ogilvie-Thompson continued, was not that companies were too large, but that the economy was small, and the State accounted for as much as 54%, which left little room for the private sector.

"What SA needs is more big groups like Anglo and De Beers able to back large companies that can compete on an international scale." — Sapa

Amic's interest will be reduced from 63,7% to 53%.. Anglo American's interest will remain unchanged at 30%.

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Higher taxes seen for housing backlog

CPT TIMES 9/8/90 49

By AUDREY D'ANGELO, Business Editor

TAXES will have to rise by "at least 10%" if the taxpayer has to meet the cost of catching up with the backlog in black housing and education, Attie de Vries, professor of economics at the Stellenbosch Graduate School of Business, warned yesterday.

He suggested that business, which was "paying lip service and nothing more", to the need for redistribution of wealth should make a bigger contribution.

Tito Mboweni, head of the ANC department of economics and planning, said that huge savings would be made by dismantling the independent homelands and that "we will shift the emphasis of taxation towards the major corporations".

Both were speaking at the annual congress of the Institute of Life and Pensions Advisers (Ilpa) at the Cape Sun.

Mboweni said that although it would probably be necessary to use anti-trust or anti-monopoly legislation, there would still be private enterprise. The ANC favoured a mixed economy, but its orientation would change to benefit the people as a whole.

Although an integrated plan would be drawn up for the best use of SA's resources it would not be communist-style state planning. It would be "indicative planning" after discussion with the people involved.

It would be vital for SA to become competitive in world markets, and to attract substantial foreign investment, said Mboweni.

There would probably still be a modified form of exchange control, but "we are aware that we shall have to fight very hard to secure foreign investment, particularly in view of developments in Europe."

Both De Vries and Mboweni stressed that black housing and education would have to be improved and past injustices addressed.

But De Vries warned that it would be impossible for any government to meet "the explosion of expectations" without causing South American-style inflation.

He did not believe nationalisation would come about, in spite of the repeated calls for it.

"But we shall have to address inequalities and do more about the redistribution of wealth. The private sector can do much more than it has so far."

The new SA was coming into being "impoverished, inflationary, with a weak rand and high unemployment" as a result of past economic mismanagement.

Population growth was far too high. As a result of this, the demand for more schools was immensely high. Although 15 new classrooms were being built every day for black pupils, the need was for 40, De Vries continued.

And 3,7m blacks were living in shacks not more than 9 m² in size, each containing an average of six people.

"We are spending about 3% of gross domestic product (GDP) on (black) housing. We need at least to double that," said De Vries..

It was his opinion that the best way to tackle the education crisis would be to give identical state education to all races up to the level of standard five. Education after that would have to be privatised.

This would be an opportunity for business to make a meaningful contribution.

De Vries said the redistribution of wealth should not be viewed in a negative way, but as an opportunity. "It will be an opportunity for the private sector, in particular, to go into new, untapped markets."

But, he warned: "It will not be the same pattern. You people will have to start thinking in a completely different way. Otherwise your existence will be in jeopardy."

● Tom Boardman, executive director of the Board of Executors, said in an interview at the congress that business people had told him they would gladly give up a portion of their income or company profits to ensure a peaceful future for SA.

He thought the government had lost an opportunity to raise money for black housing and education by lifting the ceiling below which interest income is tax free from R1 000 to R2 000.

Economic uncertainty likely to have a 'corrosive' effect

010 ay 9/8/90

SYLVIA DU PLESSIS

THE accord reached this week between government and the ANC would bolster business confidence in the months ahead, but the outcome of negotiations could still be a longer term "corrosive element", SA Chamber of Business (Sacob) director-general Raymond Parsons warned yesterday.

Addressing the media on Sacob's latest business and industrial confidence indices, Parsons said foreign investors and business would be inclined to adopt a cautious attitude until the nationalisation debate was settled and the nature of any new constitution had been decided.

"As long as nationalisation is on the agenda, the prudent businessman will wait and see. The underlying corrosive impact will come from uncertainty as to who will call the shots and on what, economically," he said.

"It will also be important to see whether the shape of any new constitution turns out to be one which inspires confidence in the business community."

Sacob's business confidence index, measured via the movements of 16 economic indicators, edged up 0,2 points to 92 last month following four consecutive monthly declines.

Sacob chief economist Ben van Rensburg said the business mood had stabilised, with both economic and political factors continuing to influence it.

"Although industrial confidence at present seems lower than overall business sentiment, there is one factor common to both — uncertainty."

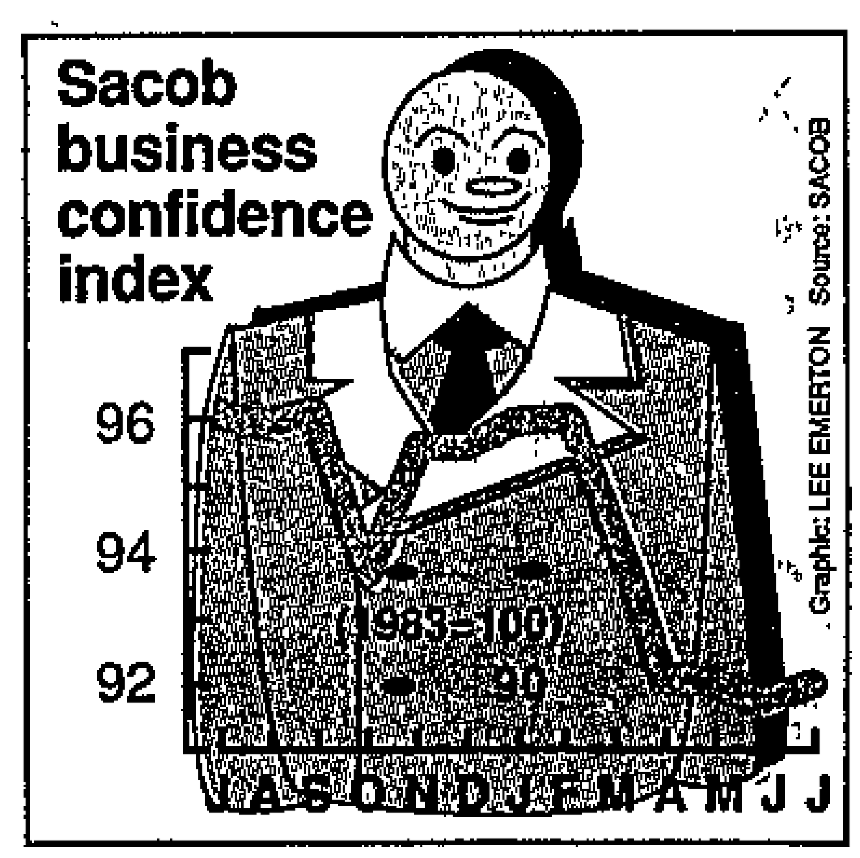
It had also been "clearly established" that the economy had slipped into a recession.

(49)

However, the recent increase in the gold price, arising from the crisis in the Middle East, and the subsequent oil price rise should have a positive impact on business sentiment in August, provided developments in the region did not promote an international recession.

While an increasingly strict SA monetary policy would continue to depress private consumption expenditure, spending on fixed investment was likely to be determined to a far greater extent by political developments.

Sacob's survey of confidence in the manufacturing sector showed most respondents expected the volume of orders received in July to be below June's, with its manufacturing activity index declining to 84 from a 92 in June.



Concern over govt debt costs

MARCIA KLEIN (49)

THE rapid growth in interest on outstanding government debt — which accounts for 15% of government spending compared with 5% in 1960 — is a matter of concern, Old Mutual research unit's July Economic Monitor says.

The rising interest burden reduces the state's liability to "manipulate the discretionary portion of its spending" and to reduce the overall tax burden on the economy over time.

A steady rise could lead to a cutback in other areas of state spending. B/Day 9/8/90

Although outstanding central government debt is not excessive by international standards, interest payments on debt rose from R40m (1% of GDP) in 1960 to a projected R11,3bn (4,2% of GDP) this year.

The share of government tax revenue used up by interest costs went up to 17,5% in 1990 from 5% in 1960.

Government is also faced with large "off balance sheet liabilities" estimated at R34bn, including those related to the government service pension fund and amounts owing to the Reserve Bank, the report says.

Another cause for concern, says the report, is the extent to which debt has been used to finance government spending. In the six years to 1989, government used 17% of the increase on total government debt — an amount of R8,2bn — to finance current spending.

Stals stays on charted course

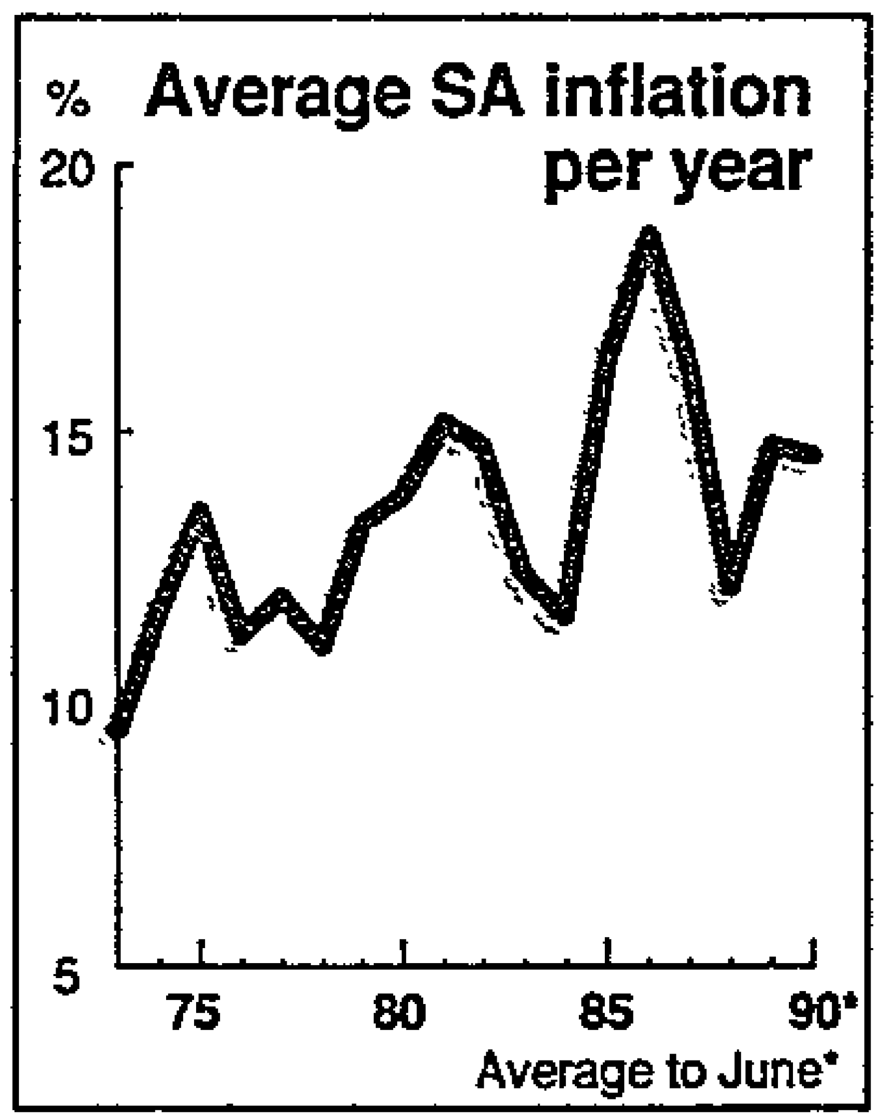
BDay 9/8/90 (49)

GRETA STEYN

WHEN Chris Stals took the reins of the Reserve Bank on August 8 last year, monetary policy changed in content and style.

In his first major policy speech he declared war on inflation, opened fire with a surprise hike in Bank rate barely a month later and is now still sticking to his guns — much to the surprise of the markets.

Stals's stance on inflation illustrates his firm belief that the Reserve Bank has a small — if it has any — role to play in short-term stabilisation policy.



Graphic: FIONA KRISCH

Economic recessions are not the Bank's main concern — its mission is the protection of the currency's domestic and external value. This view represents a major shift in focus from the past when recessions triggered sharp falls in interest rates.

Widespread applause met Stals's statement about a year ago that the time had come to hone down inflation. But almost a year after his first address at the Bank's annual general meeting, only a few stray supporters continue to applaud while the markets have grown restless with impatience to see him cut Bank rate.

The markets and some economists believe a recession, coupled with a strong BoP, equals a cut in interest rates. It would appear to be an affordable move to alleviate economic hardship.

That approach was taken to extremes after the 1985 recession when interest rates dropped to significantly negative levels in real terms.

Stals has apparently told Bank staff he hopes to see inflation go down to levels compatible with our trading partners' in the next four years.

Against that background, he has left promoting economic growth to Economic Co-Ordination Minister Wim de Villiers and Trade and Industry Minister Kent Durr.

The Bank's role is to provide a stable financial structure within which those economic policies can be implemented. He will keep monetary policy tight for as long as it takes to create that environment.

A feature of his tight policies in the past year has been to keep the money market very short of cash — squeezing banks' margins. He hoped to curtail credit growth in this way.

The policy drew heavy criticism. The Standard Bank's economists joined money market expert Pierre Faure of Sechold in calling for a flexible prime rate to cope with the squeeze. They accused the bank of "credit rationing" and departing from market-oriented policies.

Stals has put a flexible prime rate on the agenda, but the chances are that prime will not be freed before interest rates are clearly on a downward path.

Criticism was also levelled at Stals during the "repurchase agreement debacle". The move to bring these off-balance sheet items back on balance sheet, where they become subject to expensive reserve requirements, was initially interpreted by the market as an effort further to tighten monetary policy.

The first meeting on the issue caused an uproar which grew louder as the gilts market realised that speculation would be curtailed.

Stals then said the move had been aimed at creating a sounder banking system; it was a bank supervisory measure rather than a monetary policy decision. In any event, there were some crossed lines on the issue that later firmly emerged as an effort to create a stable and sound financial environment.

The striving for improved stability, and the mission to protect the external value of the currency, have seen a change in exchange rate policy. Stals has explicitly said he wanted to keep the rand as stable as possible against a basket of currencies, of which the dollar has the strongest weighting.

When necessary, the Bank has intervened actively in foreign exchange markets to stop the rand from appreciating too much or to moderate its descent. The policy has had the benefit of containing the Bank's forward cover "losses" which last year drew heavy criticism for their money-creating effect.

A relatively stable rand also reinforces the battle against inflation as it contains imported inflation.

In the fight against inflation, one of the main thrusts is curbing money supply growth. Nonetheless, the Bank has accorded a lower profile to the money supply targeting exercise than in the past, preferring to call the projected range "guidelines" rather than targets.

Growth in the money supply is edging into the guideline range of 11%-15%. Inflation has slipped to 13,6% after peaking at 15,8% last year, credit growth has slowed to the desired level of about 1% a month and the foreign exchange reserves improved by more than R270m in July. Stals's policies are clearly working.

His test in the next year will be in whether he keeps policies tight enough to crush double-digit inflation and create the stable financial environment he desires.

But he will also be judged by whether he keeps policy too tight — even if the Bank does not see recessions as its main concern.

LETTERS

ECONOMY

Argus 9/8/90 49 30

Back to Adam Smith is message Finance Minister gives nation

Business Editor

THAT people did not achieve equality in standard and quality of living by cavorting in the streets, striking and through stayaways, was the economic message delivered by Finance Minister Mr Barend du Plessis in Pretoria last night.

"The only universal economic principle is that a society can only consume as much as it produces," he said.

Export pricing

There was a maximum price at which a country could continue exporting, but the demands for wages and salaries in South Africa were now being bargained on the basis of political power and pressure rather than productivity.

There was need for every worker to understand that if the export price was given and there was a need for an increase in wages, the only variable that could make that equation balance was an increase in productivity.

Present trends indicated wages and salaries had "dramatically and exponentially" outstripped productivity.

"Employers and employees must both understand there is ultimately no other solution than higher productivity or an arresting of wage demands for continued growth in South Africa, unless one resorted to continued depreciation of your currency, which immediately in our case translates into an inflation injection.

"This is something we need like a hole in the head right now."

South Africa's economic preservation did not lie in the lifting of trade sanctions and the country's return to the international capital markets, but in developing an awareness of the fundamental truths of the economy.

He urged employers and others in positions of authority to explain these fundamental truths, such as the link between productivity and remuneration, to their employees.

The fundamental values should be explained because there were millions of people in South Africa who had not yet properly experienced the benefits of free enterprise and private property ownership.

Mr Du Plessis said the country was on the verge of "breaking the neck" of inflation.

"If we persist with our present policies there is a good chance that in the not too distant future Public Enemy No 1 will have itself broken and we can look forward to inflation figures below the double figure mark."

Unions' demands may harm SA, says Minister

Own Correspondent

The often unreasonable demands of trade unions could effectively price South Africa out of world markets, Finance Minister Barend du Plessis warned today.

Mr du Plessis was addressing the President's Council on a private member's motion by Democratic Party councillor David Gant on steps the Government should take to improve the economy and lift living standards.

In his address, Mr du Plessis highlighted difficulties faced by industrialists because of union activity as a factor in the decline in investment in South Africa.

He said the cost of labour was already higher in South Africa than in other comparable countries in the world and he warned that South Africa had to beware of pricing itself out of world markets by allowing labour costs to rise even higher.

"We must get the unions to understand they will price themselves out of the market and lose their jobs if they continue to make unreasonable demands," he said.

Mr du Plessis said increased productivity was the key to increased wealth and increased investment for the country as a whole would ultimately benefit individuals too.

He said union activity also had an important bearing on the confidence in the economy and this was an important factor when it came to investment.

Earlier, Mr du Plessis said that while the Government believed the country's economic answers were to be found in capitalism, it did not believe that "pure unbridled capitalism" would provide all the answers.

He said the great challenge facing South Africa was to achieve a delicate balance between the generation of wealth and the distribution of the wealth in a way which would also involve state responsiblities.

He said he believed that the best way to redistribute income was through the creation of equal opportunities.

This would allow everybody to gain access to the economy and to strive for the highest level of income their skill and talent would allow, in a regime of the lowest possible taxation.

The Government was against nationalisation, but aimed at maximum employment and price stability.

'Economic stability will pave way for peace in SA'

(49)

THE right economic rather than political dispensation would determine whether South Africa took the road to peace and stability or one leading to confrontation, David Gant (DP), said in introducing a private member's motion on the economy in the President's Council yesterday.

"When the constitutional debate comes to an end, the focus of all South Africans will turn toward their social and economic well-being," he said.

"The major driving force in South Africa's post-apartheid politics is going to be the redistribution of income, wealth and opportunity.

"This motion seeks to ensure that the necessary and inevitable process of redistribution is achieved in the soundest, most effective and most orderly way."

There had to be certainty that wealth, and not poverty, was increased.

New governments that came to power applied radical, unnatural economic policy measures in order to satisfy and placate the demands of the electorate.

"The whole African continent is riddled with examples of political change followed by economic indulgence and the consequential economic mess."

Many whites were reluctant to give up their political monopoly and face true majority rule because they feared the potential economic radicalism of future governments.

"The fundamental fear is that the haves will be unfairly deprived of their assets and their quality of life while successive governments satisfy unrealistic and excessive demands of the have nots.

"The problem is that our economy is dangerously and embarrassingly weak in respect of the vital ingredients of growth, employment, price stability and balance of payments equilibrium.

"Dangerous because of the implications of political extravagances and embarrassingly because, for a country with the mineral, human, financial and other infrastructural resources that we possess, it is a disgrace that we have allowed our economy to get into its current sorry mess."

The state could contribute positively towards growth and development by:

- Promoting inward industrialisation
- Transferring inefficient nationalised corporations to the more effective private sector
- Reducing taxation in order to encourage private sector savings and investment and providing greater incentives to exporters, especially those that beneficiate their raw materials.

W1 Mail 10/8 - 12/8/90

Strikes, boycotts and mass protests and the fiscal implications resulting from meeting these demands had negatively affected business confidence, Council economic affairs committee chairman Gerrit Bornman said in the debate on Gant's motion.

"The present labour unrest and the unrealistic demands of unions are already doing incalculable harm to the economic development and prospects of South Africa," he said.

It was high time South Africans adopted a new approach to the question of productivity, Finance Minister Barend du Plessis said.

The country should be made productivity conscious, so workers began to understand their role.

No country could continue to exist if it consumed more than it produced.

It should be realised that if workers became too difficult to handle, or unreliable, or made unreasonable demands, industrialists had a few choices.

They could close down their businesses, or they could replace humans with machines, which were more reliable. — Sapa

Cit Times 13/8/90 (49)

PAC re-affirms goal of socialism

HARARE. — In a matter of months the struggle in South Africa would be between the government and the Pan Africanist Congress, PAC vice-president Mr. Clarence Makwethu said on Saturday.

He was addressing a meeting between the PAC and the American Chamber of Commerce in South Africa (Amcham).

The meeting marked the first formal talks the PAC has held with business leaders in South Africa.

Mr Makwethu said it had been proved "beyond doubt" that the PAC was a major force in South Africa.

Despite talks with some sections of the liberation movement there had been no move from the government to speak to the PAC which, he stressed, was not against the principle of a democratic transfer of power.

However, he said the PAC was not going to accept a two-tier system which would give whites a veto.

Mr Makwethu said the PAC wanted a transfer of economic power, as it had no desire to rule over starving people.

PAC chairman, Mr Johnson Mlambo, confirming the PAC's commitment to socialism for South Africa, told the meeting the country should not be socialised for socialism's sake.

He said the PAC realised a period of transition was required for the redistribution of wealth in South Africa.

"Changes from capitalism to socialism cannot suddenly emerge of themselves. We should not socialise for the sake of socialisation.

He said the most acute and urgent problem in South Africa was how the wealth could be redistributed in such a way that the quality of life of the majority could be improved.

"Logistically, this involves the socialisation of the "commanding heights of the economy" which in our country is in the hands of the seven giant corporations which control 80% of all the companies listed on the Johannesburg Stock Exchange," Mr Mlambo said.

There would also have to be socialisation of "medium-size private enterprises via the various forms of state enterprises, for example, by means of transforming capitalism enterprises into mixed ones — that is, private and public ones".

In his conclusion, Mr Mlambo said: "Thus, while PAC has opted for socialism, nevertheless, we will have to tread carefully lest we cut off our nose to spite our face.

"But change must come and come soon in a period of transition, and be seen to be effective to be believed." — Sapa and Political Staff

Wriggle away, fish, before somebody comes to gut you

B 10q 17/8/90

49

KEN OWEN

THE great American statesman, Dean Acheson, once remarked that the fishwives on the eastern shore of Maryland were in the habit of saying, "Lie still fish, all I wanna do is gut ya!" These days, in the debate on economic growth, businessmen must feel like the fish.

Cosatu's economist, Alec Erwin, soothingly assured a business audience last week that Cosatu recognised how unwise it would be to destroy business confidence . . . and went on to advocate the dismantling of "conglomerates".

Comrade Joe Slovo, leader of the World's Last Communist Party, writes in the Financial Times, "We obviously need a strategy to generate growth in the post-apartheid mixed economy." Then he adds: "The state will take ownership stakes in some industrial and financial groups. These can be of varying types, including full nationalisation."

In the background lurk the communist theoreticians, like Robert Davies, urging on the ANC a strategy of piecemeal conquest of the corporations, using the trade unions as instruments of guerrilla warfare to shift the balance of power against management within individual enterprises.

To say simply that the Left speaks with forked tongue is not adequate. It explains nothing and it may not, indeed, be altogether true. The failure of socialist theory has been so spectacular, the victory of liberal capitalism over socialism so complete, that the Left flounders in confusion.

When Erwin and Slovo insist on the need for business confidence and economic growth, and then say things which are certain to destroy confidence and hamper growth, it may simply be a manifestation of all-too-human attempts to salvage something from a deeply held faith. On this level, socialists deserve sympathy and careful consideration of their arguments.

There are genuine differences of opinion. To the socialists, it seems plain that South Africa's severe racial disparities of wealth are a consequence of capitalism; to liberals it seems equally plain that the disparities of wealth result from the National Party's distortion of capitalism and its resort to the methods of a command economy.

Both can agree, however, that such disparities threaten political stability, offend any sense of justice, deny compassion, and demand redress. The question then is simply a matter of method: is it better to pursue growth at almost any cost, allowing every individual to prosper at whatever pace he can achieve, or should we sacrifice growth in order to achieve an immediate amelioration of the disparities?

Around this question — though it may be phrased in various ways — the entire political debate in South Africa now revolves. The word "liberty" rarely crops up, nor does the phrase "the rule of law", even though both liberty and law are essential prerequisites of economic success.

For liberals, the debate is frustrating. One reason is that, while socialism itself has collapsed, the discourse is still dominated by the terminology, and indeed the terms of reference set by brilliant socialists.

The problem is vividly demonstrated in the confession of disillusionment of Idasa's regional director for the Western Cape, Nic Borain, after his recent visit to the Soviet Union, an experience that "shook his world".

Having been taught at university to worship the Soviet Union, he found Moscow's people "struggling to survive" and convinced that only a free market can cure the appalling conditions created by socialism. Yet he continues to talk of "profiteering capitalism" as uncaring, greedy, and the cause of our misery. Disillusionment has not yet brought reconsideration.

Even today, socialism is discussed in terms of its promises, capitalism in terms of its failures. Socialists, having lost faith in socialism, now transfer their allegience to various kinds of "mixed economy" so that they can continue to attack liberal capitalism. It is not so much a case of moving goalposts as of a moving football field.

There is another obstacle to sensible debate. In a democracy, people do not mind identifying themselves, defining their policies, and naming their true leaders. Conspiracies, like the World's Last Communist Party, do everything possible to conceal their membership, to infiltrate and manipulate other organisations, to fulfil secret agendas, and to conceal their true leadership behind temporary fronts like the SACP's "Interim Leadership Group".

South African politics, for some time to come, will be a matter of seeking definitions: does the ANC exist apart from its communist support structure? Are those trade unions led by communists simply workers' organisations, or the vanguard of a greater cause?

How do ANC policies differ from SACP policies, and on what questions? Who are the leaders of each organisation? And where does the weight of leadership influence fall? Those who can answer these questions will not do so, the rest of us can only grope for answers. Trust is impossible.

In short, we stand at the threshold of a long and difficult national debate, the outcome of which may well depend on the emergence in the West of a new terminology that does not begin, as all socialist theory does, by assuming the failure and malevolence of capitalism.

In the meantime, the confidence of the businessmen — without whose enthusiastic participation in reconstruction this country will subside into Zambian sloth or Mozambican apathy — is steadily eroding. Whether they listen to the ANC's Nelson Mandela, or to Cosatu's Alec Erwin, or to Joe Slovo of the World's Last Communist Party, they hear only threats and warnings.

They have two broad options: they can run for cover, switching investments from risky to safe ventures, from here to abroad, from wealth creation to wealth preservation, while the debate continues. Or they can do what entrepeneurs do best: change the realities and let the debates catch up.

One businessman has suggested to me a series of actions to capitalise on the current international interest and goodwill, and to provide South Africans with a new "bonding" experience — national-building, if you like — that would bridge racial differences.

Firstly, a programme to capture the 1998 World Cup tournament (and the burst of tourist development which that implies), beginning with an invitation to the Cameroons and West Germany to tour this country; secondly, a West Indies cricket tour for further "bonding", and an All Black rugby tour to assuage the desolate feelings of the Right; thirdly, a campaign to bring the Olympics to South Africa in the year 2000, in order to set in motion the vast building programme it would require; fourthly, a huge tourist development. . . .

These ideas may be good or bad; it is the attitude that counts. The challenge to business is to find ventures that combine the creation of wealth with the creation of jobs, and combine profit with welfare. The more black people are lucratively employed, and well housed, and trained to advance their own fortunes, the less we shall hear of the supposed failures of capitalism.

LETTERS

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Mandela hints at lifting of sanctions

By Julienne du Toit

ANC deputy president Nelson Mandela hinted at the possibility of the lifting of sanctions in a SABC-TV debate last night.

In a panel interview with newpapaper editors, Mr Mandela said he was as worried about the state of the country's economy as everyone else, but said there were good reasons why sanctions had been imposed.

"It is my hope as we progress with negotiations we will soon reach the moment when we will be able to review the continued application of sanctions as we have done with the armed struggle," Mr Mandela said.

Sunday Times editor Tertius Myburgh asked Mr Mandela what he felt the prospects were for the return of peace and stability in the townships.

"As long as the masses have no right to determine their destiny, we will have instability," Mr Mandela said, adding that the possibility of peace was good because the ANC and Government "had made good progress".

On nationalisation, Mr Mandela said State nationalisation was part of South Africa's economic history. The ANC was examining nationalisaton as one of the options in rectifying the unfair distribution of resources. He had asked businessmen for an alternative. If they could produce this, the ANC "would not worry about nationalisation".

When asked if he were a religious man, Mr Mandela said the question of religion was a private affair. However, he had always appreciated the key role religion had played in the liberation struggle in South Africa.

On the crisis in black education, Mr Mandela said pupils had responded to the ANC's call to go back to school but found that there were not enough schools to accommodate them.

He said the violence in South Africa was a source of concern to "all of us". However, one of the ANC's greatest problems was not Inkatha, but State violence. There were individual policemen who were "complicating" the situation.

He refused to be drawn into discussing his differences with Mangosuthu Buthelezi in the mass media as this tended to worsen the situation. He had already stated at a rally in Durban that he hoped Chief Buthelezi and he would address future rallies together.

Answering a question on the ANC's attitude to dissenting political movements, Mr Mandela said the organisation had urged political tolerance. "By allowing dissention we may find a mirror to see ourselves."

Mandela hints at end to sanctions

Argus 13/8/90

The Argus Correspondent

JOHANNESBURG. — ANC deputy-president Mr Nelson Mandela has hinted his organisation may soon agree to the lifting of sanctions.

In a SABC television panel interview with South African newpapaper editors last night he said he was as worried about South Africa's economy as everyone else.

"I hope that as we progress with negotiations we will soon be able to review the continued application of sanctions, as we have done with the armed struggle."

Sunday Times editor Mr Tertius Myburgh asked Mr Mandela what he felt the prospects were for the return of peace and stability in the black townships.

PROSPECTS GOOD

Mr Mandela: "As long as the masses have no right to determine their destiny we will have instability. But the prospects for peace are good because the ANC and the government have made good progress."

Asked about nationalisation, he said State nationalisation in industry was part of South Africa's economic history. The ANC was examining nationalisaton as one of the options of rectifying the unfair distribution of resources in the country.

"I have asked businessmen for alternatives. If they can produce an alternative the ANC will not worry about nationalisation."

Asked whether he were a religious man, Mr Mandela said the question of religion was a private affair.

"But I have always appreciated the key role religion has played in the liberation struggle. Not only Christians but also Muslims, Hindus and other religions have played a part."

On the crisis in black education he said pupils had responded to the ANC's call to go back to school but had found that there were not enough schools to accommodate them.

Mr Mandela said the violence in South Africa was a source of concern to "all of us". The ANC's greatest problem was not Inkatha but State violence.

Positive signs in recent weeks

(153) (244)

Barend sees likely fall in interest rates

B|Day 14/8/90 (49)

MIKE ROBERTSON

FINANCE Minister Barend du Plessis said yesterday he believed it would be possible to lower interest rates before the year end.

In an interview, Du Plessis ruled out any immediate relaxation in monetary policy, but said that "a lot could happen within three months".

"We will be in a much better position to read the situation within three months. I still believe that something will be possible before the end of the year."

Du Plessis said he had pointed out before that when the inflation rate began to come down it would pull down interest rates. If this did not happen real interest rates would be punitive to a degree that was not appropriate.

DU PLESSIS

The Finance Minister said that in recent weeks there had been very positive signs that the consumer price index (CPI) and money supply were going in the right direction.

There were also positive signs from the producer price index (PPI), although this was an unreliable indicator.

Du Plessis said any decrease in interest rates later this year would be very small.

"Our firm belief is that we have achieved so much and the present situation holds out so much promise for real progress in our fight against inflation that we must go about policy application with utmost circumspection."

He said that after studying the latest graphic representations of economic variables it seemed to him that the economy had managed the downswing on a much more acceptable level than expected.

However, he conceded that this was a general assessment, and that some sectors were "really battling". While the overall picture was in line with his prediction earlier this year of a soft landing, "some people really came down very hard".

Asked about progress in the budget cuts initiated to partially fund police pay increases, Du Plessis said the process was continuing and entailed a full review of spending priorities.

It was difficult, "and perhaps not even prudent", to make known now what had already been achieved.

The process, he said, involved the appointment of financial managers to run

☐ To Page 2

Barend

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☐ From Page 1

departments on a more professional basis than before, using procedures like cost flow management.

"In this respect Wim de Villiers (Administration and Economic Co-ordination Minister) and a number of advisers appointed to assist him play a decisive and welcome role."

Du Plessis said SA had achieved a reasonable degree of success in rolling over foreign loans, but the situation was far from normal.

There had been sufficient improvement in exports to enable SA to meet its balance of payments commitments for the year.

He said there were a lot of "promising noises" coming from a number of international financial institutions about resuming longer-term business with SA.

However, because SA was still within the confines of a standstill, international banks were, in many instances, required to make additional deposits with their central banks if they lent to the country.

The result was that "the cost of transactions with SA is too high to really provide the volume of finance that we are capable of handling".

Du Plessis said the partial success in rolling over loans was directly linked to developments since February 2.

However, in recent months government had received increasing inquiries from overseas about prospects for a cessation of labour unrest, stayaways, strikes and excessive wage demands.

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Durban sees economic growth as key to peace

LINDA ENSOR

THE Natal violence, which has claimed between 2 000 and 3 000 lives in the past three years, could continue through the next decade if urgent steps are not taken to reverse the trend towards economic stagnation, Durban City Council consultants believe.

The council, faced with sprawling shack settlements on its metropolitan borders, has launched an initiative to develop the broader, depressed Durban functional region (DFR).

The violence has resulted, if not in a flight of capital and skills from the war-torn area then at least in a lack of new investment, and a trend towards mechanisation. But quite apart from this, the demographic realities are frightening in their potential to create a cycle of conflict and socio-economic deterioration.

This emerged at a Press briefing in Durban yesterday organised by the council and the development project's coordinators.

With rapid urbanisation into the KwaZulu peripheries of the metropolitan area, the population growth rate in the DFR over the next 10 years is expected to be between 4% and 6%.

Economic growth, on the other hand, lags behind the national rate, not achieving even 1% per annum if the contribution of the development regions is excluded.

While 25% of SA's population lives in Natal, the province contributes only 15% to the national GDP. Part of the reason for this, the briefing was told, was the concentration of activity in the PWV area around the mining industry.

Another spectre to be confronted — one which arises from low economic growth rate and a high rate of population growth — is rising unemployment in the greater Durban region.

Disturbing

Pim Goldby Management Consultants' project facilitator Mike van Kralingen says that of the 1,3-million potentially economically active people in the DFR, only 47% are formally employed.

Assuming a best case scenario of a population growth of 4,5% and economic growth of 3% per annum, the unemployed would total about 1,1-million by the year 2000. In a worst-case projection (a population growth of 6,5% and economic growth of 1%) the ranks of the jobless would swell to 1,8-million.

And the picture is made more disturbing for the Durban City Council and its strategists by the fact that the majority of the population is under 18 years old, poorly educated, and ill-equipped for any but the most basic, unskilled work. This is regarded as a breeding ground for social turmoil.

"There is every indication that these trends will continue, resulting in a continued deterioration in the quality of life," Van Kralingen says.

"There is a real possibility of Durban becoming a Third World region by the year 2000."

To tackle these problems the council has launched a drive to achieve an economic growth rate of 8% and the creation of 300 000 formal sector jobs in the next 10 years.

The initiative has been taken by a committee comprising city councillors and representatives from parastatals and the private sector.

"The economic development committee is an apolitical forum which hopes to bring together all the players in the region to work towards economic growth on the basis of mutual self-interest," says regional GM of the Small Business Development Corporation and committee member Tony Kedzierski.

Drop in rates seen by year's end

Business Day Reporter

CAPE TOWN — The economy is ready for a decline in interest rates, but this is not likely to occur until the end of the third quarter, says Syfrets economist Elmien de Kock. B Day 14/8/90

Writing in the latest issue of Syfrets' quarterly economic newsletter, De Kock predicts a 3% reduction in short-term interest rates by the end of the year, with prime expected to decline by 1% at the end of the third quarter and by another 2% by the end of the year.

"It remains our view that short-term interest rates have peaked, but because of the vulnerability of the gold price and current monetary policy, we foresee that rates will remain at higher levels until at least the end of the third quarter," she says.

De Kock says fundamental economic trends will have a positive effect on the capital market, which has been reflecting political and investment uncertainty through an increase in volatility.

But, in the current environment, a relatively high exposure to the short end of the market is advisable, she says. 49

Factors with a negative impact on the financial and industrial sectors include slower, even negative, earnings growth; high.

More political unrest and labour union activity would also be adverse, as would uncertainties over the "new SA"; currency stability; and a possible forced redirection of institutional cash flows by government.

While real interest rates and a relatively highly-rated market exist, it is prudent to avoid equities and to create liquidity where over-exposed, she warns.

Ailing economy a harbinger of unrest, says Bethlehem

B/Day 15/8/90

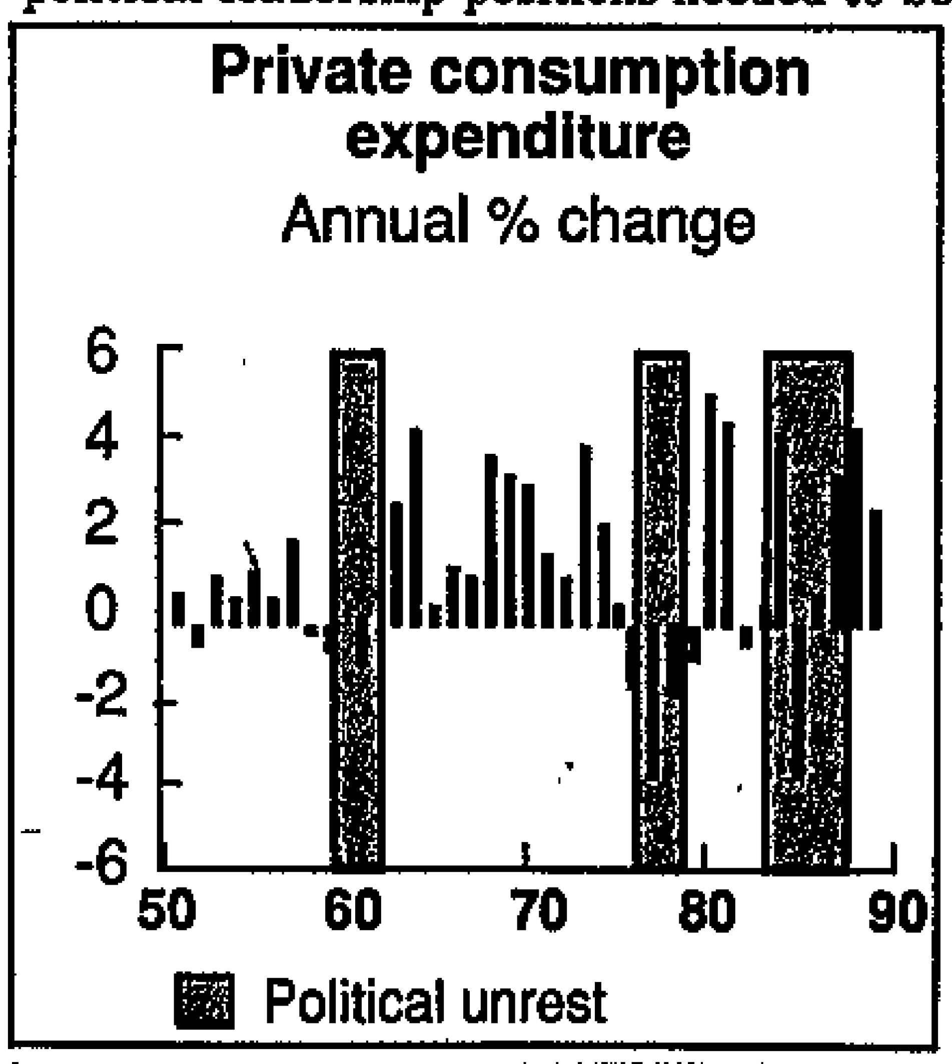
(49)

A DETERIORATING economy, implying poor prospects for private consumption expenditure (PCE) in real per capita terms, should serve as a warning signal to SA's political leaders, JCI economist Ronnie Bethlehem said in an interview yesterday.

This was because worsening economic conditions, triggered by a declining gold price, historically preceded unrest, he said.

Despite the recovery in the gold price since the Gulf crisis, what was viewed as political unrest was "really being driven in part by the economic deterioration affecting people in the lower income echelons".

Both the macro-managers and those in political leadership positions needed to be



SYLVIA DU PLESSIS

sensitive to that and to understand it was not a purely political phenomenon.

"If we want to remove unrest, we need to address economic improvement. We must not see it as good enough to achieve on the upside of the business cycle. What's critical is what comes when this cycle turns the other way.

"We know the economy is moving into a recessionary phase and that PCE in real per capita terms is deteriorating. If the past is any guide, it warns us of the possibility of social and political destabilisation. And there is evidence of that now."

The unrest in Port Elizabeth, for example, was only partly a consequence of political factors.

However, the Reserve Bank was aware that heightened inflation "feeds back" to damage growth in employment and, correctly, wanted to use the opportunity it had before the economy transformed to bring inflation down.

"But it must be aware of the limited extent to which it can allow the economy to sweat out its anti-inflationary policy without side effects which would be hostile to government's broader political objectives," he said.

"What is on our side is the fact that government and the ANC are working together to bring about a political transformation, and are not allowing unrest to deflect their attention."

GDP figures point to deep recession

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81094 15/8/90

GRETA STEYN

KNOCKED by stayaways and a spate of public holidays, SA's real gross domestic product (GDP) fell for the third consecutive period in the June quarter — providing strong evidence of a deep recession.

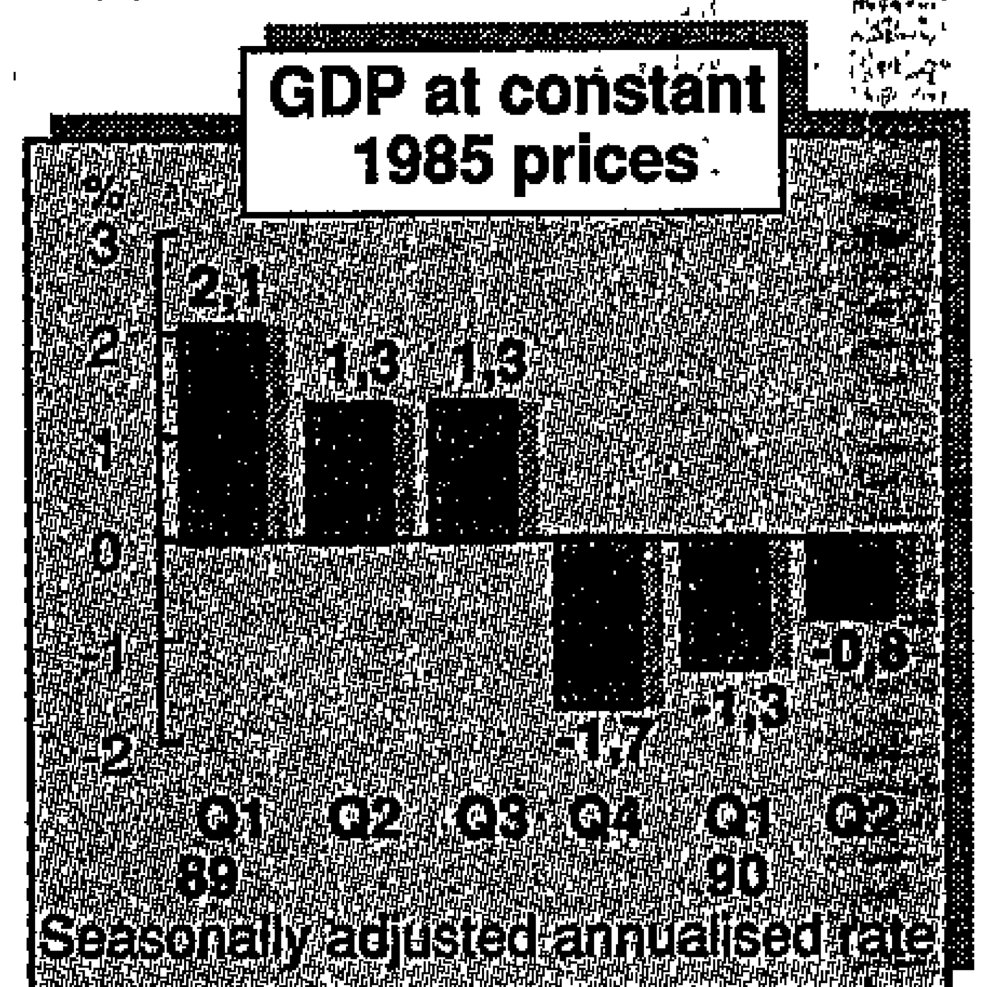
Central Statistical Service (CSS) figures released yesterday showed GDP fell by a preliminary 0,8% in the June quarter from the first three-month period this year, annualised and seasonally adjusted. Real GDP is the value of all goods and services produced in an economy in a given period, adjusted for inflation.

The fall, which follows a 1,3% decline in the first quarter, means SA has almost no hope of achieving positive real growth for the year. The slump is bad news for employment, as SA needs an average annual growth rate of 5%-6% a year to absorb new job seekers.

Nedcor economist Edward Osborn said: "The weak gold price, stayaways, the many public holidays and the lack of business confidence explain the continued negative trend in GDP growth." He forecast an overall decline in GDP for 1990.

The forecast is a far cry from the 1%-2% growth rates predicted at the beginning of the year.

The CSS figures show that mining and manufacturing were hardest hit with their contributions to overall GDP falling by 3,4% and 3% respectively.



Graphic: LEE EMERTON Source: CSS

Rand Merchant Bank's Rudolf Gouws said de-stocking of inventories had taken place in this past quarter in anticipation of weak demand — with a negative effect on overall production levels.

Agricultural production put a brake on the fall in real GDP with a real growth rate of 15% in the second quarter (seasonally adjusted and annualised). Excluding agriculture, real GDP declined by almost 2%.

Standard Bank economist Nico Czypionka said the figures confirmed his belief that the monetary authorities were beginning to "overkill" the economy with high interest rates.

with Community Chest and Ithu

Sacob poverty paper due soon

PETER DELMAR 49

A SACOB strategy report on ways to overcome poverty and inequality would probably be released within weeks, director-general Raymond Parsons said yesterday.

He predicted that the document was likely to make a significant contribution towards the economic/political debate on redistribution and economic systems. B/Day 15/8/90

The "substantial" report was being compiled by a task force of economists and businessmen. It would have to be approved by Sacob structures and members before publication.

Despite signals that it was prepared to reconsider its nationalisation policies, Parsons said the report would not be aimed specifically at the ANC.

Committee meets

Growth rate declines for third straight quarter

(49) Star 15/8/90

By Sven Lünsche

Gross domestic product (GDP) fell by an annual rate of 0,8 percent in the second quarter of the year — the third successive quarterly decline, Central Statistical Services (CSS) reported yesterday.

Economists expect the real hardships are still to come. They predict further reductions in growth in the remaining quarters of the year.

The June decline is in line with forecasts that tight monetary policy would begin to bite in the second half of the year, particularly where consumer expenditure is concerned.

Gross domestic expenditure (GDE) is falling rapidly, having declined by 4,2 percent in the first quarter.

For the year as a whole, real GDE growth is estimated by Southern Life economist Mike Daly to be about three percent below that of 1989, when there was a small drop of 0,8 percent.

Negative growth

He expects fixed-investment spending to show negative growth of three percent this year, reflecting high interest rates, deteriorating sales expectations, lower profitability and the uncertain political situation.

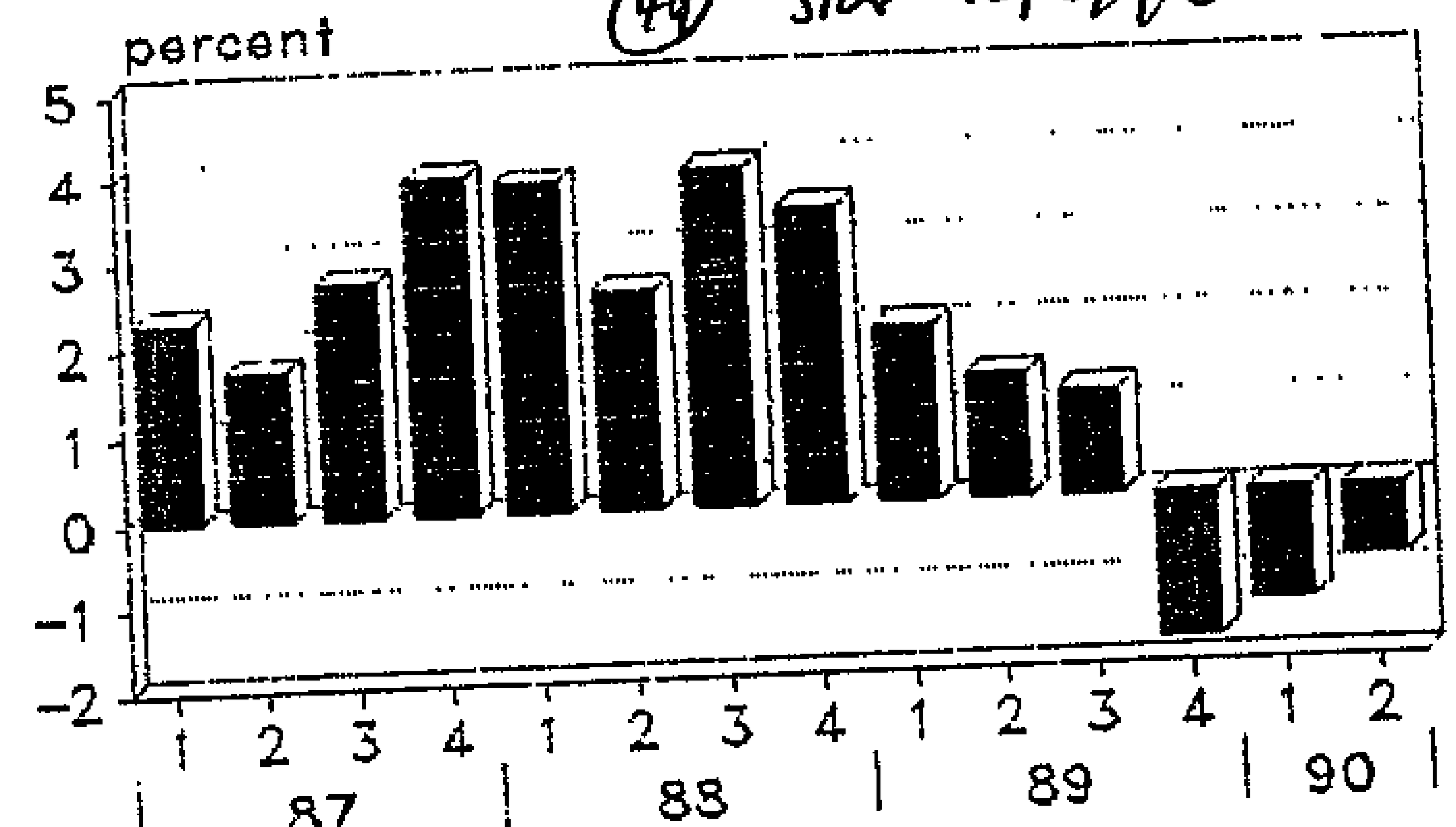
However, a moderate rise in real net exports, coupled with a mildly expansionary fiscal policy, could prevent a real decline in the growth rate from occurring this year, Mr Daly says.

The second-quarter negative 0,8 percent rate followed on a 1,3 percent decline in the March quarter and a 1,7 percent fall in the fourth quarter of last year.

The seasonally adjusted real rate of decline in the non-agricultural sector was 1,9 percent in the second quarter (0,9 percent previously).

CSS says that with the exception of general government, community services and other products, the real contribution of all other sectors declined in the second quarter.

The real contribution of the manufacturing and mining sectors declined by an annualised three percent and 3,4 percent respectively.



Quarterly GDP growth (1985 prices)

Tertiary and secondary industries declined by 2,7 percent and 0,9 percent in the quarter.

Fundamental change is just around the corner. Yet exactly what impact this change will have on individual South Africans is less easy to define. AART ROUKENS DE LANGE of the Institute for Futures Research of the University of Stellenbosch explores what it will take for the future to be both peaceful and rewarding.

New attitudes are needed for this new South Africa

Cape Times 16/8/90

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THE truth is coming home these days to South Africans of every colour, religious persuasion and socio-economic group that fundamental change is upon us.

Even though the change thus far, especially where whites are concerned, has been more talked about than implemented, there is a sense of inevitability about it. The question most of us are asking is: "How will life change for me?"

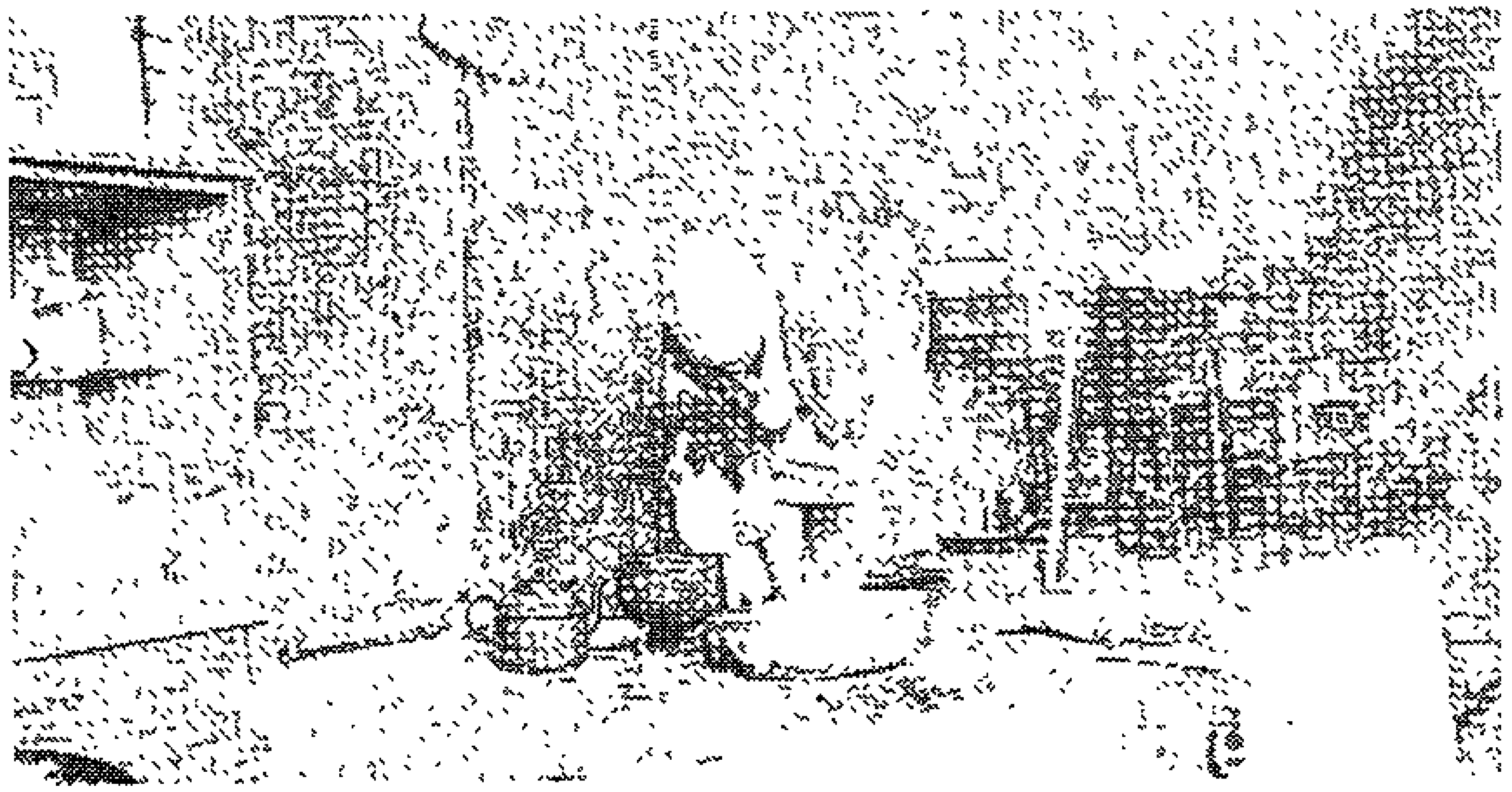
There are several obvious areas where change will affect us first. We shall, for instance, find ourselves coming into closer contact with other population groups. Their values, hopes, opinions and expectations will probably be quite different from ours. While this will undoubtedly be interesting, it could also at times be uncomfortable. Sometimes we shall find ourselves thinking: "This is not what I would have chosen," even if it is part of the deal that adds up to the welcome new South Africa.

This personal experience of change, and the way we face up to it, is ultimately where it's all at. That is what will decide the future quality of life in this country, no matter how the politicians pontificate. Coming to terms with the way things are will be the major challenge of the '90s.

The economy is another obvious area of change. A drop in living standards is perhaps one of the things whites fear most and it is likely we shall have to face up to this. In fact, we are already having to do so.

Economic inequities

There has, for instance, been little growth in the economy since 1980, which means that virtually no new jobs have been created. And, with about 300 000 young blacks entering the job market every year, that is a big problem. In addition, the increasing trend towards automation has reduced the number of existing jobs, the unskilled being the first to go.



NO MAN'S LAND: Economic discrimination against blacks will have to be addressed before the new South Africa can become reality.

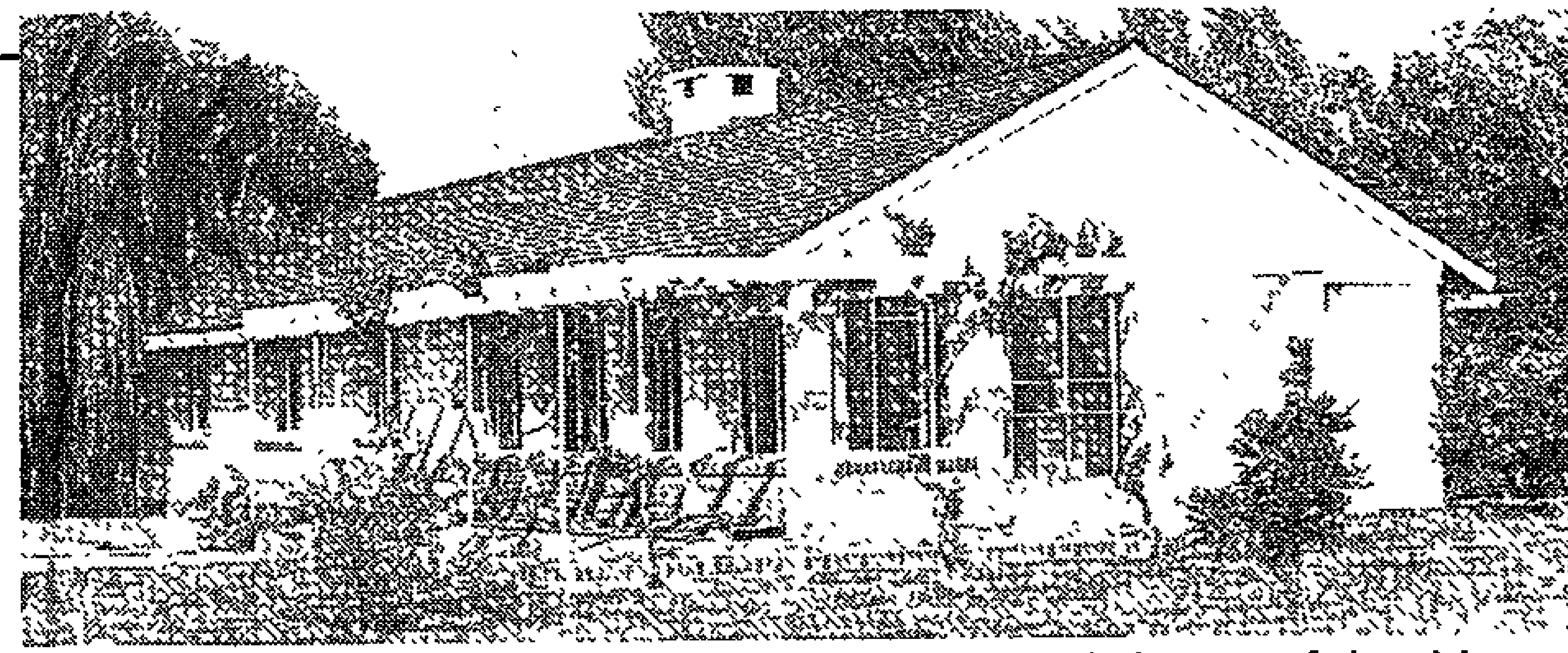
For those who are poorly educated and untrained there is usually no choice but to join the ranks of the unemployed. And their job prospects are bleak. Even those who have persevered as far as matric (albeit to an often inferior standard) find jobs hard to get.

These black youngsters naturally feel anger and resentment at their situation. And they blame whites. To what else would they attribute their misery, rightly or not, than to capitalism, apartheid and white exploitation? They resent the economic system that landed them in this mess — their unrest is often economic in origin.

So, now that the doors to negotiation are open, these economic inequities will be top of the agenda. The perceived economic discrimination against blacks is an issue that will have to be both addressed and redressed before there can begin to be a South Africa new enough for blacks.

The ANC, of course, has always pledged itself to providing full employment. While in exile, its Marxist doctrines and plans for large-scale nationalisation were axiomatic but the collapse of the Soviet economy and the other dramatic events in Eastern Europe have, to some extent, cut the ground from under the ANC's economic platform.

But, however unsettled the economic plans and concepts of the ANC and other black groupings, the old order will still have to change.



WHITE MAN'S LAND . . . A drop in living standards is one of the things whites fear most — yet this invevitability has to be faced.

The adjustments that will be needed are not just a matter of bowing to ANC pressure, either. They are crucial to our national survival because right now the economy is in a downward spiral. Sooner or later it will fail — it cannot continue to sustain the lifestyle enjoyed by the affluent.

Road to nowhere

If change is inevitable, then we might as well learn to accept it and believe in it. The sooner things change, the better for all. We have been on the road to nowhere for a long time — caught up in the low-road, siege scenario Clem Sunter has warned about in his numerous nationwide presentations on the theme of "The World and South Africa in the 1990's".

The potential for self-destruction and a scorched-earth outcome is patently present. What can individuals do about it?

There is a high-road scenario — based on the transformation of the South African economy to a pattern in line with the realities of a large, poorly educated workforce. It would have to be based on a dual economy. One stream would be modern, export-orientated, efficient but not highly sophisticated. The other stream would be based on a broad foundation of successful, labour-intensive small businesses to satisfy everyone's basic needs.

Respective fears

For the system to work for everyone, many will have to modify their attitudes and lifestyles — and the wealthy will probably have to make the greatest adjustments of all.

The emphasis will need to be on tolerance rather than materialism. Trust and mutual acceptance will also be vital but probably the most important ingredient for a successful outcome will be that of widespread enthusiasm based on vision and hope.

We're going to have to go out of our way to meet, talk to and get to know other race groups. We'll have to discuss issues, exchange points of view, and understand each other's fears.

Each of us will have to look honestly at our feelings. Once enough of us take responsibility for change into our own hands — and hearts — a far safer future will be assured. It is not realistic to expect peaceful change to come about merely by changing the political system or the economy, or both. We, too, must open up and change.

Idealistic? Unlikely to happen? There are some who would say so, and cite the leopard whose spots never change. They will tell you that while a minority may modify their views, most of us will cling to the old attitudes and lifestyles.

I believe, however, that these pessimists are misreading the signs of the times. Individuals are becoming increasingly aware of their relatedness to the rest of their species and even to nature itself — witness the growing concern for the environment.

Worthy challenge

Some people may feel threatened by a turn of events that seems to promise nothing but uncertainty and will resist it to the utmost. They clutch at leaders who appear to know the answers and promise a "secure" future, if necessary through violence. But these leaders do not and cannot know what the future will be. To follow them, to cling to outmoded beliefs and a longing for the past, or to harbour unrealistic expectations for the future will only bring chaos and destruction.

There are no final solutions. There is only a process which we have to live through. We can either look on this path into the unknown as a threat or as a challenge, but we cannot escape it — except perhaps by leaving the country.

It is a worthy challenge for all those who seek a rewarding future in South Africa.

Each growth figure has a different story to tell

8\04 16\8\90

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GRETA STEYN

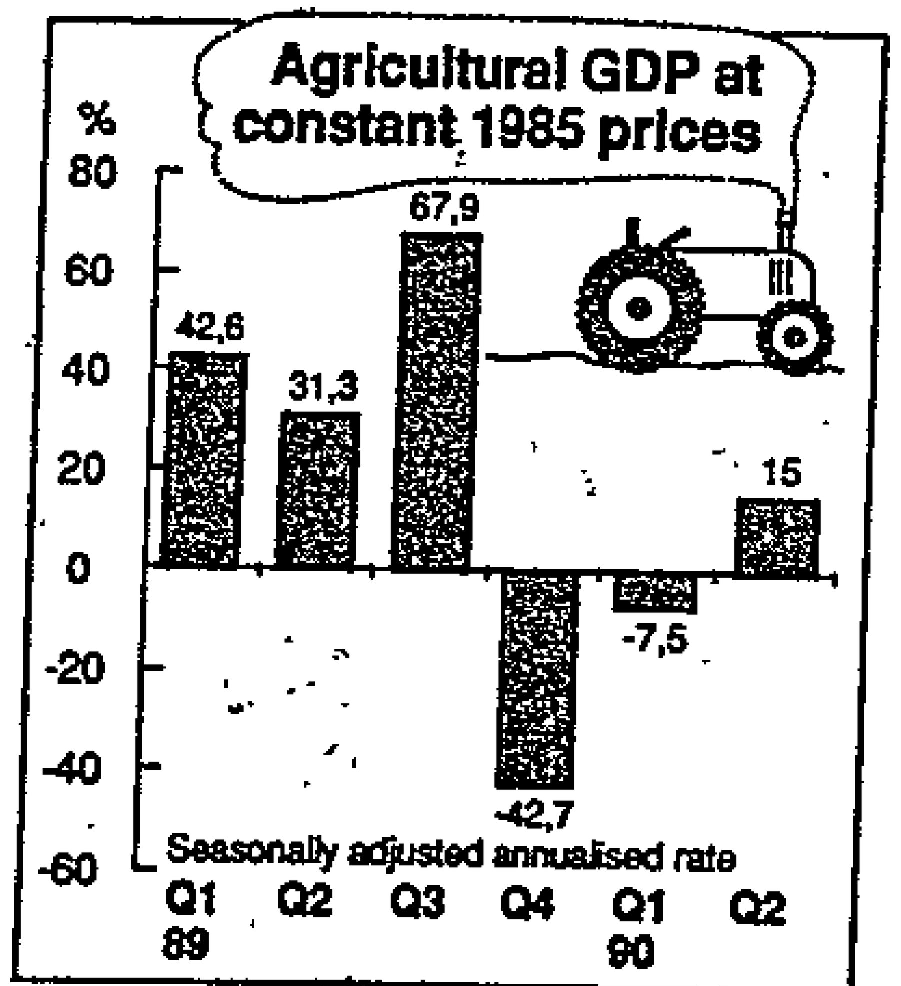
THE real economic growth figures released by Central Statistical Service (CSS) this week can tell different stories about the economy, depending on which figures one chooses and how one interprets them.

The rate at which GDP is falling slowed to 0,8% in the second quarter from 1,3% in the first quarter. Does this mean we are slowly moving out of the recession, or getting deeper into it?

In attempting to answer the question, it cannot be emphasised often enough that CSS and the Reserve Bank quote "quarter-on-quarter changes, seasonally adjusted and annualised".

A different picture emerges when one takes year-on-year figures. Between the first quarter of this year and the same period in 1989, small real growth was recorded, according to CSS. This was followed by a year-on-year drop of more than 1% in the second quarter. From that it would seem the recession deepened in the second quarter.

Which figures tell the "real" story? The Reserve Bank emphasises percentage changes between quarters — annualised — as they show the latest developments. By annualising the change, an indication is given of what would happen if the trend in the latest quarter continued for a year.



Graphic: FIONA KRISCH Source: CSS

The Reserve Bank annualises quarterly changes in the Consumer Price Index to analyse inflation trends, and follows this practice with a range of indicators, including credit extended and spending. Annualised quarterly changes give an indication of momentum.

Only a few economists have questioned the Bank's focus on these annualised figures. One question does spring to mind, however — what does a comparison between different annualised rates really tell us?

All too often the annualised figures are quoted and interpreted as if they are year-on-year rates when the latter are actually telling a different story.

While the annualised figures give an indication of momentum, the year-on-year figures provide an indication of what will happen to growth for the year as a whole. The year-on-year drop of 0,2% in the first six months of this year signals that negative or very little real growth is on the cards for 1990.

Perhaps the Reserve Bank could spare a paragraph or two in its next Quarterly Bulletin to explain why it places so much emphasis on annualised quarterly changes.

Also throwing a spanner in the works when interpreting the CSS figures for GDP is the inclusion of agricultural statistics in the figures. Apart from difficulties in measuring quarterly agricultural production, these figures distort analysis of the business cycle in terms of the performance of GDP.

Agricultural output surged by an annualised 15% in real terms between the first and second quarters of this year (seasonally adjusted). This followed declines in the previous two quarters and a surge of 67,9% in real terms in the third quarter of 1989 — an erratic performance.

Without agriculture, the annualised drop in GDP is almost 2%. In the first quarter, an exclusion of agriculture yielded a decline of about 0,7% (instead of 1,3%).

The recession in the non-agricultural economy deepened in the second quarter on any basis of analysis. It is further illustrated by the negative growth experienced by all sectors except general government, community services and "other" producers. More specifically, GDP in the secondary sectors of the economy slumped by 2,7%.

The figures released this week might be used to tell different stories, but the basic message is one of economic hardship, albeit not as bad as in 1985.

The figures cannot provide policymakers with evidence of the soft landing they wanted.

SINESS

Anglo economic expert rejects control by State

By JOSHUA RABOROKO

So wetan 16/8/90

THE private sector must be the principal force in maximising growth and distribution in South Africa, Anglo American's senior economic consultant, Mr Aubrey Dickman, said yesterday.

Addressing a South African Institute of Management executive briefing, he said his contention was validated by the "world-wide" repudiation of statism.

The international community was waiting for unambivalent signs that a post-apartheid South Africa would want to be part of a world "disillusioned with dirigism in general and the African example in particular".

Yet there was a serious challenge to be faced in ensuring growth while meeting the reasonable expectations of those who had suffered from years of discrimination, he said.

There could be no complacency on the side of those who - however justifiably - rejected strategies for pervasive intervention in industry and finance.

Dickman said remarks made by Mr Nelson Mandela and those of his colleagues and supporters from associated organisations revealed "at best scepticism" and "at worst, a fundamental animus", towards the market economy.

Confusion

49

What was evident was that interference with the market mechanism, even in an economy where democratic choices could be freely expressed, was their preferred approach.

There had been a welter of rhetoric and confusion over detail but, although the ANC did not have one policy on nationalisation but several, there were significant threads running through the various statements to discern a unifying pattern with interwoven interventionist threads, he said.

Each growth figure has a different story to tell

BDay 16/8/90

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GRETA STEYN

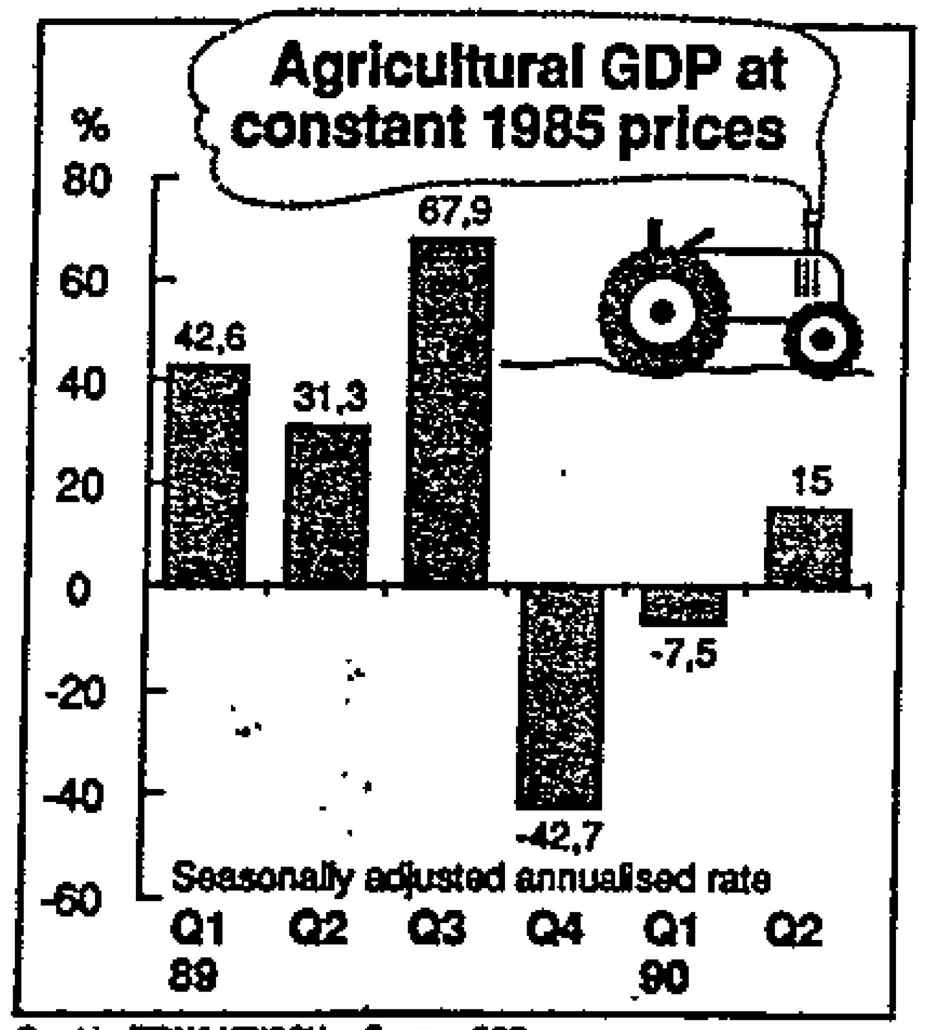
THE real economic growth figures released by Central Statistical Service (CSS) this week can tell different stories about the economy, depending on which figures one chooses and how one interprets them.

The rate at which GDP is falling slowed to 0,8% in the second quarter from 1,3% in the first quarter. Does this mean we are slowly moving out of the recession, or getting deeper into it?

In attempting to answer the question, it cannot be emphasised often enough that CSS and the Reserve Bank quote "quarter-on-quarter changes, seasonally adjusted and annualised".

A different picture emerges when one takes year-on-year figures. Between the first quarter of this year and the same period in 1989, small real growth was recorded, according to CSS. This was followed by a year-on-year drop of more than 1% in the second quarter. From that it would seem the recession deepened in the second quarter.

Which figures tell the "real" story? The Reserve Bank emphasises percentage changes between quarters — annualised — as they show the latest developments. By annualising the change, an indication is given of what would happen if the trend in the latest quarter continued for a year.



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DP favours constituent assembly

CAP TIMES 16/8/90 49

By BARRY STREEK
Political Staff

THE Democratic Party was not in favour of potentially divisive elections for an interim government, but consideration could be given to the election of a constituent assembly after the initial phase of negotiations.

This has been stated in a "policy discussion paper" on constitutional guidelines, which has been circulated to party members.

The party is to formulate policy on the basis of draft papers at its congress in Johannesburg on September 7 and 8.

The economic policy paper calls for public scrutiny to prevent abuses caused by concentrated economic power.

The economic paper also says: "There must be true equality of opportunity for all citizens including that of acquiring and owning property, so that they may enter the economic system on an equal footing."

This would include "the provision of equal access to education of the same quality for all, as well as to the opportunity for training to acquire facilities for disadvantaged adults, and equal access to reasonable health facilities."

There had to be equality of bargaining power in the market place.

The economic document concludes that a sound economic system could only flourish in a free and democratic society in which the human rights of all were protected and safeguarded.

The draft constitutional paper says the negotiation process should be as wide as possible and all possible options should be part of the debate.

The present constitution remained in force until such a negotiated new constitution was accepted and implemented.

"The DP is not in favour of potentially divisive elections for an interim government."

There should first be an informal phase of negotiation amongst participating parties and in the course of the process, attention should be given to joint guidelines for a new constitution.

"Furthermore, attention should be given to mandates, to achieving settlement by consensus and to relative levels of support.

"Consideration can then be given to the election of a constituent assembly on the basis of proportional representation."

The harsh facts that labour in SA needs to be told

BDay 17/8/90 (49)

TONY MANNING

JOE SLOVO, general secretary of the SA Communist Party, recently posed the question: "How is wealth to be more fairly distributed without ignoring the problem of how it is to be created?" Like so many other voices from the left, however, he is more concerned with redistribution than with creation.

Even as the reform process gains speed, the SA economy is being damaged beyond repair. We simply cannot afford a lengthy debate about how to slice up the cake. It's hardly grown for 10 years, it might grow by 0,25-0,5% this year — and even the most optimistic economist is pressed to explain how it will suddenly get bigger next year or the year after.

One thing we must not expect is that the world will bail us out of this financial mess. Foreign money just will not pour in when this country is a "democracy". Capital flight won't easily be stopped. Calls for continued sanctions are not clever.

Nobody should be fooled by the fact that Americans clamoured to attend $1 000-a-plate dinners for Nelson Mandela. When it comes to business decisions they're as risk-averse as Britons or West Germans, Japanese or Swedes.

Investors everywhere see SA as high-risk territory. African countries have a dismal economic history, and a local black government will have a lot of proving to do.

Unfortunately, however, left-wing leaders show little sign that they understand what's needed to make this country a regional powerhouse, let alone a world player.

Competition is heating up at a blistering pace in virtually every market. At the same time, growth rates are slowing and commodity prices have been falling for a decade.

Paranoid Nationalists used SA's rich deposits of minerals as a reason for the "total onslaught" against us. But who wants to steal them now, with De Beers bailing out the Soviets?

Raw materials were yesterday's competitive weapon. Today, knowledge creates wealth. More and more of the cost of virtually any product comes from human imagination, less and less from sweat — and hardly any from the earth.

For the past century, SA has relied on raw material exports for foreign exchange. Now, everyone agrees, we must learn to sell manufactured goods.

But what real hope have we in this area? Can we compete in high-tech or low-tech — or are we condemned to a "no-tech" future?

The answers are clear. As things are now, this country has very little chance in most high-tech fields. We're up against tough opposition in low-tech. Like it or not, much of our population is condemned to a no-tech, subsistence future.

For the game has changed, and we're still trying to play by yesterday's rules.

Most world class manufacturers have cut labour costs to below 15% of their total costs. The best are down to 7%-8%, and doing better every day.

What's more, the new concept of "body shopping" makes wages a variable cost. Global competitors buy labour wherever in the world it's cheapest.

Firms in London fax their clerical work to Taiwan for processing. A New York insurance company flies its claims to clerks in Ireland, and the finished work is sent back by satellite. American computer companies use software writers in Delhi because they're much cheaper and, by one estimate, 150% more productive.

The world is now a single market for everything, including labour. Workers here should know that they no longer compete with their immediate neighbours; there are 5-billion people after the same slice of pie.

The union's objectives of job creation and higher wages and better benefits are mutually exclusive. We can't have both productivity and public holidays.

Yet still, most wage negotiations in SA are based on the so-called "living wage".

Until a year or so ago, the magical amount was about R800 a month. Now some unions are talking about R1 500 for openers. Many Numsa members earn a minimum of R6,40 an hour, with more rises expected soon. Food and Allied Workers' Union members have seen their earnings in one firm doubled from the 1988 level of R3,50 an hour to R7.

Taiwanese manufacturing workers earn around $600 a month, but work far longer hours than their SA counterparts. However, if Taiwan was a competitor of ours in the past, it won't be in the future; compared to many others, it's now a "high-wage" country.

Our competition is likely to come from places like Jakarta, where manufacturing workers earn around $56 a month. Or from Shanghai, where $1 a day is an excellent wage — and only the top 10% of the work force make that much.

Just as Japan coped with rising wages by exporting capital and pushing manufacturing operations offshore to cheaper locations, Taiwan is now setting up shop in countries where labour costs are competitive.

In recent years Taiwan has been the biggest investor in the Philippines and the second biggest investor in Thailand, Malaysia, and mainland China.

These are the realities that political leaders, union leaders, and workers must face up to.

They must understand that focusing their attention even more intently on "the struggle" will, at best, offer dubious short-term benefits.

Meanwhile, they're putting inordinate pressure on the white managers whose skills and talent they cannot do without. (And scaring the hell out of them, thus fuelling the brain drain.) They're creating expectations among their own people that they won't be able to meet. They're spreading disinformation which will haunt them in the future.

In short, they're doing a great deal to ensure many years of post-apartheid poverty, instability, internecine strife, and insurrection.

Chris Dlamini, first vice-president of Cosatu and a key figure in the SACP, was recently quoted as saying, "We have not been able to politicise our members, the workers, sufficiently. This is a priority for us and the whole MDM."

If that is his priority, his followers should ask: "What next?" And they should demand answers to that question now, from all of their leaders.

☐ **Manning is a Johannesburg management consultant.**

ECONOMIC OUTLOOK (49) FM 17/8/90

Two and two makes . . .

Since the economic cycle turned, either in the second half of 1988 or the first half of last year, depending on the yardsticks used, there has been anxiety over the extent of the recession into which we are moving.

Some sectors have been hard hit. And some highly geared businesses and homeowners paying high nominal interest rates are seriously distressed. Bankers, who have learnt better than to complain that margins are squeezed, now talk constantly about the consequences, for their clients and the economy, of maintaining present interest rates.

But there are surprising pockets of growth (see *Business*, page 75).

In the second quarter, GDP declined only 0,8%, after declines in the previous two quarters of 1,3% and 1,7% — all at constant market prices. It was buoyed mainly by agricultural production (see "Agriboost") so does not reflect a surge in demand. But it does help cushion the slowing in other areas.

Statistics reflect a sharp recent slowdown, but there are contradictory signals. The surge in demand in furniture sales and building activity and confidence about better retail sales in July coincide with other signs of resilience.

Old Mutual's economic unit points out:

□ Real imports, which fell by 5% in the first quarter, registered an estimated 4,5% increase in the second quarter; and

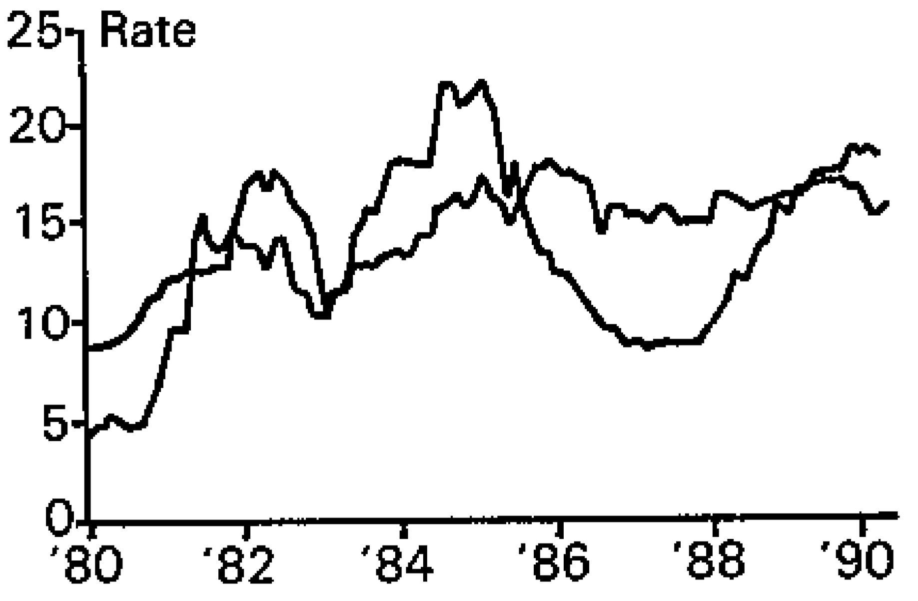
□ The stock of notes and coins in circulation remained virtually unchanged in real terms in the second quarter after having fallen during the previous quarter.

Secondary sectors, says the latest edition of the unit's *Economic Monitor*, show only a "moderate downtrend during the first three months. Manufacturing production (volume) was down 4,4% compared with the cyclical peak in production during the last three months of 1988." But this "was partly offset by a 2,2% annualised increase in activity in the services sector, including general government." So total production in the quarter fell at an annualised 1,3%.

And though the business community has reservations about the future, a measure of confidence is also detected by the SA Chamber of Business (see "Business uncertain").

This is not to say demand has not diminished. Standard Bank's *Economic Review* says growth in bank credit slowed from a 12-month peak of 43,5% in May 1989 to 18,1% a year later as a result of declining expenditure. "Real GDE fell by almost 1% in 1989 after rising 7,5% in 1988 (and) fell a further 1,8% annualised in the first quarter of this year. This constitutes the fourth successive quarterly fall and resulted in real spending being 4,2% lower than a year before."

Monetary measure



But expenditure should get a boost in the coming months. With the implementation of the 1990-1991 tax tables at the end of July, tax overpayments of April-June will be repaid, creating more disposable income. And many economists predict government spending is unlikely to be lower this year than last.

Another perspective comes from comparing short- and long-term rates. Short-term rates respond to liquidity and are consequently a reflection of monetary policy; long-term rates measure inflationary expectations. So the slowing of future growth can be gauged by the relationship between them (**see graph**). That the BA rate is higher than the rate on RSA stock indicates that monetary policy is tight; but the differential is considerably less than in 1984-1985.

This suggests the recession is unlikely to be as severe as that of 1985-1986.

For Reserve Bank Governor Chris Stals, who has to decide when to allow the official rediscount rate to fall, the problem is that the sum of information available to him is likely to be greater (or smaller) than its parts. Economic indicators have several defects. They take time to collate and analyse, so are generally out of date when published.

They are subject to revision when more accurate information is available. And they are sometimes distorted by subjective reporting and technical factors. So it is impossible to identify the precise point at which we are in the economic cycle.

FM 17/8/90 (49)

Some insight into Stals's assessment of the cycle will come when he addresses the Bank's AGM on August 28.

Ethel Hazelhurst

Business leaders must redress imbalances

W/Mail Supp) 17/8-19/8/90 49

BPSA's policy of investing in people has enabled a number of South Africans to take their place in the private enterprise system

By **GR BARR**

THE private sector can rightly claim to be one of the primary pressure groups that helped cause the South African government to begin dismantling apartheid and all its damaging effects on economic advancement for all.

That dramatic change-of-face, which began with President FW de Klerk's declarations at the opening of Parliament on February 2, has caught us all by surprise.

But from our perception, any political settlement still does remain a distant prospect. Realistically, there are going to be many major obstacles to be overcome before any material progress is achieved.

That means considerable uncertainty must exist as to where our ultimate destiny lies. And, of course, any form of uncertainty is going to damage business optimism — and reflect on the performance of the South African economy.

What is of real concern to the business community is that the public debate over the new South Africa has failed to address the vital issue of what shape our economic system must take so that it best satisfies the needs of the entire population.

We would like to stress — if there be a need to do so, given numerous examples elsewhere in the world — that a political resolution is most unlikely to succeed unless a pragmatic economic plan is also imposed.

The polemic has ranged from the free enterprise ethic through to nationalisation, redistribution of wealth, socialism and so on — but has failed to adequately detail what all these mean in reality.

It has thus become essential that the business community takes a leading role in first identifying and spelling out in detail the economic system it believes will address the needs of the community as a whole.

More particularly, it must prioritise these needs and seek out real and practical ways of dealing with them efficiently, together with all vested interests. Major challenges and opportunities lie ahead of us.

As a start, we must recognise that the new South Africa is going to bring with it major political change — possibly leading to majority rule by a sector of the population that perceptually has least enjoyed the advantages of the capitalist ethic which we espouse.

Second, it has become imperative for those who effectively hold the purse strings to the private sector economy — the large corporations, the life offices, the banks, building societies and other financial institutions — to quickly acknowledge, collectively, the imperative of seeking ways of redressing the socio-economic imbalances that currently exist.

This is not a responsibility that should or can be left to the political leaders of this country, but is also a direct responsibility of the business leaders of our economy.

It has become vital for the big institutions who accumulate, distribute, manage much of the wealth generated by the community to become far more innovative in redirecting that wealth in ways that can be most beneficial to the most important needs of that community. It also means that those benefits must be perceived by those who receive them.

Naturally, it will also require the co-operation of whatever government is in power — but the first initiative must come from the private sector.

The process has already been set in motion in various ways by organisations such as the Consultative Business Movement. But, it needs to be more vociferously tackled, and on well-constructed platforms which can be used to encourage wider public debate and initiate creative thought on the most likely financial instruments that can be employed.

To set this process in motion we recognise that while the big institutions are in competition with each other — and seek to produce the best returns for policyholders, shareholders and other vested interests — the new environment on the near horizon demands a great deal more flexibility and co-operation.

To further encourage this frame of thought we immediately identify areas whose needs are of high priority: education, job-creation, housing, base infrastructure and health.

Financial muscle and business acumen must combine to accelerate the deregulation process and remove those controls that in many instances have been imposed to protect vested interests. This has encouraged commercial power concentrations which are looked at with so much suspicion by the disadvantaged majority.

To accommodate these needs we propose that the financial institutions must take a more enlarged view of their own social upliftment programmes. More particularly, that they join resources in a manner which will avoid unnecessary duplication and focus effort.

This is already being done through the offices of organisations, such as the Urban Foundation. But other developmental areas and approaches can also be considered.

Why not create a "Development Pool" which can access a proportion of the cash flow coming from the institutions — and act as a form of differential prescribed investment for tax purposes — which can funnel resources more pragmatically into development and new wealth-creating projects.

Perhaps a less traditional and more innovative view should be attached to the manner in which contractual savings — from employer and employee — can be deployed to accommodate current as well as retirement needs.

The creation of "development bonds" can also be considered. This idea has been suggested on several occasions. In as much as the instrument would be designed to target the financing needs of a specific developmental project, the bonds could represent considerable and perceived improved investor consciousness of the use being made of government and semi-government (gilt and semi-gilt) stock.

Financial institutions have to recognise that they have no real alternative but to adapt their investment and risk parameters to accommodate the changing environment. Circumstances appear to be moving so fast that it is important that we — as the leading edge of the economic community — must take the initiative now.

It is a creative challenge, but is an encouraging one which we believe can be met if there is a fundamental change in traditional investment attitudes and the utilisation of financial resources and business expertise.

GDP F 1M 17/8/90 (49)

Agriboost

The second quarter saw a deceleration in the economic slowdown. Central Statistical Service reports a 0,8% decline in GDP (following declines of 1,3% in the first quarter and 1,7% in the last quarter of 1989) at market prices. The figures record quarterly changes, in constant 1985 prices, at seasonally adjusted annual rates.

Biggest boost came from agriculture, which showed a 15% rise (opposed to -7,5% first quarter, -42,7% fourth quarter 1989), measured by factor incomes. Improvements over a broad front include: field crops, viticulture, subtropical fruit, deciduous fruit, wool, ostrich feathers, cattle slaughtered, dry beans, sunflower seeds, vegetables and poultry products. Maize was also up but this was because last year wet weather delayed harvesting until July.

At factor incomes, non-agricultural sector GDP fell 1,9% (-0,9%, +2,5%). Mining was down 3,4% (-11,8%, +10,6%) and manufacturing 3% (+0,7%, +0,9%). Tertiary industries were down 0,9% (+1,2%, + 1,4%). ■

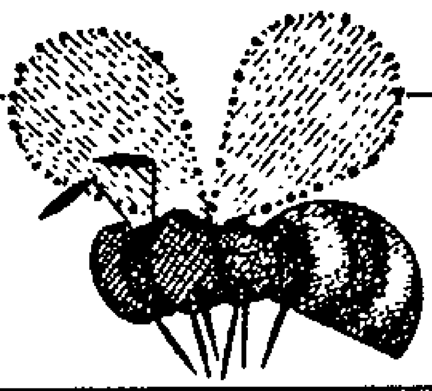
SPECIAL SUPPLEMENT TO THE WEEKLY MAIL

THE WEEKLY MAIL

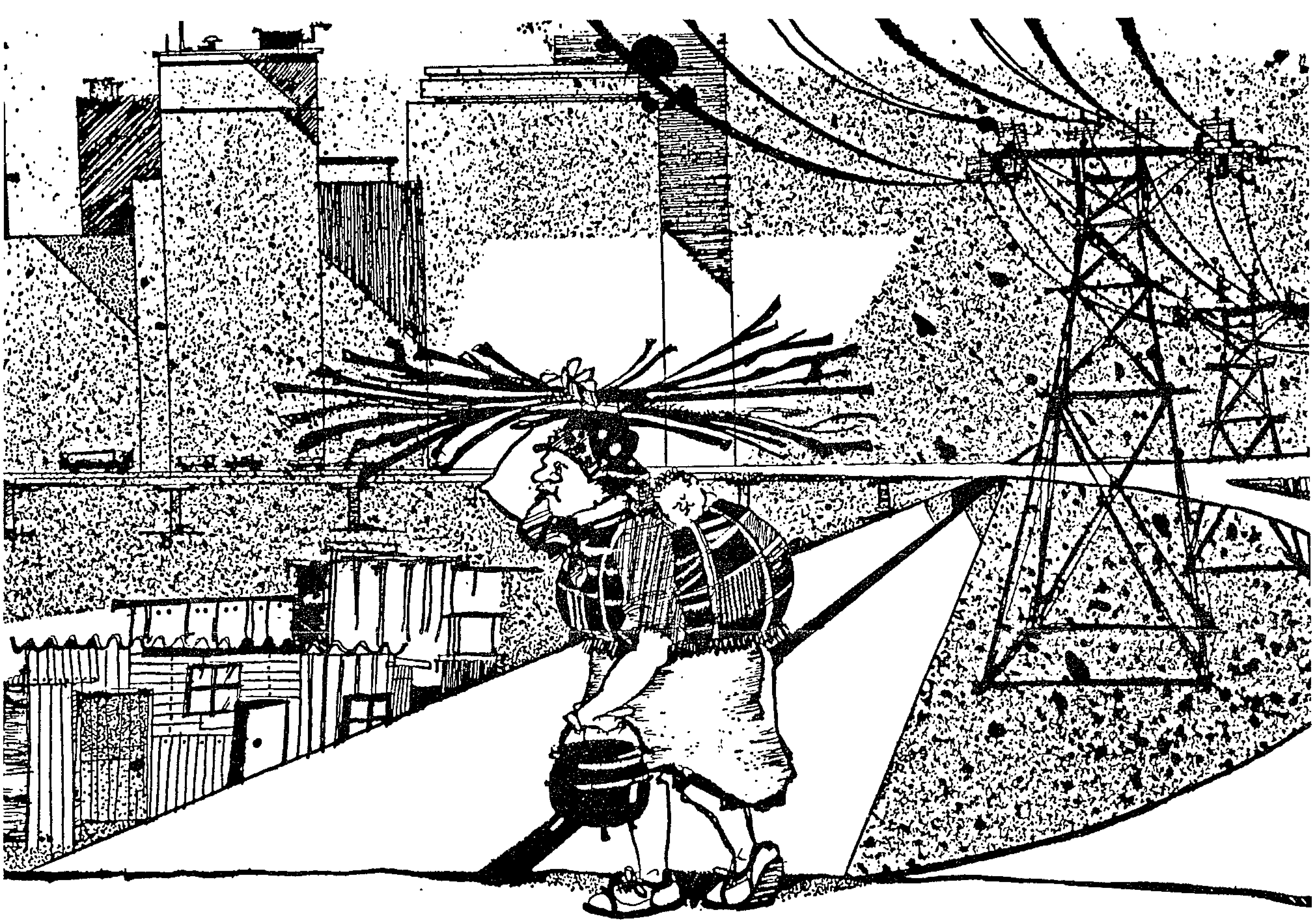
Winter 1990

Review/Economy

TAKING THE BUZZ OUT OF THAT 'EMPOWERMENT' CLICHE



Experts from across the business and union spectrum debate the issue



Empowering black South Africans ... a question of real stakes in the crucial sectors of the economy, not just the chance to struggle along at the bottom DRAWING: MERRIFIELD

W/Mail Suppl 17/8-19/8/90 (49)

Power to the people

An old sixties catch-phrase turns into a rallying cry for capitalism. But is that reason enough for unions to dismiss the concept as fraud? **ALAN HIRSCH** *introduces our survey of 'economic empowerment'*

ECONOMIC "empowerment" has become a loaded concept in South Africa. It first came to the fore in the mid-1980s as a conservative response to the disinvestment campaign.

The Reagan administration in America promoted the idea that foreign investors empowered blacks in South Africa, and that to remove the investment would weaken the power of blacks.

Whether or not this adequately rebuffed the sanctions initiative, there was a grain of truth in the empowerment argument. Large foreign companies had helped create South Africa's powerful black working class, and some multinationals, sensitive to overseas pressures, resisted unionisation a little less doggedly than most domestic employers.

Other connotations of "empowerment" are equally mistrusted, especially by organised workers. A trade union contribution to this Review refers dismissively to the concept of "black economic empowerment" as a "buzzword". Empowerment can mean, it argues, tossing crumbs to the unemployed through promising small business development, or hoodwinking workers into higher productivity through Japanese-inspired management.

If the concept of empowerment has been abused in the past, it is not irrelevant today. Black South Africans excluded for centuries from political and economic power are demanding redistribution. This means political power and economic power. Until the white monopoly of economic power has been broken, black South Africans will remain alienated from the economic structures, and antagonistic towards them.

This is why Nelson Mandela felt mandated to express the commitment of the ANC to nationalisation on his release from prison. If political power was democratised, political institutions could be used to redress economic imbalances and injustices.

But economic empowerment does not necessarily mean nationalisation, and nationalisation does not necessarily mean economic empowerment. Nationalisation experiences in Asia and Eastern Europe, and closer to home, in Africa, have often led to innefficiency, to nepotism, and to the control of the economy not by "the people" through the state, but by an elite within the state.

Not that nationalisation is bad necessarily. Some nationalised industries, especially in public utilities, have worked very well. State control of investment, through banks as in the Far East, or through other kinds of public corporations elsewhere, have contributed enormously effectively to long-term economic development programmes. But sometimes nationalisation does not work, and often nationalisation does not mean empowerment in any real sense of the term.

In this *Economic Review* we present some proposals and critiques of paths to empowerment that do not necessarily involve nationalisation as it is conventionally understood.

It is not surprising that unionists are suspicious of capitalists talking about transferring power away from themselves. In a capitalist system power is based on private property, and it is as difficult to imagine capitalists really giving up their proprietary power as it is trying to imagine fish giving up water.

But those "masters of the universe" (using Tom Wolfe's phrase) who are concerned about the long-term future of their businesses, and about the growth of the economy, do accept that some power must be lost. Some are driven by the idea that giving up some power now is better than giving up all, sooner or later, while others are driven, perhaps, by a belief that economic power-sharing is a sensible strategy.

How much power changes hands is a question that will be decided in the course of the struggles that will inevitably accompany the period of transition that we have entered.

Empowerment is about "the people" getting a real stake in the economy, not about hoodwinking workers, or casting crumbs to the poor. The contributors to this *Economic Review* examine their own experiences, and the experiences of others pursuing or finessing the elusive goal of economic empowerment.

This review is not exhaustive, but it does examine some important mooted forms of empowerment in greater depth than newspaper articles conventionlly do. Amongst the issues covered are small business development, co-operative movements, small farmer development, affirmative action programmes, employee share ownership schemes, participatory management, and the exercise of financial power by the organised working class.

The debates on the redistribution of economic power in South Africa are moving fast, and most commentators have already moved beyond simplistic tiffs about nationalisation (though some participants in the debate are still tempted into taking cheap shots from time to time). But the debate cannot move fast enough as our time-frame into the future is concertinaed, day-by-day.

Recession is here, says AHI

W/Mail 17/8- 19/8/90 (49) (1523)

RECENT economic indicators clearly show that business activities are slowing down and in a number of sectors production levels have already dropped, the Afrikaanse Handels Instituut (AHI) says in its latest economic report.

It adds that recessionary conditions across the broad spectrum of the economy are now a reality. The situation is being aggravated by production losses as a result of strikes as well as the uncertainty in the business sector stemming from the political situation in the country.

The prevalent depressed economic conditions are creating serious financial problems for many sectors and individuals, the AHI says. It appears too that the weaker and declining profits of companies, increasing insolvencies and liquidations and cash-flow problems are in many cases being made worse by the high interest rates.

Positive economic factors cited by the AHI include the success in checking inflation, the control of bank credit and the building-up of the country's foreign reserves. These factors increase the potential for a healthy economic growth in the long term.

The AHI warns, however, that the effects of prolonging the slowing down process too long could have serious implications for the a future recovery.

It questions whether it has not become time for a temporary lowering of the nominal interest rates.

Everything taken into account, the AHI is optimistic that nominal interest rates should drop to lower levels towards of the end of the last quarter.

Such a scenario, however, depends on the expectation that the declining inflation rate will continue. — Sapa

Demands exceed supply, warns Abrahamse

49

By MAGGIE ROWLEY, MBu
Business Staff
22/8/90

THE South African economy needed to reach a GNP growth rate of at least 5,5 percent as soon as possible if it were to begin to satisfy pent up social and economic demands, Mr Len Abrahamse, chairman of the Council of the University of Cape Town, said today.

Delivering the Andries van der Riet Address at the 23rd annual convention of the South African Property Owners Association (SAPOA), Mr Abrahamse said even with moderate capital inflows some constraining structural limitations to rapid economic growth would remain in place for at least the next decade with "unrealistically high expectations and economic demands pressurising politicians to the extreme".

Mr Abrahamse, deputy chairman of Old Mutual and a director of other prominent South African companies, said the demands on South Africa's resources far exceeded supply.

With exports representing 25 to 30 percent of GDP and imports between 20 and 25 percent, the performance of the current account was crucial to the growth capacity.

In terms of domestic economic developments the biggest impact on the current structure of the economy would be felt in the fiscal area with a greater amount of government finance being channelled into social services.

But the potential to generate the resources required to redress the backlog in social services over too short a period did not appear to exist.

"This means trade-offs will have to be made. To some extent the process of political change will assist in facilitating some of the trade-offs. Reduction in defence needs will allow for greater emphasis on social spending. But this of itself will not be enough."

Mr Abrahamse said that it appeared the pressure of sanctions was abating. But in order to regain markets lost during the hey-day of sanctions, South African industry would have to become more cost competitive.

While the growth in the economy was set to improve it would be too slow if dependent on domestic consumer stimulus and renewed exports only.

"A redistribution of our limited resources without regard to preserving the capacity to create wealth, as in savings, is no solution.

"We shall have to consider means whereby savings are stimulated and, in part, redeployed specifically to meet certain immediate social needs such as housing.

"This sort of investment will meet an essential need and stimulate a renewed economic take-off without which the economy, and the country, will wither," he said.

A relatively stable political situation was vital to economic confidence. But it would be unrealistic to expect a smooth ride during this transition.

Nationalisation no solution to economic decay

Sowetan 23/8/90 (49)

NCEDO MLAMLA

Ncedo Mlamla, an economist with a leading financial institution, looks at the economy of the country over the years. He looks at various economic policies and trends followed by successive government until the economy was in a state of complete decline.

AS South Africa moves towards an open society, it is not only imperative but very important to review past economic policies with a view to the future.

An analysis of policy failures in the past could be important to a future economic ministry in the sense that one should avoid repeating the same mistakes.

To every economy, the most important aggregate criterion of economic performance is real economic growth. During the decade of the early Sixties to the early Seventies the South African economy grew at an average rate of 5,7 percent, while on average the per capita real gross domestic product grew at 3,1 percent.

This phase was characterised by an increased momentum in the implementation of various laws aimed at making the Nationalist Party agenda a reality.

Regulated

Obviously a strictly regulated society created strong growth in state employment to implement and to apply these laws. The central Government employed 181 500 people in 1960, and by 1970 this figure had grown to 272 827, an increase of almost 50 percent.

With the exception of the period after the Sharpeville shooting, the capital account of the balance of payments performed fairly well during this era.

In fact, on the whole there was a net foreign capital inflow, and a balance of payments constraint did not exist on a sustainable basis.

Politically, the South African issue was not paramount on the agenda of the international community. Invariably this led to the perception that capitalism per se buttressed the apartheid economy.

It would appear that this view is not supported by the evidence.

The ensuing decade was almost a continuation of the Sixties. More public funds were channeled into the expansion of state security. This was a period which saw the beginning of widespread bus boycotts, school boycott etc.

These issues became inter-linked with the symptom of widespread resistance to the regime, but more laws and regulations were promulgated to counter resistance.

Inflation

From an economic perspective, Government expenditure expressed as a percentage of GDP increased, therefore reflecting the emphasis on state spending of which security and administrative bureaucracy formed a significant part.

The inflation rate as measured by the consumer price index soared to double digits by the mid-Seventies, reflecting excessive expenditure by Government and ineffective monetary policy.

Direct taxation expressed as a percentage of personal disposable income started rising during the early 1970s which meant that the taxpayer had to fund Government expenditure at an increasing rate.

This was inevitable because by 1976 the central Government was already employing 295 462 people, a figure which rose to 324 708 by the end of the decade.

After the Sharpeville incident South Africa enjoyed net positive capital inflows. This was because of the pseudo-stability imposed by the state security machine.

Foreign investors and banks were content to put money into this economy albeit with some circumspection. The subsequent 1976 riots resulted in massive capital flight, a situation that prevailed up to the beginning of 1980.

The 1980s started on a somewhat different note. The gold price rose to unprecedented levels, averaging $612.76 for 1980.

This bonanza resulted in excessive spending in the domestic economy and inflation rate, as measured by the consumer price index, rose to 13.8 percent for the year.

During the second half of 1980, the gold price started a downward slide. The international scenario was changing.

Unlike the 1961-71 period, when the OECD countries grew at 4,7 percent, the 1981-88 period was characterised by a growth rate of only 2,8 percent.

Weaker

Our non-gold exports stagnated, partly due to the OECD slowdown, but also because of a weakening of our international competitiveness which is directly related to the inefficiencies of the apartheid system.

The spiralling inflation rate, propelled by excessive growth in Government expenditure, aggravated the deterioration in our competitiveness.

The poor performance of our exports resulted in the current account of our balance of payments being a severe constraint on economic growth. The period 1981-84 showed massive current account deficits.

To cover the shortfall in the current account, the economy relied heavily on short-term borrowing from foreign banks. Real economic growth rate was less than one percent, while unemployment reached record high levels.

The economy was starved for cash and the major US banks refused to continue extending loans to South Africa. This resulted in the so-called debt moratorium.

There seems to have been a rethink coupled with greater economic concern by the present-day Government technocrats.

We are seeing a more deregulated economy evolving which means that we are moving more in line with current international trends.

It would appear that the authorities are beginning to realise that massive Government involvement, in any form, tends to stifle economic growth in the long term through both productive and allocative inefficiencies.

It can further be said that the big governments, besides creating distortions in the markets, negate economic freedom, a cornerstone of any growing economy.

The debate about the nationalisation of certain sectors in the South African economy is correct in its assessment that the apartheid economy has failed, but its solution is probably wrong.

Our analysis demonstrates that the rigidities of the apartheid system and the growing share of Government in the economy finally trapped the economy in a vicious circle of economic decay.

The solution to this is to the opening-up of our society and the economy in particular in order to serve human liberty.

Nationalisation reintroduces rigidity and bureaucracy and its final outcome is likely to be another vicious circle of economic decline.

The cake's big enough for all

By LEON LOUW, Director of the Free Market Foundation of Southern Africa and co-author of two best sellers — SA: The Solution and Let the People Govern

(49)

LEON LOUW

WHICH well-known South African demanded that the Government stop privatising and said: "These privatised institutions belong to the people, and to sell them to the money powers in SA will be illegal. We warn those who are planning to buy these institutions that while they may be free to do so now, when ... (we take power, they) ... will simply be taken away from them and given back to the people."

Mandela? Tambo? Sisulu? No. Eugene Terre Blanche.

Who, historically, have been the most fervent protagonists of nationalisation? The ANC? The PAC? Black unions? No. The National Party.

Yet when the word "nationalise" flowed from Mandela's lips it "came as a hammer blow" to the world, according to YOU! magazine. "Why?" asked ANC spokesman Thabo Mbeki. Why indeed? Why should this one word cause shock waves around the world?

Revolution

After all, the Nats came to power twice on a pro-nationalisation economic policy almost indistinguishable from the ANC's. Furthermore, extensive nationalisation has occurred in many "capitalist" countries. As Mbeki pointed out, Mandela said nothing new.

The answer is that the world has undergone a fundamental ideological revolution over the past two decades. Only a few years ago words like *privatise* and *deregulate* did not exist — now they constitute the official economic policy of most countries, West and East.

Fifteen years ago most people honestly believed that Big Brother government would outperform the market at overcoming human misery. But now it has become clear that the only effective way to close the gap between rich and poor is through rapid economic growth — and this is only achieved in free, or nearly free, markets.

Proposals to redress injustices through nationalisation and redistribution are often well intentioned, but they would damage the economy so badly that the victims of apartheid would end up in a worse position than ever.

The practical alternative is to follow the example of the world's richest countries and free the economy. As recently as 1958, Japan's per capita gross domestic product was $40 less than that of SA in the same year.

Abundance

By freeing their markets, the Japanese achieved over five times our per capita GDP by 1980. They did this with virtually no natural resources, little arable land and more than 193 people a sq km.

With our abundant arable land, exceptional mineral wealth, excellent infrastructure, sophisticated financial markets, established trading partners and fewer than 38 people to each sq km, we could easily become one of the world's fastest-growing economies.

This would be by far the quickest way to help the poor. As countries become richer, the income gap narrows and lower income groups earn a bigger and bigger percentage of the total.

We have already experienced a taste of the growth that deregulation can bring us. The black share of the economy remained unchanged for 60 years.

Then minor deregulation resulted in black wages rising five times faster than those of whites between 1972 and 1984. Further recent decriminalising (deregulation) of black business has led to the swift emergence of many thousands of enterprises contributing an estimated 40% of SA's wealth.

But potential growth won't solve the problem of meeting black expectations now. There is only one way that this or any other government can raise funds for redistribution in the short term without damaging the economy — and that is through privatisation.

Wisdom

The present Government did not start privatising because it suddenly stumbled on the wisdom of Adam Smith, but because it needed money to pay debts and to improve black conditions.

Nationalisation consumes State revenue, privatisation generates it. The more money a future government wants to spend on social programmes the more it should privatise.

SA has more than R300-billion worth of privatisable assets — enough to provide every black family with R50 000. Privatisation could create hundreds of thousands of black (and white) business and investment opportunities. State monopolies could become small private businesses or shares in them can be sold or given to employees or "the people".

Consider the biggest monopoly, the railways. It seems an unavoidably giant undertaking. The railways could work like roads. The Government owns the roads but not the vehicles on them. Trains could be contracted out like the Sun City Express. Small businesses could become train owners paying tolls and fees for station time, as private airlines to at airports.

Small investors could buy or rent an engine from the State and sell towing services to passenger or truck owners, who would hire out space as shipping containers do.

Despite having a CP municipality, Welkom became the first SA city to have integrated urban transport — thanks to privatisation. The municipal bus monopoly was privatised and within days black taxi operators started providing such a satisfactory service that the public did not want the buses back.

The proceeds of privatisation could also be used to transfer private wealth into new hands without coercion.

Most blacks, both in white SA and in the tribal homelands and locations, are the victims, or the descendants of victims, of land theft. It is hardly surprising that redistribution of land is high on the agenda of many black organisations. Once again, there are ways to bring about redistribution of land without damaging the economy, or terrifying whites out of the country or into armed resistance.

ST Times 26/8/90

Land

First, free the land market. At present, numerous laws prevent blacks from competing with white farmers. If all these were repealed or amended, prospective black farmers could take out loans, form consortiums, and buy up the farms of those inefficient white farmers who would go bankrupt without the State to prop them up.

Another way to help transfer white farms into black hands would be through the introduction of a land tax based on the soil's potential yield. This would encourage better farming and discourage underuse of land.

The most practical way to overcome black unemployment is not through some government programme which is likely to destroy more jobs than it creates, but by deregulating self-employment and small business. To this end scrap or relax licensing laws, anti-business town-planning schemes, interest-rate controls which discourage lending, transport permits, control board monopolies, and so on.

Also, deregulate labout relations so the unemployed are free to sell their labour to formal-sector employers.

Human

Vast transfers of capital in the form of foreign aid have failed to create prosperity in the Third World. But nations like Japan and Germany have lost everything and then risen within a generation to even higher socio-economic levels than before. This is because they have human capital, which is the ability to produce wealth. Human capital cannot be destroyed or consumed as material wealth can.

The State should help poor people to acquire human capital in the form of skills and training. But this does not mean it should provide education.

Instead, it should subsidise the children and allow them and their parents to "spend" the subsidies at the schools they prefer. This could be done with a voucher system whereby every child or school-going age, regardless of race or gender, would receive an equal amount for education.

Such a system would provide a great incentive for private schools to enter the market. Farm schools, mission schools, schools offering "people's education" and store-front colleges would mushroom. Industry and commerce would be encouraged to train youngsters in technical skills if they could obtain vouchers to subsidise their costs.

Government institutions would have to compete with private ones for vouchers, which would spur them to greater efficiency and higher standards.

There is no logical reason why the State should provide welfare services. The private sector invariably does a better job at a lower cost. Governments should be restricted to financing the needy, and this can be done effectively with vouchers for many service besides education.

Vouchers increase the options of the beneficiaries, whereas most government programmes *remove* options — they take initiative and power from the people and transfer them to bureaucrats and do-gooders.

The Government should scrap all transport subsidies and give needy commuters transport vouchers that they can use for whichever mode of transport they prefer. Then bus companies, minibus operators and taxi drivers can all compete for their custom.

Nurses

Instead of introducing rent controls, financing black housing or subsidising building contractors, the Government should give destitute people housing vouchers to spend as they choose — to pay rent, or to build or buy a house. This would encourage competition among builders and increase opportunities for small black contractors.

Health services sould be deregulated so that paramedics and nurses can provide basic care for the poor and run clinics in rural areas, referring only the cases they are unable to treat to doctors and specialists. Health vouchers can be given to the indigent.

Whenever governments try to move away from expensive social schemes and subsidised services towards market-related welfare, they face great difficulties from vested interests.

This problem can be circumvented by devolving the provision of most welfare to second-tier governments. Those local governments that cannot resist the pressure of interest groups can continue to fund bloated bureaucracies, and others will allow private enterprise to provide services and limit themselves to financing the needy. It will soon become apparent to all which process helps the poor most effectively.

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Cheaper money — hopes fade

ST Times 26/8/90

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Turmoil in SA and overseas bolsters case for high rates

By IAN SMITH

THE Middle East crisis and turmoil in world stock markets have dashed hopes of lower interest rates in SA.

The prospect of higher world inflation because of the $10-a-barrel spurt in oil prices, uncertainty in world markets and the likelihood that SA's main trading partners will lift interest rates make it almost impossible for the Reserve Bank to respond to urgent calls for help from the private sector.

Evidence that the economy is now in serious recession continues to mount. Confidence indices fall, car sales are down and hotel occupancy rates are declining. Stellenbosch's Bureau for Economic Research says the financial position of white consumers has fallen to its lowest since 1985.

LESLIE BOYD . . . 'on high side?'

Profits of companies are also starting to flag. Anglo American's Amic, a microcosm of the economy, spanning markets from explosives and chemicals to food and textiles, reported a 20% fall in earnings in the six months to June.

This week's announcement that M3 money-supply growth had fallen to a provisional year-on-year rate of 16,32% — its lowest since October 1987 — and that the inflation rate came down to 13,3% last month would ordinarily have added weight to calls for interest cuts.

But economists, many of whom supported the calls a week ago, say the time is not ripe.

"I believe we will have to sweat it out for a while longer," says Ted Osborn, head of Nedcor Group's economic unit.

Most economists agree that a reduction in prime overdraft rate, which could have been made in the last quarter of this year, is now unlikely — despite damage to business.

TIGHT

SA Chamber of Business chairman Leslie Boyd still hopes that a limited reduction will be possible in September or October.

"With inflation down we now have a real interest rate of between 7% and 8%. I wonder if that is not on the high side."

But he says business basically supports Reserve Bank Governor Chris Stals' tight control.

"This is the last government that can tackle the problem of inflation. The next government will face enormous expectations and might not have the courage to impose the measures needed to force down inflation."

Mr Osborn says the Middle East crisis has complicated life for the SA authorities.

Although there is a case to alleviate some of the private sector's problems, a balance must be maintained between interest rates here and in foreign countries. The Reserve Bank must also consider what the oil price will do to inflation.

"Before the Middle East blew up, the bank was hesitant about bringing down interest rates too early. It wanted to be sure that inflation was on the way down, money supply was lower and that bank credit was under control.

"If the inflation rate was down to 12% by the end of the year we could have looked for prime of 19%.

"But the international uncertainty makes it even more unlikely that the bank will move soon on interest rates."

GUESS

Sacob director-general Raymond Parsons says the chamber has told the Reserve Bank that the recession is even deeper than the most official statistics suggest.

"A sharp recession is hitting a broad range of sectors — from manufacturing to advertising," he says.

The economic downturn has entered its fifth quarter.

Southern Life economist Mike Daly says many factors call for an easing of the monetary policy stance.

"The cumulative effect of two years of restrictive policy has stopped the economy dead in its tracks."

Syfrets' economist Elmien de Kock agrees that the economy is ready for a decline in interest rates. But it is unlikely before the end of the third quarter.

BUCK

Econometrix director Michiel Bester is also pessimistic about a quick fall in interest rates.

"The Middle East threat will put upward pressure on rates internationally, and we should not buck the trend. But even without the crisis I would be reluctant to lower rates now."

There is a minority view that if the political and financial crisis worsens, the US Federal Reserve — together with other central banks — may ease monetary policy to prevent recession from developing into depression. In that event, the scope for lower rates would improve in SA.

The other wild card is the gold price, which could receive a boost from a dollar weakened by growing US Budget and trade deficits. These deficits have been aggravated by savings-and-loans defaults and the high cost of having 250 000 US troops in the Middle East.

BUSINESS DAY, Monday, August 27 1990 3

Foreign competition is 'the best protection'

TANIA LEVY

FOREIGN competition was the best protection against consumer exploitation by local conglomerates, economic adviser to the Minister of Finance, Japie Jacobs, said at the weekend.

He told the Five Freedoms Forum conference titled SA at the Turning Point: Negotiations and the Future, that economic concentration in SA should not be judged from a political perspective but on the basis of economic growth and competition.

SA had a very open economy and it was important to try to reap the benefits of economy of scale. However, exploitation of the consumer as a result of vertical or horizontal integration had to be prevented.

While the balance of payments had allowed little scope for foreign competition during the past few years, SA was gradually reaching a stage where domestic industry could be exposed to greater foreign competition.

As part of government's anti-inflation programme, the external value of the rand was being stabilised to a greater extent, implying more intensive foreign competition in the local market.

Jacobs said everyone realised that what was needed was a more equal participation in generating economic growth and in distributing its available income. A higher growth rate, price stability and work opportunities for the rapidly growing labour force were priorities.

Government realised the rate of inflation had to be reduced, foreign and domestic competition promoted and structural reform implemented. Reducing government's role and interference in the economy held the key to rapid and sustained growth. Jacobs said the most sensible way to promote and sustain a more equal distribution of income and wealth was to establish a just society with equal opportunities for all citizens as entrepreneurs, workers and professionals.

He said scope for redistributing income in SA against the background of a stagnant or slow economy was exceedingly limited.

Redistribution policies pursued via the tax system would adversely affect the economy's productive base. Such policies would amount to redistributing poverty.

Urban Foundation environmental analysis manager Chris Heymans told delegates the ANC would be unlikely to settle for restructuring of local government in isolation from a new system at national level.

Heymans said government sources differed on whether restructuring local government should go ahead while the negotiating process had hardly started.

Some sources said the Thornhill proposals for local government should be implemented during the next parliamentary session, while others said the proposals would contribute to the constitutional debate.

Imperfect

The Thornhill proposals, put forward by the Co-ordinating Council for Local Government Affairs, offer four models for local government and allow for a fifth option negotiated locally and cleared at a higher government level.

Heymans said SA entered the 1990s with a complex and imperfect local government system, characterised by gross inefficiencies, racial fragmentation, financial unviability, incomprehensive and non-inclusive planning, and severely politicised conflicts. Desegregation, redistribution and re-allocation of industrial and commercial areas were unlikely to overcome burdens of the past. These steps had to be part of a fundamental rethink on urban planning and management, so the system could be transformed from one based on ideological considerations to one based on functional and viable norms.

Inflation the main target

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Govt to unveil new plan for SA economy

BDay 27/8/90

MIKE ROBERTSON and GERALD REILLY

GOVERNMENT will unveil within weeks a comprehensive economic package aimed at reducing inflation to single digits, creating maximum job opportunities and restructuring the savings pattern in SA.

Top business leaders have already been briefed on the most important facets of the restructuring programme.

They predict that when President F W de Klerk unveils the package — the most likely dates are this week's NP conference in Natal, or next week's Free State conference — it will be the economic equivalent of his watershed February 2 speech.

A Cabinet source said De Klerk aimed to break the "psychology of inflation" with the policy package.

Government's belief that the restructuring programme will be effective explains Finance Minister Barend du Plessis's repeated confident predictions that the inflation rate will continue to decline despite the Gulf crisis.

Administration and Economic Co-ordination Minister Wim de Villiers outlined broad details of the package at an agricultural summit in Pretoria on Friday.

He said factors inhibiting growth were: the high inflation rate; limited export capacity and relatively high imports; the outflow of capital and skilled workers; excessive state spending and profligacy by government; and the lack of efficient competition.

Government has investigated:

- Suitable policy strategies to be followed by Eskom, Transnet and other government institutions in combating inflation;
- The effect of import parity pricing of the international competitiveness of products;
- Contributory factors towards inflation and measures in terms of monetary and fiscal policy to counter them; and
- The removal of tax measures which distorted price and production structures.

De Villiers and his Mineral and Energy Affairs counterpart Dawie de Villiers have held a number of meetings with senior management of Eskom and Transnet in recent months.

Business leaders expect De Klerk to announce that Eskom and Transnet will restrict tariff increases to considerably below the inflation rate in the next few years.

De Villiers said an important part of the programme would be to reform the savings structure, particularly the traditional pattern of private saving.

Measures to encourage personal discretionary saving rather than contractual savings could also be expected.

He said that to encourage maximum job creation, the restructuring policy laid stress on the exploitation of the country's strategic advantages — mineral wealth, agricultural potential and the availability of an adequate basic infrastructure.

The programme also made provision for more effective use of scarce resources, especially capital and skilled labour.

It is believed that government is leading up to a bid to promote decentralised labour bargaining. Any such move is likely to be strongly resisted by organised labour.

Current downswing 'unusually mild'

49

GRETA STEYN

THE Reserve Bank, in its Annual Economic Report, describes the current downswing as "unusually mild" — both on spending and production.

Gross Domestic Product (GDP) displayed a slightly negative rate of real growth over the five quarters of the downswing until mid-1990. Spending "staged a minor recovery" in the second quarter of this year after weakening in the second half of last year.

In the third and fourth quarter of 1989, total real domestic expenditure fell back at annualised rates of about 6,5% and 7,5% respectively, and at a rate of 1,5% in the first quarter of 1990, recovering slightly to a provisional annualised 3% in the second quarter.

BDay 27/8/90

"In the past five quarters to mid-1990 real gross domestic expenditure retreated on balance at a fairly modest annualised rate of nearly 3%. This may be compared with annualised rates of contraction of 9,5% and 5% over comparable periods in the preceding two cyclical downswings."

The Bank attributes the moderateness of the decline to the relative firmness of real private consumption expenditure and the comparatively limited extent of the decline in total real gross domestic fixed investment over the five quarters.

However, the report points to a "disquieting" longer-term trend towards SA becoming a consumer society.

"The shares of real private and real government consumption expenditure in total real gross domestic final demand rose from some 55% and 16% in the early 1980s to approximately 60% and 19% towards the end of the decade."

On the other hand, the share of real gross domestic fixed investment retreated from about 29% to about 21% during this period.

The report notes similar tendencies are apparent from the longer-term behaviour of the ratios of private-sector and government consumption expenditure to GDP — these sectors' propensity to consume.

The Bank warns that this high propensity to consume "may delay a return to a somewhat more relaxed stance of the authorities' policies".

New

Cape Times 27/8/90

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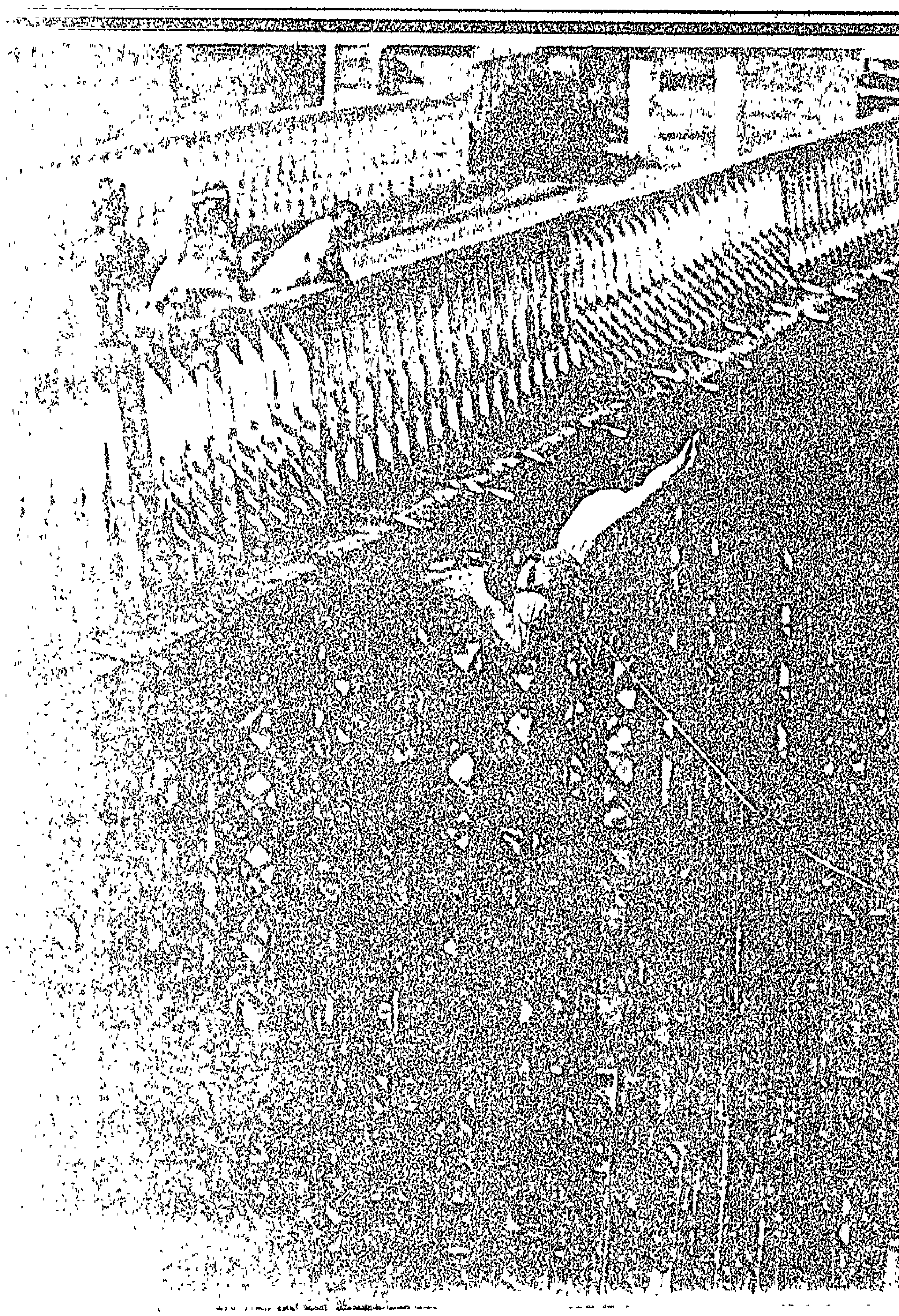
ew deal

Plan to

revamp economy, cut inflation



Own Correspondent

JOHANNESBURG. — The government will soon unveil a comprehensive economic package aimed at reducing inflation dramatically, creating maximum new job opportunities and restructuring the savings pattern in SA.

Top business leaders have already been briefed on the most important facets of the restructuring programme.

They predict that when President F W de Klerk unveils the package — the most likely dates are the Natal NP conference this week or the Free State conference the following week — it will be the economic equivalent of his watershed February 2 speech.

A cabinet source said that Mr De Klerk aimed to break the "psychology of inflation".

Government's belief that the restructuring programme will be effective explains the repeated and confident predictions of Mr Barend du Plessis, Minister of Finance, that the inflation rate will continue to fall despite the Gulf crisis and the possibility it holds for an increased fuel price.

Dr Wim de Villiers, Minister of Administration and Economic Co-Ordination, outlined broad details of the package on Friday.

Factors inhibiting growth in SA, he said, were:

- The high inflation rate,
- Limited export capacity and relatively high imports;
- The outflow of capital and skilled workers;
- Excessive state spending by government; and
- Lack of efficient competition.

Policy strategies

Dr De Villiers said government had investigated:

- The most suitable policy strategies to be followed by Eskom, Transnet and other government institutions in combating inflation,
- The effect of import parity pricing of the international competitiveness of local products,
- The important contributory factors towards inflation and measures in terms of monetary and fiscal policy to counter them, and
- The removal of tax measures which distorted price and production structures.

Dr De Villiers and his Mineral and Energy Affairs counterpart, Dr Dawie de Villiers, have held a number of meetings with senior management of Eskom and Transnet in recent months.

Business leaders who have been briefed on the broad outlines of the restructuring programme expect that Mr De Klerk will announce that Eskom and Transnet will restrict tariff increases to considerably below the inflation rate in the next few years.

Dr De Villiers said that an important part of the restructuring programme would be to reform the savings structure in SA, in particular restoring the traditional pattern of private saving.

He told the agricultural summit that to encourage maximum job creation the restructuring policy laid stress on the exploitation of the country's strategic advantages — mineral wealth, agricultural potential and an adequate basic infrastructure.

A new economic direction

B I Day 28/8/90

(49)

JAPIE JACOBS

THIS country, despite its many shortcomings, is the economic engine of Africa. Can we maintain this leadership position and what can future partners in government contribute towards improving the economy's growth performance.

Labour unrest, violence, sanctions, disinvestment, talk about nationalisation and the redistribution of wealth will certainly not be conducive to promoting economic growth.

☐ JACOBS

The scope for redistributing income while we have a stagnant or slow growing economy is exceedingly limited.

Our tax base is too small and has been expanding at too slow a pace during the past decade to allow sufficient scope for programmes aimed at improving the living conditions of the underprivileged.

Redistribution policies pursued via the tax system will have adverse affects on the economy's productive base. Such policies will, in effect, amount to a redistribution of poverty, which will benefit nobody.

That is why we are pursuing a policy of supply side economics, which will hopefully also help to improve our export performance.

A better approach than nationalisation would be to introduce into the private enterprise system a greater degree of participation by workers and private investors. We do not need nationalised enterprises. We need new industries.

We all realise that we need a higher rate of growth, a more equal participation in generating it and in the distribution of the available income, greater price stability and, of course, work opportunities for our rapidly growing labour force. The question is: how can we best realise this?

We have critically appraised our economic policies implemented during the past decade and realise that a reduction of the inflation rate and the promotion of a policy of structural reform — including a reduction in government's role and interference in the economy — hold the key to more rapid and sustained growth.

Government is committed to establishing a just society which will provide equal opportunity for all its citizens. It is committed to the right to own property, access to education, the right to equal pay for equal work and to social benefits.

This is, after all, the most sensible way to promote and sustain a more equitable distribution of income and wealth on principles which we all can support.

One can understand black leaders' concern that resources be made available to reduce the housing backlog, to upgrade school facilities and the quality of education in general, to allow small entrepreneurs access to capital and to improve services, health, and social welfare available to the underprivileged.

There are ways of promoting these causes within the framework of a market-orientated economic system — for example, via the expenditure side of the Budget.

The Minister of Finance has made use of this measure in his recent Budget to facilitate the flow of more funds to these areas.

On the question of conglomerates, I want to emphasis the point that the modern sector of the economy serves the entire population, although this may not always be directly visible.

The modern sector belongs to the entire population, although we may not all be direct shareholders in the corporate sector of the economy.

We should judge economic concentration not from a political perspective, but from the point of view of economic growth and competition.

SA has a very open economy and it is very important that we attempt to reap the benefits of economies of scale.

At the same time we must ensure that vertical or horizontal integration does not lead to the exploitation of the consumer.

Foreign competition is obviously the best protection we can extend to the consumer.

Our balance of payments allowed us little scope in this regard during the past few years, but we are gradually reaching the stage where we can afford to expose domestic industries to greater foreign competition.

We are now also in a position to stabilise the external value of the rand to a greater extent, which obviously implies more intensive foreign competition in the local market — as part of our anti-inflation programme.

It is the function of the Competition Board to investigate acquisitions and mergers and to advise the Minister whether such acquisitions or mergers should be sanctioned.

Our anti-trust legislation is adequate. There is nothing that can be regulated by the anti-trust legislation of other countries that cannot be done in terms of existing legislation.

It may also be mentioned that economic concentration in SA has been the subject of various investigations.

It is easy to conduct such an investigation, but what do you do if you realise that you will be inflicting damage on the economy instead of improving its growth performance if you attempt to break up the conglomerates?

☐ **Jacobs is a special economic adviser to the Minister of Finance. This is an extract from a speech this weekend at the Five Freedoms Forum conference on negotiations in Johannesburg.**

DP MP calls for compromise between economic models

(49) BDay 28/8/90

A NEW SA would have to provide accumulation and growth as well as democratic legitimacy, DP MP for North Rand Louis de Waal said yesterday.

Speaking at an international seminar for youth leaders at the Rand Afrikaans University, De Waal called for a compromise between the two economic camps of capitalism and socialism.

"In SA a new social order must provide accumulation and growth as well as democratic legitimacy."

The problems in SA might best be addressed if the social market economic model adopted by West Germany at the end of the Second World War was adopted as a guide.

Two central economic issues existed in SA: firstly assuring continued and dynamic economic growth, and secondly, effecting a more equal distribution of this growth.

"The German social market economic model rests on four pillars ... industrial growth, full employment, price stability and balance of payments equilibrium."

De Waal said it was encouraging to see that despite their stated polarisation, the two dominating economic camps of free-enterprise/capitalism and central planning/socialism in SA were increasingly debating the concept of a mixed economy.

"As one grows accustomed to this economic model — the 'middle way' —one begins to recognise its strategic capability in tying together the aspirations of the traditional free marketeers at the one extreme, and the central planners (the socialists) at the other."

However, he also pointed out that any economic model that was intended to address the social responsibilities of the country was also dependant on affordability.

De Waal said the only way forward was through compromise with violence and intolerance making way for negotiations and patience — and the extremes of self-serving capitalism and central planning socialism making way for economic efficiency and social justice for all.

"Compromise will promote unity, and I would call for a government of national unity, made up of all the leaders of all parties tearing our country apart. Such a government will forge the unity out of which strength is born," De Waal said.

NP MP Chris Fissmer told delegates it was tragic that some white people in SA still cherished the dream of apartheid which had proven unworkable, SABC radio news reported.

Fissmer said a bill of rights was not enough to ensure that a community could not be forced out of the decision-making process in SA. He said a constitution that guaranteed the participation of all important views, religions and languages was needed.

At the same seminar ANC representative Patrick Lekota, said some sectors of the economy would have to be nationalised.

He said the economy had been developed to meet the demands of only one section of the population.

A negotiated settlement had to involve the correction of distortions in the economy. He said the question of unequal land distribution should also be addressed and corrected. — Sapa.

Dollar swaps 'kept rates high'

49

ANDREW GILL

DRAINING the money market of liquidity through dollar swap arrangements, which eached a peak of R1,7bn in May, resulted in a temporary "destruction" of banks' cash reserves, the Reserve Bank's recent annual economic report said.

The Bank has been using various instruments to keep money market rates high recently, squeezing liquidity to such an extent that underlying bullishness has been unable to push rates further down.

The BA rate has already discounted a 40-point drop in Bank rate by easing to 17,90%.

B 109 28/8/90

The Bank's action in the market reflected a desire to keep interest rates high. Since February, it has used dollar swap arrangements (when the Bank holds other banks' dollars on deposit, thus draining the market of money) to counteract "undue easing" of rates in the market.

The swaps reached a peak of R1,7bn in mid-May at which time it was the major contributor to the market shortage, which stood at around R2,5bn, constituting nearly 70% of the shortage.

Analysts say the Bank makes use of the dollar swaps when liquidity seems to be increasing, for example in mid-May when the shortage could have been below R1bn had it not been for the swaps, they said.

First National Senior GM Jimmy McKenzie said artificially high shortages at month-end had knocked many institutions because of punitively high interest rates and the subsequent high cost of borrowing. Although the distortions between month-end and mid-month shortages had levelled out, banks were still in an uncomfortable position, he said.

Bank's view of recession 'too mild'

SYLVIA DU PLESSIS

SA IS in the throes of a recession more serious than the Reserve Bank claims, some leading industry spokesmen say in response to the Bank's recent statement in the Annual Economic Report that it is light.

Pick 'n Pay chairman Raymond Ackerman said yesterday the recession could have been much worse, but while turnovers were holding up well they were not as buoyant as in a boom. B/Day 29/8/90

"I feel the recession is a little stronger than mild," he said.

"It's crucial either (Nelson) Mandela or (Mangosuthu) Buthelezi meet to discuss the current violence, or they both meet with (President F W) De Klerk to discuss it. It also depends on whether interest rates start falling, while improved business confidence — vitally wrapped up with these factors — is crucial for the economy to turn."

Colfin MD Jeff Wiggill said his company's money lending operation Wingate was experiencing a drop in demand for funding, particularly in the area of new listings, of between 30% and 40%.

"This is because demand has dropped — the quality of inquiries is down — and is also due to more cautious lending in view of high interest rates. The Reserve Bank's claim we are in a mild recession is conservative."

SAB MD Meyer Kahn agreed the recession was "a bit stronger than mild. It's rough out there. The downturn has been hugely aggravated by socio-political turmoil, otherwise it would've been fairly manageable on its own.

(453) (49)

"But I'm not despondent. I believe for the first time, to some extent, it's showing some benefit, in terms of declining inflation, for example. The pain will lead to some gain."

Tradegro CE Donald Masson said describing a recession was "like saying a war is big or small.

"At least (Reserve Bank Governor Chris) Stals admits there's a recession. The world hasn't stopped but it's tough out there, with no consistent sales pattern."

Ed. Hern, Rudolph corporate finance director Tak Hiemstra said the recession was "a lot more severe" than the Bank claimed.

"Our feedback is that 'mild' is putting it mildly."

Stals unbending on monetary policy

nt - B/Day 29/8/90

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GRETA STEYN

RESERVE Bank Governor Chris Stals will not declare a truce in the war against inflation, but has pledged to ease monetary policy as soon as it can be justified.

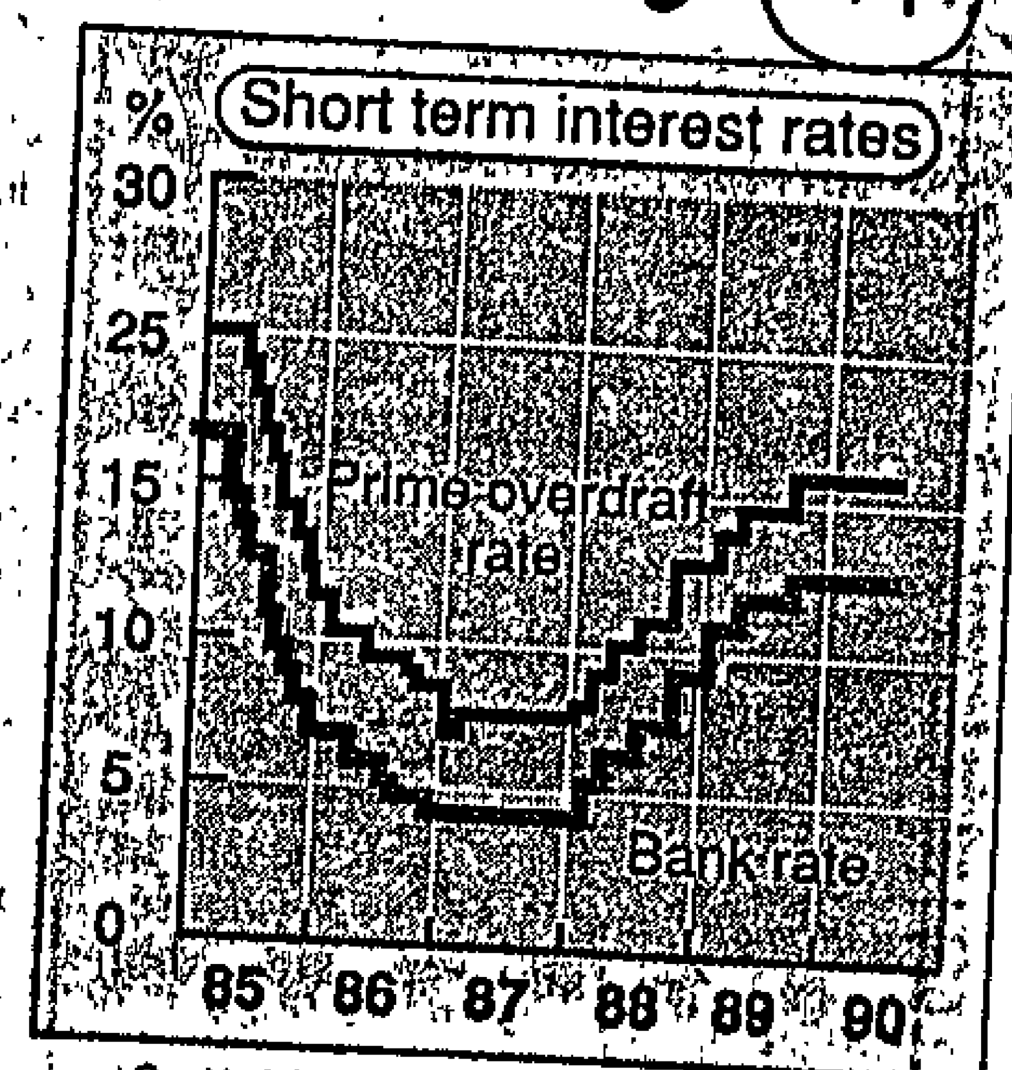
In a key speech demonstrating strong resilience in the face of growing pressure to cut interest rates, he stressed the authorities' "total commitment" to the battle against inflation.

"The sooner this dictum is believed and accepted, the less pain there will be in the adjustment," he said in his Governor's Address in Pretoria yesterday.

Apart from high inflation, the gold and foreign exchange reserves were too low to justify an easier policy. The influence of excessive increases in the money supply in 1988 and 1989 remained a problem as there was too much money in the system.

The Middle East crisis had further complicated the situation.

"The SA economy is now in a delicate stage where a change in direction of monetary policy has to be considered. It is, however, extremely important that any switch in policy should be carefully timed — a premature relaxation of the restrictive measures can easily nullify the progress made over the past year towards restoring financial stability," he said.



Graphic: LEE EMERTON Source: RESERVE BANK

His address comes at a time when the markets are impatient for a cut in Bank rate. Some sections of organised commerce and certain economists have also called for an easing in policy in response to the recession.

Stals countered this sentiment with: "The Reserve Bank is not insensitive to the

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Stals unbending

From Page 1

hardships created for many people by the present low economic growth rate, but must warn against the temptation of seeking relief for all of the country's economic ills in a premature relaxation of monetary policy."

It was not surprising that "many unreasonable and even unrealistic expectations" had arisen on the power of monetary policy actions to ease economic ills, he said.

In spite of the clear signal that a cut in Bank rate was not imminent, the capital market showed bullish reaction to the speech. A dealer said the bullish sentiment reflected optimism that Stals would win the battle against inflation. However, rates kicked up again towards the end of a volatile day with gold's collapse winning the day.

The speech provided scant clues as to at which level of inflation or money supply growth Stals might be moved to act.

On money supply, he noted it would be "no cause for concern" if the rate of increase turned out to be below the 11% bottom of the target range.

In retrospect, the money supply guidelines of a range of 11%-15% for the increase in M3 had been generous, he said — indicating that a period of growth inside the guideline might in itself not be enough to trigger a drop in Bank rate.

He noted, however, that a change in monetary policy could be introduced "at any time, at short notice, and on the basis of all new information that becomes available."

See Page 3
Comment: Page 10

Violence cost SA R3-billion

Sowetan 29/8/90 (49)

THE cost of the violence in South Africa so far this year is thought to amount to more than R3 billion in direct losses, economists and sociologists believe.

SA Press Association

Indirect damage to the future investment and production infrastructure of the country due to smashed business and consumer confidence was incalculable, but "certainly amounts to additional hundreds of millions of rand at present values", an analyst said.

The benefits of the Government's special R3 billion socio-economic development fund had effectively been neutralised by the violence and the country was "back to square one" as far as the alleviation of poverty was concerned, he added.

Natal accounted for about one-sixth of the output of the South African economy and the province's loss could be in the region of R500 million so far this year.

It was also revealed that:

* 1 800 people had been killed nationwide and the "cost of premature death" was conservatively estimated at R200 000 for each individual in lost earnings and fruitless expenditure on education, for a total of about R400 million.

Destroyed

* Hospitalisation associated with the unrest placed an additional burden on the country's strained health services of more than R50 million.

* About 2 000 houses, shops and factories were destroyed and the replacement cost was estimated at R200 million.

* Additional expenditure on public and private sector security forces deployed in unrest situations cost at least R50 million since the beginning of the year.

* Destruction of personal property and motor vehicles set the country back more than R100 million

* Strikes alone lost the country 1.2 million man days in production from January to June, estimated by one source to have resulted in a nationwide loss of as much as R700 million.

* The cost in lost production of the July 2 national stayaway was put at R750 million by the South African Chamber of Business.

* Other sporadic regional stayaway actions accounted for at least another R750 million.

FACTFILE - by Norris McWhirter

Suzman less euphoric about the future of SA

Star 29/8/90. 49

By Winnie Graham

Helen Suzman, named the Allied's visionary of the year in Sandton last night, has confessed that she, "like so many starry-eyed liberals who were overjoyed when State President de Klerk made his historic speech in February this year", is now less euphoric about the future.

She told a banquet in Sandton there were many unknown quantities that bedevilled a peaceful transition from "the totally untenable system of statutory race discrimation to what was hopefully referred to as a nonracial democracy".

Mrs Suzman said her "visions" were not signs of any great brilliance on her part.

Most had evolved from an elementary appraisal of the realities of South Africa, such as acknowledging in 1968 the irresistible tide of black urbanisation and the impossibility of continuing to implement the pass laws.

She added: "It took only another 18 years before Government conceded the fact — not to mention several million pass law convictions — and repealed the laws.

Mrs Suzman said her cystal ball was now somewhat clouded.

There was the question of how to control the ongoing violence in Natal, the eastern Cape and the Witwatersrand; how to satisfy the expectations which had been raised to astronomical heights among blacks, coloureds and Indians; and how to provide employment for the thousands of unemployed blacks.'

"Despite misgiving, my crystal ball does reflect one reassuring prism," she added.

"It contains my strong conviction that the vast majority of people of all races in South Africa desire to live in a country with a stable economy that can ensure improved standards of living under a government that respects the rule of law."

● Flexible urbanisation — Page 19.

FINANCE

Inventories lowered ahead of the slump

B/Day 30/8/90 (49)

MARIETTE DU PLESSIS

BUSINESSES appear to have learned from previous recessions — they have managed to reduce their stock levels to anticipate the current downturn.

Industry spokesmen and economists say destocking from the second half of 1989 enabled businesses to bring inventory to sales ratios down to a greater extent than during the slight 1984-86 recession.

Consequently the inventory build-ups which normally occur in an economic upswing and last into the downturn were lower than before.

The more gradual downswing during most of 1989 also served to reduce the element of "surprise" in the changed business situation and forestalled a major part of the overshoot in inventories which tends to result from more abrupt cyclical fall-offs in economic activity.

Companies destocked to prevent a fall-off in production due to unanticipated liquidity problems. Consequently the inventory build-up during the latter half of 1988 and the beginning 1989 was less than before, as reflected in the latest Reserve Bank statistics.

The figures show the level of industrial and commercial inventories relative to GDP to be 20,5% in the current downswing to date, compared with 25% in the downswing of 1981-82 and 22% in 1984-86.

Together with the declining inventory cycle, SA's GDP contracted further in the first quarter of 1990, declining at an unchanged rate of 1,5%.

Total real inventories maintained their traditional lagged relationship to the business cycle. However, as early as the third quarter of 1989 — when positive real growth was still being recorded in the overall economy — aggregate real inventories were already being reduced, the latest Reserve Bank annual report says.

The quarterly decline in the change in total inventories, at seasonally adjusted annual rates for the first quarter in 1990, amounted to R3bn compared with R0,4bn and R1,6bn for the third and fourth quarters in 1989 respectively.

The report says computerised monitoring and positive real interest rates, together with the "soft landing" character of the cyclical slow-down helped to dampen the amplitude of the inventory cycle, which has been destabilised to a lesser extent than previously experienced.

Contingency fund pushes up spending

Govt looks to market for extra R1,2bn

(49)

B/Day 30/8/90

GRETA STEYN

GOVERNMENT will need R1,2bn more from the capital market than budgeted to finance extra expenditure in the current fiscal year, a senior Finance Department official says.

Finance deputy director-general Estian Calitz said special expenditures, announced after the Budget, could mean a greater demand on the financial markets.

A revision of spending estimates for the 1990/91 fiscal year yielded about R74,1bn against a budgeted R72,9bn. This implied an increase in spending of 12,9% for the year (budgeted 11,8%). He said "various actions" were under way to ensure compliance with the adjusted budget figures.

Increased spending will reflect a portion of the R1bn set aside for black schools and the purchase of land for black urbanisation.

"These expenditures, to be financed from privatisation proceeds or, failing that, from other sources of finance, have yet to take place. For logistical reasons it is doubtful that more than about 50% of this money will be spent during this financial year," Calitz said.

Although privatisation proceeds had been identified as a source of finance, the macro effect on the financial markets would be no different from direct borrowing in the capital market.

"Both methods represent a demand on private savings through the financial markets," he said.

He said another R1bn had been added to the contingency reserve for items such as improving police and nursing salaries. He expected only about R700m of this amount to be spent during the fiscal year, to bring total overspending to about R1,2bn.

The total financing requirement, including loan redemptions, would rise to R13bn, assuming revenue collections were close to the budgeted figures.

"Almost half of this has already been financed. If funds from the Public Investment Commissioners and privatisation proceeds are allowed for, somewhat less than R2bn of additional government stock would have to be issued during the rest of the financial year."

Extra borrowing, in turn, raised the interest bill which was the largest item in the Budget (15,5% of the total). The huge cost of servicing government debt severely limited government's ability to readjust spending priorities.

The deficit before borrowing — the financing requirement excluding loan redemptions — could rise to R9,2bn or 3,3% of GDP instead of the budgeted 2,8%.

"The goal of reducing and eliminating dissaving through the Budget, is therefore placed under increased strain by this higher rate. The falling share of capital expenditure in the Budget aggravated this problem."

On the economic effects of heightened government spending, Calitz said even though only a small portion of the Independent Development Trust would be spent this fiscal year, and only about half of the extra R1bn for urbanisation, the indirect stimulatory influence might be larger.

Nkuhlu outlines plan for wealth redistribution

Star 30/8/90

By Roy Cokayne

Wealth redistribution is considered necessary in South Africa, because whites used "unfair and immoral means to attain economic dominance over the indigenous Africans and later over all people of colour in the country", according to Transkei University principal Professor W L Nkuhlu.

"The economic imbalances that we see are not the result of market forces, but the result of the deliberate actions of whites acting through their representatives in Parliament over seven decades. The redistribution is not only a political or an economic issue, it is above all a moral issue," he said.

Prof Nkuhlu, who is also a member of Nafcoc's economic committee, was speaking at a seminar on 'Building a sustainable market-based economy'. The seminar was organised by the Pretoria branch of the South African Institute of International Affairs.

He said the present high level of racial inequality in wealth and income would persist even in a post-apartheid South Africa, because those who benefited from apartheid would continue to be in a dominant economic position because of their control of economic resources, superior managerial and technological knowledge, contacts and connections in the business world.

Entrenched

"It is the view of the victims of apartheid that the economic power of the white minority is so dominant and entrenched that market forces alone are either inadequate, or will take too long to bring about an economic enviroment in which blacks and whites can participate as equals," he said.

For this reason, he said, virtually all the liberation movements and many concerned South Africans supported State intervention in bringing about a situation of real economic equality.

The role of the government had to be to remove factors which inhibited the individual from developing his or her potential.

Prof Nkuhlu said the redistribution programme envisaged a wide range of initiatives aimed at enabling the black people to participate in the economy on equal terms with whites. Included among such measures listed by him were:

- Addressing the high level of poverty in the country by introducing food stamps, school-feeding schemes and improving social welfare pensions;
- Redirection of State expenditure towards the disadvantaged groups to provide essential services;
- Increased expenditure on education and training directed at enhancing the managerial and technological capacity of blacks;
- A programme for purchasing land by the State for the purpose of making it available for black housing and farming;
- Special schemes to increase the availability of capital to blacks for housing, business development and farming;
- The formation of a new institution to specialise in providing support to emergent farmers and;
- The introduction of State-supported "affirmative action" in both the private and public sectors with government departments, State corporations and big private sector corporations being required by law to give a high priority to the training and promotion of blacks in the key areas of management and technology.

Prof Nkuhlu said the sources of funding for these redistribution and economic upliftment measures were the redirection of State expenditure from the Defence Budget; duplication of facilities necessitated by apartheid and subsidisation of social services to whites and general rationalisation within the state sector; increased taxation; and a national development fund established by the private sector corporations.

'Potential growth decimated in SA'

NEIL YORKE SMITH (49)

SA's First World economic engine collapsed during the past 15 years, says Reserve Bank senior Deputy Governor Jan Lombard.

At the SA Institute of International Affairs seminar in Pretoria on Tuesday night, Lombard said it was wrong to assume all SA's problems would be solved once apartheid ended.

"An improvement of our economic performance will be required before the international community takes a serious interest in investing in SA. This fact will remain regardless of the political situation in which we find ourselves," he said.

To encourage international investment, SA needed strong economic growth and long term economic and political stability, he said.

"But SA's potential growth has been decimated during the last decade." B\Day 30\8\90

This was partly a result of much lower output and employment to capital ratios, as well as of insufficient discretionary savings, he said.

It was vital that discretionary saving be increased, he said.

Inflation would have to be kept at the lowest possible levels.

It was also vital that government control current expenditure, he said. Excessive government borrowing to finance current expenditure had resulted in serious economic problems.

Cartels intolerable in new SA — De Beer

EDYTH BULBRING

(49)

B/Day 30/8/90

MONOPOLIES and cartels must not be tolerated in a new SA, DP co-leader Zach de Beer said last night.

Addressing a Houghton Forum, and later the Sandton Chamber of Commerce, De Beer said there were indications that the ANC was prepared to be more flexible in its nationalisation policies. But it remained suspicious of "big business" and this should be taken seriously by the business community.

Competition between SA firms should be free, overseas competition should be permitted and tariff protection should be limited to industries which needed temporary assistance to get established.

The people should also own more of the productive enterprises that made up the economy, provided politicians and bureaucrats were not appointed to run these enterprises badly, De Beer said.

The DP advocated a disciplined economy for a new government which would promote sustained growth and job creation and which would require the ruthless cutting of government expenditure.

It should also include tight control of

☐ To Page 2

De Beer

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☐ From Page 1

money supply, preferably by an independent Reserve Bank, with maintenance of positive interest rates to encourage saving for investment, to protect the currency and to strengthen the balance of payments.

Responding to SACP secretary-general Joe Slovo's statement that the ultimate economic aim for SA was communism, De Beer said in a statement this was utterly irreconcilable with anything resembling Western democracy.

Slovo's statement challenged the ANC to say whether communism was its economic policy, De Beer said.

He also criticised a statement by ANC economics department head Tito Mboweni, who said he was unable to guarantee that an ANC government would pay compensation if it nationalised land.

De Beer said these statements would have greatly damaged economic confidence.

Speaking up for the 'have nots' — Cheryl Carolus

By MICHAEL MORRIS
Political Correspondent

GROWING up in a poor, working class community on the Cape Flats in the 1960s helped forge the political ideals of one of Cape Town's most prominent communists and well-known fighter for civil rights, Ms Cheryl Carolus.

She remembers her father, a printer's assistant — "he was really a glorified labourer" — setting off to work at 6am and returning home at 8pm.

"The fact that we were poor had nothing to do with my father's willingness to work," she observes.

Swept to prominence in communist ranks with her elevation to the 22-person Internal Leadership Group of the SACP, Ms Carolus is, even now, reticent about some aspects of her socialist commitment. She prefers not to say when exactly she joined the party — communists (she calls herself a socialist, a "technical" distinction) are still not entirely trusting of the political change in South Africa.

Religious freedom

But, whenever she actually joined, her dedication to socialist ideals occurred by what she calls a "natural progression".

"I have not arrived at it by intellectual debate, but because of the struggle, because I understood how the chain of oppression worked. I come from a working class community who understand the roots of poverty."

Nor was she motivated by bitterness.

"Socialism is positive. It talks about equality and in order to succeed you do not have to trample over others. It allows humane qualities to surface."

In her teens, Cheryl Carolus temporarily rejected organised religion as a "reactionary bourgeois institution", but returned to it later. She is an Anglican

"There is no conflict between socialist ideals and faith, and the SACP is quite clear on its commitment to religious freedom."

She believed even the churches accepted a materialist perspective in explaining socio-economic features of the world "as the work of humanity".

"It was too easy simply to palm it off on God."

From the tangible sense of poverty in her childhood, Ms Carolus developed a "tangible" sense of freedom ... "when I think about freedom, I think about tangible things."

Equality

It means the "right of all to have a roof over their heads, the right of all children to go to bed with food in their stomachs, the right and responsibility of all adults to work ... that's what freedom means to me."

She adds with a quizzical Carolus frown: "When you think about these things and the equality of human beings, which is what socialism is all about, then I cannot see how it is possible that capitalism has the answers."

"Capitalism is so hierarchical and unequal — the chances are that if your parents are workers, you and your brothers and sisters will never be wealthy"

She says South Africa's five top companies control about 71 percent of the wealth ... "that's probably about 100 white men who are virtually directing the economy."

She rejects the notion of the "market" as the best economic regulator.

"The market is thrown around as the fairest way of distributing wealth. That's rubbish. The point is that people who have more money have more clout in the market That market does not cater for low cost housing or education. It caters essentially for consumer goods, for people who have money"

Not that socialism is without ills, she recognises.

Events in Eastern Europe have have been tauntingly celebrated among opponents of communism as the ultimate vindication of capitalism.

Ms Carolus grins: "Somebody said the other day that socialists are probably the most open-minded people right now because they're all trying to redefine what socialism actually is."

She adds: "No, but seriously, I do not believe the basic principles of socialism have been proved incorrect in Eastern Europe.

"Equally, it is too easy to say that these (despotic East European leaders) were simply evil people. There were serious problems, mainly a lack of accountability, and, as a socialist, I could not justify what happened there."

Accountability

Accountability is essential. "That's the question that faces us here. You can never assume absolute power without accountability downwards. That's not democracy, and that was the Eastern European problem."

South Africans, she argues, are "lucky our changes are coming after so many years, where we can learn from the terrible lessons of others".

The SACP's commitment to the principle of a multiparty democracy is, she says, an inherent criticism of the old order.

However, before criticising communism abroad, she suggests, capitalists ought to look at the impact they have had in South Africa itself.

"Has capitalism worked here? Some of the worst apartheid laws came with capitalism, well before 1948. The Land Acts of 1913 and 1936 and the pass laws, the basis of influx control, were introduced to meet the needs of capital."

The needs of capital in the post-apartheid South Africa is a subject fearful business leaders are wondering about with increasing anxiety, given the close ties between the ANC and the SACP, but Ms Carolus rejects the notion that the communists are preparing themselves for a "palace coup" within the ANC.

"The relationship with ANC has introduced a dynamic of accountabilty for the party. There is a political tolerance one rarely finds elsewhere.

"People have asked: 'Why does the party not have its own leaders? Why are they all ANC leaders?' Well, one of the corner stones of being a party member is that you actively involve yourself and work in other mass based structures and subject yourself to their discipline. You understand democracy. Our people have been elected to responsible positions in these organisations — we did not simply come in to manipulate people."

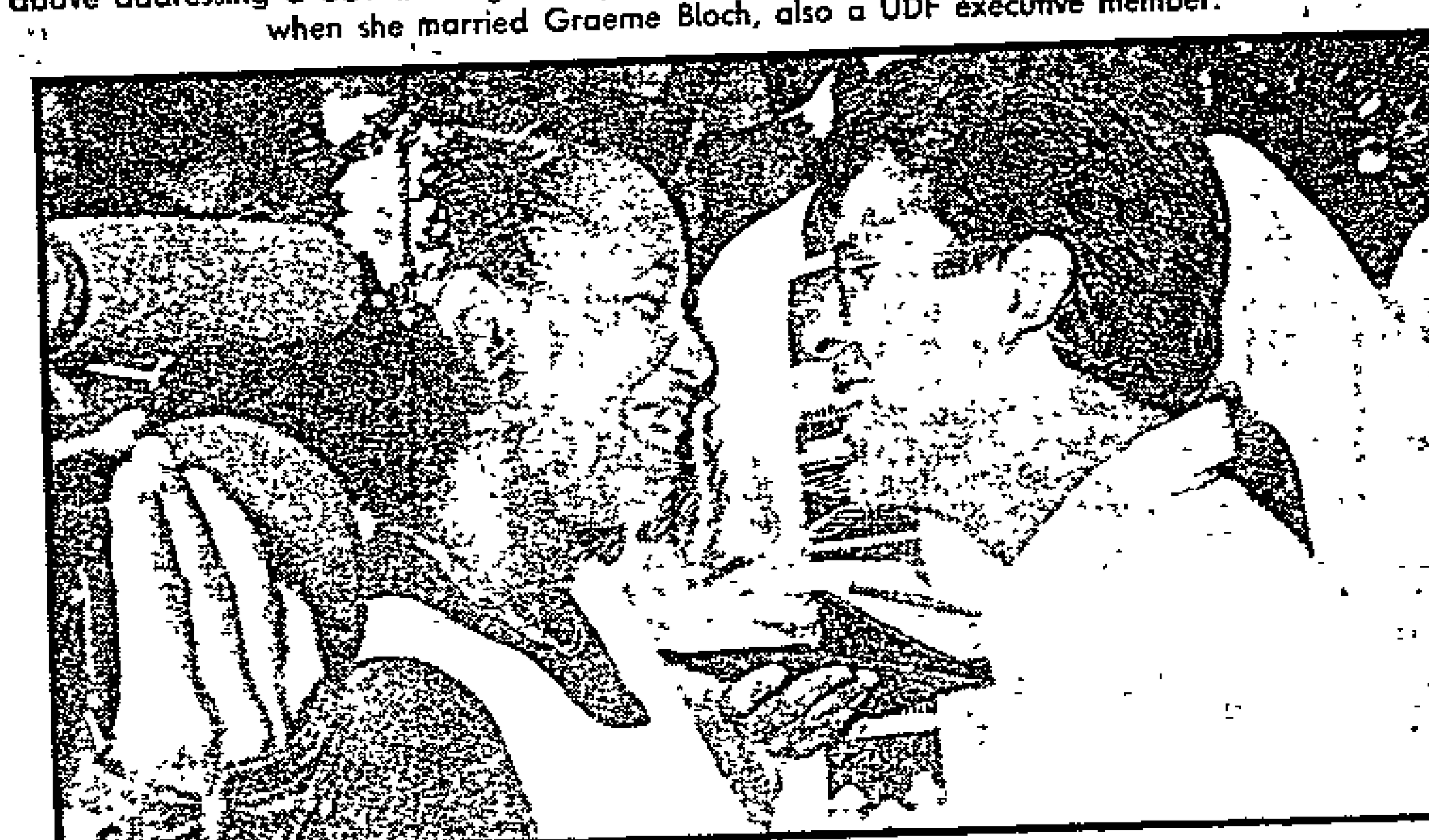
Engender a culture

Ms Carolus says there are many political differences within the ANC, but everybody is accepted as patriots who are serious about change. "Our people feel strongly that we must contest our ideas, and help engender a culture of critical thought."

One of the strengths of the ANC, she says, is that it does provide a political home for people with wide-ranging views.

"That's how we will have to learn to live in the future. I know there are some people in the ANC who are virulently pro-capital, but there is no animosity. We will have to take them on in debate. The question is, how will we live in South Africa if there is no tolerance?"

FIREBRAND: Cheryl Carolus is a fiery public speaker who is wedded to "the struggle". Pictured above addressing a UDF meeting in Cape Town in August last year. Below: Her real wedding day when she married Graeme Bloch, also a UDF executive member.



Protests 'will cripple SA's economy'

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Business Day Reporter

VIOLENCE, stayaways and strikes, which have cost SA about R3bn so far this year, are set to cripple the country's economy if they continue, says Castrol SA CE Deryck Spence.

He was commenting in a statement on recently published views of SA economists and sociologists on the direct losses suffered by the country this year.

"Since the cessation of hostilities was announced earlier this month, the business community looked forward to an end to the violence," says Spence.

"However, the violence in the townships reached epidemic proportions."

It now appeared to be declining, but if there was a resurgence the economy would suffer so severely that SA could find itself among the poorest in Africa.

Since the beginning of 1990, business has suffered losses of R2 200m in lost man hours.

BDay 31/8/90

The other R850m in losses were represented by the deaths of an estimated 1 800 people, injuries to thousands of others, and the burning of factories, shops and houses.

"It is now more vital than ever for business, political organisations, unions and the people of southern Africa to work together," Spence says.

Barend wants technology, exports and growth

DURBAN — SA's economic problems would not be sorted out on an ideological basis, Finance Minister Barend du Plessis told the Natal NP congress yesterday.

"We must mutually decide what the economy should look like at the end of the century.

"Only then will we have a chance," he told delegates.

"When we talk about the economy of the new SA, it must be restructured to achieve a high growth rate with the accompanying creation of jobs.

"This is the vital issue to be pondered by those creating unrest on the labour scene.

"We cannot escape from what happened in Eastern Europe — the fundamental truths of economy cannot be disputed.

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"We need a decent, firm and sensible monetary policy — you can't change arithmetic."

He said SA could not be isolated from the movement of economies in the rest of the world.

"If we want to see a total exodus, we must embark on a punitive tax system to provide funds for nationalisation."

It was also time people realised that the future lay in technology and not in white-collar jobs.

"There are, however, red lights flashing in the area of production going down and salaries going up. This can price us out of the international market and trade unions must realise this.

"If we can harness the productive forces in SA and take our place with the trading nations, then I can think of no better place to be than in SA," Du Plessis said.

There was a perception that people had suffered under apartheid due to the free market economy.

"This is wrong and it will be necessary for us to break that synonym.

"Those stoking unrest must also decide whether they want money for education or if we must spend it on the police and military personnel who have to try and sort out the trouble," Du Plessis said. — Sapa.

Conditions set for lower rates

THE Reserve Bank has no objection to lower nominal interest rates, provided the rates decline for the right reasons and at least exceed the rate of inflation, says Governor Chris Stals.

Stals, addressing a business breakfast of the Johannesburg Chamber of Commerce and Industry yesterday, said that if equilibrium between the demand for and supply of loanable funds could be established at lower nominal interest rates, without an excessive increase in the money supply, the Bank would have no objection.

Genuine savings and the real demand for funds would then determine the interest rate level.

As long as the supply of loanable funds was not supplemented with new money created by the Reserve Bank, nominal interest rates would normally remain above the rate of inflation.

He said that over the next few months the Bank would be guided in its monetary policy by the underlying changes in the demand for and the supply of funds outside of the money creating machinery, by the changes in the money supply and movements in the interest rates and by changes in foreign exchange market position.

While SA now had the opportunity of moving closer to the ideal situation which included zero inflation, positive real interest rates and a balance of payments equilibrium, the Bank was not satisfied that enough progress had been made to attain greater financial stability.

Perseverance

A premature relaxation of monetary policy could therefore easily nullify the progress made so far.

"The progress made over the past year justifies our call for the perseverance for some more time in our restrictive monetary and fiscal policies."

The Bank, however, would not unnecessarily delay the relaxation of monetary policy. — Sapa.

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Not all will be happy with govt's new economic plan

B|Dn 31/8/90

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GRETA STEYN

GOVERNMENT is poised to announce a comprehensive economic package which has been described as the financial equivalent of President FW de Klerk's speech at the opening of Parliament in February.

The programme to restructure the SA economy will not be popular with everyone. Resistance from groups fighting for vested interests is certain. But count on it that Administration and Economic Co-Ordination Minister Wim de Villiers, who is something of an economic hatchet man, will persist with his plan to put the SA economy firmly onto a long-term growth track.

The idea is to co-ordinate strategies on trade and industry and monetary and fiscal policies into a comprehensive "supply-side" plan for growth with low inflation.

Some parts of the plan, such as those for monetary and fiscal policy, are already known. Only a broad outline of the rest is available from speeches De Villiers made this year. The nuts and bolts are eagerly awaited.

The first aim is to crush inflation — not only through monetary and fiscal policy, but also through changes in industrial and labour policy and through efforts to break the prevailing inflation psychology.

On economic growth and job creation, the aim is to promote industrial development. Industry, and not mining, is seen as the main engine for growth and employment, hence much emphasis is placed on manufactured exports.

The new industrial policy will have a major impact on industries enjoying import protection. De Villiers argued in a speech in Parliament that these industries have abused their position — their pricing policies are fuelling inflation and hampering SA's international competitiveness.

Originally, only manufacturers of final goods were to receive protection and this would be phased out once they could stand on their own feet. However, nothing came of plans to take away their privileges and instead protection was extended to manufacturers of intermediate products. Protected manufacturers implemented "import parity pricing" — bringing local prices in line with imported prices plus tariffs.

The practice harms SA's ability to export manufactured goods at competitive prices because of expensive intermediate goods. It is an inflationary factor that should not be underestimated.

To set the ball rolling, Trade and Industry Minister Kent Durr asked the Industrial Development Corporation (IDC) to investigate existing tariffs. Durr is currently studying the IDC report, which sought to quantify the extent of tariff protection for different industries in SA — a difficult task as there is no specific rate at which import protection is given to any one industry.

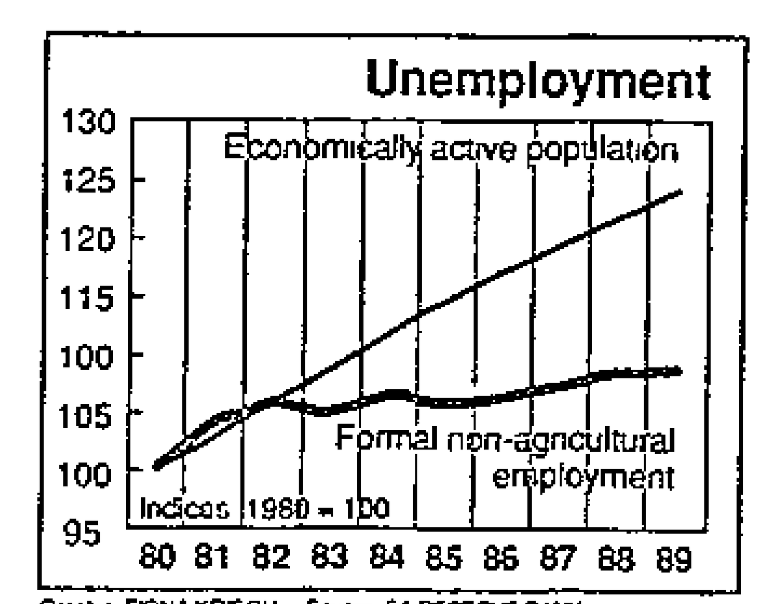
BTI chairman Lawrence McCrystal, asked for a list of industries that enjoyed protection, commented: "There are thousands of tariff items (some 14 000) in the tariff book which is probably the most complex piece of legislation in the country. Each tariff has a duty applicable to it. The duties vary from zero to 100% and then there are complex formulae and other duties as well. Short of your obtaining the tariff book and examining the tariff levels yourself there is no easy answer to your question."

Different manufacturers within the same industry enjoy different levels of protection. Products are evaluated individually and the board's decision depends on how well a case is motivated. There is apparently no formal basis for deciding on protection. Industries that enjoy protection include textiles, paper, chemicals and plastics.

The overall level of import protection in the economy is easier to estimate than that for specific industries. McCrystal notes import duties in the previous fiscal year amounted to about 5% of total imports — "which places SA, on this criterion, among the lowest countries in the world. The percentage in the case of the EC, which is regarded as low, is 5,4%. In Chile, it is nearer to 15%."

But the relatively low level of overall protection does not mean the system will necessarily be scrapped in one fell swoop.

One of the spinoffs of change could be the scrapping of the BTI. De Villiers is currently investigating the mission and functions of the board.



Graphic: FIONA KRISCH Source: SA RESERVE BANK

One wonders to what extent McCrystal will resist change as he has spent his career implementing an interventionist trade policy which has now been declared obsolete.

McCrystal says: "In the light of the tariff policy investigation there will be a need to redefine the BTI's role and functions."

Eliminating tariffs could be a drawn-out and arduous process, as consultation with the private sector is likely before any action is taken. One can expect protected industries to fight to hold onto their privileges.

But that is not the only part of the plan that signals potential conflict. The life assurers and pension funds must be growing increasingly worried about constant hints that the nature of savings is to be addressed.

In a recent speech, Finance deputy director-general Estian Calitz reiterated that action could be expected towards the "reform of the structure and raising of the level of saving so as to promote capital formation and job creation and to channel available capital in more productive directions".

This reflects the belief that the life offices do not invest the savings at their disposal in a growth-generating way.

To change this obviously implies monetary and fiscal policy measures such as high positive real interest rates and a reduction of tax on interest. But other measures cannot be ruled out. These could take the form of higher effective tax rate for institutions' income, prescribed investments or compliance with some sections of the new Banks Act, now called Deposit-Taking Institutions Act.

Apart from commerce and industry, organised labour, too, stands to be affected by the restructuring. Finance Minister Barend du Plessis and the Reserve Bank, among others, have recently emphasised what they see as the unions' role in aggravating inflation. There is a growing belief among economic policymakers that union power "interferes with the market mechanism".

A move towards decentralised bargaining appears to be on the cards. Legislative changes might be made to ensure that wage settlements are applicable only to the parties who negotiate them. At present the Minister of Manpower decides at his discretion whether to extend industrial council agreements to non-parties. He has recently been reluctant to grant extensions.

De Villiers noted in a speech 'the promotion of responsible wage determination" was essential in combating inflation and boosting employment.

In government's discussions with business, the restructuring plan is being sold as an effort to free up markets and reduce the role of government.

It seems, however, that privatisation will have a limited role. The idea of privatising Eskom has apparently been shelved. Instead, talk in business circles is that the setting of Eskom and Transnet tariffs will form part of an overall anti-inflation strategy.

Government intervention in monopolies' price setting is hardly a free-market approach. But it might in any event not be politically wise to sell the programme as the unleashing of market forces.

Whatever terms De Villiers uses to sell the package, he will have a hard time defending it. Economic plans have been made before, containing many of the elements of the current effort. The announcement of De Villiers's programme will be momentous, perhaps not so much for its contents as for his determination to see it through.

Argus 31/8/90

'Red lights are flashing in the economy'

From TOS WENTZEL
Political Staff

DURBAN. — The trend of low productivity and rising wages were "red lights flashing in the economy", Minister of Finance Mr Barend du Plessis said here.

Addressing the Natal congress of the National Party, Mr Du Plessis said South Africa could be priced out of the export market if productivity continued to drop while wages rose.

He said the time had come to warn trade unions that this could not only happen but that unrealistic wage demands also diminished work opportunities for others.

In the new South Africa there would have to be a very special relationship between employer and employee. There would have to be close co-operation in order to stimulate economic growth.

PROFIT SHARING

Modern techniques to motivate workers including profit sharing and incentive schemes would have to be considered.

The new South Africa needed a high growth rate which in turn led to job creation. The two went together.

This could only be achieved in a market-orientated economy.

Mr Du Plessis warned against a too rigidly ideological approach in the debate between those in favour of a free market economy and those who stood for socialism.

FIRM POLICY

The two sides should rather be brought together in order to define what would be needed in an economic system for the new South Africa.

A decent, firm and sensible monetary policy including firm control over State expenditure would be needed.

Confiscation of property under a new system or punitive taxation would scare away investment from abroad.

There would also have to be special policies to educate manpower. Too many whites were being educated for white-collar jobs that would not be available.

● Violence, stayaways and strikes, which have cost South Africa about R3 billion so far this year, are set to cripple the country's economy if they continue, says Mr Deryck Spence, chief executive of Castrol SA.

He said today: "Since the cessation of hostilities was announced earlier this month the business community has looked forward to an end to the violence.

"But instead the violence in the townships reached epidemic proportions. If it continues the South African economy will suffer so severely that the country could find itself among the poorest in Africa."

'Let's persuade Mandela'

Star 31/8/90 (49)

Political Staff

DURBAN — African National Congress deputy president Nelson Mandela stood ready to be persuaded that nationalisation was not the correct economic solution for the country, Minister of Foreign Affairs Pik Botha said yesterday.

"Let us go and persuade him," he told National Party delegates at the party's Natal congress in Durban. He urged businessmen to talk to the ANC about future economic policies for South Africa.

Mr Botha said he had told Mr Mandela during their August 6 discussions that his talk about nationalisation had done damage to the country internally and abroad.

"He said to me: 'Look, I'm not married to the concept and we stand ready to examine other policies and programmes to address backlogs that exist today'."

Mr Botha said it was therefore unfair to blame the ANC for being committed to nationalisation. It was untrue, and he urged the private sector to talk to the ANC about this.

In another part of his speech, Mr Botha said the NP would have stood accused by history of destroying South Africa and sacrificing the whites if it had not undertaken its reform programme launched on February 2.

South Africa had been "on the way to total isolation, and destruction of our economy. We were on our way to becoming a bankrupt state, a banana republic, in which military or other forces inevitably could be used against us effectively.

"It has never been the NP's objective to let the country die."

The white man's security lay in making himself indispensable for the survival and progress of sub-Saharan Africa, Mr Botha said.

DP plan for a balanced economy

IN its long-awaited economic blueprint, the Democratic Party seems to have tried to balance the philosophies of hardline capitalists within its ranks with those more inclined to socially orientated economic policy. MICHAEL MORRIS, Political Correspondent of The Argus, reports.

ECONOMICS

THE Democratic Party has unveiled its new economic blueprint for a social market economy based on private enterprise and rewards for entrepreneurs, aimed at eliminating poverty and providing rising living standards for all.

The long-awaited revised economic policy position paper released today will be submitted for endorsement to the party's national congress in Johannesburg next week.

It seeks, apparently, to balance the philosophies of both hardline capitalists within the party and those more inclined to socially orientated economic policy ... balancing free enterprise with a social conscience.

It stresses political freedom and equality and the absence of discrimination as vital requirements for a just economic system, as well as wealth and job creation, special programmes to tackle poverty and distortions in the economy and to upgrade skills.

It says everybody should have the opportunity to enter the economy on an equal footing.

Nationalisation is rejected "as a general rule", but the document says the state should provide services not adequately provided by the private sector.

The theme of the position is that "a market system should operate to achieve the goals of productivity and efficiency and give incentive, but it should do so within the constraints of a social conscience and the requirements of a healthy environment".

The DP "recognises the existence of unacceptable wealth, income, opportunity and skills gaps and the need to give urgent attention to them and to eliminate racial discrimination in social and state services".

It advocates "special corrective action" in tackling wealth and income gaps — mainly through education and training and, where appropriate, land resettlement, housing and other socially orientated services.

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Urgent priorities where extreme poverty exists are creating jobs, reducing deprivation and improving living standards through "special development activity".

The State and private sector must co-operate in providing for increasing urbanisation.

The document emphasises the need to create wealth and to encourage wealth creation by the individual.

This would entail encouraging new and particularly small businesses and making skills and capital more readily accessible.

It says taxation should be applied so as to maintain incentive and enable the state machinery to function and finance non-discriminatory social services. State spending must be closely monitored and reduced where feasible. The private, rather than the public, sector should be allowed to "develop optimally".

The state, the document argues, should play an "indicative, rather than compulsive" role in macro economic planning.

The policy also entails the "establishment of a relationship between capital, management and labour based on a recognition that each has an interest in the welfare of the others".

Share ownership by workers and the public will be encouraged.

Other points are:

- The state must provide for those who cannot provide for themselves through sickness, disability, age or inability to find work;
- There must be equality of bargaining power in the market place to prevent exploitation of workers or consumers;
- Competition must be fair and uninhibited by cartel, monopoly or other abuse of power concentrations;
- There must be public scrutiny of concentrated economic power;
- The state's fiscal and monetary policies should be directed to create jobs, protect the buying power of the rand, maintain economic stability, increase living standards, and there must be an independent central bank free of political interference.
- The country should participate in a Southern African Economic Community.

ECONOMY — 1990

SEPT. — DEC.

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Cape Times, Saturday, September 1 1990 5

DP economic report gives state key role

Political Staff

THE state had to guarantee the balance between social justice, economic efficiency and environmental protection, the Democratic Party said yesterday when it released its draft "social market" economy policies.

The state also had to devote an appropriate proportion of its budget to programmes for the upliftment of those who lived in squalor, poverty and degradation, and take special actions to better the position of those disadvantaged by the wide gaps in income and wealth.

Although the draft policy, which is to be debated at the DP congress next weekend, commits the party to the market system, private ownership and competition, it emphasises that the state will have a key role in removing unacceptable wealth, income, opportunities and skills gaps.

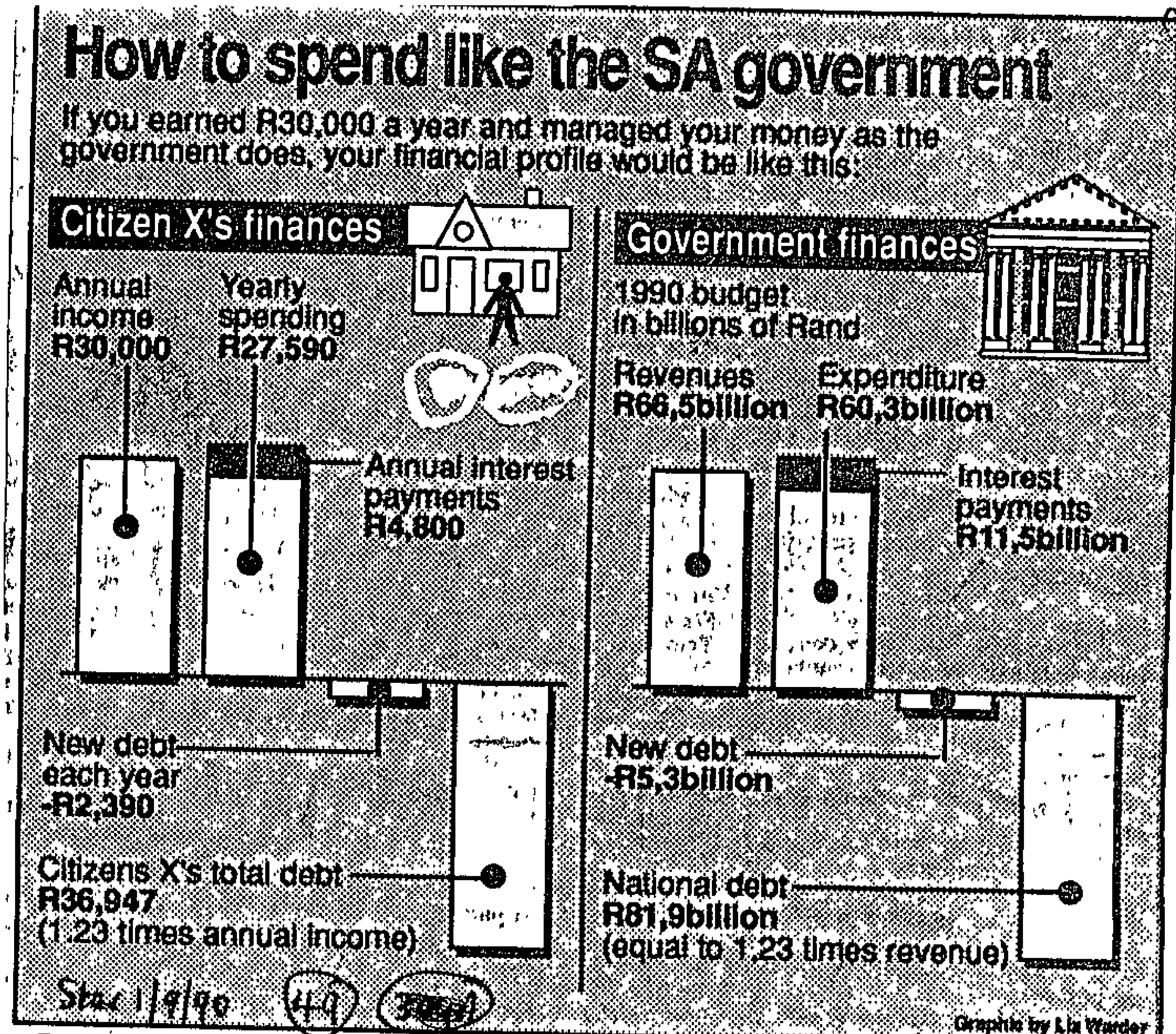
"The DP subscribes to a social market economy which respects principles of private ownership and initiative, and which offers rewards to risk takers and entrepreneurs, but which recognises that the state has an important role in the provision and the development and upliftment of certain services to all South Africans, as well as ensuring that there is equality of bargaining power in the market place so that consumers receive adequate protection."

Nationalisation was rejected as a general rule but "the state has a role in the provision of necessary services which private enterprise cannot or does not adequately provide".

A concerned society provided for those who could not do so adequately themselves, whether by reason of sickness, disability, advanced age or inability to obtain employment.

The draft policy also stresses that political freedom is an essential ingredient for the operation of a just economic system.

"There must be true equality of opportunity for all citizens, including that of acquiring and owning property, so that they may enter the economic system on an equal footing."

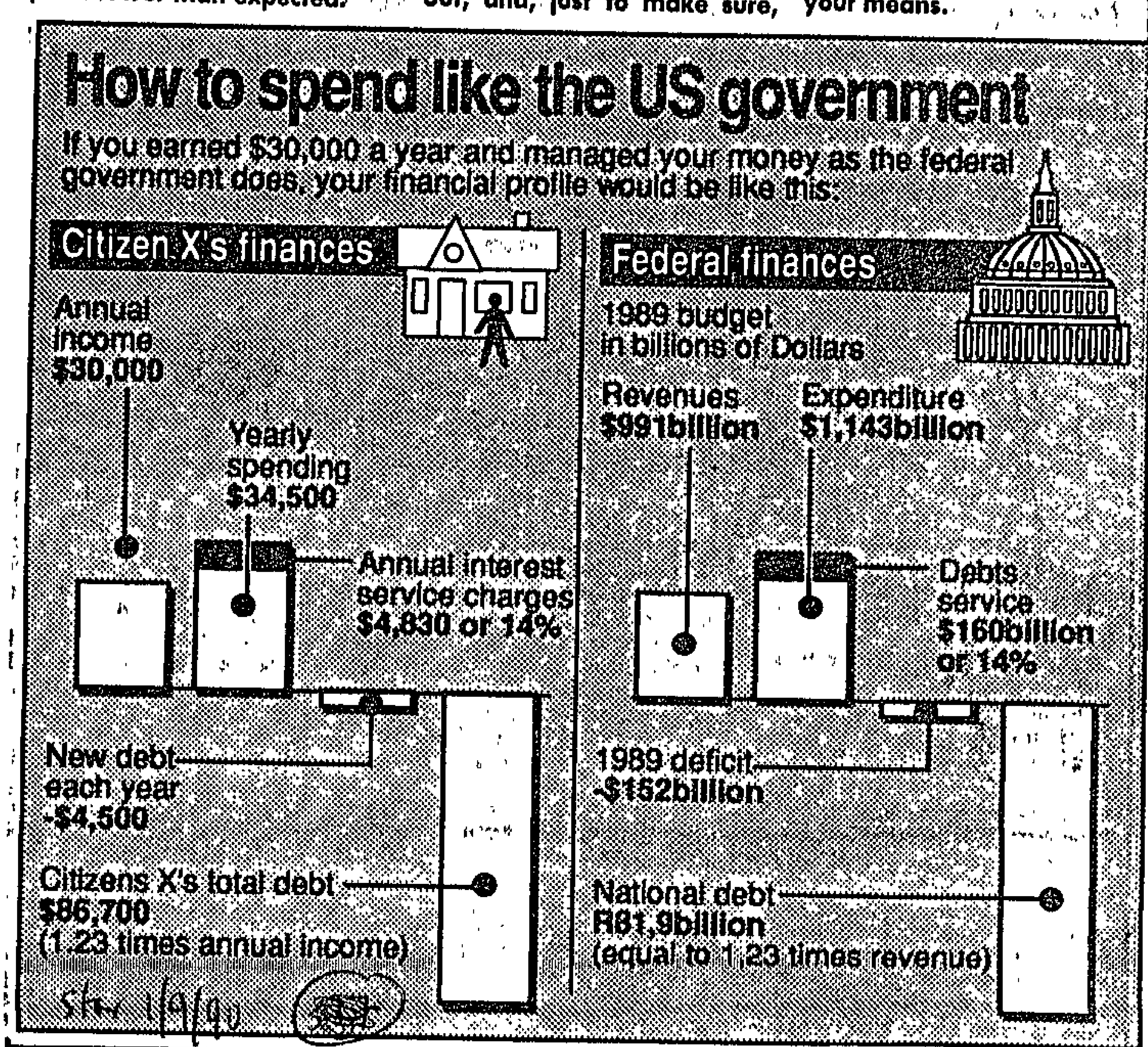


Govt's budget sets mean example

THE Government's financial performance this year has come in for some warm praise. Spending is lagging behind Budget and the deficit is lower than expected.

What would happen if private citizens managed their finances in the same way as the Government? The Saturday Star endeavoured to find out, and, just to make sure, compared our situation with that in the United States.

The conclusion? Don't follow the Government's example if you want to live within your means.



The real threat is an ignorance of economic truths

(49)

B Day 3/9/90

ZACH DE BEER

FOREMOST among the demands of the new SA is the clamour from the poor — or on behalf of the poor — for the rapid extension of economic opportunity and improved living standards.

Unless the new, post-apartheid government can demonstrate its sincerity and its effectiveness in tackling what is called the wealth gap, it will fall, and peace and order may well fall with it.

The key to the future is economic growth. We know that with growth of 5% per annum we could move quite fast towards closing the wealth gap. We know that the economy for many years demonstrated its capacity to produce 5% and more.

We tend to think that if only we free-enterprisers could be left to run the country in our own way, this could be fixed up quite easily.

But we rich whiteys are not going to be left to run things our way. Quite soon now, there will be a general election in which the vast majority of the voters will be black and poor. And the political choice which will be put before those voters will be between some form of free economy and some form of state control.

Black voters will be influenced by having lived disadvantaged lives under apartheid, and under a system which claimed to be free enterprise, although it fell far short of that. For many black people, there has been no clear distinction between the political system and the economic system.

The fear I have is that they may throw out the baby of free enterprise along with the bath water of apartheid. The prospects would then be bleak; as Conrad Strauss said recently, redistribution of income is the consequence of growth, not the other way round.

No sensible person disagrees that narrowing and ultimately eliminating the wealth gap must be top priority in the new SA. The difference of opinion concerns the method.

Rapid, sustained, non-inflationary growth is of paramount importance. Unless we disregard completely the experience of the whole world during this century, the requirement of growth means that we must have an open, free economy, capable of inspiring confidence and attracting investment from both internal and external sources.

We must deregulate, encourage small business and inward industrialisation, and apply some of our best talents to the planning of export industries. In short, we must at all costs avoid dirigisme. We must not allow the dead hand of bureaucracy to be laid upon our economy.

Yet we are faced with the very popular ANC — and the more problematic SACP — who insist on socialist policies, justified on the basis that the only way to close the wealth gap is for government to control large sections of the economy.

Experience and reason demonstrate that this is nonsense. To put a politician or an official in charge of a business is like asking an advocate to deliver a baby, or a doctor to plead in the Supreme Court.

If you give any government control of the economy, you may perhaps redistribute poverty but you will not redistribute wealth. Government officials are not trained to understand cash flows and opportunity cost, present values and marketing, added value and all the things that make a business tick.

Moreover, they almost always have political motives as opposed to a wish to make profits. Usually, when they get their hands on a business the first thing they want to do is provide jobs. That is not an ignoble aim, but if carried out by government officials it normally pushes the company into large losses. That, in essence, is why there just isn't a case of success in running an economy by socialist methods.

Business people have a duty to do all they can to influence others to accept that we can only redistribute wealth once we have created it, and that we can only create it in a free economy.

Even assuming that the first post-apartheid government understands all that, don't underestimate the enormous political pressure it will experience. The politicians will promise the voters a sharp improvement in their living standards, and that is going to have to be paid for.

My other great fear is that the first government will, in effect, print money and send us into spiralling inflation. Financial discipline is vital if this is to be avoided, which is why the Reserve Bank, which has the task of controlling money supply, must be free from any kind of government influence or pressure.

Furthermore, government itself will have to make funds available for the upliftment of the poor by cutting back elsewhere in the budget. Obvious fields are the abolition of all duplicated administration; defence, which can be cut further once we are at peace with ourselves and our neighbours; and servicing the national debt, the cost of which can be sharply reduced if inflation is brought under control and interest rates consequently fall.

But, above all, the challenge is growth. In all likelihood, our gold mining industry is in secular decline. We need, as Clem Sunter says, to develop new export industries which within a short time can be as large as gold mining in financial terms.

The real skill will be to identify promising markets abroad, develop tailor-made product design and assemble the clusters of industry required to produce what is needed.

Indications are that the ANC, if not the communists, are prepared to be more flexible on nationalisation. However, the ANC and its supporters remain deeply suspicious of what they call "big business", and the business community would do well to take this seriously.

Monopolies and cartels must not be tolerated; all democratic parties must be prepared to take strong steps to prevent their coming into being, and to deal with them very firmly.

Competition is the life-blood of a successful economy. Not only should competition between South African firms be wide and free, overseas competition must be permitted. Tariff protection should be limited to those industries which need temporary assistance to get established, or for other special and proven reasons.

Many South Africans are also deeply concerned about the size of certain major organisations in the country: this is a much more complex matter.

Size in itself is not a sin; only when restrictive practices or abuses take place is action justified. When size means financial strength it can have important advantages, since modern industries often need enormous investment to develop.

Yet popular anxiety needs to be allayed. Business itself should make full information available. It is in the interests of all South Africans that the facts about the economy be well-known and, as far as possible, properly understood. Confidence is absolutely vital to a good future.

Another proposition being heard is that the people should own more of the productive enterprises that make up the economy. So they should, provided that they do not seek to appoint politicans and bureaucrats who will only run those enterprises badly.

The people's ownership of commerce and industry is growing as pension funds and life assurance companies invest vast amounts of the people's savings through the stock exchange. More and more enlightened companies are making it easy for their staff to acquire shares, and this form of people's ownership will grow.

Ignorance is the danger. The mass of South Africans consists of people who have had very little opportunity to learn how the economy works. The responsibility is on those who do know to spread that information rapidly.

□ **De Beer is parliamentary leader of the DP. This is adapted from an address to the Sandton Chamber of Business last week.**

SOWETAN BUSINESS

Isolation will hit SA - Motsuenyane

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Sowetan 3/9/90

By JOSHUA RABOROKO

THE isolation of South Africa by the world community would cripple the country economically, the Nafcoc president, Dr Sam Motsuenyane said this week.

He called on the State President, Mr FW de Klerk and the deputy president of the African National Congress, Nelson Mandela, to expedite negotiations for a settlement.

Motsuenyane said it was important that South Africa be accepted by the world, especially the African states, for the sake of economic development and trade in the subcontinent.

Motsuenyane also called for a ceasefire between the warring members of the ANC and Inkatha which culminated in the loss of lives of hundreds of people in the Transvaal in the past few weeks.

He was speaking after he returned to South Africa from a three-day visit to Zimbabwe where he attended the fifth meeting of Council of the Preferential Trade Area Federation of Chambers of Commerce and Industry and its seventh meeting of the General Assembly in Harare.

Seven senior management committee members of Nafcoc; vice president, Mr K J Hlongwane, S P Kutumela, Mrs ME Maponya, Mr J Mogodi, Mr V Phaahla and Mr G M Mokgoko, accompanied Motsuenyane to the conference.

The PTA for Eastern and Southern African States covers Ethiopia, Somalia, Uganda, Rwanda, Kenya, Tanzania, Malawi, Zambia, Zimbabwe, Mozambique, Comoros, Mauritius, Djibouti, Lesotho and Swaziland.

It is expected that Botswana, Zaire, Namibia and Angola will also become members.

South Africa has been excluded from the PTA because of it's abhorrent apartheid system, however, members of the African states had indicated that they might consider the country's membership if it abolished its vaxatious laws.

Motsuenyane, who led the delegation, said Nafcoc attended the conference as observers and was welcomed by the Zimbabwe deputy Minister of Commerce and Industry, Mr Moton Malinga, who said he hoped South Africans would take stock of the changing political situation in their country.

The PTA had called on countries in the region to unite and hasten the process of economic integration in the face of a continued economic decline in member countries and the integration of markets elsewhere.

He believed it was inevitable that South Africa should change its apartheid policy in order that it could be included in the sub-region's economic development.

Invited

If the country remained excluded in that development, it could be crippled economically.

Nafcoc had been invited because of its "cordial relations" with most of the African states and "we hope that these relations will be maintained in the future," he said.

He also believed that South Africa would be accepted by the members of the Organisation of African Unity (OAU) and the Southern African Development Cordinating Conference.

The PTA of Eastern and Southern African States will hold its third Trade Fair at Forest Side, Mauritius, from October 19 to 25.

South Africa's regional role

Sowetan 3/9/90

49

By ROBIN DREW

FOCUS

SOUTH Africa in the post-apartheid era: a giant dominating the region economically and militarily.

The flow of migrants heading south growing enormously.

The dominance posing a real threat to the countries which struggled during the era when apartheid ruled to lessen their dependence on their powerful neighbour only to find themselves even more under the influence of a free South Africa.

This is one scenario which academics from South Africa and Zimbabwe debated during the five-day conference in Harare last week to discuss lessons for South Africa and Namibia from Zimbabwe's first decade of independence.

Fears

The director of the Centre for Southern African Studies at the University of the Western Cape, Professor Peter Vale, was a participant and spoke to the *Sowetan Africa News Service* about such a threat.

He agreed there were strong fears about South Africa's future role. He saw South Africa as the giant in the region with no competing economic power.

The withdrawal of the British and the Portuguese had reinforced South Africa's economic power. The neighbours were nervous of it.

In this situation, you could leave it like it was, he said. Let the thing keep growing with South Africa the central pole of growth.

There was an argument for this but it would create huge security and social problems for South Africa. The problems exisiting today with squatters and migrant workers would worsen. He saw it as a recipe for huge social dislocation.

It would also mean that neighbouring countries would become relatively impoverished.

Botswana President Dr Quett Masire, the new chairman of the Southern African Development Coordinating Council which was set up to lessen dependence on South Africa.

The way to deal with this, said Vale, was to look at structured decentralisation. There could be incentives for people to stay in their countries and for economic growth to take place on a more even keel with the outer rim of the region growing as South Africa grew.

For the sake of the argument you could give the clothing industry in Zimbabwe special dispensation and access to the South African market. You could give incentives for agricultural products, say tea or citrus, to be given special preferences for access to the South African market.

South Africa could also give direct aid to areas of the region which had made sacrifices, such as reservoirs of migrant labour, to relieve impoverishment in those areas.

There was also the need to look at existing institutions like the Southern African Development Coordinating Council, the Preferential Trading Agreement and the South African Customs Union to see how they could be meshed to ensure growth and distribution in the region.

Power

The security aspect dovetailed with this. There were fears that in South Africa there would be a strong military-industrial complex, whatever the complexion of the government, with the capacity to project power.

So what you have to do, he said, is to spike the gun. One idea was to create a regional army under regional command to deal with regional conflicts, for example, the situation in Natal or a dissident uprising in Matabeleland.

At the same time South Africa's armaments industry could continue to manufacture arms but under the control of the region.

In this way, you try to build security, said Vale.

His own preference was to tackle the regional problem in the post-apartheid situation in much the same way as Europe began in the early 70s to tackle its own security problem.

This was to set up a southern African equivalent of the Conference for Security and Co-operation in Europe.

You would then have guarantees in a number of different baskets; economic co-operation, security co-operation, human rights co-operation and environmental co-operation.

Policy

This would be a way of managing South Africa's domination.

However, Vale said, he was deeply concerned that South Africa would not have the time to deal with all this. His own feeling was that not too many ideas were being put at this stage.

In his paper dealing with early questions on a post-apartheid foreign policy, Vale saw South Africa as a country governed, not unconditionally, by the ANC.

The strongest force within the executive would be the ANC but elsewhere in the government, their position would be constantly questioned and even undermined.

The balance in government would be provided by the courts which would set the rules in the early period of the new South Africa.

The country, he believed, would opt for a multi-party system although it was an open question as to whether this would be a permanent feature. - *Sowetan Africa News Service.*

SA likely to remain giant of subcontinent

Star 3/9/90 (49)

By ROBIN DREW,
The Star's
Africa News Service

HARARE — South Africa in the post-apartheid era: a giant dominating the region economically and militarily. The flow of migrants heading south growing enormously.

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The problems exisiting today with squatters and migrant workers would worsen. He saw it as a recipe for huge social dislocation.

It would also mean that neighbouring countries would become relatively impoverished. The way to deal with this, the professor said, was to look at structured decentralisation.

There could be incentives for people to stay in their countries, and for economic growth to take place on a more even keel with the outer rim of the region growing as South Africa grew.

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South Africa could also give direct aid to areas of the region which had made sacrifices, such as reservoirs of migrant labour, to relieve impoverishment in those areas.

Uprising

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ANC input sought on plan

GRETA STEYN

GOVERNMENT's economists — the Central Economic Advisory Service — hope to consult the ANC before the release later this year of a detailed Economic Development Plan (EDP), a Finance Department source said yesterday.

Private sector economists had speculated the EDP, which had been in the making since 1987, would be shelved by simply integrating it into the programme being drawn up by Economic Co-ordination and Administration Minister Wim de Villiers. But a Finance source yesterday indicated the EDP would be released as a separate document providing a much more detailed long-term strategy for economic growth.

The release of the EDP was delayed by political reform and by De Villiers's advent in economic policy-making.

The source said it became "politically unwise" for government to release a long-term growth plan once it had emerged that dramatic changes were taking place. The political climate had made consultation with "other interest groups" essential.

While he acknowledged the free-market basis of the EDP would prove to be contentious, he believed that discussion ~~could~~ still yield positive results. 49

SA's last EDP was drawn up ~~in 1978~~. Its projections were not realised because of the 1985 debt standstill and subsequent capital flight, and because of government's unwillingness to implement the right policies. The EDP projected employment growth of 2,8% a year in the decade to 1987; actual growth was less than half of that and SA lost 860 000 jobs as a result. The source said: "SA has not lacked plans and programmes to promote economic growth and job creation. What has been lacking is the will to implement them."

● See Page 3

Business Report

TUESDAY, SEPTEMBER 18 1990

Gvt Times 18/9/90 (49)

PAC SPELLS OUT ECONOMIC POLICY

By AUDREY D'ANGELO
Business Editor

PLANS by the Pan Africanist Congress (PAC) to redistribute wealth include "the use of policyholders' funds in the mutual associations such as Old Mutual and Sanlam to promote the transfer of wealth, through influencing and directing the economic policies of the companies in which they have controlling shares.

"This might be achieved through the appointment of all or some of the top managers of these mutuals by the State and the involvement of workers in their policy decision processes."

This was explained at the fifth annual convention of the Association of Black Accountants of Southern Africa (Abasa), at the Cape Sun yesterday, in a speech by Sipho Shabalala, lecturer in strategic management at the University of Zambia.

The speech — spelling out the PAC's economic policy in detail — was read in Shabalala's absence by Benny Alexander, general secretary of the PAC.

Stressing the need for redistribution of wealth to the mass of the "currently economically disadvantaged African people", and not to a small elite, Shabalala said that wealth distribution and wealth creation were not necessarily mutually exclusive.

His speech continued: "The redistribution process should be mindful of the medium to long-term effects on desirable economic development and the need for capital reproduction and accumulation to achieve a societally desirable level of economic development.

"Part of the wealth and resources to be redistributed are the means and access to opportunity to create or develop wealth, not just the consumption of existing wealth.

"Economic paternalism directed to beneficiaries from the redistribution effort will be specifically discouraged: beneficiaries must be mindful of the need for economic development, economic efficiency and effectiveness."

General institutional forms would be:

- Enterprises wholly owned by the State.
- State-sponsored organizations which would be worker-owned and run, private profit and non-profit organizations.
- Multi-organisation enterprises in those areas in which, due to the stage of development of the country and its individual organizations, there is no single organization or enterprise that is technically, financially, politically and managerially able to own and operate the entire economic venture."

The State would have a major role to play in effecting the redistribution of wealth.

"It is an envisaged role by the State to support business venture programmes by the economically disadvantaged. It is not the intention of the PAC's policies to have a State which will just be bleeding existing companies of their resources.

"In its redistribution role, the State will take into account the investment and income needs of the owners of existing business firms.

"Punitive State actions, motivated by mere intention to revenge or avenge the past economic sufferings of Africans are not envisaged whatsoever. At the same time the poverty of the many and affluence of the few is equally unacceptable.

"The operations of the State should not be allowed to give no room for market forces to operate. By market forces we mean entrepreneurial endeavours and choices made by identifiable individual citizens and by collectives of individuals.

"Even the broad precepts of democracy do not allow the muzzling of market forces when they play a positive developmental role."

Shabalala also said that the PAC was not obsessed with the idea of nationalisation of private sector corporations.

"The PAC is more concerned with the redistribution of wealth at individual private companies to the workers. We are more concerned with empowering the workers to participate at their workplaces in the following decision-making processes — financing, investment, dividend/reserves determination, location of business product — market choices, pricing of offerings, income distribution, technology development, training and development and workers' social benefits

"Generally the PAC will be satisfied if these structures, processes and rights are observed and made functional.

"Nationalisation might be generally considered if the above will not be observed and made functional."

Discussing the PAC concept of nationalisation, Shabalala said this included:

- Transferring the ownership of foreign firms into nationally-owned firms through a process of localization.
- The transferring of private shares to the State "with or without compensation, voluntarily or involuntarily".
- Nationalisation followed by the leasing-back of nationalised assets for use and operation by entrepreneurs including collective co-operatives.

Discussing land, Shabalala said PAC policy would be to "decommoditise" it. It would be redistributed for use by all "citizens of Azania".

Payment for "compensatable land" would be in the form of interest-bearing government bonds.

"Every citizen of Azania shall have access to the land in the form of a long-term lease. Families will be allowed to pass this lease to their children but not to sell the land itself."

The size of land units would be determined by population pressure. "In general the State will encourage, within the dynamics of the culture of the people and voluntary restraint on the part of Azanians, control of population increase to minimize pressure on the land and other national resources."

New thinking needed for the 'new' SA

ST Times 2/12/90

(49)

FIRST National Bank group economist Cees Bruggemans reviews the economic strategy of Administration Minister Wim de Villiers, as disclosed so far, and finds that concentration on South Africa's comparative advantages in mining, energy and transport are not enough to underpin the drive for exports. A new and different mindset is needed.

THE secrecy surrounding Dr De Villiers' report on economic strategy appears excessive.

Surely there can be little new in such a report. Anyone acquainted with the writings of Reserve Bank Deputy Governor Jan Lombard and the speeches of Finance Minister Barend du Plessis can list everything that has gone wrong with our economy.

Dr De Villiers' secret report can only be such a review of past mistakes, proposed corrective action and its timing.

The main debate in the "new" South Africa concerns redistribution. That deals with a 100-year-old mistake, while it is a fair bet that Dr De Villiers' report has a shorter-term emphasis.

Capital

Sorting out our malfunctioning First World sector probably preoccupies any current government agenda. A return to high economic growth would facilitate redistribution. But how to achieve such growth once more?

From the writings of leading government thinkers, the main preoccupation is the reducing availability and misallocation of capital.

This to them is the key internal reason for the long-term deterioration in performance. Capital is always scarce, being the relatively small portion of income that is set aside. It is the nation's growth seed, which has to be used "productively" through wise investment decisions.

Overconsumption erodes the pool of available savings, which is further reduced by foreign-debt repayment. If such a shrinking pool of savings is also increasingly misallocated, a negative interaction feeds on itself which systematically reduces the rate of economic growth over time.

Deformed

The "right" investment decisions create productive economic structures which support strong growth. The more that is saved, the more such capital is productively invested, the higher the growth rate can be.

The "wrong" investment decisions squander the little capital available on "low-yield activities. This deforms the structure of the economy, less is produced and living standards start to decline.

Public use of capital can be wasteful. Government, the provinces, municipalities and parastatals are notorious for investing in inefficient operations and overinvestment; sumptuous "prestige" buildings; and the many "strategic" projects which usually fail a simple discounted-cash-flow test.

Such public waste can be addressed through discipline, budgetary control and common sense.

Private users of capital are generally efficient in finding "productive" investment opportunities. Government often provides assistance, but low interest rates, tax incentives and handouts sometimes encourage abundance where less could have led to more.

It is less the price of capital, however, than its access that determines how private investors will use it. Private fixed investment correlates most closely with cash flow.

A shortcoming of private investment is that too little is going into productive capacity aimed at exporting, judging from the increasingly constricted balance of payments.

Attitudes

This may be due purely to a management preoccupation with the domestic market and the lack of an export culture. This inward-looking mindset may have been caused by the Government's external financial policies. They have been protectionist since the start of industrialisation more than 70 years ago.

This mistake has cemented most of industry into an introspective cocoon. Most industries are unable to compete internationally because neither their cost structures nor their attitudes are appropriately tuned.

To get us back to a high and sustainable growth rate, the internal and external mistakes must be corrected.

The savings rate should be increased by resisting consumption demands. Foreign debt should be transformed and its call on the savings pool reversed. Wasteful domestic use of capital should be stopped, while more capital investment in export capacity should be encouraged by aligning cost structures and returning mindsets.

To ensure an export breakout, the layers of overprotection should be reduced in a controlled fashion; the currency should not become overvalued; and labour must come to realise that it is not "us against them", but them against their counterparts elsewhere in the world.

Burden

In addition to this primary role, fiscal and monetary policies have a supportive role. Their job is to limit the size of the public sector to leave enough room for private enterprise.

Deficit funding should be limited. The tax burden should be allocated optimally, so as not to create disincentives. Credit generation should be restricted through real interest rates. This should choke off the fuel on which inflation and its expectations feed.

Monetary policy is certainly being conducted with rigour while fiscal policy gets on with reforming tax policy and savings disincentives.

Internally, we have progressed from import substitution of the 1950s and 1960s and costly "strategic" self-sufficiency and parastatal overinvestment of the 1970s and early 1980s to the "inward industrialisation" of the late 1980s and 1990s.

Unless, that is, growth-through-redistribution is allowed to become another inventive way of misallocating capital (on which the jury is still out and where imaginative solutions remain available).

However, it is on the external side that the Government's thinking remains fixated: the idea apparently lingers that our greatest comparative advantage remains our natural wealth — gold, platinum, coal, basic metals and minerals.

But reliance on mining as our external saviour is where we are coming from.

Although there is an acknowledged need for broad "outward industrialisation", the strategic emphasis apparently still remains on an easy short-cut called first-stage beneficiation of mining output.

Imperative

A few, potentially large, mining projects could be attempted by private interests. But these, on their own, will not bring the needed export breakout.

It remains imperative that our industrialisation should become outward-bound, as in successful parts of the world.

The lingering idea of magic comparative advantage in mining, combined with the temporary oversupply of energy and transportation infrastructure provides a tempting opportunity to intervene in Eskom and Transnet.

The plan envisages a decade of risk-free subsidisation of key players which are energy intensive, but which are now either working only one shift or have spare capacity.

This "opportunity" is offered as justification for the delay in privatising Eskom, but the strategy can only be a stop-gap measure. It cannot be the main strategy; it is only a temporary arrangement which has to end.

Such a policy does not provide a long-term basis for export expansion, and still leaves the question about the size and number of such one-shift factories with spare capacity being able to enter the world market shortly.

Strident

Where is the evidence on the industrial side, that such capacity exists and will be taken up?

And what will happen to such "temporary" export incentives when the surplus energy has disappeared?

The benefit of lower increases in administered prices may not help in breaking inflationary expectations. They may make it easier to accommodate strident wage demands.

It is commendable that the Government wants to bring inflation down as soon as possible, get exports going and start our growth engine once more.

For that, however, we need a broad action plan aimed at changing the way we have done things hitherto.

Punting pet projects using surplus capacity in energy and transport may perhaps be possible in their own narrow context, but should not detract from the broader foundation on which we have to build our future.

More of the same — if not better in 1991

49

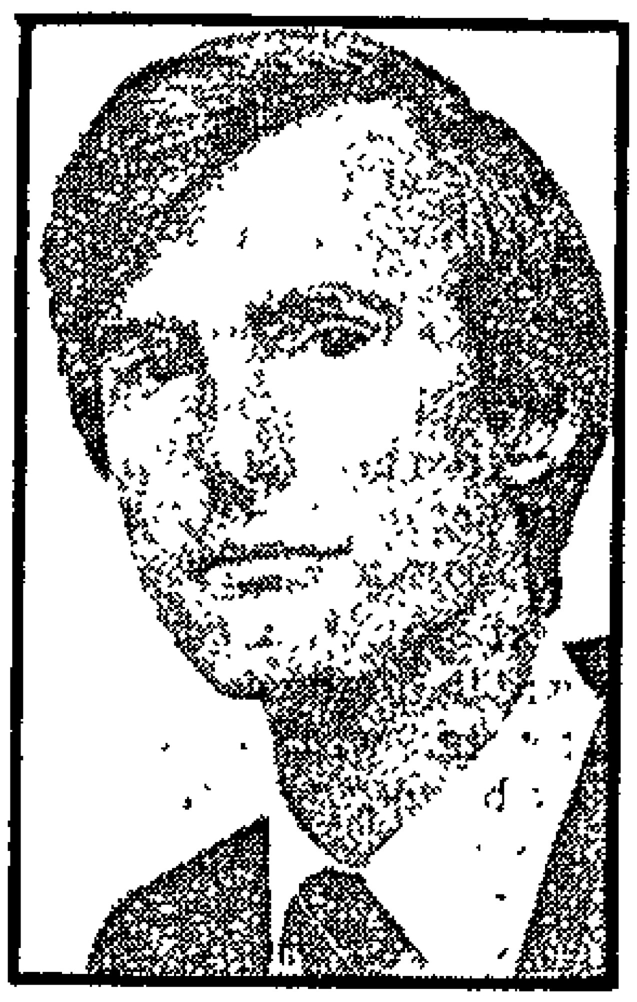
ST Times 2/12/90

By **CEES BRUGGEMANS** group economist, First National Bank

THE South African economy is in recession with real gross domestic product likely to have fallen by at least 0,5% in 1990. After allowing for growing net exports, real domestic spending this year is expected to be 4% down on last year.

This decline will be mainly attributable to destocking in response to a 21% prime overdraft rate since October last year (implying a real rate of up to 7% over the ruling inflation rate) and a pro-active business reaction to early predictions of coming adjustment.

However, the key components of final demand remained far more robust this year than they did in the 1984-1986 contraction. This was mostly due to the controlled reaction by the business sector in this adjustment. Although business did destock with gusto, it maintained fixed investment to a far greater degree. All other forms of business spending were also pruned in a far more gradual and controlled manner than last time.



CEES BRUGGEMANS

This mainly reflects the financial health of most larger businesses after the clean-out of the mid-1990s.

Although smaller businesses were probably not as fortunate, as always suffering from undercapitalisation and exposed to the market strengths of bigger players, the overall effect of business sector adjustment remained mild, and this translated itself to consumers as well. Employment levels continued to increase slowly (at least up to mid-year), wage settlements remained mostly generous (also in real terms), while liquidations and insolvencies have not risen much.

Although income growth did slow down, and the cash flows of indebted households were strained by higher interest rates, there was considerable robustness among lower-income, non-indebted households. Sales trends among non-motor durables, such as furniture, domestic appliances and television sets, remained especially buoyant. Clothing retail sales also held up and new-car sales fell by less than 5%.

Stimulus

The outlook for 1991 is for more of the same, although destocking should be a lesser contributor. However, fixed investment spending should continue to ease while unemployment, insolvencies and the savings rate should rise. Real consumer spending should therefore slow down even further. Even so, the adjustment next year is also expected to remain mild because no major real or financial excesses are in evidence, the only sizeable risk being exports.

The oil outlook is not encouraging, but it is perhaps unduly pessimistic to assume high-priced fuel for any length of time.

Monetary policy is expected to remain tight, although allowing interest rates to come down slowly so long as money-supply growth remains restrained, inflation trends lower, and fiscal policy remains disciplined.

CPI inflation could be nearer 12% by late 1991, still allowing a 10% target for 1992. Any decline in interest rates next year and in 1992 will depend on this trend in inflation. Nonetheless, a cycle in real interest rates is likely to materialise over the next two years.

Lower nominal and real interest rates should ease corporate cash flows and the position of indebted households. This should underwrite a reversal in stocking and a recovery in both fixed investment and durable consumer sales, especially motor vehicles. However, all these effects are likely to remain relatively weak, at least in 1992. Perhaps more important will be any recovery in export performance linked to world market conditions, which would provide a more sustainable stimulus to the economy.

Given the stated policy of the monetary authorities to maintain the stability of trade-weighted rand in real terms, there will presumably be adjustment for any widening inflation differentials in 1991.

Govt spending 'should focus on employment'

49

GRETA STEYN

THE Development Bank has recommended a major restructuring of government's spending to encourage greater employment growth without giving up on fiscal discipline.

An outline of the bank's view was contained in a paper published in its journal at the weekend. It is understood that a fuller report is being submitted to government.

"One part of the solution is to focus the Budget more on socially desirable spending such as on the construction and maintenance of rural roads, low-cost housing, schools, clinics, irrigation projects, afforestation and small business support.

But the implementation of this spending must reflect the characteristics of public works programmes. These programmes are labour intensive and seek to provide goods and services to help the underdeveloped, as in rural roads schemes.

Capital-intensive methods should be avoided unless they are proved to be more cost-effective.

Analysts Andre Ligthelm and Lolette Kritzinger-Van Niekerk argued that consultants "notoriously" tendered designs that were capital intensive because their fees were derived as a percentage of the project's total value.

This culture had to be reversed and projects that involve high degrees of employment should be adhered to.

A public expenditure programme of this nature should not be regarded as a separate employment creation exercise demanding additional public expenditure, but should fall into existing expenditure.

Nonetheless, the paper suggested government divert a small percentage of its expenditure to small or labour-intensive business concerns in the procurement and production of goods and services.

This would stimulate employment in the private sector. Capital investment should take place through small scale or labour-intensive construction contractors.

The paper, which was emphatic that government had a role to play in dealing with SA's critical unemployment problem, said the pattern of SA's economic growth would have to change to create jobs — more rapid economic growth by itself would not solve the problem.

A measure of crisis management was imperative to steer the economy out of the problem and this was possible without a massive fiscal injection.

ARGUS 4/12/90

88 teachers arrested for protest near parliament

323

By VIVIEN HORLER, Staff Reporter

EIGHTY-EIGHT teachers were arrested outside the Department of Education and Culture's offices in Roeland Street, Cape Town, and charged with attending an illegal gathering.

Among them was Mr Yusuf Gabru, who is on the national executive of the newly formed South African Democratic Teachers' Union (Sadtu).

They were charged with holding a demonstration within a prohibited area of parliament.

Fines or court

The 88 teachers must either pay R50 admission-of-guilt fines by December 21 or appear in court in January.

The teachers, from several schools in the Peninsula, were at the department yesterday to support a delegation from Bellville South who had an appointment to see Education and Culture director Mr Awie Muller.

They were were protesting against the plight of temporary teachers.

This follows a week of protests outside the department last week on the same subject.

Mr Muller saw the teachers in the foyer briefly. They were given a 10-minute warning to disperse and then arrested.

Angered

An angry Mr Basil Snayer, co-ordinator of Sadtu's Temporary Teachers Campaign, said after his release: "Surely we have access to the place which is the headquarters of our job?

"Surely we are people of integrity and standing in the community who can enter the building and be offered a seat to wait until the person we have come to see can see us. We had no placards."

The teachers were kept in a police truck for more than an hour before being taken to the police station in Table Bay docks for processing.

Economy 'close to the bottom'

49

Star 4/12/90

The ordinary man-in-the-street is now beginning to feel the full impact of the downturn in the South African economy, says Sanatam Insurance general manager Roy Justus.

In his latest quarterly review of the economy, Mr Justus says the effects of the recession on the profits of many of the larger companies have already been seen and that it seems as if the economy is nearing the bottom of the recession now.

"It must, however, be expected that the economy will bump along the bottom for much, if not all of 1991. An economic upturn seems most unlikely before the first quarter of 1992."

No relief

Mr Justus believes that neither interest rates nor inflation will provide any real relief. Nor does he see interest rates coming down much before the second half of 1991, when even then a reduction of a mere 0,5 percent or one percent is all that can be expected.

He notes that as the effects of high oil prices work through the economy, inflation may well rise to 16-17 percent in the third quarter of 1991, before dropping back in late 1991, early 1992 to 12-14 percent.

One of the few bright areas for the economy could be the export market, and it is in this area where major external business can be generated, Mr Justus says. — Sapa.

BER chief pessimistic on chances of political stability (49)

By Tom Hood Star 4/12/90

A social market economy in some form or other is now favoured by the broad schools of thought within the business environment, says Dr Okkie Stuart, director of the Stellenbosch Bureau for Economic Research.

The government was also shifting its spending patterns to favour social spending — spending on education was likely to be accorded a very high priority.

"The question which immediately springs to mind is: Does the socio-economic climate make it possible to channel more money into social spending ?

"There can be no doubt at all that a social market economy can only become operative, and be successful, if the country were to experience healthy economic growth over a long period.

"Economic growth is only achievable where political stability prevails but the chances of political stability during the next few years are, quite frankly, none at all."

Dr Stuart, writing in Lintas Data, the quarterly newsletter of the advertising organisation, said South Africa had recently entered a process of negotiation and reform.

History suggested that such a process always went hand in hand with political instability. Even if the current government were to be replaced by the ANC, or the DP, or the Conservative Party, or whoever - this would remain unchanged.

For then the new government would have to negotiate.

"We could thus be looking at a longish period of relatively low economic growth and social unrest — regardless of which government will be in power.

"Within 18 months to two years we may have an interim government in which blacks will have a strong representation. It will be impossible for this government, even if it is a black majority government, to meet the demands of their predominantly black supporters.

"This implies that unrest may flare up and that the security forces will have to apply strong arm policies to ensure that relative calm prevails. The political stability for which policy makers are hoping is not likely to come to the fore for many years to come."

Time for business to realise confidence is a two-way street

(49)

Bday 5/12/90.

JOE SLOVO

HOW do we begin to build a truly post-apartheid SA in which we are able to overcome the massive, accumulated effects of apartheid — the history of white empowerment on the one side, and disempowerment of blacks on the other?

In SA's economic debate the impression usually given is that there are two options — a free market or a centralised, heavily nationalised, bureaucratically planned economy. The debate is clouded with rhetoric and slogans. To begin a more open and creative approach we need to dispel two common illusions.

Firstly, socialism and the market are not, as is commonly supposed, opposed to each other in principle. The market is a mechanism for the realisation of value, there is nothing inherently capitalistic about it. One of the reasons for the present crisis in existing socialist countries lies in the elimination of the market.

The second illusion which needs to be dispelled is that the ANC and SACP will nationalise everything that moves or grows. Across-the-board nationalisation would be extremely costly. It would be met by a flight of capital and skilled manpower and probably by sabotage and destabilisation.

Compensation for nationalisation would place limits on the redistributive impact of major nationalisation. Buying the major monopolies even at half price would tie up the state budget and balance of payments account for decades. The experience of much of Africa shows that economic collapse seldom produces popular enthusiasm for people's power or socialism.

This is not to say that nationalisation is an option that should not be considered. In sectors where direct state involvement is considered necessary for effective social planning, such involvement can take a multitude of forms, including joint projects, majority shareholding, or even minority shareholding with "golden share" attributes.

But while a democratic state will certainly play a very important part in developing public property, what essentially characterises democratisation of the economy is a growing participation by the people as a whole (in their capacity as producers, consumers and owners) in economic life. That is not statism. That is not a naive belief in nationalisation as a panacea. That is not consigning the heights of our economy to a commandist bureaucracy.

Together with our allies in the ANC-SACP-Cosatu alliance, we aim to achieve a major redistribution of wealth and income so that health, education, decent housing, food, water, electricity and good communications are within everyone's reach.

To achieve this will involve more than slicing the existing cake in different proprotions. We obviously need a strategy to generate economic growth in the post-apartheid mixed economy. This growth must be both sustainable and equitable. Growth without redistribution is meaningless. Equally, redistribution without growth is not a sustainable economic policy.

The main source of growth should be industrialisation directed to both export markets and the demand for rising living standards at home. We believe that export industries grow in conjunction with growing home markets. The argument between "inward industrialisation" and "export-orientated growth" is based on an unnecessary polarisation.

□ SLOVO

Sustainable industrialisation requires involvement in new technology to enhance productivity and allow wages to rise while competitiveness is strengthened. For that reason, foreign investment is to be welcomed, particularly as a source of new technology.

We would welcome foreign firms within an industrial strategy determined by our democratic government. We would develop an investment code and investment priorities as a basis for our business dealings with foreign firms, and we would reduce bureaucratic obstacles by instituting a one-stop agency for these negotiations. Our policy would have regard both to the interests of the investors' and workers' rights.

Private SA firms and new enterprises will have a strong role to play, along with foreign firms. But our country so much needs new investment that we cannot rely on these sectors to generate it automatically. The state and state-owned industries will have a responsibility for generating investment.

These tasks will need money, although there will be a need to keep firm control to prevent the state budget becoming insupportable as it did under the NP. The often-expressed idea that all the good things can be financed from cuts in military and security force spending is a chimera. And experience shows that financing needs by a wave of foreign borrowing is an almost certain road towards bankruptcy. So our financial strategy sees the raising of domestic savings and their more purposeful mobilisation and direction as the basis for growth.

These economic policies will continue to be criticised as statist and contrasted with free market policies. But the SA we have known is not a free market system. It is a tightly knit economy dominated by state industries, state regulation, and a few conglomerates.

The leading argument for a free market future comes from those very trusts and, frankly, we doubt their sincerity. The ANC has mooted strong anti-trust policy; it should, surely, be welcomed by all true free marketeers but has, in fact, been strongly opposed by SA business.

"Business confidence" is the mantra that gets repeated over and over. But confidence is a two-way street. What about the concerns and fears of working people? Are their concerns over joblessness, homelessness, health and education not relevant to the stability of a future SA?

For its part, the new democratic government will also want to have confidence in business's commitment to invest, to operate fair employment practices, and to contribute towards building the new country before judging whether public ownership, regulation or other policies are necessary.

If business wants to talk about confidence, then let us, indeed, talk about confidence. Elements of the Dutch Reformed Church have recently made a public confession of guilt and complicity in fostering the sin of apartheid. Is it not high time that big business, and particularly the mining houses, now came forward and confessed their guilt? I make this suggestion quite seriously.

In the interests of establishing a climate of trust and confidence, those who have been deeply implicated in what is widely recognised as a crime against humanity should show some remorse. Go back to the 1920s and 1930s and read the evidence placed by the mining houses before various government commissions. There you will see that the major instigators for all the cornerstone features of the apratheid system — pass laws, the reserves, the cheap labour system, job reservation, the compounds — were the mining houses. And yet, today, a great amnesia seems to have set in.

I say this not in order to humiliate others, but because I believe that we need the right climate of trust and confidence to move forward.

Whatever differences there might be between us, we also believe that there is space for a wide consensus around the kind of economic reconstruction that is desperately needed in our country.

□ This is an edited extract from a talk delivered by SACP general secretary Slovo to the Woolworths board last week.

'Jump-start economy'

South 6/12 - 12/12/90 (49)

A LEADING ANC economist, Mr Vella Pillay, has called for white standards of living to be frozen during the first five years of post-apartheid South Africa while black living standards are pushed upwards.

Pillay blamed what he described as "extremely high levels of white consumption" for the stagnation of the South African economy and its inability to provide decent housing, health and employment for the great majority of people.

He also blamed financial institutions such as commercial banks and insurance companies for abusing the nation's saving by investing them in "unproductive activities" in financial markets which he described as "veritable casinos".

Pillay's cure for South Africa's economic ills is that the future democratic government should embark on a "crash programme" to raise the living standards of the poverty-stricken black population by taking immediate action to build houses, increase expenditure on education and develop an efficient public transportation system.

"Freedom must be something material in people's lives in terms of the provision of shelter, recreational facilities, education for their children and a social wage in terms of the satisfaction of their basic needs," said Pillay.

Freeze consumption

The South African economy was stagnating and even shrinking because it lacked a large domestic market to provide buying power for the country's industries. A large domestic market would be created if black living standards were raised.

Savings generated by freezing white consumption at its present levels as well as those generated by the scrapping of apartheid structures if channelled to raising black consumption levels would provide the necessary instant power to jump-start the economy on a growth path, Pillay said.

He dismissed the view popular in business circles that the growth of the South African economy can come about through increased exports.

South Africa exports mainly minerals. For these to be competitive in the international market, they have to depend on cheap labour. According to Pillay, it is precisely this policy of cheap labour that leads to economic stagnation and the growing poverty of the people.

His bitter medicine is not restricted to well-to-do whites. The unions will also have to swallow some bitter pills.

Pillay called on the trade union movement to prepare to enter into a "social contract" with employers and the future democratic government to achieve the proposed economic plan.

He said consensus needed to be achieved between trade union, consumers, the mining industry, the banking and financial community, the manufacturing sector and the new democratic government if a large domestic market was to be achieved within the first five years of liberation.

"This will require planning agreements where banks direct the flow of their credit to certain targeted industries and regions. It will require the central bank to create a monetary policy that sponsors and encourages this through the rate of interest and the money supplies it takes in the economy.

"We will also ask the trade unions to negotiate within the concept of social contract the growth of the wage structure that will be able to improve the consumption power of the people".

Pillay's plan was received with mixed feelings when he presented it to a two-day Cosatu workshop on the economy held in Johannesburg recently.

Unionists, many of whom are staunch advocates of the nationalisation of the commanding heights of the economy, were sceptical of Pillay's notion of a social contract with employers.

ANC economic expert Vela Pillay

What is the best path to a healthy economy? This is one of the key questions in the furious debate on the economy of a future South Africa. Two views which argue that unions and employers need to reach consensus in the long-term interests of the economy were recently presented at conferences in Johanesburg, the Cosatu Syndication Service reports:

Meanwhile, an addition to the economic debates the question of whether the Swedish model is suitable for South Africa.

This arose from a recent conference between memers of Cosatu, ANC, UDF and SACP and a Swedish delegation led by Mr Bengt Save-Soderbergh, Under-Secretary of State in the Ministry of Foreign Affairs.

The delegation explained that the Swedish economic model was based on a long-standing compromise between organised labour and capitalists, not conflict between the two.

They explained that, since the 1930s, disputes between labour and business had been settled in central negotiations between the employers' federation and the union federation.

Mr Anders Melbourn, a social scientist and adviser to the Swedish government, said the purpose of unionism in Sweden was not to fight for worker control but to fight for higher wages and safe working conditions.

The involvement of government in production was "informally agreed" by the labour federation and employers.

This agreement was calculated to "allow development according to conditions of a free and open market in an international market which would be coupled with better working conditions".

Dr Begt Ryden, chief executive officer of the Stockholm exchange, said Sweden had a mixed economy because 90 percent of the business sector was in private hands and about five percent in the hands of the government and consumer cooperatives.

Intervene

The Swedes argued that the purpose of state intervention was to provide a wide infrastructure to the business sector and ensure research and free access to education.

Bengt said it was necessary to keep the government out of business because "economic planning by politicians is risky and rarely successful".

He also argued that business decisions must be made by business within the legal framework provided by the government.

Cosatu participants said South Africa could learn from the Swedish experience of looking after unemployed workers.

However, they felt the Swedish model was not immediately applicable to the South African situation because of the differences between the two countries.

They also differed with the delegation's description of the role of trade unions.

BOARD OF ECONOMISTS

NO GRAVY TRAINS IN SIGHT

49

FM 7/12/90.

SOME PROSPECTS AND ADVICE FOR A GRIM 1991

As year-end approaches, the *FM* Board of Economists considers the state of the economy and the outlook for 1991. Regular members Louis Geldenhuys (of stockbroker George Huysamer) and Brian Kantor (UCT) are joined by Rudi Gouws of Rand Merchant Bank. Gouws replaces André Hamersma, who has retired from the board as his brief at Standard Bank has changed. As usual, Sacob's Raymond Parsons puts the questions.

***Parsons*: Where are we in the business cycle?**

Gouws: We're approaching halfway. Unfortunately it'll be one of our longest downswings, because several things have gone wrong recently. I would have said that mid-1991 to the third quarter would be the worst point but with international economic prospects having deteriorated markedly the upswing has been pushed further away.

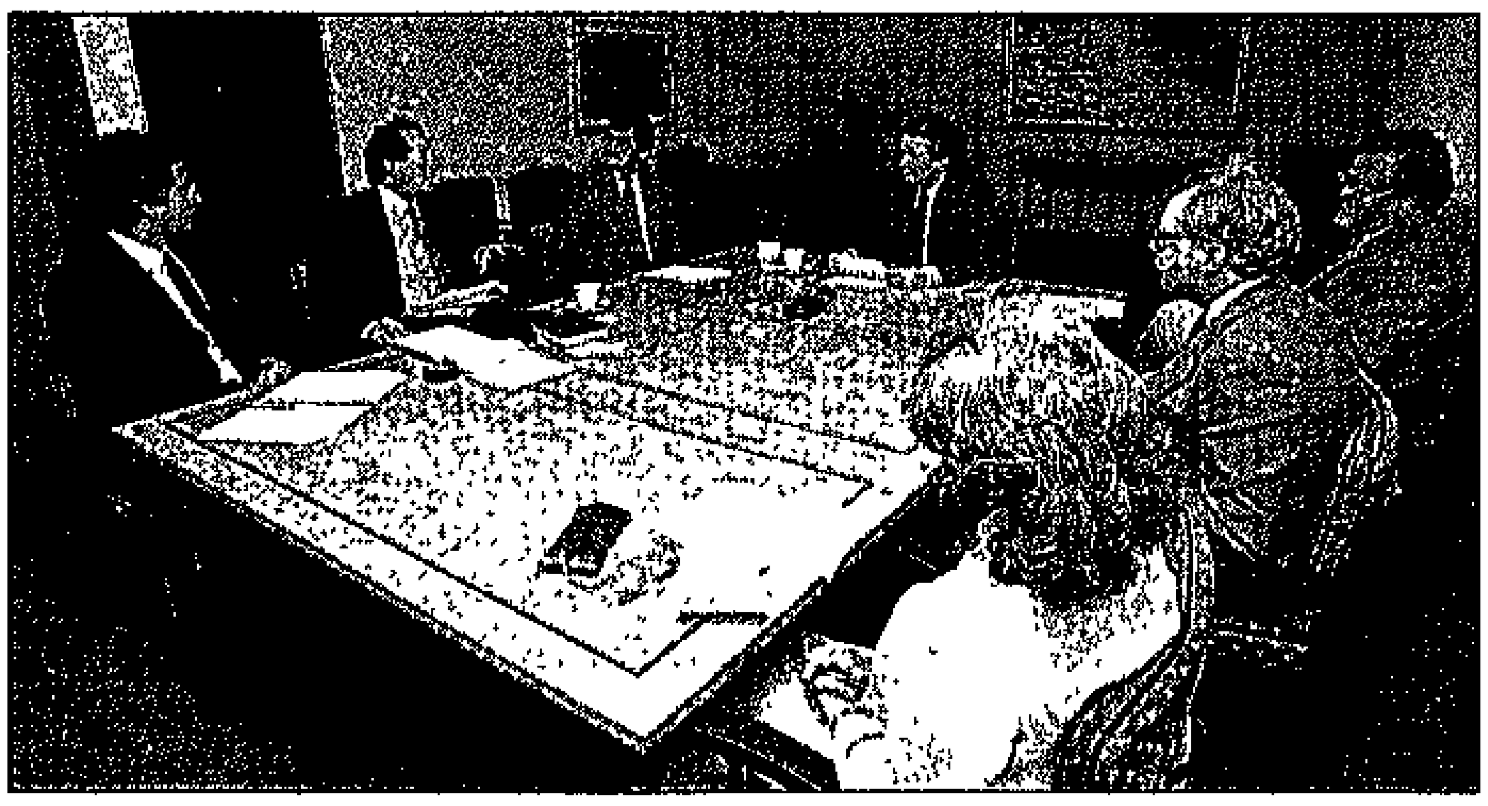
Kantor: On business cycle indicators, rather than the definition of two quarters of negative growth, the economy plateaued last year and probably only turned down early this year. Barring an increase in commodity and gold prices or a much more favourable political outlook which will encourage foreign investors, I don't see an upturn until well into 1992. In my way of reckoning we're in the early phases of the downswing rather than the middle; I would say one-third in.

Geldenhuys: The downswing is well entrenched. Technically maybe it began in August last year, but the difficult part still lies ahead.

***Parsons*: Has consumption or investment spending taken the bigger knock, and why?**

Geldenhuys: It's difficult to say because the downswing has been relatively shallow, but I think investment is the weaker.

Kantor: The short answer may be neither. Both have held up surprisingly well — disappointingly well, for the authorities. The biggest declines may have been in in-



The Board debates ... *flinty outlook*

4 BUSINESS DAY, Friday, December 7 1990

DP encouraged by shift to its economic approach

B/Day 7/12/90 (49)

LESLEY LAMBERT

CAPE TOWN — DP finance spokesman Ken Andrew cannot resist the party boast currently in vogue. On the current economic debate, he says he is encouraged by the way both the business sector and the ANC have edged closer to the DP's social market approach.

Economic policy documents representing the views of the two groups show signs of increased realism, he says: Sacob's, because it recommends intensive spending on developmental projects as a prerequisite for stability, confidence and thus growth, and the ANC's because it shifts emphasis away from central control and embraces a number of sound economic management principles.

Andrew is well qualified to talk about economic realities. He has a B Sc in Chemistry, an MBA and an unfinished B Com (the MBA took preference) tucked under his belt.

Like his respected predecessor, Harry Schwarz, Andrew is firmly in the camp of those who believe in a social market — a market economy in which the state plays an indicative, rather than directed, role in removing the legacies of apartheid and addressing socio-economic needs.

But he emphasises that this proposed role of the state should be regarded only as an interim necessity in SA to remove the backlogs created by apartheid.

Once this has been achieved — at current, but imaginatively restructured spending levels — the state should be reduced in size and the generation of economic wealth left entirely to the private sector.

● ANDREW

Andrew says he is concerned that privately, the ANC still regards nationalisation as an option. He also warns against suggestions of prescriptive measures to wring social responsibility out of businesses perceived as being uncooperative.

"What the DP would like to see is indicative, not centrally controlled, socio-economic planning based on as broad a national consensus as possible, including government, capital, labour and representatives of consumers and the unemployed.

"But I would describe this as a shared vision rather than a social contract," he says.

The private sector's responsibility in a changing political and economic environment should be for individual enterprises to act as agencies for the implementation of state-funded housing and self-help projects and to economically empower their employers by means of wider share ownership schemes and representation at board level.

All this suggests Andrew has so much in common with the financial authorities (they with him, as he would argue) that he might have to dig very deep for campaigns during the forthcoming parliamentary session.

But, he says, he expects to face at least two major challenges during the session.

"The biggest battle will be over the expenditure priorities of the Budget and the other, government's willingness to introduce measures which will create the climate for political stability and thus confidence and higher levels of investment."

On macro-economics, Andrew supports Reserve Bank governor Chris Stals' tough monetary stance, but argues that given SA's current needs it would be politically and socially unwise, once inflation had reached a rate of 10%, to continue immediately to reduce it below that level.

that will make the recession more severe. Maybe the range should fall a little bit for next year. Then the big test will be whether, when recovery comes, we have in fact found the way of controlling money supply acceleration in the upswing.

***Parsons:* Is it a good idea to use transport and electricity prices in the struggle?**

Gouws: Broadly, Eskom and Transnet tariffs should be set on considerations pertaining to themselves and not, as in the past, be used as part of an anti-inflationary package.

Kantor: Eskom in my judgment had a bit of the worst of all worlds. The De Villiers report encouraged it to reduce risk by reducing debt ratios, which, given its capital structure, could only be done by raising tariffs. For much of the Eighties electricity prices were much higher than could be justified on any economic cost basis. Now De Villiers has turned around and said, you are allowing too much for depreciation. If it were a private business in competition with other suppliers, electricity prices wouldn't be rising by more than 8%, maybe even less. By happy accident we may be getting the electricity price closer to where the market would have put it. But that is no way to run an electricity business.

Geldenhuys: In this case intervention on top of intervention has probably been in the right direction, though in principle neither Eskom nor Transnet should be subject to that sort of intervention from outside.

Kantor: Transnet is different. It faces a lot more effective competition and with lower electricity prices rail transport has a competitive edge anyway. One worries about imposing on Transnet a board of directors from the private sector who bring a private-sector ethos, which is useful, but with no incentive to grow the business, because their own money isn't at stake. Directors who are not shareholders are only a quarter of the way to efficient management.

***Parsons:* What would be your broad advice to business in regard to wage negotiations?**

Gouws: It'll be a matter of affordability. Next year the economy will be turning down and company profitability will be weak. It will be a stark choice between employment and higher wages. Business will just have to explain to labour what conditions now are. They're starkly different from 1988-1989.

Geldenhuys: Businessmen must also try to play a role in terms of inflationary expectations. We must go for wage increases below the present rate of inflation for 1991.

Kantor: It's important to make the point that management too will generally face limited salary increases. I still hope that the unions can be realistic. We can avoid lay-offs if price and wage demands are moderated.

Gouws: The gap between initial demands and final settlements has narrowed this year.

***Parsons:* Should anything else be done about growing unemployment?**

Geldenhuys: From a macro-economic point of view, what we *shouldn't* have is permissive monetary and fiscal policies. The only other thing I can suggest is some redistribution by rescheduling government spending in terms of the social needs coming to the fore during rapid urbanisation. Jan Steyn and his R2bn are very much part of that.

Kantor: Labour absorption is both the challenge and opportunity for the economy. Until that challenge is accepted by business, unions and politicians — truly representative politicians — we won't get it. The formal sector has no intention of becoming more labour-absorbing at this stage.

Gouws: Scope in the Budget for employment creation is extremely limited. We need to address fundamental issues.

***Parsons:* What stamp should be put on the Budget? Where should the emphasis fall?**

Geldenhuys: We should go further along the road set by the last two Budgets, with a deficit before borrowing around 2% of GDP and further refocusing of spending. We must have more effective government spending, not just contained but redirected.

Gouws: I would like to see even more of Wim de Villiers' hand, going into departments with radical further restructuring of spending towards socio-economic needs. The March Budget gave an effective tax reduction equal to about 7,5% of the previous year's total revenue, which is a large tax cut by historic standards. I would like to see a continuation of that trend next year in line with the declared five-year targets. But the scope will be limited by recession: income from GST will not rise rapidly because consumer spending is turning down and company profits will be rising much more slowly.

Kantor: The previous year we had a massive revenue over-run and this year we still seem to be over-running despite economic slowdown so, in effect, income tax concessions have not materialised. One wouldn't expect that to continue. I'll be most surprised if revenue is underestimated again next year.

***Parsons:* What tax changes would you like?**

Kantor: Obviously we are waiting for VAT. The big issue is what the initial rate will be and whether it's phased in on capital and intermediate goods. One would like to see fiscal drag taken out again and that will only be possible with VAT, I think. It will be a great shame if VAT is delayed: it's a flexible consumption tax, which is what we need. I would start VAT around 13%.

Then there's the withholding tax on interest. We'll collect more tax through a 10% withholding tax than we do now and administrative costs will be much reduced.

Also, it makes no sense to turn a non-interest-bearing potential book liability into interest-bearing debt, as we did with the Reserve Bank forex losses. We can see with the oil reserves that there are a lot of assets off the books: unless you bring these on, don't bring the liabilities on. Interest is another big part of the Budget, so what's the point of raising transfer payments in interest?

But the key to the Budget is its biggest item: wages and salaries. Tax relief and the ability to hold down spending will depend crucially on the decision about general public-sector pay increases. The State is also the most important employer. If State employees get minimal increases it gives an opportunity for business to follow.

Gouws: Let us not repeat the mistake we made two years ago of zero public-sector wage increases. I'm a little scared of repeating the mistakes of the past, of using the civil service as a whipping boy in the fight against inflation. Those people also have a job to do. We should restructure and reduce the overall numbers, but we must pay them reasonably.

Kantor: You mustn't be unrealistic, but you can err on the side of conservatism given the labour market and the fact that the teachers, nurses and police have already been looked after. Civil servants are in a competitive situation. If they get say 7,5% it will probably be about right. Most private-sector white-collar people won't see more than that next year. It may be possible to offer some income tax relief to sugar the pill.

***Parsons:* Against all we've said, what are the consequences for monetary policy? In particular, another question of timing: when would you now expect the first reduction in Bank rate or other interest rates?**

Geldenhuys: For the business sector, monetary policy has meant tough times. But we hope it will change inflationary expectations. Given the balance of payments constraint it would be risky to ease monetary policy at this stage. The scope for error is limited. The oil crisis will be critical. But for that, we'd already have seen the first easing. As it is, I think relaxation could come by mid-year — possibly even in the first quarter.

Gouws: I go along with that.

Kantor: The current account has weakened because of the oil price increase and the fact that gold really hasn't responded. The current account is simply too weak to permit any relief, and looking forward into next year one doesn't see much hope of improvement. Obviously sometime next year interest rates

"Without an increase in the gold price or foreign capital inflows associated with investment we will not get the necessary conditions for a recovery until way into 1992"

KANTOR

ventories. Maybe the real decline in GDP as opposed to expenditure growth is to be seen in the weakening trade balance: exports are rising more slowly and imports faster. Investment has fallen more than consumption, but not much.

Gouws: One thing that will help is that inventories did not rise nearly as much as in previous upswings, so far less cutbacks in stocks are needed. I think consumption and investment have fallen more or less evenly.

***Parsons:* How much distortion is caused by boycotts and shifts in spending patterns?**

Kantor: That is a factor. The informal sector is probably holding up relatively well. That's not reflected in output numbers, but more in expenditure numbers.

***Parsons:* When will the next upturn be?**

Geldenhuys: Not next year; 1992, after hitting the absolute low late next year.

Gouws: Yes, 1992.

Kantor: You get growth off a low base and our base hasn't actually fallen much. Without an increase in the gold price or foreign capital inflows associated with investment we will not get the necessary conditions for a recovery — a strong trade balance and lower interest rates — until way into 1992.

***Parsons:* What factors in the world economy are relevant to our performance?**

Gouws: Two: volume and price. Exports have risen strongly across the board since 1983 but that is petering out. The US, UK and Canada are all in a downswing which may turn into recession. Commodity prices have been coming down too. Our major problem will be a further deterioration in terms of trade. Not before that turns around will we be able to talk about the fundamental preconditions for the next upswing.

Geldenhuys: Even if oil comes back to more normal levels, say US$20-$25, the world economy will still be in a downswing. Most indicators confirming the downturn predate the oil crisis. Commentators and policymakers made a mistake in believing that the world economy is in relatively good shape and that the fall of the Berlin Wall and opening of eastern Europe will be growth factors. I don't think they are. In any event, it looks increasingly that we'll have a long drawn-out stalemate in the Gulf.

Kantor: The world picture is recession, except maybe in Germany and Japan. The joker in the pack will be gold. Gold has a chance if the response to recession, particularly in the US, is lower interest rates and expansionary monetary policy.

Geldenhuys: That would surprise me a lot.

Kantor: I don't think the US electorate is any more inclined to take a long-term view than it was in 1970. The Fed was waiting for the deficit issue to be resolved before lowering interest rates and is probably now waiting for the Gulf issue to be resolved.

Another positive factor may be a post-sanctions dividend. Exporters will find it a lot easier to sell and those who did well in recent years could do much better. We may see a structural change in exports.

And SA is not oil-dependent. We're probably on balance an energy exporter rather than importer. If the crisis in the Middle East lasts and the oil price stays high it offers SA major strategic advantages.

Gouws: Even if US rates fall there is hardly any chance for the international interest rate structure to come down in the near future. Gold may rise in dollar terms but the dollar will be weak and I will be surprised if we get a rise in other currencies. There's been a dramatic downward revision in forecasts of world economic growth; given that, even a rise in the gold price won't bail us out.

***Parsons:* To what extent will the next economic upturn have to be export-led?**

Geldenhuys: I can see no sustained revival without a favourable international climate rubbing off on export volumes and prices.

Gouws: Even if the net capital account improves, as I foresee in view of improved perceptions about SA, imports run up so quickly in an upswing that you must have a preceding rise in export volumes.

Kantor: Recovery will be balance of payments-led, which means either export-led — which is much more usual — or foreign capital-led. It is a remote chance that we will get a surge in foreign investment but the capital account looks comfortable: there are reserves and borrowing capacity. Taking it a step further, this means import prices will remain low because the exchange rate will stabilise. That will encourage imports, which again denies that trade balance strength.

***Parsons:* What are the consequences of a stable rand for major export industries in the face of weak dollar prices?**

Geldenhuys: The bonanza they had for most of the Eighties with the exchange rate almost collapsing will disappear. That is already changing mining and other export industries. It's a good thing, though it will need an adjustment of employment policies.

Kantor: This is fundamental. For much of the Eighties we gave gold and other mining industries higher rand prices and higher profitability. That gave a tremendous inflationary bias to policies.

I mark a complete shift in emphasis. We will not protect the mining sector against what is really important: currency-weighted world prices. The industry is not even asking for relief through a weaker rand. In fact, it's calling for discipline. It knows that at this stage of the political game to give way on the rand would be to give way on wage demands. Whatever it gained in revenue it would lose

"Inflation is into a long-term slow declining phase and also a cyclical decline once the impact of oil is out of the way. Next year it will be extremely difficult for producers to pass on cost increases"

GOUWS

immediately on wage costs. Discipline is being imposed not only on producers but on workers as part of the transition to the new SA. The onus is on the export sector to hold down costs. That means increasing grade and all the things that have to follow.

Geldenhuys: The rand has been weakening rapidly of late against third currencies but the crunch is on for dollar exporters. The rand is strong against a weak dollar.

Gouws: On a weighted average the rand is where it was a year ago, yet the inflation differential has been close to 9%. Exporters are in a much worse position than before.

Geldenhuys: The oil price has changed things dramatically. Statically, if you substitute an oil price of about $30 for what it was over the year to June and look at gold and platinum prices and what's happening to the world economy, we may be a little complacent about the current account. Three months ago I easily foresaw an annualised surplus of R6bn for at least the next 18 months but this could now be much weaker.

The capital account could unfortunately weaken because of the weaker current account, because the capacity to meet foreign debt commitments and even the value of the rand are much more suspect. I go along with a stable exchange rate but that needs a balance of payments back-up.

Kantor: The saving grace is the strong improvement in effective reserves. I think the authorities will protect the exchange rate by using the reserves. The capital account will support the trade account rather than the other way round.

***Parsons:* How do you see the prospects for reducing inflation?**

Gouws: We entered a new phase of inflation in early 1986. Tighter fiscal and monetary policy fundamentally changed the reasons why we've had rising inflation ever since the late Sixties. Inflation is into a long-term, slow, declining phase and also a cyclical decline once the impact of oil is out of the way. Next year it will be extremely difficult for producers to pass on cost increases and, if they try, that will cut volumes.

Kantor: Rudi is giving too much credit to developments since 1986. We've seen dramatic increases in money supply. Weakness in the rand followed. Now we're in the downswing phase of the cycle and money supply growth has come off in the usual way.

The problem will be to sustain money supply growth within the target range. If it goes below the bottom range of the target

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will come off — maybe half a percentage point in the first quarter — but we won't see any significant decline. Bank rate will stay above inflation — whatever that turns out at.

***Parsons:* To what extent do prospects in 1991 hinge on political developments?**

Geldenhuys: In the very short term I don't think it's very important what happens to politics. Obviously, looking further ahead it becomes of crucial importance. I'm excited about the longer-term prospects. But we must not be naive in terms of timing. It'll take some time. Business mustn't bank on political bonanzas during 1991.

> 'We must go for wage increases below the present rate of inflation for 1991'
>
> **GELDENHUYS**

Gouws: Part of the weakness in fixed investment and what is now a sharp downturn in business confidence must be linked to political uncertainty. To the extent that businessmen perceive strikes and stayaways to be part of political change, they are having a negative impact on plans for 1991.

Kantor: People don't invest for two years ahead, they invest for 10. If there were great confidence about the future, investment spending would be encouraged. This is actually a good time to build: if you're physically building, it's an excellent time to be going into the market for plant hire or whatever.

The political downside probably isn't very great: it can't get much worse short-term.

***Parsons:* How would you guesstimate real GDP growth and inflation next year, not forgetting the impact of the drought?**

Kantor: I'd rather not use GDP. I prefer GNP or GDE. I think expenditure will be slightly positive, maybe about 0,5%. Inflation will average the current level: about 13,5%. By year-end we should be over the oil crisis and could be down to 11,5%-12%.

Gouws: I'm a little more negative. I think GDP may well be slightly below this year's level.

Remember, we've been falling through this year; it will be difficult when the turnaround comes to raise the average level above this year's. I also think this year's figure will be more negative then we thought a little while back: maybe -0,5%, the way agriculture is going. The maize crop, which will be part of next year's GDP, could have a major negative impact. Broadly I go along with Brian on inflation.

Geldenhuys: Growth will be pedestrian. Whether it's plus or minus half a point, it'll be tough out there.

Inflation will peak in excess of 15% but there's a reasonable chance of getting back to 12% by end-1991.

***Parsons:* If you were to give businessmen a brief message for 1991, what would it be?**

Gouws: *Vasbyt!* It will be worth *byting vas* because this downswing won't last for ever. Normally at this time of the cycle the cost of money has come down already.

Almost everything is in place to go out there and do things in anticipation of 1992's upswing.

Geldenhuys: Manage your affairs well. Things'll be tough. Look forward to 1992.

Kantor: Make it happen, prepare the ground.

Don't give up. Certainly, in business cycle terms, it's tough. Maybe in an ironic way this economic discipline is the best way to approach political freedom: there are no gravy trains to catch. ■

RICHARD GRANT **IN FOCUS**

LOGIC SORELY TAXED (49)

FM 7/12/90

Good pickpockets have an accomplice distract the victim while the "job" is done. So beware! The ghost of Henry George has been resurrected to con South Africans into believing they won't be taxed anymore.

Every few years, the Georgist idea of a "single tax on land rent" seems to come back into fashion. Economists then expose its faults and it goes back into hibernation until it can be foisted on the next generation. The latest incarnation comes in a book by Stephen Meintjes and Michael Jacques, *The Trial of Chaka Dlamini.* It is being sold as an economic elixir that, defying logic, replaces capitalism with free enterprise.

The authors are mistaken: their proposal is just another way of nationalising land. Their book is based on false premises. Claiming to abolish taxes, they simply replace old taxes with a new one; euphemistically naming it a "user charge." Speaking on behalf of the "community" they explain: "What is this rent? It is the benefit the owner derives from occupying better land and since it is the community that determines which land is superior to other land, this natural rent is due to the community." What they mean is that any benefit a landowner derives from land that is better than the worst land in use, is to be taxed away.

The question they fail to answer is: if the benefit of holding better land is taxed away, why hold better land? Why use better land more wisely than the worst? Their proposal, if applied, would distort land use in the same way that land nationalisation or "rent control" would, keeping the best land out of the hands of the highest bidder, thereby encouraging crowding and deterioration.

This "community" to which we owe a "user charge" is a myth. The "user charge" is a tax that goes to government, lowering returns to all capital and labour used on that property. The whole purpose of owning superior property is defeated if the benefits are taxed away. The owner effectively ceases to be the owner and will act accordingly.

One reason the authors prefer their "user charge" to income tax is, they claim, that income "is virtually impossible to measure." They fail to understand that their natural rent is even more difficult to measure. This rent is an abstract concept that does not appear separately in the market. Assessors can't truly separate it from return on capital. Assessments would be arbitrary, leading to favouritism, collusion and bribery. A tax system constructed on the basis of their advice would tend to consolidate power in the hands of those who act for the "community." This politicisation would destroy any "objectivity" in land pricing and battles over land zoning and assessments would rage.

Georgists will, as usual, shout conspiracy and accuse me of distorting their doctrine. Even Meintjes and Jacques suggest this when they quote Leo Tolstoy and take it on his authority that George's idea is "expressed so convincingly and effectively" that the only way to "fight against it" is "to falsify it and keep silent about it."

The real reason economists don't talk about it anymore is the same reason we don't argue about whether or not the earth is flat: economics has advanced greatly since George's time. George wrote before the "marginal revolution" in economics and couldn't benefit from that knowledge. Thus, George's errors can be sympathetically understood; but those of his followers are inexcusable. Indeed, many of these followers seem not only to be unaware of modern economics, but not even to have read George.

Meintjes and Jacques claim their plan is not socialistic. They seem unable to comprehend that their methods would lead to the same results. George himself, did not differ with the socialists' ends, but only with their methods. He abhorred and railed against the private ownership of property and favoured nationalisation without compensation.

But he was well aware that open and honest nationalisation of the land would "arouse the most bitter antagonism," so he proposed to accomplish the same thing in a "simpler, easier, quieter way," as he admitted in *Progress and Poverty:* "Let the individuals who now hold it still retain, if they want to, possession of what they are pleased to call their land. Let them continue to call it *their* land. Let them buy and sell, and bequeath and devise it. We may safely leave them the shell, if we take the kernel. *It is not necessary to confiscate land; it is only necessary to confiscate rent.*"

George sought a more practical strategy for imposing the objectives of socialism. He openly proposed "to appropriate rent by taxation." He didn't evade the obvious by calling a tax a "user charge."

By speaking of a "user charge," Meintjes and Jacques unwittingly accept the State as true owner of the land. This Marxist premise allows them to overlook taxation: if the State is entitled to what it is taking, how can one call it a tax? They also perpetuate the fallacy that, because their own policies weren't followed in the past, there arose the "need for redistributing wealth via socialism." They too, are socialists quibbling over methods.

If you wish to reduce our tax burden, then reduce taxes. But please don't con us by replacing one tax with another.

ing there would be a confrontation. He had dragged her up the stairs
Other aggravating factors found were that her.

'Seek wealth in SA through growth'

CAPL-1448 8/12/90 49

Staff Reporter

ANGLO AMERICAN Corporation chairman Mr Julian Ogilvie-Thompson said yesterday that South Africa should follow a path of redistribution of wealth through growth.

His remark was made a week after Mr Tito Mboweni, head of the ANC department of economic policy, made a directly opposite remark at a seminar at the Cape Sun.

Mr Mboweni said the economy should follow a new path of growth through redistribution. The spending power of the masses would be increased and this would stimulate mass production, he said.

Mr Ogilvie-Thompson was speaking at the annual prize-giving ceremony of Diocesan College (Bishops), where he was senior prefect in 1952.

Asked recently by the BBC when he had realised that apartheid was wrong, Mr Ogilvie-Thompson said he had been proud to reply that thanks to his old school and the values his parents had instilled in him he had known it was wrong since he was a schoolboy.

"It took longer to see how economically disastrous it was for everyone, particularly for people of colour."

Sadly, capitalism stood discredited in South Africa because it had been corrupted by apartheid. Yet capitalism had never been properly implemented in this country.

"We should concentrate on freeing the individual, so that all have equal opportunities," he said. "A key factor will be how, and how rapidly, we can extend a fair education to everybody."

In education he favoured a merit system in which everyone was taught numeracy and literacy at primary level.

"You have been greatly privileged to be at this great school," he told the pupils. "There is no privilege without responsibility. South Africa is going through great changes, and we have an unparalleled opportunity to participate.

"You are called upon to speak up and play your part."

Reserve Bank stashes away more gold

Star 8/12/90

(49)

DUMA GQUBULE

THE Reserve Bank increased its gold holdings by nearly 323 000 ounces in November, a decision which could have provided some support to sagging world bullion prices.

Figures released by the Reserve Bank yesterday show that South Africa's gold and foreign exchange reserves increased by R455 million, or 7,3 percent, to R6,674 billion during November from R6,218 billion in October.

The R455 million increase is the largest monthly increase since July 1987 and gold and foreign exchange reserves are now at their highest level since November 1987.

Economists yesterday said the encouraging increases in reserves over the last couple of months could reflect continued inflows of capital in the fourth quarter. In the third quarter, the estimated net capital inflow was R1,5 billion — the largest since the last quarter of 1982.

The capital account is now set to show an outflow of well below R2 billion for the year compared with an outflow of R5 billion that was expected at the beginning of the year.

The bank's statement of assets and liabilities shows that gold held by the Reserve Bank increased by 10,46 percent to R3,580 billion from Octobers's R3,241 billion, a rise of R339 million.

Foreign exchange holdings rose 3,93 percent to R3,093 billion from October's R2,976 billion.

Rosholt bucks the trend with his call for an easier monetary policy

Business Day Reporter

BARLOW Rand chairman Mike Rosholt has bucked the trend of business leaders calling for an easing of monetary policy, saying inflation has to be brought under control more firmly before this happens.

Addressing shareholders last week for the last time before he retires as chairman in January 1991, Rosholt said: "I am convinced the economic disciplines being imposed form a healthy foundation for the future and will, if persevered with, assist in making SA more competitive internationally." BDay 10/12/90

Government's policies would, together with indicated slowdowns in the economies of major overseas trading parties, continue to restrict growth.

"We shall have to contend with the current reduced level of economic activity throughout the next financial year."

Rosholt doubted whether renewed growth at an acceptable rate was possible before solutions to the country's political impasse "are seen to be believable".

Business had to be a constructive participant in the change to and formulation of the "new SA".

"In this climate of rapid transition, when major policy and institutional decisions affecting business are being taken, it is essential that we take part in helping to determine the policy and framework that will create the environment in which we have to operate."

He said it was generally accepted that the way national income was distributed would have to be reconsidered.

"Our objectives should be to remove distortions of the past and to enable all people to become self-reliant and self-supporting." (49)

This required the investment of considerable sums in education, training, housing and the promotion of black business.

He said Barlow Rand was involved in establishing a technical college in Alexandra with a grant of R3m payable over three years.

Most of the R18,6m allocated during the year by Barlow Rand and its subsidiaries went to education with the balance going to job creation, the promotion of individual business enterprise, housing initiatives and health and welfare.

Barlow Rand CE Warren Clewlow will succeed Rosholt as chairman after the general meeting on 21 January 1990.

Cape Times 10/12/90 49

Opinion

Myths of opposition in economic plans must be dispelled

HOW do we begin to build a truly post-apartheid SA in which we are able to overcome the massive, accumulated effects of apartheid — the history of white empowerment on the one side and disempowerment of blacks on the other?

In SA's economic debate the impression usually given is that there are two options — a free market or a centralised, heavily nationalised, bureaucratically planned economy. The debate is clouded with rhetoric and slogans. To begin a more open and creative approach we need to dispel two common illusions.

Firstly, socialism and the market are not, as is commonly supposed, opposed to each other in principle. The market is a mechanism for the realisation of value, there is nothing inherently capitalistic about it. One of the reasons for the present crisis in existing socialist countries lies in the elimination of the market.

The second illusion which needs to be dispelled is that the ANC and SACP will nationalise everything that moves or grows. Across-the-board nationalisation would be extremely costly. It would be met by a flight of capital and skilled manpower and probably by sabotage and destabilisation.

Compensation for nationalisation would place limits on the redistributive impact of major nationalisation. Buying the major monopolies even at half price would tie up the state budget and balance of payments account for decades. The experience of much of Africa shows that economic collapse seldom produces popular enthusiasm for people's power or socialism.

Industrialisation

This is not to say that nationalisation is an option that should not be considered. In sectors where direct state involvement is considered necessary for effective social planning, such involvement can take a multitude of forms, including joint projects, majority shareholding, or even minority shareholding with "golden share" attributes.

But while a democratic state will certainly play a very important part in developing public property, what essentially characterises democratisation of the economy is a growing participation by the people as a whole (in their capacity as producers, consumers and owners) in economic life. That is not statism. That is not a naive belief in nationalisation as a panacea. That is not consigning the heights of our economy to a commandist bureaucracy.

Together with our allies in the ANC-SACP-Cosatu alliance, we aim to achieve a major redistribution of wealth and income so that health, education, decent housing, food, water, electricity and good communications are within everyone's reach.

To achieve this will involve more than slicing the existing cake in different proportions. We obviously need a strategy to generate economic growth in the post-apartheid mixed economy. This growth must be both sustainable and equitable. Growth without redistribution is meaningless. Equally, redistribution without growth is not a sustainable economic policy.

The main source of growth should be industrialisation directed at both export markets and the demand for rising living standards at home. We believe that export industries grow in conjunction with growing home markets. The argument between "inward industrialisation" and "export-orientated growth" is based on an unnecessary polarisation.

Sustainable industrialisation requires involvement in new technology to enhance productivity and allow wages to rise while competitiveness is strengthened. For that reason, foreign investment is to be welcomed, particularly as a source of new technology.

Domestic savings

We would welcome foreign firms within an industrial strategy determined by our democratic government. We would develop an investment code and investment priorities as a basis for our business dealings with foreign firms, and we would reduce bureaucratic obstacles by instituting a one-stop agency for these negotiations. Our policy would have regard both to the interests of the investors' and workers' rights.

Private SA firms and new enterprises will have a strong role to play, along with foreign firms. But our country so much needs new investment that we cannot rely on these sectors to generate it automatically. The state and state-owned industries will have a responsibility for generating investment.

These tasks will need money, although there will be a need to keep firm control to prevent the state budget becoming insupportable as it did under the NP. The often-expressed idea that all the good things can be financed from cuts in military and security force spending is a chimera. And experience shows that financing needs by a wave of foreign borrowing is an almost certain road to bankruptcy. So our financial strategy sees the raising of domestic savings and their more purposeful mobilisation and direction as the basis for growth.

These economic policies will continue to be criticised as statist and contrasted with free market policies. But the SA we have known is not a free market system. It is a tightly-knit economy dominated by state industries, state regulation, and a few conglomerates.

The leading argument for a free market future comes from those very trusts and, frankly, we doubt their sincerity. The ANC has mooted a strong anti-trust policy; it should, surely, be welcomed by all true free marketeers but has, in fact, been strongly opposed by SA business.

"Business confidence" is the mantra that gets repeated over and over. But confidence is a two-way street. What about the concerns and fears of working people? Are their concerns over joblessness, homelessness, health and education not relevant to the stability of a future SA?

Confess guilt

For its part, the new democratic government will also want to have confidence in business's commitment to invest, to operate fair employment practices, and to contribute towards building the new country before judging whether public ownership, regulation or other policies are necessary.

If business wants to talk about confidence, then let us, indeed, talk about confidence. Elements of the Dutch Reformed Church have recently made a public confession of guilt and complicity in fostering the sin of apartheid. Is it not high time that big business, and particularly the mining houses, came forward and confessed their guilt? I make this suggestion quite seriously.

In the interests of establishing a climate of trust and confidence, those who have been deeply implicated in what is widely recognised as a crime against humanity should show some remorse. Go back to the 1920s and 1930s and read the evidence placed by the mining houses before various government commissions. There you will see that the major instigators for all the cornerstone features of the apartheid system — pass laws, the reserves, the cheap labour system, job reservation, the compounds — were the mining houses. And yet, today, a great amnesia seems to have set in.

I say this, not in order to humiliate others, but because I believe that we need the right climate of trust and confidence to move forward.

Whatever differences there might be between us, we also believe that there is space for a wide consensus about the kind of economic reconstruction that is desperately needed in our country.

□ This is an edited extract from a talk delivered by SACP general-secretary Joe Slovo to the Woolworths board.

Socialism and the market are not . . . opposed to each other in principle. The market is a mechanism for the realisation of value, there is nothing inherently capitalistic about it.

Across-the-board nationalisation would be extremely costly. It would be met by a flight of capital and skilled manpower and probably by sabotage and destabilisation.

Sustainable industrialisation requires involvement in new technology to enhance productivity . . . For that reason, foreign investment is to be welcomed . . .

PS By JOHN SCOTT

The day I helped hug Vaalies and other visitors

THIS hugging business can really become catching.

I went out to D F Malan Airport on Friday to help Mayor Gordon Oliver hug visitors to Cape Town, but we had to wait nearly 45 minutes for the first aircraft from Johannesburg, presumably full of Vaalies mad to be hugged.

So we retired to a section of the lounge where various wine estates were vying for our palates with their best vintages. The place was packed with civic VIPs all wearing their "Hug a Visitor" stickers.

Besides Mr Oliver there were the mayors of Milnerton, Parow, Durbanville, Kuils River and Fish Hoek. City exco chairman Dick Friedlander was there, with fellow exco member Louis Kreiner. MOH Michael Popkiss was there, no doubt to reasure the Vaalies that False Bay was safe to bathe in. Deputy Mayoress Trish van der Velde was

"Are you a real Vaalie and, if so, may I hug you?" I asked.

"I am and you may," she replied.

I was really getting into the swing of things. Some of the visitors seemed overwhelmed by their reception, but one or two sized up the situation quickly.

An elderly man asked Trish van der Velde if he could kiss her. It was difficult for the deputy mayoress to explain she was primarily a hugger, so she consented.

He made the most of his opportunity, she reported afterwards.

Three young women from Houston, Texas, travelling round the world together, joined the wine

R5bn fund mooted for social spending

B/Day 12/12/90 (49

GRETA STEYN

THE Cabinet has appointed a committee of five Deputy Ministers headed by Deputy Finance Minister Org Marais to investigate the creation of a R5bn fund for social spending, a business source said yesterday.

Marais has sent confidential letters to private business asking for their views on the establishment, financing and use of such a proposed fund.

The source, who had read the letter, said figures mentioned were "in the region" of R5bn. He said the committee was looking at various sources of finance for the fund, including soccer pools, international aid or loans and government grants. It had also asked the private sector for suggestions.

It is understood the main focus of the fund would be on urban development.

Letters have been sent to industry associations including the life offices, banks and building societies, mining, and commerce and industry. Eskom is also said to have been asked to provide feedback.

Marais last night confirmed that Cabinet had appointed a task group to examine various financing options for social spending put forward by the private sector.

The group was co-ordinating existing information on social upliftment of the poor, including reports, memorandums and proposals from the private sector. He declined to confirm or deny that the creation of a R5bn fund was being considered.

"The task group will examine various financing options that have been proposed by the private sector. The task group will start investigations early next year and should submit a memorandum to the Cabinet fairly shortly," he said.

Marais also declined to comment on whether the ANC, the Development Bank and groups other than business would be consulted but said he had invited "different interest groups" to submit their recommendations to the task group.

The group would also draw information from government committees such as the Calitz committee on poverty and the Pretorius committee on housing.

A business source said there was some confusion as to whether a new fund would be created or whether it would fit into existing development structures such as the newly created Independent Development Trust and the Development Bank.

□ To Page 2

R5bn fund

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□ From Page 1

Business people hoped the result of the investigation would be more co-ordination in spending on social backlogs, he said.

If a new fund is created, it is not expected to form part of central government's Budget — a move which could elicit criticism if government funds are used to finance it. The announcement of the off-budget Independent Development Trust in the last Budget drew criticism from economists — including the IMF — who said the fund should form part of the Budget as it was financed by government loan funds.

Government was able to finance the fund to the tune of R2bn from borrowings it did not need because of a massive revenue overrun. Economists predict another overrun on revenue this fiscal year, leading to extra funds for development spending.

Racial parity cost put at R52 000 m

Argus 13/12/90

49

From MICHAEL CHESTER

JOHANNESBURG. — The SA Chamber of Business has estimated the cost of bringing about equality in black and white societies in basic living standards in South Africa at a staggering R52 000 million.

The estimate takes into account black and white parity in such spheres as housing, education, health services and social pensions.

The total works out almost three times higher than the entire annual income flowing into SA from gold exports, the cornerstone of the whole economy.

Sacob chief economist Dr Ben Rensburg said in Johannesburg yesterday the sheer magnitude of costs made it totally unrealistic to expect equality to be achieved at a single stroke.

Dr Rensburg was addressing a symposium held by the Kondrad Adenauer Foundation and the Centre for Policy Studies at Wits University to examine the options open to South Africa in shaping a new post-apartheid economic system.

He argued that the architects of a new post-apartheid South Africa needed to spell out to the general public it could take as long as 10 years to reach objectives without causing mortal damage to the economy.

Dr Rensburg said that rather than leave the problem hanging in the air while political agreement was awaited on new dispensations, the social upliftment programme should be taken out of the political arena and begun without delay.

Planning the programme within an affordable time-scale should be tackled with urgency if South Africa hoped to win the confidence of local and overseas investors needed to give a fresh kick-start to the economic motors.

The African National Congress had already caused unease inside the business community and among potential foreign investors with talk about a centrally planned economic approach, trade union influence on investment decisions and steeper taxation.

It would need more than a lifting of sanctions to trigger a renewed inflow of investments. Investors saw the world as a global village when they decided where to inject their funds.

It was crucial that any new constitution took economic issues and economic realities into full account in redressing the imbalances in society caused by years of apartheid policies.

The Sacob approach was based on setting new targets for stronger economic growth within a free enterprise system as the key to the creation of more wealth and more jobs.

In sharp contrast, the ANC approach at the moment not only disregarded the basics of market-driven economics, but also the realities of economic structures.

However there were a areas where common thinking existed that could be used as points of departure to work out agreement on an acceptable economic system sorting out priorities to the satisfaction of all parties concerned in the debate.

Solutions were urgent: "If the pace of economic development lags behind the rate at which society demands social needs be redressed," he warned, "the economy will simply grind to a complete halt — or even worse regress to a Third World situation of poverty for all."

Govt hints at rise in social spending

BDay 13/12/90 (49)

GRETA STEYN

FINANCE director-general Gerhard Croeser hinted strongly yesterday that a higher proportion of the Budget would go to social spending and there would be huge real cuts in other areas to finance this.

"Some 40% of the national budget is already going to what broadly may be designated as welfare spending. With goodwill on all sides — and I assure you it exists on the government's side — this proportion will grow," he told a seminar organised by the Wits Centre for Policy Studies and the Konrad Adenauer Foundation in Johannesburg yesterday.

There would have to be a more drastic rearrangement of national budget priorities, with spending scaled down further in the "traditional" areas and raised in the socio-economic sphere.

"Here, I suggest, is the real 'redistribution' — and the only sustainable one."

Although he did not specify areas where cuts would occur, it is believed that substantial real cuts in aid to the homelands, as well as in spending on obsolete policies such as decentralisation, would help finance higher social spending.

Croeser said public sector functions were being scaled down or abolished; the remaining functions were being rigorously prioritised and subjected to cost-benefit analysis and the application of user charging was being extended.

But he warned against expecting too much, since there were "severe financial constraints". A large portion of the "peace dividend" from less military spending had already been "gobbled up" by higher security expenditure because of unrest.

● CROESER

SA Chamber of Business economist Ben van Rensburg noted that the achievement of parity between races in per capita government spending on education, housing, pensions and health care would require spending of R52bn, 80% of the budget.

"Immediate equal treatment would simply not be affordable, nor physically possible, because of the lack of facilities and trained manpower to do the job," he said. Sacob was advocating a 10-year plan to eradicate these imbalances and hoped existing inequities would not lead to the choice of the "wrong" (centrally planned) economic system.

UK asked to help repair SA economy

Star 13/12/90

By Chris Whitfield
Star Bureau

LONDON — British exports to South Africa have increased by 13 percent in the first six months of this year, according to the South Africa Foundation.

The Foundation, giving evidence yesterday to the House of Commons Select Committee on Foreign Affairs, also revealed that Britain's imports from South Africa are currently up 25 percent over the same period last year.

Britain is now the second largest exporter to South Africa and the trade gap has been closed to "a virtual balance" of £1,1 billion (R5 billion) a year.

Those figures were given by the Foundation's representatives — president Warren Clulow, his deputy Brian McCarthy, director-general Kurt von Schirnding and UK director John Montgomery — as they stressed the importance of British investments in South Africa.

Damage

The thrust of the Foundation's evidence centred on the need to repair the damage done in recent years to South Africa's economy.

It suggested the restoration of IMF drawing rights as a reward for concessions by the negotiating parties and targeted credit — "strictly for black development and deployed co-operatively between negotiating partners".

Easing the isolation of South Africa, both in the form of access to foreign capital and symbolic gestures on the diplomatic, tourism and sporting fronts, would erode the white right wing's power base and strengthen the negotiators' position.

Perhaps the most striking suggestion by the delegation was for the policing of developments — a "democracy watch".

"If a highly reputable consortium of international policy agencies were to be encouraged to establish a monitor of developments ... Based on thorough analysis, and were to disseminate findings widely and regularly, it would create healthy pressure on government and political parties."

Technology is too important to leave off political agenda

B Day 13/12/90 49

ANIA GROBICKI

ON NOVEMBER 24 the ANC brought together representatives of many different constituencies interested in technology, with the goal of putting the issue firmly on the political agenda.

The conference enabled a wide-ranging exchange of views to take place as a step towards devising a technology policy for SA.

Technology vitally affects all of our lives. Technological choices shape our living and working environments. More fundamentally, the level of technological advancement underlies the ability of the economy to change and develop in certain directions, and the pace and flexibility with which such changes take place.

In the framework of a mixed economy, public and private sector corporations, small businesses, trade unions, academic and training institutions, professional bodies, research organisations, community groups and school teachers all play important roles in the establishment of a technological culture.

The process of technology policy-making must encourage participation by all these actors. This is why the ANC is initiating a public debate on some issues around technology. We hope this will provide the basis for a balanced, democratic process of evaluating our position in the technological stakes, and what needs to be done about it.

New technology and innovation are the wind in the sails of a buoyant economy. New technology at present encompasses areas such as information technology, biotechnology and new materials, as well as the new production technologies. SA needs to build on its existing technological base to create networks of expertise in each of these developing fields. We will then have the knowhow to choose between importing certain technologies and developing them here. Research and development funds must be wisely allocated to strategic projects in the new technology areas, as well as towards innovation in existing technologies.

At present only 0,88% of the GDP goes into research and development in SA, as opposed to around 2,5% in winning countries such as Japan, Germany and the US. Among all the competing demands for public money in crucial areas such as housing, education and health, we believe it is unforgivably shortsighted to spend such a relatively small proportion of GDP on research and development. SA should aim to spend well over 1% of GDP on R & D, or we can never hope to improve our standard of living and technological advancement.

A large proportion of this increase should come from the private sector, which accounts for only 28% of total R & D funding. In most developed economies, private sector R & D accounts for over 40% of the total. SA industries spend only half as much on R & D (as a percentage of their budgets) than their foreign counterparts in this country, despite the fact that the latter do the bulk of their research back home.

Hence the private sector must be encouraged in various ways to intensify R & D efforts. One way of doing this is by tax incentives; another is to facilitate the transfer of technology and collaborative research efforts between industry and academia. What is needed in terms of policy is the creation of an enabling environment for R & D to take place.

This illustrates a more general point: that technology policy is much more than a set of tax incentives and tariff barriers. These, particularly if devised by economists and applied in a blanket fashion as part of an industrial strategy, can often have unforeseen effects on technology and technological advancement. Policy formation must proceed industry by industry, and sector by sector, examining the effects on technology of a given measure. Export promotion needs to be tackled in a similarly detailed fashion, as it is in South Korea.

There exists a wide range of policy instruments which could be used in developing an industrial strategy. In addition to those mentioned above, the possibilities include: registration of licensing agreements, the patent system and intellectual property rights, joint ventures and technology transfer, subcontracting, industrial financing mechanisms, the purchasing power of the state, price controls, control of technology imports and control of foreign investment. These need to be discussed and developed and their implications carefully examined in consultation with industrialists.

In keeping with the ANC's broad vision, we believe that a national technology policy must also examine the factors determining the technological base. Here the key is technical education, which in SA is woefully lacking. Each year we produce 35 engineers per million of the population, compared with Japan's 500. In addition, technician and artisan training is far below the levels required to develop and maintain a sound technological base.

One of apartheid's legacies is that we are barely tapping our population's pool of potential technical talent. Broad initiatives are required to turn this around, including working back not just to primary school level but to people's perceptions and prejudices about technology.

There are certain strategic sectors of the economy which require policies of their own because of their peculiar importance. In SA these sectors would appear to be energy, minerals and water resources. Technology policy must take the needs of these sectors into account and integrate them with other areas.

Energy policy, for instance, will look very different when it is driven by the requirements of urban and rural dwellers, rather than by strategic imperatives such as the threatened oil embargo. Creatures such as the nuclear industry and Sasol have contributed to SA's technological pre-eminence in a few narrow areas. The chemical industry has gained enormously by Sasol's existence, but at what cost? Opening up these issues to public debate is surely the first step in a democratic decision-making process.

Finally, we include two policy areas which have received insufficient attention in the past, but which should play a vital role in the future: the environment and rural technologies. Environment policy is an enormous area, but from the technology point of view it is possible to identify some key issues.

Principles such as "the polluter pays" have shown encouraging results elsewhere, in terms of industries introducing waste minimisation strategies and developing waste disposal technologies. Specific technologies such as flue gas desulphurisation (FGDS) and platinum converters are being actively promoted elsewhere — why not here? The relative costs and benefits must be carefully examined.

Rural technology includes a range of enabling technologies to improve living standards in rural areas. These can be high tech or low tech; from telecommunications to biogas digesters to transport.

The common factor is the development of rural areas, with employment generation and raising of income levels as associated goals. Our technological base is very strongly city- and industry-orientated, a clear example of bias.

Policy-making structures themselves need to be overhauled. The present system rests heavily on the Scientific Advisory Council, which is made up of 14 appointed members. The Advisory Council for Technology is reputedly defunct. We would argue strongly for a Ministry of Research and Technology to ensure that the issue is kept high on the political agenda.

Most important of all, there must be an ongoing, multipartite consultative process within which different interests are represented. Technology is too powerful a player to leave out of the democratic arena.

☐ Grobicki is a senior lecturer in chemical engineering at Wits University, and a member of the ANC's interim science and technology group. She was the convener of the recent ANC conference Towards a Technology Policy for SA.

Cost of 'equality' R52 billion

49

By Michael Chester Star 13|12|90

The SA Chamber of Business has estimated the cost of bringing about equality in the basic living standards of blacks and whites at a staggering R52 billion.

The estimate is based on achieving parity in such spheres as housing, education, health services and social pensions.

The total works out to be almost three times higher than the entire annual income flowing into South Africa from gold bullion exports.

Sacob chief economist Dr Ben Rensburg said in Johannesburg yesterday that the costs made it unrealistic to expect equality to be achieved at a single stroke.

He was addressing a symposium held by the Konrad Adenauer Foundation and the Centre for Policy Studies at Wits University to examine the options open to South Africa in shaping a new economic system.

He said the architects of a new South Africa should tell the public that it could take 10 years to reach objectives without devastating the economy.

The Sacob approach was based on setting new targets for stronger economic growth within a free enterprise system as the key to the creation of more wealth and more jobs.

The ANC approach at the moment disregarded not only the basics of market-driven economics, but also the realities of economic structures.

"If the pace of economic development lags behind the rate at which society demands social needs to be redressed," he warned, "the economy will grind to a halt or, even worse, regress to a Third World situation of poverty for all."

DEFINING THE SOCIAL MARKET

(49) FM 14/12/90.

Frank Vorhies lectures in business economics at Wits. This week he debated the social market at an international conference on the SA economy hosted by Wits.

The social market economy made famous by West Germany after the war is getting a bad name these days. Led by MP Harry Schwarz, the Democratic Party has been promoting the social market as the answer to SA's problems and called its recent position paper on the economy *A Social Market Economy: Manifesto and Economic Proposals*.

Then, at a conference in London last month, Finance Minister Barend du Plessis said he was quite ready to use the term "social market economy" to describe government's economic approach.

Sadly, the DP's and NP's social markets have nothing to do with the economic reforms that turned a war-torn wasteland into one of the richest countries in the West.

West Germany's free-market route to reconstruction was dubbed a social market purely as a promotional gimmick. In the Thirties, the Pope had called for a social economy for Europe. So to gain the support of Catholic Germans, the free-market reforms of the late Forties were called social-market reforms.

Sadly, the German policy-makers that followed gradually moved away from the original economic ideals. Today's social market of slow growth, high unemployment, six-week waits for a telephone, rigid shop hour laws, coddled farmers and the West's highest business taxes bears little resemblance to the social market envisioned in the Forties. More disturbing still, it's today's social market that the DP and the NP want to copy. SA business, as it becomes more vocal in the economic debate, must realise that it was the social market of the Forties that made West Germany rich, not the social market of today.

The reflections in the late Fifties of Ludwig Erhard, the post-war finance minister and one of the architects of West Germany's resuscitation, show how the social marketeers viewed the reforms:

"I do not believe that the idea of a 'German miracle' should be allowed to establish itself. What has taken place in Germany during the past nine years is anything but a miracle. It is the result of the honest efforts of a whole people who were given the opportunity of using personal initiative and human energy. If this German example has any value beyond the frontiers of its country, it can only be that of proving to the world at large the blessings of both personal and economic freedom."

How were the Germans given the opportunity to use their initiative and energy? Wilhelm Ropke, another important social-market economist, explains:

"If the sickness (of the West German economy) was the combination of collectivism and inflation, the therapy had to consist of the elimination of inflationary pressure and the apparatus of repression (maximum prices, rationing, controls and other interferences with free prices) and the restoration of market freedom, competition and entrepreneurial incentives. Freedom in the realm of goods, discipline in the realm of money — those were the two principles upon which rested the German economic revival."

The social-market programme that resulted in the so-called economic miracle put in place a capitalist economy. The reforms of 1948 — a stable money supply, market-determined prices and wages, no exchange controls, no legal barriers to starting a business or getting a job, far lower taxes — differ in kind, not just in degree, from what the DP and the NP propose for SA. While the NP at least appears committed to squeezing out inflation, the DP said last week that government should call off the inflation fight once the annual rate drops to 10%. At that rate — far above the rates of most Western countries — the rand will lose half its value every seven-and-a-half years.

The *1949 Britannica Book of the Year* reported on the West German reforms' immediate positive impact:

"In June 1948 came the long-projected currency reforms. Roughly nine-tenths of the war inflation was eliminated. Simultaneously, the Economic Administrative office abolished price controls on 400 articles, including paper, glass, furniture, household utensils, motor cars and bicycles. On June 22, the military government reduced the income, wage and tobacco taxes by one-third and the coffee tax by 75% in order to stimulate trade. The volume of industrial production, which in May 1948 had been running at 47% of the 1936 level, rose in July to 62% and by October had reached 73%."

In short, the social-market reforms set off an economic boom — and nearly a year before the arrival of large amounts of US Marshall Plan money. It happened in a war-devastated country in which capital was all but non-existent, labour was poorly educated and under-skilled, morale was low and expectations were even lower. Two liberal French economists, Jacques Rueff and André Piettre, commented in the mid-Fifties on the effect of the reforms:

"The black market suddenly disappeared. Shop windows were full of goods; factory chimneys were smoking; and the streets swarmed with lorries. Everywhere the noise of new buildings replaced the deathly silence of the ruins. If the State recovery was a surprise, its swiftness was even more so.

"On the eve of the currency reform, the Germans were aimlessly wandering about their towns in search of a few additional items of food. A day later, they thought of nothing but producing them. One day apathy was mirrored on their faces while on the next (they) looked hopefully into the future."

Even today the social market means an economy based on the key institutions of capitalism. It does not mean welfare capitalism, market socialism, a mixed economy or any other system containing significant government control over the economy. The sizeable intervention that does exist in Germany today stems from the policies of the social democrats (whose party was started by Karl Marx), not the social marketeers.

If the DP and the NP want a true social market for SA, they must call for the abolition of price controls on petrol, professional services and other products; of exchange controls, which discourage foreign investment and encourage bigger and bigger conglomerates; of import surcharges and tariffs, which make many prices in SA expensive and protect lazy, uncompetitive companies; of agricultural control boards, which lead to poor quality food and the production of the wrong crops; of statutory monopolies such as the Post Office, SABC and Eskom; and so on. If the DP and the NP want a rapidly growing SA that quickly soaks up the masses of unemployed, they must advocate capitalism.

Budget deficit target is well within reach

Star 14/12/90

(49)

Real gross domestic product of the economy, which declined in the third quarter of 1990 for the fourth consecutive quarter, is expected to be about one per cent lower in the calendar year 1990 than the preceding year, says the SA Reserve Bank.

In its quarterly economic review released yesterday, the Bank says real gross domestic product was some one percent lower in the first three quarters of 1990 than in the corresponding period in 1989.

It adds that the further shrinkage of aggregate real output in the third quarter of 1990 was mainly due to a marked drop in real value added in agriculture and a significant further decline in real output in the secondary sectors (manufacturing and construction). Slightly positive growth was shown by tertiary industries.

As a result, only a marginal decline was measured in total real output of the joint non-primary sectors; total non-agricultural production actually moved along an essentially sideways course.

Real gross domestic expenditure, which had shown a modest recovery in the second quarter of 1990, continued to do so in the third quarter at a somewhat higher rate.

In the labour market, declines in total formal-sector employment were likely to have occurred in both the second and the third quarter of 1990 after the surprise strengthening of employment in the first quarter.

A further acceleration of the year-on-year rate of increase in the nominal wage per worker in the private sector, and a sharp reacceleration of the year-on-year rate of increase in the nominal wage per worker employed by public authorities, were registered in the first half and the second quarter of 1990.

Strikes

Industrial action, worker intimidation and stay-aways were a factor contributing to output declines in the third quarter in manufacturing industry in particular, the review says.

The abatement of the inflation rates was interrupted and reversed from August 1990, mainly as a result of military-political developments in the Middle East, but encouraging strength was displayed by the various elements of the balance of payments situation in the third quarter of 1990.

Significant further decelerations too were recorded in the rates of increase in the M3 money supply, while the capital markets saw some recovery in turnovers after the sharp fall-offs in trading activity in the second quarter of 1990.

The review notes that in the area of government finance, current projections of Exchequer issues and receipts for fiscal 1990/1991 suggest an eventual deficit before borrowing for the fiscal year as a whole that may be fairly comfortably within the figure of 2,8 percent of nominal gross domestic product which was envisaged in the March 1990 Budget estimates.

These developments make it clear that the economy in the third and early fourth quarter of 1990 was still in a state of slow cyclical contraction, the review says.

Accordingly the Reserve Bank expects poor growth prospects in 1991, especially in the light of higher crude oil prices, a probable further slackening of growth in the major industrialised economies, the current drought and the failure of the dollar gold price to respond more energetically to the oil price increase and the to the raised level of international tension.— Sapa.

'It's economic war'

Citizen 16/12/90

THE lack of representation of black people in the economic arena needs to be addressed and an "economic war" must be waged, according to Black Management Forum national president Don Mkhwanazi.

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The fight for control of productive assets will be fierce and bloody, he told the Eastern Cape Chamber of Commerce conference in Port Elizabeth this week.

Privatisation and deregulation, plus the belief in a free-market economy, were issues which heralded the beginnings of an economic war.

"This is a war which must be led by black business. We must break the chains of economic bondage."

At least 60 percent black representation in top management and greater representation at board level in JSE-listed companies was needed.

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This would begin to redress the current imbalance, promote greater participation in economic life and would create a more equitable economic pattern.

"We are past the stage of social responsibility and beyond do-gooders.

"What we are talking about is the total transformation and fundamental change of ownership of productive assets, management and corporate power.

"We are no longer talking about sponsorship of dinners.

"What we want is that the sponsors of these dinners give us a meaningful stake in their companies and make soft loans and capital available to black business to facilitate and accelerate the process of black economic empowerment."

Attacking the pace of President FW de Klerk's reform initiative, he said the process of change could not be termed irreversible when people were still being detained without trial. Aggressive and unacceptable police behaviour remained part of the government's arsenal, he said.

"We can never say change is irreversible when our comrades are refused indemnity, when indemnity can be withdrawn at any time or when brother and sister are being tried in the courts for fighting for their birthright." – PEN.

Keeping the poor poor

(49) SI Times 16/12/90

ANGLO director Michael O'Dowd argued in these pages that ANC economic policies would lead to more money for the elite, and less for the masses. Here VELLA PILLAY of the ANC counters that O'Dowd's free market policies perpetuate inequality

MICHAEL O'DOWD seeks to vilify the ANC and its efforts to define an economic programme which can overcome South Africa's political and economic crisis.

He believes that if everything in life was left to the ding-dong battle between buyers and sellers all would be well.

The market, thus, is viewed as the power house which dissolves all contradictions and through the celebrated invisible hand of the much maligned Adam Smith will autonomously produce the conditions for short-term equilibrium and medium to long-term growth.

This simplistic and long-discredited approach (note the unheralded demise of Reaganomics and Thatcherism on this score), to which no seasoned economist today would subscribe, represents the essence of O'Dowd's onslaught against the ANC's economists.

At the centre of his attack is our economic policy of securing growth through a programme of income redistribution — as set out in the Harare Declaration.

Our overall approach is based on the fact that most of our people are too poor to acquire and consume the fruits of their labour. We strongly believe that as long as this persists there is no hope of a meaningful recovery in the economy. The existing demand constraints are much too overwhelming to create any hopes that white consumption and a recovery in exports can pull the economy out of its stagnation.

Unless the present stunted market is unshackled through an improvement in the living conditions of the people, the crisis will continue and, indeed, worsen.

Multiplier

Therefore commonsense would suggest that moving the economy back on to a significantly higher growth path than we have had in the past decade will depend crucially on the advance of a living wage policy for our working population, with corresponding measures to improve living conditions in the rural areas. The multiplier spin-offs of such a programme on the economy could be enormous. It is neither relevant nor useful for O'Dowd to remind us of the alleged inflationary consequences of this living wage policy. Some 40 percent of the employable black population is out of work and much of the manufacturing economy is strapped with excess capacity and little or no new capital investment.

This is taking place at a time when the inflation rate runs at around 20 percent a year. Evidently, the source of the inflation cannot be the calls for higher living standards or the wage demands of the trade unions or the excessive pressure on the productive sectors of the economy.

The source lies elsewhere — mostly in the costly, duplicate structures of the apartheid system, the substantial deployment of white labour in the unproductive and equally costly business of managing apartheid, the expensive trappings of military power and so forth.

There is a second point which is perhaps more fundamental. This concerns the impact of free-market relations on the distribution of wealth and income.

Theory suggests that all transactors carry equal weight in the market place and that markets will find equilibrium — ideally at prices at which the markets will clear. The theory is flawed because markets do not normally clear.

One of the more crucial reasons for such a generalised failure is the fact, contrary to the claims of O'Dowd, that inequalities in the distribution of income and wealth breed further and greater inequalities.

This results from the way free markets tend to function through unrestricted competition and the absence of what he calls "dirigism".

Intervene

A poor person with limited skills will remain poor and perhaps unemployed precisely because his endowments of wealth and much else lack that competitive edge to make him an equal player in the free market, dominated as it is likely to be by those with substantially higher endowements.

It is axiomatic that the operation of competitive market systems tends to widen the distribution of income and wealth so as to sustain and strengthen the inherited inequalities in the endowments of assets and wealth and hence on income among the social classes.

In other words, the poor will remain poor and the rich continue being rich and that relationship will be hardened by unrestricted free-market relations in production and distribution.

This would explain the efforts of democratic governments everywhere to intervene, control and manage the role of the market and of capitalism — what is generally called the policy of the "mixed economy" — with a view to overcoming the pernicious, divisive and unjust impact of the unrestricted free market system on social relations.

The undemocratic South African government of years past actually sought to overcome the poor white problem through the build-up of a substantial state sector. And yet we in the ANC are being denied the same course to overcome an even more grotesque level of poverty and inequality embracing an even larger proportion of our people.

Swear words like "dirigism" do little to clear the air: our draft policy documents make it clear that we will do no more and no less than create adequate living space for private capital and markets, but that the changes needed to bring about a democratic economy require an equal and indeed strengthened state sector.

Without the latter we cannot see how the monstrous inequalities and other legacies of the apartheid system can be corrected and how we can create an industrial structure able to meet the employment needs of all our people. To achieve these ends we will be obliged to use managed pricing and marketing policies — no different to what is practised now.

Targeted

However, such policies would be made more extensive in order to bring the African people within their purview through administered prices for farm products, subsidies, land grants and at a further remove, managed exchange rates, exchange controls, mechanisms to secure equilibrium in the balance of trade and payments, funding of strategies for industrial diversification and the direction of credit and finance to targeted industries able to generate employment and achieve a competitive position in international trade.

Mr O'Dowd takes a wide and indiscriminate swipe at a number of countries and regions which have pursued policies of state intervention and economic planning.

While we in no way neglect whatever can be learned from abroad, our policies will remain rooted in the concrete realities of our own country — its people, its land, its resources, and to fashion accordingly an approach to the developmental process in terms of objectives of unity, democracy and the progressive correction of the inequalities we inherit.

Democracy is doomed without economic growth

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Citizen 14/12/90

By philosophy Professor WILLIE ESTERHUYSE of the University of Stellenbosch.

THE march towards a more democratic South Africa is doomed to failure should it not coincide with economic growth.

This is apparent from literature on the subject, which says political freedom and democratic ideals have not been realised anywhere in the world amid economic stagnation or minimal economic growth.

Should economic growth be lacking in the heat of democratic progress, things can only go one way — increased misery and decay or autocracy.

It is possible to achieve economic growth under undemocratic circumstances. There are many examples of this.

In Mexico economic reforms and growth are now taking place. But there is no simultaneous democratic progress because it is not perceived as achievable.

The opposite, namely political liberalisation and democratic progress without economic growth, would be impossible.

One of the reasons for this is that democracy and liberalisation put human rights, claims and expectations on the table, especially those of groups which were never part of the system.

This applies even more to instances where millions of people from low socio-economic levels eventually receive representation in the political system.

In such instances, a totally new bargaining situation for scarce resources, services and other benefits develops.

Should this coincide with the perception that the new system owes them something and they obtain significant power within the system, these claims and expectations are strengthened.

The claims are mainly of a material nature – higher wages, housing, free education or low-cost transport. This is understandable when the demands come from people who have suffered discrimination.

Cries for political participation and the right to vote are simultaneously demands for bread.

This was once the case with Afrikaners and it now applies to the black population. This is why squatters now take it upon themselves to occupy land and people; talk about "taking over" empty school buildings and holiday homes at beach resorts; redistribution of wealth and the "Africanisation" of the civil service.

In this respect, South Africa is confronted with serious problems. We have no option but to liberalise and democratise the political arena.

This unavoidable path can, however, only be taken if economic growth occurs.

We also have no option but to rectify wrongs and ensure justice.

A real dilemma is that the black population will not accept that economic growth must come before its expectations are met.

In fact, the expression "economic growth" is not accepted by many black people. It is perceived as an apology and justification for exploitation. Among some black people there is also the perception that the so-called "privileged class" has enough wealth to satisfy redistribution programmes.

However, the fact that socio-economic and other forms of development cannot happen without economic growth is being increasingly understood by many black leaders. Acceptance that black people cannot improve their lot by having the vote alone is also growing.

One of the big challenges is how to establish a public perception of the need for economic growth to ensure successful liberal and democratic endeavours. How to create this growth is a bigger challenge.

In this context, sanctions and disinvestment are still of importance. While it should not be expected that the lifting of these will end our problems, the lifting would nevertheless be symbolic politically and have psychological value.

Also, the business sector cannot sit back quietly with folded hands and wait for a notable growth curve. The present lack of economic growth is no apology for lack of involvement in social and development programmes.

These programmes create stability during the process of liberalisation and democratic progress.

In fact, it is one of the great tragedies of South Africa and a serious limitation that there are so few shared interests or values in this divided country.

Itumeleng Mosala

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Azapo's economic policy

South 13/12

17/12/90

By MUSA NDWANDWE

THE Azanian People's Organisation (Azapo) will reveal its economic policy at its national congress to be held at St Francis Centre in Langa next weekend.

But Azapo officials have emphasised that this is not a "blueprint" for South Africa's economy.

"We are worried about blueprints because we would then be tied down to specifics that might not necessarily work," said Mr Monde Ntwasa, Azapo's Western Cape vice-president.

Under the theme, "Defend the People, Resist Neo-Colonialism, Advance Socialism," the congress will attempt to address present political developments and the way forward.

Although the issue of negotiations with the government will be on the agenda, it would not feature prominently.

"Our position has not changed. We still insist on negotiating only in a forum like the constituent assembly," said Ntwasa.

The congress will also elect a new Azapo president. Sources indicated that the current president, Professor Itumeleng Mosala, would soon travel overseas on a study trip for three years.

● Dr A Sivanandan, director of the Institute of Race Relations and Editor of Race and Class in London will be the guest speaker at an Azapo fundraising dinner at the Devil's Peak Restaurant,

Economy's ability to deliver must guide homes policy

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BDay 17/12/90

KEVIN DAVIE

THE solution to SA's pressing housing crisis lies in approaching the problem on the basis of what the economy can afford. The Development Bank estimates SA's total housing expenditure at about 3% of gross domestic product (GDP). World Bank guidelines suggest that upper/middle-income countries such as SA can spend up to 4,8% of GDP on housing.

This means last year SA could have spent about R11,2bn on housing out of GDP of R232bn.

The Development Bank believes actual total housing spending by the state and private sector is about R7bn a year.

Too little is spent because of too much government red tape and inadequate private sector participation, because of high perceived risks. Urban land lies idle because of racial zoning, because separate government departments do not co-ordinate policy, and because too many laws frustrate the housing process.

Another R4bn could have been spent last year on housing according to the World Bank guidelines.

Translate this into low-cost homes at R30 000 a home, and 130 000 more homes could have been built. Or 670 000 serviced sites could have been made available at R6 000 each.

Current estimates of the housing shortfall range from 800 000 to 1,7-million units, just to get rid of backlogs. But, says the Development Bank, available funds could be made to go further by throwing out policies and procedures that do not give value for money. Government's role should be reduced to creating the correct climate for private sector initiative.

"We've got to devise ways to increase the proportion of GDP spent on housing," says Development Bank urban group general manager Johan Kruger, "and we must find mechanisms to ensure that the increased expenditure is allocated to the real target market."

Housing needs at present are catered for by the state through a number of racially segregated government and homeland departments. In the case of black housing, government acquires land at considerable capital cost and often through involved and time-wasting legal processes, puts in the infrastructure, tenders for builders, and even gets involved in the sale of the home.

In the meantime, squatter camps spring up overnight on vacant lots, causing major headaches for land owners and developers. The Development Bank estimates there are 5-million to 7-million squatters — perhaps one-eighth of the population.

The bank's approach would scrap just about all of present policy.

Key elements of its proposals are that there should be a single housing ministry, that all first-time homebuyers should get a one-off government subsidy of R6 000, and that the provision of this subsidy should be just about the only financing activity by government.

Government, however, has an important role in creating a favourable climate for housing development.

Housing policy should be set at national level, but allocation of land decided at regional level by the local authorities involved. Allocations would have to provide for the full range, from upmarket suburban homes to sites and services for simple shelters.

Land development would be the responsibility of the land owner, with minimum statutory interference. Land speculation, which today results in urban land lying idle, would be discouraged through higher tax rates to fund roads and other infrastructure in the area.

Kruger says the Development Bank believes that this approach would get government out of the direct housing process, opening the way for individuals to start such developments themselves.

Government would still have the responsibility for providing the means for the poor to house themselves, hence the R6 000 subsidy.

While the idea is that this R6 000 subsidy would be available to all first-time homebuyers, the bank believes this amount would be sufficient to enable even the unemployed to secure a serviced piece of land on which to erect a shelter.

"Even the unemployed have a basic right to shelter. This will ensure they're not disruptive to society as a whole," says Kruger. He says the one-off subsidy would give a person immediate access to a site, even if it is of a rudimentary standard.

The R6 000 figure is derived from an estimate of the cost of providing a serviced site. It would be used to buy the site, and the owner would have legal tender. The land could thus also be used as surety to raise a loan.

The once-off nature of the payment would also reduce the present administration of government's subsidy scheme, says Kruger.

Those who benefit at the moment from government housing subsidies would get a slightly lower grant. Government subsidises two-thirds of a bond up to R40 000 for a period of seven years. This works out at a maximum of R7 240 over the seven-year period.

The Development Bank proposals reflect contemporary international thinking on housing, in particular the policies adopted by about 120 countries at the International Shelter Conference in Vienna in September 1986.

A meeting in April confirmed support for these policies.

The Vienna conference decided that the public sector had a limited capacity in meeting developmental needs. It emphasised that the state should participate only where neither the private sector nor the individual could do the job.

Other key principles are that there is a positive correlation between urbanisation and per capita GDP, that housing policy must be aimed at co-operation between private and public sectors, that urbanisation and the provision of informal housing should be part of broad national development, and that local authority participation should get priority.

Government activities should be as streamlined and as cheap as possible, the conference decided. Where infrastructural development takes place, there should be a pro rata charge to push up the price of land, being a kind of a land tax to prevent speculators from holding undeveloped land, and pushing the poor to the periphery.

"Studies have shown that the application of these principles has led to a decrease in people density per room, in contrast to public housing programmes which are characterised by increasing densities per room," says Kruger.

"Even the poor who provide their own shelter manage to reduce room densities," he says.

The bank's proposals have been submitted to a government committee which is re-evaluating housing policy.

Officials on the committee are not prepared to discuss the inquiry, but indicate that it is at an advanced stage.

Hard times — but hopes high in W Cape

Merc 18/12/90

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By SHARON SOROUR, Labour Reporter

MONEY and jobs are in short supply and consumers at every level are struggling to keep ahead of debt — but the Western Cape has the potential to break the grip of the severe economic recession.

This is hopeful message leading economists have for the region as consumers go on a Christmas spending splurge.

Diversity in the local economy is cited as an insurance against the effects of the recession, but certain sectors in the region are badly off.

Mr Colin McCarthy, executive director of the Cape Town Chamber of Industries, said the downturn had led to a reduction in buying power. Industries which suffered were those manufacturing durables like the clothing, footwear, furniture.

"The Cape is the biggest centre for footwear, clothing and textiles, and there has been a huge reduction in the demand for these products.

20 percent increase

"Regretably there have been a number of failures, especially in the clothing industry, in which many factories have gone insolvent.

"The country is in a poor state generally, but the Western Cape has suffered particularly because of the manufacturing industries here."

He said the Cape should concentrate on building up its export capacity.

Mr Lionel Hartmann, president of the Cape Town Chamber of Commerce, said that in spite of the downturn retailers were expecting a good Christmas season, with a 10 to 20 percent increase in sales.

This was not as good as last year, but was still "positive".

He warned that if more trouble erupted in the Gulf the future would be gloomy, with interest rates staying high.

"Our hopes depend on the Middle East."

A brighter view came from Dr David Bridgman, executive director of Wesgro, the region's development agency.

He said the Cape had had the fastest growing economy of all metropolitan areas through the 1980s.

"We are not doing as badly as the rest of the country and this will be maintained further into the 1990s.

Daunting

But while the seasonal Christmas upturn is expected to bring a welcome boost, the effects of the downturn are daunting:

- Many Western Cape industries have had to retrench staff and resort to short-time working for the first time in years.
- The Stellenbosch Bureau for Economic Research warns that growing unemployment coupled with "unrealistic" trade union wage demands have destabilised the labour market.
- The national debt on loans, including mortgages, has soared by a staggering 72,2 percent to R284-million in the past year — with the Cape having its fair share.

● More reports, page 23.

Economists see little chance of an upswing in 1991

BDay 19/12/90

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GRETA STEYN and ANDREW GILL

SOUTH Africa is about to enter 1991, a year of political transition, with its economy weak and with almost no hope of a meaningful recovery. Economists expect a year of little or no growth, at best restoring output to 1989 levels.

It is common cause that SA needs an average annual growth rate of 5%-6% a year to counter burgeoning unemployment.

Government is laying the groundwork to achieve these levels of growth with, among other things, an anti-inflation drive. It faces the dilemma of conflicting goals and too little time to work in.

Against the background of current economic policy that focuses on inflation, economists say SA can expect another year of hardship.

Interest rates will remain high in real terms, but inflation will stay at double digit levels. Firms will be reluctant to invest, but consumption could grow.

The rand will weaken and the outlook for the balance of payments is uncertain, given the vagaries of the gold price, the Gulf crisis and uncertainty about growth in industrialised countries. A weakening of the rand will be tempered by the Reserve Bank's policy of keeping the currency stable.

Growth forecasts vary between minus 1% and 1%, with most economists seeing slightly positive growth. The optimists hasten to point out, however, that this would simply lift the level of economic activity to where it was in 1989.

An accurate growth forecast is doubly difficult because of the unpredictability of agriculture and net exports after Iraq's invasion of Kuwait.

A particularly weak agricultural sector this year, after a strong performance in 1989, tended to overstate the decline in GDP. A good year for agriculture in 1991 could bring higher-than-expected overall growth figures.

One variable causing pessimism among most economists is the low spending on fixed investment. Of the components of gross domestic spending, gross domestic fixed investment (GDFI) was the only one to slump while consumption by government and the private sector continued to increase.

The Reserve Bank's December Quarterly Bulletin partly ascribed firms' unwillingness to invest to political uncertainty. The continued strength in consumption was attributed to, among other things, the increase in blacks' real purchasing power.

Declines in interest rates will provide little impetus for spending and growth next year, in line with the Reserve Bank's belief that its role is not to generate growth but to protect the value of the currency.

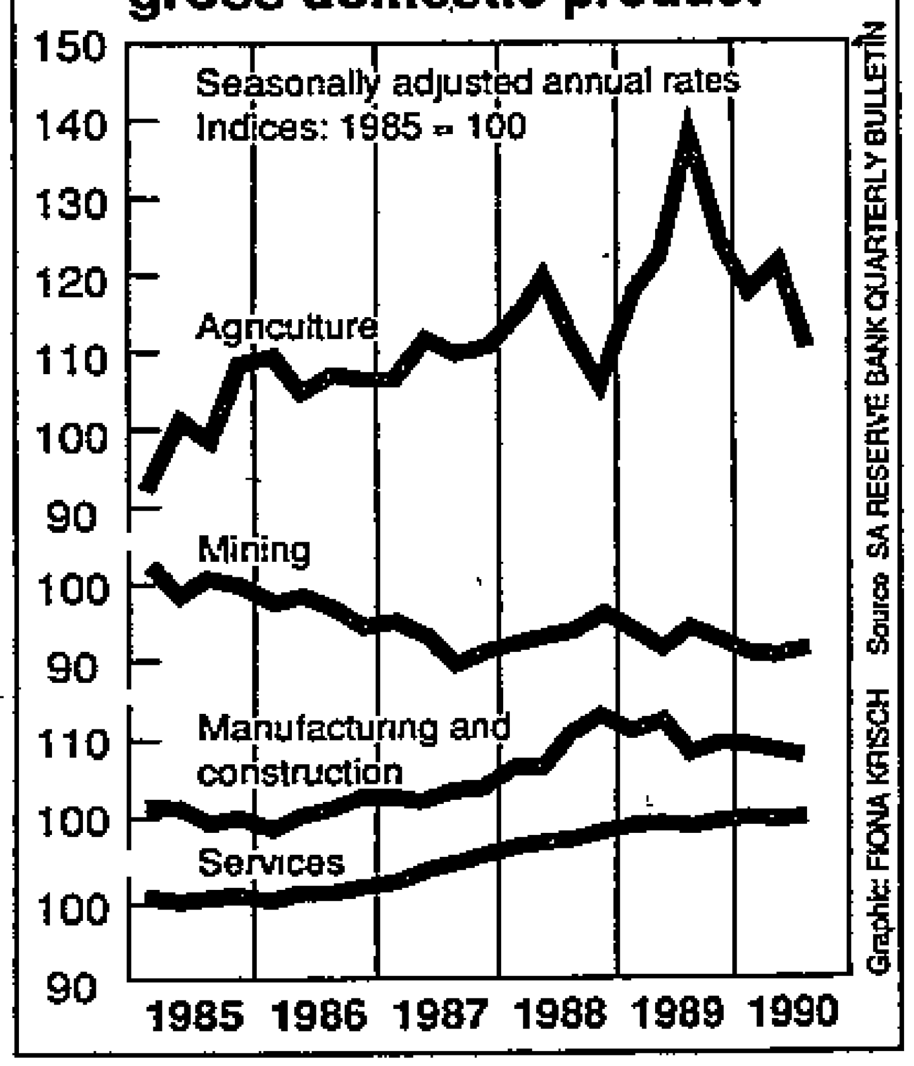
Most economists expect three one percentage-point cuts in interest rates next year, bringing the prime overdraft rate to 18%.

Although pressure is expected on the balance of payments, given foreign debt commitments of about $1,7bn, economists are optimistic the easing of sanctions on EC investment would make rollovers easier.

They do not see a large enough current account surplus (R3bn-R4bn) to cover debt payments, and note that predicting the current account surplus with the Gulf crisis still unresolved is hazardous.

Asked to sum up their view of the year ahead, economists responded with "flat and stodgy", "another year of landing and not taking off" and "more belt-tightening".

Components of real gross domestic product



UBS economist Hans Falkena was among the more pessimistic. He saw another year of decline in GDP but the business cycle could start picking up in November.

The joker in the pack was inflation, he said, predicting an annual rate of 12,5% for end-1991 declining by about a half percentage point per quarter. The figure was, however, highly dependent on wage increases.

This implied continued stringency in monetary policy with a slight easing of the Bank rate in the first quarter, but not before February, he said.

GDFI should tumble by between 5% and 10% while private consumption expenditure was likely to fall by 1%, he said.

Other economists, including Nedbank's Edward Osborn, Southern Life's Mike Daly and Sacob, are forecasting small increases in private consumption spending.

Falkena was not optimistic that government could keep its deficit within the targeted 3% of GDP, predicting levels of about 3,5% to 4%.

An indication of the expected slowdown in economic activity was his forecast of a real 7% fall in imports and a 2% fall in exports.

Old Mutual chief economist David Mohr believed another tough year was in store, but some relief might appear in the second half.

"We have seen a slowish downturn and it is likely to continue at the same pace for the first six months before some improvement in the second half, resulting in zero growth," he said.

GDFI should fall by 6%, he said, while private consumption expenditure might fall by 0,5%. He forecast general government expenditure would rise by 1%.

At a recent presentation of an economic outlook for 1991, Sacob's Raymond Parsons pointed out there were a number of factors over which SA had little or no control but which had the potential to exert a considerable influence on the economy.

World economic growth was under threat from the Gulf crisis and about half a percentage point should be shaved off economists' earlier expectations for 1991.

Average growth for the five major economies should amount to 2,3% in 1991, he said, with the UK and US likely to experience growth rates of 1,3% and 0,5% respectively.

Pessimism surrounded the outlook for gold and oil while drought conditions were likely to have an affect agricultural output.

Gold, said Sacob and Falkena, was likely to remain around its present $375 level, while oil was unlikely to drop to its pre-crisis levels of about $18 a barrel.

Private consumption expenditure should rise by 1%, government consumption expenditure by 2,5% and no change should be expected in GDFI, said Parsons.

Exports are estimated to show a slight 0,5% increase while imports should remain static.

Sacob predicted inflation at 13% by end-1991 but Southern Life's Mike Daly was more optimistic, seeing 11,5% as closer to the mark.

This compared with about 15% expected by the end of this year. Sanlam's Pieter Calitz was similarly bullish on inflation, saying the statistical effect of this year's petrol price increase would push the CPI rate of increase suddenly lower by the end of next year.

However, Osborn said inflation could be as high as 14,4% by the end of next year — if Value Added Tax was introduced at the present GST rate of 13%.

The economists canvassed were emphatic their forecasts were not gospel. A sudden swing in the gold price could change the scenario.

However, on the whole, they were in agreement that SA faced another year of "landing and not taking off" — a "stodgy, flat" year for the economy during a time which is hardly likely to be stodgy and flat politically.

Slowdown will continue and possibly worsen, says Sanlam

B1.09 19/12/90

LESLEY LAMBERT

CAPE TOWN — A moderate slackening of monetary and fiscal policy can be expected during the first quarter of next year but the economic slowdown will continue and might worsen in the months ahead, says Sanlam's latest economic survey.

In the December issue of the survey, chief economist Johan Louw says the downturn is expected to level out towards the end of 1991.

He remains confident that its course will not be as severe as the previous two downturns in the 1980s.

Louw forecasts a negative real economic growth rate of about 1% for this year and a slightly positive rate of 0,5% for next year.

He says the relatively strong performance of the rand recently helped put a damper on the price increases of imported goods. The price index representing these goods rose sharply in October, largely because of the higher oil price.

But the price increases of locally produced goods remain high, and fuel price adjustments will keep the pressure on production prices.

In spite of the upward pressure on prices, Louw says he believes the rates of increase in production and consumer prices will tend lower, and that this slowdown will become more marked in the second half of the year.

He expects the inflation rate, as measured against the year-on-year increase in the consumer price index, to average 14,2% this year and 13% next year.

A drop in the bank rate can be expected early in the new year in view of the slower growth in the money supply and the decrease in credit demand, Louw says.

Long-term interest rates in the capital market are also tending downwards and should soften more next year as a result of expected reductions in short-term interest rates, limited demand for long-term loan funds by the private and public sectors and the prospect of a decline in the rate of inflation, he says.

Foreign capital

49

In an economic evaluation of Namibia, Louw says the Namibian authorities need to establish an investment code to clarify the role of foreign investment in the development of the country.

He says Namibia relies heavily on foreign capital for economic growth and the provision of jobs and houses. A large amount of foreign capital is understood to be available, most of it strictly designated for specific projects.

But investors need more clarity on the role their investments will play.

While Namibia depends heavily on transfer payments from SA before independence to balance its budget, it is clear greater reliance will have to be placed on tax income.

The realism of the government — to restrict expenditure largely to the available financial means rather than to accommodate the enormous needs — is encouraging, he says.

He says the Namibian economy is slowing down.

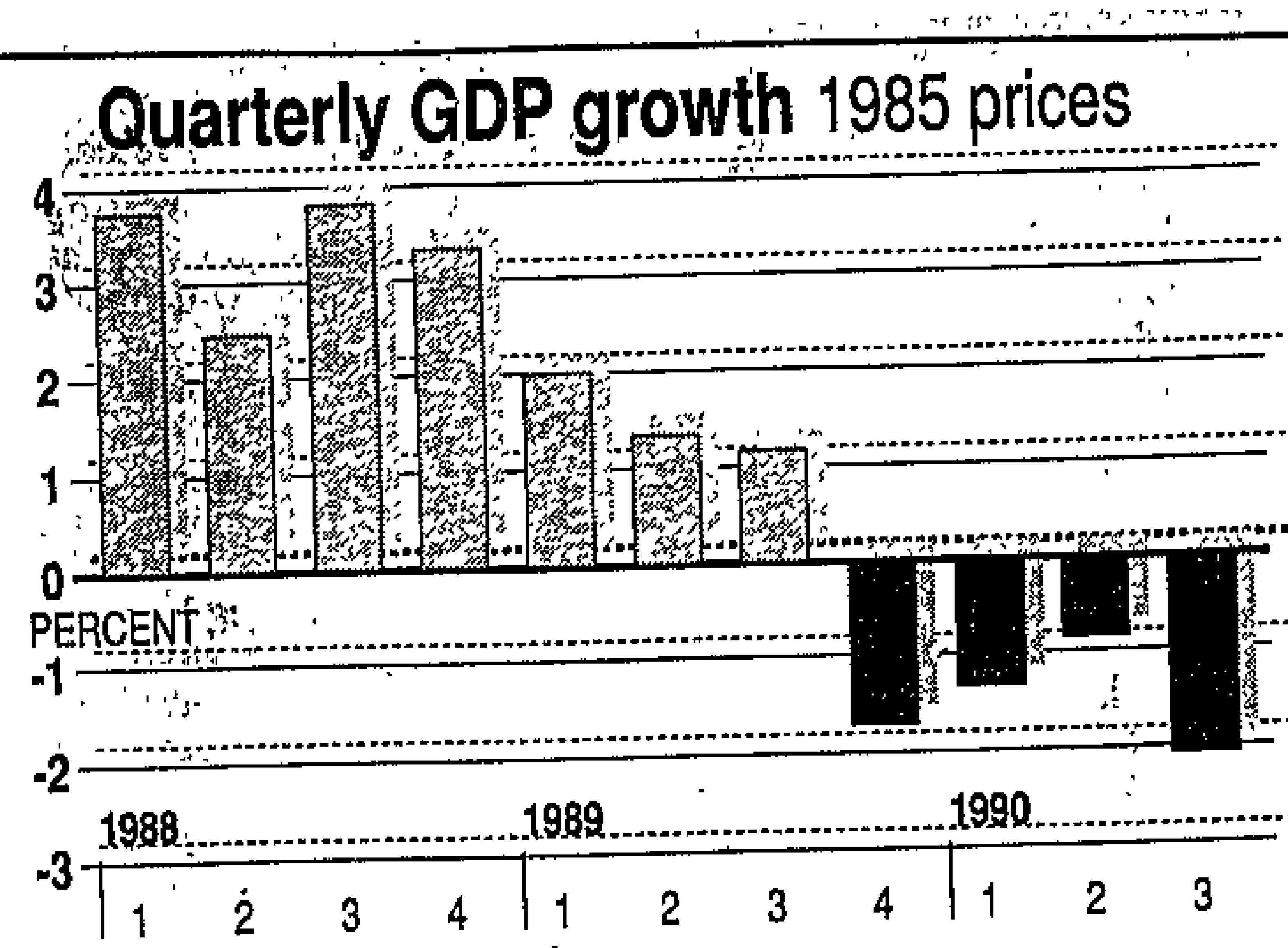
Mining remains the main contributor to the country's GNP, although its importance has diminished from 44% of GNP in 1980 to 31% in 1989.

The manufacturing sector contributed only 5% in 1989 and has been unable to increase its contribution in the past 20 years.

But, Louw says, there is reason for the Namibians to be optimistic about their fishing industry.

A Directorate of Sea Fisheries survey says the exploited fish reserves are recovering satisfactorily.

Fish quotas will be granted to companies, with certain incentives for Namibian companies, and it is estimated that up to R250m could be earned annually in royalties.



Economy could slow down even more

Star 19/12/90

(49)

By Duma Gqubule

The current slower growth trend in economic activity should continue in months ahead and may become even worse, says Sanlam chief economist, Johan Louw in his latest economic survey.

Mr Louw says a moderate slackening in monetary and fiscal policy can be expected in the first quarter of 1991.

"But the economic downturn which is expected to level out towards the end of 1991, on the whole, will not be as severe as the last couple of downturn phases.

"Although real gross domestic product has dropped for four consecutive quarters, total real production has decreased by only five percent since the beginning of the downturn in March 1989. This is considerably less than in the corresponding periods in the previous two downturn phases.

A negative real economic growth rate of about one percent is expected for 1990 and a slightly positive growth rate of about 0,5 percent is forecast for 1991.

Production as well as consumer prices are expected to tend lower in 1991 and this slow-down will become more marked in the second half.

"We foresee an average inflation rate of about 13 percent in 1991.

A drop in interest rates is expected early in the New Year in view of the considerably slower growth in the money supply and the decrease in the demand for bank credit.

Capital market rates will tend downwards in 1991 in response to the expected drops in short term interest rates, the prospect of declining inflation next year and the limited demand for long term loan funds.

Political change only is futile, says Mbeki

Cape Times 20/12/90

JOHANNESBURG. — The implementation of political change not underwritten by economic change would be a futile exercise, ANC director of international affairs Mr Thabo Mbeki said last night.

Addressing a group of businessmen attending a National Federation of Transport Organisation dinner party, he said economic change could take place only with the training of blacks and the opening up of equal opportunities for them.

"We are presently talking to Spoornet and the SA Airways to consider restructuring their management schemes in preparation for the transitional phase," he said.

It was the responsibility of all South Africans to try to resolve "our differences without having to lose lots of lives". — Sapa

SOWETAN BUSINESS
Building the Nation

ANC outlines its post apartheid stance

Sowetan 20/12/90 (49)

Tito Mboweni, ANC economist, has written this article for *Sowetan* Business to inform all our readers on the organisation's economic policy. The article will be in two parts starting today.

IT is around the economy where the hopes and aspirations of the oppressed and exploited for jobs, high wages, better houses, good health care, clean environment, good education, and other expectations will find fulfilment or disappointment.

In 1987 the ANC published a set of Constitutional Guidelines for a Democratic South Africa in which we said:

*The democratic State shall ensure that the entire economy serves the interests and wellbeing of all sections of the population.

*The State shall have the right to determine the general context within which economic life takes place and define and limit the rights and obligations attaching ownership and use of productive property.

*The private sector of the economy shall be obliged to co-operate with the State in realising the objectives of the Freedom Charter in promoting social wellbeing.

*The economy shall be a mixed one: with a public sector, a private sector, a cooperative sector and a small-scale family sector.

The State shall promote the acquisition of managerial, technical and scientific skills among all the sectors of the population, especially the black people and finally, prop-

path should be based upon the growing satisfaction of the basic needs of the impoverished and deprived majority of our people. This should be the engine of growth in the future economy, what we call Growth Through Redistribution.

Conceptually, Growth Through Redistribution (GTR) is the opposite of growth through greed. We are not convinced by neo-classical equity/efficiency trade-off. Indeed, GTR, challenges the very foundations of neo-classical economics.

In this growth path, accumulation depends upon the prior redistribution of resources. In other words, redistribution is not seen as an optional extra but rather as a necessary requirement for growth to occur.

Thus major changes have to take place in the existing power relations as a necessary condition for this new growth path. There are numerous areas of redistribution which will be fundamental for sustained growth in the post-apartheid economy

ating conditions of mass production.

Secondly, increasing incomes at the low end of the scale is an essential requirement for the growth of the very labour-intensive manufacturing sector, including the "informal sector".

Since the consumption basket of the poor tends to be more employment intensive than of the rich and also less foreign exchange intensive. In this way a virtuous circle (through a Keynesian multiplier) can be set in motion whereby income redistribution is a spur to manufacturing growth.

2. Redistribution of Educational Opportunities: The radical transformation of the current wasteful education system to one which will contribute to economic development will be crucial for this growth path. Therefore deliberate increased investment by a post-apartheid government in education, skills acquisition, Research and Development will be input positively on growth.

3. Redistribution of Housing and Infrastructural Expenditure: The provision of housing in a post-apartheid South Africa is a must. Not only is it a necessary political and social condition, it will also contribute to wealth accumulation in a heightened manner.

With its linkages, construction is an important contributor to GDP. More permanent settlements, coupled with widespread electrification, telephones and provision of roads can become a powerful employment creator. In addition to this, the multiplier effect on related industries will boost accumulation.

4. Redistribution of Power Relations on the Shop and Shaft Floor: As is well admitted these days, the repressive and authoritarian production relations of apartheid are no longer conducive to manufacturing capability, and modern competitiveness requires that the labour force be treated as a resource.

New labour relations frameworks will be required which will guarantee the organised workers a major role in economic development, including planning. Not only does this element of redistribution require changes in terms of the social relations of production, but also the reduction of the labour turnover and the ending of the migrant labour system.

5. Redistribution of Regional Growth: Given the level of regional disparities and inequalities in South Africa, a major potential for future growth actually does lie in a strategy for regional development.

Such a strategy must of necessity be different from the bantustan-centred programme of the Nationalist Party regime. Policies should aim at the creation or development of industrial districts on the basis of collective efficiency (firms and the State cooperating with each other) rather than the cheap labour-based one of the previous regime.

There is much potential in South Africa to reinvigorate regional growth on these lines, ie, the promotion of many urban-centred growth-poles.

6. Redistribution of Productive Resources: Given the existing inequalities in relation to ownership of productive resources, it is absolutely essential that a process of redistribution of productive resources takes place.

Failure to do thus may actually perpetuate the existing imbalances between white and black in the ownership of productive resources. In addition to that, the over-centralised pattern of ownership is a cause for concern.

The fact that only six major corporations control over 85 percent of the stocks listed on the JSE should alert us about the over-concentration of economic power in South Africa.

Therefore the process of redistribution of productive resources could entail the introduction of anti-trust legislation backed up by a very active anti-monopolies commission. Further more, State agencies created specifically to train and black businesses and other small businesses may play an important part in this process. The financial and capital markets will also require fundamental financial institutions as part of the restructuring of these markets.

GROWTH — 1

THE CONFIDENCE FACTOR

(49)

FM 21/12/90

A feature of the economic downturn is the uncharacteristic behaviour of consumers who continue to spend at an increasing rate. Even more surprising is that, according to the latest Reserve Bank *Quarterly Bulletin,* they are spending on durables — normally the most vulnerable in a downturn.

In the third quarter, despite a 2,1% contraction in GDP, "notable increases" were recorded in outlays on furniture and household appliances. Spending on motor vehicles, which fell 9% from the second quarter of 1989 to the second quarter of 1990, showed almost no change. This trend is reflected in an annualised 1,5% increase, in the quarter, of private spending on durables.

Spending on semi-durables was resilient, rising an annualised 0,5%. The *Bulletin* identifies outlays on clothing, footwear and household textiles. Outlays on non-durable goods and services, less vulnerable to cyclical declines, rose 1,5% and 2,9% respectively.

The combined result was annualised growth in real private consumption expenditure (PCE) of 1,6%. The *Bulletin* points out PCE has never stopped rising since the downswing started, with growth in the past five quarters.

Unexpected strength is due to a number of factors, including an increase in disposable income of those sections which earn the least. The *Bulletin* attributes this to increases in the wages of certain lower-paid government workers, relatively high wage settlements negotiated by unions and non-payment of rent and service charges. Given the pent-up propensity to consume among low income earners, the additional income immediately flowed over into spending.

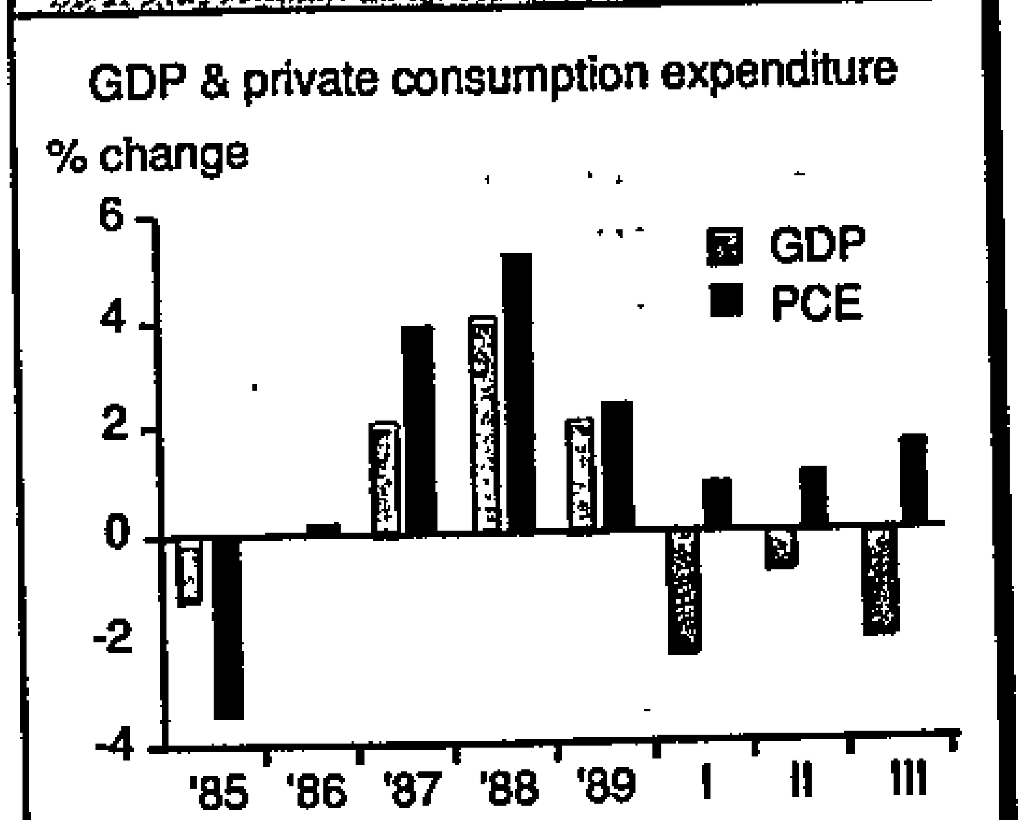
Moreover, demand for durables has been stimulated, says the *Bulletin,* by progressive electrification of black townships — a development which has had important spin-offs for companies in this sector. (Furniture and appliance retailer Ellerine, with a financial year ending August 31, reported a 49,6% increase in earnings. A little further back but part of the same trend, Rusfurn saw an increase of more than 54% in its year to June 30.)

Also important is the role of rising expectations, which has supported the process.

There are, of course, other factors at work:

- ☐ Increases in general government wages and salaries which became effective at the start of the second quarter;
- ☐ The lowering of income tax for individuals, and some restitution of income tax paid, in the third quarter;
- ☐ Expectations of price increases; and
- ☐ Replacement demand arising "from increased average age and relatively low real level of private household stocks.

Out of step



If private consumption remained stubborn, government spending jumped a seasonally adjusted annualised 10% in the third quarter.

Holding down spending may prove one of the most intractable problems facing policymakers in the face of the rising expectations already driving private spending.

But gross domestic fixed investment continued to fall, for the fourth consecutive quarter, by a seasonally adjusted 2,9%, with most of the reduction in manufacturing and commerce and private residential building.

Here lies the rub. While demand refuses to be curbed, productive capacity is impaired because investors lack incentive to invest in the real economy. While confidence among consumers is good for growth, investor confidence is critical if inflationary pressures are to be minimised.

Recent positive changes in SA have stimulated demand before they have increased supply. This has been compounded by a slowing in the international economy, which has reduced export earnings.

There is no instant solution. Sensible eco-

ECONOMY & FINANCE

FM 21/12/90 (49)

nomic management will see us through the immediate problems. A long-term solution is to be found in improving investor perceptions about the possible rewards that will flow from real investment. ■

Health services mean a lot to us

(49) Sowetan 21/12/90

Tito Mboweni, ANC economist, today concludes his article for *Sowetan* Business to inform our readers on the organisation's economic policy.

OUR people have suffered under apartheid health, and a lot of assistance needs to be given to the people to improve their health position.

Areas such as the health services have a potential in a new democractic South Africa. The provision of a free national health system for all the people should have top priority in the democractic government.

Land is a critical area of redistribution. The land distribution system is racially based and has to be totally eradicated in future.

This new growth path, we argue, should take place within the context of a mixed economy.

The current State sector should be maintained but in a transformed manner and where the balance of evidence point to the need for the creation of new public corporations, such public corporations will be established.

It is noteworthy to look at the current state sector and the rôle it has played in the economic development of South Africa, long before previous growth path.

The current economy is actually characterised by a number of significant public corporations. The largest of these such as Escom with assets,totalling R39 billion, Transnet (R21 billion), Sasol (7), and Armscor (R3 billion) having played an important role in the previous growth path.

In 1980, for example, the State sector employed about 34 percent of the economically active whites and between 12 and 16 percent of the economically active black population.

Spending

In terms of investment, Escom has accounted for over 40 percent of the economy's spending in new plant and machinery. As is wellknown, each of the public corporations has played a role in the development of the previous growth path.

The argument as presented here is that a future public sector will play an important role in the new growth path outlines above.

The question is normally asked concerning the ANC's position towards the private sector. This issue is perhaps one of the less controversial in the movement.

Private enterprises are envisaged that they will employ labour productively, within the context of social relations of production and also carry out investment in new plant, machinery and equipment.

Private business has a major role to play in the economy of a democratic, non- racial South Africa.

The ANC believes that a future democratic government should actively strive to build confidence with the private sector and encourage maximum cooperation in pursuit of democratically defined development objectives. However, because of the conglomerate structure of the economy, investigation will be undertaken to find more efficient and effective use of resources. This may involve measures of deconglomeration such as anti-trust legislation and anti-monopolies commission.

Sceptical

Closely related to the question on the private sector is one on the role of the market forces in a future economy. We are sceptical about the so-called free markets. States our document: "While market relations are an essential component of a mixed economy, the ANC does not believe that market forces alone will result in anything but the perpetuation of existing disparities of income and wealth"

My view on this question is that the proponents of the so-called free-markets overlook a number of things. One is that there are varying and sometimes conflicting views about all issues related to economics and economic policies. There are viewpoints which are based on the assumptions of the subjective preference theory of value and those of the cost of production theory of value and abstract labour theory of value.

There is no doubt that at the present moment, internationally, there is a triumphant mood among the adherents of the subjective preference theory. They then would like to steamroll all and sundry into this perspective of economic theory. And they do this under the slogan of de-ideologising economics!

It is not very useful, in my view, to try to steamroll everybody into this perspective.

And in anyway, we know of no country in the world which has a completely unregulated market and so all this talk about free and unbridled market is actually a lot of hot air.

The ANC fully realises that we cannot build a future democratic economy in isolation from our Southern African context. We are part of this subregion and the whole region has contributed, in one way or the other towards the development of the South African economy.

Migrant workers from Lesotho, Mozqambique, Malawi, Swaziland and other Southern African countries have over the years served as the back bone of our economy.

The limited economic integration which exists between South Africa Botswana, Lesotho, Swaziland in the form of South African Customs Union Agreement (SACUA) which dates back to 1910, renegotiated in 1969.

In addition to this, the Rand Monetary Area brings together South Africa, Lesotho and Swaziland into a common monetary area. Both these agreements will need renegotiation in the post-apartheid period. There has been many criticisms of these agreements - but I cannot go into them here - which see South Africa as the dominant partner.

There is some trade taking place between South Africa and the subregion despite the sanctions questions. South African produced commodities seem to have entered sub-regional markets fairly successfully. These trading relations are positively in South Africa's favour at the moment.

And what is it that is being traded? The trade is mostly in manufactured products (from SA) and some raw materials (from our neighbours). About 70 percent of this trade was in manufactured goods in 1985. As mentioned above, these trade relations are in SA's favour and are clearly therefore dominated by this country.

Future regional relations will in our view have to be based not on domination but on mutually beneficial and negotiated agreements.

A new democratic South Africa will no doubt be part of the world community of nations. This will afford us some opportunities to trade and benefit from technological transfers.

Consideration should be given to applying foreign investment regulations on a differential basis to provide specific incentives for investments in priority areas.

In addition to the above, a post-apartheid State will also have to negotiate to become part of international economic agreements such as the Lome Convention of the EEC and the ACP group of countries.

Namibia needs financial aid

Sowetan 21/12/90 (221A)

THERE is an urgent need for a so-called "investment code" for foreign investors which would give them clarity on how the Namibian Government sees their role in the future development of the country, says Sanlam's economic survey for December.

The company's chief economist, Johan Louw, says it is clear the country will require a lot of foreign capital to develop its growth potential, increase work opportunities and improve the quality of all its people.

"Considerable amounts of foreign capital are apparently available, but strict conditions are attached, and in many cases it is required that this money be used for specific projects."

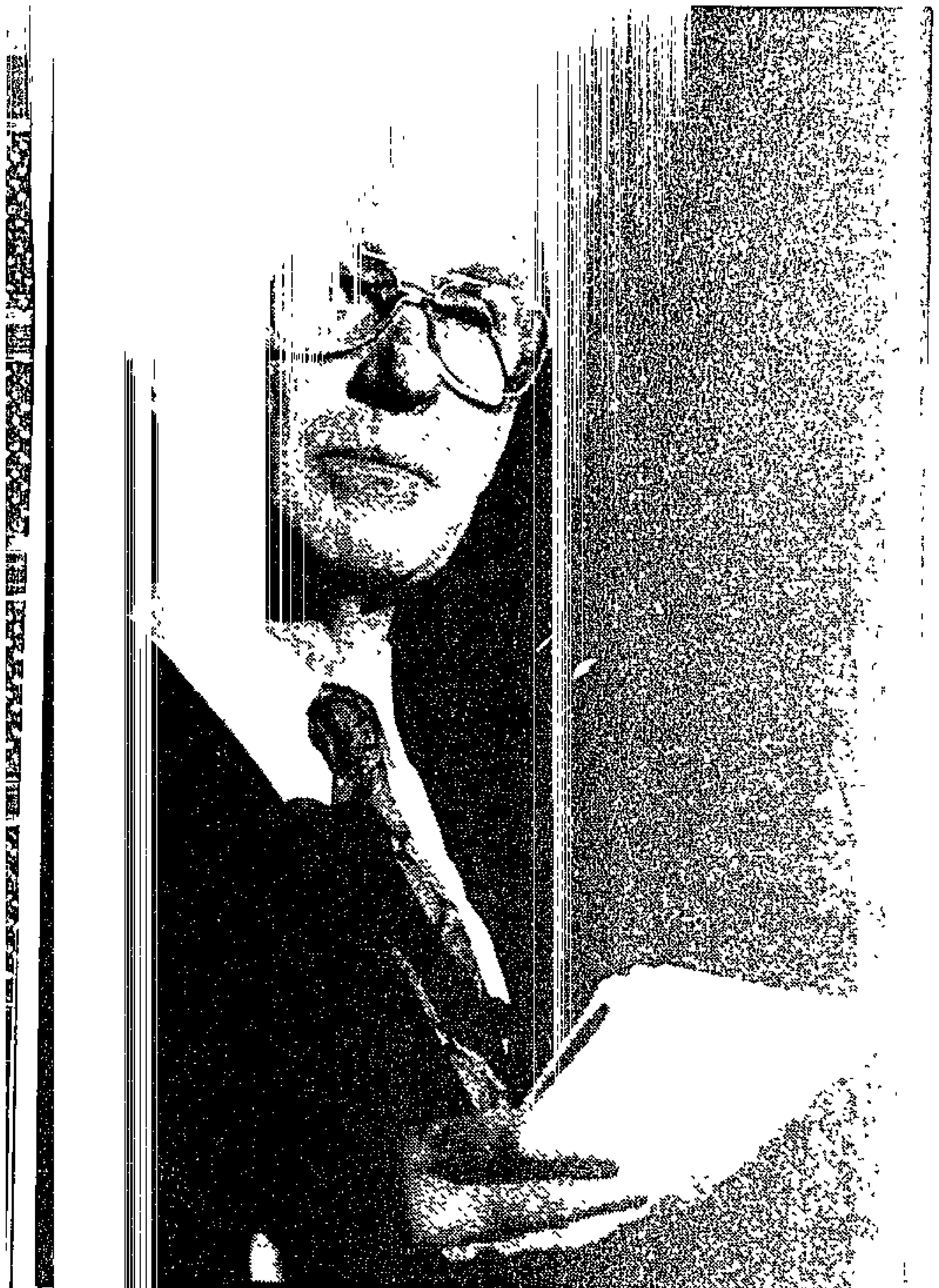
Louw says that, in conjunction with the South African economy and tighter export markets, Namibia's economy is slowing down

In addition the withdrawal of the South African army from the northern territories hurt these areas.

The year ahead will be difficult

49

Star 22/12/90.



TOUGH: Finance Minister Barend du Plessis has little [illegible] for the New Year.

Finance Minister BAREND Du PLESSIS looks at the year ahead in this article which first appeared in Money Matters, an investment newsletter of the Syfrets Group.

THE haul before us is a long one. As we have returned to the straight and narrow path of explicitly anti-inflationary policies, the length and the difficulties of the road still to be traversed have become more clearly visible to us and can be more readily assessed.

What, then, about 1991? Only the unknowing or the wilfully misleading will pretend that it can be anything other than a "difficult" year. We face:

- International crude oil prices which, in 1991, will almost certainly exceed 1990's anticipated average of approximately $18 a barrel, although the extent to which they will do so at this stage is anybody's guess.
- A tense, volatile and potentially still explosive military-political crisis situation in the area around the Persian Gulf
- A distinct probability of a further weakening of economic growth rates in the major industrialised economies, and a fair-sized chance of the US conomy, in particular, slipping into a full-blown recession.
- A correspondingly reduced demand for some of our maior export commodities, and some possibility of a further weakening of world commodity prices after their slide from mid-1989.
- A probable decline in the rate of expansion of international trade in general.
- Higher and, in some cases, newly accelerating inflation in several of the more important countries of origin of our imports, notably the UK.
- A gold price in dollars that has failed to respond at all impressively to the oil price increase and the raised level of international tension; that also appears to have lost a large part of its "safe haven" characteristics, and that may not show a significant, if any, increase on average from 1990 to 1991.

Domestically, public and media interest in the affects of the Middle East crisis and the oil price increase have focused almost exclusively on their significance for the South Africa inflation rates, the extent of the setback to the authorities' anti-inflation campaign and to the credibility of the Reserve Bank's policies, and to guesses as to the authorities' policy responses.

Premature

I cannot resist three further observations in this context:

First, as may have become clear recently, an easing of our monetary policies at an earlier stage — during the third quarter of 1990 — would, in my opinion, have had to be judged premature even before the recent and present oil price threat to price stability.

Secondly, however unsettling the oil and fuel price increases may be or may have been, their one-off nature is to be kept in mind.

Our policy actions should continue to be aimed at working at the underlying inflation rate, which has long since become of overwhelmingly domestic origins, and for which few excuses remain which do not involve some of our own errors and omissions.

Thirdly, it should surely be deemed an oddity of the South African situation that voices in favour of a relaxation of our monetary policies have been raised both by those who seek to make clear that our policies have finally freed themselves from "fine-tuning" aspirations and will henceforth be guided only by "structural" considerations, as well as by those who hold the present recessionary conditions to be sufficiently stressful to warrant a return to explicit short-term stabilisation.

We should do well to approach 1991 with suitably toned-down expectations. As matters stand, I believe that any positive real growth should be regarded as a bonus.

Neither do we see much hope for more than marginal increases in aggregate real gross domestic expenditure, although some slight upward momentum may persist in both real government and private sector consumption.

The 12-month rate of increase in the consumer price index may well be significantly lower again in the last months of 1991 than in the closing months of the current year, in fact by even more than two percent.

In the balance of payments area, our current account surpluses will almost certainly shrink markedly, and could conceivably do so to an extent that makes our position rather uncomfortable.

Apart from the uncertainties that surround our assumptions, however, our conometric models — which have only past behaviour patterns to go by — do not necessarily perform at all well in situations that have changed in novel and fundamental ways.

They cannot take in the "systems" powers of making adjustments and adaptations for which no need has arisen before. In addition, certain sources of foreign capital may again be open to this country that have not been available to us for the past several years.

Clarion call

In the light of these circumstances. I should issue a clarion call for patience and forbearance, fortitude and responsible behaviour from all South Africans.

Next year will be important to us not only because of what the business cycle will bring us. It should also take us several steps further along the road of the country's "Great Debate".

These clearly have to involve economic matters no less than constitutional and political ones.

A new set of forces has inspired a new kind of discussion in which participants are broaching new subjects and reconsidering traditional — or outdated — positions.

It is to be hoped that every possible bit of energy and innovation can be harnessed at this crucial juncture to get our conomy to produce the means with which to support the process of negotiation.

Govt spending is right on budget

(49)

BDay 24/12/90

GRETA STEYN

GOVERNMENT spending was marginally below budget after the first eight months of the fiscal year and revenue continued higher than expected.

But the final months of the fiscal year should see a mild reversal of the favourable trend with spending picking up just as revenue increases start slowing down.

Central Statistical Service (CSS) figures released at the weekend show spending from April-November was 11,7% up on the same period in 1989 — which compares well with the budgeted increase for the full year of 11,9%.

On a pro-rata basis, spending is also bang on budget — 67% of the Budget spent at this point in the fiscal year is the same proportion as last year. If the 1989/90 pattern continues for the rest of the book year, government can boast a second year of keeping spending virtually on budget.

However, it seems unlikely, as government spokesmen expect an overrun of at least one percentage point, partly because of contingency spending of R1bn.

Another factor is that part of the R1bn allocated by President F W de Klerk after the Budget for social spending on urbanisation will be spent in the current fiscal year.

November's figure already provides evidence of a pick-up with spending in that month higher than the average for the year so far, at R7bn (compared with an average of R6,4bn). The higher monthly spending was probably the result of interest payments as the Finance Department budget was more than three times higher than October at R1,7bn.

One reason why expenditure has remained on target in spite of contingency spending is the Improvement of Conditions of Service vote, where only R118m (5%) of a budgeted R2,2bn has been spent.

On the revenue side, the increase after eight months is 15%. The budgeted rise for the full year is just less than 6%. Although revenue increases have fallen from the rapid rates seen earlier this year, a small overrun of up to R1bn is possible. Earlier, economists predicted an overrun of up to R4bn but latest figures suggest that seemed overoptimistic. The CSS figures show that Inland Revenue receipts dropped to R3,7bn from R5,2bn in October and R6,2bn in September.

The Reserve Bank's conservative projections indicate an overrun of R600m — in line with a deficit before borrowing of 2,6% of GDP rather than the budgeted 2,8%.

FNB aiming to prove market-driven economy is the best for everybody (49)

Star 28/12/90

By Derek Tommey

First National Bank is out to show that a market-driven economy is the best of all systems for a more equal distribution of wealth.

Chairman BE Hersov says in his annual statement that South Africa needs to determine the economic and socio-economic policies it intends following in the future.

He says recent political developments have created very real opportunities for a negotiated settlement of the political future.

But the process of constitutional negotiation is only part of a much wider resolution that has to occur.

"Indeed, the real issues we face may well be the determination of the economic and socio-economic policies that a future Government in South Africa will pursue."

Mr Hersov says these policies will be defined by needs, pressures and expectations — although some of them are unrealistic and indeed unachievable.

But the bank "accepts as a challenge the need to participate in endeavours directed at demonstrating the capacity of a market-driven economy to deliver greater equity in the way in which wealth is distributed.

While the state must play its role, opportunitities for the private sector in general and the group in particular must be explored and initiated.

But he adds that in pursuit of this objective, it would be in no one's interest for the group to place at risk its capacity to be profitable.

The bank's principal task must be to generate profits through the excellence of the service it offers.

"In doing so we contribute substantially to the state's capacity to allocate resources from its tax base to the processes of upliftment."

Mr Hersov says that with the Reserve Bank committed to achieving lower money supply growth and lower inflation, the economy could face a period of low GDP growth.

The group's asset growth in 1991 will be higher than in 1990 and the drive to acquire quality business will continue. Bad debts provisions are expected to be lower than in 1990.

The continued pressure on asset growth will make it vital to maintain the interest turn.

However, the programme to improve the quality of service will continue.

When the new Deposit-Taking Institutions Act (DTI) comes into operation, the group should benefit from the restrained asset growth in 1990

The group will easily meet initial DTI requirements in 1991 and 1992.

But additional capital levels required in the last three years of phase-in will call for continued levels of profit retentions, says Mr Hersov.

It is simplest form the DTI calls for banks to have capital and unimpaired reserves equal to eight percent of risk assets by January 1 1995.

The Act also regulates such matters as board approval for large loan and investment exposures, which must also be reported to the Registrar of Financial Institutions.

The group's systems strategy will need to be reviewed to focus on daily extracts to meet the majority of the DTI reporting requirements, he says. But First National Bank is well placed to meet these requirements after systems ungrades and enhancements.

Mr Hersov says major strides have been made in the past few years in computerisation.

These include implementing the Hogan bank packages, developing and installing many supporting systems, establishing two large computer centres (one for production work and the other for development and disaster recovery, creating a major network across South Africa and Namibia by using fibre optic cabling, and replacing all automatic teller machines with modern NCR equipment.

First National Bank has ordered about 7 000 IBM personnel computers, together with other equipment from NCR and Olivetti, to assist branch staff in providing customers with a better service.

Group capital expenditure in 1990 was R207,7 million — down R47,2 million from 1989.

The benefits from the long-term investment on information systems are already apparent, says Mr Hersov, as they resulted inimproved income from BOB/SASWITCH service fees.

Block A of the BankCity project in central Johannesburg has reached roof level and occupation will take place towards the end of 1991.

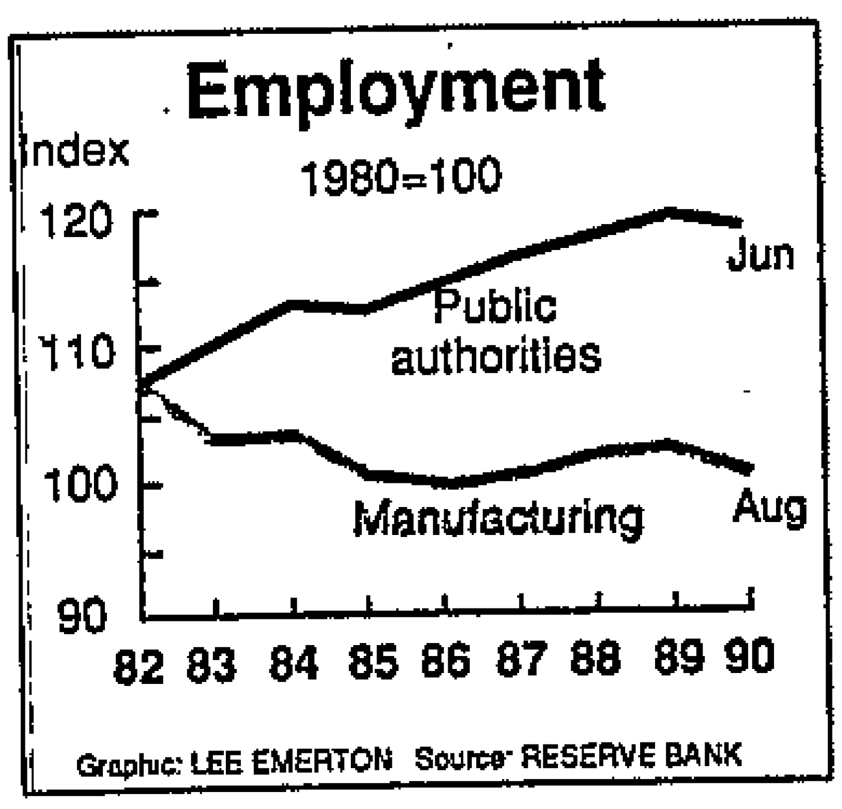
Jobs in manufacturing sector drop to 1980 levels

49

BiDay 27/12/90

GRETA STEYN

EMPLOYMENT in the manufacturing sector declined by 3% between January and August this year to a level almost exactly the same as in 1980, figures in the latest Reserve Bank Quarterly Bulletin show.



Graphic: LEE EMERTON Source: RESERVE BANK

Employment in manufacturing has fallen this year in line with the fall in output — also about 3% over the same period. Manufacturing is the largest contributor to SA's GDP at 23% and has traditionally been the main provider of jobs. The fall in manufacturing output is a major factor behind the recession.

Even more discouraging are employment trends in mining where total employment is less than in 1980.

The index, with 1980 as base year, slipped to 99,1 in July from a peak of 106,2 in 1987. Mining accounts for about 11% to GDP. Unlike manufacturing, this sector increased its output in the third quarter.

Contrasting with employment trends in manufacturing and mining is growth in public sector employment of more than 18% since 1980.

The most rapid growth, however, has been in private services — including banking, insurance, hotels, and transport — of about 26% during the last decade. The latter sector also appears to be recession proof, as there was growth in employment between June 1989 and this year (1,6%).

Both commerce and general government increased their gross domestic product this year.

A recent Bureau for Economic Research (BER) study found the stagnation over the past decade of employment growth in the manufacturing sector reflected the increasing rate at which labour was replaced by capital in the past decade.

The fixed capital stock of the country grew by 15,7% in real terms during the 1980s.

BUSINESS DAY, Friday, December 28 1990

De-stocking behind decline in spending

(49)

BDay 28/12/90

GRETA STEYN

MASSIVE de-stocking — to the tune of an annualised R4bn in the first half of this year — was a major factor behind the decline in overall spending in the economy, according to First National Bank economist Cees Bruggemans.

"With the prime interest rate at 21% since October 1989, implying a real rate of interest of up to 7%, there was a considerable incentive for companies to resume their relentless effort of recent years in driving down stock levels.

"This incentive was considerably heightened when private sector managements received warning of policy intentions to force quite a harsh domestic adjustment." The Reserve Bank noted in its Quarterly Bulletin that the high real cost of carrying inventories had prompted firms to work towards increased rates of turnover of their inventories. Bruggemans also noted political factors as a reason for running down stocks.

Running down of inventory holdings was evident in particular in retail trade where inventories declined from an average of nearly one-and-a-half months' sales in 1989 to an average of only slightly more than one month's sales in the first three quarters of 1990.

According to Reserve Bank figures, the third quarter of this year saw the fifth consecutive quarterly fall in stock levels — on a seasonally adjusted and annualised basis. But massive de-stocking in the first two quarters (R3,5bn and R2bn respectively) was followed by a more moderate decline in the third of R1,8bn.

Economists point out that de-stocking was already well under way last year.

"The build-up in stocks during 1988 and early 1989 was not exceptional. The long-term ratio of stocks to GDP has been steadily falling by about 1% of GDP annually since the mid-1970s under the impact of technological improvements in financial and stock control," Bruggemans said.

The Reserve Bank Quarterly Bulletin shows that, even during the upswing years, the ratio of inventories to GDP peaked at 21,2%. It subsequently fell to 19,5% in the third quarter of this year.

Brighter prospects for SA in 1991

Star 29/12/90

49

Money Matters

MAGNUS HEYSTEK

LAST week I was foolish enough to promise my views on what the economy holds for all of us during 1991.

All right, here goes. Sometimes economic forecasters find themselves lost in the woods because of all the trees around. Were they, like the lost woodsman, lifted just high enough to see over the whole wood, they would have a different vision.

This is the approach I think one should take right now. Otherwise we will find ourselves lost forever in the "trees" in the form of bad and depressing news.

Paint for yourself the Big Picture. What is happening to South Africa, not only in isolation but also in relation to the rest of the Global Village?

Links

South Africa is rapidly rejoining the rest of world. Barring an unforeseen reversal in the political process, we are as a country rapidly shedding our pariah status. Economic, financial, trade, sporting and cultural links are being re-established with erstwhile (and totally new) partners. Surely this is good news for all in South Africa?

Last week Dr Jan Lombard, deputy governor of the SA Reserve Bank, announced that the debt crisis is over. Long-term capital is flowing back into the economy at a very promising rate. Foreign creditors are now willing to roll over maturing debt. In many instances — as yet unreported — new forms of foreign financing are being negotiated.

The debt crisis strangled this economy for a full five years. Foreign banks are now releasing this stranglehold gradually. Make no mistake, our Achilles heel of foreign capital (or rather the lack of it) hurt the economy badly. The effects in terms of lost wealth and employment opportunities are incalculable.

With political obstacles rapidly falling away, overseas companies are queueing up to start up ventures in South Africa again. The realisation is dawning that the gateway to trade with Africa is South Africa.

Already SA's trade with Africa constitutes a third of its total foreign trade and is growing almost exponentially.

People too in the form of immigrants are returning to South African shores, bringing with them capital and skills so desperately needed. Along with permanent settlers, tourists are again winging their way to our shores, our game parks and our mountains, bringing with them foreign currency. Some of them even invest in South Africa.

Despite the plethora of bad news in the form of increases in crime and violence countrywide, there is a small seed of hope and positiveness starting to grow in the hearts and minds of countless people — people like you and I who make up what is called the economy, people who buy houses, invest in new businesses, take on long-term credit.

Not for a moment do I think that this is all going to happen overnight. Nothing happens overnight. This is one of the rules of the universe.

You don't get fat or thin overnight, or rich or poor. The same applies to a country.

We still have major problems. It would be foolish to deny this. But what good is it to focus only on the negative factors? Most of these problems are man-made and can be solved.

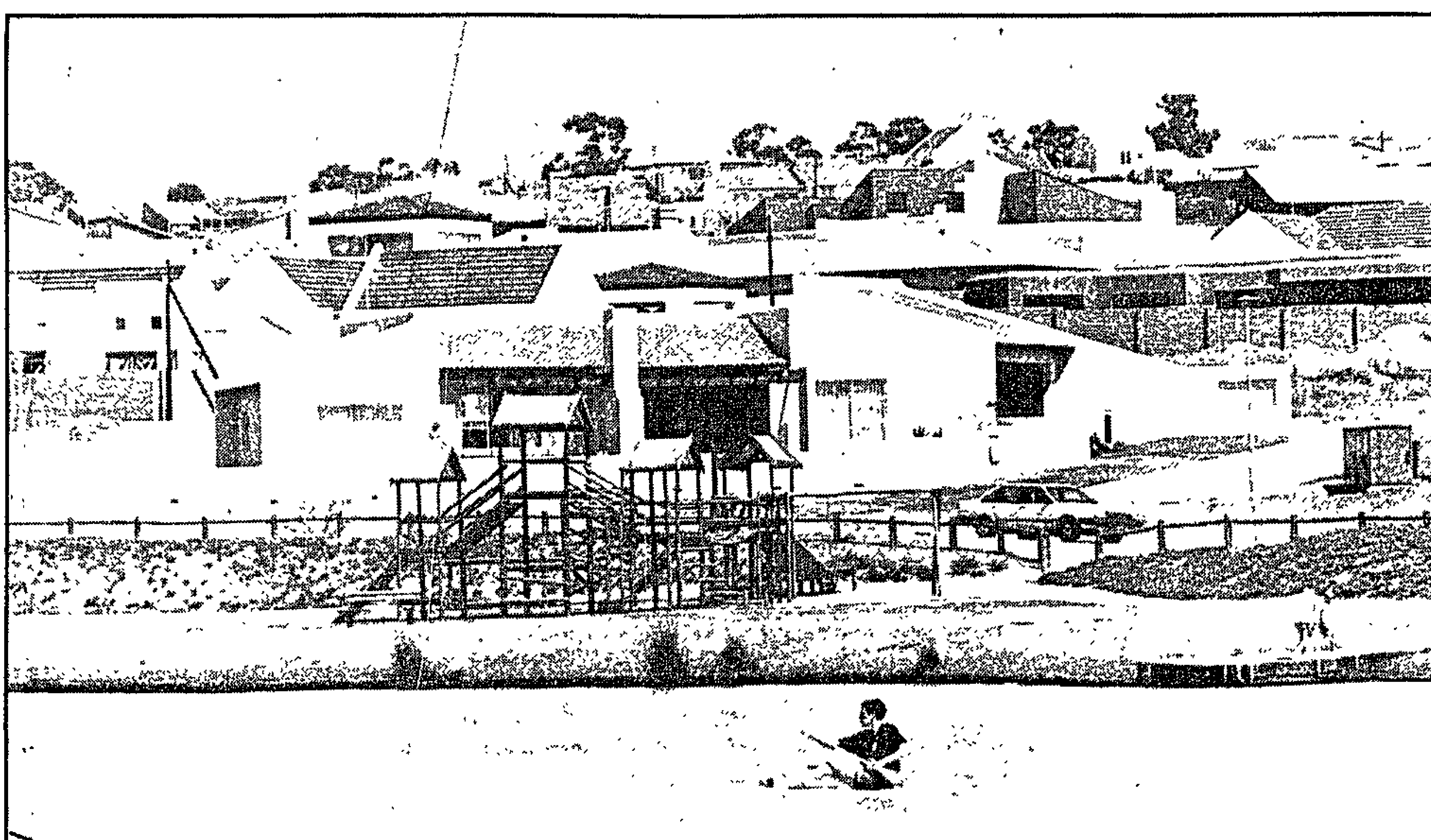
But was far as the Big Picture is concerned, in my view at least, South Africa is at the threshold of potentially a massive upswing: politically, economically and financially.

Gold Price

I cannot predict when the gold price is going to rise (or worse, drop). I will not even venture to tell you whether the JSE is going to rocket or collapse.

All I can tel you is that I today have more hope in the future of South Africa than during the last five to 10 years. That means I will still be investing in the blue chip companies on the stock market and that I will still be investing in prime residential property. And if I were in business I would be looking for opportunities that surely must be heading our way.

● To everyone, a healthy and prosperous 1991.



Economy is sluggish, but . . . (49)

Battered SA has escaped full recession

B\Day 31\12\90

GRETA STEYN

SA HAS escaped a severe recession, a comparison between the downturn in 1985 and the current one shows.

Battered by exceptionally high real interest rates, tight fiscal policy, a disappointing gold price and political upheaval, fixed investment and consumption spending have remained remarkably resilient.

Economists agree that while the economy is underperforming, given the country's needs, SA has avoided the doldrums of the previous recession.

In 1985, gross domestic expenditure (GDE) plunged by 8% — a much more rapid rate of decline than the 2,5% fall between the first three quarters of 1990 and the same period in 1989.

The current recession has been marked by a relatively short period of real spending declines — a recovery in spending started in the second quarter of 1990 and continued into the third. (The third quarter saw a relatively strong annualised increase of 3,5% from the first quarter, seasonally adjusted.) Surprisingly, spending on durable goods rose in the third quarter of 1990.

The previous recession saw spending on fixed investment collapse. A real decline of 7% in 1985 was followed by a massive 18% plunge in 1986 and a further fall of 2,4% in 1987.

Although spending on fixed investment is down, there seems to be no question of a similar collapse.

Spending on fixed investment fell by a mild 3% (annualised) in the third quarter of 1990. Economists are expecting a bottoming in 1991 at a 7% rate of decline.

Robust consumption spending trends have been ascribed largely to the increase in black purchasing power. Wage increases have continued to exceed the inflation rate.

The Reserve Bank notes that spending was also supported by tax relief in the 1990 Budget, upward adjustments to the salaries and wages of lower-paid workers in the government services, and the electrification of black residential areas which gave rise to an increased demand for certain household appliances.

Fixed investment avoided a collapse partly because of the need to replace machinery that had become obsolete during the slump. Since only moderately high levels of spending were reached in the upswing, the downswing is similarly mild for fixed investment.

While the continuation of investment in the face of a 21% prime rate is surprising, companies' balance sheets and debt levels are in far better shape than in 1985.

However, the comparison between recessions turns less favourable when it comes to gross domestic product (GDP). The fall of 1% expected for 1990 is virtually the same as the GDP decline in 1985. Predictions for 1991 are for zero growth — the same as in 1986.

The reason for the discrepancy between spending and output trends lies with the balance of payments. In line with continued high spending in 1990, the demand for imports remained strong. This is in sharp contrast to 1985, when imports plunged 15% in real terms.

The ratio of real imports of goods and services to GDP rose to 27,6% — the highest level since 1982.

Small reduction in interest rates likely — Old Mutual

By Magnus Heystek Star 31/12/90

(49)

While 1991 is going to be tough for most consumers, particularly over-borrowed ones who embarked on a credit-binge during the latter part of the Eighties, some relief can be expected from a reduction in interest rates in 1991.

This is the view of Dave Mohr, chief economist at Old Mutual.

"Although the Reserve Bank can be expected to be very cautious in reducing interest rates, the over-borowed consumer and deeply indebted companies can expect light relief from a reduction in the prime overdraft rate in 1991.

"It is Reserve Bank policy to keep a fice to seven percent margin between the inflation rate and the prime rate, thereby maintaining positive real rates.

That means a reduction of at the most three to four percent in the prime rate can be expected," he says.

Mr Mohr also holds out the promise of a possible boost to the economy from a stimulus next year in the form of lower personal taxes, as promised by State President FW de Klerk in a recent speech.

However, there is very little scope for significant tax reductions because the pressure on government spending will not ease, he adds.

Although the pressure on the country to repay its foreign debts has lessened in recent months, Mr Mohr says that about $1 billion in foreign credit still has to be repaid this year, which will mean a brake on domestic spending.

"The country will have to live well within its means to repay, at least partially, its foreign debt.

"This implies that spending will have to be curtailed to generate a savings surplus, from which debt is repaid," says Mr Mohr.

He adds that such a process is not conducive to economic growth in the short term because it implies strict economic policies.

"Our economy has also suffered from the sharp fall in the foreign price of gold, silver, copper, steel and platinum — some of our main export commodities.

"Coupled with recent increases in the oil price, these developments complicate the servicing of our foreign debt and reinforce the need for a strict economic policy, such as high interest rates.

"The consumer has borne the brunt of these developments.

"For example, the prime overdraft rate rose from 12,5 percent at the beginning of 1988 to its current rate of 21 percent.

"To worsen matters, consumers went on a borrowing spree in the second half of the Eighties, with bank credit (mainly overdrafts) rising by 86 percent in this period.

"With interest rates at their current high levels, the pain to consumers is obvious."

Nationalisation not the answer, says US expert

Sowetan 1/11/90 (49)

A VISITING black-American economist, Professor Walter Williams, says he believes that nationalisation of resources will not help consumers and to create wealth as it failed in most European countries.

Addressing a workshop organised by the National Black Consumer Union (NBCU) in Johannesburg this week, Williams, who is an author of many books, said no country that had nationalised its economy was rich today.

Williams, who is author of the books: "America: A Minority View Point, "The State Against Blacks", "All It Takes Is Guts" and "South Africa's War Against Capitalism", said nationalisation was counter-productive and failed to promote healthy competition in the free market.

Dictator

He said nationalisation meant the replacement of one dictator with another and the difference would only be colour, adding that tribalisation must be removed.

He hoped the new South Africa would not choose such a system because it would inhibit free enterprise.

"Nationalisation is nothing but government monopoly and intervention in the economy. This system will only make the rich richer and the poor poorer because there will be no competition among the producers," he added.

Monopoly

He spoke in favour of the free enterprise and said the present South African Government should sell all "nationalised" assets to the Johannesburg Stock Exchange so that blacks could buy them and be economically empowered.

In the free market, he said, people would be promoted leading to competition that would allow them decide on what was good and what was bad for them.

"It may not be your fault that you are down, but is your duty to get up," he said.

Market

He said apartheid had denied blacks power and rights to advance themselves socially, economically and politically. "For denying blacks the vote and institutionalising racism, South Africa deserves condemnation. But moral condemnation will not produce long-lasting solutions to the problems facing the country."

He pointed out that past social and economic repression required that "we take very seriously the question of which system will be initiated to replace apartheid."

"Too often the conflict is portrayed as a struggle between blacks and whites. The reality with its wide ethnic mix is quite different. Referring to the blacks of South Africa provides as little insight as the phrase 'the white of Europe".

Call on private sector for investments . . .

Co-operatives to boost employment

Cape Times 10/11/90

By AUDREY D'ANGELO
Business Editor

THE only way to prevent unemployment from reaching "crisis proportions" in the 1990s is for the private sector to become involved in large scale socio-economic development projects, says Barney Desai, Western Cape convener of the Pan Africanist Congress (PAC).

Pointing out that population growth exceeds the number of new jobs provided and that increased mechanisation will worsen this situation, Desai said yesterday that this environment, "and the very skew distribution of income, does not appear ideal for a stable democracy to thrive in SA".

Desai making it clear that he was expressing a personal view and not PAC policy, said his solution was the setting up of co-operatives as "capital-labour partnerships" to be run on sound commercial lines.

This, he said, would involve the community in productive economic activity and create jobs at low cost.

He pointed out that the number of co-operatives has increased in many industrialised countries as traditional industries decline.

"The Italian co-operative movement (LEGA) is a major player in the Italian economy, embracing 15 000 enterprises which range from insurance and construction to small engineering and agriculture.

"A major positive feature of co-operatives is the commitment that is generated by their members to withstand adverse economic factors. Because they are the owners of the enterprise, their ability to increase productivity is another positive quality."

However, co-operatives normally lacked capital, management and marketing skills.

Desai's solution to this was for private enterprise including the insurance giants to make "a major affirmative thrust" by investing in trust funds — which should be exempt from taxation by special dispensation — "to create capital-labour partnerships to run co-operative enterprises jointly.

"The workers would be part-owners together with the trust, which would undertake to provide managerial skills while the workers provide the labour.

"Progressively workers would participate more actively in democratic control as they acquire the necessary skills and business acumen and have accumulated capital to extend the scope of activity of the capital-labour co-operative.

"Sound commercial management would be ensured up to take-off point where there is a total transfer of ownership to the working members of the co-operative."

Desai suggested that the trust "would have as one of its primary mandates the establishment of co-operation schools of management and skills.

"It would also appoint a standing commission of economic experts whose task would be to identify viable areas for co-operative enterprises, their scope and capital requirements and to appoint trained management."

The trust, he said, "could be in close liaison with the parent investor and connected private sector companies", and arrange for work to be sub-contracted to co-operatives.

Discussing the argument that insurance companies owe it to their policyholders to invest money to earn the best possible return, Desai pointed out that Sanlam's Cashbuild venture, in which it franchised former managers to set up U-Build outlets which were running successfully in Soweto, was "another method of economic empowerment".

He quoted from a Financial Mail article on February 28: "Sanlam's strategic portfolio arose out of its historical role in helping the economic enfranchisement of Afrikanerdom: this included creation of employment, as well as extending Afrikaans ownership and management of big business."

TUESDAY, NOVEMBER 27 1990

CMT Trib 27/11/90 (49)

More blacks on boards – Nafcoc

By AUDREY D'ANGELO
Business Editor

THE best economic system for the new SA "appears to be the social market system in which private ownership of property and unfettered competition in open markets form the main ingredients of economic policy", Sam Motsuenyane, president of the National African Federated Chamber of Commerce and Industry (Nafcoc) said in Cape Town yesterday.

"Government intervention in determining wages, interest rates, key prices of commodities and exchange rates should be allowed only in exceptional cases."

But Motsuenyane followed this by quoting from a resolution passed by Nafcoc in September which said that all companies listed on the JSE "must have at least 30% of their board members from the black community.

"At least 40% of their shareholdings must be controlled by the black community. At least 50% of the value of their outside purchases must come from black-owned suppliers and contractors and at least 60% of their top managerial personnel must come from the black community."

Motsuenyane was speaking at a conference on the economic and financial prospects for SA, organised by London-based Euromoney publications at the Cape Sun.

He said there was a need for blacks to contribute towards their own development and that of the country. The social market system would give them scope to develop a spirit of enterprise and self reliance.

But he emphasised that both business and the government would have to do more to redress inequalities under which blacks had suffered in the past.

He urged the business community to consider "the initiation of joint ventures, partnerships and share venture schemes.

Firms should consider:

"Entering into contractual arrangements with black industrialists for the purpose of sourcing certain supplies from them.

"Supporting all educational programmes designed to promote black advancement.

"Preparing blacks for a leadership role at all levels such as board participation, senior managerial and administrative positions."

Emphasising that there must be one educational system for all, and compulsory education for black children, Motsuenyane said this would cost about R50bn.

But it would be in the best interests of a future SA. "Both the government and the private sector are called on to contribute generously towards this end."

Need to develop work ethic in SA

Cape Times 8/11/90

(49)

By PIETER COETZEE
Financial Editor

A WORK ethic similar to the one that brought economic success to the Western powers and the Pacific countries needs to be developed urgently in SA, John Maree, chairman of Eskom, said yesterday.

Speaking at the annual genereal meeting of Wesgro in Cape Town last night, Maree said that such a work ethic lack in large sections of the population and that this could be fatal unless ways are found of tackling it creatively.

He said the challange in SA is not too different from that facing Eastern European Countries.

"Too many Eastern Europeans have lost the energy and the drive that support the work ethic on which free enterprise has built such a powerful economic system. They do not know how to work hard.

They lack what has built the Western powers and the Pacific countries' competence. That is to say, educated and disciplined people who exchange a full day's work for a full day's wage," he said.

"We can only build an economic future if there is an acceptance that a full day's wage must be earned by a full day's work."

He said the productivity of a large number of SA's workforce is dangerously low. This is due both to a lack of relevant education and training and the result of an attitude that spurns the work ethic.

"We stand or fall on our ability to trade competitively in the international arena and we have no hope of competing on the basis of a work week that decreases while wages creep steadily upwards.

"We in SA are in the process of undoing the disastrous results of apartheid.

"The focus, unfortunately, has been so single-mindedly on the political solutions needed that black expectations of what the new SA will provide are dangerously skewed.

"The burden of these ungrounded expectations will fall on the shoulders of the business community since many black people have been misled by politicians into believing that economic opportunities will automatically accompany political rights.

"Economic growth is our prime objective if we are to feed, house and educate our people. Political solutions do not create this development — politicians can only create the conditions for economic development," he said.

● Chris Newton, chairman of Wesgro, announced at the meeting that he is stepping down as chairman. A new chairman will be appointed soon.

SA needs foreign capital — ANC

Cape Times 1/4/49

JOHANNESBURG. — The economy required large injections of foreign capital to attain the growth rates necessary for a continued increase in per capita income, said ANC's director of International Affairs, Thabo Mbeki, yesterday.

Speaking at a South African Chamber of Business (SACOB) conference here, Mbeki said it was necessary to create conditions that would attract foreign investors.

The goal of ending inequalities should also be explained to such investors so that it formed part of their investment decisions.

He said the process of political change required rapid progress in identifying common national economic objectives.

Mbeki added SA had two worlds existing within its borders, the First and the Third World.

"The central socio-economic development challenge the country faces is to bridge the gulf between the two worlds by uplifting the Third World and transforming in into one First World...in essence raising the living standards of the black majority so that we end the reality whereby being black means to be poor."

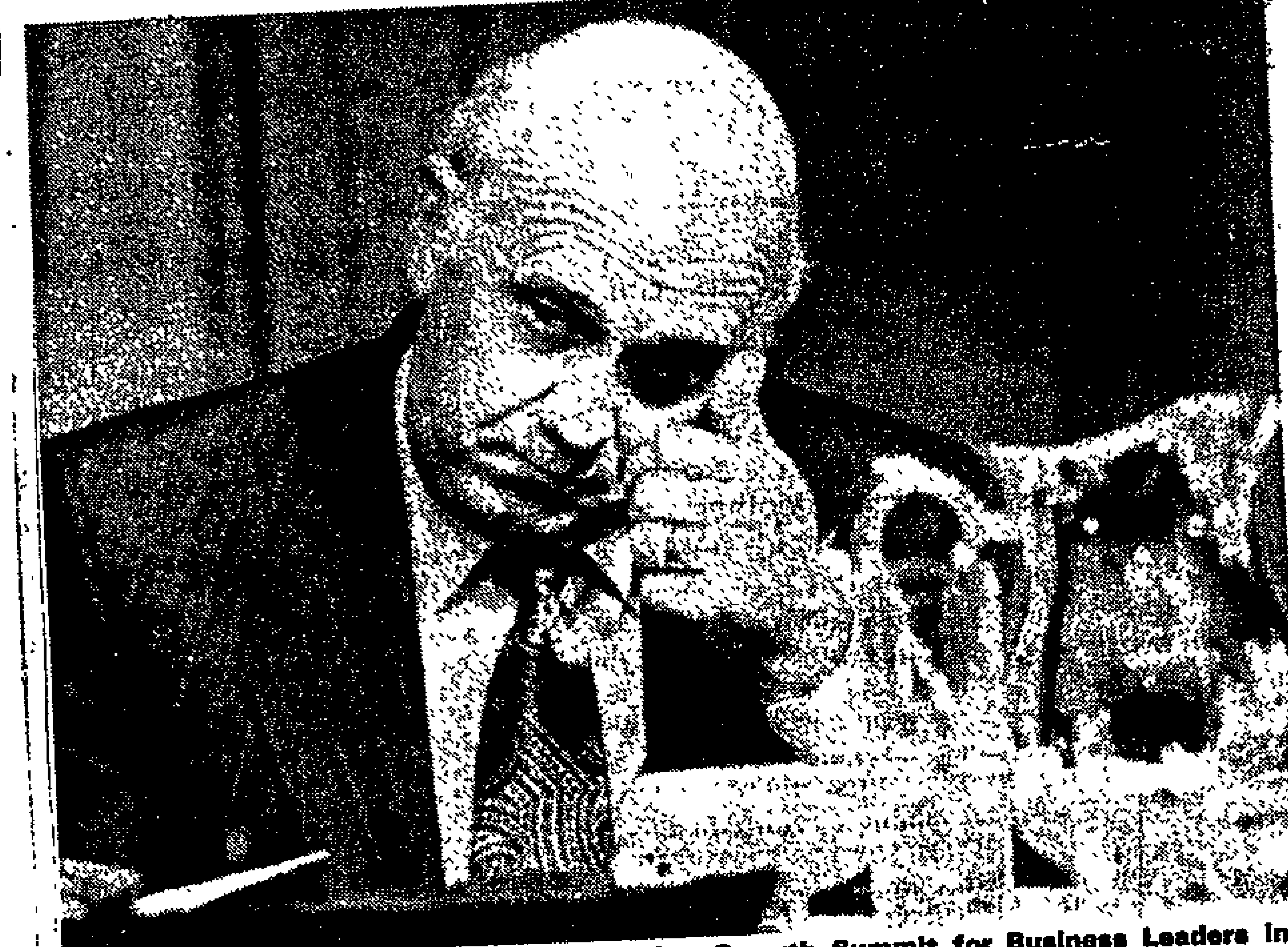
Mbeki said the First World economy was the engine to rely on to achieve the necessary economic upliftment of the impoverished majority.

There could thus be no suggestion from the ANC of weakening or destroying the economy the country depended on to address the central problem of development, he added. — Sapa

FW: 5% growth needed to halt poverty spiral

49

TIM COHEN



President FW de Klerk told the Population Growth Summit for Business Leaders in Midrand yesterday that family planning needed to be promoted more vigorously, and the growth rate needed to rise to accommodate the increasing population. Picture: ROBERT BOTHA

PRESIDENT F W de Klerk yesterday urged local political leaders to stop advocating "economic strictures" against the country so it could achieve the 5% growth rate needed to accommodate its rapidly increasing population.

Speaking at the opening of the Population Growth Summit for Business Leaders conference in Midrand, De Klerk said at the present 1,5% growth rate, unemployment would continue to increase and living standards would decline. The downward spiral of poverty would continue.

De Klerk said family planning should be promoted more vigorously while the "fertility perceptions" of society had to be changed so that people became more receptive to having smaller families.

Improving living standards and women's position in society were essential if SA was to bring the population growth rate under control, he said.

Although SA was classified by several world bodies as a developed country, it was in fact a developing country, he said, echoing statements made by Foreign Minister Pik Botha last week.

At an Africa Institute conference last week, Botha said SA ought to be reclassified as a developing country, and ought to be eligible for benefits from the EC's aid package for developing countries, the Lome Agreement.

Nafcoc maps out black advancement

49

CAPE TOWN — At least 30% of JSE-listed companies' boards must be black, 40% of shareholders must be black, 50% of outside purchases must come from black-owned suppliers and 60% of top managerial and personnel must be black, a Nafcoc resolution states. B/Day 27/11/90

Nafcoc president Sam Motsuenyane told the Euromoney Conference yesterday this should be achieved within 10 years if not sooner to restructure the formal economic sector to include blacks in its ownership, management and operational activities.

He said Nafcoc had decided at a conference in September this would give expression and meaning to black economic empowerment.

While the business community was concerned at how a post-apartheid government would solve the problem of redressing the imbalances in the economy, it had a responsibility to make positive proposals as to how these could be redressed.

Other areas which required attention were black access to land and capital, labour mobility and access to education and training of good quality.

To attend to land ownership discrepancies, the Lands Acts of 1913 and 1936 had to be scrapped as well as the Group Areas Act. This step was already envisaged by government, Motsuenyane said.

The farming industry had to be de-racialised and black and white farmers be given the same recognition by government.

The various agricultural departments should be rationalised to ensure the optimisation of resources, and an appropriate funding structure established to help individual black farmers or syndicates to buy state or white-owned land.

The communal land tenure system in the homelands had to be revised to allow individual ownership and title to land, and new training centres for black farmers and farm managers needed to be opened to improve their level of performance and managerial abilities.

Black access to capital, while it had been improved recently, still suffered from the lack of collateral, fixed property or long-term investments.

On the education problem, he said to achieve satisfactory levels of economic growth SA had to produce the right quantity and quality of specialists, managers and leaders in every facet of professional, technical or academic education. The present system fell far short of meeting these demands. — Sapa.

PE taxi ranks calm again

By SHADLEY NASH and XOLA SIGONYELA: Port Elizabeth

THERE was calm at taxi ranks in Port Elizabeth this week after intervention by the Mass Democratic Movement put a swift stop to clashes between rival operators. WMail 2/11-8/11/90

Violent clashes last week followed a dispute between rival groups, but the MDM intervened and ordered a week's suspension of all taxi services. This was due to end on Wednesday, but at a mass meeting last weekend, the two rival taxi associations, Uncedo and the SA Black Taxi Association (Sabta) agreed to end hostilities and work towards unity.

The suspension was called off after the accord, and taxi services have been running again since the start of the week.

Last week's clashes followed a dispute over the use of the Strand Street taxi rank in the city centre, and later spread to other taxi ranks around the city. Police intervened when about 200 people clashed at Kwazakhele. An undisclosed number of people were injured when taxis were attacked and scores of mini-buses were damaged.

Squabble over 'failure of socialism' rages in latest SACP publications

By GAVIN EVANS (49) WMail 2/11-8/11/90

THE family squabble over whether socialism has failed, and if not why not, rages in the latest editions of the South African Communist Party's two official publications, which appeared this week.

In issue number 123 of the *African Communist*, hardline SACP national interim leadership group member Harry Gwala begins his critique of his party leader's pamphlet, "Has Socialism Failed?" by accusing "those who open their writings with the denunciation of Stalin" of nihilism.

Quoting Stalin favourably, he notes that the Bolsheviks were "the first to establish a Marxist state on earth in a very hostile environment", and adds that "dialectical laws demand that we look at things from all sides and not be one-sided in our approach".

Gwala concedes that "no doubt there were many excesses committed during the time of Stalin", but asks, "who is not wiser after the event?"

He goes on to criticise Slovo for "not telling us about the objective conditions" which led Lenin to the false prediction that socialism was about to collapse after 1917, and for giving the impression "that Lenin was engaged in speculative and not dialectical thinking".

He concludes that the notion of the dictatorship of the proletariat "cannot be abandoned".

A contribution from Explo Nani Kofi of the United Revolutionary Party of Ghana, disputes that there is such a thing as Stalinism, saying "some of the attacks on Stalin are just an attempt to look at history with hindsight", and goes on to warn against an "absolute faith in multipartyism".

In a markedly different tone, the more flexible SACP journal *Umsebenzi* runs an open letter from central committee member Jeremy Cronin to African National Congress information chief Pallo Jordan, in response to Jordan's recent critique of Slovo's pamphlet.

He warns that "waving the banner of anti-Stalinism doesn't guarantee any of us against falling into Stalinist habits", and refutes Jordan's point that *Umsebenzi* has been guilty of "intolerance, petty intellectual thuggery and political dissembling among its membership".

He notes that he too has not agreed with all *Umsebenzi* articles, but "that's a completely different matter, isn't it?".

The article is signed "Yours in the struggle (including the struggle against anti-democratic behaviour within our broad ranks), Jeremy Cronin".

BUSINESS

Big business takes up the left's challenge

Mail 2/11-8/11/90 (49)

In recent months the business community has been confronted with a challenge by the ANC and others: If you don't like nationalisation then suggest alternative ways of ensuring a more equitable distribution of wealth. GAVIN EVANS approached some of the country's industrial giants for their responses

THE South African Chamber of Business (Sacob), Anglo American, Sanlam, Old Mutual and others have started to answer the question of how they propose to respond to the expectation that a post-apartheid South Africa will result in a reslicing of the economic cake and a better deal for those previously excluded from its fruits.

A key address by former Anglo chairman Gavin Relly at a Consultative Business Movement-ANC meeting in May this year provided some clear answers which went well beyond what he termed "the extreme supply-side notions which were fashionable some years ago".

On the one hand he stressed the importance of a growing economy and the need to remove impediments to the supply side by, for example, trimming the bureaucracy, reducing inflation, setting interests rates above the inflation rate and ensuring wages reflect productivity.

But he added that "economic growth is a necessary but not sufficient condition for a reduction in inequality and absolute poverty" and argued for a "carefully balanced combination of appropriate state and private sector roles".

In similar vein Old Mutual chief operating officer Gerhard van Niekerk describes the argument advanced in business circles "that South Africa will simply and easily grow out of its problems once statutory discrimination, sanctions and apartheid-inspired unrest have been removed" as fallacious.

He and others argue that redistribution and growth are not mutually exclusive, and note that the "wealth and income contrast between the privileged and under-privileged has always been unacceptable (and) in the new political reality it has become untenable".

In its booklet, *Economic Options for South Africa*, Sacob says although it favours limiting the role of the state, "there is no hesitation in advocating government involvement in the problems of inequality, redistribution, and alleviation of poverty and homelessness", and that the "democratisation process will force society to be more sensitive to the needs of the poor, the unemployed, the homeless as well as equal education facilities".

Relly argued that as an alternative to nationalisation the Budget needed to be used "as an allocator of resources through the tax system", as well as other means such as collective bargaining and land reform where he noted that "some proactive policies will be needed in addition to the abolition of the Group Areas and Land Acts".

On taxation he said a larger economic base would produce greater revenues, particularly if collected more efficiently. Therefore a wider tax base needed to be created, both in terms of the number of people paying tax and the range of businesses taxed; nominal tax rates needed to be reduced and there had to be a greater emphasis on indirect tax.

Van Niekerk, however, warns if "an over-enthusiastic redistribution programme via higher taxes, especially on companies and relatively rich individuals, tries to stimulate demand too quickly the economy will hit a supply collapse and inflation wall".

Sacob's recommendations include using taxes to help alleviate extreme poverty, starting with government assistance in school feeding and food stamp schemes, a greater government role in the provision of houses and health service for the poor, financial assistance to small black farmers through the Land Bank and the creation of a new legal mechanism to resolve land conflicts.


Gavin Relly ... business and politicians must seek set of jointly held values


Gerhard van Niekerk ... redistribution and growth are not mutually exclusive

Relly also argued that "business and political movements will have to seek a new set of jointly held values which will enable them to co-operatively confront the challenges of building an economic future" and suggested a closer relationship between business, unions and government.

In a speech delivered at Sun City recently, Anglo's Michael Spicer went further along the social democratic path by advocating voluntary public works schemes along the lines of those used to alleviate white unemployment in the Twenties and Thirties.

Similarly, Sacob suggests "using the housing provision programme of government to provide jobs and training as well as to encourage action to direct development strategies towards labour-intensive development projects".

A range of other strategies which might contribute to redistribution are put forward by key business leaders: joint ventures between unions and business; worker representation on company boards; greater emphasis on employee share-ownership schemes; increased assistance in encouraging black business, and a "change of gear" in the contribution of business to education training and advancement.

Spicer argued that a start in improving black education could be made through cleaning up the Department of Education and Training, and the state education system generally; stopping "using the youth as a mobilising vanguard", and through private sector funding of a range of educational schemes.

Sacob also emphasises the state's role in the provision of primary and secondary education, and stresses what might be anathema to rigid free marketeers: "privatisation is not seen to be a primary agent in the strategy to provide an overall system of education for the country", and "the needs of the total economy also have to be accommodated in the reconstruction process".

"A democratic process in which negotiation takes place with the community leaders concerned is indispensable to make education comply with the requirements of the new South Africa."

Sanlam senior general manager Walter Scheffler also hones in on education, noting that not only should more be spent, but that it must be spent more effectively. He makes three additional points which have seldom been spelt out so directly by protagonists from either side of the debate.

First, "a successful elimination of the current, unacceptable, unbalanced distribution of wealth can only be brought about if the underprivileged earn a relatively larger income, ie, they are able to make a larger economic contribution".

Second, to achieve this we "will have to be satisfied with less and also with a less luxurious infrastructure, otherwise sufficient funds will just not be available. We will simply have to adjust our standards to a lower level and be prepared to make adaptations".

Third, "it is also important that the expectation of quick riches among the underprivileged should be tempered to a more realistic expectation, otherwise the new South Africa may possibly result in ungovernable chaos".

Van Niekerk says redistribution within a growing economy will require "an active poverty-relief and education policy by the state aimed at the release of human potential".

But he suggests several other strategies which will have to accompany this: political and social stability; industrial peace; a stable currency; lower inflation; a strict monetary policy and a "growth-oriented taxation environment"; the removal of all obstacles to upward mobility in the labour market; minimum bureaucratic interference and regulation in the productive sectors; "national consensus about the importance of good economic performance" and the acceptance of the private sector "as the mainspring and engine of economic growth".

PE taxi ranks calm again

By SHADLEY NASH and XOLA SIGONYELA: Port Elizabeth

THERE was calm at taxi ranks in Port Elizabeth this week after intervention by the Mass Democratic Movement put a swift stop to clashes between rival operators. WMail 2/11-8/11/90

Violent clashes last week followed a dispute between rival groups, but the MDM intervened and ordered a week's suspension of all taxi services. This was due to end on Wednesday, but at a mass meeting last weekend, the two rival taxi associations, Uncedo and the SA Black Taxi Association (Sabta) agreed to end hostilities and work towards unity.

The suspension was called off after the accord, and taxi services have been running again since the start of the week.

Last week's clashes followed a dispute over the use of the Strand Street taxi rank in the city centre, and later spread to other taxi ranks around the city. Police intervened when about 200 people clashed at Kwazakhele. An undisclosed number of people were injured when taxis were attacked and scores of mini-buses were damaged.

Squabble over 'failure of socialism' rages in latest SACP publications

By GAVIN EVANS (49)

WMail 2/11-8/11/90

THE family squabble over whether socialism has failed, and if not why not, rages in the latest editions of the South African Communist Party's two official publications, which appeared this week.

In issue number 123 of the *African Communist*, hardline SACP national interim leadership group member Harry Gwala begins his critique of his party leader's pamphlet, "Has Socialism Failed?" by accusing "those who open their writings with the denunciation of Stalin" of nihilism.

Quoting Stalin favourably, he notes that the Bolsheviks were "the first to establish a Marxist state on earth in a very hostile environment", and adds that "dialectical laws demand that we look at things from all sides and not be one-sided in our approach".

Gwala concedes that "no doubt there were many excesses committed during the time of Stalin", but asks, "who is not wiser after the event?"

He goes on to criticise Slovo for "not telling us about the objective conditions" which led Lenin to the false prediction that socialism was about to collapse after 1917, and for giving the impression "that Lenin was engaged in speculative and not dialectical thinking".

He concludes that the notion of the dictatorship of the proletariat "cannot be abandoned".

A contribution from Explo Nani Kofi of the United Revolutionary Party of Ghana, disputes that there is such a thing as Stalinism, saying "some of the attacks on Stalin are just an attempt to look at history with hindsight", and goes on to warn against an "absolute faith in multipartyism".

In a markedly different tone, the more flexible SACP journal *Umsebenzi* runs an open letter from central committee member Jeremy Cronin to African National Congress information chief Pallo Jordan, in response to Jordan's recent critique of Slovo's pamphlet.

He warns that "waving the banner of anti-Stalinism doesn't guarantee any of us against falling into Stalinist habits", and refutes Jordan's point that *Umsebenzi* has been guilty of "intolerance, petty intellectual thuggery and political dissembling among its membership".

He notes that he too has not agreed with all *Umsebenzi* articles, but "that's a completely different matter, isn't it?".

The article is signed "Yours in the struggle (including the struggle against anti-democratic behaviour within our broad ranks), Jeremy Cronin".

(49) (Suppl Wkly Mail 16/11 - 22/11/90)

There's one small thing economics forgot - the world

Economists are beginning to perceive a fundamental flaw in their discipline — a lack of regard for the environment.
SANDRA POSTEL reports

WHEN World Bank economist Herman Daly searched through the indexes of three leading macroeconomic textbooks, he turned up no entries for the terms "pollution", "environment", "natural resources" or "depletion". These glaring omissions illustrate what a handful of economists see as a fundamental flaw in their discipline: a lack of regard for the environment.

While the environment and the economy are tightly interwoven in reality, they are virtually divorced from one another in economic structures and institutions. Modern economics has barely heard of the natural world, no less begun to incorporate environmental concerns into its everyday workings.

This oversight traces back to the work of John Maynard Keynes, the father of modern economics. For Keynes and his contemporaries, natural resources appeared so abundant that notions of scarcity, depletion and environmental damage did not appear in their picture of how the economy functions.

A tiny cube inside a large sphere just a few decades ago, the global economy is no longer small relative to the earth's natural systems. It now takes only 15 days to produce what it took an entire year to produce in 1900. Increasingly, the corners of the cube have begun to puncture the sphere — and the damage appears in the form of acid rain, holes in the ozone shield, and the buildup of greenhouse gases.

"Progress", as defined by our modern economic system, is not only perpetuating environmental deterioration but accelerating it. Reconciling our economic rules and practices with the dictates of environmental sustainability is now more than a purely academic interest; it is essential for human survival.

No single economic indicator is more popular than the Gross National Product (GNP). A measure of the total output of goods and services in an economy, the GNP is the basis upon which countries are ranked from rich to poor. Almost universally, a climbing GNP is taken to mean that a country's health is improving — and that its people are becoming better off.

But a closer look at the accounting system used to produce the GNP shows major failings in its ability to assess economic performance and human welfare. A country's economic bookkeeping consists of income accounts, which when tallied produce the GNP figure, and capital accounts, which track changes in wealth.

As lumber factories, textile mills, office buildings and other artifacts age and fall into disrepair, a subtraction is made from the capital accounts to reflect their depreciation in value. No similar subtraction is made, however, for the deterioration of forests, soils, air quality, and other natural endowments. Natural wealth of all kinds is whittled away with no losses appearing in the national accounts.

When trees are cut and sold for timber the proceeds are counted as income, and thus added to the GNP. But no subtraction is made for the deterioration of the forest, an economic asset that, if managed well, could provide revenue long into the future.

As economist Robert Repetto, of the World Resources Institute, points out, this failure to distinguish between natural asset destruction and income generation makes the GNP "a false beacon, and can draw those who steer by it onto the rocks". Most in danger of running aground are developing countries whose economies remain tied to primary resources, such as fuels, timber, minerals and agricultural crops.

Repetto and his colleagues have examined the implications for Indonesia's resource-based economy of more accurately measuring income and wealth. Taking into account the depletion of just three natural resources — forests, soils and petroleum — the researchers found the average annual growth in Indonesia's GNP from 1971 to 1984 dropped from 7,1 percent to four percent. If the exploitation of coal, mineral ores and other non-renewable resources had been included, along with the deterioration of fisheries and other renewable assets, the drop would have been even steeper.

Besides being blind to the destruction of natural wealth, the GNP as currently calculated has another major failing: it counts as income many of the expenditures made to combat pollution and its adverse consequences. The Alaskan oil spill of March 1989 actually created a rise in the GNP, since much of the $2-billion spent on labour and equipment for the cleanup was added to income.

Equally perverse, much of the $40-billion in health care expenses and other damages incurred by American citizens as a result of air pollution is counted on the plus side of the national income ledger. Although the nation would be better off had the Alaskan oil spill never happened and if people didn't suffer respiratory ailments from air pollution, the GNP suggests otherwise.

As the environment deteriorates, the discrepancy between the GNP's measure of progress and actual human well-being is widening. To enter such a period with economic indicators that ignore environmental deterioration is like steering an aircraft toward a fog-shrouded, windswept runway with no instruments to guide the landing.

The upshot has been the systematic destruction of forests, fisheries, groundwater supplies and other biological resources in the name of increasing capital wealth. Not only are private investors responsible, but public ones as well. The World Bank, the largest funder of development projects in the Third World, with an annual lending portfolio totalling some $20-billion, uses a discount rate of 10 percent. A forest growing at a rate of two or three percent a year simply doesn't stand a chance against a required rate-of-return that high. Viewed another way, if greenhouse warming is estimated to cause $100-billion in damage in the year 2075, today's valuation of that damage using a discount rate of 10 percent is a mere $30-million, hardly worth worrying about.

Today's investment rules also assume that natural capital and human-made capital are interchangeable, and what matters is only that total capital is increasing. But natural and human-made assets are substitutes only up to a point. Without any forests to supply it with timber, for instance, a $50-million lumber mill is useless.

More important, there are no replacements for some life-supporting natural systems. Scientists can offer no substitutes for the radiation-absorbing ozone layer, the earth's mantle of topsoil or the climate to which agriculture and other human activities have adapted. Driven by the economic calculus of discounting, these vital natural assets are being destroyed irreversibly.

Economic decision-making also fails to account for the many functions natural systems perform that are difficult to quantify. Compared with a clothing factory or a steel mill, which produce tangible, easily valued products, only some of the products and services provided by renewable resources are valued in the marketplace. A forest producing wood for timber is also protecting upland soils from erosion, safeguarding downstream croplands from flooding, providing habitat for countless plant and animal species, and storing carbon that would hasten global warming if released to the atmosphere. But because these are social benefits, a private investor doesn't take them into account. And because they are difficult to quantify, they are often left out of public investors' decisions as well.

Recalculating the GNP so that it takes account of the depletion and deterioration of forests, fisheries, water supplies, and other natural assets is a critical first step toward bridging the growing gap between illusory and real economic gains.

Australia, Canada, France, the Netherlands and Norway are among the countries that have begun compiling inventories of their natural resources, a prerequisite to making the needed accounting adjustments.

Two countries — West Germany and the US — have plans to calculate an alternative GNP figure that takes environmental damage into account. But these new indicators probably will not be produced on a regular basis until the mid-1990s.

The pace of GNP reform could be greatly quickened by a push from the United Nations Statistical Commission. The commission is in the process of revising its System of National Accounts, something that happens only once every 20 years.

More accurate estimates of national income and GNP, while important, would still be insufficient to determine whether human welfare is improving — the ultimate aim in assessing progress. A better approach is to supplement a recalculated GNP with a basket of other indicators that monitor literacy, infant mortality, housing, income equality and other areas affecting societal health. If these indices were publicised and used frequently, as the GNP is, a more accurate picture of progress — or the lack of it — would result.

The UN Development Programme (UNDP) has come up with a "Human Development Index" (HDI) derived from three components: life expectancy, literacy, and purchasing power. Economist Daly and theologian John Cobb have developed an "Index of Sustainable Economic Welfare" (ISEW) that not only accounts for air and water pollution, cropland and wetland losses, and other forms of environmental deterioration, but also for the costs of commuting and car accidents, income inequality and a range of other factors affecting human welfare.

Tax policy can be a broader and more effective instrument for environmental protection. Most governments raise the bulk of their revenues by taxing personal and corporate income. By systematically taxing economic activities that pollute, deplete or degrade the environment, governments can raise revenue in a way that promotes environmentally sound practices.

A comprehensive set of environmental taxes would do much more. It would penalise the use of virgin rather than recycled materials, generation of toxic waste, emission of acid rain-forming pollutants and overpumping of groundwater. It would tax agricultural chemicals, and thus lessen the risks of their contaminating food and drinking water. In the US, a one percent tax on pesticides and fertilisers would initially raise over $100-million annually.

By making environmentally damaging practices economically unattractive, such a change in tax policy would speed the transition to an ecologically sound economy.

As long as our economies and those who steer them remain blind to the earth's natural limits, indicators of economic performance will bear less and less relation to human welfare. — World Watch

Analysts forecast even tighter finances in 1991

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GRETA STEYN

CONSUMERS are heading for a year of even tighter finances in 1991 as inflation eats into disposable incomes while interest rates and taxes remain high.

Two economic forecasts yesterday projected consumption spending next year would remain virtually stagnant in real terms. The Bureau for Economic Research projected a 0,9% real increase in consumption spending and Old Mutual saw "little, if any" increase.

The BER was somewhat more optimistic than Old Mutual. It said in its latest Economic Prospects that there could be a recovery in consumer spending in the second half of next year, although on a per capita basis real disposable income was projected to decline.

Old Mutual economist David Mohr said yesterday the economy would bottom only by the end of 1991. The Old Mutual said in its latest Economic Monitor three factors would put consumers into a tighter financial position next year compared with 1990.

Labour remuneration would grow at a slower rate than this year's 15% and little increase in employment was envisaged. The second factor was that the income tax relief in this year's Budget was not likely to be repeated next year and the third was the impact of inflation in the wake of the petrol price increase.

Mohr saw high underlying inflationary pressure in the economy aside from the influence of the petrol price hike. He said the housing and imported components of the consumer price index (CPI) had been the main forces behind the downward trend seen until August this year when the year-on-year increase was 13,6%.

Excluding these components, the CPI was still 15,6% higher in August than the same month in 1989. This was evidence of a relatively high rate of increase in consumer prices in general. A weaker rand and high unit costs of labour would provide added impetus for the negative trend.

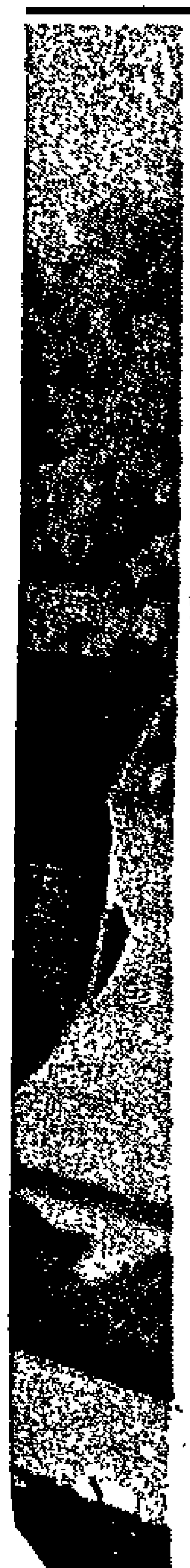
Our Cape Town Correspondent reports that Mohr said that so far, at least, the current recession had been much milder than the previous one, while meaningful progress had been made in slowing down the growth of money supply, reducing inflation and building up foreign exchange reserves.

And although gold had so far performed disappointingly, he thought this could improve if higher oil prices pushed up inflation overseas.

He also said there was "scope for a further moderate fall in long-term interest rates over the next year.

"This view is based on the expectation of a continued deceleration in economic activity and the corresponding mild decline in short-term interest rates."

to Iraq of medical supplies reported to be about R4,75 million (240 million yen), the Ministry said yesterday. — Daily Telegraph



Open markets 'best for SA'

49

Cape Times 27/11/92

THE best economic system for the new South Africa appeared to be the social market system with private ownership of property and unfettered competition in open markets, said Mr Sam Motsuenyane, president of the National African Federated Chamber of Commerce and Industry (Nafcoc), in Cape Town yesterday.

But he followed this by emphasising a Nafcoc resolution which said that all companies listed on the JSE "must have at least 30% of their board members from the black community".

"At least 40% of their shareholdings must be controlled by the black community. At least 50% of the value of their outside purchases must come from black-owned suppliers and contractors and at least 60% of their top managerial personnel must come from the black community."

● Full report — Page 12

stream, researchers reported in the Journal of the American Medical Association. "It's important that people be warned not to mix those two ~~not to take aspirin before they~~ drink, or rather, not to drink after they take aspirin," one said. — Sapa-AP

Cit Times 15/11/90 49

Recession still on

THE South African economy showed a negative growth rate of 2,1% in the third quarter of this year, which means that the recession has now been in force for more than a year.

While the agricultural sector showed a negative growth rate of 32,8%, the rest of the economy performed satisfactorily. It is, nevertheless, in a recession which is expected to last for the whole of 1991.

● Full report — Page 10

Anglo boss: Black statesmen soon

Cape Times 13/11/90 (49)

Own Correspondent

LONDON. — Anglo American chairman Mr Julian Ogilvie Thomson hopes South Africa will have a new constitution, with blacks in the government, by next Christmas.

Interviwed on British television, he also indicated he would be prepared to see partial nationalisation of his corporation and predicted there would probably be a black director on the board in about three years.

Mr Ogilvie Thomson was speaking on Sunday evening on Channel Four's "Answering Back" programme in a series of interviews with leading international business and political figures.

Asked by presenter Mary Golding when he foresees blacks in governemnt in South Africa and a new constitution in operation, he replied: "I personally would hope that it would be next Christmas. But it may well be 1992."

He went on to indicate that while he is prepared to see partial nationalisation of Anglo American, he believed the chances of full nationalisation by a future ANC-led government were receding as the ANC "are beginning to see that this is not a sensible route to go down".

GDP shows negative growth

Cape Times 15/11/90

49

By PIETER COETZEE
Financial Editor

THE recession in SA is continuing unabated. SA had a negative growth rate, as measured by the gross domestic product (GDP), of 2,1% in the third quarter of this year.

The Central Statistical Services (CSS) says: "Compared with the second quarter of 1990, the total seasonally adjusted real GDP fell by 2,1% at market prices and annual rates in the third quarter."

It is the fourth consecutive fall in the GDP and follows a decline of 2,3% in the fourth quarter of 1989, 1,9% in the first quarter of this year, and 1,3% in the second.

Economists said SA has now been in a recession for more than a year and they expect the recession to continue for the whole of 1991.

They, however, point out that if all factors are taken into account the recession is not as sharp as the previous two recessionary phases.

They say last quarter's figures are distorted by an abnormal cyclical downswing in the agricultural sector.

According to the CSS, the biggest contributor to the fall was the agricultural sector which declined by no less than 32,8% in the third quarter.

This sector gained 15% in the second quarter, fell by 20,7% in the first three months of the year and 36,9% in the fourth quarter of 1989, after gaining 58,7% in the second quarter of last year.

The other sectors of the economy, however, performed remarkably well. The non-agricultural sector showed a small increase of 0,1% compared to a decline of 1,9% in the second quarter.

In real terms, the mining industry showed a growth of 4,3% in the third quarter while the tertiary sector increased by 0,7%.

Old Mutual chief economist Dave Mohr said if the effect of the agricultural sector is taken out of the equasion, the fall in the GDP was equal to that of the previous quarter.

"This proves that the downturn in the economy is not very sharp but if international events are taken into account it could last for some time to come.

"The economy is definitely not improving and the expectation is that it will be the case for the whole of next year," he said.

Boland Bank economist Louis Fourie said the figures are not as bad as it seems if the agricultural sector's bad cyclical performance is not taken into account.

"The economy is not as weak as many people think after six quarters of recession. This is also proved by the liquidation and insolvency figures which are now lower than in the corresponding last year.

"The economy is not in for a soft landing but the landing will be softer than after the previous two downturns," he said.

Bankorp economist Nick Barnardt said he expected the agricultural sector to stay weak for some time.

"The recession continues and it is expected that the growth in the GDP will remain negative for at least another two months. The next upswing in the economy will only start in 1992," he said.

With creative govt intervention

Call for mixed economy in SA

Cape Times 7/11/90

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By PIETER COETZEE
Financial Editor

SA should have a mixed economy with creative government intervention similar to those of the newly industrialised countries of East and South-east Asia, says the chairman of the Economic Policy Study Group, Gavin Maasdorp, in an economic study paper released yesterday.

He says governments played an important interventionist role in the rise of the newly industrialised countries (NICs) of East and South-east Asia. They adopted macro-economic policies which specifically encouraged growth.

"In a future SA, the government will have to take firm steps to meet certain minimum demands of the presently disadvantaged sections of society; notably a greater share of land, the alleviation of poverty in the midst of wide inter-racial differences in income and wealth and equel access to education, health and social services, and to employment."

In successful mixed economies, the mix is tilted rather more towards the private sector than the state sector. The government ought to concern itself with its role as a regulator, rather than an operator, says Maasdorp.

The best cure for poverty, and the best creator of jobs, is rapid economic growth. However, the price mechanism needs to be supplemented by creative government intervention.

"The experience of countries — notably in the NICs — where government policies have encouraged growth, was that it was facilitated by the dominance of technocrats and efficient bureaucrats in the formulation and implementation of macro-economic policies.

"In contrast, large bureaucracies and public-sector industries impair general efficiency, as do the existence of strong vested interests dependent on monopolies, protection and subsidies," he says.

"Government intervention was successful in the NICs because it coupled protection with competition, and the interventions were selective with a cumulative effect.

"Although goverments shielded local industries, they then ensured that the protected industries performed efficiently and became competitive internationally. Loss-making parastatals and lame ducks were not tolerated.

"Moreover, economic planning was efficiently organised, using the best managerial talent available and maintaining very close links between the cabinet, economic planners, ministries and the private sector.

"It is along these lines that the mix in the South African economy would best be designed," says Maasdorp.

Economic growth in the 90s is key to South Africa's future

CAPE TIMES 7/11/90

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Viewpoint by Gerhard van Niekerk

THE performance of the South African economy in the 90s will largely determine the long-term success, or failure, of any negotiated political settlement.

It is in this context that the issues surrounding economic growth and the redistribution of wealth should be discussed.

"Redistribution" and "growth" are not mutually exclusive concepts, but healthy economic growth must be the cornerstone of any long-term development strategy.

The main focus will inevitably shift from political liberation to economic upliftment. In the South African situation this mainly means the relief of absolute poverty. Redistribution should therefore be seen in the context of a struggle against poverty.

In the interests of a balanced debate it is necessary to discuss critically three popular misconceptions based on oversimplified, ideological perspectives, namely:

- That South Africa is a rich country.
- That in the absence of apartheid distortions a free market would easily overcome economic problems via economic growth.
- That redistribution on a huge scale would place South Africa on a new economic growth path.

Firstly, measured in terms of per capita GNP, South Africa is a middle-income country in the same league as Hungary, Uruguay, Argentina, Brazil, Malaysia and Poland.

Income

Our record of satisfying the basic needs of our citizens is, however, nothing to be proud of. In terms of recognised indicators such as the infant mortality rate, life expectancy at birth and the level of literacy, South Africa is faring particularly poorly for its income level.

It is important to note that, on a per capita basis, we are dealing with an economy where income is only between 10 and 25% of that in the main industrialised countries.

Even if everything were to be divided equally, the average South African would be far from prosperous.

Despite mineral riches the economy, heavily dependent on commodity exports to earn foreign currency, is extremely vulnerable to international price fluctuations.

The lack of a well-trained labour force, an essential variable in wealth creation, is another major problem. There are 59 workers per manager.

In a typical developed country the ratio is 12 to 1.

Wealth

Secondly, the fallacious argument is often advanced — especially in business circles — that South Africa will simply and easily grow out of its problems once statutory discrimination, sanctions and apartheid-inspired unrest have been removed.

Sustained long-term growth is essential for wealth creation but the nature of this growth process is of great importance. During the so-called "golden 60s" the economy grew by an average of 5,8% a year. The fruits from this growth were not, however, ploughed back into the development of human capital.

Between 1960 and 1967 the per capita expenditure on black pupils actually dropped.

The years of institutionalised inequality, the failure of so-called "Bantu education", international isolation, the emigration of high-level manpower and increasing uncertainty in the middle 80s weakened the economy structurally.

Market mechanisms will only provide the type of growth needed if an education policy delivers properly schooled human resources to the productive sector; if an acceptable political climate promoting industrial peace is created; and the explosive poverty problem is addressed.

Redistribution

Thirdly, there is the argument that aggressive redistribution will stimulate demand leading to growth.

If an overenthusiastic redistribution programme via higher taxes, especially aimed at companies and relatively rich individuals, tries to stimulate demand too quickly, the economy will hit a supply collapse and inflation wall.

A more populist and dangerous version of the above argument projects a vision of upmarket, free houses, new cars and ample job opportunities.

It is of critical importance that all leaders scale down this explosion of economic expectations to more realistic levels.

In the same breath South Africans who hitherto have been advantaged by fiscal privilege must be realistic in terms of what they can expect from a more representative future fiscal authority.

Analysis

Despite these dangers, South Africa must, one way or another, defuse the social powder keg of poverty, suffering and hopelessness. For a large percentage of fellow citizens life has become nothing more than a struggle for mere survival. Their potential to contribute to and share in wealth creation must be realised.

The following conclusions can be drawn from the above analysis:

- Neither aggressive redistribution nor the most perfect liberal-democratic constitution can, in the absence of strong economic growth, achieve its aims.
- Growth is an essential but not a sufficient requirement for economic success in South Africa.
- The wealth and income contrast between the privileged and under-privileged segments of our society has always been unacceptable. In the new political reality it has become untenable.
- An optimum redistribution strategy should focus mainly on the development of the country's human capital. This in turn will lead to longer term sustainable growth.

It is against this background that meaningful redistribution within the context of a growing economy must be accepted. But this can only happen when we remove the blinkers of outdated ideas.

Stability

The challenge is to develop practical and workable economic strategies that will raise the quality of life of all our people. Such a strategy must be based on the following:

- The creation of political and social stability.
- Effective economic stablisation; that is, a fairly stable currency, lower inflation and a strict monetary policy.
- Industrial peace.
- An active poverty relief and education policy by the state aimed at the release of human potential.
- The removal of all obstacles with regard to upward mobility in the labour market.
- Minimum bureaucratic interference and regulation in the productive sector.
- A growth-orientated tax environment.
- National consensus about the importance of good economic performance as well as a real undertstanding of its advantages within the context of a just social structure.
- The acceptance of the private sector as the mainspring and engine of economic growth.

Within such a framework both the supply and demand side of the economy will get sufficient attention and the economy will be correctly positioned to generate fast and appropriate growth.

□ Gerhard van Niekerk is chief operating officer of the Old Mutual

Dr Wim's way out of the economic muddle

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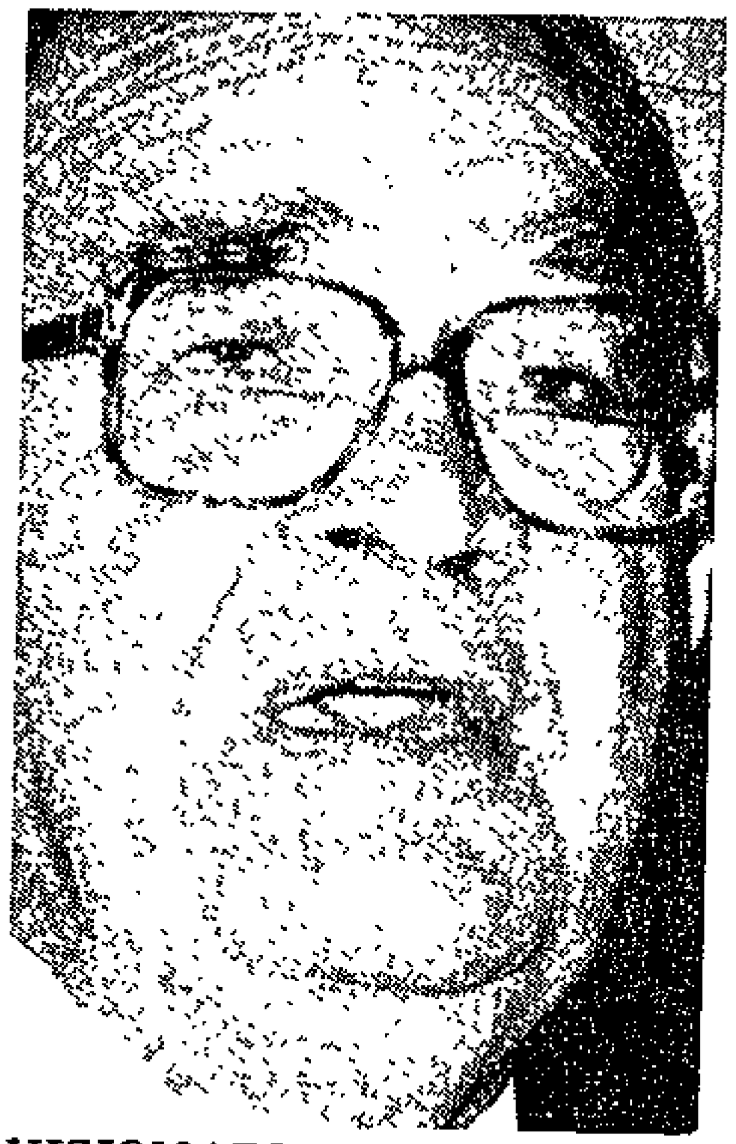
S/Times 4/11/90

BRIAN POTTINGER reports on Wim de Villiers's plans for a grand strategy to pull South Africa out of the economic mire

WHEN Wim de Villiers discovered in 1983 that Eskom was planning to spend R105-billion on new power stations, he boarded an aircraft to Cape Town to persuade Prime Minister P W Botha to put a halt to it.

He was just in time. Letters of intent for two more power stations had already been issued, but Mr Botha immediately canned them.

The country's excess capacity in electrical generation was already enormous and consumers were groaning under a cumulative 19,3 percent a year electricity price increase.



VISIONARY ... Wim de Villiers has his own solutions

Dr De Villiers was then chairman of a commission of inquiry into Eskom and it was, more or less, the end of Eskom's free spending ways.

Today, Dr De Villiers, a straight-talking Free Stater, has embarked on a more daunting task as Minister of Administration and Economic Co-ordination — the restructuring of South Africa's economy to meet the political and social challenges of the coming years.

At the core of the programme lies the desire to cash in on South Africa's comparative advantages — minerals, a good agricultural base and an abundant excess capacity in transport and power.

The intention is to bring down inflation, make South Africa competitive in international markets, boost exports and, ultimately, regenerate South Africa's ailing industrial sector. The end point: jobs.

It is not without risks. Dr De Villiers has been called contradictory, confused and anti-free-market by his foes. He is accused of backing off from privatisation and of having interventionist methods and counter-productive effects.

He disagrees — strongly. In a wide-ranging interview this week he shared some of his immediate concerns and longer-term visions.

Pathetic

A particularly unfair charge is that he is being interventionist by seeking to keep electricity and transport tariffs below the rate of inflation. Few people have done so much to return South Africa to the guiding principles of free markets.

The commission of inquiry into Eskom, which he chaired, opposed the idea of a regulatory body that would dominate the parastatal, and proposed instead that consumers be represented on the supervisory board.

The commission's recommendations replaced direct cabinet control on tariffs by balance sheet norms within which Eskom should operate — a debt equity ratio of 2:1 and minimum interest cover of 1,25.

"The whole attack which claims that we are pushing down Eskom rates for political ends is nonsense," said Dr De Villiers.

"The government does not interfere in price determination as such. It simply says you have to work within these norms. As long as one sticks to the ratios we set down, there is not a problem — the problem was that Eskom did not stick to the ratios."

The debate about Eskom tariffs is important. The heart of the long-term strategy is to hold power and transport costs below the inflation rate over the next few years to give export industries a leg up.

What, then, is the strategy?

"Our biggest problem is unemployment. The aim of any strategy must be an employment-creation economy," said Dr De Villiers.

The employment creation capacity of the country has slumped drastically in the last decade in a very capital-intensive system.

The largest losses were in the industrial sector. It had a growth rate in the 60s of eight percent and an employment growth of 5,3 percent. In the 60s 448 000 jobs were created in industry. In the 70s the figure was down to 313 000. And in the 80s it dropped to a pathetic 28 000.

Why? The answer, suggests Dr De Villiers, must be found in the past.

"In 1952 we produced 367 tons of gold. By 1970 we were producing 1 000 tons at a fixed price. But, at the same time, we applied a policy of import substitution.

"That is why we had an eight percent growth rate in the industrial and manufacturing system. But, if you are looking at an import substitution policy, you are also looking at the balance of payments.

"Our component of gold in the balance of payments has always been so high that, for industrial uses, we were overvaluing it — we had protective barriers. But then we must look at what happend from 1970 onwards — particularly at the oil price increase.

Weak

"Our growth rate was 3,2 percent from 1970 to 1980. The gold price went up but we did not feel the benefit of growth in our employment opportunities — we experienced a growth of income yet had a reduced level of production."

When the gold price dropped in the early 80s gold production came down but was not offset with an increase in industrial production.

What went wrong in the 70s and 80s?

"If you look back it was easy to understand. We were looking at self-sufficiency not import substitution — in weapons and Sasols. All these were high capital and low labour-intensive.

"Coupled with this was the fact that the government and parastatals were taking 63,7 percent of all net fixed investments in the period from 1970 to 1985. The parastatals were taking 26 percent. Most of this went into over-providing for Eskom, the railways and other capital-intensive enterprises."

As a result things were also happening in the private sector. There was a growth of economic concentration. Investment went primarily towards central city development. Then again, a pattern had developed in South Africa of contractual savings while personal savings withered away.

How does one begin to work one's way out of the situation?

"We first have to look at our comparative advantage," said Dr De Villiers.

"We have base metals and good agricultural production. But then we look at what we are doing with those metals. Eighty-eight percent of the value of our exports is in raw materials and exports in first beneficiation form.

"We are exporting our employment opportunities."

One of the critical limitations on growth since 1985 has been the outflow of capital. The main challenge, then, is to make use of the capital we have available.

In South Africa the productivity of capital has weakened dramatically. Before 1973 it cost R2,4 in capital investment for a R1 contribution to the gross economy. It now takes an investment of R5,18 in capital to make a R1 contribution — double the capital at a time when capital is in such short supply.

"The conclusion is inevitable," said Dr De Villiers.

"We spend a lot of capital on things that are not productive and we have also got tremendous spare capacity in the system — like Eskom, the railways, hospitals, schools and those city centre developments.

"You have to go to Paris nowadays to see an old building because every building in Johannesburg is being imploded. But we are not creating employment from this."

Vital

It is vital that the emphasis be shifted — to entrepreneurship, education and training. All of this should be aimed at ensuring that the capacity for more beneficiation of raw materials takes place within the country and pushes up job creation.

The restructuring of the economy is vital and in this there are some important focuses.

First, the pattern whereby a smaller and smaller group of "insiders" earn more and more money while a growing number of "outsiders" stand around in poverty must be turned around.

Second, a start could be made in improving capital productivity by introducing multi-shift systems.

Hope

Third, South Africans must talk themselves out of inflationary expectations. An analysis of inflation indicates that 70 percent of inflation is "rolled over" from the year before. Private and public sectors, when estimating the following year's budgets, build in inflationary expectations. It is thus an insidious form of price indexing.

There is no short path to success and precious few pats on the back, concedes Dr De Villiers.

"Nobody has thanked me for bringing the power rates down. Yet we have created opportunities for cement factories to begin operations and for jobs to be re-established."

At least, he hopes, the longer-term rewards will be worth it.

● See Business Times

PART 2: MICHAEL O'DOWD continues his dissection of the ANC's economic policy

Here's the real reason Robin Hood's men were so merry

(49)

S/Times 18/11/90

THE economic package proposed by the ANC is known as dirigism, from a French word meaning to drive or direct.

The concept is that while the economy is mixed, the government is in the driving seat. What particular details the government wants to manage varies with time and fashion but the idea that government will take the crucial decisions is central.

The track record of dirigism has been unsatisfactory and there is generally an inverse correlation between economic growth and the degree of dirigism, and that this has not been compensated for by any disproportionate benefits conferred on the poor.

In fact, while most dirigiste states have had the redistribution of wealth on their agendas, the actual record of bringing it about has been unimpressive — at least if it was meant to benefit the poor. Successful redistribution in favour of political elites is another matter.

Richer

It is these facts, which are universally recognised and have influenced policy throughout the world, that have led to the worldwide movement towards privatisation and deregulation. Dirigism, taken beyond a certain point, has proven to be extremely harmful, especially to the poor.

But the Harare Group, which drew up the ANC's proposed economic policy, knows better. It rather seems as if, having spent the 60s and 70s trying to live in the 30s, South Africa is to enter the 21st century determined to live in the 60s.

A case which deserves our most particular attention is that of India. India has been ruled now for 43 years under a democratic government operating a moderately socialist, dirigiste, mixed economy. Its good intentions were precisely those set out in the Harare document.

They promised redistribution of wealth, affirmative action, benign government intervention, public works, curbing of monopolies, the lot. After 43 years, where has it got them?

What redistribution there has been has certainly not reached the millions who live and die in the streets of Calcutta and Bombay. In 1946 the average Taiwanese was little richer than the average Indian. Today he is 10 times as rich, and nobody lives and dies in the streets of Taipei.

I think the Harare Group should tell us precisely how its policy differs from that of the Indian Congress government (prior to its recent moves towards deregulation, for India, too, is out of step with Harare), and why there could be a different outcome.

Modern history tells us that there is only one route to benefit the whole people, and especially to benefit the poor — and that is not growth through redistribution (which was the policy of Harold Wilson, Henru and Peron, to name but three), but redistribution through growth. And there are two routes to growth, and only two.

The one, which is the only one with a track record in the West, can be called "relative laissez faire". This does not mean that you do not have a welfare system — only that you do not have a system that you cannot afford or one that encourages idleness.

This is the system towards which most of the world is moving, or, in some cases, trying to move, through privatisation and deregulation.

The other route is the Far Eastern one, of Japan, South Korea and Taiwan. Here the government does indeed play a major role in the economy, but it does not attempt to direct it. It acts as a partner rather than as a master of the private sector.

Probably the greatest obstacle to the adoption of this model in the West lies in the enormous difficulty that a Western government has in giving up its role as master.

Some writers who claim to be "close to the ANC", though not, it would seem, members of the Harare Group, have in recent times taken to citing South Korea as a model worthy of imitation because it justifies a major role for the state.

If these people know any former communists I would suggest they ask them what they used to say about the South Korean government before they got the new line from Gorbachev. What they said was that the government was in the pocket of big business; and they were not entirely wrong.

A close partnership between the government and specifically big business — the great groups that the Harare document so much dislikes — is the essence of the Japanese and Korean model.

I am not advocating the model, and I have doubts whether it could be made to work in South Africa since I do not know where we would get the government officials with the necessary degree of sophistication. Nevertheless, let us see what it is.

The Korean government formed an alliance with existing big business. It did not claim to determine through its own patronage which should and should not prevail.

It recognised that wherever they had come from, they were a national asset that could not be wasted. This is why these governments were seen, and used to be denounced by the left as, conservative.

Not merely did they not set out to destroy private institutions; they almost certainly provided them with a safer environment than they would have enjoyed under a laissez-faire, Reaganite free-for-all.

Genuine

This system has great dangers and if there is anything miraculous about the rise of the East Asian tigers I would say it is that they have not fallen into this trap.

Not only has the government to practice almost superhuman restraint, refraining from tampering with the system in order to create patronage and confer unearned benefits on its followers; businessmen, too, have to adopt a genuine whole-hearted commitment to growth and refrain from asking the government to protect them from competition.

If they do not, the system slides into an all-too-familiar South American syndrome in which the government perpetuates inefficient businesses in return for political support. I doubt whether any South African government, or the South African business community, is capable of making a go of the East Asian path.

If that is so, we are left with no option but to join the world (at last) and go along the path of relative laissez-faire, or to stagnate and grow poorer.

One question remains to be answered: If dirigism has such a bad track record why does it remain so popular in universities and among intellectuals? The answer is as simple as it is unfortunate.

Dirigism creates jobs for intellectuals, placing the theoretically qualified (and politically well connected) above the experienced and the actually successful and in these jobs it creates endless opportunities for graft. The redistribution of wealth which takes place under dirigism is in favour of the politicians and bureaucrats.

The often quoted analogy of Robin Hood is far more apposite than many of those who quote it realise. Robin Hood, we are told, took from the rich and gave to the poor.

Nobody says he gave it all to the poor. Most of what he took he gave to his merry men — and that is why they were merry.

□ *Michael O'Dowd is a director of the Anglo American Corporation.*

The hard nuts in the ANC's economic nougat

(49)

S/Times 11/11/90

MICHAEL O'DOWD, an unabashed capitalist, dissects the ANC's economic programme and finds a soft core of tired myths. The first in a two-part series

THE most striking thing about the ANC's Discussion Document on Economic Policy, adopted recently in Harare, is how old-fashioned it seems.

Could anyone suspect, from internal evidence, that this was written in the year in which the late unlamented German Democratic Republic ceased to exist, in which the non-racial democratic government of Czechoslovakia embarked on a programme to give the greater part of its economy away, and the Soviet Union embarked on a 500-day plan to convert itself to a market economy?

The goal which the document sets up is a "high employment, high wages, high productivity economy". Nobody could cavil at that. The problem is how to get there.

The proposed route is described as "growth through redistribution". The slogan in itself tells us nothing. It is redolent of the old idea (much older than Keynes) that wealth can be created by creating demand — either raising wages by fiat or embarking on massive government expenditure, or both.

Horror

One of the incarnations of the idea was Keynesian demand management which, as we now know, created inflation and stifled growth. The relevant case history is Britain under Harold Wilson.

But there have been other and more spectacular cases. One of them was Peron in Argentina. He did most of the things advocated in this document — high wages, trade union rights, social legislation, public works. But somehow he got it wrong and Argentina today is poorer than it was when he came to power.

The ANC's Harare document begins with a recitation of what is wrong with South Africa at present. Most of this is true. To its credit, the document avoids claiming that all the evils are the consequence of apartheid.

Nevertheless, it still assiduously avoids comparisons with other Third World countries. All the horror statistics are seen as such because, by implication, they are compared with the First World.

Much of the document consists of trite statements of good intentions, some of them very trendy. So we will generate electric power to avoid air pollution from coal, but we will not use nuclear power because the First World Greens do not like it. (Coal-fired power stations pollute the atmosphere, but never mind that.)

We will spend a lot of money, but we will not have inflation. We will increase taxation on companies, but we will encourage investments.

We will have a huge public sector, but it will not be bureaucratic and inefficient. Expressions of good intentions are just not good enough. Nor is it sufficient to chant the mantra "democratic non-racial government".

However, embedded in the soft nougat are some hard nuts. There are some quite definite policy prescriptions and these, if dried out and put together, represent a fairly coherent, and dreadfully familiar, policy package. Let us see what they are.

Serious

First of all, trade unions are a good thing. In every other context, in relation to every other institution, the document recognises problems, dangers that have to be avoided and balances that have to be kept. Not so with trade unions.

As if the history of the last 30 years had not happened, there is no recognition that trade union power can be abused, that unions can oppress the consumer, the unemployed and individual workers.

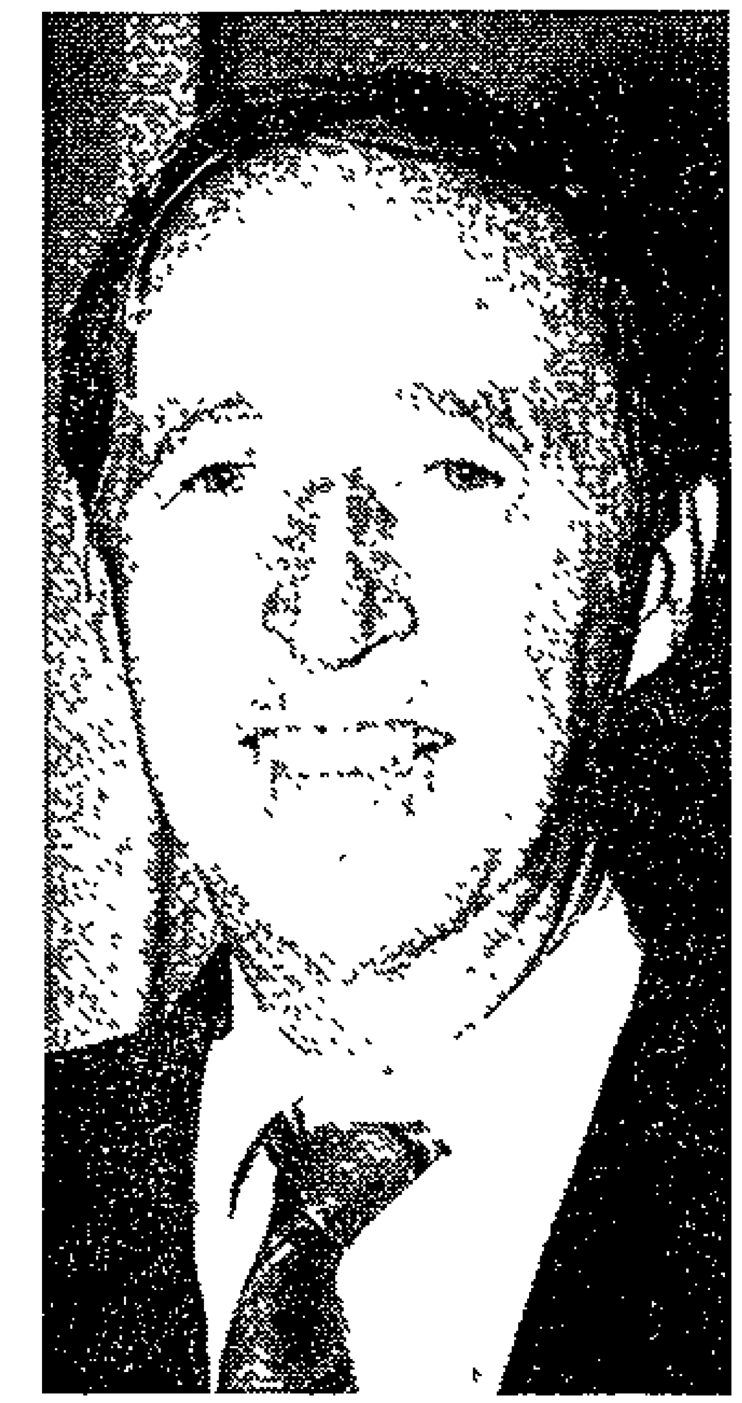
There is no recognition that the preservation of democracy in trade unions requires positive actions to counter a well-documented tendency towards boss-style 'leadership'.

If we are to take the document seriously, we are faced with trade unions above the law, as they used to be in Britain.

Then, quite unambigious and categorical, they are against privatisations and even deregulation. So, the whole world is out of step — from the non-racial democratic republic of Czechoslovakia to the dubiously non-racial and totally undemocratic regime of Red China.

Then there is affirmative action. They feel very strongly about this, for reasons which also are not hard to find.

There are two problems about affirmative actions, neither of which is addressed. The first is that, while such action is about groups (will we need a population register for this purpose?), it is individuals who are appointed to jobs.



It is pure fiction that the appointment of a particular person to a privileged position benefits other people that belong to the same (arbitrarily defined) ethnic group. What happens in practice, as has been seen in India and in the United States, is that a small number of the most privileged members of the favoured group benefit while the vast majority do not, and actually suffer.

The position in the US is less dangerous than it could be in South Africa. With blacks as a small minority, affirmative action in America could never seriously undermine the efficiency of the whole economic system. In South Africa it could. If it does, the chief sufferers will be the poor.

There is another problem about affirmative action which is potentially very serious in South Africa. It is a group-based concept and its effect depends entirely on the definition of groups, which is capable of almost endless political manipulation.

Furthermore, once a bureaucracy has been put in place to engage in allocating privileges on the basis of "affirmative actions", it is not going to give up the right. New "disadvantaged" groups can always be found and the destabilising, demotivating and socially-divisive process will go on forever.

Then there are to be lots of controls. Indeed, the authors seem to find the South African state apparatus as it existed in the 70s just about right. They want all these powers, but they assure us that they will use them in a different way.

Failure

They are even going to have a decentralisation policy — undeterred by the failure of the decentralisation policy, undeterred by the failure of the previous one, and, it would seem, blissfully unaware of all the other failures that there have been around the world.

Above all, we are to have investment controls.

A bunch of intellectuals — who have probably never run a spaza shop between them — will know how, where and when money should be invested. The team which gave the world the Tanganyika ground nut scheme, Concorde, the Pongola dam and Chernobyl is to ride again.

☐ *Michael O' Dowd is a director of the Anglo American Corporation and chairman of the corporation's Chairman's Fund. Next week: the dangers of dirigism in ANC policy.*

BDay 1/11/90

Women will be allowed underground

Political Staff

CAPE TOWN — Sex and race discrimination are being removed from mining.

For the first time, women are to be allowed to work underground and, as apartheid crumbles, people of colour will be allowed to acquire prospecting and mining rights.

In terms of the Mines and Works Amendment Bill which has been published in Cape Town, women will be able to go down a mine as long as they do not do "manual work".

However, they will have to hold management positions or be employed in health or welfare services.

Women will also be allowed underground if they are required by their studies to spend a period underground for training or research.

The Mining Rights Amendment Bill deletes all references to and definitions of race.

Business warned about a 'new SA'

49

SOCIO-economic pressures are going to challenge the established economic institutions in SA, which has one of the highest measured income inequalities in the world, as never before, says chairman of the Independent Development Trust Jan Steyn.

Addressing a KwaZulu Finance and Investment Corporation function last night, Steyn said the real transition was yet to come, and it was the economic and socio-economic policies that a new government would pursue that were the real issue.

"These socio-economic policies cannot all be defined and circumscribed by the constitutional process. They will be defined by needs, pressures and expectations."

The issue facing SA was therefore only partly the political or constitutional resolution.

Steyn said he had some confidence that the country's future constitution would reflect reasonable compromises. BDay 1/11/90

"It should be abundantly clear to all of us that the process of political negotiation is only part of a much wider resolution that has to take place in South Africa."

As it was known that the poor were going to become voters, it was clear that in their economic policies the ANC, the PAC or Azapo would have no option but to put the needs of the disadvantaged South Africans at the top of their agendas.

"In a sense, therefore, these policies are a response to the pressures emanating from their constituencies."

Steyn warned that SA had at the most two to three years to demonstrate the efficacy of policies shaped by accumulated wisdom and experience.

If not, the country would be plunged into an era of hopeful, idealistic but destructive economic experimentation which could repeat all the mistakes of social planners, Marxist intellectuals and imperious bureaucrats the world had come to know. — Sapa.

Call for unambiguous market-based economy

BDay 1/11/90

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ROBERT GENTLE

PORT ELIZABETH — The only way the new SA would attract investment in an increasingly capital-starved world was to have an unamibiguous market-based economy free of failed socialist policies.

That was the message yesterday from most speakers at a top-level Gencor-sponsored conference in Port Elizabeth on The Outlook for Investments in the New SA.

They said that with many other countries able to offer attractive investment returns, the ending of apartheid or a signal from the ANC that sanctions had ended would not be enough.

The speakers included visiting US Professor Walter Williams (author of SA's War Against Capitalism), Free Market Foundation executive director Leon Louw, DP leader Zach de

● MBOWENI

Beer and Reserve Bank economic adviser Roger Gidlow.

ANC economic department spokesman Tito Mboweni was the only speaker to emphasise the key role of the state in the new SA.

Williams said that SA's problems stemmed from the exclusion of blacks from the economic process, and that the simple solution was to scrap laws that maintained this.

De Beer said that only a market-based economy could produce growth and the kind of environment in which investors wanted to place their money.

Investors looked for profits, economic stability and competent economic management, De Beer said, and the general criteria were the same for local and foreign capital.

Drawing on his travels and contacts throughout Eastern Europe, Louw said he was "distressed" by the ANC's insistence on a mixed economy.

Referring to it as the "third way" he said Eastern European countries had already tried it. "The third way is the quickest way to the Third World," Louw said, quoting a Czechoslovakian minister.

He said there were probably more than 100 countries in which it was attractive to invest because they were moving towards market economies. "The mere removal of apartheid will not be enough any more".

Mboweni said that ANC contacts with foreign companies had shown they were interested in investing in a post-apartheid SA.

He spoke of a mixed economy which would use market regulation rather than deregulation to achieve growth through redistribution and social upliftment.

He rejected privatisation and the suggestion that assets should simply be given away to blacks.

Gidlow spoke of the vital need for low inflation, real interest rates and high productivity to attract investment as there would be less disposable investment capital in the world.

Use positive discrimination, urges Mbeki

BDay 1/11/90 (49) ~~180~~ ~~116~~

PETER DELMAR

ANC international affairs director Thabo Mbeki yesterday urged the SA business community to accept the ANC's principle of affirmative action to redress economic imbalances.

Referring to programmes already initiated by business, Mbeki told the annual Sacob convention in Johannesburg there should be no need to argue the general principle of affirmative action.

Housing

"We speak here of affirmative action not as an act of charity or a means to assuage a guilty conscience, but as an instrument to achieve development, growth and equity," he said.

It appeared there was a strong case for favouring of the poor as regards housing.

"This would constitute affirmative action which would address a real and desperate need while assisting in the process of economic growth and bridging the gap between the haves and the have-nots."

Mbeki also proposed helping would-be entrepreneurs to overcome the problems of lack of collateral and high interest rates.

Mbeki said overseas investors should be made aware of the country's development goals and the need to address inequalities as a consideration in their investment decisions.

There should be no fears that the ANC would do anything which would weaken or destroy the SA economy, he said.

Growth

"We take it as a given that we cannot solve our problems unless we have a strong and growing economy.

"We also take it as given that . . . growth in itself does not guarantee the achievement of the objective of equity."

Mbeki said the ANC was busy with a wide-ranging discussion on ways to end poverty, and looked forward to discussions with business on evolving a possible joint consensus on "what needs to be done to abolish the Third World through development".

The ANC, he said, realised the First World economy was the engine of economic upliftment and that a strong, modern economy was needed to create wealth at an increasing rate.

Mbeki said business had to be involved in the process of bringing about a just political order.

It should also help end violence inside the country, he said, referring to efforts by business organisations to mediate in the Natal conflict.

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Policy cannot be relaxed yet

B/Day 2/11/90 (49)

CHRIS STALS
Reserve Bank Governor

THE Reserve Bank's contribution to the fight against inflation is not aimed directly at prices — it will obviously be senseless to attack the results and not the causes of the problem.

Our anti-inflation policy is therefore aimed at what we regard as one of the basic causes of inflation and over which the cental bank has control, and that is the money supply.

One should not oversimplify the very complex relationship between the money supply and the consumer price index. Somehow or other there is some truth in the quantity theory of money, somehow or other more inflation needs more money, and somehow or other more money contributes again to more inflation.

This money rule has many pitfalls, and there are many deficiencies in the application of the money rule in practice. What definition of the money supply is most appropriate? Is it M1, or M1A, or M2 or M3?

What role does the velocity of circulation play in this complex process of action and reaction? How should one accommodate intermediation and disintermediation? How will changes in the liquidity preference of money holders affect the formula?

What addition to the money supply is needed annually to cover normal growth in demand for transactions and cash balance purposes? When do we reach the point where any further increase in the money supply becomes inflationary?

It is understandable why the Reserve Bank is not for the rigid money rule and why it regards its annual money supply objectives as very important guidelines, but not as fixed targets.

The art of central banking is not to follow a rigid money supply formula in the pursuance of the cental bank's mission, but to apply the necessary discretion based on changes in all the available monetary data, such as bank credit extension, interest and exchange rates, changes in the gold and foreign exchange reserves and in government finances.

Were it not for this broader approach, we would have been compelled to start relaxing on our restrictive monetary policy measures at this stage. Measured over a 12-month period, the M3 money supply increased by 13,3% in September, that is within the Reserve Bank's target range of 11% to 15% for calendar 1990.

The guidelines for 1990 are based on the average amount of M3 in the fourth quarter of 1989. Measured against this basis, the seasonally adjusted annual rate of M3 up to September 1990 was only 11,2% up. On this basis, for the past four months M3 has remained within the target range of 11% to 15%.

The Reserve Bank is nevertheless of the opinion that this achievement does not yet justify any relaxation in policy.

In the broader perspective, we must also take into account the following facts:

- Bank credit extension to the private sector is still growing at a rate of about 19% per year;
- The velocity of circulation of M3 has recently started to rise again and, at its present relatively low level it holds the potential to accommodate a substantial increase in total nominal spending in the economy, without any increase in the money supply;
- The rate of inflation has recently been hoisted to a higher level by the oil price hikes and, in order to avoid any further escalation in prices, we have to be even more restrictive in our policy;
- The prospects for the balance of payments have deteriorated recently and the level of the gold and foreign exchange reserves plus unutilised borrowing facilities of the Reserve Bank is perhaps now more comfortable, but still leaves us very vulnerable

Through its open market operations and the conditions attached to accommodation provided at the discount window, the Reserve Bank therefore continues to constrain the capacity of the banks to create more money.

The Reserve Bank has no specific interest rate target, except that the Bank holds the strong view that nominal interest rates should at all times remain above the rate of inflation. Most nominal interest rates in SA are at present at a reasonable level above the current rate of inflation of between 14% and 15%.

Nominal rates can, of course, move up and down without any changes in the rate of inflation to reflect changes in the underlying demand and supply conditions. Such movements may lure the Reserve Bank to intervene in the market with open market operations should the Bank not be satisfied with the movements in the rates.

The monetary authorities are satisfied that the present level of interest rates is in conformity with the overall monetary policy objectives.

There is still a surprisingly strong demand for credit, as reflected in the relatively high rates of increase in bank credit extension to the private sector, and in the relatively large amounts of the money market shortage

A decline in interest rates would most probably stimulate the demand for bank credit further, which might have an expansionist effect on the total amount of new money created through the banking system

The Reserve Bank therefore remains reluctant to reduce its Bank rate, through either open market operations or through the discount window, to add to the liquidity base of the banking system

A request to the Reserve Bank for a lowering of its discount rate is indeed a request to the Bank to print more money. In view of our relatively high rate of inflation, such action at this stage surely cannot be in the interest of the economy.

This is an extract from Stals' address to the Financial Mail Investment conference in Johannesburg yesterday.

LETTERS

Dear Sir,

Surely the person who conducts the

Govt aiming at 'as much tax relief as possible' next year

(49)

BDay 9/11/90

GRETA STEYN

GOVERNMENT plans to give as much tax relief as possible in the next Budget, a spokesman for Finance Minister Barend du Plessis has said.

He was responding yesterday to questions on Du Plessis's statement last week that government's freedom of action in providing "substantial and much-needed tax relief will have narrowed" as a result of the Gulf crisis.

Economists are predicting there will be little to be happy about in the next Budget.

Old Mutual's David Mohr said there would be limited scope next year for the ongoing tax relief which government had committed itself to in the 1990 Budget.

But Du Plessis's spokesman said meaningful tax relief in the next Budget had not been ruled out as a result of the Gulf situation.

Since much depended on the outcome of the crisis in the Middle East — its adverse effect on the balance of payments and inflation — it was impossible to make any promises.

"It is premature to speculate on the extent of tax relief next year. A lot can happen between now and March 1991. But the National Party remains committed to its five-year plan to reduce taxes, both for individuals and companies."

The NP's objective over five years, which started this year, is to cut marginal rates to a maximum of 40% at the income level of R100 000 from 45% at R80 000 in 1989.

In this year's Budget, income levels were left unchanged but the rate was cut to 44%. Overall, personal income tax relief of more than R3bn was given.

But in spite of this cut in taxes, government is still seeing huge increases in revenue in excess of what it expected.

Latest government revenue figures indicate government was again conservative in its revenue forecast of 5,8% for the fiscal year as a whole — revenue for the period April-September was more than 15% up on the same period last year.

Economists said it seemed fiscal drag had not yet been eliminated. In the previous book year, fiscal drag pushed the increase in personal income tax to a massive 37% and was the main reason why government ended the fiscal year with R6bn more than it expected in revenue.

Resisting the urge to spend millions on a quick fix for the poor

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B/Day 14/11/90

Government has set aside R2bn for development, which is earning R1m a day in interest. JAN STEYN explains why it isn't being spent quickly.

ALL of us are fully aware — virtually on a daily basis — of the need to make a positive impact on the lives of the very poor in this country, particularly those in rural areas.

The knowledge that the Independent Development Trust is earning about R1m a day in interest, while reassuring on a financial level, causes us to focus our efforts even more keenly.

But, and this is the nub of the challenge facing the IDT, we remain committed to our founding principles which direct us to work through, and in concert with, the communities requiring upliftment. This is an essential if somewhat time-intensive aspect of our task.

The temptation to short-circuit the assimilation and negotiation process and "do something quickly" has to be resisted if the IDT is to develop the necessary credibility so as to play a major role in the new democratic society in which we will live.

President F W de Klerk announced the creation of the trust on March 16 this year. In accepting his charge, I stressed two things. One was the determination that we would be an independent agency operating outside of the ambit of government and free of party-political subservience of any kind.

I also recorded the undertaking received from government that all remaining racially discriminatory measures still on the statute book which inhibited development would be removed with all deliberate speed. One simply cannot produce good products in a bad policy environment.

Negotiations had to take place with the authorities — including the Reserve Bank — as to how the funds were to be transferred without negatively affecting the money market. This transfer took place on July 16.

Trustees had to be identified and approached. I was anxious to avoid high profile political actors that could give a political colour to our initiatives. The qualities I sought were that the trustees should have demonstrated through their actions and involvement that they were caring South Africans and that they had knowledge, understanding and experience of development in SA.

Throughout this negotiation process we sought not endorsement, but participation and involvement. I believe the trustees are broadly representative of the sensitive threads that criss-cross our society.

The IDT was established on August 1. Our charter defines our primary goal as to use the trust's resources in ways which "best serve to promote the development of disadvantaged people in SA"; it stresses the need to consult disadvantaged communities, the private and public sectors and others.

It stresses development which is directed at the socio-economic enablement of disadvantaged people and is calculated to break the cycle of poverty, and the dependence and powerlessness thus created. This includes education and training directed at addressing disadvantages, disparities and backlogs attributable to historic legacies and inequalities.

We aim to use the trust's resources in ways which are likely to result in the mobilisation of the private sector and its financial resources, including the raising of additional funding, investment or loans to support or promote projects. We also want to use the money in ways which facilitate the recovery or recycling of funds.

Our target is the very poor in SA. While some of our investments in development will be facilitative and will create upward mobility for a wider audience, we must never lose sight of the fact that there are probably upward of 10-million South Africans who qualify as "very poor".

We have taken the deliberate decision to keep the organisation as small as is possible; the trust will not be an assessing, monitoring or implementing agency. It will seek to equip itself with expertise, from individuals that have specialist knowledge, or organisations that have a capacity, or a potential, to affect the development challenge.

There are three overarching considerations: the need to develop communities, to have a specific emphasis on rural development, and to create job opportunities of a productive nature.

Our function is not to supplement the budgets of the state, parastatals or local government, but there are areas in which we can co-operate with those seeking to achieve the development of our poorer people.

The Development Bank has vast experience and expertise, and is one of the organisations with the capacity to help evaluate the initiatives we identify. Government has a store of information concerning the urgent needs of deprived communities. We will make use of these resources.

It will take some time to become fully operational in all our chosen areas. We are attempting to operate in areas and according to processes which no SA organisation has yet operated. It is therefore sensible to expect some longer-term rather than only short-term results. This is particularly important in view of the need for community involvement and participation in what we are seeking to achieve.

While recognising the intense urgency and seeking to act as speedily as possible, we will also need to phase in our operations across the spectrum from the relatively well-known to the more innovative.

In housing and education it has been possible for us to make an early start. We are seeking the creation of panels representing expertise and communities in each functional area to help us to identify activities for funding.

We are also seeking ways of co-operating with, influencing or strengthening the impact of development work undertaken by the private business sector. Access to the resources controlled by pension funds and life offices, and finding ways to direct these resources towards development, is a current example.

Finally we will attempt to do two more things. First of all a great deal of injustice has been done in our country. Whatever the trust can do through its investment to redress some of these injustices, it will undertake with particular commitment.

We will support initiatives which identify land close to work for residential development. Where people have been resettled in implementation of grand apartheid, and opportunities for redressing such injustice are possible, we would welcome opportunities to achieve this.

Secondly we will also seek to play a facilitative role. Where policies are inappropriate and inhibit the advancement of our objectives, we will seek to influence change.

In the three primary areas of our involvement — education, housing and health — the proliferation of government departments structured racially is an inhibitor to sound development. We will use our resources and influence to attempt to bring greater rationality and sensibility to these structures.

An independent facilitator such as the Independent Development Trust can play an important part in helping to build a more just and stable SA. While working with great urgency, it will need some time and some space to be able to do so.

☐ **Steyn is chairman of the IDT. This is an edited version of a longer article.**

Range of input urged for economic planning

EDYTH BULBRING 49

THE broad framework of economic strategy had to be determined with business and political leaders, a six-man delegation from the SA Chamber of Business told Economic Co-ordination Minister Wim de Villiers in Pretoria yesterday.

Sacob director-general Raymond Parsons said last night the delegation, led by Sacob deputy president Hennie Viljoen, had a frank and friendly exchange of views on aspects of thinking on economic restructuring.

Sacob emphasised the need for better co-ordination in overall economic strategy and for avoiding ad hoc decisions on matters such as export incentives, tariff protection and decentralisation, Parsons said.

"Sacob stressed that it was necessary, especially under present economic and political circumstances, to reduce uncertainty for businessmen as far as possible."

The need to strengthen consultation between government and the business sector was also stressed.

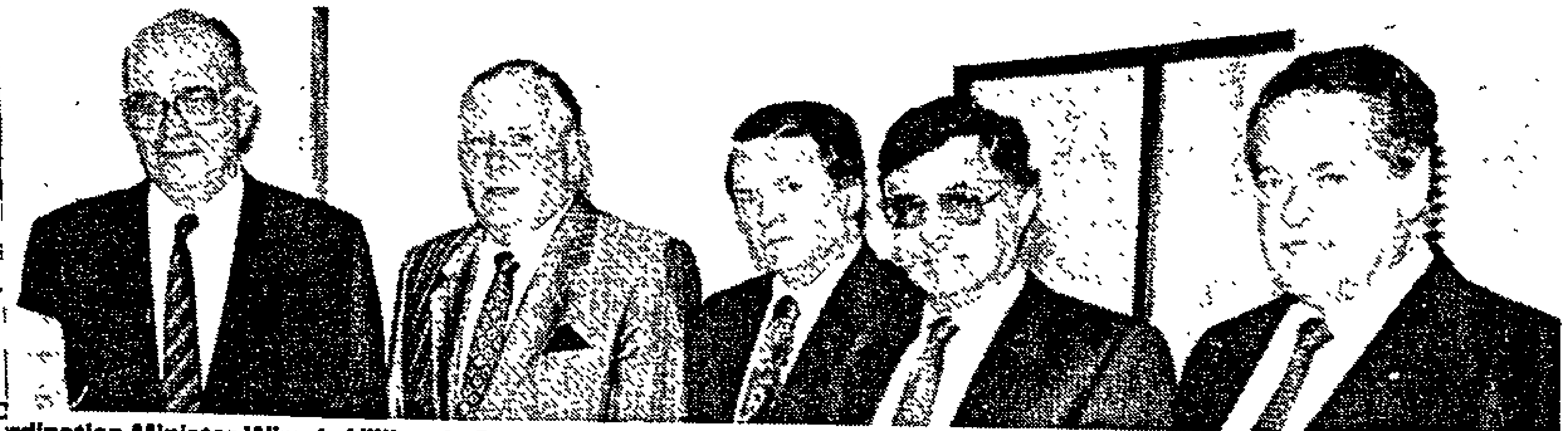
Sacob's economic affairs committee chairman Ronnie Bethlehem added last night that the delegation talked about the need to address the matter of an economic development programme, which, once formulated, needed to be acted upon expeditiously.

De Villiers was told that the framework for a new economic strategy had to be agreed to after consultation with a wide range of business and political leaders.

The delegation expressed the business community's concern that problems were still being dealt with on an ad hoc basis without proper co-ordination between the different government departments.

Bethlehem said the delegation had stressed the need to minimise uncertainty and confusion, as well as for consultation between government and the private sector on the conduct of current economic policy.

AHI executive director Martin van den Berg declined last night to comment on AHI's separate meeting with De Villiers yesterday. AHI did not want to give publicity to the contents of the meeting at this stage, he said.



...rdination Minister Wim de Villiers in Pretoria yesterday. From left are: Dennis Paxton, Ben van Rensburg, Beth Robertson, ...ons, Ronnie Bethlehem and Ron Haywood. Picture: ROBERT BOTHA

Citrus

PRETORIA — Thi... ports will earn the foreign exchange than last year, says GM Arend Venter.

About 30-million... shipped abroad so... about the same as... he said. Total grc... point of sale abroa... R1bn.

lans ...,2% 32 ...plans ...nths of ...% com- ...od last Statis- 1190 houses ...n, and ...,2% to

SMITH NEV

Premier chief blows SA's trumpet

Business Day Reporter

SOUTH and southern Africa offered almost unlimited opportunities and potential to visionaries in search of new markets, Premier Group chairman Peter Wrighton told an investment conference on SA in London yesterday.

Wrighton said SA was the most developed state in Africa with a First World infrastructure, and predicted it would become the gateway to Africa.

Sanctions, he said, had forced the country to reduce debt to a negligible amount so it had a balance sheet, as a developing country, of "admirable proportions".

Whereas SA's foreign debt stood at $25bn and Australia's at $45bn in 1989, the comparable figures were now $20bn and more than $100bn.

"We might well have compensatory growth to make up for the years of apartheid sterility.

"For this reason we are possibly one of the few areas of opportunity in a world facing a long period of recession," Wrighton argued.

Further, he noted, the UK already had nearly R50bn invested in the country and therefore had a very real interest in ensuring its success.

SA had great tourist potential, the world's greatest store of mineral wealth and abundant, cheap energy.

A further advantage, Wrighton said, was the country's "urbanising population which has long been exposed to a sophisticated media, high-tech industry and the failure of the rest of Africa as well as of communism."

Finally, compared with the rest of post-liberation Africa, SA had a far greater percentage of sophisticated non-black people — entrepreneurial people of skill and talent who had nowhere to go should the experiment fail.

"It is true there are safer places to do business; places where the risk, if any, can be clearly evaluated and the potential accurately measured.

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Bdow 13/11/90

Imbalance

"But... like the Pacific Rim countries before us, we have the will, the people, the resources and the infrastructure to join the world's winning nations," Wrighton added.

SA's future economic policy, he said, must address the imbalances of apartheid and the social requirements of a developing nation.

"But it will recognise the important role of private enterprise.

"The liberation movements are publicly recognising that slogans and protest marches will not fill stomachs, and the business community understands that economic and social justice are prerequisites to a successful SA," Wrighton pointed out.

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Mining's need for local and foreign investment spelt out

BDay 13/11/90 (49)

Business Day Reporter

EVEN if the industry is successful in cutting its working costs to more acceptable levels, there can be no sizeable expansion without substantial renewed investment from local and foreign sources, Chamber of Mines vice-president Naas Steenkamp warned yesterday.

And, he told the investment conference in London, the fond expectation in some quarters that political settlement would mean an ample inflow of investment was doubtful.

"Sceptical risk aversion analysts will be considering interest rates, the skills and productivity profile of the SA work force, nationalisation rhetoric, global alternatives and a host of other variables which may impact on their return on investment.

"But let me add that substantial foreign investment is an objective that demands relentless pursuit by the public and private sectors in SA. Without it SA will be condemned to increasing deprivation and a widening chasm between the haves and the have nots."

He said SA's mining industry owed a considerable measure of its successful development to the capital input of offshore investors.

He said although capital flight had drastically reduced foreign holdings in SA's industries, almost 25% of gold mining shares were kept by overseas investors. Whether extra investors could be found and individuals and corporations persuaded to increase their stake, would have a bearing on decisions to open new deep level mines.

"Unfortunately, recent events in SA have quickened and dashed hopes for the restoration of investor confidence," he said, referring to political developments set in motion by President F W de Klerk earlier this year and the subsequent violence.

He was more encouraged by the progress of the economic debate between major SA interest groups: "There appears to be a realisation that neither simple socialism nor crude free market liberalism can provide the conditions for a flourishing business sector and at the same time create the mechanism to address poverty and inadequate access to opportunity."

But he criticised aspects of the recently published ANC economic policy document dealing with the mining industry.

"I must express puzzlement and concern at ... the anxiety over what the ANC describes as the current conglomerate control of mining finance, and its suggestion that there is a need for a state minerals marketing authority.

"The estimated cost of the establishment of a new gold mine is R2bn. On this kind of scale it seems logical that the major groupings funding and managing the industry ... should be viewed as an asset in the new post apartheid SA and not as an inhibitor of the ANC's notion of growth through redistribution."

Anglo ready for 'partial nationalisation'

JAYNE LA MONT

LONDON — Anglo American chairman Julian Ogilvie Thompson hopes SA will have a new constitution, with blacks in government, by next Christmas.

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Interviwed on British television on Sunday night, he also indicated he would be prepared to see partial nationalisation of his corporation and predicted there would probably be a black SA director on the board in about three years.

Ogilvie Thomson said government wanted to get on with the process of negotiation "as quickly as possible".

One of the important tests of the new SA would be whether "those people (who withdrew funds) will be prepared to extend their loans and to make new loans".

In envisaging a black person on the Anglo American board, Ogilvie Thompson warned: "It is extremely important, both for the individuals and for the rest of the organisation, that people go on the board who are genuinely seen to be qualified and carrying the responsibility in the organisation that justifies their going on the board."

He believed the chances of full nationalisation were receding as the ANC was "beginning to see that this is not a sensible route to go down". The effect of government taking a shareholding in the company would depend on the size of its stake.

Financial stability is the priority

Upturn might not arrive in 1991 — Stals

BDay 13/11/90

(49)

ANDREW GILL

THE next expansionary phase in the economy might not start until late 1991, or even 1992, Reserve Bank Governor Chris Stals said in London yesterday.

Speaking at the Smith New Court/Frankel Kruger Vinderine conference on investment in a post-apartheid SA, he said restrictive monetary and fiscal policies should be retained for the time being, with the first priority being to reduce the rate of inflation before moving into a new phase of growth and development.

Although results in the general financial situation were gratifying, they were not yet satisfactory, he said.

At the same conference, Finance Minister Barend du Plessis said government was determined to set firm bounds on the public sector and was seeking an average real annual growth in Budget expenditure of no more than 1%.

"We are unequivocally committed ... to a containment or even reduction of the public sector vis-à-vis the total economy."

Also, government would restrict the fiscal deficit to the capital component of the Budget, currently less than 2% of gross domestic product. This was in line with the view that the private sector was "the only viable engine of economic growth".

Stals said financial stability, or inflation, had gained preference over economic growth in this "transition period" because in the longer term it was a precondition for economic growth.

As a minimum "we want the new SA to start off with a money supply that is well under control, a banking system that is sound and not over-lent and a low and declining rate of inflation".

Other requirements were that government finances be well under control and not making excessive demands on the scarce financial resources of the country, a good balance of payments situation with a stable exchange rate, and a "reasonable amount of foreign reserves in the kitty".

In this period of transition new doors were being opened economically, he said. In order for the production potential of the new SA to be used to its full extent, and in order to entice investors and entrepreneurs to enter these doors, the new government would have to do various things.

It would have to convince participants inside and outside the country that SA would pursue sound economic policies with a firm commitment to private initiative and a market-orientated economy.

Also, the support of the international community would have to be sought. The IMF and the World Bank could play major roles in assisting the new SA while private investors would be indispensable, he said.

KIN BENTLEY reports from London that ANC foreign affairs spokesman Thabo Mbeki told the conference that the ANC would review sanctions during its consultative conference next month.

"The ANC is concerned that sanctions should be lifted as quickly as possible," he said. But before this could happen, SA would need to be transformed into a non-racial democracy.

He said the ANC was aware of "a responsibility to create a situation of peace and stability".

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Economists see a bottoming out

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SA in deep recession as GDP drops

B/Day 15/11/90.

ANDREW GILL

GROSS domestic product (GDP) estimates, released yesterday, clearly show that the economy is in the grip of a crippling recession. But, say economists, there is room for optimism — it may have bottomed out.

The third quarter's annualised and seasonally adjusted 2,1% decline in real GDP was largely a result of a poor performance by the agricultural sector, which contracted by 32,8%, Central Statistical Service (CSS) figures show.

The non-agricultural sector showed a 0,1% growth compared with the previous quarter's 1,9% decline.

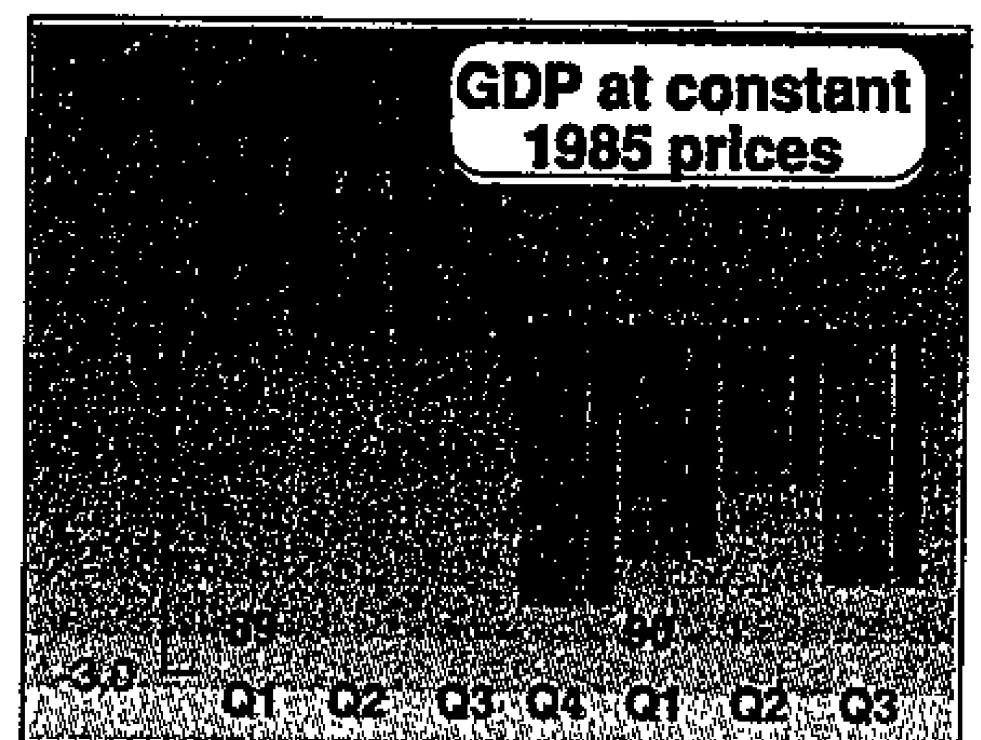
The overall picture is, however, dismal. This was the fourth consecutive decline in real GDP and the largest since early 1986. Revised estimates show that it declined by 1,3% in the second quarter and not the original 0,8%.

In money terms the economy has fallen to 1988 levels and the last two years' growth have been wiped out.

The GDP has slipped to R131,6bn from its R134,1bn high a year ago, a 1,9% decline. The figures are based on constant 1985 prices. The third quarter of 1988 showed GDP at R131,5bn.

Real GDP is the value of all goods and services produced in an economy in a given period, adjusted for inflation.

Nedcor economist Edward Osborn said the "soft landing" that had been spoken of was more like a steep crash but he felt the the economy would now flatten out.



Seasonally adjusted annualised rate

Higher pay packages, tax refunds and an expected drop in retrenchments were likely to contribute to increased consumer power, he said.

It did not look like exports could fall much further, he said.

The steep decline was, however, a concern and would normally warrant an easing in monetary policy and a subsequent cut in Bank rate, which has been kept steady at 18% for over a year.

Inflation and the relatively strong demand for credit were likely to be the pegs on which to maintain the current strict policy, he said.

Inflation is set to continue its recent upward trend in October as a result of the 26% petrol price hike and banks are still reporting a strong demand for credit.

The agricultural sector reflected the largest annualised decline with a 32,8%

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Recession

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slide compared with the previous quarter's 15% rise.

Drought conditions and an expected poor early season for crops will lead to pessimistic estimates.

Analysts say the sector undergoes major revision due to its wild swings.

Surprising resilience was shown by the mining sector which turned around from a 2,5% decline in the second quarter to a 4,3% rise.

Osborn said this was not reflected in recent gold output figures or by the spate of mine rationalisations and closedowns.

The GDP figures have been revised by the CSS because of the exclusion of Namibia and a change in the base year of two of the contributing indices — physical manufacturing volumes and wholesale trade.

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Sweden's model economy yields to the new reality

B Post 8/11/90. (49)

ROBERT TAYLOR

SWEDEN's famous economic model — the envy of the world for more than half a century — is dead. It passed away last month as its authors — the ruling Social Democratic party — announced a Skr15bn (£1,4bn) cuts package that trims health benefits and reduces the size of bureaucracy.

The outside world is now dictating what Sweden can and cannot do. Under intense pressure from overseas financial opinion that forced up interest rates to 17% and led to a huge outflow of capital from Sweden, the Swedish government is having to abandon a long-held belief: that the commitment to full employment and the defence of the welfare state should be overriding priorities.

Over the next few days the money markets will decide whether the austerity measures are sufficient to restore international confidence. The omens do not look good. The cuts are far less than the SKr25bn originally forecast, amounting to under 2% of the total budget. What looks draconian to Sweden's ruling Social Democratic Party is likely to seem modest to more hard-headed overseas business opinion.

But neither Prime Minister Ingvar Carlsson nor his finance minister, Allan Larsson, can be in any doubt that their package can be only the start, not the conclusion, of what promises to be Sweden's painful but necessary adjustment to economic reality.

Now it is the international money markets that have become the arbiters of Sweden's future, not the Social Democratic ideologues who built up the famed Swedish model of economic management.

The package is aimed at keeping Sweden's budget balanced for the coming year. A bitter reaction to the cuts package may soon come from many people in the once dominant but now demoralised trade union movement who find it difficult to come to terms with the onset of hard times and who believe that Sweden can somehow still go it alone.

The size of the public spending cuts is perhaps less important to the party faithful than a recognition of the policy shift.

Sweden has been compelled to accept that its economic troubles can be solved only with the support of international markets. Indeed, the package's declaration that Sweden wishes to join the EC may turn out to be its most important ingredient. It is an attempt to reassure the markets that Sweden intends to move rapidly into the EC — perhaps by early 1993 — with all the financial disciplines that this would involve.

In their new warmth for the EC, the Social Democrats can at least expect to carry Swedish public opinion. A change in attitudes to the EC has occurred over the past six months following German unification, the end of the Cold War and the erosion of the military blocs.

The speed with which outside events in Europe have forced themselves onto Sweden's settled ways is placing enormous strains on its social stability and cohesion. Since the early 1930s, Swedish policy-makers have developed their own separate response to economic management. To the admiration of many on the democratic left they seemed to have created a successful society that guaranteed full employment and a comprehensive welfare state founded on the back of a highly redistributive tax system and egalitarian, centralised wage bargaining.

A dynamic labour market strategy of training and redeployment and a tight fiscal policy caused the resulting Swedish model to be hailed as a successful blend of the free market and social justice.

But the fully fledged model worked successfully for only a relatively short period — from the late 1940s until the end of the 1960s. It did so through a "historic compromise" between capital and labour which accepted the peaceful coexistence of a thriving private industrial sector and strong, responsible trade unions. The model was held together by a genuine social consensus.

From 1970 onwards the consensus grew more difficult to preserve. The growth rate began to falter. Productivity became sluggish. The balance of payments fell into deficit. Increasingly, Sweden's basic industries grew uncompetitive and inflexible. Above all, wage and price inflation in a tight labour market undermined its international competitiveness.

At the same time, the country's pubic sector, relative to all other types of economic activity, grew into the largest in the world. The proportion of GDP devoted to public expenditure climbed to just over 60% by the early 1980s. Today, more than one in three of Sweden's workers is employed in the public service sector, mainly in local government, health and education.

Many economists believe Sweden's public sector jobs expansion crowded out the market economy. They argue a connection between the country's relatively poor post-1970 economic performance and its huge, insatiable public sector.

Traditionally, Sweden's policy-makers escaped from their troubles through strategic currency devaluations. Now such a strategy looks inconceivable without inflicting severe damage on Sweden's international credibility. Nor would it cure its underlying economic ills.

Under the direction of former finance minister Kjell-Olof Feldt, after September 1982 the country deregulated its protected financial system. It abolished foreign exchange controls in July 1989. The objective was clear — to internationalise the Swedish economy and open it to creative global pressures.

Unfortunately, Feldt's liberal policies did not initiate any complementary industrial restructuring or social measures designed to reform the public sector. The trade unions fought against Feldt all the way and his views aroused predictable uproar from vested interests across the public sector. As a result, he was forced at times to compromise his own better judgment.

From late 1988 there was a rapid deterioration in the balance of payments deficit, sluggish growth, and above all the return of wage-push price inflation coupled with stagnant productivity in an overheated labour market.

Feldt wanted to cool demand in early 1989 but the unions attacked him and he failed to win political support. Last February, he finally resigned in exasperation after parliament rejected a planned two-year freeze on wage, price and dividend increases.

Now Larsson has been compelled in even more difficult circumstances to act and to sacrifice ideological assumptions that have dominated social democracy since the 1930s.

Ministers cannot say so, but full employment is no longer the overriding priority of economic policy-making. Sweden has a registered rate of joblessness of a mere 1,5%, one of the lowest in the western world, but this can be expected to climb sharply by the end of 1991.

Moreover, Larsson has admitted openly that Sweden must reduce the proportion of its GDP devoted to the public sector. In fact, the country's public sector is about to be reformed radically with the introduction of private initiatives in health- and child-care services, as well as the partial privatisation of state industries and utilities such as telecommunications and electricity supply.

The government also intends to remove the existing legal protections that hamper the flow of investment into the country by opening Swedish companies to the possibility of foreign ownership.

In January, the country's tax reform will come into force. This is designed to encourage greater personal choice and to increase individual incentives to work and save. Yet more will be needed. The Social Democrats are going to have to bring Sweden more into line with the lower tax rates enjoyed by the rest of Western Europe.

Most Swedes do not yet realise the magnitude of the changes to their cherished way of life which they will have to accept over the next few years. — Financial Times.

Capitalism is dead — but long live free enterprise

(49)

B Day 15/11/90

STEPHEN MEINTJIES

AS FAR as the SA masses are concerned, capitalism is like Humpty Dumpty. It fell off the wall a long time ago, and neither F W nor big business nor all the horror stories of socialist Eastern Europe will ever put it together again.

The masses believe experience proves that capitalism will never eliminate poverty and injustice in SA. Capitalists, on the other hand, are equally convinced that high taxation, big government and nationalisation will kill the economy.

It's just possible that both are right. In the titanic struggle between "capital" and "labour", it is easy to forget about the third factor of production, "land", or natural resources.

Any economic system needs to encourage the full and natural interplay of all three. Since all taxes, as Milton Friedman said, are harmful to economic activity, both capital and labour suffer. Worse still, taxes encourage the hoarding of natural resources.

"Buy land, son," said Mark Twain, "they ain't making any more of it."

Can we refrain from penalising those who work and those who risk their capital, while discouraging hoarding or underutilisation of natural resources, principally land?

We can achieve both goals by replacing all existing taxation with a market-related user charge on natural resources. Imagine the incentive to free enterprise: no corporate tax, no income tax, no GST, no petrol tax — no taxes, period.

And the catch? There isn't one … unless you consider it unfair to pay the community for value you have received. For access to rich resources, you would pay a high charge, for marginal resources, zero. The playing field would at last be level.

The value of any piece of land is determined by factors such as the size and affluence of the surrounding population, infrastructure, location, fertility, climate, wealth, and law and order. Moreover, the security of tenure a landowner needs in order to enjoy all this is granted by the community. Clearly, bare unimproved site value is due to the community.

Given the equal application of capital and labour, what accounts for the difference in value added between a business unit on one site in central Johannesburg, and that of another on a similar-sized site in Upington, is location.

What is proposed is the collection of what classical economists called natural rent. Rent may be defined as the difference between the value added on the least productive site in use and all others, given equal application of labour and capital.

It is the natural source of revenue for the community. If the community doesn't collect the natural rent, the landowners claim it for themselves. In other words, they profit from wealth created by the community, wealth to which they have made no equivalent input.

The current rules of the game encourage the holders of natural resources to avoid the risk and effort of developing them. If they sit back and do nothing, the market value of those resources will still increase in real terms, thanks to the growth in the economy and infrastructure put in place by the public sector. This hoarding increases the scarcity value of natural resources, and drives up the cost of access to them.

Even worse, failure to collect natural rent creates the need for taxation, which cuts a deadly swath through economic activity on marginal land. Taxation on production on marginal land (and the greater part of the surface area of SA is inherently marginal) conflicts with one of Adam Smith's fundamental canons of taxation, the requirement of taxable capacity.

The rural exodus has swollen in line with the growth in indirect taxation, including GST and petrol tax, since the mid-'70s. Mining and manufacturing on marginal locations which would be viable on a user charge basis, without the need for subsidy, are hard hit not only by indirect taxation but also by PAYE.

PAYE is a payroll tax; in other words, it is a penalty on employment, since it can come only from the value added by the business.

These three factors — underutilisation of natural resources, the wealth claimed by landholders for no input and decimation of economic activity at the margin thereof — are at the root of poverty and inflation.

Winston Churchill described the cartel of land ownership as the oldest monopoly of all. Given the power of this "monopoly", free enterprise cannot flourish. Large business concentrations tend to arise and capitalism then begets socialism in a futile attempt to set things right.

To achieve free enterprise, which alone can meet the expectations and needs of both the masses and the entrepreneurs, we need a free market in the most important area of all, that of natural resources.

How would it be implemented?

Clearly there will have to be some trial-and-error and phasing in. But, for a start, a register of site values, based on current prices, could be compiled. Let us say, for the sake of argument, that it totals R1 500bn.

If the next Budget is R75bn, the initial user charge would be 5% of site value. From then on the user charge would be updated according to market values.

One way would be to stipulate a short hiatus after every property transaction, during which other parties could tender higher user charges after proving they could pay the seller his price. The highest tenderer would take the property, subject to the original purchaser being given the opportunity to meet the higher user charge bid.

These transactions would be published and used by the fiscus to update all other properties. The media would doubtless publish transactions. (In Copenhagen the telephone directory apparently lists the site value of every subscriber, where applicable, in addition to his phone number.)

The free market would be the arbiter of the charges for access to natural resources, and they would be a matter of common knowledge throughout the country.

Our natural resources would be unlocked and their usage optimised in the most objective manner. Access to natural resources would become much more widespread, diluting the present excessive concentration of economic activity. Independent entry by millions of small enterprises and individuals to the business scene would be facilitated.

The user charge would eliminate the site value component of corporate balance sheets, encouraging banks to become less "asset orientated" and more feasibility orientated in their lending practices.

Lending for land speculation would be out. Competitive pressures would ultimately force banks to lend more for production and less for consumption, again facilitating a lowering of the entry threshold to small business.

Has such a system been tried before? Not quite like this, but Japan achieved lift-off with a 2% land tax which was imposed in the 1870s after the redistribution of land. For nearly 20 years it was the main, if not the only, source of revenue for the state.

Taiwan did something similar when Chiang Kai-Shek relocated from the mainland, and Denmark conducted a limited, but successful, experiment with land tax between 1957 and 1960.

Isn't it all too radical? Yes it is, for it goes to the root of the problem. Yes, it requires a little concentration of the mind; but if our minds aren't already wonderfully concentrated by the prospect of the imminent extinction of the economy via nationalisation, perhaps we should each conduct our own opinion survey among the masses.

The verdict? Capitalism is dead. Never mind — long live free enterprise via abolition of taxes and the institution of user charges on natural resources.

☐ **Meintjies is MD of the asset management arm of a life assurance group. He is a co-author of The Trial of Chaka Dlamini, which deals with proposals for fiscal reform.**

FOCUS

Adam Smith's vision 'a myth'

(49)

BDay 7/11/90

GRETA STEYN

ADAM Smith's vision of the state confining itself to collecting taxes and providing education is a myth. The role of the state in an economy should be much wider than that, says the first paper released by a group of business and academic economists.

The Economic Policy Study Group was formed in June this year out of concern over the economic change that will accompany the transformation of SA into a non-racial democratic state.

Its chairman is Professor Gavin Maasdorp of the Natal University in Durban. Other members include JCI's Ronnie Bethlehem, Rand Merchant Bank's Rudolf Gouws and Unisa's Professor Philip Mohr.

In the first paper, Maasdorp argues that SA needs a mixed economy with government intervention similar to those of the newly industrialised countries (NIC's) of East and South East Asia.

"One of the great success stories of the past decades is the rise of the NIC's of East and South East Asia. In all these countries, the government played an extremely important interventionist role, adopting macro-economic policies that specifically encouraged growth.

"These policies include realistic exchange rates, positive real interest rates, market-determined prices and direct, not indirect, subsidies."

Government intervention addressed issues such as education and technology.

The state also had a role to play in the distribution of wealth. Taxation was a more sophisticated way of redistributing income than state ownership of the means of production.

In successful mixed economies, the mix was tilted more towards the private sector than the state. Government was more a regulator than an operator.

"Government intervention was successful in the NIC's because it coupled protection with competition, and the interventions were selective with a cumulative effect. Although governments shielded local industries, they then ensured that protected industries performed efficiently and became competitive internationally. Loss-making parastatals and lame ducks were not tolerated."

Economic planning was efficiently organised, using the best managerial talent available and maintaining very close links between cabinet, economic planners, ministries and the private sector.

Govt set to end year with extra cash in kitty

GRETA STEYN (49)

GOVERNMENT looked set to end another fiscal year with extra cash in the bank as revenue was running above Budget and spending was under tight control, economists said yesterday.

They predicted that the revenue overrun for the fiscal year as a whole could come to R3bn-R4bn and that the extra cash could go towards social spending.

Bankorp's Emile van Zyl said the Exchequer account in the latest Government Gazette indicated Inland Revenue had already collected R3bn more revenue than was to be expected given last year's seasonal pattern. BDay 20/11/90

Finance deputy director-general Estian Calitz said yesterday: "It appears as if there could be some overrun but it is too soon to put a figure to it. We are certainly not counting on a repeat of last year's excessive rise in revenue. If there is extra cash, it will not simply be spent because it is there. Government remains committed to fiscal discipline."

Inland Revenue surged by almost 17% in the first seven months of the fiscal year — about double the budgeted rate of increase for the year as a whole. Customs and Excise was down from last year, in line with the Budget projections.

Van Zyl said: "If the recession starts knocking revenue increases from now on, the overrun on the Budget will still be considerable."

Government had underestimated personal income tax as salary and wage increases had been higher than expected. Fiscal drag, he said, had continued to swell government's coffers, in spite of relief on this front in the Budget. In addition, government had become more efficient at collecting taxes.

Van Zyl calculated Inland Revenue had risen by an effective 20% in the first seven months of fiscal 1990/91, after adjustments for statistical "noise" caused by last year's

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Extra cash

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loan levy and income from government stock consolidation.

A revenue boom in the previous fiscal year culminated in the transfer of about R2bn in an off-Budget item to the trust. Economists said it seemed almost a foregone conclusion that the move would be repeated in the next Budget, when the pressures for increased social spending would be even greater.

Calitz noted that President F W de Klerk had announced, after the Budget this year, an additional R1bn in social spending — to be financed from privatisation proceeds — over and above the R2bn financed from last year's surplus funds.

"The extra R1bn, or whatever percentage may be spent during the year, will obviously also have to be financed as part of the overall financing programme of the current Budget."

Assuming the same seasonal spending pattern as last year, spending has been slightly below Budget. However, spending is set to pick up during the remainder of the fiscal year. Contingency spending already announced will push spending higher than the original Budget of 11,9%. Government is working on an increase of about one percentage point above that.

Van Zyl said the overrun on revenue combined with control over spending obviously implied the deficit — the shortfall between spending and revenue — could be below the budgeted figure of just below R8bn for the full fiscal year. Government was not, however, expected to borrow less as a result.

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Cash boost needed for parity in state spending

(49)

B.Day 19/11/90

LESLEY LAMBERT

CAPE TOWN — SA would have to attract foreign investment of about R25bn a year and raise taxes if it were to sustain the 5% annual economic growth needed to achieve parity in state spending on blacks and whites.

This is according to the estimates of Stellenbosch University economist Sample Terreblanche, expressed at a Weekly Mail book festival economic debate on Friday.

Chairing the debate on redistribution and growth, Terreblanche said it would cost the state R56bn — 80% of this year's Budget — to bring spending on blacks on a par with white spending.

It was likely, however, that the country would have to settle for a compromised parity which would be achieved over a period of 10 to 15 years.

This would require an annual economic growth rate of 5%, sustained by an increase in taxes and foreign capital inflows. The redistribution would probably result in a scaling down — by up to 30% in some areas — of current spending on whites, Terreblanche said.

The debate centred largely on the state's role in funding redistribution and development. One of the main lessons learned from it was that there has been little meeting of the minds between capitalism's call for "economic growth for redistribution" and the ANC's "economic growth through redistribution".

Academic economists Stephen Gelb, of the University of Durban-Westville, and Pieter le Roux, of the University of the Western Cape, both supported a high degree of state responsibility for the provision of services. But they agreed that a solution would not be found in simply increasing wages and pouring more state funds into social services and development projects.

Gelb argued for a transformation of the investment process in which powerful conglomerates were "dismembered" by anti-trust legislation and banks became the centre of the financial system.

In this way the state could have greater control over the flow of investment funds and could influence production patterns, Gelb said.

He said the emphasis of the growth through redistribution argument was on the production, through labour intensive means, of basic consumer goods for local consumption.

Arguing the case for privatisation, JCI economist Ronnie Bethlehem, the lone voice of capitalism on the panel, warned that any enlargement of the public sector would be inflationary and inefficient.

Alarm

"I would rather see a monopoly in the private sector where it can be critically monitored by the market," he said.

Bethlehem expressed alarm at Gelb's suggestion that banks provide funding for developent, saying it would also be inflationary.

"As intermediaries which attract savings and lend money, the banks do create money. But there is a connection between money creation and inflation and if we go down that route we'll do serious damage to employment and perpetuate a vicious fraud against people who are saving for retirement."

Asked to be more specific on what they viewed as the extent of the state's spending responsibility, the other panelists agreed on 35% of GDP — about R84bn. In this year's Budget, R28bn, or 10,5% of GDP, was spent on social services.

SATURDAY DECEMBER 1 1990

Argus 1/12/90

State shifts to social spending

By TOM HOOD
Business Editor

A SOCIAL market economy in some form or other is now favoured by the broad schools of thought within the South African business environment, says Dr Okkie Stuart, director of the Stellenbosch Bureau for Economic Research.

The government was also shifting its spending patterns to favour social spending — spending on education was likely to be accorded a very high priority.

"The question which immediately springs to mind is: Does the socio-economic climate in South Africa make it possible to channel more money into social spending?

"There can be no doubt at all that a social market economy can only become operative, and be successful, if South Africa were to experience healthy economic growth over a long period.

"Economic growth is only achievable where political stability prevails but the chances of political stablity in South Africa during the next few years are, quite frankly, none at all."

Dr Stuart, writing in Lintas Data, the quarterly newsletter of the advertising organisation, said South Africa had recently entered a process of negotiation and reform.

History suggested that such a process always went hand in hand with political instability. Even if the current government were to be replaced by the ANC, or the DP, or the Conservative Party, or whoever — this would remain unchanged.

For then the new government would have to negotiate and reform.

"We could thus be looking at a longish period of relatively low economic growth and social unrest — regardless of which government will be in power."

Events which followed immediately on the release of Mr Nelson Mandela, together with the current government's unexpected change of direction, gave rise to expectations in the black community which could hardly be met.

"Within 18 months to two years we may have an interim government in which blacks will have a strong representation. It will be impossible for this government, even if it is a black majority government, to meet the demands of their predominantly black supporters.

"This implies that unrest may flare up and that the security forces will have to apply strong arm policies to ensure that relative calm prevails. The political stability for which policy makers are hoping is not likely to come to the fore for many years to come."

The intention to increase social spending would automatically lead to increased taxes.

In the short-term the upliftment of the masses could only be achieved by sharp increases in economic growth. But it would be difficult, if not impossible, to generate a high growth rate in the next few years, he forecast.

"This is naturally unacceptable to the current government and will not be acceptable to any future government either.

"In the short-term, however, governments will probably have to face up to the reality of having had to square up to the raising of taxes."

Dr Stuart said the government had already indicated it intended to lower direct taxes, but indirect taxes were likely to make up for more than the shortfall.

Also parents would have to pay ever-increasing school fees which could also be regarded as tax.

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countries and exports this year account for about 35 percent of income.

"When we lost the US market through sanctions, it left a big hole, but we have found new markets in Europe, South America and five to six southern African countries.

"We have a large number of committed export contracts but have also had to look to short-term one-off contracts to balance out the volatility of the domestic market."

Mr Boxall said recent political developments had made exports to Africa easier and the company had its eye on a few northern African countries.

Lifting of US sanctions would also offer considerable export opportunity.

"However, they are likely to be quite selective to protect their own industries and I believe, our re-entry into that market will be slow."

Budgeting for next year, he said, was almost impossible and the higher oil prices had precipated the world into recessionary gloom.

"After a decade of tremendous growth there is a real potential for an international economic slowdown. Not only will that make export markets more difficult to sustain and increase but it also introduces the threat of competitive imports which will keep the industry on its toes."

Steady demand

SANS employs a staff of about 2 600 and while the steady export demand has helped keep the plants reasonably occupied, for the past nine months they have had more employees than they needed.

"Rather than retrenching we have used this time to increase our training programme and to impart our philosophy of total quality management throughout our workforce."

He said the cost of retrenchment was much higher than the physical cost of retrenchment packages.

"It can do irreparable damage to the relationship between the company and the staff; it damages morale and introduces a tremendous level of insecurity.

"In many ways it is dalse economics. One cannot put a price on company loyalty and in addition, once the economy picks up we would have to spend thousands retraining."

"While we can not say we will never do it — we did retrench in the early 1980s — it will not be resorted to easily."

The Hammarsdale plant, he said, had been affected by the unrest in Natal and 12 of their 500 employees there had been tragically killed over the past 2½ years.

"There have been about four or five stayaways in this period but on the whole it is very surprising that there has been so little production loss under such appalling conditions. It is a wonder that the work force has been able to work not knowing if their home will be there when they get back, and in spite of all this still produce work of such a high quality."

Built laboratory

"In the past three or four months the conflict has undoubtedly reduced, but it could flare up at any time and consequently have had to postpone plans to build a community centre in the Mpumalanga township."

However, he said, the lifeblood of their business was science and he was deeply concerned at the "appallingly low" percentage of black matriculants who gained a matric exemption in the subject.

As a result SANS had built a science laboratory and education centre at the plant and Standard 9 and 10 pupils from schools in the area which do not have their own science labs are bused in to use the facilities.

Other subjects were now being taught at the centre which was also used by employees wishing to further their own studies.

In spite of the economic downturn SANS was spending R80 million rationalising their operations and expanding their Hammarsdale plant.

"We are using this time to strengthen our competitive position so that once the economy picks up we will be well prepared to meet increased demand," he said.

South Africa facing a test - Jan Steyn

Sowetan 2/11/90

(49)

SOCIO-ECONOMIC pressures will challenge the established economic institutions in the South African society as never before, says chairman of the Independent Development Trust Mr Jan Steyn.

He said South Africa had one of the highest measured income inequalities in the world.

Steyn, who was speaking at the KwaZulu Finance and Investment Corporation function on Wednesday night, said the real transition was yet to come, and that it was the the economic and socio-economic policies that a new government would pursue that were the real issue.

"These socio-economic policies cannot all be defined and circumscribed by the constitutional process. They will be defined bv needs. pressures and expectations."

The issue facing South Africa was, therefore, only partly the political or constitutional resolution.

Steyn said, however, that he had some confidence that the country's future constitution would reflect reasonable compromises.

As it was known that the poor were going to become voters, it was clear that in their economic policies, the ANC, the PAC or Azapo would have no option but to put the needs of the disadvantaged South Africans at the top of their agendas.

Principle

Steyn said another principle that had to be considered was the necesssity to address the needs of people who were excluded or alienated from all networks of social and economic delivery.

These were the rural poor and the swelling army of unemployed and under-employed school-leavers, whose general background and educational qualifications make them not only unemployable but also difficult to involve in productive economic activity of any kind.

"Perhaps the socio-economic problem with the greatest impact on political stability and therefore on business confidence is associated with issues of alienated youth."

Alienated youth was a common factor in most of destabilised areas in the world, and when they were organised in networks, street formations or gangs they constituted a high level of availability for violent destabilisation, Steyn said.

"Unless development initiatives address this alienation, we will fail to assist in creating a social climate in which people can prosper - whoever governs." - *Sapa*.

NAFCOC AND BLACK QUOTAS (49) FM 30/11/90

AFFIRMATIVE DREAMING?

Nafcoc mandarin Sam Motsuenyane represents a black business interest that appears to want what he calls a "satisfactory" level of economic growth in a free-market system in which there is little government interference. Yet he told a business conference this week that quoted companies "must have" 30% of their board members black, as well as 60% of top management and personnel, with the companies buying 50% of their requirements from black-owned suppliers.

And he said this "should be" achieved within 10 years.

It is not clear whether he is setting a target, describing the inevitable course of a post-apartheid free market, or tabling a demand for racial quotas. But from the tone of the SA Press Association report, we guess it is the latter.

And if that be so, it is difficult for us to reconcile Nafcoc's desire for economic growth, backed by the efficient allocation of resources through a free market, with its willingness to see both processes impaired — at obvious cost to black job creation — by the application of racial quotas to the running of quoted companies.

It is really no different from the ANC's impossible proposition that it wants to see economic growth yet still demands that sanctions be maintained against this economy. And it represents a dilemma: in a society that wishes to ban racism, can racism be used to correct the social disadvantages of earlier racist policies? If Nafcoc and the ANC support that point of view, it would be difficult for them to avoid being described as hypocritical, as well as being economically illiterate.

Besides, if racial quotas are to be applied to quoted companies, equity demands they be applied also to other professions — surgeons, physicians, engineers and airline pilots, for instance. And if Motsuenyane and his followers would like to see their grandsons and daughters operated on by surgeons graduated by quota instead of on merit, they would be men of peculiar susceptibilities.

If, on the other hand, Motsuenyane and Nafcoc are saying that after 10 years of "satisfactory" economic growth and little government interference in the allocation by the market of resources the quotas they have described are inevitable, they may be accused of being unduly optimistic, but they would most certainly have mastered economics and avoided the slur of being racist.

Income inequalities are the outcome of apartheid. Once apartheid is removed they will rapidly begin to disappear. For unless well-husbanded, neither wealth nor income adheres very easily. American experience has shown that each year roughly as many new first generation millionaires are created as there are those who fall back below that level of wealth.

The object of a free SA must be to ensure that wealth and income flow to those with merit — not to those with a certain skin colour.

THE ENEMY IS SOCIALISM

(49)

Walter Williams is an economics professor at George Mason University near Washington DC. He was in SA this month for the launch of his book *South Africa's War Against Capitalism.*

FM: What is your book's central message?

Williams: The message is that the perpetrator of the crimes in SA has been misidentified. People say there is a connection between apartheid and capitalism when in fact they are the antithesis of each other. Apartheid has far more in common with traditional socialism. Blacks, and whites as well, have been deprived of the right to engage in considerable forms of voluntary exchange; the Group Areas Act and job reservation laws are just two examples.

The idea for the book came to mind when I was giving a lecture at the University of the North in 1980. One of the kids stood up and said he was against capitalism and for socialism. So I asked him: "Do you believe you have the right to live wherever you want, without government interference?" and he said yes. "Do you believe you have the right to open any type of business you want?" And he said yes. "Do you believe you should be able to work for any employer, commensurate with your skills?" And he said yes. So I told him he was really in favour of *laissez-faire* capitalism.

Your problem in SA is socialism — extensive government control or ownership of the means of production — and your struggle is against socialism, not capitalism.

Blacks say they wouldn't be able to compete in a free market, that they're so far behind that they'll never catch up. Are they right?

For sure there will be some start-up problems. But the evidence we have in the US and in SA is that blacks can compete. At one time blacks were not allowed into soccer in SA; now they dominate soccer. This did not come from affirmative action or quotas. They did not have to put weights on the white players, they just became better. In terms of entrepreneurial skills you can just look out of the window and see the hawkers, the taxi-cab drivers. If you look at America, at JC Penney, he was a hawker. Sears, Roebuck, Levi Strauss, Bloomingdale, they were all hawkers. They did not begin with a 50-storey building; they began on a street corner. I think it's racist when someone says blacks can't compete.

So you're opposed to the ANC's call for strong affirmative programmes?

Affirmative action means different things to different people. To some it means just plain non-discriminatory hiring, to others it means racial quotas. Making decisions on the basis of race and having them enforced by government is immoral. People who argue for affirmative action with racial preferences should remember that apartheid was affirmative action for poor whites. If it was partly successful in helping uplift some uneducated, low-skilled white people, it did so at an awesome cost to blacks. Government cannot create a special privilege for one group without creating a special disadvantage for another group. There is no Tooth Fairy out there. Do black people want to create apartheid under a different name? I'd be very disappointed, but I wouldn't be surprised because that is typical of history.

The key beneficiaries of affirmative action around the world have not been the common man. Affirmative action won't help the blacks in the shanty towns; it's going to be some black who is urban and educated and who does not need the favour as much. In the US, affirmative action has not helped the blacks hanging out on street corners.

What action can government take quickly to improve the lot of blacks?

Government needs to give away all of its assets (land, State-owned corporations such as Eskom, Transnet and the Post Office, and other State property). It would redistribute an amount of wealth far greater than what is possible through taxes. It would get these companies out of State hands, which would be good for the entire economy. And it would be a useful gesture of goodwill.

Something like this surely should get ANC support because it is putting things into the hands of people as opposed to just changing the colour of the tyrant. But the ANC does not support this at all, it is not for the democracy of the market, so one has to question the seriousness of "power to the people." They say they know better of what's in the best interests of the people; indeed this was the cornerstone of Verwoerd's philosophy.

The ANC wants privatisation and most deregulation put on hold until the next government takes over. What would you tell them?

I would say to them to look at Sabta (the Southern African Black Taxi Association). Deregulation of the taxi-cab industry has created huge earnings opportunities for people and has gone a long way towards dealing with the transportation problem. I would tell the ANC that maybe you will have a new constitution in five years. Are you telling black people to continue to suffer until you get in and decide what to do? That would be cold and callous.

One of the things that South Africans are being ripped off on is the Post Office and one of the greatest boons to South Africans in general, blacks in particular, would be to privatise it. If it becomes an efficient operation and delivers services at cheaper prices to a greater number of people, everybody benefits except the bureaucrats, who have had their jobs protected by the State monopoly, or certain suppliers. I understand that all cordless phones are outlawed, except one model approved by the Post Office and costing R3 000. A black is surely better off being able to buy a phone for R300 (the price of the illegal cordless phones) and he is much more likely to have phone services under a private company than under a State-controlled monopoly.

Can minimum wages help to boost black living standards?

Minimum wages are nonsense. If you want to prevent people from losing their jobs, you have to oppose minimum wages. R10 a day is better than R0 a day. The minimum wage has been one of the most effective tools in the arsenal of racists. It reduces the cost of discrimination. If a black man will do the job for R7 and a white man won't do it for less than R10, the cost of discrimination is R3. But if the minimum wage is set at R10, then the cost of discrimination is reduced to zero. The whites who want to start a homeland in the north-western Cape were asked, "What are you going to do about the blacks who are already there?" Their answer was that they will raise the minimum wage. They just raised the minimum wage in the US and the estimates on how many jobs will be lost range from 500 000 to 1,5m.

A Swedish delegation was here recently to brief the ANC on economic policy. From what you know of Sweden from your many trips there, does it have anything to offer SA?

Sweden is an unfortunate model to choose. It does many stupid things. The US does many stupid things. I met a group of Bulgarians recently and told them that you see a lot of socialism in the US; government controls certain things. I suggested that as they move away from communism, they don't adopt those things.

In the US we are rich enough to do many stupid things without killing our economy. SA is not rich enough and Sweden is no longer rich enough. The Swedish government takes 68% of gross domestic product; there is a massive underground economy developing; its top people — doctors, scientists — are leaving; the tax rates are so high that much of the work incentive is killed. And the country is facing very high inflation.

If the ANC wants to use Sweden as an example, they should hold a referendum and ask the average black: "Do you want 68% of your income taken?"

What do you see as SA's potential?

If SA could resolve its political situation and get its economics right, I would have no doubt that by 2020, it would join the list of the economic miracles around the world.

Conference on SA's prospects in the '90s

Sowetan 1/11/90

(49)

THE prospects for South Africa's political and economic development during the 1990s will be discussed at a conference at Somerset West on November 12, the Bureau for Economic Research at the University of Stellenbosch announced this week.

The bureau regularly conducts independent research into all sectors of the economy and advises some of the country's top corporations.

It has invited leading figures from the private sector to address the conference.

Bureau director Dr Ockie Stuart said although there would be high-level Government representation, the aim of the conference was to present a cross-section of views from as authoritive a group of people as possible.

In view of this, academics and private sector speakers had been incorporated into the programme.

Stuart said considerable uncertainty currently existed worldwide.

As a result of the collapse of communism in Eastern Europe and the Soviet Union, the world economy was experiencing structural changes.

South Africa could not escape these changes and the objective of the conference would be to clarify the possible course of events during the '90s.

The bureau will sketch the longer term cyclical course of macro-economic magnitudes and the economics department at the University of Stellenbosch will give attention to the structural changes.

Speakers include Ulrich Joubert, group economist at Transnet who will speak on the expected trends in the international economy; Ockie Stuart on the expected trends in the the SA economy; Colin McCarthy of the department of economics at Stellenbosch on structural changes in the SA economy.

Others are Lawrence Schlemmer, director of the Institute for Policy Studies on socio-political developments during the nineties; Frans Barker, chairman of the Manpower Commission on the expected developments on the labour scene during the 1990's and John Robert, director of Captour on the development of tourism as a stimilus for a regional economy. - *Sapa*.

Mbeki says SA needs foreign investment

Sowetan 1.11.90

(49)

By JOSHUA RABOROKO

THE South African economy needs large injections of foreign capital to attain the rates of growth that were necessary to ensure continuous increase in per capita incomes, ANC director of foreign affairs Mr Thabo Mbeki said yesterday.

Addressing the annual convention of the South African Chamber of Business in Johannesburg, he said South Africa needed to create the conditions that would make the country attractive to foreign investors.

He said: "We believe that it would be important that in our interaction with these investors, we should enhance their consciousness of the development goal we would be pursuing as a country, that of ending the severe inequalities in our societies so that they take this into account in their own investment decisions."

He told the conference, which was also addressed by the senior deputy governor of the Reserve Bank Professor JA Lombard and chief executive of the Development Bank of Southern Africa Dr Simon Brand, that foreign investment would close the gap between the first and third worlds, not by destroying the first but by uplifting the third.

Mbeki said the pace of the process of political change necessitated that similar rapid progress be made in terms of identifying national economic objectives and agreeing on the ways and means by which these objectives were to be achieved.

He called on business people to be involved in the process of bringing about a just political order.

They should decide what role they would play in that regard, adding: "As far as the ANC is concerned, we are deeply interested that the process of political transformation should move forward as rapidly as possible.

"We believe that everybody, including the Government, should lend every effort to ensure that change does indeed come sooner rather than later," he said.

Suspicion of initiatives

49

Sowetan 26/11/90

SOUTH African blacks are deeply suspicious of initiatives from the white power structure and, in particular, of the motives of the business community.

This is according to the Standard Bank's Investment Corporation Ltd's Group Managing Director, Dr C B Strauss.

In the bank's latest review, he says many black South African equate so-called capitalism with apartheid.

From this they infer that the South African capitalism has failed, and reject the market system as a means of meeting developmental goals.

"Those attitudes have been instilled for generations. They will not change overnight.

"In spite of the manifest failure of Marxist and Socialist systems, economic policy makers associated with the ANC, PAC, Cosatu and allied organisations find it hard to shake off the mind-set characteristic of the command economies, hence loose talks of nationalisation, an end to privatisation, national welfare schemes and minimum wages."

He says political leaders should be telling the black people the truth. It is understandable that they, who have spend their lifetime denied equal access to jobs, housing and education, are seeking a quick end to their frustrations.

But the legacy of apartheid decrees otherwise.

"The sad but inescapable fact is that whatever economic system is adopted, most of the people must expect a continuation of hardship, for a time at least, rather than a life of grand houses and luxury cars.

Businessmen, especially foreigners, will tend to be bearish on South Africa for as long as there are no clear indications what they regard as correct economic and political policies are followed.

Guidelines

In establishing those policies, some guidelines for future action are:

* Society must be based on the principles of justice and equity, not egalitarianism.

* Programmes for investing in priority areas such as education, housing and job creation should be reappraised, in the context of rapid urbanisation, which itself increases economic efficiency.

* Foreign investment must be attracted and long-term strategies of raw materials and beneficiated products with high added value must be implemented.

Downswing likely to last longer

(49)

OLD Mutual believes the current downswing in the South African economy could be more severe and last longer than expected, writes Joshua Raboroko.

In the latest edition of Old Mutual's *Economic Monitor*, chief economist Mr Dave Mohr says that this would be due to the impact of the current crisis in the Persian Gulf and its implications for the economic prospects of South African trading partners.

He says: "Although the extent of the downswing has been nowhere near as severe as during the 1985/86 recession, meaningful progress has been made in alleviating the cyclical bottlenecks that developed during the course of the upswing."

Mohr says the direct and indirect impact of the crisis in the Persian Gulf could seriously jeopardise further adjustments in these areas.

"The balance of payments, foreign exchange reserves and inflation could come under pressure. It is virtually inevitable that the sharp rise in the international oil price, if sustained, will result in weaker international economic growth," he says.

If trade statistics over the next few months point to increased pressure on the balance of payments, the current strict policy approach may become more protracted and result in a longer and more severe recession.

He says the financial position of consumers could therefore be considerably tighter next year.

Sowetan 5/11/90

SA leaders fear economic decline

THEO RAWANA

POLITICAL and business leaders generally expect a loss of control during SA's transition phase, a new strategic planning survey has found.

The survey, released yesterday, also found that incidents of arbitrary violence were heightening fears of a chaotic transition and economic decline.

The Political Environment Survey was conducted by Idasa director F Van Zyl Slabbert, Five Freedoms Forum president Michael Olivier, Strategy Computer Holdings MD Michael Charnas and Five Freedoms Forums Press officer Gael Neke.

Introducing the report yesterday, Slabbert said business leaders needed a thorough understanding of the trends and pressures driving development in SA to project future scenarios.

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Conclusions

The authors combined their skills and contacts in politics, economics, business and technology to analyse the views of some 100 of the most influential leaders in the political, environmental, cultural and business arenas.

Cabinet ministers, MPs, academics, diplomats, educationalists, businessmen, newspaper editors and churchmen were among those interviewed.

The research conclusions include:

- The closer people are to involvement in the actual negotiation process, the more optimistic they are. The further away they are from it, the more pessimistic and apprehensive they are;
- There is a general expectation of a loss of control during the transition phase. Incidents of arbitrary violence heighten fears of chaotic transition and a declining economy. In spite of this, the majority of people are optimistic about long-term prospects;
- There is a strong fear of nationalisation and confusion about whether nationalisation threats are real.
- There is a general acceptance that privilege will be non-racial but that poverty will remain, for the most part, a black problem;
- For business people, a dichotomy exists between approval for President F W de Klerk's actions and their apathy towards political events. Ignorance of politics and political group dynamics increases apathy and distrust;
- Management fears loss of control of business and interference at executive level, while the ANC is aware of its own lack of managerial skills;
- Black business is apprehensive that the ANC has no economic base and no understanding of business and economics. They have taken extensive and positive steps to engage the ANC on economic issues.

"The business sector's uncertainty about the future of SA has a direct impact on business confidence and investment. New pressures evolve virtually daily as individual communities vie to reshape the political and economic future of our country," Slabbert said.

The survey provides input to strategic planning for business growth and survival in a changing SA. In addition to dealing with the implications of government negotiations with the ANC, PAC and right-wing parties on local and oreign trade, it also discusses other topics such as environment, AIDS, labour unions and education.

Strong optimism in study of future business prospects

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B Day 22/11/90

MICHAEL ACOTT

BUSINESSMEN are worried about what lies in store for them, but a team of independent researchers has compiled a remarkably optimistic assessment of business prospects in the new SA.

Their study, released this week, looks five years ahead and concludes — with some caveats — that the likely plus factors outweigh the many things that might go wrong.

The real trend is away from nationalisation, which ANC leaders admit privately will not happen; sanctions will effectively go within six months, investor confidence will return and foreign investment will pick up.

They see the most difficult period as the next two years, when violence, militancy and unemployment will combine with recession and uncertainty about the outcome of negotiations to make the businessman's life difficult. And they warn repeatedly of the danger of violence because of unmet black expectations in politics, labour, jobs, housing and social spending.

The two-volume study, entitled Political Environment Survey, grew out of the uncertainty in the business community about the effects of political change. It is designed to give businessmen the figures, factors and trends against which to assess their own likely future.

The authors are former PFP leader Van Zyl Slabbert, now policy and planning director of Idasa and a lecturer at Wits Business School; Michael Olivier, businessman and president of the Five Freedoms Forum; Michael Charnas, MD of a market research and business consultancy company, and Gail Neke, Five Freedoms Forum Press officer.

They have combined their own experience and analysis with interviews with 100 leading South Africans, including representatives of political parties, businessmen, diplomats, educationists, trade unions and civic associations.

Their conclusions reflect many of the concerns that businessmen raise: the path to the new SA, particularly for business, is likely to be a rocky one. But their projections reflect the longer-term optimism they found in almost every quarter.

White businessmen are among the more apprehensive, with the CP, the PAC and black youth. The most optimism is found in the upper levels of government and the ANC, those closest to the negotiation process.

Black businessmen, too, are worried; they feel the ANC has no understanding of business and economics and have taken steps to engage the ANC on economic issues.

"Business interviews showed short-term pessimism about the economy, about competing with Eastern Europe and a united Europe after 1992. There were negative feelings about the ability of SA to be sufficiently competitive and productive, and an awareness of increasing wage demands, the management skills shortage, the declining and uncertain value of raw materials and technological illiteracy," the survey says.

"By and large, politicians are more optimistic than business people about the long-term prospects once sanctions and isolation have ended and trade opens up ... the ANC's high expectation of foreign investment contradicts business expectations."

After detailed reports on issues including the political process, the economy, labour, agriculture, unemployment, AIDS, education and urbanisation, the study concludes with what the authors call a "business planning matrix". It is here that they make their overall assessment of how things will turn out, listing positive and negative factors based on likely developments.

☐ SLABBERT

The conclusions are most ambiguous on political developments, and most pessimistic on the related issues of violence and unemployment.

The authors see a push for new political alliances growing during the next two years, especially from the NP and the ANC, culminating in a power-sharing process with the possibility of disruptive action from those who feel excluded.

The distinction — with the possibility of conflict — will then be between those represented in government and those outside it. The effects of the political process on business differ markedly according to whether the process proceeds smoothly or is disrupted.

They predict that political violence will lessen as the transition process broadens, but see criminal violence increasing particularly because of a lack of jobs and housing. On the negative side, any government is likely to adopt repressive measures to deal with an angry black response to unmet expectations, and violence resulting from unemployment.

On the positive side, they see an expanded and improved police force helping to contain violence, provided it has increasing trust from communities; this trust will be helped by improving attitudes towards the security forces as the ANC military wing is absorbed.

The economic expectation is that the current mix of state control and private enterprise will largely remain; the ANC will use nationalisation rhetoric as a sop to its constituency but does not intend actually to implement this policy, while privatisation will be kept off the agenda until negotiations are under way.

The threat of nationalisation will affect business confidence, but it will focus business attention on social investment. The biggest plus factor for business is that the real trend will be away from nationalisation, especially as business increasingly debates with political parties.

The study predicts the effective lifting of sanctions by mid-1991. The economic climate will slow the return of investor confidence, but it should pick up if the political process goes smoothly. Foreign investment will be made in business and in social spending and upliftment.

Although estimates of the expected number of AIDS cases vary considerably, the report says the disease will severely affect the size of the business market, productivity and political development. It will also put a heavy burden on national health care.

The expected increase in social spending is seen as a mixed blessing for business, which will be involved in programmes and expenditure. The spending will ease tensions between management and labour and raise skills, wealth and standards of living. Business, however, will face higher taxes and increased costs, and the way the spending is funded could be inflationary.

The labour scene, too, is mixed. The authors foresee new labour relations legislation lessening tension and helping faster resolution of disputes, while complicating factors include demands for increased social spending, the reaction of conservative white unions and the cost pressures from higher pay and benefits.

In addition to their assessment, the authors have made a separate list of the many positive indicators for business in likely developments. They range from the benefits of an improved international attitude as negotiations proceed to local benefits from reduced tension, better education and human development, less political militancy in the unions and less political violence.

They see a major benefit in rising black standards of living, and spending power will rise, leading to a massive growth in consumer markets.

The conclusion is that there will be no white exodus as the transition occurs, and that whites will play a major role in the new SA.

☐ The survey costs R5 500. It is obtainable from Mike Charnas at (011) 887-2402 or Mike Olivier at (011) 788-0225.

Sweden 'could be SA model'

TANIA LEVY 49

AN economic system similar to that of Sweden, or the UK before Thatcherism, would be needed to temper unrealistic black expectations and reactionary white attitudes, Union of Teachers' Association president Franklin Sonn said yesterday. B/Day 2/11/90

Addressing the Hollandia Forum, he said service industries would have to be centralised and used for job creation, while wealth-creating elements of the economy would run along profit lines, but with a strong social conscience.

There was a greater realisation that a future economic system had to generate wealth and attract foreign investment. But it also had to meet some expectations of the oppressed.

He said privileged groups would find it difficult to accept a toning down of their economic advantages.

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Marrying capitalism and Marxism

Supp W Mail 30/11 - 6/12/90 (49)

University of the Western Cape's Institute for Social Development director **PIETER le ROUX** sang the praises of social democracy at the Weekly Mail Book Week debate on the economy. Here is an excerpt of his contribution

W Mail Supp 30/11 - 6/12/90

AT THE beginning of the Eighties some on the left confidently predicted the demise of capitalism. Ironically it turned out to be the decade of crisis for the existing socialist systems.

At the beginning of the Nineties capitalists are triumphantly claiming the victory of what is euphemistically called the Free Market system. I want to predict that the gods will this time take their revenge on the self-satisfied Hayekian ideologues of the right with as much vengeance as they did on the ideologues of the left. The free marketeer solution will fail as dismally as did centrally planned socialism. What route will there be for South Africa to follow?

At least three different models have been proposed from the left as worth emulating. Firstly, there is Joe Slovo's proposals for a democratic socialism in his now famous "Has socialism failed?" Secondly, there are the proposals that we should strive for a socialist version of the South Korean or Taiwanese economies. Thirdly, there is the position, to which I personally adhere, that we should look for a solution along the lines of social democratic systems implemented in the Scandinavian countries, in Austria and to some extent in Canada and Costa Rica.

There is, of course, also a fourth position, that all we need to do is to bring about the world socialist revolution, and then our problems will be solved.

The only system under which social and economic justice, political democracy, a strong and free trade union movement and rapid and sustained economic growth could hitherto co-exist, are social democracies.These systems were not designed on the drawing board of ideologists on the left or right, but have emerged in praxis.

By this I do not mean to claim that social democracies are always successful. The blend of social democracy attempted by Harold Wilson and Callaghan failed; indeed, present day Swedish social democracy has serious problems with growth, because the politicians have too long ignored the changing conditions under which they have operated.

But social democracies, when the right blend of policies have been implemented, have been amazingly successful. For fifty years, from 1920 to 1970, Sweden had a steady and high rate of growth. Its unemployment came down from 25 percent to two percent, its per capita income increased many times, it has one of the highest standards of health care in the world, and one of the strongest trade union movements.

Social democracies have succeeded in blending the best features of capitalism and socialism; the child has inherited the nicest traits of its capitalist father and its Marxist mother.

The capitalist sector in social democracies is highly efficient and internationally competitive. In terms of the ownership of the means of production, social democracies are capitalist, even though the state does intervene in certain spheres, through, for example, the nationalisation of some banks.

But the trade unions are also very strong — the workers have greater say over the production process, over the types of investments made, over the conditions of employment, even over macro-economic policy, than in any other society in the world.

Of all the existing social systems, social democracy is the only one which has shown itself capable of meeting the aspirations of the Freedom Charter within a reasonable period of time. All the other systems which are being proposed are pie in the sky.

Of course, we will have to modify and adjust social democracy to the realities of the situation in which we find ourselves. We can learn some useful lessons from the little tigers of the east and from other countries such as Malaysia. We should also learn from the mistakes of social democracies, of which there are quite a few — I leave it to my opponents to enumerate some of them. But, in the end, if we are going to have peace, prosperity and justice in our country, we will have to opt for a social democratic compromise.

Clearly the South African social democracy will be of a very different nature from the Scandinavian one, but it will be based on broadly the same formula. The future of our country depends so crucially on economic success, that we cannot afford to experiment with systems which only exist in theory.

 F/M. 2/11/90 (49) (1A)

HOW IT ALL WORKS

David Lazar is an active member of the ANC's Association of Economists. Born and raised in SA, he has lectured at the University of London and is currently based at the African Studies Institute, Wits University. Here he comments on the ANC's recent "discussion document" on economic policy.

SA has experienced a decade of low economic growth while its population continues to rise at an alarming rate.

The government is caught up with the fight against inflation and has no credible solution to the massive unemployment problem. Clearly, we are in the midst of a severe socio-economic crisis, as the understandable expectations and anger of black people come up against the failure of the economy to deliver the means to meet even quite basic needs for millions of citizens.

The National Party has played the major role in causing this crisis: it has ruled repressively for over 40 years and squandered scarce assets on its crazy schemes for racial separation and the accompanying agencies of repression and destabilisation.

What perturbs me, however, is the inability of the ANC, as the probable future government, to produce a credible economic policy.

Where does the ANC's current discussion document go wrong? What policy framework should the ANC adopt? Let us look at each question in turn.

The ANC's economic document is fatally flawed: First of all, the ANC's proposals are statist: they assume the central State can do most of what needs to be done. The ANC may be defensively backtracking on nationalisation, but the core of the document is still about a desire to "plan" economic development. It is apparent there are still people who have failed to come to terms with the terrible failures of so-called "planning" — "so-called" because the State planners, in fact, have or had no real control over the economy.

I suggest that those who advocate this direction for ANC economic policy should pay visits to Cuba, Poland, Czechoslovakia, the USSR and the former GDR territories and ask the unfortunate inhabitants what they think of "planned" economies.

Second, there is a lack of understanding of how markets are central to successful economies. This indicates a failure to grasp the full complexity of economic processes. It is claimed that "market relations are an essential component of a mixed economy," but the inclination is to override market processes whenever they seem not to accord with the "national development plan."

Markets are far from perfect institutions, but — with judicious government intervention — they have proved themselves to be far more effective than grandiose and (almost invariably) repressive plans.

The misunderstanding in the ANC document of financial markets — "paper chases paper in a scramble for short-term speculative profit" — is particularly disturbing. It is essential that ANC economists grasp what stock markets do and why they are necessary. State influence over investment choices may be desirable in a limited number of instances. However, a stock exchange is essential in order that investment decisions

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heed market signals. Moral outbursts about "speculation" and calls for further controls on investment flows are not persuasive, given that stock exchanges are being re-established in a number of countries which previously abolished them.

Third, the ANC document suffers from a lack of economic realism. The costing of proposals against available funds is of fundamental importance. How will the "massive injection of finance" to meet basic needs be funded? How much would it cost to set up new State-owned financial institutions?

The ANC urgently requires a practicable policy, sensitive to the economic and political realities which face SA. I suggest the following guiding principles:

First, it is wholly irrelevant whether a workable policy accords with any particular economic nostrums, of whatever ideological hue.

Second, appropriate criteria for acceptance are these:

☐ Are the policies likely to deliver real (though modest) improvements in the living standards of the majority of South Africans?

☐ Are the policies based on careful costing and a close study of productivity and profit potentials? and

☐ Will the policies empower impoverished people — that is, give them more control over their lives?

Free ... *now for a practicable policy*

What, then, should be the main concerns of ANC policy? Black South Africans have already suffered under excessive State "planning." The future democratic government must allow ordinary people the freedom to make their own opportunities as far as is possible.

We need a market-led mixed economy. The State has many legitimate economic roles: for instance, management of some infrastructural industries, support for small business, rigorous policies to deracialise the economy, interest rate policy, development partnerships with private businesses and non-governmental organisations.

Development policies which assist the very poorest — the landless, the squatters, the unemployed — to help themselves should be fundamental.

The aim should not be the pseudo-planning of the whole economy with ceaseless attempts to control private capital and the market. Instead, the emphasis should be on multifold partnerships with the private sector and a wide range of organisations and community groups to help deliver houses, services, health care and decent education to the millions who are the victims of the National Party's four decades of failure and oppression.

(49) (11A) FM 23/11/90 (49)

Until now, the ANC has had only five people in its economics department. However, this will swell considerably during the coming week, when the entire department, which has recently been indemnified, returns from Lusaka to set up offices in Frederick Street, Johannesburg. Because of movement into and from the department, the only business comments that will be up for ANC debate will be those actually set down in black and white.

Not the only

Nationalisation is by no means off the agenda.

Last week black bus owners called for nationalisation of transport; there are growing signs of preference for a policy of land nationalisation; and the nationalisation of utilities and parastatals is a demand the ANC has not abandoned. Nor have many black business organisations such as the powerful SA Black Taxi Association.

But Sabta, which represents about 55 000 taxi drivers with an estimated aggregate annual income of R3bn, has also not tendered comments on ANC economic policy. Public affairs manager Mike Ntlatleng says that if the ANC formally asks for a submission Sabta will consider it — "but the ANC is not the only political organisation that has economic views; there is no reason why we should favour it."

Within the ANC there are some economists and others — both in the leadership and rank and file — who are unhappy with the policy document, who reject nationalisation and statist solutions — who feel that economic inequality must be addressed. The lack of formal response from business does not strengthen their hand and, if anything, entrenches the positions of those who seek socialist solutions.

More than one ANC official, unhappy with the economic policy document, confides to the *FM* that they would not dare express their opposition to nationalisation to the powerful 1m-strong National Union of Mineworkers. "We would be lynched," they say.

Anglo American says the document, among other matters, will be discussed in a meeting it hopes soon to hold with the ANC. The Afrikaanse Handelsinstituut says it has discussed the document informally, but will further evaluate a response after a meeting of its economic committee.

Sacob's Professor Ben van Rensburg says the chamber has not commented on the document — but neither has the ANC commented on its position paper. In fact, he complains that the ANC has not furnished Sacob with a copy of its policy document. "I had to beg for one." He adds that Sacob will comment on the document once it has been discussed and would then arrange a meeting with the ANC to give their opinions "rather than put things on paper where there could be misconceptions."

The Free Market Foundation's Leon Louw says his organisation hopes to have a written response by early December. "We are taking this quite seriously."

The foundation, Louw says, will address obvious issues in its response — including the land question, redistribution of wealth, nationalisation and privatisation. "We will also address issues the ANC does not look at adequately such as agricultural policy and transport policy."

Another leading Johannesburg businessman, who does not want to be named, says part of the lack of response is "despair at the ANC's economic illiteracy. It is incredibly frustrating not knowing how to deal with it. Part of the problem is that the business community has been isolated from the ANC for so many years. The business community is partly insensitive — and partly lacks alternatives."

For the moment the ANC wants something on paper.

MONEY SUPPLY (49)

RANGE FREE

FM 30/11/90

The guideline range for growth in money supply in the target year starting this month will be based on average growth in the fourth quarter of calendar 1990. Reserve Bank Governor Chris Stals's confidence in the declining trend is reflected in his recent statement at the *FM* Investment Conference that the next guideline range for the broad monetary aggregate M3 will be lower than the existing 11%-15%.

New guidelines will be announced in March when revised fourth-quarter statistics are available and there will be some indica-

(49) FM 30/11/90 (49)

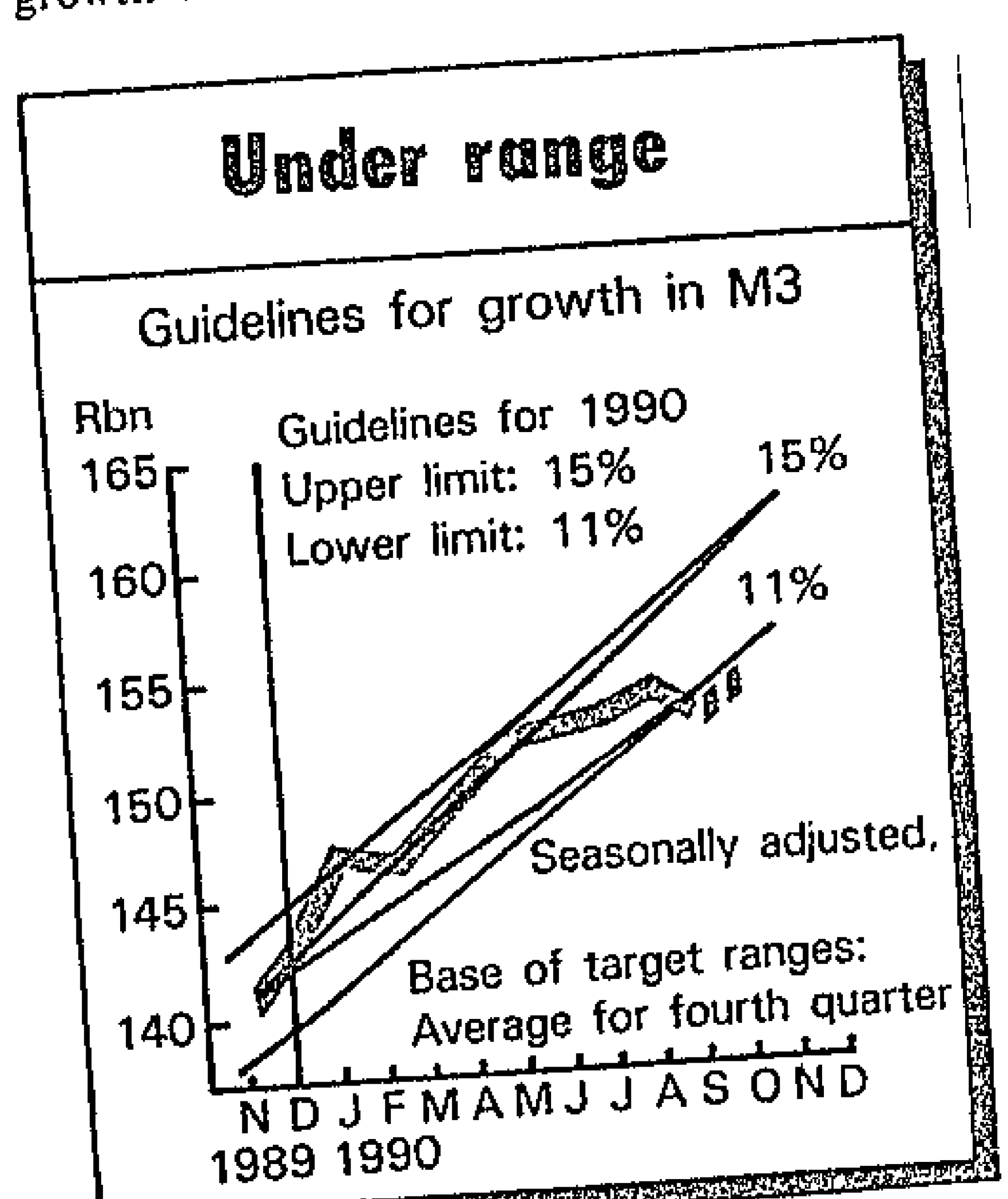
on of the direction of the Budget. (In 1986, ne targets were only set after the Budget peech.) They will apply retroactively.

So far, Stals's confidence is justified, with stimated M3 growth in October, the first nonth of the quarter, below the guideline. From the base of the target year to end-October, it rose an estimated 10,38% to a seasonally adjusted R154,2bn and, in the 12 months to October, 10,02% to R154,9bn.

September's seasonally adjusted annualised estimated growth (from the base of the target year) has been revised down to 10,75% (from 11,21%), or a seasonally adjusted R153,4bn.

Though markets tend to react to the 12-month measure of M3, the Reserve Bank finds the seasonally adjusted statistic more reliable. It is influenced less by developments in the latter part of the previous year. In 1988, for example, money supply jumped sharply, so most 12-month readings in 1989 were off a high base and did not fully reflect developments that year. This does not apply to developed countries (such as West Germany) where 12-month and seasonally adjusted figures are much the same.

Much of the slowdown in year-on-year growth can be attributed to slowing of the



Under range

Guidelines for growth in M3

non-M1A part of M3 — that is, the reduced growth in money held as an asset. An indication of the trend can be seen in the performance of the various aggregates.

Growth in M1A (coins and notes in circulation and cheque and transmission deposits) slowed to 9,69% for 12 months to September, compared to 10,34% in August and 13,59% in July. Other demand deposits grew 3,46% which created an increase in M1 of 6,80%. Other short- and medium-term deposits increased 17,97%, which nudged M2 growth up to 13,49%. Long-term deposits increased by 10,46%, which was responsible for the annual rise in M3.

First National Bank economist Cees Bruggemans says the next set of figures should show year-on-year M3 growth falling into single digits — as it did at the same stage of the previous downturn.

"M3 on a monthly compound basis for the past five to six months is moving at 7%-8%. This is a replay of cyclical conditions in previous recessions," says Bruggemans. M3 growth fell from an annual high of 29,2% in April 1981 to a low of 9,3% in May 1982; and from a high of 19,5% in November 1984 to a low of 7,6% in February 1987.

The latest high was 28,7% in August 1988.

Bruggemans says the Bank should be satisfied. "The money supply has slowed just as the doctor ordered."

N COURT CONFERENCE

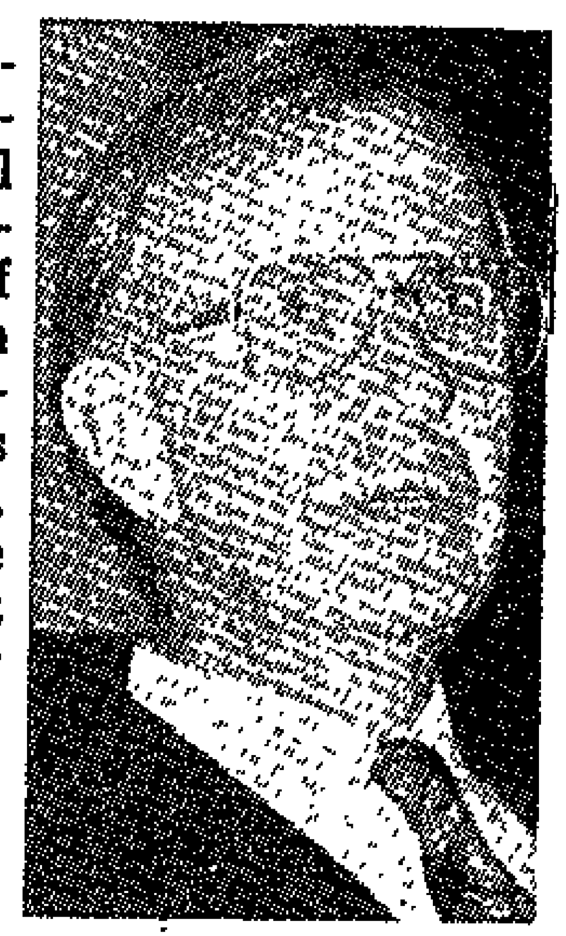
Barend seeks tough spending restraints

B|Day 13/11/90 (49)

ANDREW GILL

GOVERNMENT is determined to set firm bounds on the public sector and is seeking an average real annual growth in budget expenditure of no more than 1%, Finance Minister Barend du Plessis said yesterday.

Speaking at the Smith New Court/-Frankel Kruger Vinderine conference on investment in a post-apartheid SA, in London, he said: "... we are unequivocally committed ... to a containment or even reduction of the public sector vis-á-vis the total economy".



● DU PLESSIS

Also, government would restrict the fiscal deficit to the capital component of the budget, which was currently under 2% of of gross domestic product.

This was in line with the view that the private sector was "the only viable engine of economic growth".

Government was publicly committed to reducing company and the maximum marginal personal income tax rate to 40%, he said.

"Even this rather drastic reduction for us can hardly be considered to make SA highly competitive from an international point of view, since those countries that manage to attract investments offer even lower rates on top of other benefits."

Without this reduction, he said, SA would hardly be able to secure even a modest degree of domestic investment or much-needed international development.

The full development of all SA's resources needed to be vigorously pursued and to this end government was seeking to strengthen the absorptive power of the modern sector of the economy.

Du Plessis said this was being done via a package of measures which included "an array of monetary and fiscal policies, tax reform, deregulation and specific programmes in spheres such as trade promotion, industrial development and labour relations".

Rising outlays in the area of the "hitherto-disadvantaged people" would have to be counterbalanced by a reduction of expenditure in the more traditional areas of budget provision.

It would have to be further enhanced by increasing budget revenue through GDP growth.

These measures could be seen in the present shift in budgetary priorities with the "rigorous prioritisation of government expenditure and the downscaling of certain services", he said.

He propagated "redistribution through growth" rather than "growth through redistribution".

Government, organised commerce and industry and the ANC saw the future economy as a mixed one, he said. It was only the degree of the mix that was at issue.

Building industry faces grim future

Sowetan 19/11/90

(32)

By JOSHUA RABOROKO

THE continued gloomy outlook in the building industry is very depressing, and perhaps the only factors which can bring relief are improved political, economic and labour conditions.

According to the Stellenbosch University's Bureau of Economic Research latest survey of the industry these factors are not likely to occur in the immediate future.

There are too many other influencing factors, and only once the political situation becomes more certain and positive, will improvements follow.

"The facts are that materials prices are continually increasing and labour is costing more and more; production output is decreasing and quality standards are deteriorating.

These factors are causing grave concern in the industry, the survey says.

Problems

"Labour unrest and the intimidation of workers are also causing problems, and these will also only be solved once the above-mentioned three factors have shown considerable improvements."

Forecasts suggest that conditions in the industry will not improve during next year, but that they may turn upward toward the end of 1991 or the beginning of 1992.

If this is so, the survey adds, next year will also be a tough year in the building industry, as well as in many other industries throughout South Africa.

It can only hoped that the political situation will improve to such an extent that its effect will permeate all the spheres of South African business and industry.

Regarding the labour situation, the survey says that the wage demands were unrealistic and that the quality of workers and artisans was continuously deteriorating.

This, in turn, led to deterioration in the quality of work being done and lower productivity.

A number of contractors also commented on their dissatisfaction with the labour unions as well as the industrial councils.

Slump

It says comments made by the subcontractors mirrored those made by contractors, but it appeared that they were now beginning to be more aware of the slump than previously and that their future expectations were becoming poorer.

We need to begin the search for a social contract

49

B/Day 5/11/90

BOBBY GODSELL

IN OUR century we have seen dozens of examples of political liberation being transformed into what Albert Camus aptly described as Napoleonic socialism, where freedom has been suspended in the name of justice.

Whether we look at it in terms of moral and political imperatives, or social and economic necessity, SA must look to constructing a social contract.

In my conception, in fact, it makes more sense to talk about social contracts plural rather than singular.

I use the term to denote social reality where the norms of behaviour have been mutually agreed by all the actors; institutions, structures and especially processes which exist for the exercise of power and the taking of decisions with consent of all, rather than based on coercion; and these exist to resolve in a mutually acceptable way the conflicts which occur.

Such consent-creating and conflict-resolving actions cannot occur only once. We are not talking about a national convention or a constituent assembly. We are talking about a continuous, and manifold pattern of human interaction.

Our social order, and the exercise of both political and economic power has been traditional, or feudal, in character. Power and privilige have been allocated according to who you are — in our case race.

There is nothing unique in this pattern of social organisation. Neither is the process of its demise as now experienced in SA unique.

Industrial modes of economic production, urban patterns of settlement, mass education, modern forms and patterns of communication create economic interdependence and social and political mobility which simply shatter traditional social and political organisation.

Social contracts in SA are not inevitable. Anarchy is a very viable alternative. So too are various forms of coercive power. Napoleonic socialism and authoritarian capitalism can also contain modernity — at least for a time.

In the third option feudal/traditional societies transform themselves into democratic orders, where power and privilege are largely mediated by voluntary exchange in institutions which provide for shared decision-making and mutually designed forms of conflict resolution.

Which road will SA follow? Ample evidence exists for all three options. The township violence, complex in its causation, provides an eloquent warning for a slide into anarchy.

The commitment to democratic decision-making (and the right to dissent) is neither universal nor deeply entrenched, as is evidenced by aspects of the behaviour of all key political players.

Yet the capacity of the parties to create forms for joint decision-making, and to resolve conflict through debate and compromise has also been repeatedly demonstrated in recent months. In the field of labour relations it is most advanced. It has also surfaced in the area of local government and education.

At the very centre of the labour relations process stands collective bargaining. The fact that agreement is reached in the significant majority of cases in this deeply divided society is itself almost miraculous.

Bargaining does not always succeed. Many strikes still precede bargaining rather than are the outcome of failed negotiations. Yet increasingly through the 1980s we have seen the emergence of what some have termed the "trial-of-strength" strike where the parties in conflict test the limits of their power and interdependence. Often such a trial-of-strength strike is followed by a period of successful bargaining.

It is wrong and dangerous to view conflict as pathological, and strikes as a symptom of social failure. While strikes are economically costly and can be socially destabilising, they are also evidence of the reality of political freedom.

A further area in which labour relations offers hopeful experience of social contracting is that of workplace violence. For the past three years, the NUM and Anglo have been attempting to agree on a code of conduct. We are attempting to agree on a normative culture which will govern the behaviour of workers and managers, security personnel and union officials alike. Whether we succeed remains to be demonstrated. However, progress to date indicates that even in this inflamed area social contracts should be possible.

Perhaps the most ambitious and successful attempt at a social contract has been the negotations between Cosatu and Nactu and the employer body Saccola to agree on changes to labour legislation. Employer/union agreement on labour law is uncommon anywhere. In SA it represents a signal achievement.

All this offers evidence to indicate that social contracts are possible here and now. They are needed urgently in many parts of society.

The remorseless rise in healthcare costs poses a challenge to unions and managers to agree on an affordable and effective healthcare system.

Achieving affordable, secure and decent housing in stable, democratically governed communities is another urgent challenge.

Affordable education that empowers the student with socially relevant competencies is an immediate concern of both workers and managers.

It is commonly held that SA is a wealthy society. Poverty exists because this wealth is concentrated in the wrong hands. While sharp inequalities of wealth cannot be denied, it is simply not true that SA is wealthy. This country's per capita GNP makes SA as wealthy (or poor) as countries such as Yugoslavia, Mexico or Syria.

If we are to provide even modestly reasonable housing, health care, education and other needs for our 37-million people we will need to at least treble the size of the economy.

This is not to suggest that a redistribution of wealth is not also urgent. State expenditure needs to be redirected especially to human capital formation, or what is often referred to as social investment. It must also be purged of all elements of racial bias.

Racial privileges in other areas of our socity must also be abolished. And societal resources must be directed to reduce the backlog in differential opportunities resulting from past discrimination. Wealth creation and addressing structural inequalities are not choices.

We need firstly to agree on the related need to achieve economic growth and combat poverty and inequality. We need also to address the vehicles of wealth creation: in particular the industry and the company.

We need to shift our time horizon from this year's wage review to survival and growth in the medium term. A long agenda of questions arises. Is present company structure optimal? Does it give adequate recognition to all stakeholders? Should new structures of co-operative decision-making be considered? In short, we need to agree on both the end and means of wealth creation.

Social contracting is not the monopoly of President F W de Klerk and Nelson Mandela. There are many problems Pretoria cannot solve — whoever its occupants may be. Let us demonstrate that neither anarchy nor despotism is the alternative to our *ancien regime*.

☐ **Godsell is a director of Anglo American and immediate past chairman of Saccola. This is an edited version of a talk delivered at the weekend in Somerset West to an economic colloquium convened by the Society of Democratic Economists.**

SOWETAN 15/11/90

(49)

Economic experts look to the future of S Africa

By JOSHUA RABOROKO

SOUTH Africa should have a mixed economy with creative government intervention similar to those of the newly established countries in East and South-east Asia, an economic study paper released in Johannesburg suggests.

The paper, entitled "What is a mixed economy?", is the first of a series to be issued by the Economic Policy Study Group (EPSG), a group of economists from the business and academic worlds.

The paper was issued by the group's chairman Professor Gavin Maasdorp, of the Economic Research Unit, University of Natal, Durban.

He says a new economic system will be an important point at issue in negotiations for a new constitution.

All major political actors agree that the country will continue to have a mixed economy, but they are not at one on its exact form.

South Africa has entered a stage of political transition with fundamental economic implications. The high degree of inequality in the distribution of wealth and income and the need for stability and rapid employment-creating growth will be crucial phenomena and target areas in the process of change.

Economists have much to contribute to the debate on the nature of the post-apartheid economy, and even more so to discussions on the transition towards the post-apartheid economy.

The group is not a formal organisation but a group of economists who are concerned about the economic change that will accompany the transformation of South Africa into a non-racial democratic state.

Debate

It is committed to a non-racial democracy and a market-based economy, and speaks to stimulate debate and influence political stances taken by the main participants in the political debate from this perspective.

Membership of the group is open-minded. It has no mandate from a larger body or group and no constituency that it seeks to represent.

It has been initiated by economists from the academics and business, including Professor Maasdorp, Dr R Bethlehem of JCI, Professor D Rekkie of Wits, Professor W Nkuhlu of Transkei University, Mr J Buys and Mr A B Dickman from Anglo American, Mr R Gouws from Rand Merchant Bank, Professor C L McCarthy from University of Stellenbosch, Professor P J Mohr from Unisa, Dr P Strydom from Sankorp, Mr A Hamersma from the Standard Bank and Mr J September from Alphee Transfering.

New ANC policy echoes inward industrialisation

(49)

25/10/90

By REG RUMNEY

PART of the African National Congress's latest economic policy discussion document, it has been noted, echoes the ideas of a top government econocrat.

The ANC's proposals on "growth through redistribution" bear an ironic resemblance to the "inward industrialisation" strategy first put forward by the Reserve Bank's Jan Lombard.

The document states: "Programmes and policies that increase output — particularly of social infrastructure and basic consumer products — will increase employment and produce new incentives to growth which will benefit all sectors of the economy."

As defined by the Old Mutual's *Economic Monitor*, inward industrialisation is "domestically generated growth based upon supplying basic consumer products (eg shoes, furniture and clothing) and facilities (eg low-cost housing) to the rapidly urbanising black population, with the increasing labour force coming from the rural areas simultaneously finding employment in these expanding industries".

The stress on social infrastructure and basic consumer products is similar to inward industrialisation's hope that black urbanisation could unlock demand for basic goods, and set up a virtuous circle of increased employment and spending.

Central to the process is housing, particularly low-cost housing.

Also similar is the emphasis on domestically generated growth rather than export-led growth.

Inward industrialisation pinned its hopes on the production processes that would be stimulated by being labour intensive rather than import intensive, while the import content of products and activities would be low, so sidestepping the traditional constraint on growth arising from the balance of payments.

Spinoffs would be greater stability in a well-housed population, a boost for domestic confidence and domestic investment, and the possibility of attracting a kind of Marshall Aid infusion of capital to improve black living standards.

The process, the *Economic Monitor* surmised in January 1987, should be kick-started by the government by spending on low-cost housing and other job-creation schemes.

The ANC's document does suggest that financial institutions should be forced to use some of the funds they have available for low-cost housing projects.

The similarity should *not* be overemphasised.

Inward industrialisation and any possible ANC policy are likely to differ as much as they resemble one another.

Moreover, grave doubts have been expressed about inward industrialisation, since it first became fashionable around two years ago.

Sankorp strategic research chief Peet Strydom picks holes in what government officials have called "orderly urbanisation" as an engine of growth.

"As long as we have urbanisation in the sense that the removal of influx control allows blacks to be dumped in ghettos, urbanisation is unlikely to fuel industrial demand."

In other words, inhabitants of ghettos will stimulate subsistence markets and industrialisation implies large markets.

But what if South Africa's urbanisation process is normalised (ie if it is not "orderly")?

"Then why talk of inward industrialisation?" asks Strydom. "Why not merely industrialisation?"

A word of caution about relying on low-cost housing alone as a motive force for growth comes from Rand Merchant Bank group economist Rudolf Gouws.

"You don't create wealth by simply building houses. And you must be careful not to spend too much capital on housing rather than on, say, factories."

If the money put into housing does not result in greater stability and productivity it will be a waste, he suggests.

White housing is already of a far higher standard than in First World countries, he notes, because of the artificially low interest rates that held sway in the white housing market for a long time.

One key potential difference between inward industrialisation and the ANC's thoughts on growth through redistribution is the informal sector.

Another thread of inward industrialisation is the belief the informal sector will contribute significantly to creating jobs.

Strydom suggests bureaucratic stimulation of small business and informal sector activities as a source of employment is overoptimistic.

What is needed, he says, is to involve most blacks in the formal sector.

The ANC document does not mention the informal sector directly, though it does mention in passing the scope for small-scale enterprises, and the need to encourage co-operative and community ventures.

Mr Joshua Mafolo of Kaplan and Stewart.

Optimistic view

Sowetan 25/10/90

BLACKS have a more optimistic view of the economy than whites in South Africa, according to a finding by the Stellenbosch University-based Bureau for Economic Research, writes Walter Lukhuleni

The report says whites are pessimistic about the economy and are reluctant to buy on credit and believe that the current market conditions are not right for dabbling in durables' consumption.

On the other hand black believe now is the time to buy durable goods. (49)

It attributes this trend to the recent political developments.

Business and politics do a mating dance

W/Mail 26/10-1/11/90

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AS if to prove they have no favourites, parts of business are now lobbying two governments at once — this one and the next one.

But, if business wants to influence the shape of a new South Africa, it might have to do less lobbying and more negotiating.

It may also have to give more thought to who it negotiates with.

A while ago, business and the African National Congress and Pan Africanist Congress began a mating dance.

While they continue to attack each others' economic positions, business and resistance movements are seeking out each others' company — usually in private.

Not only is there a continuing round of discussions and seminars. Some conservative business leaders are now eager to host resistance movement high-ups in their offices and boardrooms.

This is inevitable. Business and a majority government will need each other, and they are beginning to work out a relationship.

But will these private chats help shape an economic future which will work? There is a strong chance that they won't.

Parts of business, anxious to influence the economic policies of a future government, are relying on the same strategy they use to influence the present one — quietly lobbying political leaders. Trying to persuade ANC and PAC leaders to change their economic policies has, therefore, become a key goal of business strategy.

Some business strategists are confident their message is getting through. They believe that, by the time a majority government takes over, it will have ditched policies with which business cannot live.

They may be right. Resistance movements know they need business, as a source of funds now or of government or pressure it to adopt policies business wouldn't want to live with at all — unless they have a hand in making the new economic policy.

WORM'S EYE

Steven Friedman

So, persuading political leaders to change policies might do business no good unless it can persuade their constituents too. That is not something it can do by quiet lobbying.

Organisations who represent the poor are unwilling to compromise with business for two reasons.

The first is that this country has the most unequal income distribution in the world and unless this changes, they are unlikely to take business promises to reduce poverty seriously.

They might only compromise with business if they see that doing so offers them concrete improvements.

Secondly, they don't want to make compromises to save the economy because they don't see it as their economy. And they don't do that because they have no say in the decisions which shape the economy's fate.

If organised workers have a say over how industry is run, or organised township residents over how cities are developed, they may well be prepared to take responsibility for making sure that they are run or developed realistically.

They may also be exposed for the first time to the realities with which those who take decisions have to live.

We don't have enough money to provide everyone with a good job, a 50 percent wage increase or a large house — but the majority will not accept this simply because business tells them so.

If they accept it at all, it will be because they are party to deciding who will be employed and how poverty will be tackled.

A workable economic policy will, therefore, not only recognise the economic realities which the majority has so far not had any incentive to face. It

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Some business strategists are confident their message is getting through. They believe that, by the time a majority government takes over, it will have ditched policies with which business cannot live.

They may be right. Resistance movements know they need business, as a source of funds now or of taxes later, and so they are moderating their economic views, partly in response to business.

An activist sympathetic to the ANC remarked recently, in some despair, that its economic policy now "depends on what ANC leaders heard in their last meeting with business".

That may be an exaggeration. But ANC and PAC leaders are keen to reassure business — and may tailor their policies to do that.

This may be less helpful to the economy — or business — than some of its leaders believe.

The economic views of resistance movements seem unrealistic and dangerous to business and it may be partly right. But those attitudes were not invented by a handful of political leaders.

More importantly, they will not disappear as soon as resistance politicians are persuaded to "see reason".

Under apartheid, most South Africans see their economic deprivation as a direct result of the political system. When the system goes, they will expect their lot to change dramatically.

If it doesn't, it is hardly certain that they will accept that simply because their political leaders tell them to.

If a majority government implements the policies business wants, workers, the youth, the unemployed, may be better off in the long term. But, since they expect political change to change their situation now, they might not wait for the long term.

They would either remove the gov-

WORKER'S EYE

Steven Friedman

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A workable economic policy will, therefore, not only recognise the economic realities which the majority has so far not had any incentive to face. It will have to be framed partly by those whose expectations might derail that policy.

If business wants that, it will have to begin negotiating that policy with groups whose interests will be affected by it.

The problem with relying only on negotiations with resistance movements is that they can't speak on behalf of people with specific interests. They represent a wide variety of interests which they try to weld together with unifying slogans.

That is why their economic policies are vague — and why they may be unable to ensure that those who follow their lead on political issues will also accept the economic compromises they make.

Talking to political leaders might create a climate in which negotiations on economic policy can begin — if leaders support compromise, their supporters may be more willing to support it.

But, if business wants to work out an economic policy which the majority will accept, it will have to do far more.

It will have to begin negotiating with unions, civic groups — all those sectors which want a democracy to deliver economic changes.

And if it wants them to be more responsible, it will have to offer them both concrete changes and more responsibility for making economic decisions.

Time to break the mould of being a pure businessman

49

B/Day 26/10/90

MIKE ROSHOLT

THERE is absolutely no way the traditional view that "the business of business is business" can any longer be sustained. The businessman must take part in determining the policy and framework which will create the environment in which he and his employees have to work and live.

He has to become much more involved in national affairs; he has, as far as he is able, to influence government to take the right decisions. The corollary is that he now has to examine the social implications of his own business decisions more carefully.

The businessman must take the lead in attempting to ensure the retention, as far as is possible, of an economic system in which market forces and private ownership are the cornerstones. If he were to succeed, he would make a considerable contribution not only to the fortunes of his company, shareholders and employees, but to the successful resolution of the constitutional reform process.

SA will always have a mixed economy with a major sector firmly in the hands of the state. The current public rhetoric of black political groups and trade unions goes far beyond this, calling for a much greater measure of socialism in the form of nationalised mines, banks and, as they term them, large "monopoly businesses".

The capitalist free enterprise system has not benefited the majority of our population to any meaningful extent. It is this which triggers the understandable demand for a redistribution of wealth as compensation for past inequities — a demand which is building up quite unattainable expectations.

The private sector's task will be to limit the damage which, under current thinking, the new majority government would inflict on our economic system. A certain amount is probably inevitable.

There can be few businessmen who do not now accept that the economy has been skewed to the benefit of government, shareholders, employers and a limited number of (generally white) employees. And who do not accept that, with the advent of a government dominated by blacks, there will be some form of redistribution; indeed, that this process should be put in motion.

The private sector needs to get the message across that a redistribution which destroys the capacity to create wealth can result only in a redistribution of poverty.

Business has to accept that in a democracy of any hue, the distribution of national income is the sole prerogative of the government, even if one disapproves of the priorities in its allocation. The crucial debate will be around the extent to which the government and trade unions interfere in the production, rather than the distribution, process.

Black political and labour leaders have made it clear they are determined to lay their hands on the economic as well as the political levers of power. Business will have to strive for some form of compromise which will limit the damage to the economic growth of both individual companies and the national economy.

They must seek a compromise which will ensure sufficient freedom of action for the effective working of the private sector; which accepts a redistribution of income as a means of creating new opportunities for the disadvantaged; but which limits as far as possible the redistribution of assets and the extent to which government, employees and trade unions can interfere directly in management decisions.

What are the chances of such a compromise? Nelson Mandela said some months ago nationalisation was only one of the options the ANC would consider; much depended on what adequate alternatives businessmen would suggest.

Employer bodies and individual businessmen had until then been concentrating on pointing out the failures of socialism; as far as the majority is concerned, the capitalist system has done no better.

Socialism is seen by the majority to be founded on the ideals of justice, greater equality and security. Unbridled free enterprise is seen only to favour the already economically strong.

A more realistic approach has been adopted by the SA Chamber of Business in its recent document on economic options for SA. While stating that only a market economy based on private ownership and freedom of choice can accommodate the economic requirements of both growth and employment, it sets out positive steps which will ensure, over a period of time, an equal opportunity society with a fairer distribution of national income.

If business, both as individuals and employer associations, were to debate proposals such as these with all important black bodies and leaders, there would be a far greater chance of persuading them to abandon current economic philosophies.

The task will be a difficult one. There is an unspecified number of ideologues within black leadership who will never accept anything other than advanced socialism and extensive state control of the economy. There will be others, however, who, while adhering to the ideals of social justice and greater equality in the distribution of wealth and income, will be emphasising these ideals rather than prescribing the methods by which they can be attained.

The private sector argument would be immeasurably strengthened if there were many more visible examples of blacks succeeding in, and benefiting from, the private enterprise system. Greater and urgent efforts will have to be made to produce successful role models.

Business will finally have to face up to the oft-debated question of black advancement and, in my view, to accept — unpalatable as it may currently be — that affirmative action in both the public and private sectors has become unavoidable: affirmative action not in the form of handouts, but which will help people to lift themselves up and to become effective members of society.

Unless and until blacks are placed in responsible positions in key industries and companies, major and minor, and in the civil service, the present economic system will not be supported.

It is now generally accepted, I believe, that equal opportunity is a basic right. What has yet to be learned is that leaving the outcome solely to market forces will never address the inequalities of the past or the present level of expectations.

The emergence of black entrepreneurs, in the formal and, more especially, in the informal sectors, presents a better picture of black advancement than that achieved in private and public sector employment.

It is all the more important that the building up of self-employed entrepreneurs should continue and that more companies should assist, for instance, by directing their buying departments towards black suppliers and by "privatising" certain of the service operations within their organisations.

I believe the private sector in SA is now genuinely facing up to its manifold responsibilities, that it is very much aware that those responsibilities will change and increase as the national picture unfolds, and that it will have to adapt to this.

One would hope that the private sector is also becoming aware that it will constantly have to review its obligations to employees and that it will have to increase substantially its allocation to social investment programmes. These are investments that cannot be avoided if we are to achieve the stable society and economy in which business can operate and all stakeholders can prosper.

☐ Rosholt is chairman of Barlow Rand. This is an excerpt from an address to the Institute of Directors.

Sentrachem suffers along with the rest

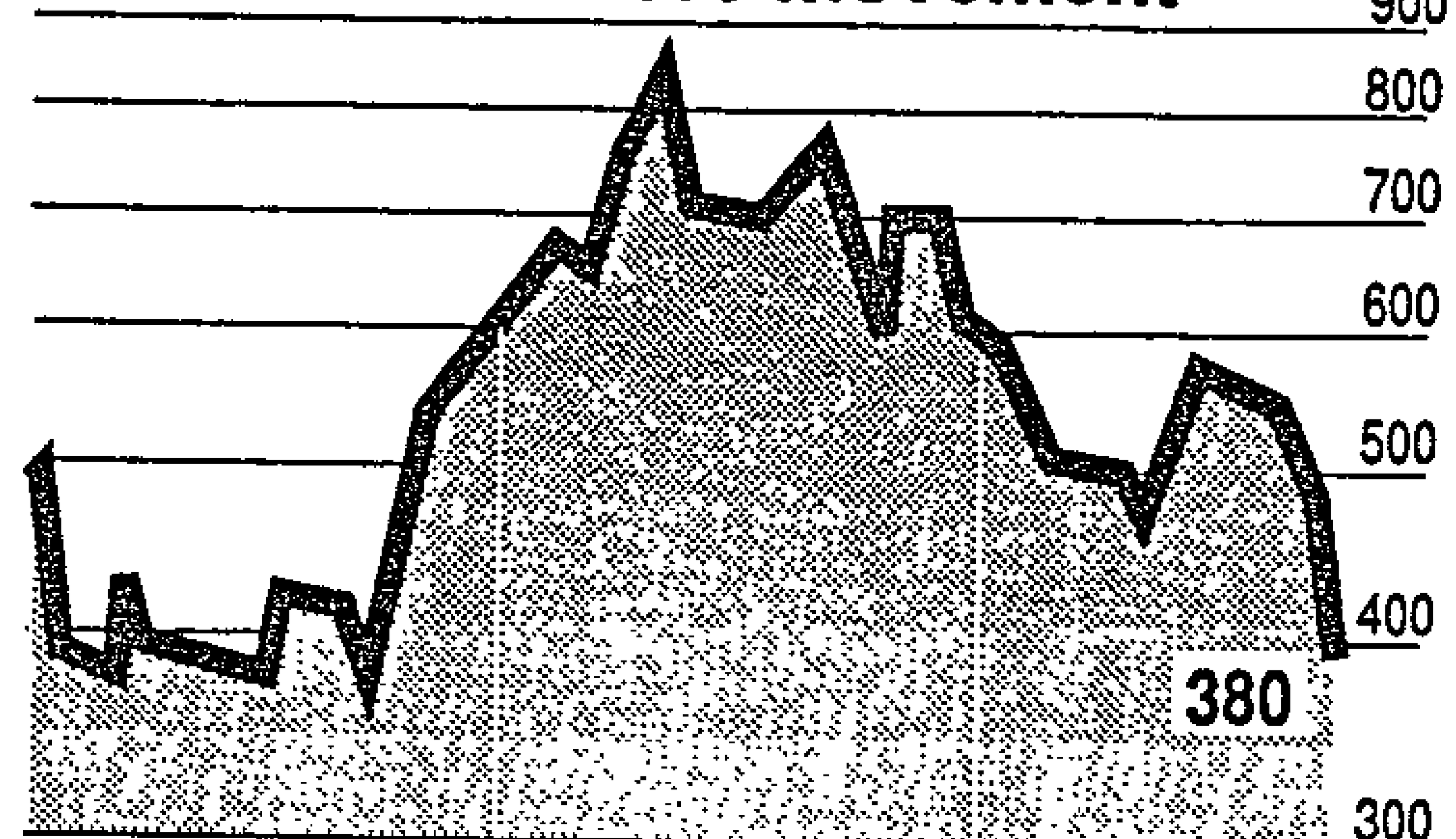
By Ann Crotty

More evidence of the steady deterioration in the economy comes in the form of Sentrachem's 12 percent decline in earnings per share in the 17 months to end-August.

From earnings of 96,7c a share (110,3c for the comparative period to August '89) a dividend of 36,5c is being paid — 46 percent up on the comparative period's 25c.

A break-down of the reporting periods that make up the 17 months shows the sharpness of the deterioration in trading conditions. In the 6 months to end-September '89, earnings were up 13 percent. Figures for the 12 months to end-March showed an earnings improvement of only 7 percent. But conditions in the five months to end-August deteriorated sufficiently to turn this 12 month increase into a 17 month loss.

Sentrachem share movement



It was obviously a disappointing time for management as each reporting period turned out to be worse than had been forecast at the end of the previous period. (In this regard Sentrachem management is no different from just about all other industrial groups.)

The fact that the 17-month figures includes two winter periods has aggravated the situation for Sentrachem. This is because the contribution from its agricultural interests is always relatively low in the winter months. In addition the Sanachem deal (with Farm-Ag) which is effective since February '90 means that the group's exposure to weak farming conditions is that much greater.

CE Mr Johan van der Walt believes that in the medium and longer-term this deal will derive significant benefits for Sentrachem particularly on the export front.

The very poor performance from the agricultural division combined with the fall off in demand across all industry sectors. Mr Van der Walt attributes the drop in demand to the destocking undertaken by customers who were being squeezed by high interest rates.

In addition the disruption of customer offtake resulting from strike activity put a dampner on demand — Sentrachem's Mega operation was particularly affected by the prolonged strike activity at Mercedes.

Looking to the other divisions Safripol, which got off to a bad start in the six months to end-September '89, suffered throughout the 17-month period chiefly because of the squeeze on margins that resulted from buying expensive imported inputs and selling the final product into a depressed local market.

Mr Van der Walt says that as the costly imported stocks are run down and replaced by Sentrachem's own production, profit prospects are improving.

Mega was knocked by the Mercedes strike amd also by the weak demand from the mining industry. But its other operations (accounting for about 50 percent of sales) did well.

Specialities did reasonably well with the review 17 months beating the previous 17 month period. Resolution of stock problems, tight working capital management and intensive marketing efforts helped to produce the goods in this division.

The NCP division put in a mixed performance

Seasonal influences on stock levels (at the agricultural division); capex; and the write offs associated with the mothballing of the isoprene plant combined to increase gearing to 67 percent from 50 percent at end-March.

OPINION

Political Editor **John Patten** discusses stumbling blocks to progress on political reform

It's time to take another risk

Star 26/10/90 (49)

LACK of co-ordination of the reform effort between opposing political groups in South Africa is resulting to a large extent in the sabotage of constructive initiatives on both the economic and political fronts.

Part of the problem is that the African National Congress (ANC), while trying to participate in reform, also wishes to maintain pressure on the Government to keep its support. The other part is that the Government, while initiating reform, likes to bash the ANC to pacify anxious supporters and keep the Conservative Party (CP) at bay. It also has to battle with a very sick economy, made more unwell by political sanctions.

This problem is likely to continue for as long as party political tactics interfere with statesmanship and for as long as the economy is affected by political pressures.

If the ANC did not urge the retention of sanctions, perhaps the Government would not need to keep interest rates so high to control spending and protect the balance of payments. But then, it could equally be argued that if the Government had treated the overall population fairly, sanctions would not have been applied in the first place.

Somewhere, the animosity needs to turn to co-operation, especially as the country enters a difficult period of recession, aggravated by high oil prices, a shaky gold price and domestic unrest.

When the Government argues that inflation must be brought down to levels similar to those of South Africa's trading partners, there is recognition of the need to sharpen the country's competitive edge in world markets. But when high interest rates designed to steady the economy for this purpose lead in the end to high unemployment, it has to be admitted that the country lacks the social welfare support systems necessary to make austerity measures constructive.

Austerity may be good for inflation and the balance of payments, but it is doing horrible things to job opportunities. And high unemployment is doing damage to law and order, while making an end to township rent boycotts more difficult to achieve.

While the Government has good reason to emphasise that it cannot provide bridging finance indefinitely as black township residents use public services that cost millions without being willing to pay for them, the actual plight of many township residents is such that resumption of payment is not necessarily only a matter of political will.

Economic Co-ordination Minister Wim de Villiers spoke earlier this month of the need to increase shift work to make maximum use of industrial capacity, a way of cutting unit costs and increasing productivity.

Productivity, however, has very little place at present in the thinking of anti-apartheid groups and affiliated trade unions. They are still much more concerned with demanding an increased share of the benefits on existing productivity levels than in creating wealth through increased productivity.

In an economic recession, that attitude — even where based on justified demands — is likely to heighten political and employer-employee tensions, because job-cutting and a slow-down in job creation are the inevitable phenomena of the moment.

Economists estimate the country needs an economic growth rate of 5,6 percent just to take up the annual increase in workers entering the jobs market, yet it is known that the country's actual economic growth rate is well below this figure. The political implications of the difference are seriously disruptive of the reform process.

President de Klerk, since taking office 13 months ago, has done something uncharacteristic of a party politician. He has tried to rise above point-scoring to address the question of what is right and just, regardless of past party political stances.

While he and ANC deputy president Nelson Mandela have kept their hands clean, party lieutenants such as Defence Minister Magnus Malan and Umkhonto we Sizwe chief of staff Chris Hani have rocked the boat with deliberate energy.

The two key parties sponsoring rapprochement urgently need to take a decision simultaneously to act above the level of petty politicking. If aggressive rhetoric was regarded as an insurance policy against the erosion of their respective power bases, then there is a more powerful argument they are overlooking.

Unless the process of negotiation can be pushed ahead without unnecessary tactical obstructionism, fast enough to allow constructive moves to counter the deteriorating economy, the danger is that the deepening recession could cause unrest to overrun reform as it did in the mid-1980s.

Both the Government and the ANC have already taken the risk of openly engaging in pre-negotiation talks with a view to full-scale negotiation. They must now consciously buttress that decision by taking an even bigger risk: burying their rivalry and constructively assisting each other to get negotiation going.

For the ANC, that means suspending the armed struggle and dropping its call for international economic and sport sanctions. For the Government it means assisting in the return of dissident exiles to unbanned parties, releasing political prisoners or reducing tough sentences for the most serious crimes committed with a political motivation, and keeping tight control over the security forces in unrest situations. It also means taking account of economic hardship when setting economic policy.

For both it means calling a halt to counter-productive rhetoric. □

FIM 26/10/90 THE NEW ECONOMIC POLICY (49)

BACK TO THE BAD OLD WAYS

One had hoped this government had by now learnt the self-defeating folly of subsidising specific sectors with a view to forcing economic development to move in a way other than would be determined by the market mechanism. Indeed, many of Railways' own financial problems were caused by its use for decades as a provider of sheltered employment to otherwise unemployable urban whites and otherwise uneconomic rural farmers (both groups, be it remembered, being important political backers of the NP).

Now Sats, having struggled throughout the Eighties to turn itself into a commercially orientated undertaking, is again to become a vehicle for outmoded concepts of social engineering even Moscow is now trying to move away from.

John Maree, too, having been lured from the private sector to turn Eskom into a lean, profit-geared, privatised undertaking, has been stabbed in the back by neo-interventionism with electricity pricing.

It may be argued that the objectives of our new economic policy — to develop an export culture and thereby jack up employment and the growth rate — are intrinsically beneficial, whereas protecting poor whites was just a concealed charity. Alas, that's a red herring, for many reasons.

First — and most cynically — who's to say that developing an export culture will always remain the flavour of the month? As it is, and not forgetting the high import component of many of our export industries, there are economists who believe that a better way of stimulating economic activity is to address basic inequalities in areas like housing and health.

Less emotively but more fatal to the argument: it seems to have been forgotten that there is no such thing as a free lunch. Subsidies (and that's what artificially keeping transport and electricity tariffs down amounts to, especially if there are to be concessions on a selective basis) are only transfer payments: they cannot in themselves create wealth, though unfortunately they can destroy it.

The linkage may not be immediately apparent, but if rail and electricity tariffs are kept below market-related rates, that is an effective cost on the rest of the economy. It is not Sats and Eskom that will subsidise exports: it is the rest of us, who will thereby be impoverished as our incomes are eroded.

Even that might be tolerable if it were spread evenly or indiscriminately across the population. However, in recent years the transport sector has been going through a painful and tortuous process of deregulation and increased competition. There is no evidence that in this latest interference with the market the authorities have given any consideration to the likely damage to the private-sector transport industry they have in theory been encouraging to develop, either conceptually or in blunt bottom-line terms.

Indeed, there is no evidence of any broad conceptual thinking in this disastrous hodgepodge of measures — other than that, whether admittedly or not, it is a serious defeat for market orientation and a retreat into the view that government (that is, a bloated bureaucracy whose main concerns are self-preservation and self-enhancement) can somehow outguess the market.

Of course, the *FM* is in favour of the cheapest possible electricity and transport. But as we pointed out two weeks ago, the road to cheap, user-friendly utilities is not some ill-defined "commercialisation" (which can only be an uncomfortable limbo) but deregulation, privatisation and the encouragement of competition (in that order).

The argument that there are "natural monopolies" is fallacious. Almost every service you can think of is provided in the US by private enterprise at an efficiency light years ahead of anything our utilities can manage. In the UK, privatisation turned British Airways from a lumbering loss-maker into one of the world's most popular *and profitable* airlines; privatisation of other utilities has been accompanied by keeping tariff hikes *lower* than they were during public-sector ownership.

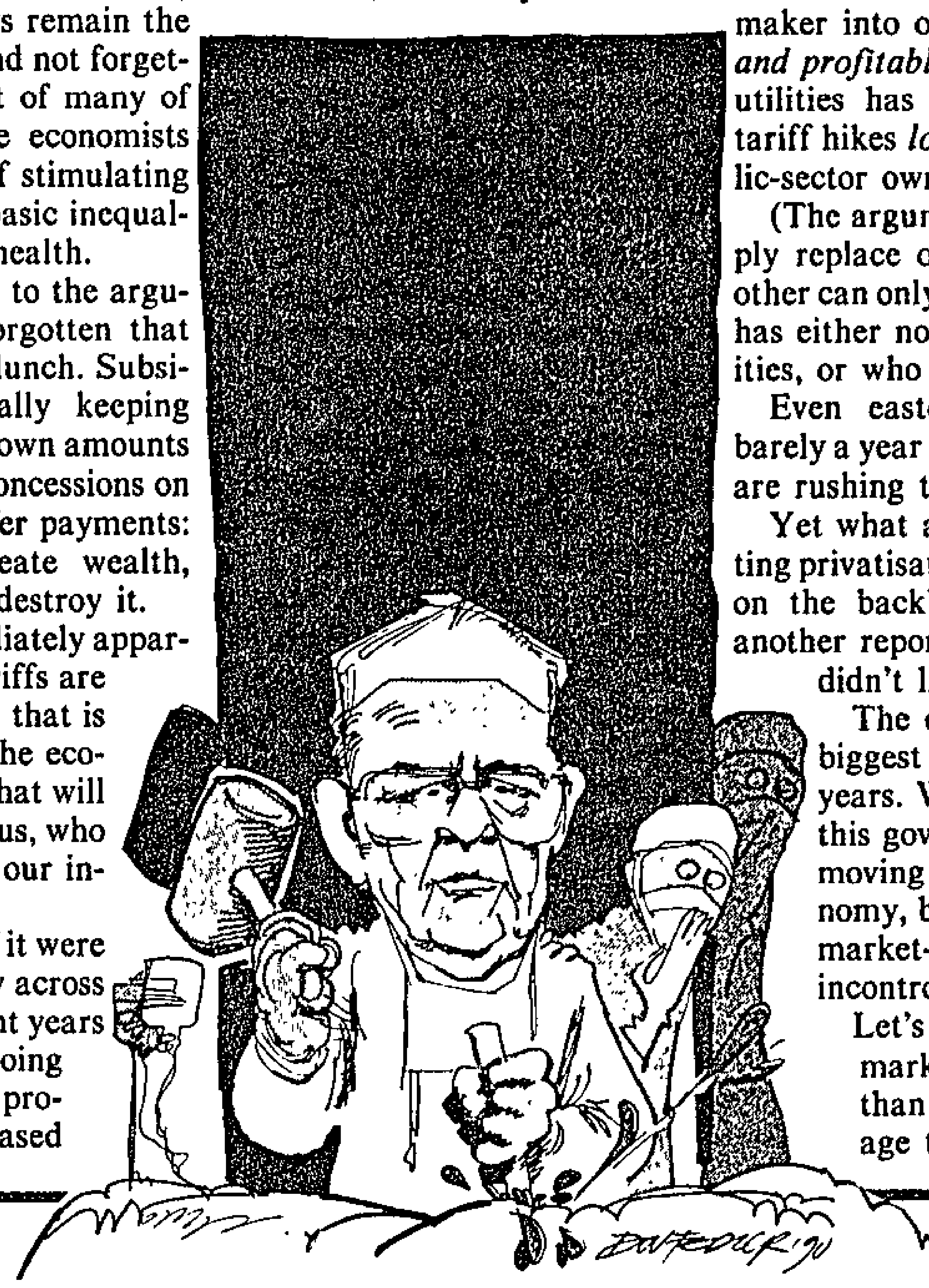
(The argument that regulatory bodies simply replace one set of bureaucrats with another can only be put forward by someone who has either not addressed himself to the realities, or who does not want to.)

Even eastern European countries, with barely a year of semi-democracy behind them, are rushing to privatise.

Yet what are we doing? Deliberately putting privatisation of Transnet and Eskom back on the backburner and commissioning yet another report on Foskor because somebody didn't like the first one.

The events of the past week are the biggest setback to economic sanity in years. We have warned repeatedly that this government cannot be trusted with moving to a genuine market-based economy, because it doesn't really accept a market-based philosophy. That is now incontrovertible.

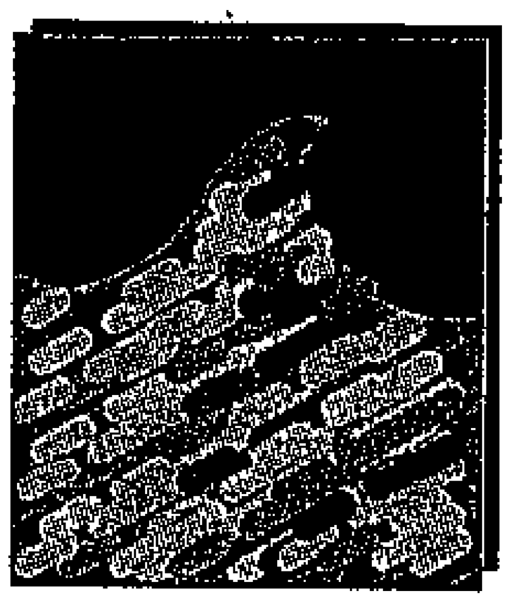
Let's hope the DP, whose liberal, free-market voice is now needed more than ever before, will have the courage to stand up and say so. ■



ECONOMIC OUTLOOK   FM 26/10/90   (49)

RIDING OUT THE STORM

IRAQ'S AGGRESSION UNDERLINES LESSONS SA WAS ALREADY LEARNING



SA's gathering economic storm is neatly illustrated by the fact that for every US dollar a barrel rise in the oil price (one of our most substantial imports), we need a compensatory rise of $5/oz in the gold price (our most substantial export) to keep the balance of payments sweet. And far from producing the requisite fivefold rise in revenue, the gold price has at times actually declined.

One does not have to be a Micawber to see that if these trends continue, and adequate domestic economic adjustments are not made, we're going to be in the drink.

Of course, this proposition presumes the accuracy of the general estimate that SA's oil usage is about 100m barrels a year; gold production in 1990 is expected to be just under 600 metric tons, or 21m oz.

In fact, in recent weeks, oil has actually added more dollars to its price (the base was in July when it was around $15) per barrel than the once-precious metal to its revenues per oz. Taking a level of around $30/barrel, for argument's sake, oil would be $15 up since July. The gold price, on the other hand, was a little over $360/oz in that month. After hitting $416 on August 14 it fell briefly to $359 last week. At around $375 it would be about $13 higher than in July.

This calculation makes the months before Saddam Hussein invaded Kuwait, on August 2, look relatively rosy.

At the time SA's economic prospects didn't seem particularly encouraging. Recession had set in after three quarters of decline in gross domestic product (though a decelerating decline in the quarter to June); and there was no immediate prospect of recovery. There were also longer-term problems: ongoing net capital outflows, ageing capital stock, low productivity, high unemployment and a low level of skills.

Yet the problems seemed soluble in time — certainly with the benefits that we hoped (and hope) would flow from an internal political settlement. There was much that was encouraging, with inflation slowing, money supply growth decelerating, rates in the money market sliding and hopes for more favourable capital flows on the balance of payments.

In fact, despite restrictive monetary policy, the economy staged a minor recovery in the second quarter, according to the Reserve Bank's *Annual Economic Report.* This is reflected, for instance, in retail trade sales for the first six months of 1990 — up 2% in real terms on the first six months of 1989.

No longer. With Saddam Hussein calling the shots, the world, which was believed to be moving towards a period of slower growth in any case, now faces a major slowdown. And with gold no longer a buffer in times of rising input costs, SA is particularly vulnerable as lower levels of international economic activity depress demand for the country's exports.

Since 1985, when financial sanctions threatened to create a balance of payments crisis, it has been non-gold exports which have sustained continuous surpluses on the current account, despite the imposition of trade sanctions. The *Annual Economic Report* points out that the performance of merchandise exports had "outweighed both the slow retrogression of SA's net gold exports in real terms and the effect of depreciation of the rand on import prices."

We can expect nothing of the sort in the months ahead.

There are, of course, expectations that benefits will flow from the Gulf crisis for energy-related industries such as Sasol's fuel operations and Mossgas. Higher oil prices should spark a revival in demand for coal, which, after gold, is the country's most important mineral export. But a large-scale switch to coal-based fuel will take time — and it is estimated that it will take 18 months or more before demand for coal begins to provide improved export revenues.

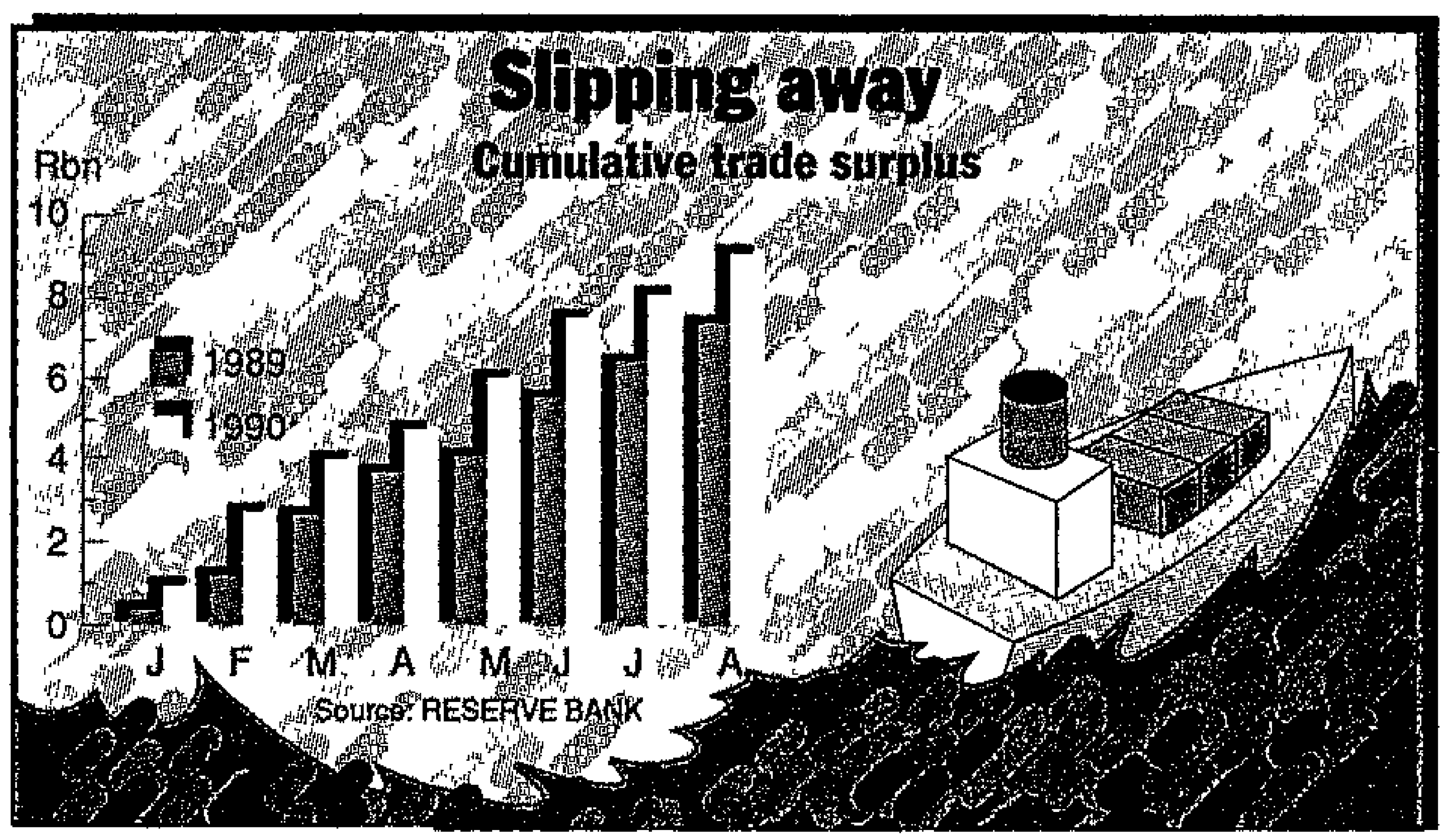
The outlook for other minerals is poor. Diamond sales are linked to real income levels in Group of Seven countries, which are expected to decline. The same applies to demand for base metals such as ferrochrome, chrome, manganese and vanadium. The situation for platinum may be even more serious. Even before the threats of war in the Middle East, oversupply loomed.

SA supplies about 76% of the platinum that reaches the world's markets and the country's production was expected to rise by more than 8% a year for the next five years. Now that industrial demand is expected to fall sharply, the price is tumbling. From $480/oz, just before the Iraqi invasion of Kuwait, it was close to the March 1986 low of $399 last week.

This is not the only bad news for the current account. Despite restrictive monetary policy, pressure will continue to come from imports. The Bank's latest *Quarterly Bulletin* records an 11,9% increase — at a seasonally adjusted annual rate — in the value of first-quarter imports, followed by a 5,3% increase in the second. This sustained demand, the Bank has pointed out, is largely due to the "unpostponable" replacement of capital stock (and Mossgas). The average age of equipment in private manufacturing has increased by nearly 30% since 1984.

With international oil supplies disrupted, the rising price will be a strong boost to inflation. And, as time goes on, it will not only be the direct impact of the oil purchases, but the inflationary effects of these on the prices of other imports as well. So imported inflation, mercifully declining for some time, will pick up smartly.

The news of the past few weeks has already had its effect on the financial markets. On the JSE, daily volumes in the past few weeks have frequently fallen well below the R100m needed for the broking fraternity to break even. And the All Gold index, which went to 1 877 when gold hit $416 on August 14, was 1 357 at the close of last week. Falling share prices are a reflection of what is expected to happen in the real economy, and are in themselves a cause of decline. After any shock, potential investors turn



FM 26/10/90 THE NEW ECONOMIC POLICY

BACK TO THE BAD OLD WAYS

One had hoped this government had by now learnt the self-defeating folly of subsidising specific sectors with a view to forcing economic development to move in a way other than would be determined by the market mechanism. Indeed, many of Railways' own financial problems were caused by its use for decades as a provider of sheltered employment to otherwise unemployable urban whites and otherwise uneconomic rural farmers (both groups, be it remembered, being important political backers of the NP).

Now Sats, having struggled throughout the Eighties to turn itself into a commercially orientated undertaking, is again to become a vehicle for outmoded concepts of social engineering even Moscow is now trying to move away from.

John Maree, too, having been lured from the private sector to turn Eskom into a lean, profit-geared, privatised undertaking, has been stabbed in the back by neo-interventionism with electricity pricing.

It may be argued that the objectives of our new economic policy — to develop an export culture and thereby jack up employment and the growth rate — are intrinsically beneficial, whereas protecting poor whites was just a concealed charity. Alas, that's a red herring, for many reasons.

First — and most cynically — who's to say that developing an export culture will always remain the flavour of the month? As it is, and not forgetting the high import component of many of our export industries, there are economists who believe that a better way of stimulating economic activity is to address basic inequalities in areas like housing and health.

Less emotively but more fatal to the argument: it seems to have been forgotten that there is no such thing as a free lunch. Subsidies (and that's what artificially keeping transport and electricity tariffs down amounts to, especially if there are to be concessions on a selective basis) are only transfer payments: they cannot in themselves create wealth, though unfortunately they can destroy it.

The linkage may not be immediately apparent, but if rail and electricity tariffs are kept below market-related rates, that is an effective cost on the rest of the economy. It is not Sats and Eskom that will subsidise exports: it is the rest of us, who will thereby be impoverished as our incomes are eroded.

Even that might be tolerable if it were spread evenly or indiscriminately across the population. However, in recent years the transport sector has been going through a painful and tortuous process of deregulation and increased competition. There is no evidence that in this latest interference with the market the authorities have given any consideration to the likely damage to the private-sector transport industry they have in theory been encouraging to develop, either conceptually or in blunt bottom-line terms.

Indeed, there is no evidence of any broad conceptual thinking in this disastrous hodgepodge of measures — other than that, whether admittedly or not, it is a serious defeat for market orientation and a retreat into the view that government (that is, a bloated bureaucracy whose main concerns are self-preservation and self-enhancement) can somehow outguess the market.

Of course, the *FM* is in favour of the cheapest possible electricity and transport. But as we pointed out two weeks ago, the road to cheap, user-friendly utilities is not some ill-defined "commercialisation" (which can only be an uncomfortable limbo) but deregulation, privatisation and the encouragement of competition (in that order).

The argument that there are "natural monopolies" is fallacious. Almost every service you can think of is provided in the US by private enterprise at an efficiency light years ahead of anything our utilities can manage. In the UK, privatisation turned British Airways from a lumbering loss-maker into one of the world's most popular *and profitable* airlines; privatisation of other utilities has been accompanied by keeping tariff hikes *lower* than they were during public-sector ownership.

(The argument that regulatory bodies simply replace one set of bureaucrats with another can only be put forward by someone who has either not addressed himself to the realities, or who does not want to.)

Even eastern European countries, with barely a year of semi-democracy behind them, are rushing to privatise.

Yet what are we doing? Deliberately putting privatisation of Transnet and Eskom back on the backburner and commissioning yet another report on Foskor because somebody didn't like the first one.

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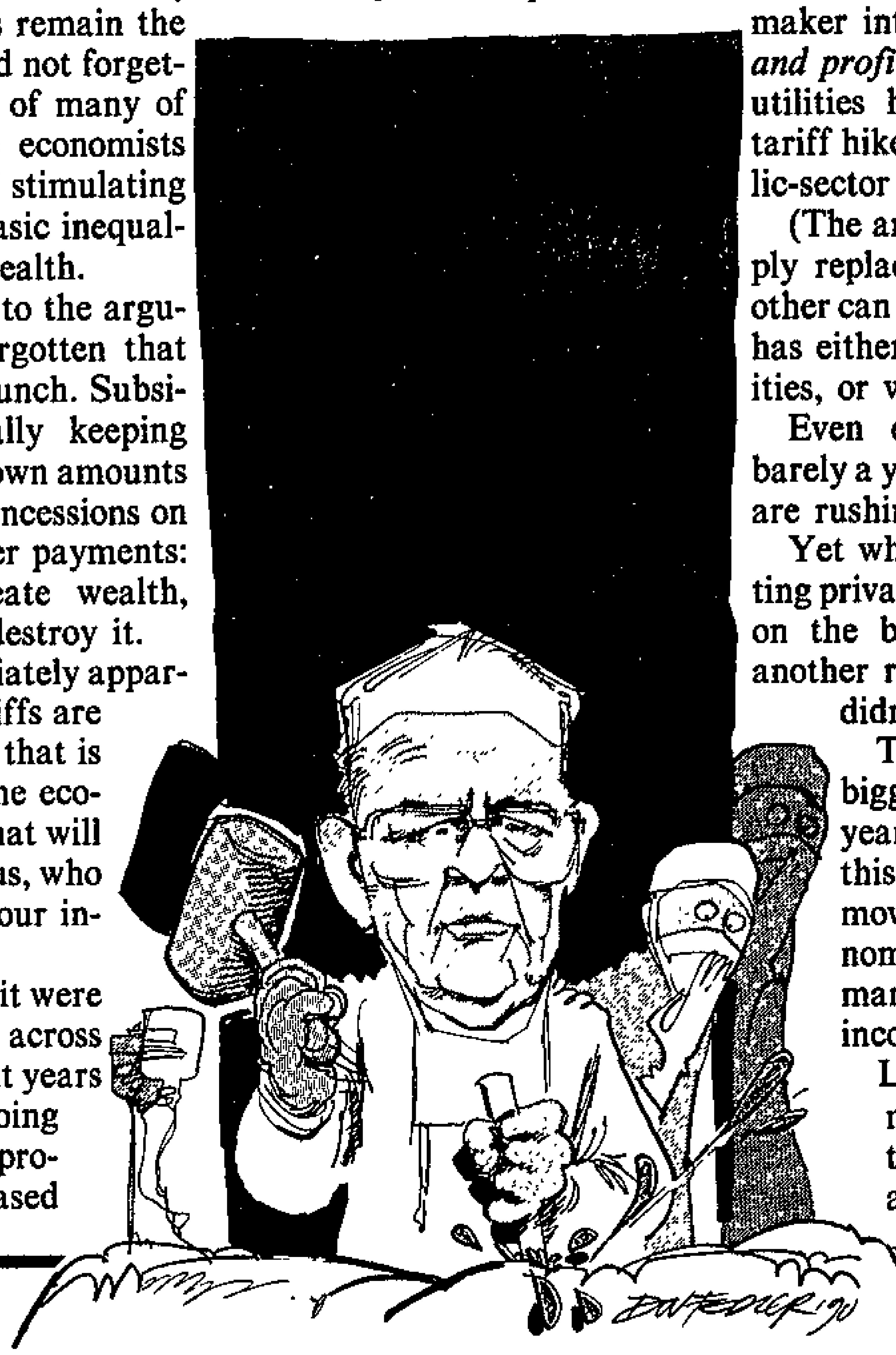
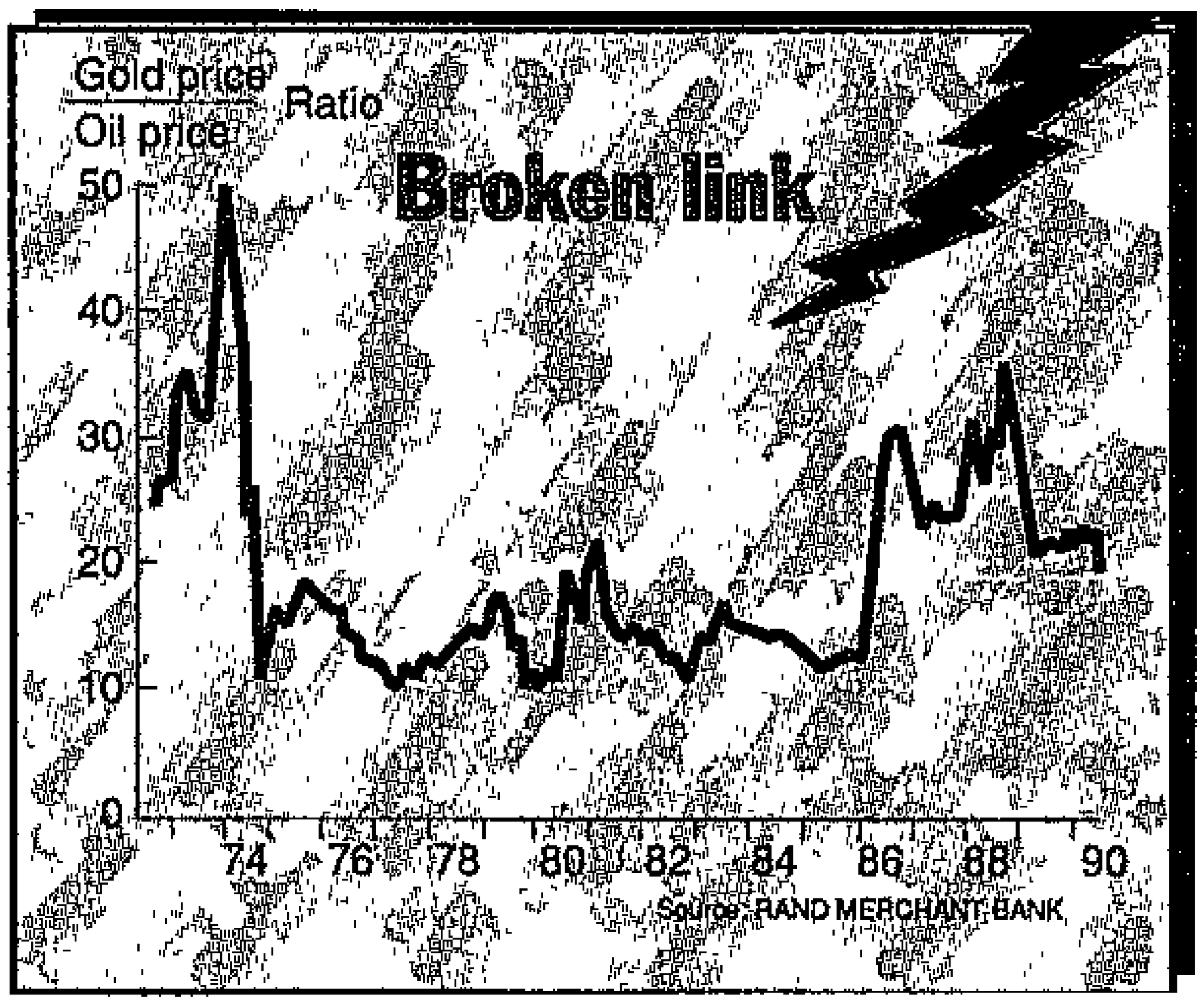




from equities — so the JSE's ability to raise funds is impaired.

So far as interest rates are concerned, the money market, bullish for several months, has now accepted there will be no early fall in the official rediscount rate. The Treasury Bill rate on Friday was 17,7% (compared with 17,34% and 17,32% on the two previous weeks). Monday's Land Bank rate was 17,89% (17,49%, 17,35%). The rate on bankers' acceptances moved from 17,6% on October 15 to 18% a week later. And rates on six-month certificates of deposit jumped from 18% to 18,4% on October 17.

The immediate impact of the recent developments on real output is harder to measure.

The first casualty is the gold mining industry. Its contribution to GDP has already been drastically reduced — from about 10,4% of GDP in 1985 to 8,6% in 1989. This, of course, is a reflection of growth in other sectors as well as a fall in the real value of gold. But it is an indication of the extent of the problems — diminishing investment demand for gold and increasing supplies from other countries.

According to senior Chamber of Mines economist David Kennedy, the problem is compounded by the strengthening of the rand against the dollar in the past year. "Most SA mining sales are dollar-denominated and the industry is being squeezed by rising costs, approaching 14%-15% a year, on the one hand, and the rand-dollar exchange rate on the other. The rand is being unrealistically sustained; it has appreciated at a time when the inflation differential with major trading partners remains at about 5%-6%."

As long as the gold price stays below the R1 000 mark (about $392 at the present exchange rate), the industry will continue to battle. After the disappointing fall early this year, 15 gold mines are apparently in difficulties. The Chamber of Mines estimates 45 000 skilled workers and over 430 000 unskilled are employed in gold mining — numbers already reduced as mines battle to cut costs, 50% attributable to labour. About 31 000 jobs have been lost in the past year, says Kennedy.

This will ripple through the economy as recession deepens.

There is little government can do — even if it were prepared to restimulate in the face of inflationary pressures arising out of a higher oil price, it would fear for the surplus on the current account.

While hopes for the capital account are much higher than a year ago, there is no immediate end to financial sanctions in sight. Even if that were to materialise, it is unlikely that the major industrialised countries, absorbed in their own troubles and exploring their own opportunities, will have much to channel in our direction.

Estimates on the current account surplus are being revised almost daily. Nedbank chief economist Edward Osborn believes now that it is likely to be between R3,5bn-R4bn for 1990. "At present exchange rates this is worth $1,4bn, plus or minus." The figure has to be seen in the context of scheduled repayments of foreign debt worth $1,5bn to be repaid in 1991.

SA's economy is heavily dependent on trade — about 55% of total gross domestic product. For the economy, the implication of decelerating growth (or even a decline) in exports, combined with stubbornly increasing imports, is chilling.

It indicates a prolonged period of reducing business activity. The best immediate hope is for a speedy resolution to the conflicts in the Middle East. And not even that could put the clock back to July. The threat to the world's oil supplies has jolted memories of the earlier oil shocks and the damage that has already been inflicted on the world's financial markets can't quickly be repaired.

As for gold, its disappointing performance in the face of imminent war, threatened inflation and rising oil prices has created a new and more sober perception of its worth.

It is seen as a source of liquidity rather than a safe haven. Where, before, an investor had to weigh up the security of an investment in the ultimate hard asset against the absence of return, he must now wonder about the quality of the security. A safe haven is only safe if it is possible to come out of it without incurring a major loss. If, in the foreseeable future, the metal is to be valued largely in terms of its industrial use (almost entirely in jewellery), it will have to be viewed as a commodity like any other. This would have enormous implications for the industry and the economy.

So, with little prospect of a quick fix in the Middle East, there is still the immediate problem of recession, which could turn out to be as serious as the recession of 1984-1986.

This is largely because of the export-import equation. In 1985 exports grew 9,2% and imports dropped 14,6%. In 1991 exports are likely to decline 0,5% while imports could grow as much as 5% on the back of the oil price increase.

Government spending too is likely to be lower than in 1985, when it grew 3,4%. In 1991 fears for the current account will keep it at more conservative levels.

Private consumption spending, on the other hand, may not fall as steeply as in 1985 because the oil shock does not equal the trauma of events then, when we were severed from international finance. Nevertheless, if oil stays over $30 a barrel and gold continues to disappoint, GDP could drop by the 1% experienced that year.

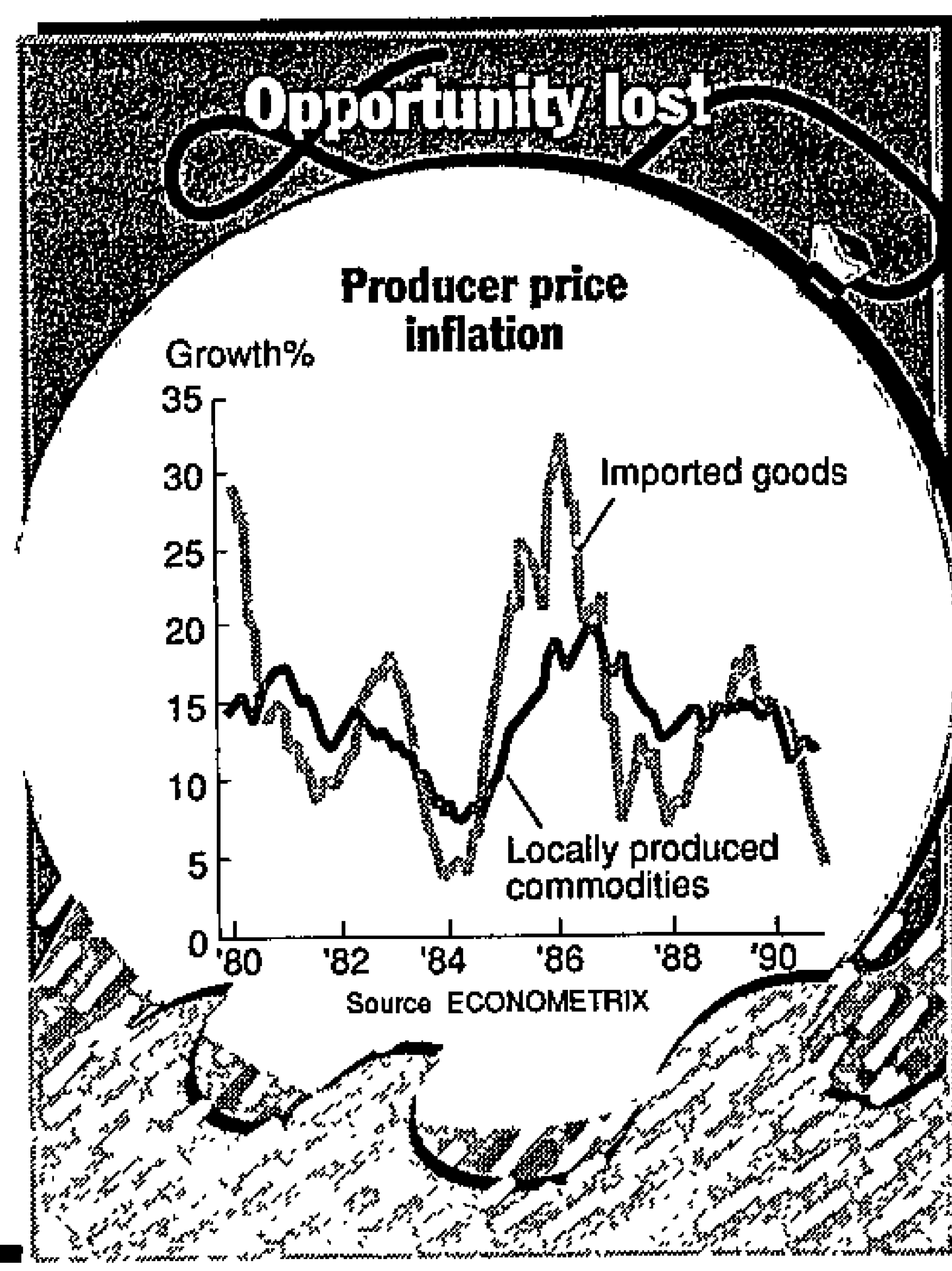
Inflation will initially be held down by tight monetary policy, with prime remaining close to 21%. So though inflation probably won't continue to fall it may not be much above its present level in mid-1991. Thereafter, pressure from oil prices and the demands of social and security spending will drive it. But that is a distant forecast.

The one encouraging element is that SA will, in all probability, no longer be as isolated from world markets. And the domestic economy is in a reasonable position to benefit quickly from encouraging events abroad.

Trade sanctions, the capital boycott and disinvestment have forced both government and the authorities to implement more sensible economic policies to curb demand in the economy. More modest growth in the money supply, real interest rates and greater efficiencies through deregulation and a little privatisation will all help the economy to adjust to unexpected adversity.

In the peculiar circumstances of the Gulf crisis, there is a possibility of some overkill that will cause social distress. But the risk is far greater that government, if it tried to fine-tune the economy, would set off a spiral of stagflation that would prolong distress and retard eventual recovery.

The challenge now is to hold the economy on its course until the storms are over and the way ahead can be charted. Or for the authorities to be brave enough to race for growth by removing exchange controls, al-



lowing the rand to float, reducing official spending and cutting taxes. And by deregulating and privatising. This is the Pacific option — and a sensible one.

But the belief in free enterprise and the superior ability of markets to allocate resources that it implies is probably too strong meat for a government that has only just persuaded itself that the myriad controls of apartheid don't work. So instead of running ahead of them, we must ride out the storms as best we can. ■

WORLD ECONOMY

WAITING FOR SADDAM

FM 26/10/90

OIL'S PROJECTED PRICE RANGE IS TOO WIDE FOR CLARITY ON GROWTH

The best-laid plans ...

Rehearsing for conflict with Iraq, the US Desert Shield force in Saudi Arabia is finding that the Apache anti-tank helicopter needs repairing after two-and-a-half hours flying. The Apache is the balancing factor in countering the numerical superiority of Saddam Hussein's armour — hence there is some consternation, especially as real battle conditions would be much more strenuous.

One- and two-year projections of the path of the global economy are a little more durable. But each passing month of the stand-off in the Gulf, plus the unfinished problems caused by the massive erosion of financial assets, requires revision of forecasts. The goalposts keep moving.

The consensus rule-of-thumb for the 24 main industrialised economies in the Organisation for Economic Co-operation and Development (OECD) — which account for almost 75% of world GDP — is that a *sustained* US$10 a barrel rise in the price of oil generates a half-point fall in aggregate growth and adds 0,75 points to the inflation rate.

In June, the OECD's soft-landing scenario posited growth slowing from 3,6% to 2,9% this year and next with inflation running a tenth of a point higher at 4,4% on the basis of $17 a barrel oil — in line with the 1989 average. That was shredded on August 2.

The range of oil prices which should now be factored into calculations is wide and the free market's jitters offer no sound basis for rational planning. The benchmark North Sea Brent Blend crude hit $40,90 a barrel (for December delivery) two weeks ago but has been retreating since. By Friday it had lost 20% to $32,35 a barrel.

Sir Peter Holmes, chairman of Shell Transport and Trading, recently put the equilibrium price — with most of the loss of Iraq-Kuwait output made up by Saudi Arabia and other Opec members — at around $25 a barrel. A return to normality, on Holmes's reckoning, would put it below $20 and ex-Saudi Oil Minister Sheikh Ahmed Zaki Yamani has said oil could drop to $15.

Cambridge Energy Research of the US takes into account the seasonal stock build in the northern hemisphere and comes up with an average of $32, perhaps rising $3 by December. After that, it should subside as inventories are drawn down ahead of spring.

Even so, it is not simple. In the case of the US, Britain, Canada and Australia, the oil straw landed on a camel's back which was already creaking.

The slowdown which started last year is proving worse than expected. Recession has replaced inflation — even though, excluding oil, the underlying rate is worryingly high — as the priority in the US. The Federal Reserve has indicated it will lower interest rates and risk the effect of a weaker dollar. Britain hopped into the Exchange Rate Mechanism with surprising alacrity to enable it to shave a point off base rates and buoy hopes of more to come as the next election looms.

Adding to the shadows of uncertainty, is the impact of the slump in equity and property values, especially in the US and Japan, with bearish implications for bank balance sheets and consumer confidence. With cheap money no longer available in the equity market, Japanese banks have been forced to shore up their capital ratios through costly subordinated debt; and in the US banks are contracting as property values slump, threatening a crisis which goes far deeper than the Third World debt crisis.

While the Third-World crisis mainly affected the big "money centre" banks, the overbuilding in the US has affected all. It is estimated that America's 50 000 banks have an average exposure to property equal to 25% of their loan book and provision against this is forcing them to rein in lending to bona fide industrial and business borrowers.

Then there is the loss of wealth effect. After the 1987 October Crash, forecasts for the next year pointed to a sharp decline in consumer spending as the equity slump compounded other problems such as the US budget. OECD growth for 1988 was projected to fall from 2,8% to 1,8%.

Instead, central banks around the world pumped money into the system. And, helped by a 17% drop in the price of OECD oil imports, 1988 recorded growth of 4,6%, the best year of expansion in the past decade, without driving up inflation.

The chickens of that protective reflation, however, came home to roost: commodity prices rose 21% in terms of Special Drawing Rights with metals 34% up in 1988 and with oil regaining ground, OECD inflation pumped up from 3,5% to 4,3% in 1989. The brakes were applied, with varying degrees of severity and have been felt for most of this year as inflation proved slow to grind down.

There does not seem much chance that governments will repeat what turned out to be an inflationary mistake. And, as long as oil supplies remain abnormal, any easing of interest rates in the high inflation economies will be cautious — especially in the US, facing a budget deficit of $270bn which excludes the cost of intervention in the Middle East.

A middle-of-the-road projection by the National Westminster Bank, the UK's biggest, is downgrading OECD growth from 2,9% to 2,5% this year and to 2,1% in 1991: Conversely, inflation is projected at 5,1% this year and 5,3% next.

Recession — that is falling GDP, in the US, UK, Canada and Australia among the OECD members — will be seen for at least six months, but offset by relatively strong though muted growth in Europe and Japan. Germany, especially, will benefit from reunification investment, though Europe as a whole slows from 3,5% in 1989 to 2,3% next year.

The OECD current account could deteriorate from a deficit of $87bn to $117bn and $141bn. Opec, naturally, swings the other way, from being $11bn in the red last year to a surplus of $22bn in 1990 and then forging on to $31bn.

The basic assumptions are average crude prices of $32 a barrel from August until the year-end, falling to $27 in the first half of 1991 and $23 in the second.

Debate in the US, however, revolves around whether another bout of deflation is on the way. Gold has failed to respond to the doubling of oil prices or the weakening dollar and paper assets; silver is at a 14-year low; platinum has been down to 1986 levels and wheat is at its lowest since 1987.

De Beers' share price has dropped 38% to $16,50, tracking the Dow Jones Industrial Average fall of 18% from the historic peak in July — indicating sentiment about the outlook for jewellery sales. And with investor interest in gold limited, to say the least, bullion offtake will be increasingly reliant on the jewellery market.

The Commodity Research Bureau index of 21 commodity markets is down 6,4% since May in spite of oil (which makes up 11% of the index). Excluding energy, *The Economist* SDR index of all commodities shows a fall of 8% from the end of July — and 16,4% over the last 12 months. ■

'Wholesale nationalisation not the answer'

Own Correspondent

WILD COAST. — The PAC recognises that wholesale nationalisation is not the answer to SA's future economic prosperity — and the organisation would not impose restraints on foreign companies operating in SA if it came to power.

This apparent departure from previously stated hardline policies was made by Sipho Dhlamini, a senior PAC economist, who addressed nearly 200 businessmen at the Black Management Forum's conference at the Wild Coast yesterday.

Dhlamini told delgates that "the PAC is aware that the future economy of Azania will rely heavily on encouragaing the production of more goods that can be sold overseas."

The organisation also recognised that the lifting of sanctions would bring opportunties for both black and white businessmen and the PAC would try to encourage the establishment of new export markets, offering incentives to potential investors and would also not interfere in international markets.

He said that as a result of the unbanning of the PAC, the organisation had drawn up a document for discussion among its members which also dealt with the question of free enterprise.

Elaborating on his remarks in an interview afterwards, Dhlamini said "we are not against nationalisation". And, while the question of redistribution of wealth would have to be recognised, the PAC did not see wholesale nationlisation as the answer for future economic programmes.

Asked whether he thought recent policy changes by the PAC would be supported by rank and file members, he said: "They know that the PAC will never abandon the interest of the black people."

"We want to give whites the assurance that they have nothing to fear, and that whatever they fear will be addressed by the PAC at its conference next month."

Dhlamini, who was awarded a PHD in economics from Makerere University Uganda, said one option the PAC was considering as a means of redistributing wealth was the creation of a special fund which would lend money to employees to enable them to buy shares in companies.

Initially these shares would only be for workers "in the upper-income bracket". The system would gradually be expanded as the population became better educated.

The question of improving wages would be "a matter for the state". The PAC would also launch a massive campaign to fight illiteracy.

● ANC international affairs spokesman Thabo Mbeki, delivering a key note address at the conference, called for a "lively and healthy" national debate on the future economic policies SA should pursue.

There were too many slogans thrown about. The relative merits of "nationalisation", "free interprise" and "redistribution" were tossed about almost as swear words, instead of being seriously debated or discussed.

He said there was an urgent need for the democratisation of the economy which meant the derationalisation of the distribution of income, of the structure of ownership of assets and of the decision making process.

He said he was concerned that corporate SA had not entered the economic debate "more seriously than it has up to now".

He did however welcome the recent remarks of Mike Rosholt on this question. Rosholt had acknowledged that there should be a redistribution of incomes.

Yet he did not appear to favour a redistribution of assets. There seemed to be a tendency to ignore this question.

"But we cannot ignore the racial imbalance in turns of the ownership of assets."

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The personal savings goose is okay as she is

S Times 28/10/90

(49)

CARMEN MAYNARD, economist at stockbroker Martin & Co, argues the case against tilting the savings playing field in favour of the banks

SOUTH AFRICA saves too little to support the longer-term growth needs of an expanding population.

The Government intends to provide greater incentive for individuals to save and thereby boost the personal savings rate.

Part of the approach to achieve this commendable objective is embodied in its plan to restructure the economy — essentially curbing inflation and maintaining real interest rates.

However, Pretoria also seems to have decided to redirect some savings from the life offices to banks and building societies which provide risk capital to entrepreneurs capable of generating jobs.

Japie Jacobs, chairman of the investigation into the flow of funds to financial institutions, says the intention is not only to improve the level of personal savings but to unlock funds for risk capital.

CARMEN MAYNARD

To achieve the second objective (assuming one believes that the life offices do not provide risk capital and create jobs) the authorities must provide investors with better options than the products of the life offices. Their investment products have been clear winners in the era of double-digit inflation and negative real interest rates. They provided returns of 20% and more a year in the past decade.

To redirect cash flows the Government plans to introduce a withholding tax on interest income (probably at 10%) in the hands of individuals instead of taxing it at the investor's marginal rate.

Advantages

In the real interest-rate environment promised by Reserve Bank Governor Chris Stals this would mean positive real after-tax rates for individuals — an almost unheard of phenomenon in SA. Even pre-tax real rates are rare.

Under withholding tax, assume a one-year deposit is made at 16%. With inflation at, say, 13% this translates into a real return of 3%.

After a 10% tax, the investor will receive a net 14,4% — a real return of 1,6%. Today an investor taxed at the marginal rate would have a net return of 8,8% and a negative real return of about 4%.

The advantages of boosting personal savings through real after-tax interest rates are clear.

First, investors will be better able to create wealth; second, the base of capital to fund growth and thereby create jobs will improve.

What is not clear, however, is the motivation behind the redirection of savings from the life offices. The beauty of contractual savings is that there is already an effective marketing machine selling life assurers' products, encouraging savings.

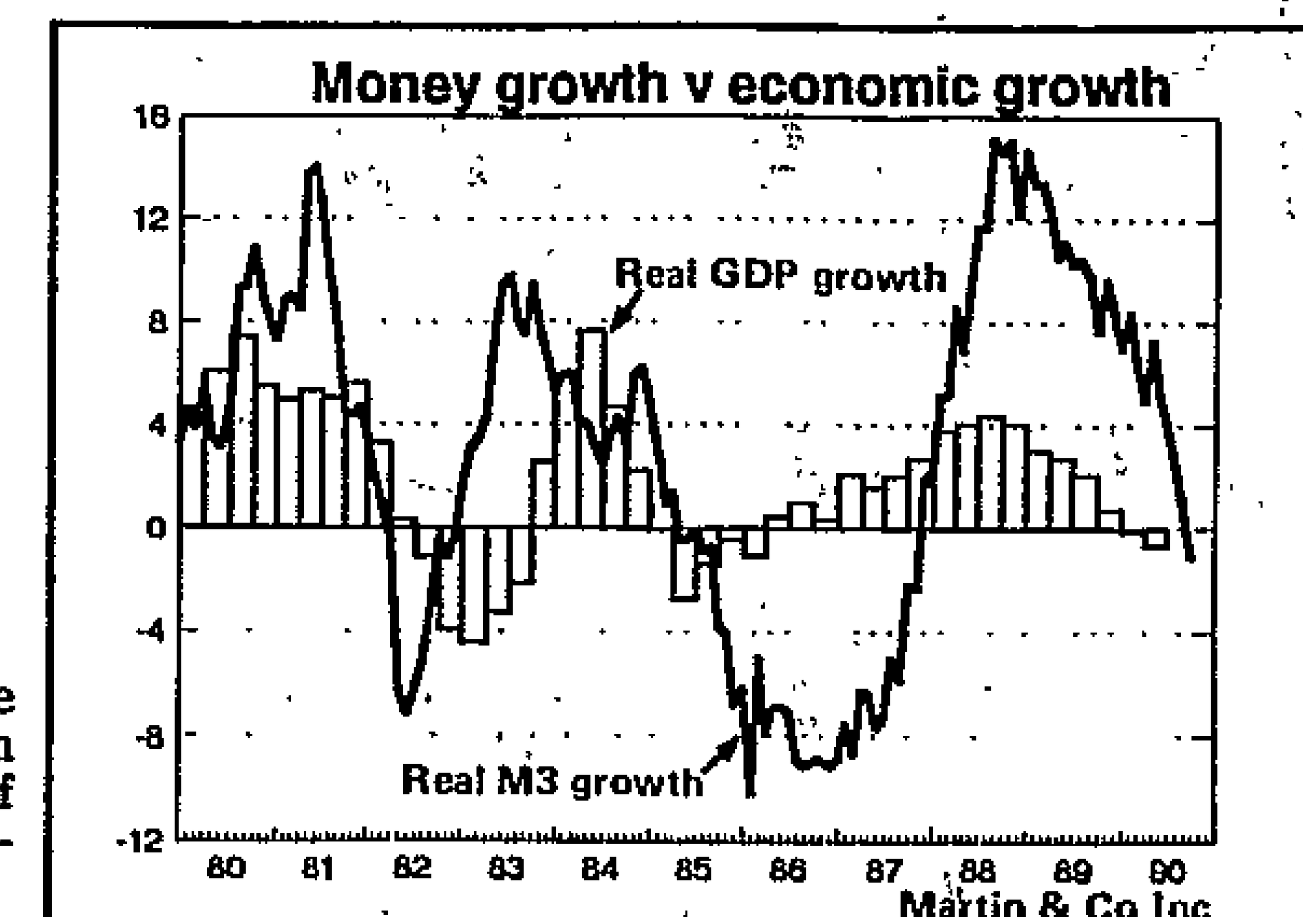
On the contrary, money-supply growth in the 1980s — and before — was mostly excessive, as shown by the graph. Real money growth frequently exceeded that of the economy by large margins.

As institutional cash flows have grown, so the money held by assurers and pension funds on deposit with banks and building societies (which can onlend to entrepreneurs) have ballooned. Life offices and pension funds hold more than R26-billion (10% of gross domestic product) on deposit. Life offices alone account for R15-billion.

Sufficient

The Government is already doing the right things to encourage savings. It should not be too concerned about where these savings flow.

As confidence grows that real interest rates are here to stay, personal savings will grow sufficiently of their own accord to fund the 4% to 5% annual real growth needed for the new SA.



What Pretoria should avoid is singling out highly successful areas of savings as being somehow undesirable.

Without them, personal savings would be in a desperate state and below what they were a decade ago.

Blanket nationalisation not answer for SA – PAC

Star 29/10/90 (49)

Own Correspondent

MZAMBA (Transkei) — The PAC recognises that wholesale nationalisation is not the answer to SA's future economic prosperity and the organisation would not impose restraints on foreign companies operating in SA if it came to power.

This apparent departure from previously stated hardline policies was made by Dr Sipho Dhlamini, a senior PAC economist, who addressed nearly 200 businessmen at the Black Management Forum's conference at the Wild Coast last week.

Dr Dhlamini told delgates: "The PAC is aware that the future economy of Azania will rely heavily on encouraging the production of more goods that can be sold overseas."

Encourage

The organisation also recognised that the lifting of sanctions would bring opportunities for both black and white businessmen, and the PAC would try to encourage the establishment of new export markets, offering incentives to investors.

It would not interfere in international markets.

Dr Dhlamini said that as a result of the unbanning of the PAC, the organisation had drawn up a document for discussion among its members which also dealt with free enterprise.

Elaborating in an interview later, Dr Dhlamini said: "We are not against nationalisation."

While redistribution of wealth would have to be recognised, the PAC did not see wholesale nationalisation as the answer for future economic programmes.

Asked whether he thought recent policy changes by the PAC would be supported by rank-and-file members, he said: "They know that the PAC will never abandon the interests of the black people."

In contrast to the often-heard chants of "One settler, one bullet" heard at PAC meetings, Dr Dhlamini adopted a more moderate line towards radical white organisations such as the AWB and the CP.

"We want to give whites the assurance that they have nothing to fear and that whatever they fear will be addressed by the PAC at its conference next month."

Dr Dhlamini said one option the PAC was considering as a means of redistributing wealth was the creation of a special fund which would lend money to employees to enable them to buy shares in companies.

Initially, these shares would only be for workers "in the upper-income bracket".

The question of improving wages would be "a matter for the State". The PAC would also launch a massive campaign to fight illiteracy.

ANC international affairs spokesman Thabo Mbeki said it was time blacks stopped complaining about injustices suffered at the hands of the white man and concentrate on building the country they wanted.

Delivering the keynote address at the conference, Mr Mbeki said: "Many people have died in this struggle (but) it seems we are now at a point when we can effect change.

"It is important for us as black people to forget a little bit about complaining about the past ... and about what the white man is doing to us.

"Instead, we must say: 'This is what we want our country to be and this is how we are going to do it.'"

Mr Mbeki called for a "lively and healthy" national debate on the future economic policies SA should pursue.

There were too many slogans used. The relative merits of "nationalisation", "free enterprise" and "redistribution" had been tossed about almost as swear words, instead of being seriously discussed.

Rapid

He said there was an urgent need for the democratisation of the economy.

This meant the de-rationalisation of the distribution of income, of the structure of ownership of assets and of the decision-making process.

There should be rapid movement towards a new constitution, Mr Mbeki added.

Mr Mbeki said he was concerned that corporate South Africa had not entered the economic debate "more seriously than it has up to now".

However, he welcomed the recent remarks of top businessman Mike Rosholt on this question.

Mr Rosholt had acknowledged there should be a redistribution of incomes, but he did not appear to favour a redistribution of assets.

SA is already fading from the European investment map

B/Day 30/10/90

47

MIKE ROBERTSON in BONN

THE SA desk officer at the German economics ministry was not available. He and a quarter of his colleagues had been temporarily seconded to another office to try and track down the millions of Deutsche Marks that the former East German communist rulers had illicitly transferred to front companies outside the country.

By the end of last week the former Communist Party leaders had admitted to transferring amounts totalling about $70m to accounts of a Soviet front company, Putnik, in the Netherlands and Denmark to save the money from "probable expropriation".

This is but one example of both the challenges facing a united Germany as it attempts to undo 40 years of communist misrule and the very low position in which SA ranks on the list of German priorities.

Social Democrat (SPD) spokesman on SA Gunter Verheugen says bluntly that in the past six months "nobody has been interested in the SA question".

During the visits of President F W de Klerk and Nelson Mandela to Bonn earlier this year, Economic Co-operation Minister Jurgen Warnke indicated that Germany would provide some assistance for the return of exiles to SA.

As yet, however, no funding has become available and Verheugen says there simply has not been an opportunity to raise the question.

Gerhard Thiedemann, the SA desk officer in Warnke's ministry, says funds to assist the return of refugees will be available in next year's budget. At this stage, however, he is not sure how much.

The money, he says, will be channelled through churches and political foundations and directed at providing housing for returnees.

While the possible lifting of EC sanctions is a major topic in SA, it too has attracted minimal interest here. The German government is no firm supporter of sanctions. But, while some ministers like Warnke are said to be pressing for their lifting, the prevailing attitude appears to be to adopt a low profile and side with the majority opinion in the EC.

Rainer Erkens, an official of Foreign Minister Hans-Dietrich Genscher's Free Democratic Party (FDP), says its position is that sanctions should not be lifted until there are clear signs that change in SA is irreversible and an end to a negotiated settlement is in sight.

In practical terms this means the FDP will await a signal from Mandela or the ANC before supporting the lifting of sanctions. Given that the existing coalition is odds-on favourite to win the German elections, this will remain the policy for the foreseeable future.

Verheugen's SPD also supports the position that "the lifting of sanctions should be decided jointly between internal political forces (read ANC) and foreign countries".

But even his support for the continued implementation of sanctions is far from absolute.

Admitting to some "personal doubts", Verheugen says he believes "we must take into consideration that De Klerk could need something to show his constituency . . . perhaps something symbolic to start with, like ending the sports boycott".

Opinions as to whether a new SA will attract new investments from German companies vary, but a majority of people I spoke to on a two-week tour as a guest of the German government were highly sceptical of the prospects.

The main reason advanced is that East Germany and former East bloc countries offer better investment opportunities than the Third World in general and Africa in particular.

German companies, with notable exceptions like Volkswagen and Deutsche Bank, have been slow to move into East Germany.

☐ WARNKE

Reasons given for this range from a lack of clarity on land ownership, poor infrastructure (the cost of rebuilding is estimated at DM2 000bn) or simply waiting for prices to drop lower.

Despite this there are attractions, such a skilled workforce with average wages half those in the former Federal Republic, and government tax incentives for companies that open new plants there.

Verheugen says that "even if SA finds a political solution soon, I don't see money flowing back into the country".

The Social Democrats, he says, have advised the ANC to forget about nationalisation.

"I have told them that redistribution of wealth and land will not lead to better conditions. What SA needs is a strong economy. It is not in their interests to destroy it . . . Socialist and communist systems have failed everywhere. SA needs to establish a responsible social market economy."

Thiedemann agrees that in most cases German companies would choose rather to invest in the former GDR or Eastern Europe than in a new SA. He believes, however, that there will be interest in investing in a reformed SA with a market-oriented economy.

The view of officials in the German foreign ministry is that if attempts to integrate the economies of the southern African region are successful, there will be an interest on the part of major German companies in investing.

Pik Botha's proposal for a kind of southern African economic union is regarded as desirable. But even a best case scenario of an SADCC which includes SA is unlikely to attract much German aid or investment.

The German government has said developments in the East would not result in any cut in aid to Third World countries. This has not happened. But as Erkens points out, the collapse of communism has also meant that Third World countries' "blackmailing power" (if you don't help us we will go to the Soviet Union) has evaporated and that the major Western countries are now adopting a much tougher attitude towards aid projects.

He adds that Germany has a far more direct interest in preventing the total collapse of the economies of Poland, Czechoslovakia and Hungary which could result in a massive influx of people from those countries into Germany.

"With Poland we have a Texas/Mexico situation," he says. "Helping Central Europe get back on its feet is a giant task which will cost a fortune . . . This is so costly that people say forget about the rest of the world."

This is a gloomy but perhaps realistic scenario for a new SA. Even with a quick negotiated political settlement and agreement on a market-oriented economy, it is clear SA will struggle to attract aid and investment from leading European countries like Germany. It would, however, at least be in a position to try to exploit strategic advantages.

Any attempt to implement an economic system resembling those that resulted in the total collapse of the economies of Eastern Europe would inevitably lead to SA fast becoming one of the forgotten countries of sub-Saharan Africa.

☐ **Simon Barber's column will resume next week.**

Freedom in giving it all away

B Day 31/10/90

(49)

MICHAEL ACOTT

AMERICAN Walter Williams has a more radical privatisation in mind than most South Africans.

"Give it all away," says the economics professor.

Eskom, railways, airways, council housing? Everything.

"Give away all the assets of central government. Make small government attractive."

Williams proposes giving the assets to black South Africans, not corporations or institutions. He's sure the JSE could find a way to parcel the assets into shares which blacks would own; the institutions can buy them later from those who want an instant profit.

"Firstly, it's desirable to get all these assets out of government hands.

"Secondly, it's a gesture of goodwill to blacks who have suffered injustice, a gesture that is not destructive of the economy as a redistribution of income would be.

"Thirdly, the people calling for nationalisation would be confronted by the proposition of taking the stuff away from the people."

Williams, a professor at George Mason University in Virginia, is an avid free marketeer. He believes in minimal government, devolution of power and the rights and freedoms of the individual. Apartheid provided none of these, but it created structures a future government might be tempted to use to favour blacks as apartheid favoured whites.

Apartheid, he says, is unjust and must go; his concern is that it should be replaced by a system which delivers personal liberty and rising living standards. The supreme betrayal would be if blacks found decades from now that they were worse off than they had been under apartheid.

Hence his desire for a giant giveaway of state assets, both to redress past wrongs and to popularise free market economics. It doesn't matter who the new shareholders are.

"Who owns things is not as important as who uses things."

Williams is here to promote his book SA's War against Capitalism; a local edition is being published this week. Instead of the usual political or moral critiques of apartheid, Williams looks at SA race policy in economic terms and finds it destructive.

Don't equate apartheid with capitalism, he says; it's the antithesis of capitalism. Apartheid and its predecessors had more in common with socialism, state ownership or control of the means of production.

His message is don't blame capitalism for SA's economic ills, and don't try to replace apartheid with equally destructive state controls.

"You can probably summarise most if not all of the problems of the past as being the result of a state denial of the rights to engage in peaceful voluntary exchange. If that's the problem, you change the laws and the institutions to stop denying the people the right to engage in peaceful voluntary exchange.

"From an economic point of view, that's what you have got to do. From a political point of view, questions must arise about how you get from point A to point B."

Apart from gestures such as giving away state assets, Williams does not believe much can be done to correct past injustices. The important things are not to repeat the mistakes of the past, and for government to get out of the way of the people.

Interfering governments make people less free, but also less rich, than they would otherwise have been.

The problem is the pattern of world history. Awesome powers of central government are seldom dismantled; they are taken over and used against other people.

"I try to sell the moral superiority of individual freedom," says the economist. "It's far more efficient."

Williams says the masses are not only better off in market economies, but these countries also tend to have a better record on human rights. The evidence is there; the burden of proof is on those who believe nationalisation would do better.

"You can make some black people rich by using the power of government, but will it improve the lot of most blacks? I say no."

A free market just won't discriminate, hence the plethora of SA laws to reserve jobs, or skills, or land to do what the market would not have done.

Williams says if the new SA opts for a free market economy, it has the capacity and the human and mineral resources to become a new economic miracle like Hong Kong, Taiwan and South Korea.

"Any government that came in seeking to capture power and change the colour of the people wielding that power would destroy that chance. The odds would then be on SA becoming a basket case. You're moving in that direction now."

He has two pieces of advice: invest in human capital and do it yourselves without foreign aid; there seems to be an inverse relationship between poverty and the amount of foreign aid received.

Deregulation would work wonders

□ WILLIAMS

in education and housing, as well as in industry and agriculture.

Williams was recently consulted by the Russians, who had a bumper wheat crop which they couldn't distribute. His reply was that if all the trucks were given to the drivers, Russia would soon have wheat wherever it wanted it.

That's a start in giving away state assets.

LETTERS

Concern as debt judgments surge

B Day 31/10/90 49

GERALD REILLY

PRETORIA — South Africans are sinking deeper into debt with the value of debt judgments up by 40% in the first half of the year compared with January-June last year.

Information Trust Corporations chairman Paul Edwards said yesterday that although the country was caught up in a recessionary phase, consumers continued to maintain a high level of credit buying.

And this was in the face of continuing high interest rates which, according to the Reserve Bank, would be maintained at current levels until early next year.

He said debt judgments in the January-June period increased to levels equal to that of 1985. But it was the very high value of debt judgments that was causing concern.

This, Edwards said, indicated consumers had been resorting increasingly to credit to finance current spending and, when they went under, the amounts involved were large.

He stressed the problem centred on a reluctance among whites to adjust.

"Most consumers fail to understand, even with inflation-related salary adjustments, they may be losing ground through bracket creep."

Because of this many were worse off than they were before the increase.

He feared many consumers would continue to spend themselves into trouble in the run-up to Christmas.

Many families suffering financially would be tempted to overspend in tune with the traditional end of the year spending spree.

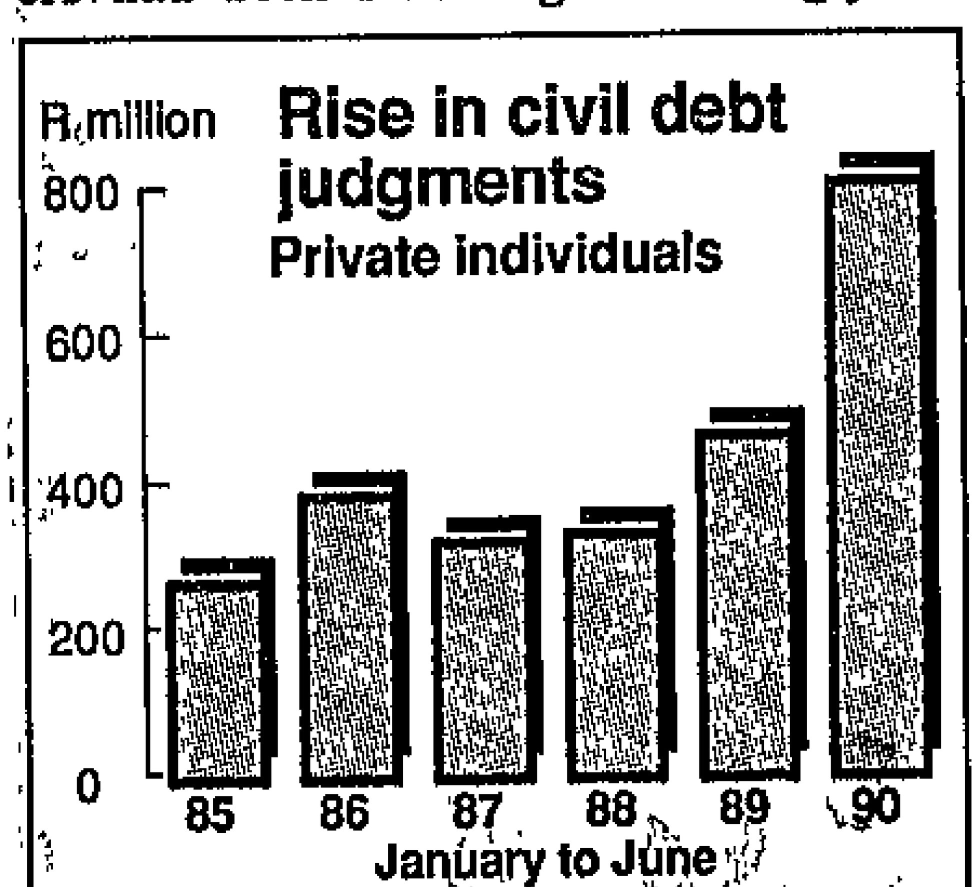
They would face a debt hangover in January, a common SA problem, Edwards added.

And a Central Statistical Service release yesterday showed in June-August summonses for debt increased by 14,7% to 259 319 compared with the same three months a year ago.

And the increase in civil debt judgments also increased by 14,7% to 133 671.

The statistics also showed that amounts involved in debt judgments of individuals increased from R119,3m in August last year to R177,9m in August this year.

The value of debt judgments involving individuals and businesses, according to the statistics, amounted to R195m compared with R130,2m in August last year.

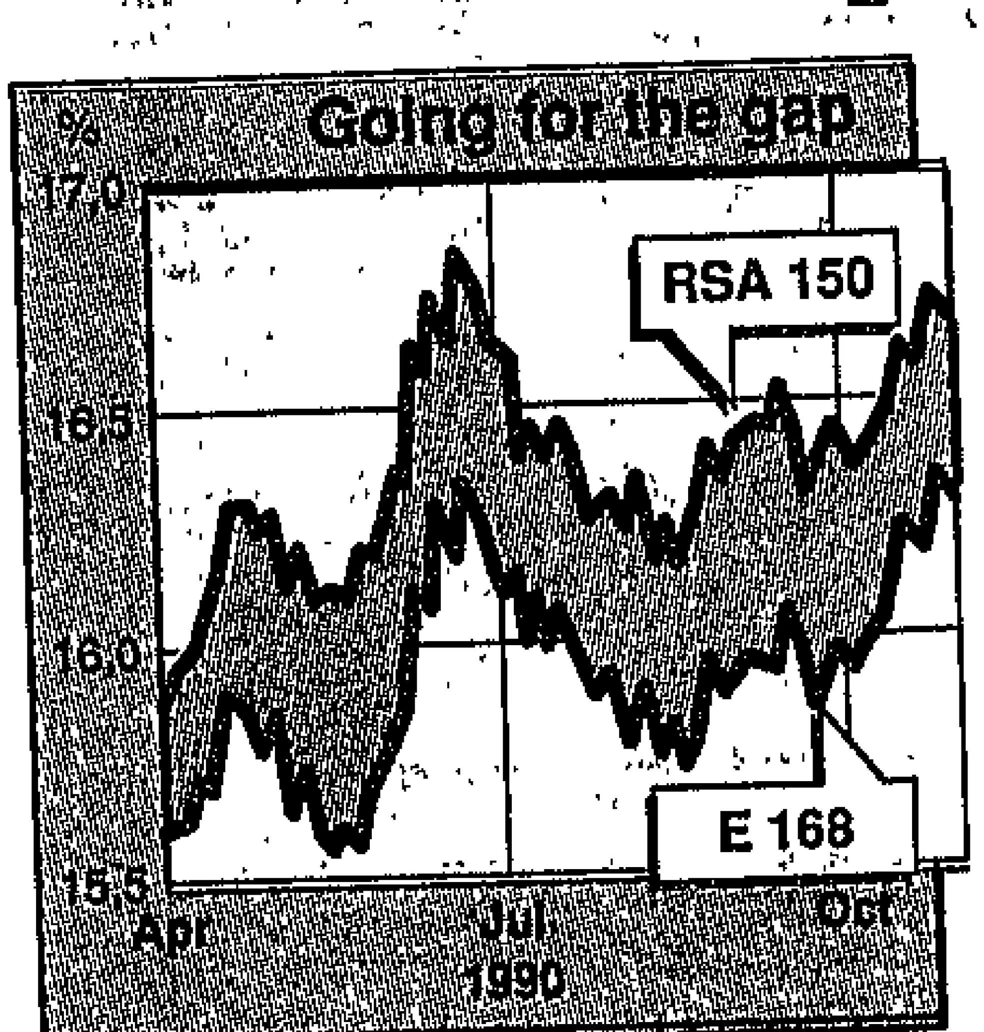


Graphic F KRISCH Source: INFORMATION TRUST CORPORATION

Bank stock policy pays off

49

ANDREW GILL



Graphic: FIONA KRISCH Source: SMB

RESERVE Bank attempts to bring the interest rate differential between government and Eskom stock down appear to be paying dividends.

Yesterday the differential slipped to 37 points from its over-50 point level in early September. B/Day 31/10/90

Although capital market turnover has been stiflingly low over the past few weeks, the RSA long-term stock has consolidated at the 40-point differential and even gained market share.

Turnover in government's R150 stocks in the last month accounted for 23% of the JSE, a big jump on 9% a year ago.

Eskom stocks have lost ground, account-

☐ To Page 2

☐ From Page 1

(49)

Bank

B/Day 31/10/90

ing for 45% of turnover this month compared to 50% last year.

A dealer said the improvement was all the more significant given the recent popularity of the consolidated Umgeni stocks.

The Bank's move to make the stocks more marketable was because of the growing burden of financing government debt and the cost of paying interest at 50 points higher than the market potential.

In December the 44 long-term government stocks were consolidated into four and the options market was established. This had little influence on the differential.

In August the Bank decided to enter the market more aggressively as both buyer and seller in order to increase liquidity.

Dealers say investors have been encouraged by its consistency in quoting doubles (acting as buyer and seller) and the resultant improved marketability of the stock.

They say institutional interest has picked up markedly recently.

Another reason given for the better performance is the Bank's option market which is turning over R1bn a month compared to around R330m earlier in the year.

By buying options investors are able to exercise their put (sell) options and get out if rates move up, whereas previously finding a buyer was not an easy task.

Some, however, are unconvinced. One dealer said the gap had narrowed because there was no funding pressure at the moment. "Wait until next year's Budget and the gap will grow," one said.

Another said the only marketable issue at the moment was the R150 while the other three government issues barely made a dent in turnovers. He also questioned the Bank's commitment to keeping the R150's marketable, since the issue could become too large and government could start funding by issuing more R153s.

BUSINESS DAY, Wednesday, October 31 1990

Pik: SA could qualify for aid if reclassified

BDay 31/10/90

49

TIM COHEN

FOREIGN Minister Pik Botha yesterday called for the classification of SA as a developing country so that it could derive benefits from the Lomé Convention.

He told delegates at the Africa Institute's conference, Southern Africa towards the Year 2000, that SA should to be invited to join the convention as the country — classified "developed" — was not, in fact, a developed country.

The Lomé IV Convention, an EC agreement to provide about $12bn in aid to African, Caribbean and Pacific countries during the next decade, supplies aid for development projects and allows products made in member states tariff-free access to the 300-million consumers in the EC.

Botha said that as a regional power, SA had a vital role in assisting its neighbours to prosperity, but had no intention of dominating the region.

SA could render assistance, particularly in the fields of agriculture, mining and manufacturing, because it had knowhow adapted to African circumstances, he said.

A concerted effort was needed to develop a southern African development programme, which would require extensive discussions with the EC and southern African countries.

If southern African countries combined their resources, they would be well placed to compete in world markets. SA's total trade with Africa was growing by leaps and bounds. Trends favoured closer co-operation.

SA needed to build a school every day, he said. It was time black South Africans woke up to the fact that they were being harmed by the continued application of sanctions.

Botha said the ANC's continued calls for sanctions were making it impossible to achieve the 5% growth rate needed to create the required 350 000 jobs annually.

"The season for economic pragmatism and realism in southern Africa has dawned," he said.

Barend in clarion call for patience and forbearance

It's a gloomy outlook for the year ahead

Sted 2/11/90 (49)

By Peter Fabricius
Political Correspondent

The economy would probably shrink by one percent in real terms in 1990, Finance Minister Barend du Plessis said yesterday.

Addressing the Financial Mail Investment Conference in Johannesburg, Mr du Plessis said that the official 1989 forecast of a one percent growth in the gross domestic product in real terms now seemed beyond reach.

And the official 1989 forecast of a R6 billion surplus on the current account in 1990 would probably now only reach a "still very respectable level" of R4,5 billion — partly due to a small net inflow of non-reserve capital in the third quarter.

Average inflation for the year would probably again reach the 14,5 percent level forecast last year — after downward estimates earlier this year.

Mr du Plessis painted a gloomy picture of the year ahead and made a "clarion call for patience and forbearance".

Any positive real growth in the economy in 1991 should be regarded as a bonus.

No reliable forecast of the 1991 economy was possible because of the volatile Middle East situation.

"We shall do well, however, to approach 1991 with suitably toned-down expectations".

Previous forecasts of significantly positive growth in 1991 were based on an assumed relaxation of monetary policy before the end of 1990 and more pronounced easing of interest rates.

Although this easing could not be ruled out altogether, the chances had been greatly reduced.

Mr du Plessis also forecast for 1991 that:

- The Government budget will have to be watched very carefully and Government freedom of action in providing substantial and much-needed tax relief will be narrowed.
- The re-acceleration of the inflation rate, which started in August and September, will not persist long into 1991.
- By the end of 1991 the inflation rate could drop by as much as 2 percent.
- Current account surpluses could shrink so much that they make the country's position "uncomfortable".
- International oil prices will almost certainly exceed the 1990 estimated average of $18 a barrel.
- A distinct probability of further decline in the growth of the major industrialised economies, especially the Angol-Saxon ones.
- A "fair-sized chance" of the US economy slipping into full-blown recession.
- A reduced demand for SA exports and a possible further weakening in world commodity prices.
- Higher inflation in the major countries exporting to SA, especially the UK.
- A gold price that will show little if any increase on the 1990 price.

Mr du Plessis listed the reasons why the official forecasts for 1990 had gone "moderately" wrong as:

- Lower than expected world commodity prices.
- Imports failing to come down as much as expected.
- The gold price which started 1990 at a "relatively up-beat" $400 an ounce but dropping to an average $382 to date — costing the country about R912 million.
- Real value added in agriculture slightly down on 1989.
- Real output being adversely affected by increased industrial action, intimidation and labour unrest.

Nonetheless the present downswing until very recently at least was still relatively mild, he said.

This was more remarkable given the comparatively stringent monetary and fiscal policies of the past 30 months and the uncertainties surrounding political reform.

Listing the achievements of 1990, Mr du Plessis said:

- Inflation had been brought down from almost 25 percent in 1986 to just over 13 percent in the second quarter of 1990.
- Debt repayments had been complied with fully with minimal disturbance to the money and foreign exchange markets.
- A notable degree of stability had been attained in the exchange rate.
- Total net foreign reserves had risen by about R2,5 billion this year.
- Growth in the M3 money supply was about to drop below the lower target limit at the end of September.
- Government spending and the budget deficit before borrowing were on target.

Star 1/11/90 (49)

Current downturn not as bad as 1985 recession

By Duma Gqubule

Although the current downswing in the economy could be more severe and last longer than originally expected, the extent of the recession should be moderate, compared with the deep recession of 1984 to 1986, writes Old Mutual chief economist Dave Mohr in his latest economic monitor.

"In the case of gross domestic expenditure (GDE), the decline in the first five quarters of the 1985/86 recession was no less than 9,5 percent, compared with 4,5 percent in the first eight quarters of the current downswing, while the fall in real gross domestic product (GDP) in the first three quarters of the previous downswing was some 1,5 percent, as opposed to about one percent at present," Mr Mohr says.

He says both private consumption expenditure (PCE) and fixed investment fell sharply in the 1985/86 recession, but the rate of increase in PCE has merely levelled off at an annual rate of 0,5 percent over the last four quarters.

Fixed investment, on the other hand, has registered a modest decline of only 4,4 percent over the last three quarters.

However, because of the direct and indirect impacts of the Gulf crisis the balance of payments, foreign exchange reserves and the inflation rate could come under pressure.

Non-gold export volumes could fall in 1991 and perhaps even in 1992 and commodity prices could could come under further pressure in the event of a meaningful downswing in international growth.

In the circumstances the trade balance could remain under pressure in both the short and medium term.

"Thus, due to balance of payments pressures and the need to replenish foreign exchange reserves, policy-makers could still be forced to curb domestic demand by more than appeared to have been necessary prior to the Gulf crisis," he says.

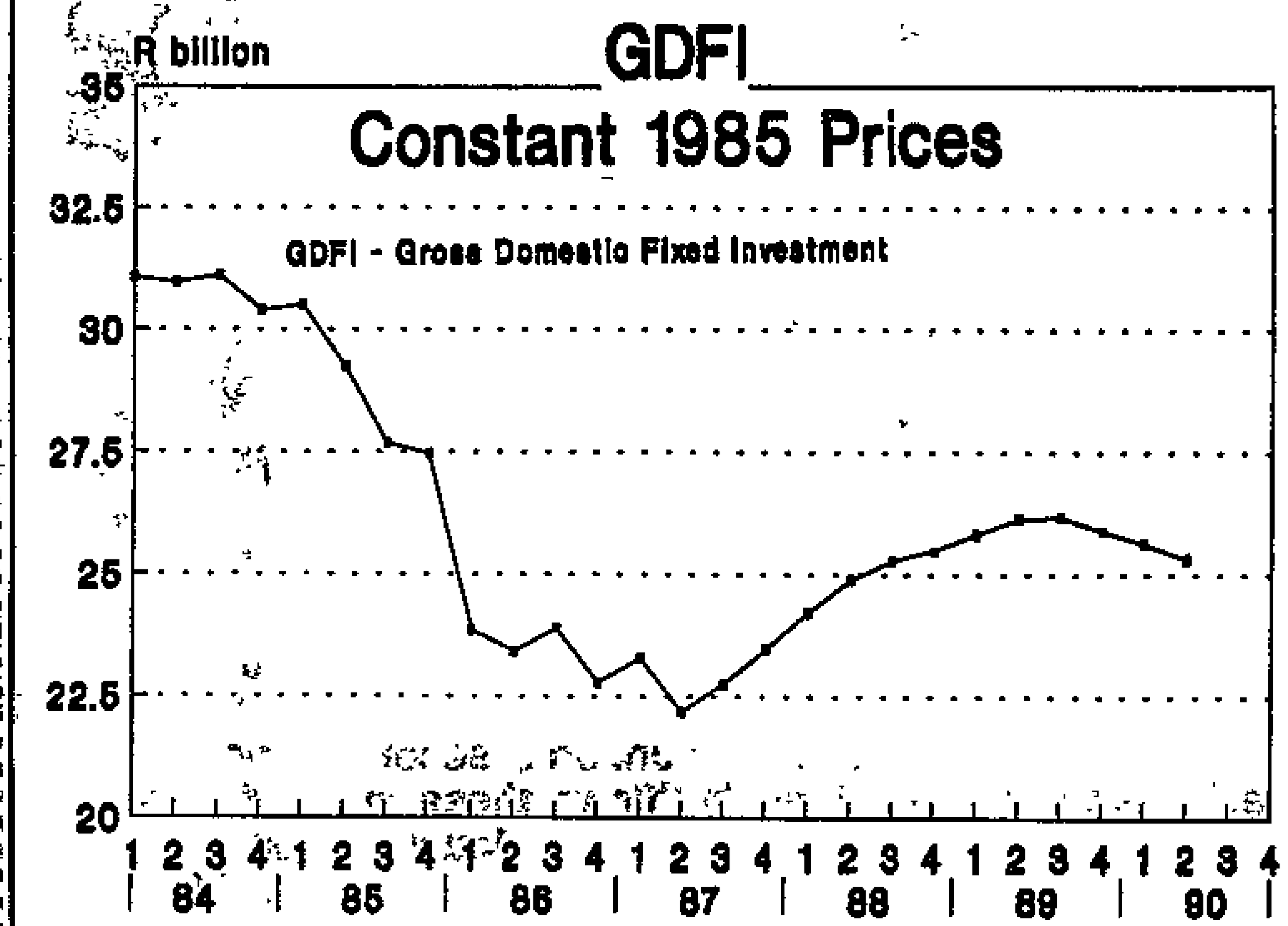
Mr Mohr says a more detailed analysis indicates that the underlying domestically generated inflationary pressure is still relatively firm.

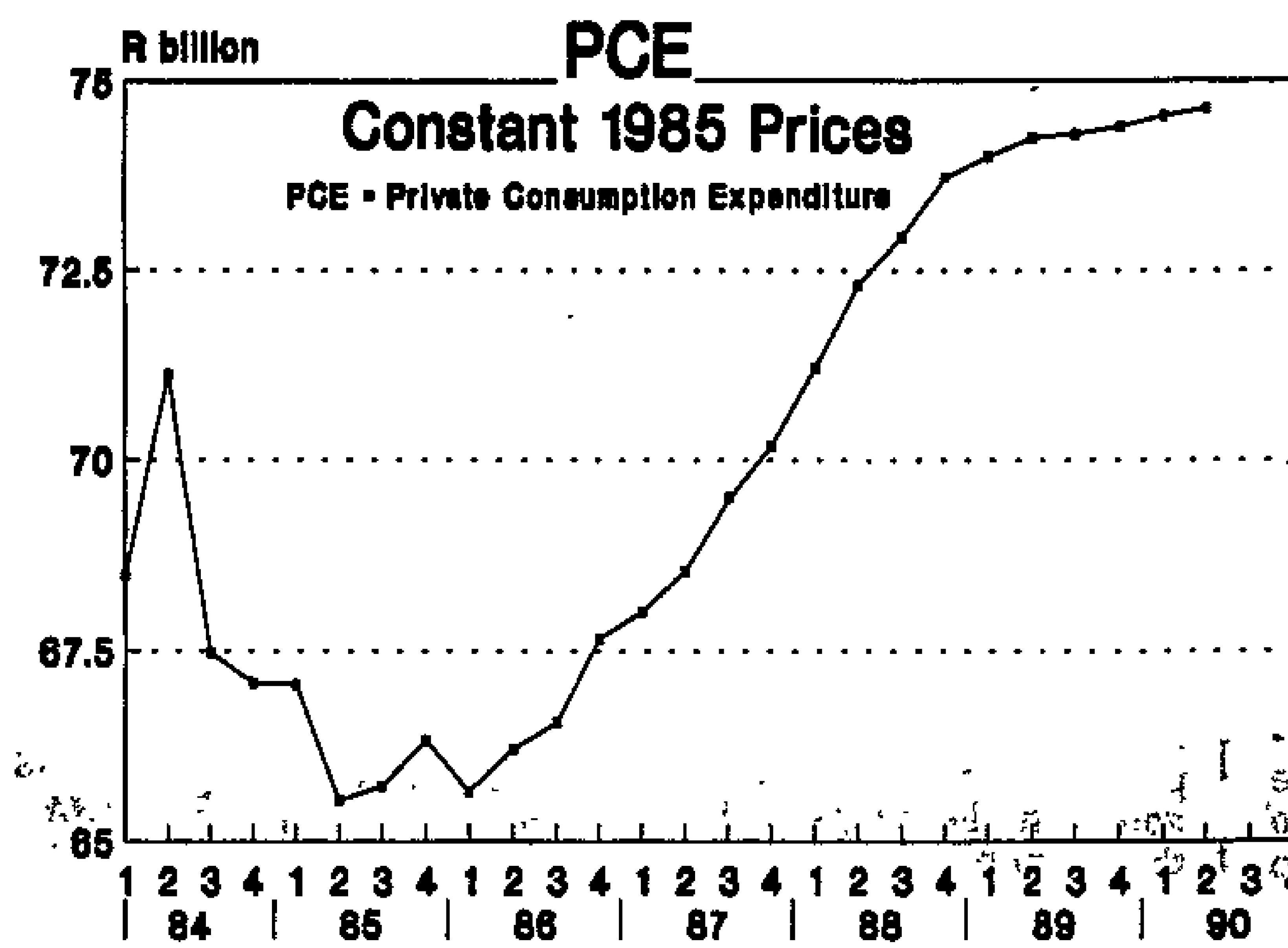
The declines in inflation recorded so far have been largely due to the sharp slowdown in import price increases and the housing component of the CPI.

"Excluding the above-mentioned two components — which have a weighting of 30 percent in the CPI — by August this year the CPI was still 15,6 percent higher than in August 1989.

"By implication, this means that domestic economic activity will have to be curbed much more and probably also longer than previously envisaged.

"Against this background, both real GDE and GDP are not expected to show any growth next year," he says.





Cutting deficit financing would help boost growth — economist

Star 22/11/90 (49)

By Duma Gqubule

South Africa can achieve real growth in gross domestic product (GDP) of three to four percent a year by raising the level of real gross domestic fixed investment to a moderate 25 percent of GDP from the present 19 percent, says Frankel, Kruger, Vinderine economist Mike Brown.

"Compared with the average 1,2 percent growth rate of the past five years, this would constitute a material improvement," he says.

He says a target investment rate of 25 percent for 1991 would require a rise of R16,6 billion to R65 billion in nominal fixed investment.

This could come from improving the personal savings rate, improving government savings, the ending of sanctions and from directing 10 percent of pension and life assurers' cash flows towards social investments.

"A recovery, even of a marginal nature, in the personal savings ratio from the current one percent of personal disposable income to half the average savings ratio of 9,5 percent of the 'seventies would add R6 billion a year to personal savings.

"The cyclical downturn in the economy should encourage savings by cautious individuals and it would not be impractical to anticipate a savings ratio of some five percent in 1991, abbetted by recently proposed taxation changes," he says.

Net savings

"The government's contribution to net savings, in the short term, would probably consist of it refraining from the practice of using borrowed funds to finance state consumption. This could add R4 billion a year to the capital pool available for investment elsewhere in the economy.

"In the medium and longer term, the state could contribute substantially to capital formation by reducing deficit financing, switching focus to capital spending and by privatisation.

"The main impact of lifting sanctions would presumably be to turn SA from a capital (and savings) exporting nation to a capital-importing country.

"In the period 1985 to 1989, capital outflows totalled R27 billion — an average of R5,4 billion a year.

"If the capital moratorium on SA were lifted, much of this forced export of savings would be eliminated. In addition, access to funding from the International Monetary Fund (IMF) could provide R5 billion a year," he says.

Finally, Mr Brown says if 10 percent of new cash flows to life assurance and pension funds (of about R15 billion) were directed towards social investments, this would ammount to R1,5 billion a year.

Star 10/11/90 (49)

'Debt is a worry at night and a humiliation by day'

Money Matters

MAGNUS HEYSTEK

THIS headline is a quote from The Koran and aptly sums up the situation of a lot of South Africans.

As in all other major countries, South Africans today have more debt than they've ever had before.

Previous generations, brought up on a different work and savings ethic which avoided debt like the plague, would be horrified at the debt level of the average South African household.

But these debts are now coming home to roost and it will take time, perhaps some years, before the average household is again in a comfortable position to take up credit and increase debt levels.

Several reports have been received from overseas recently about the astronomical debt levels of the average household, particularly in the United States and Britain.

It has been calculated that every man, woman and child in the United States owes about \$8 000 — and this amount is growing rapidly.

In contrast, countries in the East, notably Taiwan and Japan, have vastly different debt profiles, with the average Japanese having an average of about \$70 000 in some form of saving.

After a decade and a half of credit-induced spending, further fuelled by negative interest rates and high inflationary expectations, the average South African finds himself much in the same boat as the over-indebted Americans and British.

Statistics on personal debts are not freely available, but using figures on bank loans and advances as well as mortgages by building societies, one finds that personal debt as a percentage of personal disposable income is now close to 50 percent.

In 1980 this figure was around 25 percent, which indicates a great debt splurge during the Eighties.

The figure does include other type of debt, like that extended by individual retailers for instance, but if debt information were freely available it is certain the picture would be far worse than it appears.

The rapid increase in the debt exposure of individuals since 1979-80 was probably sparked by a combination of easier credit and a greater willingness on the part of consumers to take on more debt.

As regards the supply of credit, the abolition of credit ceilings on banking institutions in 1980 and an aggressive drive by banks to gain market share were the most likely factors contributing to the debt surge.

Other factors also, of course, played a major role.

For several periods during the Eighties interest rates were negative in real terms.

Consumers made a rational decision to stop saving and increasing spending as inflation soared and the value of the rand dropped.

Much of the spending was defensive in nature: Spend now before it gets more expensive, seemed to have been the general view.

Distress borrowing also played a major part in the surge in debt levels. This has been particularly evident since 1985, when the country's economic growth rate plunged.

In order to maintain a certain standard of living, which was eroded by inflation, taxation and lagging salary increases, South Africans took on more and more credit.

In 1980 direct taxes as a percentage of disposable income were 6,2 percent. By the end of 1989 this had grown to almost 11,5 percent. Distress borrowing is still a major factor in the creation of bank credit in the current downturn.

Between 1976 and 1980 the average household's real disposable income rose by 3,3 percent but since 1982 this has slowed to 1,9 percent. The figure is lower than the increase in the population, which means that standards of living have declined markedly.

As the consumer's financial position became less comfortable it stands to reason that there was little left over from the family budget to put into savings. In fact, the desire to save has all but disappeared, except for contractual savings through life insurance companies.

Whereas personal savings (expressed as a percentage of personal disposable income) amounted to 11,1 percent in the Sixties and 10,2 percent in the Seventies, this ratio declined to an average of 3,2 percent in the Eighties and is now around one percent — its lowest level ever.

Any drop in interest rates — which are now expected to stay at current levels for even longer than previously thought — is unlikely to lead to a sudden surge in credit-induced spending.

Personal debt levels are too high and savings levels too low.

The average individual's balance sheet is in a shocking state and first needs to be repaired. It will be a long time before anyone feels comfortable enough to take on more debt.

No quick end seen to the recession

By Roy Cokayne

The financial authorities have conceded that the economy has moved into a recession that could extend deep into next year.

Special economic adviser to the Minister of Finance Dr Japie Jacobs has admitted as much and says it is likely a small negative growth rate could be recorded this year.

"The South African economy has moved into a cyclical downswing since March last year and the initial gradual slowdown has now become a fully fledged recession," he said in an address to the first official Polish Trade Fair in South Africa in Pretoria.

Dr Jacobs said the oil crisis caused by the slowdown in industrial countries would impact adversely on the economies of all developing countries, particularly those with external debt problems.

He said the oil crisis had come at an extremely inopportune time for the SA economy and its effects would be felt in the rate of inflation, the current account of the balance of payments and the growth performance of the economy.

Dr Jacobs said SA's foreign debt was reduced from $23,7 billion at the end of August 1985 when the debt standstill was instituted to $20,6 billion at the end of last year — of which only 36 percent remained inside the net.

But he said the repayment of this debt had demanded material sacrifices in the form of lower economic growth from the people of South and Southern Africa.

"In 1989, foreign interest payments amounted to only 7,1 percent of SA's total export proceeds and its foreign debt of 1989 amounted to only 23,2 percent of its gross domestic product.

"South Africa is obviously not over-borrowed in terms of any international criteria," he said.

Dr Jacobs stressed SA was keen to normalise its international political and social ties and to gain access to the international financial markets.

"We need to diversify our export markets. We are pleased with the progress that has been made in establishing ties with Poland and see it as our task to cement and to expand these ties," he said.

DP wants a Bonn-type economy

CAPE TIMES 9/11/90

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Political Correspondent

SOUTH AFRICA should stick to the West German "social market" economic model rather than East German socialism, DP leader Dr Zach de Beer said in Stellenbosch yesterday.

The DP's policy for a "social market economy" encapsulated two major aspects — growth, and using the fruits of that growth to eliminate inequalities.

The state's duty was not to regulate the economy, but to "see that the playing field is level and to act as umpire when any abuse such as monopolism threatened".

Business is a key party to a social contract for SA

B/Day 6/11/90

49

RAYMOND PARSONS

IF BUSINESSMEN and investors are going to take a vigorous interest in the quality of the political system — the rules of the game — they must define their own basic and critical interests as they relate to the political system.

Businessmen represent a spectrum of political views. Some consensus and agreement may be possible, however, if one looks to the most basic conditions for the successful operation of private business.

Private businessmen own property, capital stock and financial resources, and managers in the private sector represent this ownership.

A fundamental interest of business is that rights of ownership are safeguarded. These rights can be rendered worthless; they can be usurped and undermined if, for example, high rates of taxation, high inflation, arbitrary action or restrictive regulations are imposed on ownership.

Not only the fact of ownership, but the implications and benefits of ownership, have to be safeguarded and respected within reasonable limits.

Much is written about the relative success of the market system compared with managed or command economies. Market systems only work, however, if owners and managers have the freedom to exploit market opportunities and take economic risks. If conditions imposed on business by government, or by organised labour, substantially erode that freedom, the baby will be thrown out with the bathwater.

Just as much is written about the benefits of the "social market economy" or "mixed economy". If I could wave a magic wand I would create for SA a social market economy like that of Germany, the Netherlands and Sweden before cost of social benefits started starving investment in new production.

Businessmen have a right to ask what came first in these societies: the ambitious social goals or the economic productivity and efficiency which has made the social market economy possible. A basic interest for business is that the rules of the political system ensure, as far as possible, that social goals are implemented when they are affordable.

In numerical terms, business is a minority in the political system. Minority interests can become eclipsed in single-level and uniform political systems dominated by the arithmetic of voting. However, where a political system devolves power in a series of different locations, space is created in which minority interests can be more influential.

It is in the interests of all special interest groups, including business, to support the devolution of powers to lower tiers of government as well as the division of power between states and regions, on a completely non-racial basis.

It would bring political decision-making close to the different operating environments of business. Regions and cities could compete in attracting investment and in promoting sound development policy.

This kind of geographic "pluralism" could complement what will hopefully be multiparty pluralism in introducing creative balance into the political system. What is of key relevance to business is that the political and constitutional system that emerges not only represents interests based on numbers but interests based on functions too.

All political parties appear to acknowledge business has an important role to play; we do not know how enduring these acknowledgements may turn out to be.

I would suggest, therefore, that some forum be established within the parliamentary system to provide a constitutionally guaranteed opportunity for important institutions and special interests to have an input into the political debate, and to participate in policy-planning agencies.

One method could be through a system of public hearings, such as in the US Congress. It would give various interest groups an opportunity to air their views publicly where it matters, in the parliamentary process. It also gives more time to assess debate on issues, create new alliances and adopt strategies.

Economic and financial issues did not form part of the recent investigations by the President's Council into possible approaches to constitutional reform. The chairman of the relevant committee, however, recognised that the financial aspects of a new constitution were a major subject in their own right.

Questions relating to public finance which may be considered to fall in this category are constitutional limits on tax rates; the relative size of all levels of government; the right to issue instruments of public debt, as well as the relative size of total public debt.

Autonomous rights to levy taxes and the allocation of sources of revenue also need to be clearly defined, as is done in all federal systems. Although there have been tentative references to the concept of "fiscal federalism", we need a more structured debate on its implications for constitutional negotiations.

Another area for debate is the future role of the Reserve Bank. Evidence suggests that inflation tends to be lowest in countries in which the central bank enjoys the greatest degree of independence. It would, therefore, be legitimate for business to support the idea that the Reserve Bank's position should be secured.

The above suggestions are intended for debate in the context of SA's constitution in the longer run. There are, however, severe short-term challenges which also have to be met.

Several challenges have to be addressed simultaneously. Expectations have escalated against a relatively poor economic performance. The immense challenge of the mobilisation of resources and the delicate matching of priorities and available inputs can only be successfully achieved in a predictable political framework.

A proposal which could secure a favourable framework for meeting the challenges is to divide the negotiation process into two parallel processes; one short-term and the other the "normal" expected process of negotiation about a new constitution.

The short-term process, in which organised business, labour and other functional interests should be fully represented, would have as its goal the formulation of a 10-year "social contract", entered into between all major political and economic interests, black and white.

The "contract" should be based on sound principles of policy, good government and mobilisation for socio-economic development for an extended period of transition. The contract should be binding on any new government.

This would separate, as far as possible, the immediate needs for socio-economic upliftment from the fundamentals of a future economic and political system. If we allow the constitutional negotiations to be bedevilled by redistribution issues, the risk of failure is likely to be much higher.

It is better to address the questions of socio-economic upliftment in their own right as far as possible.

Sacob is not unsympathetic to the intensely felt priorities posed by poverty and inequality in our society. We fully appreciate not only the real human needs but also the extreme dangers to democracy, stability and growth posed by this poverty and inequality.

Unfortunately, however, the economic history of much of the Third World and Eastern Europe over the past decade and a half has revealed that well-intentioned, heroic but untested policies designed to address large development needs always involve a very great risk.

Business is as determined as anyone else that the needs of the population must be addressed. But many businessmen are equally emphatic that the risk of getting it wrong while trying to do the right thing must be considered first — especially if we want to get the economy onto a "high road".

☐ **Parsons is director-general of Sacob. This is an edited excerpt from his address to the FM investment conference last week.**

☐ **Simon Barber's column will resume next week.**

Disastrous to intervene in the economy

Citizen 6/11/90 (49)

By PIETER COETZEE
Financial Editor

ATTEMPTS to distribute wealth by intervening in the economy will have the same disastrous results as socialism has had in Eastern Europe, said Anton Rupert, chairman of the Rembrandt group yesterday.

He was speaking at the State President's Award for Export Achievements in Johannesburg and said it will also contribute to a brain drain of the best expertise in the country.

"There are, nevertheless, those in our country who are still advocating a command economy, which has brought misery to so many people," said Rupert.

He said the surest way of scuttling the process of generating wealth is to impose stricter state control and higher taxes.

In SA company taxes are already of the highest in the world and if they are increased any further, foreign investors will merely stay out of the country.

"Nationalisation, the process by which the productive utilization of resources has been taken out of the hands of the private initiative and placed under state control, has proved to be discredited and outmoded economic policy," said Rupert.

"To succeed in a new dispensation we need a country which is securely built on democracy and free initiative.

"No one is going to invest in a communist state, no one is going to invest where private initiative and private ownership are not recognised and no one is going to invest where private assets are not guaranteed," said Rupert.

He said although he is a fervent supporter of small business undertakings, big business undertakings are a necessity. "The secret of a successful economy lies in the right mixture of the big and the small.

"The export market is but one area where big undertakings, with their easier access to capital and technonoly, often have an advantage. The successful export ventures of Japan are controlled by about six export houses.

"In banking 'big' is indispensable because of the high cost of computer technology. We are already experiencing this in SA, and that is probably why Germany and Switzerland each have only three big banking groups."

"A third sphere where 'big' is essential is the mining industry. With the exeption of diamonds, huge amounts of capital must be invested before any returns can be expected.

Profits 'lowest in 20 years'

Cape Times 20/11/90 (49)

By AUDREY D'ANGELO
Business Editor

REAL business profitability in 1991 "will be at its lowest in 20 years", Bankorp chief economist Nick Barnardt forecasts.

Because of the higher oil price, lower gold price and "unexpected sharp increases in non-fuel consumer prices" the Bankorp economics unit now thinks that the average rate of inflation for 1991 will be 13% instead of the 12% forecast earlier.

Barnardt and Johann Els say in the banking group's quarterly Econovision review that they do not expect any drop in bank rate and prime lending rates before the second quarter of 1991 and they think the next upturn will begin only in 1992.

Calling for special job creation projects by the government to alleviate rising unemployment and socio-political troubles which would hamper negotiations, they say:"Although total real production, or GDP, will probably not be lower in 1991 than this year, the financial situation of individuals and the business sector will be under serious pressure."

Forecasting lower real profits for business they continue:"Consequently wage and salary adjustments will not exceed the rate of inflation and widespread retrenchments will occur.

"This, with the additional 300 000 people entering the labour market annually, could raise unemployment to record levels."

Pointing out that this will not be conducive to peace, socio-political stability, successful political negotiations and an inflow of foreign capital, they say:"While the maintenance of tight monetary and fiscal policy is not negotiable, we feel that the launching of special job creation projects by government — aimed at infrastructure development especially in deprived black areas and communities — is long overdue."

They believe "the intensity of the present recession will be limited in 1991 by factors such as increased social and development spending by government, further moderate personal tax relief, continued growth in purchases of basic consumer goods and services, the lifting of international trade and financial sanctions and continued growth in the economies of SA's major trading partners."

However, the fact that the recession will last longer than expected will hit some business sectors such as transport, building, computers and vehicle and machinery manufacture.

"The poor performance of credit-intensive spending such as fixed investment and consumer durables in 1991 implies that the banking sector will also experience a real contraction.

"It is estimated that total credit extension next year will grow by not much more than 5% while bad debt write-offs will continue to rise and will only peak in 1992."

OPINION

Star 12/11/90

Michael Chester notes a feeling that SA's future is too important to leave to politicians

49

Big business wants a say

A series of recent moves by the SA Chamber of Business has underscored a growing determination inside the private sector to stake claims to a bigger voice in the debate on how South Africa should shape a post-apartheid era.

There is growing concern inside Sacob that economic realities may be swamped by sheer verbosity if negotiations turn into a shouting match between political rivals about which side can magically transform South Africa into a new Utopia at a single stroke.

Sacob has taken the view that the first priority should be signals of economic as well as political stability to pull the sagging level of business confidence out of the doldrums and encourage a renewed flow of investments that may be crucial to the whole reform process.

Behind the scenes, the Government has already hinted that big business would be welcomed at the conference table. And insiders are convinced that summit talks between Sacob and the African National Congress may be imminent.

"The problem runs far deeper than socialism versus capitalism arguments," says one economic observer.

"There seems to be general agreement about the burial of apartheid and the crucial need to accelerate black advancement. But there are new dangers — especially the risk of disappointment for massive numbers of black families whose expectations have perhaps been allowed to run far too high.

"None of the politicians seems to be prepared to confront the economic realities of the pace of reform. Instead, each side tries to create the impression it can wave a magic wand to spread prosperity. There are no magic wands. It's going to be a hard slog. And there need to be signposts that everyone can read."

The SA Chamber of Business has started to take the view that negotiations aimed at laying out blueprints for a new South Africa should be tackled by two distinct and separate agendas, rather than risk an endless wait for elusive agreement on a single master plan.

The first should tackle a set of signposts showing short to medium-term goals, concerned solely with socio-economic upliftment and with clearly defined policies on the timetable of reforms; the second assigned to guidelines on the longer-term outlook, as spelt out in a new constitution.

Its stance on the first set of signposts was made plain a few weeks ago with the release of a document entitled "Economic options for South Africa", which dashed pie-in-the-sky ambitions of instant miracles and laid out proposals for a 10-year plan of socio-economic reform aimed at underpinning political changes.

Sacob's formal stance on constitutional affairs has yet to be expounded in full in a special document expected to be released in the next few months.

However, Sacob director-general Raymond Parsons set out the attitude of big business in an address at the 1990 Financial Mail Investment Conference in Johannesburg last week.

"Political idealism and power-competition have to be constructively balanced by sound economic judgment and experience," he told delegates.

"I emphasise the need for caution — indeed extreme caution — with regard to hypothetical economic policy.

"Over the past few months we have had our table decked with a veritable feast of hypothetical socio-economic policies for a new South Africa prepared by politicians or think tanks connected with political movements.

"The ambitious goals that have been articulated suggest a somewhat unpredictable political future, to say the least. Predictability and trust in the economic policy system are paramount.

"We cannot assume that a majority of South Africa's electorate in the future will be sufficiently well-informed about political issues to be wary of political and economic risk-taking.

"Their own sense of deprivation — plus the rhetorical persuasiveness of popular political leaders — could lead them to support all manner of heroic economic experiments which promise them expanded welfare.

"We might have one additional element in our future politics which will promote unpredictability. This is a strong moral conviction among politicians. Here again, we have experienced it in the past.

"Such 'good intentions' not only can motivate drastic restructuring of economic and social institutions, but the good intentions also tend to make politicians feel they can afford to risk failure. It is always comforting and convenient to be able to say 'we meant well'.

"This is one of the reasons why central planning in command economies was able to endure for such a long time and do so much damage. The ostensibly caring and egalitarian ends justified the most obstinate, diabolical and anti-democratic methods.

P.T.O.

Drought pushes economy deeper into recession

Star 15/11/90 (49)

By Duma Gqubule

Any hopes of an early upturn in economic growth have been dashed by news that the gross domestic product (GDP) declined by a seasonally adjusted annual rate of 2,1 percent in the third quarter of the year — the fourth successive quarterly decline, the Central Statistical Services (CSS) reported yesterday.

Economists are now forecasting a decline of just over one percent in the GDP this year and a small increase of perhaps one percent next year, given that the economy is coming off a low base.

Earlier this week Dr Chris Stals, governor of the Reserve Bank, said in London that no upturn was likely before the beginning of 1992.

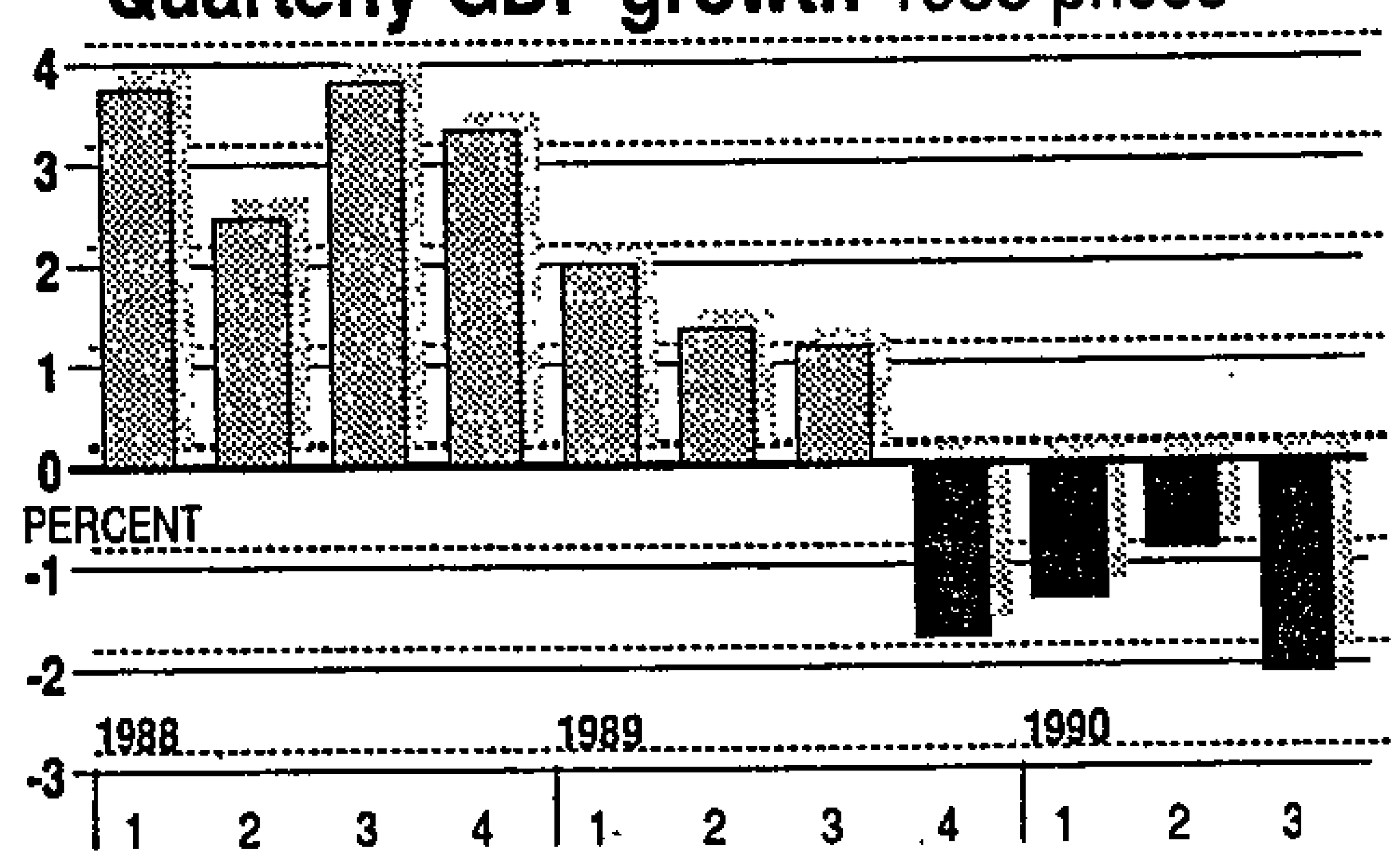
This view is reinforced by senior bankers who expect the country to be in a serious recession for most of 1992, with little relief in the form of a reduction in interest rates.

"At best interest rates can be expected to decline by 2 percent during the course of 1991," the chief executive of the one of the country's largest banks said yesterday.

With growth prospects receding almost on a daily basis, bankers and businesses are bracing themselves for a sharp upturn in bankruptcies and insolvencies next year.

The main reason for the fall was a 33 percent decline in output by the drought-stricken agricultural sector. Excluding the agricultural sector which is given to wide seasonal variations, there seems to be evidence there is still some life left in the rest of the economy.

Quarterly GDP growth 1985 prices



The non-agricultural sector showed a small increase of 0,1 percent in GDP compared with a decline of 1,9 percent in the second quarter. In addition, the mining industry showed a growth of 4,3 percent in the second quarter while the tertiary sector increased by 0,7 percent.

The consensus among economists is that any meaningful recovery in the economy before late next year is highly unlikely. Economist Louis Geldenhuys at stockbroking firm George Huysamer Inc says it is still too early to talk about when the next upswing will begin.

"Although we may reach the low point of the downturn late next year, I would be surprised if we enter any noticeable upswing before 1992," he says.

However, Fergusson Brothers chief economist and investment strategist, Dr Gad Ariovich believes there is a good chance of a somewhat pedestrian recovery beginning in the second quarter of next year.

He says inventories are at very low levels and the replenishment of inventories could boost demand next year.

In addition he cites the higher levels of black consumer spending, the possibility of the Gulf crisis being resolved, and the beginning of a trend to lower interest rates next year as factors that could trigger a recovery in the economy.

Econometrix economist Tony Twine says the changing attitudes of foreign investors could remove the squeeze on the balance of payments.

"With more debt roll-overs we could afford to have a much lower current account surplus next year."

Although the government does not have much room to manoeuvre, there is a possibility of direct tax cuts in the budget next year, providing a much needed stimulus to the economy, Mr Twine says.

SA is still on course for ecomomic growth — Stals

By Derek Tommey

South Africa should not be unduly disrupted by recent changes in the international economic situation and in the price of oil, Dr Chris Stals, governor of the Reserve Bank, said in Johannesburg yesterday.

He told the FM annual investment conference that these had come as a nasty setback, but the country could still continue on its course of establishing a sound financial basis for sustainable economic growth in a new South Africa.

"It may take a little longer, it may ask for some additional sacrifices, but the results achieved over the past year provide sufficient confirmation that we are on the right track.".

During 1990 the underlying inflation pressures were reduced, the rate of increase in the money supply is now within the predetermined targets and bank credit to the private sector is increasing at a much lower rate than two years ago.

Dr Chris Stals . . . triumph of central banking.

The decline in the rate of inflation was achieved by reducing the rates of increase in the prices of imported goods and in the producer price index for domestically produced goods.

Less success had been achieved with the consumer price index, but here also some significant progress was made, at least until July.

Against this background the Reserve Bank would probably seek an even lower rate of increase in the money supply in 1991 than the 11 percent to 15 percent guidelines in 1990.

It should be possible to achieve this objective with some decline in nominal interest rates during 1991, although this would depend on movements in the rate of inflation. Positive real rates of interest would be retained.

Remain high

On the assumption that fiscal policy would remain restrictive, the growth in the outstanding amount of bank credit extended to the private sector would remain at the present indicated one percent a month.

For technical reasons the rate of inflation as measured by the year-on-year changes in the consumer price index would remain high for the first 10 months of 1991, but should come down quite sharply towards the end of the year — when price levels would be compared with previous positions, including the petrol price increases of Sepember and October this year.

Although the prospects for the current account of the balance of payments were not good, the available reserves, supplemented by a possible easier capital account position, should enable the Reserve Bank to meet all the country's international commitments without any problems.

"If we can persevere with this approach, the Reserve Bank will one day also be able to talk about the triumph of central banking," Dr Stals said.

Star 10/11/90 (49)

Businessman's b

How to persuade the ANC that ca[p] can serve blacks as well as whites

SEBASTIAN MALLABY

IT is Africa's most developed country south of the Sahara; it has the highest GDP per person except for tiny, oil-blessed Gabon. Yet South Africa suffers from very African troubles: slow growth, big families, low investment and Aids.

It is the hostage of fickle commodity prices. The gold mines, which generate half of South Africa's exports, are gradually winding down: the shafts get deeper; the ore gets poorer; in the 1980s output fell by a tenth.

This kind of economy cannot support the huge expansion of welfare that black South Africans expect Nor can it create jobs for the 1 000 newcomers who join the labour force *each day*. Unemployment is close to 50 percent, and half the unemployed do not take part even in the unofficial economy Aids could change that, by reducing population growth; but it will bring still worse problems — soaring health bills, falling labour productivity — in its turn.

The country can expect some dividends from the passing of apartheid Already more tourists are arriving; European supermarkets are less shy of South African fruit. More important, foreign banks may start lending for the first time since they bolted in 1985. On one calculation, banking sanctions have cost South Africa R32 billion in the past five years.

Scare off

Add R8 billion lost through trade sanctions, and total foreign exchange forgone comes to R40 billion.

Sanctions — official and unofficial — prevented South Africa from growing fast. But racial justice will not suddenly reverse this. Bad as it has been in South Africa, the lack of investment in black-ruled Africa has been worse. Muddled bureaucracy and interventionist economics can do much to scare off investors than international boycotts

Mr de Klerk's Government knows this. It is tackling the deficit, curbing inflation and cutting red tape. The trouble is that the first black government is going to be under pressure to spend more on welfare and create new public-sector jobs for returning exiles and political friends (though it may concede promises at the negotiating table that tie its hands a bit).

More than that, most blacks equate capitalism with apartheid For years the law — quite apart from prejudice and lousy education — banned blacks from owning property or doing decent jobs. Then came the struggle, which made profits dirty.

An economics lecturer at the black and mixed-race University of the Western Cape asked his third-year students which economic system they favoured One in three said they were social democrats. Another third said they were Marxists. The last third described themselves as Trotskyists.

The ANC's advisers regard the stock exchange as a casino, deregulation as an attack on the trade unions. They observe declining investment, and conclude that businessmen are unpatriotic They just do not like capitalism. With only a few years until the ANC takes over, white businessmen are doing their utmost to bring about a change of mind.

RAGS AND RICHES: The struggle made profits dirty. Now business must persuade workers that capitalism and apartheid ar[e]

To protect their future, South Africa's big companies have long tried to make black friends. They take every opportunity to speak out against apartheid, and have housed occasional black managers in smart suburbs that the law reserves for whites. They bend over to look responsible. Anglo American, which, with its sister company, De Beers, is comfortably South Africa's biggest conglomerate, recently published a short book on constitution-writing. The Federated Chamber of Industries has put forward a bill of rights.

Worthy causes

Anglo American's size brings it the lion's share of criticism, which is why it is especially anxious to be liked.

These days there is nothing unusual in businessmen inviting ANC leaders to share lunch or country weekends, or in making business contributions to black welfare.

But Mr Gavin Relly, Anglo American's chairman until earlier this year, met the ANC in Zambia as long ago as 1985. The Chairman's Fund, which spends around R44 million a year on worthy causes like black education, has existed in its present form since the early 1970s.

To spread a taste for capitalism, Anglo American has started fostering black entrepreneurs. It has simplified its contracts to help unsophisticated small-fry tender for them, and then assists with the accounting procurement of raw materials and so on. Many of these "entrepreneurs" sit in workshops indirectly provided by Anglo American too. Bit by bit, they may grow more independent They have already won more than R20 million of contracts in under two years.

Anglo American is also trying to make capitalism attractive to its own employees. It began offering them free shares in 1988. This meant inventing words for "share" in several African languages, and bracing itself against union hostility to "token" ownership. Now 16 000 Anglo American employees hold over R200 million worth of shares. The company eagerly points out that blacks' interest in the stockmarket is also growing rapidly through pension and provident funds, which boast some 4,5 million members. The mining union's provident fund is the largest statutory savings institution in South Africa, and swells by R100 million a year. Its chairman is Cyril Ramaphosa, the mining union's chief.

In the first half of this century it was the Afrikaners who railed against big business. But then grew into capitalism through life assurance. Every Afrikaner had a policy with Sanlam, which played on their sense of encirclement, newly bolstered by the Boer War

Sanlam embodied the volk's savings, just as the National Party came to embody its politics. Every life assurer's marketing ambition — to make the customer feel part of a family — was readily accomplished. As a result, Sanlam was big enough by the 1960s to be buying gold mines from Anglo American. Here, surely, is a precedent?

Well, maybe Anglo American is trying to foster a black Sanlam in African Life, the fastest growing assurance company in South Africa and a member of the Anglo American group. The company's 600 salesmen (all black, mixed-race and Indian) sell 4 000 new policies a month. In its annual report, only one of the eight "top performers" is white.

African Life has also bought stakes in companies that sell to blacks

The next step is to get blacks to own more of the company's equity. A share offer to staff, policyholders and friends has already created some black shareholders, and brought the parent's ownership down from 92 percent to 81 percent

Mr Bill Jack, its Glaswegian managing director, would like to reduce that to nearer 50 percent by persuading black organisations — trade unions? churches? — to buy large chunks of the equity when African Life is floated on November 15. That might encourage blacks to see the company as their own. It would also make the m[...] unions and [...] Mr Jack's s[...]

The trou[...] years for A[...] size and s[...] achieved fo[...] African Life[...] fling R183 m[...] of Sanlam's [...]

True, the[...] the disinte[...] family ma[...] more moder[...] ance gives [...] are not the [...] Afrikaners [...] savings into[...] banks and un[...] Anglo Am[...] too cautious [...] bringing the [...] pany down t[...] lous at the [...]

Invite u[...]

Nor does [...] cult to get bl[...] company w[...] white To de[...] the critics. A[...] do somethin[...] selling Afric[...] diaries) to a [...] deserve mor[...] At the least [...] greatly exte[...]

Star 10/11/90

ssman's burden

o persuade the ANC that capitalism rve blacks as well as whites

The struggle made profits dirty. Now business must persuade workers that capitalism and apartheid are not the same.

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its contracts to help unsophisticated small-fry tender for them, and then assists with the accounting procurement of raw materials and so on. Many of these "entrepreneurs" sit in workshops indirectly provided by Anglo American too. Bit by bit, they may grow more independent. They have already won more than R20 million of contracts in under two years.

Anglo American is also trying to make capitalism attractive to its own employees. It began offering them free shares in 1988. This meant inventing words for "share" in several African languages, and bracing itself against union hostility to "token" ownership. Now 16 000 Anglo American employees hold over R200 million worth of shares. The company eargerly points out that blacks' interest in the stockmarket is also growing rapidly through pension and provident funds, which boast some 4,5 million members. The mining union's provident fund is the largest statutory savings institution in South Africa, and swells by R100 million a year. Its chairman is Cyril Ramaphosa, the mining union's chief.

In the first half of this century it was the Afrikaners who railed against big business. But then grew into capitalism through life assurance. Every Afrikaner had a policy with Sanlam, which played on their sense of encirclement, newly bolstered by the Boer War.

Sanlam embodied the volk's savings, just as the National Party came to embody its politics. Every life assurer's marketing ambition — to make the customer feel part of a family — was readily accomplished. As a result, Sanlam was big enough by the 1960s to be buying gold mines from Anglo American. Here, surely, is a precedent?

Well, maybe. Anglo American is trying to foster a black Sanlam in African Life, the fastest growing assurance company in South Africa and a member of the Anglo American group. The company's 600 salesmen (all black, mixed-race and Indian) sell 4 000 new policies a month. In its annual report, only one of the eight "top performers" is white.

African Life has also bought stakes in companies that sell to blacks.

The next step is to get blacks to own more of the company's equity. A share offer to staff, policyholders and friends has already created some black shareholders, and brought the parent's ownership down from 92 percent to 81 percent.

Mr Bill Jack, its Glaswegian managing director, would like to reduce that to nearer 50 percent by persuading black organisations — trade unions? churches? — to buy large chunks of the equity when African Life is floated on November 15. That might encourgage blacks to see the company as their own. It would also make the members of those trade unions and churches sitting ducks for Mr Jack's salesmen.

The trouble is that it will take years for African Life to build the size and symbolism that Sanlam achieved for Afrikaners by the 1960s. African Life's assets stand at a piffling R183 million (less than 1 percent of Sanlam's now)

True, they are growing fast, and the disintegration of the extended family makes blacks ready for the more modern security that life assurance gives. But black South Africans are not the close-knit group that the Afrikaners were. They scatter their savings into a variety of assurers, banks and union funds.

Anglo American's critics say it is too cautious. Mr Jack talks happily of bringing the group's stake in his company down to half, but seems incredulous at the idea of going further.

Invite unions

Nor does he say that it will be difficult to get blacks to identify with a company whose top manager is white. To dent black suspicions, say the critics, Anglo American needs to do something dramatic. Ideas like selling African Life (or other subsidiaries) to a team of black managers deserve more attention than they get. At the least, Anglo American could greatly extend employee share ownership and invite trade unions onto supervisory boards.

The same caution plagues the promotion of black managers. To be sure, over-hasty black advancement can be dangerous, especially in responsible jobs in mines a mile deep or more. In other companies, schemes for fast black promotion have come unstuck. White middle-managers dislike being told to train blacks who will then compete for their jobs

White guilt is also a problem: bosses are reluctant to reprimand black deputies, who therefore do not learn much. The result is that whites shrink from giving blacks responsibility Blacks feel they are being carried as overheads, and leave in disgust.

Yet determined companies can overcome this. Consol, a glass and packaging company, tells its white managers that their promotion depends on their training blacks to take their present jobs. The most impressive example of black advancement comes from SA Breweries. In 1986, when less than 5 percent of its salaried staff was non-white, it decided to raise that to 50 percent in five years. At last count it's almost there.

Most South African companies have to risk the dislocations of fast black promotion, despite the danger that timidity now will bring still more damaging quotas from a future black government. Anglo American is no exception. Out of 50 directors and alternate directors only one is black

Embarrassed

The company refuses to disclose the number of black managers working at its head office, which suggests how embarrassed it is.

In most countries it would be unreasonable to advocate promotion on anything other than merit or to ask companies to unbundle themselves. But South Africa is not like most countries. The concentration of ownership rules out unbundling by corporate raiders or ambitious managers. And the threat of an unsympathetic black government threatens shareholders' interests much more acutely than would faster black advancement now.

In recent months private-sector economists have dutifully sacrificed weekends and evenings to conferences on tomorrow's economic policy. They arrive with graphs showing investment and inflation.

Already the ANC talks less of nationalisation. But the ANC's mistrust of business is lodged deep in its gut. Perhaps grand gestures would achieve more than earnest graphs. It is all very well for governments to maintain business confidence, says Joe Slovo, leader of the Communist Party and prominent member of the ANC, but business must maintain the people's confidence as well.

Mr Slovo may be muddled; but he is soon going to be powerful as well. Unless his instincts change, an ANC government is likely to intervene in the economy and stifle investment.

The ANC's offices in Lusaka — hidden down nameless back-alleys, guarded by some dozy youths — were as disorganised as most things in Zambia. The Johannesburg outfit is better. But ANC officials still tend to be better at discussing international relations than at administrative skills like answering the telephone. That makes the need to tackle the ANC's anti-business instincts all the more pressing. — The Economist, London.

Business confidence takes sharp nosedive

Star 8/11/90 49

By Derek Tommey

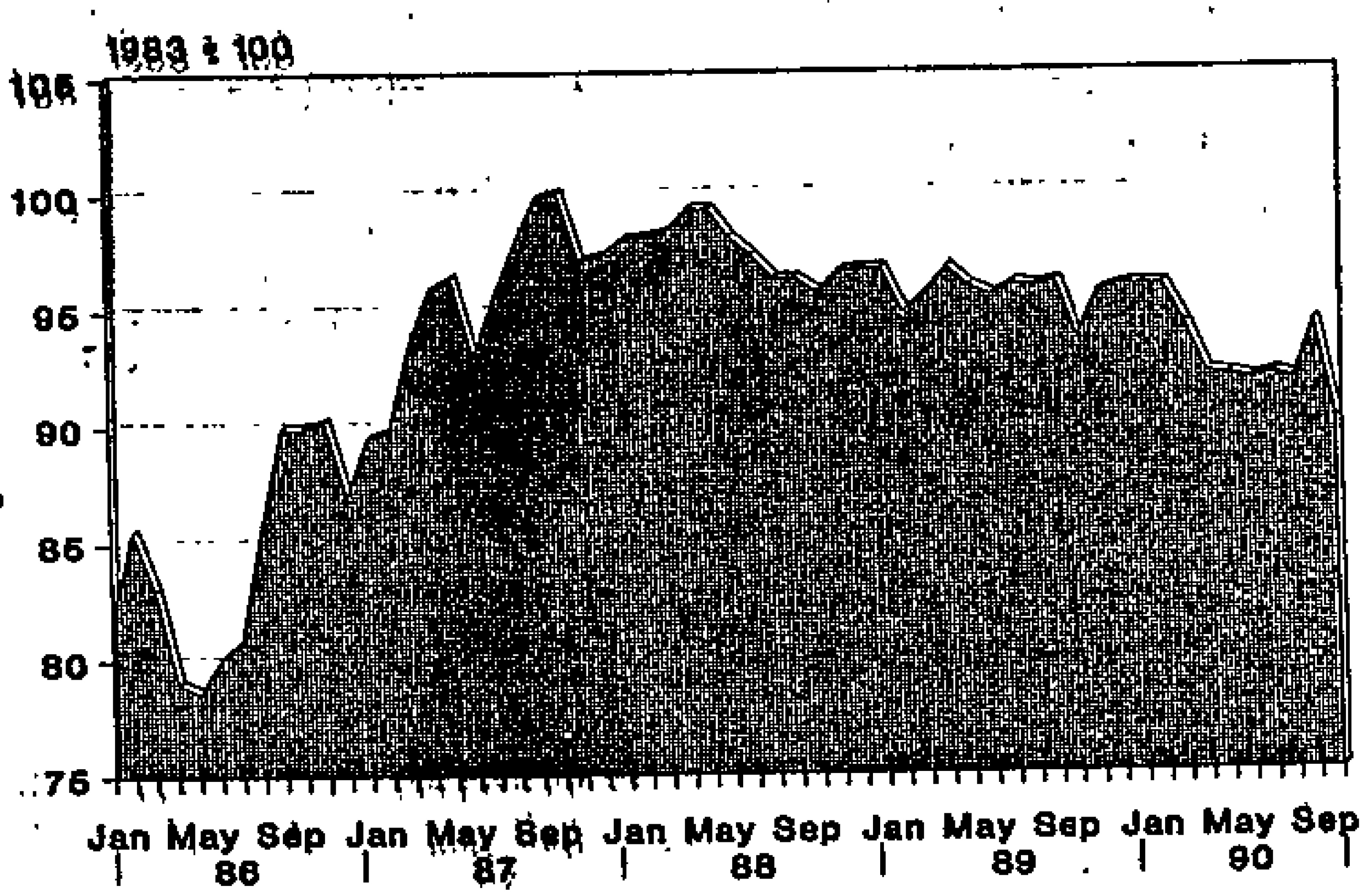
The business confidence index compiled by the South African Chamber of Business (Sacob) dropped sharply in October to 90,0 from 94,2 in September. The figure was the lowest for any October since 1986.

However, it is a moot point whether the decline was actually as great as the index suggests.

The index is based on 16 economic indicators, which might not always be precise.

For this reason there is a suspicion the 2,8 point jump in September could have been an aberration as it went directly against the year's trend and should be treated with caution.

If this is done and the comparison made with August, instead of September, the decline in the confidence index could have been far less severe than indicated.



Sacob's business confidence index

However, it is still significant — amounting to 1,8 points — which would seem more accurately to reflect current conditios.

Factors depressing the index in October included the decline in the dollar gold price, the fall in the JSE overall index, the decline in imports and exports, the increase in the monthly inflation rate and the drop in new cars sold.

The index was also depressed by the seasonally adjusted decline in the physical volume of manufacturing output, the marginal decline in retail sales and net immigration.

However, positive factors included the improvement in the rand-dollar exchange rate, the slight positive change in the Bankers' Acceptance rate, the increase in the real value of building plans approved, the increase in the number of new companies registered and a slight decline in insolvencies.

The index does not include foreign exchange reserve figures, probably because they do not always reflect the true situation.

However, there is no doubt that had it included October's excellent reserve figures, it would have been less gloomy.

Sacob says the deterioration in the business mood in October was not unexpected.

Business started to suffer from the uncertainties caused by the Middle East crisis.

The business mood also had to adjust to the likely slowdown in the world economy and accept that the increase in fuel prices was a temporary setback for the anti-inflation drive and that lower nominal interest rates were now only likely early next year.

ANC focus on growth

CMT Times 28/11/90

By AUDREY D'ANGELO
Business Editor

THE new SA will need significant growth so that "the pressing problems of economic inequality, poverty and stagnation" can be addressed, Tito Mboweni, head of the ANC department of economic policy, said in Cape Town yesterday.

This can best be achieved in a mixed economy. But the engine of growth must be redistribution, to increase the spending power of the masses, Mboweni said.

He was speaking at a conference on the economic future of SA, organised at the Cape Sun by London-based Euromoney Publications.

He said the ANC favoured a mixed economy with a public sector, a private sector, a co-operative sector and a small-scale family sector. The state should promote the acquisition of managerial, technical and scientific skills among all sectors of the population — especially the black people. "And, finally, property for personal use and consumption shall be constitutionally protected."

Redistribution 'the engine'

49

The economy should follow a new path of growth through redistribution rather than greed. "Redistribution is not seen as an optional extra but rather as a necessary requirement for growth to occur."

Redistribution of income would provide the means for mass consumption. This would stimulate mass production, particularly in labour intensive industries.

Mboweni said that given the level of regional disparities "a major potential for future growth actually does lie in a strategy for regional development."

But, differing from "the bantustan-centred programme of the NP", this should aim at the creation or development of industrial districts on the basis of collective efficiency rather than cheap labour, with firms and the state co-operating.

Pointing out that SA goods seemed to have entered other markets in Southern Africa "fairly successfully" in spite of sanctions, Mboweni said these trading relations were "positively in SA's favour."

Botswana, Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe imported a total of $2,3m worth of goods — of which about 70% were manufactured — from SA in 1982 and exported a total of $411 worth, mostly raw materials, to SA.

"Future regional relations will in our view have to be based not on domination but on mutually beneficial and negotiated agreements."

Mboweni said a new democratic SA would encourage foreign investment. "A post-apartheid society will also have to negotiate to become part of international economic agreements such as the Lome Convention of the European Economic Community.

"This will afford us some possibilities of entering the European market, particularly after 1992."

GDP FM 23/11/90

CLOSE UP

49

The state of the economy depends largely on which figures are used to assess it and how they are interpreted. The downturn can be measured by the 2,1% GDP drop in the third quarter (seasonally adjusted, annualised, at factor incomes in constant 1985 prices).

This is the fourth consecutive fall, after 2,1% in the fourth quarter of 1989 (revised from 1,5% as more information became available), 1,4% in the first quarter of 1990 and 0,9% (0,8%) in the second.

On closer analysis the figures are less gloomy. Non-agricultural GDP actually rose 0,1%. Old Mutual chief economist David Mohr says this indicates underlying resilience in the economy. He adds agriculture is notoriously volatile, affected by exogenous factors such as climate and international prices rather than local conditions.

Here again the conclusion is subject to the selection of figures. Agricultural income (which includes forestry and fisheries) in the third quarter of 1990 was 21% less than in the third quarter of 1989. But total agricultural income in the four quarters to September 1990 was only 2,1% lower than the previous 12-month period. But, concedes Mohr: "There is no doubt agriculture is in a slump and will continue to drag down GDP in the fourth quarter. On the other hand, if agriculture improves next year, it will be off a low base and will push up GDP again."

It is also valuable to look beyond annualised figures. The non-annualised GDP drop in the third quarter was only 0,5% (still seasonally adjusted and at factor incomes), with the previous three quarters registering declines of 0,5%, 0,4% and 0,2%.

SA Chamber of Business economist Keith Lockwood believes an improvement in the fourth quarter will keep the actual GDP drop in 1990 to no more than 1%, though that is still well below the 1% growth economists predicted earlier this year. "Things are not as bad as some people think, and there are a number of encouraging factors."

He points out that, after falling four consecutive quarters, there has been a slight upswing in gross domestic expenditure (GDE) in the last two quarters, mainly due to higher private consumption expenditure. "There is a limit to how far people are able or willing to put off essential purchases."

This is reflected in the way furniture and other normally volatile retail sectors are showing remarkable strength.

Prospects for next year are mixed. There is some concern over the large decreases in manufacturing production, which fell 3,5% (seasonally adjusted, annualised, at factor incomes in constant 1985 prices) in the third quarter, after falls of 1,9% and 3,2% in the first two quarters of the year.

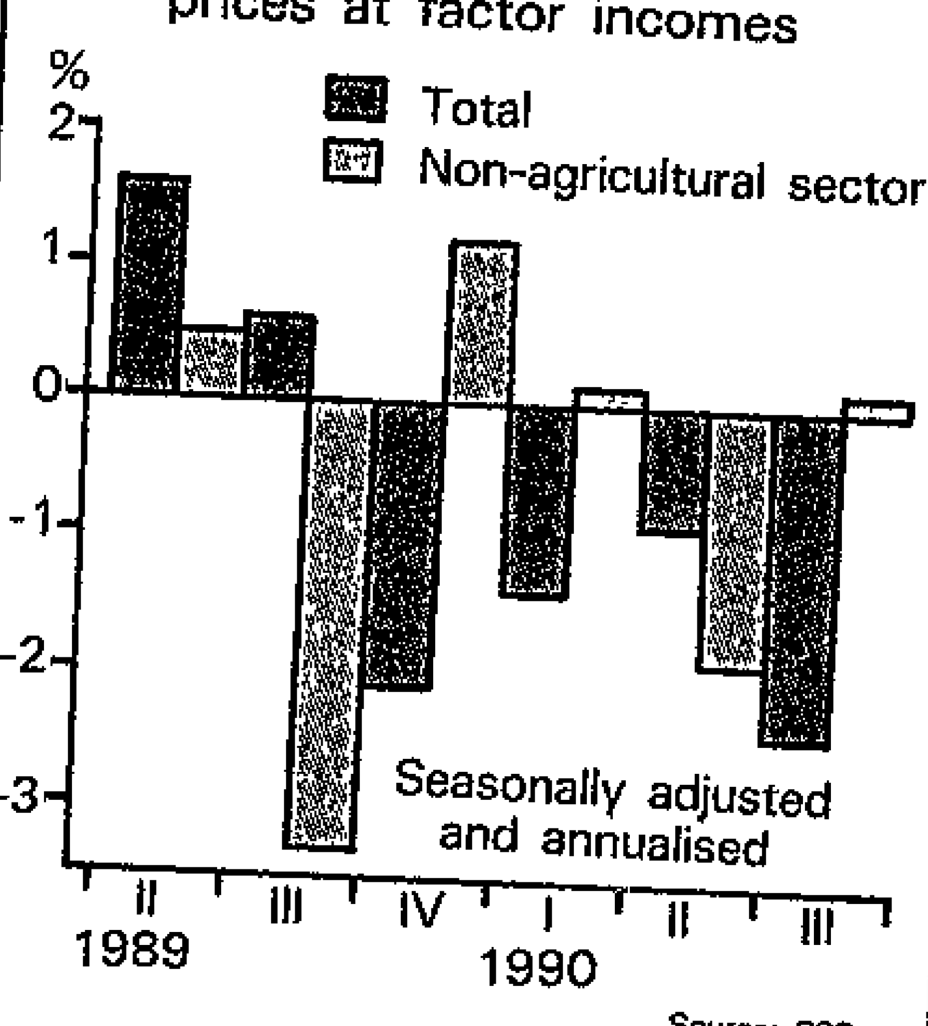
But even this may have bottomed out.

ECONOMY & FINANCE

FM 23/11/90 49

Farm factor

Change in GDP in constant 1985 prices at factor incomes



Lockwood says that due to much better inventory control, stocks have been run down substantially this year. Any sign of an increase in demand will quickly lead to increases in orders to manufacturers.

Other positive factors include hopes of fewer lost work days after amendments to the Labour Relations Act, unofficial lifting of sanctions and the prospect of decreasing political tensions once talks get under way.

The bad news is economists expect increases in unemployment, liquidations and insolvencies, and a general decline in consumer confidence in the next six to eight months. Much will depend on the performance of exports in the new year.

First National Bank economist Cees Bruggemans sums it up: "Detailed analysis indicates there is a mild cyclical contraction. We expect continued poor conditions over the next 12 months, but it is not as if the plug has been pulled." ■

ECONOMIC POLICY (49)

OUT TO LUNCH

FM 23/11/90

Has nationalisation really been shelved by the ANC? It seems not. A senior source in the ANC's economics department complains that it has not received a single written response from business on its policy document released two months ago. He adds that pressure from ANC members may prompt the organisation to commit itself anew to nationalisation.

His precise words are: "The SA business community is not seriously addressing itself to issues of building a new economy. Some will have to be coerced by legislation." The economic policy document was issued in late September and ever since Nelson Mandela and other ANC leaders have made repeated calls for business to forward comments.

But while business has torn the ANC's document to shreds — quite justifiably —

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they have tendered no formal responses. Accordingly, the ANC's economics department says the lack of a formal response "makes it easy for us to go ahead and compile a programme on the basis of responses from membership. The membership wants a clear commitment to nationalisation, particularly of mines and certain corporations."

The ANC's amended economic policy document will be issued in May or June.

One ANC official agrees that business has expressed varying degrees of dissatisfaction with the document: "Some businessmen were encouraged by our move toward a more formal debate, while others felt there was a heavy statist emphasis, and not enough space for the role of the private sector. Some saw veiled threats of nationalisation."

His main charge is that business has ignored calls to submit "clear viewpoints on the broad mechanisms of achieving specifications (for wealth distribution and economic restructuring)."

It appears that some in the business community believe that informal meetings with officials like Max Sisulu and Tito Mboweni — both of whom are expected to take up posts at a new economic think-tank at the University of the Western Cape next year — will paper over the differences. Within the economics department itself, however, the feeling is that little can come from such discussions.

P.T.O.

SA is now facing economic worries

Sowetan 29/11/90

49

As South Afri a starts to address its black-white political conflict, the country faces economic woes that may be just as difficult to solve.

A recession, already a year old, is expected to last through 1991. Unemployment is rising. Shantytowns are expanding by the day. Whites are joining blacks at soup kitchens.

The troubled economy already has become a major part of the debate on the country's future.

The Government and most whites say capitalism is the quickest way to create prosperity for all. But the African National Congress and other leading anti-apartheid groups, particularly labour unions, are demanding a major redistribution of the wealth controlled by whites and prefer socialism.

Merits

"The economic debate is likely to become a great deal more heated if South Africa shifts ... to long-term stagflation," said Business Day, the country's leading financial daily.

"The merits of a market economy are less obvious when a stagnant economy ... is accompanied by ever-rising prices," the newspaper added.

South Africa's economy is the strongest and most diverse on an impoverished continent. But the economy is expected to shrink about 2 percent this year and the government doesn't expect any growth next year either.

With the population increasing at more than 2 percent a year, President F W de Klerk says the economy needs at least 5 percent annual growth to make any substantial improvement in black living conditions.

Downturn

The economic downturn comes as black expectations are rising with de Klerk's political reforms and his promise to dismantle the apartheid system of racial segregation.

South Africa's blacks have long equated apartheid with capitalism and many expect a new political system to usher in major economic changes. To many blacks, that means socialism, which remains a popular ideal in South Africa despite the failed socialist economies in Eastern Europe and Africa.

MR F W DE KLERK

MR NELSON MANDELA

Annual per capita income for South African blacks is over 1 000 dollars, one of the highest figures in Africa, but only a fraction of what the average white earns.

No accurate unemployment figures are available, but private economists say the rate is at least 15 percent, plus 20 to 30 percent who are underemployed. In the southern city of Port Elizabeth, black unemployment is nearing 50 percent.

Operation Hunger, which feeds needy blacks in rural areas, estimates it is now assisting as many as 1,5 million people, up from about 1 million at the start of the year.

"We are getting more requests for help than ever before," said Bernie Cohen, the financial director of Operation Hunger, which is 10 years old.

John Rees, who runs the Methodist Care food distribution project in Johannesburg, said growing numbers of whites are seeking assistance. Most of them, he said, have recently lost jobs.

The government recently conceded that the black housing shortage, a perennial crisis, is getting worse as 1 million blacks a year flood to the cities in search of work.

Already some 7 million of the country's 30 million blacks live in self-built shacks, according to private groups.

The Government says it must provide more money to upgrade black living conditions, but already is spending beyond its means to support a huge bureaucracy.

About one of every three working whites is employed by the Government. Much the bureaucracy is duplicated under the apartheid system that has separate branches for whites, blacks, Asians, and people of mixed-race, plus separate structures in the 10 black homelands.

Strikes

In the private sector, strikes by black workers have been increasing as unions demand higher wages from white management long accustomed to cheap labor.

For example, the country's gold-mining industry faces rapidly rising costs and a stagnant world gold price.

South Africa is the world's largest producer of gold, and more than 40 percent of its export earnings come through gold sales. But many of the country's mines are among the world's deepest and most expensive to operate. With the current gold price hovering around 380 dollars an ounce, many mines are losing money.

"As long as the gold price stays below (400 dollars an ounce), the industry will continue to battle," said the Financial Mail magazine. "This will ripple through the economy as recession deepens."

An estimated 31 000 of the 500 000 workers in the gold-mining industry have lost their jobs in the past year and about 15 mines are in financial difficulty, according to the Chamber of Mines, an umbrella group for the leading mining companies.

Hurtful

Foreign economic sanctions imposed to protest apartheid also have hurt the economy, though no one can say exactly how much.

Sanctions have prevented South Africa from obtaining loans from international lending agencies. Also, more than half of the 300 US companies that were doing business in South Africa five years ago have pulled out.

The ANC, the main black opposition group, says sanctions should remain to keep pressure on the government. But it plans to review its policy in light of de Klerk's reforms and worsening economic conditions. - *Sapa-AP*.

The economy is SA's next big battleground

49

Sowetan 28/11/90

FOCUS

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GROWTH AND EQUITY

Raymond Parsons is director-general of the SA Chamber of Business (Sacob).

"The victory of political and economic liberalism suggests the vastly greater importance of economics to world politics. Indeed, the meaning of 'great power' will be based increasingly on economic rather than military, territorial or other more traditional measures of might."
— Francis Fukuyama (1990)

Can the next generation — whether black or white — be better off or not? This is ultimately what the economic debate is all about. It has been given fresh impetus by the recent publication of Sacob's *Economic Options for SA,* as well as the ANC's latest discussion document on economic policy.

A comparison of the documents reveals far more consensus on aims than on means. Both agree that poverty *must* be urgently addressed and that the economic playing field should be levelled as far as possible. The two also agree that the State should be assigned a specific role, but draw very different conclusions as to what it should be.

The truth is that, though the ANC seems to have modified its stance on issues like nationalisation, its approach is still heavily collectivist. It sees the economy almost entirely in terms of "entitlements," not productivity. Grudgingly the ANC allocates a role to the market economy — provided the business sector fully complies with development priorities prescribed by the future State. The overall approach refuses to acknowledge what has manifestly failed elsewhere.

ANC-watchers will hail the modified and often unclear stance as evidence of a shift, at least away from nationalisation. What is left, however, is still so interventionist that many businessmen may end up pleading for nationalisation to end their misery!

Sacob, on the other hand, tries to separate the immediate need for socio-economic upliftment from the fundamentals of a future economic and political system. When constitutional negotiations eventually begin, the emphasis should be on the requirements of sound economic and political systems for the "new SA." We should take what is best from constitutional models around the world and adapt that to our circumstances.

If we allow constitutional discussions to be clouded by redistribution issues the risks of failure are likely to be much higher. It would be better for SA to commit itself to a *separate* agreed socio-economic programme, in which poverty and redistribution are given attention *in their own right.*

The Sacob document warns that, while economic restructuring will not of itself eliminate poverty and inequality, a start is urgently necessary, as poverty stands in the way of democracy. It is not enough that the market economy should be moderately successful — it must be immensely successful to survive in SA circumstances. Economic reform should thus begin immediately and not wait until constitutional issues are settled.

The search for a balance between growth and equity calls for flexible reactions and the Sacob analysis endeavours to create an acceptable framework within which these responses should be defined. SA is uniquely placed to avoid the mistakes of others in making its future economic and political choices. Mere elimination of the economic shackles of apartheid will also yield vast dividends.

Indeed, it has already produced its own "silent revolution" of diffused opportunities for blacks. But this is clearly not enough. If we can have a deliberate programme, enjoying wide support, then considerations of social justice can be set in a context of balance and realism.

Here it will be imperative to weigh the exigencies of the global economy. The new SA will have to survive and grow in a rapidly changing world. The global march of freedom is creating vast opportunities, which require a competitive economy. International trade and investment flows will gravitate on a large scale to countries and regions which are profitable and inspire confidence. At the end of the day what counts is confidence — both external and internal.

So to some people, mainly the ANC, Sacob would say: "Do not, for the sake of demagogy, promise more in the way of economic upheaval than you are really ready to do, lest disillusion and backlash follow."

To others, mainly businessmen, Sacob would say: "Do not put all your faith in the logic of the current economic debate, but also focus on the kind of constitution that would inspire business confidence."

Finally, to yet others, mainly the SA Communist Party, Sacob would say: "Do not try to capture the notion of socio-economic upliftment, which is shared by many businessmen, for your own discredited philosophy of highly centralised planning; or you will create conflict, not consensus."

FM 12|10|90 (47)

Turning to sanctions, Mandela said sanctions were seen as an essential means to end apartheid, and would not be removed. "Sanctions are not there to destroy the economy but to build it. The business community must ask if it was consistently in opposition to apartheid against forces that were leading to SA's economic destruction.

"We want foreign capital to play its fullest part. We want stability, but that stability will only come when we have ended illiteracy, poverty and disease." The ANC appears to think that the war on disadvantage will be able to be won without foreign investment.

In a strong call for affirmative action — the first from any ANC leader — Mandela said: "Without affirmative action apartheid will end and its immoral consequences will remain, including black poverty, illiteracy and disease." Mandela says the ANC has "no firm commitment to any specific economic model" but sees affirmative action as necessary to remove existing imbalances in education, housing and job opportunities.

Referring to the recent government announcement of the intention to abolish the Land Act, Mandela said that though the ANC wanted all racial laws to be removed, "more is required than the abolition of law. Affirmative action is needed, resulting in all people having fair access to land. The law (the Land Act) must go, but in such a way that it redresses massive imbalances without disrupting the economy."

What can he mean? *Charlene Smith*

As in the controversy about nationalisation, the mere mentioning of an economic idea — land tax — by an African National Congress spokesman this week set the alarm bells ringing in some business, academic and political circles. Weekend Argus Political Correspondent FRANS ESTERHUYSE speaks to people close to the big debate about the reshaping of South Africa's economic system.

Zac de Beer ... taking from the rich to give to the poor doesn't work.

ANC's taxing attempt at a balancing act

W/E Argus 13/10/90 (49)

Attie de Vries ... some form of redistribution of wealth is essential.

THE African National Congress has hastened to explain that its suggested land and property taxes are not part of its policy — not at this stage, anyway. The assurance comes in the wake of concern and dismay in some circles.

An ANC spokesman, Mr Saki Macozoma, has explained that the proposal was put forward only for debating purposes — to open different options in the debate on nationalisation and the redistribution of wealth.

Even so, the suggestion has shown once more how jittery many people are about the ANC's economic vision.

The proposals, as put forward by ANC land commission member Ms Bongiwe Njobe this week, are for a punitive tax on under-used property in exclusively white residential areas and a "windfall tax" on property sales in white areas.

AN economist, Professor Attie de Vries of the University of Stellenbosch Business School, says there appears to be consensus over a wide spectrum of opinion that a redistribution of income and wealth is necessary. The big issues to be resolved are the methods and the timetable.

Professor De Vries believes the distribution is so distorted that some form of redistribution is essential.

He is not in favour of "punitive" taxes. He fears that taxes of this nature would lead to a massive brain drain of highly skilled people "who happen to be white".

Another drawback of these taxes would be that only a small proportion of the population would be affected, so they would not yield as much revenue as taxes paid by all.

"Even if redistribution is done very harshly, you will only redistribute poverty and drive people out of the country."

ESSENTIAL to redistribution, says Professor De Vries, are equality of opportunity and education and serious moves to eliminate backlogs.

However, the economy's ability to redistribute wealth is limited, he sayd.

His biggest fear is that the present "explosion of expectations" will lead to demands that go way beyond the capacity of the country's economy. In spite of this fear, he sees "hopeful" signs that the ANC is scaling down some of its original economic ideas. It seems to be moving away from nationalisation, for example — "but not far enough".

Democratic Party leader Dr Zac de Beer says he has not had an opportunity to study the ANC's proposals in detail.

However, he believes discriminatory taxes directed at specific sections of the community are "thoroughly undesirable".

SPEAKING by telephone from Maritzburg this week, Dr De Beer said: "Once the principle of victimisation is introduced into the tax structure, anything can happen.

"Municipal property must certainly be taxed and the rate paid can, of course, be at a level that will discourage the under-utilisation of land. But tax must surely apply equally to all."

On the question of helping deprived sections of the community with housing, Dr De Beer believes a direct subsidy is a much better method than punitive taxes.

On the redistribution of wealth and income, he says the narrowing and ultimate elimination of the gap must be the top priority of economic policy. However, the wealth necessary to achieve this does not exist and must be created.

In other words, the redistribution of wealth should follow economic growth.

THE urgent steps necessary to create wealth include improving the quality of education, which will lead to the creation of more jobs.

One area where the red lights have flashed at the mere mention of the ANC's suggested taxes is the property market.

Mr Viv Morris, president of the Institute of Estate Agents of South Africa, says the ANC remarks have been "to say the least, ill-considered". A capital gains tax would have to be carried through the entire economic structure and should not apply only to one section.

What about losses? Will it be only whites whose losses — whether on property or the stock exchange — will not qualify, Mr Morris asks.

He notes that to some extent a punitive tax on under-used properties is already in place. Undeveloped residential erven do not qualify for a reduction in assessment rates in terms of the rating ordinance.

"It appears to me to be a great pity that in the New South Africa laws applicable to one colour group — in this case the 'whites' — are in the thought process. Perhaps we should recall what President Abraham Lincoln said: 'You cannot strengthen the weak by weakening the stronger'."

PROFESSOR Robert Davies, who has been involved in planning ANC economic policy, says that, to his knowledge, there is as yet no firm ANC policy on taxation.

Such proposals as property taxation are merely part of the ANC's thinking through possible methods in pursuing certain objectives — for example, releasing more land for housing and taking specific measures to benefit those disadvantaged under apartheid.

A basic principle in ANC thinking is to correct imbalances, not to take revenge.

It is in this context that taxation is being considered as a method of releasing underused land. Affordable land is essential to a housing programme.

Professor Davies, a co-director of the Centre for Southern African Studies at the University of the Western Cape, presented a position paper on ANC economic thinking at a major Idasa conference in Germany earlier this year.

POINTS he made included:

- The ANC was not seeking to take "punitive action" against property-owners and its policies were not motivated by revenge. Instead, the watchword of its policy was "affirmative action". It was seeking to change the orientation of the economy so that "for the first time in our history it serves the interests of those who have been economically as well as politically disenfranchised by apartheid".
- The ANC had repeatedly expressed its opposition to the government's privatisation programme. It saw this as aimed partly at tying the hands of a democratic, non-racial government by denying it access to important levers of power. It also saw this as "selling off the family silver at knock-down prices" and had said publicly that any enterprise that had been privatised would be renationalised.

PROFESSOR Davies says there are essentially two options for South Africans:

- They may continue debating how the economy should be restructured to meet the needs of all its people and discuss the role each can play in economic development; or
- They may continue "along the path of mutual suspicion, backed up by preparations for hostile and damaging action by both sides".

Then Professor Davies gives this warning: "If we choose to follow the latter path there is a high probability that we will all in the end be losers."

Working document represents a shift in ANC economic thinking

C/Press 14/10/90 (49)

THE ANC's working document on a new economic system contains several ideas not previously mentioned by the organisation.

The point of departure of the September document is that market forces on their own cannot achieve enough to remove inequalities in the economy. To achieve this, the government of the day must assist.

For this purpose a national development plan (NDP) will be drawn up. The government will co-ordinate its implementation. Inputs will be invited from all interested groups, including the private sector.

The key elements of the NDP include:

- The creation of a new pattern of demand (see report on this page);
- A national welfare programme supported by the government;
- Employers and employees will be compelled to contribute towards an unemployment insurance plan;
- The state will provide sufficient serviced building sites, but will not become involved in the construction of houses. This will be left to the communities;
- The manufacturing sector will be turned into the growth engine of the economy;
- The system of taxation will be used to encourage the development of new mines;
- Ways and means of adding value to South Africa's minerals before they are exported, will be investigated;
- A commission to draw up a policy for land reform has been formed;
- Accent will be on environment-friendly growth; and
- Legislation and programmes will be introduced to eliminate inequalities in the workplace. Comprehensive education and training programmes will be launched. Special efforts will be made to train blacks for technical, professional and managerial jobs.

Other ideas, apart from the NDP, include:

- The banking sector will be rationalised and restructured. The creation of new financial institutions to be controlled by the state, will be considered;
- The system of taxation will be changed gradually. The tax burden will be moved to companies;
- The system of foreign currency control will be retained and reviewed;
- A high level of economic management will be maintained. Large shortages, increases in public debt and the practice of financing running expenditure by means of loans, will be avoided;
- Trade unions are guaranteed a control role in developing economic policy; and
- The private sector will play a central role in the creation of wealth.

APOLOGY

CITY PRESS hereby tenders an apology to Mr Abdul Bhamjee for any embarrassment or inconvenience caused by the publication of a letter under the heading "ARE BLACKS REALLY SUCH FAILURES" in our editions of March 17 and 19, 1989.

We unconditionally withdraw the allegations of impropriety made against Mr Bhamjee in the letter. The matter between Mr Bhamjee and *City Press* was settled for an undisclosed sum.

Ideas on economy are moving closer

C/Press 14/10/90 (49)

The economic thinking of the ANC, the government and the private sector are moving closer to each other, a special financial correspondent reports.

THE working document on economic policy which the ANC has drawn up after a meeting in Harare last month, shows many remarkable similarities to the government's economic plans.

But the economic division of the ANC, headed by Tito Mboweni, goes out of its way to cover up these similarities.

Economic terminology usually used by economists in the private sector is avoided. Instead, terms are used which would be more acceptable to ANC supporters.

In the 1985 Kleu Report on industrial policy it was accepted in government circles that the policy of export replacement, devised to encourage growth, was something of the past. It had been applied successfully since the 1930s.

In the long-term economic policy document accepted in 1987 after the historic Pretoria meeting between the government and the private sector, three growth areas were identified. These were export, inward industrialisation – industrialisation for the local market – and import replacement. It was decided to implement all three, but with the accent on export promotion.

Contrary to this, inward industrialisation was only to be encouraged passively. All that would be done was to remove obstacles in its way by deregulation.

Import replacement would initially take a back seat.

Inward industrialisation was put forward by senior vice-president of the South African Reserve Bank, Dr Jan Lombard. In the late 1970s he formulated the theory that the productivity and income of blacks would increase as they became better educated and came into contact with the formal business sector.

The demand for basic consumer goods like food, clothes and household appliances, would rise. All these products could be manufactured locally without building factories equipped with expensive imported machinery.

The Gross National Product (GNP) would grow, while the demand for luxury imported goods would change to more simple consumer goods. The new pattern would lessen South Africa's thirst for imported goods.

The process has gained momentum because progress has been made with deregulation. A start has also been made on creating infrastructure for new black cities and increasing expenditure on social services such as education, medical services and housing in the black communities.

The latest ANC document shows remarkable similarities to this approach towards growth.

The accent is placed on inward industrialisation – now called growth by redistribution – with export promotion taking a close second place. Import replacement is totally ignored.

While the government supports inward industrialisation passively, the ANC wants to promote it actively. The document spells out in broad terms how momentum should be given to this process of "growth by redistribution" (read "inward industrialisation").

The idea of "growth by redistribution" has already been promoted for a considerable time by development economists at universities such as Stellenbosch, the Western Cape and Cape Town.

It is accepted internationally that an extremely unequal distribution of wealth and welfare can hamper economic growth.

It happens because the needs of rich people have largely been met. Should their income be increased further, they will only spend a fraction and save the rest.

On the other hand, poor people spend all their money. When policies are applied to ensure a gradual process of equalisation, the demand for goods increases faster than when the income of wealthy people is increased.

Inward industrialisation is used to ensure a more equal distribution of income.

A moderate approach is being proposed by the ANC. Until recently, criticism of the ANC's economic policy was based on concern that the ANC would want to carry out economic restructuring – through nationalisation, for example – dramatically and quickly. This would be detrimental to business and investor's confidence.

In the ANC's new document the need to carry out restructuring fast and dramatically falls away. Nationalisation is no longer mentioned. Most of the measures billed to ensure "growth by redistribution" will be introduced over a period.

The latest working document – which can be called the second generation of the ANC's economic thinking – is still a generation behind that of the South African Chamber of Business' recent document on the economy.

While the ANC document still ponders what the growth engine for the economy must be, the Sacob document accepts it must be exports and industrialisation.

It then concentrates on ways and means of involving blacks more productively into the mainstream of the economy.

The latest ANC document confirms that the public debate on a new economic system for South Africa is bearing fruit. While the Sacob document shows to what extent the business community has already reviewed its "radical" views, the ANC document shows to what extent the ANC has changed its direction since the beginning of this year.

There is still much to be said in this debate. But it has already moved past the emotive issue of nationalisation.

'Pure free market in SA no solution'

CM Tms 15/10/90 (49)

Jan Steyn

By PIETER COETZEE
Financial Editor

AN oversimplified Milton Friedman type of free market approach to the economy is not a workable solution for SA, according to chairman of Independent Development Trust Jan Steyn.

Speaking at a seminar of the University of Stellenbosch Business School on Leaders for 2000 and Beyond held in Bellville late last week he said SA cannot, however, afford to move away from healthy economic principles.

Nationalisation and a Marxist type of approach to the economy will therefore not work either. "If a person's economic freedom is taken away from him his freedom is taken away."

A workable solution to the problems facing the South African economy will have to be found, but not one simplistic type of approach to the economy is workable or feasable.

By meeting the challange of certain crises in the past SA has proved that it is capable of finding a workable solution for its future.

Not only does this go for the economy as a whole but also for the housing, unemployment and education crises as well.

Steyn said: "In our new situation, which anticipates the political participation of all South Africans, minds are becoming remarkably concentrated.

"The housing crisis, which has always been real for those without housing, has become real for whites in decision making positions.

"We are on the threshold of a situation in which an increasingly urgent public sector will financially facilitate land availability and possibly even subsidise bulk infrastructure.

"It is anxiously seeking ways in which to gear-up the capacity of the private sector to provide bond finance for houses at price levels down to one third or less of what the minimum used to be.

"For the first time since the '50s, we may well see viable and tangible thrusts of development aimed at the very poor people," said Steyn.

He added: "I know of no area in which we have greater opportunities for rapid progress towards stabilisation, massive job creation and skills development than in the provision of shelter.

"We can render tangible evidence of our integrity of purpose and give deprived people hope of a better future through such a dynamic housing process," he said.

Urban unemployment and education await similar approaches. Here again, however, the abject failure of past policies has already been recognised.

"The framework is changing to one in which a similar spurt of development can occur," said Steyn.

"In the dismal years of 1985 and 1986 many of feared that SA's response to crisis would be intensified control, coercion and ever-more repression. We have clearly departed from that approach.

"The emergence of the new SA has by no means been free of hugely disruptive events and trends.

"We do know, however, that our new posture is to respond to crisis by seeking new opportunities and new methods to address basic causes. We have changed our policy culture," said Steyn.

Mandela 'has never advocated socialism'

Cape Times 15/10/90 (49)

Political Staff

A STATEMENT by the ANC's deputy president, Mr Nelson Mandela, that he had never advocated socialism was featured yesterday in a British newspaper, the Sunday Telegraph.

Mr Mandela made the statement in an interview with the Financial Mail and his comments were repeated in yesterday's Sunday Telegraph.

In the interview, he disputed a claim about his "so-called hardline attitude on socialism".

Mr Mandela added: "I have never advocated socialism at all; in none of my speeches have I advocated socialism."

He said he had not departed from the point of view he stated in 1956 that the Freedom Charter would lead to the flourishing of capitalism among Africans as never before.

Mr Mandela also said he did not think there was any organisation which was more flexible than the ANC in regard to nationalisation.

"In the Freedom Charter we declared for the nationalisation of the mines, financial institutions and monopoly industry.

"We selected only these three sectors because of the important role they play in the economic development of this country.

"In the meetings we have had with South African business we have made it clear we are not committed to nationalisation.

"State participation is just one of the options which we are examining" to address the imbalance in the control of the country's economy.

Schwarz: foreigners optimistic about SA

B/Day 16/10/90

(49)

GERALD REILLY

PRETORIA — International bankers, businessmen and politicians believed the SA economy could do well next year providing the negotiation process remained on track and township violence was brought under control, DP finance spokesman Harry Schwarz said yesterday.

In an interview on his return from the US, Europe and the UK, where he met leading bankers, businessmen and politicians, he said he expected US President George Bush would by mid-March certify all important conditions of the Consolidated Anti-Apartheid Act (CAAA) had been met, and that sanctions could be lifted.

Socialism

If progress continued to be made in negotiations, aid from the World Bank for specific projects was likely to be made available, particularly if they involved black upliftment.

The only danger, he said, was if the violence continued.

"Even if sanctions are lifted there will be no investment in SA from private sources until violence is eliminated."

It also had to be clearly demonstrated that the threat of nationalisation as part of a policy of extreme socialism had been eliminated.

This was clear from discussions he had with influential politicians, businessmen, bankers and financiers.

Another important issue that had to be demonstrated was the clear unfolding of government's commitment to black upliftment in education, skills training and opportunities to advance in the economy.

"All these factors being satisfactorily put together would mean the dawn of a new economic era for this country.

"There are funds in the US and Europe which would be strongly attracted to SA if investor security could be assured".

Schwarz said the certification of the CAAA conditions would depend on the release of political prisoners, the ending of the state of emergency in Natal and on the repeal of remaining apartheid measures.

However, SA was low on the US Administration's agenda.

"There are bigger issues like the involvement in the Middle East crisis, big deficits in the balance of payments and the budget that have pushed the SA issue into the background."

There were also the biennial congressional elections in November in which SA would hardly figure, Schwarz said.

Attitudes towards SA had undergone radical changes in the US and Europe.

A major reason was the high credibility of President F W de Klerk.

"People in high places in politics, business and finance believed him."

This had been lacking in the past when talk of change in SA was met with cynicism. The switch in attitudes was particularly noticeable in the US, Schwarz said.

Tourism white paper on the way

Eastern Bloc 'not a suitable model'

(49) BDay 16/10/90

TIM COHEN

THE state should play a strong but not overbearing role in the reconstruction of SA, ANC chief economist Tito Mboweni said yesterday at a conference on the implications of changes in eastern Europe on SA.

At the SA Institute of International Affairs conference in Johannesburg, Mboweni focused on the role of the state while responding to comments made by Central European Research Center chairman Laszlo Lang.

Lang had said one of the essential prerequisites for the transition of former communist countries to a market system was the necessity to privatise "sectors" because of their inherent inefficiency.

Mboweni questioned this, saying that while it might be useful to learn from the experiences of eastern European countries, the comparison was, to some extent, inappropriate.

It would be "dangerous" to be pessimistic to the extent that the state was given no role at all, he said.

"We (the ANC) are of the opinion that the post apartheid state has a role to play in the economic reconstruction of SA," he said, pointing out the mass democratic movement expected the state to play such a role.

But he added that the ANC saw this reconstruction taking place in a "fairly developed capitalist society".

While taking on the tasks that it could, the state should avoid taking over the many other programmes which could be run by the private sector.

Mboweni also questioned how much influence the private sector should have in determining the direction of economic development.

He said most of SA's economic booms had left the majority of people in the country untouched.

Lang said this was preferable in some ways to having no booms at all.

In his address, Lang said another eastern European experience which might be relevant to SA was that nation-wide support for the anti-communist or revolutionary leadership had faded quickly.

Governments could point to the evil legacy of the past for three to five months, but after that they were called to task for the lack of improvements in living standards.

This had mitigated against another necessity for the success of former communist countries' transitions — the need for strong governments.

He defined this as normal government with strong nation-wide suport.

Market gloom over Gulf is overdone

By Magnus Heystek, Finance Editor

Star 17/10/90 (49)

Enough already!, says Cathy Potts, economist at AFC Investments. The pall of gloom cast over financial markets by the Gulf crisis seems overdone. While the international bear market in equities is by no means over, a mid-term bear market rally could be in the offing, she adds.

"Although hawkish noises continue to emanate from all sorts of sources, especially in the Middle East itself, there are glimmers of hope for a political solution, given new diplomatic initiatives on the part of France, Russia and Japan. I feel that the stalemate is building towards some form of denouement, and action either way would remove the uncertainty that is proving so harmful to the markets," she says.

Potts also refers to the possibility of a resolution to the US budget deficit crisis, which is the key to the relaxation of monetary policy "Once America has got its house in order the way will be clear for Japan and Germany to consider cutting short term interest rates. Both economies can no longer afford the capital outflows that were such a feature of the Eighties; both have shrinking trade surpluses and both need the money at home.

"In Japan's case this is because of the high ongoing growth and the impact that the market fall has had on the banking system, and in Germany's case the capital is required to finance the upliftment of its eastern states.

She adds that Britain's entry into the European Monetary System, which has already produced a cut in interest rates, could lead to further cuts, not only in Britain but also in high yielding currencies such as Australia and Canada.

"Taken together, and coupled with the relaxation of margin requirements of Japan, those developments should produce tradeable stockmarket rallies. Gold, however, may well be a casualty in the process and I continue to remain bearish on the metal," Potts adds.

"I hope I'm wrong but the outlook for gold does not look promising in the short to medium term. Despite the likelihood of some easing of monetary policy and therefore of high real interest rates that have proved so damaging to gold in the eigthies, we are not ready to call a better environment for gold's prospects at this stage.

No relief on high interest rates – Barend

Plunging gold batters economy

Star 17/10/90

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By Michael Chester and Peter Fabricius

The dramatic retreat of the gold price on world markets threatened to prolong and deepen the country's economic downswing, Finance Minister Barend du Plessis warned today.

Bullion took a renewed battering on the Hong Kong market this morning when it tumbled to $365,18 an ounce in first deals — following the downward trend in London to New York yesterday.

The price has now slumped more than $50 an ounce from the peaks it reached in recent weeks when the risk of a Gulf war sent the metal soaring.

The collapse has dashed hopes that South Africa could rely on higher gold prices to help offset the impact of doubled oil prices.

And the Chamber of Mines has warned that "tens of thousands" of miners' jobs would be in jeopardy if bullion stayed below the $390 level for a long period.

The problem has been compounded by an even worse drop in platinum, now at its lowest level in four years at $389,75 an ounce.

Mr du Plessis indicated Government would be forced to delay any gradual reduction in high interest rates. Plans to ease its strict monetary policy would have to be postponed, he said in an interview.

"We don't like it. We would prefer it to be otherwise. But we have to deal with it responsibly.

"We are irrevocably part of the larger world economy.

"The rapid drop in the gold price directly affects our ability to pay for essential imports and meet international commitments.

"This fact rules out any short-term stimulation of the economy."

He pointed out the root of the problem was that the traditional relationship between rising oil prices and rising gold prices — which cushioned SA from the worst effects of previous oil crises — no longer existed.

This meant the outflow of dollars from SA to pay for oil was not compensated for by an comparable inflow of dollars to buy gold.

In the past SA could always count on political conflict somewhere in the world or a financial crisis to push up the gold price.

The fact that this relationship between oil and gold prices no longer existed had vindicated the Government's policy of not relying on gold to maintain a balance of payments surplus, he said.

Mr du Plessis said when economic policy was formulated late last year and early this year, the Government had expected to be able to relax certain monetary measures such as interest rates during late 1990.

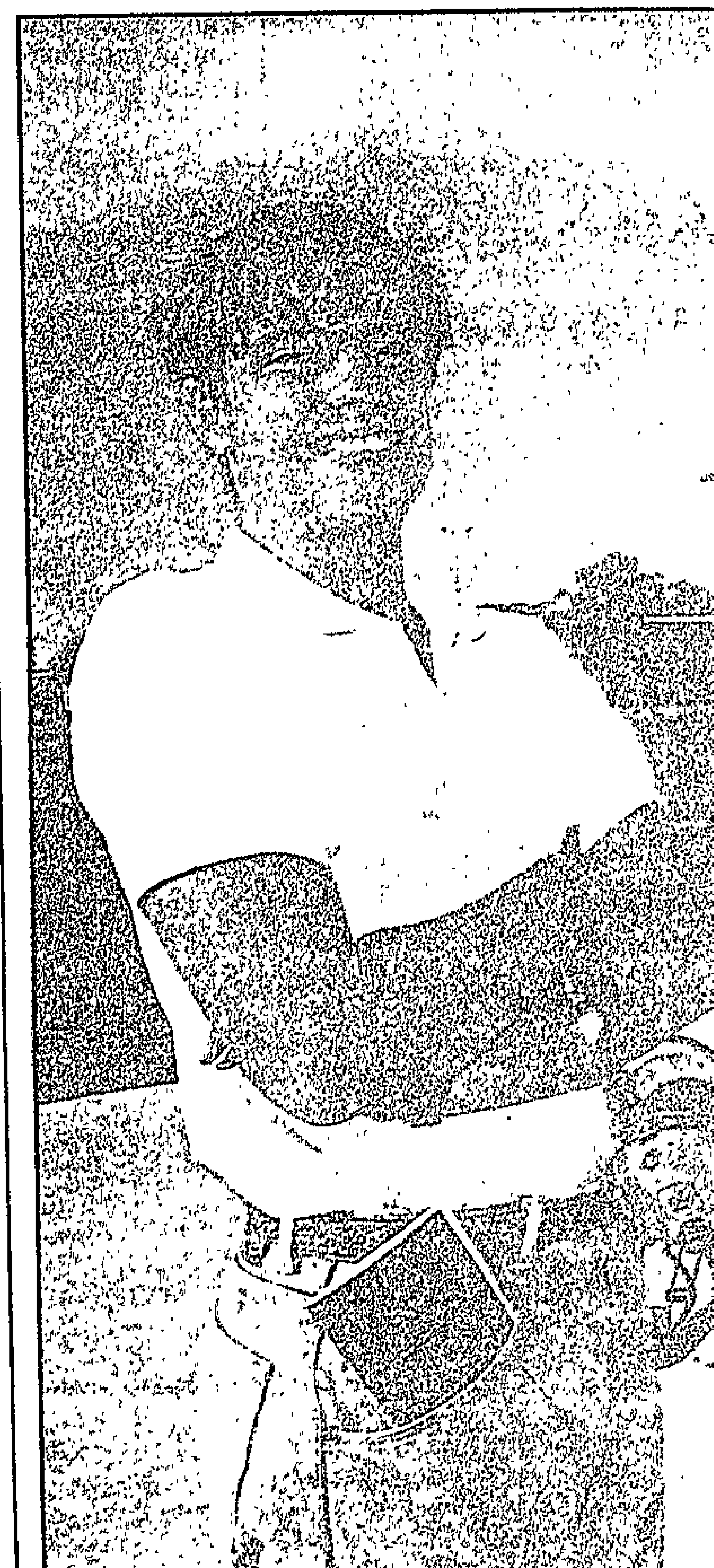
Vindicated

But caution in waiting further developments in the Gulf crisis had been vindicated.

For the moment the Government would "stay put" and await firmer indications of some direction in the world economy.

- Syfrets economist Elmien de Kock has estimated that gold needs to hold at more than $415 to counterbalance the cost of oil price increases.
- Nerves were also strained this morning before the start of trading on the Johannesburg Stock Exchange, where the gold share index had tumbled 7,5 percent since the retreat of bullion prices began on Monday.

Shares of the marginal mines have been hardest hit. These mines will have the greatest difficulty making a profit at the present gold price. Any further fall will put them at risk of closure.



Proud pilot ... Fulvio Destafinis became one of
received his licence on his 17th birthday.

His bi

Star 17/10/90 (49)

Future economic system must be acceptable internationally

BIFSA Congress

FRANK JEANS

DURBAN — As South Africa heads for a post-apartheid era, the international business community should now inform the country's political leaders that unless they can ensure a reasonably acceptable economic system, they will never invest their money here.

Mervyn King, executive chairman of the Frame Group, said this in a panel discussion at the annual congress here of the Building Industries Federation (Bifsa).

Emphasising the fact that South Africa did not have the resources to meet the social requirements of the future, he said the country depended on foreign capital. But the overseas investor sought a "peaceful, relaxed situation and one not plagued by regulation."

What he termed "economic pragmatism" was the most important force shaping the future of southern Africa and it was driving neighbouring states to co-operate with South Africa so as to resurrect their economies.

"Destroy the South African economy and you destroy southern African economies," said Mr King.

"Should we achieve an economic system acceptable to the First World, it might result in a free flow of capital back to the country and could make South Africa the most exciting country in the world in the 21st century."

Lawrence Maduma, general secretary of the Construction and Allied Workers Union, told the panel that organised labour was not dogmatic about nationalisation as an economic option so long as the opponents of this option could formulate a proposal that was more acceptable to the poor masses of the country.

"A workers' charter will have to be attached to a future constitution and employers will have to comply with Internaional Labour Organisation conventions," he said.

Educationist Fanyana Mazibuko, commenting on white attitudes towards a black Government, said: "People have the wrong idea about how blacks feel in regard to the establishment of a non-white Government.

"There are a lot of black people I would not like to see in Government and at the same time, there are plenty of white people I would like to see in Government."

John Kane-Berman, executive director of the Institute of Race Relations, told the congress South Africa was facing an urban black youth explosion.

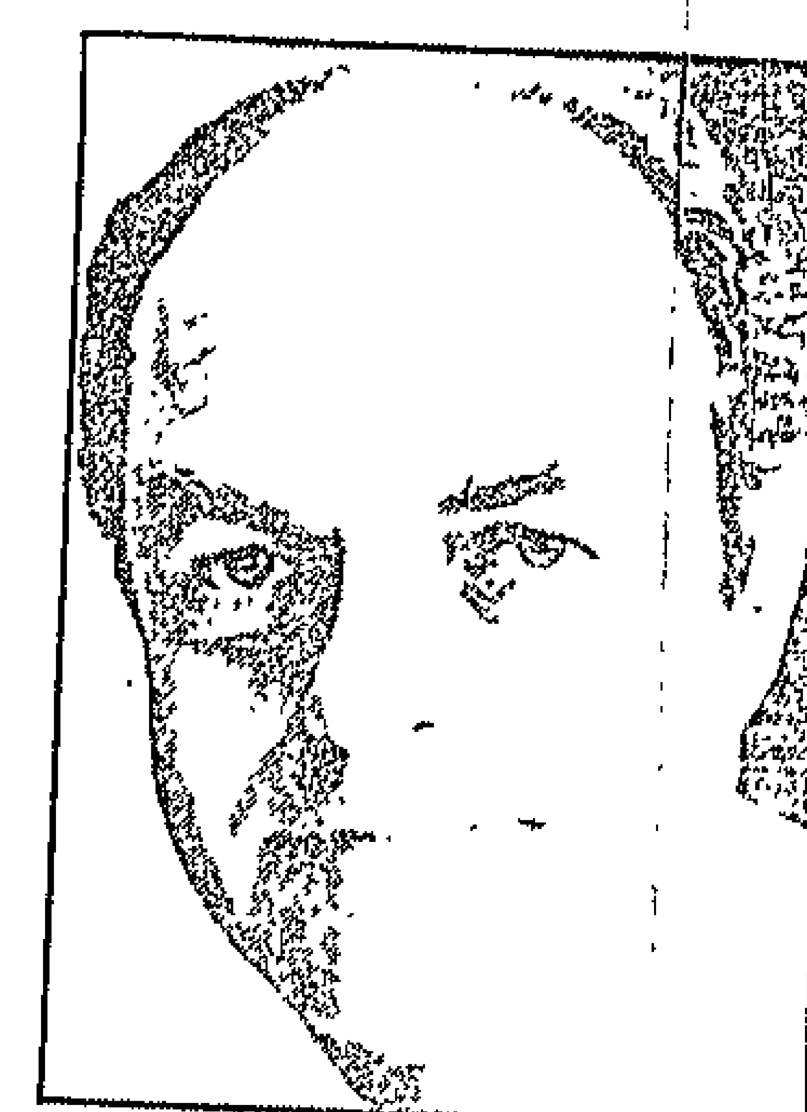
The youth were neither at work nor at school — the result of large-scale unemployment and an inadequate education system.

"The youth activists of today are more aggressive than ever before. Whereas the youth of 1976 had still tried to win the opposition over instead of using force, today's activists use force as amatter of course.

Of 3 500 children born in South Africa every day, nine of out 10 were black.

"Today whites comprise about 14,5 percent of the population. By the year 2 000 their share will fall to 12,2 percent.

"Despite attempts to curb urbanisation, about 69 percent of black people will be urbanised by the year 2010, compared with the present 53 percent."



MERVYN KING: "Destroy the South African economy and you destroy southern African economies."

Privatisation seen as way to steer upliftment funds

(49)

CHARLOTTE MATHEWS

DURBAN — Privatisation rather than nationalisation was the most efficient way to direct funds held by institutions into programmes for social upliftment, Econometrix director and chief economist Azar Jammine told delegates to the Building Industries Federation of SA (Bifsa) annual conference yesterday.

Jammine cited figures showing the backlog in housing demanded that 1 000 houses be built a day or R5bn be spent a year.

"Four out of five households in SA have no electricity. We are desperately in need of hospitals and the 11 500 unoccupied beds do not come near to solving the problem.

"There are two million children suffering from malnutrition. We need to build 33 000 classrooms by the end of the decade to achieve educational equality between the racial groups."

The options open to SA were to finance social upliftment through higher taxes or through public debt, which were already high.

Servicing interest on high public debt could lead to the government printing more money and eventually to hyperinflation.

Increased government spending in the last 20 years had been financed by higher taxes on the individual. Savings had been channelled into equity-linked investments rather than discretionary forms of saving.

As a result the institutions held huge financial resources which could be forcibly channelled into social upliftment by introducing prescribed asset requirements.

"But instead of forcing the institutions to channel their money in this direction they should be encouraged to do so voluntarily," Jammine said.

"Government should sell off its assets to the private sector and direct the proceeds towards social upliftment programmes.

"The problem with the ANC's proposal to nationalise the assets of the institutions is that these have to be paid for and, more fundamentally, nationalisation leads itself to the creation of a bureaucracy.

BD 15/10/90

Too few rich, too many poor (41) De Beer

PIETERSBURG — The unfair distribution of wealth had to be changed, but not just by taking money from the rich and giving it to the poor, DP leader Zach de Beer said yesterday.

He was speaking at the University of the North near Pietersburg in the first address by a white politician since the 1976 riots.

De Beer said the wealth needed to close the gap between rich and poor simply did not exist, because there were too few rich and too many poor.

Wealth would have to be created, he said, which could best be done by hard work in a free society in which government provided education, health services and housing — without interfering with people's freedom.

Today De Beer will be meeting officials of the Regional Services Council, the Venda government, Lebowa Cabinet and executive members of the ANC's Far Northern Transvaal region, and he will speak at a dinner at the Ranch Hotel at 7pm. — Sapa.

ST 18/10/90

iday, October 18 1990

Nationalising 'will ruin health care'

BDay 18/10/90

MARIETTE DU PLESSIS

THE country's health-care system would be crippled if nationalisation and redistribution were to form part of SA's economic policy, pharmaceutical manufacturer Noristan chairman Niko Stutterheim said in a statement yesterday.

He warned against economic policy changes which would cut SA off from health-care technology abroad.

"Nationalisation and an imposed redistribution of wealth, as advocated by some quarters as part of their desired scenario for SA, would lead to further disinvestment and could eventually cut us off from the sources of technology on which health care greatly depends."

Stutterheim stressed the importance of an overall policy based on consultation, co-operation and a sound information base, because government resources alone would not provide adequate care for all.

Therefore an efficient and affordable policy which drew on the resources of the state, the pharmaceutical industry, private clinics and hospitals, the pharmacists, dispensing doctors, medical aids and nursing services was of utmost importance.

He said the benefits of technology transfer and developments in pharmaceuticals and medical equipment had provided tremendous productivity benefits in recent decades, such as short recovery times after operations and illnesses.

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Imbalance

It was clear from expenditure on health care as a percentage of GNP, birth rates, life expectancy and mortality rates, that SA's health services compared reasonably well with those of African and developing countries' standards, Stutterheim said.

However, there was an imbalance between the level of expenditure on curative medicine compared with spending on preventative care.

Only through early diagnosis and disease prevention, could expensive and sophisticated health services be applied where they were most needed, improving the general health level of the population in an effective manner, he said.

in 6,6 seconds, with an electronically limited top speed of 250km/h.

Frontline man slates wealth redistribution

Bdam
19/10/90

TIM COHEN

(49)

THE redistribution of wealth in SA was mathematically impossible, politically stupid, economically unwise and racist, Frontline managing editor Don Caldwell said yesterday.

Speaking at a Groundswell conference in Johannesburg, he said the problem with redistributing money from whites to blacks was that there were about 5-million whites and 30-million blacks.

The redistribution of last year's after-tax profits of the top 100 industrial companies and the top six mining companies would yield a total of R80bn or about R50 a month for each black South African.

Nationalisation of these companies with compensation would result in the exact opposite of redistribution of wealth. The nationalisation of Anglo American, for example, would cost every black person R970.

The reason that calls for redistribution persisted was the "illusion of redistribution" which could realistically result only in the redistribution of wealth to an elite, he said.

Advocates of black liberation frequently argued that if "the Afrikaaners used the state to uplift themselves, why can't we", he said.

He said redistribution was politically stupid because it raised white fears.

Because "redistributionists" had built up expectations about what a government could achieve, they would be under pressure to take proactive steps to help the poor.

He said his concern was that a new government would embark on policies in the name of the poor that had nothing to do with the poor.

He cited the ANC's latest economic document as an example.

He said the introduction to the document was concerned with the masses of starving people, but its proposals were not related to the plight of the poor.

The proposals included the setting up of a state minerals marketing cartel, re-regulation of the financial industry, retaining and tightening exchange control, subsidising small business and having a national strategic plan in which the government approved investment.

The purveyors of apartheid actually had a high view of blacks because they believed if they were not kept down, they would take over, while the message of the redistributionists was that blacks were lazy, stupid and needed to be looked after, he said.

Economic front presents problems — Zach

PETER DELMAR

THERE was already a large measure of consensus on political aspects of a proposed new constitution, DP leader Zach de Beer said yesterday. (49)

De Beer told a Pretoria University campus meeting that it appeared the NP, DP, ANC and Inkatha all agreed on a general franchise and bill of rights, and supported the principle of proportional representation and a two-chamber parliament.

However, it was on the economic front that the most difficult problems would be encountered, he said.

While one could sympathise with the belief that blacks were entitled to immediate, or at least speedy, redress of economic disparities, this was simply impractical to arrange.

It was also "totally impractical", De Beer said, to redistribute wealth from the rich to the poor.

Citizen 9/10/90

economist 'defects'

Star 20/10/90 (49)

'Nationalisation no solution to problems'

JOVIAL RANTAO

DR SIPHO Dlamini, an economist who was tipped for a senior position in the ANC's economics department, has "defected" to the rival Pan Africanist Congress (PAC) because, he says, he discovered that the ANC was not consulting its members at grassroots level before taking decisions.

Now head of the PAC's economics department, Dr Dlamini denied reports which said he quit the ANC because it was shifting from nationalisation as a means of redistributing wealth in a post-apartheid South Africa.

He said he believed nationalisation would not help the country in the long term.

Scare

"Nationalisation can only help a country on a short-term basis of about five years or so. However, if we want a long-term solution we have to forget about nationalising everything because that can only scare foreign investors away," Dr Dlamini said.

He recognised that the ANC could not suddenly stop preaching nationalisation to its supporters.

He did not discuss his defection with the ANC because "it was my decision. I don't think discussing it with them would have made any difference".

"The turning point of my relationship with the ANC was my recent visit to Natal to search for my relatives. I attended ANC-sponsored meetings, from which I picked up that the organisation was not consulting its members at grassroots level. There was a lot of disorganisation in branches, especially in Natal. Some people were not aware of what the organisation was about."

Dr Dlamini (33) is a part-time economics tutor at both Wits and Vista universities. Born in White River, he was the first black man to obtain a PhD in economics — a distinction made even more noteworthy in that he was only 27 at the time.

He said that South Africa should work towards an export-led mixed economy, which would involve free enterprise.

"It is no use taking the existing cake and dividing it into smaller pieces among the masses. We have to produce more goods which we can sell overseas," Dr Dlamini explained, adding that it would take the country about 10 years to achieve a mixed economy, if the present economic policies were exercised.

The State should also facilitate investment opportunities by way of tax incentives to those starting industries and thereby create employment opportunities.

He is not opposed to big corporations nor to monopolies. These, he said, were essential for an economy as small as South Africa's.

"In most instances they provide the economics of scale which otherwise would not be possible. This also helps to keep prices of products low.

"Monopolies are the only ones who are able to generate capital projects needed in SA. They are the best thing that can happen to an enterpreneur because by nature they are involved in capital intensive manufacturing on production, whereas an enterpreneur is involved in the service industry."

But, he said, big corporations must provide share incentives to their workers as a way of redistributing wealth.

On the question of land, he said that land should not be taken from its legal owners because that would be a violation of individual rights. If land was needed it "should be bought from the owners and rented to peasant farmers".

The lifting of sanctions would provide an enormous market opportunity for both black and white entrepreneurs. "We are not going to attract foreign markets by using the existing economic policy that is being discussed by political organisations, including the ANC and PAC," he said.

Under-educated

He said the problems of upgrading skills and technology in a new SA applied as much to the white community as it did to the black. "Statistics show that 30 percent of the whites are not very well educated. Some of them cannot speak an international language such as English. Their careers are not up to international standards. They cannot sell their skills in the international market," he said.

Dr Dlamini thought the PAC would, at some stage, participate in negotiations.

● The ANC this week summoned Dr Dlamini to a meeting where he was asked to explain why he had crossed the floor to a rival organisation.

The meeting, held on Wednesday at 11 am, was between Dr Dlamini and the ANC's Andrew Mlangeni, who helped Dr Dlamini with his return from exile.

"Comrade Mlangeni recognised that I had a democratic right to choose which organisation to join," Dr Dlamini said.

● See Page 11

'Mutants thrive on love'

VISITORS to Gateshead this year would have been excused for thinking that it was the Day of the Triffids, not a garden festival.

Even the Bishop of Durham, the Rt Rev David Jenkins, was heard to mutter something about "mutants".

The picture shows a 1-m high pumpkin that would have kept the residents in fritters for several days, if not weeks, while the 5-m carrot would have made an awful lot of soup. Also on display was a head of celery weighing over 20 kg and a 4,3 m parsnip.

The carrot, the celery and the parsnip — all the products of Bernard Lavery — are to feature in the Guinness Book of Records. His method is not only successful, but it also partly exonerates the Prince of Wales's gardening tip that earned him a "loony green" label. "I talk to them nicely," said Mr Lavery. "And if they don't grow, I give them a bit of hassle."

Democracy cannot exist within a socialist system

S Times 21/10/90 (49)

Peter Berger argues that it is possible to have capitalism without democracy, but not democracy without capitalism

ALL existing cases of democracy are found in capitalist societies; there has not been a single case of socialist democracy.

This leads to quite a sharp thesis: capitalism is the necessary but insufficient condition of democracy.

"Necessary" because democracy is not possible without capitalism. "Insufficient" because it is possible to have capitalism without democracy.

The essence of democracy is the institutionalisation of limits on the power of the state: the government can be voted out and, even when it is in office, there are many things it cannot do — such as shutting up the opposition.

Due to modern technology, even the most benign state has more power at its disposal than the mightiest empires of ancient times.

Even in a very benign modern state, this amassing of power is awesome, regardless of the manner in which the economy is organised. The concern to somehow limit this power attains a certain urgency.

Equal

Whatever socialism may mean to the utopian imagination, in empirical practice it means yet another augmentation of state power. In addition to all the other powers held by the state, there is now the power to run the economy and, thus, to control the economic fate of all citizens.

Democracy, the evidence indicates, cannot survive this aggrandisement of the state.

What is more, socialism depends on expropriation — as every socialist theory correctly maintains. Thus, socialism can only be established, under modern conditions, by a dictatorial exercise of power, since those to be expropriated will not voluntarily surrender their property.

But, to maintain a socialist system, all attempts to re-establish non-collective property must be squelched. Dictatorship then is not only characteristic of an early socialist regime, it remains a permanent feature of such a regime because socialism requires permanent expropriation.

By contrast, a capitalist system creates a zone that remains relatively free of political control. Since that zone is of vital importance to society, this implication for relative freedom has far-reaching implications, one of which is the opening-up of a social foundation for democracy.

Put simply, capitalism does not necessarily democratise; it does pluralise. In this pluralism lie the roots of democratising pressures that are very likely to appear if capitalist economic development bears fruit (materially comfortable people tend to become politically "uppity").

By contrast, socialism is intrinsically homogenising and anti-pluralistic. It thus tends to weed out the roots of democratising movements.

In conclusion, when it comes to the values of welfare and equality, the question of social democracy must, to a considerable extent, be left open. The question of socialism, to anyone open to empirical reason, should be taken as closed.

If you want large numbers of people to be lifted from abject poverty to a decent standard of material life, and if you want this process to take place under political arrangements that respect basic human liberties and rights, and especially if you want democracy, then you should opt for a capitalist economic system.

Depressing

If, on the other hand, your guiding value is equality, then you will probably have to settle for the (to you) depressing conclusion that, except in a very modest way, this value cannot be realised under modern conditions.

- *Professor Peter L Berger teaches at Boston University. He is the author of a number of books including The Capitalist Revolution. This is an extract from the latest edition of Optima, published by the Anglo American Corporation.*

(49) Star 24/10/90

OPINION

James Moulder argues that neither capitalism nor socialism fits the South African bill

Posts are blocking our goals

WE should stop arguing about whether it's better to be capitalist or socialist. What we need are innovative answers to two questions: How can we increase South Africa's wealth? How can we distribute it more fairly?

Capitalism and socialism are ideologies. Like other ideologies, they simplify our experience, suppress uncomfortable facts and indulge our desires. That's why an ideology is like pornography.

In pornographic novels men are never impotent and women never have headaches.

Adam Smith's "The Wealth of Nations" and Karl Marx's "Das Kapital" are like these novels. Smith's book is pornographic because it describes a competitive society in which nobody loses. Marx's book is pornographic because it describes a compassionate society in which nobody is powerless.

In the real world neither competition nor compassion are perfect. Societies that fuss about the virtues of capitalism value competition more highly than compassion. Societies that fuss about the virtues of socialism value compassion more highly than competition.

Capitalist societies are wealthier than socialist ones, but more unequal. Socialist societies are more equal than capitalist ones, but more restrictive.

When capitalists and socialists argue, they can compare theories or facts. They often do neither.

Instead of comparing theories (apples with apples) or comparing facts (oranges with oranges), they compare their theories with their opponent's facts, and sow confusion.

When capitalists and socialists compare their theories, they compare their fantasies.

But when capitalists and socialists compare their blueprints for an ideal society, they don't sow confusion because they are comparing apples with apples.

When capitalists and socialists compare what actually happens, they compare oranges with oranges.

This comparison is depressing. In both societies people get sacrificed. In capitalist societies people end up in slums in the name of competition and freedom. In socialist societies people end up in labour camps in the name of compassion and equality.

In the real world nothing is perfect. Slums cannot be removed without restricting free enterprise and labour camps can't be removed without allowing inequalities.

But when captialists and socialists compare facts about societies they don't sow confusion. They are comparing oranges and oranges.

Unfortunately, these are not the only comparisons that capitalists and socialists make. More often than not, they compare their apples and their opponent's oranges.

Socialists compare their blueprints for an ideal society with the awful inequalities of capitalist ones. They ask who would like to live in a slum instead of in an egalitarian and compassionate society. The obvious answer is: nobody.

Capitalists compare their blueprints with the awful restrictions of socialist societies. They ask who would like to live in a labour camp instead of in a society in which one's enterprise and initiative are rewarded. Again the obvious answer is: nobody.

If you compare capitalist and socialist theories, you compare apples and apples. If you compare capitalist and socialist societies, you compare oranges and oranges. If you compare capitalist theories and socialist societies, you compare apples and oranges.

If you do what is seldom done, and compare, say, the capitalist ideal and actual captialist societies, you compare your own apples and oranges. This is like a performance appraisal, checking whether you are on target.

I don't want to choose between capitalism and socialism.

We need to balance equality and freedom so that we can have both the virtues of compassion and competition.

The debate between capitalists and socialists is sterile and futile. We need to move the goalposts. We need to stop neglecting the difference between what we want and what we can have.

What can we have? I don't know; but there are two things we can't have.

We can't have free enterprise without inequality and poverty. We can't have equal incomes without restrictions and controls.

The next step is to understand why we have the fantasies that we do. Sigmund Freud tells us why. What we haven't got, but would like and believe we should have, creates our dreams.

Managers from Johannesburg's northern suburbs don't dream about being equal and compassionate. They want to compete and show enterprise and innovation.

Workers from Soweto, or from KwaZulu's rural areas, don't dream about being competitive, innovative and enterprising. They want security and compassion.

How can we get a new debate? By adopting three rules that move the goalposts.

Rule 1: It's always legitimate to ask how to increase the productivity and wealth of an organisation or society.

Rule 2: It's always legitimate to ask how to distribute the profits and wealth of an organisation or society more fairly.

Rule 3: It's never legitimate to ask the first question (productivity and wealth) without asking the second (distribution and fairness), and vice versa.

It's Rule 3 that moves the goalposts and changes the name of the game.

Management is addicted to Rule 1 and Labour to Rule 2. But neither management nor labour is committed to Rule 3 (believing that anyone who wants to increase wealth must tell us how to distribute it more fairly, and anyone who wants to distribute wealth more fairly must tell us how to generate it more effectively and efficiently). □

● James Moulder is Professor of Philosophy at the University of Natal, Maritzburg.

Making growth and jobs wait while we try to tame inflation

(49)

B/Day 22/10/90

GRETA STEYN

A DECADE of economic stagnation, double-digit inflation and massive unemployment speaks for itself. A major overhaul of the SA economy is needed. Government plans to do just that with a comprehensive restructuring programme. The plan, for all its strengths, has major weaknesses.

An assessment of the present economic strategy has to take account of the country's economic needs. One of the greatest is employment. In the 1980s, a sluggish economy saw employment growth trail far behind the expansion of the economically active population — jobs grew by an average 1,1% a year while job seekers increased by an average 2,5%. The number of jobs in industry remained stagnant during the '80s; the public sector provided the main impetus for what little growth there was in overall employment.

The number of officially registered unemployed is misleadingly low at its peak of about 140 000, according to the Reserve Bank's September Quarterly Bulletin — the Bank goes on to estimate the real number of job seekers in the formal economy at 5,4-million. This ties in with unofficial academic estimates that put the percentage of the economically active population that cannot be accommodated in the formal sector at about 40%.

SA needs rapid and sustained economic growth of about 5%-6% a year to create jobs. Yet the main focus of the economic restructuring programme is not on growth and job creation, but firmly on combating inflation.

The architect of the restructuring plan, Administration and Economic Co-Ordination Minister Wim de Villiers, emphasises that the top priority of economic policy is bringing inflation down to close to that of our trading partners within the next three to four years. "There will not be scope for increases in inflation or even allowing it to remain where it is. Actions based on the assumption that the general price level will be higher than, or the same as, the current level will inevitably lead to lower economic growth and greater unemployment — and that should be thoroughly taken note of when setting prices and negotiating wages."

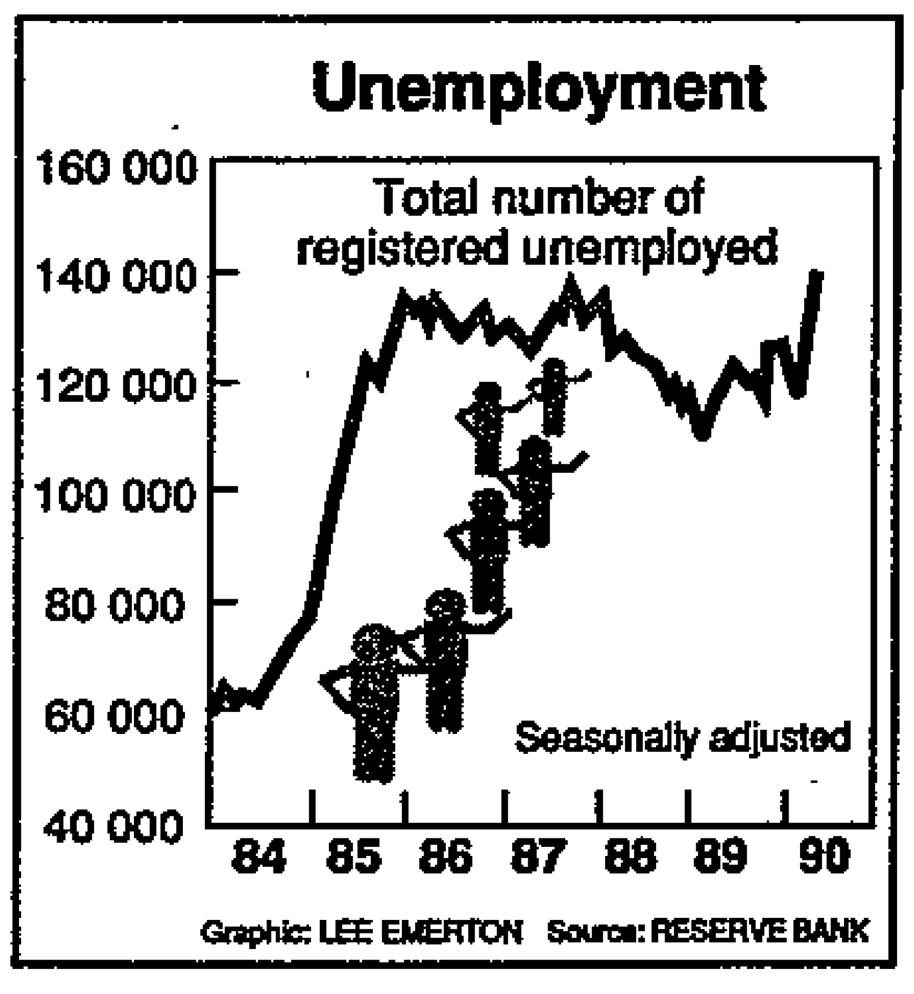
Strong stuff, against a background of 40% unemployment in the formal sector, political unrest and a debate on the political economy that focuses sharply on the skewed wealth distribution in SA. This is a man with a mission and nothing, not even Saddam Hussein, can shake his resolve.

De Villiers' resolve manifests itself in a style that is politically naive and even insensitive — he appealed to the trade unions to join the "team effort" against inflation, but also stated clearly that their views on privatisation would be disregarded. Not the kind of approach that fosters team spirit.

Breaking inflation's grip on the economy is the top priority simply because there is no long-term tradeoff between inflation and employment. Inflation leads to spending and savings habits that inhibit the long-term growth potential of the country. The answer to the unemployment crisis is rapid and sustained economic growth; the key word is sustained. To avoid a Latin American boom-bust economy, SA has to lick the inflation problem.

In the long run, conservative financial policies create a financial environment in which sustainable growth can be achieved. The Economist recently reported that developing countries with low interest rates — negative in real terms — had average growth of only 1,6% in 1983-89, compared with 5,9% in countries with positive real interest rates.

De Villiers emphasises the key role of expectations in keeping inflation high. To a large extent, inflation is "all in the mind"; to quote Shakespeare, "nothing is either good or bad but thinking makes it so". If we stop thinking inflation, we will have gone a long way towards solving the problem. Apart from high interest rates, low electricity tariff increases and tight fiscal policy, a verbal onslaught on inflationary expectations has emerged as a key weapon in the fight against inflation.



Inflation at the level of our trading partners will encourage export-led growth as SA exporters will be able to price their goods competitively. But fighting inflation in itself will not promote rapid economic growth and more jobs. Specific strategies to encourage growth and employment creation are needed.

SA desperately needs growth — is government doing enough to promote it? De Villiers likes to call his growth policies a "supply-side" approach. They do contain strong elements of supply-side economics — the encouragement of savings to finance investment, heightened productivity, lower taxes to encourage work effort.

Exporters are being offered cheap electricity and rail tariffs if they use idle capacity by working extra shifts. The idea is to encourage growth through heightened productivity. The moves are also part of a drive towards export-led, rather than consumption-led, growth.

Labour and capital productivity is being encouraged through soft loans provided by the Industrial Development Corporation to firms that work multi-shifts. Lower taxes and all the measures to encourage savings have not yet been finalised.

These measures will work. But they are not enough to encourage economic growth of the order needed to put a big dent into unemployment. It is hard to envisage an unprecedented boom in exports as exporters employ large numbers of people to work around the clock. Too little is being done about encouraging job-creating economic growth. The World Bank's latest World Development Report argued for growth policies that would harness labour. De Villiers' plan is a First World plan that fails to recognise the most obvious growth opportunity in SA.

Combine SA's massive housing shortage, put at more than 1-million units in 1988, and unemployment and they spell opportunity.

JCI economist Ronnie Bethlehem has argued for a major public works programme to build houses. Such a programme would generate growth and employment without putting pressure on the balance of payments. Bethlehem argued it could be mainly state-financed by scrapping Mossgas, cutting defence spending and reducing spending on apartheid bureaucracies. The homes should be sold, thus counteracting the threat of inflation and increasing home ownership among blacks.

"In SA, the state has been able to ignore the problem of mass black unemployment until now only because its obligations have not been to a majority electorate and because it has allowed itself to be guided by policy models based on the post-war experience and policy adaptations of Western Europe and North American countries," Bethlehem argued.

It is a major shortcoming of De Villiers' plan that it has not fully acknowledged the extent of the unemployment problem. It is surprising that the obvious route to growth and greater employment, with its positive political spinoffs, was not included in the restructuring plan. The idea that house-building can be a spur for growth is not without its supporters among economic policymakers; Reserve Bank senior Deputy Governor Jan Lombard has been a tireless advocate of such a plan.

Government's economic restructuring programme is to be criticised, not for its contents, but for what it lacks. There is still time to add to the plan and to stop pretending SA is part of Europe or North America.

LETTERS

Graphic: LEE EMERTON Source: ESKOM

its performance.

Trade union priorities not addressed, says Golding

6 Day 22/10/90

(49)

ALAN FINE

ADMINISTRATION and Economic Co-ordination Minister Wim de Villiers' plan for economic restructuring failed to address trade union priorities and was in opposition to them in various respects, a leading unionist said yesterday.

NUM assistant general secretary Marcel Golding, noting De Villiers's call on Friday for unions to co-operate in the fight against inflation through restraining their wage demands, also warned against government interference in the collective bargaining process.

Golding said government could hardly expect the labour movement to co-operate in economic strategies over whose formulation unions had had little or no influence.

He understood government's concern to tackle the inflation problem — inflation had also had a negative effect on workers' earnings. However, union economic priorities had to be the priorities of its members, and those were primarily job creation and increasing workforce income.

A key area unions believed needed to be addressed as a pre-condition for economic progress was training.

Distribution of riches 'must 49 be a solution'

ACHMED KARIEM

WEALTH redistribution should become part of the solution to SA's inequality of income and not part of the problem, says Urban Foundation CEO Sam van Coller.

In an address at the Institute of Personnel Management's annual convention on Friday, he said economic strategies needed to be adopted enabling the formal and informal sectors to grow rapidly and generate maximum economic surplus. B/Day 22/10/90

"A significant proportion of that surplus needs to be available to position and equip the poor to enter the wealth creation arena and furthermore to draw them into the economic process," he said.

However, Van Coller said, it was crucial that strategies redistributing wealth did not discourage wealth creation.

Stellenbosch University economics professor Servaas van der Berg said that removing discrimination in government spending was the priority in redistribution.

He said apartheid could not be declared dead while public expenditure patterns still continued to reflect the apartheid paradigm.

The cost of removing discriminatory expenditure patterns was so enormous and the political implications so severe, that government had hardly made a dent in the problem after years of trying, Van der Berg said.

Economists question Govt's action in setting 'low' tariffs

Star 23/10/90 (49)

By Duma Gqubule

The government's new economic plan to boost exports and break the spiral of inflationary expectations by keeping electricity and transport tariffs well below the rate of inflation has been welcomed but some economists are highly suspicious of the idea.

Many economists are wondering what happened to the government's resolve to privatise and deregulate the economy and suspect the government has capitulated under pressure from the ANC.

"These announcements have put the credibility of the government's intention to deregulate the economy back by five years. They are a blow to anyone who was hoping that we were heading towards a more free, market economy," says Econometrix economist Tony Twine.

"It is hypocrisy," says Gad Ariovich, chief economist and investment strategist at brokers Fergusson Brothers.

"On the one hand, in the economic debate with the ANC, the government is waving the free market banner and now they are artificially freezing prices", Mr Ariovich says.

While there is no doubt there could be short term benefits, it is the artificial nature of these measures that economists object to. They say it will be difficult to sustain the policy in the long-term and that some time or other prices would have to return to market-related levels.

Mr Ariovich says if oil prices are going up this should be reflected in transport costs or structural distortions in the economy will begin to appear.

Mr Twine says he had been hoping that when Transnet was privatised greater efficiencies would emerge and that some of the distortions that had come into transport costs would be eliminated.

"If the authorities manipulate transport tariffs to create the illusion of lower inflation now, some time in the future the transport industry will have to increase prices.

"This will also put unfair pressure on the private transport sector which is trying to compete with the quasi-government sector," he says.

Eskom has already announced an electricity price rise of only 8 percent for 1991 confirming speculation that the government has shelved plans to privatise it.

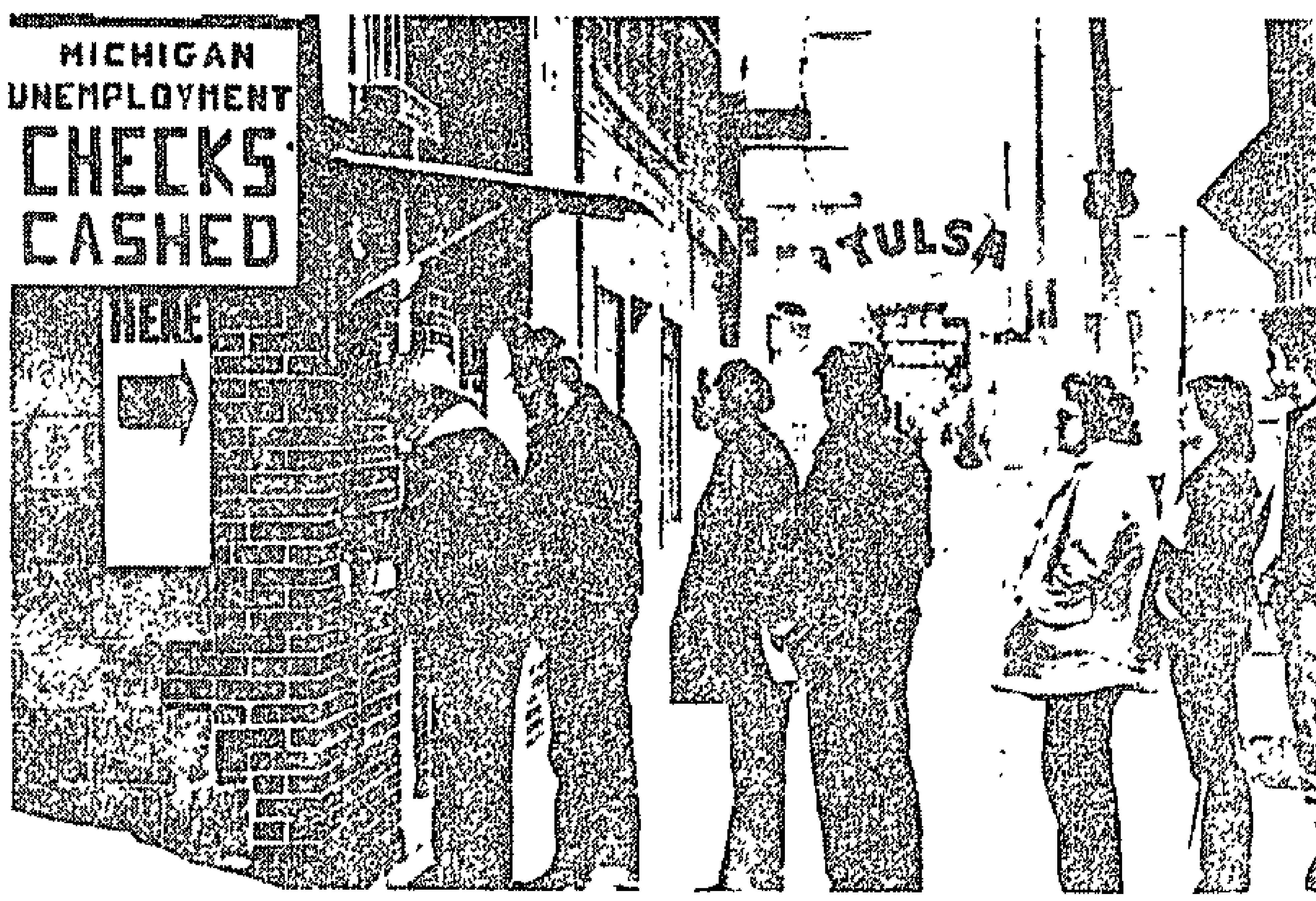
With Eskom, it can be argued that they are in a position to absorb lower tariff increases. Eskom has the spare capacity — because of an ambitious Capex programme that was embarked on in the 1970s in anticipation of higher growth in electricity consumption which did not materialise.

However, Mr Twine says in the past Eskom price increases have been held below the rate of inflation due to political pressure but after some time Eskom would increase prices, in many instances higher than the rate of inflation.

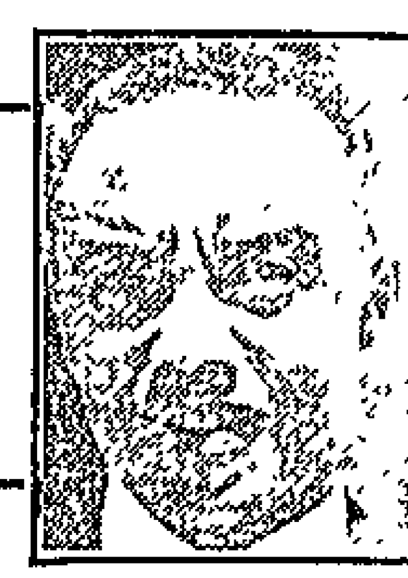
"It is also possible Eskom will have to borrow more on the capital market causing capital market rates to harden. The 25 point increases in capital market rates over the past week could reflect market anticipation that Eskom will be looking for more debt."

Cape Times 23/11/90 (49)

Capitalism does not offer much of an alternative



HARD TIMES . . . Unemployed queue for benefit payments in Detroit, the heartland of the US capitalist "success".



VIEWPOINT

by NEVILLE ALEXANDER

NEW HAVEN, Connecticut — In view of the dramatic events that have been unfolding in the societies of Eastern Europe during the past few years, especially during this past year, it is quite understandable that the entire world should be discussing the question: Has socialism failed?

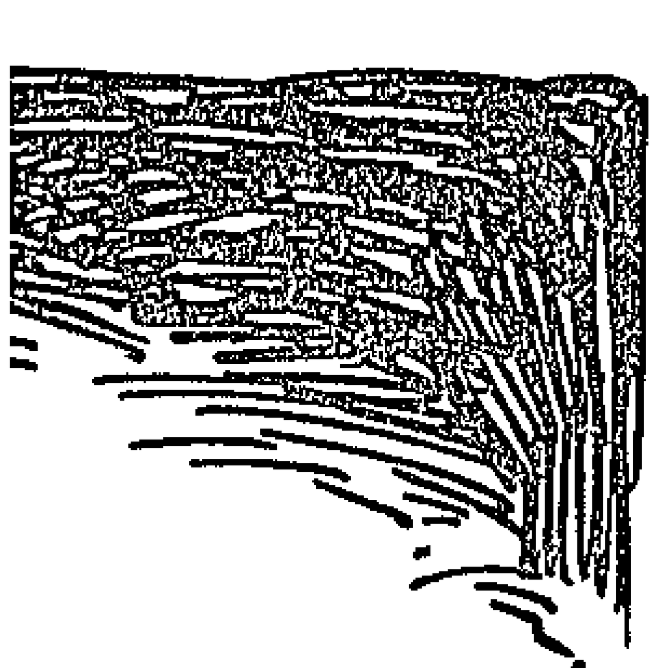
Most of the crude anti-socialist politicians and propagandists answer this question with a resounding yes! Most former members of the former "communist" parties are no longer sure how this question should be answered. They have in effect tended to adopt the same position as the Social Democratic parties did in Europe after 1914.

Many, perhaps very many, have simply defected and are now full-blown free-marketeers and propagandists for the very capitalist system of private profit and exploitation which a few months ago they had considered as the root of all evil in the world.

Some of us have always found the triumphalist response of the cruder apologists for the capitalist system to be vulgar and short-sighted. We have condemned the superficial analysis and opportunistic responses of those ex-communists who are now embracing the capitalist ethic of private profit obtained from the exploitation of the labour power of the working people.

We have repeatedly pointed out that only a very few capitalist countries in the world, some 10 or 12 perhaps, can be said to have "made good", even if in those very societies there is much social misery, disease, loneliness, crime, racism, sexism and violence.

For the rest, we have pointed out that all the capitalist countries in the "Third World" continue to live in desperate povery with terrifying statistics for unemployment, illiteracy, famine, child mortality, plagues such as the Aids virus, anti-social violence, wars, corruption and a general dead-endism.



Capitalist failure

Our own country is an example of precisely this failure of capitalism to deliver the goods. For, in South Africa, as we all know today, the overwhelming majority of our people live below the minimum subsistence level: we have between 30% and 40% illiteracy, about the same average of unemployment, major health, educational and welfare inequalities and, of course, vicious racism, sexism, violent crime — one of the highest rates in the world — a frightening prison population and an unenviable record for the judicial execution of people.

For us in South Africa, therefore, the question: Has socialism failed? has has an added significance. For it means, if we answer yes ... believe that perhaps there *is* something in this.

Well, after living in the US for the past few weeks, I can't say that I find any grounds for optimism about this kind of reasoning. This is a society that is supposed to have done away with racial segregation and discrimination during the past 30 years and more. This country is for most hopefuls, especially those in Eastern Europe, the very pinnacle of capitalism and of the "free market". But even if one were blind to the all too visible signs of urban decay and degradation, the looming and actual environmental disaster, the economic and social facts scream out loudly: capitalism has not succeeded, not even in the very citadel of the world capitalist system!

... York Times of September 27 wrote:

Last year ... 12,8% of all Americans had income below the official poverty level, which was $12 675 (R31 687) for a family of four. The poverty rate for 1989 was the lowest in the 1980s but was higher than for any year in the 1970s. The rate was 13% in 1988 and 13,4% in 1987. The bureau estimated that the number of Americans living in poverty declined to 31,5 m in 1989, from 31,7 m in 1988.

However, according to some economists, the situation is much worse since unemployment has increased rapidly in the wake of the recession that has hit the economy. When one considers that the figures quoted here come at the end of seven fat years of "consecutive expansion", then it is obtherefore, the question. Has socialism failed? has has an added significance. For it means, if we answer yes, as so many are all of a sudden doing today, that we have nothing to live for since, clearly, capitalism in South Africa has failed utterly for almost four-fifths of the population. But No! Hold it! We are told by the free-marketeers, including the Cape Times, what has failed in South Africa is not capitalism but racial capitalism. If we do away with apartheid and racial discrimination, the capitalist system can still save all of us. It can still give all of us an equal chance, if we are prepared to take it. And many former sceptics in the liberation movement, precisely because of the experience of Eastern Europe, seem to loudly: capitalism has not succeeded, not even in the very citadel of the world capitalist system!

Unequal wealth

It is good to ask ourselves the question, Has socialism failed? But we dare not stop asking ourselves the even more important question: Has capitalism succeeded? Especially since we are being made to believe that capitalism, not socialism — real or surreal — is the answer to the problems of humanity.

Look at the facts in the US. According to the latest report of the US Census Bureau, there has been "a slight decline" in the number of poor people but a "substantial increase" in the unequal distribution of income (wealth). The New When one considers that the figures quoted here come at the end of seven fat years of "consecutive expansion", then it is obvious that poverty and inequality are structural features of US capitalism at the very best of times.

Moreover, these figures are based on a measure of who is "poor" that was worked out in 1963 when, for example, the average family spent one-third of its income on food. Today, the average family in the US spends one-fifth of its income on food. And this "minimum subsistence level" does not include items such as expenditure on electricity or increases in the costs of housing!

Real debate

Of children under the age of 18, 19,6% are living in poverty, as defined; 22,5% (that is, almost one out of four) children under the age of six, a disastrous 50% of black children, 40% of Hispanic children and 17% of white children under the age of six. (In the US, these racial labels are normal.)

According to the census bureau: for the most affluent 5% of all families in the United States, average income rose to $148 438 (R371 095) in 1989, from $120 253 (R300 632) in 1979... In the same 10-year period ... the average income of the poorest one-fifth of all families declined to $9 431 (R23 577), from $9 990 (R24 975).

These are only the cold figures. When one walks along the streets of the cities — where one can do so safely — one cannot help noticing the signs of human decay: the beggars and drug addicts, the youthful gangsters and all the others whom some people call "deadheads" with shuddering indifference and callousness. Of course, the US is a wealthy country. Most people live in comfort, many in luxury. But that is the side which the rest of the world has learned to envy. There is another side, the one I have hinted at here.

Capitalism or socialism? Let there be a real debate. And let us call things by their name as long as we are allowed to do so in our country.

Dr Alexander, chairman of the Workers' Organisation for Socialist Action, is visiting the United States.

LETTERS Box 11 CAPE TOWN 8000

Japanese abortion law worth noting

From Mrs D CLEMINSHAW, Civil Rights League (Claremont):

IN RESPONSE to Charles O'Connor (Cape Times, October 10), the exercise of old-fashioned restraint has merit, and not only in relation to sexual activity. But one cannot ignore the social reality that this message alone is insufficient to make any impact on the rapidly swelling population, or on sex related diseases.

So logically, we need a multi-pronged approach, including sex education at school, and far from prohibiting contraceptives and abortion, these should be offered as part of a carefully considered programme to uplift and improve the quality of life of all.

Mr O'Connor suggests that abortion should be "outlawed". Abortion is a criminal offence in our law, except when permitted for certain limited cases, and even then the sworn certificates of three doctors are required, resulting in potentially hazardous delays. An estimated 200 000 illegal abortions occur annually, with imaginable disastrous consequences.

The experience in Japan is useful. Abortion as a crime, distinct from an ethical issue, was not part of their early tradition, but was regarded as a Christian view. Christians being in a minority, the crime of abortion appeared to be based on the morals of an alien religion. However, with the Westernisation of Japan, its legal system came to adopt the law making abortion criminal.

After WW II, Japan faced serious difficulties, including a complete collapse of the social system and economy, starvation and an uncontrolled increase in population. Abortion was then legalised in some circumstances, including for economic reasons (not allowed in South Africa), and vigorous efforts to disseminate knowledge of contraception were undertaken.

There was a dramatic drop in the birth-rate and decline in population growth that enabled Japan to reconstruct its economy.

We should institute a permanent commission, comprised mainly of women, on a non-racial basis, to investigate all aspects of this sensitive issue, and to advise the Minister of Health in regard to reforming the law.

Our view is that a woman impregnated with an unwanted child should be allowed to make an informed and counselled decision, in privacy with her doctor, for abortion within the first 12 weeks.

Professor John de Gruchy

Due to a slip during the production process, a letter published on October 12 from the Gospel Defence League (concerning a TV discussion between Mr Joe Slovo and Prof John de Gruchy) incorrectly referred to the latter as Dr Grunchy.

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Money supply hits a three-year low

(49)

B/Day 23/10/90

MONEY supply growth tumbled to a new three-year low in September, reflecting the slump in credit spending as interest rates remain high and the recession bites.

Preliminary Reserve Bank figures released yesterday show the stock of money in the economy — or M-3 — increased by only 13,28% in the year to September. The year-on-year rate of increase slid without interruption from 19,12% in May as the monthly tempo at which banks expanded their balance sheets slowed dramatically from last year.

Money supply growth is one of the most important indicators for interest rate policy, along with inflation and the balance of payments (BoP).

If the expansion in money supply continues at the present slow rate, SA could end the year with growth below the Bank's 11%-15% target range. The annualised increase from the fourth quarter of last year is very much at the bottom end of the target range at 11,21%.

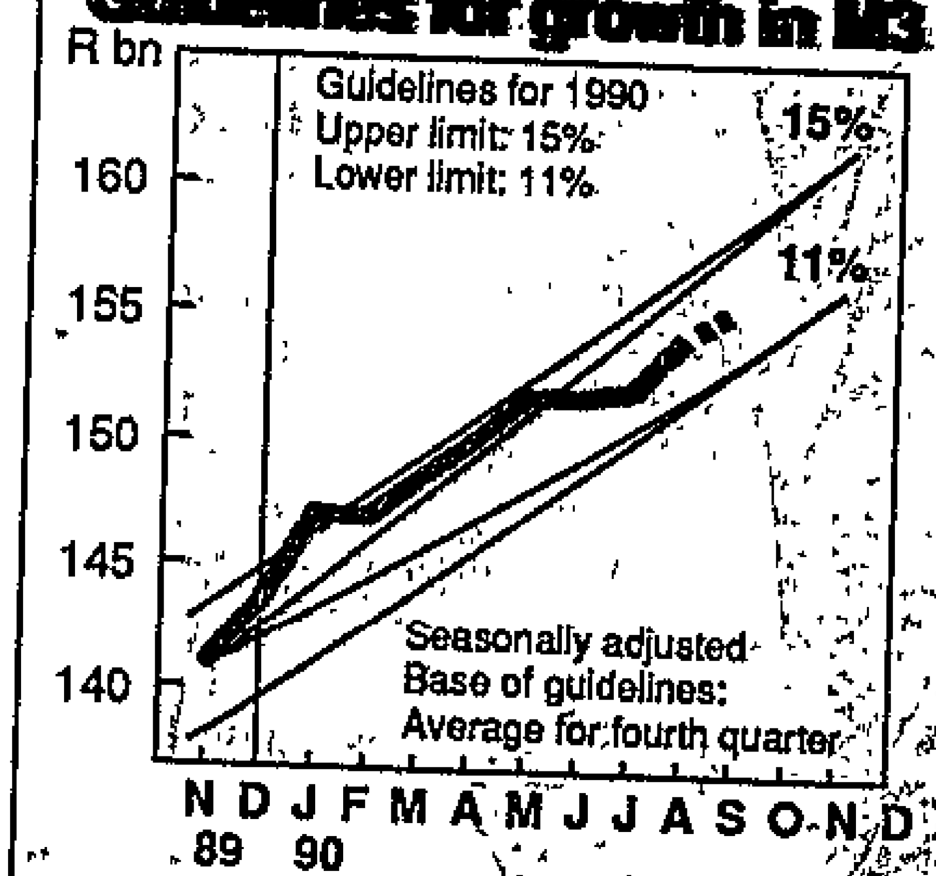
But the Bank has made it clear that a fall to below the target range would in itself not necessarily signal the need for a cut in Bank rate. Reserve Bank Governor

GRETA STEYN

Chris Stals recently said: "In retrospect, the money supply guidelines of a range of 11%-15% ... in 1990 have been generous."

Inflation and trade figures, due to be released this week, could temper any bullish sentiment in the markets because of the positive developments on money supply.

Guidelines for growth in M3



Graphic: FIONA KRISCH Source: SA RESERVE BANK

Star 24/10/90 (49)

Economic growth is key to wealth redistribution

Finance Staff

Without strong growth, none of the political solutions being bandied about will cure South Africa's socio-economic problems, says Old Mutual chief operating officer Gerhard van Niekerk.

He told delegates to the Afrikaanse Handelsinstituut annual congress in Durban yesterday that neither "aggressive redistribution nor a liberal democratic constitution" would succeed in addressing national ills if the economy did not expand.

"Higher company and individual tax to quickly transfer buying power would fuel inflation," he said.

"Contrasts in wealth and income between the privileged and the less-privileged sections of the community are, and always have been, unacceptable. They are untenable in the new political milieu."

However, "unrealistic expectations among the broad population have to be scaled down to more realistic levels", Mr van Niekerk contended.

Suitable growth in the economy depended on making production factors "more productive"; GDP growth would reflect the success or otherwise of what was done to achieve this.

Nationalisation

Professor P L Moolman, director of the Advies Buro Vir Klein Sake (ABKS), said South Africa could have avoided the current debate about nationalisation of industry and wealth-redistribution if it had allowed the informal sector to develop.

He told the congress that the sector had been hampered by a lack of understanding of its role by players in the formal market.

It was not seen as a generator of jobs because often businesses were one-man operations, while the government in the past had actively discouraged informal traders because they did not contribute to the fiscus.

The formal sector, which was the biggest stumbling block to small business, harboured similar resentment.

Ironically, in the 10 years from 1977, employment grew only 2,7 percent, while the population increased by 23,6 percent.

The potential of the informal sector to create jobs was greatly underestimated and could not be measured because there was no central register.

Leon Louw of the Free Market Foundation estimated that the informal sector could be contributing up to 40 percent of gross domestic product.

The spin-off from the primary informal job sector was growing daily.

Contracting-out had become an effective way for the formal sector to help small business.

The loss of taxes and levies had be weighed up against the creation of jobs and housing needs that the informal sector provided.

Expectations too high (41) Strauss

GERALD REILLY

PRETORIA — Whatever economic system was adopted in a new SA, most of the people had to accept a continuation of hardship, at least for a time, rather than a life of grand houses and luxury cars.

Standard Bank Investment Corporation group MD Conrad Strauss said this at a CSIR conference on constitutional issues at the weekend.

"An economy is not and cannot be a something-for-nothing machine," he stressed. But if expectations of one sector were too high perhaps the fears of business were also exaggerated.

Strauss said worries about extreme government mismanagement were probably misplaced, too. There was no reason to suppose a new government, drawing on a wider pool of skills and talents and enjoying international support, would be less effective than its predecessors.

One major reason for SA's inefficient economy was years of excessive government direction of resources in an attempt to meet an unrealistic political agenda. However, replacing the failed dogma of apartheid with doctrinaire socialism as a means of correcting past injustices would simply create more problems, he said.

The reality was, Stauss said, that investment followed expectations of profit.

Businessmen at home and abroad were receiving strong signals to stay clear of involvement until they saw a general recognition of the need to promote a productive business environment in SA.

US envoy plots course for new SA

BIDY 8/10/90

(49)

THEO RAWANA

THE future prosperity of SA would be based on the fulfilment of black needs rather than on the exploitation of black labour, US ambassador William Swing said in Johannesburg last night.

Swing was addressing a farewell dinner for the Black Business Observation Mission — a group of 120 black businessmen who will tour the US as part of their preparation for a meaningful role in a post-apartheid SA.

The mission, co-ordinated by business consultants W R Consultants, is led by Soweto civic leader Nthato Motlana.

Swing said: "It has been said that in modern SA it is as difficult for a white entrepreneur to fail as it is for his black counterpart to succeed.

"If a post-apartheid government is to be successful economically, it must unleash the entrepreneurial energies of its black business sector, the skills of its black managers and workers, and the purchasing power of black consumers."

Only an economy which enabled its citizens to use their talents to the fullest would be capable of generating the wealth needed to deal with the country's socio-economic demands.

"Indeed, the future prosperity of SA will be based in large part on the fulfilment of black needs, rather than the exploitation of black labour."

The optimism over the increased dialogue now taking place should not blind South Africans to wide differences in vision and expectations over the future.

"Many blacks understandably expect the coming of a non-racial democratic government to be followed rapidly by substantial and tangible improvements in their standard of living.

"They associate capitalism with the injustices of the apartheid-based economy, whose laws restrict blacks' access to land, employment, education and capital.

"They see the tremendous disparities in income, skills and wealth which exist between blacks and whites and view government intervention as a panacea for black economic advancement."

Swing said the extent to which apartheid's socio-economic heritage could be eliminated within a reasonable time-frame would be one of the great tests of whether democracy could flourish in SA.

At the same time, many whites feared fulfilment of black aspirations would come about through a transfer of wealth and a decline in their standard of living.

Reconciling these conflicting perceptions might be one of the most difficult tasks confronting negotiators.

He said black business would play an essential part in resolving this conflict.

ANC president in the 1950s. Picture: REUTER

Sapa.

ANC keen on Sacob's proposal for summit

49

MATTHEW CURTIN

THE ANC has welcomed the SA Chamber of Business's (Sacob's) proposal for a summit meeting between the ANC and business representatives to discuss future economic strategies.

ANC spokesman Abba Omar said at the weekend the organisation was in favour of such a meeting, which Sacob proposed last week in response to the ANC economic policy document.

He said details of the meeting would need to be discussed first, but the ANC was keen to make as much contact as possible with the business community.

At the weekend the Afrikaanse Handelsinstituut (AHI) expressed its reservations about the ANC's economic proposals.

AHI vice-president Gerrie Steenkamp said the ANC had presented impractical and over-optimistic solutions to SA's economic problems. He said the AHI was concerned the ANC focused on redistribution rather than the generation of wealth.

Sacob chief economist Ben van Rensburg said at the weekend the major weakness of the ANC's economic proposals was their premise that the bottom line in SA economic policy must be to redress poverty.

Sacob felt this would be disastrous, and was concerned the ANC seemed preoccupied with collectivism, nationalisation and state intervention in the economy.

Poverty could only be addressed once a suitable economic environment existed. It was therefore vital to foster economic growth.

The chamber welcomed the ANC's acceptance of the importance of foreign investment, a small public sector and the stimulation of business confidence in SA.

Implicit in Sacob and ANC proposals was the need for discussion on future economic policy. This was why the chamber had "set the wheels in motion" for talks between the ANC, Sacob and other business organisations in order to develop "an overall economic strategy".

Nafcoc spokesman Gabriel Mokgoko said it would be premature for the organisation to comment on the ANC proposals. He said Nafcoc would hold a summit conference of its members on October 19 to review its policies, and the ANC document would be on the agenda.

Nafcoc welcomed the Sacob proposal of a conference to discuss future economic strategies in SA.

ANC plan for mining outlined

Sowetan 8/10/90

49

THE mining industry comes in for special state interventionist measures - and a strong warning of possible nationalisation - in the ANC's new draft economic policy, which has just been drawn up.

It proposes a State Minerals Marketing Authority to control all mineral marketing, the formation of cartels to stabilise prices and hints at breaking up private sector mining conglomerates and possible nationalisation.

"The mineral wealth of our country needs to be husbanded in such a way that it benefits all of the people through the contribution it makes to national development.

"The policy of a democratic non-racial government should aim to enhance the role of the sector as a job creator, foreign exchange earner and supplier of raw materials to local industry."

An ANC government would consider using fiscal policy to encourage venture capital in new mines and also itself making "strategic investments" in mines.

It would also root out "racist labour practices" and substantially improve miners' living and work conditions and would consider creating an inspectorate to police mining health and safety, mining legislation, transfer pricing and high grading.

"The ANC is concerned that the current conglomerate control of mining finance is an impediment to an alternative strategy for the sector.

"So, too, is the current trend towards privatisation and deregulation which amount to abdicating the State's responsibility for ensuring that the mineral wealth, which is the heritage of all South Africans, benefits the nation as a whole.

"A new government would need to explore various options in respect of ownership patterns in the mining industry and, in view of the sector's strategic importance for the achievement of national development objectives, consideration would have to be given the nature and extent of state intervention and ownership."

"Given the volatile nature of mineral prices, a policy of stabilising prices through the formation of a State Minerals Marketing Authority would also need to be investigated.

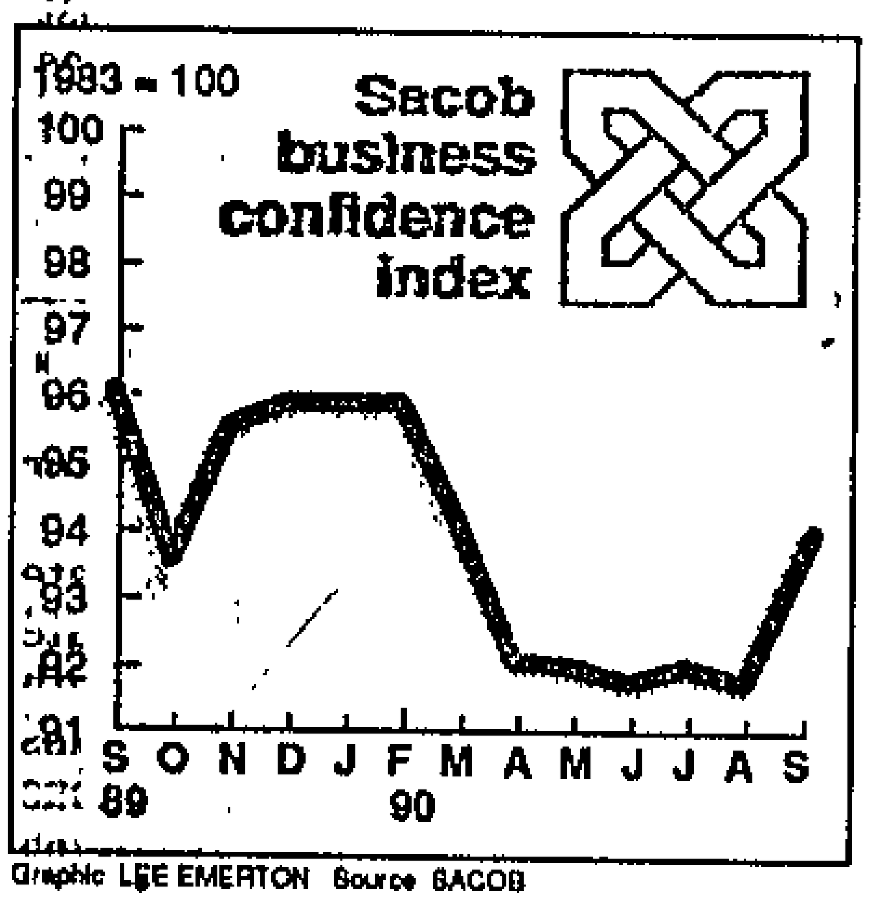
"Such an agency would control all minerals marketing and enter into marketing agreements with other countries."

FW's US visit buoys up confidence

Star 9/10/90

SYLVIA DU PLESSIS

THE recent meeting between President F W de Klerk and US President George Bush helped buoy up business sentiment in September, but a lack of clarity over future economic policies would continue to limit foreign and local investment in SA. (49)



Graphic LEE EMERTON Source SACOB

This was the warning from SA Chamber of Business (Sacob) chief economist Ben van Rensburg, who told a media conference yesterday that the ANC's new economic policy document offered little assurance to potential investors.

Van Rensburg, commenting on the chamber's latest business and industrial confidence indices, said a policy which sought to tax businesses more than at present would do little to attract investors.

In addition, it was unlikely to lead to the growing economy required if poverty and unequal wealth distribution were to be effectively addressed.

Sacob's business confidence index (BCI) — measured against the movements of 16 economic indicators — firmed 2,4 points to 94,2 last month in the face of further evidence of an economic downswing.

The rise was due in part to perceptions that township violence had been brought under control; the uneven impact of present economic conditions; and "technical adjustments" in certain raw data inputs to the index.

Sacob's manufacturing activity index, which measures the volume of new orders placed with manufacturers compared with the previous month, fell to a level of 86 in September from a revised 98 in August.

Sacob economist Keith Lockwood said it remained clear recent developments in SA and abroad had done little to reduce pessimism among manufacturers in the short term; sales and production expectations continued providing further evidence of a deepening recession.

ANC not out to destroy economy, says Mandela

BDay 9/10/90

(49)

THEO RAWANA

ANC deputy president Nelson Mandela has urged business to help counter allegations that the ANC is out to destroy the SA economy, and has appealed for the private sector's input on the organisation's recently released economic policy document.

Addressing a farewell dinner in Johannesburg at the weekend for 64 black businessmen going on a study tour of the US, Mandela said: "The ANC is dedicated to the fullest development of our country's economy.

"The ANC, hence, will do nothing whatsoever to prevent the new democratic SA emerging with the fullest development of commerce and industry.

"We stand for greater generation of wealth and we want to ensure that that wealth is shared for the benefit of all the people of SA, regardless of race and sex. That is what non-racial, non-sexist democracy is all about."

The business community, therefore, had nothing to fear from the ANC's role now or in the future.

"We seek your assistance to end in SA and abroad the type of false propaganda that is being dished out that the ANC is out to destroy the economy of our country.

"I plead with all our business personalities to pay very careful attention to the discussion document just released by us on the economic policy of our organisation. We want your input on this document so that before it reaches its final stage we would have had the benefit of your expertise," Mandela said.

MOTSUENYANE ... 'a challenge'

The document made it clear that the ANC was honestly engaged in finding a way to end the imbalances resulting from the policies of race discrimination that had existed in SA, he said.

Nafcoc president Sam Motsuenyane told the gathering SA should try to produce a new breed of black entrepreneur as soon as possible "even before the demise of apartheid which hopefully will come sooner rather than later.

"This is the crucial challenge we face and must grapple with if our country and all of its people are to be placed in a position to advance and prosper economically".

Motsuenyane said South Africans must copy all that is good, as the Japanese did from other nations which were more developed than themselves.

"There is indeed much that black entrepreneurs could learn from their counterparts in America and other parts of the world."

The key problem areas where SA blacks needed to look for new and workable ideas were: Raising venture capital for black enterprises; partnerships between large and small businesses; joint ventures with American entrepreneurs; new manufacturing and franchising opportunities; opportunities for training and skills acquisition for SA black entrepreneurs; and networking with black business organisations in order to establish proper business contacts for the future.

Business input vital — Mandela

CAPE TIMES 9/10/90 (49)

Own Correspondent

JOHANNESBURG. — Mr Nelson Mandela has urged business to help counter allegations that the ANC was out to destroy the South African economy and has appealed for the private sector's input on the organisation's recently-released economic policy document.

Addressing a farewell dinner here at the weekend for 64 black businessmen going on a study tour of the US, Mr Mandela said the business community had nothing to fear from the ANC's role.

"The ANC is dedicated to the fullest development of our country's economy."

He said the ANC wanted input from business personalities on the discussion document regarding his organisation's economic policy. "We want your input so that before it reaches its final stage we would have had the benefit of your expertise."

Nafcoc president Mr Sam Motsuenyane said South Africa should try to produce a new breed of black entrepreneur as soon as possible.

Steps taken by FW de Klerk were seen as fundamental by Eskom.

Create wealth through business, says Eskom official

49 Sowetan 11/10/90

COUNTRIES achieve greatness through the wealth-creating ability of their business leadership, Eskom chairman Dr John Maree said.

Addressing a meeting of the Swiss-South Africa Association in Switzerland on Monday, Maree said South Africa needed a new attitude to work, business and a better understanding of what made nations great.

"What we need desperately is a new work ethic, an attitude that acknowledges efficient and hard work as the right thing," he said.

He cited Switzerland as an example of a country with few resources other than those of its business leadership.

Success

"Successful organisations have certain attributes that put them on the road to success.

"First, top companies the world over formulate a very clear vision of where they want to go.

"They articulate what they are trying to achieve and then pursue that goal relentlessly," Maree said.

"They then seek to establish common goals and values which all in the company believe in and use this sharing as a platform from which to motivate all their people to work to the highest standards of excellence."

He said this approach was applied to Eskom when he became chairman in 1985 and spent two months asking the utility's employees throughout South Afrca what they felt was wrong with the organisation and what needed to be done.

This resulted in a far tighter operation, a more efficient Eskom that saved R5 billion on the budgeted expenditure in the past five years, he added.

Turning to broader economic and political issues in South Africa, Maree said world leaders were beginning to recognise the irreversibility of South Africa's commitment to fundamental change.

He said he believed the steps taken by President FW de Klerk were a fundamental and considered response to the new challenges Southern Africa faced.

New hope

African leaders were becoming emphatic in their belief that South Africa, because of its sophisticated infrastructure and developed business sector, presented Africa with a new hope, Maree said.

"It is critical that blacks and other world leaders understand that we have the most sophisticated and vital economy on the continent, in fact a fly-wheel for the whole of Southern Africa," he said.

Given this role for South Africa, Eskom believed it was possible to link the whole Southern Africa in one vast network, a regional power grid that could serve the subcontinent as far north as Zaire, he added.

"This network can supply the energy needed for economic growth, job and wealth creation in the whole of Southern Africa.

"It can be a catalyst for prosperity in the region," said Maree. - *Sapa*

Business cycle upswing to occur in 1992 (49) Kantor

NEIL YORKE SMITH

THE next upswing in the business cycle should occur in 1992, UCT school of business economics director Brian Kantor says. B/Day 12/10/90

"Without some dramatic early recovery in the gold price, or a political settlement to the liking of domestic and foreign capital ... the next business cycle upswing will take place in 1992," Kantor says in an article for the latest Board of Executors quarterly newsletter.

The upswing will only occur after the trade balance has been strengthened and short term interest rates follow the inflation rate downwards, he adds.

He stresses the economic challenges facing a new SA will be to maintain the downward direction of inflation and permanently raise the sustainable rates of economic growth. To achieve this, SA requires substantial foreign investment.

But the process of political reform in SA cannot be expected to promote an early resumption of significant capital inflows to SA, he adds. Maintaining low inflation will require tight control of money supply through the next upswing phase of the business cycle.

Despite conservative fiscal policies the previous authorities have consistently failed to control money supply, Kantor says. The new SA needs tougher central bankers with better technical control over banks and monetary markets.

The Reserve Bank has stressed its determination to reduce inflation, and the primary instruments it is using are interest and exchange rate controls.

Interest rates will take their cue from money supply growth and the Reserve Bank is unlikely to be hurried into early interest rate relief, he says.

The bank will rather err on the side of fighting inflation than lower rates too soon, Kantor suggests.

State 'should control the m-

W/Mail 12/10 - 18/10/90

Who should own what lies beneath South Africa's soil? The ANC's economic policy document hints at an alternative to nationalising the mines — owning the raw materials. **REG RUMNEY** *reports* 49

IF the mines themselves aren't nationalised, the State should at least own the minerals which form the mining industry's raw materials.

That is the implication of the recent African National Congress discussion document on economic policy.

The ANC has not abandoned the option of nationalisation of mines, as can be seen by the following, carefully phrased statement: "A new government would need to explore various options in respect of ownership patterns in the mining industry and, in view of the sector's strategic importance for the achievement of national development objectives, consideration would have to be given to the nature and extent of State intervention and ownership."

Though it is understood the drafting of the document involved National Union of Mineworkers (NUM) and Congress of SA Trade Unions (Cosatu) representatives, the ANC's document takes a softer line than NUM.

NUM, according to the union's economic adviser Martin Nicol, is still strongly in favour of nationalising the mines.

The document also expresses concern over the "current conglomerate control of mining finance" and "the current trend towards privatisation and deregulation, which amount to abdicating the State's responsibility for ensuring that the mineral wealth, which is the heritage of all South Africans, benefits the nation as a whole"

Both, the document reckons, are an impediment to an alternative strategy for the mining industry. So the ANC would renationalise mineral rights

In theory, all mineral rights now belong to the State and are leased by exploration companies and mining houses. The draft Minerals Bill now before parliament proposes to transfer all mineral rights to private ownership.

The Bank of Lisbon's *Economic Focus*, written by an anonymous economic consultant, discusses the matter extensively. The author notes a National Minerals Corporation, was proposed some years ago, by Kruger and De Wit in an *International Affairs Bulletin*.

Kruger and De Wit proposed that all mineral rights be vested in this corporation. Some South African groups have been accused of at times retaining mineral rights for decades without undertaking meaningful prospecting.

State ownership of mineral rights would arguably not entirely solve these problems, according to *Economic Focus*.

But it would transfer ownership of mineral wealth to the people, without nationalising the mines themselves.

Previous mineral rights holders would receive shares in exchange for their rights, though the corporation would buy mineral rights from mines

"They would own shares," says *Economic Focus*, "in the National Minerals Corporation for prospecting and mining licences.

"Prospecting licences issues to mining companies on an annual basis by the National Minerals Corporation could follow the consolidation of mineral rights, and could be based on geologically defined parameters and not inefficient farm boundaries. Once a viable deposit is discovered security of tenure could be conferred on the discoverer, who could then mine or trade the deposit."

Clearly coming from a free-market position, *Economic Focus* proffers some strongly worded arguments against a State Minerals Corporation.

It believes, among other things, there would be problems in accurately ascertaining the value of mineral rights acquired from private owners, that it cuts across South African common law on land ownership, and that mining companies would be expected to explore mining prospects with no guarantee that they could negotiate successful agreements on mineral rights to begin mining, that granting of mineral rights could quickly reflect considerations of patronage.

These and other knotty points need to be weighed carefully by any future government, and underline the complexity of the matter. The ANC will probably want to study the details of the minerals policies of other countries to test these and other arguments.

One argument adduced by *Economic Focus* is crucial because it touches on another aspect of economic policy sketched in the discussion document. Nationalisation of mineral rights in South Africa, it says, might unduly emphasise commodity production in a era where other developing countries are likely to step up production of primary commodities.

The emphasis, it adds, should be on minerals "beneficiation" projects — projects which turn minerals into products which can be sold at far higher prices than the raw commodity, for example, gold jewellery rather than gold bullion.

The ANC's economic policy document makes it clear "adding value" to our raw materials is an area it considers of paramount importance. Hence it will have to take into account the effect of its minerals policy on the chain of production.

In sum, it can be seen that forging a new minerals wealth policy won't be easy. What to do about minerals provides a good example of the difficulties any new government will encounter in trying not to throw out the baby with the bathwater.

... in many communities.

Charlene Smith

IDEOLOGY FM 12/10/90

FORKED TONGUE

49

Nationalisation and sanctions are still firmly on the agenda of the ANC. That's according to a speech by Nelson Mandela, deputy president of the ANC, at a farewell dinner for 64 black businessmen who left on an observation mission to the US on Monday. The speech appeared to produce several puzzling contradictions.

The recently released ANC economic policy "working document" — which Mandela urged businessmen to comment on — takes a far softer line, suggesting there will be no new nationalisation. However, Mandela's latest speech, while not directly calling for nationalisation, gave a lengthy justification of such a policy.

Saying that State intervention had long been a part of the economic life of SA, he said that Afrikaner nationalism had called for greater and greater nationalisation in many fields. "Many proponents of free enterprise now were themselves calling for the nationalisation of gold mines."

EXPENDITURE FM 12/10/90 (49)

OPPORTUNITIES LOST

Today's investment in capital stock is tomorrow's growth potential. So the low capital investment in the Eighties will have repercussions throughout the Nineties. When we emerge from recession, with sanctions pre-

FM 12/10/90 (49)

sumably on their way out, real growth will be constrained by low productive capacity.

In constant 1985 prices, capital stock in 1989 stood at R395,2bn, little more than 15% higher than in 1982. And investments made in 1989 were worth only 19,5% of GDP, compared with a high of 28% in 1982.

After a brief recovery in 1988-1989, gross domestic fixed investment is again declining. Second-quarter, private-sector capital formation fell an annualised 5%, after declines in the three preceding quarters.

The rate of decline is not as severe as in the previous recession — in the five quarters to June, it declined 1,5% — but even this isn't good news.

As the latest *Reserve Bank Quarterly Bulletin* explains, it is "partly a reflection of the modest heights to which such expenditure rose in the preceding upswing, under the impact of non-cyclical influences." And the fact it happened at all was largely because of "unpostponable spending" on replacement maintenance and repair.

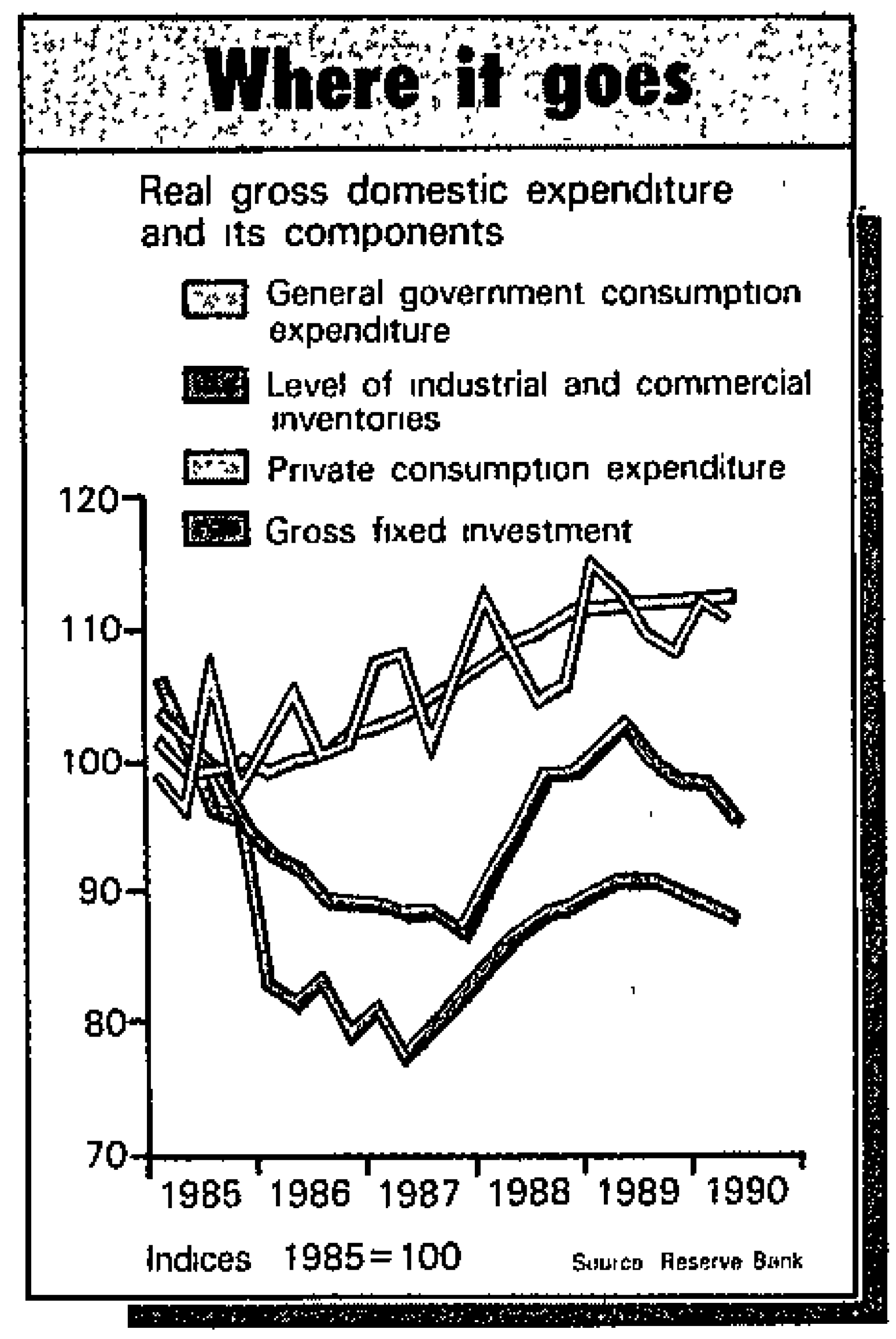
Old Mutual chief economist Dave Mohr points out that the sector most hit was manufacturing — "which is supposed to lead us on the growth path." Much expenditure in this sector was on maintenance and replacement. So capital stock, after rising in constant prices from R45,5bn in 1982 to R48,6bn in 1985, shrank to R44,9bn in 1989.

Growth in 1988 and 1989 was largely due to investment activity in the uncompleted Mossgas operations.

The average age of equipment in private manufacturing has risen by nearly 30% since 1984 — a development which will seriously inhibit the country's ability to compete internationally.

"This reduction in stock is a symptom of what has been happening in the economy. We have had to keep a surplus on current account to fund repayments of foreign debt. As long as this constraint remains, the investment which manufacture now requires will not be possible."

Mining has fared better, with an increase in capital stock of nearly 49% between 1982-1989 — largely due to investments in plati-



num. Unfortunately, oversupply is looming — with SA, which produces more than 90% of the West's platinum, increasing production by 8% a year for the next five years. So benefits of this capex will be eroded by falling international prices.

The fall in capital investment must be seen in the context of GDE, which staged a minor recovery — growth of 3% — in the second quarter, partly because of a "mild upward trend in total real private consumption expenditure in the current downswing to date."

That both consumption and capital spending are becoming relatively unresponsive to economic cycles indicates structural change in the economy. Consumption spending is fuelled by rising nominal income and inflationary expectations, while capital spending is limited by balance of payments considerations and lack of confidence in the future.

Monetary policy may, if with difficulty, reduce inflationary expectations. But in the present uncertainty there is little to generate capital investment. ■

ECONOMIC POLICY FM 12/10/90 (49)

WHO'S MAKING CONCESSIONS?

Radical economists claim that they're the ones who've lately moved most in the debate over the shape of a post-apartheid economy. That would be nice if it were true; but is it?

True, ANC spokesmen now claim to appreciate the importance of economic growth, the market mechanism and the role of entrepreneurship; but when attempts are made to pin them down on precisely where the boundary between the public and private sectors should lie, they retreat into a studied vagueness and generalisations like "every case must be considered on its merits."

This was the response time and again in a disappointingly lightweight TV discussion on Sunday night, notable mainly for the lack of any economic rigour from either the two University of Western Cape academics who, despite their protestations of not speaking for the ANC, could only parrot the party line, or from the two inept free-enterprise advocates, who let them get away with it.

Fact is, as Raymond Parsons points out (see *Economy*), the latest ANC economic document is as collectivist in sentiment as ever.

What, regrettably, has clearly and unambiguously moved is the commitment to private enterprise on the part of government. There are two main elements of the return to its traditional *dirigisme* by the NP and its bureaucrats:

- The downgrading, if not abandonment, of privatisation; and
- Signs of a revival in the belief that some sort of central plan or guidance can enhance economic growth prospects.

The latest statement regarding the future of Eskom encapsulates both these pathetically outworn fallacies. Eskom, we are told, cannot be privatised because it must become more consumer-orientated and keep tariff increases below the rate of inflation to stimulate economic activity.

Every single one of those assertions is faulty. The mind can only boggle at a mentality that imagines that a publicly owned utility — which, experience around the world has shown, is accountable to nothing except its own appetite for growth — can be more consumer-orientated than a privately owned one.

But it is on the question of tariff control that serious objections arise. For decades our coal mining industry was strangled by price control so that Eskom could produce cheap electricity. The result? Costly delays in developing coal exports and encouragement to Eskom to embark on massive over-investment in unneeded capacity — from which it is still suffering.

To use past mistakes as an excuse for not privatising now is, in any event, fatuous.

Then, what is one to say of a "cheap power" policy? Of course, cheap power is an economic stimulant; *if* it is genuinely cheap. As the best way of bringing down Eskom's costs would be to submit it to market discipline, the only thing the authorities can have in mind is some sort of subsidy; robbing Peter to pay Paul. How are such transfer subsidies to be reconciled with the avowed policy of reducing tax rates on both companies and individuals?

UK experience in utilities like Telecom and the water companies has shown that the best way to keep down prices is a statutory ceiling (below the inflation rate) on tariff increases, coupled with the introduction of the profit motive.

Power that is cheap because of either transfer subsidies or (the other possibility) the deferral of necessary tariff increases will lead only to further distortions in the economy. The authorities appear to have accepted at last (years too late, at the cost of billions of rands of misapplied investment) that keeping the cost of money below the market clearing rate leads to malinvestment. Is it so difficult to see that artificially cheap power will have exactly the same result?

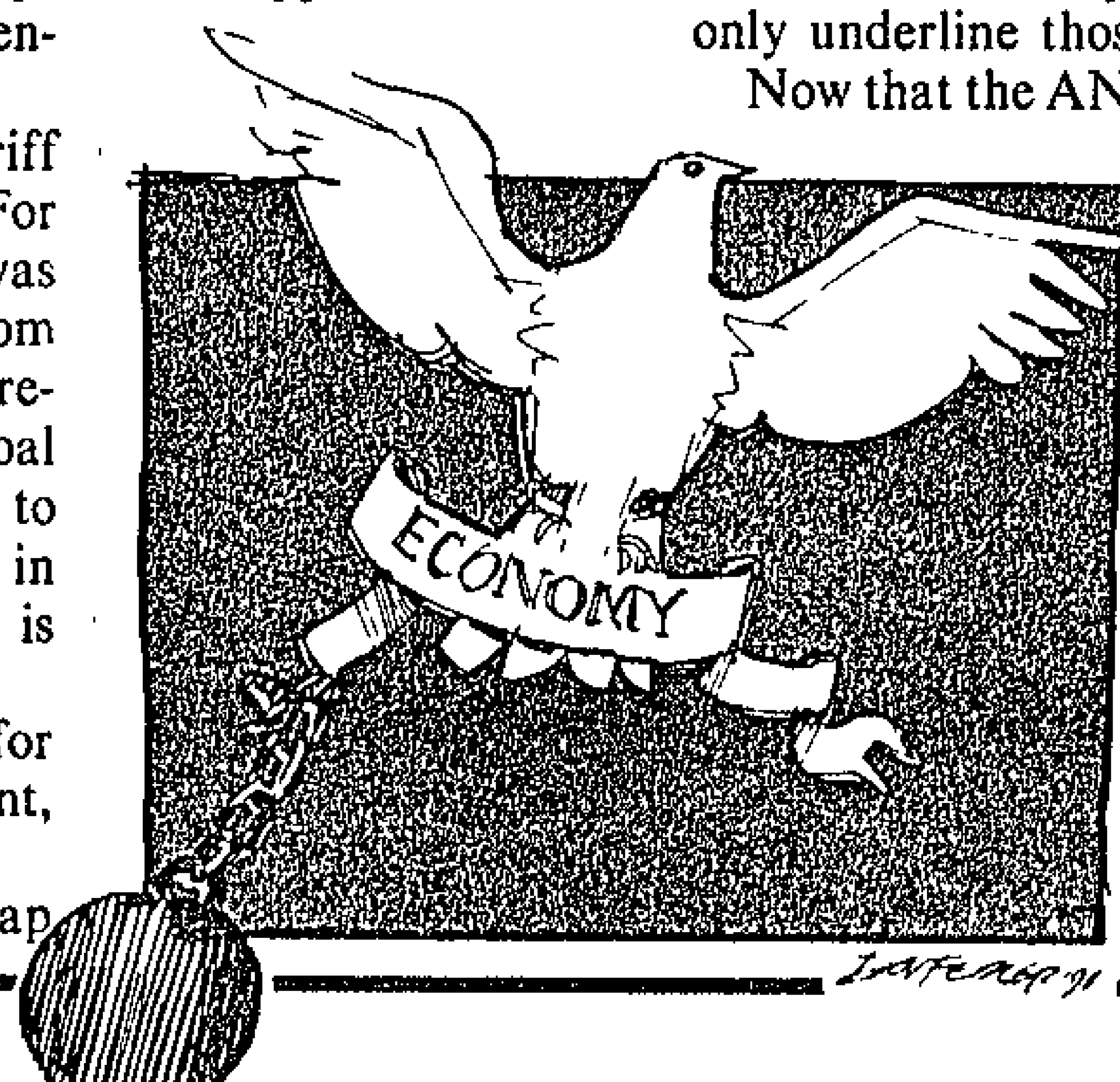
What is worse, the whole episode seems to be part of a new confidence by government that it can outguess the market. The *FM* had high hopes for Wim de Villiers' assignment to restructure the economy. It is disturbing that, more and more, the signs are that it will be the excuse for a new strategic plan — a plan, moreover, which may never be fully revealed, but allowed to dribble out piecemeal.

Enough criticism has been levelled at the Left for espousing policies that have been discredited in the rest of the world; the ultimate tragedy would be if government, too, backtracks.

Let it be said loud and clear that political negotiations are no reason for not proceeding with economic reform as fast as possible. Indeed, if the ANC's rethinking is to be taken at face value, even it could hardly object. The *FM* has in the past expressed doubts at the depth of government's commitment to free enterprise and privatisation; recent events can only underline those fears.

Now that the ANC accepts that growth is a prerequisite of a more equitable distribution of wealth and income, let's press ahead with the only measures that can free up the economy to generate that growth.

One final thought: even if the NP can be trusted with political reform — and that's still an open question — can it be given a blank cheque on the economy? Are those who say the DP no longer has a political role happy with the free-market credentials of the NP, or are they tacitly conceding their own preference for some undefinable, anti-free enterprise social democracy?



Plan to cut inflation, boost exports

BDay 1/10/90

Economic overhaul gets final touches

(49)

MIKE ROBERTSON

SENIOR Cabinet Ministers are set to meet today to put the finishing touches to government's economic restructuring plan which aims to reduce inflation to single digits while boosting SA's export competitiveness.

At a series of meetings between government and Eskom and Transnet it was agreed that electricity and rail cargo tariff increases would be restricted to well below the inflation rate for the next few years.

It is understood electricity tariff hikes could initially be kept as much as eight percentage points below the inflation rate.

Government spending is to be further reduced and all departments have been instructed to cut their budgets by a minimum of 5% for the next financial year.

The recently announced defence cuts, approved by Cabinet two weeks ago, are in line with this instruction. Decentralisation incentives and development aid funding will also be cut once former Auditor-General Joop de Loor completes his investigation into this matter.

President F W de Klerk was expected to announce the restructuring programme in a policy speech last month. This was delayed to allow the impact of the Gulf crisis on oil prices to be taken into account.

Administration and Economic Co-ordination Minister Wim de Villiers, Trade and Industry Minister Kent Durr and Mineral and Energy Affairs Minister Dawie de Villiers are due to meet today to finalise their contribution to the speech.

First details of the plan emerged at the end of August when Wim de Villiers told an agricultural summit that government had investigated:

- Policies to be followed by Eskom and Transnet to combat inflation.
- The effect of import parity pricing on the international competitiveness of SA products.
- Monetary and fiscal measures to counter inflation.
- The removal of tax measures which distorted price and production structures.

Speaking at the Natal NP congress, Finance Minister Barend du Plessis said that if government succeeded in restricting electricity and transport tariff increases, SA would be in a position to "export as never before".

In a recent speech at the opening of a polypropelene factory at Secunda, Durr said government would consult the business and industrial community on a sectoral basis before announcing any change to traditional protection policy.

Government, he said, was acutely aware of the need to reduce uncertainty to an absolute minimum. At the same time it was determined to give the economy an export orientation.

Durr has an IDC report on protection policy, and said in an interview at the weekend that it was receiving attention

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□ From Page 1

from Trade and Finance department officials.

With about 14 000 items on the tariff book, Durr said while government was clear in its objective of removing measures that made it impossible to export, it would take time to move from "a less virtuous system to one that is more virtuous. We are not going to rush about like a bull in a china shop".

Customs tariffs could not be seen in isolation from other important matters such as inflation, tax policy, surcharges and exchange and interest rates.

However, where there were inappropriate tariff distortions and abuse of tariffs, government would act.

Durr said a report on protection policy in the paper industry had already been concluded and an announcement was imminent. An investigation into the chemical industry was still in progress.

The economic restructuring package is also expected to contain measures aimed at improving productivity.

It is understood that these could include offering lower electricity and transport rates to companies which worked second or even third shifts.

In his speech at the agricultural summit, De Villiers said an important part of the reconstruction package would be an attempt to reform the savings structure, particularly the pattern of private saving.

Measures to encourage a shift from personal contractual saving to discretionary saving are said to be included in the plan.

Star. 1/10/90 (49) (58) (284)

Economist doubts SA will get windfall

Finance Staff

The 10-year high in the oil price is unlikely to generate the sort of gold price windfall the South African economy enjoyed in the early 1970s and 1980s, Metropolitan Life economist Dr Chris Visser says.

He cautions that there are now far more and better alternatives for international investors to safeguard their interests than gold.

Real interest rates remain high and worldwide inflation is not as serious as it was with previous oil price shocks. The fundamentals do not indicate, therefore, that there will be a material and sustained improvement in the gold price.

He suggests any short-term benefits will be offset by a much higher oil import bill. This will probably be made worse by a slowing in demand for basic raw materials, such as coal and iron ore, provided by this country as the world economy generally slides into recession.

The consequence is that it is inevitable that pressure will be exerted on South Africa's balance of payments, and on its foreign exchange reserves.

"The strategic steps taken years ago to develop alternative fuel sources, such as the Sasols, and to stockpile large quantities of crude, can now be seen to provide a valuable cushion for South Africa to better weather the immediate effects of the much higher energy costs than many other oil importers.

"Likewise, the decision to continue with the very expensive Mosgas project does seem to make better sense now, and could prove to be a wise one in retrospect.

"It is unlikely that another large petrol price increase can be avoided, although it seems that we may now be able to delay such further price shocks now, at a time when the country can least afford them.

"The economy is already in a more severe contraction phase than initially anticipated.

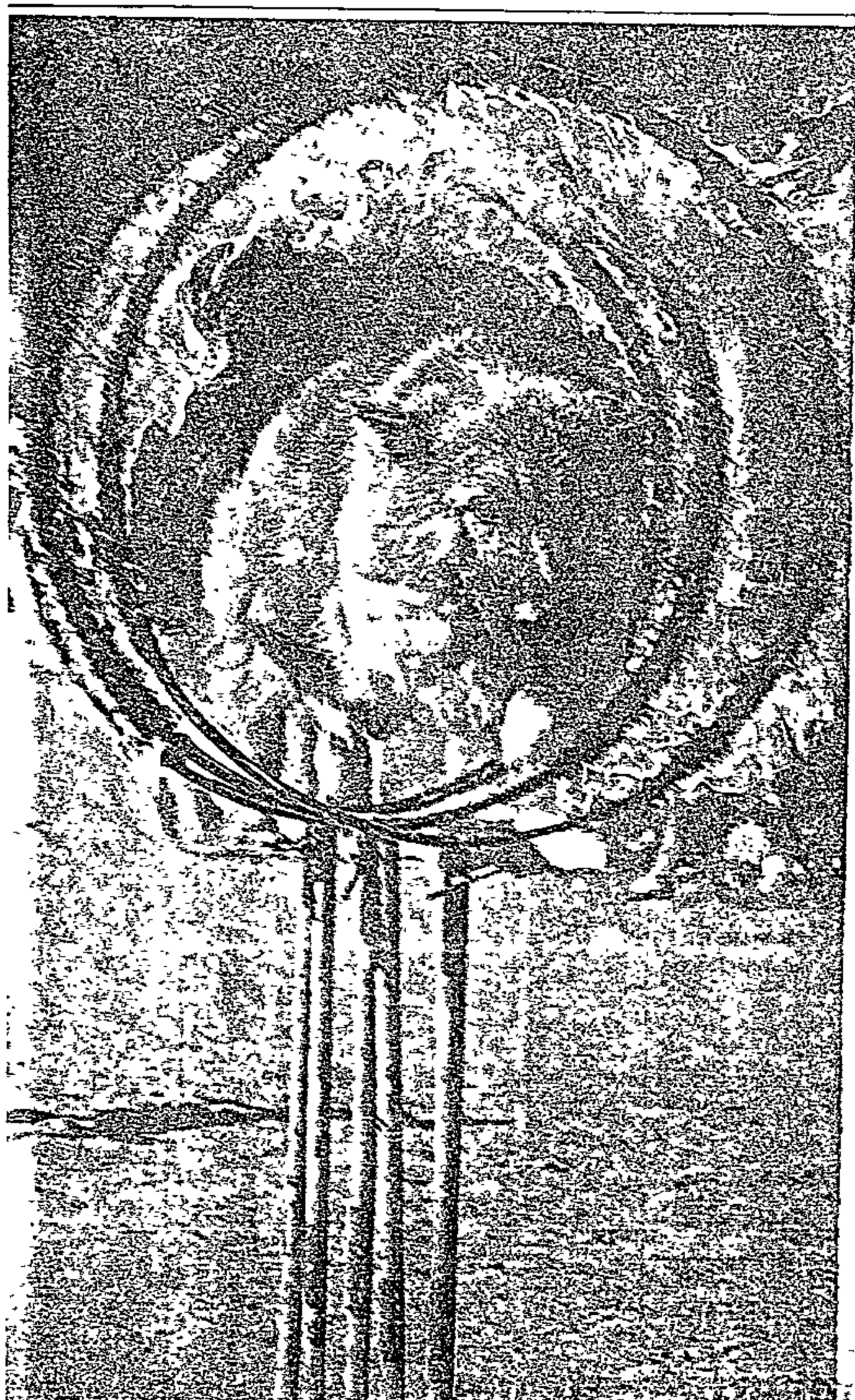
"The August inflation rate confirms the view that keeping interest rates high at this stage is no longer contributing to the fight against raising costs. Some relaxation would therefore seem to be appropriate.

"Fighting inflation by maintaining high interest rates, stimulating the economy by fiscal overspending, and at the same time introducing a fuel price increase cannot be regarded as a coordinated policy mix in the fight against inflation, and at the same time address the need for real domestic growth."

December congress to debate latest shift in thinking on economic policy

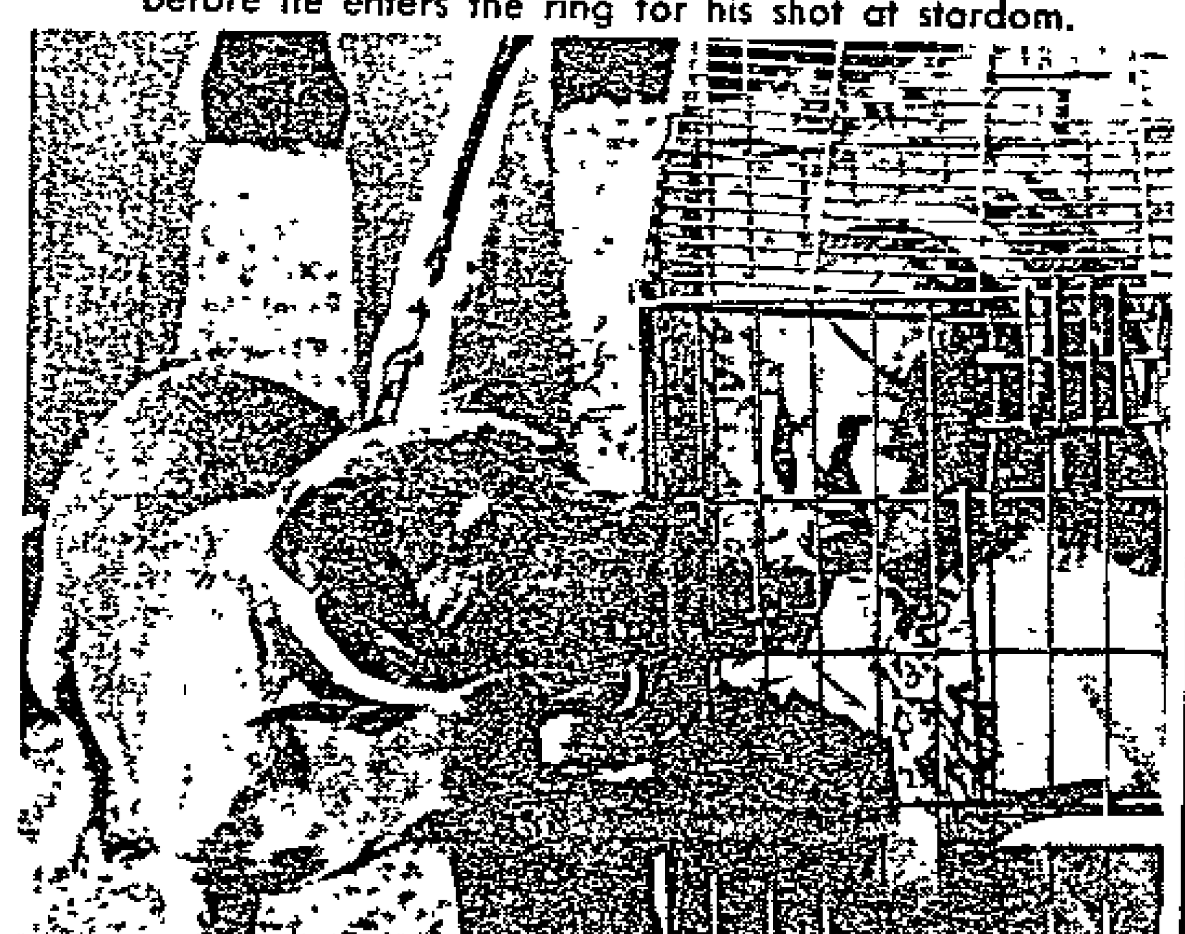
Nationalisation: ANC softens line

A641 2/10/90



EAPING FLAMES: Shep of Houwteq dog unit jumps through a hoop of flames at the Cape Town Kennel Club championships in Stellenbosch at the weekend.

POODLECARE: Poodle Quatreau's tail is given a last brush before he enters the ring for his shot at stardom.



TRADING PLACES: "Now you know what it feels like to be cooped up in a cage all day," is what Staffordshire terrier Triple Trouble is probably thinking as Carike Visagie, 10, tries out his temporary accommodation for size.

By MICHAEL MORRIS
Political Correspondent
Political Staff
and The Argus Foreign Service

AFRICAN National Congress economic policy is showing signs of becoming more flexible, with less emphasis on nationalisation as a means of redistributing wealth.

A new draft policy statement indicating a shift in thinking on nationalisation suggests that only public utilities which have been privatised "will be subject to immediate renationalisation".

The movement's previous economic paper said nationalisation would be an essential part of the reconstruction programme.

The draft policy has been circulated to branches for discussion and will form the basis of one of the most important debates at the ANC's national congress in December.

An ANC source said today: "There is a shift in people's thinking on nationalisation. I think there is more emphasis on productivity, and an acknowledgement that just by nationalising industries you are not solving the problem of maintaining productivity."

He said some constituencies in the movement, such as the miners, still backed nationalisation strongly.

Violence factor

Another indication of the ANC's new thinking on economic matters emerged at the World Economic Forum conference on Southern Africa in Geneva yesterday, when the movement's foreign affairs spokesman, Mr Thabo Mbeki, said the ANC was leaving its options open on nationalisation.

Mr Mbeki who, with Finance Minister Mr Barend du Plessis, addressed the conference yesterday, said the ANC was not going into negotiations with specific demands on the economy and expected the government to do the same.

Mr Mbeki also acknowledged that the violence in South Africa had become the major factor inhibiting future investment.

Mr Mbeki said that when the peace process was irreversible and businessmen had to make a decision on investing, they wanted to be sure the country [illegible]

Meanwhile in Pretoria — where President F W de Klerk has another meeting today with leaders of the self-governing territories — the government is still considering the ANC's request for a summit.

The ANC has objected to the government responding to the organisation's request for a summit "through the press" and has taken issue with bureaucracy surrounding the return of exiles.

The ANC this week asked for an urgent summit with the government to discuss a number of issues, notably the status of talks.

Government sources are reported to have expressed doubts about a full-scale summit this week to fit in with ANC deputy president Nelson Mandela's travel plans.

Exiles' return

On the return of exiles, ANC spokesman Miss Gill Marcus said the ANC took exception to the government's plans to make exiles fill in questionnaires disclosing any possible offences they had committed before they were allowed into the country.

● ANC spokesman Mr Abba Omar said yesterday that KwaZulu Chief Minister Chief Mangosuthu Buthelezi was "more than welcome" to attend Friday's meeting between homeland leaders and the ANC in his capacity as leader of the Inkatha Freedom Party.

● Dr Lawrence Schlemmer of Wits University said yesterday that one party domination in South Africa was unlikely since the ANC could battle to draw more than 50 percent support at the polls and opposition parties were unlikely to obtain less than one third.

He told a World Economic Forum conference in Geneva on "The New Southern Africa: Prospects for Growth" that South Africa had many elements to ensure democratic pluralism in a post-apartheid society.

But the country was not free of some depressing impediments to multi-party democracy.

Mr Nicholas Oppenheimer, deputy chairman of Anglo Aemrican and De Beers, said after the conference that he felt the latest ANC policy document was part of the process of feeling its way towards the policy it would put forward as [illegible]

SA economy tied in 'tug of war'

49

GRETA STEYN

SA IS locked in a cycle of mild upswings and downswings, with the same forces working to keep the economy from sinking into deep recession or reaching high rates of real growth.

The Reserve Bank, in its latest Quarterly Bulletin, notes the "comparatively benign" nature of the slowdown and says certain structural elements explain the "relative firmness" of the economy in the current downswing.

"These or related structural elements may also act as impediments to longer term economic growth and development."

One factor keeping the economy from sinking deeper into recession was the firmness of private consumption spending.

In real terms, the private sector's spending on consumer goods rose by 0,5% (seasonally adjusted and annualised) in the second quarter. This spending had yet to register a decline in the recession.

"In the longer run, the SA society's rising propensity to consume is an impediment to growth and development."

The fall in spending on fixed investment, and consumer spending on durables, had also been limited in the downswing, keeping the overall level of economic activity from sinking fast.

Fixed investment had not fallen faster because of spending for replacement purposes, maintenance and repair. The level of spending during the upswing had not been high.

In addition to these factors, there was a "core" element in inflation arising from the self-perpetuating interaction of inflation expectations, upward wage and price changes, and the rising real effective cost of labour "in the present, unusually turbulent, labour conditions".

While registered unemployment had not risen to any great degree during the slowdown, it had also not declined much during the last upswing. Factors in keeping structural unemployment high included the lack of new investment, the labour-replacing nature of capital investment in SA, and the high effective cost of labour.

Bus Day 27/10/90

Prepare for socialism, says Wessels

b/Day 2/10/90

GERALD REILLY

(49)

PRETORIA — Business had to prepare itself for a new form of socialism in the decade ahead, as well as a significant expansion of the black market, Toyota CE Albert Wessels said yesterday.

Speaking at a Management Challenges for Southern Africa conference at Pretoria University, Wessels said the white market could not be expected to grow much in the period.

The black population would reach 45-million at the end of the decade. But while 90% of blacks were need-driven now, this would drop to 85% by the turn of the century.

Wessels said he did not believe socialistic activities would become a major part of the motor industry's activities.

The powers that be would be well advised to leave the execution of this form of socialism to industries already seriously concerned about the welfare of their companies.

"Cars and government-controlled socialism just do not mix well anywhere in the world."

Toyota did not find the concept of socialism strange or disturbing, Wessels said.

The SA goverment's share in the GDP was the highest in the world — very much more than in "respectable" socialist countries.

He stressed that niche marketing or unique product positioning could become more relevant in a changing market "for which we have plans — and you must agree than we got it right with the minibus in the past".

Rembrandt Group chairman Anton Rupert said it was disturbing that the non-primary sectors of the economy (excluding agriculture and mining) showed an increase of only 535 000 jobs between 1976 and 1989.

However the shock effect of this in an economy, which had to provide for 300 000 additional workers a year, was fortunately relieved by organistions such as the Small Business Development Corporation.

DP budget 'is pie in the sky'

Star 3/10/90 (49)

PETER FABRICIUS, Political Correspondent, sounded out opinion on the Democratic Party's "illustrative budget" devised to provide for the country's welfare needs from a free market base.

The Democratic Party's recently published "illustrative budget" — designed to show that a DP government could solve SA's basic welfare problems within a free market system by 1995/6 without resorting to nationalisation or major redistribution — has been criticised as minimalist, naïve, pie in the sky.

In its first public reaction, the ANC praised aspects of the budget as positive, but said it was "minimalist welfare" because it limited new welfare spending to money that could be raised through economic growth, through saving on apartheid "quadruplication" or through new sources of revenue such as VAT on basic foods and a state lottery.

University of the Witwatersrand fiscal policy economist David Solomon was harsher, describing the budget as "naïve, pie in the sky".

Both the ANC and Mr Solomon, a senior lecturer in the Wits business economic department, questioned the most important assumption on which the budget is based — that the economy would be growing by five percent a year by 1995/6, giving a total growth of 22,8 percent by that year over the 1990/1 figure.

Mr Solomon said these estimates were "very naïve" while the ANC said the budget begged the question of where the bulk of the extra welfare money would come from if the economy did not grow at the expected rate.

The "illustrative budget" was drawn up by the DP to show that its recently unveiled "social market" economic policy — based on the West German model — was "not merely an academic exercise but is realistic and capable of meaningfully addressing the problems confronting the country".

The budget estimates an additional R22,4 billion can be found for welfare spending by 1995/6 — R11,2 billion of it from accelerated growth in the economy reaching five percent a year by 1995/6; R3,4 billion from slashing the defence budget by one third; R2 billion from cutting quadruplication in apartheid spending; R1,9 billion by cutting State debt spending through better budgeting and lower interest and inflation rates; R3,1 billion by imposing Value Added Tax to presently-exempt basic foods and channelling this into feeding schemes; and R800 million from a State lottery.

The extra R22,4 billion would be spent on feeding schemes, (R2,36 billion) shelter, (R1 billion) literacy and education programmes, (R8,89 billion) doubling the police force (R2 billion), job creation, (R0,16 billion) eradicating the pension gap (R1,91 billion), and other priorities (R0,10 billion) — leaving a surplus of R1,08 billion to be used for occasional needs such as reducing tax rates or granting export incentives.

The DP estimates that as the injection of welfare spending boosts standards of living, the tax base will increase, the demand for many of the development programmes will diminish and the Government will be able to reduce the proportion of the GDP it takes.

Minimalist

The budget document claims: "Frequently one hears that if there were alternatives to nationalisation, the proponents would consider them. The DP offers such alternatives ..."

In its first public response to the budget, the ANC's Department of Economic Policy said its most positive feature was the recognition that poverty and the consequent social ills of malnutrition, illiteracy lack of shelter etc, demanded urgent fiscal attention.

"While the budget proposes greatly expanded spending on social welfare projects, it can be described as a minimalist welfare budget."

The ANC gives two reasons for calling the budget "minimalist":

- It restricts social welfare spending to such revenue as can be raised additionally from economic growth and new sources (such as VAT and a lottery) or saved by the abolition of apartheid.
- Half of the revenue for social welfare will only be realised if the economy grows at the envisaged rate. "This begs the questions of what is to happen if we were to grow at a lower rate or how are we going to try to ensure that these growth rates are achieved?"

But, it said, "it follows from the last point that this is not a growth budget. Not only does it not indicate specific additional fiscal measures to stimulate growth, but it essentially assumes that the envisaged social welfare expenditures will be purely consumptive in nature.

"The position of the ANC is that such expenditures also have social investment elements and that they can indeed add to the promotion of economic growth."

The ANC also criticises introducing VAT on basic food which it believes will increase the tax burden on the poor. "Social welfare expenditures must at least compensate for this." It adds: "Only additional social expenditures can really be regarded as improving the living standards of the poor.

"The budget largely leaves most of the existing expenditure intact. This needs to be reviewed. The existing tax structure is also left largely unchanged."

Mr Solomon said the estimates of future revenues were "very naïve". Expenditure commitments did not flow from population growth alone, as the DP assumed, but also from the level of economic activity.

The estimate of a five percent economic growth rate by 1995/6, creating an extra R11,2 billion for social spending, was "optimistic".

"Sources of savings are pure pie in the sky. It is unlikely that it will be politically possible to trim defence expenditure as radically as they propose."

Mr Solomon said lower inflation would not reduce State debt costs as the DP suppposed and could in fact increase them.

"Inflation is seen by many analysts as a ploy by government to reduce real debt obligations." And because of high overseas real interest rates and the very heavy demands for development spending, it was unlikely that real interest rates to the SA Government would decline in the medium term.

He agreed with the DP that about R2 billion could be saved by cutting wasteful apartheid quadruplication.

Food

He criticised the budget for tying spending on feeding schemes to the amount raised from VAT on food. The levels of VAT revenue had little to do with the need to alleviate malnutrition.

The State lottery was "pure showmanship ... chicken-feed. R800 million is not a lot of revenue and can be raised in any number of ways."

Mr Solomon said the budget gave no indication that the process of setting spending priorities would be any different under a DP gvernment.

The legislative asembly would presumably guess the "needs" of the people "in the familiar top-down process". Many surveys had shown that there could be surprises for government when communities were asked what they wanted money to be spent on.

The budget did not make it clear if the backlogs in welfare spending would be overcome and this seemed unlikely. "So where does the DP stand on redistribution of land and nationalisation?"

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Star 3/10/90 (49)

ANC, Govt pledge a secure economy

The Star's
Foreign News Service

GENEVA — The South African Government and the ANC have moved strongly to reassure potential foreign investors that they had little to fear.

Finance Minister Barend du Plessis emerged from the historic World Economic Forum meeting on Southern Africa to give a confident prediction that the peace process was on track and negotiations would start early next year:

"We will have hiccups, tension and growth pains but I believe we will be successful," he said.

ANC foreign affairs spokesman Thabo Mbeki gave a fresh indication — the strongest yet — that investments will not be hit by nationalisation.

At a press conference Mr du Plessis stressed that if the peace process were to be supported by economic growth, it was essential to lift sanctions.

Mr Mbeki gave a clear indication that the ANC was softening its rhetoric on nationalisation to placate the fears of potential investors.

He said: "We can't say: 'Please invest but we are going to nationalise you tomorrow.'"

Answering a question on whether foreign investment in the mines would be threatened by his party's economic policy, Mr Mbeki said that an open economy meant links to world economies.

The ANC was very aware that foreign investors had to have confidence in the security of their investment.

He added: "I don't think nationalisation is particularly high on our agenda."

Earlier, however, he had indicated there were basic needs within the community which needed to be addressed, and interventions which needed to be made in the economy to ensure those needs were addressed.

It was clear that Mr du Plessis and Mr Mbeki have established a warm rapport. As the ANC official arrived at the press conference to replace Mr du Plessis, the Finance Minister said: "Sock it to them."

However, the delegates said the atmosphere of reconciliation had been dented by an address by Inkatha Chief Minister Mangosuthu Buthelezi.

Backlash

Chief Buthelezi said if any political party attempted to establish a one-party state "there would be an awesome backlash which would make anything that has happened in Mozambique and Angola pale into insignificance".

According to sources at the conference, Chief Buthelezi's comments were not well received, particularly by non-South Africans who felt they went against the conference's reconciliatory mood.

An Inkatha official also handed out a 69-page legal document entitled "Statement and reports in respect of the violence in the Transvaal". The main thrust of the 21 affidavits contained in the report was that the ANC had initiated much of the trouble.

In his press conference Chief Buthelezi said the document was not intended as an attack on the ANC: "That is just the facts of the violence," he said.

Mr du Plessis also touched on a subject that was frequently aired in the conference: An economic union of all southern African states, including South Africa.

"There was a general recognition that South Africa's open and visible involvement in the development of southern Africa is necessary." However, he stressed that this should not injure existing structures which promote trade in the region.

There was, however, no indication that there would be a softening on sanctions.

The Conservative Party's Mr Koos van der Merwe said the conference had shown that what South Africa had done so far was "definitely not enough to lift sanctions".

Mr Mbeki said future political stability was of far greater significance to the businessmen present than the short-term issue of sanctions.

Perhaps the most significant benefit of the conference was, however, that it brought together Mr du Plessis and counterparts from the Frontline states for the first time.

Mr du Plessis responded with a political version of "we can't go on meeting like this', saying that, in future, Ministers — "and not only Ministers of Finance" — should get together in the region.

Gen 3/10/90 (49)

Sacob keen to meet ANC on economy

By Michael Chester

The South African Chamber of Business (Sacob) last night proposed a top-level meeting with the African National Congress to try to find a wider consensus about future economic strategies.

Sacob welcomed what it saw as more realism in ANC thinking, but voiced disappointment that nationalisation and collectivism still appeared to be high on its agenda.

New talks were suggested in the wake of the release by the ANC of the first draft of its broad economic policies — intended for internal debate at branch level before a final version is announced.

Nerves in business circles have been jangled by ANC hints of trying to break the concentration of economic power in the hands of South African business giants.

Rhetoric

The ANC specifically listed Anglo American, the Rembrandt tobacco empire, and the mammoth Old Mutual and Sanlam insurance companies.

A statement from Sacob said: "The latest economic policy document of the ANC represents some closing of the gap between rhetoric and reality. Many businessmen will see the document as a small step for realism — but a huge step for the ANC.

"The good news is that it is only a draft document.

"The bad news is that it is still heavily permeated with collectivism, nationalisation and other interventionist economic measures.

"Here and there is a softer approach, but the overall impression remains of an organisation which refuses to acknowledge what has manifestly failed elsewhere.

"The document still seems to thrive on raising unaffordable expectations, without any attempt at quantifying their objectives.

"Instead of injecting sufficient realism into the debate, the document attempts to create the impression that the ANC can transform economic fundamentals to serve their aims.

"German, British or French investors reading the ANC document would hardly be reassured by its contents.

"To turn every instrument of policy into a tool of redistribution and development will not inspire confidence in local or overseas investors.

"Some common ground between the ANC views and the views of Sacob can be identified, but enormous areas of difference of both emphasis and detail still remain.

"We believe that a top-level meeting between Sacob and the ANC is overdue to discuss an overall economic strategy to cope with the massive tasks facing South Africa — and to identify common ground.

"Both Sacob and the ANC have now produced major policy statements on the economy, but have left the door open to future discussion.

"Let us take this opportunity, in the interests of all concerned, to search for greater consensus about the economic options facing South Africa."

Anglo American added in a statement: "It's a lengthy document which deserves careful study. Our initial response, however, is that it contains some encouraging elements.

"In particular, there is the acknowledgement that, together with Government, private business has a major role to play in the economic development of a democratic nonracial society."

Economic hopes, woes

(49)

South 4/10 - 10/10/90

Wealth distribution derived from the "fruits of the growth" of the economy appears to be the thrust of a new economic plan unveiled by the ANC this week.

The draft document could pave the way for a future South African economy, reports MONO BADELA:

THE "engine" of economic growth in South Africa should be the satisfaction of the basic needs of the impoverished and deprived majority.

This is the thrust of the ANC's new economic policy document which sees redistribution of wealth as being derived from the "fruits of the growth" of the economy.

The document which could serve as a blueprint for a future South African economy arises from a workshop held over four days in Harare recently.

Land reform

It proposes, among other things, a huge increase in spending on social services.

It calls for major new housing, education, health and welfare programmes, the implementation of a land reform capable of simultaneously addressing a major national grievance, responding to the acute land hunger and increasing food production.

The provision of sufficient affordable housing would be a national priority.

"A future democratic, nonracial government would need to take steps to ensure the release of sufficient affordable urban and rural land to meet the need for housing within reasonable proximity to people's work places," the document states.

The construction of fully-serviced stands could be part of a public works programme aimed at job creation.

"It doesn't present an agreed policy, but rather seeks to contribute to a democratic process of formulating our movement's economic policy," says ANC's economist, Tito Mboweni.

He says the ANC believes the economic policy should address itself to the demands and needs of the majority of the people.

At the heart of the ANC's economic plan is a two-pronged strategy, which the document sums up as satisfying the basic needs by growth through redistribution and a national development strategy based on mixed economy.

While stressing the need for growth, the ANC believed simply promoting growth provides no solution to poverty and inequality.

Poverty

"Even at times when the apartheid economy grew, for example in the decade 1960 to 1970, precious little benefit 'trickled down' to the mass of the people, who continued to live in poverty and squalor."

"Without significant growth in our economy we will not be able to address the pressing problems of poverty and inequality confronting our people," the document stated.

Tito Mboweni

While accepting the need for redistribution the document emphasises the need to implement other policies which would ensure "sustainable growth".

The document calls for a programme of growth through redistribution to act as a spur to growth and in which the "fruits of growth" are redistributed to satisfy basic needs.

It says a national development strategy should be based on the perspective of a mixed economy.

It says bringing about a shift to such a path would require the formulation and implementation of a comprehensive national development strategy.

"We need to turn the economy in a fundamentally different direction," the document states.

"The productivity of investments needs to be raised. This will require strategies to reintegrate South Africa into the world economy on a competitive basis and in a manner beneficial to the overall development goals."

The document says South Africa's economy demands the creation of new jobs and progressively eliminating unemployment.

It further states that the ANC:

- Will raise real income, particularly for those who are most impoverished and deprived;
- Will promote an increase in output and productivity to meet the basic needs of the majority of the people;
- Will correct racial and gender imbalances in the economy through affirmative action policies;
- Will implement a land reform programme capable of simultaneously addressing a major national grievance, responding to the acute land hunger and increasing food production;
- Promoting greater democratic participation in economic life and a more equitable pattern of economic ownership;
- Will create a more democratic industrial relations framework based on full rights of workers to organise and growing participation by unions in policy formulation.
- Will guarantee high standards of administration in economic affairs and ensure that destabilising financial imbalances like unmanageable budget and balance of payments deficits do not occur;
- Will ensure growth takes place in ways which harness the enviroment in a constructive and responsible manner.

It will promote involvement in beneficial international economic relations and cooperate with other countries to create beneficial economic interaction in the Southern African region and the African continent.

The document states that private business has a major role to play in the economy of a democratic, nonracial South Africa.

The ANC believes that a future democratic government should actively strive to build confidence with the private sector and encourage maximum cooperation in pursuit of democratically-defined development objectives.

Expansion

"The placing of the economy on a new growth footing and the ending of international isolation will create many new opportunities for the expansion of the private sector," the document states.

At the same time, there is concern about several features of the existing private sector, which according to the document remains "profoundly marked by apartheid society".

They include the gross under-representation of black-owned businesses and of black people in senior managerial positions.

Only about two percent of the total assets of the private sector are owned by black people while more than 90 percent of top managerial positions are held by whites, the document states.

A future democratic state would encourage foreign investment on terms which are consistent with its developmental goals.

Foreign investors would be encouraged to invest in activities which lead to increased employment and the development of a local technological capacity.

What the experts say

South 4/10 - 10/10/90 (49)

ANDRE ROUX

Professor of economics at UWC

THE document clearly is an important step by the ANC towards formulating an economic policy.

The most significant feature of the document is that it signals a change in the ANC's thinking on nationalisation.

I believe this is a healthy development as large scale nationalisation will not facilitate redistribution and will almost certainly retard development.

The document is noteworthy for its commitment to redistribution. Unfortunately it provides no idea of the scope and speed of the redistribution process.

While this is perfectly understandable, it is essential that the ANC address this shortcoming as a matter of urgency.

The ANC has the unenviable task of preparing the business sector to accept greater changes than they are willing to at present while maintaining confidence in the economy.

This can only be achieved if detail of the ANC's programme are spelled out. The ANC also has a responsibility to be frank with its own constituency.

It will not be possible to achieve all the objectives contained in this discussion document. The ANC will have to prioritise its aims. This requires consultation and open discussion around achieveable goals.

SAMPIE TERREBLANCHE

Professor of economics at Stellenbosch University

THE ANC's new "Discussion Document on Economic Policy" is a great improvement on previous documents.

If its aim is to stimulate discussion, it will probably succeed in doing so.

The document's exposition regarding the "skew" and unjust state of affairs in the South African economy gives a dismal but true reflection of the state of affairs.

The economic goals set out in the document are praiseworthy and reflect compassion for the economic destiny of the majority of the population.

Unfortunately, the document lacks the necessary practicality. Its compilers must be careful not to be as unrealistic and utopian in economic matters as the Verwoerdian National Party had been on constitutional and political matters.

The following specific deficiencies could be emphasised:

- The document completely underestimates the relative poverty of South Africa. It is important that everyone should realise that South Africa is a relatively poor country and will remain one for decades to come. This must always be kept in mind as an omnipresent constraint.
- The document creates the impression that it will be easy to turn around the South African economy from its present misguided course onto the desired one. It ignores the fixed characteristics and the inherent rigidities of the structurally "skew" South African economy. The compilers of the document ought to realise that what they intend to accomplish will not take five years, but at least 25 years.
- The document could be described as a document of "good intentions" rather than a practical economic policy document.

It makes a clear distinction between the situation that is and the one that ought to be, but tells very little about how to get from where we are to where we ought to be.

- Although the "Growth Through Redistribution" strategy has lots of merits, the casual link between distribution first and growth later is not as direct as is alleged by the compilers of the document.

Redistribution is supposed to create more just and stable conditions that will hopefully in the long run be conducive to investment and to local and foreign entrepreneurship. This strategy will therefore be more time-consuming than acknowledged.

- It fails to recognise our dependency on foreign investment to get the South African economy (given its present structural nature) going again.

The most important practical problem to solve is how to create socio-economic and political conditions stable and attractive enough to invite the foreign capital necessary to maintain a high growth rate.

BRIAN KAHN

Senior lecturer in economics at UCT

The ANC economic policy discussion document which came out of the recent workshop in Harare is a revised version of the document released after the April Harare workshop.

Although there is more detail, it is clear that, like the previous document, it is a general framework for discussion rather than a detailed policy proposal.

However, one of the main aims of the workshop was to establish structures to facilitate future research and internal discussion so that the details of policy implementation can be worked out.

The success of the conference therefore should not be judged on the merits of the document alone but on its success in identifying and initiating the enormous amount of research that is still required.

However, my concern is that time is passing quickly and too much time is being spent formulating general frameworks rather than discussing the details of what should be done.

The document reaffirms the ANC's commitment to job creation, higher wages, land reform, welfare programmes etc., which are to be achieved through a policy of growth through redistribution.

With the best will in the world, no government can achieve this overnight.

Although this is recognised in the document, the necessity to respond to the expectations and demands of people and communities is also emphasised.

Unless the people are made aware of what resources will be available and over what time period, realistic choices and ordering of priorities cannot be made.

The list of unanswered questions that the document raises are endless and it will take time until these answers can be worked out.

But time is running out and people's expectations are high.

For this reason I feel it is time for the ANC to go beyond vague generalities to give the people a realistic expectation of what can be achieved and when.

Risk 'is a weakness in economy'

(49)

LESLEY LAMBERT

CAPE TOWN — If SA succeeded in reducing the risks which alienated investment, it would be able to justify lower returns for scarce capital investments, and achieve higher levels of income growth, UCT economics professor Brian Kantor said yesterday.

Kantor reminded delegates at an economics and labour relations seminar that the perceptions of risk, which had resulted in the loss of much foreign investment in SA, had been a major weakness of the economy.

Elimination of this weakness required conformity with the rules of international markets, he said.

Assurance that future investors would be free to repatriate interest and dividends and move goods in and out of SA, coupled with the removal of political threats to the economy, would not only encourage new investment. It would also temper expectations of high investment returns and justify "somewhat" higher tax rates on returns, Kantor argued.

He said the same principles applied to human capital — the supply of skilled labour and management.

Unless the owners of these skills enjoyed an internationally competitive standard of living, huge numbers would continue to leave the economy with the result that the productivity of unskilled workers and capital would decline further.

"Therefore, it should be appreciated that any naive attempts at the redistribution of income or wealth could be just as catastrophic in SA as they were in other parts of Africa which suffered from massive emigration of skilled people.

"The only kinds of redistribution that can make any difference to the lot of all but a small elite, is the redistribution that comes with and through economic growth," Kantor re-iterated.

"Quite simply, the way to grow income, and the tax base with which government can spend more, is to reduce required returns for scarce capital and skills by reducing the risks of committing those resources, especially highly mobile capital and labour, to the South African economy. This is the challenge facing the new SA," he said.

4/10/90

ANC's economic policy is still strongly socialist

Political Correspondent PETER FABRICIUS reports on the ANC's draft economic policy formulated after two workshops in Harare in April/May and September this year, which is being circulated in preparation for ratification at the organisation's national congress in December.

The ANC's new draft economic policy, while softening some of the harsher socialist elements of its present policy, still contains strong doctrinaire elements such as the nationalisation not only of public utilities already privatised by the Government, but also purely private enterprises.

The policy is based on a mixed economy and there is evidence in several places that the ANC is trying to avoid alienating business.

It notes that "private enterprise has a major role to play in the economcy of a democratic, non-racial South Africa."

The ANC will "actively strive to build confidence with the private sector and encourage maximum co-operation."

It recognises that it is necessary to "reverse the present trend towards stagnation and to promote economic growth.

"Without significant growth in our economy we will not be able to address the pressing problems of poverty and equality confronting our people."

The document says that no solutions will be found to these problems by simply promoting growth as the present Government policy does.

Even at times when the aparthied economy was growing strongly "precious little benefit trickled down to the mass of the people".

The engine of economic growth could not be rising demand for luxury goods by a minority of wealthy consumers. It should instead be the "growing satisfaction of the basic needs of the impoverished and deprived majority". However, the need for re-construction to overcome backlogs must be balanced against the need to avoid inflationary policies.

"Reconciling these potentially conflicting objectives requires re-distributing resources in such a way that new patterns of demand are created to which our productive sectors can respond."

However nationalisation, the breaking-up of corporate monopolies and the redistribution of rural land remain features of policy, if not as prominently as before.

"Affirmative action" in a wide range of fields, is a constant refrain of the policy.

Remarks by ANC international affairs secretary Thabo Mbeki at an economic conference in Geneva this week suggested that the ANC's nationalisation policy had been considerably diluted and that it would henceforth only nationalise public utilities privatised by the Government.

The policy document shows instead that the ANC is also prepared to nationalise private enterprises that have never been State-owned, voluntarily if possible but compulsorily if not. It says:

▶ ANC international secretary Thabo Mbeki, at the Geneva economic conference this week, suggested the ANC would nationalise only public utilities privatised by the Government, but the organisation's policy document shows it is also prepared to nationalise private enterprises.

Privatise

"The ANC is staunchly opposed to the current Government's plans to privatise the public utility corporations. These should remain part of the public sector and any public utilities which are privatised will be be subject to re-nationalisation immediately.

"In addition to public utility corporations, it is envisaged that planning processes for different sectors will lead to the identification of strategic enterprises whose role is central to the realisation of development objectives.

"It could be anticipated that there will be cases where the balance of evidence suggests that it would be advantageous to have public corporations operating in these areas.

"In such cases these would be established by the voluntary or, on rarer occasions, the compulsory establishment of new public enterprises."

However, the document points out that a future government would bear in mind the need to maintain confidence and bind itself to proceeding according to constitutional principles.

The policy as a whole is founded on the principle of a mixed economy but it points out that "while market relations are an essential component of a mixed economy, the ANC does not believe that market forces alone will result in anything but the perpetuation of existing disparities of income and wealth".

It sets out several intervention measures, apart from nationalisation, which the government would adopt to overcome these disparities. However, many of the socialist measures are tempered with concessions to free enterprise.

The measures include:

- Priority to be given to immediatly returning to the land those removed from black freehold land or from plots held under labour tenancy agreements.
- Action against monopolies. The document notes the "extreme concentration" of economic power in conglomerate hands and vows to investigate this to "promote a more efficient and effective use of resources".

While the ANC would prefer these essential reforms were carried out in co-operation with business, "if such co-operation were not forthcoming a future democratic government would not shirk its clear duty".

- It will consider the creation of a State Minerals Marketing Authority to control all minerals marketing, and agreements with other countries.

However the government would also consider using fiscal policy to encourage the investment of venture capital in new mines.

- Foreign investment would be encouraged on terms consistent with the ANC's development goals. Foreign investors would be encouraged to invest in activities which led to increased employment and the development of local technological capacity.

They would be obliged to follow acceptable labour practices and to co-operate in development goals and to re-invest part of their profits.

In return, they would be given guarantees on the security of investments and the right to re-patriate part of profits.

- Involving "mass-based organisations" in planning the reconstruction of the economy. Preference will be given to incentive measures and to seeking consensus and co-operation.

"Commandist or bureacratic planning methods will be avoided."

- Major re-allocation in budget spending. Signficicant savings can be made by eliminating duplications caused by apartheid and by reducing security spending and re-directing these to housing, health, education and welfare.
- In the longer term, financing welfare services will need increased tax revenue, largly by increasing the tax burden of corporations in relation to that of invididuals, increasing the taxes of the wealthy, levying capital gains, and increasing estate taxes. A new government would have to avoid running up a large budget deficit and avoid the present Government's practice of financing large budget deficits with loans.
- The Government's policy of creating work through de-regulation and privatisation is not enough and the ANC would create public work programmes and promote re-training.
- Black and white local authorities would have to be integrated into metropolitan structures to create single tax bases and cross-subsidisation of poor black areas.
- Organised labour will to "empowered" and industrial democracy promoted. The scope of the collective bargaining process would be widened to allow trade union involvement in investment planning.

State control over mining proposed in ANC report

MGd 4/10/90 (49)

By PETER FABRICIUS, Political Staff

JOHANNESBURG. — The mining industry comes in for special State interventionist measures — and a strong warning of possible nationalisation — in the ANC's new draft economic policy, which has just been drawn up.

It proposes a State Minerals Marketing Authority to control all mineral marketing, the formation of cartels to stabilise prices and hints at smashing private sector mining conglomerates as well as possible nationalisation.

"The mineral wealth of our country needs to be husbanded in such a way that it benefits all of the people through the contribution it makes to national development.

"The policy of a democratic non-racial government should aim to enhance the role of the sector as a job creator, foreign exchange earner and supplier of raw materials to local industry."

'STRATEGIC INVESTMENTS'

An ANC government would consider using fiscal policy to encourage venture capital in new mines and also itself making "strategic investments" in mines.

It would also root out "racist labour practices" and substantially improve miners' living and work conditions. It also would consider creating an inspectorate to police mining health and safety, mining legislation, transfer pricing and high-grading.

"The ANC is concerned that the current conglomerate control of mining finance is an impediment to an alternative strategy for the sector.

"So, too, is the current trend towards privatisation and deregulation which amount to abdicating the State's responsibility for ensuring that the mineral wealth, which is the heritage of all South Africans, benefits the nation as a whole."

The ANC document also said: "A new government would need to explore various options in respect of ownership patterns in the mining industry and, in view of the sector's strategic importance for the achievement of national development objectives, consideration would have to be given to the nature and extent of State intervention and ownership".

In recommending the formation of a State Minerals Marketing Authority, the ANC said such an agency would be empowered to enter into marketing agreements with other countries.

ANC calls for a major economic reconstruction

Star 4/10/90 (49)

By Peter Fabricius, Political Correspondent

The ANC has called for a major reconstruction of the economy in a draft economic policy just issued.

It is based on a mixed economy, but contains strong socialist elements such as nationalisation, re-distribution of wealth and land, dissolving of monopolies and major "affirmative action" to overcome inequalities suffered by blacks and women.

Contrary to recent indications, it still puts strong emphasis on nationalisation.

Strong warning

Not only should all privatised public utilities be immediately re-nationalised, but so should private enterprises if an ANC government considers this "strategically" necessary.

The mining industry comes in for special State intervention measures and a strong warning of possible nationalisation.

The ANC proposes a State Minerals Marketing Authority to control all mineral marketing, the formation of cartels to stabilise prices, and hints at breaking up private sector mining conglomerates and possible nationalisation.

An ANC government would consider using fiscal policy to encourage venture capital in new mines and also itself making "strategic investments" in mines.

It would also root out "racist labour practices" and substantially improve miners' living and work conditions.

Satisfying the basic needs of the impoverished majority should be the engine of growth, the ANC says.

The main source of finance for this will be domestic savings.

Among the key re-distribution measures of the policy are:

- The State will bear the ultimate responsibility for welfare and pensions.
- A national retirement scheme underwritten by the State and a compulsory unemployment scheme will be enacted.
- Fully-serviced housing sites can be part of a public works programme to create jobs.
- A public housing sector providing low-rental houses is essential.
- Financial institutions could be forced to finance housing.

● Full report — Page 7.

ANC takes Botswana's lead for economic plan

CAPE TIMES 4/10/90

From IAN HOBBS

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GENEVA. — Botswana's flourishing mixed economy has become a role model strongly influencing the ANC's new economic thinking, to be revealed in a watershed policy discussion document.

Delegates at the two-day World Economic Forum conference, which ended in Geneva on Tuesday night, said Botswana was "a jewel in the economic and political crown of thorns in Southern Africa" for others to emulate.

Mr Tito Mboweni, representing the ANC's economic department at the Geneva conference, said he could not comment on the discussion document, which was the responsibility of Mr Max Sisulu, head of the department in Lusaka.

But he said it was no secret that the ANC admired and respected Botswana's economic management.

He said the ANC was being advised on Botswana's "socially responsible" working relationship with the private sector, particularly the roles of government and the mining houses in the use of mineral resources.

Mr Mboweni said: "We have had extremely valuable discussions in Geneva on vital issues like Botswana's 50-50 arrangement with De Beers."

One very profitable result of coming to Geneva was "warm and civilised talks" with Mr Nicholas Oppenheimer, deputy chairman of the Anglo American Corporation and De Beers.

He said they had cleared up "misconceptions" and agreed to meet as often as possible to tackle mutual problems.

Mr Mboweni said he had welcomed the presence in Geneva of the CP delegation led by Mr Koos van der Merwe.

"This is what it was all about. Getting all sides together so everyone could realise the mutual potential for the region and South Africa when we get rid of the political obstacles.

"It was very interesting to note that Mr Van der Merwe was the only white man there who spoke an African language. He spoke Sesutu very elegantly. That says a lot to us."

ECONOMIC POLICY FM 5/10/90 (49)

THE NIGHTMARE RECEDES

The ANC is attempting to establish a "national consensus" about the precise mix of a mixed economy — and no new nationalisation policy is envisaged.

A new ANC working document on economic policy was presented to a panel of ANC economists in Harare a fortnight ago for distribution and discussion in ANC branches. Alterations — if recommended — will be made before submission of the final document to the ANC National Consultative Conference to be held in Johannesburg on December 16.

Thabo Mbeki, speaking to reporters at this week's historic World Economic Forum on Southern Africa in Geneva, said the new document recommends that only public utilities which are privatised "will be subject to new nationalisation." This is a marked shift from previous thinking, which held that nationalisation would be an essential component of economic restructuring.

Mbeki ... *a shift in thinking*

Tito Mboweni, acting head of the ANC economic department in SA, told the *FM* in a recent interview that the existing State sector should be maintained and "Iscor brought back." He said that, if necessary, the State sector may be expanded in some areas and shrunk in others, "but this would depend on discussions in a democratic parliament. Some companies will have to stay part of the State sector. Eskom, for example, has a massive job in providing electricity in black homes. Transnet has a massive role in providing affordable public transportation" (see *Leaders*).

Armscor, as a further example, he says should be transformed from a military industrial complex to civilian use — a transformation that Armscor is already, to some degree, undertaking.

Mboweni says the ANC is also investigating the viability of a national commercial bank which would compete with other banks — but he indicated this is an issue of contention within the organisation.

He says there is an urgent need for banking hierarchies to be transformed from bastions of primarily white males and for greater access to capital for blacks, for example, for business loans. This is a far cry from nationalisation.

Hinting that the ANC has been shifting from the nationalisation of mines for some time, Mboweni says the ANC is studying ways to avoid this while increasing State revenue. One option is nationalising mineral rights, with mining land being leased to mining companies with strict State supervision, more along the lines of Canada and Australia. However, no final decision has been reached on the matter.

Mboweni is at pains to stress the ANC is committed to discussing the form of a new economic structure for SA with every level of business. He says the ANC is particularly concerned that white small businessmen and women don't appear to belong to any organisation that would make it possible for them to have formal discussions with the ANC. The organisation feels discussions across the spectrum of economic activity is vital to obtain consensus.

The *FM* has yet to see a copy of the draft economic policy but we gather that among the issues will be regional inequality (concentration of industry and wealth in certain areas of the country); monopolies; ways to encourage a switch to an economy more soundly based on competitive manufacturing and less on the export of raw minerals; and ways not only to *deracialise* the economy but to eliminate gender discrimination.

Though the document can be expected to undergo modification over several discussion stages, the policy of nationalisation — espoused by Nelson Mandela on his release — seems headed for the scrap heap, or to be retained only in token form. *Charlene Smith*

JOHANNESBURG FM 5/10/90

BEHIND CLOSED DOORS

The Hiemstra Commission of Inquiry cost the Johannesburg City Council over R369 000 in legal fees. And the ratepayers, who forked out at least R1,8m for the illegal spying activities that led to the commission, will continue to fork out.

Town clerk Manie Venter has taken leave until his retirement in September next year. Until then, he stays in a luxury council house in Houghton — for which he pays no rent, light, water or maintenance — and receives

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his R145 000/year council salary. Estate agents estimate the rental of the house would be at least R5 000 a month and the market value is estimated by the council at around R630 000. Venter was found by Justice Victor Hiemstra to have authorised more than 60 payments for spies under an Act which did not exist. Evidence of these transactions were kept locked in the clerk's safe.

Ian Davidson, DP councillor and management committee chairman, says the costs to the council — and ratepayer — work out at far less than if the council had instituted legal action against Venter. "Even if he had been fired — and labour law ramifications would have made that problematic — he would have had to be paid all monies owing to him. One thing the press fail to appreciate is that it is almost impossible to get rid of a town clerk, who is appointed by the Administrator of the Transvaal."

The committee believes it will be in the council's and ratepayers' interests to negotiate his departure. No comment was forthcoming from the Transvaal Provincial Administration as to what measures, if any, they intend to take against Venter.

Davidson says the procedure to dismiss a town clerk is ill-defined and the council will be reviewing the regulations.

The council is now engaged in a tussle with the Johannesburg Municipal Employees' Association (JMEA), of which Johannesburg Traffic & Security chief John Pearce is a member. The commission said of Pearce: "One of the cornerstones of democracy is accountability and it is on the issue of accountability that Pearce stands accused."

Pearce and Venter were part of a group of four which oversaw spying on a wide number of anti-apartheid individuals and organisations — a practice the Hiemstra report condemned. The other two members of the group were Brig Jan Visser, since retired, and Frik Barnard, who is to assume a new position in the Unisa security department.

The *FM* has it on reliable authority that the council moved to suspend Pearce on Monday with a view to laying internal disciplinary charges against him. They were apparently blocked by the JMEA. It contended that the council did not have locus standi; that the town clerk was the only person who could suspend him; and that any moves by the council against Pearce would result in Industrial Court action.

The monitoring section of the security department has been closed down; moves have been taken to decentralise security, as well as open security operations to councillors' scrutiny. Davidson says the council will take further steps to prevent abuses and negligence of the type documented by Hiem-

State remains major player in new ANC economic thinking

BDay 5/10/90

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PETER DELMAR

THE ANC's latest economic policy document might mention nationalisation only once, but this does not mean the organisation has abandoned its belief in state intervention in areas such as mining, industry and the capital markets.

Each successive ANC draft accords a greater role to the private sector, but the state remains a major player, regulating and directing its mixed economy, and owning sections of it.

The new document, intended for internal discussion and to stimulate debate on a final ANC economic policy, follows workshops held in Harare in May and September this year.

It specifically rejects "commandist or bureaucratic planning methods" and recognises both incentive and profit.

The tenor of the document is of an economy driven by private enterprise in directions of which the state approves. Assuring the private sector about the security of its investments is a repeated theme.

"The ANC believes that a future democratic government should actively strive to build confidence with the private sector and encourage maximum co-operation in pursuit of democratically defined development objectives," it says.

But the private sector is not to be given a free rein.

"While market relations are an essential component of a mixed economy, the ANC does not believe that market forces alone will result in anything but the perpetuation of existing disparities of income and wealth."

Several of the document's 18 pages are devoted to SA's inequality, poverty and stagnation, and the need to put the country on a new growth path. It proposes a fundamental restructuring of the economy, with growth spurred by a deliberate attempt to meet the needs of the underprivileged, thus creating new patterns of demand.

"The engine of growth in the economy . . . should be the growing satisfication of the basic needs of the impoverished and deprived majority of our people.

"Programmes and policies that increase output — particularly of social infrastructure and basic consumer products — will increase employment and produce new incentives to growth which will benefit all sectors of our economy.

"We thus call for a programme of growth through redistribution, in which redistribution acts as a spur to growth and in which the fruits of growth are redistributed to satisfy basic needs."

The ANC calls for a national development strategy in which both the private and public sectors will participate, but government takes the lead to ensure its objectives are met.

Small business development will be encouraged, security expenditure cut, budget deficits curtailed and armaments production converted to meeting civilian needs. The ANC also sees a need for greater industrial democracy, tax reform, improved cost-efficiency within the public sector and controls on money supply.

The lone mention of nationalisation comes in the ANC's rejection of moves to privatise public utilities, arguing that profit maximisation deprives poorer communities of adequate services. It says public utilities should remain in the public sector and any which have been privatised "will be subject to immediate renationalisation".

This is not the end of the state's direct role. The document also foresees:

☐ Strategic enterprises central to the attainment of development objectives. Where these should be public corporations, this could involve the voluntary or even compulsory purchase of existing enterprises, or the establishment of new public enterprises;

☐ A state minerals marketing authority to "control all minerals marketing and enter into marketing agreements with other countries, and the formation of cartels to stabilise mineral prices";

☐ The use of fiscal policy to encourage venture capital in new mines, and the possibility of the state making "strategic investments" in mines;

☐ Measures to break down "conglomerate control" of mining finance, which the ANC sees as an impediment to its alternative strategy for the mining sector;

☐ An investigation of ownership patterns in the mining industry. "Consideration would have to be given to the nature and extent of state intervention and ownership," it says;

☐ State intervention and regulation to correct "current financial deregulation policies and monetarist policies" and;

☐ The possible use of prescribed asset regulations to encourage financial institutions to make funds available for low-cost housing projects.

☐ New state-owned financial institutions, and the transformation of existing bodies, to direct international and domestic finance to development needs.

The ANC says the current capital market does not sufficiently direct savings into productive activity or critical areas of infrastructure. Instead, "paper shances paper" in a scramble for short-term speculative profit.

"A new government would need to rationalise and restructure the financial sector and develop new institutional arrangements for both the primary and secondary bond markets. This is needed to make them more ordered and orientated towards meeting broader developmental objectives."

The ANC sees the tax burden as being carried disproportionately by individuals, through personal and indirect tax.

"The ANC supports shifting more of the tax burden towards corporations (in part by closing loopholes) and applying the principle of progressive taxation — in which individuals with higher incomes pay proportionately more.

"Consideration will also be given to levying capital gains, wealth and higher estate taxes, particularly where speculative activities are concerned."

The ANC is concerned about the "extreme centralisation of economic power in conglomerate hands". But the policy gives no hint of how an ANC government would tackle the issue, apart from saying that it would prefer to do in consultation with business.

Foreign investors will be given certain guarantees relating to the security of their investments and the right to repatriate part of their profits.

The ANC proposes affirmative action programmes for black advancement, and state involvement in health, welfare, housing and education. It also stresses the need for a major works programme, not only to meet basic needs of the historically deprived, but also to create jobs and infrastructure.

Like any party manifesto, the ANC's economic offering lacks detail. The document acknowledges that precise policies are dictated by conditions at the time a new government takes over.

It gives clues, albeit often cryptic, of a greater flexibility in the ANC's economic thinking. And the organisation's willingness to confront and debate economic issues, within and outside its ranks, is indicative of a continuing search for a workable and widely acceptable economic model.

Need for 'massive' resources


Walter Sisulu greets chief ANC representative in Sweden Billy Modise at yesterday's conference. Picture: ROBYN RYAN

MASSIVE human and material resources would be needed to ensure improvements to present local government conditions were achieved, ANC internal leader Walter Sisulu said last night.

These resources would, however, have to be reorganised under new partnerships in order to succeed, he said in his opening address to an ANC convened conference in Johannesburg on local government.

"While the state is ultimately responsible, the scale and complexity of the tasks will go well beyond the resources of the state.

"We need to consider new forms of partnership — between state, private sector and for lack of a better word, community or nongovernment sector as well as international assistance in terms of both skills and experience."

This would require massive resources — human and material — to be combined in innovative ways to ensure the improvements were achieved.

In SA, ready solutions did not exist and, even if they did, their applicability would be in question.

The ANC believed that in addressing issues of local government and planning, components of a formula already existed and were readily accessible.

"Firstly, we have gained invaluable experience in the course of local struggles ... across the country."

However, "this needs to be complimented with appropriate training.

"Secondly ... is the solid democratic tradition of our structures in the movement as a whole. This needs to be harnessed to new democratic structures of local government."

Thirdly, resources of private sector corporations, pension funds, finance houses and mortgage companies needed to be tapped, he said.

Fourthly, the state's resources — both central and local government — needed to be utilised.

Community co-operatives, self-help initiatives and nongovernment organisations also had to be encouraged.

"Sixthly, we need to urgently encourage the reorientation of centres of higher learning to the needs of our communities, institutes, universities and technicians.

"Finally, ... we need to integrate our policies and actions both horizontally as well as vertically."

He explained that to integrate horizontally was to ensure consultation and consensus was achieved at both local and regional levels. — Sapa.

'Mixed' economy outlined by ANC

CAPE TIMES 6/10/90 49

JOHANNESBURG. — A future ANC-led government would implement a strict national economic development strategy which would give priority to "redistribution through affirmative action", according to an ANC discussion document released yesterday.

The post-apartheid economy would be mixed, based on close co-operation between all sectors involved and geared towards growth and worker productivity.

An ANC-led government would use fiscal policy as the major means of promoting growth and redistribution.

The controversial issue of nationalisation is only mentioned once by name in the document — in the context of the public sector.

Any public utilities which are privatised at the time when a democratic government takes over will be subject to immediate re-nationalisation, the ANC says.

Referring to the mining industry the ANC talks about giving consideration to the nature and extent of state intervention and ownership.

The organisation also says "the current conglomerate control of mining finance is an impediment to an alternative strategy for the sector".

"So too is the current trend towards privatisation and deregulation, which amounts to abdicating the state's responsibility for ensuring that the mineral wealth, which is the heritage of all South Africans, benefits the nation as a whole.

"A new government would need to explore various options in respect of ownership patterns in the mining industry."

Land reform is also an ANC priority. It would implement a land reform programme "capable of simultaneously addressing a major national grievance, responding to the acute land hunger and increasing food production".

On the issue of much-needed capital to finance economic reconstruction in a post-apartheid South Africa, the ANC says a future government would have to avoid running up large budget deficits.

Domestic savings

It would also have to break from the practice of the present government of financing budget deficits by large loans.

"The ANC is of the view that the main emphasis in financing the reconstruction of the mixed economy should be placed on domestic savings.

"Foreign investment should be seen as a supplement to domestic savings and not as a substitute."

Domestic savings would be generated by aiming for a high employment, high wage and high productivity economy.

The ANC says a future democratic government would need to make major changes in allocating expenditure items.

Significant savings can be made through: Eliminating the duplications created by the racially-exclusive administrative structures like homelands, and reducing expenditure on the security services — which includes converting military plants to cater for civilian needs.

Such savings should be used to increase expenditure on education, health, housing and welfare services, "particularly for the poorest and most deprived members of the community".

However, while the ANC says the redistribution of expenditure patterns will make significant contributions initially in a post-apartheid society, it warns that in the longer term financing these services will require increasing tax revenue.

"Over time, economic growth could be expected to widen the tax base. But a future government will also need to undertake tax reform."

It says: "The present tax burden is carried disproportionately by individuals through both personal direct taxation and indirect taxation. The ANC supports shifting more of the tax burden towards corporations, in part by closing loopholes and applying the principle of progressive taxation, in which individuals with higher incomes pay proportionately more."

An ANC-led government will also consider levying capital gains and wealth taxes and introducing higher estate taxes — particularly where speculative activities are concerned. — Sapa

State intervention is the key to growth, says ANC

By MANDLA TYALA

THE ANC this week gave the most detailed exposition yet of its latest economic policy, "growth through redistribution".

The policy is outlined in a document intended for discussion among ANC structures. Although it is an attempt to tone down socialist rhetoric, it still envisages a major role for the State in the economy.

The more contentious parts of the policy are likely to be the ANC's belief that the mines may have to be owned by the State and that land should be returned to displaced black freehold owners.

The ANC says it is formulating a National Development Strategy which will aim for broad objectives such as creating new jobs, raising real incomes, increasing output and productivity, correcting racial and sex imbalances through affirmative action and implementing a land reform programme.

ST Times 7/10/90

Key elements of the strategy are:

● **Using redistribution to satisfy basic needs and create new patterns of demand.**

The ANC says a massive injection of finance will be required to meet basic social needs in such areas as welfare, housing, health and education.

● **Turning the industrial sector into an engine of growth through redistribution.**

"Despite its poor performance over the past two decades, the development of the economy depends to a large extent on the performance of the manufacturing sector.

"A future government would need to give serious attention to the implementation of policies which aim to restructure industry and develop a dynamic path of industrial development."

● **Husbanding mineral resources to maximise benefits.**

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The ANC says it plans ~~to~~ enhance the role of this sector as a job creator, foreign exchange earner and supplier of raw materials to local industry.

"Given the volatile nature of mineral prices, a policy of stabilising prices through the formation of cartels should be seriously considered.

"The formation of a State Minerals Marketing Authority would also need to be investigated. Such an agency would control all minerals marketing and enter into marketing agreements with other countries.

"A new government would need to explore various options in respect of ownership patterns in the mining industry and, in view of the sector's strategic importance for the achievement of national development objectives, consideration would have to be given to the nature and extent of State intervention and ownership."

● **Promoting agricultural development and land reform.**

The ANC says it has established a land commission to conduct research and mobilise popular participation in formulating a policy of land reform. Priority in such a policy should be given to returning immediately to the land those blacks removed from freehold land or from plots held under labour tenancy agreements.

● **Promoting environmentally sound growth.**

"All laws and regulations relating to the emission of noxious waste would be reviewed with a view to reducing the unacceptable levels of pollution and environmental damage. A future government would implement OAU resolutions prohibiting the dumping of toxic waste from abroad."

(49)

Business approves of shift in ANC nationalisation policy

By SEKOLA SELLO
Political Editor

THE ANC's draft economic policy document which was made public this week has been cautiously received by big business.

While the corporate world was playing a wait-and-see game pending the unveiling of a final document which will form the economic policy of the organisation, some aspects of the draft found favour with business people.

The feeling is that it is still too early to give a considered opinion on the document. However, the perception that the ANC has made a significant shift from its previous stance of sweeping nationalisation has been welcomed by some business people. But they are still unsure of the movement's exact position.

The 18-page document refers to nationalisation only once and in generalised terms. However, the specific mention in the document of the Anglo-American Corporation, Rembrandt, Old Mutual and Sanlam, has given industrialists the jitters.

The document does not say whether these four giants would be nationalised if the ANC came to power. Everything is left to the imagination. It says of the four conglomerates: "The bulk of productive resources are concentrated in the hands of a tiny minority.

"Four large corporations control the vast bulk of all production, distribution and exchange."

The draft document covers issues ranging from the heritage of poverty, inequality and stagnation; the necessity for a new growth plan; the overall goals of economic policy; key elements of a national development strategy; financing and reconstruction; tasks of government in reconstructing a mixed economy and the role of civil society and external economic relations.

According to the document, political liberation and constitutional changes need to be accompanied by socio-economic changes. It further states that the economy needs fundamental restructuring.

Some business people interpret the last statement as indicating that the ANC may still be considering sweeping nationalisation. They ask how fundamental economic restructuring can occur without massive state intervention.

South African Chamber of Business director general (Sacob), Raymond Parsons, has proposed a top level meeting with the ANC to discuss "future economic strategies".

Parsons says he welcomes what he sees as "more realism in ANC thinking", but expressed disappointment that nationalisation and collectivism still appeared high on the organisation's agenda.

He also warned that as it stands the draft document will not be reassuring to some of South Africa's major trading partners such as Britain, Germany and France.

Anglo American spokesman Bobby Godsell says his organisation differs in some areas with the document.

"Whereas it repeatedly talks about growth through redistribution, we would seek redistribution through growth."

He added that Anglo would also like to debate the document in depth with the ANC.

Barlow Rand's Ken Ironside describes it as "flexible and commendable in its search for a workable economic model".

Stockbroker Tigue Payne feels that on paper the document says the right things, but is not practical. A spokesman for the Foundation for African Business and Consumer Services (Fabcos), Joas Mogale, warned against nationalisation, saying this would "whittle down the little wealth left".

Spokesman for mining house giant, General Mining Union Corporation (Gencor), Naas Steenkamp, refused to comment, and so did a spokesman for Rembrandt.

Huge plan to turn economy round, slash inflation, create wealth, lower taxes

OIL-FIRED PROSPERITY!

Barend du Plessis ... committed to reducing the overall tax load

S/Times 7/10/90

Sunday Times Reporters

THE Government has embarked on a radical programme of economic reform — as radical as its political shift — in an attempt to unshackle the economy and break out of the stagnation of the past decade.

The aim is to create jobs, cut inflation and stimulate the prosperity needed to carry through the political reform programme by making the country more efficient.

The programme rests on a sustained drive for exports intended to carry South Africa through the 90s.

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It includes:
- Cut-price electricity.
- Low transport costs.
- Lower taxes for individuals.
- Continued lowering of tax rates for companies.
- Tight control of government spending.

The most startling feature is a decision to make South Africa's hidden oil stocks, built up as a strategic reserve to defend apartheid, available to hold down the price of energy and give South African exporters an edge over other countries during the oil crisis.

Eskom's privatisation has been put on a back burner to enable the Government to hold electricity prices well below the inflation rate for the next several years.

The immediate ... is to break the back of inflation, bringing it more into line with that of its trading part-

Mandela baby dies in ...

S/Times 7/10/90

Smitten by G Force! Varty tells of his love for TV's Gillian

By RICHARD ...

HANDSOME bush adventurer John Varty told this week

Fury as Beyers the Boer waves gun at embassy party

By HERMAN JANSEN

A FORMER Boksburg mayor waved his gun around at a diplomatic reception, made remarks about Jews and twice pretended to dip his false teeth in a journalist's drink.

But last night, as a storm erupted over his "disgusting" behaviour, ex-CE councillor Beyers de Klerk denied pointing his

FAMOUS FIRST-TIMERS: Natal's Hugh Reece-Edwa... Craig Jamieson, Guy Kebble and Dick Muir Pictu...

Sunday Times Reporters

NATAL rugby fans went bananas last night as they celebrated their team's historic Currie Cup victory over the mighty Blue Bulls.

Craig Jamieson's heroic Natalians won a thrilling clash 18-12 by way of four Joel Stransky penalties and the conversion of a brilliant 40-metre Tony Watson goose-stepping try down the touchline, to a great second-half Currie Cup win in their centenary year.

But thousands of rugby fans in Natal were deprived of their team's finest moment when a Northern Transvaal official cut off Capital Radio's broadcast.

News editor ... said he was ...

dics in

STimes 7/10/90

Soweto shooting

By MARK STANSFIELD

A BABY girl related to Nelson Mandela was shot dead in her mother's arms yesterday in a shotgun and grenade attack on a Soweto house.

Gloria Mandela, aged 15 months, died in a hail of bullets as her mother, Susan, tried to escape a gang of assailants.

Gloria's father, Monde — the ANC leader's cousin — was badly burnt in the attack, which destroyed the family's home in Meadowlands.

As police sifted through the rubble for clues to the identity of the assailants, neighbours said they believed professional jealousy, rather than politics, was behind the attack.

"This is the third time in a year that Monde has been the target of armed men," said one.

"He runs a spaza shop from home and is a good businessman.

"We think some of his opposition would like to get rid of him."

Sprayed

Telephone lines in the area were cut before the gang broke a bedroom window and sprayed the double bed with automatic rifle fire.

The sleeping Mandelas survived the shots, but then a hand-grenade was thrown into the room.

Neighbours said Mr Mandela picked it up and hurled it back through the window.

"But then three more were thrown inside and they exploded," said a neighbour.

Mrs Mandela tried to escape with Gloria through the yard, but her flight was stopped by a volley of bullets that killed her baby.

She apparently screamed for her baby's life, but more shots were fired.

The wounded couple were rushed by a neighbour to Baragwanath Hospital, where they are in a stable condition.

In a brief statement yesterday afternoon, the ANC said it noted "the curious coincidence" of an attack on a man bearing the Mandela name.

A Honey of a Gold Bowl!

JOCKEY Stephen Jupp stunned punters with his hard-won victory on Honey Chunk in the R750 000 OK Gold Bowl at Turffontein yesterday.

The 16-1 outsider came from last to beat well-backed Respectable and Our Buddy to the post.

See Racing Page

... several years.

The immediate [illegible], is to break the back of inflation, bringing it more into line with that of its trading partners, and to give exporters a competitive edge based on South Africa's abundant electrical capacity.

Policy

This is to be done not by the usual "Keynesian" method of depressing the economy, but by cutting key costs — power, transport, taxation — to lower costs and prices.

Further measures to stimulate savings, improve the efficiency of capital and allow market forces free play are also being put into place.

Reform of the labour market will not be far behind.

Finance Minister Barend du Plessis told the Sunday Times that the Government's new philosophy may not be unveiled in its entirety "because we are not a centrally planned economy".

Reforms would, therefore, emerge piecemeal.

Details

However, the Sunday Times can disclose that the Government plans to use all its powers, from monetary policy and tax policies to labour legislation and control of parastatal organisations, to turn the country away from the State-controlled economic system of the past.

Instead, it plans to exploit South Africa's natural advantages — raw materials, cheap energy and a good transport network — to stimulate exports as the basis of economic growth and full employment.

The new policy, not dissimilar to the "supply-side" methods used by Mrs Margaret Thatcher to lead Britain out of stagnation, runs directly contrary to the ANC policy published this week (See page 2).

Strategy

President De Klerk unveiled some details when he told the Natal Chamber of Industries on Thursday that Eskom and the oil stockpiles gave South Africa an advantage over other countries in meeting the oil crisis.

He pointed to the stockpile, to South Africa's dependence on electricity rather than oil and to the vast excess generating capacity built up by Eskom.

He said Eskom's past expansion had created a "window of opportunity" to hold down tariffs. It would not be necessary to build more power stations until the last years of this decade.

Privatisation had been put off indefinitely so Eskom could use its past capital investments to hold down tariffs.

However, the new strategy goes far beyond such details. It deals with all aspects of

□ To Page 2

P.T.O.

New prosperity on the horizon

S Times 7/10/90

From Page 1

the economy, from labour affairs and exchange rates to industrial policy and import protection. It also advocates implementation of a number of proposals made by the Margo commission of inquiry into taxation.

Some of its more important proposals are believed to include:

- Continuing real interest rates (higher than inflation) to overcome inflation and encourage savings.
- Lower personal tax rates, so that a smaller part of the tax burden falls on individuals.

Savings

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- Improving the efficiency of capital deployment while redressing existing imbalances between the costs of labour and capital.
- Reform of all aspects of labour relations and depoliticisation of the labour market. The wage negotiation process is seen as too centralised, bureaucratic and exclusive of unemployed outsiders.
- The phasing in, over several years, of lower nominal rates of company taxation. But reduced allowances and minimum taxes will ensure companies pick up a bigger part of the total tax burden.
- Budgetary discipline to prevent government consumption spending exceeding tax revenues; maintenance of a stable rand and removal of import protection and import surcharges, except on luxury items.
- Withdrawal of the Reserve Bank from the forward exchange market, where losses have exceeded R15-billion.
- Implementation of the De Kock commission proposals to scrap exchange control, where possible.
- Termination of the debt standstill at the end of the interim agreement in 1993.
- Removal of the threat of taxation on share dealing profits.
- No tax on interest receipts by individuals, but a withholding tax of 10 percent levied on banks.

These recommendations are aimed at stimulating personal savings so that these can be channeled into job-creating investment instead of existing shares on the stock exchange (see Business Times).

Mr Du Plessis had good news for taxpayers.

He said: "We are firmly committed to reducing the overall tax load and seeing to it that the burden is spread more fairly."

An important part of the plan, he said, was to "keep a firm hand on expansionist parastatals".

The visible hand of government now steers the economy

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BDay 8/10/90

GRETA STEYN

GOVERNMENT's Thatcherite economic rhetoric of a few years back has given way to an approach that relies less on the "invisible hand" of individual self-interest and more on the "visible hand" of government.

The shift in emphasis was clear in a significant economic policy speech by President F W de Klerk last week. He announced innovative new measures with regard to Eskom and Transnet tariffs, aimed not only at intensifying the battle against inflation but also at generating growth through raising the productivity of capital.

De Klerk gave a broad outline of a policy package designed to encourage rapid and sustainable economic growth — without inflation. The speech revealed a turnaround in economic policymakers' thinking on inflation and growth.

Describing Eskom as a "consumer-friendly" public utility, he said the corporation could (and by implication, should) cut electricity price increases to well below the inflation rate for a number of years. That meant a cut in the real cost of electricity.

Indications are that the electricity tariff increases could be held at as much as eight percentage points below the inflation rate for a few years.

A similarly restrictive approach would be followed for Transnet's railway freight tariff increases because government had "a responsibility in containing prices under its control in a sound manner".

By keeping a lid on administered prices, government hopes to dent cost-push inflation.

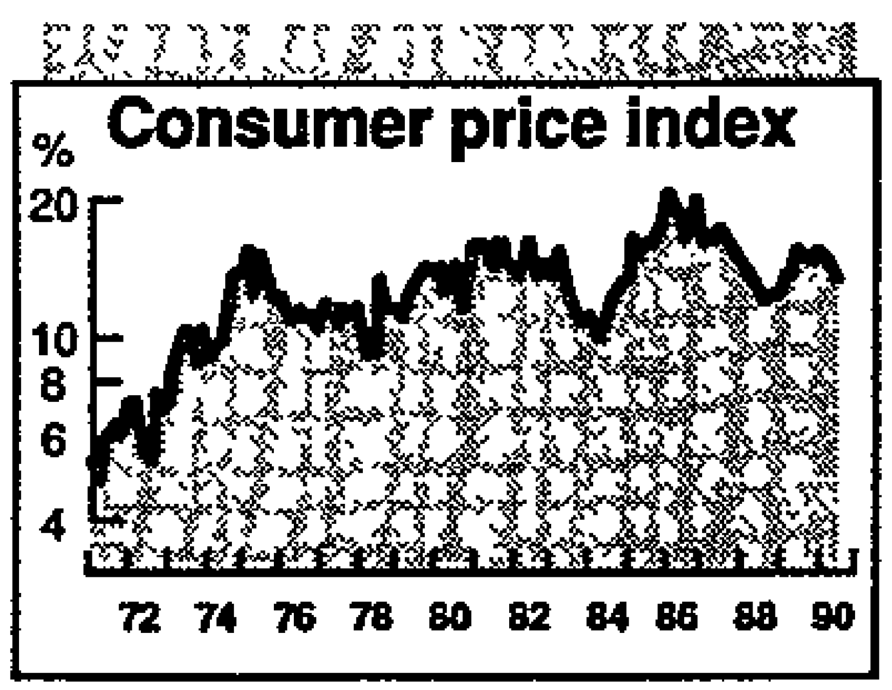
A feature of the present reduction in inflation from last year has been the major contribution of the stable rand — at the producer level, domestic price rises have far outstripped imported inflation (11,6% versus 4,7% in the year to July).

The measures to contain electricity and rail freight costs will contribute to a reduction in inflation, first at the producer level with a follow-through to consumers.

This approach is a major change from the thinking in policy documents on inflation a few years ago. In government's last plan to combat inflation, released about three years ago, privatisation was mentioned as an essential ingredient in a policy package against inflation.

The Economic Advisory Council's Proposed Plan of Action for Combating Inflation said: "Privatisation . . . could also lead to a more productive employment of production factors and thus relieve the pressure on costs and prices over the longer term."

The debate at the time was whether a private monopoly was any better than a government-owned one. The new thinking on Eskom and Transnet indicates that government now believes a state monopoly is preferable.



Graphic: LEE EMERTON Source: BER

If Eskom were privatised, it would cease to be a "consumer-friendly" company and would become "consumer neutral" with electricity a product like any other and its price the result of market forces.

The "consumer-neutral" philosophy is supported by the privatisation lobby and it is usually motivated with the claim that it would result in the most optimal allocation of resources.

The idea that privatisation would lead to a more productive employment of production factors, as stated in the 1987 plan against inflation, has been discarded.

Government will take it upon itself instead to see to it that Eskom's and Transnet's capital is more productively employed.

De Klerk said Eskom, which had vast excess capacity, could offer special rates for additional consumption brought about by multi-shift operations of existing manufacturing plants and using existing plant capacity in heavy industry for export purposes.

High fixed costs of generating electricity supported the argument that a way had to be found to employ excess capacity. De Klerk said Eskom's surplus capacity would amount to about 30% in 1996.

Transnet, too, could offer special reduced contract rates for long haul unit trains, particularly for exports. Its capacity utilisation is at present 50%-60%.

The new policies with regard to Eskom and Transnet reflect government's preoccupation with the productivity of capital.

In the '70s and '80s, capital productivity weakened — more capital was needed to produce the same amount of output.

Investment occurred to replace labour rather than generate additional output and was heaviest in those sectors where capital investment does not usually generate employment.

Net fixed investment of R5,18 added R1,00 to gross domestic product (GDP) between 1973 and 1985 — a signficant weakening compared with 1946-73 when fixed investment of only R2,40 added R1,00 in output. Electricity, gas and water had one of the highest capital-output ratios in 1985 at 8,78.

Almost 64% of all fixed investment during the '70s and early '80s was by public sector entities.

But although the private sector accounted for a far smaller portion of overall fixed investment, it was also overinvesting because of favourable depreciation policies and inappropriate interest and exchange rate policies.

Reserve Bank senior Deputy Governor Jan Lombard ascribes the weakening in the productivity of investment to the fact that capital was too cheap in relation to labour.

"This decline is, we believe, of fundamental importance in the explanation of the sluggish performance of the economy since the middle 1970s."

Overinvestment in capital during the '70s and early '80s reflects a "go-it-alone" approach in which import substitution was a major ingredient. But government now believes that opportunities for import substitution were exhausted by 1972 and that manufactured exports should provide an engine for growth. Hence De Klerk's mention of the export sector with regard to favourable rail and electricity tariff treatment.

But for SA's manufactured exports to be competitive internationally, SA needs a lower inflation rate. Government has come out against inflation with all guns blazing.

Fiscal and monetary policy will remain tight. De Klerk promised to finance larger government spending on social services from cutbacks in other areas and pledged "the maintenance of strict monetary discipline for the foreseeable future".

Indexation was receiving Cabinet's attention and taxation, subsidies, regional development and protection policies were being reviewed.

Details on these and the Eskom and Transnet plans would be announced soon.

Government's economic blueprint is emerging bit by bit. It was probably coincidence that De Klerk disclosed more details in the same week that a major ANC economic policy document was released.

The coincidence highlighted not only the urgency for present economic strategies to start paying dividends soon, but also government's shift away from dogmatic reverence for Adam Smith's "invisible hand".

The politics of free markets

B10'4 26/9/90

(49)

Former British Trade and Industry Minister NORMAN TEBBIT has some advice for SA businessmen.

IT IS the politicians who do the talking, but it is you, the businessmen, upon whom will fall the task of organising the creation of the wealth that will make possible a peaceful transition from the SA of the 1980s to the SA of the next century.

In your own interest and in the wider interest of all Africans, black and white, here and elsewhere, you must make plain the preconditions for that wealth-creating process to operate successfully.

First is the rejection by all responsible political leaders of communism, socialism, corporatism and the centrally directed economy in all their forms and manifestations.

Second is for this nation to be brought back fully into the world economy with an end to all forms of boycott, embargo, sanctions and discrimination.

Third is the encouragement of overseas investment here and investment by SA companies both here and overseas.

Fourth is the commitment of all political parties to the economic policies of liberal free market capitalism of the kind practised by Mrs Thatcher, President Bush and indeed the Labour leader, Mr Hawke, in Australia.

Fifth is the commitment of all SA political parties to the Western world and democratic systems of government, while recognising that in SA the simplistic idea that such ideals can be satisfied only by one man, one vote systems may not be practical for some time to come.

Periods of swift liberalisation and reform are periods of great potential danger and instability in any society. In SA, which shares with most of Africa the problems posed by the divisive influences of tribalism, the dangers of reform being overtaken by anarchy are particularly acute.

If the pursuit of democratic reform becomes no more than the pursuit of a constitution which takes power from the minority white tribes, and a struggle for dominance at any price by the black tribes, then the future will be bleak.

But if the leaders of those tribes can display the wisdom and the patience to look not for the instant gratification of paying off old scores, but for the long-term benefit of their people, then the future could be bright indeed.

No one other than you, the business community, has a greater interest, nor a greater ability to stand up to the political leaders with your manifesto of plain common sense and experience, to set out the requirements for the prosperity which is the requirement of peaceful change in your country.

You must honour that responsibility in two ways.

First you must live by non-discriminatory principles. That does not mean a policy of tokenism — of placing tame blacks or coloureds in non-jobs at senior levels in your businesses. Nor does it mean giving preference to non-whites over whites, promoting them to jobs for which they lack skills and experience.

It does mean searching out those who have the skills and abilities and it means searching for those who currently have only the abilities but lack the skills, and giving them the skills which they need to play a full part in business life.

All this must be solely — and I emphasise solely — on merit because nothing but harm, sadness and tears can come from having a soft set of rules for one group and a rigorous set of rules for another — that would be to honour apartheid by creating its mirror image.

The more competitive the workplace and the economy, the better for this purpose. Look at our experience in Britain. It is not so much in the non-competitive public sector — the civil service — or the anti-competitive trade union structure, where the non-whites have been thrusting forward. It is in the most competitive areas — sport, entertainment and small business — that their progress has been marked.

If Asians are more willing than whites to open their shops when customers want to buy, then white shopkeepers can be saved only by following suit or pleading for restrictive regulation on shop opening hours.

☐ TEBBIT

At the end of the day one ethnic group may achieve greater success than another. That is not new — the Jewish community has been doing it in businesses, science and the arts for centuries — to the benefit of all.

Our responsibility and our self-interest lies in making sure the rules of the contest are fair and not designed to "fix" the outcome.

Secondly, you must proclaim what you are doing both at home and abroad and challenge your critics to show that their hands are clean too.

I have tried to set out some thoughts — none of them new, many of them shared by most of you — and to suggest some actions — many if not most already being undertaken, but to put them together and base them upon a belief in a coherent economic and political doctrine.

I have to warn you that as surely as an open democratic political and social system can only rest upon an open free market economic system, so that capitalistic free market system cannot survive long without a democratic system.

There is no possibility that either blacks or whites can pick the one they want and reject the other. I believe that is the message behind your President's political initiative.

☐ **This excerpt is from Tebbit's address to the Great Economic Debate at the Institute of Directors meeting in Johannesburg yesterday.**

LETTERS

FM 7/9/90 (49)

NATAL-KWAZULU (49)

A LACK OF BALANCE

Two simple facts point to a grim outlook for the future of Natal and KwaZulu. The combined regions have the highest population growth but the lowest economic growth.

Homing in on the economic centre of the regions — roughly a semicircle radiating from Durban to Umkomaas in the south, Maritzburg in the west and Salt Rock in the north (defined as the Durban Functional Region, or DFR) — the picture is not much better. Population growth there has trebled over the past two decades and is now estimated at 3,1m-3,8m. It is expected to be 5,1m-6,5m in 10 years' time.

Economic growth in the DFR, optimistically estimated at 1% a year, lags behind the rest of the country. A third factor — the rapid urbanisation which probably makes the region the fastest growing in SA — brings with it further problems of unemployment, squatter camps, pressure on already inadequate health and education facilities in a region of endemic violence.

A gloomy picture, but there is some cause for optimism. The problems of the region have been acknowledged, from government and the private sector to local authorities and they are now making a combined effort to avert a catastrophe. That's why the R11,3m project to upgrade Bester's Camp, one of the squatter areas north of Durban, announced by Independent Development Trust chairman Jan Steyn last week, is to be welcomed.

The amount to be spent on the project is paltry (especially the R5m contribution by the trust, launched with a R2bn injection by President F W de Klerk this year), considering the extent of deprivation in the DFR. But if nothing else, it is an important psychological boost which could be followed up by further joint public-private sector initiatives.

The announcement comes as Durban City Council tries to deal with economic problems of the region. It has contributed just over R5m to the Bester's Camp project with the additional R1m coming from Tongaat-Hulett, a group that also takes the region's problems seriously and which earlier this year published what has become the definitive study of the DFR.

The council has formed an Economic Development Committee (EDC), made up of representatives of the council, public corporations and the private sector and commissioned Pim Goldby Management Consultants to work out strategies to facilitate economic growth.

Jan Steyn . . . *facing the problems*

Having identified the problems and priorities for the region, the next step is a conference and workshop in early November to formulate, together with key players in the region (including the ANC if it will participate), concrete steps to create employment and economic growth.

Management committee chairman Jan Venter, a member of the EDC, points out that the region still has good basic infrastructure, a developed business sector, access to capital and an entrepreneurial class — "potentially a winning combination. The key is to get these powerful forces to work together in the wealth-creation process."

The EDC is also pragmatic enough to admit it is not in the business of providing hand-outs. Another committee member, Small Business Development Corp GM Tony Kedzierski, says the aim of the EDC is to "bring together all the players in the region to work towards economic growth on the basis of mutual self interest."

Shaun Harris

ECONOMIC EVOLUTION 49

NUTS AND BOLTS

FIM 7/9/90

The weakness in the present approach to economics, says British economist and former adviser to Margaret Thatcher, Sir Douglas Hague, is the tendency to look only at the big picture. This focus on macro-economics has prevented economists from looking more closely at the micro-structures of economies and the links between them.

"They aggregate too much instead of finding patterns within the aggregates. So we have very little notion of the structure of things and how they are related and your average UK university undergraduate has little sense of nuts and bolts."

A CBE, Associate Fellow of Templeton

FIM 7/9/90 49

Hague

College, Oxford and honorary visiting professor of Manchester Business School Hague was in SA last week to speak at the annual dinner of the Association of Rosholt Fellows.

Politicians and businessmen, he says, who imagine the Western economy of the future can survive in a global market by producing and exporting more and more manufactured goods are out of touch with the spirit of the age.

"We are moving into the knowledge society. Partly through using technology — but in significant ways without it — many of the incomes and jobs of the Nineties will flow from trading in knowledge. The numbers of those engaged in research and development, consultancy, financial services, education and training and similar activities is growing and will grow more rapidly than ever in human history.

"At the same time, markets for both physical products and for knowledge have become global, as they were bound to do once car transport became cheap, knowledge became a widely traded commodity and developments in telecommunications speeded up its transmission.

"The significance of this can be seen if we turn to a basic proposition in economics. This is that the growth of knowledge and the rate of technical progress are greater the larger the absolute number of people capable of participating in the competitive process of knowledge creation.

"This has always been a characteristic activity in Western civilisation but, until recently, was the purview of a limited number of people. The more creative minds there are at work the more knowledge will be created. And while competition — which is desirable — means that several people will simultaneously make the same discoveries, competition also makes discovery happen more quickly."

Cheap means accessible

This explosion of knowledge flows partly from the rapid development of information and communications technology. And this will become more accessible as its cost declines. "All my informants insist there will be a compound fall of 30%-60% a year in real terms in the price of computing power, at least up to 2000."

Over this period, the improved quality of video-conferences is likely to have a dramatic impact on business travel. In view of this, it may be worth diverting "some of the money going into road and rail investment to finance research in video-conferencing."

Education is another field which will be revolutionised by communications technology in the Nineties — "with increasing use of audio- and video-tapes made by good lecturers and good film makers."

This would go some way to remedying the crisis in education which, he says, appears to be emerging in most countries — including the world's industrialised economies. And in SA, it may be the solution to the enormous backlog in education and the shortage of teaching skills.

Hague believes economists often overlook the significance of technology. "One of the reasons the world economy was so buoyant in the Fifties and Sixties was the motor car, with all its implications — the building of oil refineries, roads, filling stations and so on. And the reason the Seventies were so depressed was only partly the oil crisis and inflation. The steam had run out of the technological elements of the economy. It is now picking up again with information and communication technology.

"Economists are going to have to take account of that." ■

BUSINESS DAY, Thursday, September 27 1990

SA is prepared to play regional role (49) Barend

KEVIN DAVIE

WASHINGTON — SA had been compelled to restrict the growth of its economy, leading to the destruction of job opportunities and an inability to fund essential social expenditure Finance Minister Barend du Plessis said yesterday.

In his address at the annual meetings of the IMF and World Bank governors, Du Plessis said SA at present had rather limited means, and its own urgent needs within its borders.

But the country was still prepared to play its part in dealing with related economic problems of southern Africa and further afield.

"The rapidly changing internal political situation in SA, and the general acceptance of the irreversibility of change should greatly facilitate closer and more visible co-operation," Du Plessis said.

SA had worked at restructuring its economy on the principles of a socially responsible market-orientated system.

"In this effort firm control over public spending necessitated drastic changes in budget priorities in favour of socio-economic expenditure.

"As the peace dividend increases, and to the extent that prudent economic policies take effect, so SA and other countries in our region will be able to spend progressively more on the alleviation of poverty by providing shelter, basic health care and appropriate education."

Du Plessis said that in Africa and southern Africa people were moving in large numbers to urban centres in search of jobs.

Without adequate employment opportunities these migrants would face stark deprivation and even starvation.

"In addition, the welcome evolution towards more representative government could be severely undermined in those countries where economic development and growth fall short of providing basic needs."

Strict

B/Day 27/9/90

He said the region already benefited from no longer being an arena for international power play. This would hopefully lead to a situation where many developing countries would no longer devote substantial portions of their national budgets to maintaining large security establishments.

Du Plessis said despite growing demands for socio-economic expenditure in SA, a strict monetary policy had been applied in order to create and maintain a stable financial environment conducive to long-term growth and development.

"As part of the family of African nations, we reiterate that we have the potential and desire to play a meaningful role in addressing the particular problems of the region."

Politics affect SA's economy - survey finds

Sowetan 27/9/90

(49)

POLITICAL uncertainty is the most destabilising factor in South Africa's economic arena, a Stellenbosch University Bureau for Economic Research survey has found.

In a Press statement this week the bureau said:

"Not only is development capital being withheld for want of clarity on the post-apartheid economic system and political power structure, but the initiatives of local entrepreneurs are also being dampened by fears of possible future business restrictions, while labour on the other hand is pursuing unrealistic remuneration goals.

"Economic instability will prevail until consensus has been reached on a new economic and political system for South Africa."

Business confidence in the manufacturing sector had dropped during the survey to the levels of early 1986 with 74 percent (gross) of respondents being dissatisfied with prevailing business conditions.

Sales

Magnitudes affecting business confidence like volume of sales, production, orders received and production capacity use were at lower levels while stocks on hand had increased in the third quarter compared to the same period last year.

"Although the general business conditions, as interpreted by manufacturers, have been negative on index since the first quarter of 1989, expectations about conditions 12 months hence seem to be a slightly less pessimistic levels, with three percent net of respondents planning to increase their real investment in machinery and equipment.

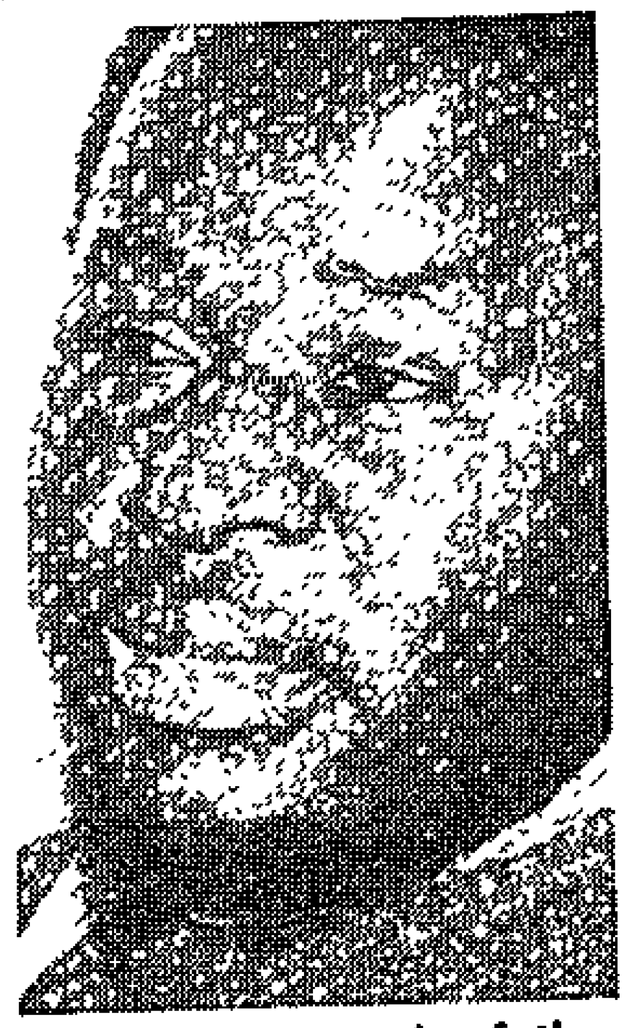
Marginal increases in export volumes and decreases in import volumes are also foreseen for this period. - Sapa

ANC on future economy

From MONO BADELA

JOHANNESBURG. — A draft document which could serve as a blueprint for SA's economic future will be debated by the National Executive Committee of the ANC next week. South 27/9-3/10/90

The document, discussed by about 50 ANC economists and members at a workshop in Harare last weekend, is said to present a "new direction in ANC thinking".



Tito Mboweni of the ANC's Department of Economic Policy

Balanced

Delegates were drawn from the ANC's Department of Economic Policy (DEP) structure abroad and most of the ANC regions within South Africa.

ANC economist Tito Mboweni said the document recognised that growth should be encouraged through investment and not only through redistribution of wealth.

He said a balanced economic growth would have to be in the interest of all the people of South Africa.

However, he added that the State would still retain an important role in influencing private sector investment.

He said the document recognised the important role the private sector would play in a post-apartheid economy.

The document had been prepared for debate within the ranks of the ANC.

"It does not represent an agreed policy but rather seeks to contribute to a democratic process of formulating our movement's economic policy," Mboweni said.

The ANC believed that economic policy should address itself to the demands and needs of the majority of the people and that active discussion and debate were essential.

Mboweni said the ANC had long recognised the necessity for political liberation and constitutional changes to be accompanied by socio-economic transformation.

Research

He said both the Freedom Charter and the constitutional guidelines recognised the need for economic restructuring to be part of the process of constitutional change.

He said the Harare workshop agreed to propose the establishment of an ANC institute of economic policy research which would coordinate research.

The document will be made public next Friday after the NEC has debated its content. (49)

It will then be sent to all ANC regions and branches.

Responses to the document from all ANC regions and fraternal formations would be brought into the formulation of a draft economic policy to go before the ANC's National Conference in December.

Responses are expected to be submitted by mid-November.

The document is divided into eight sections which include "The Heritage of Poverty", "The Necessity for a New Growth Path" and "The Overall Goals of Economic Policy".

After 200 years, Adam Smith's is a valid voice

BDM 27/9/70 (49)

RADFORD JORDAN

"THEY pretend to pay us, and we pretend to work for them."

This wry comment from a Soviet factory hand shows that the theme of worker demotivation can be as topical today as when Adam Smith dealt with it in 1776.

For Smith the extreme case of demotivation was that of the slave: "The experience of all ages and nations, I believe, demonstrates that the work done by slaves, though it appears to cost only their maintenance, is in the end the dearest of any. A person who can acquire no property can have no other interest but to eat as much, and to labour as little as possible. Whatever work he does beyond what is sufficient to purchase his own maintenance can be squeezed out of him by violence only, and not by any interest of his own."

If slavery was so inefficient, how was its existence to be explained? He could find no economic motive for slavery, but believed that men loved to dominate others.

If the law allowed slave labour a man would, other things being equal, generally prefer the services of slaves to those of free men. The profits of sugar plantations in the West Indies were so high that their owners could use slaves. But high as wages were in North America, corn could not profitably be grown there except with free labour.

It was not in the richest countries, but in those where riches were increasing most rapidly, that wages were increasing fastest.

Only where wage increases made the product no longer competitive would their rise stop.

Subject to the foregoing, Smith was all for good wages.

He argued that:

□ "The liberal reward of labour ... as it is the necessary effect, so it is the natural symptom of increasing national wealth. The scanty maintenance of the labouring poor, on the other hand, is the natural symptom that things are at a stand, and their starving condition that they are going backwards fast;

□ "The liberal reward of labour, as it encourages the propagation, so it increases the industry of the common people. The wages of labour are the encouragement of industry, which, like every other human quality, improves in proportion to the encouragement it receives. A plentiful subsistence increases the bodily strength of the labourer, and the comfortable hope of bettering his condition, and of ending his days perhaps in ease and plenty, animates him to exert his strength to the utmost."

Smith identified three factors which made for increases in real wages during the 18th century through enhanced labour productivity: increasing division of labour, newly invented machines, and the elimination of passing from one task to another.

Foremost among these was the division of labour: that is, the differentiation of tasks between workers, who thus became able to develop specialised skills.

Production was speeded up in a way that could never have been achieved if each worker had to perform a variety of tasks.

Some of the newly invented machines had been devised by individual workers, often in the hope of shortening their hours.

Shorter hours of work than those of Smith's era would help motivate labour: "If masters would always listen to the dictates of reason and humanity, they have frequently occasion rather to moderate than to animate the application of many of their workmen.

"It will be found, I believe, in every sort of trade, that the man who works so moderately as to be able to work constantly not only preserves his health the longest, but, in the course of the year, executes the greatest quantity of work."

A final point in favour of the liberal of labour was that: "It is but equity that they who feed, clothe, and lodge the whole body of the people should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged."

These were pioneering arguments in Smith's own day; despite changes he could not have conceived of in the economic, social and physical conditions of labour, not one of them has lost its validity.

□ **Jordan is a former lecturer in political studies at Wits.**

LETTERS

Not quite free enterprise, but ANC changes hard-line plan

(49)

WMail 28/9. – 4/10/90

By REG RUMNEY

THE latest African National Congress document on economic policy is as remarkable for what it leaves out as what it says.

The ANC's "Discussion Document on Economic Policy" arises from a workshop in Harare at the weekend. As the name suggests, it is by no means the last word on ANC economic policy.

The business community will be gladdened by its reference only in passing to nationalisation, and to far less emphasis on the role of the state in economic affairs than one has come to expect. On the other hand, it is no free-enterprise charter. One has to read through many pages before the role of the private sector is discussed.

The analysis of the defects of the South African economy will strike conventional commentators as containing many commonly agreed observations along with quite a few contentious ones. Few will argue about the existence of vast inequalities in wealth, income, land ownership etc. But the contention that economic growth since World War II was fuelled by substituting locally produced manufactured goods for wealthier consumers for imported articles of the same type is open to debate.

It could be argued that import substitution has covered some basic needs like clothing and agricultural implements. Whether enough has been done, and more could be done without making local industry uncompetitive, is also in question. Government policy has gone the other way, by acknowledging the increasing integration of world economies by de-emphasising import substitution and emphasising exports of manufactured goods as a route to growth.

The government and the ANC are in consensus about the need for industry to concentrate on beneficiating products rather than depleting our natural resources by continuing to export mainly raw materials. The question is how to do this. Beneficiation itself is a complex topic and has been exercising the minds of government officials and entrepreneurs only fairly recently.

Problems encountered by South African industry suggest while there is a lot of scope for manufactured exports — particularly once sanctions are out of the way — it is not plain sailing. Exporters of beneficiated materials have to be careful not to alienate the customers of our raw materials by competing with them, must overcome hurdles of economies of scale and distance from markets.

At the heart of the ANC's economic plan is a two-pronged strategy, which the document sums up as satisfying basic needs by growth through redistribution; and a national development strategy based on a mixed economy.

While stressing the need for growth, the ANC believes simply promoting growth provides no solution to poverty and inequality.

"Even at times when the apartheid economy grew, for example in the decade 1960 to 1970, precious little benefit 'trickled down' to the masses, who continued to live in poverty and squalor."

However, while accepting the need for redistribution the document emphasises the "need to implement other policies which will ensure sustainable growth".

Key elements of national development strategy will be to use redistribution to satisfy basic needs and create new patterns of demand. "A massive injection of finance will be required to meet basic social needs in such areas as welfare, housing, health and education." But the document notes it will at the same time be necessary to avoid inflationary spending policies. "Reconciling these potentially conflicting objectives requires redistributing resources in such a way that new patterns of demand are created."

Some other points:

- The ANC would enact a national retirement scheme, underwritten by the state, and a compulsory unemployment scheme with contributions by employers and employees as well as the state
- It would investigate using prescribed asset requirements to "encourage" financial institutions to make a portion of their funds available for low-cost housing
- The ANC believes "given the volatile nature of mineral prices, a policy of stabilising prices through the formation of cartels should be seriously considered". The formation of a state minerals marketing authority would also be looked at
- The ANC opposes privatisation and deregulation in mining and is concerned about the current conglomerate control of mining finance
- The ANC would address unemployment through public works programmes and by the re-deployment of resources from apartheid-oriented projects into employment creating schemes.

MONEY SUPPLY F M 28/9/90

STILL SLOWING

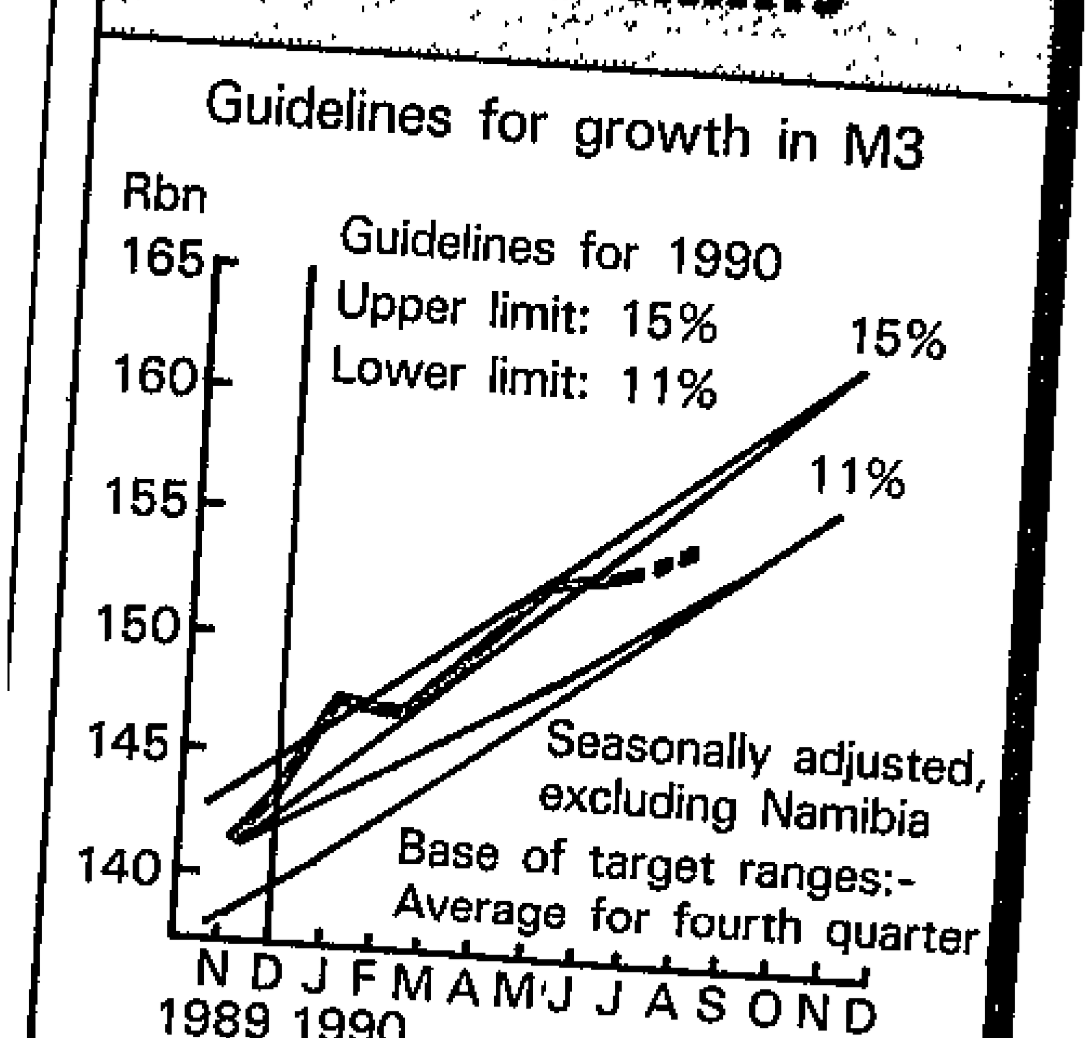
49

Money supply growth slowed again in August, with the broadly defined aggregate M3 showing a provisional 12-month increase of only 14,29%, to R154,5bn, down from a revised 15,76% (previously 16,32%) in July.

Better yet, the preliminary seasonally adjusted and annualised rate of M3 growth from the base of the current target year (begun mid-November 1989) stood at 12,92% in August, against July's revised 13,47%. That makes August the third consecutive month this figure has fallen within the Reserve Bank's 11%-15% target range.

Southern Life economist Mike Daly calls the figures "very encouraging," made more so by the fact growth rates for June and July were revised downward. "Money supply growth is now well within the guidelines, and there is nothing to stop them falling further, possibly hitting single digits by the second quarter of 1991."

Within limits



ECONOMY & FINANCE

FM 28/9/90 49

This view is supported by Reserve Bank governor Chris Stals's statement the 11%-15% guidelines were too generous, suggesting they will be lowered early next year. But whether Stals will be persuaded to back away from his determination to maintain interest rates is another matter. The lower M3 growth has fuelled market expectations of an imminent cut in interest rates, as seen by the easing of some money and capital market rates. But the recent petrol price increase, with a second increase looming, could delay a cut.

In the 12 months to July, M1A grew 13,59% to R25,2bn, M1 was up 15% to R46,1bn, while M2 rose 18,19% to R121,2bn.

Total domestic credit extended by monetary institutions rose to R153bn, up 15% from August last year. ■

NEWS IN BRIEF

PAC economy talks

HARARE - The PAC will meet the South African-based Consultative Business Movement in Tanzania tomorrow, Zimbabwe's news agency Ziana reported yesterday. Sowetan 28/9/90 (49)

A statement by the PAC's external headquarters in Dar es Salaam said the CBM delegation would consist of 13 members, including executive directors and representatives of Caltex, Barlow Rand and Anglo American Corporation.

The one-day meeting would concentrate on the PAC's economic policy for a post-apartheid South Africa. - *Sapa.*

A radical economic transformation needed

Star 28/9/90 (49)

By Duma Gqubule

The single most vital aspect of restructuring the economy is the transformation of the "high-inflation, low-growth" trend of the 1980s into a "low-inflation, high-growth" economy for the 1990s, says Bankorp's economic unit.

In its quarterly review the bank says continuous double-digit inflation and low economic growth over the past 15 years have been the greatest direct causes of the poverty and inequality existing today.

The bank says real economic growth has shown a serious structural decline — from five percent a year in the 15 years to 1974 to two percent a year in the 15 years thereafter.

This has brought a correspondingly serious decline in job creation.

"The average rate of job creation in the past 15 years was a mere one percent a year and there were practically no new jobs created in the formal sector of the economy in the 1980s."

The bank says low job creation has aggravated the problem of poverty and inequality.

It says excessive wage increases also contribute indirectly to the problem of poverty and inequality.

"Continuously high wage increases and labour unrest encourage a trend towards labour-replacing capital investment in a number of industrial sectors.

"This acts as a further serious brake on job creation

"Unremitting wage pressure also undermines business profitability over a wide front - bringing further reductions in fixed investment, new projects and job creation."

The bank says excessive government spending, taxation and borrowing induce high inflation and low growth.

"Consequently, norms for fiscal discipline should be built into a new constitution — government revenue could be restricted to 30 percent of GDP and the deficit before borrowing to three percent of GDP.

"A constitutional limit to government share in the country's total capital stock, say 55 percent, could also make an important contribution in this regard."

We're riding the big dipper to recession

Star 29/9/90 (49)

SURGING international oil prices this week to above $40 an barrel is threatening to plunge the world's major economies into a major and serious recession.

For South Africa, already rapidly moving towards a serious recession, the effects could be doubly serious.

In private, local economists are starting to discuss the possibility of the current downswing matching that of 1985/86.

This contrasts with repeated statements by government economists that the downswing is unlikely to be as severe as the previous one.

At the annual conference of the International Monetary Funds, which ended in Washington this week, it was stated that oil at $30 per barrel will depresses growth in the US economy by 0,5 percent and push up inflation by one percent. Oil at $40 per barrel will have even more serious consequences.

A number of spokesmen at the IMF conference made it quite clear that governments in industrialised countries will have to maintain high interest rates in order to keep inflationary pressures down.

Consumer prices

Higher oil prices in the US have already starting exerting upward pressure on consumer prices with cpi-inflation in the US now running at 6,2 percent.

In Britain inflation nudged up to 10,6 percent in August while in South Africa the downward trend in the inflation rate was reversed in August for the first time in seven months, rising from an annualised rate of 13,3 percent to 13,6 percent.

This increase does not reflect the nine percent increase in the petrol price earlier this month.

Oil prices of $65 a barrel — a

MAGNUS HEYSTEK

distinct possibility if war in the Gulf breaks out — would devastate world growth, increase inflationary pressures and lead to higher interest rates in order to keep inflation down.

The deputy-governor of the SA Reserve Bank Dr Jan Lombard, attending the IMF and World Bank conference in Washington this week, says interest rates cannot possibly be reduced at a time of soaring oil prices and a slowdown in world economic growth.

"Higher oil prices will lead to lower living standards in South Africa, " he told colleaugue Sven Lunsche who covered the conference for The Star.

Predictions

Predictions of petrol at R2 a litre by the end of the year should the Gulf-crisis not be resolved, have to be taken seriously. At current prices there is already an under-recovery of more than 25 cents per litre in terms of international oil prices and currencies.

Falling world stock markets, especially in Japan, could exacerbate the trend towards a recession in the US and in Western Europe. The Japanese stock market — which has been described by astute analysts as a "ticking timebomb" — has dropped by more than 50 percent this year.

This has dragged other world markets down and could have serious repercussions for the US economy.

If Japanese investors start pulling out their massive investments in the US in order to protect local banks exposed to dropping equity and property markets, it could devastate financial markets in the US, leading to a massive outflow of money.

Although the gold price has risen to some extent on the back of the Gulf-crisis, this has not

been enough to compensate for the higher cost of oil imports.

As Sanlam's economist points out, the gold price has to rise by $6 an ounce to compensate for every increase of $1 a barrel.

Gold has risen from $360 an ounce to around $405 an ounce over the past month but this has not compensated fully for the oild price rise and isplacing pressure on the balance of payments.

With a Gulf-crisis South Africans will have no choice but to accept that interest rates will remain high for much longer than was expected. Dr Chris Stals, governor of the Reserve Bank, stressed this point at the IMF this week.

He really has no choice. It would be foolish for the authorities to reduce interest rates at a time of international crisis and when interest rates are heading higher.

It amounts to a grim scenario of high interest rates, possibly higher inflation and lower growth until at least the end of 1991.

Africa after apartheid and Marx

S/Times 30/9/90 (49)

Harry Oppenheimer calls for investment from the United States and co-operation among African countries to rebuild the continent

WE should be asking ourselves if there is not still validity in the vision of linking American skills, experience and resources to the task of building a new area of peace, justice and prosperity in our sub-continent.

Until very recently such a notion would surely have been dismissed as an idle dream.

A previous attempt was made to organise southern Africa under the umbrella of the old colonial empires. But this system has collapsed and colonialism has been replaced by numbers of small independent black states most of whom are inclined to express their hatred of colonialism by attempting to build their economies on some African adaptation of the Marxist system.

Decay

As might have been expected, the results have been disastrous.

So-called "African socialism" combines the fundamental flaws which have destroyed socialism in eastern Europe with the administrative inefficiency which too often results from the inferior education system which has been all that was available to blacks under the colonial system.

South Africa reacted to these developments by launching the apartheid policy, a system which, while ostensibly opposed to socialism, involved in practice a substantial measure of centralised control of the economy. And so for the last 30 or 40 years southern Africa as a whole has been wasting its natural resources in an attempt to realise social and political objectives which were just a mirage.

But now at last, in spite of all the misery and violence, there is light at the end of the tunnel.

Apartheid and Marxism are both in a state of terminal decay and there seems to be a chance of building democracy, freedom and prosperity in southern Africa.

Many developing countries depend economically on a mining base.

Sound

Although a diversified economy exists, we still depend to a major extent on mining and in particular on the export of mineral products for the foreign exchange which we cannot do without.

The same is true for virtually all the new black states in the area. Zimbabwe, Zambia, Namibia, Zaire, Angola and Botswana are all mining countries and all could benefit enormously and could offer much in exchange if the skills and resources of the American mining industry could be made available to them in a sensible and businesslike way.

Unfortunately, because of the natural hatred of apartheid throughout black Africa, every effort has been made, and is still being made, to break the links between South Africa and the rest of the continent.

While this is understandable, it is entirely impractical, since the economic growth of the whole area requires the closest co-operation between South Africa — which is the economic powerhouse of the region — and the smaller, less-developed countries to its north.

It is through South Africa, and by taking advantage of its experience and specialised knowledge of African conditions, that resources from outside could best be channelled to build up the economy of this part of the world.

What is needed is not a continuation of the policy of pouring money like water into the new African countries for political reasons in the form of government or institutional grants and loans — a process which, while causing loss to those who give, does little in the long-run to help the recipients.

What the new southern Africa needs is private investment which stands up to examination on the solid basis of calculation of profit and loss. The natural resources of these countries are great and a change to a new, sound economic system now seems to me within the bounds of possibility — provided we can get rid not only of apartheid but also of the moribund system of Marxism.

When the Anglo American Corporation of South Africa was formed it was thought of not only as a South African mining company but as a means of contributing to the development of the whole area from a South African base.

Hard

All this was envisaged within the structure of the old colonial system and in particular of the British Empire and Commonwealth of which South Africa was a member.

The political changes which brought that way of thinking to an end could not have been foreseen. But now, through hard and painful experience, it may be that we are moving towards a new form of political and economic co-operation which would allow South Africa and the new black states to work together to their great advantage and to the advantage of the whole free world.

□ *Mr Harry Oppenheimer is past chairman of the Anglo American Corporation and De Beers. This is an extract from a speech delivered at the Mining and Metallurgy Society of America this week.*

Give ANC a chance to review nationalisation - Pik

(49)

DURBAN: It was unfair to blame the African National Congress for being committed to nationalisation, Foreign Affairs Minister Pik Botha said yesterday. U/Mail 31/8 - 2/9/90

"I want to urge the private sector to talk to the ANC about this," he told the Natal National Party congress. "It is my impression that Mr Nelson Mandela stands ready to be persuaded."

Botha said he had told Mandela that, even if sanctions were lifted, South Africa would not easily obtain funds because of the violence.

"I told him we should set aside our ideological differences and send clear message that our future cannot be determined through violence.

"I warned him that we are all doomed if we cannot create jobs or provide houses for his followers. If we don't get our act together, we'll have nothing to govern".

Botha predicted less stark differences on the African continent.

"The will to survive will force us together to move Southern Africa into a new future. In that frame, the security of whites is ensured. That security lies in making ourselves indispensable."

He said the State President, FW de Klerk, had taken severe risks when making his February 2 speech, but he had taken South Africa out of its isolation and was giving it international respect again.

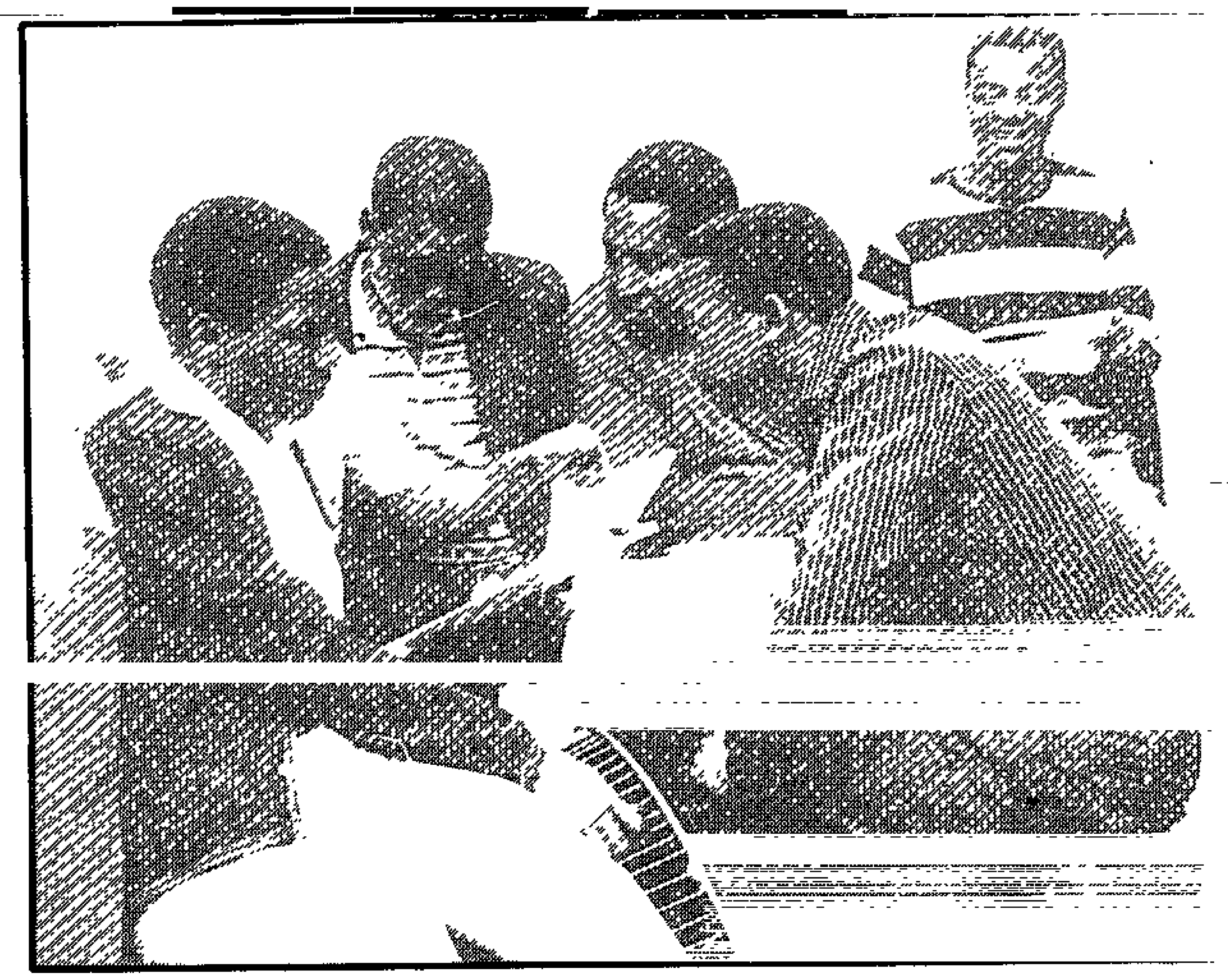
"We may not smell of roses yet, but we are no longer the polecat of theworld. I am aware of the growing doubts and even despondency of our followers, but there was no smooth or easy way to do what we did ... It had to be like this.

"We were on our way to becoming a bankrupt state where effective military force could have been used against us."
— Sapa

The transfer of power (49)
What do you think?

New Nation 31/8 - 6/9/90.

Your own experience maybe tells you that capitalism cannot give you all the basics like food, clothing, shelter, education and employment. We have all recognised that South African society needs to change. The state and the bourgeoisie are trying to drag out the life of capitalism through reforms, the masses and their organisations want to build a new society.
Over the last five weeks we have looked at the role a Constituent Assembly can play in this process of change, the transfer of power. We thought it would be useful to look at the main points made in each of the last five articles and then look at how power should be transferred in South Africa. Perhaps you could get together in your organisation or with friends and fellow workers and do this together.



Read through this summary of the transfer of power series.

South Africa

In the first article on **South Africa** we saw that there was a big difference between the National Convention of 1908 and the present call for a Constituent Assembly. The delegates to the National Convention were chosen by the "whites only" parliament of the four provinces of South Africa. The people who drew up the constitution were not elected specifically for this purpose. According to the proposal for a Constituent Assembly, in the present period, the new Constitution will be drawn up by delegates elected specifically for this purpose. All people and all political parties will be allowed to participate in these elections on the basis of one person one vote.

France

The idea of a Constituent Assembly first emerged in **France** in 1789. As was mentioned in the first article, change is something that at a particular time, due to the objective conditions, is necessary. In France, feudalism as a mode of production had reached its upper limits by 1789 and couldn't take society forward. Capitalism was beginning to develop and with it arose the beginnings of the bourgeoisie and the working class. However, the main social relations were still feudal relations. If capitalism was to develop any further, the bourgeoisie would have to smash feudalism and seize power. They called for a Constituent Assembly but it was not elected by all people. Power was transferred from the king to the new ruling class, the bourgeoisie. The Constituent Assembly drew up a constitution that did not give the vote to all people. This led to a renewed struggle for a fully democratic society.

Russia

In the third article we looked at **Russia**. Here we discussed the workers and poor peasants' struggle against the Russian king, the tzar. We read how in 1905 thousands of people marched to the tzar's Winter Palace to present their demands for an eight hour day, a minimum wage and about overtime. They also called for a Constituent Assembly and for one man one vote. The tzar's government ordered the troops to open fire on the crowd and thousands of people were killed. This action triggered off nationwide struggles and strikes throughout Russia. In February 1917, the tzar was overthrown in a spontaneous mass revolt. A Provisional Government was set up and was made up of largely capitalists and liberal officials. On 26 October of that same year, the Military Revolutionary Committee of the Congress of Soviets overthrew the Provisional Government. Lenin said that all power was now in the hands of the Soviets. Before the Provisional Government were overthrown, it had set a date for the Constituent Assembly elections, November 12. The Bolsheviks in the Soviets supported this call before the October Revolution, but afterwards argued that the Soviets were a higher form of democracy than the Constituent Assembly. On 5 January 1918 the Constituent Assembly was dissolved. We have seen that the transfer of power was achieved on the basis of wide scale mass action and the building of the new mass structures, the Soviets.

Nicaragua

In the fourth article which discussed **Nicaragua**, we saw how the masses, together with the Sandanista National Liberation Front (FSLN) overthrew Somoza in 1979. After the revolution the FSLN were determined to include the mass organisations in the Council of State. The Council of State provided direct representation for the masses through the mass organisations. As a result of the war with the Contras and US imperialism during the 1980's, the FSLN was forced to form the Constituent National Assembly. The Constituent Assembly only allowed for the representation of political parties and reduced mass participation in the state. As you know, the Sandanistas then lost the election earlier on this year because mass participation was no longer possible.

Zimbabwe

The following year we went on to look at the transfer of power in **Zimbabwe**. We saw that ZANU and ZAPU were forced into negotiations and the Lancaster House agreement because of the weakness of the Frontline states, who were forced by the attacks on their countries to accept Britain's settlement. We also saw that the absence of mass organisations inside Zimbabwe made ZANU and ZAPU dependent on the Frontline states. Britain was therefore able to force ZANU and ZAPU into a settlement that brought about majority rule but maintained the interests of the capitalists and landowners in Zimbabwe.

Namibia

Last week you read about **Namibia**. We looked at the struggle of the people of Namibia for independence from South Africa. In particular we looked at the United Nations Resolution 435 which formed the basis for independence and at the role of the Constituent Assembly in drawing up a new constitution for Namibia.

In the elections of 6 November 1989, SWAPO won 41 of the 72 seats in the Constituent Assembly. Although this was a straight majority, SWAPO failed to obtain the 2/3 majority necessary to draw up a constitution of their own. Sam Nujoma, the leader of SWAPO became president of the Constitue[nt] Assembly, but SWAPO had no pow[er] to implement a program according t[o] the needs of Namibians. As a re[sult] they had to enter into compromise[s] with minority parties. The principle[s] and functions of the Constituent As[sembly] were spelt out by Germany France, Britain, Canada and the US This group said that the new Namibi[a] must be based on a capitalist economy They also separated out the legislative the judiciary and the executive from each other. We also saw that Namibians did not participate in deciding the independence process for their country. Also, the Namibian working class and its organisations were too weak to reject this process that was imposed o[n] them. Mass organisations like the National Union of Namibian Workers (NUNW) were excluded in the drawing up of the constitution for an independent Namibia. No provision was made for the ratification of the Namibian constitution by the Namibian people. There is also no provision for the recalling of representatives if s/he is not accountable to their constituency.

Now that you have some background knowledge on how power was transferred in other countries, you can see what mistakes were made, or what the advantages of certa[in] strategies and tactics were. Bearing these points in mind, write us a letter or article saying how you think power should be transferred here in South Africa.

Send your response to us by 14 September and we will publish the interesting ones in Learning Nation on October 12. We would like to hear from individuals and organisations.

day, October 1 1990

Govt reviewing small business development

BDay 1/10/90 49

ACHMED KARIEM

GOVERNMENT was taking a new look at the financing of small business development in order to utilise limited resources more effectively, Trade and Industry Minister Kent Durr said at the launch of Small Business Week at the weekend.

Discussions were under way to merge the activities of small business support organisations — both private and public — to obtain better cost-effectiveness in the application of state and private funds.

Role

He said government was committed to supporting the Free Enterprise Ethic. It intended to further private initiative with emphasis on support for small businessmen. Government support was given through the Trade and Industry Department to organisations such as the Small Business Development Corporation and the Small Business Advisory Bureau.

In the new SA, small business would play a major role and would act as a vehicle for job creation.

President F W de Klerk's recent US trip had included a message of hope for support from the US for a market economy in SA.

"This was a call, not for support of a broad economic theory as such but rather for the protection and encouragement of every person's right to share in economic endeavour in whatever way he wishes within an equal opportunity society, according to his talents."

Durr said government would encourage people to exercise this right and was pursuing deregulation of the legal environment within which business operated.

SBDC senior manager Dawie Crous said the Small Business Week was a national promotion aimed at furthering the interests of the small business sector.

"The purpose is to create an awareness of the importance of the small business sector and to give recognition to entrepreneurs operating in a competitive environment," he said.

Crous said more than 85% of business enterprise in SA could be considered small — with total assets of less than R2m — while 75% of new jobs in SA were generated by the small business sector at a fraction of the cost incurred by big business.

Events

The conference was organised by key players such as the SBDC, Wits Centre for Developing Business, the Urban Foundation, First National Bank and Get-Ahead. It was directed at entrepreneurs, big business and local and national authorities, he said.

"The events included activities such as breakfast seminars, fun runs, flea markets, fast food competitions and many more," Crous said.

because he was in detention. | tions such as the Small Business Development Corporation and the | of the sn "The

'Use funds to ease unemployment'

GERALD REILLY

PRETORIA — Part of the R3bn set aside by government for development should be used to ease SA's critical unemployment problem, Afrikaanse Handelsinstituut President Tom de Beer said at the weekend.

Special measures to provide the workless with temporary employment should be considered.

After a meeting of the AHI's executive committee, De Beer said the economic problems confronting SA had never been more complicated.

Besides shrinking profit margins, weaker turnovers and rising costs, unemployment was increasing steadily.

And SA was saddled with an inflation problem which had not yet been affected by the Middle East oil crisis. Trade unions' unrealistic and agressive wage demands indicated the inflation problem was a long way from being solved.

De Beer said balance of payments prospects were also problematic.

Commodity exports would come under pressure as a result of the world economic downswing and also because SA had lost much more because of rising oil prices than it had gained by the rise in the gold price.

The AHI believed fighting inflation — which would involve further sacrifices in terms of economic growth — remained government's most important policy priority.

Citizen 1/10/90

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Indicators show spark of life in economy

(49)

GRETA STEYN

THE economy is showing signs of life in an apparent contradiction of the widespread belief that the country has sunk into a deep recession.

A pick-up in credit demand, high import levels and a rise in new car sales are three indicators proving the economy is far from dead. The overall picture is one of a patchy economy and these figures fly in the face of demands for an immediate cut in Bank rate to ease the pain of the recession.

Reserve Bank figures show that growth in credit extended by banks and building societies to the private sector accelerated to 4,2% between April and July, from 2,2% in the previous three-month period.

Bankers argue that the figures only go up to July and the latest indications are of a renewed decline in credit growth. They point to the relatively liquid money market as evidence.

However, the official statistics on credit, especially mortgages, do not yet reflect a slump. Building societies experienced a much better period in the second quarter this year than in the final quarter of last year (up 64%). July's increase in building society mortgage holdings of R294m was more than double that of July 1989.

The pick-up in activity is also evident from the value of real estate transactions, which rose by more than 7% between the first quarter of this year and the final three months of 1989 — an annualised rate of increase of more than 20%. This is all the more significant as the values are seasonally adjusted.

Overall, total domestic credit did not rise much in July, but this reflected the fall-off in government's use of bank credit. Overall domestic credit was up by less than 0,5% between July and June, reflecting a 70% fall in net claims by monetary institutions on the government sector.

Also indicating that the recession has not yet crippled the economy are import figures. Imports excluding unclassified goods (mainly oil) rose by 5% during August and machinery imports rose for the second month in succession to a level compatible with the upswing.

Summonses

Another set of figures contradicting the severity of the recession are the new car sales for August that showed a rise of 11% from the previous month and 9% from August a year ago.

However, while the economy might not be dead yet, the recession is undoubtedly biting — the number of summonses for debt for the six months to June shows an increase of 6,5% from the previous six months, and a rise of almost 10% from the same period a year ago. Central Statistical Service said civil judgments for debt were up 9% on a year ago.

● Comment: Page 10

Study looks at spending needs

GRETA STEYN

GOVERNMENT spending would have to soar from 30% of GDP a year to 50% to wipe out racial backlogs in pensions, education, health services and housing within a decade.

This is the finding of Natal University professors Mike McGrath and Merle Holden, who say a less ambitious expansion programme can be introduced by requiring those with higher incomes to pay for services which are not essential, and by using savings on defence and administration.

In the latest issue of Indicator SA, they say: "Realistically, an egalitarian supply of education, health, housing and pensions to all households can be attained by increasing total government expenditure by about 35% above its present level."

It was possible that government expenditure could remain at about 30% of GDP if the economy grew at an average real rate of 5% a year. The deficit as a percentage of GDP need not significantly exceed the current benchmark of 3% — McGrath and Holden put it at 4,4% in 1994.

"The increased level of expenditure needed to bring about a substantial level of equality in social services is attained within five years, with government expenditure growing at 7% (real) per annum. Thereafter growth of government expenditure must be curtailed dramatically."

In this scenario, the current account will swing into deficit and foreign borrowings will be needed to make up the shortfall and supplement domestic savings.

The main engine for growth should be manufactured exports. The continued need for foreign borrowing should focus on the need for policies to stimulate export growth. Policies should also focus on increasing domestic savings, holding back wage increases and limiting the growth of other areas of government expenditure.

It would be preferable to defer increased spending on social services until the growth process was well under way.

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B/Day 1/10/90

Redistribution within companies is PAC aim

LESLEY LAMBERT

CAPE TOWN — The PAC said yesterday it would seek wealth redistribution within individual companies and consider nationalisation only where firms refused to comply.

While the organisation said it was mindful of the effects of its policy on capital investment and economic growth, it proposed higher corporate taxation as a means of redistribution. It also proposed state intervention in the business of Old Mutual and Sanlam to ensure that the life offices' policyholders' funds were used to promote transfer of wealth.

A discussion paper by Zimbabwean academic Sipho Shabalala, presented by PAC spokesman Benny Alexander at the Association of Black Accountants of Southern Africa's annual convention, said "the PAC would like to see redistribution of wealth and decision-making powers at individual company levels as being more important than nationalisation. Obviously, if some individuals choose to defy redistribution measures, such companies will be considered for nationalisation."

Redistribution criteria for companies would include: creation of funds to enable workers to acquire a substantial portion of a company's shares with voting rights; job creation and wage increases favouring black workers; establishment of training and development programmes to enhance skills and provide opportunities to improve productivity and increase the number of black workers at higher salary levels; contribution to social benefits; statutorily enforced worker involvement in financing, investment and profit distribution decisions; and direct taxation.

Companies would also be called on to contribute to small business promotion and development funds, make direct loans to the state and to provide technical services to black businessmen.

The paper said government would influence the use of Old Mutual and Sanlam policyholders' funds by directing the economic policies of the companies they controlled. They were singled out because of the economic power they wielded as managers of the bulk of the nation's savings.

If nationalisation were pursued, foreign firms would be a major target. Private shares of firms targeted for nationalisation would be transferred to the state "with or without compensation, voluntarily or involuntarily". Nationalised assets would be leased back to the private sector.

The PAC conceded that "nationalisation by itself does not achieve economic equality. It often benefits the elites and urban workers at the expense of people in the rural areas." If the PAC came to power it would reserve the right to reverse the process of privatisation.

Govt spending tops target

Star 18/9/90 (49)

By Duma Gqubule

Government spending soared in August, bringing total spending for the first five months of the fiscal year well above the government's original target.

Expenditure for the first four months of the year declined in real terms but an interest payment of almost R3 billion brought August's expenditure to nearly R7,18 billion, a 39 percent increase on the figure for August last year.

Nedcor economist Edward Osborn said "This could be the beginning of a new pattern of interest payments with seasonal peaks following the recent consolidation of government stocks."

Revenues of R5,34 billion resulted in a deficit for August of R1,84 billion and a cumulative deficit from April to August of R3,76 billion.

Figures show govt's capital expenditure 'is tapering off'

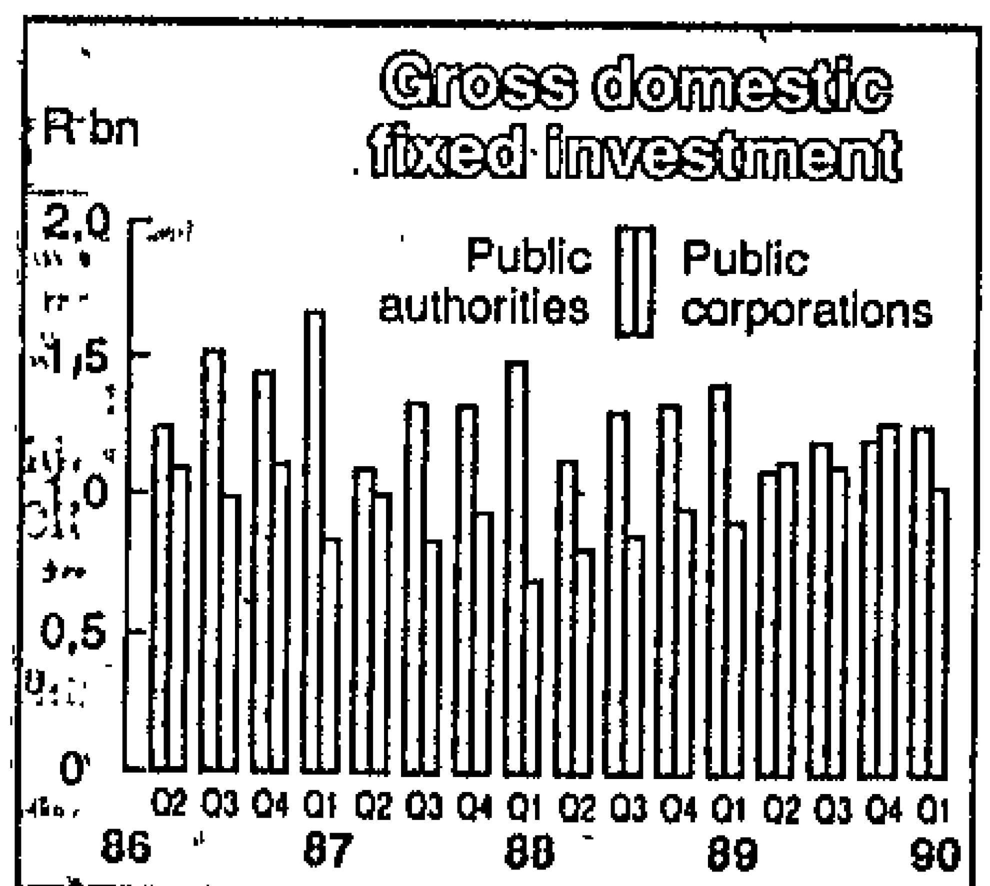
CHARLOTTE MATHEWS

GOVERNMENT expenditure on capital investments is tapering off with no big projects in the pipeline, say the Reserve Bank and a civil engineering industry source.

Bank figures for the second quarter of 1990 were due at the end of September. The first quarter reflected expenditure of R1,2bn at constant 1985 prices for public authorities against R1,4bn in the first quarter of 1989. For public corporations expenditure rose to R1bn from R902m.

Public corporations included Eskom, the Rand Water Board, Mossgas,Mossref, Transnet and Posts & Telecommunications while public authorities included central government, municipalities and some Regional Service Council (RSC) budgets.

A Reserve Bank spokesman said the trend of expenditure quarter-on-quarter for the last two years was downwards with the exception of Mossgas and one or two other public bodies.



Graphic FIONA KRISCH Source SA RESERVE BANK

He said Transnet and Posts & Telecommunications undertook some investment in 1989 which had since tapered off. RSC expenditure had risen.

The Central Statistical Service (CSS) report on actual and expected capital expenditure of the public sector for 1988 to 1991 said total expenditure in 1990 was expected to be higher than in 1989 but would fall again in 1991.

Total public sector expenditure in 1989 was estimated — at 1989 prices — to be around R16,9bn against R20bn in 1990 and R17,6bn in 1991.

The CSS stipulates that these estimates are based on availability of funds.

SA Federation of Civil Engineering Contractors (Safcec) executive director Kees Lagaay said it appeared municipalities and RSCs had adequate budgets for 1990. The allocation to the municipalities appeared to be for upgrading of black townships.

The state was cutting back on construction and maintenance of major roads. It appeared the combined RSC-state budget was down monetarily, he said.

Expenditure by Eskom was shrinking as it had surplus capacity for generating and distributing electricity.

Eskom was not planning any new power stations for the next five to eight years and little expenditure was planned for railways, harbours and aerodromes.

Mossgas's mechanical operations would continue but civil engineering work would start tapering off soon.

SA growth 'lags behind that of its neighbours'

b/Day 20/9/90. (49)

GRETA STEYN

WHILE SA's per capita income still ranks as one of the best in the developing world in dollar terms, the rate at which its economy has been growing over the past two decades is much slower than that of many of its neighbours.

SA's per capita income in dollar terms ranks 42nd-best in the world on a list of 121 countries provided by the World Bank in its latest World Development Report. It is the poorest of the upper-middle income countries which include Korea, Hungary, Argentina and Gabon.

At $2 290, SA's fares much better than its neighbours, Malawi ($170), Zambia ($290), Botswana ($1 010) and Lesotho ($420). Switzerland and Japan top the list.

However, SA's average annual growth rate between 1965 and 1988 of 0,8% lags far behind Botswana's 8,6% and Lesotho's 5,2%. It also lags behind Kenya (1,9%), Cameroon (3,7%) and Congo (3,5%).

The theme of this year's World Development report is poverty, with the Bank making a strong plea for state and market to help alleviate poverty in developing countries.

Economic growth is only one facet of a strategy to combat poverty — of equal importance is the provision by the state of basic social services to the poor.

"Experience shows it is possible to shift public spending in favour of the poor, even within an overall framework of fiscal discipline."

Countries that are implementing structural adjustment programmes should take steps to cushion the blow of restructuring for the poor.

Services

As a first element in a strategy against poverty, policies that foster economic growth through labour-intensive production are needed. The report describes labour as the poor's most abundant asset and calls for policies that "harness market incentives, social and political institutions, infrastructure, and technology" to employ the poor's labour.

The second — and equally important — element in a strategy against poverty is to provide basic social services including primary health care, family planning, nutrition and primary education.

"The two elements are mutually reinforcing; one without the other is not sufficient. In some countries, such as Brazil and Pakistan, growth has raised the incomes of the poor, but social services have received too little attention."

The result was a high infant mortality rate; and the poor were not as well-equipped as they might be to take advantage of economic opportunities.

"Some other countries, by contrast, have long stressed the provision of social services, but growth has been too slow. Progress has been greatest in countries that have implemented both parts of the strategy."

But even if this two-part strategy is adopted, many would continue to experience severe deprivation. As a complement to the basic strategy, a programme of transfers and safety nets was needed.

In addition, large-scale redistribution of land had proved successful, for instance in Japan and the Republic of Korea.

"Where it can be done, redistribution of land should be strongly supported. But the political obstacles to such reform are great," the report said.

Sacob calls for 10-yr socio-economic plan

Cit. Times 21/9/90 (49.)

JOHANNESBURG. — The SA Chamber of Business (Sacob) has proposed that a 10-year socio-economic programme be drawn up to decide how various challenges in this field can be met by resources and priorities.

In a wide-ranging document released here yesterday, Sacob said it was imperative to inject realism into the debate as to what can and cannot be achieved within a given time-frame.

"Otherwise there is grave danger of a serious backlash — no matter who governs the country — if excessive expectations are inevitably disappointed."

Adressing a media conference, Sacob CE Raymond Parsons said two of the main aspects of the report were that Sacob had calculated the cost of giving immediate parity in health, education and social services to be R52bn.

"The sheer magnititude of this challege cautions against unrealistic expectations and calls for creative responses".

He said the second point was that the 10-year socio-economic report set out how these needs can be met.

"Not only will this facilitate planning by the public and private sector but also have a healthy impact on excessive expectations."

The report shows that at present education, health, social pensions and housing account for R20,5bn, 31,5% of the Budget and 8% of gross domestic product.

If parity were to be made possible the total would jump to R51,8bn, account for 21% of GDP and 79,5% of the Budget.

The report also states: "There is a general realisation among the business community that poverty stands in the way of democracy in SA. Therefore concerted efforts will be needed to remove the most glaring areas as soon as possible".

Among the other points raised by the report are the need for the development of an overall industrial strategy aimed at benificiating minerals and to becoming an exporter of manufactured goods.

This will only be possible if parameters such as the tax system, inflation, interest rates and the value of the rand are geared to create international competitiveness.

Another factor is the creation of a climate that will channel resources to the most efficient areas.

"The obvious benefits to be gained from investment in efficient education and health services to the poor are an indication that these area are still socially profitable in SA. Allocation of resources in these areas is therefore indicated."

It is also suggested that the education system be restructured to eliminate the mismatching of the output of the system and the needs of the economy.

The survey concludes: "The eventual removal of all apartheid, together with a programme of black empowerment would lead to the integration of the economy and the disappearance, eventually, of the divide between the third and first world sectors.

"The opening up of the education system to all population groups — combined with comprehensive action programmes both in the government and private sectors towards the alleviation of poverty and the lack of black economic ownership, would provide the necessary economic growth to reach such a goal,

"At all times the macro-economic framework must be geared towards creating a climate for private entrepreneurs, both internal and abroad, to utilise and harness the economic potential of the country." — Sapa

ANC indaba on economy

Sowetan 21/9/90 (49)

Sowetan Correspondent

ABOUT 55 African National Congress economists will meet in Harare next weekend to discuss proposals which will enable the organisation to formulate a draft economic policy.

The ANC's department of information and publicity announced yesterday that the meeting of the organisation's department of economy and planning would also consider ways of restructuring the DEP to enable it to meet new demands placed on it.

The meeting, from September 27 to 29, would be a sequel to a meeting by the ANC and Cosatu on the economy held in Harare in May.

The ANC/Cosatu proposals would be considered at next weekend's meeting, as well as a proposal to establish an institute of economic analysis in South Africa which could assist the ANC and the DEP to formulate and evaluate its economic policy.

"The outcome of the ANC/Cosatu meeting in May and other fresh input will, it is hoped, lead to the development of a draft economic policy document," the ANC said.

This draft document would be sent to the NEC and grassroots ANC structures for discussion and comment.

Responses would be sent to the organisation's national congress in December, at which a final policy document would be drawn up.

The Harare meeting would be addressed by the head of the ANC's department of information and publicity, Mr Pallo Jordan, of behalf of the NEC. - *Sowetan Correspondent.*

Sacob director-general Raymond Parsons, left, and deputy president Denis Paxton presented the organisation's suggested economic strategy for SA at a media conference in Johannesburg yesterday.
Picture: ROBYN RYAN

Sacob moots drafting of ten-year parity plan

BDay 21/9/90 (49). (185)

SYLVIA DU PLESSIS

THE SA Chamber of Business (Sacob) has proposed the drafting of a 10-year socio-economic plan to help establish parity among black and white South Africans in terms of education, housing, health and social pensions.

This was because the cost of establishing immediate equality in these fields would amount to about R51,8bn, compared to a current expenditure of R20,5bn, the "sheer magnitude" of which cautioned against unrealistic expectations and called for creative responses, it said.

The recommendation is one of several outlined in a 35-page document, entitled Economic Options for SA: a Sacob View, details of which were released yesterday.

It has been sent to key opinion-formers and decision-makers in SA and abroad, including State President F W de Klerk, the ANC, and Inkatha leadership.

Sacob director-general Raymond Parsons told a media conference it mapped out what the chamber considered an appropriate economic strategy to underpin political change in SA.

"It is not an economic blueprint in a rigidly prescriptive sense, but sets out how Sacob believes the problems of economic growth and poverty could be tackled in a realistic way. We want an economic system which inspires business confidence both internally and externally."

The chamber says in the report SA has "extraordinary growth potential" despite not being wealthy in terms of real income per capita, and calls for economic reform within a market-system framework.

"Sacob rejects all forms of nationalisation and instead identifies roles for the state and the private sector in solving the problems of the country," it says.

It also urges development of an industrial strategy aimed at beneficiating raw materials as far as possible, restructuring the education system and creating decentralised political structures.

Parsons said Sacob would initiate discussion on the document with those to whom it had been sent as soon as they had "digested" it. It was the second in Sacob's three-phase programme addressing socio-political issues, he added. The third, on economic aspects of any new SA constitution, would be finalised early in 1991.

● See Page 8

49 (3004) (6005)

BUSINESS DAY, Friday, September 21 1990

B10am 21/9/90

FW vows to protect investors

ROBERT GENTLE

PRESIDENT F W de Klerk yesterday sent a strong message to the business community, saying their "vested interests" would be safe with him, under the current wave of violence and in the future SA.

"We dare not, and will not, allow this cloud to threaten the country and those who have invested here," he said, referring to recent township violence.

De Klerk was speaking at the opening of a new R68m vanadium recovery plant in Vereeniging.

What he called "this dark cloud" hanging over the country would be eliminated through peaceful negotiation and firm action against those responsible.

De Klerk said there was a unique window of opportunity in southern Africa for private enterprise.

The country was "irreversibly" on the road to a new dispensation in which there would be full opportunity for all.

Security would be provided for "vested interests" like private property, and minorities would be secure against oppression.

"The basic values on which prosperity is built must be the basic values of a new SA," he said, describing them as "fundamentals" that could safely be left with him.

There was no question of going the same way as certain neighbours who had had "disastrous experiments with socialism and Marxism".

The goverment would continue its "cohesive" economic policy, even if it may be painful and unpopular. Problems like high inflation and high taxation had to be addressed. "We are determined to apply our policy until we get it right."

De Klerk concluded by launching a challenge to the private sector to exploit SA's potential and its infrastructure, and to meet the challenge arising from under-utilised assets and capital.

● See Page 9

Gulf crisis will have bearing on SA economy, says bank

NEIL YORKE SMITH

SA's economic performance in the year ahead will depend as much on developments in the Gulf as on domestic economic policy, says Standard Bank's latest economic review.

The higher oil price came at an unfortunate time and had created a policy dilemma for the monetary authorities, it said. Consistently tight monetary policy and the more favourable performance of the rand had begun to show visible signs of success and further declines in inflation were expected, it said.

Now the authorities would have to choose between maintaining stringent monetary policies to combat inflation or relaxing them to avoid recession, it added.

A near-term reduction in interest rates would favourably affect inflation because of lower mortgage rates but the real possibility of petrol price increases would thwart attempts to achieve single digit inflation, it said.

The authorities were caught between their desire to be, and to be seen to be, consistent in fighting inflation and the pressures to reduce monetary pressures on an economy that was already slowing rapidly.

"If too much emphasis is focused on combating inflation they run the risk of inducing a severe recession which will later necessitate expansionary monetary policy. This will will sweep aside recent gains."

Similarly, any policy that was too accommodating to pressures supporting economic expansion ran the risk of renewed price spirals.

The report emphasised SA would feel the impact of higher oil prices, as seen by recent petrol price increases.

The latest 10c a litre increase would immediately result in a 0,5% rise in domestic inflation, with a further 0,5% increase to follow as a result of the indirect impact of higher transport and input costs, it said.

Bd 12/9/90

(49)

SA's unrest is deepening the recession, says Stals

B Day 21/9/90

JOHN CAVILL

LONDON — Unrest in SA was deepening the recession as it hit output and productivity, Reserve Bank Governor Chris Stals said in the British capital yesterday.

Speaking at the Conference on Corporate Strategies for a Changing SA, Stals said the downturn in the business cycle produced by tight monetary policy to combat inflation had been "relatively mild" up to the end of June.

"There is some evidence, however, that it has deepened since then, mainly as a result of the adverse effects on production of increased social unrest and an accompanying loss in labour productivity," he said.

Stals cited three main factors which were depressing short-term growth prospects:

- Slow-working structural changes forced on SA by the net outflow of capital and disinvestment by foreign investors since the mid-1980s;
- The "normal" impact of the recessionary phase of the economy which, however, was boosting the current account surplus from R1,4bn to R4,6bn annualised;
- "The unavoidable economic effects of the reform process in the political, cultural and social areas."

While they lessened hopes of a high growth rate over the next 12 months, they also contributed to "a sound basis for a prosperous economy in the new SA".

Stals said the Reserve Bank and the Treasury believed the "new SA" could not start with low and falling foreign exchange reserves, a payments deficit, depreciating rand, rising inflation, rapidly increasing money supply or high government spending, a budget deficit and high tax rates.

He said economic policy was now being focused more on medium- and long-term objectives.

"It may not be possible in the present time of transition to achieve any of these longer term objectives, but the current situation provides a wonderful opportunity for preparing the economy for a great new future."

He concluded: "To prove our sincerity and confidence in the future we must use this interim period to ensure, through monetary and fiscal austerity and discipline, that the new SA will start on a sound basis."

Sapa reports that Finance Minister Barend du Plessis told the conference foreign governments had to actively back reform in SA or risk making a mockery of their decades-long efforts towards this process.

It was a top priority that SA's international, diplomatic, economic and financial status be normalised to release its economic potential.

KIN BENTLEY reports that Du Plessis said the steps taken by the South African government since February 2, including the unbanning of the ANC and the release of Nelson Mandela, had thus far failed to achieve a single relaxation of international action against SA.

ANC indaba on economy

Sowetan 21/9/90 (49)

Sowetan Correspondent

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This draft document would be sent to the NEC and grassroots ANC structures for discussion and comment.

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HEADING FOR THE HIGH ROAD?

(49)

FM 21/9/90

Business school students are frequently urged to consider changing political trends when it comes to drawing up a strategic plan for their businesses.

Last year, one of the key ponderables they faced was, "What if Nelson Mandela were released." Then, on February 11, most of their assumptions went out the window when Nelson Mandela walked out of Victor Verster prison.

But far from making for a more stable and predictable business environment, that dramatic change has heightened the need for business to re-evaluate its future. Murmurings that private assets might be nationalised, talk of a radical redistribution of resources and a groundswell of support for socialism give rise to a concern that the future economic landscape might be very different from the one we are confronted with today.

Professor Grant Robinson, business strategy, Wits Business School, believes it was easier for business to plan before Mandela's release.

"Government used to set distinct policy directives — even if it seldom stuck to them. The major issue which businessmen had to second guess was the sociopolitical trends.

"The problem is that neither the ANC nor government seem to have a clear idea of where they're going. To second guess where they think they're going requires something of an act of clairvoyance."

The upshot is that both government and business planners have moved into the area of the "pure inspirational," he says. "F W de Klerk has launched us on the high seas of the politics of negotiation, which is incredibly dynamic. It's a situation in which double guessing becomes very difficult."

One thing's for certain, he says, P W Botha's approach to reform within the context of a security blanket and the co-option of ethnic leaders is no more. "Change, in future, is going to be internally driven, but yet externally influenced. Models such as Angola, Namibia and Zimbabwe are not going to be of any real relevance."

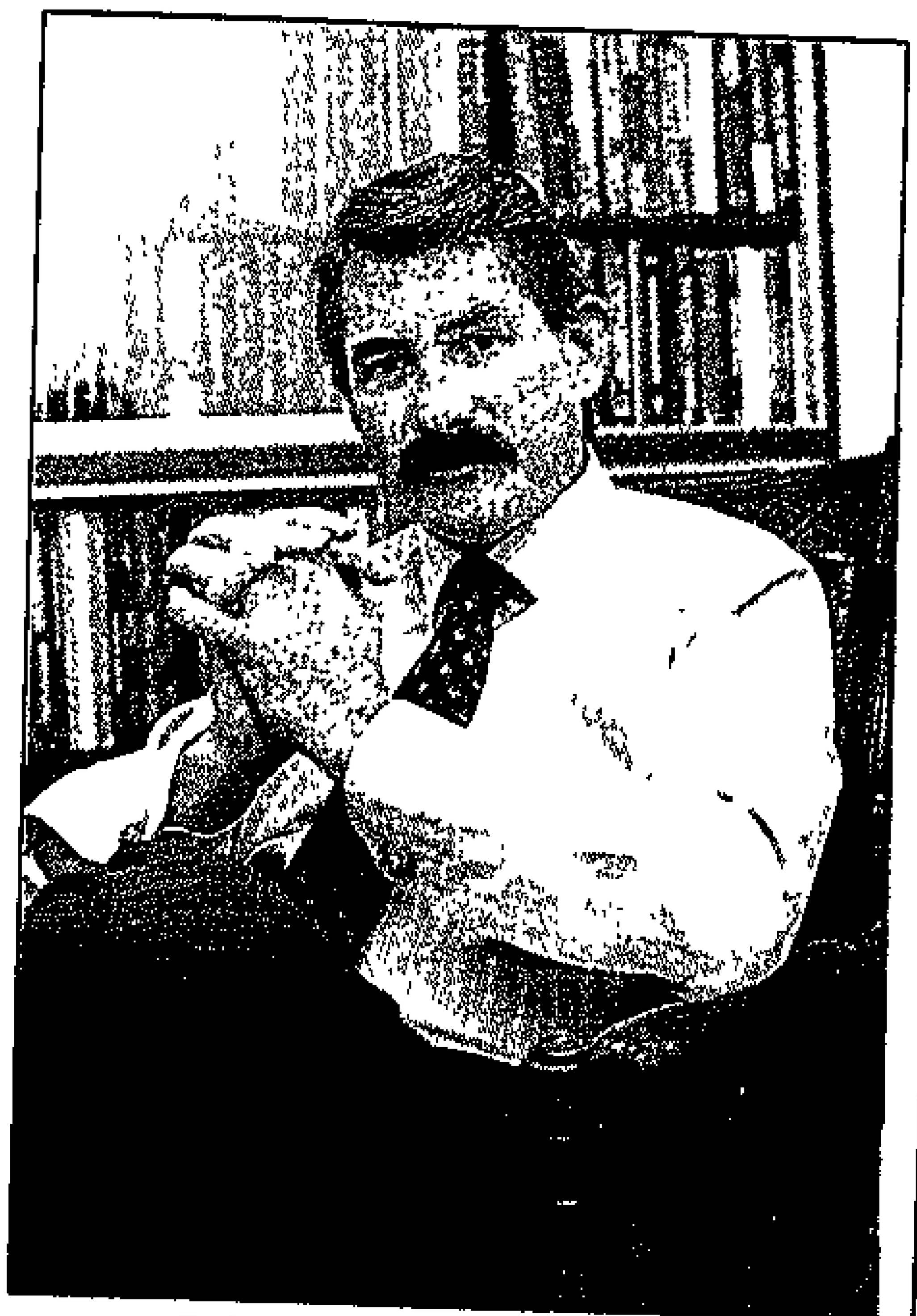
Robinson warns that the vigorous lobby in support of socialism in SA should not be discounted. While SA's Communists might have accepted that communism has failed in eastern Europe, they're busy redefining it as an evolving socialism in the SA context. The good news, if one can call it that, he says, is that at least they see a democratic future for SA.

Economically, Robinson says, the ANC and its cohorts remain confused. They're still talking of wealth redistribution and the breaking up of the mining houses and private-sector conglomerates. Yet, in the same breath, they talk of encouraging foreign investment and business confidence, then threaten to enforce legislative reinvestment and the re-nationalisation of privatised State assets.

"That's what I call the Robin Hood syndrome," he says. "Robbing the rich to give to the poor is one of the most self-defeating missions a government can embark on. The rich don't like being robbed. They'll invariably take their riches with them and get as far away as possible. We've already seen that with De Beers, Rembrandt, Sappi and Middelburg Steel. It could be the beginning of a massive movement and I can't see foreign capital flowing in to replace it."

All that sounds pretty gloomy, but Robinson does offer some encouragement to business planners — as well as some of his own forecasts on how the political drama is likely to unfold:

- ☐ SA's new political deal will not be cut by the Nats and the ANC alone. Other players want in, which will lead to an era of increasing political destabilisation (something we're already beginning to see in the township unrest);
- ☐ The PAC, for example, has yet to properly declare its political agenda. There's also, he says, real potential for a split between the ANC and the SACP;
- ☐ It's unlikely that there will be another election in SA within the next four years under the current constitution;
- ☐ More likely, there will be an interim government that will be responsible for drawing up a new constitution;
- ☐ The constitution that emerges is likely to be in the form of a two-chamber model with checks and balances to guard against the dominance of one group over the other;
- ☐ The constitution is unlikely to be based on race or the protection of group rights. Rather, group interests will be protected by a bill of rights based on the protection of individual rights and freedom of association;
- ☐ Contrary to what many believe, he says there's little likelihood of a right-wing coup. The military in SA traditionally sees itself as an extension of government rather than government itself;
- ☐ But in the run-up to a new constitution, the role of the police is going to assume a higher profile and become much more contentious.



Robinson ... *clairvoyance needed*

The good news for business is that change in SA is likely to be incremental. The reason, he believes, is that the ANC's economic policies are unworkable.

"They plan to nationalise and rule with organised labour for the benefit of the people and develop the economy at the same time. They're going to be required to pay labour better, fund capital investment and, in general, give the people a better deal. If they don't deliver, people will turn to the PAC and other groups to the left of the ANC."

The upshot, he believes, is that the ANC will be forced to compromise on nationalisation and wealth redistribution. As a quid pro quo, De Klerk will have to give up his insistance on full protection for minority rights.

"Consequently, I don't believe the economy will be markedly different from the one we have now. There won't be major step changes ahead, but business plans will, by definition, have to remain robust and flexible."

Graham Fiford

Big business's blueprint for new South Africa

The SA Chamber of Business yesterday spelt out economic proposals for the future, reports MICHAEL CHESTER

The SA Chamber of Business (Sacob) yesterday spelt out the economic options now facing the country with the collapse of apartheid and outlined its proposals for a sweeping 10-year socio-economic programme to underpin all the political changes that are under way

The major policy document was big business's answer to the threats of nationalisation raised by ANC deputy president Nelson Mandela in the capitalism-socialism debate.

It argued strongly in favour of more private enterprise as the best weapon to wipe out poverty and unemployment to ensure social equality in a new economic system

It stressed that the aim was the immediate removal of all apartheid laws and the total disappearance of the divide between the Third World and First World sectors of South African society

Proposals ranged from an end to racial divisions in education to a sweeping increase in the number of share-option schemes offered by companies to give the black community a bigger stake in the private sector

Sacob envisaged comprehensive programmes by both the Government and private sectors towards the alleviation of poverty and the lack of black economic ownership at all levels "within a framework of a free-enterprise system"

"The process of reform must commence immediately. There is no need to wait until the main constitutional issues are settled at the negotiating table The problems are easily discernible and need to be addressed with vigour.

"There is a general realisation among the business community that poverty stands in the way of democracy in South Africa. Therefore, concerted efforts will be needed to remove the most glaring areas as soon as possible."

Unemployment: Urgent action was vital to curb crisis levels in unemployment among the vast majority of the younger generation aged under 25.

Among the radical proposals that should be considered was the establishment of a new form of the Special Services Battalion (SSB) that was put into operation in the 1930s to recruit out-of-work young whites to work on social projects

The benefits of the first SSB were that youths learnt discipline and civic responsibility — and skills they could use later in permanent employment

The new unit would be assigned to such projects as building more houses, the construction of new road and rail links, and the development of better water and power resources

Sacob said the country could also learn from Israeli successes with the kibbutz system in creating co-operative self-employment opportunities, as well as Israeli schemes to teach work skills during army service.

Sprawling

In the homelands and rural areas, co-operative ventures could be launched to give each village an economic base.

In the urban areas, the creation of large sprawling cities should be avoided

Instead, new smaller towns should be established with their own specific co-operative industrial activity — with the new SSB used to build the infrastructure.

Poverty: Urgent plans had to be developed to assist families who now lived below the breadline. As a starting point, there should be direct State assistance in the form of school and community feeding schemes, underpinned by some kind of food stamp programme.

Homelessness: According to Urban Foundation estimates, the existing backlog of housing for the poor was no less than 500 000 units. If the cost of each unit was R10 000, the overall bill to be footed was R5 billion or more

It was generally regarded as a Government responsibility, from which very little revenue could be expected, but some relief could come from private-sector sources through more involvement in housing schemes for employees.

There was a need for housing standards to be reviewed to establish a balance beween resources and actual housing needs

Also, the building of houses had to take place on a privatised basis with owner participation — potentially an important source of job and wealth creation in black communities

Land: Urgent steps should be taken to bring land ownership within the reach of potential black farmers.

All legal restrictions should be removed along with reform of various land Acts and new legal mechanisms to resolve conflicts over land ownership More financial assistance was needed from institutions such as the Land Bank More land should also be made available for low-income-group housing schemes in the urban areas.

The overall limit to such policies had to be that the potential of the agricultural sector to feed the population should not be impaired.

Group areas: Urgent attention needed to be given to the removal of the Group Areas Act. However, careful consideration had to be given to the wider implications — including the possibility that the present base of business ownership among blacks in the so-called black areas could be destroyed in the process.

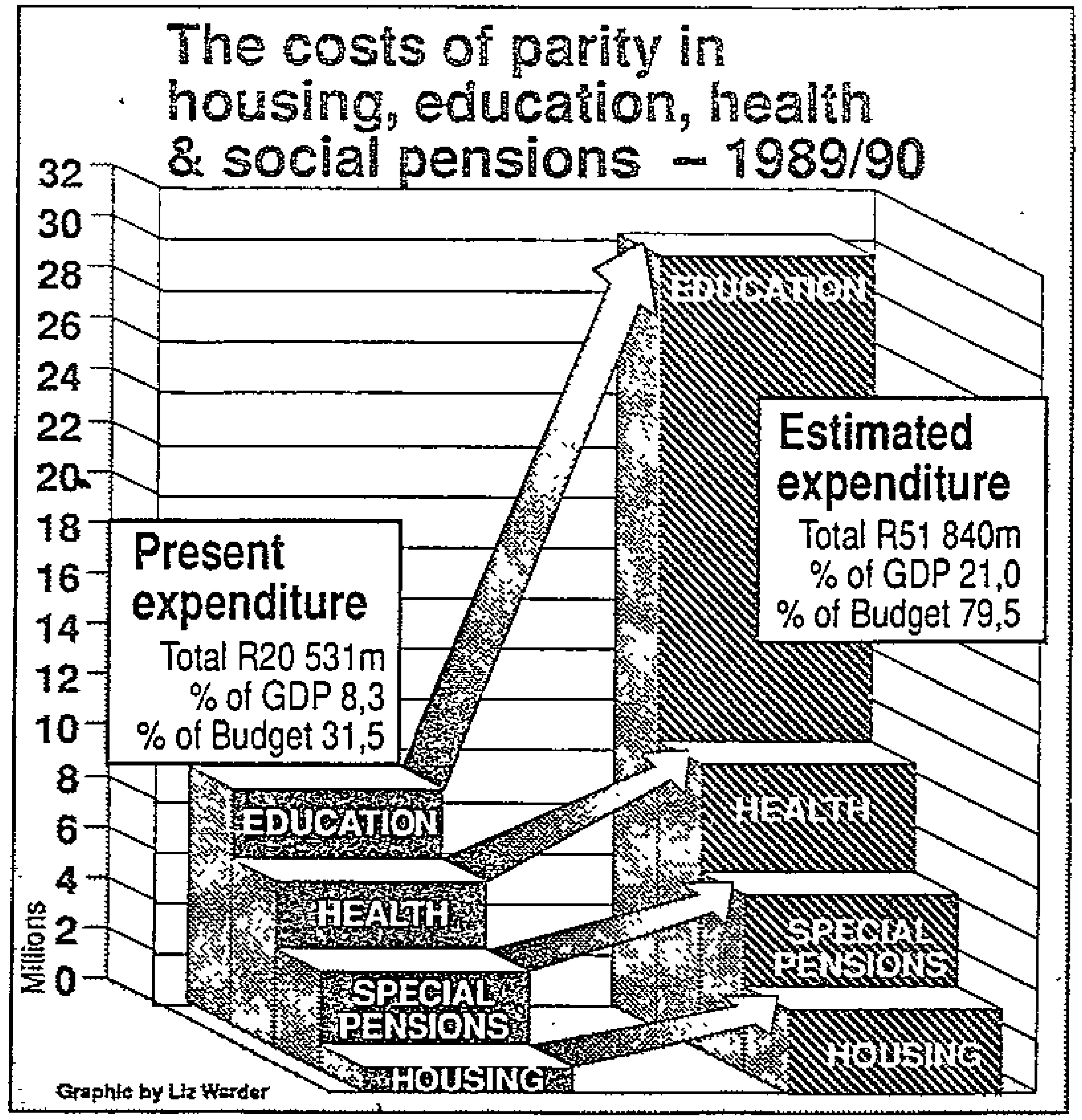
Parity

It might even be necessary to introduce measures to protect present black ownership.

Health services: Parity between blacks and whites in health services was of the utmost importance, though it was not necessarily suggested that it should be aimed at the standards applied to medical services as they existed at the moment — nor to be reached immediately.

Recent studies had shown that parity at present health service levels of supply could mean an increase of between 50 and 100 percent in the cost of services — pushing up finance requirements from R4 billion to between R6 billion and R8 billion a year.

So parity might only be possible within a structured system of State-provided health services within the constraints of affordability and adequacy.



Graphic by Liz Warder

Education: Equal, nonracial and uniform education systems needed to be created. There were two problems, however

● A completely new and innovative approach was needed, with the basic goal of creating an efficient system of education which equipped the individual scholar with a level of education from which he or she could develop to full intellectual and mental capacity.

● The needs of the total economy had to be accommodated in the overall process The Government had to continue to play an important role in the provision of an education system with qualified teachers and adequate infrastructure at least at primary and secondary school levels.

Privatisation was not seen to be a primary agent in the strategy to provide a system of education for the country

A complete rethink was needed about affordability Bringing black primary and secondary education to present levels of expenditure on white education would push up Government expenditure to more than R29 billion — equal to 47,4 percent of the entire 1990/91 Budget.

Savings

Solutions had to be sought in a progressive user-charge system that took into account the taxable income of the parent.

Methods such as using buildings and teachers on a shift basis might have to be considered, with proper attention given to teacher remuneration in line with qualifications, scarcity value and effort.

Rationalisation was needed to sort out the duplication of management and administration, which could bring about substantial savings.

Business The question had to be posed about whether an increased contribution was required by business in the effort to solve the problem of poverty and inequality in South Africa.

"If the answer is yes, it has to be realised that there is a limit to that commitment — a maximum beyond which point the business community will obviously begin to consider its willingness to continue to operate and invest in South Africa.

"Above all, the overall need for rapid economic growth and the possible impediment to growth by redistributive efforts must be considered in the structuring of policies," Sacob said

One major problem that had to be tackled was the absence of blacks in management levels of the private business sector — plus the lack of trained artisans and the skilled labour shortage as a whole

Removing apartheid restrictions on educational and training facilities would not relieve the problem in the immediate future. In its own interest, the business community needed to take part actively in in-house training and education of blacks in order to fill the gap.

The private sector should also intensify its initiatives with the funding of educational institutions and the provision of bursaries.

Benefits

Direct involvement of business in housing for employees was also necessary Fringe benefits connected to housing subsidies could be redirected towards the needy rather than the higher echelons of the employee corps.

In addition, the private sector should tackle the challenge of establishing blacks in the free-enterprise system via a much wider base of black participation in entrepreneurship

Big business had a particularly active role to play by including small operators among their lists of suppliers and in joint ventures between the formal and informal sectors in finance and management packages.

Privatisation was not the domain of the Government alone. Business organisations could follow similar patterns by handing over various functions to small businesses.

Concerted efforts were needed to encourage the redistribution of share ownership to include the broad community — through a wide base of share-option schemes.

The question of corporate size and the role of conglomerates was a matter of intense debate, but it was important to distinguish between the issue of "bigness" on the one hand and monopolies, cartels amd anti-competitive behaviour on the other

Sacob believed the mechanisms to promote competition through the establishment of the Competition Board had been consistent with international trends

"The eventual removal of all apartheid laws, together with a programme of black empowerment as suggested in this document, would lead to the integration of the economy and the disappearance, eventually, of the divide between the Third and First World sectors," said Sacob

"The opening up of the education system to all population groups — combined with comprehensive action programmes both in the Government and private sectors towards the alleviation of poverty and the lack of black economic ownership — would provide the necessary economic growth to reach such a goal.

"At all times the macro-economic framework must be geared towards creating a climate for private entrepreneurs, both internal and from abroad, to utilise and harness the economic potential of the country. This will include an appropriate industrial strategy"

The international community also had an important role to play in this process.

"The protagonists of a centrally planned economic future for South Africa would argue that such a system is necessary to provide a better dispensation for the poverty-stricken black masses whose upliftment has been neglected by historical developments in SA.

Past failures

'They have to be convinced that business is not, in advocating a market system, attempting to avoid the need to address the masses' needs.

"They also need to be persuaded that it has been apartheid, not the market system, which has been responsible for past failures.

"Instead of destroying the present economic base by the introduction of another system based on restricting the wealth-creating actions of individuals, the restrictions of the present system should be removed so that the economy and all its people may develop to their full potential."

Free enterprise can deliver the goods for new SA

4.9

BDay 21/9/90

MICHAEL ACOTT

JOE Slovo says socialism didn't fail in Eastern Europe, it was never properly tried. South African business answers that capitalism hasn't failed here, it has been hamstrung by apartheid.

Business contends, in addition, that free enterprise can do for a post-apartheid society what socialism has been shown to be incapable of doing: provide jobs, rising living standards and the money for essential social spending in a climate of economic growth.

The SA Chamber of Business (Sacob) has set out to provide some answers for proponents of nationalisation and socialist intervention who ask what other policies will uplift the masses.

It proposes the removal of apartheid laws which limit people and the economy, a deliberate programme of black empowerment within a free enterprise system, and a focus by government and the private sector on redressing historical injustices.

In a 35-page document, "Economic options for SA", Sacob specifically addresses the challenge of poverty and the inequality of wealth which lead others to argue that a new democratic government will have to take from the rich to provide for the poor.

Sacob concludes, in effect, that capitalism with a social conscience is the only way SA's glaring disparities will be addressed.

It also concludes that it will take time and that business must take specific steps to develop and implement that social conscience.

It says, however, that business cannot do it all; government, even the small government for which it argues, will have a major role to play in areas such as housing and eduction. Free enterprise and economic growth will provide increasing tax revenues as long as tax rates do send businesses elsewhere.

While the study warns that economic restructuring will not of itself eliminate poverty and inequality, it says a start is urgently necessary as "poverty stands in the way of democracy in SA".

Economic reform should begin immediately and not wait until constitutional issues were settled at the negotiating table.

"The problems are easily discernible and need to be addressed with vigour.

"Sacob believes that even in the present intermediate stage much can and needs to be done to alleviate the most glaring areas of unequal opportunities and treatment on the part of state-funded programmes. The areas of under-utilised medical care and educational facilities are probably the most obvious.

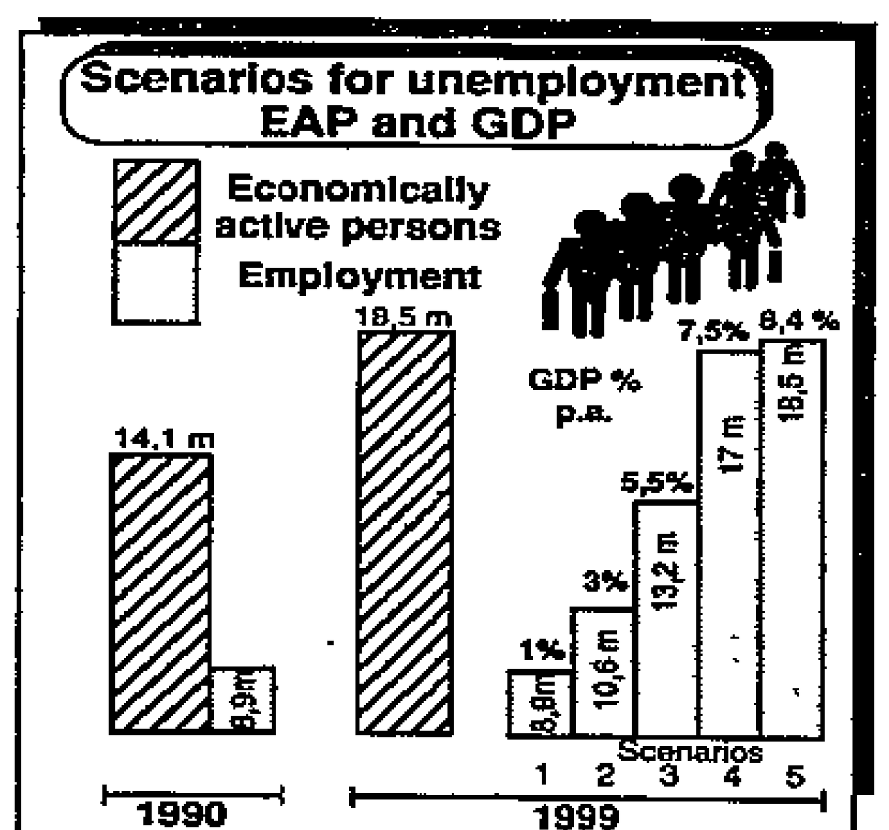
"The rearrangement of government spending priorities should also be regarded as one of the most urgent medium-term goals."

The study also warns that not all disparities can be eliminated. Not only would attempts to bring about immediate equality of spending on health, education and social services cost R52bn and cripple the economy, but some inequalities can never be eradicated.

Its conclusions are based on what it sees as a realistic plan to achieve the economic growth which will generate wealth, and a need to dampen excessive expectations by spelling out the period within which disparities can be addressed.

Sacob suggests that an agreed 10-year socio-economic programme to match spending priorities with projected resources would assist planning by both the public and private sectors. It would also "make all the difference between realisable goals and a serious breakdown or backlash in the wake of disappointed expectations".

On behalf of organised business, Sacob accepts that the new SA will make new demands on the business community, requiring changed attitudes and priorities.



Graphic LEE EMERTON Source SACOB

"A wider concern with socio-political change necessitates a broadening of the objectives of business in a functional sense. To transcend the normal boundaries of private sector involvement in the socio-political needs of the country will require of the business community a more comprehensive vision of the changing public interest."

The need for action is highlighted by rising unemployment, which Sacob now estimates exceeds 5-million people or 40% of the economically active population — including the vast majority of those under 25. It has produced scenarios showing how various rates of economic growth would increase employment by 1999 (see graph) but suggests a crash employment programme similar to the Special Services Battalion which gave jobs to uneducated whites in the 1930s.

Sacob says the state will have to assist those who live below the breadline, starting with school and other feeding schemes and a food stamp programme. While government would have to provide much of the funds for a housing programme, business would have to continue its direct involvement in housing workers.

Arguing for an efficient, non-racial and uniform education system, the study says the demands this would make would mean a progressive fee system which took parents' taxable income into account.

Sacob sees the business role as more than providing the economic growth, and thus the taxes, for state socio-economic initiatives.

There will have to be black advancement, both into management and through in-house training to produce artisans and other skilled labour. Private sector funding of educational institutions and bursaries will have to be intensified "with a positive bias towards the underprivileged".

Sacob also sees it as business's responsibility to foster black entrepreneurship and the development of small business through joint ventures. It suggests big companies can "privatise" the same functions as government, starting with catering, cleaning and gardening. It supports share option schemes for all workers as "share ownership still reflects the unequal distribution of wealth and income in the economy".

All Sacob's proposals are predicated on a free enterprise system, sharpened by competition, encouraged by privatisation and deregulation and nurtured among emerging businesmen in the black community.

Only free enterprise, it says, can create the conditions in which the demands of the new South Africa will begin to be met. That would mean political stability, economic stability and a government which did not destroy business confidence or the current economic base.

It would mean convincing proponents of central economic planning that free enterprise has been hampered by apartheid and, left to flourish, will deliver jobs, economic growth and taxes.

It would also mean, as Sacob admits, convincing them that business is not advocating a market system to avoid addressing the needs of the masses. Its latest document brings organised business into that debate.

Future bleak without foreign cash - Knobbs

Without substantial foreign investment, South Africa will be subject to increasing deprivation and a widening chasm between the haves and have-nots, says Chamber of Mines president Clive Knobbs.

He said yesterday at a seminar in Johannesburg on investment in the mining industry it was imperative that the right conditions for a consistent flow of overseas capital be created.

Although capital flight had diminished foreign holdings in local industries, almost a quarter of gold mining shares were retained by overseas investors.

"Whether additional investors can be found and existing individuals and corporations can be persuaded to increase their stake sizeably, will almost certainly have an important bearing on decisions to open new deep-level mines to extract the considerable deposits of gold still embedded in South African soil."

Clive Knobbs

According to current estimates, 40 000 tons of gold were still contained in the Witwatersrand Basin, even though more than 42 000 tons had been extracted since gold was first discovered in 1886, he said.

The Witwatersrand Basin remained the world's biggest known potential source of new gold.

Sanctions had inhibited the growth of the coal mining industry, but it had undergone a remarkable recovery.

Last year, with a total production of 178 million tons, SA became the world's fifth-biggest producer.

"Its exports of 47 million tons, valued at R3,6 billion, represented more than 12 percent of the total international export tonnage and, after the US and Australia, South Africa is now the third-largest exporter of coal."

The outlook for the platinim group of metals was bullish, with annual demand expected to rise to about five million ounces by the year 2000. This was an increase of 1,5 million ounces on current demand.

"The low gold price has subjected the gold mining industry to severe financial pressure and a growing number of mines have found themselves in loss-making situations.

"Hundreds of thousands of jobs will be endangered and, if mines are forced to suspend operations, considerable tonnages of gold will be lost to South Africa.

"Labour costs now account for more than 50 percent of total working costs. The time has arrived for union leaders to comprehend that their objectives of job creation, higher wages and improved benefits are mutually exclusive," he said.

The most taxing problem facing the mining industry at the moment was the need to travel deeper and deeper to exploit remaining gold deposits.

"To warrant the massive capital expenditure of operating at such great depth, mining methods will have to be improved to increase rates of production."

It was now estimated that the development of each new deep-level mine would cost more than R2 billion, he said.

"With operational lead times of at least 10 years, it is logical to expect that investors will be looking for quite exceptional conditions before committing their funds to projects offering such long-term return prospects," he said. — Sapa.

DEMOCRATIC PARTY (49

MAKING ITSELF USEFUL

Marxist ideologues apart, there can be few arguments against the Democratic Party (DP)'s manifesto for a "social market economy" in SA. It really is all things to all people. FM 21/9/90

It even includes an "illustrative Budget" to show how the economy can generate vast wealth to wipe out social services backlogs and provide essential facilities.

All that's needed is immediate political stability and a quick return to the international trading community — neither of which, unfortunately, are likely in the near future. Given the same criteria within which the DP worked, Barend du Plessis — or any economist, for that matter — could no doubt produce an equally impressive Budget.

But DP finance group member Ken Andrew says the party is trying to show what's possible, given the right circumstances.

The manifesto rejects nationalisation "as a general rule," but believes the State has a duty to provide services which the private sector cannot or is unwilling to provide.

Job creation, the party believes, will come about primarily through what it regards as a realistically calculated 23% real growth in the economy over the next five years.

Its illustrative Budget prepared for the 1995-1996 financial year uses additional income from growth and savings to fund social spending. Growth alone, it says, will contribute R11,2bn. It also calculates savings of R3,4bn on defence, R1,9bn on State debt costs and R2bn on "ideological expenditure."

FM 21/9/90

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VAT on foodstuffs now exempt from GST would raise an additional R3,1bn, to be used to alleviate malnutrition and starvation and for primary health care. A State lottery would generate R800m in additional income.

As standards of living rise, the tax base will increase and the demand for social support and development programmes will decrease.

"Our view is that people should be getting 'solutions-orientated,' " says Andrew. "The time for sloganeering is over." He says the DP is also the first political organisation to lay its economic proposals on the table.

Before finalising the manifesto the DP discussed it widely with academics, economists, businessmen and community leaders. The proposals were approved at the party's recent congress and will now be "networked" as widely as possible for discussion.

Model the New SA on the EEC

(49)

2/3/7/90 S/Times

Ron Schurink suggests that SA stops thinking in nation-state terms and opts instead for economic communities

MANY people quite rightly believe that a solution of South Africa's problems will eventually rest on the achievement of "broad South Africanism".

However, one can question whether that desirable state of everyone's mind and loyalty can be reached only through a revamped nation-state.

At this very moment in Europe a debate is gathering momentum over the old-fashionedness of the nation-state. There is an increasing intellectual acceptance abroad that it is no longer adequate but here both participants and non-participants in 1910 Ltd remain firmly wedded to the nation-state ideal.

Over there the desire for great economic effectiveness has spurred supra-nationalism to support economic integration which requires some adaptation of the nation-state format. Here, economically integrated, we struggle to bring a nation into being out of first-worlders and third-worlders, far-leftists and far-rightists, plus rival black liberation movements.

Why doesn't South Africa, with its vigorous economy and splendid infrastructure built by all its people — despite all their underlying conflicts — jump straight into the economic community format?

That, at long last, would be a "one up" for Africa — and it would offer SADCC members far quicker economic integration with SA than might otherwise be the case.

British MP Dafydd Ellis-Thomas has pleaded in London's Financial Times that, as the nation-state loses status, there should be increased recognition of "historic regions and smaller nations as social, cultural, political and economic areas of effective power".

Can we not head off trouble by opting now for supranational (or "supragroup" or "broadly South Africanist") direction of our economy and infrastructure, while bonds between peoples, and particular regions, are catered for by a policy of "to each his own"?

This is not an unreasonable approach to "group rights".

Nelson Mandela and the ANC should focus on the idea of a mini-European Community and transfer major functions from Pretoria to a black-run "Brussels" (Port Elizabeth, Durban, Cape Town?).

This would open the option of Pretoria-Potchefstroom and perhaps areas round Bloemfontein and Stellenbosch becoming, within the community, guaranteed city-state repositories of Afrikaner history — a small sacrifice by the black majority.

Writing subsidiary regional constitutions together with a "Treaty of Rome" will be far easier than producing a single, monolithic one.

And we shall then live up to Mr Ellis-Thomas's dictum that "the nation-state belongs to a specific period of European and world history and . . . we are entering a post-nationalist period. Or to put it more clearly, we are into a post nation-state or nationist period."

☐ *Ron Schurink is a freelance economic analyst*

Top Tory slams policies

Sunday Times Reporter

THE ANC does not appear to have had time yet to think through its economic policies, visiting British MP Norman Tebbit said in Pretoria yesterday. (49)

The former chairman of the Conservative Party and his wife, Margaret, are in South Africa on a private visit. ST Times 23/9/90

Interviewed at the Union Buildings, where Mr and Mrs Tebbit met Deputy Foreign Affairs Minister Leon Wessels, Mr Tebbit said it was essential to have "an economy that works" in order to have a sound democracy.

Mr Tebbit hopes to meet more political leaders before leaving next weekend.

Mr Tebbit said he was opposed to economic measures against SA because it was more difficult to effect political change with a sluggish economy.

He added: "I have never seen the sense of stopping people from playing cricket or rugby with each other."

Britain never cut her sporting ties with the Soviet Union — even during the Cold War.

Mr Tebbit, MP for Chingford, is regarded as a hardline Thatcherite.

He resigned as chairman of the Conservative Party to devote more time to his wife, who was severely injured in an IRA bomb blast in 1984.

About 85% of people who came into contact with the law were literally processed through the criminal justice production line without any resistance.

Jews play important role in SA, says US mission

TANIA LEVY

SOUTH Africa's 105 000 Jews played an important role in economic life and had a sizeable stake in its vitality, according to an American fact-finding mission which visited recently.

Although the SA Jewish community was affluent, about three quarters would need financial assistance to leave the country.

The 16-person delegation met a cross-section of leaders, including influential people in the Jewish community, business sector, government and political parties, trade unions and education and social service organisations.

Jewish businessmen and women were at the forefront of equal opportunity companies even before Sullivan principles were introduced, said American Jewish Committee south east area director Sherry Frank.

The mission found SA Jews had traditionally supported liberal opposition political parties, had tremendous respect for State President F W de Klerk and believed the momentum for change in SA was irreversible. 30 49

They wanted economic and political stability, protection of minority rights, freedom of religion and good relations with Israel. There were at least 15 000 Israelis in SA and most SA Jews were strong Zionists with family living in Israel, the mission discovered.

Anti-Semitism was not a major fear of SA Jews, although there was growing concern about anti-Semitism among right-wing groups, following incidents in which synagogues were vandalised or had pigs heads placed on their doorsteps.

According to the mission, Pretoria had 45 right-wing groups, 18 of which had anti-Semitic based programmes and membership applications.

Bank firm as hopes grow for rates cut

B Day 24/9/90

49

ANDREW GILL

MONEY supply growth plunged to its lowest rate of increase in almost three years in August, fuelling market hopes of an earlier than expected cut in Bank rate.

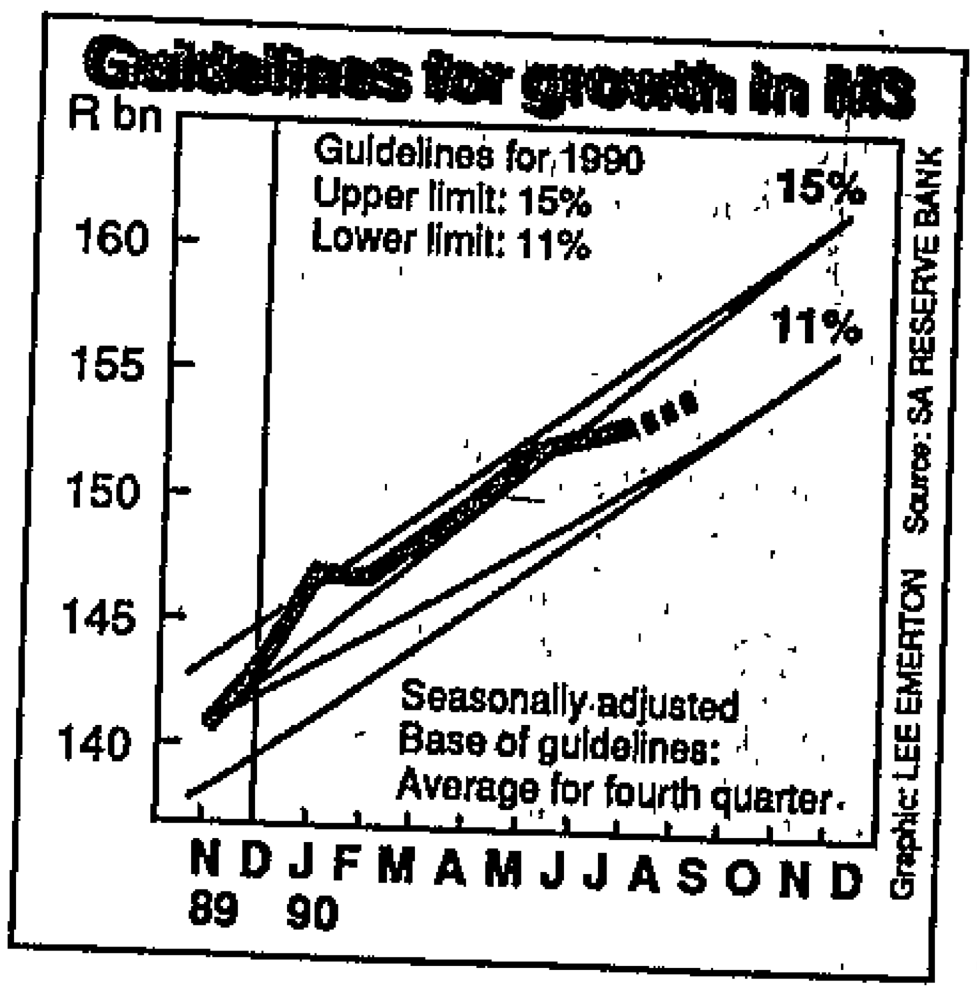
However, Reserve Bank deputy governor Chris de Swardt warned that other indicators, currently under pressure as a result of the Gulf crisis, would play an integral part in any decision to cut rates.

SA's broadly defined money supply, M3, grew at a provisional annual rate of 14,29% to R154,5bn in August, its lowest rate of increase since October 1987. This compares to a revised growth of 15,76% to R152,1bn in July.

More encouraging was a fall in the growth rate from the base of the guideline year (mid-November 1989) to the lower level of the Bank's 11% to 15% target range.

This fell to a provisional 12,92% from 13,47% in July and has now remained inside the inner cone for three months. Economists say it is likely to test even lower ranges in the coming months.

Local markets reacted bullishly to the figures with the 90-day liquid Bankers Acceptance rate falling 10 points to 17,65% on the money market and the Eskom 168 falling five points to 15,86% on the capital market.



De Swardt said the figures were "very encouraging" but said the Middle East crisis had become a complicating factor because of the resultant higher oil prices and their effect on SA's inflation rate and balance of payments situation.

Bank governor Chris Stals indicated at the AGM last month that M3 growth could drop much further before any shifts in

□ To Page 2

Bank rate

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□ From Page 1

policy were made: "In retrospect, the money supply guidelines of a range of 11% to 15% for the increase in M3 have been generous. There should be no concern if the rate of increase in M3 in 1990 should turn out to be even less than 11%," he said.

This, said Bankorp economist Nic Barnardt, was not unlikely. He predicted growth could slow to about 10% by year-end and enter single digits within the first half of next year.

He said the figures set the scene for a Bank rate cut before the end of the year. Even if Bank rate was cut now, M3 growth would still fall into single digits because the rate's effect on M3 lagged by almost a year.

Nedcor economist Edward Osborn said the slowdown was on the trend line established in March. It was indicative of the low level of demand for Bank accommodation but, he said, was also indicative of SA's currently "poor recessionary conditions".

Econometrix economist Azar Jammine said the figures were positive but in terms of monetary policy were likely to be negated by the petrol price hike.

It was indicative of Stals's success in controlling money supply but, he added, the cost of the tight policy had been increased unemployment and heightened unrest.

Barend warns on recession

B Day 24/9/90 JOHN CAVILL (49)

LONDON — The SA economy was approaching recession and could slip into negative growth this year, Finance Minister Barend du Plessis said at the weekend.

At a meeting on Friday sponsored by the Confederation of British Industry, he said: "Our foreign exchange reserves can pay for only six to seven weeks of imports. Before we can go into a growth phase we have to increase our reserves." The upsurge in oil prices could not have come at a worse time — "as we were breaking the neck of inflation".

Du Plessis said he still felt and hoped that the rate of inflation (13,3%) would be down to below 10% by the end of 1991.

SA would continue to be condemned to stop-go economic policies as long as it was denied access to international capital markets and, most importantly, the resources of the IMF.

The economic imperatives, Du Plessis believed, were recognised by all sides in the negotiating process in SA as was the compelling need for speedy resolution because higher growth rates would support political change.

Secret paper on economy moots ANC policy shift

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BDay 25/9/90

PETER DELMAR

THE ANC's latest — and still secret — economic policy document contains a marked shift away from the ideology of a central statist approach, and emphasises the importance of creating growth through investment.

ANC economics and planning department deputy head Tito Mboweni said yesterday the latest "draft discussion document" had been discussed at a meeting of 50 ANC economists and members in Harare at the weekend.

The document, which he described as "very perceptive", still has to be submitted to the ANC's national executive committee (NEC) before being made public and will be further debated by all ANC regions and branches.

Mboweni said the word nationalisation was mentioned only once, in relation to public utilities which had been or might be privatised by the state. These, he said, would be subject to "immediate re-nationalisation" by an ANC government.

Although unwilling to discuss specifics of the draft, Mboweni said the latest document attempted to steer clear of economic jargon.

He indicated the Harare meeting felt the ANC's previous economics position paper over-emphasised the state's role in the economy, and that a balance had to be found between the roles of the public and private sectors.

The recognition that growth should be encouraged through investment and not just through redistribution represented a "new direction in our thinking", Mboweni said, adding that the state would retain an important role in influencing private sector investment.

He said the document recognised the important role the private sector would play in a post-apartheid economy.

The Harare meeting also proposed the establishment of an ANC institute of economic policy.

The unit would co-ordinate "an evolving programme of economic policy research as well as conducting research and publicising it".

Mboweni acknowledged it was "highly unusual for a liberation movement to establish such an institute", but said this was needed because of the organisation's exclusion from most economic and political research in SA.

He said he envisaged the institute — which still had to be approved by the NEC — being staffed by a director and at least eight research fellows. Salaries would be comparable with those offered at universities, he said.

The ANC's Thabo Mbeki chats to Frankel Kruger Vinderine chairman Leslie Frankel during a visit to the JSE by ANC representatives yesterday. Picture: CATHERINE ROSS

JSE 'paper-chase' fails to impress politicos

CHARLOTTE MATHEWS and ZILLA EFRAT

AN ANC delegation ventured into the heart of SA capitalism yesterday but was not taken with "the paper chase" on the Johannesburg Stock Exchange.

ANC international affairs director Thabo Mbeki, his deputy Stanley Mabizela, deputy economics head Tito Mboweni and Cosatu assistant general secretary Sydney Mafumadi visited the JSE at the invitation of stockbrokers Frankel Kruger Vinderine (FKV).

FKV MD Sidney Frankel said there had been a strong and sometimes heated exchange of views. After lunch with representatives of institutions and FKV clients, the delegation wandered down to the trading floor.

A whirl in the gold price came at an opportune moment, boosting share prices and providing some action on what had been a deadly dull floor.

Mboweni said the ANC saw the JSE as a place where paper money chased paper money instead of being used for productive activity such as manufacturing.

"The JSE plays a useful role in showing the level of productivity of the large corporations. But the final emphasis must be on putting money into actual production," Mboweni said. BDay 25/9/90

Frankel said the invitation was aimed at a cross-pollination of thoughts. FKV would invite anyone who would play an important role in the new SA to meet its clients. In June FKV invited National Union of Mineworkers general secretary Cyril Ramaphosa.

While Ramaphosa found the JSE visit "mind-boggling", it did not convert him to capitalism.

JCI chief blames NP rule for poor economy

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RIAAN SMIT

JOHANNESBURG Consolidated Investments (JCI) chairman Pat Retief has blamed SA's economic malaise on excessive interference by successive NP governments, and said the ANC's economic strategy lacked credibility.

Retief made the remarks in his chairman's review, published today, half of which is devoted to the defence of a free market economy as a means of uplifting living standards in SA.

He said there had been many attempts by past governments to reform apartheid, but such efforts failed because they were directed at symptoms rather than causes.

"In sharp contrast, the bold and welcome initiatives taken by State President F W de Klerk during the past year strike at the root of the problem and hold out the possibility that SA may finally be able to rid itself of the policies that for so long have retarded its progress."

But although the reforms introduced in the 1990 Budget were among the necessary economic conditions for the eventual restoration of the country's well-being, the overriding requirement was the development of a stable, fully democratic political system in SA.

Retief said it was vital for SA if it was to attract essential inflows of capital and technology that lessons should be learned from the collapse of socialism and Marxism in Europe "rather than by painful experience".

He said the ANC and its associates argued that the solution to raising standards of living was the adoption of a massive programme of industrial expansion.

They further argued the private sector could not be relied on to follow the high productivity, high wage growth path.

"This is where the ANC's economic strategy lacks credibility when viewed from a business standpoint. SA does not have the funds to finance a programme of accelerated industrialisation, or the reservoir of human skills and technology that such a programme would require ... (to) compete in export markets.

"State interference to achieve this desirable but unattainable objective would certainly give rise to crippling economic distortions," Retief said.

SA 'needs national development plan'

BDay 25/7/90

PRETORIA — SA needed a national development strategy to address poverty so that the energy and resourcefulness of the poor could be mobilised in the economic growth process, Urban Foundation CE Sam van Coller said yesterday.

Addressing the National Council for Child and Family Welfare symposium, he said the formulation and implementation of a development strategy to bring about socio-economic upliftment in SA required some hard choices.

Without a commitment to a new strategy, achieving a democratic society would be difficult, if not impossible.

He said some believed there had to be a non-racial democracy before development should be tackled, but in reality this was not the case. The housing crisis was one of the first challenges that had to be met.

Choice

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~~Many were~~ wondering if the future was to be one of land invasion, dense shack settlements with health and safety hazards, and tension between "invaders" and permanent residents.

SA's society was able to embark on a housing strategy that would ensure many low-income families gained access to a serviced site belonging to them, where health and safety were secured and where residents were close to economic activity. This could be done with existing resources but society would have to make a choice.

"It will have to decide whether it is more important for upwardly mobile families to gain access to a R60 000 home or for low-income families to gain access to serviced sites . . . which would enable them to obtain title to that land and thus a secure base."

If SA made the latter choice, it could unleash a dynamic development process whereby the poor could contribute to the growth of the economy. — Sapa.

ANC in commitment to Budget restraints

(49) GRETA STEYN (18)

THE ANC had noted the destabilising effect of excessive state spending in redistributing wealth in other countries and would realise the limitations of the Budget, economist Fuad Cassim said yesterday.

Cassim, who delivered a speech on ANC economic policy without mentioning the word "nationalisation", told an Institute of Directors' conference in Johannesburg yesterday the ANC wanted to avoid large Budget deficits. B|Day 26|9|90

An ANC government would break from the present practice of using loans to finance current spending and would strive for redistribution without inflation.

The state Budget was, however, a major instrument for redistribution and savings from eliminating racially discriminatory structures would be used to this end.

An ANC government would consult the private sector first before dismantling major conglomerates, he said.

But it would not "shirk its responsibility" to reduce "the extreme centralisation" of economic power in SA. If no co-operation on the issue was forthcoming from business, the ANC would go ahead with dismantling major conglomerates.

"The conglomerate structure is detrimental to the achievement of balanced economic growth. A democratic government would be obliged to address the issue of extreme centralisation of economic power."

See Pages 3 and 8

Undisciplined workers 'could be Achilles heel'

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BDay 26/9/90

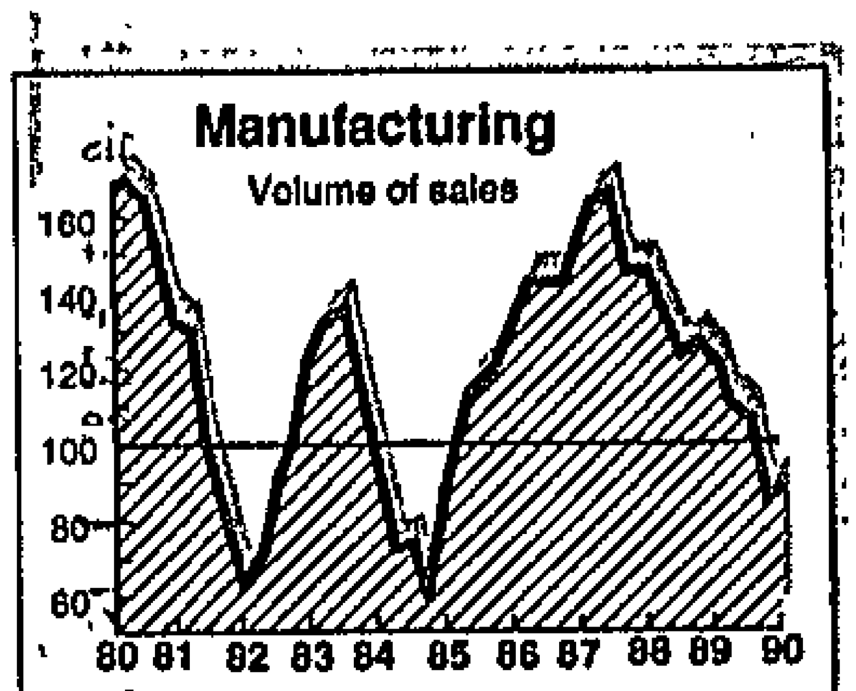
SYLVIA DU PLESSIS

AN UNDISCIPLINED labour force could be the Achilles heel of future SA development and economic growth, the Stellenbosch University-based Bureau for Economic Research (BER) warns.

In its latest survey of the manufacturing sector for the quarter ended September, the bureau says economic instability will prevail until consensus has been reached on a new economic and political system.

It says 25% of manufacturers representing 21 sub-sectors reported a year-on-year drop in hours worked. A "still higher" percentage expect that trend to continue.

While the decline in labour input could not be ascribed to work stoppages alone — the recession also took its toll — sectors such as motor and transport were "riddled with impromptu strikes" and 58% of manufacturers there reported a decline in labour input.



Graphic: LEE EMERTON Source BER

"Labour unrest, if left uncontrolled, could surpass sanctions as the greatest destroyer of the SA economy, particularly as it affects multinationals whose perceptions of the host country's internal social, political and economic stability are of the utmost importance," it says.

"Until labour disruptions have been curbed, further attempts at economic development will continue to be inhibited."

The bureau says political uncertainty is the most destabilising factor in the SA economic arena, with the index measuring the extent to which political constraints hamper business edging up to 36 points from 30.

"Not only is development capital being withheld for want of clarity on the post-apartheid economic system and political power structure, but the initiatives of local entrepreneurs are also being dampened by fears of possible future business restrictions."

Labour, on the other hand, is pursuing "unrealistic" remuneration goals.

Knobbs tells of threats to mining

B Day 26/9/90

ROBERT GENTLE

POLITICAL conflict and unrest, coupled with disquiet fanned by the stubborn adherence by influential leaders to the tenets of socialism and Marxism, were major threats to the mining industry and SA.

That was the message delivered by Chamber of Mines president Clive Knobbs to the American Mining Congress in New Orleans yesterday.

Knobbs said euphoria in the wake of President F W de Klerk's February 2 parliamentary speech had been transformed into uncertainty and apprehension.

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● KNOBBS

"The threat of the imposition of a command economy in SA is without doubt the most serious single impediment to the prospect of economic growth and increased prosperity of all its people," he said.

Knobbs thought there was sufficient goodwill and good sense to ensure that the "socialist option" would not be pursued.

Another problem facing the mining industry was "unrealistically high wage demands and other exorbitant requests for improved employee benefits" from trade union leaders.

In just five years — from 1984 to 1989 — SA had moved from being the lowest-cost producer of gold in the world to the highest.

Compounding these financial problems was the sanctions-induced capital flight.

"Even if the industry is successful in cutting its working costs to more acceptable levels, there can be no sizeable expansion without substantial renewed investment from both local and foreign sources," he said.

The Witwatersrand basin was still the world's biggest known potential source of new gold, and SA gold mining could continue well into the 21st century if these technical, political and financial problems were solved.

The National Productivity Institute conference

Star 4/9/90 (49)

Growth the only pathway to higher living standards

By Michael Chester

Living standards could never be improved by negotiation, they had to depend on economic growth, Willem van Wyk, Iscor MD said in Johannesburg yesterday.

"If the basic needs of people are not satisfied, we will be faced with a revolutionary climate, regardless of how well out political policies comply with the norms of a truly democratic society," he added.

Mr Van Wyk told the conference that growth was down to zero, with unemployment on the increase and the squatter problem growing to immense dimensions, at the very moment when a complete reversal of socio-economic trends had become urgent.

Yet a productive and growing economy was possible only when political stability had been established and the population explosion brought under control.

And labour stability would be impossible as long as certain trade unions were guided by political motives as a result of an unacceptable political dispensation.

Willem van Wyk

Mr Van Wyk sounded a warning that the abolition of sanctions and boycotts would still not ensure new inflows of investment capital.

"As long as unwise subjective rhetoric is with us, the faith of local and foreign investors in the future of our economy will not be restored, the brain drain will continue and the desired level of growth will not take place," he said.

"Those guilty of daydreaming about huge donations from overseas — either to reward us for abolishingg apartheid or because someone feels sorry for us — will discover with a shock that wishful thinking gets one nowhere."

To achieve economic growth, the training of the unskilled had to be tackled on a much bigger scale to overcome chronic shortages in skilled, professional and managerial job categories.

Also, aim had to be taken on targets to reduce the current inflation rate.

Strict financial discipline was necessary to prevent an uncontrolled increase in the inflation rate, but reliance could not be placed on monetary and fiscal controls alone.

If measures were too strict they would only cause more bankruptcies and make unemployment even worse.

Inflation could be lowered only with full co-operation of the state, the business sector and all trade unions.

Price and wage restraints should be imposed to guide the inflation rate down to below five percent inside the next five years.

However, wage increases would have to be kept slightly above price increases to get the co-operation of the labour force — and that would have to be covered by an improvement in competitiveness on world markets, he said.

Productivity improvements paramount in years ahead

By Michael Chester

Living standards at the bottom end of the incomes ladder could be doubled inside two or three years if new strategies to improve productivity were adopted.

So said World Confederation of Productivity Science president Tor Dahl, who estimated that the incomes of no less than 40 percent of the total population would be boosted by 100 percent as rewards were reaped.

He said South Africa should regard improvements in productivity as paramount as it charted a new future.

Mr Dahl said the target would be in immediate reach as soon as South Africa found a formula to lift its economic growth rate back to the levels above 5 percent a year that it achieved in the 1950s.

The urgency was underlined by recent trends showing that 'the average annual growth rate of gross domestic product in SA, taken on a head count that allowed for its population explosion, tumbled by 0,9 percent between 1983 and 1988 — while it surged ahead by 3,2 percent in Britain and 3 percent in the US.

The results were made clear in changes in living standards.

When incomes were measured in real terms, with the impact of inflation stripped away, average pay packets in South Africa had shrunk by 4,6 percent over the five years.

Yet if South Africa had kept up with Britain, average incomes would have climbed by 21,7 percent.

In still more dramatic calculations, if South Africa had kept pace with the economic growth rates it achieved in the 1950s, it could have reduced unemployment to an acceptable level and still doubled per capita income.

Mr Dahl, who comes from Sweden, reminded SA that wage increases in excess of productivity improvements always led to worse inflation or worse unemployment.

Thus, even a 1,2 percent annual improvement over 30 years — a generation — produced increases in wages in real terms of 43 percent.

An improvement of three percent a year produced increases of no less than 243 percent, he said.

Defusing danger by debate

Star 5/9/90 (49)

Attempts at the instant redistribution of wealth in South Africa will only wreck the economy, says a top academic. He has proposed a way to lessen the risk, writes GERALD L'ANGE of the Star's Africa News Service.

A leading academic has proposed a way to overcome the danger that impatient blacks will destroy the South African economy in a vain attempt to get social justice.

Dr Eric Leistner, director of the Africa Institute in Pretoria, suggests the holding of private discussion forums where businessmen and economists can meet in a calm and detached atmosphere with representatives of black political organisations to work out sound, practical ways to bring about social justice in a healthy economy.

Dr Leistner says South Africa is "one of the few countries where a high percentage of socialist believers is still to be found.

"Hopefully, most of them will sooner or later realise the economically damaging consequences of nationalisation," he says in an article in the latest issue of the institute's publication, Africa Insight.

"The real issue, however, is not nationalisation *per se* but the objective which its advocates hope to achieve, that is, a socially acceptable distribution of wealth."

Dr Leistner makes the point that South Africans cannot expect peace and stability unless whatever system is adopted is accepted by the majority of the people as fair and just.

"And to devise such a socio-economic order is at least as difficult as to achieve a lasting political accommodation between the country's diverse population groups. This is so because it involves all the stubborn developmental problems which the rest of Africa has been unable to overcome in three decades of independence."

Most South African socialists argue that socialist systems in Eastern Europe collapsed not because they were unworkable but because they were wrongly implemented, he says. And the collapse of similar systems in Africa is blamed on neo-colonial machinations and other factors.

Scoring

"What is at stake here is not the scoring of debating points but the future prosperity or impoverishment of South Africa."

It is imperative that South Africans learn from the failure of efforts of newly-independent African countries to gain control of their economies through Africanisation of key posts and nationalisation of foreign assets.

"The driving force behind nationalisation ... was much less the new leaders' predeliction for socialist ideology than their wish to gain control over all aspects of national life to strengthen their own position," Dr Leistner says.

"Whereas the term 'nationalisation' suggests that the country (or rather the people) as a whole are being enriched by the take-over of foreign assets, it is effectively the leadership group only that benefits."

Dr Leistner quotes Canadian and British studies on Zambia and Tanzania in support of this argument.

He says that "the performance of state-run enterprises even in Western countries such as France and Britain, not to mention East Germany or other formerly Communist states, can leave no doubt that the failings of nationalised industries in Africa differ at most in degree, but not in essence, from those in technologically far more advanced countries."

It was the French socialist party's own disappointing experience with nationalisation that led its leader, President Mitterrand, to say: "The French are beginning to understand that it is enterprise that creates wealth."

Even if these insights are accepted in South Africa, that will not change the uneven distribution of income between whites and blacks, Dr Leistner says.

The history of the developed countries shows that "change of this sort can come about only gradually, as a result of substantially improved education and training and from increased productivity.

"There is an acute danger that South Africa's blacks, impatient for immediate improvement, may use their growing political power to try to demolish the existing economic system.

"All possible opportunities should be used to establish non-public discussion forums where South African economist and businessmen can meet knowledgeable representatives of black political groupings to analyse the country's socio-economic needs and jointly identify a sound and practical policy approach by which they may be addressed.

"Such meetings of minds in a calm and detached atmosphere could contribute to a process of mutual education to lay the foundation for policies tailored to the actual potential and needs of South Africa rather than to ideological precepts and wishful thinking."

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Despite a narrowing in the wage gap be-

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Nationalisation ideology 'a failure'

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B/Day 5/9/90

Business Day Reporter

POLITICAL groups and trade unions to the left have acknowledged the failure of an ideologically motivated nationalisation policy and the need for economic growth.

According to Ahmed Jooma, author of the latest edition of Social and Economic Update, published by the SA Institute of Race Relations (SAIRR), this follows debate sparked off by the ANC affirming its commitment to nationalisation.

The ANC envisages an economy characterised by private, state, mixed and collective property relations.

Its two basic objectives are to bring about a redistribution of wealth and ensure the economy provides for the people's needs.

Jooma's research shows the ANC would also consider areas in which to establish public corporations or to strengthen existing ones for the benefit of society.

They might also place government-appointed directors on the boards of private companies.

However, Jooma quotes SACP secretary general Joe Slovo and a member of the ANC national executive committee as saying nationalisation is not a fundamental policy of the ANC and would have to be negotiated.

PAC general secretary Benny Alexander said should his organisation come to power, it "would promote business owned individually and collectively by indigenous people".

In a draft of its economic policy, the PAC says there is an overconcentration of capital in the hands of a few, and the economy serves a minority of the population.

Jooma also quotes former Anglo American chairman Gavin Relly as saying he agreed a mixed economy was the way forward, and the real issue was the details of a mixed economy.

Mixed economy will get Nats' backing — Barend

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B/Day 5/9/90

GRETA STEYN

IN A move away from the free-market rhetoric that characterised NP speeches in the past, Finance Minister Barend du Plessis yesterday gave his support to a "mixed economy".

In the opening speech of the party's Free State Congress in Bloemfontein he said: "The government is not merely a protagonist of a so-called 'mixed economy' — it has been operating one for years already."

If everyone involved in the negotiating process were to steer clear of "an obsession with ideology" and promoted common goals instead, SA would stand a better chance of arriving at meaningful decisions.

The Budget had stressed the fact that government's approach to economics rested on two pillars — firstly, that everything possible must be done towards welfare creation, and secondly, that the thrust of expenditure must be increasingly towards equipping people for meaningful, productive and rewarding roles in the economy.

A democratic system had to rest on a sound economy, and the coming constitutional dispensation had to fall within the economy's financial parameters.

Massive demands would be made on the economy for employment, housing, health care, education and training. Neither the ANC's socialistic approach, nor by the CP's segregationist line would satisfy these demands.

Mechanisms

Du Plessis also sketched constitutional guidelines including:

- Three autonomous levels of government — central, regional and local — with a strong devolution of functions, financial sources and powers. A move towards more powerful regional and local government would put in place mechanisms to curb conflict and protect minorities;
- Parliament should be constituted in such a way that it met the demands of universal franchise while reflecting minority representation. Provision for effective protection of minorities was essential; and
- A clear division of power between legislative, executive and judicial authority to prevent centralisation of power and to ensure effective checks and balances. The principle of consensus could play a strong role in protecting minorities in the legislative and executive authorities.

Agricultural Development Minister Kraai van Niekerk told a congress working group that problems facing SA's farmers could be satisfactorily solved only once the economy improved, Sapa reports.

He said subsidies provided short-term, artificial relief but did not address the problem.

"We must help agriculture in such a way that the sickness is cured, instead of attending only to the symptoms.

"The solution for farmers lies in solving the country's economic and political problems and government is giving urgent attention to this."

DP seeks stability and growth while cutting inequalities

(49)

B1D9 5/9/90

The Democratic Party hopes its new economic policy will be acceptable to both government and the ANC. These are extracts from the proposal to be put to the DP congress this weekend.

THE primary goals of the Democratic Party's economic proposals are to eliminate poverty and provide adequate and rising living standards for all.

The DP subscribes to a social market economy which respects private ownership, initiative and offers rewards to risk takers and entrepreneurs. It also recognises that the state has an important role in the development and upliftment of, and the provision of certain services to, all South Africans, and to ensure there is equality of bargaining power in the marketplace, so consumers receive adequate protection.

Unacceptable wealth, income opportunity and skills gaps need urgent attention and racial discrimination in the provision of social state services must be removed.

The strength of the party's policy is demonstrated by the success of the West German economy which, as a model with modification, is appropriate to SA compared with the failure of the East German economy.

Economic freedom and political freedom go hand in hand, and no democratic system will provide stability without a population that has reasonable living standards.

The economic policy is designed to create the opportunity for prosperity for all our people. Policies ensuring economic growth will enable the resources so created to be used for bold and imaginative development programmes to address poverty, inequality, and the other distortions in the economy. Growth needs to be in the sectors most beneficial to the community and should result in rising standards of living for all.

The keys to growth are confidence and hard work, international acceptability, price stability and investment. This growth can best be brought about by fair conditions for entrepreneurship, competition and secure private ownership in an economy disciplined by market forces, but socially oriented.

Stability is undermined by huge material inequalities. These need to be redressed as a matter of urgency, underscoring the necessity of the development programmes.

The DP's goal is full employment. Employment opportunities will, in the medium and long term, be created in an economy enjoying sustained growth. Because of the distortions of apartheid and the effect of sanctions, disinvestment and the application of incorrect policies, large numbers of those capable of being economically active are unemployed, marginally employed or employed in exploitative conditions.

The DP recognises the right of the individual to work and will take steps to ensure that as many people as possible are able to obtain jobs by promoting economic growth, by freeing the informal sector, by programmes of education, training, retraining and literacy, and by a policy of inward industrialisation.

While the DP is conscious of the merits of a national basic minimum wage, its imposition at this stage might reduce employment opportunities, would lead to unjustifiable mechanisation, and would be difficult to enforce, particularly in the informal sector. It would also aggravate unemployment, for example among rural youth, in agriculture, and among the unskilled.

We strongly support equality of opportunity. There will be scope, in order to redress the discrimination of the past and in the interests of nation-building, for corrective action in the public sector, so that these institutions more adequately reflect the population they serve, without losing efficiency or effectiveness. However, the longer-term route to equality of opportunity lies in education, training and growth.

The DP commits itself to private initiative and entrepreneurship with safeguards against its abuse; the right to own, acquire and dispose of property; creating conditions in which true equality of economic opportunity exists and lost opportunity can be recreated; and an absence of command aspects of state economic policy, but with sufficient regulation to prevent exploitation.

These are the conditions for a successful economic system. Growth is, however, not an end in itself; it must be geared to creating the wealth necessary for development and social upliftment programmes, and must therefore be in sectors where it best serves these needs. This will mean far less need to use taxation as a redistribution mechanism.

Programmes must be established which include education, training and literacy programmes, primary health care, assistance with basic accommodation, programmes directed at malnutrition and starvation and security for homes, neighbourhoods and businesses.

Fair competition is an essential element for growth. Competition is essential for market discipline, to keep prices down and to provide opportunities for new entrepreneurs.

The DP rejects monopolies, cartels, price fixing and restrictive practices, except in cases authorised by law for justified and defined social or economic needs. The economy should not be a jungle where only the strongest survive. The DP supports the existence and strengthening of the competition board. We will encourage small entrepreneurs and take steps to protect consumers.

Opening up the economy to competition from abroad will assist in achieving greater market discipline.

The DP is committed to encouraging increased productivity which will reduce SA's inflation rate and make our exports more competitive. Present levels of productivity are unacceptably low.

A major priority for the economy must be the creation of employment for people to produce what is required by the local market. The state should encourage this, particularly by creating employment to improve the quality of life in underdeveloped and neglected areas. This will increase job creation and consumer demand.

Our support for inward industrialisation does not signify approval of the many unnecessary and expensive decentralisation policies and other activities which produce goods at inflated prices and require unnecessary protection. Decentralisation based on sound economic principles is, however, supported.

It is necessary for the state to provide the initiative for programmes which will create jobs and improve the quality of life. The role of the state should be limited to giving the impetus and providing the finance initially required; the work should be executed by private agencies, particularly small enterprises.

The DP is committed to encouraging exports. The size of the local market will increase due to a policy of inward industrialisation and so economies of scale will make exports more competitive. SA enterprises should increasingly be able to export manufactured goods competitively in international markets. Consumers and the balance of payments will benefit.

SA will have to finance the importation of capital goods necessary to sustain growth. It is essential to promote our exports vigorously to generate the required foreign exchange.

Nationalised services and parastatal corporations are often not efficient, particularly if they are not subject to market discipline. We support privatisation of undertakings where appropriate and where the government can do so without avoiding its social responsibilities.

Monopolies do not become acceptable by being privatised. The railways, harbours and postal services, among others, may well not be candidates for privatisation.

In the present climate of political negotiations, however, moves to privatise state undertakings are viewed with enormous suspicion. Further privatisation should be limited and only be undertaken with great circumspection after wide consultation and where it has high acceptability.

Once a democratic government has been established, and where privatisation is appropriate, shares in privatised state undertakings should be made accessible to all South Africans. The proceeds of privatisation should be used for capital projects of a developmental nature.

Our own history is an argument against economic meddling

(49)

b Day 6/9/90

AUBREY DICKMAN

THE ANC and the SACP perceive SA's abysmal growth record and minimal investment to be due to a failure of the market system and its financial mechanisms, as evidenced in part by the so-called "paper chase" on the JSE.

One way or another, as Joe Slovo recently reaffirmed, they believe the state must have control of the engine which drives our economy.

How all this can be reconciled with recognition of the role of private capital — domestic and foreign — and international rejection of discredited sectoral industrial strategies is another matter.

The ideas currently mooted in ANC circles seem to imply that the process of development can be telescoped by the transformation of a developing economy through governmental mechanisms, with foreign capital obtained on terms set by the state, and that the inducement to invest can be manipulated at will.

To dispel these misconceptions, we have to appreciate why we are in a situation on which a radical critic can seize as confirmation of his belief that capitalism and apartheid are bedfellows.

We must then demonstrate that it is not the system that has failed, but the distortions that flowed from apartheid — and then sanctions — which have brought us to this crisis and created fertile ground for simplistic interpretations to suit the interventionist book.

If capital has been wastefully used because it has been priced cheaply, and government priorities have been wrong, this is a matter for correction by overall economic policy, inter alia, through positive interest rates.

The remarkable growth of contractual savings is now under scrutiny, but we must not forget the advantages of disciplined contributions to pension funds and life policies.

Nevertheless, let us not confuse the channelling of savings with the resultant pattern of investment. The curious argument has emerged that institutional (and corporate conglomerate) investors are more conservative than banks and building societies, which are the real entrepreneurial, risk-takers in lending, especially to smaller businesses.

This apparently arises from the reduced role of the stock exchange as a vehicle for raising new capital and the related pressure on the prices of existing (mainly blue chip) shares by institutions seeking to protect policy holders and others rather than investing in new ventures.

This is a false argument. To the extent that the pressure of institutional funds has been reflected in rising share prices (the paper chase) at times of low real growth there are understandable reasons for this phenomenon. But the fact that demands for additional capital — via new issues — were stagnant until last year reflects a particular set of circumstances.

These are poor growth generally and curtailment of real investment opportunities because of demand-dampening measures forced upon the authorities largely as a result of sanctions.

In the new listings boom in the abnormal market circumstances of 1986/87, the value of capital raised was relatively modest. Last year the value of new issues of equities on the JSE soared more than six-fold to R6bn (excluding Iscor).

Even if these were largely in the form of rights issues, the funding had a favourable impact on the banking system, and its ability to expand credit. Institutional and corporate liquidity has also contributed significantly to bank lending. Funds are not sterilised within the financial sector, but find their way back into the system to support the overall level of demand.

There are no surpluses waiting to be tapped which exist independently of the state of the total economy, the balance of payments or structure of interest rates at any given time.

The fact that large conglomerates were responsible in the main for the raising of new capital last year must be interpreted according to their venture capital role and the criteria for assessing the benefits of size, especially in relatively small economies, as in Sweden, Switzerland and the Netherlands.

The minimal growth in net real investment (mirrored in the unsatisfactory GDP record) is not due to the failure of the savings system or the mechanism of allocating funds. It reflects decades of inappropriate socio-economic policies.

There is no reason to believe that, with the elimination of the distortions of inflation and incorrect priorities, and in a climate of renewed growth, financial institutions would not respond in the conventional way to the demand for new capital from corporate enterprises, thus reaffirming the stock exchange as prime vehicle for long-term finance. It is not the availability of risk capital that has declined, but the scope for investment that remains after repaying foreign debt.

Of course, social needs must be addressed. However, to enlarge the flow of funds from the financial system to cater for the needs of the neglected Third World segment of our economy requires a fundamentally changed atmosphere. This is the nub of the matter.

Yet, redressing imbalances must not be at the expense of efficiency if a future SA is to mobilise international resources for productive advance. In essence, the system needs less distortion, not more, given a level playing field as far as possible, as well argued in a recent Standard Bank paper.

Progress can be made in improving allocations to disadvantaged sectors without impairing sound practices or returning to unwise policies of captive markets and controlled interest rates. The financial system must be allowed to serve as a positive instrument of growth, and it can do this only through the operation of the market.

This is part of the challenge of ensuring growth, while meeting the reasonable expectations of those who have suffered years of discrimination.

The nationalisation debate is intrinsic to all this but, as with sanctions themselves, its negative repercussions have undermined the efforts to convince the majority that a form of central planning is no answer.

The doctrinal divide is deep-seated, for good reasons, and there can be no complacency on the side of those who — however justifiably — reject strategies for pervasive intervention in industry and finance. Yet the exigencies of the situation are such that we must ask whether we can afford these anachronistic ideological indulgences any longer.

The responsibility accepted by government and business is evidence of the readiness to tackle the daunting problems that beset us.

Much has been done already, but there could be many new initiatives in a spirit of goodwill and renewed commitment engendered by assurances that the path to an illusory socialist millenium has been abandoned. The international community also has a major responsibility in this respect.

What is needed is to accept that the way ahead is to invite, not deter, investor confidence so as to spark the economic engine. Of course, the state has a positive role in setting the rules of the game, but the worldwide repudiation of statism validates the contention that the private sector must be the principal force in maximising growth and distribution.

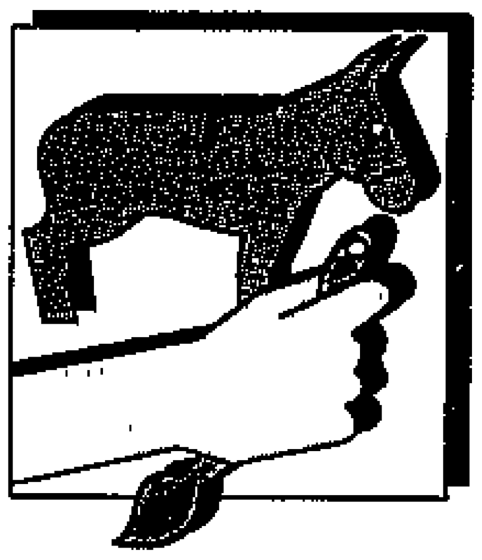
We dare not forget, as the Economist put it recently, that "bad government is the biggest single reason for poverty in the Third World, and less government is the most effective single remedy".

☐ **Dickman is senior economic consultant at Anglo American. This has been adapted from a recent address to the SA Institute of Management.**

FM BOARD OF ECONOMISTS FM 7/9/90 (49)

WHAT COMES NEXT?

WHAT SORT OF ECONOMIC STRUCTURE IS LIKELY IN A POST-APARTHEID SA?



This meeting of the *FM* Board of Economists takes a longer-term stance than usual. Regular members Aubrey Dickman (Anglo American) and Ronnie Bethlehem (JCI) are joined by two guests: Nico Czypionka of Standard Bank and Stephen Gelb of the University of Durban-Westville, who is also an economic adviser to the ANC. The questions, as always, are put by Raymond Parsons, of the SA Chamber of Business.

Parsons: How skewed is the distribution of wealth and income?

Gelb: When you measure income distribution, SA comes off very badly, even for a less developed country. We must distinguish between wealth and income, because a lot of wealth is concentrated not in personal but in corporate hands. The estimate is that something like 5% of assets, maybe less, is owned by black corporations. The extreme skewness in the distribution of both wealth and income obviously has racial overtones.

Czypionka: I do not believe the latest figures show SA is more skewed than a country like Brazil. All corporations are owned by someone else and that someone else is not easily identifiable, so I wouldn't distinguish between individual and corporate ownership.

Bethlehem: We all agree that there is excessive inequality but the argument that the problems are problems only of poverty is wrong. Poverty has a political manifestation in concerns about inequality, and those concerns drive some major political players.

Parsons: To what extent does this reflect simply our stage of development or to what extent is it the prime legacy of apartheid?

Gelb: In many developing countries income and wealth inequality is an important factor, but in others, like Taiwan, there has been a much higher degree of equity. It depends on the kind of development path and in SA apartheid has been a central, though not the only, part of that development path.

Dickman: We also had peculiarities of development arising from our mineral resources.

Czypionka: There are inevitable development problems inherent in our population mix, as other countries in Africa have found. But apartheid has caused a degree of economic dualism which is greater than in any comparable country that I know.

Parsons: In what ways are society's needs not being met by the private sector?

Bethlehem: We must consider first to what extent the economy is not addressing the needs of the great majority. We have serious structural problems and gross distortions that are of concern not only to economists but to everybody. The question then is what the role of the private sector and the public sector should be in any corrective action.

Gelb: The private sector — manufacturing industry in particular — has not attempted to meet the wider needs of the broad population. Obviously the private sector responds to effective demand, so you are forced to look at the structure of society and the distribution of income. Why is there not effective demand where there is a notional demand for food or takkies or shoes?

Parsons (centre) with panelists Czypionka, Bethlehem, Dickman, Gelb

Czyponka: It is fine to say "society wants;" there is an infinite "want" but it is the ability of the private sector to meet that want that matters. That really comes down to the work ethic and doing something about it.

Bethlehem: Structural unemployment is not new but we were able to ignore it because the people who suffered were not voters. Now we are going to widen the democratic process and the people who constitute the bulk of the unemployed will become voters.

Parsons: How important is growth and how wealthy is the economy in the context of the need for high growth?

Dickman: We are not a rich country. On World Bank figures, we're back in the upper middle-income countries after slipping into the lower-middle. But growth has been miserable. Our low-grade mineral resources need heavy capital investment and it's increasingly difficult to find competitive deposits. Every potential producer is a potential taxpayer and tax is the only way to get revenue to finance spending on health, education and so on. We must redress inequities through the budgetary process in a proper democracy, so you must start from growth.

Czypionka: Much faster growth is essential if you want a win-win situation. What we lack is highly developed human potential. To cure this we must consider the allocation of resources. We have considerable fat thanks to the past efforts of apartheid in directing financial resources in the wrong areas. These can be re-deployed, within limits and slowly.

Bethlehem: We must see the imperative of growth in terms of population growth. In the Nineties the average increase of the economically active population is going to be something over 450 000 people a year.

Gelb: Growth must be increased but it's crucial not to talk just about growth. We must talk of what *kind* of growth: in what directions, what sectors, what industries.

Parsons: What broad kind of economic model do you have in mind to address the claims of growth and equity? If the State should be proactive what should its role be?

Bethlehem: Ideally I'd like to see the State wither away to a point where it is reduced to being a referee in the economy. However, if we grant that capitalism mixed up with apartheid has been responsible for a lot of the distortions in our economy it won't suffice just to remove apartheid and expect a deregulated capitalist economy to address the imbalances. If we accept that the State will have to expand in, say, housing, education, health, and so on, it is also crucial that its role should contract in other areas and be restructured to ensure that the State doesn't crowd out the private sector.

Gelb: I support a model which would in the first phase of future development emphasise job creation and raising living standards, providing basic needs for the majority of the population: housing, health care, education and basic consumer items.

The State's role would be central, though not in a central planning or command model. The model is not eastern Europe nor even German social market economy, but more east Asia: Korea, Taiwan or Japan.

Czypionka: The sheer numbers in terms of requirements and natural resources may sink this. I don't believe in too great a role for the State. There are problems with the potential competence of civil administrations, and

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PETROL PRICE

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AN UNPLEASANT WINDFALL

Elderly students of economic history will remember the windfall theory, which posited that the SA economy had progressed by a series of windfalls — most notably the mineral discoveries. Recently, most of the "windfalls" have been negative rather than positive; the impact of the Gulf crisis on this week's petrol price increase is but the latest.

Arguments that we still have one of the world's cheapest petrol prices are not particularly helpful and — like similar unconvincing claims for domestic airfares — are rendered even less so by purchasing power disparities. Fact is that, at the snail's pace inflation has been falling lately, the predicted 0,5% increase in overall prices that will ensue will wipe out some months' progress in other areas.

Nor is it certain that this will be the last fuel price hike. There are those who believe that the Gulf crisis will soon go away, and that increased pumping from other oil producers will drive world prices back down to pre-Gulf levels.

That may be so, but policy can't be formulated on such an optimistic assumption. However artificial the present world oil price may be, as long as it lasts our petrol price is actually unrealistically low.

Moreover, early hopes that any conceivable rise in oil prices would be offset (or more than offset) by a corresponding rise in the gold price have turned out to be built on sand. After initially rising above US$400 an ounce, the metal has fallen back below that psychologically important level. At the moment we are clearly on the wrong side of the equation.

This simply confirms that gold is not the store of value it was once considered to be. In a world where most governments are committed to positive real interest rates and inflation has, to a considerable extent, been brought under control, the attractions of a non-income-producing hedge have dwindled. In most countries, even gilts now offer a real return, while for the more speculatively-minded there is an ever more complex range of derivative paper instruments.

And, if the Gulf crisis escalates, there is even the prospect that some of the sheikhs who were large buyers of gold may have to sell some, if only to meet their gambling losses at the world's casinos. Indeed, the market believes there has already been some liquidation of gold from the Middle East.

Of course this is not the end of the world. Hardline monetarists may even point out that, if total purchasing power is constrained, higher spending on petrol must mean lower spending on other goods and services, so will have the not entirely harmful effect of reducing total spending — which is what any anti-inflationary policy is all about.

That argument presumes that total purchasing power *will* be constrained. And while the authorities may not justify it as bluntly as that, one thing must be apparent: wherever the oil price eventually settles, as long as present uncertainty lasts any relaxation of monetary policy must be pushed that little way further into the future. ■

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ANC ECONOMIC POLICY

49

NO MARKET IN SLOGANS

The ANC's Nelson Mandela and his economic advisers are very quick to place the onus for the distribution of wealth in this country on the shoulders of business. Simply put, the threat to large business is: begin redistributing your wealth or we will nationalise you.

The mechanisms by which wealth is distributed are complex. Nationalisation is not one of them — unless the intention of the expropriating government is to use State undertakings to create jobs rather than sell competitively the goods and services they provide. And if that be so, the redistribution will be short-lived as enterprise gives way to bureaucracy.

Certainly business has a part to play in the redistributive process by increasing the earnings and benefits of its employees in accordance with rises in productivity. But it certainly cannot do so if it must provide jobs before profits.

The main initiative in wealth redistribution must come from government itself — by its ensuring that markets are given the opportunity to function adequately and by appropriate allocations in the national Budget.

The earnings businesses pay to employees (cost of labour) — as well as the dividends they pay to shareholders (cost of capital) — must be determined by market forces if there is not to be a misallocation of scarce resources and economic waste. Both labour and capital are, after all, factors of production the price of which — if uncompetitively determined — could in the extreme force an enterprise to close.

The workers in countries in Europe, Asia and America which allow competitive markets to determine these important economic inputs, and enhance by fiscal means the market's inherent propensity to redistribute, enjoy a standard of living incomparably higher than those with centrally planned command economies.

If Mandela and the ANC want to succeed in redistributing wealth, then it is up to them to enunciate an appropriate and credible economic policy to do so. To threaten nationalisation is to pass the buck. It is no more than a slogan that may be politically convenient in the face of the poverty of the ANC's own economic ideas. It is certainly contrary to painful experience in other economies. ■

there are too few checks and balances on them. We have to confine the State to guide and direct areas of infrastructure, but even there it must be subject to the check of the pricing mechanism.

Dickman: Social market economy is not defined in any academic text but it's a popular term for a sophisticated society which can give itself a nice tag to say that we are very sensitive to social needs because we can afford them. To say that SA will become a social market economy is jumping an evolutionary gun. There is a role for the State, but the question is, what is the State? It is just people, too, with all the foibles of ordinary people. Free enterprise has never been given a proper chance here; misconceptions about the way that the economy and financial sector can develop arise from that.

Bethlehem: There is sometimes a role for the State as entrepreneur. The State could come in like an investment banker. But once it has established a strategic industry, or any industry which is now viable, is it the State's role to manage it or is that the point where the State should sell to the private sector and withdraw to do other things?

Parsons: Why has nationalisation become one of the options for the "new SA"? Why is privatisation not acceptable to certain groups? How can the flow of funds through the financial system be improved?

Czypionka: Nationalisation is to some extent seen as a panacea for all sorts of ills. That's due to a misunderstanding of what kind of spin-off it could yield. Nationalisation of conglomerates seems to be advocated more for the ability to influence policies and force companies to do things they would not logically do than to generate financial flows, because that one can do through the tax system, as any sensible government does. There's also an element of greed. If you nationalise you simply confiscate people's savings. It's nonsensical because it just rewards those who have not saved in the past, it doesn't generate extra income or efficiency.

Dickman: It is unfortunate that the word was ever used. It seems to be a code word to get hold of the financial mechanism to direct resources in the ways desired by a so-called democratic state. People who think this also think that because the present State is not representative, it does not have the right to sell society's assets by privatisation, even though this might have economic benefits.

Bethlehem: Nationalisation is only one type of redistribution, and redistribution itself is only one aspect of what may broadly be termed economic restructuring. We must consider whether nationalisation is a punitive measure or to control the commanding heights. When people in the liberation struggle talk about dismembering the conglomerates they use violent language which has a strong punitive connotation. This spoils the debate — which is an important one.

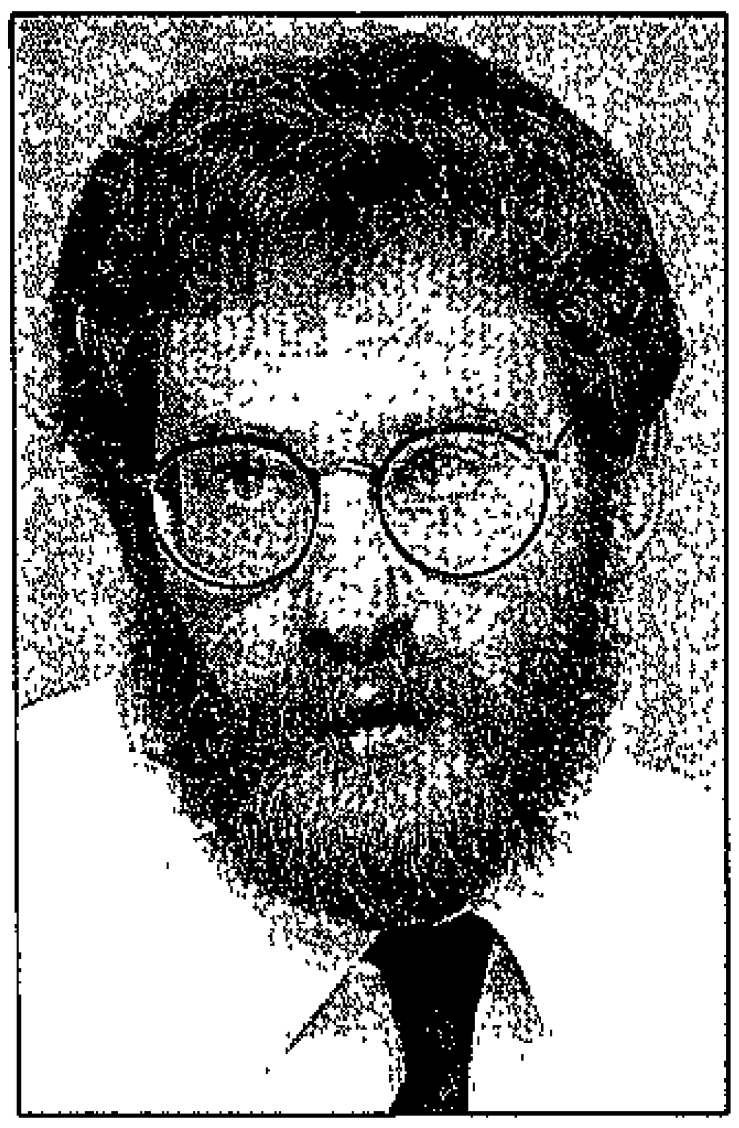
Czypionka: Privatisation would in many cases lead to a reduction of jobs, because of efficiency considerations. Unions don't want to lose jobs, efficiency notwithstanding.

Gelb: Opposition to privatisation comes primarily from the work force within the public sector, who fear job losses or lower wages. In a future democratic situation it will be necessary to look at the State sector and its functions and decide in accordance with the development strategy whether they are appropriate or should be changed and in what ways. Some privatisation may be useful precisely because it liquidates certain assets which could be used for other, more appropriate, purposes. The same considerations should apply to nationalisation. Among black managers and businessmen nationalisation is seen in a slightly different way, as Africanisation. That's an important goal, though whether nationalisation is a right way to do it is another question

Czypionka: So competence won't matter?

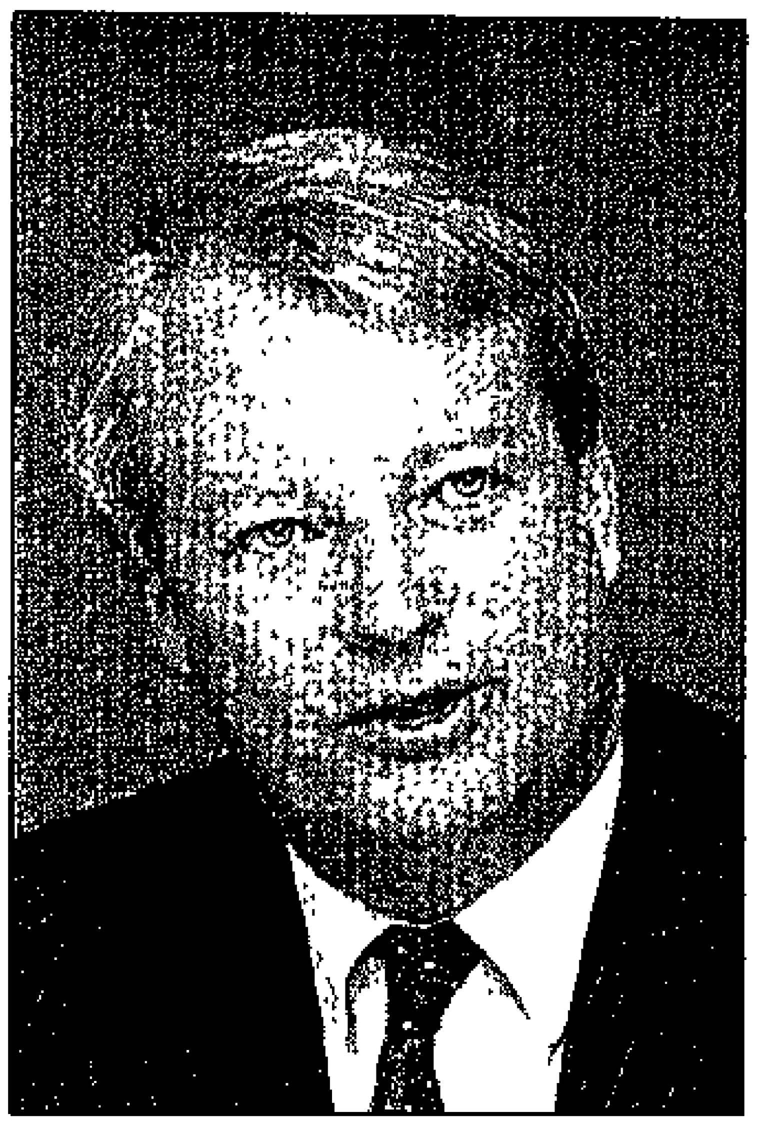
Gelb: Competence is a major concern, but as a consumer I can point to huge amounts of incompetence among white businesses and white managers and white civil servants as well as among black. The question of competence is separate from the racial issue.

We are not arguing that conglomerates should be nationalised to increase investment but rather because of the corporate structure. If one talks about transforming the development strategy then the corporate structure must also be transformed. I'm not arguing necessarily against bigness *per se*, nor for the nationalisation of, say, Sanlam, the banks or Anglo American, but linkages between mining houses and insurance companies hinder the State's capacity to increase investment flows through society and facilitate their flow to certain industries.



"The people whose ideas have moved most are those of us who are socialist"

GELB



"There is an infinite "want" but it is the ability of the private sector to meet that want that matters"

CZYPIONKA

SA has a capital market-based financial system. For the State to be able to intervene we need a credit market-based system. Banks must be at the centre of lending and the State has to be able to intervene in banks' decisions about lending, not necessarily to direct them, but to influence them so that investment resources flow in directions consistent with development strategy.

Czypionka: One must accept that we have a skewed allocation of capital. Our tax system created saving shelters in the form of so-called long-term savings with life insurers which they deployed in the only way they can: blue-chip corporations with wonderful balance sheets and good accounts. That process undermined the ordinary lending function of the banking system and starved small- to medium-sized companies of funds.

But we cannot rectify it by giving the State a role in the banking sector. The minute you do this you eliminate the price mechanism as an allocator and adjudicator of the efficiency of a particular project. The German banking system is precisely what you *don't* want: it's given the banks vast power in steering the economy. That would be undesirable in our context.

Parsons: Would not such intervention jeopardise the interests of depositors?

Gelb: Obviously intervention must take account of risk factors. The State has to step in and compensate to socialise that risk.

Czypionka: We had that system: it didn't work. Think of the Land Bank. If you want to subsidise you must create different channels, not distort the whole financial system.

Parsons: Could a preoccupation with social needs lead to a lack of financial discipline?

Gelb: That is a major problem and concern. There is a clear awareness that there will be incredibly high expectations and an attempt to meet them will lead to complete runaway inflation — as happened in many other countries. SA won't get the inflows of foreign capital that can meet those needs. I don't believe, though, that in any economy there can be ironclad guarantees against this kind of thing. It is a political process.

Dickman: This is why it is so important to have an independent central bank. There must be safeguards in the constitution.

Czypionka: It is not just a risk but a very great danger and it would undo many good things that might come up otherwise. Therefore the expectations ought to be dampened.

Parsons: We hope to re-enter the global economy with all its rules. How much weight

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should be attached to those constraints and our need to be internationally competitive against the search for equity?

Czypionka: The needs are for growth. The limitations will come very quickly, so we should take them into account before formulating a policy.

Dickman: On Union Bank of Switzerland figures, wages of black textile workers in Johannesburg, which in 1976 in real dollar purchasing power terms were below comparable cities like Singapore, Rio, Hong Kong or Jakarta, are now in most cases well above that. Ask anybody in the industry why we've had to have more and more tariffs and why we still can't compete!

Bethlehem: SA trades 55% of its GDP, so needs a market system that fits in with the global economy. But SA is schizophrenic in a sense because while it has to be competitive in global terms to hold market share it also has the internal requirement of job creation.

Gelb: The global economy and the pressures it will impose are the biggest obstacle facing any development strategy that will try to promote equity. Because of that I'm pessimistic about the prospects for greater equity.

Dickman: It used to be a more benevolent world into which we sold our raw resources. But don't take too static a view of job creation in a different environment: tourism and services can provide new opportunities. It must be left to the market, though; if we have something to sell, we'll sell it.

Parsons: How important are property rights in the post-apartheid society?

Czypionka: They are symbolic in the short term, but it's very important symbolism. They will take time to become reality. By that I don't mean redistribution of land *per se* but simply the ability to own property and the emotional things that go with it.

Gelb: I don't think people within the ANC are saying, confiscate all property and redistribute equally. Nationalisation is no panacea but neither is the enshrinement of private property. Property rights is a very blunt term. People should be allowed to own a house, for sure. One must distinguish between personal possessions and wealth-producing property. There may be a case in some instances for the State to play a role in businesses, in terms of the overall strategy, and then you get back to the question of nationalisation. The agricultural land issue is heavily emphasised by the ANC, but I don't know much about that.

"If a future SA State doesn't respect property rights money will flee the country"

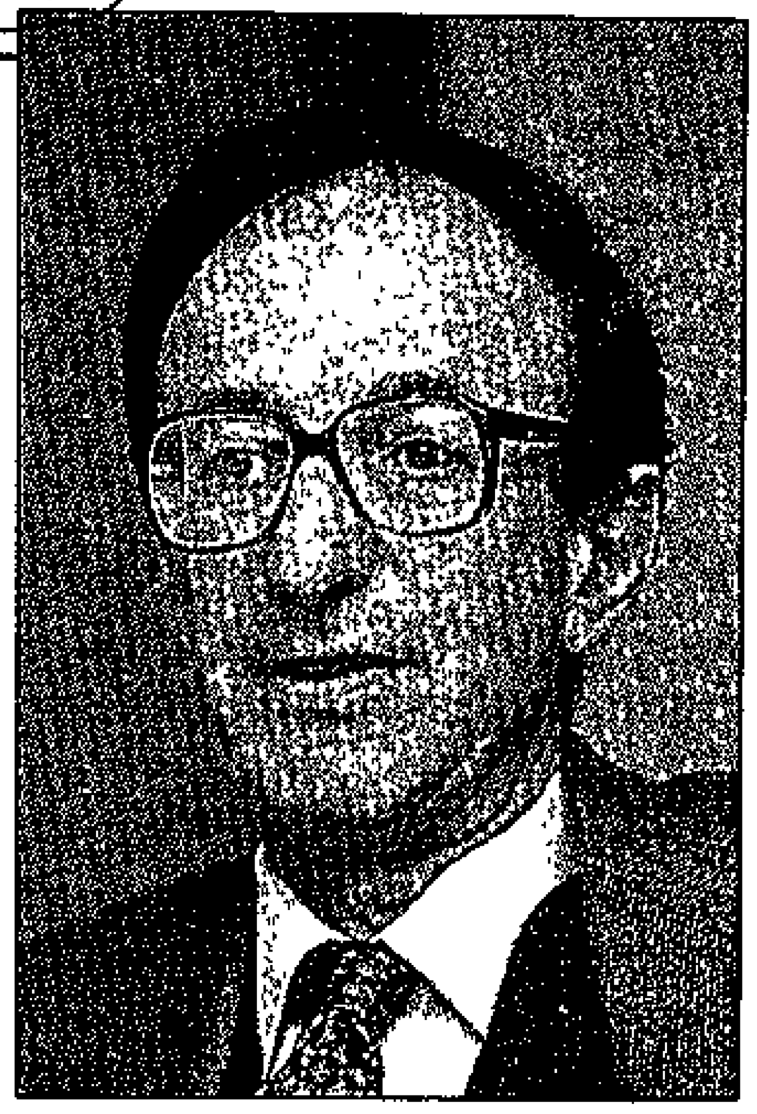
BETHLEHEM

Bethlehem: This question is central and critical and linked to the problem of capital flight. If a future SA State isn't going to respect property rights and gives any suggestion that it may be disrespectful of them, a new problem will be put in its hands, because money will flee the country.

Dickman: I was most concerned that at the Inkatha conference Mr Mandela implied that we shouldn't disregard nationalisation because of a theological commitment to private property and went on to say that foreign investors can be confident of the future of their assets in SA. I find that contradictory.

Parsons: To what extent is the current debate fuelling expectations that everyone knows in their hearts can't be met? Or is it the price you pay for a debate in a transition?

Dickman: One has to be sensitive to the reasons for this debate. But I don't know that we can afford this kind of anachronistic ideology. We must work together to give a realistic message to the outside world.



"Free enterprise has never been given a proper chance here; misconceptions about the way that the economy and financial sector can develop arise from that"

DICKMAN

Gelb: Expectations don't arise from the debate but from the issue we started with: poverty and the need for redistribution. The importance of debate is to reduce expectations and educate people: leaders of the political movement on all sides, and on the ground. The people whose ideas moved most in the past five years, even the past six months, are those of us who are socialist and might be broadly put on the Left.

Czypionka: Debate is good, particularly if it reduces expectations. But I suspect it won't because the expectations some politicians create are part of a political in-game.

Bethlehem: The question invites a further question: What can the economy deliver? A lot of obstacles are man-made or bureaucratic and can be pushed out of the way. Then, what the economy can deliver changes.

Parsons: Must we in future look at this in a more selfish way by saying we have new priorities now? The way we let our neighbours vote with their feet and cross our borders wouldn't be tolerated in any other country for a minute, for example. Must we say that in the new dispensation we'll have to look at ourselves clearly as a region and work out new forms of economic co-operation?

Gelb: The regional context is critical, but I disagree with you. SA has benefited more than the neighbouring countries from the economic relations between us. To help them develop their own economies in a more positive way must be part of the future strategy and in the long run must benefit SA.

Czypionka: In the first instance we must improve and uplift our own performance. The region will help us to do this by drawing on wider resources. An integrated southern African tourism circuit can offer far more than we can on our own.

Bethlehem: We have no option but to see ourselves in a regional context.

Parsons: At the end of the day, why should businessmen have any confidence in whatever sort of economic model emerges? Businessmen abroad tell me they are happy to trade, that is short term and not too much of a commitment, but too many longer-term plans are going back on the shelf.

Bethlehem: While I go along with all that is said about SA being a poor country, it is potentially rich in terms of growth potential. If one can stabilise it and free it from the constraints politics have imposed on it, SA becomes the most exciting country in the world in the 21st Century.

Czypionka: Many businessmen — local and foreign — are holding back because the rhetoric of the debate has discouraged them and shortened planning horizons. Our policies have in many instances been so bad that many other policy options could be better.

Dickman: It's tremendous when Stephen says people on the Left have moved so far. My plea is, let's move one more step to get rid of this terrible uncertainty about the private enterprise system and restore confidence. There's nothing wrong with the market economy and the private enterprise system as long you have the proper rules.

Gelb: We have had major uncertainty for five or six years and business confidence has been low throughout that period. When the rules of the game are clear businessmen are likely to invest. That's why the prospect of nationalisation has to be sorted out.

We won't take the next step that Aubrey suggests. The point is not so much that I take a view against markets and private business but the market is shaped in a society. We are talking about developing markets which operate in certain ways in accordance with the economic objectives I outlined earlier. Once we've put such things in place and there is assurance that they will continue, then we can talk about confidence, uncertainty and so on. The business attitude that the only dimension of the discussion is that punitive measures are hurting confidence is wrong. ■

resolution" and Edendale Hospital would be phased back into operation, the situation in the Durban region was "still

ferred to other hospitals were expected to be brought back shortly.

Economic performance 'must be measured against poverty'

B/Day 7/9/90

(49)

GERALD REILLY

PRETORIA — Poverty is rampant and 40% of the adult population is substantially unemployed, SA Perm chairman Bob Tucker said yesterday.

Speaking at a Morality in the Market Place conference organised by Unisa's Institute for Theological Research, Tucker said this was one of the realities against which the country's economic and business performance had to be judged.

He said fewer than 40% of black urban families could afford a house of more than R12 000. More than a million families were inadequately housed.

There were often three patients to each bed in the Baragwanath Hospital.

Another reality was that of each 1 000 black children entering school — "and we dont know how many aren't" — only 100 would write matric and of those, 50 would fail outright; 35 would get a school-leaving certificate and 15 would get a university entrance. Yet 40% of all university students today were black.

Tucker said there was a gross maldistribution of everything from jobs to education and from wealth to managerial positions.

"Enlightened management have responded by questioning whether business does not have some broader responsibility to the community than the maximisation of profits."

The Sullivan and other programmes had been significant in questioning this responsibility. Tucker said one of the challenges "in our daily lives is to reconcile the absolute injunction to walk in the way of God's statutes yet in a materialistic environment permeated by the apparently contradictory profit motive".

If the business mission was viewed as not being the maximisation of monetary gain but progression through worshipping God and serving fellow men, a much more integrated approach would be adopted.

"We would then regard our staff as a key resource and not a cost of production, and the end of profit would not justify the means," he said.

Africa's path of decline. Or the independent route?

W/Mail 7/9-13/9/90

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There is a nagging fear that a 'new South Africa' will go the way of so many other African countries after independence. **BEN TUROK** *reports on this country's chances*

WILL Johannesburg look like downtown Lagos? That's the way the more cynical put the question about whether post-apartheid South Africa will follow the example of independent Africa.

Sadly, however, even those who have a certain empathy with independent Africa are disillusioned and nurse a subconscious anxiety that our future may follow the same path of decline.

True, conditions in independent Africa are appalling. The standard of living has declined by 75 percent per capita in a decade. Education, health, infrastructure and production are in retreat everywhere; democracy is a scarce commodity and coercion is rampant.

But there are clear reasons for this and it is sheer prejudice to suggest that Africa was doomed to its present fate or that an African majority government in South Africa will follow the same road. Indeed, the one remedy is for us to learn the lessons of independent Africa.

The most important factor in Africa's experience was the economic colonial legacy. Foreign interests remained predominant no matter what measures were taken to enhance domestic power. It was this intransingence which led Africa's governments to nationalisation, leading to serious dislocation.

But something had to be done, for, as Tanzania's President Julius Nyerere reflected in retrospect, "in economic matters, our countries are effectively being governed by people who have only the most marginal interest in our affairs".

African countries tried a range of different measures to take control of the economy. Some, like Zambia, acquired dominant shareholdings for the state; others, like Nigeria, compelled foreign companies to surrender 51 percent of enterprise shares to domestic owners.

Local control by state or private interests were not due to whim but to a real need to curb the scope of expatriate owners and managers to externalise profits, resist Africanisation, refuse to modify products to suit the domestic needs of the masses rather than those of export markets or the indigenous elite.

The history of state intervention in African economies is one of relatively inexperienced and weak governments struggling to exercise control over a foreign-controlled economy.

Furthermore, foreign control was compounded by the activities of experts imposed by foreign interests or brought in by governments ill-prepared for the complexities they faced.

Post-independence Africa was invaded by hordes of economic advisers lacking in local know-how. They espoused the post-war wisdom about growth and modernisation and encouraged Africa to build industries which would enhance the image of government and increase GDP statistics. But the import substitution model they advocated was not based on domestic inputs nor primarily directed at the internal market.

The fallacy of this model became evident when the terms of trade moved steadily against exporters so that less and less could be bought with the same amount of exports.

The urban-based elite fit naturally into this, since they see themselves increasingly as part of the modern urban society with little connection or interest in the rural peoples or even the masses in the urban slums. Many seek advancement not through production but through trade.

Even this does not suffice, and politics becomes a vehicle for personal gain since official office provides access to import licences and government favours.

Since growth and development is not rooted in a total effort to harness the national wealth, but on marginal activities, the economy falters and scarcity sets in. This is the breeding ground for corruption.

It is now common for the international community to be critical of African "governance". Much of the criticism is warranted but poor government has a context and there are lessons to be learned.

Africa was faced with an acute management crisis soon after independence, which arrived with minimal preparation and in unfavourable conditions. Since top positions were held by expatriates, there grew substantial pressures for their replacement by Africans.

Yet, these foreign managers were paid well above rates in developed countries, setting a salary standard for local personnel. In some cases, counterparts were appointed to work side by side with expatriates at the same salary to avoid the charge of discrimination. This led to increases in the number of superscale posts.

Yet, the creation of required management culture was not addressed and dependency on expatriate managers continued or the quality of management deteriorated.

Africanisation of posts also applied lower down the scale. In colonial Zambia, the gap in skill and pay levels between white expatriates and Africans was huge. Union pressures and public opinion forced some change which took the form of increased wages from below — thereby massively raising the total wage bill.

Independent Africa could not deliver the goods promised during the liberation struggle and that a self-serving elite was entrenching itself in power.

This is no environment for the flourishing of democracy. One-party systems, at first dedicated to social mobilisation, faltered into one-person despotism. Multi-party systems were replaced by military dictat.

The fact that this is the dominant pattern, irrespective of the ideological tendency, shows that undemocratic practices now have structural roots in economic crises rather than political ideology.

All the more reason, therefore, to be critical of th

international agencies such as the World Bank and the International Monetary Fund whose structural adjustment programmes create scarcities of jobs, incomes and goods. A decade of lending to Africa at rising interest rates and in circumstances of falling export revenues has meant that all of Africa is now in debt and is actually a net exporter of funds to these organisations.

So, what are the lessons for South Africa?

The obvious one is that freedom for the majority will not come under favourable conditions. The South African economy has parallels with the colonial structures of pre-independence Africa and measures for altering the structures of economic power will be unavoidable.

However, the mistakes made in Africa have to be studied, preferably with experts from Africa who have now had 25 years experience of these problems.

Secondly, the economy will not develop if it continues to serve privileged interests, be they external or internal, white or black. Many African governments now recognise that development never took off because they failed to mobilise their people behind the national effort.

Instead, ordinary people soon became disenchanted as they saw the fruits of the independence struggle turn into luxury consumption by the elite.

Africans were speedily co-opted on to company boards, black professionals took over expatriate jobs, politicians paid themselves handsome salaries, and in no time a new elite force was in place. Many had unconciously absorbed colonial values and failed to appreciate that the economy had to be redirected to serve mass, not elite, interests.

To overcome such tendencies, policies will have to be put in place in advance and monitored subsequently. It is not a matter of socialist ideology or class struggle. Curbing elite acquisitiveness in the conditions of social transformation is necessitated by national survival.

We must ensure that the end of apartheid is not manipulated by an elite-in-waiting which will swallow all and frustrate development. The ANC is entitled to challenge the aspirations of any African elite which seeks to usurp the product of decades of struggle by the people.

The challenge of transforming management remains a major issue. Pressures for white displacement will grow, and the solution does not lie in a total resistance to such claims, just as it would be fatal to surrender entirely. White and foreign skills will be needed but they should be retained only on the basis of a thoroughgoing restructuring of all occupations and processes and re-examining of how skilled privileges are allocated.

This means job fragmentation and redesigning industrial procedures, not from above, but with the co-operation of employees. That way production standards and productivity will be maintained.

South Africans should also be wary of the blandishments of the World Bank and the IMF. Repayments of their loans are difficult at current interest rates and most of the Third World is choked by debt servicing.

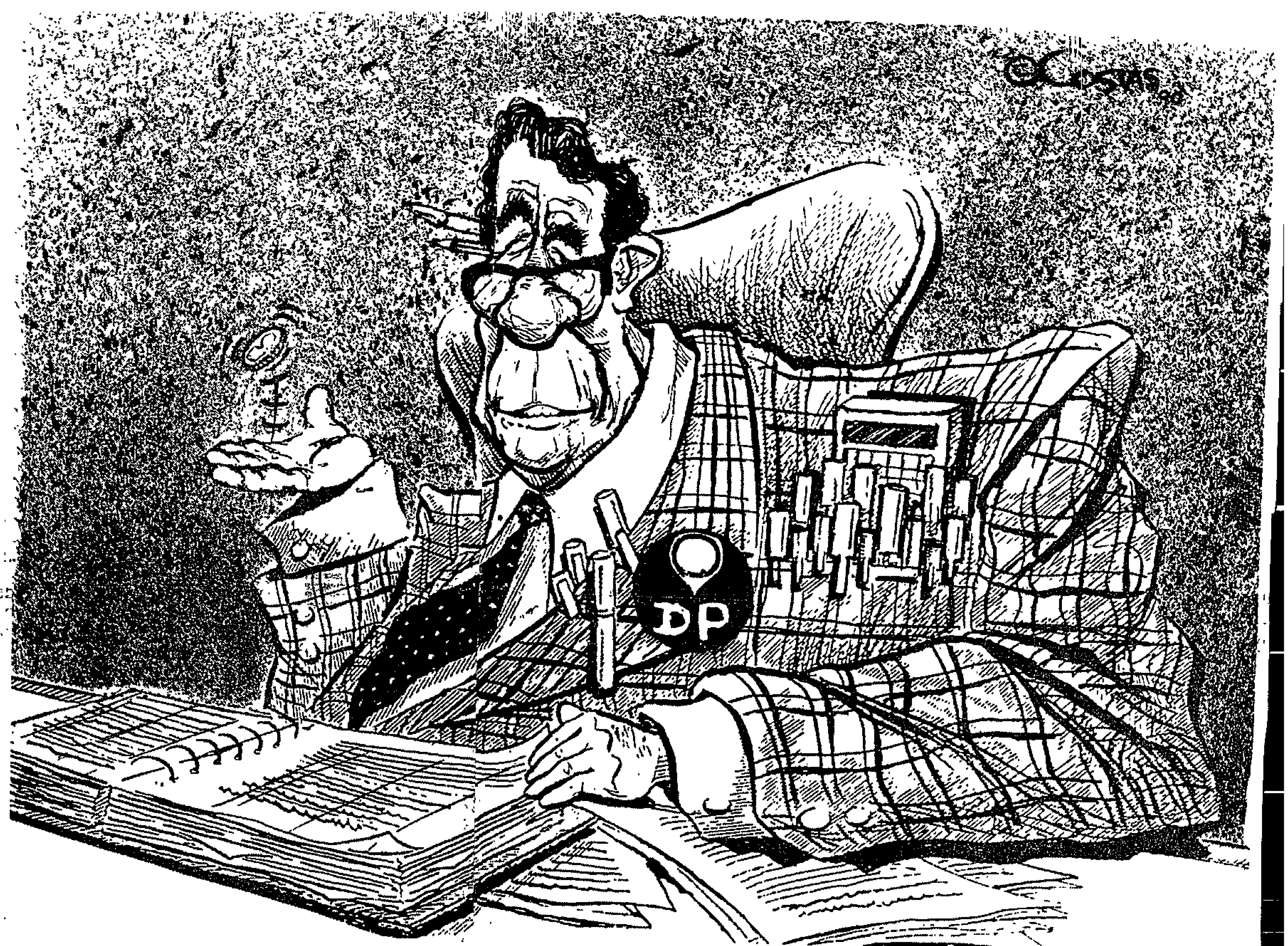
Far better to be reliant and take an independent course.

●Ben Turok is a South African, now director of the Institute for African Alternatives in London, who was recently allowed to return to the country. He is the author of several books on African development.

V oney ? ne D- can offer a model to fit any pocket

W/Mail 7/9 - 13/9/90 (49)

The nice thing about the DP economic policy is that it's tailored to suit every taste. The tricky part is ... can it possibly work?
ALAN HIRSCH reports



It is hard not to be won over by the Democratic Party's draft economic policy. It seems to have all angles covered.

It endorses the right to work, and a full employment policy, but also a market free of direct state intervention. It offers economic growth and the protection of private property, but also the redressing of "poverty, inequality and distortions in the market". It promotes a growth strategy based on entrepreneurship, but accepts the responsibility of the state for basic living standards of its people.

Overall, the policy, under the slogan "a social market economy", looks a lot like that of a Western European social democracy, but the vision is somewhat modified by South Africa's inferior starting point, compared with Europe after World War II. The Federal Republic of Germany is the only country specifically referred to as a model, contrasted at one point with "the failure of the East German economy".

The document submitted to this weekend's Democratic Party Congress is the product of an extended process. Earlier this year the DP circulated a discussion document to all its party formations, on which it got feedback from individual members, constituents, party structures, and special interest groups, according to DP research director James Selfe.

The parliamentary finance committee then reviewed the responses to the discussion document and drew up the present "policy manifesto" and "economic proposals". The committee is chaired by DP finance spokesman Harry Schwarz, and includes a wide range of parliamentarians, including co-leader Zach de Beer.

Speculation about the DP's economic position has often suggested that Schwarz represents a social democratic pole, and De Beer a free market position. But, according to Selfe, the document before the congress represents the consensual position of the committee.

The first part of the document is a four-page manifesto, which is followed by an 18-page long set of more detailed policy proposals.

The "objective" of the party's proposals is "to eliminate poverty and to provide adequate and rising living standards for all".

The "social market economy" is identified as one "which respects principles of private ownership and initiative, and which offers rewards to risk takers and entrepreneurs, but which recognises that the state has an important role in the development and upliftment of, and the provision of certain services to, all South Africans, as well as ensuring that there is equality of bargaining power in the merket place, so that consumers receive adequate protection".

The party also "recognises the existence of unacceptable wealth, income, opportunity and skills gaps which need urgent attention, and the necessity to remove racial discrimination in the provision of social services".

The "economic philosophy" of the party, summarised as "Equity, Freedom and Development" starts from the belief that "economic freedom and political freedom go hand in hand", with the proviso that "no democratic system will prove stable without a population which has reasonable living standards".

"Enterprise", the document argues, "is dependent on conditions of stability, which is undermined by the huge material inequalities which characterise our society. These inequalities need to be redressed as a matter of urgency ..." But, how?

Under the heading of "development priorities" the document accepts the state's responsibility for basic health care, but stops well short of a national health programme. It emphasises primary health care, the use of VAT proceeds on food for feeding the hungry through "private, non-profit welfare agencies", membership of medical aid schemes, community health centres, and family planning.

Education should be free and compulsory at the school level, technically oriented, and supported by business and community initiatives. At the tertiary level the state should provide repayable bursaries and scholarship, while the educationally "lost genetion" should have access to "special vational training facilities".

The state should pide social security for those unablo work, while encourage individuals provide for themselves. As far as housing crisis is concerned, the DP s the state should not only remove aliscriminatory obstacles on residenced land ownership, but "has a role in piding housing, or at least serviced sitfor those who cannot provide for thedves". Schemes, involving the privaector, should "encourage the individ o provide for his own housing needs".

Also, existing government housing stock should be transferred to the occupants at the lowest possible price.

As far as employment policy is concerned, the DP aims for full employment, while recognising existing obstacles. Minimum wages "should be the result of collective bargaining at regional and industry level". While a national basic wage might be counter-productive at present, the DP supports legislation regulating working conditions for all, including agricultural and domestic workers.

The document also favours "industrial democracy" through employee share-ownership and board representation of one kind or another. A contributory pension fund, and affirmative action in the public sector (but not the private sector?) form the other strands of the DP employment policy.

Growth policy includes social upliftment, promoting competition beyond existing measures and increasing productivity through improving skills and attitudes.

The DP also supports inward industrialisation which would improve living standards, provide employment and not put undue pressure on the balance of payments, while also being committed to export promotion through beneficiation of primary products, diversification and assisting clusters of interrelated industries with export potential.

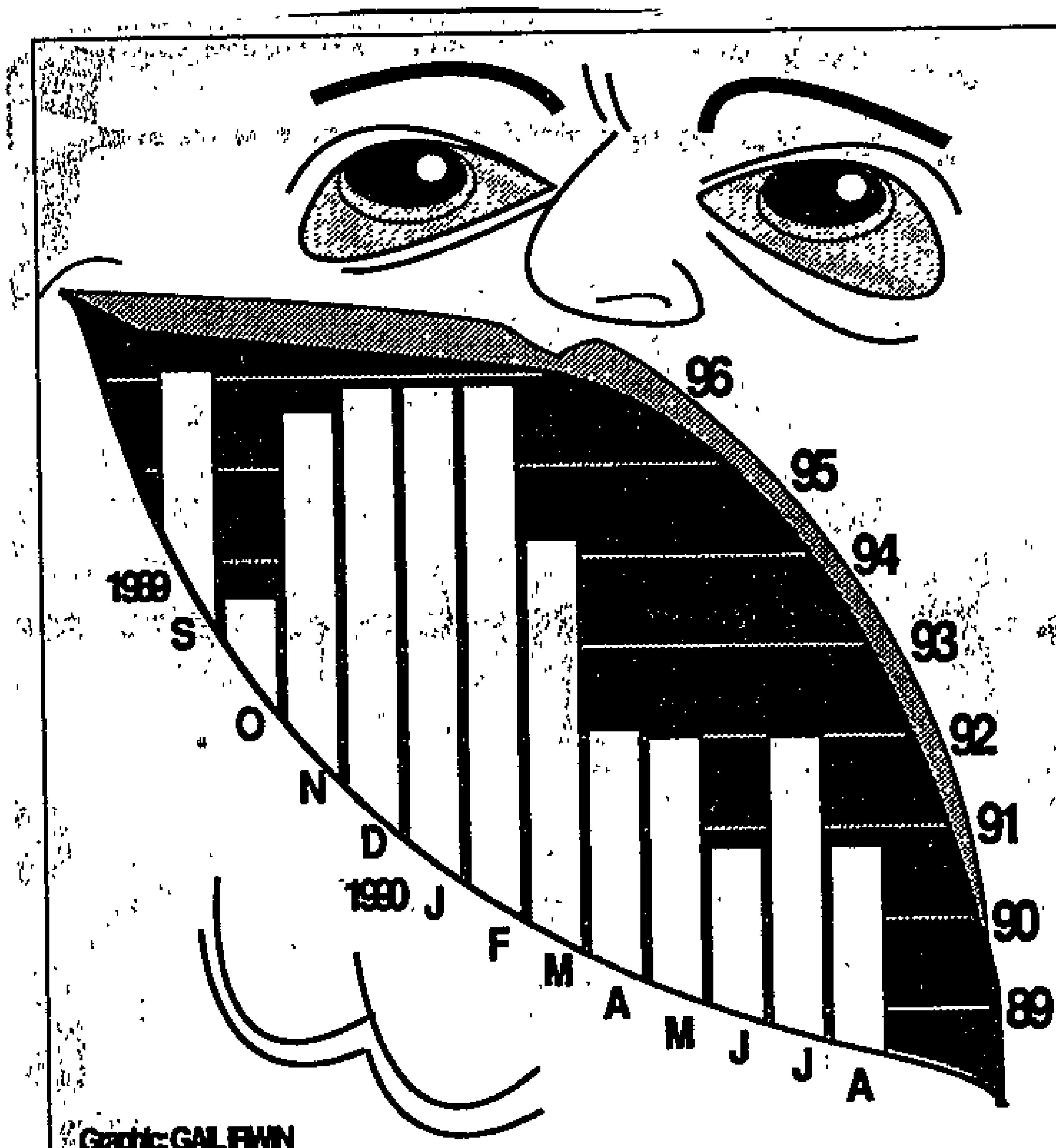
The DP's basic prescriptions of fiscal and monetary policy are conservative; protection of the currency, an independent central bank, high interest rates and low taxes. It also backs a streamlined public service.

While opposing nationalisation in principle, the document reiterates the state obligation to provide basic services. In regard to agriculture, the DP supports some land redistribution through an "agricultural land board" but the market should oversee agricultural production.

The DP's document seems ideally suited for the political environment in which the party finds itself, looking left, at the claims the oppressed people make on the state; and right, at the fears of the business sector. But it is less than clear, given the document's fiscal and monetary conservatism, how the welfare and growth policies will work.

To implement the kind of social policies, and the assistance to industry and agriculture which the document proposes would seem to require a much tougher stance by the state on the obligations of the private sector than voiced in the policy.

While the manifesto and proposals may serve the political needs of the party, they would appear to need fleshing out, and modifications, to make it a viable starting point for an economic policy.



Star 7/9/90 (49) Business confidence index

Business confidence index reflects growing uncertainty

By Duma Gqubule

Despite a higher gold price, progress in reducing inflation and expectations of lower interest rates, business confidence declined in August.

The South African Chamber of Business (Sacob) index fell 0,2 points from 92 in July to 91,8 in August in the wake of the Gulf crisis, township violence and evidence of a deepening recession.

Other negative influences were a sharp increase in joblessness, a fall in new companies registered, a further decline in the volume of manufacturing production and a fall in exports.

"On the positive side, SA is making progress, albeit slowly, in reducing inflation and gradually rebuilding net reserves.

"Interest rates are likely to begin declining before the end of the year and the next economic upturn will probably occur in the second half of 1991," Sacob says.

It says the business mood is likely to be influenced more in the next few months by developments in the Middle East, by township violence levels and the impact these factors have on financial markets.

"If oil prices remain at their current levels for some time, growth prospects among major trading partners will decline, and this will impact negatively on demand for our exports, making it difficult for exports to provide impetus for an upswing.

"At the same time, because of the rise in the oil price, the cost of imports will rise, resulting in lower trade balances and making it more difficult for South Africa to build up its gold and foreign exchange reserves," Sacob says.

Sacob economist Keith Lockwood says the spread of violence to areas other than Natal has had an impact on investment decisions.

"Foreigners are jittery about investing and local businessmen have shelved or postponed plans to make new investments," he says.

Capitalism triumphant

Star 8/9/90 (14)

There are many ways in which it can be brought about. Some are old, some only recently discovered, and some are yet to be devised.

In the last half-century and more, economists have found that to take an industry into public ownership in no way democratises it — quite it contrary. Nationalisation, whether in the form of a monolithic public corporation, or through so-called "workers control", merely puts the business firmly into the hands of bureaucratic or union elites, or indeed both. But it is possible to establish public corporations so that they become the property of millions of small stockholders.

This is not to say that doing so will convey control of these corporations to the masses. But it does spread ownership widely and it does introduce an element of mass financial participation in the system which is new and healthy. It gives millions of humble, ordinary people a sense that they are no longer entirely victims of the system: that they act, as well as are acted upon; that to some small degree they have a stake in society. It is a source of price, of reassurance, even of security, and it is thus morally significant.

Democratic capitalism also lends itself to the old but unrealised idea of co-ownership by giving the work force easy access to the purchase of stock. In any captialist enterprise, the community of interest between those who own, run, and work is, or ought to be, far greater than any conflict of interest.

Access of workers to stock is the surest way of demonstrating this fundamental truth, which is often obscured by political sloganising. This is particularly important in industries where the work is hard and dangerous and the profit high, such as mining and offshore oil extraction. Democratic capitalism, and especially the worker stock ownership aspect of it, serves to refute one of the gravest charges against capitalist practice — that it is, by its very nature, exploitative.

Stock ownership is not, however, the only or even best way the notion of democratic capitalsm can be pursued.

One of the most important but least understood disadvantages of the so-called "mixed economy" is that, in its inevitable drift to corporatism, it involves tripartite deals among govenment, labour unions, and large-scale capital.

Such deals invariably leave out small business. In many areas of the world starting once's own business has replaced the fundamental human urge to farm one's own land — it is an expression of the natural creativity in man, and as such a profoundly moral impulse.

Sensible, practical assistance in helping people to set up their own businesses, and ensuring a climate of fairness in which they can operate, is the best way to promote, at one and the same time equality of opportunity, democratic capitalism, and the efficiency and acceptability of the system as a whole. A strong correlation exists between the number of small business starts and soundly based economic expansion.

So here again the interests of justice and the process of wealth creation coincide.

The fifth point is that vigorous promotion of free trade is an important way in which capitalism is legitimised morally. Protectionism in any form tends to undermine capitalist efficiency by creating privileged industries, and its is unacceptable morally because it deprives the consumer of the full fruits of the market. It always appears to have advantages for new, small, and weak economics — or for old, established ones meeting new and ruthless competition. But in the long term, and often in the short term too these advantages are greatly outweighed by the drawbacks.

Now to the sixth point. Just as equal opportunities within a society are unlikely to become reality without general access to high-quality education, so free trade will not in practice be generally accepted, especially among the poorer countries, until the huge discrepancies between nations in technical and commercial skills are diminished. The normal workings of the international market will not be recognised as just and reasonable until this massive gap is narrowed.

Old style aid is now discredited, and rightly so. For a rich national to salve its conscience by transferring cash to the government of a poor one in many cases just keeps an inefficient and unpopular tyranny in power. But it is another matter to train the masses in the skills of market capitalism.

Widening the availability of such skills accomplished many things simultaneously: poorer countries are enabled to compete; wealthier countries benefit as new market are opened to them; the system is strengthened by giving it universality as well as fairness: and consumers everywhere find goods cheaper as competition increases.

Here again, the process of placing capitalism in a moral context has the additional advantage of adding to its wealth-creating power.

To sum up: Doing the right thing morally usually proves to be, commercially, the right thing to do.

The solutions tried up to now have invariably been collectivist ones. So they have all failed. It is now time to turn to entrepreneurial solutions and seek to use the problem-solving mechanism of market capitalism, which has never failed yet to provide the answers.

Socialist alternative in tatters but moral dimension needed

Today capitalism is firmly re-established as the world's primary way of conducting business. But how can a moral dimension be given to this reassertion of capitalism? Whereas wealth creation is essential for well-being, it cannot in itself make men and women happy. We are creatures of the spirit as well as of the flesh, and we cannot be at ease with ourselves unless we feel we are fulfilling, however vaguely or imperfectly, a moral purpose. PAUL JOHNSON examines this central deficiency of the capitalist system.

THE decade of the 1980s has proved to be an ideological watershed. It has been marked by a huge resurgence of faith in the power of the capitalist market system and a corresponding collapse of confidence in the capacity of the socialist "command economies".

The truth is that during the 20th century large parts of the world have given the collectivist alternative a long, thorough and staggeringly costly trial, and it seems to have failed absolutely everywhere. It was during the 1980s that this realisation dawned even in the quarters most reluctant to admit it — the rulers of the socialist-style states.

Meanwhile, the capitalist world is racing ahead and is creating wealth on a scale never before dreamed of. It is clear that capitalism, being a natural force springing from instincts deep in our human natures, rather than a contrived ideology, is modifying itself all the time, and we cannot foresee how it will evolve over the next century. But judging by our experiences in this one, it seems likely that never again will any considerable body of opinion seriously doubt the wealth-producing capacity of capitalism or seek to replace it with something fundamentally different.

We are near the end of a historical epoch in which capitalism has survived the collectivist assault and is now firmly re-established as the world's primary way of conducting its economic business.

And that may cause a considerable dilemma: How can a moral dimension be given to this reassertion of capitalism?

Whereas wealth creation is essential for well-being, especially in a world where population is expanding so rapidly, it cannot in itself make men and women happy. We are creatures of the spirit as well as of the flesh, and we cannot be at ease with ourselves unless we feel we are fulfilling, however vaguely or imperfectly, a moral purpose. It is in this respect that capitalism, as such, is inadequate.

It is not that capitalism is immoral. The trouble is quite otherwise. It lies in its moral neutrality, its indifference to the notion of moral choices. Capitalism and the market system which gives it its efficiency and its power is single-minded in its thrust — that is why it is so productive.

It is blind to all other factors: blind to class, race, and colour, to religion and sex, to nationality and creed, to good and evil. It is materialist, impersonal, and non-human. It responds with great speed and accuracy to all the market factors.

It is precisely because capitalism is morally indifferent — and so productive of great miseries as well as great blessings — that many idealists, early in the 19th century, saw it as evil, rejected it entirely, and sought to replace it. That line of argument ended when no effective substitute was discovered. Capitalism has to be accepted as the primary means whereby wealth is produced and the process of moralisation must begin within its terms of reference.

In a sense that process has actually been taking place for 200 years — by Factories Acts, Mines Acts, by monopoly and fair-trading legislation, and by all the countless laws devised to restrict ways in which the market system can be distorted by man's cupidity.

But these are merely negative attempts to correct the excesses of capitalism. They do not in themselves give capitalism a positive moral purpose. That is quite different and a much more difficult matter. The moment you start trying to give capitalism moral purpose, you risk interfering with the basic market mechanism which provides its wealth-creating power.

If, for instance, you try to use capitalism to promote greater equality of wealth by imposing on it a steeply progressive, redistributive system of taxation, you frustrate the way in which it rewards its chief dynamic force, the acquisitive impulse, and you are liable to end by making everyone poorer.

That is the price of trying to make capitalism do something which it is not in its nature to do — promote equality. The price is paid in the shape of reduced national wealth and income — lower general living standards, inadequate health care, a rundown transport system, impoverished social services, underfunded schools.

It is, however, possible to run capitalism in tandem with public policies which make use of its energy while steering it in a moral direction.

This can happen in six ways:

The first, and in some ways the most important, is to provide the capitalist economy with an overall legal framework which has a moral basis. This can only be done if it is accepted that a fundamental object of the just society is to establish, so far as is humanly possible, absolute equality before the law. Equality of wealth is a utopian fantasy whose hopeless pursuit usually leads to tyranny. But equality before the law is a reasonable objective, whose attainment — albeit in an imperfect form — is well within the reach of civilised modern societies.

This form of equality responds to a strong human need: whereas few people really want equality of possessions, or believe it possible, everyone wants fairness. The notion of a fair society is an attractive concept, and one toward which progress can undoubtedly be made.

The second way is for society to endorse the related but broader concept of equality of opportunity. It is one of the miracles of the human condition that everyone, however humble, possess talents of one kind or another, waiting to be of service. The range of talents is as infinite as human variety itself, and the society which is swiftest to identify them and put them to use will certainly be the most efficient (as well as just). Here again, capitalism and justice pursue the same ends, for capitalism thrives on meritocracy.

One of the prime functions of the market is to identify and reward objective merit, and it creates wealth most rapidly when all obstacles to equality of opportunity — social and historic as well as purely legal — are removed.

It is unrealistic to talk of equality of opportunity without taking drastic measures to make high-quality education generally available to those who can profit from it. But in practice, there has never been a society in which all benefit from the standards of the best schools and universities.

To begin with, throughout human history the most gifted teachers have always been in limited supply — there are never enough to go around. In any case, the culture, and habits of industry which parents transmit to their children, make absolute equality of opportunity as an abstract ideal, unattainable. But it is one thing to concede the difficulties; quite another to accept the present system of educational inequality which exists to some degree in every country in the world. No one single thing is more likely to make capitalism morally acceptable than giving the poor access, by merit, to high-quality education, of every kind and at every stage.

Beyond access to education societies must also assure access to the capitalist system itself. The notion of "democratic capitalism" is a genuine one, and its realisation, to some degree at least, is within grasp

DP faces struggle in promoting its economic policy

(49)

B Day 10/9/90.

CHARLES SIMKINS

OVER the weekend, the Democratic Party declared itself in favour of a "social market economy" by adopting two sets of complementary economic proposals.

A social market economy distinguishes itself from a free market economy by emphasising extra-market activities which support household incomes, especially among the poor.

It distinguishes itself from a socialist economy by emphasising the centrality of the market to economic life. And it distinguishes itself from a patronage system by emphasising equality of opportunity and treatment by the state.

Each of these alternative systems enjoys support in SA. Whereas political support for a free market system is probably rather limited, political support for each of the second and third options probably outweighs affiliation to the Democratic Party.

While demonstrating considerable strength at the cultural and economic levels, South African liberalism has always had little political power. The gloomy fact of the matter is that a relatively high degree of liberal influence on government policy has meant that the government is about to fall, as it did in 1924 and 1948.

And the rise of liberal influence in the 1980s has been accompanied by a marked weakening of government power, this time vis-à-vis the extra-parliamentary movement.

To a naively optimistic eye, the Democratic Party's economic positions may look as though they reflect a widespread consensus. (The DP is hoping that its ideas will appeal both to the NP and the ANC.) In all likelihood, they will have to be fiercely struggled for as the decade progresses.

What will the DP have to struggle against? In the first place, against a substantial increase in government expenditure as a proportion of national product.

The DP has committed itself to keeping this proportion as low as possible. One hears the same from government quite frequently; even the ANC occasionally declares itself in favour of a compact state. But the logic of negotiation between the NP government and the ANC is different. When the hard dealing starts, agreements will have to be cemented by resources.

The NP has a large constituency in state employment, much of it presently paralysed by the fear of drops in real income or job loss. The ANC has a large constituency aspiring to state employment, but poorly prepared for it.

The pressures are developing for a large increase in the state wage bill to support a civil service unable to perform because one part of it lacks the motivation and the other the capacity.

Secondly, the DP will have to struggle against inequality of treatment of citizens by the state. This inequality has been large and obvious, in that it has been structured along racial lines. Racial structuring has ceased to be viable, though the political mechanics of getting rid of it are by no means simple.

But removal of the racial basis for inequality does not mean that new types of unequal treatment are ruled out. The most likely replacement is discrimination against rural people and those living in marginal situations in urban areas. The old racial elite can be broadened into an established urban elite, with place being found for an aspiring middle class and a unionised working class.

A crystallisation of this sort of inequality will make dealing with poverty (concentrated in the rural areas, but growing as urban informal settlements grow) very difficult.

Given that the DP has an urban upper-middle class electoral base, it is not surprising that it has paid relatively little attention to the issue of rural poverty. But it will need to enter into alliances with movements representing rural and poor urban people.

These are not well-developed; moreover, the best organised — Inkatha, which not accidentally is the most market-oriented of the substantial black political groupings — is presently fighting for its life.

Thirdly, it will have to fight for a higher economic growth rate. The DP has rightly committed itself to a redistribution with growth stance rather than the growth through redistribution approach advocated by some actual or aspirant academic advisers to the ANC.

What is needed for higher economic growth is a turnaround in the capital flow between SA and the rest of the world, and a higher domestic savings rate. Here the role of the DP should be to articulate what is required for restored investor confidence (deracialisation of the political system is part, but by no means all that is required) and to press for its introduction.

☐ SIMKINS

In this respect, the SADCC countries may well be ahead of us. There has been a steady movement towards liberalisation of rules governing international investment, at least in principle.

An improvement in the rate of formation of physical capital must also be accompanied by improvement in human capital. In the context of limited resources, this implies rigorous selection of the people best fitted for higher secondary and tertiary education and a reorientation of this education to serve better the requirements of the labour market.

Nationalists — with their emphasis on education as the means of cultural transmission and political socialisation — are no allies in this process. It has to be driven by the business community, if at all. The DP has a role to play in translating this interest into an active pressure for reform.

Finally, the DP has to break a political barrier as far as the composition of its membership is concerned. There is already substantial latent black support for liberal policies. To the extent that deracialisation in economic as well as in political life proceeds at a rapid pace, this support can be expected to increase.

But it will take courage to convert latent into mobilised support and it's clear that some sections of the DP have no stomach for the conflict this will entail. A changed racial profile is not only necessary to keep the DP in existence given a much larger electorate; it is also a necessary condition for entering into alliance with other black groupings.

Unless it achieves a degree of success in increasing both direct membership and working relationships with other groupings, the political conditions for exerting liberal influence will cease to exist.

☐ **Simkins is economics consultant at the Urban Foundation.**

LETTERS

policy has meant that the govern- ... ently paralysed by the fear of drops ... settlements grow very difficult.

BOOKS

Why Marxism delivers dictators, not Utopia

B Day 10/9/90. (49)

MARXISM, Philosophy and Economics, by Thomas Sowell (Counterpoint, 226pp, R27,99)

THIS short, lucid and ultimately devastating analysis of Marxism was first published in 1985, when large parts of the world were subjected, in the name of Marx, to the exploitation and poverty he sought to avoid. Its publication in paperback coincides with the almost universal struggle in those countries to return ownership of the means of production to private hands.

Sowell, professor of economics at the Hoover Institution, Stanford University, distilled 25 years of studying Marxism into a brief interpretation of the theories of Karl Marx and his friend Friedrich Engels. Though his studies only reinforced Sowell's conviction that Marxism was a dangerous delusion, he has carefully separated his dispassionate explanation of Marxist theories from the concluding commentary which tears those theories apart.

He regards Marxism as "one of the most intellectually and morally challenging visions of the modern era" and has set out to explain Marx's beliefs on capital and labour, democracy and revolution in terms devoid of what he calls the Marxist elaborate jargon and stylised rhetoric. Each chapter has a summary and is meticulously footnoted; an index at the back helps easy reference.

Sowell's concern is to record the theories of Marx and Engels as well as to separate Marxism from "modern concoctions" that bear no relation to the original work. This is not new: Marx was driven by the many interpretations of his doctrines to declare, "I am not a Marxist".

Having set out what Marxism is, Sowell then looks at the man who produced the monumental Das Kapital — rabbi's son, a brilliant spoiled child, editor and finally an exile, improvident and poverty-stricken, voraciously studying economics. Finally Sowell examines the horrifying legacy of Marxist theories in countries where people sought to apply them after Marx's death in 1883.

Marxism, Sowell concludes, is a deceptive creed, fundamentally egalitarian and humanitarian, but ultimately a mighty instrument for the acquisition and maintenance of political power. "Those who wield the enormous power it makes possible have every incentive to use it and preserve it for their own purposes, regardless of what purposes may have motivated Marx or Engels."

Sowell argues that Lenin and subsequent communist leaders in the Soviet Union and China did not "betray" Marxism, but were forced into political and economic adaptations because of the fundamental deficiencies of Marxism itself.

Marxism, dismissive of agriculture and not according an adequate role to human capital as opposed to physical capital, failed to produce or distribute the ordinary requirements of survival. Instead of the decades-long mass struggle in which the proletariat acquired the skills to become politically effective in a democratic society, Marxism produced revolutions and dictators who entrenched their power at the expense of the proletariat.

Marx and Engels, by refusing to provide details of their proposed communist state, gave a blank cheque to their successors. Sowell blames them for providing wide latitude for "the most sweeping violations of every moral principle and every sense of decency and humanity". The result was the Gulag archipelago, the butchery of Lenin, Stalin and communist despots elsewhere.

Sowell contends that Marxism is not only an economic failure and intellectually flawed, but that its "working class" theme is based on the privileged view of two young intellectuals insulated from responsibility or the consequences of being wrong. Intellectuals and the young thus remain those most susceptible.

He does not underestimate the continuing appeal of a moral vision and intellectual aura which puts opponents on the moral defensive.

"People who could never be corrupted by money or power may nevertheless be blinded by a vision," Sowell concludes. It is a fitting warning for one of the few countries in the world where some still believe Marx will deliver Utopia.

MICHAEL ACOTT

DP unveils its 'future budget'

B Day 10/9/90

MIKE ROBERTSON

THE DP has produced an "illustrative budget" to prove that economic and social imbalances in SA can be redressed without resorting to nationalisation.

Gardens MP Ken Andrew, who drew up the budget, said the aim was to prove the DP social market economic document, unveiled at its weekend congress, was realistic and capable of addressing problems confronting SA.

The DP budget is for the 1995/96 financial year. It assumes that a restructured, market-oriented SA economy would have achieved growth rates of 0% this year, 2% next year, 4% in 1992/3 and 5% in 1995/6.

Figures in the budget were worked out in 1990 rands and Andrew assumed that budget expenditure as a proportion of GDP would remain constant at current levels.

Given the assumed growth rates, the DP estimated that an additional R11,2bn would be available for new programmes.

It was estimated that VAT on basic foodstuffs would raise an additional R3,1bn by 1995/6. A DP government would also introduce a state lottery, which would raise an additional R800m. (49)

A DP government would cut the present defence budget by a third, resulting in a saving of R3,4bn by 1995/6. Prudent budgeting, lower inflation rates and lower interest charges would result in a saving of R1,9bn on state debt costs.

Elimination of expenditure on "apartheid/own affairs quadruplication and ideologically based schemes" would save R2bn. Additional revenue and savings amounted to R22,4bn.

The document said a DP government would employ R2,359bn on feeding schemes. An additional R1bn would be spent on shelter with a view to eliminating the estimated backlog of 850 000 dwellings

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DP budget

B Day 10/9/90

(49)

☐ From Page 1

by the year 2000. Public sector health expenditure would be increased from its present 3,2% of GNP to 4,5% of GNP, an extra R4,9bn. The document said a DP government would re-allocate resources, ensure optimal utilisation of expensive equipment and insist that doctors going into private practice meet a higher proportion of their training costs or devote part of their time to public sector health care.

An extra R2bn would be spent on policing, with the aim of doubling the size of the force from its early 1990 manpower levels.

A first priority in the field of education would be to eliminate illiteracy. Racially-based education would be abandoned. An extra R8,89bn would be spent on literacy, education and training.

Free, compulsory primary schooling would be provided for all by 1995. Secondary schooling would be highly subsidised, but a means test would be applied.

A total of R160m would be spent on job creation and R1,91bn on equalising pension payments. An additional R100m would be spent on encouraging productivity, design skills and tourism promotion.

Total additional expenditure amounted to R21,32bn, leaving a surplus of R1,08bn.

Andrew said the illustrative budget demonstrated the potential SA had to resolve its major socio-economic problems if it could generate economic growth and correctly identify government spending priorities.

● See Page 4

ANC will look to monopolies - Lekota

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Lasting peace hinges on wealth distribution

Sowetan 11/9/90

IF South Africa is to know lasting peace, the wealth of the country will have to be redistributed, according to the ANC's convener for southern Natal, Mr Patrick Lekota.

However, this would not mean full-scale nationalisation as the ANC had never adopted pure socialism or communism as its economic policy, he said.

Speaking during a debate on the redistribution of wealth at Kloof High School at the weekend, Lekota said the 1913 Land Act and the 1936 Land and Trust Act had made the fair distribution of land among all South Africa's people impossible and had resulted in 87 percent of the land being owned by a "relative handful of whites".

He said this was clearly disproportionate and would have to be redressed, but it would not be enough simply to do away with apartheid legislation.

"South Africa's economy is in the hands of white South Africans. We don't necessarily think that is wrong. But we think it should be in the hands of both black and white on an equal basis, proportionately, and therefore some steps should be taken to correct it."

He said in the past people were denied opportunities simply because they were black: "Wrong things were done in the name of God."

He cited the National Party Government's plan of action with

FOCUS

regard to poor white Afrikaners in the 1940s and 1950s as an example of how the ANC could use affirmative action to help poverty-stricken blacks achieve jobs and education.

Education

This included job reservation and free education to help eliminate backwardness among those people.

"Those sectors of the economy which up to now have been under public control must remain under public control. Public funds must make a primary commitment to provide facilities for blacks."

Lekota said, however, that the demands on the economy to uplift the black majority were going to be much heavier than they had been on the NP Government with regard to poor whites and consequently an extended area of South African capital was needed for black upliftment.

"Black South Africans need to be made into assets of this country."

He said a future ANC government would not want to take enormous loans from the World Bank and invest the money in non-profitmaking enterprises as they had seen the disastrous results from such an action in many other African countries.

Instead, the ANC would use funds or capital from public profit-making organisations such as Iscor or the Railways to fund the building of schools, for example.

He said that the ANC was looking at the possibilities of breaking down some of the heavily monopolised industries, such as the newspaper industry.

He also mentioned mining houses and the banks as being under the ANC's consideration for coming under more stringent State control.

Stringent

"Can we genuinely believe that blacks will always be happy on the periphery of the country's economy?" Lekota asked.

"Privatisation of organisations such as Iscor only serves to consolidate distortions in the economy. No squatters from Inanda can afford to buy shares in Iscor."

With regard to land, Lekota said a future democratic government would have to make an urgent effort to obtain land which could be made available for the use of black housing and farming.

He said currently State-owned land could be made available for co-operative use so that unemployed people could become productive.

Vacant land owned by foreign-

TERROR LEKOTA

ers could also be expropriated for compensation.

Lekota said that once land were occupied for housing, the Government could develop structures to help people - for example, rents could be comparable with wages earned.

He emphasised that the ANC had never adopted the policy of socialism; although they believed some sectors of the economy needed to be under State control, they realised that there had to be a free private sector.

"The conditions and reality in this country must ultimately determine what we are going to do."

Policy

He said the ANC was still forming a concrete economic policy and was open to suggestion and negotiation: "We are asking white South Africans to look at the situation in a new context; we are asking them to start with us afresh."

Unrest wreaking havoc with economy - analysts

(49) Star 12/9/90

By Derek Tommey

The continued violence is seriously harming the economy, two leading analysts say.

Mike Brown of stockbrokers Frankel, Kruger, Vinderine says in his economic survey that the intensification of political unrest since the release of Nelson Mandela is having a damaging effect.

Professor Brian Kantor, head of the Department of Economics of the University of Cape Town, said yesterday unrest had greatly increased the premium foreigners wanted for investing in SA.

The economy was therefore performing well below its potential. If foreigners perceived the risk of in)vesting in SA as being no greater than in 1982, the economy today could be growing by five percent, he said.

Listing factors eroding the economy, Mr Brown said the first was the threat to nationalise key industries and introduce socialist doctrine.

Second was the rising tide of violence engulfing the operations of many businesses countrywide, forcing closures, some of them permanent.

Third was the politicisation of the workplace, which had intensified in recent months. The number of workdays lost through strikes and stay-aways had risen substantially.

Fourth, while the impact of widespread consumer boycotts and counter-bycocotts had yet to be assessed, it was clear that the participants often had little understanding of the impact of their actions on the areas affected.

Mr Brown said unrest could make labour more expensive, prompting the substitution of capital for labour and defeating the priority of creating jobs.

Professor Kantor, speaking at an Investec Bank seminar, said the economy had several strengths, including a well-trained, educated and motivated cadre of managers, well-developed financial markets, with industrial control more concentrated than ownership, as in the Japanese, German, Swiss and Swedish economies.

These strengths could be increased if the capital, goods and services markets were opened up to further direct competition from international business.

But political risks and pressures had frightened off this potential competition.

In the past, foreign investors needed to be compensated for the risk that the economic structure could be destroyed in resistance to a revolutionary onslaught.

Foreigners now wanted to be compensated for a different risk: that in their lack of wisdom, popularly elected governments would apply policies unfavourable to development and to foreign investors, in particular.

Professor Kantor said that to achieve growth this risk premium had to reduced.

"We will not attract foreign capital without doing so. Nor will we retain domestic capital and management skills unless we grow the economy by reducing the required returns of internationally mobile capital and labour."

Research had shown that changes in political risk were correlated to changes in investment spending.

An economic model showed that if SA could convince foreign investors that the risk differential between investing in it and the US was no greater than in 1982, and could attract a similar amount of money as it did then, the economy would bound ahead.

New investment would rise from a forecast virtually nil to 13 percent. GDP would grow from from being barely positive to five percent, and R1,7 billion in extra tax revenue would become available every quarter, without any increase in tax rates.

"This should be incentive enough for us to play the economic game well enough for us to attract sufficient foreign capital to finance higher growth," said Professor Kantor.

Foreign capital at stake – Van Heerden

(49) Star 12/9/90

Political Reporter

The current spate of township violence was enough to convince the world to withdraw its investment and sympathy, the Director-General of Foreign Affairs, Neil van Heerden, said in Johannesburg yesterday.

Speaking at the SA-German Chamber of Commerce, Mr van Heerden said the new international interest in South Africa and new possibilities of investment would not materialise if the country elapsed into uncontrollable violence.

The Government insisted that an effective form of political authority be maintained during the process of transformation.

It had no hidden agenda in its quest to arrive at an authentic democracy and was not in favour of white minority protection.

Turning to South Africa's relations with Africa, Mr van Heerden said the stage had been set for the country's participation in regional structures and pan-Africanist organisations such as the OAU.

"We are knocking on that door. Our message has been heard."

South Africa would never be able to fulfil its vital role in the region if a peaceful solution was not found internally and if the wars in Angola and Mozambique were not ended, he said.

TML MD Stephen Mulholland.

'Only free enterprise can bring a free society to SA'

BDay 13/9/90

Business Day Reporter

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IF SA wanted a free and integrated society it had to follow the path of democratic free enterprise, TML MD Stephen Mulholland said last night.

He was speaking at the Four Young Outstanding South Africans awards ceremony in Johannesburg, held to honour the achievements of musician Johnny Clegg of the group Savuka; SA Black Taxi Association MD James Chapman; paraplegic environmental campaigner and marketing director Martin Rosen; and Max du Preez, editor of the independent Afrikaans weekly Vrye Weekblad.

Mulholland said one of the main reasons for whites' relative success in SA was that they had some access to the market system, which had been denied to blacks.

"Were I black, I would be struggling for the right to participate in the market system, a system which throughout the world and throughout history has shown that, with all its imperfections, it is the best, most effective system yet designed by man to meet the needs of man.

"We have seen over the past few years the collapse of the collectivist idea." This was the idea that, through the actions of a powerful central government, the affairs of men could be ordered so that all men would be equal, that men would produce according to their ability and consume according to their needs.

There were, Mulholland said, at least two serious problems with this.

Human nature, or the human condition, was ignored. "There is a deep, perhaps natural, drive on the part of men to improve their lot. This does not necessarily bring them happiness. But man is a perverse creature." This was recognised in the US Constitution, which said man had to be able to engage in the "pursuit of happiness" — "implying that this is an elusive condition which all men should be free to seek in their own way".

The only way to achieve equality in society was "by the use of coercion, force and inevitably, as we have seen from Stalin, Mao Tse-Tung, Castro, Ceausescu and others, of terror".

When politicians, trade unions and activists said that in their utopia all men would be equal, it should be remembered that George Orwell taught that "some are more equal than others", he said.

History had shown conclusively that the market system was the best yet devised for the production of goods and services, without which economic prosperity was not possible.

It was the legitimate and necessary role of the state to try to provide, as far as possible, education and training sufficient to enable ordinary people to enter the market with a reasonable chance of success.

The economy is bleeding too

Star 13/9/90

By Helen Grange

As the "small" trade slowly dies in Reef townships because of violence, large businesses — plagued by persistent stayaway action — are considering cutting back their workforces.

The prolonged bloodshed has begun to affect the economy seriously, say business sources.

Township businessmen report drops in trade and shortages. Yesterday no milk, bread or newspapers were delivered to areas in the East Rand townships of Tembisa, Tokoza and Katlehong. Transport came to a halt.

A worried Joseph Mathibe, manager of Tokoza Open Market, said: "I have almost no groceries in my shop, very little milk, bread and sugar. I am opposite a Zulu hostel, so only Zulus come into the shop."

SA economic status slips

B Day 14/9/90

GILLIAN HAYNE

WITH population outstripping the growth in gross domestic product (GDP), SA is facing a tough future, economists say.

And as it slips into the World Bank definition of a developing country, so it becomes eligible for financial assistance.

Over the past 20 years, GDP increased at an average 2,5% per annum, from a base of R85,3bn in 1970, while population grew at a fairly constant 2,8% per annum from 22,5-million to 37,3-million. This equates to a 59,9% increase in GDP to a 65,8% increase in population.

"High population growth is the scourge throughout Africa, even pulling down economies which were doing fairly well — and SA is no exception," Standard Bank economist Nico Czypionka noted.

The Reserve Bank calculated GDP per capita in 1989 at R3 678, 0,5% down from 1985's R3 698, compared with gross national product (GNP) per capita of R3 451, 1,5% down from 1985's R3 502.

Czypionka went on to cite the negative economic growth as the reason for the present political upheaval. "If the well-being of the individual continually improved there would not be the dissatisfaction which is currently prevalent.

"The challenge facing the government is to increase the economy's performance with a realistic policy and to encourage individuals to bring down the population growth rate."

SA should try to emulate the Western world by increasing its economic growth rate, Czypionka said, and gave Germany's average growth of 1,8%, UK's 1,2% and Japan's 3,5% growth as examples.

Converting the 1989 GNP per capita figure at the current exchange rate, would equate to $1 337, which makes SA eligible for a World Bank loan. SA was recently reported to be looking for such a loan.

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Attitude

SA was previously not eligible for assistance as its GNP per capita income was higher than the guidelines set out by the World Bank. These stand at $1 940 per capita for a bank loan and $520 for a concessionary, low interest loan from the International Development Association (IDA), a World Bank affiliate.

However, Nedbank economist Edward Osborne explained SA's classification as a developed or developing country was dependent on the attitude of the institution and the circumstances of the definition.

Looking at SA's economy on a per capita basis, the country was declining into the "developing" category because of the high subsistence population and the increasing number of unemployed, he said.

BUSINESS DAY, Monday, September 17 1990

Gulf crisis 'could boost SA economy'

(49)

LESLEY LAMBERT

CAPE TOWN — The economy would weather the crisis in the Middle East more easily than many other countries, Reserve Bank adviser Roger Gidlow said at the weekend.

Addressing a seminar on future business opportunities, Gidlow said this was mainly because SA trade with Middle Eastern countries was limited.

The crisis could bring some long-term benefits to SA's economy.

Apart from its potential to boost earnings from gold, platinum and coal, it could also provide fresh impetus for the development of oil projects and resources off the southern Cape coast and boost the country's arms exports, Gidlow said.

There was little doubt that the increase in fuel prices had come at a bad time, just as the inflation rate showed signs of dropping.

The expected slowdown in international economic growth would also have a negative impact on exports, while an increased import bill for fuels would squeeze real income and foster inflationary pressures.

While the trend towards higher inflation had been broken, it remained almost three times that of the average major Western industrial country.

He said while the authorities were committed to strict monetary policies in order to reduce inflation to single digits, some benefits of current economic restraint would be felt next year.

But with the Reserve Bank committed to its monetary policy, Gidlow said any attempts to stimulate the economy would come from the fiscal side.

Domestic interest rates would start to ease in line with further reductions in the rate of inflation. This would be accompanied by some moderate tax relief in the March 1991 budget which would form part of the programme of tax reform.

A build up in foreign exchange reserves supported by growth in exports as new foreign markets opened up could also materialise, thereby aiding an economic upturn.

"At least at this stage there are grounds for cautious optimism," he said.

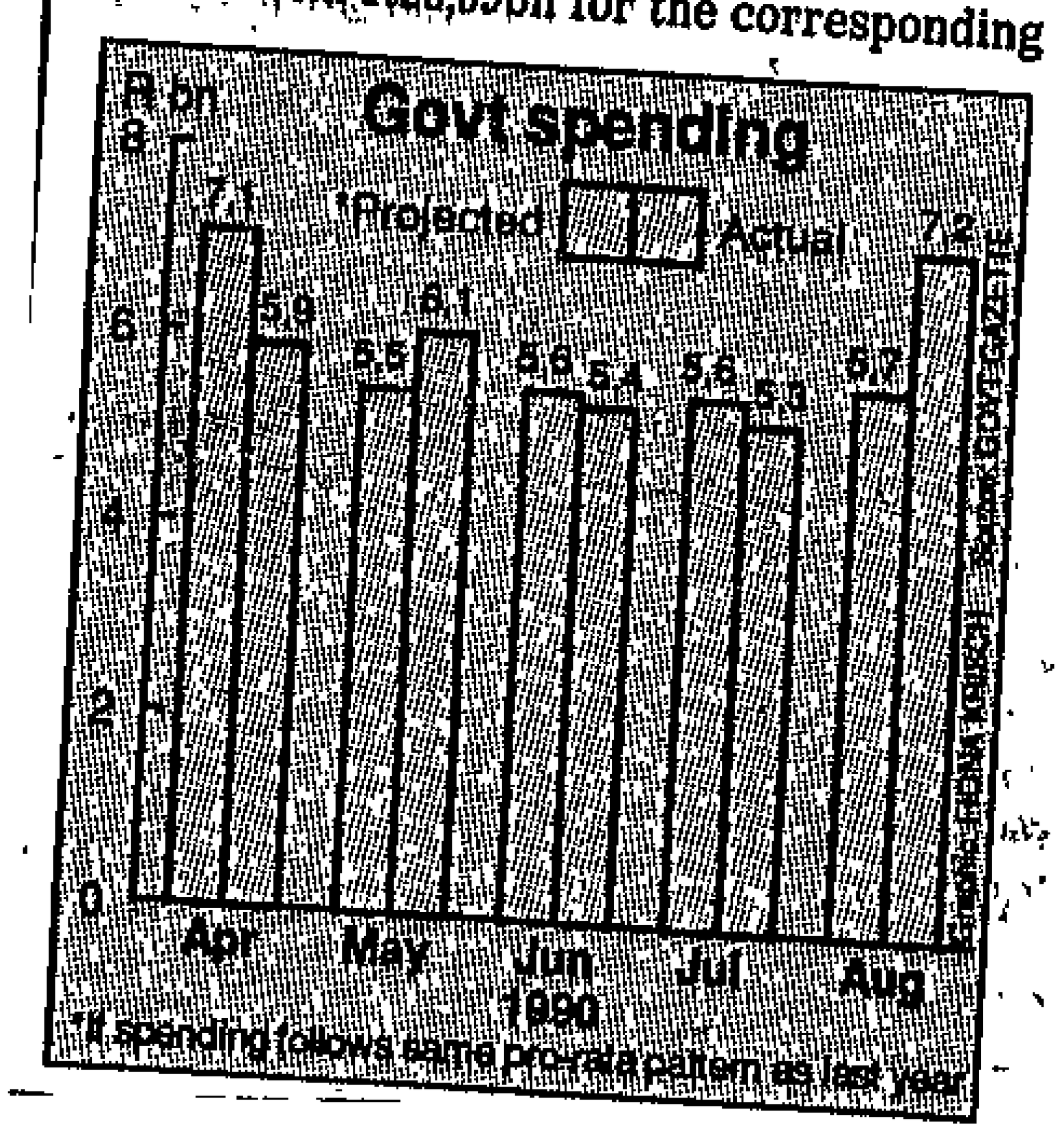
Increase outstrips original estimate (49)

Huge interest bill pushes up govt spending

B/Day 17/9/90

GOVERNMENT spending rocketed in August as the past four months' seemingly healthy expenditure figures were wiped out by a massive R2,97bn interest payment.

Expenditure for the first five months of the fiscal year, as reported in the Government Gazette, stands at R29,98bn compared with R26,59bn for the corresponding period last year — a 12,8% increase.



ANDREW GILL

The increase is in line with revised estimates announced by Finance director-general Gerhard Croeser last week but way off the 11,9% increase budgeted for in March. It is also much higher than the 6,5% increase reported for the first four months of the Budget year.

Expenditure in August amounted to R7,176bn, 39% higher than August last year, while revenue stood at R5,336bn. This left a deficit of R1,84bn in August alone.

The cumulative deficit from April to August was R3,76bn or 47% of the budgeted deficit of about R7,99bn.

Nedcor economist Edward Osborn said the figure was exceptionally high and could represent a periodic peak in interest payments since the consolidation of stocks.

He said it was likely that this year would be an extremely tight one, with revenue only slightly exceeding the budgeted increase and expenditure "a good R1bn" above budget as a result of increased spending in various departments.

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Govt spending

B/Day 17/9/90 (49) ☐ From Page 1

Total overspending is expected to amount to about R1,2bn this year. Government has spent 40,5% of its total budget so far, slightly below the 40,8% last year.

The high deficit came about despite sharply higher revenue, which so far is 15% above last year's R22,77bn at R26,23bn. The revised budgeted increase is 6,6%. However, the increase is below the first four months' 17,6% because of tax reductions that came into effect in June.

More than 40% of total budgeted revenue has been collected so far, compared with 37% last year.

In order to finance the R3,76bn deficit, government has borrowed R4,42bn.