ECONOMY – 1992

JUNE – JULY

New SA planners should take leaf from Chile's book

STAR 1/6/92

BOOK OF THE WEEK

Profit and Wages: The South African Economic Challenge by Nicoli Nattrass
(Penguin Forum Series R19,79)
Reviewed by PATRICK LAURENCE

49

THE South African Left, and perhaps particularly the ANC, should take careful note of the fate of Allende's Chile in the 1970s.

The Marxist government of Salvador Allende — the only such government to come to power in the West through the ballot box — aimed to redress Chile's economic balance and relieve the distress of its poor through a radical redistribution of wealth.

Its objective, like that of the ANC's "progressive economists," was to implement a programme of "redistribution through growth." To that end, Allende pursued "expansionary wage, fiscal and monetary policies favouring the poor". But, instead of a socialist millennium, Chile buckled under hyper-inflation at the rate of 600 percent per annum, transport and infrastructural bottlenecks, dwindling foreign reserves and a sharp decline in real wages.

The result was economic chaos, a right-wing coup and the long dark night of military dictatorship under Augusto Pinochet.

These points are made by Nicoli Nattrass in her short but cogently argued book, in which she considers South Africa's options in the crucial years of transformation from white to non-racial rule.

Dr Nattrass, a senior lecturer in economics at the University of Cape Town, counsels South Africans to move cautiously and soberly into the future. Plan for austerity, not a consumption boom, she advises.

"Careful research needs to be done before sweeping changes are applied," she writes. "Economic dynamics may result in progressive sounding policies having unintended and destructive consequences for those very groups they set out to benefit. There are no simple rules." Dr Nattrass recommends a "policy of co-ordinated wage restraint", one which derives from negotiated agreement between labour and capital. She cites with approval the recent gold performance agreement between the National Union of Miners and four mining corporations involving 17 gold mines.

But, she adds, there are two corollaries to voluntary wage restraint: capital must accept labour as a partner in production, not simply a cost of it, and the state must pay higher "social wages" in the form of better — and more equitable — social services, including health and education.

The abolition of apartheid will have "a surprisingly small impact on the fiscal resources available to a future democratic government," she says.

Even if reduced defence spending is included in the calculation, a mere eight to nine million rand — "a paltry sum compared to the scale of legitimate demands" — will be available.

Dr Nattrass says: "South Africa's company tax rate is amongst the highest in the world. Raising it much higher will probably discourage foreign investment." On personal, as distinct from company tax, she notes: "... the tax burden on households more than doubled between the early 1960s and the late 1980." The consequence was a collapse in personal savings and slow growth in real consumer spending.

Any attempt to raise either company or personal tax significantly would almost certainly lead to tax avoidance by the big corporations and the big money-earners and to middle-income salary earners carrying an even bigger tax burden.

On the issue of state expenditure — as distinct from state revenue — Dr Nattrass says: "It is now accepted that racially discriminatory practices within state spending must end." But racial equalisation at current white levels of expenditure on education, welfare, health and housing is "totally unfeasible," as it would mean increasing state expenditure from 10 percent of the gross domestic product to 30 percent.

Instead of attempting to spend the same amount on all South Africans as is presently spent on whites, a re-orientation is necessary to eliminate racial and regional norms, a process which will necessarily mean less spending on relatively rich whites and more on their relatively poor blacks.

"It has been estimated that South Africa's entire population could be provided with primary health care services at a current cost of less than one-tenth of the amount presently being spent on state health," Dr Nattrass writes.

She adds: "... there is tremendous scope for redirecting resources from expensive capital-intensive urban healthcare towards widely spread basic services for everybody." A similar "radical re-orientation" is required in education, possibly by subsidising schools in poor rural areas while requiring schools in wealthy urban areas to pay fees.

Dr Nattrass favours a state-sponsored "special employment programme" to provide employment for the unemployed and the under-employed and to avoid a situation where unionised black workers benefit at the expense of the "truly bereft". She warns, however, that there are not limitless resources and that "hard choices" will have to be made. She adds another cautionary note: too much faith is being placed by poor blacks on the state's ability to redistribute wealth in their direction.

Dr Nattrass's monograph is an important layman's guide to the economic realities which face South Africa. She simplifies the issues without patronising the reader and provides several extremely useful tables. ☐

Economists call new investment code 'the kiss of death' for SA

TIM COHEN and THEO RAWANA

THE ANC intends protecting property rights and says if any land is appropriated by the state, "just" compensation will have to be paid. BDay 1/6/92.

This was one of the key stances adopted at the ANC's policy conference which ended in Johannesburg yesterday.

The ANC also rejected special treatment for foreign investors, saying such investors might also be blocked from investing in strategic areas and have limits placed on their local borrowing facilities.

The proposed investment code ran into immediate opposition from several economists and business leaders. One described it as a "kiss of death".

The conference formally adopted a general economic policy which opted for the principle of "national treatment" of foreign investors.

In terms of the principle, foreign investors would be treated the same as domestic investors, except for certain exceptions.

The property rights policy was accepted despite some ANC regions proposing that nationalisation of land and companies should should take place without compensation.

The adopted policy document states that "just" compensation will consist of establishing a balance between the public interest and the interest of those affected.

This will not be based solely on the market value of the property, but there will be recourse to a special independent tribunal with an appeal to the courts.

ANC representatives endorsed the "balance of evidence" approach to determine when there should be nationalisation and accepted that nationalised companies would be compensated at a just rate.

Also endorsed was the concept of "mixed economy" which would foster a new and constructive relationship between the state, the trade union movement, the private sector and the market.

The ANC has pledged to introduce anti-monopoly and anti-trust policies "to curb the continued domination of the economy by a minority within the white minority and promote greater efficiency in the private sector".

A progressive tax system was endorsed, and the ANC pledged to end indirect taxation on basic foodstuffs, health care and basic household services.

Financial institutions were particularly targeted, with the ANC pledging to ensure that they channelled resources into productive investment and ended discrimination in lending against blacks, women and the informal-sector or small-scale producers.

A new mining strategy which would involve the introduction of a new system of taxation, financing, mineral rights and leasing was also adopted.

The ANC said it would adopt and implement International Labour Organisation conventions.

Yesterday economists attacked the pro-

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Investment code

BDay 1/6/92 (49)

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posed conditions for foreign investment as "a kiss of death" and said they were "going in the wrong direction".

Nedcor chief economist Edward Osborne said the requirements would restrict foreign investment which should be completely unhindered.

"Foreign investment is being made to jump through too many hoops. What (the ANC) is saying is that the whole investment should be overseen by an investment committee such as has been seen in Zimbabwe, which resulted in bureaucratic stalling and all sorts of problems," he said.

Sacob chief economist Ben van Rensburg said the policy showed a gross unawareness of the forces "which today drive decisions to invest offshore".

Van Rensburg added: "These forces are: potential returns on investment, certainty in both the political and economic environment, a proven history of macro-economic policies aimed at preserving the value of the currency and the ability of government to follow economic policies which foster sustained economic growth.

"On top of these the developing countries of the world are also expected to offer attractive incentive packages and investor guarantees.

"Curbs of any nature obviously do not fit into such policy packages."

"Competition for foreign capital is fierce today and SA is starved for foreign capital and imported technology," said Van Rensburg.

"The ANC's policy has to be seen as a step in the wrong direction. It will serve to weaken, rather than strengthen, the interest of foreign investors in SA."

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GDP notches 8,2% annual growth

(49)

CT 2/6/92

PRETORIA. — South Africa's gross domestic product (GDP), on an annualised basis, grew by 8,2% at current prices in the first quarter of the year.

Central Statistical Services in Pretoria said yesterday the preliminary seasonally adjusted estimates for GDP in the first quarter had increased by 8,2% to R317,387bn compared with the last quarter of 1991 while the total remuneration of employees had increased by 8%.

Compared with the first quarter of last year, the GDP growth rate in the first quarter has slowed down considerably. The growth rate of GDP in the first quarter of 1991 was set at 14%.

In the fourth quarter it was set at 13,1%. — Sapa

Govt clampdown on drug trade

BDay 2/6/92

BILLY PADDOCK

CAPE TOWN — Government introduced tough new regulations yesterday to combat the drug trade, including the right to confiscate property acquired through trafficking.

The aim of the Drugs and Drug Trafficking Bill, tabled in Parliament, is to bring SA's drug laws into line with the UN convention against illicit traffic in narcotics and psychotropic substances.

According to the Justice Department memorandum, the Bill has been introduced to counter the expanding national and international dimensions of drug trafficking.

Apart from the harsh confiscation of property clause — which says all property that dealers have acquired through trafficking can be confiscated by the state — the Bill also increases the state's powers to combat drug trafficking by increasing the number of drug-related crimes.

If the Bill is passed it will become a crime to:

☐ Manufacture or supply a scheduled substance, knowing or suspecting that it is to be used in or for the unlawful manufacture of a drug;

☐ Acquire property knowing that it is the proceeds of a defined crime; and

☐ Convert property knowing it is the proceeds of a defined crime.

The Bill makes it an obligation for the owner, occupier or manager of any place of entertainment to report to the police if they believe any person on the premises is in possession of or is dealing in drugs.

Failure to comply will become an offence.

Likewise, provision is made to compel financial institutions to report to the police property purchases suspected of having a direct link to crime.

The central feature of the Bill is the wide powers it gives the state to confiscate from drug traffickers the entire proceeds of their trafficking retrospective to the passage of the Bill.

The memorandum states that the aim is to remove the incentive for people to become involved in drug trafficking by removing the proceeds and making the continued practice unattractive.

The Bill also contains mechanisms to improve co-operation with foreign authorities in an endeavour to combat drug trafficking.

The state will be able to confiscate property in SA of drug traffickers found guilty in foreign courts.

DP, CP slam bid to scrap Part Appropriation Act

BDay 2/6/92.

LINDA ENSOR 49

CAPE TOWN — The DP and CP yesterday strongly objected to the proposed abolition of the Part Appropriation Act — saying that the step would undermine parliamentary control of government expenditure.

It would also reduce the time spent on debating vital financial, economic and other topical issues, they said.

The Part Appropriation Act governs state expenditure on current services from April 1 until about June when the main Budget is implemented.

In introducing the Part Appropriation Acts Abolition Bill, State Expenditure Minister Amie Venter said its motivation was to streamline the budgetary process by obtaining a standing authorisation from Parliament for interim expenditure on the basis of the previous year's approved budget.

A limit of 45% calculated on the previous year's parliamentary authorisation for expenditure during the first four months of the following financial year was proposed and thereafter 10% per month, calculated on the previous year's authorisations of already approved services.

Venter said it appeared that expenditure in the first four months would total about 35% of the previous year's total budget.

"The nature and limited analytical worth of information which is included in the part appropriation does not provide a basis for any in-depth parliamentary debate over economic policy and control of state expenditure," Venter said, adding it therefore appeared to be a waste of time and effort.

DP MP Ken Andrews said the proposed abolition of the Part Appropriation Act was another nail in the coffin of parliamentary accountability and democracy. At a time when greater control over government spending was required, a measure was being proposed which would leave government expenditure unchecked for a long time.

The DP objected to the magnitude of spending which the bill made possible and said the legislation was pernicious and extremely dangerous.

"The government can spend 45% of this year's budget amount in the first four months of next year — a spending increase of 12%. It can also spend a further 10% per month thereafter and we could end up with a situation in which the government only summons Parliament in January or February 1994, omitting the whole of 1993, having spent almost the total permissable budget amount for that financial year without having any parliamentary approval at all," DP MP Douglas Gibson said.

Tough move on guns proposed

BDay 2/6/92

BILLY PADDOCK

CAPE TOWN — In a further attempt to crack down on weapons used in crime and political violence, government yesterday tabled a new Bill increasing penalties for illegal possession of semi-automatic guns and rifles to a maximum of 25 years.

The Arms and Ammunition Acts Amendment Bill excludes semi-automatic guns and semi-automatic rifles from the definition of "arms" and these may only be possessed once a special permit has been granted.

Law and Order Minister Hernus Kriel proposes in the Bill that any rifle capable of firing repeatedly should be forbidden to civilians.

Police adviser Leon Kellerman said that an existing ban on submachineguns would be extended to civilian models of the AK-47 and the R1 and R5 rifles.

He said these weapons played the greatest role in crime and political violence in SA.

The penalty for owning a non-automatic AK-47 would rise from a fine of R12 000 to a prison sentence of between five and 25 years. The five-year minimum would be introduced as an amendment to the Bill next week.

A police spokesman said 1,2-million South Africans legally owned 3,3-million firearms, but declined to release details of how many were owned by whites and how many by blacks.

Mass action threat slices JSE indices

(49) CT 2/6/92

JOHANNESBURG. — A combination of several leading shares trading ex-dividend and negative reaction to threats of ANC mass action saw the three major JSE indices drift easier in quiet trade yesterday.

Dealers said the ANC threats had seen most investors adopting a wait and see attitude. "They are not buying, but they are not selling either," one dealer said.

The Industrial Index fell 35 points to 4 630 and the Overall Index was down 28 points at 3 704. The Gold Index fell 17 points to 1 073.

Dealers said that the fall in the industrial and the overall indices was exaggerated by several leading shares trading ex-dividend.

Petro-chemical group Sasol fell 20c, or 1%, to R19,90 following weekend statements by the ANC that it would investigate appropriate regulatory framework and operation plans for major energy enterprises.

SA Breweries which was trading ex-dividend of 97c fell R2,10 to R57,50 and CG Smith lost R2 to R133. The shares were trading ex-dividend of R1,17.

Elsewhere, pulp and paper producer Sappi fell 50c to R45,50 and Richemont lost 25c to R37,50 despite a very weak financial rand.

Plate Glass featured with R5,65m worth of shares changing hands at R53 versus Friday's close R52,50.

After results mining financial Anglos closed off 50c at R122 while De Beers dropped R1,50 to R89,50.

Commodity shares continued to attract keen demand with Samancor rising R1,50, or 4,62%, to R34. Copper producer Palamin traded unchanged at R78, with very few sellers around. Dealers reported about nine strong buyers.

Gold shares were under pressure from the lacklustre gold price, coupled with the strong commercial rand which later reversed its gains.

Vaal Reefs fell R3 to R178,50 and Dries was off 75c to R38,25.

● Tiger Oats deciduous fruit and vegetable canning subsidiary, **Langeberg** holdings attracted good demand as the shares made their debut on the food sector yesterday.

The shares were listed at R8 a share, rose to a high of R9,25, but later eased to R9, giving it a market capitalisation of R1,44bn. Over 21 000 shares were traded.

● **Spot silver** dipped to a low of 399c yesterday, following an early sell-off on comex, but then rebounded to close barely changed at 404/406c on bullish US economic data and on buying emerging below $4. An unexpected surge in the US National Purchasing Managers' index for May and a jump in the employment sub-index boosted silver, dealers said.

● The open-ended nature of several of the **ANC's economic proposals** released at the weekend is unlikely to inspire local or foreign investor confidence, according to the SA Chamber of Business.

Anglo shows its might in recessionary times

STAR 2/6/92

By Derek Tommey

South Africa's biggest mining house, Anglo American, has reported a 20 percent increase in attributable earnings in the year to March from 604c to 724c a share.

The final dividend has been raised by 6,25 percent from 240c to 255c, making a total payment of 345c a share — an increase of 6,2 percent on the 325c paid last year.

Anglo chairman Julian Ogilvie Thompson said yesterday the group was pleased with the results.

"When seen against the background of quiet world economies and poor commodity prices, the results are a testament to the strength of the group and its diversity, both geographically and commodity-wise."

Shares

As a result of the world recession, investment income rose only 8,4 percent to R1,65 billion, while trading income dropped 1,6 percent to R507 million.

But the profit from the sale of shares — encouraged by certain tax concessions — increased more than fourfold, rising from R47 million to R222 million.

This was after it had been deemed prudent to transfer another R500 million profit from the sale of shares to reserves.

Net pre-tax income rose 14,8 percent to R2 452 million, while net taxed income was 20,2 percent higher at R2,2 billion.

Mr Ogilvie Thompson said Anglo did not make dividend forecasts. But the increase in the 1992 dividend indicated that the group believed next year's earnings were going to be satisfactory, or it would have been more cautious than it had.

He was optimistic about the economic outlook for South Africa.

He said the country had been through a most extraordinary decade and been hit by five major happenings, four of which could not be repeated in the next decade.

The four happenings were:

- The slump in the gold price;
- The war in Angola, which probably was a bigger drain on the economy than was realised at the time;
- Government handling of fiscal and monetary policy. The present Government had a clearer picture of how fiscal and monetary policy ought to be conducted;
- The foreign debt crisis.

If South Africa had good rains in the coming year, the economy could improve by 1,5 percent.

And if the world no longer required South Africa to devote two to 2,5 percent of gross domestic product to repaying foreign loans, and supplied aid and investment, South Africa might enjoy at least a 3,5 percent and possibly a five percent growth rate.

"This is something quite different from what any of us have seen for a decade. We are rather hopeful and optimistic that things could be a lot better in this decade."

Referring to the political situation, he said that all sides realised they had to work out some solution and had to come back to negotiations.

The sides were not too far apart when they had reached the latest road block. "We expected negotiations to progress in fits and starts," he said.

The group liked to think that gold was bouncing along the bottom.

A major point was whether the major private holders were going to be net buyers or net sellers.

"Our own view is that given the fundamental factors of production and demand, it would be silly for central banks to sell gold because the price must go up."

He said retail sales of diamonds were expected to improve this year.

Tight

Coal prices were fairly tight and there was no great scope in the immediate future for substantial increases.

The steel and alloy business may have reached the bottom, he said.

Leslie Boyd, a deputy chairman, said there had been a definite pick-up in orders in the stainless steel business.

This had given the group greater confidence to go ahead with the Columbus project.

Mr Ogilvie Thompson said that if South Africa wanted to invest in big projects, it would need big companies. South Africa needed more larger groups rather than fewer.

Anglo American was spending less on gold prospecting as it had large ore reserves that would be economical at about R40 000 a kilogram, and some that could be brought into production in the R35 000 to R40 000 range.

Dr Ramphele joins board

Deputy vice-Chancellor of the University of Cape Town, Dr Mamphela Ramphele, has been appointed a non-executive director of the Anglo American Corporation.

Dr Ramphele has been involved over the last year in Anglo's efforts to define affordable and effective programmes of poverty alleviation.

She holds a doctorate in social anthropology, and has received honorary doctorates from South African and American universities as well as research awards.

Malbak sets up R2,5-bn food group

STAR 2/6/92

By Stephen Cranston

Foodcorp, a R2,5 billion food giant created by the merger of Fedfood and Kanhym, was launched at a function in Johannesburg yesterday.

Group chief executive Dirk Jacobs said this new group would contribute a quarter of the income of the Malbak conglomerate.

"It represents a crucial component of the group's intensified focus on the consumer market," he said.

Well-known brand names such as Table Top, Enterprise, Simba and Bobtail are in the stable.

Mr Jacobs noted that the Malbak formula had been successfully applied at Kanhym and had also been brought to bear on Fedfood since its acquisition late last year.

The downsizing of ongoing operations and rationalisation had already produced a saving of R24,75 million at Fedfood, which, over a 12-month period, would translate into a 27c, or 17 percent, improvement in Foodcorp's earnings per share.

Mr Jacobs said Foodcorp would be strong on branded products and on low production costs.

He said that 60 percent of Foodcorp's products carried "strong" brand names and said that Heinz would soon be closing a deal with the group.

Mr Jacobs said this would bring a major international group into the SA food industry, which is dominated by Tiger and Premier.

Malbak chairman Grant Thomas will be chairman of the new group, Dave Kennealy, the former Malbak financial director is operations director, and Gert Schoonrad, the former MD of Table Top, is international director.

In my view . . .

A daily commentary on current economic affairs by writers of the Star.

ANC blueprint sadly lacking in specifics

STAR 2/6/92. (49)

By John Spira

The long-awaited ANC economic blueprint has seen the light of day. Perhaps it shouldn't come as a surprise that the document spells out precious little into which commentators can dig their teeth.

The best that can be said is that it doesn't contain anything wildly radical. The worst is that it's so woolly that virtually any interpretation can be placed on the proposals contained therein.

A "mixed economy", for example, can mean anything from one percent free market to 99 percent free market; anti-trust legislation is likewise a matter of infinite degree. Then there's a whole lot of nebulous rhetoric about a differentiated approach to trade barriers, an investigation into fiscal structures and "just" compensation to be paid to enterprises which are nationalised.

Not a lot in the way of specifics — which is, one can argue, good political strategy.

Against such a background, it would be churlish to point a finger at the absence of substance.

Strong censure is, however, warranted over the gap the ANC could have taken but didn't. Critics of the Nationalist government have been vehement in castigating Pretoria for its inability to appreciate the need to offer attractive incentives to prospective foreign investors.

Instead of recognising such a heaven-sent opportunity — to upstage the government and acknowledge the vital role that foreign investment could play in revitalising the economy — the ANC has gone and rejected special treatment for foreign investors.

In my view, a strategy statement so lacking in perspicacity robs the document of any credibility it might have enjoyed.

Had the ANC done its homework, it would have appreciated the job-creation capacity and the technology inflow that investment from abroad brings in its wake.

The homework would have revealed that global investment capital is in short supply — which is why such capital is being actively wooed by countries which understand its capacity for promoting prosperity.

Back, then, to the drawing board, Mr Mandela — which would be time much better spent than issuing ultimatums the results of which would be to drag the economy deeper into the quicksand.

DP attacks move to scrap mini-budget

(49)

STAR 2/6/92

Peter Fabricius
Political Correspondent

The Government has been accused of undermining Parliament's traditional control over State spending by introducing legislation to scrap the annual Part Appropriation Act — or mini-budget.

The Government's aim is to replace the Act with a purely administrative mini-budget calculated on the basis of a standard formula — 45 percent of the previous year's total budget.

The mini-budget is needed to tide over the country's financing requirements from the start of the book year on April 1 until the main Budget is passed, usually in June. The legislation to scrap the Part Appropriation Act, which was debated in Parliament yesterday, would mean Parliament losing the power to debate and reject the mini-budget.

Democratic Party finance spokesman Ken Andrew opposed the Bill because he said Parliament needed more and not less time to debate financial matters and call Government to account.

It was "rather extraordinary" that the Government was asking Parliament to relinquish its control over the Part Appropriation in a year of enormous over-expenditure.

The Conservative Party also opposed the Bill.

Minister of State Expenditure Amie Venter said the Bill would not remove Parliament's sole power to authorise expenditure from the Treasury.

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Sacob urges ANC to join in talks with business sector

STAR 2/6/92

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The open-ended nature of several of the ANC's economic proposals is unlikely to inspire local or foreign investor confidence, according to the South African Chamber of Business.

Reacting to the economic policy adopted over the weekend at the ANC policy conference, Sacob said yesterday there were two disturbing areas with regard to the liberation movement's economic policies.

These were the continued emphasis on nationalisation as an option, and certain curbs on foreign investors.

"Such policies would serve to weaken instead of strengthening foreign investor interest in a situation where South Africa is today starved of foreign capital and imported technology," Sacob said.

The business group also expressed concern on the issue of taxation, saying clarity and certainty needed to be reached as soon as possible on a future fiscal policy for the country.

Sacob urged the ANC to enter into discussions with the business sector to move towards agreement on future economic and social policies. — Sapa.

RCI to run holiday points system

Property Reporter STAR 2/6/92

There is a growing trend among timeshare buyers to seek flexibility in their choice of holiday time and destination.

This has led to companies selling points for exchange rather than ownership of weeks at a particular resort.

In line with this, Resort Condominiums International (RCI), the largest holiday exchange organisation, is to administer the new Multi Resort Ownership points system.

RCI managing director Steve Griessel said: "Under the MRO system, points bought may be used as 'currency' each year to take one or more weeks, weekends or midweek breaks at a variety of resorts within the system. He is confident that the RCI link will mean MRO avoids the problems previously encountered by buyers in some similar schemes, such as an inability to meet demand due to too few weeks being held by the management company in relation to the number of points being sold.

Remarkable turnaround at Boumat

STAR 2/6/92

Finance Staff

Boumat's earnings per share recovered remarkably in the year to March, rising from 7c to 43c.

But the total dividend has been cut from 48c to 10c. Previously, a proportion of shareholders' funds was made available for dividends, regardless of earnings.

Boumat has, however, now reverted to the normal dividend cover formula.

Chairman Sidney Borsook says sales grew 6,6 percent to R1,16 billion, but that operating profit improved 35,6 percent to R39,3 million.

He says the construction industry had been hit harder than most by the "prolonged and deteriorating economic position."

He expects residential construction to improve, though not commercial and industrial building.

Mr Borsook expects further improvement in asset management and profitability, although he feels there will be little improvement in the trading environment.

'Move will drain off R800m a day'

Stals unveils plan to tackle high liquidity

BDay 3/6/92

(49)

TIM MARSLAND and SHARON WOOD

RESERVE Bank Governor Chris Stals announced a three-point plan to drain excessive liquidity in the money market at a closed-doors monthly meeting with top bankers yesterday — a step dealers saw as a tightening in monetary policy.

Stals is expected to make a formal announcement on the plan on Friday.

Sources close to the meeting said Stals intended to increase banks' cash reserve requirement to 5% from 4%. Banks are at present required to hold 20% of short-term liabilities in liquid assets, of which the 4% is an interest-free deposit at the Bank.

Stals told the meeting that, for the first time, banks would be paid interest on the additional 1% deposit. The interest rate is expected to be half a percentage point below the weekly Treasury bill rate.

A dealer said this step would drain the system of about R600m to R800m a day.

An analyst said this was a policy shift that compelled banks to put more cash into the Reserve Bank and not money market instruments. "This shows how difficult it is to control the present liquidity situation."

The second step Stals announced was the issue of about R1bn in nine-month paper, probably Treasury bills. Banks would be able to trade in the paper only after six months had passed.

The third step was that banks would be allowed to increase the limit of their offshore foreign exchange holdings to about R640m from R360m.

Analysts expected the steps to be implemented around mid-July, which would counteract a huge inflow of liquidity in the next few months. About R5bn in government stock matures in July and August.

Also, huge inflows of money are expected from continued high government spending.

Money market rates soared after the meeting, with the key 90-day liquid BA rate hitting 14,55% from a 14,35% open.

On the capital market, at 11h37 (around the time the meeting was held) government's R150 bond was trading at 16,035% but within two hours had risen to 16,200%.

One senior dealer said the fact that a select group had access to the information before others amounted to insider trading. The rise was one of the sharpest he could remember. "The JSE floor was left high and dry. Clearly some bankers traded on the information," he said.

A source who attended the meeting said Stals had not spelt out exactly how the measures would work.

A forex dealer said banks would welcome the higher limit on overseas forex holdings because it would be a step closer to a freer forward forex market. "It will allow us to synthesise offshore forex deposits and the local money market." But its main effect would be to reduce liquidity and increase the money market shortage.

Stals also reportedly stressed that Bank rate would not come down until inflation fell meaningfully. Neither Stals nor Bank officials could be reached for comment.

Meanwhile, Reuters reported Stals told a seminar yesterday the Bank would continue with neutral monetary policy. He said: "We have reached the stage where there is no instant cure, where there is no painless convalenscence, where there are no popular solutions."

Keys set to curb govt spending

B/Day 3/6/92

(49)

FINANCE Minister Derek Keys said yesterday he would this month begin to wage war on government spending.

Lower government consumption expenditure was a key component in reducing the country's 15,6% inflation, which kept interest rates high and put a damper on local capital investment, he said.

Until inflation came down, there was little chance Reserve Bank Governor Chris Stals would lower interest rates. Stals had specified his rules for the game; "it's simple, and I've got the message", Keys said.

High nominal interest rates were depressing domestic investment, and SA's low level of investment — currently about 18% of GDP — was hurting economic growth.

Reduced government expenditure could lead to lower individual tax rates, currently very high in terms of contribution to government income.

Keys acknowledged it would be difficult to cut expenditure when government remained under pressure to raise social spending.

There were several barriers to SA's economic growth over which government had no control, including drought and the low gold price.

However, government could help minimise other factors like high wage growth and unemployment.

Most important, SA had to find a way to stop the "economic civil war" that was causing mass action campaigns and strikes.

"Unless there's a broad consensus between business and labour with the state involved, you do not get above-average economic performance," Keys said.

Threats of labour unrest and unions' high wage demands were increasing unemployment. Sensible wage bargaining was needed to get back on to a growth path.

Formation of an economic forum could help resolve wage issues and restore local investor confidence.

Such a forum could be a vehicle for government to reach consensus with the ANC on trade and investment policies. — AP-DJ.

Cape Times, Thursday, June 4 1992 3

Recession worsens — govt

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CT 4/6/92

Own Correspondent

PRETORIA. — Liquidations and insolvencies rose sharply this year, according to official figures released yesterday, and are expected to continue increasing.

The government's Central Statistical Service (CSS) reported that liquidations of businesses increased by 72,6% to 711 in the three months to end-April compared with the same period last year. In the previous three months the increase was 47,5%.

The CSS said 224 businesses were placed under final liquidation in April alone. This was an increase of 49,3% compared with April last year.

Insolvencies of individuals tell a similar story. They rose by 18,3% to 1 009 in the first quarter of the year compared with January to March last year. Over the previous three months the increase was 3,5%.

CSS figures showed debt summonses in the first three months of the year had increased by 8,5% and averaged about 3 000 a day. Civil judgments for debt increased by 11,5% and averaged about 1 500 a day.

Stellenbosch University's bureau for economic research head Mr Ockie Stuart said the debt pattern was consistent with an economy in deep trouble. And he stressed the numbers of individuals and businesses going to the wall would continue to rise until at least the end of the year.

● **EC markets tumble on Danes' move — Page 9**

Keys sets up three Cabinet committees

BILLY PADDOCK 49

4/6/92 BDay

FINANCE Minister Derek Keys yesterday announced that three Cabinet working committees had been set up to enhance co-ordination of government responsibilities.

Speaking in his first debate as finance minister, Keys said the committees would cover social welfare, constitutional and administrative and economic matters.

Members of the economic committee were Ministers of the following: State Expenditure, Agriculture, Regional and Land Affairs, National Education, Environment, Transport, Post and Telecommunications, Administration and Tourism.

He said the economic committee was supplemented by two further bodies. One was the Minister's Committee for Economic Co-ordination which met once a month. It had a similar membership to the working committee with the added membership of Reserve Bank governor Chris Stals, special adviser to the finance minister Japie Jacobs and Finance Department official Jan Dreyer.

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ATTACH
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an association of diamond dealers. Picture: ROBERT BOTHA

contracts.

Documents not stamped

Move to get water to parched areas

DURBAN — The water shortage in some areas of southern Natal is so severe people are digging for water in dry river beds and drinking polluted water treated with bleach, says Southern Natal Joint Services Board chairman Prof Khabi Mngoma.

Mngoma said most of the main supply rivers for rural southern Natal had dried up. Many springs had also run dry, and boreholes were delivering mostly sandy water.

Acute water shortages were being experienced from about 10km from the coast into the hinterland.

Mngoma said it had been decided, at an emergency meeting on Tuesday to discuss the drought in the region, that joint services boards would tackle the problem of the water shortage there. This would involve urgent measures to transport water to critical areas.

B Day 4/6/92

A statement after the meeting said it had been accepted that although dams in the area were on average about 70% full, rural areas were totally parched and a concerted effort was needed to obtain funds and resources to get water to the areas.

In the Vulamehlo district near Scottburgh, for instance, women stood for hours at night waiting to draw water from a spring. — Sapa.

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(49)

Business cycle 'not at lowest point yet'

B Day 4/6/92

Business Day Reporter

THE lower turning point of the SA economy's business cycle has not yet been reached and no upturn is expected before the last quarter of the year, says First National Bank's personal asset management arm.

In its latest investment review, First National Trust says the upturn in the economy is expected to be slow and hesitant in the early stages and primarily based on higher government spending, increases in export earnings and a slowdown in the destocking cycle.

"Fixed investment will remain depressed this year against the background of high interest rates, shrinking profits and political uncertainty. Improving financial and political conditions are required before this . . . will improve."

The prime overdraft rate could average about 19% in 1992 and about 17% in 1993, the review predicted. A further cut in the Bank rate was not expected until the third quarter.

The review says the main reason for the diverging rates of consumer and producer inflation is very high food prices and the fact that VAT is reflected in the consumer price index (CPI) but not in the producer price index (PPI).

"What is encouraging, however, is that the increasing CPI cannot be attributed to excess monetary demand. In addition, the prices of imported goods are making no contribution to inflation at present.

"The favourable trend of the PPI, the absence of excess monetary demand, together with factors such as lower increases in wages should start to impact positively on the CPI. The CPI inflation rate is expected to fall below 13% by year end."

The contraction of investment expenditure is disturbing because a reasonable rate of investment is the basis for long term growth.

"The challenge which lies ahead for the authorities is to implement policies which allow and encourage domestic savings and foreign investment. The finance necessary for a rate of investment expenditure which will sustain long term growth will then be in place."

SA's negotiations cannot be allowed to falter Parsons

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DURBAN — SA could not afford to allow Codesa to falter, as public and business confidence hinged on the perception there was movement in the talks, SA Chamber of Commerce director-general Raymond Parsons said yesterday.

Addressing the Natal Chamber of Industries in Durban, Parsons said the political players at Codesa should be encouraged to continue negotiating as there was "no alternative" to it.

It had to be acknowledged that a relationship of mutual trust between the main political players remained an indispensable precondition for stability and economic growth in SA.

"Ideally the stability of any 'new' SA should rest on the loyalty and obedience of the people rather than on the state to force people to behave in certain ways.

"When attempts are made by means of such administrative structures to achieve certain political ends which do not square with the norms by which the people are governed, the maintenance of the system not only costs a great deal, but its stability is shallow."

BD 17/4/92

Turning to economics, Parsons said a single factor that could also contribute to stability was to widen and deepen the stake which people had in society — a stake which they would then be prepared to uphold and defend.

"Those who have nothing to lose — from a political, economic and social point of view — can only contribute to negative and destructive actions."

He urged businessmen to pursue balanced, constructive and investor-friendly policies. "We must conduct the debate on the premise that we need the world more than it needs us.

"I hope that major political parties like the ANC will show a greater awareness of this reality in their economic policies.

"Poverty in SA is so severe that redistribution policies, which alone will be inadequate to counter it, must be supported by policies designed to place the economy on a higher growth path."

The redressing of past inequalities had to be reconciled with the reality of ensuring sustained economic growth, said Parsons. — Sapa.

Grand ideas. Can they deliver the goods?

W/Mail 5/6-11/6/92. (49)

While the African National Congress' economic document shows a definite shift from ANC thinking two years ago, it lacks finality, reports

MONDLI MAKHANYA

PERHAPS the greatest regret about the African National Congress' latest economic document, drafted at the movement's policy conference last weekend, is its open-endedness.

It proposes a mixed economy, but does not say what the mix should be. It suggests a future government may compel financial institutions to invest in socially desirable projects but omits to hint at the size of prescribed investment.

Promising to reverse skewed regional rural-urban development, it does not say how such programmes will be conducted or financed. And while speaking of "adjusting" trade barriers, the document does not specify how.

This is a pity. For months both domestic and foreign investors have been waiting for clarity in ANC economics before committing their money to South Africa.

But ANC spokesmen argue that they will only get into specifics when the movement is in power and that the document is only a guideline to tell potential voters and investors what an ANC government is likely to do.

In many respects the document — like the draft which was released a month ago — has made significant departures from past thinking. And judging by the less than hysterical reaction from the business community, one assumes it hasn't been as badly received as previous pronouncements.

It reflects an ANC which has been under enormous pressure, from local business and the international community — to drop remnants of socialism from its economic programme — and from its own constituency to deliver the fruits of liberation.

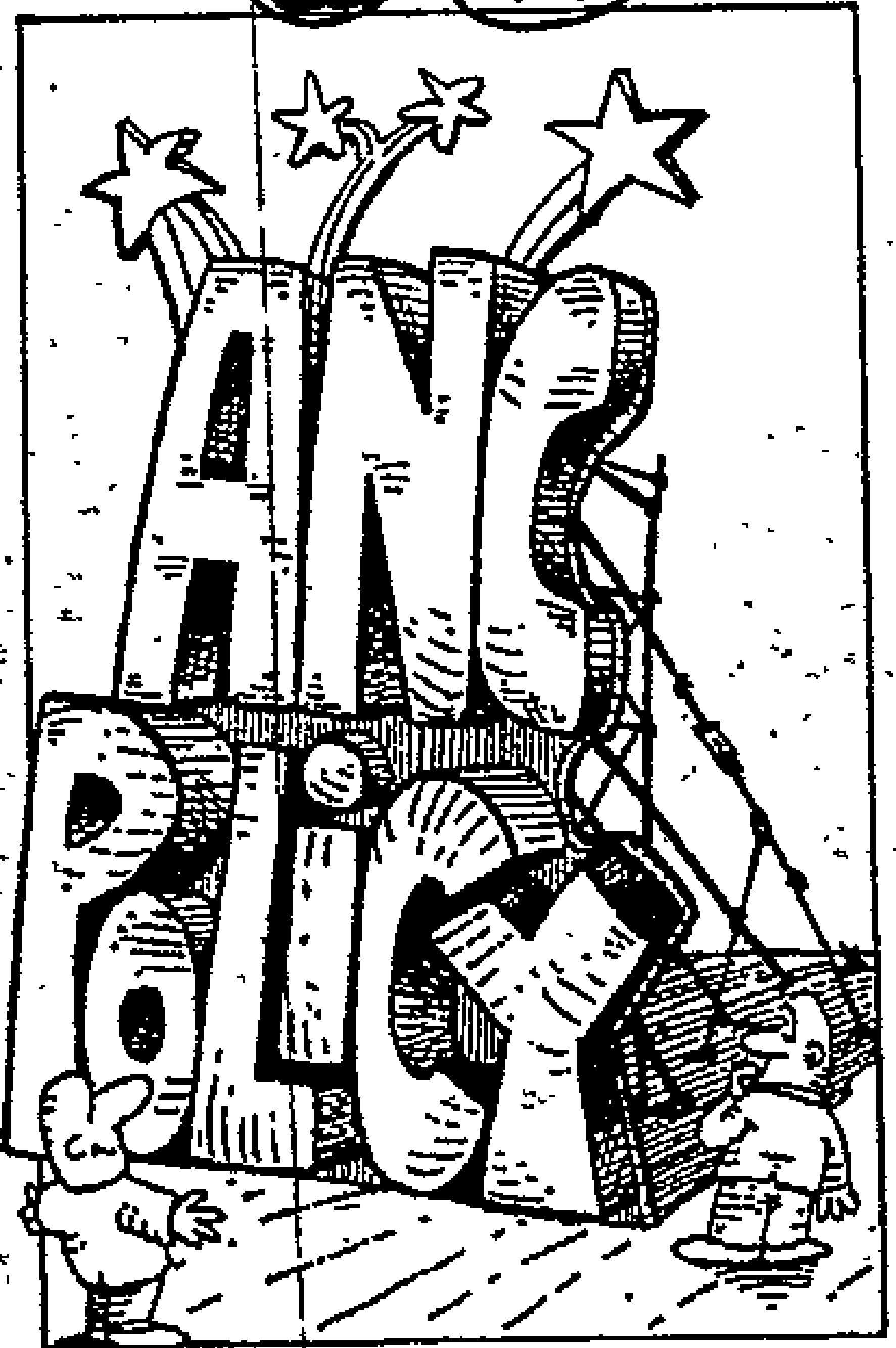
In fact, the movement had modified its position so far by the time of the conference that it took pressure from conference delegates and some nudging from its Congress of South African Trade Unions ally to have the word "nationlisation" retained.

What finally came out was a document vague enough not to alienate anyone.

While nationalisation is referred to, the document makes it clear it will only be considered as one aspect of government intervention — along with the buying of shares in companies and the establishment of new companies — aimed at redressing past inequalities and responding to market failures.

The document also notes that an ANC government may consider privatising certain state enterprises if it deems this necessary for the enhancement of their efficiency. In all this, "the balance of evidence will guide the decision for or against various economic policy measures"

"There will be no irresponsible nationalisation," says Institute of African Alternatives director Ben Turok, who also sits on the ANC economic commission. "What we are concerned about is that the government is busy privatising state enterprises. These will definitely be renationalised."



As in past documents, there is a commitment to affirmative action with regard to women and blacks. As a means of redressing the concentration of economic power in the hands of "a minority within the white minority", the ANC advocates anti-trust, anti-monopoly and mergers laws "in accordance with international norms and practices".

While the ANC makes a commitment to observe fiscal and monetary discipline, the document promises wide-ranging programmes aimed at eliminating apartheid inequalities in housing, education infrastructure, health and welfare. In places the document reads like an updated Freedom Charter. But principle is one thing, the practical implementation another.

There still seems to be a belief in ANC circles that the "post-apartheid dividend" — economies flowing from the abolition of apartheid waste and duplication — will be a windfall for the new order. But calculations indicate that this will amount to no more than R6-billion — half of this year's health expenditure. Furthermore, it will be a one-off saving.

"My fear is that in the pursuit of these goals, the ANC won't be able to deliver. Then they'll start printing money and embark on other inflationary measures," warns University of Cape Town economist Nicoli Natrass.

For these projects the ANC hopes to harness a significant portion of funds through some form of prescribed assets and also via the establishment of community-based financial institutions.

Getting financial institutions to agree to these mechanisms shouldn't be difficult. Already the Life Offices Association is debating the issue of directing a certain portion of their annual investments in this way.

In addition, the establishment of community banks should not hit moral obstacles. Such institutions are already in the pipeline.

Institutions, such as the World Bank and International Monetary Fund, may also be approached for loan finance. But the document is suspicious of these institutions. It stresses that "relations with international financial institutions should be conducted in such as way as to protect the integrity of domestic policy formulation".

While committing itself to fiscal discipline and increased social expenditure, the ANC shies away from acceptance of any tax regime, saying this will be investigated by "a representative fiscal commission". It only proclaims its support for a progressive tax system.

A capital gains tax is also mooted — ostensibly to discourage land speculation. A sign of trade union and Vat Co-ordinating Committee influence is also visible in the undertaking to end indirect taxation on foodstuffs, health care and household services.

"You cannot increase spending and lower taxes, because then you have to borrow and burden the next generation with debt," comments First National Bank economist Cees Bruggemans.

While the ANC's reluctance to tie itself to detail is understandable, it regrettable that little attempt was made to prioritise certain forms of expenditure and elaborate on revenue sources.

Wishy-washy, but it is social democracy

W/Mail 5/6- 11/6/92.

[redacted] 49

While the African National Congress' policies were largely ambivalent, they place the organisation firmly in the realm of social democracy.

By **ANTON HARBER**

THE African National Congress has emerged from its weekend policy conference as a social democratic organisation.

Social democracy is not a phrase the organisation uses — because of the traditional left-wing antagonism to an ideology that was always seen as a compromise with capitalism. "Capitalism with a conscience" was the phrase used by communist parties to deride social democracy's choice of social reform rather than revolution.

But the policies outlined in the document *ANC policy guidelines for a democratic South Africa*, released last Sunday after the conference, place the organisation in the broad tradition of the British Labour or German Social Democratic parties.

The ANC is not classically social democratic in that it does not envisage some of the large-scale state intervention that has long been part of such a policy. But contemporary social democracy recognises the failures of state control in eastern Europe and assigns a greater role to market forces. The western European parties no longer suggest the same kind of state intervention in the economy and in social policy as they did three or four decades ago.

They do, however, still seek to ensure an equitable distribution of wealth by moderating market forces and use state intervention to pursue social policies, such as the provision of minimum health, housing and education standards. They also emphasise democracy — multi-partyism, freedom of speech an so on — to separate themselves from eastern European socialism.

The ANC's policies fall firmly within this definition. The basic objectives of the policy outlined in the document are four-fold: to achieve political and economic self-determination for all; to overcome the legacy of inequality and injustice "in a swift, progressive and principled way"; to develop a sustainable economy and state infrastructure to improve the quality of life of all; and to promote a universal sense of freedom and security.

This separates the ANC from free market capitalism: the document recognises a state responsibility to intervene to achieve social equality and a minimum quality of life.

It also separates the ANC from communism: it treats issues of freedom and democracy as a priority. "We do not want new forms of tyranny to replace the old ... we must abolish all forms of discrimination, domination, privilege or abuse," the guidelines stipulate.

However, the document prioritises the need to overcome social, economic and political inequality and injustice. It reflects all the traditional social democratic concerns: the provision of education, housing and health, workers' rights, women's rights, affirmative action for the disadvantaged and care for the environment. The ANC goes so far as to plan to entrench an individual's entitlement to education, health and housing in the constitution — a controversial element because these will not be justiciable.

In structure, the ANC remains a broad-based social movement that embraces a range of people from communists to liberals. But two years after its unbanning and after an extended and intense debate about policies — during which it was often not clear whether an African nationalist socialism on the Zimbabwe model, an old-style Stalinism on the Soviet model, or a more moderate social democracy would hold sway — the dominant ethos is clearly one of social democracy.

The ANC has tried to balance the various forces within it and this means that many of its policies are wishy-washy and non-committal. For example, with an eye on the influence and power of traditional chiefs, it says they "will continue to play an important part". But it does not say when, or how this will be reconciled with democracy — only that any changes in the functions of chiefs will be made after consultation with them.

Another example is language policy: it gives all major languages equal status and gives citizens the right to use "any South African language of their choice" in dealings with the state. It will be possible, the ANC says, to designate one single language for record purposes, but avoids specifying which would be chosen. In an eloquent paragon of empty political rhetoric, it says only that "all the major languages ... should be equally available for such purposes".

The document is also an attempt to balance the demand from the ANC's constituency for radical redistribution of wealth and resources with the post-Soviet criticism of too much state intervention.

In fact, the ANC ascribes a large role in its policies to independent trade unions, civic organisations, development bodies and other non-state, non-capitalist structures. This is one of the most important and innovative aspects of its policy document.

The place for such bodies will, it says, be established in the constitution. "These are the institutions of civil society which are crucial if we are to have a deep and thorough democratic order," it stipulates.

Some of its policies are radically democratic: it proposes that local government include "people's assemblies" and special "sub-committees" which will allow "all organs of civil society", such as civic associations, trade unions, traditional leaders and cultural, religious and women's organisations "the scope to influence the process of (local) government".

Of course, the guidelines must be treated with the same scepticism as all election manifestos: there is no reason to believe that an ANC government will pay any more attention to its campaign promises than any other administration.

But the document signals the beginning of an election campaign — and gives the clearest indication yet of how the ANC will position itself in the rush to garner votes.

It is likely to avoid answering specific questions in a way that would offend anyone. So, for example, it will not tell how it plans to raise the money to pursue its elaborate social policies while reducing some taxes (such as VAT on food); or just what industry, if any, it seeks to nationalise; or how it will give the broad mass of people better access to the media. These are issues that raise the ire of powerful business interests without winning the ANC any votes.

It will, however, emphasise its broad commitment to democracy, to redistribution, to affirmative action, to restoring land rights and to rectifying the inequalities and injustices of the past — focusing on populist issues.

The press conference where the document was released was dominated by plans for mass action and the policy guidelines were sidelined by the ANC's 10-page plan of action, *Transition to democracy*. The message was clear: the election campaign is going to be centred around mass mobilisation of the ANC's traditional broad constituency.

... while Stals turns the screws

IN what was viewed as further tightening of monetary policy Reserve Bank Governor Chris Stals this week told a meeting of the captains of the banking industry he would implement new measures to curb money market liquidity. W/Mail 5/6-11/6/92 (49)

It was reported this week that Stals had told the bankers this would involve a three-stage process whereby the banks' cash reserve would be increased by one percentage point, there would be an issuing of Treasury bills and an increase in the amount of foreign reserves banks can hold.

ANC given eco-report

Sowetan 5/6/92.

49

ANC president Mr Nelson Mandela yesterday officially received a report on Business and Environment in South Africa, commissioned by Pick 'n Pay head Mr Raymond Ackerman, at a function in Johannesburg.

The report, prepared by the International Business Council for Sustainable Development, points out that the present development status of Southern Africa has been achieved mainly by selling off natural assets - irreplaceable minerals and almost irreplaceable wildlife and forests.

"With natural riches rapidly depleting, and severe degradation of agricultural potential, together with a wide range of both deliberate and ignorance-based assaults on the eco-systems of the region, the mostly unsuspecting population is facing catastrophe, yet is doubling every two decades."

The BCSD report said that tourism, especially eco-tourism, offers the only large-scale opportunity for replacing mineral exports as a source of essential foreign exchange, employment and economic survival.

Tourists would not be attracted to slums, crime, disease, extinct animals, denuded veld and a ravished visual environment.

Development of a national and regional ethic of informed environmental concern will be prerequisites not only for leaving something for tourists to see but for feeding the population.

The ANC welcomed the report, saying the organisation was committed to an environmental policy that will secure sustainable growth and create a safe and healthy environment.

The report is to be presented to State President FW de Klerk on his return from his overseas trip on June 18. The document is part of Southern Africa's private sector input to the Earth Summit.

Professor Stan Sangweni, the ANC's chief environmental spokesman recently said of the potential mining threat to St Lucia's eastern shores: "It is most dangerous and irresponsible to damage a very precious, internationally valued resource, which cannot be restored, whatever the miners say."

BUSINESS

No strangers in ANC paradise

w/mail 5/6-11/6/92.

The ANC's recent economic policy document has drawn fire for its proposals on foreign investment.

By **MONDLI MAKHANYA** [redacted] [redacted] (49)

AFRICAN National Congress planners would be forgiven for shaking their heads and proclaiming: "You can never win."

Although the organisation's latest economic document has significantly toned down on the nationalisation bogeyman, there was widespread criticism — this time of its "dismissive treatment" of foreign investors.

The document the business community and potential foreign investors had been waiting for does not go out of its way to entice foreign investment. In fact it puts restrictions on which sectors foreigners may operate in and also on certain activities they may undertake.

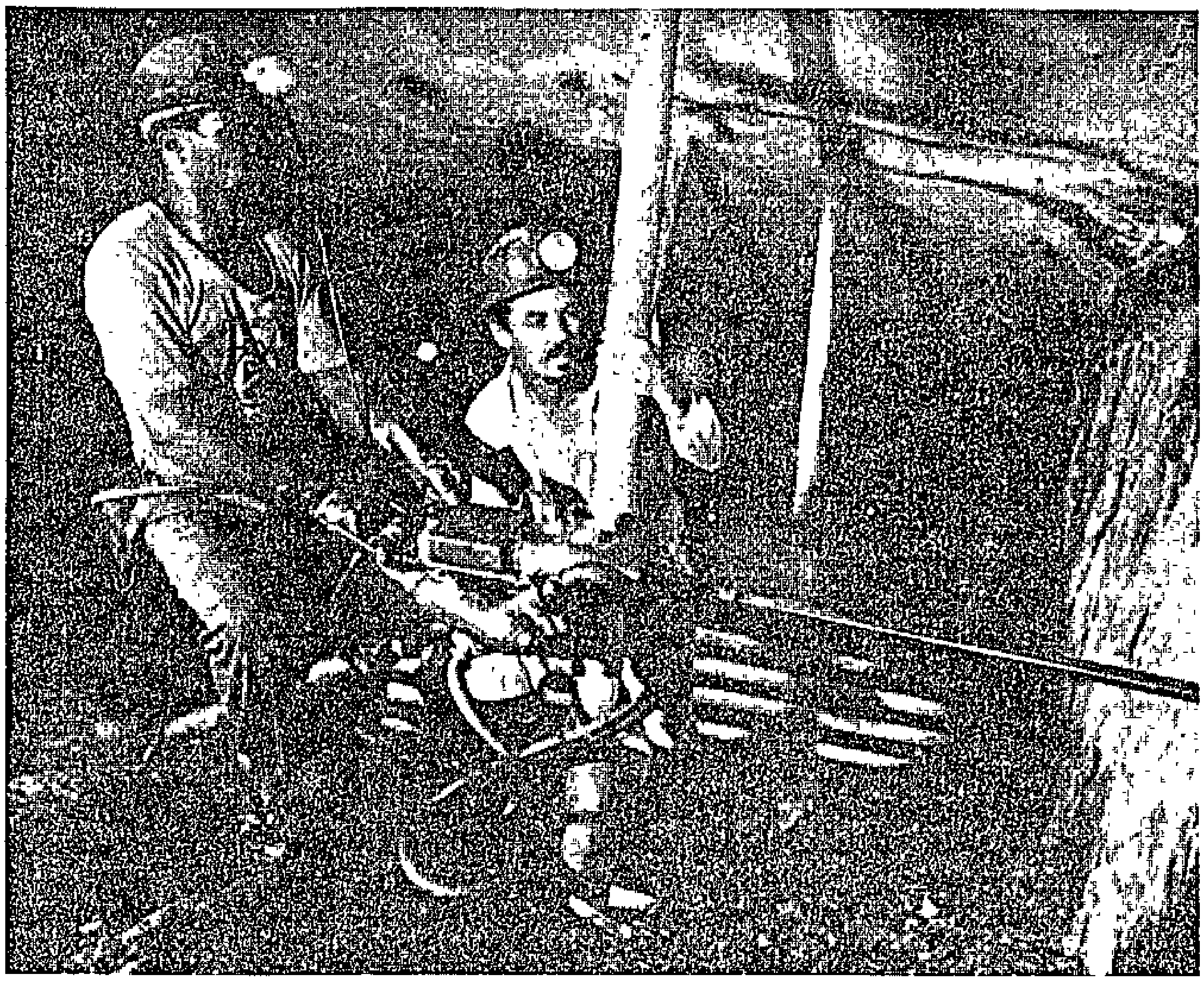
While noting that foreign investment will be welcome in a democratic South Africa and that it will be encouraged through political stability, economic growth and the adoption of transparent, consistent economic policies — it qualifies this by saying it "should be in accordance with our objectives for growth and development".

It says foreign investors will be treated in the same manner as local investors but will be barred from borrowing internally and from operating in "strategic areas" such as land and natural resources. Special treatment will only be given to investors who "meet defined objectives".

Foreign firms' access to foreign exchange for the purpose of repatriating after-tax profits will be subject to regulations administered by the Reserve Bank. The ANC also seeks to halt capital flight by local organisations seeking to invest abroad — hinting at some form of exchange controls.

The first salvo of criticism came from the South African Chamber of Business (Sacob) which called for greater consultation between the business community and political organsations about economic policy.

Says Sacob chief economist Ben van Rensburg: "The first thing foreigners ask when they come to seek out investment opportunities is what our incentives are. Everybody in the world is offering enormous incentives. That is how the newly industrialised countries achieved their growth."



Local resources ... Foreign companies may not be allowed into mining

But the ANC is adamant that the document's assertion that special incentives will be offered to investors who meet defined national growth and development objectives is adequate. There is a feeling that the country should not seek fly-by-night investors.

Remarks ANC economic adviser Alan Hirsch: "We will give special treatment to people who meet certain needs: if they earn the country foreign exchange, transfer of technology and the creation of jobs. Otherwise they are just the same as domestic investors and will be treated the same."

But reality may not be all that friendly. The collapse of socialist regimes in eastern Europe, the break-up of the Soviet Union and the reconstruction happening in Africa has ensured there is strong competition among developing nations for investment. And in the process standards have been drastically lowered.

Ben Turok, who sits on the ANC's economic commission, notes: "The kind of investors we want are experienced investors who won't just be taken by any investment incentive. The serious investor looks beyond that. We want people who will comply with our labour laws and who will respect our environment."

And, as Econometrix director Azzar Jammine points out, the "strategic areas" from which the ANC seeks to bar foreigners are just those in which foreign investors would be interested.

"Natural resources and the land are two of the few fields where we actually have competitive advantage, and obviously where foreigners would most likely want to get involved," he says.

●See PAGE 25

EDUCATION

How to fill the growing hole in parents' pockets

W Mail 5/6-11/6/92.

(49)

By PORTIA MAURICE

AN education policy to cushion the poor may be needed if economic growth does not exceed the predicted two to three percent during the transition to a new schooling system.

This was the prognosis of University of Cape Town economics lecturer Pundy Pillay when addressing a World Bank seminar held in Johannesburg this week.

Free and compulsory primary education is likely to be a priority of a new government, but leaving parents to foot the bill for secondary schooling will prejudice the poor, Pillay warned.

The seminar, hosted by development agency Kagiso Trust, included World Bank representatives from Brazil, Malaysia, Mexico, the United States, Nigeria and Zimbabwe.

Though its theme — The Organisation, Management and Financing of Education: Towards Decentralisation and Unity — sounded highfalutin, it really boiled down to the size of the hole schooling is likely to leave in parents' pockets in future, how much the state will pay, and how much say different groups will have in the education system.

The second in a series of four exploratory discussions with the World Bank, the seminar was attended by educationists from groups as diverse as the South African Communist Party, the Development Bank of South Africa, the (government) departments of National Education and Finance, the Workers' Organisation for Socialist Action, academics and trade unionists, who all came to learn from experiences in other countries.

"As South Africans, we open our doors to people who have expertise to share with us, but they will not impose anything on us," Kagiso spokesman Eric Molobi pointed out.

Pillay's proposal, for example, runs contrary to World Bank education policy, which tends to favour primary schooling and leave the rest to market forces. And in a recent article published in the journal *Work in Progress* and pointedly titled "The Piper Calls The Tune", Institute for African Alternatives director Ben Turok warned against allowing the World Bank to determine education priorities, as it has done in the rest of Africa.

Structural adjustment programmes on the continent have resulted in cuts in social services and increased privatisation of schooling, Turok said. "The World Bank is now insisting that parents contribute to school and university costs, resulting in rapid polarisation of society into those who can afford education and those who cannot. This undermines the vital principle adopted by all African governments at independence: that education should be based on merit alone."

In addition, Turok pointed out, the bank has proposed that parents be made more responsible for the costs of food, lodging and other expenses, and that students should take on tasks now performed by non-teaching staff such as maintenance and administrative support.

Turok based his views on 1988 and 1989 World Bank reports on education in sub-saharan Africa. He described its aid policies as "immensely disturbing": of direct educational aid only 11 percent goes to operational costs like local salaries, consumable and instruction materials.

Brazilian Professor Guiomar Namo de Mello, the only female international speaker at the seminar, told the delegates her country was a "continent in itself", and a melting pot of educational problems and challenges.

After 30 years of military rule, Brazil had opted for a more participatory system in 1988 and education is now governed at federal, state and municipal levels. Although children now have greatly increased access to the country's 200 000-odd schools, there has been little improvement in quality and pupils get stuck in the "repetition trap", she said. On average, it takes 11 years to complete the first eight grades.

De Mello pointed out that there were huge inequities between spending on primary and higher education: whereas the equivalent of between $28 and $200 a year was spent on young children, about $8 000 was spent on university students.

The director general of Malaysian education, Tan Sri Rahman Arshad, said his country, though much smaller, bore comparisons to South Africa. After independence in 1957, ethnicity and nation-building through education became priority areas.

"We had problems of many races, religions, cultures and languages," he said. "Our central objective was to build a nation from diversity."

Malaysia has a common content curriculum, but separate mediums of instruction, at primary level. At the end of six years, pupils have a year to switch to Malay, the national language.

Tough economic struggle coming

Sowetan 5/6/92 [redacted] [redacted] (49)

By JOSHUA RABOROKO

THE black struggle for political equality will pale into insignificance compared with the struggle for economic democracy.

Speaking at the 20th anniversary of Prestasi Brokers in Johannesburg this week, chairman Mr Jan Erasmus said it would have far-reaching implications for the country's larger financial institutions, including the insurance industry.

Prestasi is one of the leading independently owned brokerage firms handling short-term insurance for 40 personnel associations, trade unions, municipalities, universities and other organisations.

Erasmus said the manner in which the industry coped with the growing power of black entrepreneurs would determine whether they would succeed in a future.

"Black entrepreneurs entering the insurance market wield enormous power. They may not have the capital resources or managerial expertise of the main players, but they command the purchasing power of the masses.

"This situation is similar to that which prevailed when Afrikaner business began emerging in the 1930s," he added.

Erasmus said black businessmen would for a long time remember the arrogance with which the white corporate world often used to treat them. The large insurers thought they were accommodating the black market by creating niche companies targeting black consumers.

FM 5|6|92 (49)

ANC ECONOMIC POLICY

Some balance (49)

FM 5|6|92

Economic proposals made at the ANC weekend policy conference confirm that emphasis has shifted from nationalisation. The push for redistribution has been redirected to:

☐ Active encouragement of the informal sector, small- and medium-sized businesses, co-operatives, family and village economic activity and generally to development in poor and depressed areas;

☐ An end to indirect taxation on basic foods, health care and basic household services; and

☐ Affirmative action in all areas of the economy.

But nationalisation remains an option to be considered, as do other methods of increasing the role of the State in the economy — "purchasing a shareholding in companies; establishing new public corporations or joint ventures with the private sector." ANC economist Tito Mboweni tells the *FM:* "Nationalisation is not a central policy objective, but only one of the instruments to be considered if we should wish to increase the public sector." At the same time, the ANC will consider reducing the public sector "in certain areas." He adds: "Reduction in specific areas would allow black business to buy into those areas."

On "concentration of economic power in the hands of a few conglomerates," the document says: "The ANC is not opposed to large firms as such. However, the ANC will introduce anti-monopoly, anti-trust and mergers policies, in accordance with international norms and practices, to curb monopolies, and continued domination of the economy by a minority within the white minority."

The ANC will "co-ordinate fiscal, monetary and exchange rate policy so as to provide a stable macroeconomic framework and foster sustainable growth." And it "will encourage transparency and accountability in the fiscal management of the democratic State."

Though less alarming to investors than earlier policy documents, this contains its quota of threats. The democratic State will:

☐ Ensure that financial institutions in both the public and private sectors participate fully in the proposed new path of growth and development; and

☐ Introduce mechanisms to encourage private-sector financial institutions to channel resources into productive investment and the development of the basic-needs sector and to end discrimination in lending against blacks, women and the informal sector or very small producers.

Foreign investment is to be encouraged. Under the "national treatment principle," they will receive the same treatment as local investors — with two limitations: on foreign ownership in strategic areas such as land and natural resources, and on foreign investors' domestic borrowing. ■

MONEY SUPPLY FM 5/6/92

Off target

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An unexpected uptick in M3, the broad monetary aggregate, was the main feature of April's money supply figures. M3 grew a provisional 11,05% over 12 months to R190,2bn, or 1,03% month-to-month. From the base of the current guideline year in the fourth quarter of 1991, it grew a provisional annualised 12,49%, to a seasonally adjusted R190,6bn. This is above the Reserve Bank's guideline range for growth of 7%-10%.

But, says UAL economist Dennis Dykes, too much should not be made of the figures;

cont →

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they can be revised down substantially, as they were in March. March growth figures for M3, over 12 months and from the base of the target year, were revised down from 10,45% to 9,5% and from 9,79% to 7,31%.

A Bank spokesman says monthly revisions of this magnitude occur because of differences between deposit-taking institutions' preliminary and final returns. "Not all branches are computerised, so it takes time for transactions to be cleared through the post before the institutions can give a final figure," he says.

However, even allowing for a revision of the same magnitude for the annualised, seasonally adjusted figure (about 2,5 percentage points), this brings April's figure to about 10%, just inside the guideline range but well above March's figure.

Credit aggregates are only available a month after money supply figures. Credit extended to the domestic private sector rose 9,95% in the 12 months to March, compared with 10,89% in February. However, there was a monthly fall in domestic private credit of 0,35%, the result of declines in the following:

☐ Investments down 27% to R2,7bn;
☐ Bills discounted 2% to R12,5bn;
☐ Hire-purchase credit 5% to R18,4bn; and
☐ Other loans and advances 0,8% to R74,2bn.

However total credit extension rose 9,85% in the 12 months to March (compared with February's 9,56%), or 0,53% in the month. This was a result of an increase in claims on the government sector, which rose to R2,6bn in March from R900m in February and R1,1bn in March last year.

Also mortgage finance continues to rise: 1,5% in March to R73bn following a 1,3% rise during February.

Monetary aggregates for March are as follows:

☐ M0 down 1,14% over 12 months to R1,3bn;
☐ M1A up 25,22% to R35,2bn;
☐ M1 up 14,18% to R64,2bn; and
☐ M2 up 11,77% to R161bn. ■

10 years' compulsory schooling [redacted] ANC

W/Mail 5/6-11/6/92

[redacted] (49)

By PORTIA MAURICE

THE African National Congress believes 10 years of free and compulsory education is the minimum necessary to prepare individuals to participate in the economy and society, and has committed itself to provide this.

In its education policy unveiled at this weekend's conference it also promises that students who cannot afford to proceed beyond this level will have access to bursaries and loans. Where possible, a year of preschool education will be included and as far as possible there will be flexibility between different levels of the education and training system.

Disabilites and special learning needs will be provided for. The organisation also commits itself to redistributing resources to women, rural and adult students, and the mentally and physically disabled.

Special schooling will be provided up to matric level for youth who have dropped out of the school system or been expelled because of "apartheid practices".

To employers goes the prime responsibility for providing adult basic education, whereas the state will ensure delivery to the unemployed. There will be a national certification system for this.

If the ANC came to power, the central state and local authorities would control education. The former would be responsible for the "development of national policies and principles, financing education, the development of a national curriculum and standards". Lower levels will take care of the day-to-day administration and management of the system.

The organisation commits itself to "removing gender-stereotyping from the curriculum" and, in a kind of affirmative action, offers "special help" to girls to extend their skills in areas previously barred to them such as woodwork

Pupils will have access to a minimum of two languages — a regional lingua franca and English.

● See PAGE 25

The US economist and liberal guru J. K. Galbraith tells **Will Hutton** why he believes the political clout of the contented majority has destroyed hope of a revival in liberal values

Class that plays for keeps

(49)

Guardian W (in W/mail] 5/6-11/6/92.

ONE OF the best things about John Kenneth Galbraith is his jokes. Making his readers laugh at the same time as unmasking the futilities of conventional economic and political orthodoxies not only drives his point home, but gives his readers the stamina to reach the end of books they might otherwise not even have begun.

The Culture Of Contentment is his funniest and most serious book to date. For those still puzzling over the Conservatives' election victory it has a clear message. In Britain and the United States, there is now what he calls a "constituency of contentment", made up of those who have been made rich and secure, who need nothing but lower taxes, less state activity, and the opportunity to make short-term profits. Both the British Conservative Party and American Republican Party are now constructed around their appeal to this constituency.

In the US, this class has hijacked the political process and promoted the ideology of laissez-faire economics to secure its objectives. Nor is there an end in sight. As the underclass does not vote, the liberal cause is condemned to be marginalised. It is a synthesis of long-running Galbraithian themes. Contentment explains both public squalor and private affluence, and underpins the hypocrisies of New Right economics.

The 84-year-old was to be found in London's Ritz Hotel last week: it is his familiarity with the haunts of the contented, as he observed, that qualifies him to write about their predilections.

WH: Why has the culture of contentment come about now? Why not 10 or 20 years ago?

JKG: The social conditions that I'm talking about came about with Mrs Thatcher and with Ronald Reagan and George Bush. They were the beneficiaries of the contented majority. We, my generation — going back to Roosevelt and on to Kennedy — produced in a broad way the economic and social reforms and the comfortable income which turned us out of power by creating a contented majority.

constituency to become the electoral majority by not voting?

One must not overestimate the stupidity of the American political genius — even if he has mastered simple arithmetic, at least to the point of subtraction. His view is that you win only by subtracting votes from the Republicans. Not by energising the people who don't vote. Roosevelt won by reaching the poverty-ridden areas of the North and making a majority. But in recent elections the political genius has been dominant, and the strategy has been to subtract from the Republicans by not giving people a choice.

How much is this a failure of democratic institutions?

Anybody associated with politics as long as me does not have an exaggerated view of political intelligence. But it is also part of a deeper aspect of the economic development that has created enough people who are comfortable and happy in their situation, so that in both numbers and political voice — and political voice is given by money — they have a dominant electoral position.

Is Ross Perot the candidate of the contented majority?

Oh, I think so, yes. There's a certain part of the contented majority who love anybody who is worth a billion dollars.

Some Reaganites and some Thatcherites were genuinely aiming to use market economics to bust monopolies and break open self-serving corporatism. Don't you concede them any radicalism and any recognition that they share the same iconoclasm as you do towards this contented majority?

I have some suspicion as to how

for the rich than we have police services for the poor districts. If you're looking for personal security, far better to move to the suburbs than pay taxes in New York.

The contented and economically comfortable have a very discriminating view of government. Nobody is ever indignant about bailing out failed banks and failed savings and loans associations. I have said many times in the United States: we have socialism when the corporate jet comes down national airport in Washington. Those parts of the government are very righteous and very good. But when taxes must be paid for the lower middle class and poor, the government assumes an aspect of wickedness.

One point you make in your book is that the move away from tax to interest rate changes is not just a technical question but originates in the politics of contentment. In other words, Keynesian economics has become a victim of the culture of contentment.

Oh, no question. Implicit in managing economies is the raising of taxes as a counter to inflation or the much more difficult matter of

J. K. Galbraith . . . 'I wanted to show the deeper forces shaping John Major and George Bush. There will be no response to our voice' -

- PHOTOGRAPH: MARTIN ARGLES

essentially that the US welfare system is under-resourced.

I don't believe that for a moment. The welfare system has not been perfect but many of the problems in the cities now, much of what initiated the revolt in Los Angeles, has been the cut-back in a range of welfare activities under the Reagan/Bush administration.

But what about the argument that it has created a culture in which people think about how to get their next welfare cheque, rather than having to get a job?

It might well be so if there were jobs, but there aren't jobs. Some people prefer welfare to work, but I am not going to be interested in Charles Murray's argument until

man in his eighties to hand on to those who might carry on the liberal tradition.

It was deliberate. And you've put your finger on exactly my intentions. I don't want to believe that a brilliant Guardian editorial is going to change the comfortable view of the supporters of Mr Major. I wanted to show the deeper forces shaping him and shaping George Bush.

I think there will be no response to our voice. In the last few weeks, a hundred economists in the US, including all of the progressive, intelligent, economic community, have signed a statement urging a much stronger programme against the recession. It was dismissed by Bush in one sentence. I am not even sure he read it. That is the situation I want to depict. I want to show how the system operates.

I've argued that there is a beginning of the swing of the pendulum against ultra laissez-faire economics. It's no longer plausible to argue that crime is unconnected with unemployment, income inequality, and social deprivation. Even the police concede this. American commentators are beginning to argue that there are merits in Japanese capitalism. Perhaps the laissez-faire economics which upholds this culture of contentment is moving on to the intellectual defensive?

Yes, I think there is a change in the Anglo-Saxon recognition. For example, there is assumed to be a conflict between industry, the economic system, and the state. The Germans and the Japanese have a different tradition, a communitarian tradition, and are in better shape than we are. But I don't see this changing intellectual mood having any particular effect on the culture of contentment, on the people who run the British government or the American government. There are still boys around the White House who wear Adam Smith ties.

Surely ideas matter? When laissez-faire economics are not serving the interests of a part of the community and proving economically destructive, that is going to open up an opportunity for

tive Party and American Republican Party are now constructed around their appeal to this constituency.

In the US, this class has hijacked the political process and promoted the ideology of laissez-faire economics to secure its objectives. Nor is there an end in sight. As the underclass does not vote, the liberal cause is condemned to be marginalised. It is a synthesis of long-running Galbraithian themes. Contentment explains both public squalor and private affluence, and underpins the hypocrisies of New Right economics.

The 84-year-old was to be found in London's Ritz Hotel last week: it is his familiarity with the haunts of the contented, as he observed, that qualifies him to write about their predilections.

WH: Why has the culture of contentment come about now? Why not 10 or 20 years ago?

JKG: The social conditions that I'm talking about came about with Mrs Thatcher and with Ronald Reagan and George Bush. They were the beneficiaries of the contented majority. We, my generation — going back to Roosevelt and on to Kennedy — produced in a broad way the economic and social reforms and the comfortable income which turned us out of power by creating a contented majority.

You say that the contented majority's aversion to tax increases and an activist role for government is self-serving. But you could have said just the same about the middle classes of Victorian England — and indeed Marx did. Or you could say the same thing again about merchants in 18th century Edinburgh — as Adam Smith did.

Absolutely. You could have said that people who are in a fortunate position always attribute virtue to what makes them so happy. But the modern difference is that compared with Victorian times and the early part of the century in the United States, the contented people are now the majority; they are extremely numerous and, in electoral terms, very powerful.

But why does the majority that is

poverty-ridden areas of the North and making a majority. But in recent elections the political genius has been dominant, and the strategy has been to subtract from the Republicans by not giving people a choice.

How much is this a failure of democratic institutions?

Anybody associated with politics as long as me does not have an exaggerated view of political intelligence. But it is also part of a deeper aspect of the economic development that has created enough people who are comfortable and happy in their situation, so that in both numbers and political voice — and political voice is given by money — they have a dominant electoral position.

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Oh, I think so, yes. There's a certain part of the contented majority who love anybody who is worth a billion dollars.

Some Reaganites and some Thatcherites were genuinely aiming to use market economics to bust monopolies and break open self-serving corporatism. Don't you concede them any radicalism and any recognition that they share the same iconoclasm as you do towards this contented majority?

I have some suspicion as to how strong that was with the people around Mrs Thatcher. But the people around Ronald Reagan — and the people supporting Reagan and Bush — were overwhelmingly the people who have it good and who do not want to pay taxes to those who do not have it good.

There is a great insensitivity in the modern tax structure. The beneficiaries of government action are the poor, the dispossessed, those who need housing, those who need welfare payments, those who need unemployment compensation.

And the people who pay taxes are generally the people who have all those things — and in consequence develop this righteous anger over having to pay taxes for things that they on the whole provide for themselves. Even police services. We now in the United

United States: we have socialism when the corporate jet comes down national airport in Washington. Those parts of the government are very righteous and very good. But when taxes must be paid for the lower middle class and poor, the government assumes an aspect of wickedness.

J. K. Galbraith . . . 'I wanted to show the deeper forces shaping John Major and George Bush. There will be no response to our voice'
– PHOTOGRAPH: MARTIN ARGLES

One point you make in your book is that the move away from tax to interest rate changes is not just a technical question but originates in the politics of contentment. In other words, Keynesian economics has become a victim of the culture of contentment.

Oh, no question. Implicit in managing economies is the raising of taxes as a counter to inflation or the much more difficult matter of cutting expenditure. Raising taxes has an immediate impact on the contented electoral majority, whereas monetary policy raises interest rates and rewards the people who have money to lend. And, broadly speaking, people who have money to lend have more money than the people who don't have money to lend.

So in your view New Right economics exactly mirrors the rise of the contented electorate?

Absolutely. The contented electorate is wise in its rejection of pain.

You're very damning about Charles Murray, who argues that welfare has actually created a culture of dependence in the American underclass. But he would say that you make no real criticism about the thrust

that it has created a culture in which people think about how to get their next welfare cheque, rather than having to get a job?

It might well be so if there were jobs, but there aren't jobs. Some people prefer welfare to work, but I am not going to be interested in Charles Murray's argument until employment is an alternative.

There were a number of things that depressed me in your book and one was your requiem at the end.

That was meant to be gloomy. I wanted to end the book with the clear understanding that the things that need to be done, for example to our cities, are not being and will not be done. And that reflects a much deeper social-political attitude than is commonly imagined.

You are saying that really only depressions, war or the revolt of the underclass might unseat the culture of contentment. You see no political intelligence in the Democratic Party; you're not much more optimistic about. Britain's Labour Party. It is a pessimistic vision for a

I've argued that there is a beginning of the swing of the pendulum against ultra laissez-faire economics. It's no longer plausible to argue that crime is unconnected with unemployment, income inequality, and social deprivation. Even the police concede this. American commentators are beginning to argue that there are merits in Japanese capitalism. Perhaps the laissez-faire economics which upholds this culture of contentment is moving on to the intellectual defensive?

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Surely ideas matter? When laissez-faire economics are not serving the interests of a part of the community and proving economically destructive, that is going to open up an opportunity for the liberal/Keynesian cause.

I disagree with Keynes, who ended the General Theory [of Employment, Interest and Money] with the thought that the world is ruled by ideas and very little else. I think the ideas of the ruling community are wholly subordinate to the pecuniary interests of that community. I think the rediscovery of laissez-faire in the United States was wholly subordinate to its enormous convenience for the culture of contentment.

So you have no words of cheer for our readers?

I can understand your efforts to put a cheerful cap on my comments, but I stay with the truth.

The Culture Of Contentment is published by Sinclair-Stevenson at £14.95

ECONOMIC OPTIONS

FM 5/6/92

Some little encouragement

49

The ANC still avoids rational commitment

THE ECONOMY

Almost everybody has tried to be kind and constructive in responding to the ANC, regarding the shadow of an economics policy that emerged after a tense week of internal deliberation. The reason is that there is a clear shift in sentiment towards the orthodox and pragmatic and away from the romantic and vengeful.

Of course that is encouraging. But the ANC has not yet shifted far enough to be convincing. The policy itself remains essentially meretricious. The ANC still wants to keep all its options open, pending its gaining power — if that should happen. This fence-sitting will certainly not sharpen the appetite of foreign investors. And it is simply sentimental to believe that the economy can be put on a path of sustained economic growth without a substantial inflow of fixed capital investment.

In broad outline, at least, it seems that some consensus is emerging on several vital issues. An important clue to the ANC's policy direction lies in a suggestion, first made in an earlier policy document, that the State "should respond to the needs of the national economy in a flexible way."

We understand that to mean that if growth can be stimulated and the lot of ordinary folk improved by pragmatic means, the ANC will back off from Marxism. The key sentence reads: "In this context, the balance of the evidence will guide the decision for or against various economic policy measures."

We find in this some reassurance — because the evidence is clear. A command economy failed spectacularly in the former USSR; redistributive policies have failed in those countries which did not have strong economic growth. On the other hand, if there is one ray of light cutting through the present economic gloom, it is the success of a number of developing countries, including more than 20 in Africa, who have initiated growth programmes.

The World Bank's Pierre Landell-Mills reported recently on their progress. Since 1986, he told an international seminar in Washington, more than 30 African countries have implemented programmes of economic reform and structural adjustment, with the assistance of the IMF and the World Bank. The 20 core countries which have taken the reforms seriously spurred economic growth to 4% a year at the end of the decade, compared with a growth rate of about 1% in the early Eighties.

The experience of Ghana is recorded in an IMF occasional paper, published last year. That country started its reform programme in 1983 and GDP has since grown an average annual 5%, while inflation dropped from 142% to less than 20% in 1991. After years of decline, gross national savings rose from 3,5% of GDP in 1983 to about 13% in 1989. And gross national investment rose from 3,7% of GDP to about 16% in 1990 (see graph).

Even more striking reforms have been achieved in Argentina, Mexico and Chile. The result was that, while Latin America as a whole averaged growth of little over 2,25% in 1991, GDP growth in those countries was 4%-6%. Mexico, moreover, is winning a battle against what was three-digit inflation, reducing it over five years from about 160% to under 19% (see graph).

The themes running through adjustment programmes are:

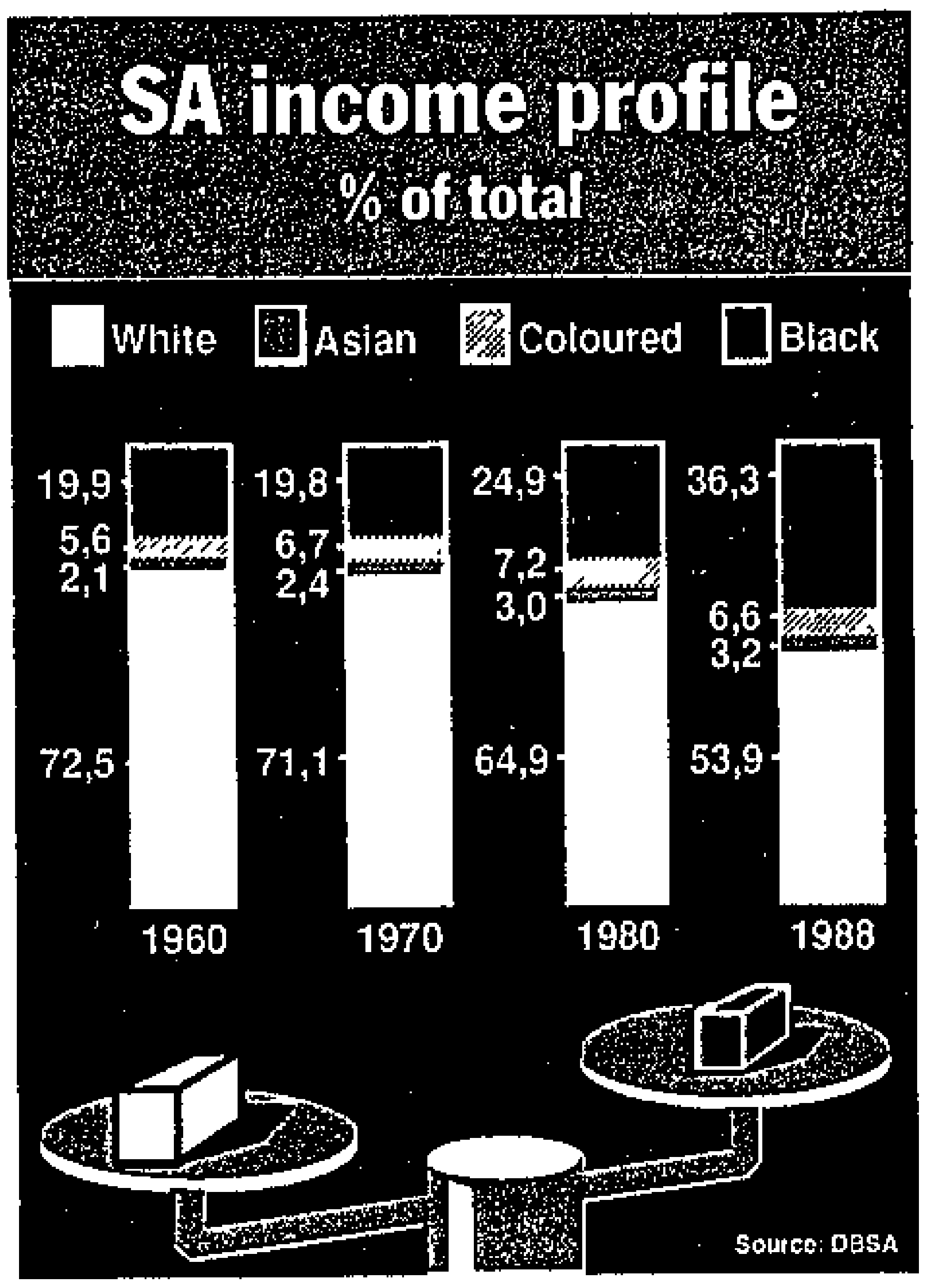
☐ Fiscal and monetary discipline. This includes reduction of the size of the public sector;

☐ Foreign trade liberalisation; and

☐ Deregulation.

None is politically easy to put into practice, and all have costs. As Reserve Bank Governor Chris Stals pointed out in a recent speech, "these policies may cause much pain before they yield any gain."

For this reason there has been considerable opposition to the programmes. There are those who see them as a source of, rather than a remedy for, poverty. And there are those who realise that they will entail a loss of central government power and influence.



Source: DBSA

Both these views are reflected in the ANC policy document. "Relationships with international finance institutions, such as the World Bank and the IMF, will be conducted in such a way as to protect the integrity of domestic policy formulation . . . Above all we must pursue policies that enhance national self-sufficiency and enable us to reduce dependence on international financial institutions."

There has been acknowledgement in Africa — it came at the 1986 UN meeting — that even though the external situation was extremely difficult, not all the blame for the situation in Africa could be placed on external factors and that Africa needed to dedicate itself to reform.

At first view SA, with its more diversified and open economy, substantial infrastructure and greater skills resource, should not have too much difficulty implementing these proven economic orthodoxies. Against that, however, are difficulties arising from the low-growth socialism of apartheid.

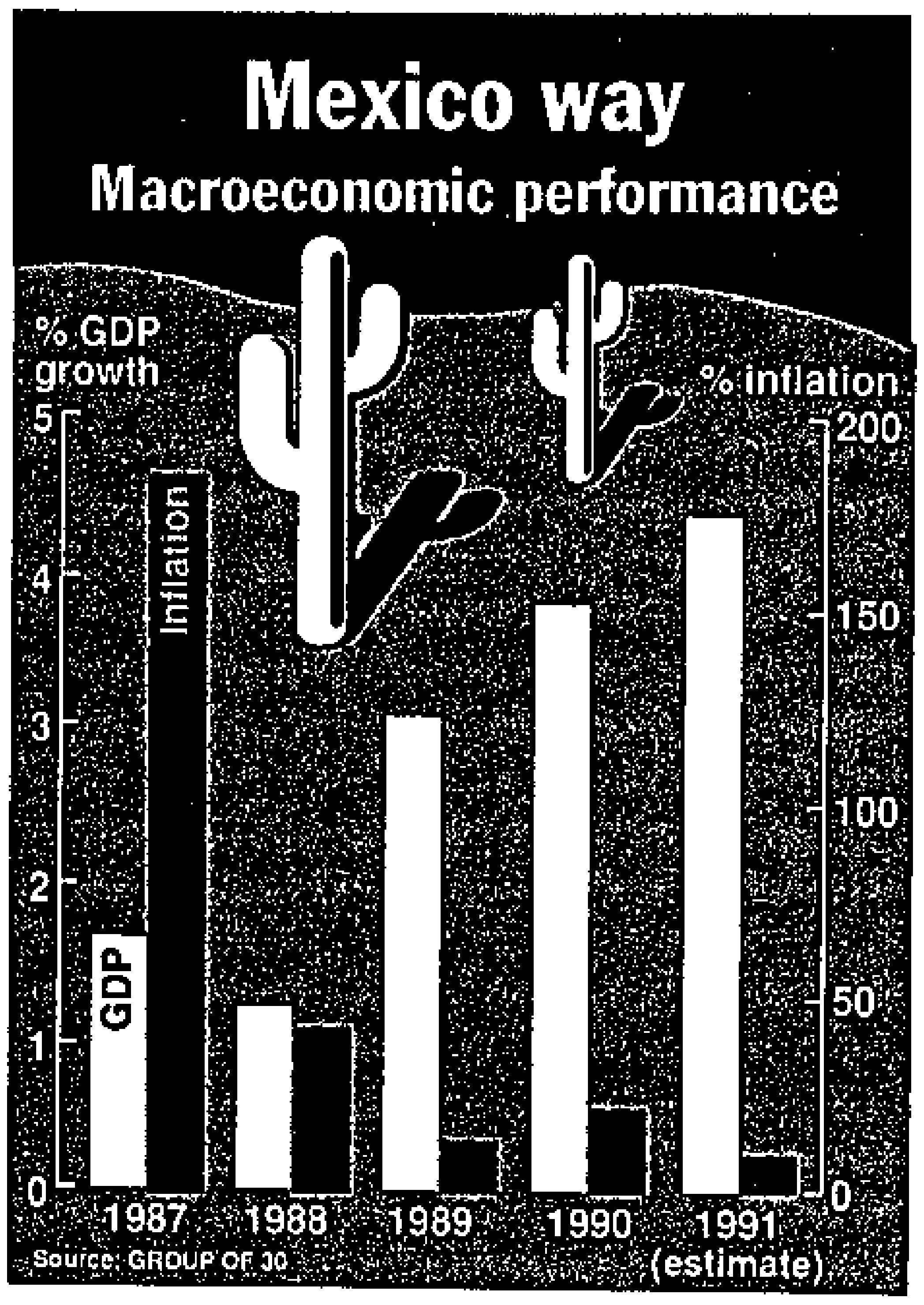
For it created structures that eroded the initiative of 75% of the population; enforced a social system which damaged the fabric of family and community life; introduced an education system designed to cripple; and made laws which distorted the allocation of labour by market forces.

It was a formula for economic failure, political destabilisation and international ostracism — and it succeeded. As if this were not enough, State spending soared in the Eighties, sapping the country's capacity to generate employment.

Against this backdrop, there will naturally be cynicism among the disadvantaged about a policy that postpones relief. Though there has been some redistribution of income over the past few decades, the ratio remains heavily in favour of whites (see graph). This country is grouped by the World Bank with upper middle-income Latin American countries, Hungary and the Republic of Korea.

But a 1992 IMF occasional paper, *Economic Policies for a New SA* (edited by Desmond Lachman and Kenneth Bercuson), shows that the income levels of the black population are comparable to those of the poorer countries that border SA.

There are important implications to this distortion. The poverty-stricken are unlikely to be blessed with economic insights. From their perspective, a policy of growth before redistribution looks less convincing than massive social expenditure programmes or inflationary wage increases. Stals reports that international experts believe this may force SA first to "go the route of other African and South American countries and to experience the dire consequences of incon-



sistent economic policies and bad economic management."

Stals does not share this defeatist view, but he points out that "widespread support from the general public is an important precondition for success. The reasons behind actions must be explained, the objectives of plans must be clear and the consistency of programmes must be understood."

Fortunately, SA's prolonged recession has focused attention on underlying flaws in the economy, at a time when constitutional, social and cultural transformations are introducing flexibility into public planning. Both government and those who will participate in the future government have been forced to re-evaluate traditional approaches.

Stals sees this as a unique opportunity to change the structures which have reduced the average annual growth rate from 5% in the Sixties to 3% in the Seventies and 1% in the Eighties.

The recently created Economic Forum is a tentative step towards establishing common ground between different interest groups, he says. But Stals is anxious also to see dialogue extend beyond the leadership level. A broadly based debate would not only disseminate information; the interchange involved would help distill ideas and forge solutions to SA's particular problems. Though the experience in other countries is a useful guideline, it cannot be a blueprint because SA is unique.

Most countries which initiate a structural adjustment programme face a balance of payments crisis. Mexico, for instance, announced in August 1982 that it was unable to service its foreign debts. SA, faced with financial sanctions and capital outflows, has maintained a surplus on the current account for seven years. The currency is relatively stable — at least within the umbrella of exchange control. Also, unlike many countries forced to readjust, SA has contained inflation below 20% and the pressures are slowly subsiding.

Our problem is a long-term trend towards greater unemployment and poverty. The broad policy prescription, however, is the same as that applied in other countries, says Stals. Though it is tempting to think in terms of stimulation, that can only be one phase of a readjustment. It must be accompanied by stabilisation and liberalisation policies.

The trade-offs between various policy alternatives emerge in Lachman's and Bercuson's paper in three scenarios.

All are based on the assumption that labour's *share* of income will rise by 0,25% a year, "to reflect the dismantling of distortionary tax practices that favoured the use of capital and artificially boosted corporate earnings." Differences arise in the level of government current expenditure and the increase in real wages.

Only one scenario produces growth of 3,5%, which is required if unemployment is to be reduced and living standards improved, in the face of population growth of 2,25% a year. This baseline scenario requires the ratio of investment to GDP to rise from its present level of 19% to 27%. "Such an increase would need to be supported by a major domestic savings effort, particularly in public savings, even if SA were again to become a significant net user of external savings," according to the paper.

To achieve this:

☐ Private savings would have to rise from 20,5% of GDP in 1990 to an average annual 21,5% between 1991-2000; and

☐ Government savings from 0,6% of GDP to 1,6%, which would require the general government deficit to shrink from 1,2% to 0,7%.

This raises the role played by government dissavings since 1984 (see page 37). As redistribution of income reduces the savings potential of the private sector (poorer families spend more of their income and save less), this factor will become even more critical.

"The need to maintain public savings at a level high enough to support the overall domestic savings and investment effort has clear implications for the design of budget policy." Any increase in public spending, as a ratio of GDP, would require an increase in the overall tax revenue burden. However, this has already risen to around 28% — so "the room to raise revenue further without inducing severe disincentive effects might be limited."

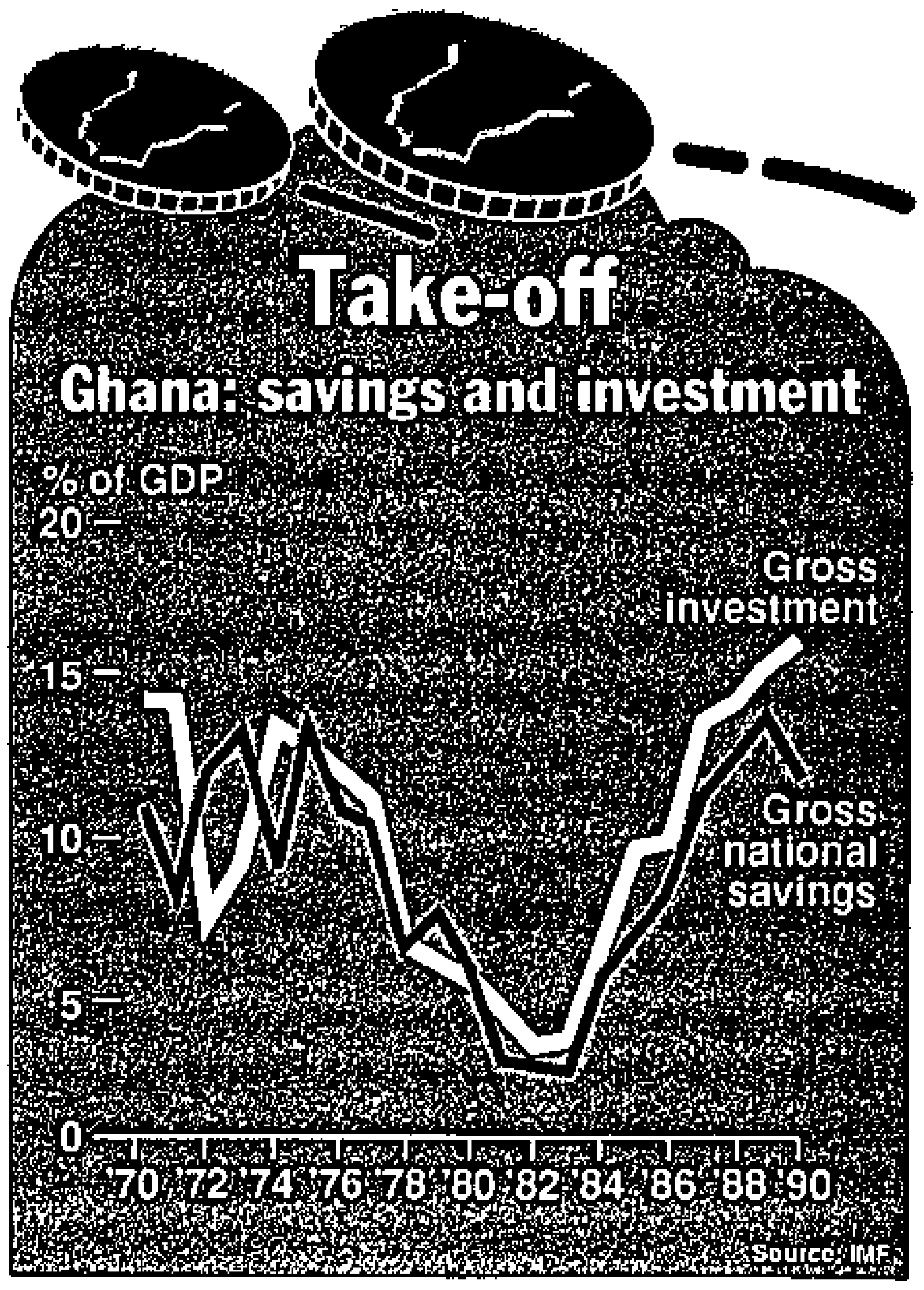
In the second scenario, government increases its ratio of spending to GDP by one percentage point. Government savings are consequently lower than in the baseline case. As a result, investment is one percentage point below the required 27%, and output and employment growth are 0,3 percentage points lower. This change in relative growth rates "translates into virtually no higher growth of real per capita current expenditures than in the baseline case."

A third scenario explores the effects of higher wage growth. Instead of the average annual 0,75% in the baseline scenario, it allows growth of 1,25%. "The main effect is to reduce the demand for labour. On the assumption that the investment performance is similar to that in the first scenario, the higher real wage growth assumed here would push employment growth down to 1,5% a year. As a result, GDP growth would be one percentage point a year lower than in the baseline case."

A by-product of this is that growth in real government current expenditure would be much slower — nearly 10 percentage points below the baseline level by the year 2000. "The effect of high real wages would be to raise the inequality of income distribution by keeping a much larger proportion of the working population unemployed and, through lower economic growth, by limiting the scope for fiscal redistributive spending."

In essence, therefore, we are encouraged by the fact that experience elsewhere is overwhelmingly for the first scenario. In view of the pragmatism of the ANC — and the growing influence of its chief pragmatist, secretary-general Cyril Ramaphosa — it is the route that reasonable people of goodwill might be expected to follow.

But that encouragement has to be balanced by two phenomena. One is that the ANC will have to demonstrate a much greater leadership instinct, in order to inculcate patience into the poor and reduce expectations of a ruinous economic rampage — and that will be no mean task. It can be achieved if it is explained how, in the Budget, spending must be cut drastically, and its emphasis swung to a programme of direct but finite and rational social relief.



Secondly, if our encouragement is not to evaporate, it needs to be reinforced by an ANC's economic policy that is convincing and credible, and not a rhetorical means of keeping all options open. That such a policy did not emerge after last week's meeting is no tribute to the leadership qualities of those at the top of the ANC. Indeed, it suggests vacillation and timidity. ■

PUBLIC DEBT

FMS/6/92

(49)

Avoiding the Weimar option

Since 1984 SA has ignored the convention that State debt should be incurred only to finance capital expenditure. With the exception of 1990, general government saving has been negative each year and the trend is continuing in the current fiscal year.

This is evident in projected central government spending, as set out in the 1992/1993 Budget. Government dissavings — the difference between capital expenditure and the total Budget deficit — is budgeted at about R7,5bn. Only R6,5bn of the deficit of more than R14bn is earmarked for capital projects.

The effect of this policy has been to boost public debt to a point where government is now borrowing simply to pay the cost of past debt. And, if this were not bad enough, it is now compounding the problem by borrowing more than it needs. The main reason for this, says Nedbank chief economist Edward Osborn, is that open-market operations needed to keep monetary policy in place are channelling an excess of funds into the State Revenue account.

So, not only is fiscal policy trapped by mounting interest payments that contribute substantially to the increasing deficit, government even constructed the trap. It is now paying for the years of slack fiscal and monetary policy.

Osborn deals with these issues in Nedbank's latest *Guide to the Economy*. His analysis of public debt shows that, since 1989, "there has been substantial borrowing in excess of Budget requirements, which had contributed significantly to the steepness in the rise of the interest burden."

He points out that if interest payments were stripped out of the 1992/1993 Budget, the core budget — which is the difference between State revenue and expenditure — would be positive.

Interest payments "have been rising at an exponential rate and grown some six times in the past 10 years." They jumped from R8bn in the fiscal year ending 1989 to nearly R14bn in 1992 and a projected R16bn in the 1992/1993 Budget. This has pushed interest payments from 11,7% of total government expenditure in 1983, to a budgeted 16,4% in 1992/1993.

So State borrowing must be examined carefully. Osborn says it is occurring:

☐ To finance the Budget deficit;
☐ To redeem past State borrowings;
☐ For monetary policy purposes; and
☐ To add to foreign exchange reserves.

The first two requirements must be met. It is the last two factors that need to be explored.

Says Osborn: "Monetary policy is exercised through the Bank rate, which, to be effective, requires a money market shortage. This is achieved through open-market operations, generally in the form of the issue of Treasury bills and the sale of government stock into the market. The proceeds go into the State Revenue Account and account for most of the apparent excess borrowing."

Another source of excess funding is overseas borrowing. This "has its justification in keeping SA borrowing interest alive in the European capital market," says Osborn. "The proceeds are sold to the Reserve Bank and add to foreign exchange reserves, which, notionally, can be of value in the financing of the lift-off in the SA economy when that occurs. However, the cost to the Exchequer can be substantial in the face of a depreciating currency."

Unfortunately, the surplus funds raised have been treated as funds "available for appropriation for distribution." Since 1982 the following transfers have been made:

☐ R3,6bn to the Stabilisation Account (the total balance of which has now been transferred to the forex losses account of the Reserve Bank);
☐ R4,7bn to the Forex Loss Account;
☐ R783m Special Defence Fund;
☐ R2bn Independent Development Trust;
☐ R3bn State Pension Fund;
☐ R450m Export Credit Reinsurance Fund;
☐ R350m Maize and Sorghum Marketing Boards; and
☐ R216m Development Bank of SA.

"None of these transfers," says Osborn, "has corresponding income-earning assets and, accordingly, they have imposed an added burden on the State's finances."

This has brought the country to a potentially explosive situation. If borrowing in excess of budgetary requirements is stopped, and expenditure growth kept at the same level as revenue, there is still a huge problem looming on the fiscal horizon:

☐ The deficit will reach R31bn in five years;
☐ The ratio of public debt to GDP will reach 33%; and
☐ The ratio of interest paid to total expenditure will be 17,2%.

Osborn says that should the differential continue in the rates of growth in expenditure and revenue, at 16% and 14%, the core budget surplus will soon be eliminated. Within five years the Budget deficit will be R52bn, the debt ratio 40,6% and the interest ratio 19,2%.

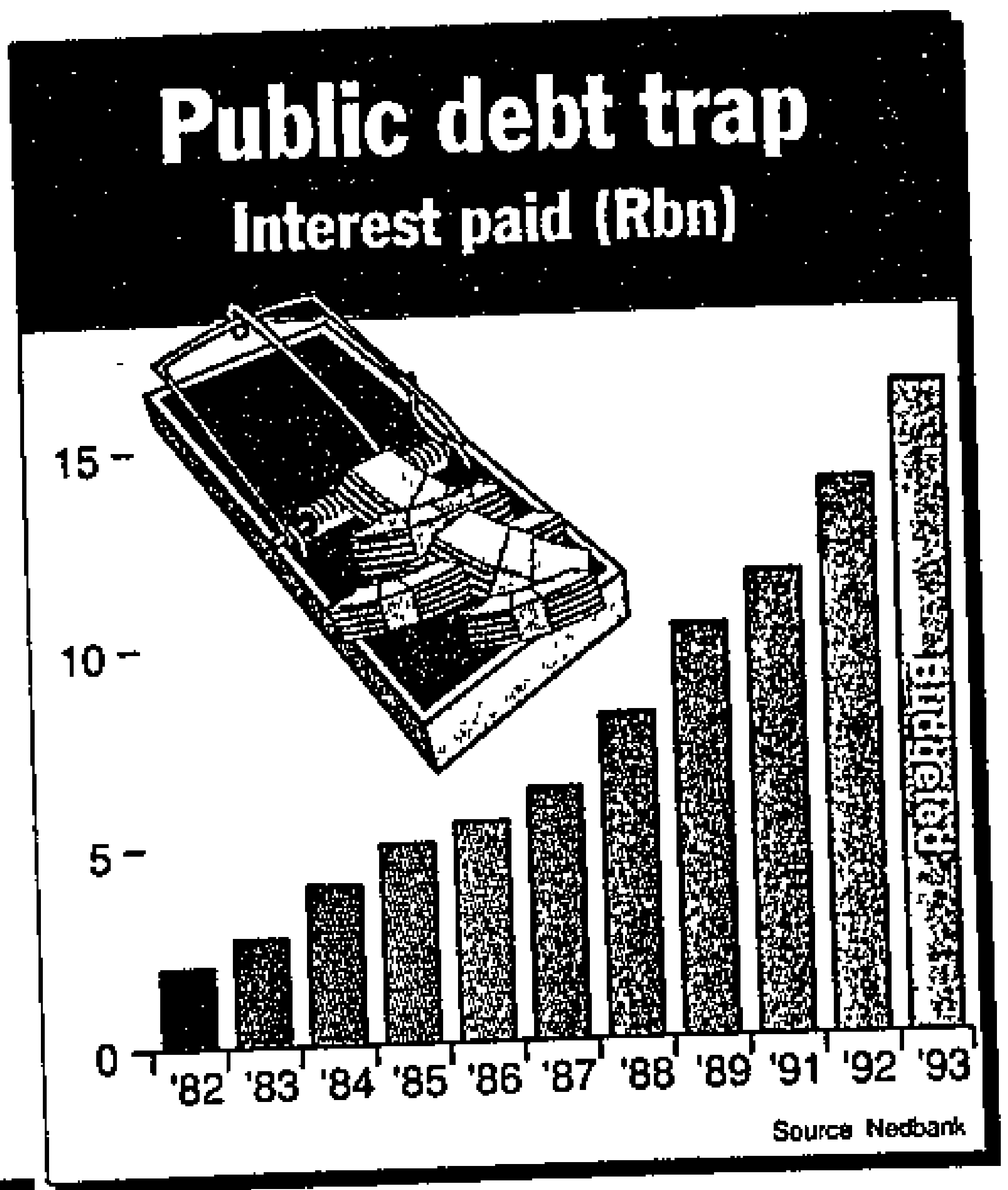
Within 10 years the compounding effect will have pushed the ratio of the deficit to GDP to 10%.

"This cannot be allowed," says Osborn. He argues for keeping expenditure growth below that of revenue in the years ahead, because a positive differential is the only way to avoid the public debt trap.

"With revenue at 15% growth and expenditure other than interest at 14%, the interest ratio within five years would remain almost at its present level, the debt ratio would be 29,5%, the deficit ratio 2,4% and the deficit would amount to R20,5bn. And, in 10 years, the interest ratio would be down to 13,2% and the deficit to R11bn."

He also argues for a halt to unnecessary borrowing abroad and to the practice of treating money borrowed for monetary purposes as available for appropriation. "This should be carried forward for subsequent budgetary funding." If these steps are not taken, SA may be left with the Weimar option.

"The ultimate danger to be averted," says Osborn, "is that of having the State's entire revenues absorbed in servicing public debt, as was the case in the Weimar Republic and France in 1925."



Source Nedbank

FW under attack in budget vote

㊾ CT 5/6/92

THE CP and the Labour Party yesterday joined hands in opposing the approval of the State President's budget, but sharply attacked the leader from different ends of the political spectrum.

The DP, while strongly criticising President F W de Klerk and his government for the abysmal state of the economy and the rise in crime and violence, did not oppose the budget.

CP leader Dr Andries Treurnicht said that the government's freeing of revolutionaries and the creation of a revolutionary climate had made South Africa dangerous to live in and unattractive to investors.

Labour Party MP (Nothern Cape) Mr Desmond Lockey said the proof of corruption and allegations of state-initiated murders meant it was impossible for the government to continue governing.

Responding to the attacks, Justice Minister Mr Kobie Coetsee said Mr De Klerk's purposeful initiatives had enabled South Africa to withstand the revolutionary onslaught and guaranteed it re-entry into the international community.

● The main aim of the South African Communication Services was to abuse taxpayers' hard-earned money to promote the NP, and the DP objected to the 24% increase in its budget, DP media spokesman Mr Peter Soal said yesterday.

Economic forum for SA in sight

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ARG 5/6/92

MICHAEL MORRIS
Political Correspondent

GOVERNMENT, business and labour have taken a major step towards forming an economic forum to tackle South Africa's pressing economic challenges.

Representatives of the three key sectors of the economy met yesterday for the second time in less than a month.

They agreed to set up two working groups — one on the short-term goals of job creation and industrial strategy and restructuring and the other on establishing long-term macro-economic policy — and tentatively penned in the first plenary meeting of the forum in July.

A "process working group" will also be established to work out a shared statement of objectives, a structure for discussions and the nature of government interaction with, and participation in, the forum.

In a statement the three parties said the prime purpose of the forum should be to identify areas of consensus in addressing the country's economic challenges.

"In doing so, the forum should achieve a balance between a focus on short-term delivery and the formulation of a long-term economic framework."

The government was represented by the Deputy-Ministers of Finance and Trade and Industry, Mr Theo Alant and Mr David Graaff.

Organised business representatives were Mr Bobby Godsell of the South African Consultative Committee on Labour Affairs (Saccola), Dr Ben van Rensburg of the South African Chamber of Business (Sacob), Professor Joe Poolman of the Afrikaanse Handelsinstituut and Dr Morley Nkosi of the National African Chamber of Commerce (Nafcoc).

Representatives of organised labour were Mr Jay Naidoo, Mr Marcel Golding, Mr Ebrahim Patel and Mr Salie Manie, all of Cosatu; Mr Dannhauser van der Merwe of the Federation of Salary Earners (Fedsal) and Mr Brian Williams of the National Council of Trade Unions (Nactu).

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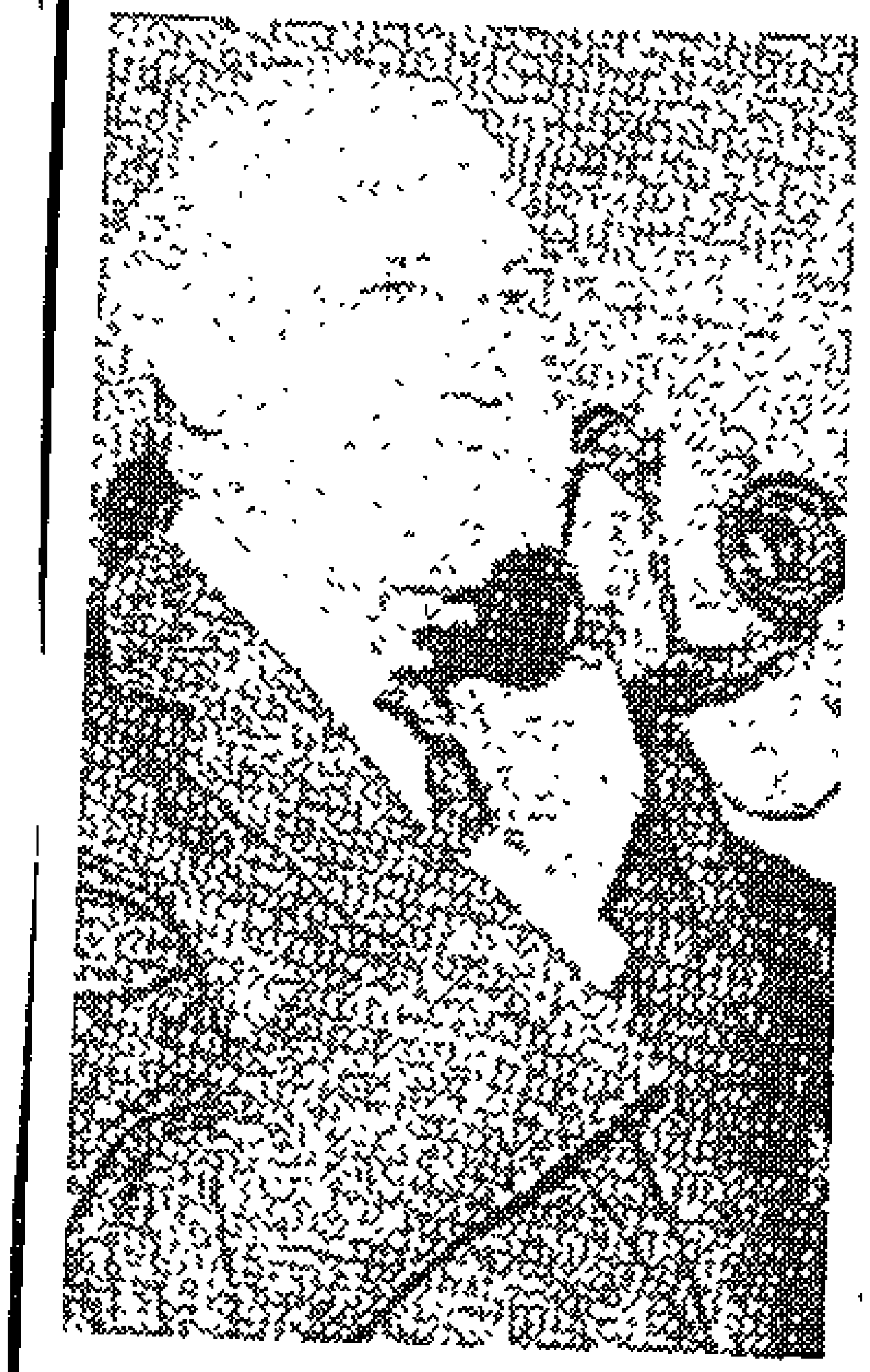
De Klerk sees SA as Japan of Africa

ARG 5/6/92

Investment call to 'international role players'



SWITCH: President De Klerk takes a peek through the other side of the lens at a Sony expo in Tokyo.

TOKYO. – South Africa will definitely become the Japan of Africa, President De Klerk told businessmen in Tokyo.

He was speaking at a lunch to 31 representatives of Japanese corporations at the headquarters of the Keidanren Kaikan, a powerful association of businesses.

"But before we become the Japan of Africa, we need the big international role players to do in South Africa what Japan did in Korea."

Japanese businessmen could upgrade their trade and exports to South Africa and possibly in the short term again become South Africa's major trading partner. "But that is business as usual," Mr De Klerk said.

"The alternative is that the Japanese private sector becomes involved through investment, joint ventures and technology within South Africa and becomes part of this new era. That choice, I think, is now on the agenda."

Yesterday was the second day of Mr De Klerk's three-day visit to Japan, and followed a punishing schedule.

He had 15-minute meetings each with the Transport Minister, the International Trade and Industry Minister and the chief secretary of Japan's ruling Liberal Democratic Party.

Later he met the leader of the Democratic Socialist Party, a minor opposition party.

He also spent an hour with Mr Daisaku Ikeida, president of Soka Gakai, an international organisation of Buddist lay believers active in peace, culture and education.

A South African source said Mr Ikeida had praised Mr De Klerk for constitutional change, and Mr De Klerk had invited Mr Ikeida to visit. – Sapa.

Economic forum a possibility by July

B/Day 5/6/92

(49)

Political Staff

THE much-vaunted economic forum could become a reality next month following a highly successful meeting between representatives of government, business and trade unions in Cape Town yesterday.

The three parties expressed the hope that sufficient progress would have been made by July to tentatively schedule the first plenary session of the forum.

The latest boost for the plan for joint decision-making on getting the economy growing follows a proposal earlier this year by Finance Minister Derek Keys for the formation of a "golden triangle".

Representatives of the three parties yesterday proposed the establishment of two working groups: a short-term group on job creation and industrial strategy/restructuring; and a long-term group on macro-economic policy.

Significantly, a joint statement released after yesterday's meeting noted that the first task of both groups should be "information disclosure and sharing".

It was agreed at the meeting that "a prime purpose of the economic forum should be to identify areas of consensus towards addressing SA's economic challenges".

The forum would aim to achieve a balance between short-term delivery and the formulation of a long-term economic framework.

It was also also agreed that a "process working group" should be convened to work on a shared statement of objectives, a structure for discussions and the nature of government interaction with and participation in the forum.

The three parties said the next step would be to report back to their respective constituencies to receive fresh mandates.

At the same time liaison would begin between the three parties to follow up on yesterday's discussions.

Government was represented at the meeting by Finance Deputy Minister Theo Alant and Trade and Industry Deputy Minister David Graaff.

Organised business was represented by Bobby Godsell (SA Consultative Committee on Labour Affairs), Ben van Rensburg (SA Chamber of Business), Prof Joe Poolman (Afrikaanse Handelsinstituut) and Moreley Nkosi (National African Federated Chamber of Commerce and Industry).

Representing organised labour were Cosatu's Jay Naidoo, Marcel Golding, Ebrahim Patel and Salie Manie, Danhauser van der Merwe (Federation of Salaried Employess) and Brian Williams (National Congress of Trade Unions).

Labour Party finance spokesman John Douw said last night that his party welcomed the meeting.He said the transitional phase needed to be characterised by economic stability and growth.

Keys needs a strong spell to cast off the curse of the colonies

BDay 5/6/92· **SIMON WILLSON** (49)

DRIVING on the left, cricket and stuffy parliament buildings are some of the quainter legacies still visible in former territories of the British Empire. But these ex-colonies also share some less readily recognisable relics of their Empire days.

From its own era as part of the quarter of the globe that was coloured imperial pink, SA has these three standard inheritances and two less obvious ones — appalling BBC World Service reception and a high import propensity.

While Finance Minister Derek Keys is understandably less than preoccupied about improving the reception on 1197 kHz, he has identified SA's high import propensity as a major national problem. In a speech last month soon after Finance was added to his existing portfolios, Keys listed four goals of an economic restructuring programme: increasing competition, lowering protective tariffs, raising productivity and lowering import propensity.

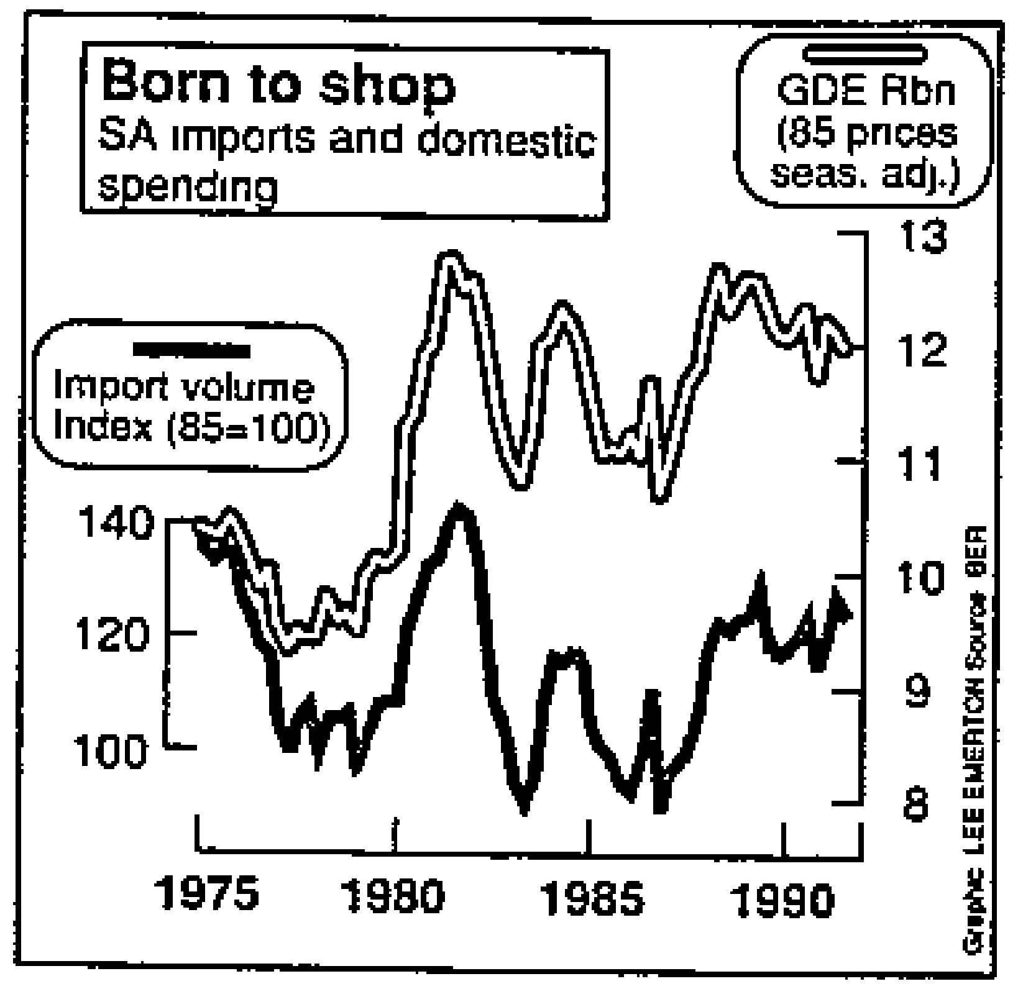
A high import propensity — the tendency for a very large proportion of any increase in an economy's overall spending to go into buying imports — is easy to identify but hard to counter. The first chart picks up the tell-tale signs: a close matchup between gross domestic expenditure (GDE) and import volume.

GDE covers private consumption, government spending, fixed investment and inventories, so it accounts for all the economy's potential big spenders on imports. The tale told by the first chart is that, as soon as there is the slightest uptick in GDE, it is generally reflected at once and usually in full by import volume.

But the chart also signals that SA's import propensity has not always been as acute as it is now. It shows that import volumes fell more quickly than spending in the late '70s and were relatively slow to respond to the steep rise in GDE at the beginning of the '80s.

After the GDE and imports peaked in 1981, however, the correlation between the two indicators have been so close as almost to be identical — a clear sign of high import propensity. Indeed, the chart shows imports holding up while GDE fades, suggesting that imports' share of GDE has been rising over the past 12 months.

The link with the old British empire arises from an economic peculiarity: former British imperial territories seem to be particularly afflicted by high import propensity. Britain itself, for a start, is notoriously import-happy as soon as GDE starts to rise. Despite Britain's own advanced and diversified manufacturing sector, only foreign-made goods seem truly to satisfy the Briton's desire for possessions.



Britain's high import propensity, particularly in the post-war years, has been a major factor behind the persistent runs on sterling and the chronic balance of payments crises of the '60s and '70s, and the desperate "Buy British" campaigns of successive post-war governments.

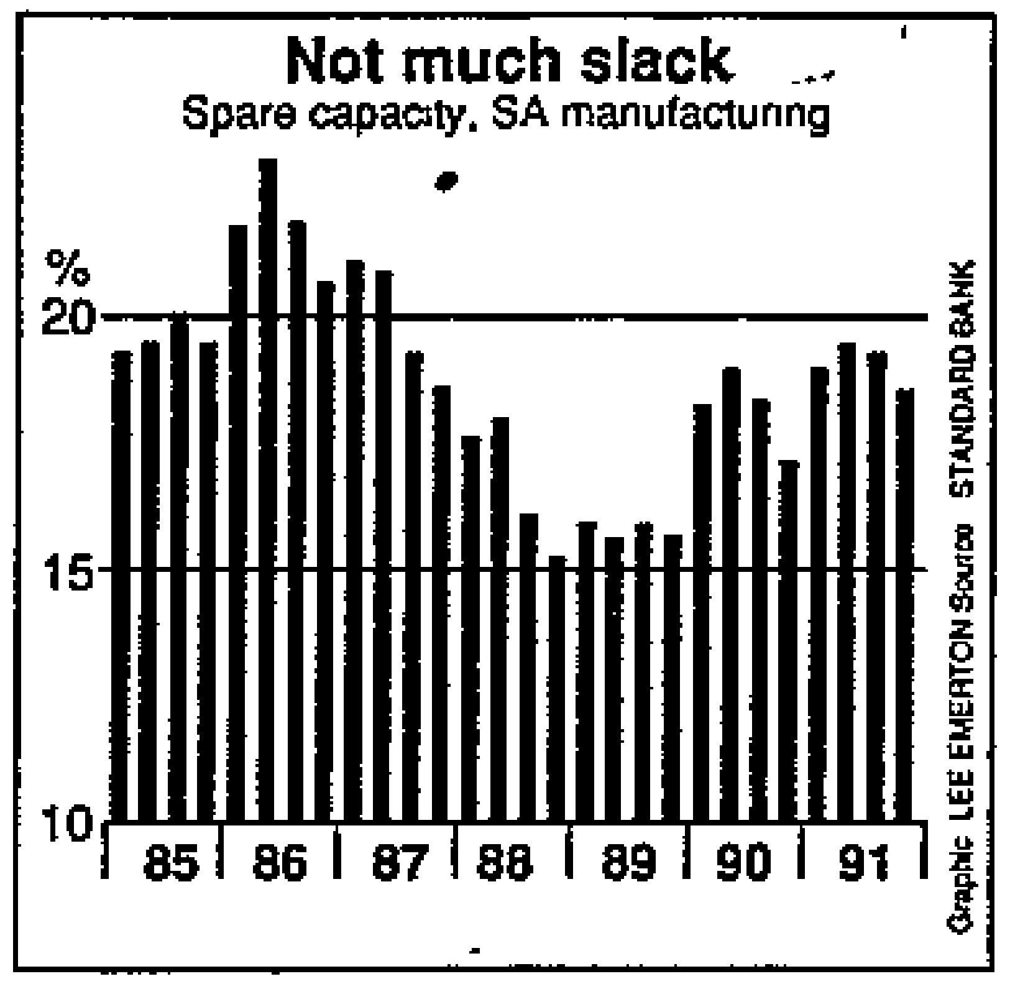
Besides SA, Australia is the ex-imperial territory most noted for its high import propensity. Its more limited manufacturing base, the large proportion of recent immigrants in its population and its sharply increased growth in the '80s have all combined to expose its taste for imports.

Australia's 10-year imports binge, starting in 1980 and curtailed only by the 1990/91 recession, propelled the country's current account deficit from 2,8% to more than 8% of GDP over the period. Canada, another former colony, runs a consistent deficit on its current account, as substantial imports of capital and consumer durable goods prevent its trade surplus covering its appreciable invisibles deficit.

But why is having a high import propensity such a bad thing? Why has Keys bracketed it with undoubted boo-words such as monopoly, protection and inefficiency?

A high import propensity matters less if a country has a high export propensity — if much of its investment goes into export-oriented industries. Although the ratio of real merchandise exports to GDP has doubled to about 25% over the past 10 years, it is still too low for SA's special current circumstances. Low confidence has eroded investment to a level where it is not building export capability rapidly enough to offset likely import growth.

That is the origin of Reserve Bank Governor Chris Stals's stark warning earlier this year that it would take an increase in imports of only 10% to wipe out the total current account surplus within a year if exports remained steady. Eradication of the current account surplus would, in the continued absence of capital inflows and assistance from the multinational lending orgainsations, threaten the reserves with renewed depletion.



So a high import propensity is definitely a problem. Singling out the problem is the easy part of Keys's self-set assignment. The hard part is actually reducing the amplitude of import volume response to rising GDE. It can be done, but only after some preparatory juggling with domestic variables.

To dampen imports' response to rising GDE, an economy would have to have substantial unused domestic production capacity that could be brought rapidly on stream to meet higher demand. As the second chart shows, SA's problem is that manufacturing capacity use has not fallen very far in this, its longest post-war recession. In the late '70s and mid-'80s downturns, capacity use dipped below 80% at the base of each downswing. The relative shortage of spare capacity this time around means imports will be called on sooner to meet rallying demand.

Furthermore, sanctions and prolonged low confidence in the late '80s have left SA industry with a technological backlog which will restrict its ability to respond to the unfamiliar stimulus of higher aggregate spending in the economy. This backlog also means that, to maintain the continuing export boom, exporters are likely to have to import more capital goods — besides raising other imports such as fuel.

Lowering import propensity is also a psychological task. The "Just Arrived" posters in shop windows bearing goods flecked with wood shavings and spilling out of half-opened wooden crates create an import psychosis not easily overcome. Keys is not only up against economic indicators as he battles high import propensity; he faces the SA consumer's deeply ingrained, Victorian birthright — access to material "just *orf* the boat", "just *ite* of the box".

If this is the end of history's journey, I want out

B/Day 5/6/92. (49)

RED ALERT

JOE SLOVO

AFTER the crushing of the Paris Commune in 1870, French Republic president and historian Adolphe Thiers crowed: "One no longer talks of socialism. We have got rid of it." In the 120 years that followed, this statement — to use Mark Twain's words — proved to be "somewhat exaggerated".

The latest undertaker of socialism is Francis Fukuyama, celebrated in the West as the guru of capitalism. History, he says, has now reached its ultimate state of perfection beyond which it can no longer improve. Socialism is once again dead and capitalist liberal democracy signals the triumphant "end of history".

In the light of socialism's recent collapse, I must at least concede that it is not easy to convince sceptics about its future. It almost gives me a fellow feeling with the poor sods who defended capitalism's future after its worldwide collapse in 1930. It seemed then to have as little chance of a photofinish with socialism as a scratched horse. But their Keynes came to the rescue, and I have no doubt ours will emerge.

For if socialism has no future, neither has humanity. For the latter, Fukuyama is really offering a dead end of hopelessness and not the end of history. You need only peruse the 1992 UN Development Programme's (UNDP) human development report to have your eyes opened. The real world it documents, in which capitalism rules the roost is, for the bulk of its people, an unmitigated horror.

The world's richest 20% has 82,7% of global GNP — an increase of 13% in the past 20 years. The ratio between the richest and the poorest people is about 150:1 and the gap is widening. The North, with about a quarter of the world's population, consumes 60% of its food.

The Fukuyama lobby will no doubt protest that they are not talking about the wretched of the South but about those who have prospered in the North by charting a road to capitalist democracy. But even if we are tempted to forget the human debris left on the side of that road in capitalism's 500-year odyssey, the UNDP report reminds us that the process goes on. It shows how the West's wealth is causally connected with the South's poverty.

The industrialised world continues to be a vacuum cleaner of the world's resources. Net resources transferred between North and South from 1983 to 1990 resulted in a yearly $21bn loss for developing countries to the benefit of industrialised countries. Real interest rates on foreign debts of developing countries are four times higher than those paid by industrialised countries.

But, if by some miracle the South catches up, we can only hope that it will not end its history with the system which Fukuyama offers as the ultimate in perfection. For the UNDP report exposes some stark inequalities and imperfections even in the world's richest enclaves. Scores of millions are out of work,, 10-million for more than two years. Millions are homeless in the midst of opulence. Other UN figures show that infant mortality is higher in capitalism's citadel, Washington, than in poor Havana. And more.

If this is all held out as the end of history's journey, then all I can say is: stop the world, I want to get off.

□□□□

A SHARP piece of peasant wisdom came to me from Zimbabwe. A sikuru (old man) in a rural area complained bitterly to a visitor: "When Mugabe was president maize meal was expensive, but it was there. If we looked hard we could find some oil and sugar, and so on. But now that Mugabe is no longer president everything has disappeared." My informant insisted that the sikuru was confused and that Mugabe was still president. "Well," came the reply, "you don't seem to read the papers. Don't you know Esap has taken over." Esap happens to be the much-publicised acronym for the IMF's economic structural adjustment programme.

□□□□

WE ALL recalled our favourite anecdotes about Walter Sisulu at his 80th birthday party. I remembered one from the 1960s. Sisulu was walking to his office when he noticed Det-Sgt Dirker — a security branch officer — heading towards him. Walter deftly dropped a most incriminating document in the gutter and proceeded apace. A friend saw the document fall, retrieved it and rushed towards him shouting: "Comrade, you have lost this paper." It was too late, the hunter and the hunted were already face to face, and the episode ended with a six-year jail sentence. For Walter, the old saying that "with friends like these you don't need enemies" has a bitter ring of truth.

□□□□

I BET my wife, Helena, her bottom dollar that Ken Owen's sighting of us at last week's classical concert at the City Hall would not go unnoticed. Sure enough, Hogarth, in the Sunday Times, duly noted that despite my "Stalinist past" my presence showed that I was a "civilised man".

I do not damn Hogarth for this faint praise. But he needs to know my appetite for classical music was considerably stimulated at places like the Bolshoi Theatre during visits to Moscow while in exile. Apart from the level of artistry, one of the stark differences I noted between the Bolshoi and the City Hall is that, even during Stalinist times, access to culture was visibly open, at state subsidised prices, to ordinary workers of all ethnic hues. True, local and international nomenklatura like myself occupied the front rows. But, in the City Hall, capitalism's nomenklatura have a virtual monopoly. By the way, Ken Owen's excellent reflections on the Goldstone commission on the same page struck me that, despite his murky political past, he too can be a "civilised man" if he tries hard enough.

LETTERS

Durr hopes for best trade option

B/Day 5/6/92

(49)

MARCIA KLEIN

FUTURE co-operation and trade between SA and the EC would have to be formalised by a bilateral trade agreement, SA ambassador to the UK Kent Durr said yesterday.

Speaking at the Europe '92 Countdown conference in Johannesburg yesterday, Durr said the future of trade and aid relationships between SA and the EC would hinge on SA's classification as either a developed or a developing country.

Durr said SA was currently classified in Group 1 together with the US, Japan and Canada as one of the western industrialised countries of the world.

He said this reflected the view of SA "as a new world and not a Third World country".

However, Hong Kong and Brazil were categorised as developing countries, even though their per capita income was about $6 000 compared with SA's $2 700. In this light, he hoped that SA's status would be reviewed, as developing countries had privileged access to the EC as members of the Generalised System of Trade Preferences.

As SA needed a healthy economy to underpin its political stability, he hoped the EC would change SA's status in the period leading to a formal trade agreement.

Durr said Europe was SA's major trading partner. SA's trade with the EC represented 50% of its global trade, and 25% of SA's GDP was dependent on its relations with the EC.

He said that the UK was an important gateway for SA into the EC. Trade between SA and the UK was flourishing, with about R10bn-worth of two-way trade between the two countries. The SA embassy was currently receiving between 50 and 80 trade inquiries a day.

"The crowd is no longer outside SA House, but is inside and doing business," he said.

Durr added SA had adopted EC standards, and the SA Bureau of Standards had done good work to establish these standards.

SA's most important source of tourism was European countries, and there were currently 25 applications by foreign airlines which were under consideration by the SA authorities.

But SA would have to show it was serious about reconciliation. Much of the economy was in need of large investment as well as assistance, primarily through access to the IMF.

Durr said SA would have to focus on regional co-operation, high levels of trading, environmental considerations, and promoting skilled immigration to SA.

The EC had recognised SA as the promoter of economic growth in southern and sub-Saharan Africa.

SA ambassador to Britain Kent Durr and the SA Finance Department's consul-general for Europe, Elias Link, who attended yesterday's Europe '92 Countdown conference at the Carlton Hotel.

Picture: ROBERT BOTHA

Raymond Ackerman sends report to Rio

B/Day 5/6/92

(49)

PATRICK BULGER

A SOUTHERN African conference of development and environment ministers should be established to cut through the region's environmental malaise, says a report prepared by Pick 'n Pay's Raymond Ackerman for the Rio Earth Summit.

The report was compiled by Ackermann as one of four African council members of the Geneva-based Business Council for Sustainable Development.

Ackerman says the southern African region, with its 50-million people living on 300-million hectares, is characterised by a growing population and weakening economy.

The report was presented to ANC president Nelson Mandela yesterday and will be handed to President F W de Klerk when he returns from his travels.

Ackerman says it is feasible to set up large-scale, environment-friendly and self-sustaining developments.

"Success with comparatively small-scale, multi-participant schemes would pave the way for more ambitious schemes for agriculture, industry and tourism. An enlightened and open-minded approach by the various governments would be essential, particularly as multi-participant schemes tend to cut across ethnic, cultural and national traditions and the time-honoured practice of patronage.

"To overcome this difficulty it is suggested that something like a southern African conference of development and environment ministers be set up, with a small permanent secretariat and one or more professional environmental scientists, economists and social anthropologists as fulltime consultants."

It is suggested, also that "the Southern African Development Co-Ordination Conference could be made accountable to this additional body. With respect to its achievements to date, the SADCC appears to need tighter and more responsive links to top government and an increase in dynamism which such links, if elevated enough, could promote", the report says.

"The ministerial-level conference could be structured to reinforce the necessary resoluteness of governments facing allocation quandaries and weakened by in-house indifference to the real priorities. Further, it is realistic to suggest that this conference could well form the core of the transnational disaster management committee that the southern African region will require not many years hence."

Environment Minister Louis Pienaar said yesterday politics barred SA from the summit and could thwart the purpose of the meeting, Sapa-Reuter reports.

Pienaar told a businesswomen's conference in the Cape that the government was determined to keep environment issues above politics and to ensure that the use of resources and development programmes were sustainable.

BUSINESS DAY, Friday, June 5 1992

~~327~~

NEWS IN BRIEF

(49) ~~257~~ ~~[illegible]~~

DP rejects information budget

THE main aim of the SA Communication Services (SACS) was to abuse taxpayers' hard earned money to promote the NP, and the DP objected to the 24% increase in its budget, DP media spokesman Peter Soal said yesterday. BDay 5/6/92

In his speech read by Roger Burrows (DP, Pinetown) he said that SACS (formerly the Bureau for Information) budget increasing by almost R10m to R51,5m was unjustifiable.

R2,288bn supplementary budget 'will be exceeded'

(49) [redacted]

BILLY PADDOCK

CAPE TOWN — State Expenditure Minister Amie Venter yesterday asked Parliament to approve the 1992/93 supplementary budget of R2,288bn, but warned that it would be exceeded.

He said the added expenditure for drought relief and staff retrenchment would be provided for only in the additional budget.

BDay 5/6/92.

Initially the Budget provisionally set aside R2,838bn for the supplementary budget. The lower amount was requested because drought relief (R700m provisional) and staff retrenchment costs (R250m) had not yet been finalised.

Because of this, only R700m of the R1bn allocated in the Budget would be provided for and the remaining R300m plus the R250m would be incorporated in the additional budget.

A further R500m for housing and related infrastructure would also be available in the additional estimates from the sale of additional strategic oil reserves.

The R2,288bn breaks down as: R1,01bn for social assistance allowances; R578m for increased employer's contribution to the Pension Funds for Temporary Employees and for Associated Institutions; and R700m for drought relief.

Referendum injected new life into economy

STAR 6/6/92

(49)

THE positive influence of the referendum result on the economy cannot be emphasised strongly enough, says Stafford Thomas, senior portfolio manager of Sanlam Unit Trusts.

"The World Bank and the IMF are now looking at South Africa through more positive eyes. The demand from overseas for South African shares is higher than ever before, and the country will savour the profits from this."

Stafford says the Reserve Bank's intention to merge the financial and commercial rand could have a negligibly dampening effect on the Johannesburg Stock Exchange.

Gold producers

"This effect will however be limited to the short term."

Although gold recently reached all time lows again, Stafford is more optimistic than before about the potential of the metal in the future.

"The delay effect which we see in the gold price is a normal sign. It often happens at the end of a long declined phase. I am sure that we shall see a boom in the gold price. The fundamental signs remain positive — gold is oversold and the demand exceeds the supply.

"Russia, one of the world's largest gold producers, is not in a position to continue with the production or the completion of supplies at the place which it has over the past two years.

"The recent dumping of four tons of gold in the market is also not nearly as serious as people think."

The recent dumping of four tons of gold in the market is also not nearly as serious as people think."

According to Stafford, America's aggressive stimulation of its economy will lead to positive commodities prices. This has large benefits for South African minerals and metals.

The rate of climb is presently relatively slow, but it will speed up. Wood, oil, copper, silver and aluminium are good examples of commodities for which prices have already begin to increase.

"On the local front, not only has the referendum been positive," explains Stafford.

"The reduction of bank rates is also a big step forward to give new life to the economy. I am of the opinion that a further reduction of rates cannot be ruled out — especially now that the IMF support is becoming a real possibility.

Another positive local development is the Budget, which is regarded as being mildly stimulating, and which can lead to increased production.

Stafford warns however that the Dow Jones — America's industrial index — must be watched.

"The Johannesburg Stock Exchange — industrial shares especially — is linked to the movement of the Dow Jones.

The stock-exchange could be affected by the Americn presidential election this year.

"The election had an influence on this country's monetary policy. This policy is presently liberal and thus stimulating. The brakes could, however, be applied on the policy later, and could lead to a collapse of the Dow Jones."

As far as the drought is concerned in South Africa, Stafford is optimistic that the impact should not be too serious.

Decline

"The argicultural section in the South African economy is relatively small. Although we will have to import, the land's reserves will not be too badly affected."

Although the quarter for the period until June 30 began with somewhat positive indications, the stock-exchange did not react to this, as expected.

On the contrary, along with international stock-exchanges, the South African stock-exchange also experienced a decline tendency during April.

Ultra-bulls too eager to be realistic on investment

(49)

STAR 6/6/92.

JACQUES MAGLIOLO

DESPITE a multitude of negative factors in our market, there are still optimists who are hailing the coming of a new, better and more prosperous South Africa.

While such prophecies may be accurate in the longer term, their contention that this will occur by year-end is far too eager to be realistic.

These ultra-bulls are, effectively, asking existing and prospective investors to overlook that the country is in a disastrous financial state and to go ahead and buy shares.

Despite a host of adverse factors, they highlight a number of issues they believe will push our economy into an upswing.

The stock exchange has had excellent growth since the start of the year and — being a 12-month leading indicator — reveals that the upswing will start at the end of the year.

The bulls point to the industrial index's recent all-time high levels as confirmation that investor sentiment is strong. This, they say, should filter through to the economy.

Another positive factor is the introduction of a trade union unit trust, which is probably the most promising new indicator — for the stock market — to be announced in recent years.

Rumours also persist that interest rates will be cut by two percentage points. The speculation centres on the appointment of Derek Keys as Minister of Finance.

A Cape-based research analyst says: "While the consumer price index is proving stubborn, other indicators are well within the Reserve Bank's targets." This includes the producer price index, bank credit and money supply.

Some analysts believe the US elections in November could force the Bush administration to reduce interest rates, which should be stimulatory for the economy and should have a domino effect on trading partners.

There is a solitary problem with the logic displayed above. While these indicators are positive, ultra-bulls do not analyse the extent to which these indicators will influence the economy.

For instance, there is no doubt that the JSE is a leading indicator, but the current high indices are due to a shortage of scrip (caused by institutional buying) rather than general bullish sentiment.

Therefore, the introduction of a new unit trust will cause greater shortage of blue chips, thus unrealistically maintaining the JSE at high levels.

Economic variables are also being misused. A cut in interest rates and a reduction in the CPI would not lift the country out of a recession — not until these rates became far less prohibitive.

Even a recovery in the US would have little effect on South Africa, as it is no longer our main trading partner.

Economic restructure must begin right now

STAR 6/6/92.

(49)

IN AN open letter to Finance Minister Derek Keys, former chief economist at Barclays Bank (now First National Bank) JOHAN CLOETE offers some suggestions on how to combat inflation and enable the economy to mount a vigorous recovery.

First step is to curb rate of inflation

THERE is a great deal of discussion now about the need to restructure the South African economy in order to place it on a satisfactory growth path.

Such restructuring, however, will be very difficult — if not impossible — to achieve while double-digit inflation continues and while the Reserve Bank continues to combat inflation by keeping demand depressed.

There is only one way to ensure that there will be both a substantial fall in the inflation rate to 10 percent or less and the commencement of a worthwhile and sustained economic recovery in the year ahead, which will be necessary to allow the needed restructuring of the economy to begin.

Big business and Government, which are mainly responsible for the wage/price spiral and also the main beneficiaries of inflation, must themselves act to reduce the inflation rate.

This must be done in accordance with the inflation rate which the Reserve Bank is prepared to finance in terms of its money supply growth guideline of 7 percent to 10 percent for 1992.

Maximum

Big business and Government certainly have it within their power to reduce the inflation rate to 10 percent or less by next May by refusing to grant any further wage increases in excess of 10 percent for the year ahead and, at the same time, limiting their price increases.

Government needs to limit increases in the prices it administers to a maximum of 10 percent.

The Government appears to have already embarked on action in this direction, seemingly standing firm on a civil servants' salary and wage increase of less than 9 percent for the year ahead.

What is now required is that the large business groups in the private sector follow the Government's example.

By firmly linking and keeping their wage and price increases to the Reserve Bank's money supply growth guideline, big business and Government can free the Reserve Bank from having to continue to exert downward pressure on inflation by keeping the economy in recession.

The Bank can then allow the surpluses that are being realised on the balance of payments to exercise their normal stimulatory effect on the domestic economy, and the economic recovery South Africa so urgently needs can get underway,

It seems that the new Minister of Finance, Derek Keys (being from big business himself), is in an ideal position — and also has the responsibility — to enlist the help and support of the leaders of the country's large business groups to decisively reduce the wage/price spiral in the months immediately ahead so as to enable the economy to emerge from the mire of stagnation at least during the course of 1993.

Large suppliers of food, transport, medicines and other necessities, in particular, have an important role to play in breaking the wage/price spiral.

They must be persuaded that to continue to use the price inelasticity of demand for their products and services to victimise the consuming public and, indeed, growth and employment in the entire economy, must eventually rebound on themselves.

Consumer organisations have an equally important part to play in breaking the wage/price spiral by monitoring prices of essentials and, if necessary, organising consumer boycotts of stores, products or services with prices which are rising out of line with the Reserve Bank's money supply growth guideline.

Persist

The Government must forthwith desist from increasing the fuel levy whenever it requires additional funds.

Organised labour must be convinced that wage increases cannot catch up with price increases, and that excessive inflation will persist and real wages continue to fall as long as workers insist on annual nominal wage increases materially in excess of annual increases in labour productivity.

Big business, for its part, must firmly link the annual wage increases it grants to annual increases in labour productivity to finally expunge from the economy inflation and its debilitating effects on growth and employment.

For the Reserve Bank to reduce the inflation rate to as little as 10 percent with restrictive interest rate policy alone would probably take until the end of 1993, and would probably mean the suppression of economic growth for at least another year.

This is simply unacceptable — if not highly dangerous — in the prevailing circumstances.

Keys can make no greater contribution to the country's well-being than to persuade our business leaders and the Government to take immediate and decisive action against inflation, enabling the economy to mount an early and vigorous recovery and to allow a start to be made with meaningful economic restructuring.

Both are of vital importance at this crucial point in the nation's political and economic life.

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State should 'spread the skills' — Gerwel

SOUTH 6/6 – 10/6/92

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The path to a fairer business climate and more prosperous economy was charted at a recent accountants' congress, reports **Quentin Wilson**:

EDUCATION and training could not be left to the free market. If it were, a few elite groups would continue to monopolise taught skills, Professor Jakes Gerwel told a recent congress of chartered accountants.

The University of the Western Cape rector said state intervention was necessary to avoid the perpetuation of an unequal system.

"But a highly centralised, bureaucratic state operating in a commandist fashion is not the answer," he told the congress held at a Cape Town hotel.

Rather, a large degree of "decentralisation" was needed. Schools should be given more power and "popular participation" in the running of their affairs.

Gerwel also said that: "Whether we adopt the ANC-Cosatu starting point of 'growth through redistribution' or the corporate sector's 'redistribution through growth', the priority is the provision of enough highly-trained professional and technological human resources."

He said the training of blacks in these categories would start a process which could result in a deracialisation of these occupations.

But he warned though that "this privileging of the skilled" would still leave Africans at the lower levels of the system. Women would remain in inferior positions compared to men "at all levels of the hierarchy".

"It would be utopian and unrealistic to assume that the eradication of social inequalities will be possible in a post-apartheid South Africa. This is because the mixed economy which will continue to exist, however modified, will be dominated by the private corporate sector."

The vice-president and secretary of the World Bank, Mr Timothy Thahane, said privatisation would be a key to economic growth.

"Few governments have embarked on privatisation for purely ideological reasonst.

"Experience shows that most governments, including those in Sub-Saharan Africa, have undertaken privatisation to raise efficiency and stop the financial drain from loss-making public enterprises."

According to Thahane, state enterprises have been inefficient, overstaffed and poorly controlled financially.

"Their costs are a weighty burden on governments and taxpayers — the very group expected to benefit.

"In Sub-Saharan Africa, cumulative losses by state-owned enterprises reached five percent of Gross Domestic Product from 1989 to 1991."

He said growth was likely to accelerate when governments and markets complemented each other with their respective strengths.

The private sector had proved to be the most efficient generator of incomes, employment, managerial expertise and technological innovation, he said.

The state should supply public services that the private sector generally could not perform well, such as security, the judiciary and education, Thahane said.

Pepcor group chairman Mr Christo Wiese said South Africa should become less dependent on capital and more so on labour.

It was essential to recognise the dual nature of South Africa's economy and to adopt both First World and Third World strategies to achieve sustained economic recovery and growth, Wiese said.

Government and Reserve Bank get to work

New plan for SA's revival

(49)

S/Times [BUSS] 7/6/92.

By CIARAN RYAN

FINANCE Minister Derek Keys and Reserve Bank Governor Chris Stals are laying the foundations for an economic programme to nurse the economy out of recession and back to economic growth.

Measures were announced this week to restore business confidence and maintain monetary stability.

Dr Stals told Business Times that the time had come for SA to implement a structural adjustment programme (SAP) to break the deadlock of stagflation, high interest rates, low capital and labour output ratios.

The Reserve Bank was developing a programme which could catapult economic growth through 3%, a level at which economic bottlenecks traditionally developed. It would bring sustainable long-term growth.

"We need to start looking beyond cyclical and short-term economic stimulation and introduce a more permanent restructuring of the economy.

"Because of the political transition, economic reform will be difficult. But the time has never been more favourable. Political reform cannot succeed without economic reform.

"We must realise that we can get back on the growth path. Sooner or later radical action must be taken."

The Reserve Bank stuck to its decision not to drop interest rates this week in the face of falling money-market rates and rising liquidity.

CHRIS STALS: Action stations

Among this week's developments were:

- The Reserve Bank announced a plan to soak up excess liquidity in the money market, issuing special nine-month bills to the banking sector, doubling the permitted foreign-currency holdings of the banking sector to $632-million and requiring institutions to maintain an additional cash reserve equal to 1% of short-term liabilities.

The new measures are aimed at curtailing money creation by commercial banks — a major cause of inflation. One of the targets is banking margins which have widened in recession. Money-market rates are expected to firm following the Reserve Bank's mopping-up operation.

- Finance Minister Derek Keys boosted investor confidence by scrapping tax on interest earned by foreigners.

Stable

The concession will not result in a large loss of revenue because the tax ruling was difficult to enforce.

- In an apparent reversal of statements that SA was not overtaxed, Mr Keys vowed to rein in State spending, one of the main reasons for low growth. This would open the door for fiscal reform and stimulate economic growth.
- Dr Stals reiterated his commitment to positive real interest rates, a stable exchange rate, curtailment of money creation by commercial banks and an increase in the gold and foreign-currency reserves.

The first prerequisite of a SAP is to bring stability, the line now being pursued by the Reserve bank, followed by a liberalisation phase and then a stimulatory one. The three phases can be run simultaneously, says Dr Stals, monetary policy playing a lesser role in the stimulatory stage.

Taxation, the Budget and public finance, monetary management, labour and trade policies have to be consistent and be geared to common objectives.

Goals

Economists welcomed Mr Keys' plans to bring runaway State spending under control. Without a cut, there is little hope for tax relief.

"I don't want to sound unduly negative, but Derek Keys' predecessors all promised to bring down State spending — and it just went up and up," says Econometrix's Tony Twine.

"If Mr Keys has a demonstrable way of doing this then I welcome it."

Board of Executors senior portfolio manager Rob Lee says the programme should not find too much opposition from the ANC because it shares many of the goals.

"Both the ANC and the Reserve Bank support the control of money supply, promotion of manufactured exports and control of State spending. Taking a short-term view, I think there is room for a cut in interest rates. But I do not disagree with Dr Stals' view of the economy's longer-term prospects."

Ducking and diving in great bank leak

S/Times [BUSS] 7/6/92.

By JULIE WALKER

FINGER-pointing about insider trading was rife this week on the back of JSE president Roy Andersen's intention to complain to the Reserve Bank about confidentiality leaks.

The row began when Reserve Bank Governor Chris Stals gave bankers notice of his intention — announced on Friday — to mop up liquidity in the market.

Dr Stals is loath to bring down bank rate while inflation remains high, but bankers query how he could manage this in a highly liquid market.

Market rates have fallen since February, but jumped on Monday.

Early sellers, it appears, had access to the confidential information and tried to take advantage of it. Those attending the meeting would have been sworn to confidentiality.

Blame

But the temptation to use the information and so avoid serious financial loss must have been great.

Mr Andersen says: "We do blame the Reserve Bank. It acted in confidence which appears to have been breached. I have written a polite letter asking that price-sensitive information matters be discussed and released outside trading hours."

Mr Andersen says it would be foolhardy to try to quantify losses.

"We think we know what brokers lost, but not those suffered by their international clients. This kind of thing does the reputation of the country no good."

Tony Norton, president of the Council of SA Bankers, says he does not have facts about alleged insider trading by dealing rooms of banks which attended Dr Stals' Monday meeting.

Mr Norton says he will take the matter up with the clearing banks.

Johannesburg Options Market managing director David Bullard maintains that the JSE brokers should have made a lot of money if they acted as intermediaries because the volumes were high, generating brokerage."

Mr Bullard, an independent trader, says: "If they lost, it means they must have been holding positions that went against them.

"That means they must have acted as both principal and agent. Although they are allowed to do that, stockbrokers have insufficient capital bases to act as principals and withstand large market movements."

Mr Bullard finds it interesting that JSE trade in Umgeni Water Authority stock was most active ahead of Finance Minister Derek Keys' announcement that interest earned by non-resident investors would not be taxed.

"The JSE can't accuse others of insider trading on the one hand, then be guilty of it on the other."

Mr Bullard says it took nanoseconds — not seconds — for the information to be dispersed. His view is that the market moved up because jobbers acted on impulse.

"It is a huge non-issue," says Mr Bullard.

Marilyn Visser, gilts analyst at stockbroker Simpson McKie, says insider trading is difficult to prove in any circumstances and most dealers adopt a pragmatic approach.

"There was a timely upward correction in rates on Monday, but nobody regarded it as a reversal," says Miss Visser. "There were many stale bulls and a lot of jobbers hurried to get out of the market. Institutions were willing to come back once positions were cleared. They were not keen to buy at the lower levels and saw value when stability had been restored after the correction.

"The correction could have been on technicals only, or on a combination of technicals and inside knowledge. It is hard to say exactly what was responsible."

Blood

Neville Boner of Boner & Freemantle confirms that certain people were selling stock before others and ahead of rates hardening.

"There was a lot of blood on the floor," says Mr Boner, "and quite a lot outside. Sentiment had been bullish until then."

He says market speculation was that the Reserve Bank was buying finrands ahead of expected foreign interest in the gilt market. Rates steadied by Thursday and resumed their bullish descent.

"That is the irony," says Mr Bullard. "The best thing the insiders could have done was to have done nothing. They have probably lost more by selling short and have not benefited at all in the long run."

ENERCONOMY '92

SA joins drive for better energy use

S/Times [Buss] 7/6/92.

A TWO-DAY seminar, Enerconomy '92, begins at CSIR in Pretoria tomorrow. It is organised by the Southern African Institute of Energy and is billed as the first comprehensive analysis of the importance of effective use of energy. CIARAN RYAN reports [redacted]

(49)

ENERCONOMY '92 will deal with many issues relating to the more efficient use of energy.

The conference will focus on ways of improving energy use, which not only results in cost savings but conserves scarce non-renewable fuel resources with attendant environmental benefits.

The SA Institute of Energy is a private-sector organisation set up to promote awareness of energy use and production.

Carbon

The conference comes at a time when the world is focusing anew on environmental issues, particularly the use of carbon fuels. The Earth Life Summit in Rio de Janeiro is the most serious attempt to establish environmental guidelines which will allow "sustainable development". It is defined as development which meets the needs of the present without compromising the ability of future generations to meet their own needs.

The solution to the world's environmental problems is related to the efficiency with which energy is used. Poor countries are less efficient users, richer countries are more efficient.

It is a consequence of economic development that the manufacturing sector seeks ways to improve production efficiency and reduce costs.

SA's energy bill is estimated at R30-billion a year, equal to 12% of gross domestic product — about the same as America's.

Terms

Although the comparison looks favourable to SA, it is not. Because SA is a developing country, energy's share of the economy should be lower than in more developed nations. What the comparison actually reflects is that the US is more efficient in its use of energy resources.

Measured in terms of energy intensity (energy used per dollar of GDP), SA ranks alongside Hungary with 50 megajoules/$ of GDP, compared with 16 for the US and seven for Japan.

Efficient use of energy not only benefits the environment but enables industry to compete more effectively by reducing one of its major cost components.

"Large savings can be nade in the use of energy in SA," says Steve van Rensburg, president of the SA Institute of Energy and one of the organisers of Enerconomy '92.

"More efficient management of energy could save up to 10% without any capital expenditure. In overseas countries, environmental concern is the driving force behind the search for more efficient use of energy. But economics also plays a major part."

SA's energy supply is shared more or less equally between electricity (from mainly coal-fired power stations), coal (which feeds the power stations) and liquid fuels.

Great strides have been made in improving energy use in all three. New technology in motor vehicles has resulted in better use of liquid fuels. Eskom's newer "six-pack" power stations incorporate relatively new design technology.

Eskom pioneered the use of low-grade coal for power generation.

But SA's manufacturing sector, by and large, has a long way to go. Sanctions and the cost of replacing old equipment have left many industries with obsolete equipment.

Huge

Trade and Industry Minister Derek Keys, says SA needs world-scale plants to compete in international markets. This implies huge expenditure on technology where energy use is optimised.

Indirect and direct cost savings can be made by better use of energy. Indirect savings are effected through obviating the need to repair an environment damaged by profligate energy use.

About half of SA's energy is used by industry, mining and commerce, 20% by the transport sector, 20% by households and 5% by agriculture.

Dr Van Rensburg says because SA has one of the cheapest sources of electricity and coal in the world, consumers are less inclined to consider the importance of using energy efficiently.

European Economic Community countries have decided on a 20% reduction in energy use. Although oil and coal prices are depressed by the poor state of the world economy, the next upswing will place new demands on world energy production, forcing up fuel prices.

The economics of energy use will compel the world to look for cheaper and cleaner sources of energy. The days of manufacturing processes which belch out carbon dioxide are ending.

How does SA start to improve its energy use?

Dr Van Rensburg says: "First, we need a database on energy sources and uses. This will give us a great deal of information about where improvements can be effected. Maybe a company or industry is not using the right kind of energy. Perhaps it should be using oil or coal rather than electricity.

"Second, we need more efficient equipment."

This, of course, is the difficult part to sell to users accustomed to cheap energy.

Power from waste gas

S/Times [Buss] 7/6/92. [redacted]

DAVID Hall & Associates has devised a method to convert waste gas into electrical energy.

Millions of rands are wasted by smoke-stack industries which flare waste gases in stead of using them.

A boiler above the heat source provides steam to drive a turbine, which generates electricity.

David Hall says up to a third of the wasted energy can be recovered.

"An enormous amount of energy is wasted by flaring combustible gases. At one plant in the Vanderbijlpark area the gas burnt has a thermal energy content of 120 megawatts. These gases have been burning for years. They equate to 15 tons of coal a day.

"By using the heat to drive a steam generator we can produce between 35 and 40 megawatts of electrical power."

This has particular application in synfuel and ferroalloy industries which burn large volumes of waste gas and are heavy users of electricity. Power is one of their major cost inputs.

By converting the waste gas to electrical energy, power costs are reduced, enhancing industries' ability to compete in price.

The cost of installing a steam-power generating facility in a large ferroalloys plant is high — between R75-million and R100-million with a payback period of between five and six years.

There is no environmental benefit to the system, but a gas clean-up plant can be installed for the relatively modest sum of between R2-million and R3-million.

A problem with the gas clean-up plant is that it reduces the energy content of the waste gases and the system produces less electrical power.

The system is attracting a much interest, says Mr Hall, particularly in view of the international drive to improve energy use.

One fact which may dampen enthusiasm for such a system is the fact that Eskom has surplus generating capacity and is offering negotiated tariffs to large users.

Carrot for growth

S/Times [Buss] 7/6/92.

SINCE 1979 the US economy grew 30% while energy consumption remained the same. The challenge facing SA is to expand its economy while improving the efficiency of its energy use.

Energy savings of up to 40% are possible through new technology and better management. Why is this not occuring in SA? [redacted]

"Energy forms a small part of company overheads," says Johan Basson, director of electricity and energy efficiency of the Department of Mineral and Energy Affairs, which incorporates the now disbanded National Energy Council.

"We want to see cost-efficient use of energy without a lowering of productivity, quality or standards. There are two ways that you can get this to happen: with a stick or with a carrot.

"We prefer the carrot — offering information and advice about what to do and possibly incentives and rewards for better energy use. But we would not rule out the possibility of legislation."

Reserve Bank tightens its monetary screws

STAR 8/6/92.

By Sven Lünsche 49

Reserve Bank Governor Dr Chris Stals has again moved to tighten monetary policy by announcing a three-point plan to drain excessive liquidity from the money market.

The plan involves increasing commercial banks' cash requirements, raising the limit of their off-shore foreign exchange holdings and issuing additional Reserve Bank bills.

Economists said over the weekend that by soaking off excess liquidity Dr Stals was intending to put upward pressure on money market interest rates so as to reduce pressure on the Bank to cut its key Bank rate.

"Dr Stals hopes to keep the Bank rate above the inflation rate at all times in his avowed attempt to break the back of inflation, partly by ensuring a firm rand with high interest rates," said Econometrix director Dr Azar Jammine.

"Maintenance of high interest rates is also seen by the Bank as a counter to excessive state spending by serving a warning to the Government of the inflationary and ultimately recessionary consequences of high levels of state expenditure," he added.

Announcing the plan on Friday, Dr Stals said net purchases of gold and foreign exchange to the tune of R2,5 billion in the first five months of this year had significantly raised the level of liquidity in the money market.

The overall market situation was also aggravated by a further decline in the demand for funds from the private sector.

"Projections indicate that there could be a further substantial addition of liquidity to the money market from now until the end of August.

"After that, when government revenue should hopefully catch up again with expenditure, the situation may be reversed," Dr Stals said.

Until then, however, there was a danger that short-term interest rates could fall to levels that would not be sustainable, for example to below the current rate of inflation.

"Banks are at this stage only making limited use of Reserve Bank accommodation, but are seeking additional investment outlets for very short-term surplus cash.

"After consultation with Finance Minister Derek Keys, it was therefore decided to provide additional facilities to financial insitutions for the investment of surplus short-term funds," Dr Stals said.

The three-point plan consists of:

- An offer of special Reserve Bank bills with a maturity of nine months to the market on tender, on the same basis that Treasury bills are now being issued.

The bills will only be rediscountable if they have a remaining outstanding maturity of 91 days or less, but will qualify as liquid assets and will be accepted as collateral for overnight loans extended by the Reserve Bank.

- A doubling of the limit banks are allowed to hold in the form of off-shore foreign exchange holdings to $632 million. The previous limit was fixed in 1983, but recently there has been rising demand by the banks for forward foreign exchange.
- An increase of the banks' compulsory minimum cash reserve from four to five percent of their total short-term liabilities to the public.

The additional one percent will be held in a special deposit account with the Reserve Bank.

Dr Stals also re-affirmed an announcement earlier last week that normal sales of government stock and Treasury bills in the current fiscal year would not be limited to the figure of R18 billion.

"Additional sales over and above this figure will be made as deemed necessary in the light of Treasury needs and general market liquidity conditions," he said.

Rates defy Bank plan to tackle high liquidity

MONEY MARKETS by Sheridan Connolly

BDay 8/6/92 (49)

DESPITE the unveiling of a Reserve Bank plan to tackle high liquidity, market rates continued moving downwards last week.

In a contentious quarterly meeting between top banking officials and the Bank, Governor Chris Stals proposed a three-point plan designed to counter the high levels of liquidity which have exerted strong downward pressure on rates in recent months.

The plan has been viewed as a policy shift aimed at compelling banking institutions to place cash with the Reserve Bank rather than in the money market.

Details of the Bank's proposals were leaked to the market on Tuesday and both money and capital market rates hardened within a few hours, but later drifted back down to their earlier levels.

By the end of the week, the Bank had drained R1,5bn from the market via special Treasury bill (TB) tenders which brought the market shortage up to R1,012bn from R805m. The BA rate seemed unfazed by news of the Bank's upcoming tactics and held steady in a 14,40%-14,55% range compared with 14,50%-14,55% the previous week.

The format of the weekly TB tender was altered last week with only three- and six-month and no nine-month paper being issued. The Bank is expected to introduce new tradable nine-month Reserve Bank bills which form part of Stals's draining plan.

The average rate on the three-month TB was marginally higher at 13,99% from 13,97% the previous week. The rate on the six-month tender was also slightly higher at 13,58% compared with 13,57%.

Also topical was the announcement by Finance Minister Derek Keys that all interest earned on foreign investment would now be exempt from tax. The move was well received by the market and should clear up uncertainty and boost foreign investor confidence.

Keys's tax break did have some initial impact on capital market rates which eased after the news filtered into the market. Political uncertainties and the ANC's proposed mass action campaign still seem to be the overriding factor holding potential investors back.

At the end of the week, capital market rates were moving sideways. The key Eskom 168 was at 15,74% compared with 15,72% at the end of the previous week and the government RSA 150 stock was at 15,95% from 15,92%.

Trade and Industry Minister Derek Keys addresses the Europe '92 Countdown conference in Johannesburg on Friday.

Picture: BRIAN HENDLER

'SA faces new economic era'

B/Day 8/6/92

MARCIA KLEIN 49

SA WAS on the threshold of a new era of economic development which would be characterised by export-led growth and closer interaction with the world economy, Trade and Industry Minister Derek Keys said on Friday.

Speaking in Johannesburg at the Europe '92 Countdown conference, he said a strong economy was crucial for the change to a lasting new democrastic dispensation. SA's economic policy would have to be adapted to accelerate industrial development and to integrate the economy with the rest of the world.

SA was emerging from isolation into a changing global trading environment, where the trend was toward formation of economic power concentrations.

It was now possible for SA to renew its old trade links, establish new ones and "join the queue" for concluding trade agreements with major trading blocs.

However, "it would be naive to assume that the end of sanctions and a new political dispensation would give us any automatic entry into the trade networks from which we have been excluded".

SA needed to determine the exact nature of its trade objectives and set about achieving them by negotiating trade agreements. The EC was the most appropriate starting point as it was SA's largest trading partner.

One of the strongest motivations for the EC to forming stronger economic relations with SA was the role SA could play in development in southern Africa.

"There is no way — under any internationally acceptable government — that SA can avoid becoming the economic generator for a far greater region," Keys said.

Europe's coupling any deal with SA to the achievement of some framework for regional co-operation would be a major mistake as SA had a stagnant economy and an increasing population. Therefore, to create a southern African political vision similar to the EC's could take time.

A relationship based on mutual trade promotion was the answer.

This would set the scene for joint European-SA participation in developing projects in neighbouring countries.

BUSINESS

Industrial sector seen as major motor for growth

STAR 9/6/92

Finance Staff [redacted] 47

The industrial sector is the major motor for economic growth and will play the leading role in increasing international trade relations, according to a senior official of the Department of Trade and Industry.

Speaking at a function in Johannesburg yesterday, the director of the Department of Trade and Industry's newly formed Industrial Development and Investment Centre, Mr Dennis Fulton told over 100 foreign and local businessmen that the integration of the economy with the rest of the world was important to strengthen the move towards international specialisation.

In this regard, he said the IDIC was in the process of creating an environment that would facilitate industrial development in the country.

The approach necessary was "the lowering of the internal cost structure to make industry more productive and more competitive in national and international markets," he said.

Mr Fulton said the process of economic adaptation would require the restructuring of tariff regulations to stimulate greater international competition.

Other steps in this process would include better anti-dumping measures, changes in monetary and fiscal policy to support an industrialised economy, and the further deregulation of the economy where it was appropriate.

In the short term, Mr Fulton said it was important to focus on increased support for technological development, the promotion of small and medium sized businesses and greater contact with other Southern African states.

He also stressed the need for closer cooperation between the government, business and organised labour, saying "we are paying a great deal of attention to the so called golden triangle of economic development".

Cause for optimism on future economic model

(49)

STAR 9/6/92.

By Des Parker

Professor Nkuhlu . . . radical economic posturing will be supplemented by realism.

A leading academic says there is persuasive argument for optimism in South Africa — despite high levels of crime and violence and disparate thinking — on a future economic model for the country.

In the view of Professor Wiseman Nkuhlu, a trustee of the Independent Development Trust, one of the most positive factors is that that the transitional phase to the new South Africa is likely to be "fairly long drawn out".

"I have no doubt that by the time a new government is in a position to implement its policies, radical economic posturing would have been supplemented by realism," he told delegates to the annual congress in Durban yesterday of the SA Sugar Technologists' Association.

"It (the long transition) reduces the likelihood of the revolutionary instability and discontinuities which have occurred in so many African states."

Furthermore, "active debate" in the country about economic models and the exposure of extra-parliamentary organisations to international thinking as a result of their high level of dependence on foreign sources for funding meant there had been, and was likely to be more, "softening" of positions on socialism.

Violence

Professor Nkuhlu said "at least some" of the widespread violence was "political position play" designed to weaken opponents at the negotiating table.

"By the first and second quarters of next year, there will be much less incentive for violence because negotiating partners will have to answer for it at the negotiating forum," he maintained.

Stals action 'too late' to stop build up of cash

B/D aug 9/6/92

(49)

SHERIDAN CONNOLLY

THE Reserve Bank's change in monetary policy, aimed at mopping up excess liquidity in the money market, would be insufficient to prevent a cash build-up in the market, analysts said yesterday.

They said inflows into the market in the next two months arising out of maturing government stock were estimated at R4bn, while interest payments on stocks on issue should amount to just under R5bn.

"If the Bank does its sums, it will realise it will need to find additional ways of preventing the market from moving into surplus," a senior analyst said.

Recessionary conditions had led to a decrease in demand for bank credit, which put downward pressure on market rates. This in turn put pressure on the Bank to cut its key Bank rate, they said. "Dwindling credit demand resulted in the Bank's activities in the market being limited to providing investment outlets for liquid funds rather than making its discount rate policy effective," one analyst said.

Reserve Bank Governor Chris Stals recently said that from August government revenue should catch up again with expenditure and reverse the substantial addition of liquidity to the money market expected from now until the end of August.

Stals said the Bank had consulted the Finance Minister and had decided to provide banking institutions with additional facilities for investment of surplus short-term funds. This was expected to prevent volatile fluctuations in money market interest rates and encourage banks to make better use of Bank accommodation.

Stals said the Bank would not limit itself to the budgeted R18bn provision for sales of government stock and Treasury bills in the current fiscal year. "Additional sales over and above this figure will be made as may be deemed necessary in the light of Treasury needs and general market liquidity conditions," he said.

Analysts said R8,1bn of the budgeted R18bn requirement had to come from the capital market. About R8,5bn had already been raised in the current financial year.

One analyst warned: "Under the Bank's new policy, Stals will just continue to tap stock in the market to drain liquidity. Additional funds raised from the market could be used to finance drought relief programmes, but if the funds just result in government overspending, the overfunding provision would be a bad thing."

Mass action puts our future out on the street

B/Day 9/6/92

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JOHN KANE-BERMAN

AFTER Codesa II, the ANC withdrew its consent from key agreements already reached because of the deadlock over the constitution-making body, and said it would use mass action to break the deadlock.

If government is to accept that agreements reached after nearly six months of negotiation involving 19 delegations can simply be overturned by one of those delegations, Codesa becomes irrelevant for three reasons.

Firstly, if the threat of mass action prevails, then SA's future is already in effect being decided in the streets and the NP may as well hand over power at once instead of pretending that it can ensure that the process is orderly and constitutional.

Secondly, other Codesa delegations would be exposed as nothing more than decorations to give an appearance of wider legitimacy to whatever concessions government makes in response to threats of mass action.

Thirdly, Codesa itself would be exposed as neither a consensus-seeking body nor a nation-building forum, but simply as an expensive rubber stamp.

In a sense, government has itself partly to blame for the position in which it now finds itself. At the end of March it abandoned its plans to introduce VAT on certain foodstuffs after Cosatu threatened a government strike and Nelson Mandela threatened to destroy the economy if VAT was imposed on food. No doubt mindful of the fact that the anti-VAT campaign last November killed 100 people, government capitulated. The ANC and Cosatu drew the obvious conclusion, and they are now doing the obvious thing.

Mass action may not stop even if an interim government were to be installed. It would probably be used against that interim government until that government, too, handed over power. The pattern was established in St Petersburg in 1917, in the October half of the Russian Revolution, because the target of mass action on that occasion was not the Czar, who had already been forced to abdicate, but the inept reformist provisional government under Kerensky.

The threat of rolling mass action prompts various questions:

☐ Is Cosatu becoming the dominant partner in the ANC/Cosatu/SACP/Umkhonto we Sizwe/SACP alliance? Despite the difficulties at Codesa II, Mandela struck a bullish note immediately afterwards, only later talking about mass action to break the deadlock;

☐ Although 3,5-million workers supported (or were coerced into supporting) the anti-VAT campaign last year, can a stayaway be sustained beyond a week when retrenchments are a daily occurrence and absolute unemployment — no work in the informal or formal sector — is running at 2,5-million to 3-million?

☐ Will Cosatu seek to avoid this risk by staging a series of shorter stayaways instead?

☐ Can De Klerk dig in his heels without reversing the extraordinary breakthroughs he has made on the international front, where, at a guess, he is probably the most popular leader in the world today?

Since the processes of Codesa are necessarily slow, SA faces the prospect of a second decade of mass action, boycotts, stayaways and the like. The price in terms of economic damage and loss of life is apparently regarded as acceptable. Mandela recently said: "Our economy has been so mismanaged it can hardly be further hurt by mass action."

Some supporters of mass action dismiss violence as endemic anyway, and last year, after the first 24 deaths (in two days) in the anti-VAT stayaway, a Cosatu official said, complacently and inaccurately: "There have been fewer deaths in the last two days of peaceful protest than there are during the normal running of the country."

The risk to the ANC in mass action is that it awakens unrealistic political expectations at the same time as the organisation is beginning to lower economic expectations.

It was, indeed, in the very speech that he talked of using mass action that Mandela pointed out that "a much greater percentage of our membership now understands the resource constraints that an ANC government will face and that there will, therefore, be no quick-fix to decades of apartheid destruction". This argument was echoed by Cyril Ramaphosa a day or two later, when he too warned against "quick-fix solutions" to "centuries of deprivation, (and) decades of corruption and mismanagement of our economy".

Occasionally, when ANC officials speak on economic issues they seem a bit more realistic than some sections of the business community with their predilections for "kick-starts" which are, after all, the economic equivalent of the political quick-fix.

☐ Kane-Berman is executive director of the SA Institute of Race Relations. This is an extract from an address to the Rotary Club, Maritzburg, last Friday.

LETTERS

Volkstaters approach Codesa on homeland

B|Day 9|6|92

PATRICK BULGER

AFRIKANER secessionists have applied to Codesa for limited participation to present a plan for an Afrikaner Volkstaat in the north-western Cape.

Afrikaner Volkswag chairman Carel Boshoff said yesterday Volkstaters had approached Codesa's management committee to open negotiations on the principle of an Afrikaner homeland.

"We believe in negotiations and wish to further our ideas at Codesa. We want limited participation because we do not believe we have anything to say about a future constitution. We stand for secession and we believe we have a viable proposal," Boshoff said.

He said a transition stage would be necessary as there was no part of SA where Afrikaners were in the majority at present. A new dispensation must make allowance for secession as well as drawing up borders and making arrangments for the voluntary settlement of Afrikaners. Once a majority had been established, the region would have a right to secede in terms of agreements negotiated at Codesa.

Boshoff said an Afrikaner Volkstaat would be built around the Orange River basin, which would be the principal resource.

He said he was unimpressed with new CP proposals for a Volkstaat comprising existing CP-held constituencies. He said the CP had accepted the terminology of a Volkstaat but he did not think the content of CP policy had changed or that its proposals were practical.

Meanwhile, a high-ranking CP team will meet government negotiators on Thursday to discuss ways in which the CP can present its ideas for negotiation.

SA 'crucial to revival'

49

ADRIAN HADLAND

SA was the natural cornerstone for an economic revival in southern Africa, Scientific Advisory Council chairman Chris Garbers told 150 foreign businessmen yesterday.

Garbers was speaking at a conference in Johannesburg on investment and trade opportunities in SA.

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He said SA, which represented only 6% of Africa's population and 4% of its surface area, provided 23% of the continent's GNP, 50% of its electrical power output, 45% of mining production and 83% of its steel production.

"By virtue of its economic strength and industrial expertise it is well-placed to play an important role in the region," he said.

Other speakers addressing potential investors yesterday included Kagiso Trust general secretary Eric Molobi, Institute of Multi-Party Democracy chief executive Oscar Dhlomo and CSIR president Brian Clark.

Speakers today include the ANC's head of international affairs Thabo Mbeki and Siemens CEO Reinhard Sanne.

Codesa slows to a crawl

PATRICK BULGER

CODESA committees looking into levelling the political playing field and the reincorporation of the TBVC states met yesterday as negotiations slowed to a crawl. B/Day 9/6/92

Both committees spent much of their time drawing up agendas in preparation for further meetings.

But the management committee which is due to discuss the constitutional dispute between the ANC and government did not meet yesterday.

Opportunity lies beyond the current state of gloom in SA

B/Day 10/6/92 · **DENIS WORRALL** (49)

SOUTH Africa is in a fast-changing situation, and perceptions of its stability and economic prospects will vary from time to time. And right now, whatever the longer-term view may be (and I am positive), the short-term view is a sombre one.

The ANC's decision to engage in a campaign of mass action must, as its leadership knows, postpone the implementation of interim government and not hasten it. The campaign also has little to do with constitutional negotiations and everything to do with grassroots attitudes.

The ANC is responding to a restiveness within its membership around the following issues:

☐ Unhappiness with general socio-economic circumstances (joblessness, cost of living, homelessness, and so on), and the fading prospect of rapid improvement;

☐ Political violence and its impact on the lives of ordinary people in the townships and, more specifically, the government's perceived inability to deal with the issue;

☐ Widespread anger at the NP government. Aside from the fact that this is a minority government which is viewed as having no moral right to rule, it is increasingly being perceived as incompetent and corrupt. The widespread view is that it is also clinging to power for dear life;

☐ General unhappiness at what many ANC supporters see as a lack of progress towards an interim government and a new constitution at Codesa. This applies especially within the trade union movement, which is not directly involved in Codesa;

☐ Radical tendencies within the organisation. There have been several instances where renegade members of the ANC's military wing Umkhonto we Sizwe have clashed with Cosatu leaders — resulting in deaths on the Witwatersrand and in Natal.

Winnie Mandela's ousting from all important ANC offices is also of concern to the leadership, as she has a radical youthful following.

In the face of this mood, the ANC got cold feet about some of the positions its delegation had committed the movement to at Codesa. For example, its compromise agreement to a 70% majority for the approval of constitutional proposals, as opposed to the two-thirds majority which it had previously insisted on; and its acceptance at one stage of the principle that regions will have effective powers which are enshrined in the constitution — in other words, federalism — runs counter to the ANC's official position that regional powers should be devolved from the centre — in other words, a unitary state.

The consequences of a campaign of mass action on the lines envisaged by the ANC and its allies, aside from slowing down the constitutional negotiations process, are obviously likely to increase the possibility of violence and bloodshed. This is likely in Natal and on the Witwatersrand where the Inkatha Freedom Party (IFP) is bound to tell its supporters to ignore calls for mass action.

The campaign is also likely to contribute to the political polarisation of SA. With this campaign, the ANC risks forfeiting what little white support it has, and it is likely also to cost it support within the coloured and Indian communities. From a political point of view, therefore, the campaign is likely to benefit the NP.

Aside from slowing down the constitutional negotiation process, the campaign is bound to make the resolution of outstanding issues much more difficult. The ANC's turnabout on the powers and functions of the regions will confirm deeply held suspicions within Inkatha. The IFP will therefore be even less trusting of the ANC in the future, and will press in Codesa's working group 2 for even larger majorities.

Clearly, the ANC's campaign will have an extremely negative effect on business confidence that is already depressed.

Regarding the timetable and the installation of interim government, before Codesa II an informed view was that the interim government would be in place by late September/October. That will not happen — unless something unforeseen occurs.

Somebody has written that SA's conflict will lend itself to bargaining and compromise when both sides are approximately equal in power, and the cost of maintaining minority rule exceeds the benefits. In this view, real negotiation will take place only when there is a sense on both sides of a stalemate. That is where, when the campaign of mass action has run its course, the ANC is going to find itself. In the final analysis, it has to deal with the NP and, increasingly, with a strong regionally based IFP.

As for the longer view, any serious business evaluation must look beyond what is currently happening to what is substantial and enduring. The World Bank's recent studies on SA reflect this approach, and it is reflected also in Japanese business's hard-nosed approach to this country.

Looked at this way, SA must be a unique business proposition due to a combination of four factors — wealth, infrastructure, geographic location and underdevelopment.

Firstly, SA is an inherently wealthy country — especially from the industrialised nations' point of view — due to its enormous natural resources. Secondly, the country has a commercial infrastructure of telecommunications, transport, of financial services and managerial skills comparable to western Europe.

But, thirdly, and probably most important from a business perspective, SA is largely underdeveloped in many business sectors due to having been shut off from the world business community for so long. There is consequently a need for foreign expertise, know-how and skills.

Finally, SA is the gateway to the rest of sub-Saharan Africa, and with a GDP three times greater than Nigeria (its nearest rival), and 22 times that of Zimbabwe (the next country in size in its own sub-equatorial region), SA inevitably will become the flywheel for the region.

Granting all this, the response may be: what about future government policy, especially the policy of an ANC-influenced government?

The internal dynamic of economic practice, policy and debate is toward a mixed economy of the social market kind in which middle-class values are recognised and in which the racial imbalances of the past are corrected by growth and fiscal processes rather than nationalisation.

This is evident in the ANC's economic policy adopted at its recent national policy conference. As Business Day editorially observed: "It is difficult to take serious exception to the economic policies proposed at the weekend, and that in itself is a measure of how far the ANC's leadership has shifted from its earlier unflinching support for socialism."

In any event, if Derek Keys is correct, future governments are not really going to be able to deviate greatly from certain inherent economic fundamentals — or imperatives as he calls them: economic growth; job creation; stimulating exports; and regional economic blocs, or "the benign consequences of the Republic's position in the region".

These, says Keys, will be as close to being fixed constituents in looking at any future SA economic scenario as you can hope for and will be the basic determinants of any government's trade and investment policy.

This internal dynamic of practice, policy and debate is being reinforced by external factors in the form of foreign expressions of investment interest, the opening up of new trading possibilities and enterprising individual foreign investment. The World Bank, IMF and other international funding agencies will no doubt add their influence to this external dynamic when they become fully involved in SA.

☐ **This is an excerpt of a speech delivered on Monday to a Price Waterhouse business banquet in London.**

LETTERS

DP MPs slam 'inept and corrupt' NP government

BIDay 10/6/92

(49)

BILLY PADDOCK

CAPE TOWN — The euphoria of President F W de Klerk's reforms had been replaced by an air of despondency because of the poor state of the economy and the exposure of widespread government corruption, DP Finance spokesman Ken Andrew told Parliament yesterday.

He said democracy was unlikely to survive endemic violence and a lack of economic progress. But sustained economic growth and a reduction in violence were unlikely until there was significant progress towards a political settlement.

A successful, negotiated new constitution was the key to stability and certainty, Andrew said, adding that government had the prime responsibility in this regard. But the credibility of the NP's commitment to democracy was suspect, he said.

In another scathing attack on government, DP Justice spokesman Tony Leon said its ineptitude resembled that in a tragi-comic soap opera.

It had spent or committed R500m on three projects of spectacular folly, where the money could have been better spent elsewhere, Leon said.

"We now have no foreign enemies, but R205m is authorised on an underground bunker installation for the SA Air Force. While total strategy no longer features in government rhetoric, we spend R145m on a new headquarters for the National Intelligence Service — an overspend of R87m from the original estimate. We're committed to a lean bureaucracy, but R83m is to be spent on a new computer centre for the Commission for Administration," Leon said.

Meanwhile, back in the land of reality, famine, starvation, homelessness and despair stalked SA, he said.

Leon said if government's unnecessary expenditure was rechannelled, it could:

☐ Build 250 black primary schools at R2m each;

☐ Build 10 000 zinc houses with amenities for the homeless at R5 000 each; and

☐ Provide basic foodstuffs for 200 000 people for a year at an estimated R250 per person.

Leon said it appeared that government lacked the political will to bring violence under control.

Andrew said that a party which suspended an MP for more than seven months could hardly be said to have a commitment to or understanding of democracy.

He said the credibility of the NP's commitment to clean, honest and accountable public administration was shattered. "Its hands are covered in blood and gravy. The stench of corruption permeates public life in SA today," Andrew said.

He said if ministerial responsibility and accountability meant anything at all in SA, the three most senior members in the current NP Cabinet would not be there.

Many of the problems arose from undue secrecy and discretions granted to Ministers and officials.

But the underlying problem was the policy of economic patronage pursued by the NP since it came to power, Andrew said.

Gold coins VAT exempt

(80)

CAPE TOWN — Gold coins sold will not be subject to VAT but the tax would be added to coins made into jewellery, a memorandum on the Taxation Laws Amendment Bill said yesterday.

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Tabled in Parliament, it introduced amendments to the Marketable Securities Tax Act, the Transfer Duty Act, the Stamp Duties Act, the Self-Governing Territories Constitution Act, the Regional Services Councils Act, the KwaZulu and Natal Joint Services Act, and the Value-Added Tax Act.

Tax on the transfer of property to a water or an irrigation board was waived.

If a vendor acquired a business which carried on an exempt or non-taxable activity, no VAT would be charged. — Sapa.

Doctors protest against

BIDay 10/6/9

CAPE TOWN — About 120 doctors, dentists and other medical practitioners converged on Parliament yesterday to present a memorandum to National Health Minister Rina Venter opposing the amendments to the Medical Scheme Bill.

The group, marching under a banner calling for health care for all, handed the memorandum to Venter's administrative secretary Eric Cronjé at the gates of Parliament.

The memorandum objects to the Medical Scheme Amendment Bill on the grounds that it

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Dispensing Famil

Association (DFPA) c

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handing it to Cronjé.

"We further object

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ral areas," he said.

Business confidence slides as drought bites

(49)

CT 10/6/92

By **AUDREY D'ANGELO**
Business Editor

SA SHOULD encourage foreign investment by giving international guarantees against expropriation and nationalisation and for the repatriation of dividends, SA Chamber of Business (Sacob) chief economist Ben van Rensburg suggested yesterday.

The Sacob Business Confidence Index (BCI), which had risen in April, fell 1,7 percentage points in May to 90,7.

In his report Van Rensburg says SA can expect a zero economic growth rate for the rest of the year.

"This is confirmed by Sacob's latest survey of confidence levels in the manufacturing sector, which indicates there is now little expectation of growth in sales volumes in the coming 12 months."

But he forecasts "resumed growth in gross domestic product (GDP) in 1993 of between 3% and 4% if positive internal and external factors fall into place as expected."

Factors causing the fall in the BCI include "clear economic evidence that the recession has deepened in the first half of 1992 instead of bottoming out.

The contraction in the economy in the first quarter of this year was the most severe since the 2% fall in quarterly GDP measured in the fourth quarter of 1989, when the current recession started."

Other causes of the fall were:

- The perception that interest rates are likely to remain at high levels for longer than previously thought;
- The severe impact of the drought having become more evident in recent months;
- The apparent political logjam at Codesa and the damage which threats of mass action and a general strike could do to the economy, as well as the continued high level of violence; and
- Recent economic policy statements by the ANC "which, although showing signs of more realism, still reflect a reluctance to accept the domestic and global imperatives of a market-driven economy."

Van Rensburg emhasises: "Clearly, the long-term solution to the pressing problem of unemployment will depend largely on the level of investment and it is time that all major political players gave recognition to this fact and took the steps necessary to create a climate conducive to investment.

"Sacob has repeatedly warned that South Africans should not make the mistake of assessing future foreign investment trends on the basis of the number of foreign delegations currently visiting our shores."

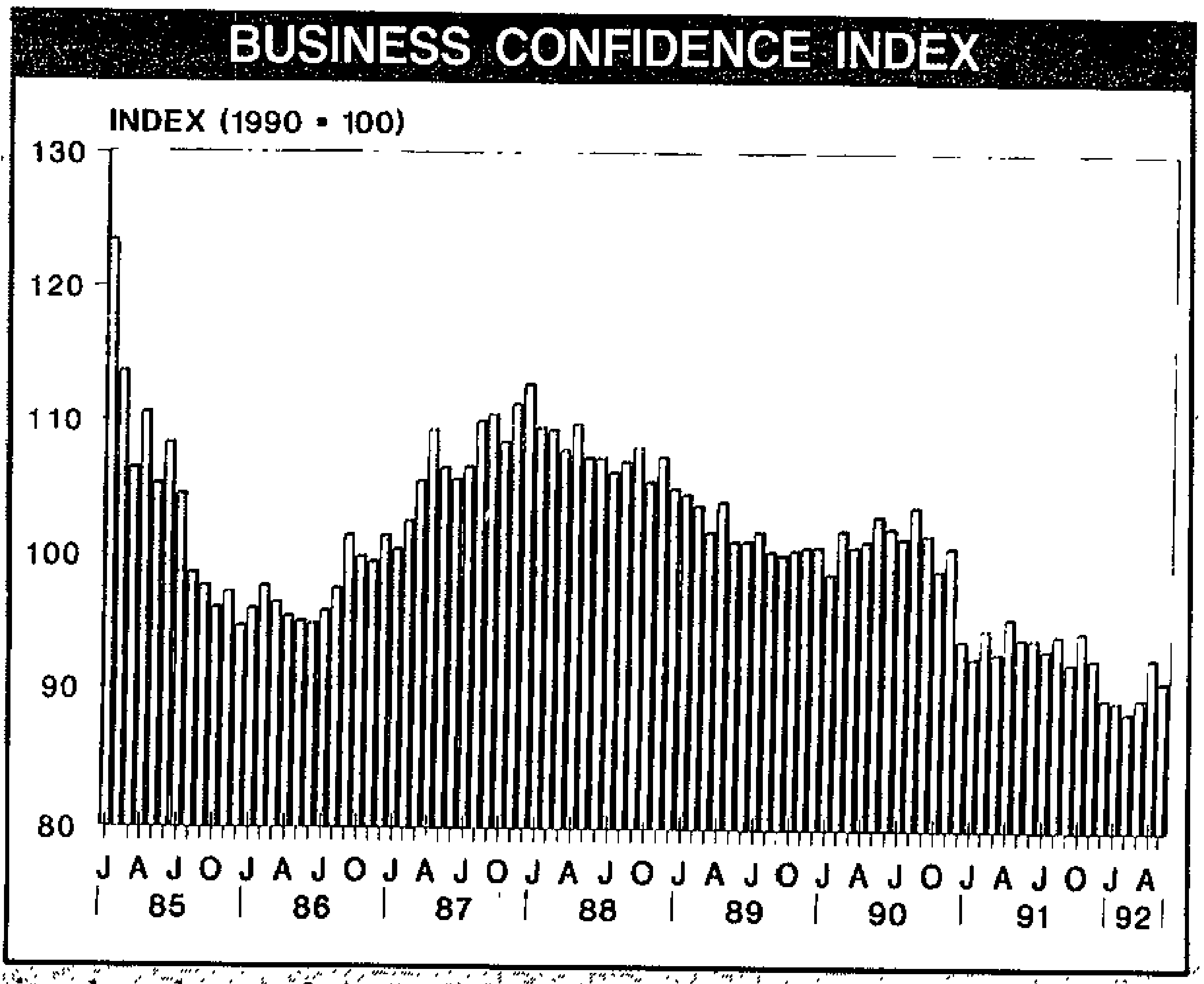
He says Sacob remains concerned that the high level of government spending counteracts efforts to bring down the inflation rate.

And "the prospect of a further rise in food price inflation as a result of the drought and other factors emphasises the need for greater co-operation between monetary and fiscal policy."

He calls for the Board of Tariffs and Trade report on food price inflation to be released as a matter of urgency so that the causes can be identified and addressed.

"The BCI continues to reflect a vulnerable and fragile business mood . While prospects for the remainder of 1992 are now somewhat bleaker than a few months ago, the outlook for next year is considerably better.

"However it is essential that policy makers seek to create a climate more conducive to a sustained growth in investment if this country is to address the serious unemployment problem which currently prevails."



BUSINESS CONFIDENCE INDEX

BUSINESS DAY, Wednesday, June 10 1992

ANC explains Heinz decision

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ADRIAN HADLAND

INTERNATIONAL food corporation Heinz decided against investing in SA because insufficient progress was made at Codesa II, and not because of ANC economic policies, ANC international affairs chief Thabo Mbeki said yesterday.

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Mbeki told an international trade and investment conference in Johannesburg the ANC and Heinz had been in regular contact for some months.

Sapa reports Mbeki was responding to weekend news reports that Heinz had called off a "multimillion-rand deal" because of the ANC's new economic policy. Mbeki said when Codesa II failed to reach agreement, Heinz decided not to move into the market because of the sensitivity of US opinion over economic sanctions.

"We do not want to drive away foreign investors," he said. The speed of political change, however, would affect the transformation of the country's economic relations, as was the case with Heinz.

The reason for the Heinz decision had been Codesa II's failure to agree on an interim government. Mbeki reaffirmed ANC policy that foreign companies should not reinvest in SA until an interim government had been installed.

He told the conference the ANC did not envisage selling off the assets of private companies to redistribute wealth.

State expenditure on the underprivileged would have to be increased to improve social equity in a new SA. The proportion of SA's GDP devoted to social expenditure would have to be increased from 12% to 15%. This would be achieved by streamlining the public service, and a redirection of resources.

"You cannot sustain political transformation if you do not address the question of inequality," he said.

Mbeki suggested redistribution would cause a further expansion of the domestic market ensuring an accelerated rate of new capital formation. "Redistribution can take place without any negative effects on the private sector," he said.

The private sector would continue to have a central role in the economy, but had a responsibility to train black management and support affirmative action.

Urgent strategy necessary to limit economic damage

By Frank Jeans

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STAR 11/6/92

SUN CITY — Interest rates could be pushed down by between two and three percentage points over the next year in a bid to limit damage in the economy and set the scene for recovery in 1993.

Mike Brown, economic consultant with stockbrokers Frankel Max Pollock Vinderine, said this at the Sapoa convention here.

In an economic preview, Mr Brown said: "Studies have pinpointed the need for the investment rate tó grow from its current level of about 19 to atleast 25 percent. This should be regarded as a minimum target for any new economic strategy."

Finally, success in raising the rate and productivity of capital investment in South Africa would depend to a significant extent on creating a climate of certainty and stability in both political and economic structures which would raise the confidence of both foreign and local investors.

Mike Brown . . . housing expenditure needs to double.

On the housing issue, he said the cost of a viable programme was the subject of widely varying estimates but most seem to coincide on the likelihood that expenditure on housing in South Africa would need to double from less than three percent of GDP to around five to six percent.

"The recently published De Loor Task Group report on low-income housing targets a total expenditure of five percent of GDP on 198 000 housing units a year for the next 10 years.

Exchange controls

Urging the scrapping of exchange controls, Dr Richard Grant, Director of Research and Publications of the Free Market Foundation, said:

"Exchange controls are one of many types of government interference that have been used to achieve Third-World status.

"This is not to say that the government wants to be in the Third World, but this status comes as a by-product of its misguided actions. Whether these actions come from good intentions or from corruption does not make the consequences any less destructive. And we, in South Africa, are seeing these consequences first-hand.

"There is not one argument in favour of exchange controls that has not been demolished by logic. No serious economist will defend them — yet they persist. why?

"We know why exchange controls can't work, and experience has shown us that they don't work.

"The most often cited reason for imposing exchange controls is that they are intended to prevent capital outflows," said Dr Grant. "Not only have they failed, they have also discouraged capital creation and inflows. Exchange controls have not made things better in any way. They have made things worse.

"Those maximum limits, or "allowances", on purchases of foreign exchange for overseas travel have become minimal.

"The expctation that people won't be allowed to take their money out if things get worse, leads them to plan ahead and take out as much as possible — now.

"Making the controls stricter doesn't help. It just leads to the attitude that: If you can't take it with you, then spend it now. There's no sense saving it when you won't have full ownership rights."

Property rights 'must remain untouched'

STAR 11/6/92

By Frank Jeans [redacted] [redacted]

SUN CITY — The main speakers at the opening of the South African Property Owners (Sapoa) convention here stressed that property ownership was a fundamental right. [redacted]

Opening the convention, Dr Zach de Beer, leader of the Democratic Party, said: "The epicentre of the capitalist system is respect for property rights and we are entitled to insist that those rights remain untouched."

Dr de Beer, who is also Codesa management committee chairman, said that to confiscate property from its owners and give it to other people was not only morally wrong, but economically disastrous.

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At the same time, unless the mass of people could feel that within a few years their economic lot was improving and the wealth gap was narrowing, the "fledging democracy of the new South Africa is likely to be hijacked by some populist dictator with a mouthful of deceitful promises and a gun in his hand".

Chris Saunders, chairman of the Tongaat-Hulett group, commenting on the proposals by the ANC for a wealth tax, said such an idea of transferring resources — "robbing rich Peter to pay poor Paul" — was not the solution.

Urging Sapoa to play its part in urban revival, Mr Saunders said: "No nation has ever prospered who's cities have failed."

Commenting on unemployment, he said the lack of skills had left the South African workforce uncompetitive with the rest of the world.

"We must act now on the recommendations of the De Loor commission on housing and build our way out of a deepening recession."

Sol Kerzner of Sun International, making a presentation of the multi-million-rand Lost City project, told delegates: "The expected boom in tourism will bring to South Africa an additional one million visitors a year.

"This means that the hotel and leisure industries will have to provide a further 18 000 beds to meet the demand."

He was having talks with the SA Tourist Board about this, Mr Kerzner said.

Spare capacity of economy will cushion stayaway effect

B Day 11/6/92

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Sacob

HILARY GUSH and
GAVIN DU VENAGE

THE economic impact of the ANC's threatened mass stayaway would be cushioned by spare capacity in the manufacturing industry, a business analyst said yesterday.

Sacob economist Keith Lockwood said much of industry was operating at levels well below capacity and many factories' workers were working short-time.

He estimated that industry was using 78% of capacity and that durable goods production was running at about 70% of capacity. At these levels the economy would not be severely affected.

Earlier this month the ANC threatened "unprecedented mass action" if the Codesa negotiations stalemate was not broken by the end of this month.

Last November a two-day general strike called by Cosatu became the largest mass protest in SA history.

Steel and Engineering Industries Federation (Seifsa) economics division head Michael McDonald said the economic impact of the mass action would depend on the support it enjoyed and its duration.

Besides production and wage losses, the stayaway would have a "devastating" effect on international investor confidence.

Assessing the impact of the recent strike at Toyota's Durban factory, chairman Bert Wessels said last week that poor car sales reduced the repercussions of the dispute.

Meanwhile employers and unions have agreed that workers be given the day off on June 16 without loss of wages.

Cosatu spokesman Neil Coleman said the federation's affiliates had already agreed with most employers that workers would get Soweto Day as a paid holiday.

Saccola spokesman Friede Dowie said yesterday that many employers had acceded to union demands for the holiday, but often in return for other concessions.

Seifsa spokesman Hendrik van den Heever said an industrial agreement had been reached giving hourly-paid employees June 16 as a fully paid holiday.

He said employees required to work would be remunerated at overtime rates.

KATHRYN STRACHAN reports that mid-year exams at Soweto schools could be severely disrupted after about 460 schools scheduled exams for June 16.

The move has angered student and teacher organisations, which called on pupils to "honour the day" by attending rallies planned for the day instead.

DET Johannesburg regional chief director Richard Motau said schools were responsible for setting their own dates, but believed principals would be sensitive to their students' demands.

☐ President F W de Klerk would address the KwaZulu Legislative Assembly in Ulundi on June 16, the KwaZulu Chief Minister's department said in a statement released yesterday.

Land seizure 'is morally wrong'

268 [illegible] [illegible] 80 623 49

B/Day 11/6/92

PETER GALLI

SUN CITY — Confiscation of property from rightful owners to give it to someone else was morally wrong and economically disastrous, DP leader Zach de Beer said yesterday at the SA Property Owners' Association (Sapoa) Silver Jubilee convention.

"However, unless the majority of our people can see their economic lot improving and the wealth gap narrowing over the next few years, our fledgling democracy is likely to be hijacked by some populist dictator with a mouthful of deceitful promises and a gun in his hand," De Beer said.

Tongaat-Hulett group chairman Chris Saunders told the convention transferring resources from the "haves" to the "have-nots" was not a solution. He said there were too many have-nots for wealth taxes and other similar measures to be effective.

The prime object of SA's political and economic policy had to be the enabling of the masses to share in the creation of new wealth, he said.

PAC secretary-general Benny Alexander said nationalisation was not an effective means of redistribution in itself, as it transferred wealth from only one elite group to another. "Redistribution has to take place at the points of production." Alexander said nationalisation was not the PAC's primary approach.

He pointed out that redistribution could not be paternalistic, as people needed to become self-sufficient. "Black workers, managers and entrepreneurs have been targeted to benefit from this. A system must be created that allows the worker to feel part of the country and of the economy, thereby adopting a more responsible attitude and satisfying their expectations."

Private business would be asked to facilitate this by creating black equity programmes and issuing new shares or reducing present shareholders' interests. This would include representation and voting rights.

"Redistribution must also not take place from one elite to another and must take place primarily at the point of production and involve those at this level of operation," he said.

Arthur Andersen senior tax partner Pierre du Toit said it was almost inevitable that SA would get a land tax of some sort.

It would be a political move as no future regime would be able to resist the political pressure to tax land.

"A land tax should not be instituted as a tool of restitution or redistribution," he said.

Savings needed to spur growth

Keys slates ANC call for mass action

49

BDay 11/6/92

BILLY PADDOCK

CAPE TOWN — The ANC's call for mass action belied its claim that it was ready to govern, Finance Minister Derek Keys said yesterday.

Keys said the ANC's eagerness to embrace mass action was only the latest of several salvoes fired in the economic civil war and underlined the organisation's indifference to the economy.

Wrapping up the budget votes he told Parliament SA needed to increase savings by about R20bn if it was to achieve a satisfactory growth rate.

Government should be responsible for half the R20bn savings, he said. The desired savings represented about 6% of GDP.

Keys said investment in SA was currently running at about 19% of GDP and needed to average about 25% a year up to the year 2000 if the country was to achieve his targeted growth rate of about 3,5% a year.

Keys said the ANC's mass action call ranked with the call for continued sanctions and showed its contempt for the achievements of the market sector of the economy during the very difficult past decade.

He said he understood that the priority accorded the liberation struggle in the past had meant that everything had to be subordinated or sacrificed to get to the negotiation table.

"There comes a point, however, at which the audience, the watching world, expects to see actions fitting a future government starting to emerge and subtly displacing those more suited to a liberation movement struggling for recognition," he said.

Keys said ANC secretary-general Cyril Ramaphosa had proclaimed that the ANC was ready to govern. "The call for mass action rather indicates otherwise to that watching world."

The watching world was very important and this importance was growing steadily especially in light of the "global village" idea and the dominance of the free market system internationally.

Instead of learning the language and the codes of how to take full advantage of the international market-related mindset, the ANC were walking into the trap of rhetoric and slogans.

The ANC struggled for very small donations or loans from sections of foreign countries' budgets rather than concentrating on the "thousand times greater power that was available in these countries economies for market-oriented actions", he said, adding that SA needed that massive power.

Keys said it was difficult to propose a growth scenario which included the current dissaving of the state.

"I am not, during this very exceptional year, concerned about the size of the dissaving." The criticism should have come in February.

"Now I am exceptionally thankful that as the year progresses the wiseness of the decision to rather open the taps than close them has borne evidence," he said.

There was no fear of overheating and the Reserve Bank had to gallop to keep to the interest rates which it believed were correct for SA. But this was an exceptional year, with the economy in the trough of the recession, and then a 500-year drought coming on top of that.

☐ To Page 2

Keys

BDay 11/6/92

49

☐ From Page 1

He said that as soon as the private sector showed signs of economic recovery government's duty will be to cut its expenditure in real terms.

Given that the state machinery was so huge and complex, preparations for this had to be made this year.

There was no room for "crash programmes". It would be planned improvements in the public sector towards business principles that would achieve this, he said.

"Over time the extent of the change will be considerable. Saving must increase to the order of R20bn to finance a satisfactory investment level. About half of this will have to be the responsibility of the state," he said.

As the pressure of surplus expenditure on the side of the state decreased, two things would happen: prices would not increase as rapidly, which would allow lower interest rates according to the Stals approach.

And at the same time the state would not dip into its savings resources, which would exert downward pressure on the interest rates, Keys said.

He said he could think of no single act in the economic sphere which would have a more pronounced favourable effect for SA's reintegration into the world economic system than the ability to lift the standstill restrictions and to re-establish a single convertible currency.

㊾ ARG 11/6/92

'Misguided investments' behind SA's economic ills

SOUTH AFRICA'S economic ills were the fault of misguided investments and not government actions, the Minister of Finance, Mr Derek Keys, said.

Replying in the second reading budget debate yesterday, he said the powers of any government were limited given the negative powers faced by the local economy.

"We are dealing with an economy which had made misguided investments over the years. In real terms its export costs have dropped by 30 percent over the past 10 years, while its import costs have soared with a similar percentage.

"The economy is in the midst of its worst-ever drought."

Blame lay with these basic factors, not with actions by the government or other insititutions.

If violence was not drastically reduced, it would probably be impossible to come up with any economic scenario realistically offering the prospect of growth, Mr Keys said.

He said violence was the major stumbling block to new foreign investment in South Africa.

Mr Keys said the ANC's eagerness to embrace mass action was only the latest in a series of moves which he called the economic civil war.

There came a point, however, at which the world expected to see actions befitting a future government emerge and subtly displace those more suited to a liberation movement struggling for recognition.

As soon as the private sector showed signs of economic recovery, the government would be obliged to reduce its expenditure in real terms. — Sapa tocol and tight security could jam up the works completely.

States. In Rio, one often hears that this is the first summit

legal force. — The Independent News Service. □

Summit stand-off . . . a Brazilian chief sits on a bus carrying indigenous people to the Earth Summit this week. Police intervened before passengers could present a protest note. On the left is Lawrence Bishop, of the International Society for the Preservation of Tropical Rain Forests. Picture: AF

Growth through redistribution

STAR 11/6/92. (49)

A new South African Communist Party discussion document insists on heavy State involvement in a future economy, but also calls on SACP members to be "realistic" in their expectations. Political Reporter ESTHER WAUGH summarises the latest in SACP economic thinking.

ECONOMIC growth in South Africa will come about through redistribution, a senior SACP theorist insists in the party's latest discussion document on the controversial subject of a new economy for the new South Africa.

The discussion paper, which is in the possession of The Star and is due to be published in the SACP organ, the African Communist, argues that a process of combined redistribution and economic restructuring is the basis for viable, profitable and long-term growth.

The author is SACP member and veteran trade unionist Alec Erwin. He argues in favour of "growth through redistribution", suggesting economic policies which make growth dependent on redistribution.

The paper makes a firm link between redistribution and restructuring, but stresses that the SACP does not see redistribution as a "one-off" transfer of assets from haves to have-nots.

In what he describes as a difficult task, Mr Erwin says the SACP needs to develop "a reconstruction programme that addresses the immediate needs of poverty and oppression, that acknowledges the realities of world economic and political power, and that lays the basis for a future socialist society"

In the document, The Framework for an Economic Programme for Reconstruction, Mr Erwin says poverty should be addressed as a social and political priority and should form the economic basis for sustained growth.

"Poverty must be addressed not just by transfers of income and slowly rising employment. It must be addressed by a dynamic redistribution of resources towards areas of poverty, social deprivation and towards overcoming the structural legacy of apartheid."

This would be achieved by combining "dynamic" redistribution with economic restructuring — a combination which is intended to generate a growth process that is viable and stable in the long term.

A sense of realism on the part of the SACP is crucial, Mr Erwin adds. This realism should be based on an achievable programme where initial realism is rewarded by a "continuous and increasing flow of well-distributed benefits to the majority of our people".

In addition to having mass support, an economic programme should be sustainable domestically and in the context of world developments.

The author argues that a "reconstruction accord" needs to be entered into with the ANC and Cosatu, as well as with a wide range of mass-based organisations. This is seen as a crucial step towards marshalling the power to implement a redistributive and restructuring programme.

The definition of redistribution needs to be broadened to include progressive taxation, wealth taxes and land reform, says Mr Erwin.

He argues that the SACP must define a growth strategy "that widens the concept of redistribution to give it a dynamic character and more content than simple income transfer".

Mr Erwin writes that the proposed growth strategy is not a "magic formula" or a "quick fix". The essential features of such a strategy include a redistributive process involving more than a transfer of income, requiring restructuring of key areas in the economy.

"The redistribution and structuring combined will the basis for viable and s tained growth based on a gro ing market, higher productiv expanded employment and sustainable export capacity manufactured products."

Mr Erwin foresees an exte sive role for the State in t strategy. "The State needs plan and facilitate the over strategy in the reconstruct process. The role of the State not confined to nationalisatio The State's planning and fac tation role would be achiev by using the public sector. □

Revised economic policy 'should benefit all'

㊾ CT 11/6/92

By ARI JACOBSON

THE current SA economy benefits only the white minority, and to rectify this a new economic policy catering for all has to be introduced, says ANC's deputy director of economic affairs Tito Mboweni.

In the latest edition of Syfrets' Money Matters, Mboweni says that the current SA economic policy is a failure as "the present economy is owned and controlled by a minority within the white minority".

He says that the overall goals of the ANC's economic policy could be identified as creating new jobs and progressively eliminating unemployment, raising real incomes, increasing output and productivity and promoting a more equitable pattern of economic growth.

Further Mboweni says the government must respond to the acute land hunger, the need to increase food production and should promote integrated rural development to ensure a balanced distribution of economic activity.

He continues that greater democratic participation in economic life must be promoted, the informal sector supported so that it becomes commercially viable and an industrial relations framework setup based on full rights of workers in all sectors.

"It will not be possible to achieve all these goals in full at once. We will need to set priorities and make realistic choices."

He says the fundamental basis of ANC economic policy is that of a mixed economy. "We are convinced that neither a command central planning system nor an unfettered free market system can provide adequate solutions."

He adds that longer term developmental objectives should take priority over short term sectional interests.

"Public corporations operating in areas such as transport, housing, electricity supply, the post office and Telkom, will all have a central role to play. In addition it is envisaged that strategic enterprises will be identified in other sectors whose role is central to the realisation of objectives."

Call for economic restructuring

B/Day 11/6/92

ANDREW KRUMM

SUN CITY — The impact of an economic restructuring programme on economic growth would exceed that likely from any short-term kick-start packages, Frankel Max Pollack Vinderine economist Mike Brown said yesterday.

Brown told the SA Property Owners' Association convention since SA was at the economic crossroads, future development needed to be transitional in nature. Policy should lean towards pragmatic, restructuring objectives such as growth-oriented and redistribution strategies.

"A kick-start does not seem viable now as the 38-month recession has left little slack for an immediate response to stimulatory measures."

He said reasons against a kick-start were that spare capacity in industry was not excessive and tax reductions were ruled out by the current shape of state finances. "An export-led recovery in 1992 is precluded by the drought and weak commodity prices . . . ."

Brown said measures to revive the economy should have a macro-economic focus.

The ratio of fixed investment to GDP would need to rise from the current 18% to 25% or more. The link between growth in capital stock and real GDP was the main route to economic prosperity, he said. (49)

However, sourcing the savings to finance higher investment spending was a potential bottleneck. This would require that public sector and foreign capital inflows made a larger contribution to capital formation.

Brown said export-driven growth could be encouraged by investment in export-oriented production facilities, which used SA's competitive advantages and geographic location.

Exchange rate depreciation was another effective instrument to promote export growth, particularly if protectionist measures were reduced. However, the prudent management of public sector expenditure and debt was a prerequisite for a stable economic climate.

SA might need to live with a moderate rate of inflation — between 10%-20% — as high costs in unemployment and redundant capacity resulted when bringing inflation down from moderate to low levels.

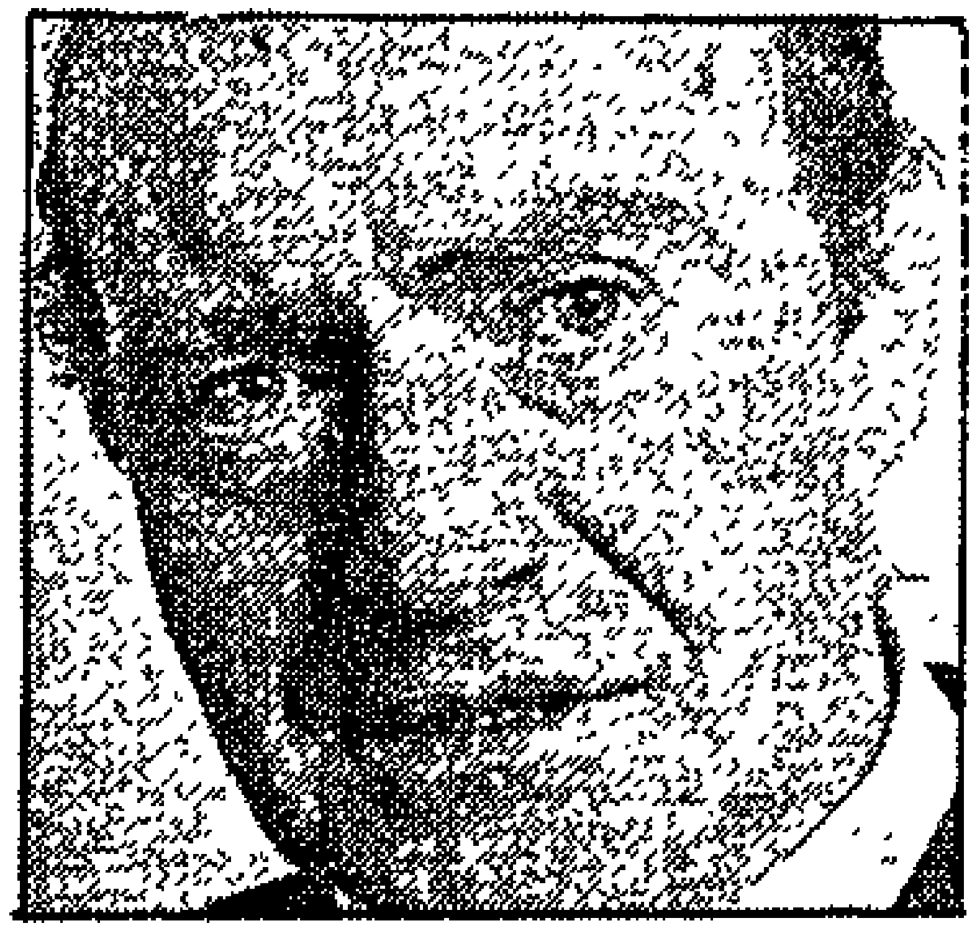
In my view . . .

A daily commentary on current economic affairs by writers of The Star.

Business urgently needs signposts to the future

STAR 11/6/92

By Michael Chester ㊾



If the political players at Codesa needed a reminder about the urgency of progress towards drawing at least a rough outline of the future economic profile of a New South Africa it was provided by surveys released by the SA Chamber of Business this week.

More than a simple gauge of the stubbornness of the current recession, the sharp decline reported in the level of the Business Confidence Index was a obvious reflection of the nervousness of businessmen caused by the murkiness of a future scenario.

In the absence of clear signposts to possible — let alone probable — economic policies, more and more decisions about vital new investment patterns are being postponed by businessmen both at home and overseas until the outlook comes into sharper focus.

Inside the South African industrial sector, no fewer than 56 percent of the manufacturing companies included in the latest Sacob survey of trends confirmed they expected to reduce real capital expenditure over the next 12 months.

Not even the inducement of new VAT tax relief on capex spending managed to curb the cutbacks in both wear-and-tear replacements and new production capacity.

What deepens concern is the inevitable backlash on jobs.

Cutbacks in investment can only worsen the grim employment outlook, with a majority of manufacturers in all regions confirming plans to reduce the size of both their unskilled and skilled labour forces still more in the next 12 months.

Also, if SA manufacturers lack the confidence to plough more cash into new industrial fixed investment, what chance does South Africa stand when it comes to attracting overseas investors?

"Policy-makers should seek to reduce the level of uncertainty that prevails in all spheres relating to investment decisions," says Sacob director-general Raymod Parsons.

"Serious consideration should be given to the institution of international guarantees against expropriation and nationalisation and the repatriation of dividends.

In an aside obviously directed at ANC economists, he adds: "It is quite clear that the imposition of a number of bureaucratic requirements on foreign investment is the last thing that is needed."

It all leaves Sacob with little option but to readjust earlier forecasts and now predict that the overall economic growth rate for 1992 will be frozen at zero.

What is so tantalising is a longer-term prediction that GDP could bound ahead by a robust 3 or even 4 percent in 1993 — if only all the pieces in the jigsaw begin to fit.

Codesa, are you listening?

INTEREST RATES

Cresting a liquidity wave

FM 12/6/92 (49) [redacted]

No wonder Reserve Bank Governor Chris Stals fears the effects of liquidity in the money market in the months ahead. Following a rise of R2,5bn in foreign exchange reserves in the first five months of the year, he last week announced measures to counter "a further substantial addition of liquidity to the money market from now until the end of August."

He was referring to government spending and what is bound to be a burgeoning deficit — because this spending will not be adequately offset by tax payments.

An indication of the dimensions of the problem comes in figures for April — the first month of the fiscal year — on receipts into and transfers from the State Revenue Account. Expenditure at R8,9bn was up more than 11% on the previous April. Though this is well below the inflation rate for that month it has to be measured against revenue collected:

☐ Inland revenue was up less than 0,1% over the previous April, at R4,646bn;

☐ In particular, VAT collections in April amounted to only R1bn, compared with GST collections of R1,6bn a year ago, and compared with an average monthly budgeted estimate of R1,75bn;

☐ Income tax receipts in April amounted to R3,3bn, compared with a budgeted monthly estimate of R4,2bn;

☐ Collections from Customs & Excise were up by 34% at R1,252bn, largely because of increased fuel levies, but these were dissipated by transfers amounting to R1,203bn, in Customs Union payments, producing a net R49,6m. This is down 59% from the previous April; and

☐ The grand total was barely changed at R4,7bn.

When amounts in transit are taken into account, the inflow into the Exchequer Account amounted to R5,3bn. It is the difference between this last figure and expenditure that has boosted market liquidity and softened interest rates.

No wonder Stals felt the need to take further action. He has decided to:

☐ Offer special, fully tradeable bills with a maturity of nine months to the market on tender. They will be rediscountable with the Bank only if they have a remaining outstanding maturity of 91 days or less. If not they will qualify as assets and will be accepted as collateral for overnight loans from the Bank;

☐ Double the balances which authorised foreign exchange dealers may hold abroad to $632bn; and

☐ Increase the level of cash reserves banks must hold against short-term liabilities, from 4% to 5%, by not later than July 21.

The move failed to halt the slide in rates.

Stals ... *battling liquidity*

FNB treasury head Ken Russell reports that the rate on bankers' acceptances was no higher at 14,55%, in the days following a *Business Day* report, on June 3, of a meeting at which Stals told bankers of his intentions. The rate on the RSA 12% declined from 16,17% on June 1 to 15,94% by June 4. And the rate on the Eskom 11% fell from 15,94% to 15,74%.

The outlook for the rest of the year is discouraging for Stals, who is attempting to keep interest rates above the inflation rate. He hopes that, by September, government revenue will catch up with expenditure.

However the April deficit — the difference between expenditure and revenue — is more than R4bn. Obviously this can't simply be extrapolated over the rest of the fiscal year because expenditure and revenue don't flow uniformly. But given that the budgeted deficit for 1992/1993, before capital income transfers, was R15,9bn (4,5% of estimated GDP), the figure is horrendous. It is more than 25% of the total.

Furthermore, only two months after the Budget, Minister of State Expenditure Amie Venter presented parliament with a supplementary budget of R2,8bn. "But, on his own admission, the supplementary budget is likely to be exceeded," says Nedcor chief economist Edward Osborn.

"The worrying aspect about the April revenue figures is that they point to the possibility that the budgetary revenue estimates were overoptimistic and did not take sufficient account of the depths of the recession we are going through (see p34)." He suggests the budget deficit in the fiscal year may be closer to R20bn — a huge 5,7% of GDP. ■

van Dyk said the CPA ha
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Italy, SA in pact to develop prosperity

(49)

ARG 17/6/92

JOHANNESBURG — South Africa and Italy have signed an agreement establishing a joint working group for development co-operation in Southern Africa.

The purpose was to promote development in Southern Africa to enhance regional prosperity, according to a joint statement last night by the Italian Embassy and the Department of Foreign Affairs.

The signatories said they hoped the venture would establish a new era of mutual co-operation. It was also expected to benefit South Africa with job creation and economic growth. — Sapa.

Public hangings

QUETTA (Pakistan). — Four militiamen were hanged in public in the southern Afghan city Kandahar for killing two mujahideen guerillas

FM 12/6/92.

THATCHER ON EUROPEAN UNITY

A treaty too far

46

Margaret Thatcher endorses the Danish repudiation of Maastricht

It is often said that we British lack a European idealism. But this is not so. How could a country, twice within a century drawn into war to defend the liberties of continental Europe, feel untouched by Europe's future? And who would not admire the determination of democrats in France and Germany to avoid the rivalries and conflicts of the past?

We are just as idealistic about Europe as the federalists; we are just less federal. Experience has taught us that the best system under which to live is democracy — where members of parliament are seen to be accountable to their electorate. Support this by worldwide trade and you get the prosperity which we all seek.

In many of these things, we British have led the way. In the Eighties, we and our other colleagues in Europe passed the Single European Act to try to create a genuine single market in which free movement of goods, people, service and capital were ensured. But that movement was not to be unfettered. I remember saying that, if we just left the words as vague as that, we should be encouraging immigration and enabling terrorists, criminals and drug dealers to escape detention as they crossed borders.

We, therefore, hammered out a General Declaration attached to the Act. It said: "Nothing in these provisions shall affect the right of member-states to take such measures as they consider necessary for the purpose of controlling immigration from third countries and to combat terrorism, crime and the traffic in drugs."

I would never have agreed to the Act without that declaration. I am, therefore, amazed when I hear it suggested that it does not have the force of law and can be ignored.

Further, we made it clear in the Act that certain directives brought forward by the European Commission could only be passed by a unanimous vote. They included taxation, the free movement of persons and provisions relating to the rights and interests of employed persons.

I was quite happy that we had covered the most important things. To my amazement, the commission, realising that we in Britain were opposed to a draft-directive which sought to limit the working week to 48 hours, attempted to bring it forward under the Health and Safety provisions which require only majority voting. This is just not right.

But there is another point. The effort and efficiency of workers on the continent of Europe, especially in Germany, were held out as an example to us in Britain. It's quite a turn that other countries want to cut down the maximum work hours to 48 hours a week. Can it be that Britain is now the country to emulate — having the work ethic, having dealt with trade union law and having low taxation and low public expenditure?

Not to mention political stability. The Act has not come fully into effect and yet already we have the Maastricht Treaty. It is a long, detailed document and should be studied extremely carefully. Moreover, because the language is often opaque, governments should be asked precisely what certain clauses mean.

I suggest that those who have to decide whether to include its provisions in their own laws should ask four questions:

☐ Will it ensure and enhance democratic government? The answer must be no. It involves enormous transfers of powers from national governments to a centralised bureaucracy. It speaks of a common foreign and security policy. It extends EC authority in a host of fields and provides for majority voting in many of them.

Thatcher

For most States, other than Britain, it introduces a social chapter which was first mooted at the Madrid summit and which has already given rise to more than 43 initiatives, of which 17 are new draft directives.

Moreover, with the exception of Britain, which is keeping its options open (thanks to PM John Major), it is committed to the creation of a single currency no later than 1999. A single currency means a single interest rate, a single monetary policy, a single economic policy and eventually a single Minister. But control over economic policy and the supply of money to the executive is at the heart of parliamentary democracy.

The treaty passes colossal powers from parliamentary governments to a central bureaucracy. A dispassionate observer could perhaps be forgiven for wondering whether it is we in the West who are trying to convert the East to democracy, or they who are converting us to bureaucracy;

☐ Will the treaty and its associated provisions on a common foreign and security policy continue to assure the defence of the West?

It was the steadfastness of the Nato alliance which brought a bloodless victory over communism. This is in stark contrast to the enormous sacrifices of life that were made to defeat fascism in the first half of the century. Indeed, no alliance has been more successful in keeping the peace with freedom and justice than Nato.

The lesson we learn from history is that an American presence in Europe is vital to our security. We know that there is pressure from isolationist opinion in the US to withdraw from Europe. Some of us are very concerned that the Western European union, by taking a larger part in defence arrangements, could send the wrong signals to American opinion. While the agreement itself is careful to say that the obligations of certain member states under Nato shall be respected, it is the general impression that often matters when decisions are taken about the future disposition of American forces in Europe;

☐ Does the treaty and the general stance of the EC on trading matters improve the prospects for world trade?

The fact is that the protectionist policies of the Common Agricultural Policy are holding up the present Gatt round. Added to that, the social chapter which — again, thanks to Major, does not apply to Britain — will enormously increase industrial costs in Europe. This of itself can lead to increased protection just at a time when the world needs freer trade in goods and services.

Surely the EC should act as an example in upholding the post-war international structures which together were called the "new world order" and of which the Gatt is one;

☐ Are the provisions of the treaty, together with those of the EC as a whole, in tune with the instincts of the people? They have been deeply concerned at the scenes of destruction and killing, of families fleeing day after day not in some remote country, but in Yugoslavia, a part of our European continent. They have heard, day after day, of ceasefire after broken ceasefire. They have seen or heard of European monitors pulling out of Bosnia just when their presence seemed most critically needed.

Would it not have been better for Foreign Ministers to follow the advice of Germany right from the beginning to recognise Croatia and Slovenia? Then we could have given those countries, and later Bosnia, the requisite weapons with which to defend themselves.

Has not this experience and that in the Gulf shown that, when it comes to action, there is no substitute for the nation-state?

Real progress comes not from more bureaucracy, but from the values and institutions of government by consent — through Ministers seen to be accountable to their electorate.

These things are in tune with the instincts of the people. They are part of the heritage we have built up over the centuries.

Margaret Thatcher

BUSINESS

Upturn still seems far away

WMail 12/6-18/6/92

(49)

By MONDLI MAKHANYA

AN economic upturn remains as elusive as ever. First it was meant to happen in the first quarter of this year. Then this was revised to the last quarter. Now we are told it won't happen until the first quarter of 1993.

The gloomy outlook for the economy — which now quashed the euphoria surrounding the crumbling of sanctions and the flood of investment missions to South Africa in the last few months — is vindicated by the general pessimism in the May South African Chamber of Business (Sacob) survey of business confidence in the manufacturing sector and the 1,7 percent drop in the Business Confidence Index (BCI) released this week.

First National Trust's *Investment Overview* also paints a gloomy picture, saying when the upturn happens next year it will be "slow and hesitant".

On the retail front the Central Statistical Services released a report this week showing that March retail sales had declined 11,4 percent on last year's figure. The National Association of Automobile Manufacturers also disclosed that May sales of new vehicles — a barometer of economic performance — had fallen by 19,4 percent compared to last May and attributed this to tight fiscal and monetary policy as well as low business and consumer confidence.

Contributory factors to the decline in the BCI, says Sacob, were the decline in retail sales, an increase in registered unemployment, the decline in the sales of passenger vehicles and an increase in the number of insolvencies of both individuals and businesses.

According to the manufacturing survey, the number of businesses expecting an improvement in sales over the next 12 months has dropped from 58 to 51 percent between April and May. Manufacturers also said they would cut back on spending on new machinery and the maintenance of existing capacity and would reduce stock levels.

Investment Overview also attributes the decline in fixed investment — which is particularly pronounced in the public sector — to state spending shifting to spending on social services.

Local businesses' gloomy attitudes towards fixed investment, points out Sacob chief economist Ben van Rensburg, is particularly worrying because "if domestic investors are not investing here, how can we expect foreigners to invest?".

Blaming the drought, high interest rates and the stalling of political negotiations for the delay in the expected upturn and the pessimism of businessmen, Van Rensburg predicted a zero growth rate for the rest of this year. This will however alter next year and growth of between three and four percent can be expected.

De Klerk warns big SA business

49

ARG 13/6/92

■ President De Klerk has warned giants of the South African economy that they will have to make their terrain "more accessible to others."

MICHAEL MORRIS
Political Staff

PRESIDENT De Klerk has sent a warning signal to the profit-driven giants of the South African economy to be careful of stifling competition and to be more willing to share the limited domestic market.

The pursuit of wealth was vital in any successful economy, but the domination of the market by a relatively small group of powerful and profitable groups was not healthy, he said at Die Burger's "Businessman Of The Year" banquet in the city last night.

It was relatively easy for a few big groups to achieve and maintain dominance in South Africa's small economy.

Singling out powerful individual role players who were able to secure "a good life" for themselves in the absence of normal and healthy competition, he warned: "The consequences are obvious — unfair price increases for the local consumer and an inability to compete with imports."

Healthy competition was essential and the "established profit-makers, essential and welcome as they are, will have to help make the terrain they alone have occupied for so long more accessible to others".

"All individuals and communities must be able to share the fruits of private enterprise and development," he said.

He said the government's economic philosophy was founded on four principles:

- Maximising freedom of choice;
- Protecting property rights;
- Enshrining the pursuit of wealth; and
- Promoting vigorous competition.

These principles represented the sort of economy most moderate South Africans wanted.

However, this "capitalistic role-model" had potential shortcomings.

Among these was that "a market-driven system does not distribute the increase in welfare in an equitable manner".

Mr De Klerk said that, while an equal distribution of wealth was in conflict with the principle of private gain, there was, nevertheless, a necessity to achieve a degree of redistribution, whether through taxes or other means.

"The handling of this in a way that does not hamper the essential driving force behind economic growth is one of the most difficult and delicate tasks in economic policy-making," he said.

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Singling out powerful individual role players who were able to secure "a good life" for themselves in the absence of normal and healthy competition, he warned: "The consequences are obvious — unfair price increases for the local consumer and an inability to compete with imports."

Healthy competition was essential and the "established profit-makers, essential and welcome as they are, will have to help make the terrain they alone have occupied for so long more accessible to others".

"All individuals and communities must be able to share the fruits of private enterprise and development," he said.

He said the government's economic philosophy was founded on four principles:

- Maximising freedom of choice;
- Protecting property rights;
- Enshrining the pursuit of wealth; and
- Promoting vigorous competition.

These principles represented the sort of economy most moderate South Africans wanted.

However, this "capitalistic role-model" had potential shortcomings.

Among these was that "a market-driven system does not distribute the increase in welfare in an equitable manner".

Mr De Klerk said that, while an equal distribution of wealth was in conflict with the principle of private gain, there was, nevertheless, a necessity to achieve a degree of redistribution, whether through taxes or other means.

"The handling of this in a way that does not hamper the essential driving force behind economic growth is one of the most difficult and delicate tasks in economic policy-making," he said.

Business urged to back mass action

STAR
13/6/92

(49)

NELSON MANDELA.

DURBAN — Business should throw its full weight behind the ANC's mass action campaign as this will contribute far more to bringing peace and democracy to South Africa than the recent referendum had, according to Nelson Mandela.

CRAIG DOONAN

Addressing business leaders here last night, the African National Congress president stressed that the mass action campaign was not aimed at the private sector but was a strategy to increase the pace to democracy.

He said that while some had charged the campaign would impact negatively on business confidence, the ANC regarded the long transition proposed by the Government as far more damaging. He explained that investors would not be attracted by the protracted uncertainty.

Mandela told his audience: "If you want us to refrain (from mass action), come out and pressurise the Government to agree to an interim government. No proud country can allow a minority to continue with the mismanagement of their government."

The ANC leader said the majority of whites held the wrong perception that mass action would lead to violence. The mainstream press, he said, had also propagated this view. The ANC, however, was committed to peace and

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march led by American civil rights leader Dr Martin Luther King.

the police. Key distribution points will include railway stations.

Mandela

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● FROM PAGE 1

peaceful protest while the real causes for violence were the Government, its security forces and Inkatha.

Addressing the issue of nationalisation, Mandela said this policy remained an instrument of the ANC. But if it was ever implemented "it is likely to be used extremely sparingly".

"In fact, nationalisation may never be used as a strategy if there's maximum co-operation between business and ourselves."

He explained that some businesses had alreadybecome involved in a form of redistribution by allocating huge resources to the country's transition. Some businesses were also already making massive efforts to address workers' problems by offering housing, training, scholarships and other developmental programmes to them and "we hope the process will grow".

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Although the ANC still considered nationalisation as a strategy it would only implement it if a cost-benefit analysis indicated this was the necessary option.

The ANC supported a balanced approach to industrialisation which sought to overcome regional inequalities and imbalances. "We're concerned with our economy. We want maximum production and we want to cut down and eliminate unemployment.

"Our policies cover the need to open the economy to create competition and enhance the development of a dynamic private sector by the application of anti-trust legislation." — Sapa.

Wealth tax on ANC agenda

STAR 13/6/92 [illegible] [illegible] [illegible] 49

FRANK JEANS

THERE could be a variety of wealth taxes as part of the economic policy of a future ANC-dominated government of South Africa. Predicting tax policy in a new South Africa, Pierre le R du Toit, a partner of Arthur Andersen and Company, told the 25th convention of the SA Property Owners' Association at Sun City recently: "While I cannot speak for the ANC and can only guage its intentions from its statements, it is my impression we will see something along the following lines:

- Tax relief in the shape of continuing reducing rates is out.
- On the other hand, the income tax rates of 70 percent and over of the heyday of Afrikaner socialism will not return.
- There will be a variety of wealth taxes — capital gains/transfer tax, land tax, death duties — but these will be more perceptual than seriously revenue producing.
- There may be some decentralisation, but central government will delegate, rather than abrogate, the fiscal policy.

"This picture is not as horrific as we are often led to believe, but the ultimate test for the success of our future tax system will be found in our adherence to the rule of law."

Violence 'a problem' for SA's super salesman

STAR 13/6/92.

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BRENDAN BOYLE

CAPE TOWN — Apartheid reform has enabled President F W de Klerk to talk business in 33 countries since 1990, but violence and stalled democracy negotiations have made it hard for him to deliver any deals.

De Klerk got back on Monday from Russia, Japan and Singapore, his 14th safari to barter political change for a return to the world economy. He told reporters on his return he had no guarantees of new economic ties, but expected an improvement in trade with Japan and Singapore.

"Our goals were not to go back to South Africa with signed agreements of any nature (but) to explore and lay foundations for long-term mutually beneficial agreements. "The continuing violence is ... a problem."

Western diplomats, speaking on condition of anonymity, said in Cape Town that little had actually happened as a result of De Klerk's travels to boost South Africa's flagging economy. De Klerk has visited countries as diverse as Poland, Taiwan, Ireland and France since South Africa's diplomatic isolation began to ease two years ago.

One European envoy called him a consumate salesman and said his travels since he began to dismantle apartheid in February 1990 had increased the potential for trade. "But if you ask me, has he brought home new deals, new business? Well, I have to say, no, not directly."

The South African economy, skewed by 40 years of apartheid, is battling to break out of its longest post-war recession.

"There is a lot of sniffing around, a lot of research is being done in South Africa, but President de Klerk cannot pretend the violence is subsiding or that agreement on an interim government is near," said one diplomat.

About 1 000 people have been killed this year alone in fighting, mainly between the African National Congress and the Inkatha Freedom Party. One diplomat said Western leaders probably accepted that De Klerk was doing all he could to end the violence, although the ANC accused white-led security forces of fanning the conflict.

Foreign Minister Pik Botha played down the effects of the violence on De Klerk's credibility abroad — and the slow progress in talks on transition to democracy. "There is great admiration for him out there and a firm belief that this Government must not be ousted, that it must be part of the decision-making process."

Pretoria has opened 15 new embassies in the 28 months since De Klerk freed Mandela. But ANC spokesman Saki Macozoma is sceptical about the benefits of the welcome given to De Klerk in world capitals.

"They over-estimate him. The red carpet rolled out for him abroad is likely to be translated into increasing intransigence at the negotiating table."

Deputy Foreign Minister Renier Schoeman concedes that violence and instability are also delaying South Africa's entry to Middle-East markets.

"It is understandable that the often-heated rhetoric of the political debate ... contributes to an atmosphere of uncertainty," he said.

"There are still constraints inhibiting the expansion and consolidation of economic and political relations between South Africa and the Arab world." — Sapa-Reuter.

Stals' strong muti for revival

S Times (Buss) 14/6/92.

(49)

By KEVIN DAVIE

RESERVE Bank Governor Chris Stals is a conservative man not known for radical or dramatic views.

But now he is proposing a programme which could bring drastic and sudden changes to the economy. Markets would truly be freed and competition encouraged in every form of economic activity. Vested interests built up over decades would be forced to compete or go out of business.

Government spending would be pruned and redirected into productive rather than consumption spending. In short, the economy would be liberalised and deregulated so that South Africans could be freed to produce more.

"We have to put every assumption we've made about the economy on the table and think about it again," says Dr Stals.

He is talking about a structural adjustment programme (SAP), a plan which could work only with the support of most South Africans, but one which could break the declining growth rates of the past three decades.

"Economic growth fell from 5,8% in the 1960s to 3,2% in the 1970s and 1,8% in the 1980s. Will it be negative in the 1990s?" asks Dr Stals.

He believes that once sanctions and boycotts have gone, economic decline could well continue.

"The economy is not going to get higher growth rates by itself. We are going to have to adjust macro-economic policy."

The problem, he says, is deep seated, rooted in the basic economic structure which favoured capital rather than labour because interest rates were too low for too long.

Labour costs have risen sharply in real terms without accompanying rises in productivity.

"The result is that you get lower productivity for the same capital expense."

SA, says Dr Stals, has to employ an additional 400 000 people a year if it is to confront its central economic problem — unemployment. He says that unlike other developing countries which undertook SAPs because of balance of payments constraints, SA's point of departure is high unemployment.

But at a cost of, say, R50 000 a job created, R20-billion in savings will have to be found every year to provide work.

"At this stage total net savings add up to R25-billion. You have to finance a capital outflow of R5-billion. That leaves you with R20-billion. If the Government takes R15-billion to finance the budget deficit, then you've got R5-billion left."

Dr Stals says this analysis shows that the present macro-economic structure is not providing sufficient savings to be able to create vast numbers of jobs.

He stresses that he is not suggesting a planned economy: "But you can change the tax system, government expenditure, the size of the budget deficit, exchange rate policy ... all these influence the macro-economic picture."

Dr Stals says tight (although he prefers the term correct) monetary policy of recent years which has kept interest rates high is not sufficient to deal with these structural deficiencies.

Correct monetary policy will have to be co-ordinated with fiscal policy, wages and salaries policy, trade policy and exchange-rate policy.

SAPs typically run for five years. Quick fixes or kick-starts will not work, says Dr Stals, although stimulation is possible in specific areas, such as manufacturing, as part of the wider adjustment.

"There can be some stimulation right from the beginning. But people must not be artificially employed so that later you have to roll back again.

"Everything must be consistent with the overall programme."

A SAP would need the support of the International Monetary Fund (IMF), says Dr Stals, because liberalisation would bring growth and balance of payments deficits. IMF loan credits would have to be accessed. He stresses that the SAP should preferably be worked out by South Africans. Although it would cause some — perhaps considerable — pain in the short term, Dr Stals firmly believes that an adjustment is inescapable.

It would be better to do it sooner on South African terms rather than later, once the economy has completely bankrupted itself, on harsh terms applied from the outside by the IMF.

Short-term pain is the downside. The upside is that SA has many successful SAPs implemented elsewhere to draw on.

The problems SA faces have been overcome in many parts of the world. Mexico, Venezuela and Chile transformed low, even negative growth rates in the early 1980s into growth of 4,5%, 6% and 6% respectively by 1991.

Mexico brought down inflation in five years from about 160% to under 19%. Last year it attracted $10-billion of net new investment money, of which $3-billion to $4-billion was returning flight capital.

Will South Africans buy short-term hardship to break the pattern of declining growth and increasing inflation?

The Reserve Bank Governor is sure they will: "A country that has the courage to create a new nation should also be bold enough to embark on a structural adjustment programme to establish a prosperous new nation."

Chamber's new survey on economy

S/Times [C/ metro]

14/6/92

THE Cape Chamber of Industries is to conduct another survey among its members on how they see the economy affecting industry.

Response to the last chamber survey, in January, was good but the results were not encouraging.

Most respondents expected the economy to take 12 months or more to recover.

Since the last survey there is a growing belief that the world economy is beginning to recover.

This could augur well for South African exports and particularly the Western Cape with its strong export focus. (49)

However, the chamber points out that political stability appears to have taken a major knock with the Codesa process bogged down and threats of mass action possibly affecting economic and social stability.

The chamber is asking members to indicate which factors will stimulate their business in the year ahead, such as labour peace, new technology, export development and tax relief, and which factors will retard their business, such as labour disputes, political conflict, violence and the high cost of money.

Chamber members are asked to return the questionnaire before June 19.

Zimbabwe labour turmoil

ZIMBABWEAN labour relations have been plunged into crisis once again because of new government legislation and the worsening impact of the drought.

In the face of protests from trade unions and employers, the government has pushed a new set of amendments to the Labour Relations Act through Parliament. Both the Zimbabwe Congress of Trade Unions (ZCTU) and Employers' Confederation of Zimbabwe (EMCOZ) are accusing the Zanu administration of bad faith.

The ZCTU says the latest measures mark renewed efforts by the State at union-bashing.

Undermine

Included in the regulations which were ratified by Parliament on May 21 are new provisions allowing for shopfloor "workers' councils" with greater say in the collective bargaining process. At the same time the provisions undermine the negotiating capacity of individual workers' councils.

Free collective bargaining is a relatively new feature of industrial labour relations in Zimbabwe, having been introduced in 1991 as part of the government's moves to liberalise the economy. Between the adoption of the Labour Relations Act in 1985 and 1991, minimum and maximum wage scales, along with codes of conduct and retrenchment agreements, were supervised and heavily regulated by the labour ministry.

In 1991 the government withdrew and set up a process whereby employers and employees would negotiate terms of employment and wages through industry-wide employment councils and company-specific workers' councils.

At the same time the government introduced Statutory Instruments 379 and 404, giving workers' councils a greater input into the drawing up of codes of conduct and retrenchment regulations for specific companies.

C/Pres 14/6/92.

This alteration removed the likelihood of industry-wide standards of employment being maintained and opened the possibility of the fragmentation of collective worker action within and across industries.

That possibility of intra-union splintering has now increased in the wake of the 1992 amendments.

The new laws accord workers' councils preference over employment councils in the negotiation of terms of employment. Decisions reached by employment councils will no longer be binding over those reached at shopfloor.

Now industry-wide codes of conduct may be ignored by workers' councils and retrenchment disputes may be administered with equal authority by either workers' councils or employment councils.

While EMCOZ argues these new regulations mark the start of "real shopfloor democracy", further provisions contained in the amendments indicate otherwise.

A key feature of the new law is the designation of some workers as "managerial employees", who will henceforth be excluded from participation in worker councils activity.

The ZCTU argues this definition includes all low-level management workers – such as foremen, gang-leaders and supervisors – and notes these are precisely the types of workers who regularly represent employees on workers' councils. Furthermore, the ZCTU claims those lesser-ranked, usually less-experienced and more poorly educated workers who will be eligible for workers' councils will have less capacity to engage employers in fair and equal bargaining over a range of labour issues.

The amendments come at a time when relations between the government and the trade unions are growing increasingly hostile, in the wake of Zanu's structural adjustment programme (Esap) and the impact of the deepening recession on the employment sector. According to the ZCTU and EMCOZ, the free and fair collective bargaining which the government promised last year in keeping with Esap – and which both sides saw as an important factor in the rationalisation of industrial relations – has not materialised.

A mockery

While the ZCTU protests that the retention of a range of arbitrary powers by the labour ministry and the failure to introduce new measures to protect workers (from maternity leave benefits to controls over child labour) makes a mockery of the collective bargaining process, EMCOZ is chastising the government for souring the business investment climate. Both sides blame the government for failing to radically alter the status quo of labour relations, which in the past have been dominated by the State.

The new dispensation will soon be put to the test under conditions which are rapidly deteriorating. As unions across the country prepare for annual rounds of collective bargaining, reports by industrial experts are indicating drought-induced slowdowns and labour retrenchments in coming months.

Insurance: blacks forced to use elbows

C/Pres 14/6/92

Black entrepreneurs entering the insurance market wield enormous power. They may not have the capital resources or managerial expertise of the main players, but they command the buying power of the masses.

This situation is similar to that which prevailed when Afrikaner business began emerging in the 1930s, Jan Erasmus chairman of one of SA's leading independently owned broking firms told his company's 20th anniversary recently. He reminded guests that black business will for a long time remember the arrogance with which the white corporate world often treated them. The large insurers thought they were accommodating the black market by creating niche companies targeting black consumers. Blacks, however, pointed out Erasmus, saw this as an insult. They call such companies "commercial bantustans". The managing director of a black-run insurance company KHEHLA MTHEMBU (right) responds.

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THE economic disparity that exists in our country does not augur well for a stable economic co-existence of the different communities.

The white-dominated system has ensured that only white people control all meaningful economic and business activities. The insurance sphere is a glaring example of this.

In spite of black people contributing substantially to the insurance industry through their policies, provident/pension fund premiums, stokvels and other general insurance contributions, they have almost no say in the industry.

As things stand now, we have no single entirely black-controlled insurance company in South Africa. I need to stress that this picture existed in the whole African continent before independence. Indigeneous people were effectively prevented from forming insurance companies.

But after independence we witnessed the mushrooming of such companies. I do not think that in South Africa people will have to wait for *uhuru* before we embark on mission insurance.

Perhaps I need to stress the need for an insurance industry, especially in a developing county. The industry, by virtue of it being involved in the business of long term contractual savings, lends itself as a development agent.

The well-documented story of how the Afrikaners used institutions like Sanlam to improve themselves and uplift their poor, their old and disadvantaged, stands out as a shining example of what the industry can do.

In Britain, post-industrial revolution economic planners leaned on insurance and pension funds for development capital.

About two years ago I spent some time in the United States attached to one of the minority insurance companies. I was motivated to see how that company used its communities.

I was totally astounded to observe urban residential renewal programmes being carried out by the insurance industry. My admiration for the commitment that underlay the programmes was re-enforced by the reciprocation I observed from the beneficiaries.

This mutual appreciation led to savings from advertising budgets that got re-routed to the company funds to the benefit of all involved.

Examples of such partnerships are widespread in most democratic societies. The challenge is upon us in South Africa to emulate such shining examples.

In our country there is no black insurance industry – black people are being short-changed in benefits of insurance and pension developments.

The senior managers of companies are white and they tend to view development in their jaundiced way.

It is not surprising that in a society like ours. where homelessness, unemployment and all the other economic-related ills co-exist alongside obvious white opulance, there is the justifiable belief that wealth is being misdirected to develop the developed – the whites mainly.

About five years ago a group of us got together with an aim of establishing an insurance company specifically geared at black economic empowerment.

We would use insurance and incorporate professionals in accounting, insurance, marketing, law and general business.

Our first approach was to the Registrar of Insurance Companies (now renamed the Financial Services Board).

We were warmly received and given the licensing requirements which were basically:

■ Paid share capital of R10 000 000 – note that not a cent of this money was to be loan.

■ A local insurer – or insurers – had to be your partner/s to ensure technical support.

We found – and still find – these requirements fair. It was in trying to find that source capital that we hit the wall.

After knocking in vain on most doors in the industry, I am now convinced that an insurance company for black people must be run and controlled by black people.

As a result of my experience I am also convinced that the short-sighted mentality of the white insurance industry will always prevent such an initiative.

For example when I approached several companies some of them could not understand my "arrogance" – was that impudence? – for daring to be involved in the "white man's world".

In their annoying and patronising way they reckoned blacks were only good to run institutions like stokvels and other informal institutions.

Many believed that they were in the black market already and could not see the value of backing the new all-black venture.

I could now understand why some people described these "black market" companies as economic bantustans.

My views might draw slicky-worded protests from white insurance chiefs, but they are drawn from my frustrating experience of knocking on most of their doors, and my practical experience at Afsure Insurance Group.

In conclusion I want to challenge all our people to focus on this project as it has the capacity to enhance our gains in the struggle and also contribute to the general development of our nation.

Much of our debates are on the sharing and re-distribution of wealth: now we have the chance to create it for ourselves.

Open economy starting to roll

ST Times (BUSS) 14/6/92.

By KEVIN DAVIE (49)

FINANCE Director-General Gerhard Croeser has unveiled a six-point programme to free the South African economy.

Mr Croeser is a member of a task group headed by Reserve Bank Governor Chris Stals which has been asked by Finance Minister Derek Keys to draw up a draft report on a programme to restructure the economy.

Dr Stals said this week that his report would be completed "within three or four months".

Mr Croeser's six points, presented to a seminar convened by Frankel Max Pollak at Sabi Sabi last weekend, include a scientifically determined living wage and the reduction of support payments to strategic and munitions industries.

Also envisaged is the removal of undue protection for industries and a tax policy which does not promote capital intensity at the cost of labour.

The six points are:

- A monetary and fiscal policy aimed at reducing inflation and removing the balance of payments constraint on growth.
- A foreign trade policy that promotes international competitiveness.
- A domestic industrial policy which rests mainly on the expansion of domestic demand stemming from urbanisation.
- A policy which promotes effective competition through deregulation and the removal of barriers to entry.
- A labour policy which meets scientifically based living wage objectives and focuses on productivity and the volume of employment.
- A fiscal policy (taxation and spending) which promotes economic growth.

Warning

Mr Croeser said the Government had "in fact been engaged for some time now in this economic restructuring programme, inter alia as a result of the debt standstill".

Dr Stals said in an interview with Business Times (see page 3) that political progress had meant that the time was now ripe for the economy to be addressed.

He said a structural adjustment programme was necessary to arrest declining economic growth rates of the past three decades.

Dr Stals warned that SA might well find that economic growth continued to decline even when sanctions had gone.

The economy needed to be liberalised on the lines of successful programmes which have been implemented in countries such as Mexico, Argentina and Chile.

The programme would be painful in the short term, but would have to be undertaken sooner or later to reverse economic decline.

"How much pain will we suffer if we don't do it?" Dr Stals asked.

"My committee will draft a report which can be tabled for discussion and debate."

The programme would succeed only if all key parties agreed on its necessity and

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contents, Dr Stals said.

Other fiscal measures identified by Mr Croeser include broadening the tax base and lowering direct taxes; encouraging corporatisation and privatisation; and prioritising budget expenditures through affordability, cost-benefit analysis, user charging and the devolution of functions.

Mr Croeser added that production factors should be reallocated to reflect the goals of housing provision and the development of small farming and agro-industry.

There should also be reduced financial support for strategic and munitions industries.

Existing production and infrastructure capacity should also be better used. Job promotion was another integral component of sound fiscal policy.

Frankel Max Pollak economist Mike Brown said the Government was moving away from "quick fixes" or kick-starts to solve SA's economic ills.

MONEY MARKETS by Hilary Gush

Dealers flummoxed as market shortage exceeds expectations

BDay 15/6/92

ALTHOUGH special Treasury bills (TBs) of R1,5bn which matured last week were not rolled over, the market shortage was well above that expected by dealers.

The shortage, the extent to which the Reserve Bank — at a price — helps to fund the market, defied market logic by rising to R1,883bn on Friday from the previous week's R1,012bn. Dealers were at a loss to explain why, in a seemingly liquid market, the amount of Bank accommodation at the discount window was so high.

Market players think the shortage level targeted unofficially by the Bank seems to be around R1,5bn. The Bank's three-point plan unveiled last week to tackle high liquidity provides for the introduction of new tradeable nine-month bills. The market predicts these will be issued relatively soon, possibly within the week. Dealers forecast that the Bank will have no difficulty in selling these which, they say, are attractive in the short term.

In a week of rather flat trading the average rate on the three-month TB was marginally higher at 14,02% from 13,99% the previous week. The rate on the six-month TB was slightly lower at 13,60% compared with 13,58%.

The BA rate continued its slow decline and traded at 14,10% late on Friday. This was down on the preceding week's 14,40%-14,55% trading range, continuing to indicate an expected easing of money market conditions.

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Call rates remained relatively stable at 13,75%, but some banks where accepting rates of up to 14,75%, dealers said.

Capital market rates were largely unchanged at the close of trade last week. The yield on the Eskom 168 was at an estimated 15,79% on Friday after trading in a very narrow 15,74%-15,79% band during the week.

Government's R150 followed a similar trend, trading at approximately 15,94% throughout the week and bouncing to a 16,01% high on Friday morning. By the close the stock was trading at 15,995% compared to its closing 15,95% the previous week.

Dealers attributed the yield's upward blip to the activities of jobbers in the market who were reportedly taking a punt on the uncertainties in the short-term political situation. Looking ahead over the longer term, analysts said sentiment on the capital market was expected to regain its former bullish outlook.

Chamber has a ray of hope

Sowetan 15/6/92 (49)

By JOSHUA RABOROKO

THE Southern Transvaal African Chamber of Commerce and Industries will hold its 22nd annual conference at the Jan Smuts Holiday Inn on Wednesday and Thursday this week.

The conference, whose theme is: "Meeting the Business Challenges of the Future South Africa", will be addressed by representatives from various business organisations.

They include Mr Reuel Khoza, managing director of Co-ordinated Marketing and Management, Mr GJJ Breyl, deputy director general of Trade and Industry, Mr S Thlopane, manager of the CSIR's equal opportunities programme.

An ANC representative, who has not yet been named, will deliver a paper on the organisation's economic policy.

The conference takes place at a time when South Africa is beleaguered by continued violence, increased crime, rising unemployment, high inflation, a stuttering economic and a political impasse.

Resolutions taken at the conference will be forwarded to Nafcoc's annual conference to be held at Sun City next month.

Soutacoc president Mr Joe Hlongwane said a move by certain countries in the West and the East to relax sanctions was a ray of hope for the future.

"As a chamber of commerce, our main interest lies in business development. To this end, our conference theme is geared to tackle the issues that would address our business emancipation,.

"We realise that the road ahead will continue to be rough and full of pitfalls but by working together politically and economically, we shall overcome," he said.

Price hikes below inflation

Motor industry's bid to woo buyers

[redacted] CT 15/6/92

Own Correspondent

JOHANNESBURG. — Motor manufacturers are expected to peg price increases below inflation in a long-term strategy to woo back private buyers, industry sources said.

National Association of Automobile Manufacturers of SA (Naamsa) spokesmen said that in an attempt to make vehicles more affordable, pricing would be especially keen this year. Last year price increases averaged between 15% and 23%.

"The crux of the matter is that seven motor assemblers are all scrambling for a greater share of a car market which is unlikely even to top last year's 197 736 sales," one said.

At the beginning of 1991, Naamsa forecast 1992 sales at 200 000, but has since revised this to 190 000 due to plummeting sales. Toyota revised its forecasts from 205 000 to 185 000, while Nissan lowered its forecasts to between 187 000 and 189 000.

Toyota marketing MD Brand Pretorius said excluding the effect of new model launches, manufacturers were showing great restraint in pricing in an effort to bring price escalations below inflation.

This was confirmed by Nissan marketing MD Stefanus Loubser who said the company would attempt to keep price increases at about 12% in 1992.

Pretorius said the local content programme's contribution to price increases would not be as high as last year, when Phase VI added 7,5% to car prices.

Econometrix economist Tony Twine said car prices had increased at an average compound rate of 23% a year since 1985, while inflation had averaged 15%. This meant car prices doubled in real terms every nine years.

Last year, the average inflation rate of vehicles was 23,5%, but Twine believed this would fall to 19% in 1992.

However, vehicle prices would increase by 16% in 1992 compared with 1991. The cumulative effect over three years was that vehicles prices would have increased by 65%, said Twine.

He predicted that interest rates would be lowered by one percentage point next month and towards the end of the year which could stimulate sales in the second half. However, the increase would not be enough to top 1991 sales, he said.

Naamsa said in its 1991 annual report that any expansion in the industry's business activity over the next three to five years was unlikely to come from growth in local vehicle sales. Growth and development would have to come from exports.

High interest rates, low business confidence, domestic and international recession and political and labour instability stunted industry growth at present.

Clicks *will* buy Musica

CLICKS Stores said it would go ahead with its acquisition of Musica (Africa) Holdings Ltd after terminating talks earlier.

The companies said in a statement that agreement had been reached with creditors of Musica.

The due diligence probe referred to in a statement on May 24 showed that the tangible net asset value of Musica at March 31, 1992 was materially less than the R1,5m warranted, it said.

The Goosen family, who own 71% of Musica's issued capital, will accept Clicks' offer of 5c per share. If Clicks did not gain at least 90% of the issued capital, it would acquire Musica's subsidiaries for R1,2m, reconstituting it as a cash shell and suspending its shares on the JSE. — Reuter

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Govt set for R1bn special T-Bill issue

(49) CT 15/6/92

Own Correspondent

JOHANNESBURG. — The Reserve Bank is likely to issue R1bn in special nine-month Treasury bills over the next week.

The issue is expected to be well bid.

One dealer said the Bank was unlikely to issue the entire amount at once, but rather over a few days.

The issue would be in line with the three-point plan recently announced by Reserve Bank Governor Chris Stals who indicated that an issue of this size would be made to mop up liquidity.

Money market rates hardened on the expectation of the issue. Overnight call rates for borrowing traded around 14,00% from their recent steady 13,75%.

The Finance Department, meanwhile, said on Friday it would soon issue two zero-coupon stocks. It expected one would be a R300m (nominal value) with a five year tenure to maturity. The other, also for R300m (nominal value), would have a seven-year tenure to maturity.

The Bank will market the bonds.

The department first announced its intention to issue two zero-coupon bonds on Friday when it said an official announcement was on hold pending formal approval of the scheme by the parliamentary committee on public accounts.

Zero-coupon bonds had been found to be popular among foreign investors. These bonds carry no interest payments but are issued at a substantial discount to their face value.

The returns are attractive in an environment of volatile interest movements because the holder can calculate the effective yield at the time of purchase. As the redemption date draws closer, the bond price usually rises towards its nominal face value, assuring the holder a profit.

Sources said there was unlikely to be a cost advantage to the department. The objective of the issues was expected to improve government debt marketability.

In my view . . .

A daily commentary on current economic affairs by writers of The Star.

Ain't necessarily so

STAR 15/6/92 [redacted] (49)

By John Spira

Very few economists, businessmen and expert observers believe that inflation in South Africa can be licked.

The overwhelming majority view is that it is built into the system; that the inflation psychosis is endemic; that the nation's prospective new government will spend as recklessly (if not more so) than the existing administration; that monopoly pricing is here to stay; and that wage demands running ahead of productivity growth will continue to characterise the domestic economic arena.

I don't subscribe to so pessimistic a scenario.

Sure, the supporting arguments have much merit, since it isn't difficult to argue a case based on an extension of the status quo.

Hopefully, however, there's scope in the debate for contrary opinion — a view which considers a fresh and imaginative approach to a problem that has been successfully tackled in many other countries, where the same sceptics as we have here expressed the same strong reservations.

Our former Finance Minister frequently used the threadbare First World/Third World argument to highlight the futility of achieving a solution.

It's an excuse that has lost all credibility in the wake of the enormous successes achieved in countries like Mexico, Argentina and Brazil — all economies which have amalgams of First and Third World features similar to those which characterise the South African situation.

Nor are these the only role models — models which, many contend, differ from this country in many respects.

So what about New Zealand and Australia? The former, in spite of the strength of its trade union movement, is recording zero inflation, with the latter not far behind.

Yes, it was painful; but we in South Africa have also suffered much pain — without the sought-after results.

The answer — palpably obvious if we're to study the lessons learned elsewhere — is that we haven't pursued the correct strategies.

Yes, we've followed a restrictive monetary policy. But it hasn't worked because it wasn't supported by a fiscal policy that slashed the size of the government sector, while simultaneously encouraging fixed investment and improved productivity in the private sector.

Nor have we gone all out to reduce individual tax rates (as every winning economy has done).

Instead, the Government, in its "we know better than they" wisdom, has piled on the tax agony, spending the proceeds as wastefully as governments the world over are wont to do.

It's time our policymakers got off their butts and emulated the goals sought and achieved by others.

Such formulae aren't patented; transplanting them here costs nothing.

We've come a long way along the road to political reform. For how long must economic reform be treated like a poor relation?

Nelson moves to reassure business

CT 15/6/92

(49)

DURBAN. — Mr Nelson Mandela has assured the Indian business community that they will not be affected by any possible nationalisation should the ANC come to power.

Speaking to a group of businessmen at the Port Shepstone Civic Centre yesterday, he said the organisation was only looking at the few conglomerates which controlled the country's entire economy.

He said: "The support of the business community is absolutely important in our struggle. The white business community has resources, knowledge, skills and technology.

"It is not possible to correct the mistakes of the past without the involvement of white South African business."

Mr Mandela assured business people that the ANC had shifted its initial position on nationalisation.

He said should there be a need for nationalisation, the ANC was prepared to offer fair and satisfactory compensation.

Mandela assures Indians on economy

STAR 15/6/92

Own Correspondent ㊾

DURBAN — ANC president Nelson Mandela has assured the Indian business community that they would not be affected by any possible nationalisation once the ANC came to power.

Speaking to an influential group of businessmen at the Port Shepstone Civic Centre yesterday, he said the organisation was looking at the few conglomerates which controlled the country's economy, and that the Indian business sector was not even close to this magnitude.

And at a rally in Phoenix yesterday, Mr Mandela reminded the community that the NP Government was responsible for shootings, killings, and group areas, which had resulted in thousands of Indians being resettled.

He told the businessmen: "The support of the business community is absolutely necessary in our struggle. The white business community has resources, knowledge, skills and technology. It is not possible to correct the mistakes of the past without the involvement of the white South African business community."

Mr Mandela assured the businessmen that the ANC had shifted its initial position on nationalisation. The Freedom Charter position had made it almost an ideological position, but the organisation considered it an option.

He said that should there be a need for nationalisation in any sector, the ANC was prepared to offer fair and satisfactory compensation.

Mr Mandela said business owners would also be allowed to repatriate their dividends and profits.

The ANC leader said he had been in touch with leaders of countries such as Vietnam and China with a view to exchanging ideas on this topic, and they had informed him that their respective countries were already cutting down on the public sector and encouraging a market economy.

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CT 16/6/92

Mass action jitters send markets reeling

LEADING industrial shares reeled, capital market rates came under pressure and foreign investors shied away from the finrand as nervousness gripped financial markets yesterday ahead of the start of ANC-led mass action.

The JSE Industrial Index slumped 1,4% or 67 points to close at 4 523 but futures dealers ascribed part of the downturn to window dressing of share prices on the close out of June futures contracts.

The sharp falls of blue chips were seen as an indication that the market was more concerned about the campaign and possible violence than was expected last week.

The Overall Index fell 22 points to 3 688 with losses outnumbering gains by more than two to one and only precious metal shares bucking the softer market trend.

The buoyancy of gold shares came on the back of the metal rising nearly $3 in London to flirt with the $343 level before easing back slightly. Analysts were looking for the metal to break through $345.

But part of the 35-point gain in the JSE Gold Index to 1 148 was said to have come from buying of index-weighted shares by futures traders. Platinum shares also made solid gains despite the metal slipping back to $371 in London.

The weakness of the financial rand, which tumbled almost 3% to R3,6150 to the dollar from Friday's R3,5150 as jittery investors squared positions, provided support for currency-linked shares.

Bond prices fell for a second successive day as the capital market viewed with growing alarm the threats of mass action.

The yield on the Eskom 168 bond rose to an intraday high of 15,92% before ending off the top at 15,89% against Friday's closing 15,79%. The R150 gilt yield closed at 16,12% against Friday's 16,01%.

On the JSE, dealers said buying in golds was mostly professional with a few orders coming from offshore. Strong gainers were Western Deep Level which rose R4,35 to R104 and Dries which added R1,75, or 4,32%, to R42,25.

Vaal Reefs came off a high of R185,50 to close up R1,50 at R183.

Rusplat rose R1,50 to R85

Charter, boosted by the weak finrand, gained 50c to R34,75 and Minorco climbed 55c to R47,75.

Industrial share Rembeheer recovered from R17,75 earlier to close R1,15 down at R18,50, while subsidiary Remgro ended 75c lower at R25,75. Barlows closed 5c easier at R57,75, off a low of R57. — Own Correspondent and Reuter

Slow start for zero-coupon stock issue

BDay 16/6/92

(47)

HILARY GUSH

THE tender offer of R600m RSA zero-coupon stocks made by the Department of Finance closes this afternoon following a lukewarm reception from the market yesterday.

Dealers say the terms of the issue are unclear and the yields effectively offered comparatively low. The issue is generally not expected to be well bid.

The two issues of R300m (nominal value) each have maturities of five and seven years and are being marketed by the Reserve Bank in multiples of R1m.

Zero-coupon bonds bear no interest rate, but are issued at a considerable discount to their face value. As the bond matures, the price normally rises towards its nominal face value thereby securing a profit for the holder.

In times of interest rate volatility the bonds are regarded as attractive as the bearer can calculate the effective yield at the time of purchase.

Capital market players yesterday computed the yield on the five-year bond to be an effective 14%, while the seven-year stock yielded approximately 14,50%. They believed that, to be attractive, these rates had to be about 14,70% and 15,10% respectively.

An analyst said the characteristics of the bonds, including the absence of reinvestment risk, made them unique and explained the lower rates on offer. Dealers reckoned returns should be a maximum 20 to 30 points below the yields on a normal bond.

They said the returns represented by the minimum price acceptable to the Reserve Bank were, however, about 50 points beneath conventional bond yields. At such a margin below standard yields, market players did not expect the tender offer to be very well received.

Another trader said a further drawback to the issue was that no comprehensive taxation structure had been finalised. He believed tax on capital appreciation would follow a curved amortisation basis, and would have to be settled between the individual taxpayer and the Receiver of Revenue.

Market players believed one of the reasons the Finance Department elected to issue zero-coupon bonds was the instruments' popularity with foreign investors. However, traders reported some confusion in early tendering yesterday over the conditions of the issue, which initially prohibited purchases through the financial rand.

Players expect the Bank to clarify the issue's exchange control provisions before the close of the tender this afternoon.

OPINION

The impact of protests will be on investment confidence, argues **Joe Latakgomo**

Mass action brings danger

STAR 17/6/92

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AS South Africa emerges today from the launch of the ANC-led mass action campaign, and the dust from marches and toyi-toying begins to settle, debates over how much such campaigns cost the country will be revived once more.

There will be the usual pessimistic estimates of over R1 billion, and the more realistic view that yesterday, at least, will have cost industry no more than an ordinary holiday as most unionised companies have negotiated a June 16 holiday. The impact will, however, be felt more by workers employed in the under-ten category of employer, who would usually not be unionised. In the present economic climate, it is this category of employer who will use the opportunity to lay off workers without the liability of severance pay.

The greatest impact on the economy, however, is long-term, particularly in investment confidence. At the end of the ANC policy conference, secretary-general Cyril Ramaphosa said his organisation was ready to govern, raising the question of whether the organisation was ready to make the transition from a liberation movement to a political party.

The economic policy from that conference still reflects a focus on redistribution, and emphasises a programme of systematic growth — creating a strong, dynamic and balanced economy which would, the document claims, eliminate poverty, democratise the economy and create employment opportunities.

The business confidence index declined somewhat following this conference, but it was the subsequent threat of mass action which shook confidence even further. Nelson Mandela said that nationalisation had to remain part of the ANC's policy, and suggested it was part of other Western countries' economic policies, naming Germany.

At the weekend, Mr Mandela reportedly said that while he realised the negative impact his organisation's campaign would have on the economy, it was the only way left for them to force the pace of negotiation as the Government had not responded to the ANC's compromises.

Professor Charles Simkins, professor of political economy at Wits, once observed in a paper that for South Africa's economic growth rate to be improved, one of the requirements was a return of direct foreign investment.

"Signs of interest are appearing at present, but whether the policies to sustain it will emerge remains to be seen . The 'post-apartheid dividend' will not materialise automatically," he said.

Another economist pointed out that investment interest in South Africa is at the moment only at the level of looking. Investors are bringing with them their notebooks, rather than their cheque books, he said.

When President de Klerk started his reform programme in February 1990, he seemed to have prised loose the rock of sanctions long held in place by the country's apartheid policy. The ANC lost the initiative on this issue. In response, they resorted to threats of reneging on debt repayments, and even action against investors who considered investing.

Conflicting signals kept on emerging from the organisation. Recently, Thabo Mbeki restated the ANC's position that investors should stay out of the country until an interim government is in place. This presupposes that investors will be queuing up to put their money into South Africa.

Two factors seem likely to influence investors. The first is political, and the other is the violence that has wracked the country over the past four years.

Investors will be looking for areas where they can get the best possible return for their money, and, as we were told by a businessman during a visit to Austria by a group of South African journalists recently, South Africa is not an attractive investment proposition at all.

Austria has identified what it calls "focus countries", and we are not one of them. Other major Western countries hold similar views, in spite of what they may say to South African politicians who visit them.

One economist described the ANC's policy as "the kiss of death", and another added, referring to the forces which drive investment offshore: "These forces are: potential returns on investment, certainty in both the political and economic environment, a proven history of macro-economic policies aimed at preserving the value of currency, and the ability of government to follow economic policies which foster sustained economic growth."

The outcome of the referendum not only accelerated the removal of sanctions, it also gave domestic investment a boost. But whether this can be sustained in the light of the current campaign is doubtful.

An example of how easy it is to scare off investors is the recent decision by food giant Heinz, who called off a multimillion rand deal reportedly because of ANC policies. The ANC, however, insist the withdrawal was because of the lack of progress at Codesa 2.

Many other investors are holding back, ostensibly until an interim government is in place, but more likely until clarity emerges on a future government's economic policy once the leap from sloganeering and toyi-toying to governance has been made.

The actual cost to South Africa of mass action therefore goes beyond simple calculations based on production hours lost. How the Government reacts to the campaign will also be important. Already, the police have embarked on an advertising campaign to persuade South Africans that the security forces are not opposed to mass action per se, but would act if laws are not obeyed.

The intention seems to be to put the responsibility of acting peacefully with the ANC and its affiliates. Then there are those organisations who oppose the action — like the Inkatha Freedom Party who would no doubt assert its right not to participate in the action. While the PAC and Azapo oppose the action in principle, their followers are less likely to engage in confrontational acts.

The danger always remains that in any sustained programme of action, the chances of violent flare-up increases as tempers are frayed. The possibility of *agents provocateurs* sparking violence also remains a real danger. It is this violence that will be reported overseas and which will influence the decision-makers. □

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In my view . . .

A daily commentary on current economic affairs by writers of The Star.

Prepare for the super-boom

Star 17/6/92.

(49)

By Derek Tommey

A year ago about all that politicians could talk about was the "peace dividend".

They saw the ending of the 43-year-old Cold War as opening a vista of extensive disarmament, the running down of arms factories and the release of millions of men and women from the world's armed forces.

Most important of all, they saw an end to the huge amount of taxpayers' money that had to be spent on the military.

This money, they said, could now be used to give the ordinary individual a peace dividend by way of better social welfare and health facilities, improved education and housing, and so on.

Oddly, there was little talk about reducing taxes and letting the taxpayer improve his lot himself, but can one expect anything else from politicians?

To some extent these politicians are right.

The ending of the Cold War has opened the way to a major improvement in living standards around the world.

But what these politicans overlooked is that it takes time and also tremendous pain to shut down a war machine and replace it with one geared to peaceful production.

This process subjects economies to major distortions during which millions of people become unemployed.

Disruption

In South Africa, Armscor and its sub-contractors employed 120 000 people at the peak of the arms boom. Today Armscor and its associates employ about 16 000.

The result, which should have been fully expected both here and overseas, has been a major recession.

The world has suffered the pain and disruption of demobilisation several times in the past, notably after the Napoleonic Wars, the Crimean War, the American Civil War, the South African War and World War 1.

Surprisingly, it did not do so after World War 2, possibly because some three years after that war ended the Cold War started and re-armament began once more.

Heavy toll

But this post-war slump does mean that for the first time since 1935 there has been no major armaments industry around to help cushion a decline in business.

It is no wonder that the recession is taking such a heavy toll.

But this is no reason to be pessimistic about the future. The peace dividend will come through in time and the results could be phenomenal.

For the past 40 years most of the civilised world has have been spending phenomenal sums of money preparing for war.

Now that this money is starting to become available for for peaceful purposes, we can look forward to a rapid and major improvement in living standards everywhere.

In my opinion the current watchword should be: Prepare for the super-boom.

Contraction in economy forecast

BDay 17/6/92. (49)

SHARON WOOD

SA faces its third year of a shrinking economy this year, buckling under a severe drought and spiralling recessionary conditions, economists said yesterday.

Private sector economists have significantly scaled down their forecasts for growth this year, from predictions of modest positive growth early this year to a new consensus forecast of a 0,5% contraction in GDP during 1992.

Hopes and expectations for an economic turnaround later this year are unlikely to be fulfilled because economists expect a rebound in the economy only next year. The growth range forecast for next year is between 2,5% and 3,5% and this is largely dependent on a normal agricultural season.

In an interview with Reuters in Switzerland, Reserve Bank Governor Chris Stals said the harshest drought in decades would condemn SA to the third consecutive year of recession and would halve its balance of payments surplus. Instead of growth in GDP of about 1%, SA would experience another year similar to 1990 and 1991, when output shrank in each year by about 0,5%.

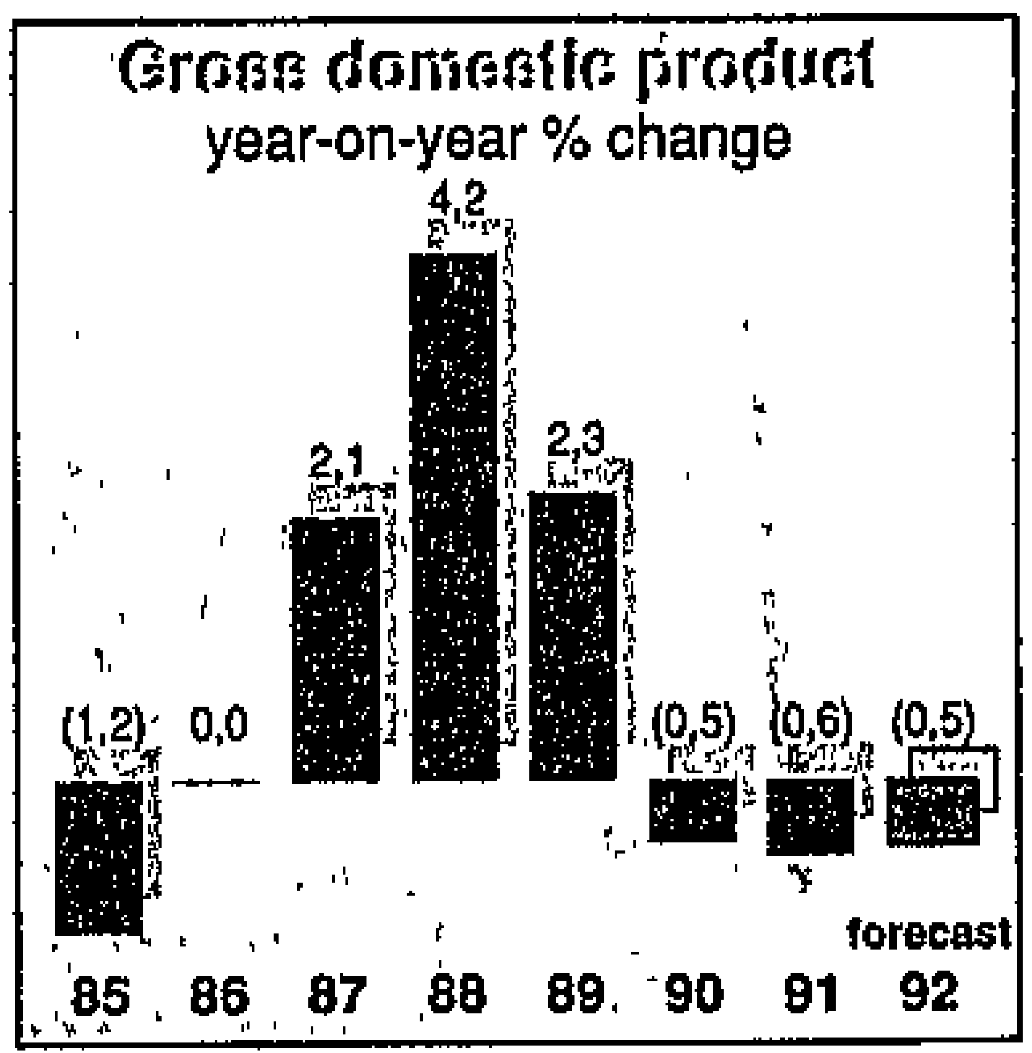
Nedcor Bank chief economist Edward Osborn said a 0,5% decline in GDP would be very realistic. "A combination of the drought, soaring food prices and retrenchments has had a cumulative effect on personal disposable incomes, depressing consumption demand and ultimately domestic production. We are now seeing the cumulative effect of the recession working on itself."

The only factor buoying the economy was government consumption expenditure. While two interest rate cuts were expected in the third and fourth quarter of this year, these would have no impact on growth.

Next year the economy would bounce back with growth of about 3,5%, he said. This forecast was based on a recovery in the agricultural sector and international commodity prices, which would cause a distinct improvement in exports.

Simpson McKie economist Graham Boyd said positive effects on the economy next year, such as lower interest rates and an acceleration in export growth accompanied by higher commodity prices, would have an impact on the economy only in the fourth quarter of next year at the earliest. Until then the economy seemed fated to remain in recession.

Boyd's outlook for the economy as a whole in the next two years is a 0,5% decline in GDP this year and a rise of about 2,5% in 1993.



Graphics RUBY-GAY MARTIN Source RESERVE BANK Forecast ECONOMISTS

‘SA must set its target at 4%’

Stals outlines scheme for super growth

B/Day 17/6/92

(49)

SIMON WILLSON and SHARON WOOD

SA desperately needed a new expansionary phase that would create new job opportunities, Reserve Bank Governor Chris Stals said last night.

Speaking at a meeting of the Munich Association of International Affairs, Stals said SA needed more than just a normal cyclical recovery that pushed the growth rate up to 2% or 3% in the next couple of years.

“With a population growth rate of about 2,5% and an existing backlog of more than 2-million unemployed people, the country needs to grow at an average rate of at least 4% for the rest of this decade.

“It is estimated that at this stage only about 55% of the total economically active population of about 13-million people is employed in the formal sector of the SA economy, whereas about 30% earn some kind of living in the informal sector. This leaves about 15%, or 2-million people, unemployed.”

Major structural adjustments would be necessary to achieve the 4% growth rate, including an increase in the supply of savings for financing new capital investment projects; an improvement in the capital-output ratio; an increase in labour productivity and a reversal in the net outflow of capital. “The share of the public sector in the total economy will have to be reduced to raise the multi-factor productivity of the overall economy,” he added.

“The combination of political uncertainties and a depressed real economic situation provides the monetary authorities in SA with an unenviable task.”

He said the drought and the disappointingly slow internal political negotiations may have extended the beginning of the business cycle recoveryinto next year.

Capital outflow had averaged about R5bn a year since 1985 and added up to a total of R36bn over seven years, he said.

“Most of the capital outflows were used to redeem foreign debt and the total net foreign debt of the country declined from $23,7bn at the beginning of the debt standstill arrangements in August 1985 to $15,6bn on December 31 1991.” SA needed a net capital inflow of at least $2bn-$3bn a year to push up its growth rate.

On the monetary policy side, he said the rate of increase in the major monetary aggregates was still fairly generous, particularly because the total volume of goods and services produced in SA had declined over the past year. Therefore, the Reserve Bank had no alternative but to persist with a relatively restrictive monetary policy.

“The SA Reserve Bank remains committed to fight inflation and accepts that there are unavoidable time lags involved in changes in the underlying monetary conditions and subsequent changes in the rate of inflation,” he said.

Speaking earlier in Basle, Switzerland, Stals told Reuter that SA would tap the Euromarkets again this year, but gingerly.

“For the rest of the year there will be a few further loans, most to replace maturing loans, but I don’t think it is the intention to come to the markets in Europe with big amounts this year,” he said.

High interest rates and other factors currently made the Euromarket an unattractive option, Stals added.

Struggle enters 'last phase'

Sowetan 17/6/92

By MONK NKOMO

49

THE struggle for freedom has now entered its last phase before a popular flag was raised in this country, people at a June 16 commemoration service in Atteridgeville, Pretoria, were told yesterday.

Pamphlets distributed by the local ANC Youth League at the service held at the Roman Catholic Church, said historic victories achieved by blacks revealed that it was only through mass action that the Government could be made to listen.

"While the struggle for freedom enters its last phase before a popular flag is raised in the country, the Government seems intent on unilaterally restructuring the economy, privatising vital State institutions and imposing VAT on us.

"These economic changes will make conditions worse for workers and cause mass poverty. These changes are also intended to severely reduce the economic and political power of a future democratic government,'' the Youth League said.

Political education officer of the Youth League, Mr Kgoro Dau, said events had turned for the worse since the release of political leaders and the unbanning of political organisations in 1990.

He also gave a report back on deliberations between the ANC and the Government at Codesa and said there was a deadlock at Codesa 2 and "the regime does not want to move''.

Dau also expressed concern about the decline in political activity especially by youths since 1984/5.

Police monitored the proceedings from a distance but no incidents were reported at the time of going to Press.

In remembrance of June 16 and in honour of the role South African youths played in the struggle for freedom since 1976, the ANC alliance yesterday announced it "and other democratic forces'', had declared June 16 South African Youth Day.

In their pamphlets, the ANC Youth League said: "On this June 16, let us brace ourselves for greater forms of mass action.''

COMPANIES

Good demand for Treasury bills

HILARY GUSH

THE Reserve Bank's nine-month Treasury bill (TB) tender offer yesterday reflected good demand for quality assets, dealers said. The issue was well subscribed with the total received reaching R1,426bn for the R500m on offer, at an average rate of 13,11%. BDay 17/6/92

The format of the weekly TB tender was altered in the first week of June with only three- and six-month and no nine-month paper being issued. (47)

The three-point plan recently announced by Reserve Bank Governor Chris Stals indicated an issue of R1bn would be made to mop up liquidity.

Analysts were, however, uncertain about when the next bond issue of R500m would take place. Some dealers expected it at the beginning of July before substantial maturities of R116 stocks towards mid-month, while others speculated the TBs would be issued either today or tomorrow. One dealer said the timing would depend on money market liquidity and cash inflows to the Reserve Bank, which were hard to gauge as foreign exchange payments were not made public.

The implementation of the commercial banks' new 5% reserve requirement (up from 4%) scheduled for July 21 would drain the market further, dealers said.

Market participants said the 13,11% rate was slightly lower than expected, but more or less on par with standard nine-month TB rates which measured 13,10% when last issued on June 5.

Sharing crucial for change

Sowetan 17/6/92.

SIPHO SHABALALA, economics secretary of the PAC, argues that redistribution is an essential for change. This is an edited version of a speech he gave to a United Nations conference in Namibia.

THE degree, extent and quality of socio-economic development in any country is the critical measure of the quality of human life, degree of human development and the essence and meaningfulness of democracy.

The key to this achievement is the access to productive economic resources; access to opportunity to acquire skills; and, the democratic participation of the people in their socio-economic development effort.

Accordingly, the redistribution of resources and economic growth should be an integrated strategic focus for our country.

South Africa has and is characterised by the concentration of political power (political resource or resource in a political category) to the white minority at all the levels of the State and within individual economic corporations.

The concentration of political power is in a symbiotic relationship with the concentration of economic power.

The existing concentrated ownership of productive and social consumption resources by a small section of the society is an impediment to the democratisation process in the country.

It provides fertile ground for social and political conflicts between the haves and the have-nots; retards economic growth and efficiency.

The existing extreme economic inequalities were brought about by specific political, legal, regulatory and supportive market forces. Through time these extreme economic inequalities have been reproducing themselves.

There is a need to emphasise that the present inequalities were not brought about by market forces alone and, therefore, cannot be reversed or eliminated by these forces on their own.

The objective for the redistribution of resources should be a deliberate intervention by the State and individual corporations to correct the ills associated with the above inequalities.

The redistribution focus should, in summary, be as follows:

- The redistribution of resources for social consumption such as housing, health facilities and services, nutrition, infrastructural development (roads, communications means, transport etc.); rural, semi-rural and urban electrification; provision of clean water and quality sanitation for marginalised African communities etc. The emphasis here is alleviation of poverty;
- The economically marginalised to be provided access to productive resources in economic terms (land, finance capital, credit, technology, economic organisations etc.).

One of the critical indicators of human development in our country, should be represented by an increasing number of the African people participating in economic activities.

Not as objects of economic growth but as principal creators of wealth and decision makers in the mobilisation and allocation of economic resources for different uses and for different generations;

- On the political and constitutional transformation front, the negotiation process must be democratic and democratising. The end result of this process should be the effective transfer of political power (redistribution of political power as a resource) from a minority to the people: The African people; and

> *‘The concentration of political power is in a symbiotic relationship with the concentration of economic power.’*

(49)

- Within individual economic and non-economic institutions the empowerment of all the participants (employee, managers, members etc.) directly and/or representatively, in the occupation of position of power, control and influence in the critical decision making structures and processes.

The above redistribution focus will, in summary form, take the following specific forms:

(a) Equity-denominated wealth and resources, and decision-making powers within business organisations in the private sector will be redistributed to workers and African potential and actual managers.

In addition, corporate ownership (equity-dominated wealth) will be spread to new outsiders as represented by institutional funds (pensions, social security contributions, life assurance contributions etc) from the currently disadvantaged African people or the individual members of the African community.

(b) Human resources development and training programmes to ensure African advancement to senior positions and to ensure productivity and the opportunity to earn higher income will be integral parts of the redistribution focus.

Private business firms and State enterprises to contribute to their employees, (and their dependents) housing, education, health, insurance and recreation needs.

(c) The provision and access to productive economic resources to the currently disadvantaged potential and actual entrepreneurs to help them to possess or develop chips, capacity and to exploit opportunities so as to be creators of wealth and resources using different appropriate ownership and economic organisational forms.

Within this focus there will be a need for land redistribution to smaller African producers (usually more efficient) and massive investment in land (soil) reclamation and reversal of land degradation.

It is important to remember that the economic system and their operations are a means to satisfy needs for human development. So is technology.

Principally human development must focus on the enhancement or enrichment of human capabilities (skills, knowledge and attitudes) and the utilisation of such capabilities in productive, leisure and cultural activities.

Essentially human development is self and group directed to meet self and group development needs. Innovative and creative participation of the people in their development is critical.

Community-based development projects and programmes should represent self-development efforts of community members in rural, semi-rural and urban areas.

Stals urges faster growth programme

STAR 9/6/92

By Sven Lünsche (49)

Reserve Bank governor Dr Chris Stals has called for a major structural adjustment programme to boost South Africa's economic growth by four percent a year for the rest of the decade.

Addressing the Munich Association of International Affairs yesterday, he said economic growth higher than the expected two to three percent was urgently required to reduce unemployment.

He estimated that only about 55 percent of SA's 13 million economically active people were employed in the formal sector, while 30 percent earned some kind of living in the informal sector.

"This leaves about two million people unemployed and SA desperately needs some kind of an economic recovery, and a new expansionary phase that will create new job opportunities."

He warned that the drought and the "disappointment" with the outcome of Codesa 2 had "perhaps extended the beginning of the recovery phase of the business cycle even into next year".

Providing economic evidence of the recession, he said that in the year to end-March consumer spending had dropped by one percent and fixed investment by 10,5 percent. He also expected agricultural production to decline by as much as 15 percent this year as a result of the drought.

A key factor needed for longer-term economic recovery was an in flow of long-term capital of up to $3 billion a year, he said.

Over the past seven years to the end of December 1991 net capital outflows amounted to R36 billion, which were largely used to reduce SA's foreign debt by 34 percent from $23,7 billion to $15,6 billion.

Increases in the money supply and inflation were still "fairly generous", particularly in view of the decline in production over the past years, and the Reserve Bank had no alternative but to persist with a relatively restrictive monetary policy approach.

In my view . . .

A daily commentary on current economic affairs by writers of The Star.

Economic woes won't be solved by dreaming

(49)

Star 18/6/92

By John Spira

Running a close second to steroids as the principal current topic for discussion among those who take their social debating skills seriously is the issue of the country's political and economic future.

"How do you see the outlook?" How many (countless) times has this question been asked?

Until fairly recently, a general (and acceptable) response has been: "Depends on which side of the bed I got out this morning." It's a neutral enough answer, which says that there's some hope overlain with many knotty problems.

Latterly, however, the negative accent of the reply has been given more weight than the positive. Clearly, more are getting out of bed on the wrong side.

Which isn't surprising, given the ill-conceived mass action campaign, the drought, the depressed gold price, the stalled Codesa talks, ongoing violence, the still-diving economy, widespread curruption, ongoing high inflation and falling living standards.

It's a litany of woes designed to prompt a general exodus. And it's made worse by the phenomenon that in days gone by South Africa has invariably been blessed with manna from the blue whenever prospects looked black.

Thus, the adverse ramifications of drought were ameliorated by an increase in the gold price; when sanctions threatened to cut off our water supply, someone named Thatcher helped keep us afloat; when the politics soured to the point indigestion, along came a De Klerk to render the medicine palatable.

Dare we expect another deus ex machina — a white knight to drive away at least some of the demons that force us to get out on the wrong side of bed?

Hope will always spring eternal and the dwindling number of optimists now talk variously of the pending emergence of a new bull market in gold, an ANC realisation that mass action is destructive and futile, an appreciation (on all sides) that Codesa must work, a surge in foreign tourism and investment — and so on.

To besure, such scenarios may eventuate. But to rely on one or more of these dreams to rapidly evolve into reality would be foolhardy.

A higher gold price and good summer rains are beyond our control. But other routes to peace and prosperity aren't.

Trite though it may be, it's worth repeating that we're all ultimately on the same side.

Pulling together rather than in separate directions; helping ourselves rather than relying on others to do the trick; eschewing petty parochial causes in favour of the common good; pursuing tried and tested traditional values rather than insidious graft — herein lie the answers to the right side of the bed; not only on alternative days, but every day.

Viljoen's plea to Europeans

(49)

BRUSSELS - Pretoria's chief negotiator in talks to end apartheid, Dr Gerrit Viljoen, appealed to the European Parliament here yesterday for foreign aid and investment to South Africa.

Sowetan 18/6/92

In an address to the Euro-parliament's foreign affairs commission, he also called for foreign pressure on extremists on the left and right in South Africa to make them join negotiations towards an apartheid-free constitution.

Viljoen, Minister for State Affairs, said a week of mass action by the African National Congress on Tuesday risked degenerating into political intimidation and violence.

The ANC called the protest to pressure the Government into more concessions in constitutional talks, which deadlocked over Pretoria's insistence on safe-guarding minority rights under future black majority rule.

Viljoen said the call by ANC leader Mr Nelson Mandela was "putting the negotiation process under stress and intimidation" but added that talks were continuing behind the scenes.

He pleaded with foreign governments to give development aid to South Africa and encourage private foreign investment while waiting for a new democratically-elected government.

Viljoen added that the scrapping of apartheid had induced "tremendous overheated expectations" among the country's black majority which could turn into violence if frustrated by continuing low economic growth.

Earlier, Viljoen met with Frans Andriessen, vice-president of the European Commission, the European Community's executive arm. - *Sapa-AFP*

FW trips have cost R5,3m

CT 8/6/92 ㊾

THE total cost of President F W de Klerk's overseas trips since the beginning of last year has been more than R5,3 million, he revealed yesterday.

Mr De Klerk, responding to a question tabled in Parliament by Mr Daan du Plessis, CP MP for Roodeplaat, said R2,79m had been spent on trips last year and R2,61m so far this year.

Thursday, June 18 1992

Keys to look at lowering taxes

49

B/Day 18/6/92

CAPE TOWN — South Africans did not pay low taxes and an option to lower personal tax would be presented for consideration when next year's Budget was discussed, Finance Minister Derek Keys said yesterday.

Sapa reports that, replying to a question by Andrew Gerber (CP Brits), he said it was still too early to say whether lower income tax would be introduced in the 1993/94 Budget.

He also denied he had said South Africans were highly taxed.

BILLY PADDOCK reports DP tax expert Brian Goodall said yesterday government was continuing its assault on the individual taxpayer and was dedicated to eliminating the middle class, which was paying 79% of the total personal income tax.

Speaking in the debate on the Income Tax Bill, he said individuals were expected to account for 42% of the total ordinary revenue collected, whereas in 1980 individuals accounted for 20%. "A rise of 26% in the amount of tax collected from individuals last year is projected to be followed by a 22% rise this year — rises which are way ahead of even SA's high inflation rate."

Goodall said that a married man who earned R60 000 in 1985, would have paid about 20% of his income in tax.

If his income had merely kept pace with inflation, it would have gone up to R186 000. However, instead of paying 20% of his income in tax, he would be paying nearly 30%.

"If one looks at the figures for 1989/90, one notes that 79% of our personal income tax collected came from those earning between R20 000-R80 000 a year. They totalled less than 900 000 taxpayers," he said.

The income group R45 000-R80 000, less than 250 000 people, paid 39% of all personal income tax, he said.

"The Finance Minister should not only be concerned with the lack of rich people in SA, he should be equally concerned about the systematic impoverishment of the middle class by the economic and tax policies of the NP."

He said the relatively small band of people, paying so much in tax, get little for their money, as the IMF had pointed out. This was the crux of the individual tax issue.

The IMF had estimated that on average white South Africans paid 32% of their income in tax. This was not high compared to developed countries, where the average for industrialised nations was 33,05%. But if compared with the countries SA should really be compared with, the developing nations, the picture was very different. In Singapore the comparative figure was 13,45% and in Argentina 20,28%.

The individual's net tax burden had been worked out by the IMF, and for SA as a whole it was 10,64% compared with a world average of 9,08% and an average of 10,53% for the industrialised world.

"For white South Africans, the figure is 23,31%. This should be compared with 11,06% for Canada, 7,76% for France, 14,67% for the UK and 9,78% for the US. For Singapore, the figure was 3,44%, and for Argentina, 6,23%."

The IMF had proved that the middle class in SA was the most heavily taxed in the world.

Goodall attacked the amendments in the Income Tax Bill as schizophrenic.

A number of changes had been made with regard to the allocation of income between husband and wife married in community of property, and these were to be welcomed as they reduced the tax liability.

But if couples were married by ante-nuptial contract, they had the full force of the Act thrown at them.

SA recession is its worst ever

(49) SHARON WOOD ([illegible])

THE current recession was the worst on record because there had been nine consecutive quarters of real GDP decline, Credit Guarantee Insurance economist Luke Doig said yesterday.

In the 1974 to 1977 downswing, previously the most severe, real GDP had only fallen for six consecutive quarters. B/Day

The recession's bottoming out in the second half would amount to a downward phase of the business cycle longer than 40 months.

Doig said the possibility of further quarterly GDP declines could not be excluded. 18/6/92

Reported unemployment rates of 30% or more in some industries were a major obstacle to an economic turnaround.

Job creation programmes and the encouragement of a work ethic aimed at real increases in productivity were an urgent national priority, Doig said.

Where business and ANC paths diverge

W/Mail 12/6 - 18/6/92

49 [redacted]

Although the fuss about the ANC's investment policy was a storm in a teacup, there are several problem areas in the movement's attitude to foreign investment.

REG RUMNEY *reports*

AT a trade and investment conference in Johannesburg this week, African National Congress international affairs head Thabo Mbeki made a telling comment about foreign investment.

It summed up the difference between the attitude of the business community and the ANC on attracting foreign investment.

Mbeki commented at the South Africa — The Gateway conference: "We don't believe that critically we need tax holidays, etc, but an economic environment attractive to both domestic and foreign investors."

He said incentives might be correct for any country with a smaller capacity than South Africa to generate funds internally.

Mbeki stressed the need for foreign investment and acknowledged the competition for investment funds in the world.

But he said the ANC considered political stability, economic growth, and a transparent and consistent economic policy more important.

He was reiterating points made in

Mbeki: We're not driving foreign investors away

the policy guidelines adopted last month at the ANC's national conference.

Crucially, neither the policy guidelines nor Mbeki made any mention of an "investment code". Nor is the proposed limitation on foreign-owned companies' ability to borrow new. As was mentioned more than once at the conference, this is the case now for any company which is more than 25 percent foreign-owned. The idea is to prevent foreign companies financing dividend payments and the like from local borrowing.

The big problem for business is that the ANC's policy is a reactive one rather than the active approach favoured by other countries trying to climb out of economic stagnation.

Though there is a commitment to an open investment policy, the wording of the section on foreign investment has given rise to concern: "... the ANC will welcome foreign investment, in accordance with our objectives for growth and development..."

"It's too bland," remarks Nedbank chief economist Edward Osborn of the ANC's proposed investment policy. "A much more positive approach is needed."

Osborn suggests that bureaucratically judging any foreign investment against a set of predetermined criteria will lead to complete failure to attract new investment.

"It should be entirely up to the investor what to invest in. The only requirement is that he comply with the law, including exchange control regulations."

Osborn says numerous studies have shown that South Africa has a high cost of capital. Moreover, in relation to productivity, wages are high. Against this must be set, in certain cases, low energy costs.

Other issues which may put off foreign investors came to the fore in other papers delivered at the conference.

In examining the South African economy a common thread is the concentration of corporate ownership in a relatively small share market with a high illiquidity.

First National Bank senior executive Alex Grant remarked that because of this concentration it is often difficult to operate under normal free-market conditions. All the major participants will have the same views, resulting in an often one-sided market.

The concentration of power surely represents an obstacle to a new business setting up in South Africa — unless it enters into a venture with a strong South African partner. This was the case with Heinz, whose business partner Foodcorp is one of the major players in the food industry.

The conference was told the Competition Board (CB), which is supposed to address such issues, had not acted with much vigour so far, but that there were signs of a harder attitude.

The CB cannot be entirely dismissed. It is investigating the tie-up between Guinness and SA Breweries. Moreover the ANC policy guidelines specifically mention beefing up anti-cartel and anti-monopoly laws.

For the moment though, the clubby atmosphere of South African big business will be a deterrent.

Ernst & Young partner Graham Royston remarked: "A small market also has brotherhood characteristics, common directorships, cross holdings — in short, everyone knows everyone else. Be warned of this when entering this market for the first time."

Heinz still meanz beanz in SA

SUDDENLY this week all eyes were on the African National Congress' stance on foreign investment.

The reason was twofold. Firstly, the ANC's most recent policy formulation had come up with the idea of an investment code for foreign companies.

Secondly the assertion was made in a Sunday newspaper that giant multinational Heinz had pulled back at the eleventh hour from making an multi-million rand investment in South Africa.

Heinz' jilted partner Foodcorp CE Dirk Jacobs confirmed investment was "temporarily suspended".

At an investment conference this week Thabo Mbeki of the African National Congress dismissed the notion that Heinz took fright at the ANC's economic policy.

Mbeki argued, rather, that the lack of movement at Codesa towards an interim government and sensitivity in the US about apartheid had been the real reason for Heinz holding back. He pointed out Heinz and the ANC had been in discussion for many months and he claimed Heinz had no problem with ANC economic policy.

	1992-05-31 R	1992-04-30 R	Verandering R
Bates			
Goud	5 860 254 335,11	5 806 299 987,50	53 954 347,61
Buitelandse bates	4 535 875 034,66	3 826 080 300,51	709 794 734,15
Totaal aan goud en buitelandse bates	**10 396 129 369,77**	**9 632 380 288,01**	**763 749 081,76**
Binnelandse bates:			
Verdiskonteerde wissels	3 193 310 000,00	1 648 450 000,00	1 544 860 000,00
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 298 007 536,41	1 247 038 264,11	50 969 272,30
Sekuriteite:			
Regering	524 101 733,56	420 023 890,86	104 077 842,70
Ander	1 122 985 045,00	1 155 917 966,80	(32 932 921,80)
Ander bates	15 122 468 129,99	15 038 322 856,15	84 145 273,84
	R31 657 001 814,73	**29 142 133 265,93**	**2 514 868 548,80**
Rand per fyn ons	861,22	870,21	(8,99)
Goudbesit in fyn onse	6 804 596	6 672 297	132 299

C. J. SWANEPOEL,
Hoofbestuurder.

Pretoria, 5 Junie 1992.

NOTICE 546 OF 1992

SOUTH AFRICAN RESERVE BANK

49

Statement of assets and liabilities on the 31st day of May 1992

	1992-05-31 R	1992-04-30 R	Change R
Liabilities			
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	93 325 064,70	93 325 064,70	—
Notes in circulation	10 986 225 325,00	10 716 396 467,00	269 828 585,00
Deposits:			
Government	10 664 726 244,50	7 008 477 528,93	3 656 248 715,57
Provincial administrations	167 905 218,05	158 383 182,50	9 522 035,55
Deposit-taking institutions	1 170 859 908,79	1 064 215 648,71	106 644 260,08
Other	74 114 303,10	63 948 170,51	10 166 132,59
Other liabilities	8 497 845 750,59	10 035 387 203,58	(1 537 541 452,99)
	R31 657 001 814,73	**29 142 133 265,93**	**2 514 868 548,80**
Assets			
Gold	5 860 254 335,11	5 806 299 987,50	53 954 347,61
Foreign assets	4 535 875 034,66	3 826 080 300,51	709 794 734,15
Total gold and foreign assets	**10 396 129 369,77**	**9 632 380 288,01**	**763 749 081,76**
Domestic assets:			
Discounted bills	3 193 310 000,00	1 648 450 000,00	1 544 860 000,00
Loans and advances:			
Government	—	—	—
Other	1 298 007 536,41	1 247 038 264,11	50 969 272,30
Securities:			
Government	524 101 733,56	420 023 890,86	104 077 842,70
Other	1 122 985 045,00	1 155 917 966,80	(32 932 921,80)
Other assets	15 122 468 129,99	15 038 322 856,15	84 145 273,84
	R31 657 001 814,73	**29 142 133 265,93**	**2 514 868 548,80**
Rand per fine ounce	861,22	870,21	(8,99)
Gold holdings in fine ounces	6 804 596	6 672 297	132 299

C. J. SWANEPOEL,
General Manager.

Pretoria, 5 June 1992.

(19 Junie 1992)/(19 June 1992)

Bureau forecasts recovery in 1993

B|Day 17/6/92

LINDA ENSOR

(49)

CAPE TOWN — SA's GDP is expected to grow by an average of 3,8% in 1993 after what, at best, will be 0,5% growth in 1992, says Stellenbosch University's Bureau for Economic Research.

In its latest survey of the manufacturing sector it said the domestic economy should grow rapidly next year as confidence improved and the world economy picked up. It also expected monetary policy to be eased and private consumption expenditure to increase.

Wages were expected to increase by 13,5% (15,5%) and consumer prices by 14%.

The report said the US and UK economies were showing signs of recovery, but Japan and Germany were still in the grip of recession and recovery would start only next year.

"Fixed investment should react to the increase in the tempo of domestic economic activity to show positive growth in the order of 4,5% during next year."

The bureau said IMF loans would be necessary to fund the deficit of the current account which would eventually emerge as a result of the import of machinery and equipment.

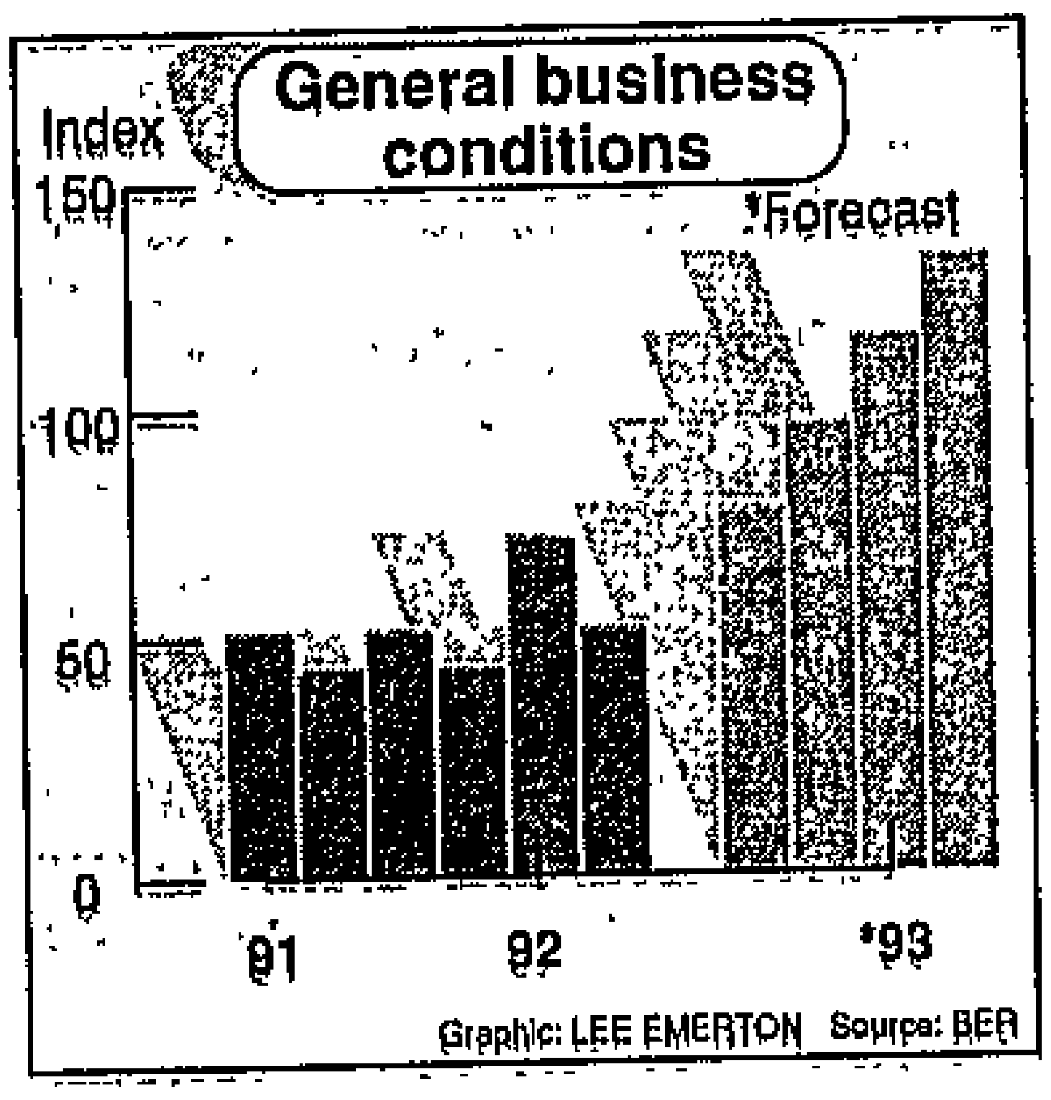
The survey showed that prospects for general business conditions over the next 12 months had improved in spite of the severe deterioration in the second quarter. The report said businessmen had become more confident about the future.

"The insufficient demand for products is still being experienced as the biggest constraint on present business activities, followed by the current political climate and the level of short-term interest rates," the bureau said.

A slight improvement in the volume of sales and orders received for the domestic economy was expected in the third quarter, with substantial improvements expected from sales and orders from abroad.

Current stocks of raw materials in relation to planned domestic production and current stocks of finished goods in relation to expected domestic demand were still regarded as too high. However, current stocks of finished goods in relation to expected export demand were reported to be lower than for the domestic market, the bureau said.

Manufacturers expected fixed investment to increase over the next year, mainly to replace existing capital goods. The current level of inventories was regarded as sufficient for the next 12 months. The selling price per unit of production was expected to increase due to higher labour and raw material costs.



Graphic: LEE EMERTON Source: BER

Business concentration stifles economy

BDay 19/6/92 (49) [redacted]

AZAR JAMMINE

IT IS not just the rise in the tax burden resulting from the growth of government spending which has harmed SA's economy, but the nature of the tax structure itself. In SA the burden of tax tends to fall entirely onto income, expenditure and profit, and not onto wealth or capital gains.

At 48%, SA has one of the highest corporate tax rates in the world. And the burden of personal income tax has increased dramatically over the past decade as inflation propelled salaries up SA's highly progressive tax curve.

As a percentage of government revenue, personal tax has risen from 15% in 1980/81 to more than 40% at present. With high levels of taxation on personal income and interest earned as well as on corporate profits, but with little tax on capital gains or wealth, it has made a lot of sense in an inflationary environment for people to direct funds into financial assets rather than into real productive activities.

The chase after equity-linked investments has contributed to a conspicuous increase in the power of financial institutions. The latter, in turn, have had little alternative in the presence of foreign exchange controls but to buy up shares in industrial and commercial companies, leading to ever more concentration of power in this business community.

Growth in concentration has been exacerbated by overseas disinvestment. Only the giants of SA business have been in a position to buy shares of disinvesting multinationals.

Concentration has arguably made it much more difficult to reduce inflation. In the face of low levels of demand, instead of reducing price increases to encourage people to buy more, corporate SA is often in a powerful enough position to raise prices still further to make up for lost sales volumes.

Moreover, the concentration of power in big business has helped induce countervailing concentration of power in the labour market. The resultant troubled labour relations and mass action called for by trade unions, coupled with wage demands which often bear little relation to productivity, have led to corporate SA opting for capital intensity at the expense of labour intensity in a country which ought to be doing its utmost to generate more jobs.

Concentration has also stifled the country's spirit of entrepreneurship, and consequently led to a reduction in the versatility of the economy in the face of low economic growth.

It has also harmed long-term efficiency by applying pressure on corporate managers to shorten their strategic time horizons so as to maximise short-term performance in order to placate shareholders and the financial investment fraternity.

It has also laid big business open to attack by left-leaning political groupings in their calls for nationalisation, on the basis that big business is not investing its funds in the most socially desirable direction. The most frequently cited example in this regard is the substantial investment made by financial institutions in real estate, office blocks and shopping centres rather than into mass housing schemes where the social needs are greatest.

Indeed, a potentially positive feature of the lifting of the ban on new investment in SA is that, were such investment to take place, it could assist in reducing the level of concentration, since foreign firms might start coming back into the SA economy to compete with local giants.

Optimism on this score should, however, be tempered by the increasing realisation on the part of foreign multinationals that it has become incredibly difficult and costly to try to break into the concentration of business power in SA.

Much has been said recently about the need for antitrust legislation to break up the concentration of power. The problem with such calls is that they address the symptom rather than the cause. The causes of concentration are the combination of high government spending and taxation, a warped tax structure, a high rate of inflation and the existence of foreign exchange controls.

Unless each of these problems is addressed, the pressures which lead to concentration will not be resolved and antitrust measures could turn out to be more disruptive than constructive.

☐ **This is an extract from Econometrix director Jammine's address to the London conference.**

REVIEW

'Gang of thieves' could make SA another 'desperate debtor'

SOUTH 20/6 - 24/6/92

By Mark Swilling and Patrick Bond [redacted] 49

THE WORLD Bank is on its way to South Africa, and already finding the going rough. Reverend Frank Chikane of the South African Council of Churches recently warned about the "universal outcry and misery" in Third World countries which applied World Bank structural adjustment medicine.

"We cannot believe the salvation of our country lies in an uncritical and undemocratic subjection of it to International Monetary Fund (IMF) and World Bank policies."

The following day white municipal government officials in the (now dormant) Central Witwatersrand Metropolitan Chamber were blasted by the Soweto Civic Association's Laurence Boya for dealing with the World Bank behind closed doors.

The same week the World Bank's chief economist was attacked by progressive people across the world, including South African environmentalists, because he supports "more migration of the dirty industries" to the Third World.

What these events indicate is the World Bank will come to South Africa with just as much political baggage as its sibling, the IMF.

The IMF designed Value Added Tax, and its recent report on the South African economy concluded redistribution should not precede growth, which pleased big business and the state enormously.

IMF officials are hated in the Third World. Julius Nyerere calls them "a gang of thieves".

Since the early eighties, the World Bank has prescribed "structural adjustment programmes" nearly identical to the IMF's, alongside tough conditions applied to loans for projects like dams, roads, housing and rural credit programmes.

The Bank was, however, expected to make a smoother entrance in South Africa for, unlike the IMF, it refrained from granting the apartheid regime loans during the previous twenty years. The IMF pumped in over a billion dollars between the Soweto uprising and 1983, when it was finally prohibited from lending any more money to South Africa.

The Bank kept clear of South Africa during this period and, after February 2, 1990, embarked on a clever strategy to get back into the country. Bank officials met secretly with Nelson Mandela when he visited Washington in June 1990.

The Bank even went to the trouble of allowing a former member of the South African Communist Party, Geoff Lamb, to guide a 1990 mission aimed at breaking the ice with the democratic movement.

Lamb, a left-wing scholar at the Sussex Institute of Development Studies in the seventies, is an expert on making structural adjustment programmes appear "home grown".

With personnel like Lamb, the Bank is showing great sophistication, and most progressive South Africans who have met with Bank missions have been impressed with how willing Bank staff appear to work with what might be viewed as an ANC-government-in-waiting.

What of the medium term? John Chettle, a US advisor to some of South Africa's biggest companies, writes: "It is not far-fetched to conclude that, within a decade, South Africa could well exceed Nigeria as the largest recipient in Africa of World Bank funds, currently more than R1,7 billion in that country."

He continues: "The current thinking would involve an annual infusion of funds into South Africa amounting to more than one percent of the gross national product. It is intended to be a massive kick-start to the South African economy, and World Bank officials are talking about making as big an impact as possible immediately."

If Chettle is right, South Africa can expect to see R25 billion a year in loans from the World Bank. South Africa's foreign debt, currently R55 billion, would grow the first year by nearly 50 percent. That debt would be extremely expensive to repay, since the value of the rand is declining against the dollar.

The fear of South Africa becoming another desperate Third World debtor remains strong.

Chettle concludes: "South Africa is almost tailor-made for such a collaboration with the World Bank."

Yet this is not necessarily true, for in South Africa, unlike most Third World countries, there is a democratic mass movement aiming at increased worker and community control of development.

The Bank is adapting to this challenge, but it will not be long before the contradictions in its policies become apparent. Progressive people are already beginning to assess where those contradictions will appear, and how and when to respond

— Work In Progress, June.

C/Press 21/6/92.

FW to earn R193 000 a year

[redacted]

49

STATE President FW de Klerk is getting a salary increase and his domestic allowance is to go up to R60 000 from August 1, it was announced in parliament this week. C/Press 21/6/92

Leader of the House, Adriaan Vlok, proposed the State President would get a salary of R193 000. In the Budget De Klerk's salary for 1992/93 was to be R218 000 which included a domestic allowance of R41 325.

At the edge of the abyss, think of the other path

49

S/Times 21/6/92

MORE even than in the worst days of apartheid, South African life is lived at two levels: an elaborate day-to-day pretence of normality, a theatre of make-believe, overlaying a nightmare reality. This week, at Boipatong, the nightmare burst through the pretence.

For more than two years, since February 1990, we have been living in the euphoric illusion that the hatreds spawned by three centuries of war and oppression might be erased, like naughty words from a blackboard, by common sense and goodwill. Oh, vain hope!

Mass action was launched on Tuesday as street theatre, a mock version of what the ANC used to call "armed propaganda". It was a way to say "boo!", to frighten foreign investors, and to frighten local businessmen who fear nothing so much as frightened foreign investors. The aim was not ungovernability, which would exact a terrible, anarchic toll, but the illusion of ungovernability.

Like generals fighting the last war, the aged leaders of the ANC tried to employ against the subtle, clever President De Klerk the methods that succeeded against the crude regime of President Botha: strikes and boycotts, toyi-toying battalions for the cameras, fierce rhetoric, and taunting provocation intended to lure the police into violent responses.

That worked well enough under President Botha, when the ANC was challenging the rigid militarism of the total strategy; but under the conditions of helter-skelter change that have prevailed since President De Klerk began to dismantle the totalitarian apartheid state, the resort to threat and confrontation had the effect of crying "Fire!" in a crowded theatre.

The ANC leaders, still enraptured by the myths of socialist revolutionary theory, under-estimated the febrility of their opponents, white and Zulu, Indian and coloured, policemen and hostel-dwellers.

The days are past when threats might induce the whites — I will not speak for the Zulus or other communities — to mend their ways; today the level of insecurity in the suburbs is so high that additional threats simply pose the question: fight or flight? Emigrate if you can; arm if you must.

The horrors of Boipatong remain to be investigated and explained. The ritual accusations which seek to blame whites whenever black people kill other black people may, or may not, be true. The answers await Mr Justice Goldstone's commission.

What does matter immediately is to recognise that when a civilised order breaks down, it is anarchy that lets slip the dogs of war, and that even the spectre of anarchy through mass action may unleash armed gangs against innocents. Boipatong marks another twist in the national descent into barbarism, but it should not surprise anybody, at the end of a terrible century, that atrocity rides on the back of disorder.

Boipatong will, I fear, stimulate hatred and retribution, and more demands for mass action, and more fear. The economic recovery will be delayed, and more workless people will be added to the tens of thousands who have already lost their jobs. The suffering that awaits the black people of this long-suffering country is not to be under-estimated.

Among whites, the prevailing mood is "end-of-empire". The tidal wave of corruption that washes over the society, sweeping along doctors and lawyers, public servants and private businessmen, is but a symptom of moral collapse. In the 80s, the military officers prated about spiritual readiness — *geestelike weerbaarheid* — but their military philosophy of survival at any cost has undermined all other values.

THE spirit that rides in the suburbs now is to get rich quick, and get out. Anything goes: gambling in every guise, gouging and overpricing, pornography by telephone, forgery and theft and fraud of every kind. Mad schemes proliferate, to dig great bunkers for the military brass, or to scatter toilets in the veld, or to accumulate paper fortunes in the government pension funds, or to take out paper insurance against a chaotic future.

There must be a better way, and there is, if only the ANC could be made to realise that the game is won. It is time to build the future, not to wreck the past. The dwindling white population, its schools running empty and its control of events slipping away, is much less a threat to be destroyed than an asset to be preserved for the future.

THE way ahead is clearly signposted by the experience of two dozen other countries: it is to avoid conflict at all costs, to negotiate patiently and endlessly at every level of society, to preserve stability, to honour contract, to uphold the law, and beneath the protection of the law to free the individual. The way of success is, at every point and in every way, the opposite of mass action, of confrontation, of threat and counter-threat.

Nearly three decades ago, Michael O'Dowd argued that economic growth was the greatest-force for liberation in South Africa. That has proved to be true. Economic growth unleashed the forces of urbanisation that destroyed the pass laws, unshackled the trade unions, raised the skills and the education of black people in the very teeth of government policy, and stretched the capacity of whites to control and direct every facet of society.

The process has been hampered all along by violent theories of revolution, by destructive tactics, by ideas and methods and weapons imported from Eastern Europe, where democracy is an unfulfilled dream. Now those theories have been discredited even in the countries of their origin, but they linger in the upper echelons of the ANC, and it has brought us to where we are today.

For many years guilt-ridden whites have tried to appease the ANC by going along with the tactics of confrontation. Now, as we stand at the brink of the abyss, it may be wiser to say peace is not built by conflict, nor wealth by destruction, nor security by threats, nor conciliation by war, nor democracy by coercion. It is time to follow the other path.

KEN OWEN

A vision justified by time

S/Times 21/6/92

The contribution of Ludwig Lachmann, SA's foremost economics philosopher, is recognised in the latest edition of the SA Journal of Economics. CLAIRE ROBERTSON reports

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IF HE had lived in Britain, he would probably have been knighted. Instead, the achievements of Ludwig Lachmann, who lived much of his life and died in South Africa in 1990, have been celebrated by the elite group of followers in his field.

The latest South African Journal of Economics is dedicated to the memory of this economist and philosopher, this "brilliant man".

He was born in 1906 in Berlin and studied there and in Zurich. In the early 30s he read the works of Friedrich von Hayek, the Nobel laureate and giant of the Austrian school who died this March.

In 1933, Lachmann enrolled as a student at the London School of Economics. Von Hayek had taken up the Tooke chair in economics and statistics two years before and his department was solidly behind him.

But by 1939 only Von Hayek and Lachmann of the LSE group still held out against the Keynesian revolution sweeping economic theory. In a paper war, the Austrians and the followers of John Maynard Keynes — and the brilliant Cambridge economist himself — attacked one another with barbed comments and, even worse, damning dismissals. With exquisite politeness and sometimes petulance (from Keynes), they thrashed out their rivalry.

Von Hayek wrote a critical review of Keynes's *Treatise on Money* in August 1931. Keynes was stung ("He evidently has a passion which leads him to pick on me") and went on the attack by criticising Von Hayek's work: "(Von Hayek's book) is an extraordinary example of how, starting with a mistake, a remorseless logician can end up in Bedlam."

Lachmann arrived in South Africa in 1949 to fill the chair of economics and economic history at the University of the Witwatersrand, which he held until 1972.

These were the years in the wilderness for Lachmann and his fellow Austrians. By the 60s, much of the heat had gone from the arguments between Keynesians and Austrians as their already scant common ground "had all but vanished", Dr Karl Mittermaier of Wits University writes in the journal.

As Lachmann put it in 1983, each school made "exactly opposite assumptions about the typical constellation of market forces in 20th-century industrial society".

Keynes held that in certain circumstances it was up to government to step in to alleviate, for instance, unemployment. State intervention in general was anathema to the Austrians. Left to itself, the economy would come right in the long run, they said. "In the long run," said Keynes, "we are all dead."

Keynes had, in effect, created macro-economics with his *General Theory* (1936), while the Austrians stressed subjectivism and individualism, that all economic phenomena must be interpreted by trying to understand the actions of individuals.

For almost 40 years, the Keynesian view prevailed.

But Lachmann enjoyed a pleasure rarely granted prophets — that of seeing his beliefs regain support.

The Austrian revolt against state domination of the economy is echoed in Thatcherism and in the deregulation and privatisation embarked upon in South Africa in the 80s.

With the revival of the Austrian school, Lachmann was invited to New York University as a visiting professor. From 1975 to 1987 he spent much of the year at NYU, "setting the department of economics alight with his views", said Professor Christopher Torr of Unisa.

Professor Don Lavoie of George Mason University in Fairfax, Virginia, remarked in 1989: "Perhaps the most significant event propelling the modern revival of Austrian or subjectivist economics in the United States in the 70s was the arrival at NYU of Ludwig Lachmann."

Lachmann and his fellow Austrians, rebelling against economic theory which reduced human beings to inanimate objects whose decisions were based on formulas, made room in their world view for hunches, dreams and vision.

Lachmann lived to see the fall of the Berlin Wall and the beginning of the end of socialism in Eastern Europe.

"He did not see this as a victory over the Keynesians," said Dr Mittermaier. "He was just pleased things were being done more sensibly."

Sanlam predicts no GDP growth this year

BDay 22/6/92

(49)

LINDA ENSOR

CAPE TOWN — No growth in GDP was likely this year and in fact a decline in total production and services for the third successive year was possible, Sanlam chief economist Johan Louw said in the latest Economic Survey.

GDP growth has been consistently revised downwards since the start of the year, with most economists settling on a 0,5% growth rate. It now appears that even this prediction erred on the optimistic side.

Louw said the latest economic indicators showed the 1,9% drop in the seasonally adjusted annual rate of GDP in the first quarter was followed by a further decline in the second quarter.

His pessimistic view was based on the poor performance of the economy in the first half of the year, and the severe drought. He said the financial position of private consumers was deteriorating, business and investor confidence was flagging and real fixed investment continuing to decline.

"It is disturbing that the recent continuous strong rise in food prices has put a number of food products, particularly vegetables and fruit, out of the reach of many South Africans."

Louw said it appeared the current recession would be the longest since World War Two. He warned that the alarming increase in unemployment was beginning to assume crisis proportions.

"We are entering the new SA with an economy that is crippled by serious shortcomings. To a large extent action is still being taken on an ad hoc basis; as yet nothing much has come of the envisaged comprehensive long-term economic plan."

A meaningful recovery could be achieved only if the economy was managed according to clearly defined guidelines which had public and private sector support.

Inflation was expected to decline to about 12,5% by the end of the year with the annual rate at about 14,5% (15,3%). Louw said the 1% cut in bond rates would shave 0,4 percentage points off the inflation rate, but this might be counteracted by higher fuel prices later this year.

The effective value of the rand (on a weighted basis) was expected to drop by about 6% over the next 12 months. As this would be less than the difference between the inflation rates of SA and its trading partners, there would probably be limited appreciation in the real effective rand.

Making capitalists out of Russians

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[redacted]

STAR 22/6/92

With an ambitious project, Russia wants to privatise 65 percent of its centralised economy by the end of 1995.

RUSSIA IS set to take a giant step towards free enterprise through plans to privatise two-thirds of its vast centralised economy and to turn its citizens into capitalists in five years.

The 1992 privatisation programme, adopted by the Russian parliament in mid-June, is the most ambitious in history and forms the backbone of Russian President Boris Yeltsin's bold package of economic reforms.

"We don't expect the private sector of Russia's economy to become as dominant as in the United States. But we will go further than Austria with its 68 percent State sector," said Dmitry Vasilyev, deputy chairman of the State Property Committee, in an interview.

He said the government aimed to privatise about 35 percent of the economy by the end of 1993 and a further 30 percent by the end of 1995.

The basic concept and pace of privatisation has been the subject of fierce rows between conservatives and radicals.

The conservatives demanded that State property be shared among all the population for the sake of "social equality".

Their opponents reply that economic salvation can be only achieved by helping Russia's new breed of capitalists.

"Our privatisation programme was set up as a compromise to make all parts of society interested in its success," Mr Vasilyev said.

The government has decided to give everyone a slice of the cake by issuing privatisation vouchers to the entire population of 150 million in November.

The role of speculative investors will take second place to that of workers and managers in the enterprises being sold off.

Workers and managers will get priority in sales of part or even the majority of their company's shares and may even obtain some shares free.

"We felt strong opposition to privatisation from enterprise managers, who were afraid of being left in the cold. Now they have the chance of becoming owners," Mr Vasilyev said.

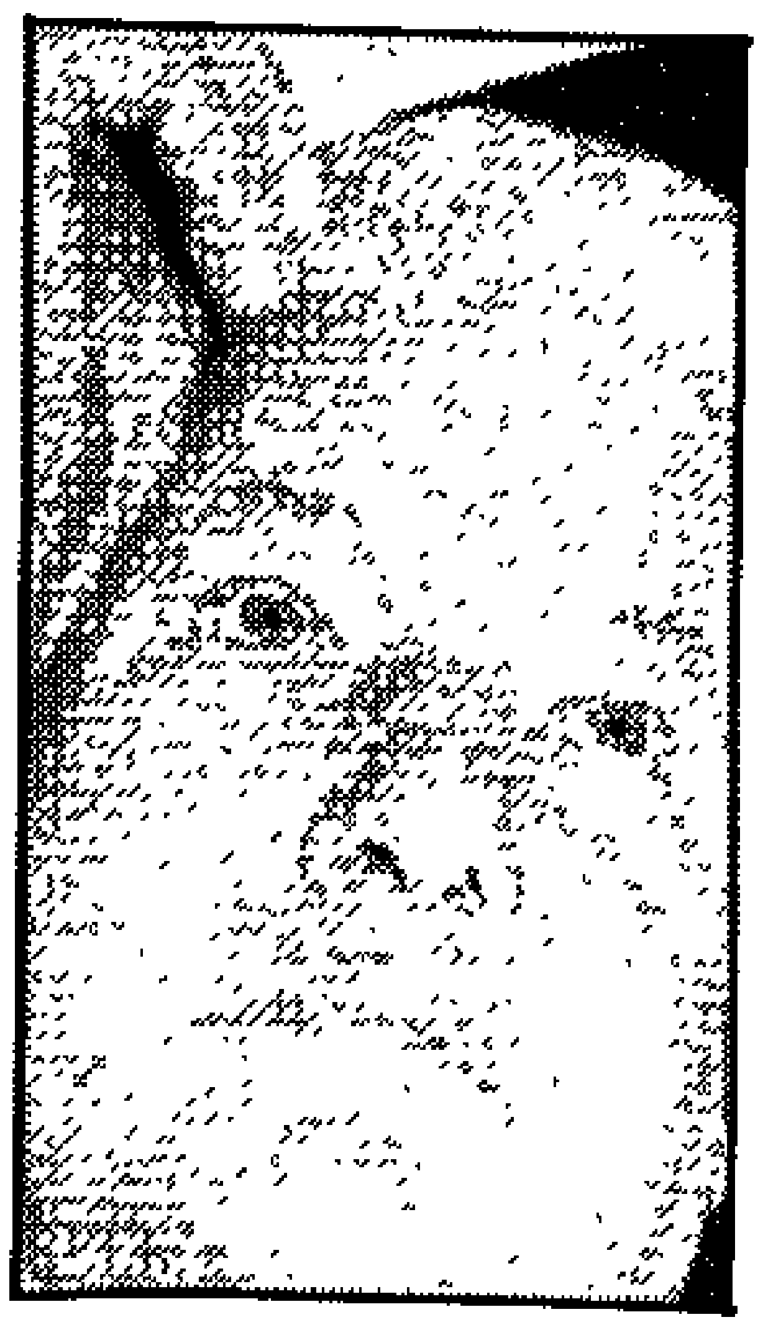
But budding capitalist "wheeler-dealers" are allowed to buy shares or even snap up entire enterprises at auctions.

Over the next two years the government plans to sell through auctions 500 000 small enterpises with fewer than 200 employees each.

Foreign investors will not be allowed to get involved in this stage of privatisation, but they can buy shares in companies with 200 or more employees.

The climax of the privatisation process will be the sale of 4 000 large-scale enterprises, with more than 1 000 employees and capital exceeding 50 million roubles (R1,65 million), due to begin early next year.

By issuing privatisation vouchers, the government hopes to establish active trading in the country's fledgling stock exchanges. — Sapa-Reuter. □



Five-year plan . . . Russian President Boris Yeltsin plans to privatise most of his country's economy and turn Russia into a capitalist stronghold.

MONEY MARKETS by Hilary Gush

Mopping up has little effect

(49)

B/Day 22/6/92.

ALTHOUGH the Reserve Bank continued mopping-up operations last week, the market shortage was down to just over R1bn on Friday from Monday's high of R1,446bn.

The results of the Bank's zero-coupon bond tender showed only R130m allotted of the R600m total on offer. Dealers proclaimed the issue a failure, saying both the pricing of the bills and their marketing by the Bank left much to be desired.

The results of the nine-month Bank bill tender were more promising and reflected good demand in the market for quality assets. The tender was almost three times over-subscribed and the average rate offered was 13,11% which was in line with standard nine-month TB rates.

Money market rates moved sideways throughout the week with the 90-day liquid BA rate holding steady in a range of 14,30%-14,55%.

Applications for the weekly six-month Treasury bill (TB) tender saw the Bank receive R610m in bids for the R150m on offer, at an average rate of 13,61% against last week's 13,60%. The Bank attracted bids of R425m for the R150m offered in three-month TBs. The rate on these was 14,03%, against 14,02% last week.

Capital market rates firmed on the mass action threats but, as nothing significant occurred on the political front, rates began to drift down on Wednesday. Thursday saw a run on the market with long-term rates falling. By the week's close rates had returned to the previous week's levels. The yield on government R150 stocks was at 15,93% late on Friday after a 16,17% high on Monday and a week's steady easing. The benchmark Eskom 168 traded at 15,71% on Friday afternoon, after moving in a 15,69%-15,91% band during the week.

Finance chief outlines strategy to broaden foreign investor base

(49) BDay 23/6/92

LINDA ENSOR

CAPE TOWN — SA had embarked on a strategy to tap new sources of funds and currencies to broaden the international demand for SA paper, Finance director-general Gerhard Croeser told an international forum of bankers and investors in London yesterday.

SA's participation in the conference, opened by Bank of England Governor Robin Leigh-Pemberton, signalled the adoption of a more active marketing approach to broaden the international investor base, Croeser said.

He said efforts would be directed towards reaching international institutional investors, though retail investors would remain an important target of SA issues.

Croeser and a team from nine SA corporations addressed an audience of about 500, including frontline bankers from Europe, institutional fund managers and private investors at the three-day Euromoney Global Borrowers' and Issuers' Forum.

The SA delegations were led by Genbel chairman Tom de Beer, Development Bank of SA CE André le Grange, Eskom finance and services executive director Mick Davis, Transnet chairman Marius de Waal and CE Anton Moolman, Telkom senior finance GM Christoffel Erasmus, AECI finance director Neil Axelson, SA Breweries finance director Selwyn MacFarlane, Standard Bank MD Mike Vosloo, and Industrial Development Corp senior GM Malcolm MacDonald.

Each team presented its view on the SA economy. The total time allotted for the SA presentation was about 90 minutes.

In his introductory speech, a copy of which was released in Cape Town yesterday, Croeser said the Finance Department was managing the 1992 programme of SA capital market borrowers and was seeking to refinance the six maturing Deutschmark issues, valued at DM670m, with new and larger issues, as well as a few additional ones.

The encouraging position of SA's foreign exchange reserves, coupled with the policy of mopping up excess domestic liquidity to maintain a tight monetary policy, implied a smaller international loan requirement.

The limited market for SA paper did not permit simultaneous competition on the international capital market by different institutions so the department regulated participation via a formal queue system.

Croeser said the department could not be prescriptive as far as the composition of the management groups of parastatal issues was concerned, but it favoured a system of bank rotation. Ratios, as well as the bunching of maturing issues, were being watched carefully.

Resort to international capital markets would be based on the principle of protecting the country's foreign exchange re-

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Foreign investors

☐ From Page 1

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serves, reducing the premium at which SA institutions borrowed, securing a final arrangement with overseas creditors when the debt standstill expired and facilitating foreign investment.

Croeser said that with a ratio of debt to export earnings of 64,9%, or debt to GDP of 16,9%, SA was not an overborrowed country. It had also scrupulously complied with its commitments under the debt standstill.

He said the "hiccup" at Codesa was not surprising given the deep-seated differences between the parties. But he was confident negotiations would remain on track, although "the final outcome will be determined largely by the economy".

Croeser said the economic advisers of the extra-parliamentary movements were coming to see that experimenting with "ossified ideas of socialism and redistribution" would harm the very people whose welfare they sought.

He said signs of a turnaround were slowly emerging as the economy moved away from its former state of siege and restructuring measures began to bear fruit.

☐ The Finance Department was one of the co-sponsors of the conference, but syndicated its share of the costs.

BDay 23/6/92

Ron Schurink urges less emphasis on eyeball-to-eyeball political posturing

Economy only key to our salvation

STAR 24/6/92.

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THERE seems to be a fatalistic acceptance that a nose-to-nose glaring match between the ANC and the Government is part of the scheme of things, and we will all have to live — or die — with whatever it produces.

That is a weak-kneed outlook in a day and age when, everywhere else, old-style politics is losing out to pragmatic economics. But what is to be expected from people who have sent to Codesa not a single party which has the brief to put the economy above every sectional interest?

No wonder Codesa fails to get its act together. Our current and future livelihood is under serious threat, and both violence and the investment drought worsen.

We are like a family which, riven by internal disputes, downgrades attention to the family income without which we perish.

It is imperative to treasure the economy as it should be treasured. And it is not too difficult to present it to the unsophisticated as literally billions of transactions each day as people do their jobs and buy their needs.

Get the thinking right, and we could find people focussing positively on improving the Gross Domestic Product — the value of goods and services produced, on which the Reserve Bank keeps anxious quarterly tabs.

We should do this, rather than engage in focusing negatively and bloodily on political rivalry.

Democracy focused on economic improvement is the best insurance there is against both fas cism (jealousy of the nasties) and socialism (jealousy of the nice guys, except when it degenerates into communism). That will, in all likelihood, remain proven in Europe, the US and Japan.

Where a society is not homogenous, but also divided by race and diverging nationalisms, it is even more important to focus on the joint economy. A Russian specialist in African affairs who was in this countruy recently, Dr Vladimir Tikhominov, saw that clearly when he wrote:

"No matter how paradoxical it may seem, to become more united, one needs to destroy all existing artificial political unions and concentrate only on developing the economuy. Only that is able to provide a realistic basis for unity in the future . . ."

Certainly, the "political union" which the ANC, the Government, Inkatha and other parties find themselves sharing and trying to revamp is being increasingly exposed as artificial. But the economy in which we are linked in that plethora of daily transactions from Cape Town to Messina is far from artificial.

It is something that, when recognised, stands out way above our befuddled socio-political scene and should become our guiding beacon.

Not much of the world is going to find fault with, or withold investment from, people who decide that economic progress is fundamental to every other sort of human advancement. □

● *Ron Schurink is an independent economics journalist.*

From hedonism to financial doom

STAR 24/6/92.

Economic mismanagement rather than township violence poses the greatest threat to South Africa's future, argues RICHARD DOWDEN.

(49)

THE END of South Africa did not begin with the massacre at Boipatong last Wednesday night. That was probably no more than a blip on the road to doom.

South Africa's chances of being a stable country ended about 20 years ago when its economy went into fatal decline.

By the time President de Klerk posed for the camera with Nelson Mandela in February 1990, the country was dancing on a flimsy floor weakened by decades of economic hedonism. Beneath yawned a chasm of disaster.

South Africa may have the trappings of a First World economy, but it depends on the export of raw materials for most of its income and is precariously close to the Third World.

The myth is that it has been held back by sanctions, but the rot started long before.

Living on this myth, white South Africa believed that talks with Nelson Mandela meant the end of sanctions. Trade and investment could flow again and, as long as the ANC could be weaned from its "communistic" tendencies, the good times would roll again.

For the ANC, the fabled wealth of South Africa, its gold and diamonds and the Mercedes-Benzes of Johannesburg's northern suburbs, would be theirs at last.

The models of political change in Africa which both sides looked to were Zimbabwe and Namibia, where whites held on to their wealth after independence even though they had given up power.

In South Africa, the whites were being assured they would not have to give up power, merely share it. So they told Mr de Klerk in the March referendum to "keep talking".

The ANC saw that political power had given African governments power to distribute wealth, like Zimbabwe where the civil service has more than tripled since independence.

There is debate within the ANC about Marxist or mixed economies but there is no doubt in ANC minds that its supporters should reap the rewards of office.

For the international business community the only question is whether the ANC will shed its socialist tendencies and accept free-market economics. Closer examination, however, reveals that it is not Mr Mandela but Mr de Klerk who needs to shed a belief in State controls and a large public sector.

White-ruled South Africa has a bureaucracy matched only for size and inefficiency by those of former East European socialist states. State spending in South Africa has risen in the past two decades from 16 percent of the gross domestic product to 29 percent. In the past decade employment levels in the main industries have declined while State jobs have increased by 73 percent.

As a result, white South Africa has among the highest levels of personal and corporate tax in the world. People have borrowed to maintain their standard of living and this has led to high inflation and high interest rates.

The economy's growth has declined by roughly 2 percent a decade since the early 1970s, and last year it fell into negative figures.

> World has more important causes and horses to back

Economic expansion led by existing capital is unlikely. Fixed investment in South Africa has fallen steadily since the mid-1980s.

South Africa remains primarily an exporter of raw materials and is therefore dependent on the world economy. The high cost of South African products makes them uncompetitive on the world market.

At a conference in London last week, Econometrix director Azar Jammine named business opportunities created by housing and education programmes top of the list of positive prospects for the South African economy. The question "Who pays?" went unanswered.

Nobody can be unaware of the mind-boggling wealth gap between black and white South Africa. A successful political settlement can only be accompanied by a physical improvement in the lives of blacks. This will not be possible in the short term.

Even if Mr de Klerk had managed to maintain an aura of political trust and establish a genuine alliance with Mr Mandela, he would have found it hard to raise taxes for whites still further. Mr Mandela, too, would have had immense difficulties in selling an agreement on the promise of things to come.

Job losses and government cuts are certain. The global trend away from government economic interference suits Mr de Klerk, who does not want to put the powerful State machine into his former enemies' hands.

He seems like a man trying to sell Mr Mandela a second-hand car. Vetoes, regionalisation, a constitutional commitment to private property — all detract from central power so that Mr Mandela, if he ever clinches the deal, will be like a man holding a steering wheel. He will have all the responsibility and none of the power.

In the meantime Mr de Klerk has failed to cash in his political capital. He has travelled to dozens of countries but there is no surge of investment in South Africa following the ending of sanctions. The world is holding back until South Africa achieves a political settlement, sorts out its economy and slashes State spending.

Once there was talk of a Marshall Plan for South Africa. The message from Britain and America is that there is money available — from the International Monetary Fund and the World Bank — at the usual price. There will be no Marshall Plan. The world has more important horses to back.

The two sides in South Africa were brought together largely through international pressure. Once they met, the world walked away. The only initiative on the international agenda for South Africa is a visit by a European Community delegation later this year.

The Germans are suggesting a special relationship for South Africa within the Lome Convention. This would allow South Africa to benefit from aid money and trade concessions, but it is an insignificant gesture which will not save the country.

Britain, with investments valued at £2,3 billion (about R11,5 biillion), has more to lose in South Africa than any other country. There are also up to one million British passport holders in South Africa.

British interest in South Africa seems to have waned after negotiations began. Boipatong may reawaken British interest, but the lifeline is not strong.

Or has Whitehall resigned itself to the prospect of a flood of refugees arriving at Heathrow? — The Independent News Service. □

Probing Moscow's secret files

1992

Business as usual 'despite Codesa' ㊾

CT 24/6/92

By AUDREY D'ANGELO
Business Editor

PEPKOR chairman Christo Wiese has told his staff to prepare to carry on business as usual in the coming months, in spite of difficult times that may lie ahead.

He said after a general meeting of Shoprite shareholders yesterday: "Whether Codesa goes ahead or not, as long as we have a shop to open we will open it.

"Negotiations will have to re-open at some time, even if they stop now, because there is no other option."

Wiese said he had no doubt there would be trouble in the months ahead. He hoped unnecessary bloodshed would be avoided.

"We have lived through a similar situation in Namibia and come through it and we are doing well there.

"It is true the economy is hurting there (in Namibia), but it is hurting all over the world including Scotland and in Canada — the country many people from SA ran to. South Africans forget we are not the only people going through a recession."

Discussing the outlook for Pep International, Wiese said: "We shall concentrate first on developing our chain in Scotland."

At a presentation to the Investment Analysts' Society of SA a few days ago Pep group MD Tony Haughton said it was intended to expand the Your More Store chain in Scotland — which now had 17 outlets — to 200.

"It has tremendous growth potential and we are confident that over the next two or three years it will become a substantial part of our business."

Johan Visser, former MD of Pep Stores Retail, has moved to the UK to head the Your More Store operation during its difficult formative stage.

Haughton said Pep International's long-term target was to dominate the low-income clothing mass market sector "which will entail establishing at least 200 stores over the next few years".

The group also intended to expand further into Africa. "Botswana has proved to be a most successful operation for us and, we believe, can be the springboard for the entry of Pep Stores into countries such as Mozambique, Angola and Zimbabwe."

Estate agents

Pension

Two-pronged path mapped for restructuring

B/Day 24/6/92.

ALAN FINE (49)

THE SA economy requires two levels of restructuring: steps to ensure it functions with greater flexibility, efficiency and equality of opportunity; and an accelerated programme aimed at near-term progress towards redressing past inequities yet using means which simultaneously build a basis for a stronger economy in the longer term.

This is the basis of a report prepared by Development Bank of Southern Africa policy analysts for the ANC and handed to the organisation last month.

Titled Toward a Democratic Economy in SA: An Approach to Economic Restructuring, among the areas it covers are fiscal management, savings and investment, balance of payments management, economic concentration and economic power relationships, social investment, the role of small business, affirmative action and funding sources.

The report argues that the debate over which comes first, growth or redistribution, is irrelevant in SA. Neither set of problems can be solved without reciprocal improvements in the other.

While an annual growth rate of about 4% is required to reduce inequality and poverty, SA does not generate enough savings to finance such growth. Therefore, foreign capital is required. However, it warns that, insofar as foreign capital inflows consist of borrowing, the servicing of this debt could be a constraint on future economic activity.

This therefore requires domestic policies that increase savings and productive investment, improve "multifactor productivity", improve export performance and increase non-loan capital inflows.

The report highlights serious fiscal constraints, particularly high individual and company tax rates. High taxes on individuals, together with the high inflation rate, have created wage pressures and a drop in savings. Companies have tended to shift their tax burden on to prices. Indirect taxes have met with political resistance.

All this poses a serious fiscal dilemma in view of growing demands for government expenditure in a stagnant economy. The report proposes the tax structure be adjusted by broadening the corporate and individual tax base and reducing marginal rates; extending property and capital transfer taxes; and introducing a capital gains tax.

However, the report cautions against any significant increase in the proportion of public expenditure to GDP. This means increased outlays for the "elimination of development backlogs" can be obtained only through reallocation of resources.

This would require, for example, "a shift from curative medical programmes to primary health care; from an urban bias to a more balanced urban-rural service provision; from general to vocational education; from subsidising tertiary education to subsidising pre-school, primary and secondary education; from expensive housing for privileged groups to site and service projects for the poor; and generally from the developed to the developing sectors", combined with well targeted poverty relief schemes.

This would mean that the more affluent — which implicitly includes here much of the employed black working class — "may have to protect their living standards through alternative methods such as full cost recovery fees for public health services, use of private medical services, and increased private funding for education".

Public investment should shift "from investment in often oversupplied capital intensive infrastructure and so-called strategic projects to demand-driven infrastructural investment which complements productive processes".

A large portion of this should be allocated to projects which directly benefit less privileged groups, such as rural roads, affordable shelter, land reform, electrification, schools, clinics and infrastructural support for small and informal business. And labour intensive technologies should be put to widespread use in these construction efforts.

In the field of balance of payments management, the report argues for a gradual, managed reduction in protectionism so as to increase the efficiency and export capabilities of the manufacturing sector without causing sudden dislocations. It takes a similar approach to the phasing out of exchange controls.

The report also proposes action in the microeconomic sphere to counter inefficiency and inflexibility, and to increase access to "the utilisation of economic opportunities".

These include the use of antitrust laws to control mergers and acquisitions; strategies aimed at "deconcentration of individual control and ownership of the corporate sector, including different forms of employee stakeholder schemes and management advancement programmes"; strategies for economic empowerment, through subcontracting arrangements, of small enterprises; and relaxing the regulatory framework to ease the entry of small businesses into the economy.

While the report supports an affirmative action programme, it cautions that certain minimum levels of performance must be expected from the beneficiaries.

The report says its proposed "accelerated programme for reconstruction" requires decisions which, with consensus, can be launched within the first 12 months of an interim government, and will begin to have direct effects within 24 months.

SPOT DESK

The rot set in a long time ago

Sowetan 25/6/92

(49)

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South Africa's chances of being a stable country ended about 20 years ago when its economy went into fatal decline.

By the time State President FW de Klerk posed for the camera with Mr Nelson Mandela in those heady days of February 1990, the country was dancing on a flimsy floor weakened by decades of economic hedonism.

Beneath yawned a chasm of disaster.

The images of South Africa are the gold and diamond mines, the glittering towers of Johannesburg, the lush golf courses and superb wines.

South Africa may have the trappings of a First World economy, but it depends on the export of raw materials for most of its income and is precariously close to a Third World footing.

The myth is that it has been held back by sanctions, but the rot started long before sanctions bit.

Living on this myth, white South Africa believed that talks with Nelson Mandela meant the end of sanctions. Trade and investment could flow again and, as long as the African National Congress could be weaned from its "communistic" tendencies, the good times would roll again.

For the ANC, the fabled wealth of South Africa, the piles of gold and diamonds, gleaming Johannesburg towers and the swimming pools and Mercedes of the city's white northern suburbs would be theirs at last.

The models of political change in Africa which both sides looked to were Zimbabwe and Namibia.

At independence the whites of both these countries had held onto their wealth and privacy even though they had given up power. In South Africa, the whites were being assured they would not have to give up power, merely share it. So they said to De Klerk in the referendum on negotiations last March: "Keep talking".

The ANC saw that political power had given African governments power to distribute wealth by policy and patronage.

In Zimbabwe, for example, the civil service has more than tripled since independence, providing a huge source of political support for the government. There is debate within the ANC about Marxist or mixed economies and a recognition that wealth will have to be shared, but there is no doubt in ANC minds that its supporters should reap the rewards of office.

For the international business community, the only question is whether the ANC will shed its socialist tendencies and accept free market economics.

Closer examination, however, reveals that it is not Mandela who needs to shed a belief in State controls and a large public sector but De Klerk.

White-ruled South Africa has a bureaucracy matched only for size and inefficiency by those of the former East European socialist states. State spending in South Africa has risen in the past two decades from 16 percent of GDP to 29 percent.

In the past decade employment levels in the country's main industries have declined while State jobs have increased by 73 percent.

As a result, South Africa, mainly white South Africa, has among the highest levels of personal and corporate tax in the world. People have borrowed to maintain their standard of living and this has led to high inflation, now 15 percent, and high interest rates.

The economy's growth has declined by roughly 2 percent a decade since the early 70s, and last year it fell into negative figures. Unemployment is now officially at 15-16 percent and is likely to rise.

Economic expansion led by existing capital is unlikely. Fixed investment in South Africa has fallen steadily since the mid-80s. Last year it fell by 8,5 percent.,

South Africa remains primarily an exporter of raw materials and, therefore, is dependent on the world economy. The high cost of South African products such as textiles, protected for years by sanctions, makes them uncompetitive on the world market.

At a conference at the Royal Institute for International Affairs in London last week, Mr Azar Jammine, the director of Econometrix, a Johannesburg economic research organisation, gave a devastating analysis of the shortcomings of the South African economy and then listed the positive prospects.

At the top of the list were the business opportunities created by new housing and education programmes.

The question "who pays?" went unanswered.

Nobody who has been to black as well as white South Africa can be unaware of the mind-boggling wealth gap between the two.

Yes, there are richer parts of Soweto; yes, there are poor white areas, but the abiding image is of the detached walled gardens of Johannesburg's northern suburbs and the rows of grotty brick shacks in Soweto.

It takes barely 30 minutes to drive between the two.

A successful political settlement can only be accompanied by a physical improvement in the lives of the mass of black people. They want jobs, homes, schools and cheaper food. These will not be possible in the short term.

Even if De Klerk had managed to maintain an aura of political trust and establish a genuine alliance with Mandela, he would have found it difficult to raise taxes for whites still further.

Mandela, too, would have had immense difficulties in selling an agreement on the promise of things to come.

Job losses and government cuts are certain. The global trend away from Government economic interference suits De Klerk, who does not want to put the presently powerful State machine into the hands of his former enemies.

He seems like a man trying to sell Mandela a second hand car. Each time they come close to a price, De Klerk removes another piece or insists on another condition. Vetoes, regionalisation, a constitutional commitment to private property - all detract from central power so that Mandela, if he ever clinches the deal, will be like a man holding a steering wheel.

He will have all the responsibility and none of the power.

In the meantime De Klerk has failed to cash in his political capital. He has travelled to dozens of countries to be welcomed with glowing tributes and encouragement. But he has returned to South Africa like a child from a party without a party bag.

Far from there being a surge of investment in South Africa following the ending of sanctions, the world is holding back until South Africa achieves a political settlement, sorts out its economy and slashes State spending.

Once there was talk of a Marshall Plan for South Africa. The message from Britain and America is that there is money available - from the IMF and the World Bank at the usual price. There will be no Marshall Plan. The world has more important causes to save and horses to back. - *The Independent, London.*

Sacob to meet political leaders

㊾ CT 25/6/92

By AUDREY D'ANGELO
Business Editor

THE SA Chamber of Business and Commerce (Sacob) will arrange urgent meetings with President F W de Klerk, Nelson Mandela and Inkatha Freedom Party leader Mangosuthu Buthelezi to encourage the resumption of negotiations, it announced in a statement issued yesterday.

And it may convene a "summit" meeting of chambers of industry and commerce and other leading businessmen in July.

Urging politicians to get negotiations back on track Sacob points out that the ANC's announcement that it was suspending them until further demands had been met would further erode business confidence.

Inability to overcome the current political impasse "could lead to further closure of businesses, the withdrawal of investment, a flight of capital and skilled manpower and further loss of job opportunities."

The statement says:"Business is the engine of the country's economic performance. It is the principal employer of labour and contributor to the national wealth.

"It cannot fulfil these functions in a climate of instability and violence, where there is little prospect of a peaceful and acceptable transition to a new SA."

It points out that employment in the formal sector is already contracting at a rate of more than 4% per annum. "This means that more than 250 000 jobs have been lost in the current recession and indications arising from Sacob surveys are that this number will continue to increase in the coming 12 months."

● Charl Adams, human resources manager at Cape Town Chamber of Commerce, said it was advising employers to adopt a policy of "no work, no pay" during stayaways.

Stressing that many employers sympathised with the views which caused the stayaways to be called, Adams pointed out that the function of business was, however, to make profits and provide jobs. "It is essential to create and retain jobs."

Employers had no control of the political situation which caused the stayaway, but were suffering the consequences of lack of manpower and productivity.

Colin McCarthy, executive director of the Cape Chamber of Industries, said he doubted whether the harm stayaways did industry had much direct effect on the government.

But, McCarthy said, the Western Cape had not suffered much from stayaways. It might suit some employers at present to work short time.

He stressed, however, that there should be consultation about this and that if employees wanted to stay away they should first discuss it with their employers.

Absa foresees growth trap

~~(58)~~

HILARY GUSH

(49)

FIVE policy priorities could catapult the economy out of its low-growth trap, Amalgamated Banks of SA (Absa) says in its latest Economic Spotlight.

Absa also forecasts a downturn in 1996 which would reimpose a low-investment, low-growth trap on the economy.

Higher savings require sharp cuts in consumption, which are politically unacceptable, or higher incomes which, in turn, first need higher economic growth.

BDay 25/6/92

"This is the self-defeating vicious circle which threatens to ensnare the SA economy in the 1990s, — resulting in unemployment, socio-political instability and "ungovernability"," the bank says.

The bank identifies capital inflows, rising export earnings, higher savings, better productivity and efficient investment allocation as the factors which will spring the economy from its low-growth trap.

The bank believes positive tax policies, assurances against nationalisation and the phasing out of exchange controls are needed to attract foreign capital.

Scrapping controls 'is risky'

[redacted] [redacted] 49

SHARON WOOD

25/6/92

THE events of the past week had highlighted the risk of scrapping exchange controls, Japie Jacobs, special economic adviser to the Finance Minister, said yesterday.

Speaking at an Islamic Bank function in Johannesburg, Jacobs said: "We would have seen a large increase in the outflow of capital that would have made great inroads into our scarce foreign exchange resources, and would have imposed even a harsher limit on the growth performance of our economy."

He warned that using the economy as a battlefield for settling political differences could only serve to deepen people's misery.

He said the ANC favoured even more restrictive exchange controls and was suspicious that SA companies were disinvesting in order to acquire foreign assets.

"They (the ANC) castigate so-called SA monopolies, threaten them with dismemberment and possible nationalisation, yet begrudge them the right to invest outside the country."

SA corporations could not invest overseas without the approval of Exchange Control. "It is clear that the critics of such investment do not grasp the essential elements of the rand financial system."

On the broader policy side, he said SA did not have much scope in policy options to reinvigorate economic growth.

Populist policies, such as those followed in the past, would be unable to lift economic growth beyond about 1% a year.

Jacobs said a rate of growth of 4% a year would be achievable only if SA restricted the rise in the public sector's consumption expenditure, arrested the out-

☐ To Page 2

Controls

BDay 25/6/92.

[redacted] [redacted] 49

☐ From Page 1

flow of capital, attracted direct foreign investment and increased capital and labour productivity.

"We must realise that a country cannot successfully embark on a road of growth if the population has neither the desire to follow nor the notion that such a road exists."

This could be addressed only during consultation which could eventually culminate in an economic forum, he added.

"An exercise of this nature can only be productive if the parties involved realise that as a Third World country, SA's economic options are restricted, that we will have to lower our expectations to the limits of affordability and not in terms of needs, that our policies must be soundly based and aimed at promoting sustainable economic growth and that we need to compromise in the national interest."

However, budgets did provide scope for a distribution of income and a reduction in socio-economic backlogs. "But an expanding instead of a contracting economy will considerably facilitate this process."

Government appreciated the need to re-establish fiscal or budgetary discipline and this would be pursued vigorously.

"The final answer to our economic malaise is, however, in the hands of various political players and the way they guide their constituencies."

Unrest: Market 'overreacted'

(49) CT 25/6/92

By ARI JACOBSON

THE financial markets sidestepped the uncertain times ahead and traded firmer throughout the day against the backdrop of the ANC's abrupt halt to political negotiations.

Market players agreed that there had been an overreaction in the markets to the Boipatong massacre and that the latest political schism should not be seen as permanent.

But the reality of foreign perceptions are firmly etched in the finrand which has fallen from Friday's trading range of R3,59 to the dollar to close yesterday at R3,81/$.

A finrand trader pointed out that the investment currency sunk as low as R3,91 to the dollar yesterday before being propped up by better perceptions "with one or two buyers coming out of London — although most are adopting a wait-and-see attitude".

Southern Life's GM investments Paul Beachy Head said "the stock market is telling us that we over-reacted — a year ago we would have anticipated setbacks along the way to a new SA".

But a dealer in the stock market mentioned that although the negative views had turned positive — on economic fundamentals alone "nobody should be in this market".

"However you also can't fight against the weight of institutional funds flowing into shares," he said.

A bright spot throughout this tumultuous time has been the gold price remaining firm at three month highs about the $344 an ounce level.

Davis, Borkum's gold analyst Dave Giese said that "the political uncertainty locallly may have had a minor influence on gold's performance but the larger impact came from an announcement (by SA Reserve Bank deputy governor Jaap Meijer) that SA's gold industry is on the wane and the weakened performance of the dollar".

Giese felt that gold bullion was in its botttom range and would tick up slowly towards a price of about $348 an ounce by December.

In the capital market a dealer said the massacre in Boipatong had seen rates rise from Friday's level of 15,72% on the benchmark E168's to trade as high as 15,88% yesterday.

He said the higher rate was a sign of uncertainty as a sell-off of bonds ensued.

"Although the market remains volatile — the rate on E168's has stabilised down to 15,8% and more importantly the speculators are out and the investors remain in the market."

An economy is not a machine

(49)

FM 26/6/92

SOUTH AFRICA: THE GROWTH IMPERATIVE
by Michael O'Dowd (Jonathan Ball, 191pp, R54,95).

This book is designed to point up sound premises for our economic debate. We are poorer than we think but can work our passage home to prosperity.

An economy is not a machine with good things waiting to fall out of it if the right levers are pulled. Social engineering ignores this. It almost routinely fails to work in the sense of producing the effects it is meant to produce. Its unintended results may be legion and these often outlast it. Dr Hendrik Verwoerd's schemes of grand apartheid stand as a warning.

All nations were originally poor but there is a path that will lead any nation to economic development. This does not mean every nation will move steadily forward along this path; some veer into decline. The path has, however, fairly well-defined stages of growth strung along it.

O'Dowd ... *learning from those who succeeded*

The idea that there are such stages has encountered intense resistance and "is still unfashionable, mainly because it contradicts several popular theories of history (like Marxism) and because it clashes with a number of self-interested agendas."

The first person to put forward a comprehensive description of the stages of growth was American economist W W Rostow who in 1959 wrote a book called *The Stages of Economic Growth.*

Unfortunately, Rostow was concerned to use the theory as a basis for social engineering in the US's dealings with the Third World and this led him to develop it in a way that was totally false.

But Rostow had detected a crucial point which he called "take-off," that is take-off into sustained economic growth. Once a country had achieved take-off, it could look after itself.

Later, a simplistic formula for take-off brought disrepute upon what was originally a sound, multidimensional theory.

Does the theory of stages apply to SA? We must seek criteria and facts that enable us to answer this question. If there is one relevant fact that stands out beyond any possibility of denial, it is that SA is a Third World country. But all sorts of people, fed on illusion, deny this.

SA has lived through other phases of once fashionable illusion: that of white supremacy and the race theories that underpinned it, and that of nationalism-cum-socialism. Now we hear claims that SA is unique or too heterogeneous to fall into categories applicable elsewhere.

In fact, SA is different only compared with countries where whites have practised near-genocide against aboriginal peoples. As to heterogeneity, it is an illusion that any but a few countries are really homogeneous. Admittedly SA is a highly heterogeneous country. This O'Dowd sees as "a threat, a challenge and an opportunity."

Until 1965, black Americans outside the South were doing as well as other new arrivals had done and were doing. Diversity of race was winning, with black inferiority being disproved. Black economist Thomas Sowell has shown how affirmative action, which President Lyndon Johnson then adopted, choked off these gains.

Nor are blacks inferior outside the US. If most African states have been failures, this is because they have been headed off by wrong advice from applying proven recipes for success. "The secret of the success of England and America was capitalism. The Africans were told that it was socialism or, at least, statism. Not surprisingly, they believed it."

Happily, it is untrue that all races have similar characteristics. Diversity enables them to contribute to a heterogeneous country's progress in different ways. O'Dowd examines the strengths of our different races.

Some South Africans — notably certain English-speaking whites — are unduly optimistic about the queue of foreigners waiting to help us in our development. Their available resources are stretched, for the end of the Cold War has brought about a financial crisis throughout the West.

However, O'Dowd suggests that we can do a lot with our own resources.

"If we want to be rich and free, we must study how this can be achieved, which means imitating in an intelligent way, with due regard to differences of circumstances, those who have got it right, in particular those who have got it right in recent times: Japan, Taiwan and South Korea." Above all, we must remember: "We have to earn our living in the world."

BUYING BOOKS

Some books reviewed may not be readily available. If you have difficulty obtaining a title from a bookshop, we suggest you approach the publisher's representative.

The telephone numbers of the agents for books reviewed this week (code 011):

☐ Jonathan Ball — 792-2213; and
☐ Struik Winchester — 444-9473.

O'Dowd offers us neither a programme nor scenarios. His concern that economic debate should be based on sound premises precludes him from requiring us to swallow whole his or anyone else's prescriptions.

How does democracy fit into O'Dowd's picture? Let's take a look at Spain: "In 1936 an attempt to introduce democracy in Spain led to a civil war in which 1,5m people were killed. In 1976 democracy was introduced with only minor disturbances and it appears to have settled down to work as satisfactorily as democracy ever does. What happened in Spain between 1936 and 1976 to fit it for democracy? The answer is: economic growth. What else?"

Beware of the judgment that O'Dowd, while he may be a sophisticate in economics, is naive in politics. W H Hutt once wrote a free-marketeering book called *Politically Impossible ..?* It became, for better or worse, Margaret Thatcher's bedside book.

Radford Jordan

Short but intense

I WAS LONELYNESS: THE COMPLETE GRAPHIC WORKS OF JOHN MUAFANGEJO
edited by Orde Levinson (Struik Winchester, 427pp, R295).

Until he died in August 1987, Muafangejo was still charging no more than R18-R35 for his graphics, which now regularly fetch four figures.

But he was no Van Gogh. Levinson calculates that he produced 5 800 copies of his 260 works (mostly linocuts), of which probably 2 200 survive; and he seldom printed anything without a firm order. So, though Muafangejo never became rich, he was certainly not unappreciated in his lifetime.

This superbly produced volume not only reproduces all his graphics but also line drawings, other works and colour versions of some of his graphics, as well as biographical and critical writings.

Born in Angola in 1943 and probably ultimately the best-known student of the famous Rorke's Drift art centre, Muafangejo spent most of his sadly short life in Namibia. Enlargements of his linocuts were used as the backdrop to the Nelson Mandela concerts in London in 1988 and 1990. His *Live Tree* was the theme image for the independence celebrations in 1990. Many have a Christian theme.

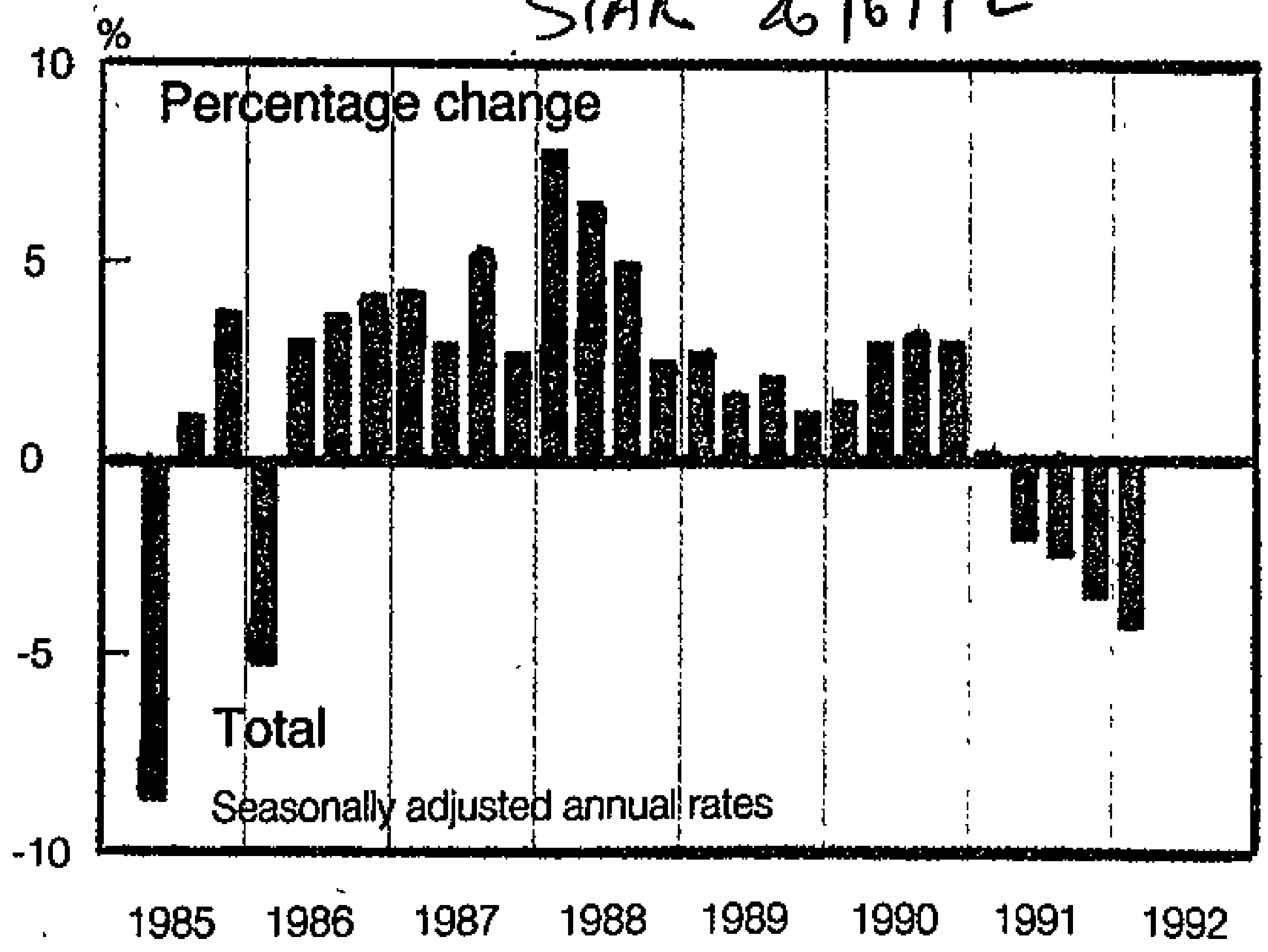
The Levinson family has been deeply involved in the arts in Namibia for over 40 years and nobody could be better suited to compile the book.

Michael Coulson

Reserve Bank foresees another year of decline

STAR 26/6/92

By Sven Lünsche 49



Real private consumption expenditure

The Reserve Bank forecasts that the economy will decline for the third year running.

This is the verdict of its economists after assessing economic data from the first quarter of the year.

At the beginning of the year, the Bank, in line with most other economists, had forecast a moderate upturn in activity.

But in its latest Quarterly Bulletin the Bank says the short-term outlook remains fairly bleak.

Growth will be particularly hard hit by the drought, which could depress Gross Domestic Product (GDP) by up to 1,8 percent this year, according to Bank calculations.

"The failure of crops will lead to a sharp decline in the real income of the agricultural sector, which will influence the real income of other sectors," the Bank says.

"Ongoing violence in black residential areas and uncertainty regarding political negotiations could also lead to a post ponement of investment and consumer spending.

"Moreover, world economic growth seems to be proceeding at a slower rate than originally expected."

The Bank says the recession deepened significantly in the first quarter of this year, resulting in a decline of almost two percent in GDP in the period.

The decline was led by sharp falls in key sectors contributing to domestic expenditure.

After falling by about three percent in the last three quarters of 1991, private consumption expenditure decreased by 4,5 percent in the first quarter of this year.

"This large decline was particularly evident in real outlays on durable goods by households, but real expenditure on semi-durable and non-durable goods also contracted more pronouncedly in the March quarter this year."

The Bank says falling demand is related to declining personal disposable incomes, large-scale retrenchments and waning consumer confidence amid uncertainty about politi cal developments.

The rate of increase in total labour renumeration slowed down from an annualised 14,5 percent in the fourth quarter last year to eight percent in the March 1992 quarter.

The Bank says consumers have become less inclined to make use of credit to finance purchases as evidenced in a falling rate of increase in hire-purchase credit from 15,7 percent in 1990 to 6,7 percent last year.

Similarly, the rate of increase in other loans (mainly overdrafts) receded from 12,8 percent in 1990 to seven percent in 1991.

Fixed investment by the private sector, public corporations and the Government continued to fall, although the decline in Gross Domestic Fixed Investment at 7,5 percent in the first quarter was markedly lower than the 20,5 percent slump recorded in the fourth quarter last year.

The fall in fixed investment was particularly marked in the private sector, where the latest two percent drop was the eighth consecutive quarterly decline.

The GDP decline in the first three months took place despite an increase in inventories, mainly in the industrial and commercial sectors, and a further rise in government spending.

Turning to the balance of payments, the Bank says the surplus on the current account fell sharply in the first quarter to an annualised level of R4,5 billion, compared with R12,3 billion in the fourth quarter last year.

This was largely the result of the sharp rise in merchandise imports and a decline in the value of net gold exports.

The lower current account was offset by a sharp drop in capital outflows from R4,7 billion in the fourth quarter to a mere R21 million in the last three months.

As a result, the Reserve Bank's foreign reserves showed a strong improvement at the end of March, exceeding the value of two months' imports of goods and services for the first time since 1987.

The reserves were also supported by the return of SA as a borrower on European capital markets.

BUSINESS

SA economy: Going, going ... almost gone

W/Mail 26/6 – 2/7/92 [redacted] (49)

Times are hard now, we all know. The outlook for the rest of the year is scarcely any better. **REG RUMNEY** *reports*

COULD it be worse? While drought threatens to keep food prices high, more companies go to the wall, business and investor confidence flags, and consumers feel the pinch.

On the labour front low company profits take their toll in retrenchments, low wage offers and strikes. Protest marches down city streets seem to mirror the poor state of the economy as much as political discontent.

Sanlam's economic department in its latest *Economic Review* comments that the current downswing will become the longest since World War II.

The downswing has already lasted 39 months and indications are it could continue for a number of months yet, note Sanlam's economists. The longest recession previously was for 40 months, from September 1974 to December 1977.

Sanlam forecasts that for the whole of 1992 the economy will show no growth.

In the first three months of this year the measure of economic growth, the real gross domestic product (real GDP for short; it is the total value of all goods and services produced adjusted for inflation), dropped 1,9 percent. Latest economic indicators show this downward trend continued in the second quarter.

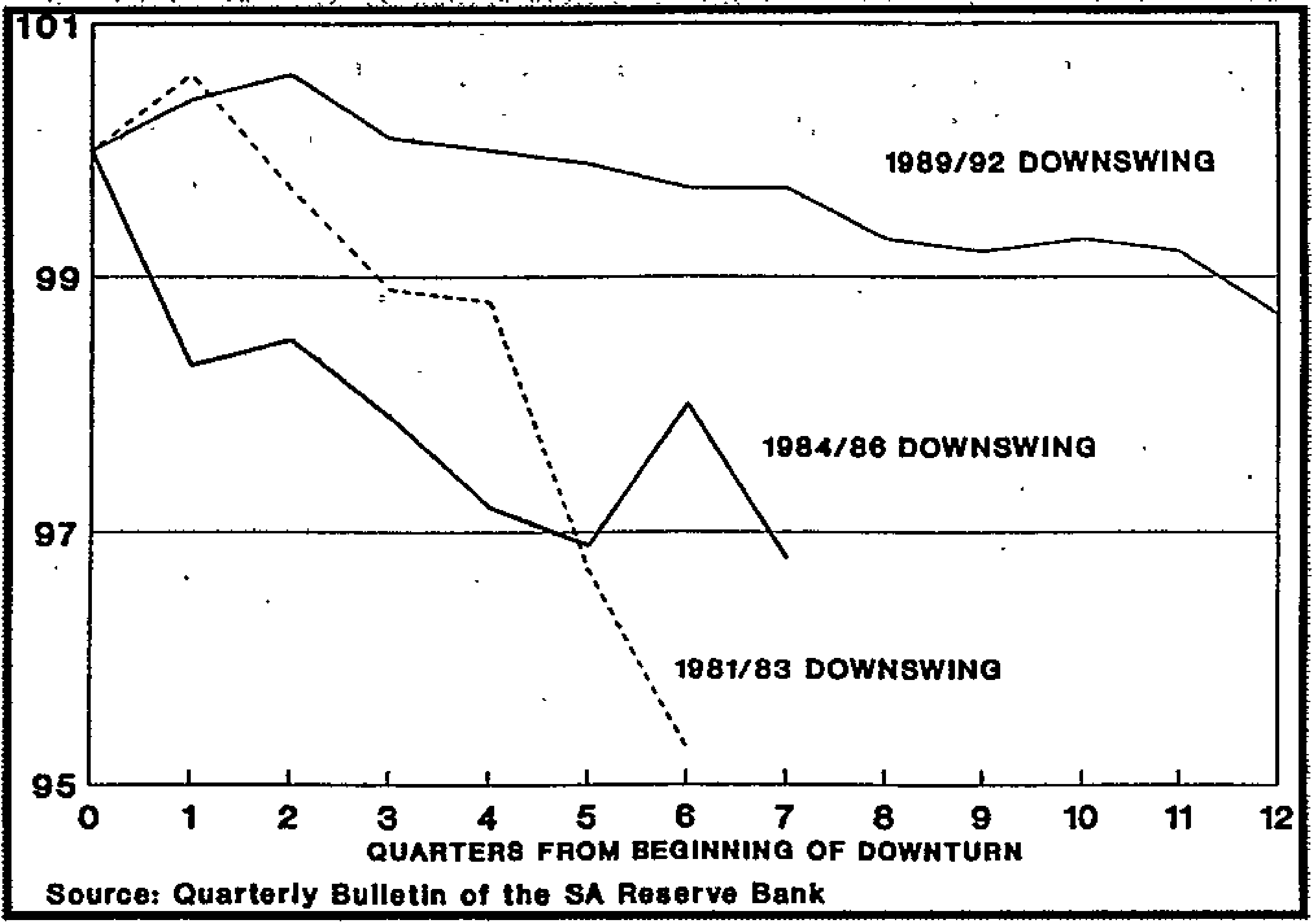
That sharp drop in growth in the first quarter and the serious drought make likely, says Sanlam, that real GDP for the whole of this year will show no growth.

"In fact, chances are that for the third time in succession there will be a decline in the total production of goods and services this year."

Rand Merchant Bank chief economist Rudolf Gouws concurs, predicting a fall in real GDP of half to one percent this year.

The Bureau of Economic Research (BER) in its latest manufacturing survey forecast GDP growth of "at best" 0,5 percent.

Standard Bank chief economist Nico Czypionka points out it is difficult to arrive at anything like exact figures, but growth could be anything from zero to slightly negative.



Source: Quarterly Bulletin of the SA Reserve Bank

Change in GDP since the beginning of downturn phases ... So far it has been the longest, if not the deepest recession of the Nineties. But things have taken a turn for the worst

What makes economists' pessimism convincing is sheer logic: even if there is a recovery now it will probably not be strong enough to do more than make up the ground lost in the first quarter.

Drought has affected agricultural output, and economic indicators such as new car sales underline the drop in consumer spending.

New car sales for the first five months of this year were 13 percent below the same period last year. May new car sales were 19,3 percent lower than May last year.

According to the latest BER trade and commerce survey, increasing unemployment and consequently a lower total wage bill, coupled with high personal taxes and inflation will put consumer spending under pressure.

"Consumer spending will therefore not be particularly buoyant during 1992, and we forecast marginal growth in real terms. Per capita consumer spending is forecast to continue declining during 1992," the BER concludes.

The BER expects employee remuneration to increase by about 13,5 percent this year, compared to 15,5 percent last year. Total personal direct taxes are expected to rise by about 21 percent and consumer prices by 14 percent.

While companies and consumers tighten their belts, union militancy puts labour on a collision course with employers. The bosses in the main cannot fulfil union expectations.

Gouws points out company liquidations are around 45 percent up on a year ago. He adds that earnings of industrial companies, after taking into account inflation, are around 15 percent lower than they were a year ago.

"For labour to expect no retrenchments and substantial wage increases is unrealistic."

As the BER puts it somewhat obliquely: "Wage negotiations between labour unions and employers are also not characterised by a large degree of consensus, which may even lead to further unemployment."

Consumer confidence, it notes, remains relatively pessimistic — and the survey was completed before the present political breakdown.

Among all this bleakness come the trade statistics for the first five months of the year. These show exports down by three percent, unadjusted for inflation, at R27,3-billion.

This probably is not as gloomy as it looks. It seems, according to South African Foreign Trade Association economist Bruce Donald, to be the result of a 24 percent drop in the "unclassified category" of exports. The poor performance of gold and platinum group metals could explain some of the weakness of this category (along with armaments), but Donaldson believes the decline was due to an adjustment in South ber of months yet, note Sanlam's economists. The longest recession previously was for 40 months, from September 1974 to December 1977.

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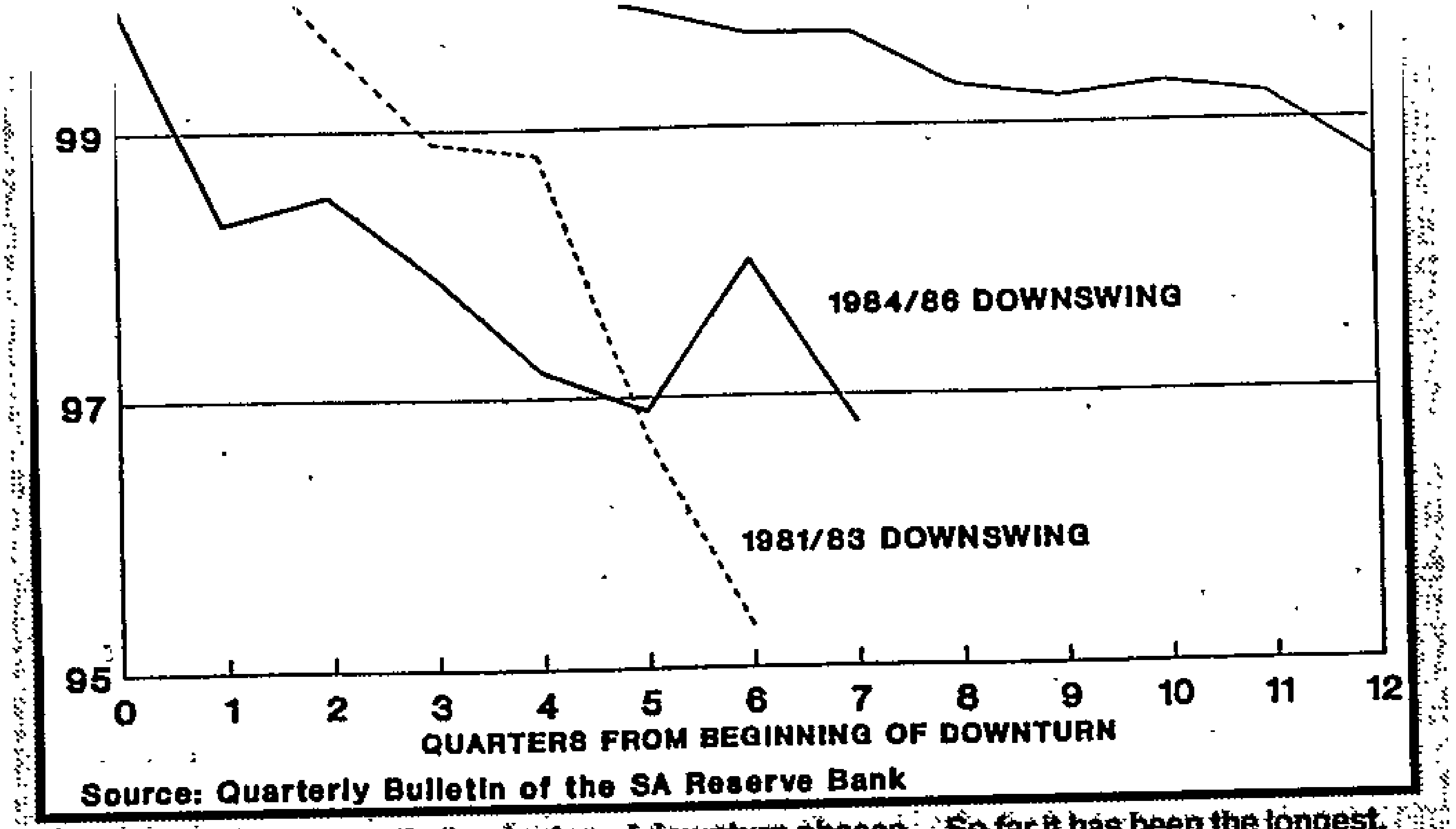

Source: Quarterly Bulletin of the SA Reserve Bank

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Most other export categories show growth.

The relatively good export performance must be seen against a background of a world economy still hesitantly crawling out of recession.

The US is emerging from recession, according to the BER manufacturing survey, evidenced by a growth in its GDP for the second consecutive quarter. The UK economy is showing signs of recovery, but Germany and Japan are still in recession.

The BER expects exports to be the main stimulant to growth, supported by a depreciation in the rand. Added to this, it foresees lower interest rates in the second half of this year and the beginning of next year.

The BER trade survey, however, shows that wholesalers and retailers have reported more sales recently than a year ago, and this could indicate better things to come.

Again, the survey was completed before the present political impasse. That has knocked business confidence for a loop. A political settlement remains the key — with the world economy — to growth next year, if not this year.

‘Short transition essential’

(49)

By ARI JACOBSON CT 26/6/92

A SHORT transition to a new SA was essential for the country’s economic well-being, Trevor Manuel, the ANC’s head of economics, said yesterday.

Speaking at a conference in Sea Point he said that without economic growth in the short term “the marginalised youth would turn to violence”.

“The breakdown of Codesa 2 was over this exact argument between a short term and long-term transition.”

Manuel said there was a dire need to restructure the SA economy “of which the government’s department of finance and the SA Reserve Bank were in agreement”.

He said the ANC was committed to involving “the whole of SA” in a six-point economic plan which would:

- Address inequalities;
- Democratise the economic system;
- Pursue productivity;
- Pursue economic growth and development;
- Develop a concentrated approach to regional development; and
- Protect the environment while pursuing these goals.

Manuel pointed out that “a co-operative environment must be encouraged with among others the private sector, trade unions and consumer bodies” and the government as the central figure in planning.

“The ANC is aware that a dynamic private sector is essential but the potential locked into the townships must also be exposed.”

Manuel stressed that “SA is firstly part of Southern Africa”.

“We must concentrate on developing this region — because if investment in Southern Africa is limited there will be an influx of people from this region into SA”.

Drought and violence blamed

Reserve Bank forecasts a drop in GDP

B|Day 26/6/92

B|Day 26/6/92

(49)

SIMON WILLSON

OFFICIAL confirmation that SA is facing its longest recession in 50 years emerged yesterday when the Reserve Bank predicted a third consecutive year of falling output for the economy this year.

In its latest quarterly bulletin, the Bank has fallen into line with the growing number of private sector economists who have been revising down their initial forecasts of a return to growth in 1992.

If GDP contracts again this year, following declines of 0,5% in 1990 and 0,6% last year, it would mark the economy's first sequence of three successive years of falling GDP since the Second World War.

In its December bulletin, the Bank said real GDP would probably show a small positive rate of growth in 1992. But the Bank's view was changed by the effects of the drought on agricultural production, and of continued political uncertainty on spending and investment.

In the June bulletin, published yesterday, the Bank said crop failures would lead to a sharp decline in the real income of the agricultural sector, which would influence the real income of other sectors of the economy. Ongoing violence and uncertainty about political negotiations could also lead to a postponement of investment and consumer spending.

In addition, world economic growth seemed to be proceeding at a slower rate than had been originally expected.

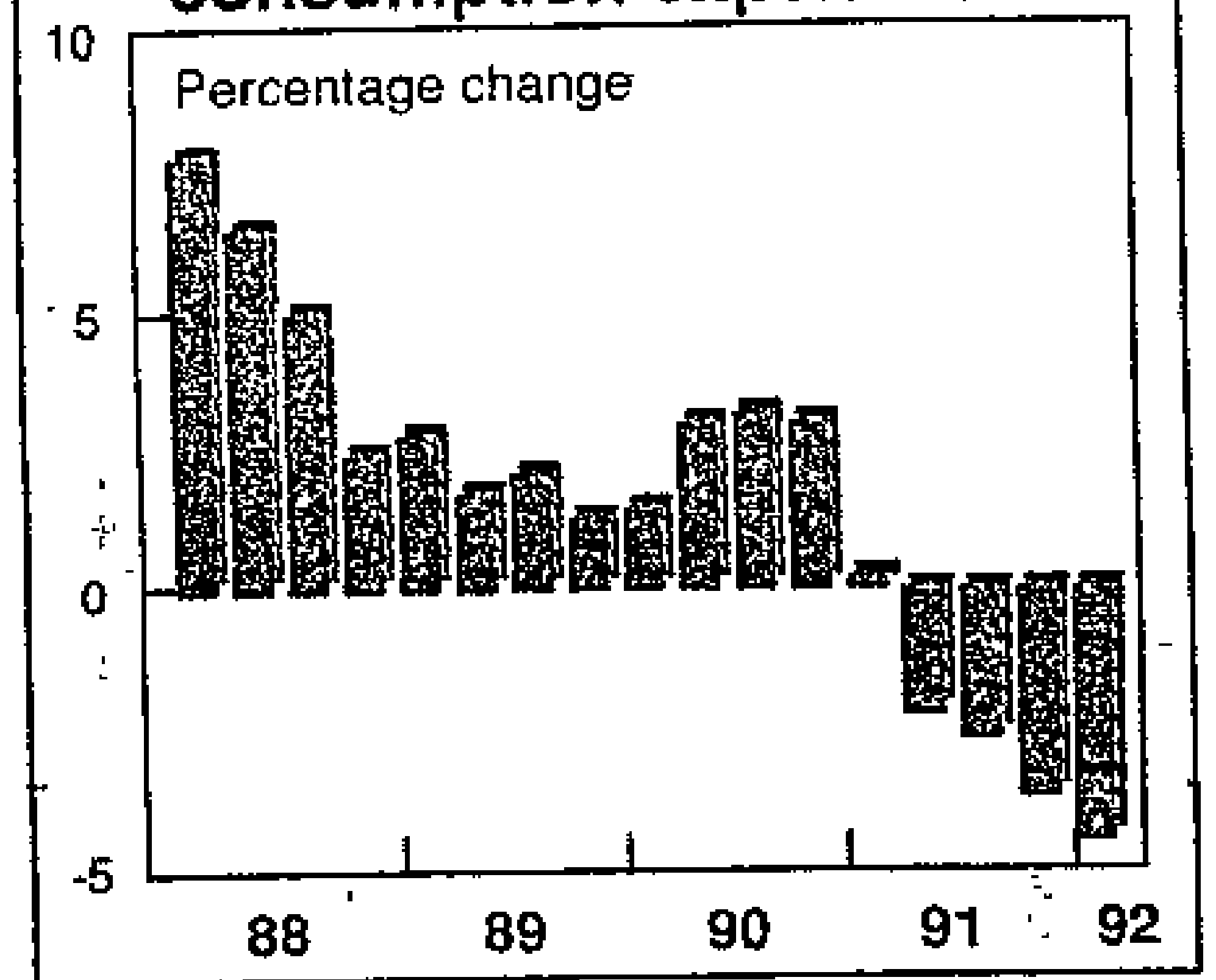
"In view of these developments it seems realistic to predict that the SA economy may again experience a small decrease in real GDP — negative growth may be recorded for the third year in a row for the first time in the post-war period," the Bank said.

The cyclical downturn in economic activity had deepened considerably in the first quarter of the year. The fall in real household spending on consumer goods and services quickened and fixed investment declined further.

Falling demand for consumer goods and services was related to declining real incomes and waning consumer confidence. Substantial retrenchments and general uncertainty about future political developments had made households more wary of incurring further debt.

☐ To Page 2

Real private consumption expenditure



Graphics RUBY-GAY MARTIN Source RESERVE BANK

Reserve Bank

B|Day 26/6/92 (49)

☐ From Page 1

The ratio of gross domestic saving relative to GDP deteriorated further in the first quarter, reflecting "exceptionally large" dissaving by general government and weaker net saving in the corporate sector. Individuals, however, raised their savings levels during the quarter.

"This rise in personal saving was probably related to a reduction in personal debt to avoid the burden of high interest costs, and to a decline in job security because of continued retrenchments," the Bank noted.

It estimated that more than 1-million people had been unable to find work in the formal, non-agricultural sectors of the economy during the past three years. The decrease in formal employment had taken place mainly in the private sector; employment by public authorities accelerated last year as recruitment rose in the police force, correctional services and among teachers.

In spite of rising overall unemployment, growth in nominal wages subsided only moderately in the three months to March. The Bank blamed continued "unrealistically high" wage settlements on the centralisation of wage negotiations.

"Labour unions have been concerned with broader social and political issues, which are not always work-related and are often aimed at maximising short-term benefits for their members, but have disregarded the long-term effects of such actions on labour and unemployment," the Bank said.

High labour costs had been an important contributing factor to the unacceptably high rates of inflation the country had experienced in the past few years. Although the year-on-year inflation rate had remained stubbornly high, the Bank drew encouragement from a slowing in the quarter-on-quarter inflation rate. Annualised quarterly inflation had slowed from 18,8% in the fourth quarter of 1991 to 12,8% in the first quarter of this year — the lowest increase in four years.

Although the Bank concluded that the short-term outlook for the economy remained fairly bleak, its forecasts for the year included projections of a moderate capital outflow, of another current account surplus and a a decline in the inflation rate.

● See Page 3

Reserve Bank's grim prognosis on economy

(49)

CT 26/6/92

Own Correspondent

JOHANNESBYRG. — Official confirmation that SA is facing its longest recession in 50 years emerged yesterday when the Reserve Bank predicted a third consecutive year of falling output for the economy this year.

In its latest quarterly bulletin, the Bank has fallen into line with the growing number of private sector economists who have been revising down their initial forecasts of a return to growth in 1992.

IfGDP contracts again this year, following declines of 0,5% in 1990 and 0,6% last ear, it would mark the economy's first quence of three successive years of fall- g GDP since World War II.

In its December bulletin, the Bank said al GDP would probably show a small itive rate of growth in 1992. But the nk's view was changed by the effects of drought on agricultural production, of continued political uncertainty on nding and investment.

the June bulletin, published yester- the Bank said crop failures would lead to a sharp decline in the real income of the agricultural sector, which would influence the real income of other sectors of the economy. Ongoing violence and uncertainty about political negotiations could also lead to a postponement of investment and consumer spending.

In addition, world economic growth seemed to be proceeding at a slower rate than had been originally expected.

"In view of these developments it seems realistic to predict that the SA economy may again experience a small decrease in real GDP — negative growth may be recorded for the third year in a row for the first time in the post-war period," the Bank said.

The ratio of gross domestic saving relative to GDP deteriorated further in the first quarter, reflecting "exceptionally large" dissaving by government and weaker net saving in the corporate sector. Individuals, however, raised their savings levels during the quarter.

"This rise in personal saving was probably related to a reduction in personal debt to avoid the burden of high interest costs, and to a decline in job security because of continued retrenchments," the Bank noted.

It estimated that more than 1-million people had been unable to find work in the formal, non-agricultural sectors of the economy during the past three years. The decrease in formal employment had taken place mainly in the private sector; employment by public authorities accelerated last year as recruitment rose in the police force, correctional services and among teachers.

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B/Day 26/6/92

Housing forum to be launched 'soon'

WILSON ZWANE

A NATIONAL housing forum is expected to be launched within weeks.

The establishment of the forum was first discussed at a meeting in Johannesburg last November, attended by representatives from government, political and civic organisations, trade unions, business and development agencies.

Government has since withdrawn from discussions aimed at establishing the forum, saying the forum was an attempt at "interim government by stealth".

Government would, however, maintain bilateral contact with the forum.

A source said yesterday a working committee entrusted with working out the forum's details, was close to completing its job. "The forum will be launched soon, possibly within weeks," he said.

Our East London correspondent reports that Time Housing MD Murray MacKay yesterday said the two biggest problems facing affordable housing developers in SA were the tapping of financial institution funds and bureaucratic delays.

The only way to tackle the bulk of the housing backlog was to provide adequate security for funding institutions, which had "plenty of money available" but were reluctant to lend in areas where the traditional security of a bond was not working.

Assurers 'not averse to social investment'

LINDA ENSOR

CAPE TOWN — Life assurers and financial institutions were in favour of socially desirable investments provided the responsibility was equally shared in the industry and as long as the amount allocated was small in relation to their total assets.

This was said by ANC economic adviser Allan Hirsch at a meeting of businessmen and diplomats last night. Hirsch said a possibility was to have life assurers invest in government bonds directed towards housing or for government to guarantee loans to small businessmen.

ANC economics chief Trevor Manual said the Life Office's Association (LOA) had recognised that insufficient money was channelled into socially desirable investments and was prepared to ensure that this took place. 49

"The LOA wants a democratic government to give life assurers the opportunity to commit money in an open way to socially desirable investments. If that fails, then they would be willing to accept prescribed investments. They are asking for an opportunity to manage their assets in their own way first."

Manuel said the ANC intended to "engage" with those companies which had terminated their affirmative action programmes. A close watch was being kept on these companies.

He also said the ANC was investigating the possibility of establishing a court of audit to bring civil servants to book over the way they disbursed public funds.

SA's debt 34% down since '85

B Day 26/6/92

(49)

HILARY GUSH

SA's current account surplus narrowed sharply in the first quarter of the year, but capital outflows also declined to a "negligible" level in the March quarter, the Reserve Bank's latest quarterly bulletin says.

SA's foreign debt declined from $19,4bn at the end of 1990 to $18,1bn at the end of last year, completing a 34% reduction in outstanding foreign debt from 1985 levels.

In the three months to March the current account surplus fell to an annualised R4,5bn from R12,3bn in the fourth quarter of last year. The fall stemmed from an increase in goods imports and in service and transfer payments to nonresidents.

Net gold exports fell although there was a slim improvement in goods exports.

Capital outflows totalling R4,7bn in the fourth quarter of last year declined to R21m in the first quarter of this year.

Successful first-quarter bond issues in European capital markets produced a net long-term capital inflow of R1bn for the public sector.

However, the inflow was offset by repayment of $200m in debt inside the standstill net in February this year. A net inflow of short-term capital in the March quarter consisted mainly of trade finance associated with the higher value of imports.

At August 1985 exchange rates SA's foreign debt totalled R15,6bn at the end of last year, compared with the R23,7bn foreign debt total at the beginning of the debt standstill on August 31 1985.

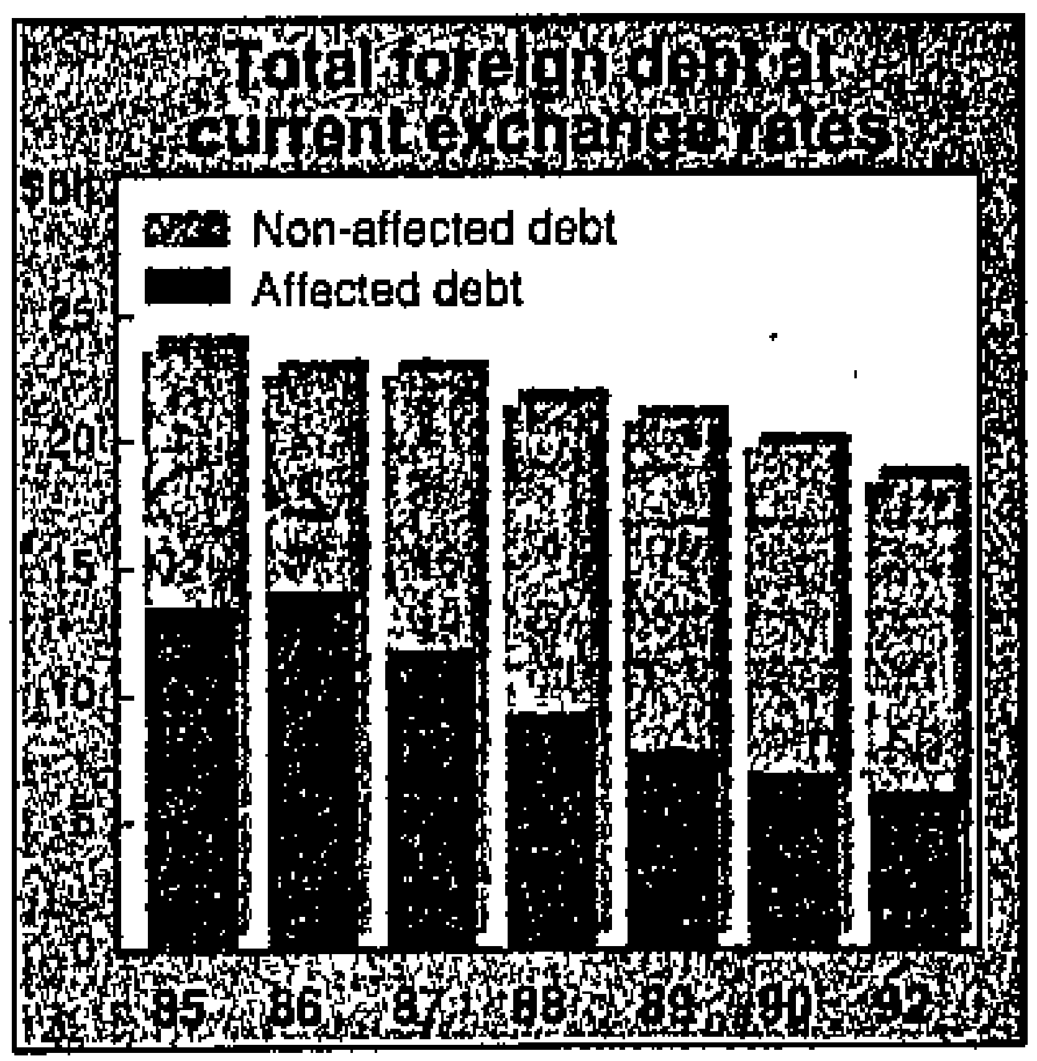
This implied that, valued at August 1985 exchange rates, the outstanding debt was reduced by $8,1bn, or 34%.

No less than $3,2bn had been repaid on affected debt — inside the standstill net — and a further reduction, attributed to conversions into longer-term loans outside the net and debt-equity swaps, had occurred.

The Bank believed the foreign debt repayments should help to further improve SA's credit rating.

As a percentage of goods and services exports, the debt total had decreased to 65% in 1991 from 128% in 1985; the corresponding ratio in Western developing countries was 250%.

SA's debt expressed as a ratio of GDP fell to 17% at the end of last year from 43% in 1985.



Graphics RUBY-GAY MARTIN Source RESERVE BANK

Recession 'is about to end'

(49)

Own Correspondent

[redacted]

DURBAN — The recession was about to end and SA was on the verge of what was potentially its strongest and most sustained economic recovery in many years, Board of Executors executive director John Dickson told yesterday's Fedhasa regional congress.

And the consumer price inflation rate would drop to about 12% by the end of the year and "somewhat lower" thereafter. BDay 26/6/92

He said because the recovery would be driven by rising exports and higher investment, it would be more sustainable and soundly based than the "boom/bust" consumer driven recoveries experienced in the late '80s.

But Dickson warned that this exciting prospect was threatened by violence and crime which could reduce business and domestic confidence; and a drastic deterioration in the quality of economic management under a new government. This was unlikely because "any foolish economic policies would be instantly exposed and punished by world markets".

Durban had recorded its lowest crime figures on the beachfront since 1986, Fedhasa chairman Alan Gooderson told the congress. And the city's crime statistics were lower than any other major SA city.

GDP to take a knock from drought

B/Day 26/6/92

SHARON WOOD 49

THE drought could knock 1,8 percentage points off SA's gross domestic product this year, predicts the Reserve Bank in its latest quarterly bulletin.

In a special report on the macroeconomic effects of the drought, the Bank assumes there will be a 14% decline in the value added by the agricultural sector during 1992.

The Bank points out that although the agricultural sector's contribution to GDP has declined continually from an average of 7,3% during the 1960s to 5,9% during the 1980s, the sector nevertheless still plays a very important role in the economy because of its interdependence in the economy.

Other industries which will be hit by the drought will be those processing agricultural products and manufacturers of livestock feed, fertilisers, insecticides, machinery and implements.

The direct impact of the drought on GDP is predicted to be one percentage point and the indirect effect to be 0,8 percentage points, the Bank estimates.

The Bank also calculates that as a result of the drought, both private consumption expenditure and gross domestic fixed investment will be 0,5 percentage points lower this year.

The current account surplus on the balance of payments will be pulled down by about R1,2m, as a result of the combined effect of higher value of imports.

"The direct negative effect of R2,1bn on the current account balance as a result of the lower maize crop could be partly neutralised by a decline in imports because of the lower level of economic activity," it adds.

The average inflation rate will also be pushed up by about 0,8 percentage points as a result of the lower agricultural production and as many as 69 000 job opportunities may become redundant.

Available statistics indicate that the agricultural sector generated employment for approximately 1,2-million people in 1988 or 12% of the economically active population.

The current drought can cause an approximate loss of 49 000 job opportunies in the agricultural sector this year, it says. If farm labourers' dependents are also taken into account, 245 000 people in the agricultural sector will also be foreced to find another livelihood.

"These results are applicable only to the formal sector of the economy and it can be assumed that the informal sector will have to absorb a sizeable number of the unemployed," the Bank says.

It concludes: "The drought is obviously far more severe than originally estimated and will be especially harmful to the producers of summer crops."

Understanding the Southern African economy

SOUTH 27/6-1/7/92 [redacted] (49)

IN A RECENT book entitled "Economic interdependence in Southern Africa — Conflict and Co-operation", Jesmond Blumenfeld demonstrates that it makes sense to talk of a Southern African regional economy.

He analyses how the discovery of diamonds in Kimberley in 1867 and gold on the Rand in 1886 resulted in a regional economy with a base in South Africa.

He identifies four processes as the pillars of this newly-created regional economy:

Firstly, the construction of the railway network covering Botswana, Lesotho, Swaziland (the BLS countries), the two Rhodesias, Nyasaland, Mozambique, Angola and the Belgian Congo created a transport infra-structure for the development of trade, labour migration and the institutional arrangements to eliminate trade barriers.

Secondly, given the level of mining technology of the time, large unskilled labour forces were required to exploit the newly-discovered minerals. This proved a major problem as new minerals continued to be discovered, such as coal in Southern Rhodesia and copper in Northern Rhodesia and the Belgian Congo, to mention a couple.

Competition for labour was considerable, forcing employers to recruit labour from entire regions, resulting in large-scale population movements. This migration created a historical-sociological affinity among people from particular regions. The affinity removed non-tariff barriers to trade, making it easy for investments to take a regional dimension.

Thirdly, the development of trade in goods and services was greatly facilitated by the railway network. Cotton, tobacco, maize and tea could now be grown for export.

Considerable South African capital was invested in neighbouring countries for the production of these commodities for export. Manufactured goods were exported to these countries from South Africa. Currency convertibility at the time was a further financial factor which enhanced regional trade.

Fourthly, most of the countries covered by the railway system were British colonies, with the exception of Angola, Belgian Congo and Mozambique. The British colonies made institutional arrangements for the facilitation of trade.

In 1910 the Customs Union was formed, covering the four South African provinces and the BLS countries. Special trade agreements were made with the two Rhodesias and Nyasaland. Labour agreements were made with Mozambique.

These processes were the pillars of what today can be regarded as the regional economy of Southern Africa. During the last decades, however, political conflict in Southern Africa has made it impossible to realise the welfare gains of this regional economy.

Cross-border economic relations became ridden with hostility and suspicion. Gains which should have been made through exploiting historical links were turned into instruments of economic warfare.

Vigorous attempts were made through organisations like SADCC to undo almost a century of economic links in the region.

This unhappy phase of this region's development is coming to an end with the dying of apartheid. There is now an opportunity to examine the nature of the links and how they may be exploited for mutual benefit.

By providing a historical account of the development of the Southern African economy and presenting a systematic explanation of the concepts of dependence and interdependence, Blumenfeld has laid the foundation for further study of this timely issue.

On this foundation, Southern African interstate economic relations can be examined, formulated and eventually rebuilt for the welfare of all. **PATRICK NCUBE**

Big trade hunt in Africa

C/Press 28/6/92

[redacted]

ECONOMIC prospects for Africa depend increasingly on the fortunes of two domi nant states in the region – SA and Nigeria.

Their leaders share the analysis that Africa's economic development revolves around four growth poles – SA, Nigeria, Kenya and Egypt. Of the four poles, Nigeria and SA are the most significant for Africa in terms of economic muscle and population. Although Egypt is a major recipient of Western aid its predominant orientation to the Middle East has reduced its importance as an actor in Africa.

For foreign commercial interests it is Nigeria and SA, within and beyond their respective sub-regions, that have the most potential to develop as platforms from which to export to other countries in the region. While SA's potential as a harbinger of economic development under current conditions is seriously overstated in Africa, it is a market which constitutes about one percent of global business and one that few multinational companies can afford to ignore.

Shattering myths

Some of the most extreme illusions about SA's economic role in Africa are likely to be shattered in the next few years.

"Industrial structures are likely to be further rationalised with much African business moving to SA as the logical regional industrial hub. While SA does not have a competitive advantage internationally in manufacturing, it does have a marked comparative advantage in Africa where manufacture makes up more than 30 percent of its exports. SAWith South African exports to Africa of some R6-billion (US$2-billion) and imports from Africa of just R1,5-billionin 1990, the trade relationship is very one-sided. Commodities are SA's main buying interest in Africa: Nigerian and Angolan oil, cocoa from the Ivory Coast and Ghana, Kenyan and Ugandan coffee, Zambian copper and Zimbabwean tobacco.

Coping with SA's domination in the African economic context will be a key problem for policy-makers in post-apartheid Africa; the only possible counterbalance is Nigeria. Success or dislocation in one of the "pole economies" will quickly affect the other countries in the region.

■ **A difficult transition to democratic rule:**

Moving from apartheid in SA's case – and military rule in Nigeria's case – to democracy is a critical process for both countries. A central issue in both countries is how far federalism can contain ethnic rivalries. Current developments suggest both countries will face a protracted period of authoritarian rule in this decade.

■ **Dependence on commodity production:**

Despite its relative sophistication in the African context, SA is still predominantly a primary commodity producer. Mineral exports alone made up 46 percent of SA's merchandise exports in 1991 and in non-drought years it grows the equivalent of a third of Africa's maize requirements; crude oil makes up 95 percent of Nigeria's exports.

■ **Gross inequalities of wealth:**

Inequalities in Nigeria have been worsened by recession, particularly in urban centres, over the past decade. While the overall GNP per capita in SA was $US2 460 (R6 888) in 1990, for whites it was $US6 530 (R18 284) and for blacks $US670 (R1 876), according to the World Bank.

■ **Growing unemployment:**

Estimates of unemployment in SA vary from the government's 18 percent to unofficial estimates as high as 40 percent; all are agreed it will rise further. In Nigeria, few accept the government's unemployment figure of 11 percent, while some economists claim it is higher than 25 percent.

■ **Hectic rate of urbanisation:**

Both countries are among the fastest urbanising societies in the world.

Johannesburg's crime rate is soaring as it replaces Detroit and Rio de Janeiro as the murder capital of the world.

■ **Overblown and unproductive sectors:**

The army of Afrikaner clerks who people SA's 15 racially based departments will be weeded out, but any restructuring of the civil service is unlikely to cut total numbers as social spending on blacks rises. Privatisation, however, has cut down some traditional government fiefdoms. Since 1986, the Nigerian government has cut the civil service payroll and started an ambitious privatisation programme. Both strategies have stalled and are unlikely to be resuscitated before a change in government. The efficiency of both civil services has been hampered by growing corruption.

■ **Oversized military and security establishment:**

This year, half SA's total defence budget of R4 380-billion was allocated to special projects or "dirty tricks". Until January next year at least, Nigeria's military will directly control the national budget.

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Both countries see their military prowess (questionable in both cases) as integral to their standing in Africa and an important component of a possible peace-keeping force launched by the Organisation of African Unity, which they would hope to dominate between them.

■ **Capital flight:**

Both countries have suffered inordinately from capital flight and disinvestment.

■ **Chronic lack of investment in education and training:**

Apartheid's worst legacy to the economy is the lack of skilled South African workers. In Nigeria's education system, where spending on each pupil was cut by more than half in the 1980s, the effects have been similar.

■ **Poor export performance:**

With rich natural resources and long-established markets for its primary commodities, neither economy has developed the necessary marketing skills to export its processed and manufactured goods.

However, SA, with its GDP more than double Nigeria's, will remain and probably reinforce its position as the dominant economy in the region.

Africa as a bloc was virtually invisible in the negotiations for the General Agreement on Tariffs and Trade; a constructive Lagos-Pretoria axis could help change this. – Africa Confidential

New pressure for interest cut

S/Times (Buss) 28/6/92

By CIARAN RYAN

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THE Reserve Bank is under renewed pressure to drop interest rates after figures released on Friday show a sharp drop in M3 money supply growth to 7,14% in May from 11,2% in April.

The bank will probably wait for the consumer price index to be released in a day or two, before making a decision.

Econometrix's Tony Twine says the lower money-supply growth figures, at the bottom end of the Reserve Bank's target range of 7% to 10%, must be a precursor to an interest-rate drop.

"This is a mixed signal. It indicates the depths to which the economy has sunk, but it also gives the Reserve Bank latitude for an interest-rate drop. There is unlikely to be a rush for credit because of a percentage-point drop in rates."

Pierre Groenewald, Deputy Governor of the Reserve Bank, says a decision to cut rates will not be made on the basis of a single indicator.

"The Governor will make a decision based on all the information available."

The seasonally adjusted money supply figure for May 1992 was R187,76-billion from R190,5-billion in April 1992, a 1,5% month-on-month drop.

In spite of the Reserve Bank's money-market mopping-up operation which increased the shortage to R1,67-billion (R978-million), the 90-day BA rate hovers around 14,55%, nearly 4,5% shy of the retail prime rate.

Mr Twine says this leaves scope for an immediate cut in rates.

Africa surveys its tra

STAR 29/6/92 (49) ~~230~~

Conflict and the economy are some of the problems to be discussed at the OAU summit in Dakar, writes BARNEY MTHOMBOTHI of The Star Africa Service.

AFRICAN heads of state assemble in Dakar today for the 29th summit of the Organisation of African Unity with a trayful of intractable problems awaiting their attention — but with the South Africa issue no longer one of them.

A mighty row over this issue had been expected. Some African countries lobbied for a South Africa made respectable by reform and Codesa to attend this year's summit as an observer, but others opposed it.

A week ago a showdown seemed possible, but the Boipatong massacre apparently came to the OAU's rescue by pulling the rug from under the feet of the pro-Pretoria lobby.

Rumours persisted early last week that SA Director-General of Foreign Affairs Neil van Heerden was in Dakar waiting for a call to the summit, but his department denied it.

In a press briefing, OAU secretary-general Salim Ahmed Salim left South Africa out of his list of important issues to be discussed. He condemned the violence in South Africa only after he was prodded.

The massacre and Dr Salim's uncompromising language have now put paid to any chance of any country standing up for South Africa. The foreign ministers, who met before the summit to draw up its agenda, were unanimous in their condemnation of the Government and closed ranks behind the ANC and PAC.

According to sources, not a single foreign minister argued the case for South Africa. ANC representative Joe Modise told reporters that the massacre had made it much easier for the ANC to persuade certain states to stop supporting Pretoria. The massacre had dealt President de Klerk's personal image and prestige a severe blow, he said.

The ANC campaigned at last year's OAU summit in Abuja, Nigeria, that some sanctions be lifted, but this year it is presenting a position fairly similar to that of the PAC, which has maintained that Codesa was not the correct forum for constitutional talks. The PAC wants to resuscitate the Patriotic Front with the ANC.

Although they may have been let off the South African hook, African leaders face other tough problems. Anarchy is reigning in Liberia and Somalia, and about a dozen low-level conflicts are raging on the continent.

There are also the economic decline in most countries, the Aids epidemic and the unprecedented drought in most of eastern and southern Africa. Southern African countries have called for greater co-ordination of drought relief.

Because of the venue of the summit, west African concerns will tend to dominate. The civil war in Liberia tops the list because the host country, Senegal, has lost troops serving with the peacekeeping force Ecomog in Liberia.

There are fears that the Liberian civil war could engulf the entire region. It has already led to the overthrow of the government of Joseph Momoh in Sierra Leone. The summit will have to decide what to do about Liberian rebel leader Charles Taylor, who has broken every agreement reached with him. Last week Ecomog threatened to impose an embargo on the country to force a settlement.

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STAR 29/6/92

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In Somalia, civil administration has completely broken down. Various parts of the country are controlled by different armed militia. Some of the factions turned up in Dakar, each claiming to be the legitimate government.

Dr Salim has complained that the international community has not always responded to African tragedies with the same speed as elsewhere. "The world is not interested (in Africa) any more," he said, adding that Africa would have to use its own resources to solve its problems.

The OAU's impotence to deal with the continent's problems is something that has long bothered many of its supporters. Just being able to exist has been an achievement.

Africa is now a victim of the end of the Cold War. Gone are the days when Soviet envoys could influence policy decisions in exchange for armaments and easy terms of trade.

Now the remnants of what was the Soviet Union are joining the queue for international aid, and it annoys the Africans that they jump the queue.

OAU officials are saying that, colonial emancipation having been attained, the time has come for economic independence. The signing of the treaty establishing the African Economic Community in Abuja last year is seen as signalling the second phase of the continent's liberation. But the governments know that without political stability it will be almost impossible to pull Africa out of the economic quagmire.

Dr Salim wants some mechanism for conflict resolution, and it will feature high on the summit's agenda. He wants the OAU to decide on how to build its capacity for the control of conflict both between and within states.

But some countries are expected to resist this development because it seems to go against the OAU policy of non-interference. If the suggestion is adopted, it will mean that the organisation has at last been given teeth.

The OAU faces another issue. It is often asked to observe elections in member countries, but it does not have enough money to do so. It is $38 million (about R106 million) in the red and almost half of its members are in arrears with their contributions. □

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ANC economist spells out policy on foreign investment

STAR 29/6/92

South Africa needs to adopt policies to attract foreign economic investment and to reduce the control of bureaucrats over that investment, says ANC economist Tito Mboweni.

He told 300 business representatives in Toronto, Canada, at the Goodman Forum, that the ANC believed a future democratic society in SA would require substantial international investment.

The ANC had adopted two preliminary approaches to handling foreign investment.

Firstly, an open-policy approach with safeguards "so that all international investment will be treated the same as South African companies.

"This investment will be regulated by the laws of the land, including policies regarding training and so on.

"We will also implement safeguards to limit domestic borrowing and the purchase of strategic resources, such as land," Mr Mboweni said.

Secondly, a contractual policy which would depart from the open approach in specific instances to give some investment special treatment.

The trickle-down effect of substantial economic growth in South Africa would not be sufficient to address the country's past economic imbalances, according to two other speakers from South Africa.

Pieter Haasbroek . . . trickle-down process will not be enough

Barlow-Rand chief economist Dr Pieter Haasbroek said: "The trickle-down theories will not be enough to redistribute resources and it is necessary to steer the process of growth to this (development) end."

Former leader of the now defunct United Party, Sir De Villiers Graaff, said the Government was looking for economic growth of six percent, but its effects would be too slow in reaching the disadvantaged sectors.

"You cannot expect the impoverished to show patience, so South Africa must look at social spending as a means of countering enormous differences," he said.

Dr Haasbroek said economic development was needed to redress the balance of wealth but this was being hindered by the instability in South Africa's transition process and the rising violence.

Both speakers emphasised foreign investment was necessary for South Africa's economic health.

Sir De Villiers said it would not be a plea for "handouts" but for help in accessing markets, capital and technology.

Dr Haasbroek said foreign investment would help to develop critical human resources, to create opportunities for disadvantaged people and to achieve labour absorption.— Sapa.

Hard times ahead for the jobless

[redacted] 49 [redacted]

Sowetan 29/6/92 [redacted] [redacted]

By JOSHUA RABOROKO

THE employment situation in South Africa is deteriorating as more and more people are being retrenched, according to the latest report of the Stellenbosch University's Bureau For Economic Research.

The report, which focuses mainly on the wholesale, retail and motor trade sector, says the on-going threats of mass action, stayaways and go-slow strikes will also not contribute towards stability in the already troubled and politicised labour force.

It adds that wage negotiations between labour unions and employers are also not characterised by a large degree of consensus, which may even lead to further unemployment.

In its survey, the South African Chamber of Business says official figures indicate that employment within the formal private sector is currently contracting at a rate of about four percent a year.

According to the survey, more than 250 000 jobs have been lost during the current recession, and indications arising are that the number will continue to increase in the coming 12 months.

In addition, the survey says, the widespread drought has brought added misery and hardship to millions of people, and has served to further erode prospects of growth.

The Stellenbosch report says unemployment will dampen growth in the total wage bill of the country while personal taxes will remain high.

"Coupled with an expected high inflation rate, this will keep dispensable income under pressure until the third quarter, when a drop in the inflation is expected," it says.

Consumer spending will therefore not be particularly buoyant during 1992.

"We forecast marginal growth in real terms," the report says, adding: "Per capita consumer spending is forecast to continue declining during 1992."

White consumer confidence edged up marginally, but remains relatively pessimistic.

The report notes a strong improvement in black consumer confidence.

The possible explanation to black confidence can be linked to the high publicity given to the process of political change, particularly within Codesa.

In what could be considered an indication of better things to come, wholesale and retailers have reported bigger sales volumes than a year ago.

Motor dealers continue to experience poor sales volumes than a year ago - symptomatic of an economy still in recession.

Expectations for the second quarter are not much better and a net majority of all dealers anticipate lower sales volumes.

The report says: "It now appears more likely that the upswing in the economy may only become visible well into the second half of the year.

"Retailers and wholesalers appear to be more optimistic of an improvement in business conditions in the third and fourth quarter."

Factors which may continue to dampen the activities of both dealers and consumers, include the worsening drought, excessive Government spending, high interest rates, a high level of crime and violence.

(49)

Growth in money supply under control

By Sven Lünsche STAR 29/6/92

Money supply growth seems under firm control after the Reserve Bank reported on Friday that the broad money supply measure, M3, rose by a mere 7,14 percent between May 1991 and May this year.

Not only is this substantially down from the revised year-on-year growth rate of 11,2 percent in April, it is also well within the seven to 10 percent money supply guidelines set by the bank for 1992.

From the mid-November 1991 base of the guidelines, M3 has grown by 7,5 percent. In April M3 growth at 12,8 percent was still well above the guidelines.

The lower money supply growth rates are an indication of the marked slowdown in credit extension by the financial institutions to the private sector and should ease pressure on the inflation rate.

In its latest quarterly bulletin the bank says credit demand was low in the first quarter as a result of depressed economic conditions and the effect of positive real interest rates.

While mortgage advances and leasing finance remained fairly buoyant the bank notes that growth in hire-purchase credit and overdrafts receded sharply.

Economic devastation looming, say analysts

STAR 29/6/92. ㊾

The sanctions-scarred economy faces renewed bleeding, and possibly permanent damage following the suspension of democracy talks.

Economic analysts say the impasse between the Government and the ANC raises the spectre of costly industrial stoppages and could do longer-term harm by damaging already fragile business and investor confidence.

"That (a loss of confidence) can do permanent damage," says South African Chamber of Business (Sacob) chief economist Ben van Rensburg.

Nelson Mandela's ANC and 10 allies pulled out of the 19-party democracy talks last Tuesday, accusing President FW de Klerk's government of responsibility for township violence which has killed more than 5 000 blacks in the past two years.

Mr Mandela previously warned the Government of turmoil and unprecedented mass protests unless it met ANC demands for a rapid transition to non-racial democracy.

The ANC and its allies, the South African Communist Party (SACP) and the Congress of South African Trade Unions (Cosatu), are to meet next Friday to map out a comprehensive protest campaign.

Neil Coleman, spokesman for the 1,3 million-strong Cosatu, says it has endorsed in principle a general strike as part of a "rolling" campaign which could include marches, consumer boycotts and occupation of state buildings.

Analysts estimate the potential cost of a complete work stoppage at R500 million to R1 billion a day.

But Sacob's Mr van Rensburg says: "It actually degrades the seriousness of the situation to put a number on it. More important is the risk of permanent or structural damage to the economy."

Sacob has warned that failure to break the negotiations deadlock could cause a flight of capital and skills, withdrawal of investments and further business closures in an economy gripped by its longest recession in nearly 50 years.

Even before the ANC bombshell, industrialists had indicated they would continue to reduce investment in real terms, after accounting for inflation, in the year ahead.

The new uncertainties will weigh heavily on an economy expected to shrink for the third year in a row in 1992, having grown only one percent a year on average over the past decade.

More than 250 000 jobs have been lost in the current recession, which has been aggravated by weak prices for gold and other minerals, and the worst drought this century.

With an estimated two to three million people out of work, analysts say economic growth of at least four percent a year is needed just to prevent the ranks of jobless growing.

Ben van Rensburg . . . actually degrades the seriousness of the situation

Former Finance Minister Barend du Plessis warned early last year that unemployment could make SA ungovernable by the mid-1990s unless the economy enjoyed a rapid revival.

Analysts say although South Africa has made impressive trade breakthroughs abroad since anti-apartheid sanctions started to unravel, potential foreign investors have adopted a wait-and-see attitude which will now be reinforced.

"I think they're casting a very wary eye on the situation. Everyone is appalled at the violence and most concerned at the ANC pulling out of the talks," says Michelle Cohen, executive director of the American Chamber of Commerce.

"The concern is great that the talks should reconvene."

Anne More, general manager of the South African Foreign Trade Organisation (Safto), says the negotiations stalemate is unlikely to have an immediate impact on current trade relations, but could prevent further breakthroughs with countries which had not yet opened up to South Africa.

She declines to name the countries, but trade sources say a potentially important trading partner such as India has come close to establishing ties.

Sweden said last week it may delay its removal of commercial sanctions. — Sapa-Reuter.

Business Day SURVEY

The much-talked-about end to the economic recession has not materialised. Economists and senior property players are revising their projections and the market is expected to bottom-out between mid-1993 and the first quarter of 1994. Foreign investment would alleviate many of the problems but with continued violence, foreign investors and companies are not yet prepared to commit themselves. ***PETER GALLI*** *reports.*

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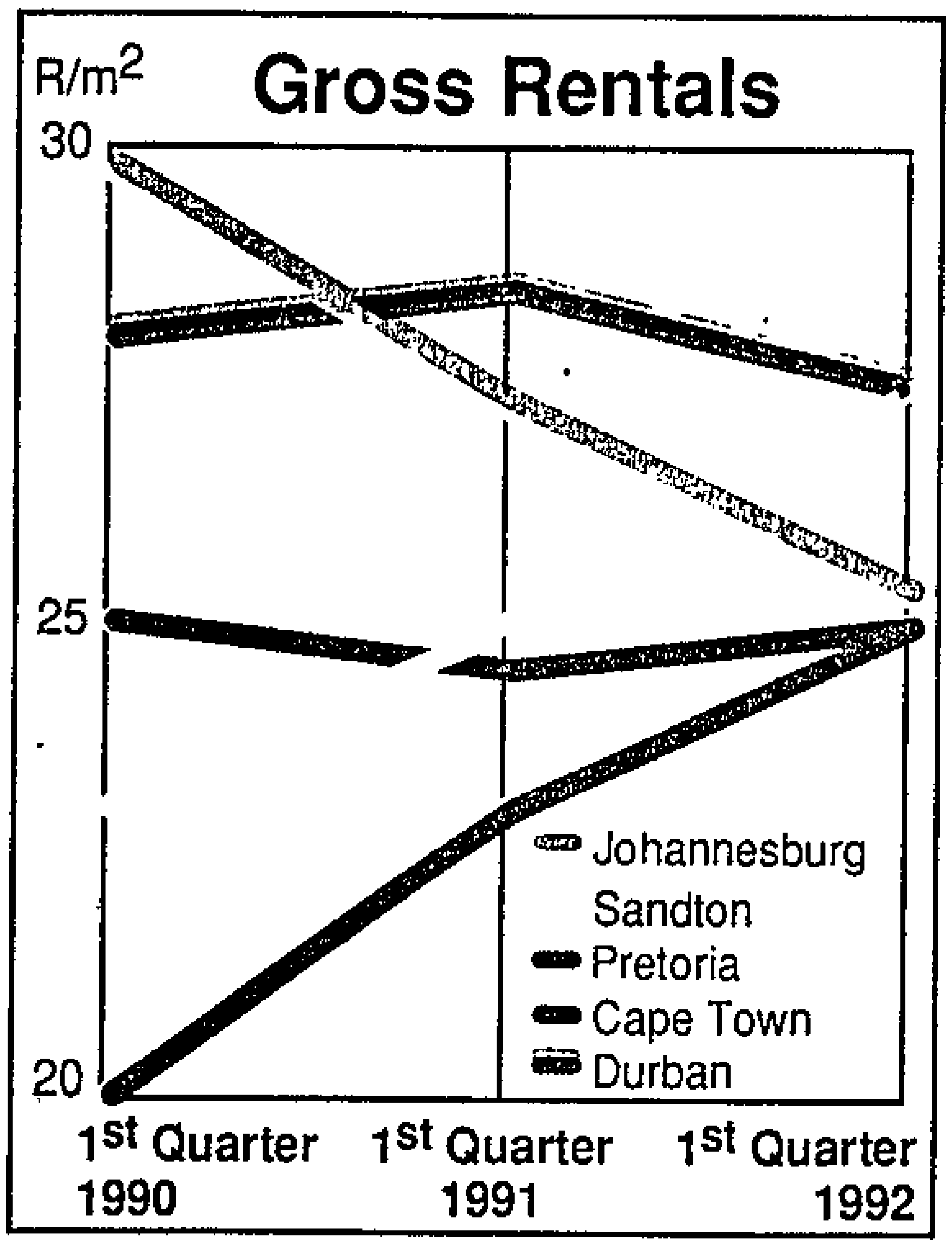

Graphics: RUBY-GAY MARTIN Source: RMBT

Commercial and industrial property

Recession drags market further into doldrums

B/Day 29/6/92

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THE commercial and industrial market seems to be sliding further into the doldrums as the much talked about end to the economic recession fails to materialise.

Economists and senior property players initially predicted the recession would bottom out in mid-1992, but these projections have been revised and extend to between mid-1993 and the first quarter of 1994.

All of this does not bode well for an industry already faced with huge areas of oversupply, reduced demand and static to weaker rental levels.

The huge vote of support for President F W de Klerk and his reform initiatives given by the white electorate in the March referendum was taken by many in the industry as a godsend.

Failed

It was expected to result in renewed local activity and to spur offshore investors and companies to return in droves, thereby rapidly mopping up the glut of space, pushing rental levels to new highs and creating new demand.

Sadly this has failed to materialise.

Foreign investors and companies are adopting a "wait and see" attitude as local violence continues unabated and political discussions become sidelined by rhetoric and accusations.

Foreign investment, if and when it does materialise, will alleviate many of the woes currently being felt. However, there has to be a sustained reduction in violence and probably an interim government in place for this to happen.

Token gestures have taken place but have had little effect on the property market. Local economic conditions are unlikely to improve for at least another year as that market lags the economic recovery by nine to 12 months.

In reality, rental levels are generally showing no real growth and only sought-after decentralised areas with low vacancies and little further development potential are showing any sort of rental growth.

Vacancy levels are static to increased almost across the board, with development also only really starting to taper off now.

In a positive move, the industry is also starting to call for less development and urging members to exercise caution.

However, this call probably comes too late as most of the major landlords find themselves with vast amounts of space to let and few propective tenants.

This has resulted in tenants becoming more demanding and aggressive, and landlords being forced to become more accommodating.

Rent free periods of up to a year seem to have become the norm, and a variety of other incentives like relocation contributions and actual moving costs are increasingly being borne by hard-pressed landlords.

Existing tenants are also examining the market and canvassing other landlords and agents for better deals which are then being presented to their present landlords.

Quality

While the days of speculative developments are all but gone, huge institutional cashflows and property quotas that need to be filled are seeing those players continuing to seek quality, well-tenanted buildings that offer sound returns.

Competition for these properties is, however, fierce as private investors and syndication schemes stalk the market for similar developments.

Therefore the market is most likely in for another tough year and a considerable "tightening of belts" will be required.

The economy is expected to start its recovery towards the end of the year and if violence can be contained and political negotiations move forward, foreign investors and companies will move into the market, thereby boosting its recovery.

3LE MARCH 1993

Bank goes for broke by backing plan to adjust the economy

BDay 29/6/92.

SIMON WILLSON

(49)

ANY thoughts that the Reserve Bank's dismal downward revision of its own growth forecast for this year might herald a monetary policy relaxation can be safely banished.

The Bank's latest quarterly bulletin, published last week, may have predicted a third consecutive year of falling output. It may have stated, further, that the economy has not experienced a hat-trick of no-growth years since the Second World War. It may, in one of its gloomiest economic summaries, have described economic prospects as "bleak".

Conspiracy theorists may even have noted a simultaneous souring in sentiment among recent speeches by Bank officials: earlier this month Governor Chris Stals referred to the country's "desperate" need for economic recovery and Deputy Governor Jaap Meijer mentioned its "manifestly inadequate" recent performance.

But in no way should this apparent wringing of hands be taken as a sign that the newly independent formulators of the nation's monetary policy are despairing about the state of the economy.

The sombre bulletin is not preparing the ground for a reassessment of the current restrictive monetary stance. It is not a covert rationalisation of an approaching backtrack on nearly three years of credit squeeze. Far from it. The rending of garments by SA's monetary guardians over the current condition of the economy has a purpose, but the Bank's intentions are radically different from those the Bank adopted at the same stage in past cyclical downswings.

The first tell-tale marker that warns against expecting any Bank backtracking on its restrictive monetary stance is the nature of the current recession. As the first chart shows, the current downswing has been long rather than deep. The other two recessions that started in the '80s had a far greater impact on output and spending. They were short and very sharp.

Gross domestic expenditure (GDE), for example, fell by only 2,6% in 1990 and by a mere 0,4% last year; in 1982 it fell 5,6% and in 1985 by 8,6%. It may be the case that government spending has been propping up GDE this time around, while private spending has slumped lately. But spending is spending and, in the eyes of the nation's monetary sentinels, it neutralises the effects of recession wherever it happens to come from.

The second signal that no sudden conversion has taken place on the Bank's carefully mapped road to monetary rectitude is that its inflation precondition still applies. Any reconsideration of the level of nominal interest rates, the Bank repeatedly says, depends on the rate of inflation. An institution like the Bank, with its oft-stated "mission statement" committing it to the defence of the internal and external value of the rand, is in no position to give way this far down its chosen route to lower inflation.

As the second chart shows, previous regimes at the Bank have countered recession by prompt reductions in nominal interest rates irrespective of the prevailing inflation rate. The negative real interest rates that resulted, and their calamitous effects on subsequent inflation, the exchange rate and the savings ratio, are folklore in the Bank management's extensive demonology.

Bank watchers can take it as read that the goal remains strongly positive real interest rates to an extent comparable with major trading partners. The chart depicts how the real prime rates of those partners have been converging over the past 10 years — while SA's was still seesawing wildly around its partners' extremities. Now, suddenly, SA's real rates are part of the general convergence, the rand is relatively stable and the savings ratio is rising. Inflation has not yet fallen, but the Bank thinks it will later this year.

A third reason for banking on resolute consistency in the Bank's interest rate posture despite its public bewailing of the economy's plight was hinted at by Finance Department adviser Japie Jacobs last week: the fragility of the external position. Reserves are still too low for a surge in imports to be contemplated, and a surge in imports would be a certain result of any premature easing of the monetary stance.

The Bank, as it has never tired of recounting, is also committed to building gold and foreign exchange reserves to at least three months' import cover — the prudential level generally recognised by the international financial institutions. The priority accorded reserves-building, especially during the country's present volatile interlude of political evolution, is another constraint on any reappraisal of the Bank's existing monetary stance. It is another beacon that says: No change.

If the Bank bulletin's breast-beating is not a precursor to an easing of the credit squeeze, what have the Bank's officials in mind with their sackcloth-and-ashes summaries of the economy?

For in truth, they have an angle. It is one to which Stals will return, as he has already done many times this year, in a speech tomorrow. The line the Bank is punting is that of the structural adjustment programme.

Bank officials acknowledge that the economy is flat on its back and needs emergency resuscitation if it is to survive. But the treatment the monetary paramedics propose is not a course of the old-style, short-term palliatives that worked so briefly and so deceptively after past downswings. This time the Bank is going for broke in proposing a structural adjustment programme, and is using its doom-laden soothsaying to reinforce its advocacy, not to set the stage for a monetary relaxation.

Stals and his colleagues have really warmed to the programme's theme only this year; it is a relatively recent introduction into the mix of policy alternatives. But the Bank has timed its promotion of the concept appropriately to coincide with radical constitutional change.

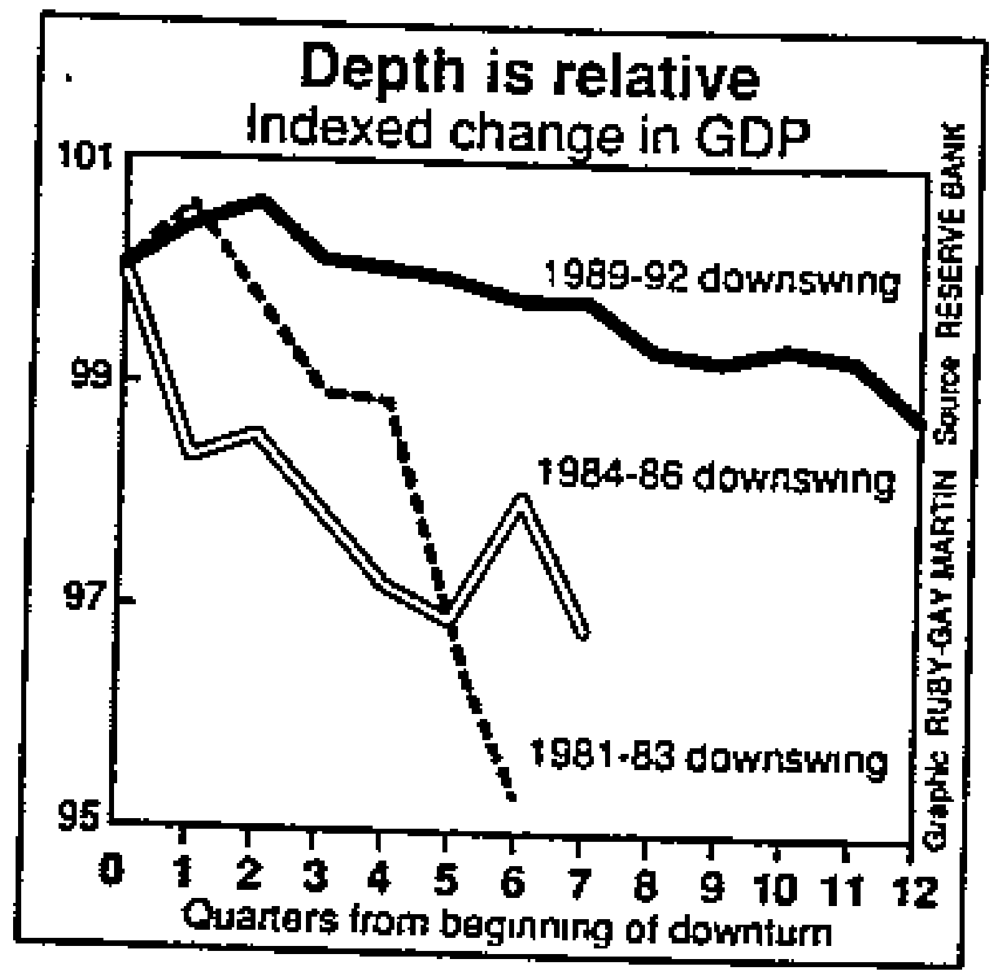
By aligning itself with structural adjustment of the economy, the Bank is effectively proposing far reaching changes to the economy overseen by a team of experts.

A structural adjustment programme would involve a smaller role for the public sector in the economy, stricter control of government spending, a higher rate of saving, better productivity, greater efficiency and big spending on social upliftment.

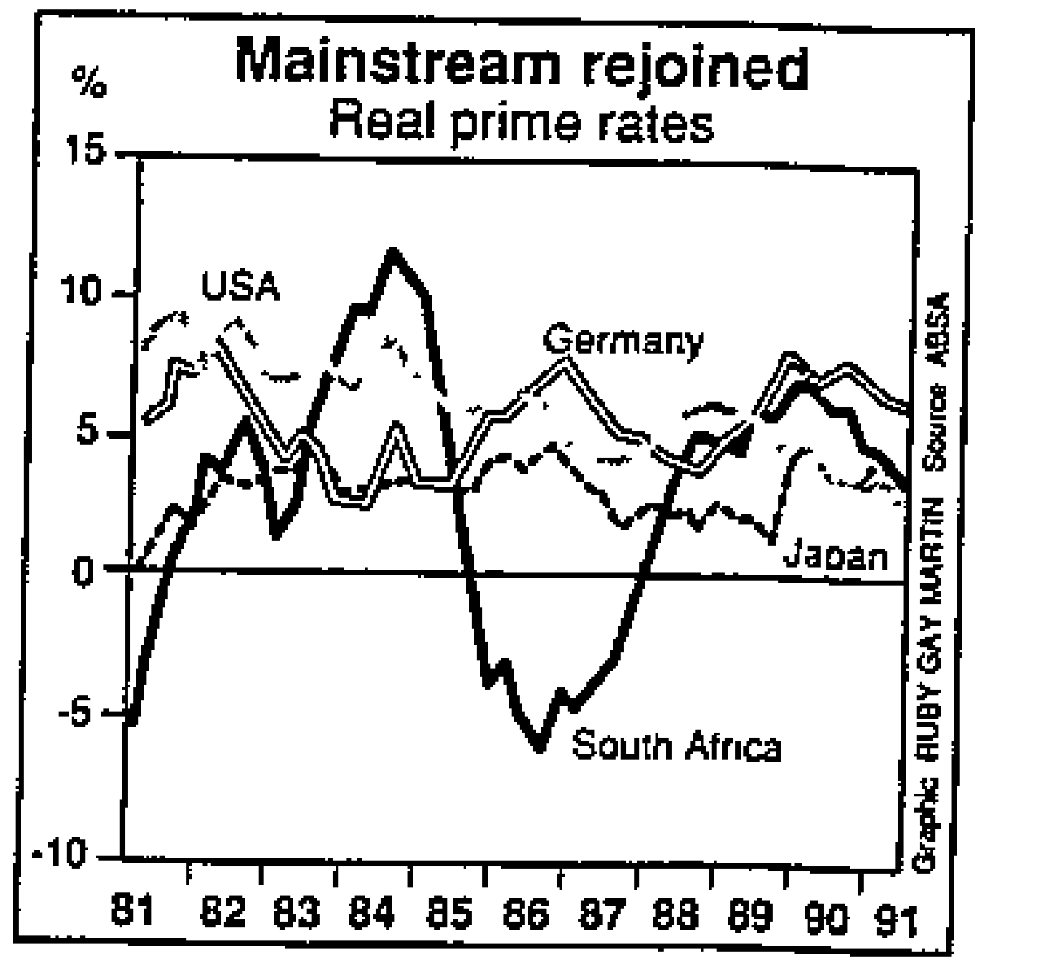
The one alteration to current policy that such a programme does not entertain is any relaxation in the monetary stance. By backing this option so vigorously the Bank is, in fact, further underlining its adherence to its present policies.

Stals's attitude is that a stable financial environment created by predictable monetary policy dedicated to protection of the value of the currency is a prerequisite, not something to be superseded by the programme. He sees a progression in stages from stabilisation to liberalisation and then to growth. The economy is still at stage one.

Stals's next speech is at lunchtime tomorrow in Johannesburg. The title, unsurprisingly, is "The necessity of further structural adjustments in the SA economy". Its contents should sound vaguely familiar.


Depth is relative
Indexed change in GDP

Graphic RUBY-GAY MARTIN Source RESERVE BANK


Mainstream rejoined
Real prime rates

Graphic RUBY GAY MARTIN Source ABSA

Offences under the spotlight

CT 29/6/92

THE Office for Serious Economic Offences started operating in earnest last week when wide-ranging powers were granted its director Jan Swanepoel SC.

In some areas, Swanepoel now has more investigative power than the police and the attorneys-general. In terms of the Investigation of Serious Economic Offences Act 117 of 1991, he can summons a witness to appear before him at any place and time he specifies and demand that the witness produce any documentation he might require. ㊾

Singaporian trade mission leader and Scots Holdings chairman A R Jumabhoy, left, with Neptune Orient Lines projects director Soon Bee Wan yesterday. Picture: ROBERT BOTHA

Singapore delegation visiting SA

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BDay 29/6/92

SHARON WOOD and GAVIN DU VENAGE

SINGAPORE and SA shared unique positions in their respective economic locations, the leader of Singapore's first trade mission to visit SA, A R Jumabhoy, said on arrival yesterday.

The 13-man delegation is in SA for a week-long fact finding visit, and will meet SA's largest banking groups and corporations, and the Trade and Industry Department. Jumabhoy said Singapore was the gateway to the trillion-dollar Pacific Rim economy, and that SA had the potential to become the entry point to the African economy.

He said Singapore would initially want a trading relationship, with the potential for later large-scale investment. The mission welcomed contact with any local businessmen.

Jumabhoy said he hoped a solution would be found to SA's political impasse.

Its visit was jointly arranged by the Singapore Trade Development Board and the Singapore Manufacturer's Association and is being hosted by Sacob.

Significant drop in growth of M3

B/Day 29/6/92.

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HILARY GUSH

GROWTH in the broad money supply dropped in May to the bottom of the 7%-10% guideline range specified by the Reserve Bank for 1992, Bank figures released at the weekend showed.

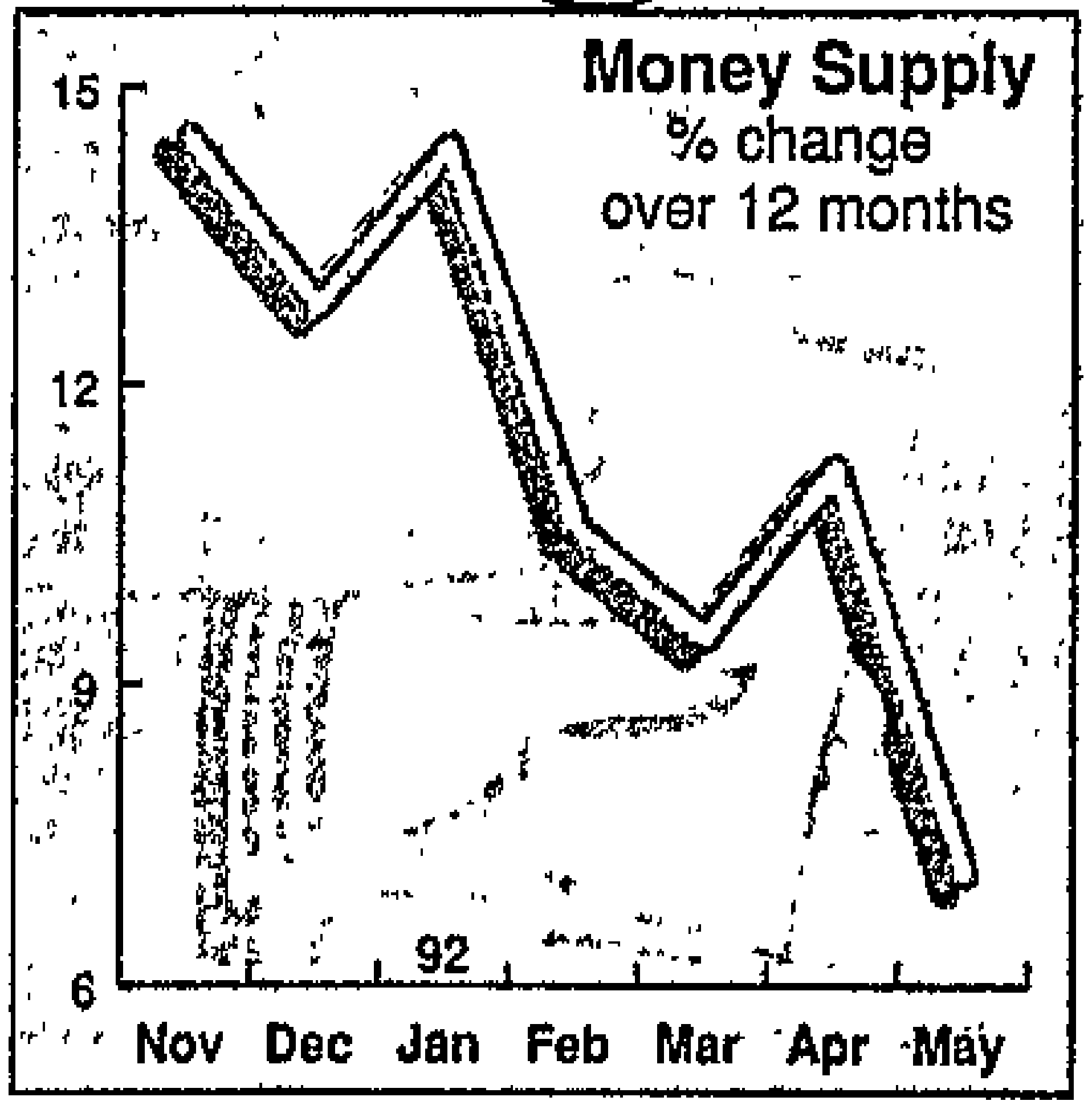
While year-on-year growth in M3 — which consists of cash in circulation and all deposits with banks — slowed to 7,14% in May from 11,2% in April, growth from the base of the guideline year (fourth quarter 1991) declined to 7,50% from 12,83%.

Sanlam chief economist Johan Louw said the fall in M3 growth was a good indication that government was getting high liquidity under control. "It also indicates a fall in the demand for credit."

Standard Bank group economist Nico Czypionka was surprised by the magnitude of the monthly drop. However the fall was not out of line with expectations in the light of subdued demand for credit.

The 12-month rate of increase in M3 has fallen from a peak of 27,5% in August 1988, to 10,2% in January 1991, and to the May 1992 figure of 7,14%.

In its latest quarterly bulletin, the Reserve Bank attributed the lower growth in money supply over the first quarter to "the sustained restrictive monetary policy stance, the deepening of the cyclical downturn in economic activity and disintermediation practices". Disintermediation resulted from the widening of the margin between lending and deposit rates among deposit-taking institutions.



Graphic RUBY-GAY MARTIN Source. CSS

Total domestic credit extension slowed to 11,8% in the year to April from 15,6% in January. The Bank traced the general easing of growth in credit extension to "a lower demand for credit, reflecting the more depressed economic conditions combined with the effect of positive real interest rates".

Bank to tighten regulations

TIM MARSLAND (49)

B/Day 29/6/92

THE Reserve Bank is planning to tighten up regulations governing liquid assets held by commercial banks.

The proposals are contained in a discussion document circulated by the Bank to commercial banks.

Analysts said on Friday that if the plan was implemented, commercial banks' own bankers' acceptances (BAs) would not qualify as liquid assets — only cash and government paper would qualify.

However, the Bank believes it should be possible to cut to 12% the ratio of liquid assets commercial banks have to hold against their short-term liabilities. This 12% will include a mandatory 1% cash element. At present the liquid asset requirement is 20% of liabilities and it has to contain a 4% cash element. A further 1% cash reserve must be held at the Bank.

The plan is expected to be implemented in the next few months.

An analyst said that in effect, only government-guaranteed paper with a maximum three years to maturity would qualify as a liquid asset and the step would make it easier for banks and the Reserve Bank to safeguard investors' interests.

The plan's effect on the money market would be minimal because of its lengthy lead-up time, he said.

Another analyst said dropping liquid

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Bank

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☐ From Page 1

BAs from the liquid asset component could hit the investment market for the paper.

He expected the discount between the liquid and non-liquid BAs to close, with the liquid rate drifting up to meet the non-liquid instrument.

A BA borrowing covering an identifiable, once-off underlying transaction which is self-liquidating is regarded as a liquid BA. It has a maximum term of 120 days, and can be rediscounted for cash with the Reserve Bank. A non-liquid BA covers only accommodation finance and has no specific underlying transaction. It can extend for any period and cannot be rediscounted for cash.

An analyst said lowering the cash component in the regulations on liquid assets would benefit merchant banks which have a small retail base and consequently need little or no cash.

The Bank has also proposed a simplified system through which it accommodates banks' cash shortages.

The plan is to have two rates of lending. The first would be at the Bank rate and only Treasury bills, Reserve Bank bills and Land Bank bills would qualify as security for these loans. A higher rate would apply for loans taken out against other eligible securities, such as non-liquid bills of public-sector bodies.

● See Pages 3 and 6

Commercial and industrial property

Foreign investors waiting for an end to violence

B/Day 29/6/92 49

INQUIRIES from offshore companies for space in the local market are on the increase, but the number of deals concluded is relatively small, dealers say.

Leadenhall MD Philip Vermeulen says that while there is some offshore interest and small investments have been made, most potential foreign investors are adopting a "wait-and-see" attitude.

"Until the continued violence is sorted out and something definite regarding an interim government materialises, there will be little concrete offshore investment locally," he says.

The local market is cheap relative to foreign markets and offers a sound alternative investment. When investment activity takes place, much of this will be directed towards the industrial market, as this is where manufacturing growth begins.

Logaro CE Gary Perlman says good foreign demand for space in the early '80s was killed off by then President P W Botha's Rubicon speech and has not been repeated, despite the lifting of most sanctions.

"Foreign investors are reluctant to invest in what could become a Third World cesspool. We have run advertisements in foreign papers to see investor response to our market.

Proactive

"They are guarded and will not make a large investment until they see what economic policy 'a future government introduces. We need to be more proactive regarding our investment structures and tax benefits," he says.

Anglo American Property Services (Ampros) national leasing director Grahame Lindop says offshore activity seems to be concentrated around the opening of representative offices.

In '91, about 30 foreign missions opened offices in SA. The average mission took about 300m2 of space, which accounted for about 9 000m2 in total.

"This is not a huge amount of space and is equivalent to about five floors of the Carlton Centre or 8% of the total annual take-up of space as determined over a 10-year period," he says.

If this doubled this year, it would still only reflect about 18 000m2 of space taken up or 16% of total annual take-up.

Economists have said it is unlikely foreign investment will flow through to SA's market until certain conditions are met.

These include the effective and protracted control of the escalating violence and the improvement of political negotiations.

A future government's economic policy and the way it is implemented is of vital importance for any foreign investor, an economist says.

An interim government would be a step in the right direction. But violence also needs to be controlled and alleviated as the return on the investment and the investment itself has to be sound, he adds.

Political might will be illusion

Sowetan 29/6/92

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BLACKS in South Africa have been making some political strides, but professional and economic barriers still make true power a long way off.

African National Congress secretary-general Cyril Ramaphosa said: "The right to vote, even when we have won it, will remain something of a shell unless our people are economically empowered."

The ANC, the country's main black opposition group, has some power. But it put political negotiations on hold after blaming the Government for the June 17 massacre of 47 blacks.

Its leaders are an exception in a country where the five million whites have dominated 30 million blacks for generations.

More typical are 30 000 State health workers who went on strike two weeks ago for more money and benefits. The mostly black employees include hospital cleaners and porters earning R550 a month.

"Obviously that is not enough for them to meet their needs," said Vusi Nhlapo, vice-president of the National Education, Health and Allied Workers Union leading the strike.

Since President FW de Klerk took office in 1989, apartheid laws have been scrapped, black political groups have been legalised, and negotiations were launched to end white-minority rule.

South African blacks have a per capita income of more than R3 000 a year, one of the highest figures in Africa.

More than a million blacks from neighbouring states work in South Africa, which offers more opportunities than other countries in the impoverished region.

But South African blacks still may not vote, and though they now have the legal right to live where they choose, few can afford to move from their violent, impoverished townships.

Blacks account for just 14 percent of the country's high-level professions, such as doctors, lawyers and accountants. They provide 96 percent of unskilled and semi-skilled labour while holding just 143 of the top 3 239 civil service jobs.

The first two black police generals were named in March. There are two black foreign ambassadors, and just one black judge who was appointed less than a year ago.

All political groups agree there's a problem, but few offer specific solutions.

"There needs to be affirmative action, but it needs to be looked at," said ANC spokeswoman Gill Marcus. "You've got to study each sector - health, education - and pick something that's going to work for that sector."

The Government's Ministry of Manpower says there's a need for affirmative action but that employers must not be expected to employ or promote people without proper qualifications.

Black business groups, such as the National African Federated Chamber of Commerce, also stress that affirmative action should not result in lower standards.

The black-white gap begins not in the workplace but in schools and townships, where black children face great obstacles.

Although some white public schools have opted to allow blacks, most remain segregated. Black children often attend overcrowded, underequipped schools lacking such basics as modern textbooks and desks.

Political violence often forces schools to close, as in Boipatong where schools shut for several days after the June 17 massacre.

In addition, the ANC for years staged school boycotts to protest against the fact that the government spending per student is almost five times greater for whites than blacks.

ANC leader Nelson Mandela urged a halt to school boycotts after leaving prison in February 1990, but the failure rate for black high school seniors taking their final examination is about 60 percent.

A three-year-old economic recession has added to the problem. In agriculture, the largest employer of blacks, there have been widespread layoffs due to the worst drought in southern Africa this century. - *Sapa-AP.*

Cyril Ramaposa ... the right to vote will remain something of a shell.

Money supply targeting meaningless in SA

BDay 30/6/92 (49)

NEIL MARTIN

THE targeting of money supply and combating inflation have been advanced as reasons for not lowering the bank rate. In First World terms it seems logical that interest rates should be used to achieve these objectives. In SA, however, because of our large Third World component, this might not achieve the desired objectives.

Real money supply is significantly affected by the informal sector, which has been estimated by many economists as accounting for somewhere between 15% and 40% of GDP. By and large this sector bypasses the banking sector, with the result that the overlooked component of money velocity of this portion of money supply is significantly lower than in the First World component.

We are therefore overstating the level of money supply, because we have two money velocities in the system.

Very broadly speaking, assuming the informal sector accounts for about 27% of total GDP, and also assuming that this sector is a non-user of the banking system to the extent of, say, 60%, then the effect is 0,6 x 27 = 16% — the money supply figure might be overstated by as much as 16% given these assumptions. If we take the extreme cases of the informal sector representing 40% of the economy and that it does not use the banking sector at all, then money supply is overstated by 40%.

The targeting of monetary aggregates therefore becomes meaningless until we can accurately measure the informal sector for size and inherent money velocity.

Combating inflation through interest rates also appears to be problematic in an inherently inflationary economic structure. These inflationary tendencies are attributed to:

☐ The many departmental duplications — and even multiple governments — being supported by SA's tax money; and

☐ The state expenditure needed to eliminate historical gaps between population groups.

In addition to this, the only way the man in the street benefits from a rate cut is on his housing bond.

Interest on his other liabilities is usually kept at levels above 20% (a common problem with the US banking sector as well). The major variable borrowers, therefore, are the larger institutions, which appear to be able to borrow money at rates well below prime.

This would seem to indicate that money supply targeting and the use of interest rates to control inflation are currently a waste of time.

In the first instance we need to measure our economy more accurately. In the second, we need either to eliminate the imbalances in social expenditure or accept them and work around them. Until we do, we should be looking at least to stimulate some growth in the formal sector before the informal sector comes to account for 100% of GDP.

The authorities' approach to this problem suggests that they perceive the informal sector to be an insignificant part of the whole economy. This would appear to be an example of "ostrich" thinking.

The authorities should take a walk out on the streets to see how the hawker phenomenon has proliferated just in the past year, and this is merely one part of the informal sector that has mushroomed; there are many, many more.

How do we combat this problem? If we wish to continue using the technique of money supply targeting, then we need to have a much better idea of the size of the informal sector. If that is significant, we then need to measure the velocity of money in that sector. If the velocity is different from that of the formal sector, we can develop a model to measure the real money supply, and this can be targeted.

Interest rates? The answer to this is much easier than the money supply question. Interest rates will control the economy only when the application of those rates is applied equally across all markets.

In SA we have forced the man in the street to be interest-rate insensitive by making him pay penal rates at all times, while large institutions are operating on borrowings paying less than prime.

In other words, the relationship between the cost of borrowing for the man in the street needs to be closer to that of the larger institutions, otherwise we will experience the problem that is occurring in the US today. Deposit rates are at about 3% to 4% while borrowing rates are more than 16% for the average man. The borrowing rate is prohibitive, while large institutions can fund their activities relatively cheaply, forcing imbalances on to an already unbalanced structure.

Further, in SA we are going to have to address socio-economic problems. This will be inflationary, as will the continued existence of the top-heavy public sector.

Since we have little choice but to address the social issues, the only option available is to redesign the bureaucratic structure to eliminate replications.

Once we have done all of this, we might be able to use First World techniques to manage our economy.

☐ **Martin is a dealer at Turner Paterson Faure Inc.**

LETTERS

Export growth is 'crucial for the new SA'

HILARY GUSH (49)

ECONOMIC policy ~~in the~~ new SA will have to focus as never before on the export sector, and a public/private sector partnership in export will be essential, according to Safto and industrial research group BMI. Bday

Safto and BMI are involved in a joint research project to identify the private sector's views on future export performance. The central issue under study is the development of a true export culture. Issues such as fiscal and monetary policy, industrial policy, export infrastructure and export promotion will also be covered. The research will also evaluate current and future export support structures.

While SA manufactured goods exports are growing rapidly, Safto believes non-gold exports must reach about R90bn a year by the mid-'90s to achieve the levels of economic growth a restructured society will need. 30/6/92

The project aims to provide key inputs in strategic export planning to participating companies. Broad policy guidelines will be submitted to "any economic forum or similar structure that may emerge as part of the negotiating process in a new SA".

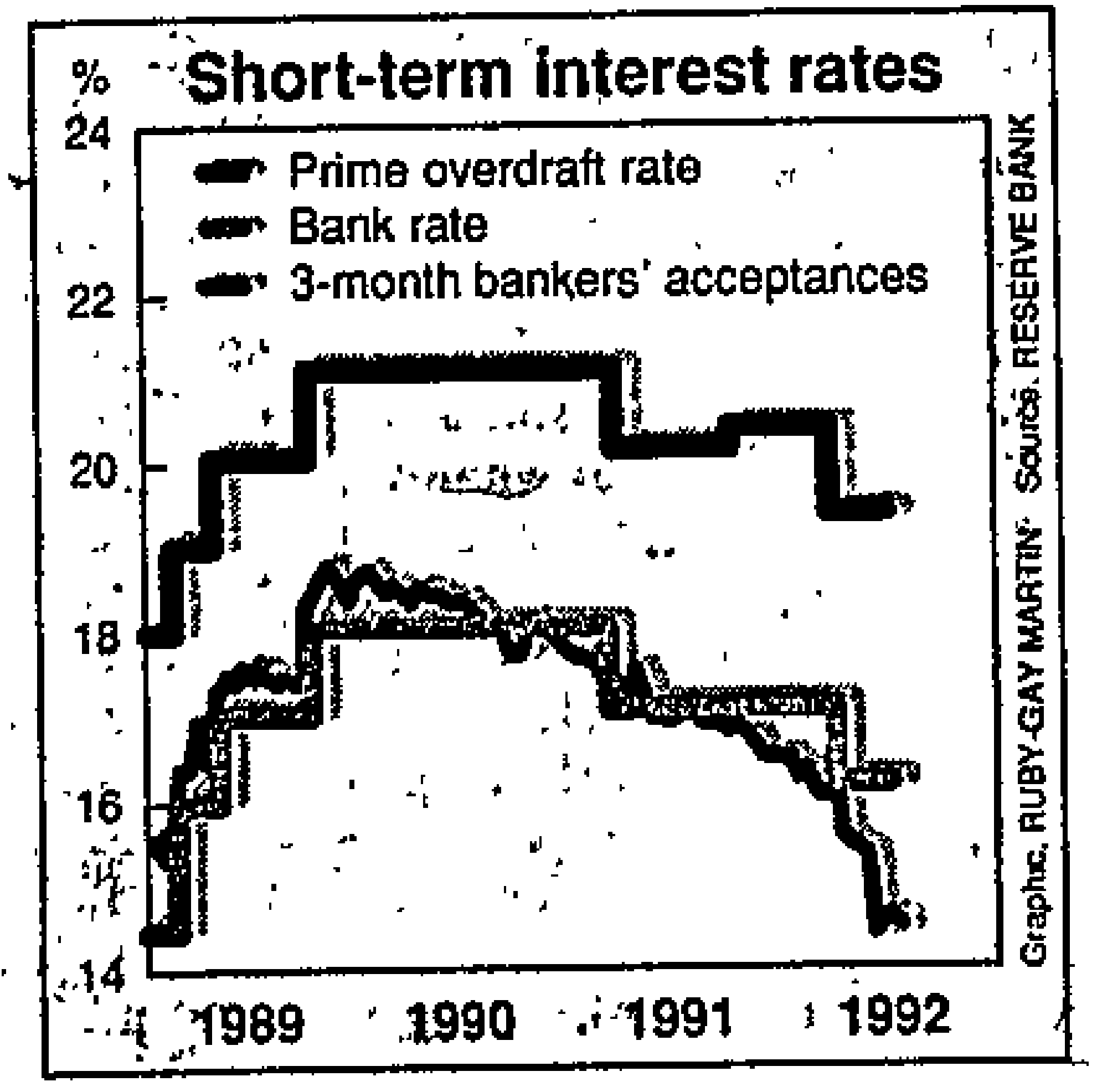
Last October Safto forecast 5% real export growth — growth after inflation — in 1992. In February this was revised to 3%. Exporters ranked the uncompetitive prices of SA goods as the major obstacle to increased exports.

Prime expected to follow suit

Stals cuts Bank's key interest rate

B/Day 30/6/92 (49)

HILARY GUSH and SYLVIA du PLESSIS


Short-term interest rates

Graphic: RUBY-GAY MARTIN Source: RESERVE BANK

THE Reserve Bank yesterday signalled a one percentage point cut in interest rates by announcing a one-point drop in its Bank rate to 15%, effective today.

Bank rate, the rate at which the Bank finances the banking system, had stood at 16% since the last one-point reduction in March. Commercial banks indicated yesterday that prime overdraft rates, currently centred on 19,25%, would quickly match the cut in official rates, although mortgage rates were not yet expected to follow suit.

The cut follows a build-up of liquidity in the money market as the worsening recession has pruned consumer spending and eroded demand for credit.

RMB economist Rudolf Gouws described the cut as "wholly appropriate given the recent deepening of the recession, the very much lower underlying rate of inflation, the sharp fall in the money supply growth rate and the improvement in gold and forex reserves".

"It does not signal a deviation from the more conservative and medium-term orientation of monetary policy as it has evolved under Reserve Bank Governor Chris Stals," he said.

Nedcor Group CE Chris Liebenberg, who said his bank would formally respond to the Bank rate drop later today or tomorrow, described the move as "obviously to be welcomed, especially by companies and those with debt".

"It will be welcomed by the business community in general as an act that the Reserve Bank understands the tight business and economic situation in which organisations find themselves.

"It will also be viewed as an act in which the Reserve Bank, certainly, is indicating that it wants confidence back in the market. There is a decided lack of business

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Rate cut

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confidence right now, due to both economic and political factors.

"It is also hoped that the cut indicates that the inflation rate has come down."

Gouws said he expected May CPI data, due for release today, to reflect a decline in the rate of year-on-year inflation growth to about 15% from April's 15,6%.

Liebenberg added that the Bank rate cut also "opens up the question" of savings accounts and fixed deposits. "There will be pressure for further rates cuts there."

But while overdraft rates would probably be adjusted in line with mortgage rates, it was unlikely there would be a further cut in mortgage rates , he said.

Gouws said the rate cut was unlikely to hold any immediate benefits for the consumer. "It will do absolutely nothing directly for the economy. Even at this stage, households are simply not in a position to go out and borrow heavily to fund new purchases of consumer goods. (The cut) will also not save cash-strapped companies from liquidation.

"However, it does start to lay the foundation of an economic recovery later this year or in early 1993, if the political situation does not deteriorate further."

Nedcor Bank chief economist Edward Osborn welcomed the move, which he labelled surprising in light of uncertainty surrounding the CPI. He believed the May CPI might be lower than the Nedcor 15,2% forecast. There was no danger of stimulating the economy through the downward movement, as credit demand was weak.

Osborn expected an immediate drop in the prime rate, while he believed a downward correction in mortgage rates would be delayed until about August.

FNB senior GM Viv Bartlett said the announcement was a little earlier than expected. "It follows the low increase in May money supply growth," he said, "and sounds like a good forerunner that May CPI will be down on April's figure."

Bartlett expected prime rates would move down immediately. He doubted whether home loan rates would be cut as "banks have already anticipated the Bank rate reduction".

JSE chairman Humphrey Borkum said the stock market would welcome the news as it had been anticipating and looking forward to it for some time.

Sacob president Hennie Viljoen and former president John Hall at the Union Buildings in Pretoria after meeting President F W de Klerk. Picture: ROBERT BOTHA

Business delivers a plea for resumption of talks

B/Day 30/6/92

49

PATRICK BULGER

BUSINESS conveyed to President F W de Klerk yesterday its strong desire to see political negotiations resumed as soon as possible.

A high-powered business delegation met De Klerk in Pretoria for talks on the political breakdown and its impact on the economy.

In a joint statement issued after the meeting Sacob, the AHI and Seifsa said they had conveyed to De Klerk their concern about the violence "as well as the negative impact of the breakdown in the Codesa talks on investor and business confidence".

The statement said business remained willing to assist in whatever way possible to facilitate the negotiation process.

"The employer bodies indicated they would throw their weight to an even greater extent behind the process and structures of the peace accord at both national and local levels," it said.

"There was an overwhelming need for confidence building actions on the part of all concerned in SA."

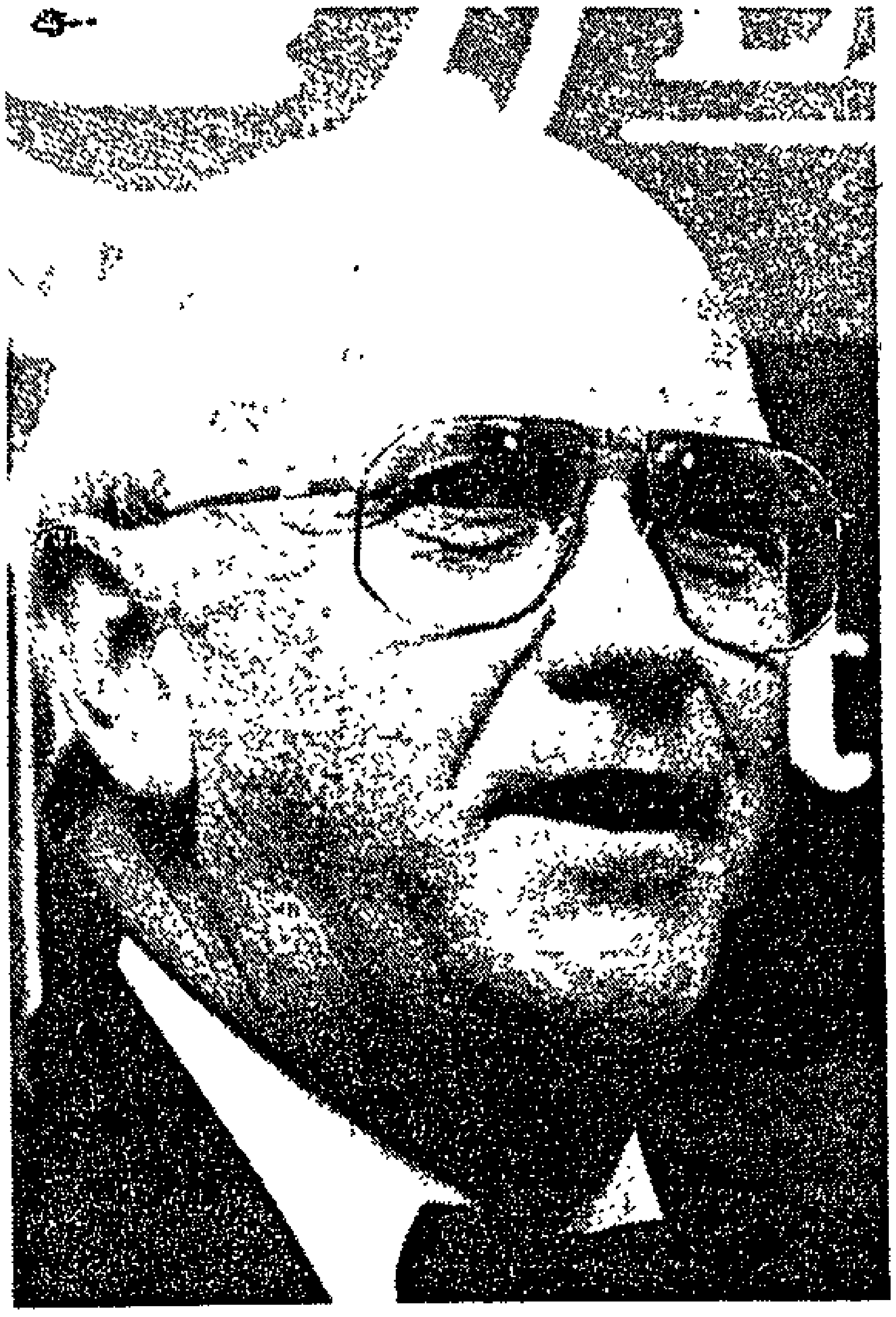
De Klerk's office said in a statement the discussions had been constructive and he had used the opportunity to convey certain perspectives to them.

"He had also explained government's basic points of departure and given the assurance the government would meet its obligations concerning maintenance of stability in a responsible and balanced manner.

"He assured the delegation further that the government would leave no stone unturned in getting negotiations properly back on track," the statement said.

Other separate meetings have been arranged with ANC president Nelson Mandela and Inkatha leader Mangosutho Buthelezi.

These meetings are expected to take place within the next week.


FW DE KLERK

Business is anxious to heal split

[redacted] 49 [redacted]

Sowetan 30/6/92

SA Press Association

SOUTH African business organisations yesterday indicated their strong desire to see political negotiations resume as soon as possible.

At an hour-long meeting with State President FW de Klerk in Pretoria, members of the Afrikaanse Handelsinstituut, the South African Chamber of Business and the Steel and Engineering Industries Federation said business remained willing to assist "in whatever way possible" to help the negotiation process.

The organisations expressed their deep concern about the human and economic costs of the ongoing violence as well as the negative impact the breakdown in the Convention for a Democratic South Africa was having on investor and business confidence.

"There is an overwhelming need for confidence building actions on the part of all concerned in South Africa," a joint statement from the organisations said.

In response De Klerk reaffirmed his Government's firm commitment to trying to get political negotiations back on track.

De Klerk also reiterateds the Government's strong support for the National Peace Accord and the need to reduce the level of violence in the country.

The business organisations indicated they would, to an even greater extent, give their support to the negotiating process and the structures of the Peace Accord.

Initiative

The meeting with the President formed part of a multi-level initiative by organised business to address the current political problems in South Africa as they affect the economy.

Other separate meetings have been arranged with African National Congress president Mr Nelson Mandela and Inkatha Freedom Party leader Chief Mangosutho Buthelezi.

These meetings are expected to take place within the next week.

Bank rate cut

STAR 30/6/92

By Derek Tommey (49)

Acting on evidence that consumer price increases are slowing down the Reserve Bank yesterday reduced its Bank rate from 16 to 15 percent.

This is good news for hard-pressed businessmen who can expect a similar cut in their overdraft rates.

The Reserve Bank took the decision to cut the rate late yesterday afternoon after it was informed by the Central Statistical Service that the inflation rate for May had fallen to 14,8 percent from 15,6 percent in April.

The CSS published the inflation figures this morning.

There was no immediate response from the commercial banks. But analysts are confident they will reduce their prime rates and other lending rates in line with the lower Bank rate.

The commercial banks' prime overdraft rate is now 19 percent — after reaching 21 percent in 1990 and part of 1991.

A cut in prime to 18 percent would reduce by about 5,5 percent the cost of borrowing money from a bank.

The banks have already announced a cut in mortgage costs from 19 percent to 18 percent, which takes effect tomorrow.

The reduction in the Bank rate was not unexpected in the light of the latest money supply figures.

These are an indication of the level of demand in the economy, and they show that it has been contracting fairly sharply.

The percentage increase in the money supply, year-on-year to the end of May, was 7,14 percent, compared with 11,2 percent growth in the 12 months to April.

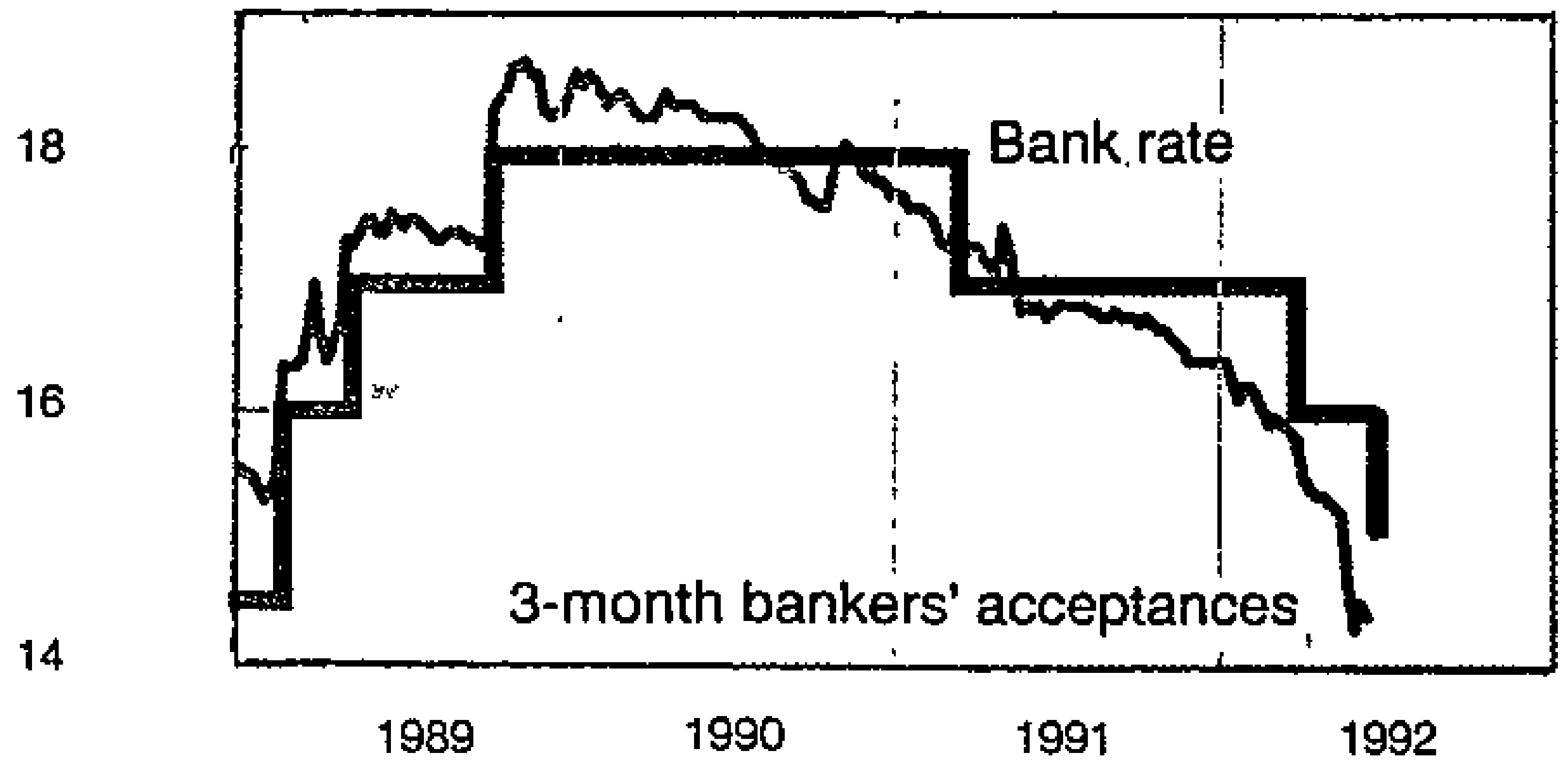
This percentage is only slightly above the Reserve Bank's bottom limit of seven percent for monetary growth this year and R17 billion below the Bank's upper limit of 10 percent.

The sharp fall in the money supply growth rate clearly shows the economy is in need of a stimulus. It also shows it could comfortably take another R17 billion in demand.

If the June figures show a further fall in the rate of money supply growth, then another cut in the Bank rate, prime rate and mortgage rates could be on the cards soon.

At the end of March, the banks had loans and advances, including mortgages outstanding, of R165 billion.

A one percentage point reduction in the rate of interest on this money, will save borrowers about R1,6 billion a year.



The drop in the bank rate follows the downward trend of the money market rate.

Economic analysts cautiously welcomed the Reserve Bank's reduction in the Bank rate last night, but remained pessimistic about its impact on economic growth, reports Sapa.

Standard Bank group economist Nico Czypionka said the reduction alone would not help the economy, as factors like the drought and investor confidence had to be considered.

Old Mutual chief economist Dave Mohr said the reduction would help some sectors of the economy hard-hit by the high-interest rate policy.

Anglo chief urges swift action to rekindle economy

STAR 30/6/92

By Derek Tommey

49

Julian Ogilvie Thompson, chairman of Anglo American, has called for action by all politicians to start the economy growing.

"A start has to be made now", he says.

"There are too many people without work and shelter to justify postponing action until the new political structure is agreed and in place."

Mr Ogilvie Thompson believes that it need not be long before there is some upturn in business.

But he emphasises that a long-term recovery will require a commitment by politicians to sound political and economic policies.

He says it is unfortunate that the economy should have been set back so severely this year.

"Fortunately, it would take only a modest change in circumstances to ensure that the upturn gains momentum in 1993."

Among the good-news items that could favour a recovery are a normal agricultural season, more favourable world markets and a build-up of inventories.

"Each of these could each make a significant contribution to growth, reinforcing the effect of the current expansionary fiscal policies and spending on private sector projects."

Mr Ogilvie Thompson says that generating the initial stages of recovery will be easy, once conditions become propitious.

But the challenge is to break out of the seemingly endless cycles of low growth and ever-rising employment — each leaving us relatively worse off than before.

South Africa must establish conditions for sustained growth. It is not enough just to manage the economy prudently; distortions that impair productivity and the ability to create wealth must be removed.

Condemning the "populist economics" that have brought disaster to a number of developing countries, he says South Africa requires:

- A credible commitment to property rights;
- The provision of the so-called "classical" public goods of law and order; and
- The creation of a system that fosters the development of an appropriately educated and skilled labour force.

These are the basic requirments, says Mr Ogilive Thompson.

In addition, South Africa will need disciplined monetary and fiscal policies, including an appropriate exchange rate, further deregulation and privatisation, and a stable climate for investors.

It is essential they be assured they can remit profits and dividends.

One of the priorities for growth will be a much higher level of domestic saving and investment.

But this cannot be achieved unless the Government at least caps current spending in real terms.

Where more money is needed for essential spending, it must be found by cutting back elsewhere.

The State has to defer consumption if investment is to be increased.

"Given no government dissaving, and a modest inflow rather than an outflow of foreign capital, South Africa could increase fixed investment from the current 18 percent of gross domestic product(GDP) to the 25 percent recommended by the IMF," he says.

Long haul ahead before economy starts to pick up

(49) ([illegible])

Finance Staff STAR 1/7/92

Sustained lower inflation is unlikely in the current economic cycle as long as structural problems like administered prices, control boards and monopoly practices continue, says Syfrets economist Elmien de Kock.

In Syfrets' latest Quarterly Economic Review Ms de Kock says that while it is possible for inflation to reach much lower levels of around 12,5 percent by year-end, a sustained and meaningful reduction is impossible because of these entrenched structural problems.

Inflation has been one of the major reasons for eroding nominal income and preventing a much needed decline in interest rates.

"The man in the street is worse off now than last year, not only because of job losses, but also high real interest rates and negative real salary and wage increases."

Also weighing on the consumer is a heavy tax burden which is forecast to rise still further.

"Considering the fact that there is little room for any tax relief, given redistribution priorities, and that it is forecast that personal tax contributions will rise by 22 percent this fiscal year, it is clear that the consumer's net financial position has deteriorated.

Elmien de Kock . . . worse off now

"Given the sombre prospects for fixed investment — set to decline by three percent — and consumer spending, it is difficult to see any immediate possibility for recovery."

On the upside, this should be put in perspective and the recovery in world economies will eventually benefit commodity prices as well as those of South African exports.

Personal disposable income would then recover in response to increased activity, lower interest rates and slightly reduced inflation.

In a separate economic report Board of Executors (BoE) chief economist Rob Lee calls on the Government to reduce drastically its consumption spending as an essential ingredient in any long-term package to promote economic growth.

In BoE's latest Investment Outlook Mr Lee says average and marginal tax rates in South Africa are "extraordinarily high in relation to what is delivered in terms of services and benefits from government".

A large Budget deficit is justified at this stage of the economic cycle, but there is no justification for public sector borrowings being used to finance consumption rather than capital spending.

"The Minister of Finance has committed himself to promoting economic growth, specifically driven by high investment.

"If he fails to alter drastically the composition of state spending towards investment, this commitment will prove to be hollow indeed," Mr Lee says.

Defence of rand under attack

Reserve Bank policy 'retards growth in SA'

B|Day 1/7/92.

(49)

TIM COHEN

PRETORIA — The President's Economic Advisory Council has criticised Reserve Bank policy on the rand and on inflation, saying it is retarding short-term growth.

In its revised long-term economic strategy document published yesterday, the council implicitly censured the Bank's self-styled "mission" — the defence of the internal and external value of the rand.

The 50-member council, which represents a cross-section of private-sector commercial interests, has revised long-term economic strategy proposals drawn up in 1986. The revised document has been submitted to the Cabinet.

The document said there were several critical factors which had to be addressed.

The effort to stabilise the internal and external value of the rand was inhibiting economic growth in the short term.

There was a reluctance in the private sector to invest in productive capacity. The public sector made an exceptionally large claim on the country's limited capital and manpower resources and there was a disturbing lack of confidence.

New elements in the revised document include:

☐ A suggestion that exchange rate depreciation may be necessary to tide over SA's manufacturing sector after the lifting of import protection;

☐ A rejection of the idea that a more equal distribution of income would automatically result from a "trickle down" effect following economic growth. "It is necessary to steer the process of growth purposefully towards this end";

☐ A proposal that the Competition Board's new policy guidelines be "not only credible but also effective in curbing all forms of abuse of power positions in the market";

☐ A recommendation that the National Manpower Commission be reactivated;

☐ A proposal that although protection policy should be phased in gradually "it should be clear to all concerned that SA trade dispensation would ultimately be much more liberal", and

☐ An emphasis on labour-intensive, upmarket products as part and parcel of the local beneficiation process.

The council's revised long-term economic strategy clearly takes into account other contributions to the economic debate, rejecting the suggestions that the "trickle down" from economic growth would be sufficient to bring about a more equal distribution of wealth.

It also took cognisance of political or-

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ganisations' concern at monopolies in SA by suggesting the strengthening of the Competition Board's powers.

The council represents all major economic players except some of the major trade unions which turned down invitations to participate. The council's report is the final draft of a preliminary document released in February last year.

The report does, however, state that depreciation may also contribute to inflation by itself and that the Reserve Bank would have to manage the exchange rate in accordance with changes to inflation. The final report maintains much of the earlier draft's proposals, re-emphasising the need for export-led growth.

Trade, Industry and Finance Department spokesman Lesley Lambert said Minister Derek Keys welcomed the report, particularly as government was involved in developing its economic strategy.

Much of the report was expected to find its way into government policy.

The report also said there was no instant solution to SA economic problems. It was clear that the advantages of any long-term economic strategy would be realised only over time.

Political situation presages bad times, says BoE manager

B/Day 1/7/92

(49)

LINDA ENSOR

CAPE TOWN — The breakdown in negotiations and the escalation of violence were having a major negative impact on already fragile business and consumer confidence, Board of Executors (BoE) senior portfolio manager Rob Lee said in the latest Investment Outlook.

Investment and expansion plans would be put on hold and potential foreign investors and tourists would stay away.

In a hard-hitting review, Lee said the longer the recession continued and the more people became unemployed, the more difficult it would be to control violence and sustain a satisfactory negotiated political settlement.

"A grave and urgent responsibility lies with our political leaders," Lee said, adding that unless the political and economic leaders got their act together, the likelihood of a reasonable cyclical recovery off a low base would be squandered.

Lee said it seemed almost certain that 1992 would see a decline in GDP, with the three main culprits of the recession being drought, politics and economic policy.

Economic leaders were partly responsible for the crisis, Lee believed. There was no justification for the high level of public sector borrowing being used to finance mainly consumption rather than capital spending.

And the Reserve Bank's policy on Bank rate had prolonged the recession and had hit small business hard.

Lee foresaw a further cut in Bank rate before the end of the year with another cut likely in early 1993.

In the absence of major progress on the political and economic fronts, the short- to medium-term outlook for equities was not encouraging.

"Cyclical shares linked to the upturn in the world economy and commodity prices look more attractive than those linked to the domestic economic cycle," Lee said.

The US equity market was vulnerable to rising interest rates, while uncertainty about the outcome of the presidential election would also be negative.

The US economic recovery continued to take hold but remained gradual and an acceleration was likely soon.

Recovery in the UK and Europe would be retarded in the short term by high money supply growth in Germany. A Japanese recovery was uncertain.

Debt crisis looms — Stals

49

MADDEN COLE

BDay 1/7/92

TO ACHIEVE a 4% growth rate SA would require an inflow of foreign capital of such proportions that by the year 2000 the country would face an unmanageable debt crisis, SA Reserve Bank Governor Chris Stals said yesterday.

Stals told the Johannesburg junior and senior Afrikaanse Sakekamers that in such an eventuality, foreign debt would grow to $100bn by 2000 — five times the present foreign debt.

The growth rate was necessary to absorb the annual increase in the labour force.

He added that foreign and local economic and political factors had combined to push the growth rate to such a low level that SA ran the risk of being trapped in a permanent stagflation situation.

Economists believed, given the present economic structure, that an upswing in the business cycle would not provide a solution in the long term.

"We will experience further increases in unemployment until the end of this century and average living standards will decline."

He noted that in recent years the capital/labour relationship had been changing with greater use being made of capital intensive production processes at the expense of labour, resulting in more unemployment. Labour costs were also high and productivity low.

Moreover, in the past three decades economic growth had declined from 6% to 1% and, failing urgent measures, there was now the possibility of negative growth.

Stals warned that an economic development programme aimed directly at creating a better balance of payments position or to reduce the inflation rate, would be difficult to implement. Nor would it be easy to obtain the support of the broader

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community.

"However, it will not be possible to carry out the necessary changes in the SA economic structure without causing pain."

The Reserve Bank believed that macroeconomic policy guidelines should be introduced. Co-ordinating this would be the first demand for a restructured reform programme which should be supplemented by a clear socio-economic programme.

He said he would like to see political and economic policymakers, the business community, the labour force and the general public co-operate in the macro-economic approach.

It was necessary at this stage to conduct an open debate on SA's economic problems.

IMF report on SA economy borders on mumbo-jumbo

BIDay 1/7/92

NEVA SEIDMAN MAKGETLA

(49)

IMAGINE that the ANC's economic policy department embarked on policymaking by selecting a reputable fortune-teller from the back pages of The Sowetan.

Imagine that, after appropriate prefatory rituals, the ANC's representative beseeched her, "Gogo, reveal the future to us. What will happen if we set prescribed assets for financial institutions and impose an extortionate wealth tax, assuming that our government successfully invests these revenues in nationalised industries so as to improve the productivity of capital and labour throughout the economy?"

After the appropriate spells and formulae, our sangoma might well conclude: "My children, given your assumptions, I forecast an average 8,2% annual rate of growth up to the year 2000, as the government directs savings to more productive uses, while rising aggregate demand stimulates expansion. I forecast unemployment will fall from an estimated 41,7% in 1990 to a mere 30,6% and, in the longer run, SA will become a major exporter of manufactures.

"Virtually all economists, as well as my more trustworthy colleagues, must agree with this scenario. After all, most centrally planned economies achieved similar or even higher growth rates in their first decade."

Somehow, I do not think that this policymaking process would meet with the approval of the business community. And yet the methods employed in the IMF's recent publication, Economic Policies for a New South Africa, differ only in their scientific gloss.

The study gives none of its major conclusions any more empirical support than my hypothetical sangoma gives her views, which admittedly derive from preconceived assumptions, spurious statistics and unwarranted generalisations. The only substantive difference in the two forecasting methodologies is that the sangoma might conceivably feel a deep connection with SA's popular traditions.

Like the old lady's mystical passes and mutterings, the IMF economists' jargon and complicated equations serve to obscure the fact their conclusions derive, not from intensive research into the SA economy, but almost purely from the assumptions with which they start off. The favourable reaction to their pronouncements apparently arises less from careful study of their argument than from an implicit faith in their authority.

Certainly this lack of substance holds for all the IMF document's most widely heralded conclusions: first, a disappropriate increase in government expenditures will slow growth and employment creation; second, higher wages mean soaring unemployment; third, a restructured budget will not substantially improve social services for blacks; and finally, taxes are too high.

To reach its first conclusion, the IMF starts by supposing that "government savings are reduced relative to the baseline case, but there is no corresponding increase in foreign or private savings" (p16). Compared with its baseline scenario, it finds — not surprisingly — that in this hypothetical situation investment, employment generation and growth rates would all fall.

But how convincing is that conclusion? All it does is mirror an unverifiable assumption. And that assumption is not universally accepted, since it ignores the "crowding-in" hypothesis and arguments that redistribution may ultimately stimulate private investment. Like my sangoma's predictions, the conclusions remain not a tried and tested statement of fact, but an elaborate disguised hypothesis.

The IMF document's second conclusion, on the need for wage restraint, similarly derives, not from investigation of SA realities, but from the distinctly controversial assumptions built into the model. In this case, however, the IMF staff takes advantage of one of the great mysteries of modern economics: the ability to use mathematics to appear scientific while completely confusing the uninitiated.

Specifically, the IMF study builds its model around a Cobb-Douglas production function. The basic equation incorporates the (untested) hypothesis that capital and labour form perfect substitutes. This assumption permits the conclusion that the rise in the relative price of labour will translate swiftly and inexorably into the replacement of workers with machinery. While it may make sense in industrial economies, however, it seems dubious in Third World countries like SA. Moreover, the exclusive focus on the production function rules out exploration of whether rising wages will ultimately strengthen consumer demand and consequently job creation.

The study's third conclusion, that "redistribution policies alone will not be sufficient to ensure a sustained overall improvement in living standards" (p18) draws not on mathematical magic but on the simpler technique of manipulating adjectives. In this way, the IMF document makes a strong case from data that, at best, could be read either way.

The study contends, for instance, that "the scope for raising education expenditures on black pupils is relatively limited" because equalising spending on all students would increase per capita funding for blacks "by only about 50%" (p24). Given the same statistic, however, the opposite argument seems at least as convincing: the scope for raising education expenditures on black pupils is relatively great, because per capita spending on black students could rise by a whopping 50%.

Finally, consider the study's conclusion that taxes are high. This statement might seem strange, since its own calculations demonstrate that the overall tax burden in SA, at 21% of GDP in 1980-88, is much lower than that of industrial economies (36%), and slightly lower than the 22% average for "selected non-oil middle-income countries".

But no well-versed economist need let a few facts stand in the way of a preconceived opinion. The IMF staff turns to a novel approach. They consider the tax burden by racial groups — "Asian, black, coloured and white," — without any wishywashy apologies for the use of apartheid categories. They then contend, "at 32% of its respective income, the tax share of the white sector of SA is very high by the standards of other middle-income countries" (p29). They add that whites do not receive a proportionate share of government spending.

We may well wonder at the weird world we have fallen into — far stranger than any sangoma's 087 recording. Here, apartheid no longer exists. In fact, white people have disappeared altogether. We have, instead, an innocuous "white sector" which, it seems, differs from the rest of the economy only in that it must pay higher taxes. In a footnote, the authors have the grace to mention that whites constitute "the bulk of the top quintile of income recipients" (p29). But they never discuss the implications of this observation.

This particular piece of necromancy leaves an unpleasant aftertaste. In effect it tells the wealthy that, since they belong to a specific ethnic group, they need not pay for their historical privileges. As long as the richest South Africans constitute a distinct ethnic sector, it suggests, they can legitimately demand tax cuts or even higher subsidies. We must go back to my sangoma for guidance: all this time, it seems, we have identified the wrong folks as the victims of apartheid.

In sum, the IMF study pulls all its major conclusions out of thin air. These magical origins do not mean that we must reject its hypotheses out of hand. But we should not confuse the incorporation of esoteric formulae, imaginary figures and worldly references to international experience with evidence of relevance to SA.

Together with Cosatu and the civics, the ANC has established a variety of large-scale research initiatives to examine a range of policy proposals. These research programmes aim to elaborate measures to achieve higher living standards for the majority of South Africans while maintaining transparent and accountable government as well as essential macroeconomic balances.

☐ **The author is a member of the ANC's economic policy department and is an economics lecturer at Wits University.**

IMF report on SA economy borders on mumbo-jumbo

BDay 1/7/92

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The study contends, for instance, that "the scope for raising education expenditures on black pupils is relatively limited" because equalising spending on all students would increase per capita funding for blacks "by only about 50%" (p24). Given the same statistic, however, the opposite argument seems at least as convincing: the scope for raising education expenditures on black pupils is relatively great, because per capita spending on black students could rise by a whopping 50%.

Finally, consider the study's conclusion that taxes are high. This statement might seem strange, since its own calculations demonstrate that the overall tax burden in SA, at 21% of GDP in 1980-88, is much lower than that of industrial economies (36%), and slightly lower than the 22% average for "selected non-oil middle-income countries".

But no well-versed economist need let a few facts stand in the way of a preconceived opinion. The IMF staff turns to a novel approach. They consider the tax burden by racial groups — "Asian, black, coloured and white," — without any wishywashy apologies for the use of apartheid categories. They then contend, "at 32% of its respective income, the tax share of the white sector of SA is very high by the standards of other middle-income countries" (p29). They add that whites do not receive a proportionate share of government spending.

We may well wonder at the weird world we have fallen into — far stranger than any sangoma's 087 recording. Here, apartheid no longer exists. In fact, white people have disappeared altogether. We have, instead, an innocuous "white sector" which, it seems, differs from the rest of the economy only in that it must pay higher taxes. In a footnote, the authors have the grace to mention that whites constitute "the bulk of the top quintile of income recipients" (p29). But they never discuss the implications of this observation.

This particular piece of necromancy leaves an unpleasant aftertaste. In effect it tells the wealthy that, since they belong to a specific ethnic group, they need not pay for their historical privileges. As long as the richest South Africans constitute a distinct ethnic sector, it suggests, they can legitimately demand tax cuts or even higher subsidies. We must go back to my sangoma for guidance: all this time, it seems, we have identified the wrong folks as the victims of apartheid.

In sum, the IMF study pulls all its major conclusions out of thin air. These magical origins do not mean that we must reject its hypotheses out of hand. But we should not confuse the incorporation of esoteric formulae, imaginary figures and worldly references to international experience with evidence of relevance to SA.

Together with Cosatu and the civics, the ANC has established a variety of large-scale research initiatives to examine a range of policy proposals. These research programmes aim to elaborate measures to achieve higher living standards for the majority of South Africans while maintaining transparent and accountable government as well as essential macroeconomic balances.

☐ **The author is a member of the ANC's economic policy department and is an economics lecturer at Wits University.**

CT 1/7/92

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‘Extraordinary indictment’ of govt decision making

By MAGGIE ROWLEY
Deputy Business Editor

CONTINUED high interest rates — notwithstanding this week’s 1% drop in the Bank rate — were being used as a weapon to try and force discipline on government spending, says Rob Lee, portfolio manager at the Board of Executors.

This, he says in his latest Economic Outlook, was an “extraordinary indictment” of the process of decision making in government.

There was certainly a case for a relatively large budget deficit at this stage of the economic cycle for without fiscal stimulus the economy would be even weaker than it is.

“But there is no justification for the fact that the high level of borrowing by the public sector is being used to finance consumption rather than capital spending.

“It is capital spending that leads to sustainable job creation and increased productive capacity.”

Lee said the fiscal authorities had for years acknowledged dissaving (the practice of state borrowing to finance current spending) as an extremely unhealthy practice which had to end but in reality the extent of dissaving had continued to increase.

“The way to reduce the bloated size of government is not to destroy the private sector but to run a properly co-ordinated economic policy that actually carries out stated intentions.

“The new Minister of Finance has indicated that this issue will be tackled in the next Budget. It is vital that this worthy intention is for once carried out in practice.”

“If he fails to drastically alter the composition of state spending towards investment this commitment will prove to be hollow indeed.”

Lee said a credible commitment to not only drastically reducing government consumption spending but also to lower tax rates would be essential for any long term economic package to promote economic growth.

It was now almost certain that 1992 would see real GDP decline for the third successive year.

While a reasonable cyclical recovery was likely even in the face of continued failure by political and economic decision makers simply because the country had reached such a low base for take-off, a great deal of the country’s economic potential would be squandered unless the political and economic leadership got its act together.

The breakdown of the negotiation process and the escalation in violence was having a major negative impact on already fragile business and consumer confidence.

“Individuals will postpone plans to spend beyond the bare minimum and businessmen will not commit to investment and expansion in these circumstances. Foreign investors will hold off and the hoped for number of tourists will simpl not arrive.

“The longer the current recession continues and the more th ranks of the unemployed swell, th more difficult it will be to contro violence and to achieve and sustai a satisfactory negotiated politic settlement. A grave and urgent r sponsibility lies with the politic leaders.”

Bellville syndication closes early as investors snap up tranches

Property Editor

THE R36m BSE Centre in Bellville, the country’s largest property syndication, has been fully subscribed five weeks prior to the official closing date.

Mike Flax, MD of underwriters Seeff Trust, said the the syndication had been closed a month ahead of schedule and all applications would be fully allocated.

He said a number of large tranches had been taken up by individual investors with about R20m worth of applications being for amounts of R500 000 or more.

“This has been a growing pattern in our syndicates and indicates that the serious investor now regards property syndicates as an integral part of his investment portfolio and the most viable alternative to direct property holdings.”

Flax said Seeff Trust’s first property syndicate in the Transvaal was expected to be announced shortly.

“Our Sandton office has completed negotiations for the property and is just ironing out details. We hope to launch the project, which will be somewhat smaller than the BSE Centre, at the end of July.”

Transvaal investors, he said, had become major players in Seeff syndicates and had taken up as much as 60% in certain projects. “In the BSE Centre Transvaal applciations totalled R11m which has provided us with real impetus to launch a project in the province.”

Structural adjustment will cause hardship

STAR 1/7/92

By Sven Lünsche

(49)

The economy will have to grow by an annual four percent to absorb the emerging labour force and reduce the existing number of unemployed, Reserve Bank Governor Dr Chris Stals said yesterday.

Addressing the Johannesburg Afrikaanse Sakekamer Dr Stals warned that such sustainable growth rates could not be achieved in the wake of the normal cyclical upswing, but required a drastic economic re structuring.

He pointed out that the two major goals of such a programme should be the alleviation of unemployment and the improvement of living conditions, particularly for the lower income groups.

But Dr Stals made it clear that the required changes could not be implemented without causing a certain amount of hardship and therefore the changes would have to have the support of politicians and the general public.

To this end Dr Stals called for a firm set of macro-economic policy guidelines, supplemented by a comprehensive socio-economic programme, as the first phase of a structural adjustment programme.

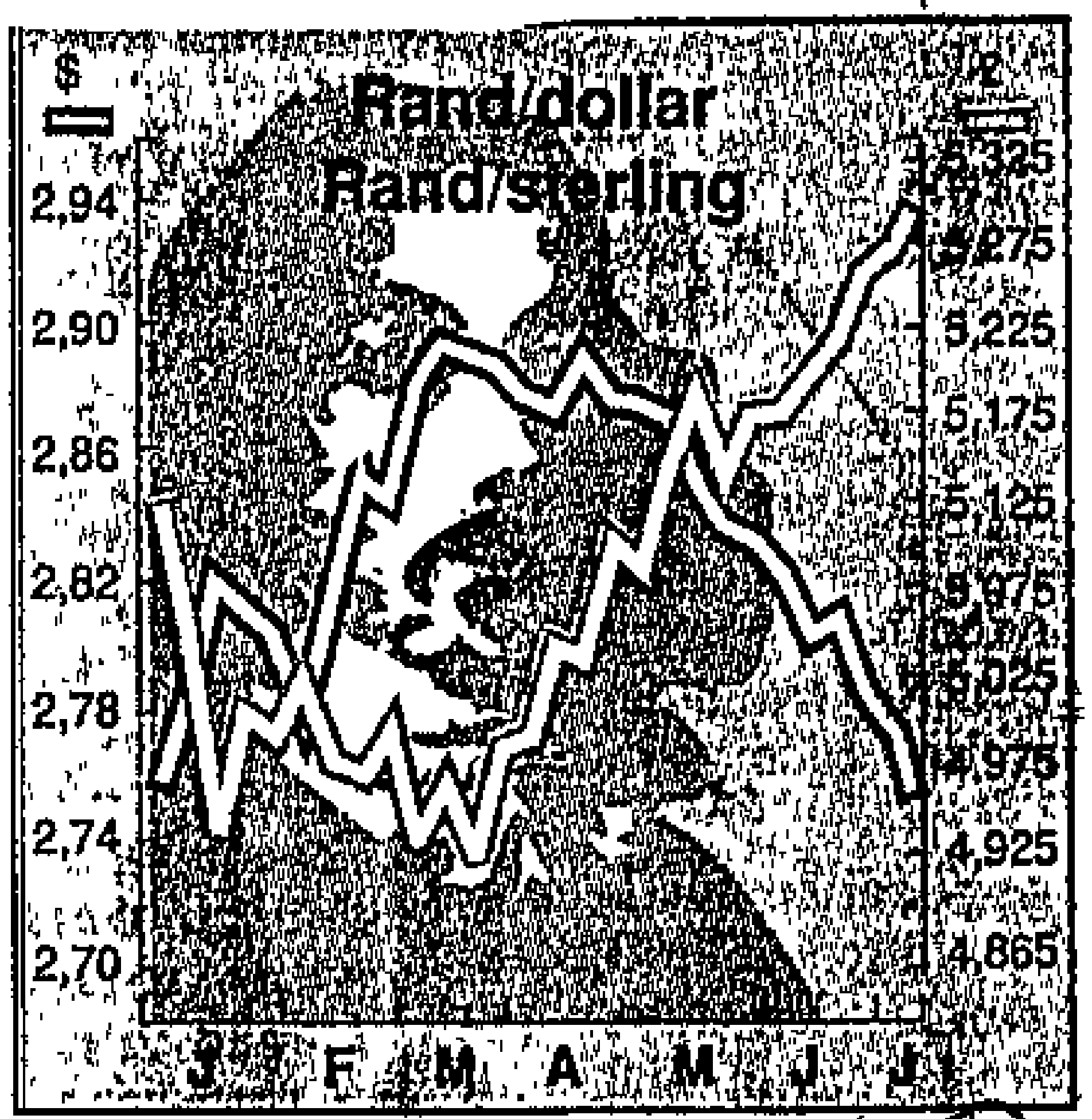
In the second phase a comprehensive strategy needed to be developed for various subsectors of the economy, including the industrial, mining and agricultural sectors.

This phase would be followed by more detailed projects, budget and management programmes, he said.

Dr Stals commented that achieving a growth rate of four percent by any other means would require capital investments substantially higher than current domestic savings level, with foreign investment essential to make up the shortfall.

"Even if this capital was available, South Africa's foreign liabilities would grow at such an alarming rate that by the year 2000 it would total more than $100 billion — five time the present amount," Dr Stals said.

South Africa will not be able to service such a debt without facing a virtually unmanageable debt crisis, he added.



Graphic: RUBY-GAY MARTIN Source: I-NET

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Rand hits a low against the pound

BDay 2/7/92

HILARY GUSH

THE commercial rand hit a record low against sterling yesterday but traded at a six-month high against the dollar amid bearish sentiment about the US economy.

A weaker dollar saw the commercial rand reach an intra-day peak of R2,7575, its best dollar level since early January. By the close it was at R2,7588.

Dealers believed the Reserve Bank came into the market at around R2,75 to restrain the rand. They speculated that the Bank judged the trade-weighted rand too strong against the basket of currencies.

Analysts attributed the weaker dollar to growing market realisation that US economic recovery was not as strong as expected; US consumer confidence was low while slow money supply growth reflected sluggish demand for credit.

Meanwhile the rand fell to a record sterling low of R5,2868 in afternoon trade as major third currencies made their own gains against the dollar. Two weeks ago the rand stood at R5,21 to the pound.

The financial rand weakened to R3,84 yesterday from Tuesday's R3,79 close. Dealers said the market was nervous on foreign selling of the investment currency on news of a proposed general strike planned for August.

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THE DROUGHT (49)

Shrinking GDP

FM 3/7/92

The drought could reduce agricultural GDP by 14% in real terms this year to trigger losses in other sectors of the economy and affect the taxpayer for years as government grants aid to the drought-stricken. Reserve Bank econometricians Coen Pretorius and Daleen Smal reveal this in a *Quarterly Bulletin* study of macro-economic effects of the drought.

It presents two options. A baseline simulation assumes value added by the agricultural sector will continue on its long-term trend — a growth rate of 2,5%. The alternative, which takes the drought into consideration, assumes the 14% decline.

This simulation produces GDP for 1992 which, in real terms, is 1,8% lower than in the first option. In nominal terms this would amount to R4,6bn.

Of the 1,8%, one percentage point will be the direct result of lower farm output and the rest is the result of linkages with other sectors: a fall in deliveries of agricultural products to the manufacturing sector and the agricultural sector's reduced buying power for goods and services.

The drought will have a negative impact of R1,2bn on the current account of the balance of payments for 1992. Though SA will have to import an estimated R1,7bn of maize in 1992, this will be offset by a R1,2bn decrease in nonagricultural imports "as a result of lower domestic demand." Exports will decline by R700m — R365m lost in maize exports and R335m through "linkages with other sectors."

The study notes, however, that maize accounts for only 1% of total exports compared with 4% in the early Seventies. So "the impact of the current drought on the total value of merchandise exports may be smaller than in previous periods."

The study estimates that the CPI will be 0,8 of a percentage point higher as a result of declines in the volume of agricultural output.

Employment will be hard hit by the drought. In contrast with previous droughts, when "attempts were made to keep permanent employees on the farms and . . . farmers usually receive(d) aid from government to support them during these periods," the current drought will see many permanent as well as contractual and seasonal employees lose their jobs.

Assuming there is no aid, about 49 000 jobs are expected to be lost in farming and, with dependants taken into account, 245 000 people in the sector will lose their source of livelihood. In addition, 20 000 jobs will be shed in related sectors.

The fiscus, which will have to provide assistance to farmers over the next three years, will face lower revenues from these sectors.

The study says this will result in increases in the deficit before borrowing. It notes that "if the 1992/1993 Budget did not have to provide for R1bn aid to the agricultural community . . . the budgeted deficit before borrowing of almost R16bn, or 4,5% of GDP, would have been R15bn or 4,3% of GDP."

The alternative simulation in 1992 is:

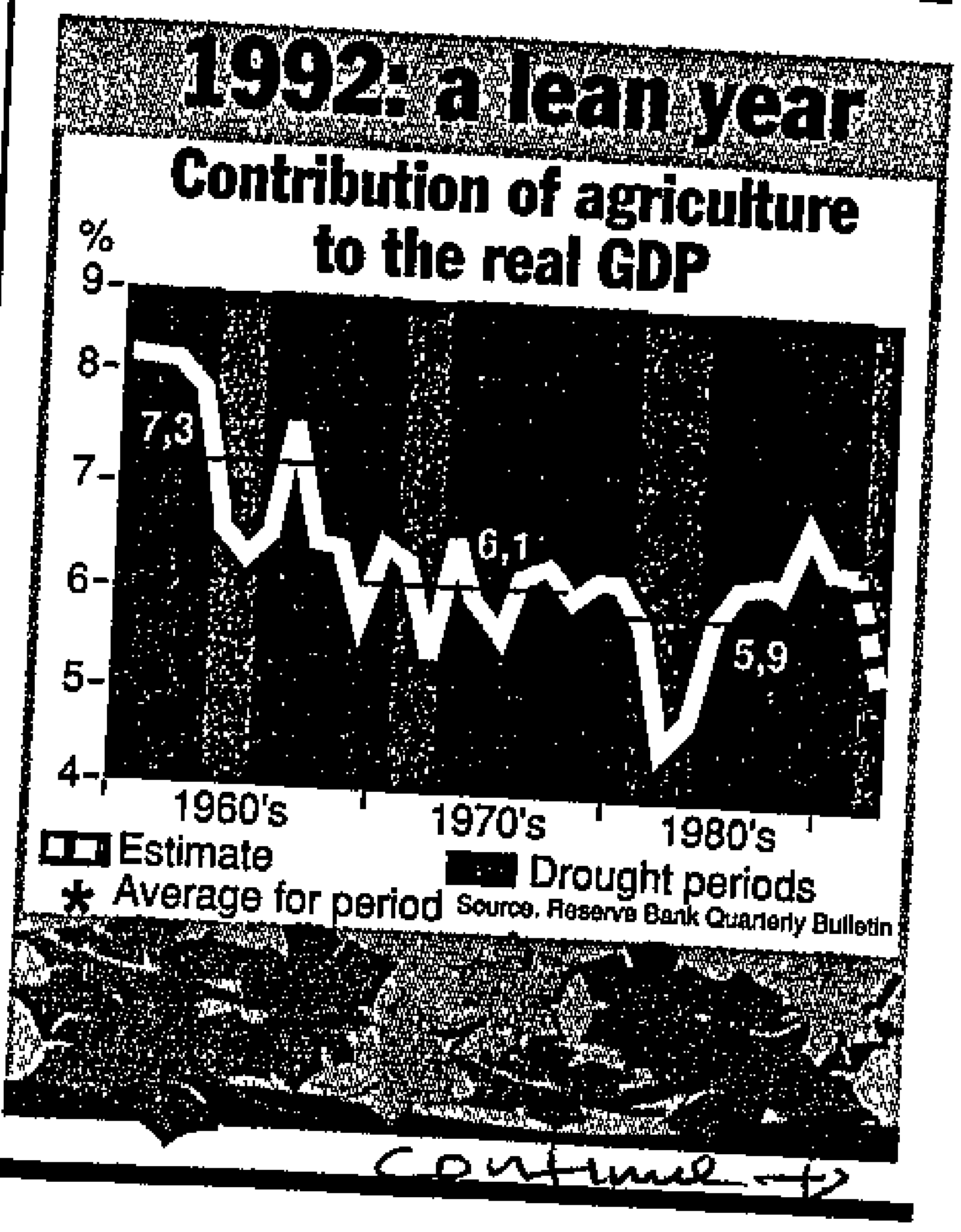
☐ Real disposable income will fall 1,8%;

☐ Real private consumption expenditure will decline 0,5%;

☐ Personal savings will drop by R2,9bn;

☐ Gross domestic saving will be reduced by 5%; and

☐ Gross domestic fixed investment will fall R230m or 0,5%. ■



1992: a lean year

Contribution of agriculture to the real GDP

Source. Reserve Bank Quarterly Bulletin

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(49)

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(49) [redacted]

COMMUTER CORP

Total simulation

The Reserve Bank never had any intention of entering into a loan agreement with the now liquidated Cape Investment Bank (CIB), despite its having placed a deposit with the bank. That was the finding of former Chief Justice Pierre Rabie, who said that the R300m deposit which the Bank had made with CIB in December 1990 was nothing more than a "simulated transaction."

Consequently, Rabie denied the Commuter Corp its claim against the Reserve Bank for investment losses — totalling R249m — suffered when CIB was liquidated on April 11 1991. The Commuter Corp lost its investments after a Reserve Bank official, Karel Oosthuizen, on March 28 1991 persuaded the corporation's general manager, Willem Louw, to roll over R103m which was due to have been paid out earlier to the corporation by CIB.

Two days later, on March 30, the Bank withdrew its R300m deposit. This was four days before Prima Bank MD Johan Bellingan had agreed to take over the Rail Commuter's R103m debt into Prima's books (see *Economy*).

The *FM* reported last year that Rabie had been asked by government to act as an arbitrator in a secret arbitration between the Bank and the SA Rail Commuter Corp in an attempt to settle the row which erupted after the Commuter Corp lost its investment with CIB. (*Current Affairs* September 13). Despite Registrar of Deposit-Taking Institution's Hennie van Greuning's statement on July 7 1991 that "the truth will be established by an inquiry," Rabie's finding is still being kept secret.

Rabie's finding was criticised by the Commuter Corp's legal team which — in correspondence — claimed that the arbitrator had not dealt with the numerous legal arguments which had been raised during arbitration.

Rabie said that Reserve Bank Governor Chris Stals testified that the R300m deposit

continue →

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to CIB had been "totally simulated" and that it had been a donation which had been "simulated on the basis that it was the most practical one we could have worked out at that stage"; also that the loan had merely been "an instrument" which was used to transfer R15,37m to CIB.

CIB chairman Jan Pickard jr had been informed earlier that the Bank would deposit R300m with CIB at an interest rate of 1% pa on condition that CIB re-deposited the same amount with the Bank at 17,12%. This resulted in the R15,34m profit over 116 days.

On behalf of the Commuter Corp it was argued that both Stals and Van Greuning wanted to operate within the Reserve Bank Act and that the loan (to CIB) which they intended "had been a loan as meant in the Act (that is, an authentic — *egte* — loan). It was also argued on behalf of the corporation that if the Bank had not intended this to be an authentic loan, it would not have required security from CIB (as is prescribed by the Act). Rabie, while accepting the logic of the argument, however said that this was not a decisive factor.

Rabie's denial of the Commuter Corp's claim meant a political victory for former Finance Minister Barend du Plessis over his Cabinet colleague, Transport Minister Piet Welgemoed, whose department (in the end, the train commuters) must bear the lost millions. The finding is also a setback for the Commuter Corp's top management — which, the *FM* has learnt, rejected an earlier 80% offer to settle by the Reserve Bank.

The offer was made in Cape Town by Reserve Bank attorney Tippie Luttig to Commuter Corp attorneys Antonie Gildenhuys and Alec Brooks after Judge Oscar Galgut (then presiding over a Section 417 investigation in terms of the Companies Act) requested the parties to settle.

The corporation's management has also been severely criticised in another secret report which was handed to Cabinet last year. The *FM* has obtained the findings of the report — the result of an investigation into the matter by economist Pierre Faure (a former Reserve Bank official) and stockbroker Jannie Mouton. Faure was asked to investigate the matter after former Corbank official Bill Pienaar withdrew because of a conflict of interests. Corbank had been taken over by CIB.

After the arbitration findings and the Mouton/Faure report, Commuter Corp board chairman Bart Grové and the corporation's MD Kobus Nel were demoted by Welgemoed. Nel's position changed to that of senior GM while Grove was ousted and given the task of conducting a study on light rail commuter systems. Faure and Mouton criticised the Commuter Corp's top management for ceding "too much responsibility to the financial team."

The *FM* has learnt from Cabinet sources that President F W de Klerk supported Grové but that the Cabinet sided with Welgemoed and Barend du Plessis in the decision to demote the two officials. At that stage Du Plessis' surprise decision to resign was already known in inner Cabinet circles though it had not yet been made public.

Before he was demoted, Nel held his own internal investigation and proposed to the board that three officials, all attached to the corporation's treasury, be reprimanded. A board member told the *FM* that the three officials, Louw, Kobus Smit and Paul Erasmus (the last two handled all the money market transactions), are appealing against the legality of Nel's investigation.

Faure and Mouton in their report to Welgemoed, as well as the Auditor-General, had concluded that they could find no trace of enrichment. The Faure/Mouton report said that "the funding strategies followed by the Commuter Corp's (treasury department) had been . . . in the best interests of the corporation . . . and was aimed to reduce the burden on the State's expenditure."

At the time of the Reserve Bank's R300m withdrawal the total deposits with CIB, which earlier on December 18 1990 had merged — under instructions of Van Greuning — with Prima Bank, totalled almost R700m (the Commuter Corp's R249m, the Reserve Bank's R300m and R120m comprising other deposits).

Van Greuning . . . *wanted security to comply with the Reserve Bank Act*

In September 1990, according to a quarterly statement of assets and liabilities (Section 13 of the Bank's Act) total assets were R1,368bn. The Commuter Corp's limit of R60m at that time fell well within the 10% Reserve Bank guideline.

Former CIB CEO Andy Schwartz later said in an interview that until the stage when he resigned from the bank on December 14 1990, all deposits to the Commuter Corp had been repaid on schedule. According to documents R8,6m which had matured on August 14 was paid back on November 13 and R28,6m which matured on August 28 was repaid on November 27. An amount of R21,5m which was due to be paid back on December 28 had not been paid.

Earlier, in July, the treasury team was instructed by top management to change the format of financial reporting, and only to reflect the total loans and interest paid. Nel, when asked whether he had been aware of the extent of the deposits with CIB, said: "I, as well as the chairman, the board and the Minister were (only) aware of the extent of the loans and the deposits but no one of us had been aware — up to the day of CIB's liquidation — of this specific deposit with CIB."

Taped calls

However a signed document which outlines all the Commuter Corp's money market transactions shows that Nel, as late as November 1990, was aware of the exposure with CIB.

At that time it was approximately R280m. And in a letter dated January 9 1991 former Transport Minister George Bartlett informed Barend du Plessis that the Commuter Corp's Treasury activities reduced the financing costs considerably within the current financial year. (Du Plessis was informed that this had resulted in a net profit of R10,63m on the money market activities).

At the end of September a special audit by Deloitte Pim Goldby on the liquidity of CIB showed short-term deposits of R506,2m, medium-term of R209,3m and long-term of R159,6m.

According to the auditors, the major depositors were Bank of Namibia (R20,25m), Transnet (R45,28m), De Witt Morgan (R47,6m), SA Reserve Bank (R35,1m), SA Mutual (R129,9m), Momentum Life (R25,38)and C M Interbank (R79,75m). The Commuter Corp's deposit of R216,11m was 24% of total major deposits. Two months later Van Greuning sent his own team to audit CIB's books.

In August, however, transactions with CIB — which were only published in September — exceeded the prescribed limits by R103m. But a fax to Paul Erasmus signed by CIB's Hannes Lourens stated that securities (as was required in terms of the corporation's internal investment policy) for that amount were held by CIB on behalf of the Commuter Corp.

Later, after the CIB merger with Prima in early December 1990 and before the corporation could withdraw its deposits that had been due to them, Prima's Bellingan informed the Commuter Corp that no such securities existed. After CIB's liquidation, Bellingan, in taped telephone conversations which formed part of all the investigations, said that he, Van Greuning and Oosthuizen had told the Commuter Corp not to withdraw its deposits.

Transnet and other money market sources say that the financial investment procedures followed by the Commuter Corp had been normal market practice.

☐ The *FM* has also learnt that senior police officers last week spent a couple of hours at the corporation. Their visit followed an instruction by the Attorney-General. *Eddie Botha*

Economists reverse growth forecasts

49

B/Day 3/7/92.

HILARY GUSH

PRIVATE-sector economists have significantly scaled down economic growth estimates for this year from initial predictions of modest growth to revised forecasts of falling output.

In its first-quarter Economic Monitor, Old Mutual forecast a 1%-2% growth in real GDP for 1992. Chief economist David Mohr said this figure had subsequently been revised to -0,6%.

He attributed the correction to progressively worsening drought conditions, sluggish world economic recovery and continuing political uncertainty in SA. He also noted that interest rates had remained high for longer than expected.

In May Sanlam's 1992 GDP growth forecast was 0,5%. However, a Sanlam economics spokesman yesterday said "we will be lucky to have positive growth this year". He traced this to deterioration in the socio-political situation, which had a negative impact on business confidence, and to slow world economic growth.

Absa economist Adam Jacobs expected GDP to fall by 1% this year. "The delay in the world economic upswing means that our exports will not perform as well as expected." He said poor agriculture output and continuing high food prices would adversely affect growth.

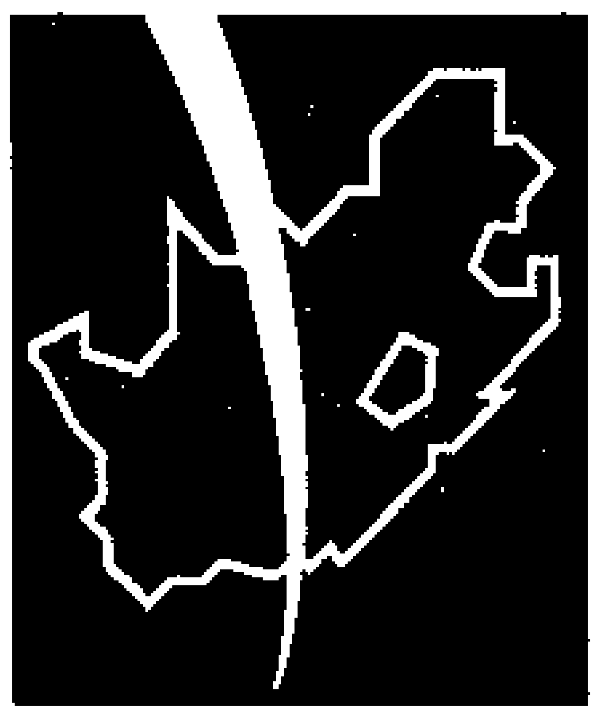
With a deteriorating rate of increase in disposable income, consumer purchasing power was limited. He said while goods purchases could be postponed, agricultural production purchases could not be put off. Hence the demand for all other products would decline.

Facing this, retailers were reluctant to increase inventories. High interest rates and political uncertainty also meant stock levels would be kept as low as possible. A return to growth should be achieved in 1993.

ECONOMIC OUTLOOK FM 3/7/92 (49)

Jeopardising recovery

Politicians are losing sight of the real issue



The economic news this week has been gloomy as the prolonged recession continues. But it would have been better if the politicians had spent less time scoring political points and more on seeking reconciliation in the national interest.

The economy is not badly placed for a recovery. But a resurgence of growth will not happen before government modifies its minority-orientated proposals at Codesa — which simply smack of opportunism — and the ANC desists from trying to make the country ungovernable or fostering a quick revolution to avoid the tiresome inconvenience of negotiation.

It is not true, as the ANC's Cyril Ramaphosa has pronounced, that this economy has been so badly run that further disruption cannot make things worse. It can indeed. The economy has shown itself to be remarkably resilient in the face of Nat economic ineptitude and ANC mischief which masquerades as democracy.

The breakdown in constitutional negotiations and the bitter recriminations between the ANC and government are damaging confidence when the country is struggling to provide an increasing number of people with work and the basic requirements of civilised life.

The country is in the longest recession in more than 50 years; the drought is cutting back agricultural output; social instability is eroding productivity; the price of gold (our major export) is well below expectations of a year ago; and the international economic revival is still too uncertain to provide a major stimulus to trade.

Any politically tactical benefits that may be gained by delaying or disrupting negotiations will be short-lived if the economy continues to contract. Conversely, every South African, of whatever colour, race or social position, has much to gain from getting on with the future. If negotiations proceed and fears of further instability are quietcd, some fundamental economic strengths will assert themselves.

Economic potential is not fully reflected in the latest economic data, which are not too discouraging. Absa chief economist Hans Falkena points out, for instance, that the first quarter (seasonally adjusted and annualised) shrinkage in output, of 1,5%, was the result of the drought.

According to Central Statistical Service, GDP in the non-agricultural sector rose nearly 1% after falling 1,2% in the fourth quarter. The losses suffered in agriculture flow through to the rest of the economy but they are not self-perpetuating. If a more normal weather pattern asserts itself, a far healthier performance can be expected by next year.

There are certainly signs that an economic recovery is close — despite the gloom. Peet Strydom, who heads Sankorp's economic research unit, says his group's experience of demand for intermediate inputs confirms the first-quarter inventory figures. And this demand has not fallen.

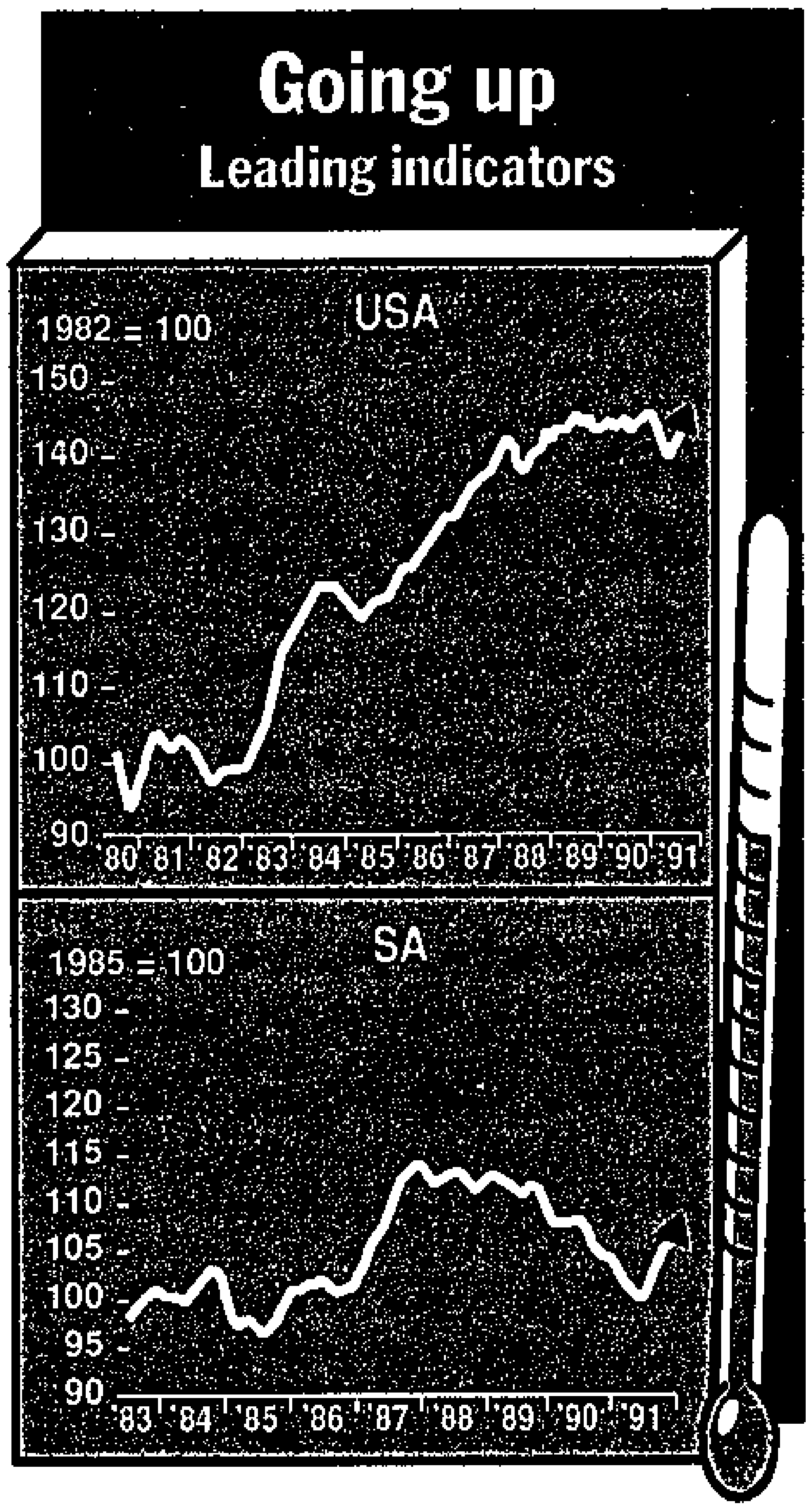
Confirmation also comes, he argues, from the index of leading indicators which has been rising since late last year (see graph). And he is optimistic about the recovery in the US, where, despite the erratic indicators, it seems the cycle is further advanced; the turn in the index of lead indicators has already been followed by an upturn in coinciding indicators.

Business Week records that:

☐ In May, industrial production at factories, utilities and mines rose 0,6%, the fourth consecutive gain, to bring it to an 18-month high; and

☐ Dun & Bradstreet reports business expectations for third-quarter sales are up sharply to their highest point in three years.

Simpson McKie economist Graham Boyd says *The Economist*'s index of commodity prices has already risen "by some 5% this year and, while the composition of this index is not representative of SA's export basket, other commodity price indices, with different weights, have shown a similar firming trend."



But SA is no longer as reliant on its commodity exports. According to the March Reserve Bank *Quarterly Bulletin*, exports of manufactured products rose by 21% in 1991 and 19,5% in 1990. "As a percentage of total merchandise exports, manufactured products have now increased their share consistently during the past four years from 13,5% in 1987 to 18,5% in 1991." This is partly due to the low level of domestic demand. But, after three decades of policies designed to promote import substitution, domestic industries are also successfully gearing themselves to international markets.

Here too is a new opportunity. A recovery in the industrialised countries will provide more scope for expansion. What is needed now is for productivity to be nurtured rather than dissipated in industrial strife, political stayaways and continuing confrontation.

Surprisingly, another encouraging sign is that the inflation rate plummeted in the first quarter. According to the *Quarterly Bulletin*, it rose at an annualised rate of only 12,8% in the first quarter, compared with 18,8% in the fourth quarter. And this is despite continued pressure from food prices. Latest inflation figures show this trend is continuing.

This development has been long awaited. The stubbornly high rate of inflation has been a major constraint on the economy's capacity to grow; and it has ensured high nominal interest rates as the monetary authorities battled to get it under control.

A continued deceleration in the inflation rate and the rate of growth in money supply (see p30) will allow for lower nominal interest rates. This does not imply a relaxation of monetary policy. Reserve Bank Governor Chris Stals is determined to keep it stringent as part of a broader structural adjustment programme. But he is concerned with real interest rates — the difference between inflation and nominal rates. The lower the inflation rate, therefore, the more room there is to reduce nominal rates.

A decline would stimulate final demand — the sum of private consumption, government consumption and fixed investment spending — which fell 1% in the first quarter (seasonally adjusted and annualised). It will also promote inventory accumulation, making it more affordable.

A consequence of a rebuilding of inven-

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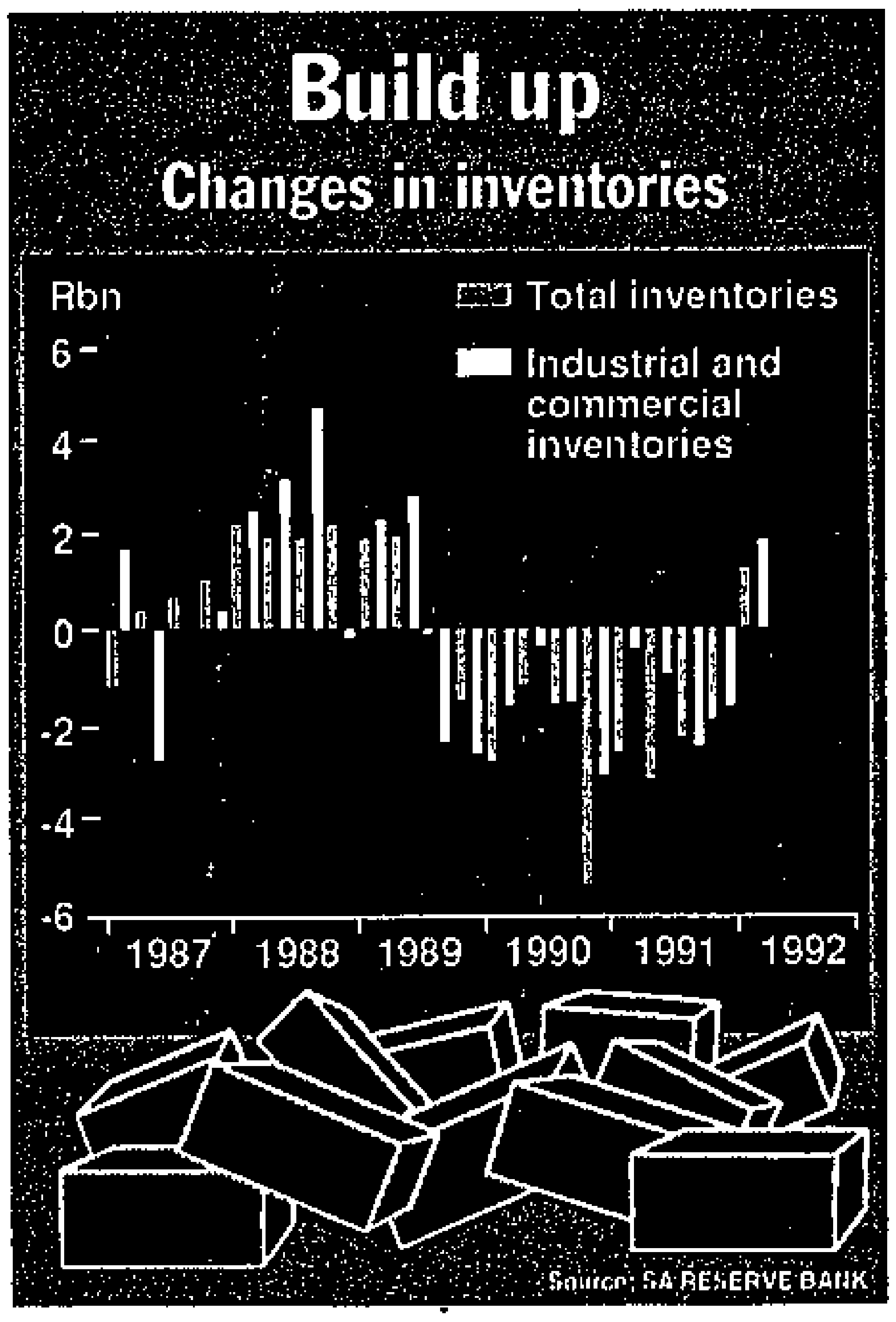

Source: SA RESERVE BANK

tories is, of course, an increase in import demand which raises the question of foreign exchange reserves. Regarding the first quarter, the *Bulletin* says: "The net result of the surplus on the current account and the small outflow of capital was an increase of R2bn in net gold and other foreign reserves."

Gross reserves rose R1,8bn to R11,6bn, keeping the rand relatively stable. Between December 31 and May 31, the weighted average declined 1,1% against a basket of currencies. Only a drastic reduction in the differential between SA inflation and inflation in trading partner countries will halt the downward drift.

This establishes that the country can finance the start of a recovery. But, inevitably, we will need to rely heavily on foreign capital to sustain it.

The ANC has recently become more realistic on this score. Says Rand Merchant Bank economist Rudolf Gouws: "If one takes a line through the five major policy documents which have appeared since early 1990, there is no doubt that economic thinking has shifted appreciably.

"It should not be impossible to breach the gap between the ANC's present position and the position on structural adjustment advocated recently by the Reserve Bank and government spokesmen. The ANC clearly lays much more emphasis on poverty alleviation and economic empowerment but makes it plain, in the introduction to the most recent document, that resources are limited and that bringing about meaningful change will take a long time. It warns of the dangers of economic populism and this is where there is a gradual meeting of minds."

This makes the latest developments and recent attempts by the ANC to stall further investment even more unfortunate. It is yet another reason for bringing this season of uncertainty to a speedy end.

Economic activity will only improve significantly when domestic and foreign investors feel confident enough to make long-term plans — and when consumers believe they can risk incurring debt, retailers expect an increase in turnover and manufacturers see orders rising.

Consumers failed to perform: private consumption fell 4,4% (seasonally adjusted and annualised) in the first quarter. As a result, inventories rose for the first time since the second quarter of 1989. The increase of R1,2bn — in constant 1985 prices, seasonally adjusted and annualised — amounted to nearly 1% of GDP. Unfortunately, this is not an expression of confidence.

The *Bulletin* suggests that the involuntary buildup of industrial and commercial stocks took place (see graph) partly in expectation of an increase in economic activity that did not materialise.

This could constitute an economic logjam, prompting suppliers to hold back on orders to factories. Factories, faced with a continuing fall in use of capacity, will not invest and the structural deterioration that has been taking place since the start of the Eighties will continue.

In real terms, capital stock has risen less

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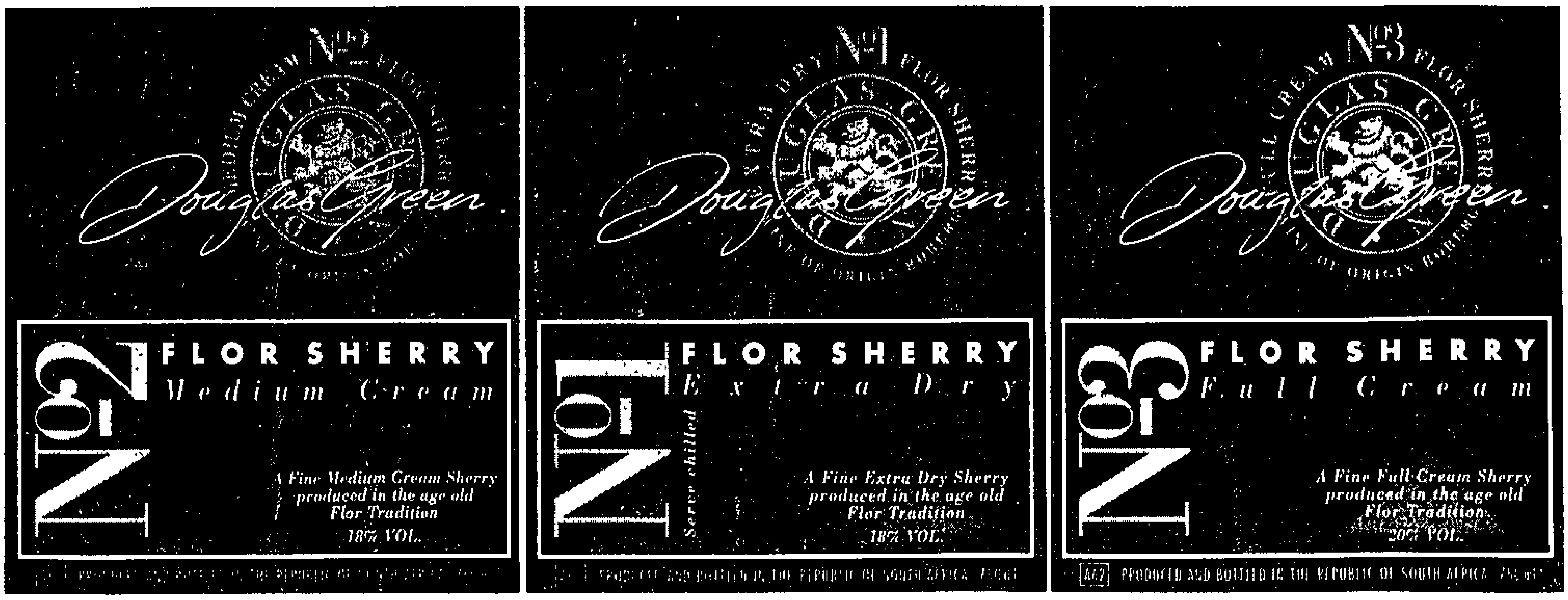


A touch of Wisconsin

FM 3/7/92

NO MORE MARTYRS: CAPITALISM, DEMOCRACY AND ORDINARY PEOPLE *by Don Caldwell (Conrad Business Books, 175pp, R40).* (49)

Caldwell is an American resident in, and a lover of, SA. But some of what he writes suggests a carry-over from Wisconsin, or wherever.

We are crisis-laden enough without the burden of our time having added to it the right of voters to recall holders of public office, or the calling of referendums on this or that. There is nothing in the history of the white or any other SA tribe to indicate that these proposals could conceivably win acceptance. That such material is included in the book argues a certain insensitivity to the realities of our situation.

Yet some parts of this curate's egg of a book are good — not least the chapter dealing with affirmative action. Here Caldwell invokes the work of black American economist Thomas Sowell, who posed a number of searching questions on the subject. Thus Sowell asks whether, in the absence of discrimination, all groups would be proportionately represented in all spheres of life. Fourteen statistical examples, taken from the Americas and Asia, show that huge disparities can be found worldwide which have nothing to do with discrimination. Indeed, some groups that have suffered from discrimination, such as Jews and immigrant Indians, regularly outperform those who discriminate against them.

Against advantages (if any) gained by beneficiaries of affirmative action, must be set the sense that many black Americans have of being stereotyped as losers. For the mass of blacks, the crown of the martyr then looks more becoming than that of the victor, which might fit them better.

As Sowell said: "The idea that large statistical disparities between groups are unusual, and therefore suspicious, is commonplace, but only among those who have not bothered to study the history of racial, ethnic and other groups around the world."

Another good chapter deals with freedom of speech. Caldwell shows that the ANC's acceptance of this is hedged round with qualifications. For fear of falling foul of these, dissidents are liable to take refuge in a deathly silence and thus sanctify the conventional wisdom of the majority.

A chapter is devoted to the question of how far the ANC can really be trusted. Caldwell appears to be intent on making his reader's flesh creep. Yet the ANC seemed to have come a long way at Codesa until it came up against a clear will to cling to power. The real question surely is whether the intellectual deadweight of a mass-liberation movement will be countered by the leadership of a political party in office. Caldwell is a poor judge of this question; he makes not a single reference to political leadership; he clearly distrusts politicians.

I must add that if Caldwell correctly assesses the trust that can be reposed in the ANC, his objections to its constitutional proposals hit the mark — and even if he is not correct, many of these proposals look like being a vast millstone round the neck of any government with a sense of responsibility. Caldwell argues cogently that there is a difference between rights and claims, and that the so-called secondary rights — such as a right to education, health or housing — are at most claims to be met in the light of available resources, not absolute rights.


Caldwell

In his chapter on taxes, Caldwell proposes referendums as a precondition of raising the level of taxation. It is surely a task of political leaders to determine what level of taxation is supportable; if they propose something excessive, should they be entitled to plead not guilty on the ground that this was what the electorate wanted? Where a constitution provides for a referendum, it would be all too easy to force one on the authorities.

To sum up, I see two main difficulties about Caldwell's book. One is that a number of his proposals are too remote either from reality, or from the continuing debate, to cut any ice among those whose contentions have the backing of any substantial section of public opinion. The other is that he expresses himself with a certain harshness that is unlikely to commend itself to South Africans of any colour — certainly not to blacks, from whom at least some of his arguments deserve to receive consideration.

Radford Jordan

Understanding economic cycles

STAR 4/7/92

49

FOOTSTEPS TO FORTUNE

RICHARD *Cluver*

As I illustrated last week, some funds are clearly better than others. There is also a right and a wrong time to buy them and in order to identify the right investment times it helps to have a simple understanding of South Africa's economic cycle.

There are always times when money is in short supply, and times when it is freely available. Money shortages lead to rising interest rates. And, because share dividend yields bear a relationship to prevailing interest rates, share market prices must fall at such times in order to bring their dividend yields into line.

Fluctuating

Since investment into a unit trust fund is really the purchase of a share in a big portfolio of shares listed on the Johannesburg Stock Exchange, it is obvious that the value of each unit trust fund will fluctuate with the fluctuating value of the shares that it is composed of.

Timing your ideal point of entry thus involves identifying the point when money again begins to enter the money market and the interest rate pattern of the country peaks out, for as interest rates fall, share and mutual fund unit prices will rise as they did this week when the Reserve Bank lowered its lending rate.

But let us consider the cycle that, in part, determines money supply and interest rates.

South Africa's economy has traditionally been controlled by the agricultural crop and consequently the weather, by the international prices of the minerals we produce and, of course, by the price of gold. The latter for many years represented nearly half of our export earnings.

Picture then a time of good rains and bumper crops, hopefully at a time when the rest of the world has had harvest failures. Assume that the rand is weak in its relationship with other overseas currencies and that we are consequently able to competitively export our food surplus at a profit, that our national balance of payments situation accordingly moves strongly into credit and that farmers, as a result of these export sales, have a lot of money to spend.

It is not, of course, just farmers who benefit from a weakened rand. Our mineral producers and our exporters of processed goods benefit also from being in a position to undercut their competitors in foreign markets.

While the farmers are out spending their money on new cars and tractors and so forth, the industries that supply these goods are obviously working at full capacity and paying out a lot of overtime money to their workers.

Industrialists seek to cash in on the booming market by expanding their factories. They borrow money to build and to import machinery and, because our balance of payments position looks good, overseas lenders deduce that the rand is strongly underpinned and are happy to lend us money.

However, as this cycle develops further, we begin to run out of skilled labour. Firms compete for staff and push up wages in the process. This process puts more money in the pocket of the man in the street who can, in turn, afford to spend it on luxury goods.

Soon the point must be reached when, despite all its efforts, local industry cannot supply all the desired goods. Retailers then start switching to imported goods. But, with all this import ing of luxury goods and machinery, our balance of payments moves into deficit. The rand starts looking weak and overseas investors become wary of lending money to South Africans.

As money dries up, companies which have committed themselves to capital development programmes are forced to start outbidding one another. Interest rates rise and share prices tumble in sympathy.

As this cycle is, with minor variations always repeating itself, it is clear that one should be able to buy every few years when shares are cheap and sell when they are expensive. Analysis of the past decade proves that the investor who was able to buy at the bottom and switch out of his general funds into an income fund when the former was topping out, would have achieved an 808 percent better growth rate than the man who simply went in for rand cost averaging.

By contrast, if one simply buys and holds on forever, one will only gain by the amount that the nation and more specifically the unit trust one is invested in, grows wealthier.

Cycle

The latter does, of course, assume that both do prosper for, quite obviously, if you sat tight in a diminishing economy you would grow steadily poorer.

One should note that recently foreign trade and investment sanctions tended to disrupt the cycle somewhat in the late 1990s, but the cycle itself remained intact. The only real change was that the boom phases became shorter and the recession phases longer.

☐ Footsteps to Fortune is a serialisation of Richard Cluver's latest book "How To Make a Million" which, together with his other titles, "Making Money With The Mutuals", "Investment Without Tears" and "Advertising For Free" is available from The Promotions Department, The Daily News, PO Box 47549, Greyville 4023. They are priced at R40 each inclusive of postage and VAT. Demonstration disks of his ShareFinder sharemarket analysis computer programmes cost R35.

Revenue dip points to a bigger deficit

B/Day 6/7/92

(49)

HILARY GUSH

LOWER than expected Exchequer receipts in the first two months of the financial year pointed to a possible 25% higher deficit before borrowing than was provided for in the 1992-93 Budget, economists said yesterday.

Revenue gathered during April and May was only 4,9% higher in nominal terms than the amount collected over the same period last year, CSS figures released on Friday showed.

Revenue collections represented 12,1% of the budgeted amount for the 1992-93 financial year, compared with 13% of budget for the same two months of the previous financial year.

Proceeds from income tax, excluding gold mines, were up 16,4%, but VAT revenues were 26,8% lower than their GST equivalent over the same two months in the previous year.

Nedcor Bank chief economist Edward Osborn said he was disappointed by the figures, and believed the overall deficit before borrowing could reach R20bn, compared with the R15,927bn estimated in the 1992-93 Budget.

"The fall in GST and VAT collections is particularly disappointing, and reflects the depressed level of retail sales, which in turn is an indication of the extremely depressed state of the economy," he said.

Standard Bank group economist Nico Czypionka said the "tardiness" of revenues reflected the poor condition of the recession-hit economy.

"Company profits are down," he said, "and retail sales have fallen." But he warned that the figures should be treated with care as they were significantly affected by seasonal factors.

Customs duty revenues increased by 0,7% in the first two months of this year compared with the same period last year. Osborn said the small increase corresponded to the decreased volume of imports over the period.

Revenues from excise duty and from the fuel levy were each 50% higher during the first two months of the current financial year, compared with figures recorded for April and May last year.

The levy on petrol was increased by 8c/*l* in the March Budget and that on diesel went up by 6c/*l*.

MONEY MARKETS by Hilary Gush

Liquidity plunges as shortage tops R4bn

B Day 6/7/92

MARKET liquidity plummeted last week when the money market shortage rose to a two-year high of R4,547bn on Thursday from R3,146bn on Wednesday. The shortage last passed the R4bn mark in July 1990.

The feeling in the market was that the high shortage was a traditional feature of June month-end and was probably due to provisional tax payments to the Receiver of Revenue. Government stock sales by the Reserve Bank on Thursday apparently helped drain the system.

Indications are that if the market does not correct to a R2bn shortage by midweek the authorities will be compelled to intervene. Either way, gut feeling on the trading floors is that the shortage will be back to levels of about R2bn by Friday.

Call rates were under pressure from the high shortage and traded from a 12,75% low up to 14% on Friday.

The 90-day liquid BA rate softened on the back of the one percentage point cut in the Bank rate to 15% on Tuesday. On Friday BAs traded in a 13,85%-14,10% range. Rates on NCDs also dropped during the week following the Bank rate cut.

Applications for the weekly three-month Treasury bill (TB) tender saw the Bank receive R751,07m in bids for the R150m on offer, at an average rate of 13,38% from 14,07% last week.

Pattern

(49)

The Bank attracted bids of R800m for R150m offered in six-month TBs. The rate on these was 12,96%, compared to 13,52% the week before.

Lower growth in money supply and a reduced inflation figure released at the beginning of last week set the tone for the downward trend in capital market rates. The key Eskom 168 stock fell about 15 points to 15,51% at Friday's close from 15,65% the previous Friday. Government R150 showed a similar pattern moving from 15,93% to 15,79% over the week.

Wednesday saw the launch of Eskom's two new bonds; the 10-year zero-coupon E171 and the E170 bond which matures in three equal tranches in 2019, 2020 and 2021 and has a 13,5% coupon. The E171 bonds were more favourably met than the recent zero-coupon bond issue by government. It is believed Eskom raised about R500m in the E170 issue.

The institutions were active early in the week, encouraged by favourable trends in the economy's fundamentals. There was not much foreign trade in the capital market as investors abroad kept a close eye on political developments.

Reserve Bank plan to axe 1c, 2c coins

B Day 6/7/92

RESERVE Bank Governor Chris Stals said government would launch a nationwide media campaign this week inviting comment on proposals to scrap 1c and 2c coins.

Stals said the cost of minting 1c and 2c coins now exceeded their face values. Suggestions on scrapping them would be welcomed.

He was speaking at a ceremony in Johannesburg on Friday at which a 22 carat gold protea commemorative coin was issued to mark 100 years of minting coins in SA. The coin was struck on a press used to mint the first Kruger pounds. ㊾

Stals was to have had the honour of minting the first gold protea, but when the time came to do the job, the machine would not work, leaving an SA Mint Company official to complete the task later. — Sapa.

Bid to relieve money market shortage

HILARY GUSH 49

B/Day 7/7/93

THE Reserve Bank yesterday announced a special repurchase deal to banks to relieve the money market of the shortage which reached a 28-month peak of R5,1bn on Saturday. The shortage last passed the R5bn mark in February 1990.

The Bank's Corporation for Public Deposits offered to buy back gilts, semi-gilts and public sector bills to a maximum value of R500m for a three-day period in an effort "to supply the market with a little cash", a Bank spokesman said.

The Bank planned to repurchase the bills at around 90% of their nominal value.

Offers totalling R1,545bn were received, with R500m of these being accepted at an average rate of 13,9%.

An Absa spokesman said the big shortage was probably the result of lower government spending at the beginning of the month and an outflow of about R1bn in company taxes processed by the Receiver of Revenue at the end of last week.

Reserve Bank GM André Kock said the shortage was higher than expected and was due to a "mismatch of flows". He predicted a lower shortage by week's end.

Dealers, however, expected the shortage to increase before it fell. Some believed that at worst the shortage could persist until mid-month when large tranches of government stock matured.

Apartheid milked poor regions to enrich the wealthy

B/Day 8/7/92 (49)

PETER CHRISTENSEN

the Regional … Department carved up SA into nine development regions to promote self-sustaining economic growth and coherent regional development. Central government spending was then intended to be allocated to the different regions in accordance with these objectives.

According to a recent report compiled by Deloitte Pim Goldby, however, the criteria for government transfers to the regions, rather than being based on the desire to effect balanced growth, appears to have been determined more on the spatial distribution of whites among the nine development regions. Those regions that are home to proportionately more whites have been the beneficiaries of proportionately more government consumption expenditure.

The problem with allocating government spending according to political objectives is that accepted development principles are bound to be disregarded. One development practice should be that, barring the need for a redistributional approach, transfers from central government to the regions be commensurate with the region's contribution to the country's GDP.

Invariably, however, imbalances in development do occur. In the interests of balanced growth, there is therefore the need for central government to redistribute tax collections in favour of the poorer regions.

In SA this has palpably not been the case. As a consequence of the NP policy of looking after white interests, certain poor regions have not only been neglected in terms of government expenditure, they have been left with tax burdens greater than their contribution to the country's GDP.

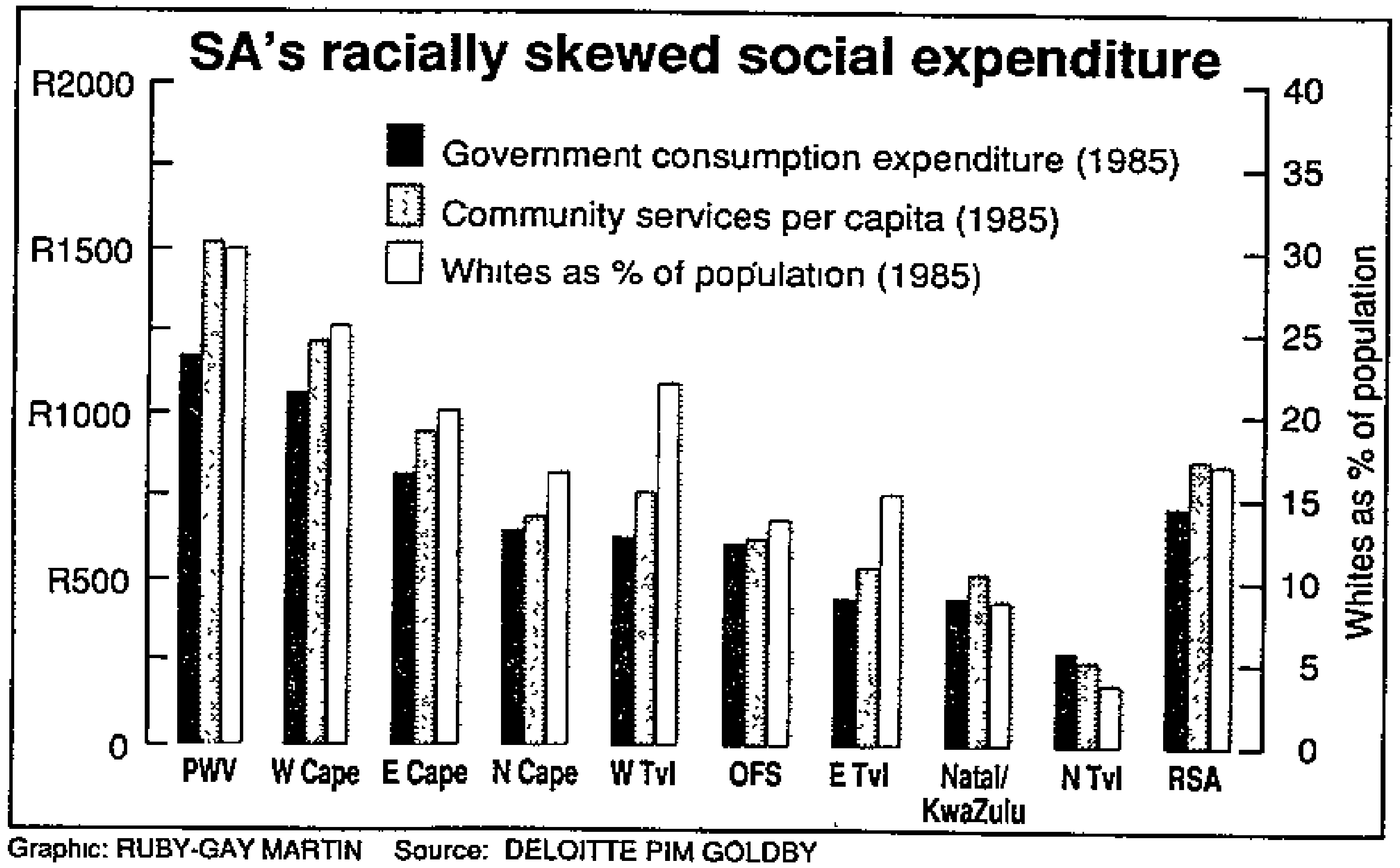
For example, in 1989 the Natal/KwaZulu region, a region whose developmental needs are probably the greatest in SA, accounted for 14,7% of GDP but paid 17,4% of the country's taxes.

Despite having the second lowest GDP per capita and the second highest unemployment rate in the country, Natal/Kwazulu receives government consumption spending of less than one third of that of the PWV on in per capita terms. And to aggravate matters, the level of taxes raised in the region has been rising steadily since 1987.

Already, this "misallocation" of expenditure from central government has had serious consequences for the ability of the poorer regions adequately to provide for their populations.

This would especially be true in cases where firms locate or relocate to take advantage of the proportionately lower tax burden that exists in some regions. What is certain, however, is that if allowed to continue, this grossly unequal allocation of expenditure will serve only to exacerbate uneven growth.

An imbalance in central government transfers to a region can generally be said to exist if the region receives a less than proportionate share of public funding relative to the population of the region, the size of the regional economy or the level of tax revenues derived by the central government from the region. The approach taken by the Deloitte Pim Goldby report was to determine general expenditure by government on a regional per capita basis.



Graphic: RUBY-GAY MARTIN Source: DELOITTE PIM GOLDBY

Determining the level of government consumption expenditure in each region was, however, problematic. It is complex due to multi-level sourcing and cross-funding between and within the different levels of government. In addition, the most recent data available is for 1985.

So 1985 was used as a regional benchmark against which the trend of aggregate government spending patterns during the '80s could be judged. With further analysis, deductions could then be made to determine the level of public-sector spending in each of the regions during each year of the past decade.

Although there are accurate regional figures only for 1985 for the demand side of the economy, on the supply side there exist regional output figures for community services for each year up until 1989. By discovering a high degree of correlation between government expenditure and community services output, it was possible to use community services output as a proxy for government consumption expenditure. Community services output is defined as consisting of government salaries and wages, a provision for depreciation on government investment and a small component of welfare and other factor income.

Using these figures, the chart shows the serious imbalances in public spending levels for the nine development areas. Particularly disturbing is the low level of community services provided in the poorer regions. Overall, the disparities between regions correlate closely with the spatial distribution of whites in the nine development regions.

Government has attempted, in the past few years, to redress the imbalance of central government allocations to the regions. Those regions which have for years received the lowest share of community services output have therefore, in the years 1985-89, experienced the greatest growth.

The region with the lowest community services output per capita (northern Transvaal) is now experiencing a growth in community services output per capita in the order of 5% a year. The region with highest receipt of community services (the PWV region) has experienced a fall in real terms.

Nonetheless, at present growth rates, Deloitte Pim Goldby predicts that it would take up to 52 years before Natal/KwaZulu could merely attain the national average. For the western Transvaal and northern Cape regions it would take more than a century.

Clearly, then, central government has, in the process of disbursing public funds according to a political agenda, not only failed in its duty of achieving balanced growth but, incredibly enough, redistributed income from the poorer regions such as Natal/KwaZulu and northern Transvaal to the better-off regions of the western Cape and PWV. Awareness of this practice has led to increased calls for greater autonomy to be given to the regions.

In the absence of a greater devolution of power to the regions, an alleviation of poverty and creation of wealth in the poorer regions will — considering the important contribution community services makes in their per capita income — demand a continued redistribution of community services output in favour of the poorer regions.

Ultimately, however, avoidance of a repeat of past mistakes will necessitate a federalist structure, with each region given greater freedom to determine their own development.

☐ **Christensen is economic researcher at the Inkatha Institute.**

Apartheid milked poor regions to enrich the wealthy

BDay 8/7/92 (49)

PETER CHRISTENSEN

IN 1982 the Regional Planning Department carved up SA into nine development regions to promote self-sustaining economic growth and coherent regional development. Central government spending was then intended to be allocated to the different regions in accordance with these objectives.

According to a recent report compiled by Deloitte Pim Goldby, however, the criteria for government transfers to the regions, rather than being based on the desire to effect balanced growth, appears to have been determined more on the spatial distribution of whites among the nine development regions. Those regions that are home to proportionately more whites have been the beneficiaries of proportionately more government consumption expenditure.

The problem with allocating government spending according to political objectives is that accepted development principles are bound to be disregarded. One development practice should be that, barring the need for a redistributional approach, transfers from central government to the regions be commensurate with the region's contribution to the country's GDP.

Invariably, however, imbalances in development do occur. In the interests of balanced growth, there is therefore the need for central government to redistribute tax collections in favour of the poorer regions.

In SA this has palpably not been the case. As a consequence of the NP policy of looking after white interests, certain poor regions have not only been neglected in terms of government expenditure, they have been left with tax burdens greater than their contribution to the country's GDP.

For example, in 1989 the Natal/KwaZulu region, a region whose developmental needs are probably the greatest in SA, accounted for 14,7% of GDP but paid 17,4% of the country's taxes.

Despite having the second lowest GDP per capita and the second highest unemployment rate in the country, Natal/Kwazulu receives government consumption spending of less than one third of that of the PWV region in per capita terms. And to aggravate matters, the level of taxes raised in the region has been rising steadily since 1987.

Already, this "misallocation" of expenditure from central government has had serious consequences for the ability of the poorer regions adequately to provide for their populations.

This would especially be true in cases where firms locate or relocate to take advantage of the proportionately lower tax burden that exists in some regions. What is certain, however, is that if allowed to continue, this grossly unequal allocation of expenditure will serve only to exacerbate uneven growth.

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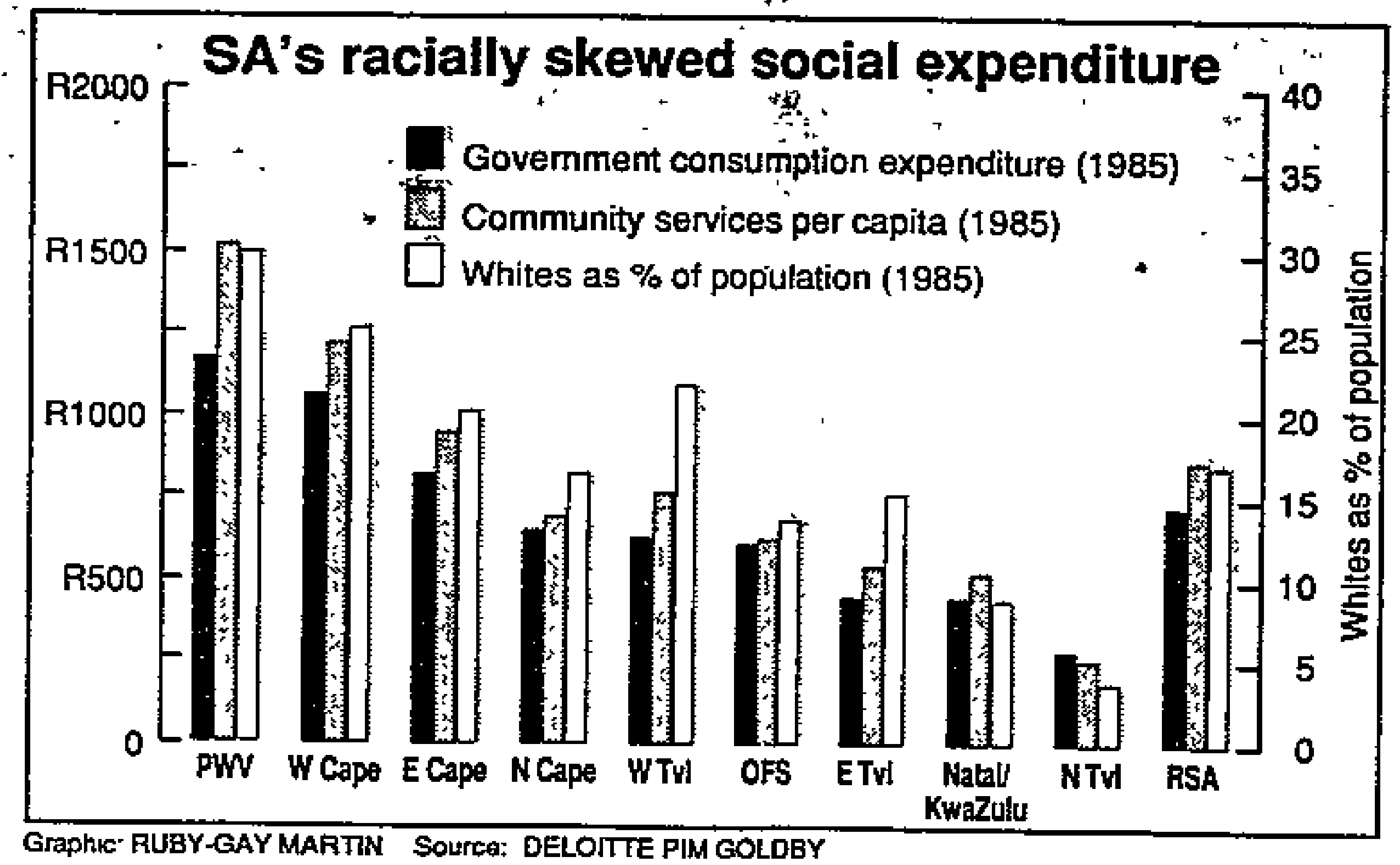


Graphic: RUBY-GAY MARTIN Source: DELOITTE PIM GOLDBY

Economy could get worse, warns Sacob

STAR 8/7/92 (49) ~~180~~

By Sven Lünsche

The Chamber of Business (Sacob) has painted a gloomy picture of economic prospects, with "the economy becoming the new battleground where politicians wage their wars".

Presenting its Business Confidence Index (BCI) yesterday, Sacob cautioned: "Those who argue that economic conditions cannot get any worse could be in for a rude awakening."

While the BCI fell by only 0,1 points to 90,8, Sacob chief economist Dr Ben van Rensburg warned that the full impact of the Boipatong massacre and the subsequent breakdown in talks at Codesa would only emerge in July's BCI.

Impact

The impact on business sentiment last month was, however, more fully represented by Sacob's survey of confidence levels in the manufacturing sector.

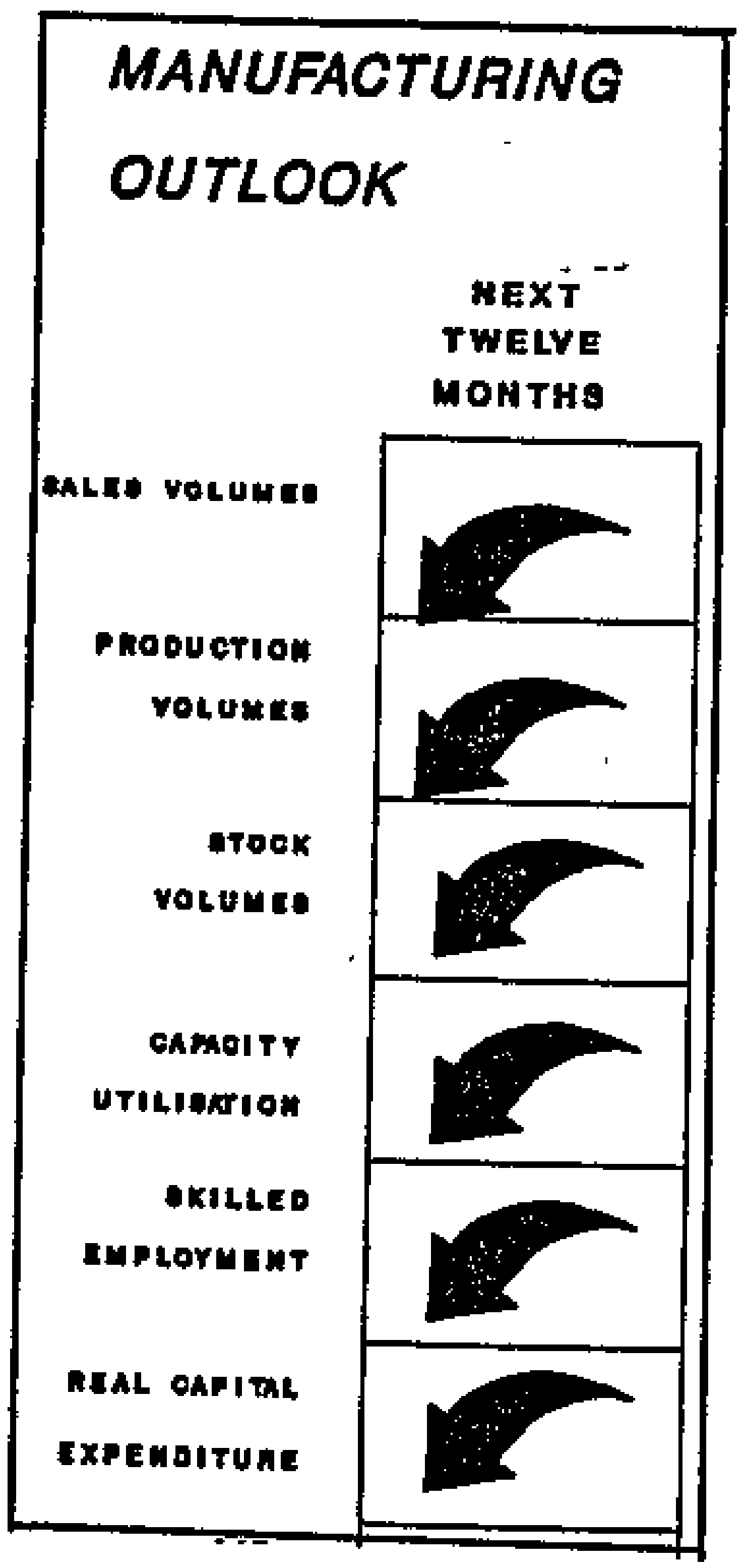
The mood among industrialists in this sector deteriorated sharply, with all sub-components of the survey indicating that the majority of respondents expected conditions to worsen over the next 12 months. (see graph).

Summarising the survey, Dr van Rensburg said: "The events of the recent past have served to underscore the strong link that exists between politics and economics, and it is clear that the prospects for the economy have worsened as a result of recent political developments.

"Many of the economic fundamentals are well placed for a new, and sustained, economic upturn. The missing ingredient is confidence."

Dr van Rensburg warned that against this background the present recessionary conditions would remain until at least early 1993.

Political uncertainty was also jeopardising the involvement of foreign investment in getting the economy on to a high growth path.



"South Africa risks becoming a forgotten investment," he said.

The lack of foreign investor confidence was illustrated yesterday by a 7c drop in the financial rand to 3,91 against the dollar. Since the beginning of May the finrand has slumped by more than 50c.

Turning to its survey of confidence levels in manufacturing, Sacob said manufacturers had resigned themselves to a period of "battening down the hatches" until clearer signs of an upturn emerged.

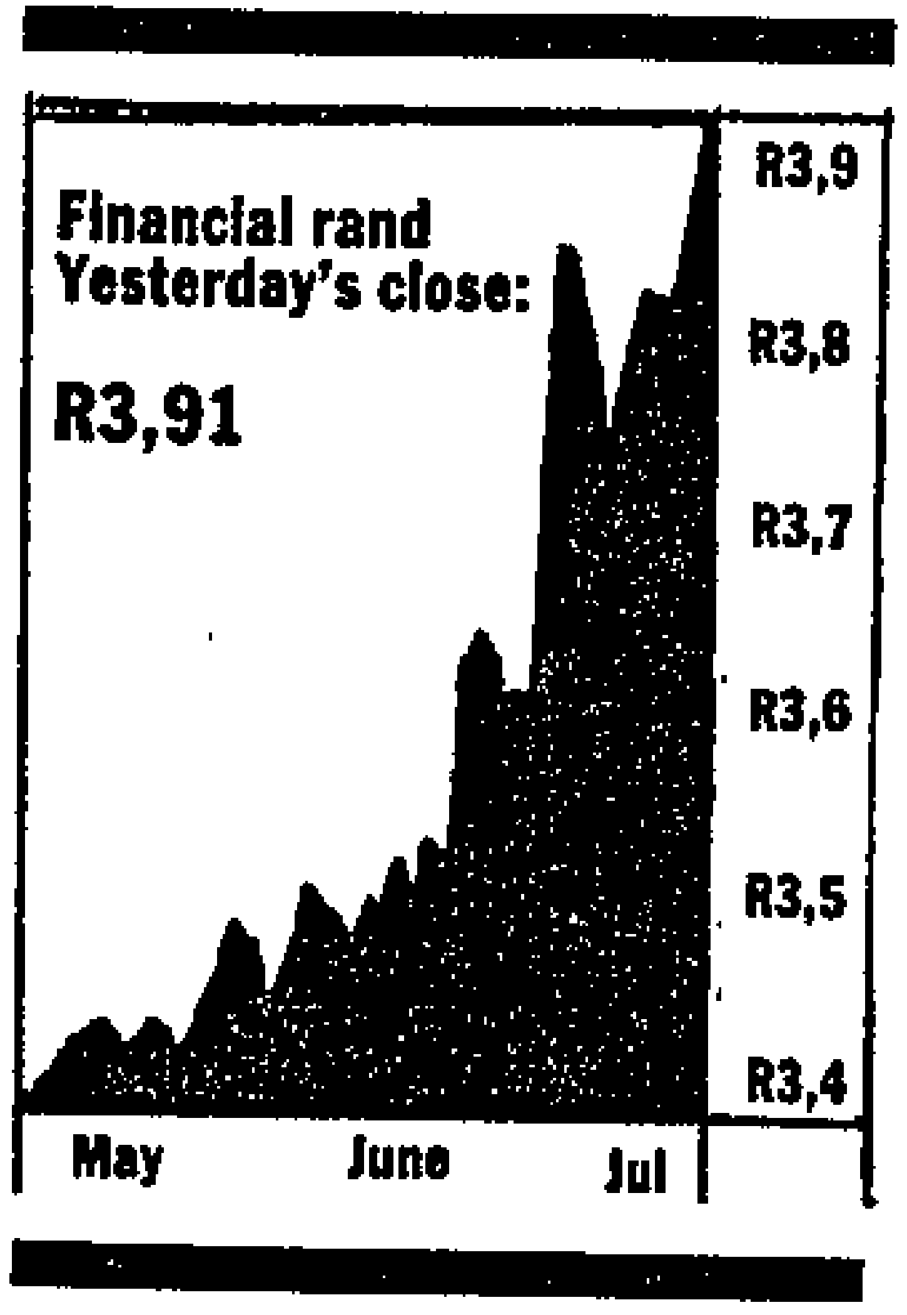
Drought

Sacob economist Keith Lockwood said: "The drop in confidence levels can be partly ascribed to political events, but is also related to aspects such as the performance of the world economy, the resultant problems faced by the mining industry and the drought."

Activity levels in the sector, as indicated by the volume of new orders placed, declined further in June, after sharp drops in the two preceding months.

"Despite recent declines in interest rates, there is no indication yet at the retail end that consumers are either more willing or more able to spend," Mr Lockwood said.

The pessimism among manufacturers is evident in their outlook on business conditions over the next 12 months:



- Sales are expected to decline for the first time since October 1990, with 53 percent of respondents expecting sales volumes to be lower than they were 12 months ago.
- In keeping with the more depressed outlook for sales and production, the prospects for employment in the sector deteriorated further.

Some 68 percent of the respondents expect to reduce their employment of unskilled workers, while 60 percent plan cutbacks among skilled workers.

- Capital expenditure levels will also be reduced. Some 52 percent of those surveyed expect to cut their capex aimed at maintaining existing plant in the next 12 months, while 55 percent plan to reduce their outlays on new capacity.

Hopes for economic recovery

B/Day 9/7/92 (49)

PETER GALLI

THE lifting of sanctions and the improvement of internal relations had not yet had a significant impact on the economy, but the lengthy recession could bottom out and the economy could recover in the current financial year, Histone and Higate chairman Anthony Ardington said in the latest annual reports.

The benefits from an economic upswing would first be felt in the industrial sector and Higate was likely to benefit from this as its portfolio was mainly industrially based.

"Apart from the impact of any improvement in the economy, Higate is seeing 41% of its lease falling due for renewal or review in the year ahead, which should see good growth as the market rental levels are higher than those being achieved under present leases," he said.

However, while the Highstone fund's net rentals would increase in terms of lease escalations, this rise in earnings would be partially offset by the continued fall in interest rates and lower interest income as the fund was now fully invested in property.

During the year, the fund bought a decentralised office block in Kloof, Natal, for R4,6m and had uncommitted cash resources of R4,2m at the year end. Its property portfolio was primarily in decentralised commercial properties.

In the year under review, Higate invested R7,8m in the development and upgrading of existing properties and had uncommitted cash resources of R13,2m available for property investment, Ardington said.

Criticism of Bank reflects poor understanding

B|Day 9/7/92

(49)

TONY DE CASTRO

THE President's Economic Advisory Council recently criticised the Reserve Bank for its strong rand policy because it apparently damages the economy (Business Day, July 1). The council's criticism possibly reflects an inadequate understanding of SA's financial and economic problems, and the best methods to deal with them.

SA has been suffering from severe stagflation for almost 20 years, the result of various mistakes committed by policy makers and adverse international circumstances. There are two major reasons for stagflation in SA: structural deficiencies and, at times, excessive real demand funded through the Reserve Bank's rediscount window.

The problem of structural deficiencies began in the early '50s with the introduction of the then fashionable policies of import substitution and self-sufficiency. This trend was much strengthened in the '60s when apartheid's economic policies and international political alienation came to full realisation.

As a result of this thinking, and with the assistance of the state, entire segments of the SA economy become immune to international competition. Massive trade barriers, quotas, domestic subsidies and other means of protection were introduced to create increasingly inefficient industries. Inefficient industries were able to survive partly because the economy's total wage costs were low, and the output of some economic sectors (mostly mining) commanded favourable terms of trade with the rest of the world economy.

By the mid-'80s the domestic and international scenario altered irrevocably. The terms of trade turned against commodity producers, black wage demands strengthened with the growth of black trade unions and, most important, a foreign debt moratorium was imposed.

The moratorium forced SA's policy makers to promote a strong export-oriented attitude via various schemes and a fast depreciating rand. The decline in the rand was not voluntary — billions of rands in net foreign capital outflows continually undermined the external value of the currency. While promoting an export attitude, policy makers were simultaneously reinforcing the policy of import substitution which was adopted many decades before.

Constant and large foreign capital outflows required massive reductions in imports. The economy therefore could grow, on a sustainable basis, faster than 3% a year. This balance of payments constraint, combined with political uncertainty, forced many foreign investors and exporters to SA to stay away.

This space was taken up by SA companies. With reduced foreign competition, domestic producers increased their output to meet existing domestic demand. Simultaneously, rising inflation stemming from higher wage demands, a weaker rand, excessive demand during certain economic boom periods, and an absence of international competition forced, and in certain cases allowed, SA companies to pass these higher costs on to the consumer. This process enhanced the vicious cycle and accentuated the inflation psychosis.

The present stagflation is more an historical structural problem than one of excessive demand. The economy is contracting. It is, then, pointless to apply a restrictive monetary policy in such circumstances. A tight monetary policy should be applied only when there is excessive real demand funded by central bank credit. For more than a year now there has been little growth in bank credit and liquidity is plentiful.

Yet, despite contractions in credit and real demand, and a slower depreciation of the rand, prices continue to rise. Tight monetary measures are not likely to halt increases in core inflation, but will partly contribute to inflation through high gearing costs.

Instead, structural measures need to be formulated and implemented. The following measures (there are many more) are probably better suited to address stagflation, although they require enormous cooperation by all economic participants and government departments. Moreover, further access to international credit is essential to bring stagflation under control:

☐ Maintain and enhance the external value of the rand. Remove most import restrictions. Through imports, foreign competition is introduced in the economy. Imports will immediately widen the price choices available to domestic consumers;

☐ Domestic wage demands not linked to productivity will not be possible in this scenario. International competition will undermine any company that is inefficient. This process would prevent higher input costs being passed on to the consumer, as the import price would determine SA prices;

☐ Continue to strongly promote export policies, but not through a depreciating rand. Such subsidies are at a cost to other sectors of the economy and have a limited lifespan. Additional foreign exchange earnings are essential to maintain a healthy balance of payments.

☐ There is nothing irregular with further foreign borrowing if it is applied to competitive capital projects. All developing economies must initially rely on the savings of developed economies until they build their investment base and savings.

☐ In line with the recommedations of the BTT's report on food prices, it is necessary to remove all legislated powers from any group that, for the purported public good, controls the production, distribution and prices of goods;

☐ Allow all interest rates to fluctuate in line with credit demand and market responses.

These recommendations would be inmplemented over a long time period and, unfortunately, would involve some economic pain, particularly in those economic sectors that have been favoured by past economic polices which are becoming increasingly untenable.

☐ **De Castro is an economist with Securities Portfolio Managers.**

LETTERS

Cosatu stands at crossroads in search for a new socialism

BDAY 10/7/92 (49)

ADRIENNE BIRD and GEOFF SCHREINER

COSATU is at a crossroads. It is faced with a series of key strategic decisions in the immediate future which will fundamentally affect the possibilities of a democratic socialist future in SA.

The need to rethink how we understand our socialist project is critical. In our view, moving towards socialist democracy requires an ongoing process of empowering institutions and organisations, outside of the state, to participate in the decision-making process and thereby to exercise meaningful control over that state between elections.

This means reconceptualising the relationship between the state and civil society:

☐ Modern day economies do not permit the possibility that all functions of the market can be replaced by an all-inclusive, state-created "five-year plan". The market and private enterprise have to be allowed a significant role in a future socialist society;

☐ Acceptance of the principle of the market's existence points to the existence of employers and their organisations, as well as wage labourers and trade unions, for the foreseeable future; and

☐ These organisations, together with other organisations in civil society, should by right be entitled to be involved in negotiating around state regulation of the market and around socio-economic policy.

At a policy level, the state has, in recent years, shifted from its formerly active interventionist role in ensuring the privileges of its white electorate to a more passive approach. This shift from racially regimented capitalism to the "free market" *laissez faire* approach is about "clearing the stage" for employers to freely determine pay, working conditions and related issues. It is about restraining trade union influence. Regulation, in the form of minimum wages and conditions, health and safety standards, collective bargaining rights, affirmative action and the like, is rejected because this causes "imbalances" in the market.

For SA — with its negative growth rate, vastly inequitable division of resources, rapidly increasing population and massive unemployment — these policies are a disaster.

An active labour market policy which focuses on economic growth, employment creation and skills development is the necessary alternative. Active policies are essentially about pro-active intervention in the market — through skill formation programmes, job placement and job creation projects and so on.

This approach is in line with Cosatu's "growth through redistribution" economic model which, while mindful of the need to develop the export sector, has at its core intervention by the state to secure economic growth characterised, initially, by large scale inward industrialisation. Housing, electrification and infrastructural development is intended to promote employment, stimulate the manufacturing sector and redistribute resources to urban and rural communities. An active labour market policy would require coherence, consistency and co-ordination.

At an institutional level, we have inherited from SA's apartheid history a variety of toothless and profoundly undemocratic labour market forums. These institutions have been dominated by state officials and a variety of ministerial appointees. These "experts" have mused about matters of the economy, trade, labour relations, unemployment etc and have fed their proposals through to the responsible minister who has had complete discretion to do whatsoever with the advice.

There has never been a process of collective bargaining within these institutions. As a consequence, there has been little incentive for the development of well organised national centres of either craft unions or employers. Saccola has no resources, no full-time staff and seemingly little capacity to bind its members to agreements it reaches. On the other side, the union movement to the right of Cosatu/Nactu is in complete disarray.

Commentators have argued that reforming these institutions requires a move towards representative tripartite models — state, labour, capital — of the European variety. In these models, the state represents those interests outside of organised employers and trade unions.

This is a view which makes sense in societies with very high levels of employer/trade union organisation. But what of SA with its deep-rooted labour market segmentation, massive unemployment and consequent low levels of unionisation? Here the state would have the responsibility of representing many millions — the poorest, the most marginalised and the most weakly organised in society. However, state policy in a post-apartheid democratic SA is likely to be influenced by the best organised and most powerful in society: business and the trade unions. The pressures for corporatist solutions will be very powerful.

Cosatu has, historically, represented the interests of working people way beyond its own narrow constituency. But this tradition does not guarantee that this line of march will continue into the future. As much of the current violence shows, there are fundamental divisions emerging within the working class. While we support efforts to bridge these divisions, Cosatu will be increasingly pressured to represent the interests of its relatively privileged members. Corporatist arrangements driven by union members together with organised (big) business and endorsed by a weak state hungry for political support, are a real danger in the future.

Instead, we advocate a multipartite model to provide a counterweight to these corporatist possibilities. This model would be based on guaranteed representation for the organisations of civil society which are independent of the state and are not competing for parliamentary power. Civics, women's groups, associations of the unemployed and the aged, consumer and rural organisations, and so on, would be guaranteed the right to participate in negotiations in appropriate bodies on key aspects of state policy together with the Big Three.

Because many of these sectors are precisely the weakest, the poorest and most marginalised in society, they will experience the most difficulty in developing stable national organisations. For that reason, institutional representation on labour market bodies should be guaranteed. Furthermore, the state should be required to make resources available — in a manner which does not compromise their independence — for the purpose of supporting and assisting the growth of such organisations.

This form of representation and engagement is not an alternative to political representation. Ultimately, the parliamentary political process will prevail.

This approach does not necessarily involve a radical break with all existing labour market institutions and national negotiating forums. Some institutions are reformable. In other areas entirely new forums will need to be established.

In a sense Cosatu is already adopting this kind of pragmatic approach, in relation to the new national economic negotiating forum and the restructuring of the National Manpower Commission. Any new government with limited resources will also have to be cautious in dismantling institutions which are functional to some extent. And it will have to make careful choices to avoid new commitments which may prove beyond its capacities to maintain and service properly.

☐ Bird is national training officer and Schreiner national research officer of Numsa. This is an edited version of an article appearing in the latest edition of the SA Labour Bulletin.

Panic plunge in JSE share prices

JOHANNESBURG. — Panic selling by private investors, and hard bargaining by institutions prepared to buy, saw JSE blue chip stocks slump by almost 2% yesterday as political jitters persisted, dealers said. Trading volume was heavy.

The JSE tended firmer at the opening, but the support base crumbled with panicky private investors driving prices lower, while some institutions also offloaded shares, they said.

The industrial index closed 70 points off at 4 234, after hitting 4 232, and the overall index was 65 points lower at 3 449. The gold index shed 24 points to close at 1 052.

"There is still another 10% downside potential on the industrial market, mainly on concerns about the levels of the Dow Jones and local political uncertainty," said Andre du Plessis, portfolio manager at stockbrokers Ed Hern Rudolph.

He said, however, that the downside may be limited by high institutional liquidity levels, mainly unit trust funds whose average liquidity ratios were estimated at between 15% and 25% of their investible funds.

Unit trust fund managers at investors Mutual Funds Ltd warned that the market in general "seems to be anticipating higher growth than seems likely over the next 12-18 months".

De Beers led the declines, posting a R2,75 drop to R83, but recovered to close at R83,25. Anglos topped the list of most active shares with over R12m's worth traded and the price falling R1,50 to R113,75.

SA Breweries, Richemont, Sappi, Samancor, Stanbic, Firstbank, Vaal Reefs, Kloof and Safren weakened. But petro-chemical producer Sasol found buying support at the low levels and the shares closed 15c firmer at R17,25.

Among active shares were Anglos, Southern, SA Breweries, Gencor, Sasol, Unitrans, Rembeherend, Firstbank, Momentum, industrial selections, Absa and Iscor.

● Capital market rates closed lower in active trade yesterday led by demand for medium-dated bonds, dealers said.

The key long-dated Eskom 168 was indicated at 15,57% versus 15,67% at the close yesterday. The government's R150 was at 15,82% versus R15,82%. The R144 was quoted at 13,7% from 15,9% at yesterday's close.

(49) CT 10/7/92

Volume was higher yesterday at R1,787bn after Wednesday's R1,598bn. — Reuter

Grim outlook for economy

[redacted] (49)

Sowetan 10/7/92

■Business confidence plunges as violence mounts, talks collapse:

THE rising levels of violence and the breakdown at Codesa had a negative influence on an already brittle economy in June.

The impact on business sentiment was more fully represented by the South African Chamber of Business survey of confidence levels in the manufacturing sector, which showed a sharp drop.

In Sacob's Business Confidence Index (BCI), chief economist Dr Ben van Rensburg said business confidence might be poised for a further decline if there is no political progress over the next few weeks.

He said the past events underscored the strong link between politics and economics, and Sacob was particularly concerned at the prospect of the economy becoming a political battleground.

"There is a strong possibility that many businesses will close if the planned general strike goes ahead." he said.

Embattled economy stands on the brink

STAR 11/7/92

A GENERAL strike could destroy investor confidence, now reviving after years of sanctions, and leave the economy in tatters. JEAN LE MAY reports.

49

CAPE TOWN — Confidence in the South African economy has taken a dangerous plunge which, if not corrected, could mean disaster.

Financial experts consulted by Saturday Star have agreed that the loss of confidence arose out of the endemic violence, the breakdown of negotiations and the consequent threat of mass action.

They all stressed that the most urgent need was to curb the violence which, apart from the appalling toll in human suffering, was having the most telling effect on investor confidence.

All agreed, too, that the need to get negotiations going again was vital and that a general strike next month would leave the economy in tatters.

Professor of economics at the University of Cape Town Brian Kantor said the threatened mass action held "a potential for enormous personal tragedy for workers".

"The expectations of income growth are totally unrealistic," he went on. "Cosatu and its members have been looking for much, much more than the economy can deliver and are damaging themselves in the process."

The decline in confidence on the part of foreign investors is equalled by a drop in confidence among South Africans themselves, reflected in near-panic selling by private investors on the JSE and in the grim prognosis made in the latest quarterly bulletin of the South African Reserve Bank.

Slump

One of the most important signs of a loss of confidence by foreign investors is the slump in the financial rand. The finrand, a key indicator, hit a two-year low at mid-week, with the financial-to-commercial rand discount widening to a gap of 32,5 percent.

The slump in the finrand has been attributed to more than R100 million in local gilt sales prompting large off-shore selling. It is known that a European investor had at mid-week sold more than R100 million of the key long-term Eskom 168 stock, one of the most highly regarded of South African gilts.

Professor Philip Black, head of the school of economics at the University of Cape Town, said: "Clearly the threat of mass action is affecting foreign investor confidence, since it has a negative effect on their perception of South Africa as an investment possibility.

"However, it may be that with the drop in US interest rates, people may be moving out of the financial market into commodities and the capital market."

Another indicator that the economy is headed for serious trouble is that the Reserve Bank has predicted a fall in national output this year.

This would mean "a negative growth rate for the third year in a row for the first time since the post-war period".

bigger bang
or each buck

S|Times (Buss] 12/7/92.

The Reserve Bank's Chris Stals is drafting a plan to restructure the economy. This is what Development Bank says should be done.

By KEVIN DAVIE

(49)

apartheid State y intervened to ie South African y to self-suffi-

egic imperatives outweighed the develop SA's hufrastructure so some would say, whole economic had eventually to ause it was not ining.

debate rages on an iate post-apartheid y. The latest propos- of the Development DBSA), also seek ac- State interven-

intervention is in- to tackle years of neglect and create growth.

Array

DBSA says democracy in the present eco- Wages and employ- ake up 75% of total income, yet less of the economically population can find the formal sector. The is to create more

the "paralysing array barriers" which face have to ved before job crea- flourish.

DBSA's Nick Vink says will have to go programmes, providing skills train- ll be needed.

services are need- , for example, in of housing develop- small builders general- not tender.

builders typically design phase and so able to compete," Vink.

acknowledges that the 's proposals are inter- , but says this will ssary to redress racial inequalities.

Mr Vink says the market should do what it does best and public authorities should intervene in such matters as education, low-cost housing and the provision of basic health services.

This, says Mr Vink, "produces a bigger bang for each buck". It focuses on the people who need it most to cause new growth in the economy.

Although socio-economic upliftment will be constrained by the budget, the balance of payments and the availability of savings, Mr Vink says some studies estimate that up to R10-billion can be freed for this purpose.

The DBSA stresses that capital should not be favoured at the expense of labour: "We need labour intensity to use scarce capital more efficiently. We will still need some capital intensive industries," Mr Vink adds.

He says large capital projects, such as Columbus stainless steel and Alusaf's smelter, should be evaluated on a cost benefit and a case by case basis.

Gold

The report identifies import substitution, wage and productivity imbalances and price controls as inappropriate policies which have caused economic stagnation.

It says protection from imports by direct controls or tariffs has discriminated against exports and contributed to inflation. Upstream industries have been protected at the expense of those downstream with larger value-added components.

Administered prices fuel inflation: "In the 1970s and 1980s administered prices on rail transport, electricity, and maize increased more than other producer prices, adding to inflation.

"Apartheid resulted in many less productive but strategically important industries in armaments, iron and steel, engineering and chemicals.

"These are by their nature capital intensive. Much of the economy has remained import intensive despite years of import substitution policies."

The report says the strong gold price of the early 1970s and 1980s gave SA "Dutch disease". This results from high demand for exports based on natural resources and causes the exchange rate to strengthen, disadvantaging all other export and import replacement industries by reducing their competitiveness.

"This was strengthened when wage increases in mining led to other higher wages, mainly in manufacturing, deeply entrenching inflationary tendencies."

SA's tax structure should also be changed, says the DBSA. Company and personal taxes should have broader bases and lower marginal rates.

Wealth taxes, including property and capital transfer taxes, should be extended. A capital gains tax should be introduced.

The DBSA says the accelerated programme it recommends can be launched within 12 months of an interim government. It would begin to have direct impacts within 24 months.

NICK VINK: Interventionist, but it's necessary to set wrongs right

Pillars of recovery toppled

49

ST Times [BUSS]

12/7/92

Business Times Reporter

MANDATORY capital ratios interfere with the traditional operation of monetary policy by making new reserves sterile without new capital.

If banks wish to use excess reserves in the form of loans they must be backed with fresh capital for which the banks must compete in the market.

To date this is not a problem domestically, says AFC Investments market strategist Cathy Pott. But it is a serious obstacle to credit creation in Japan and elsewhere.

Mrs Pott says the main concern about the world economic outlook remains the extreme weakness in money-supply growth. The excesses of the 1980s — high and bad debts — are generally blamed. But she says the problem lies in the heart of the banking system.

Mrs Pott says in AFC's July economic review that optimists base their expectations for recovery on the assumption that the future will be like the past — ie reflation will work.

"Central banks have always been able to combat recessions by expanding the reserve base of their domestic banking systems. Banks then see to it that the newly created excess reserves are distributed via the credit mechanism into the market place.

Flaws

"The magic of the credit multiplier goes to work, money supply expands and rising nominal gross national product results.

"This time, however, the formula is not working."

Two reasons lie behind the fact that nothing is being done to alleviate the problem.

The first is a general lack of understanding of the effects the capital adequacy requirements are having.

Second, there is a lack of political will to undo what it took 12 central banks years to put in place.

"Until the flaws in bank capital requirements are addressed it is AFC's view that money-supply growth cannot resume and therefore what is already the longest post-war recession will continue."

Reserve Bank Governor Chris Stals rules out monetary stimulus, which Mrs Pott says would probably not work anyway because of the bank capital story.

Store

Foreign capital continues to give SA and its political troubles a wide berth. Because world growth remains in the doldrums and is likely to decline further, an export boom cannot be expected this year.

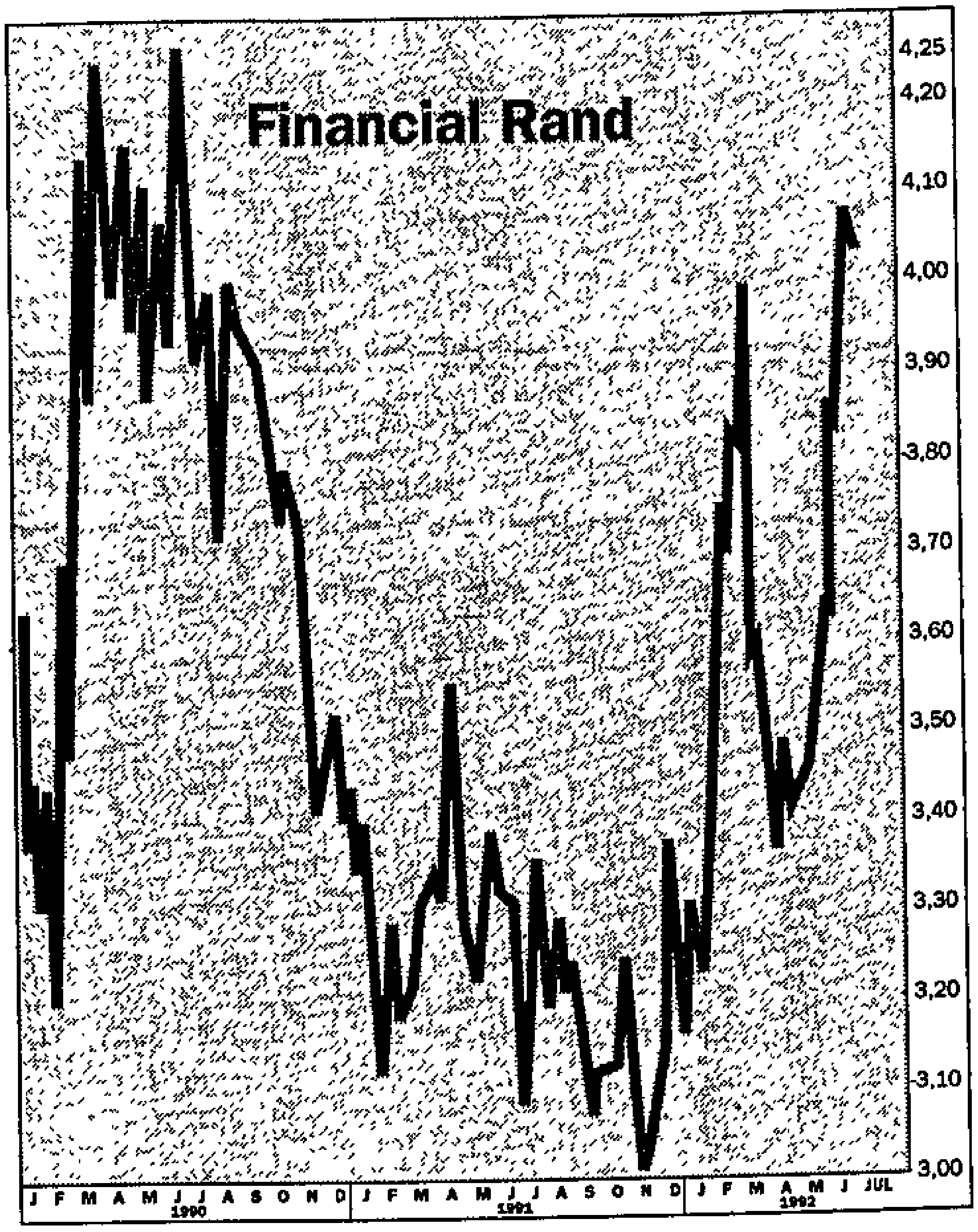
"Thus all three of the pillars which could support recovery are missing and it really does seem that a further acceleration of the downturn lies in store."

Mrs Pott prepared the article two weeks ago, well ahead of this week's JSE tumble. She predicted further downside and advised against the commitment of new funds to the market other than for short-term speculation in golds.

Finrand umbrella still important, says Stals

STAR 13/7/92

By David Canning 49



The financial rand recovered to R3,90 on Friday after the R4,06 seen earlier in the week

Last week's pressure on the financial rand shows how important it still is to have "an umbrella for unforeseen political developments" in the dual exchange rate system, says Reserve Bank Governor Dr Chris Stals.

He said in an interview in Pretoria at the weekend it was too early to forecast either a removal of the financial rand system or the scrapping of the Debt Standstill arrangements which come up for consideration next year.

"We hope that when we come to make a decision, some time next year, there will be more clarity on the political situation."

Dr Stals said access to foreign finance, whether in the form of World Bank loans or foreign investment, remained very important.

"Any such finance would supplement domestic savings which at best can only sustain growth of two percent.

"Foreign funding for social development programmes, for example, would enable SA to use more of its own savings for other areas — industrial development, for example.

"The more finance you can get from foreign sources, the more flexibility you have to use your own resources for other purposes."

He said it was no secret that the World Bank was active in SA once again after many years of absence.

It was doing feasibility studies on social programmes such as urbanisation, education and agricultural development. It also was looking at the macro-economic picture.,

The studies were necessary because the organisation had been absent from SA for a long time and needed to build up its data banks.

In his personal opinion, the bank might well want to see more evidence of political stability in SA before making any final decisions.

However, he did not think the World Bank was committed to US legislation barring loans to SA.

There was no doubt that SA theoretically did qualify for loans from the World Bank. However, SA had not put forward specific financing projects to the World Bank.

Turning to reasons for his recent calls for economic restructuring in SA, Dr Stals said the Reserve Bank had a sophisticated economic department and an econometric model.

"We certainly feel SA needs an economic restructuring programme. We cannot take responsibility for it. We can only give advice and stimulate the debate and are very keen to do so."

The new Minister of Finance (Derek Keys) had indicated that the Reserve Bank could help in this process.

Any kind of economic restructuring programme had to be comprehensive, taking in social needs, etc.

"We also, somewhere downstream, must have the support of all the major political parties, otherwise it will be impossible."

Dr Stals confirmed that his views on restructuring conformed broadly with the International Monetary Fund's (IMF) approach, contained in the IMF's recent "Occasional Paper 91" which set out scenarios for SA.

One of the key issues was that growth should occur by fostering efficient markets.

However, Dr Stals said, SA's economic restructuring programme should be geared to its own special conditions.

Most of the IMF's Economic Structural Adjustment Programmes (ESAPs) for other countries were geared to improving their balance of payments positions.

"SA's main objective in economic restructuring should not be to help the balance of payments but to solve the unemployment problem," he said.

Economy puts damper on Boland's prospects

BDAY 14/7/92

49

SHARON WOOD

UNFAVOURABLE economic prospects will act as a damper on Boland Bank's short-term profit prospects, says chairman Pieter Hugo in the bank's 1992 report.

He said the forthcoming financial year should be regarded as one of consolidation and credit risk management, and the strengthening of the bank's capital base would receive top priority.

The bank would seek approval at the annual meeting for the creation of preference shares, Hugo said.

"If approved, the issue of such shares will take place at intervals, as determined by the capital needs of the bank," he said.

Boland Bank lifted net income by 11,8% to R19m during 1992. "The results of the bank should be assessed within the context of the extremely challenging economic environment of the last year."

The continued decline in production levels, growing unemployment, critical drought conditions and socio-political uncertainties had a direct impact on the bank's performance, he added.

"On the one hand, it represented a curtailment of financing opportunities at acceptable risks and, on the other hand, it led to a sharp increase in bad debts."

Hugo said the rise in bad debts greatly neutralised the benefit of improved interest margins arising during the year from relaxed money market conditions.

"The fact that the bank group showed sustained profit growth in the face of this unsympathetic operating environment, is partly attributable to substantial increases in the group's commercial banking, commission services and treasury incomes."

Hugo said the short-term economic growth prospects for SA remained relatively unfavourable. Tight labour conditions, an increasing tax burden on individuals and continued high inflation would bring pressure to bear on the public's available income in the months ahead. This rendered any substantial positive real growth in private consumption spending for the coming year unlikely, he said.

Breakthrough imminent

Sowetan 14/7/92

49

■ Cosatu and business leaders on the brink of agreeing on a document to speed up transition:

BUSINESS and trade union chiefs are on the brink of agreeing on a joint document which could speed up the stalled political transition and ensure that if next month's general strike does take place, its effects on the economy will be limited.

Top labour and business leaders met in Johannesburg yesterday to try to hammer out a final version of the document, which proposes practical steps to combat violence and poverty - and commits the signatories to mobilising support for a transition to interim government and an elected constitution-making body by this year.

It is understood that Cosatu is consulting a wide range of organisations, including churches, to see if there is support for the approach set out in the document.

Sources say they hope it will be finalised and made public by the end of the week.

Members of the SA Co-ordinating Committee on Labour Affairs and Cosatu are the key players in the negotiations.

Saccola spokesmen Mr Bokkie Botha yesterday confirmed that meetings had taken place and said another was scheduled for later this week.

The discussions had been "constructive", he said, but would not comment further.

The labour/business negotiators are also considering proposals that:

Assemblies "for peace, economic reconstruction and progress to democracy" be jointly convened by participants on August 3 - the day the strike is scheduled to start.

The document be presented to "a broadly representative meeting or convention" to be held before the end of this month.

Observers believe that if the joint business/labour initiative comes off, it will offer clear benefits to both sides.

(49)

CT 14/7/92

SA sinks into red

By MAGGIE ROWLEY

JUDGMENTS for bad debt look set to soar 50% to more than R3,3bn this year, warns the Information Trust Corporation (ITC).

In the first four months of this year, judgments for bad debt rose more than 49% to R1,2bn against R793m for the same period last year, Central Statistical Services figures show.

Bad debt of individuals constituted more than R1bn of this with companies being responsible for just over R1,5m, says ITC.

ITC chief executive Mr Tony Leng warned that the current state of the economy, together with predictions of a worsening situation, could see total debt this year exceed a record R3,3bn.

The bad-debt situation had grown dramatically during the country's longest post-war recession and no relief was in sight for the short- to medium-term, he said.

The total value of civil judgments for businesses jumped from R118 881 000 in 1989 to R189 893 000 in 1990 and to R307 326 000 in 1991, while the total value of judgments against individuals rose to R1 773 619 000 in 1990 from R1 120 187 000 in 1989 before hitting R2 256 908 000 last year.

Mr Mike Allen, Cape regional director of ITC, said there had also been a dramatic upsurge in credit checks on individuals wishing to buy on credit.

In April, ITC received 66 000 inquiries which represented a 16,3% increase on its budgets, in May inquiries topped 64 000 which was 16,2% ahead of budget and last month 68 000 inquiries, which exceeded budgets by 21%, were received.

This could mean that retailers were being more cautious about whom they grant credit to, or that more people were trying to buy on credit.

Mr Leng said that while there were some positive signs early this year that pointed to the possibility of a slow recovery in the last quarter of 1992, these had been affected by the current political developments.

In April alone, 224 close corporations and (Pty) or Limited companies had been liquidated.

"And in the first four months of this year more than 1 000 individuals have been sequestrated, losing everthing."

Sequestrations last year had totalled 3 970 against 3 029 the previous year and 2 656 in 1989. Liquidations last year topped totalled 1 881, against 1 590 in 1990 and 1 573 in 1989.

STAR 15/7/92

SA drops from 'wealthy' spot

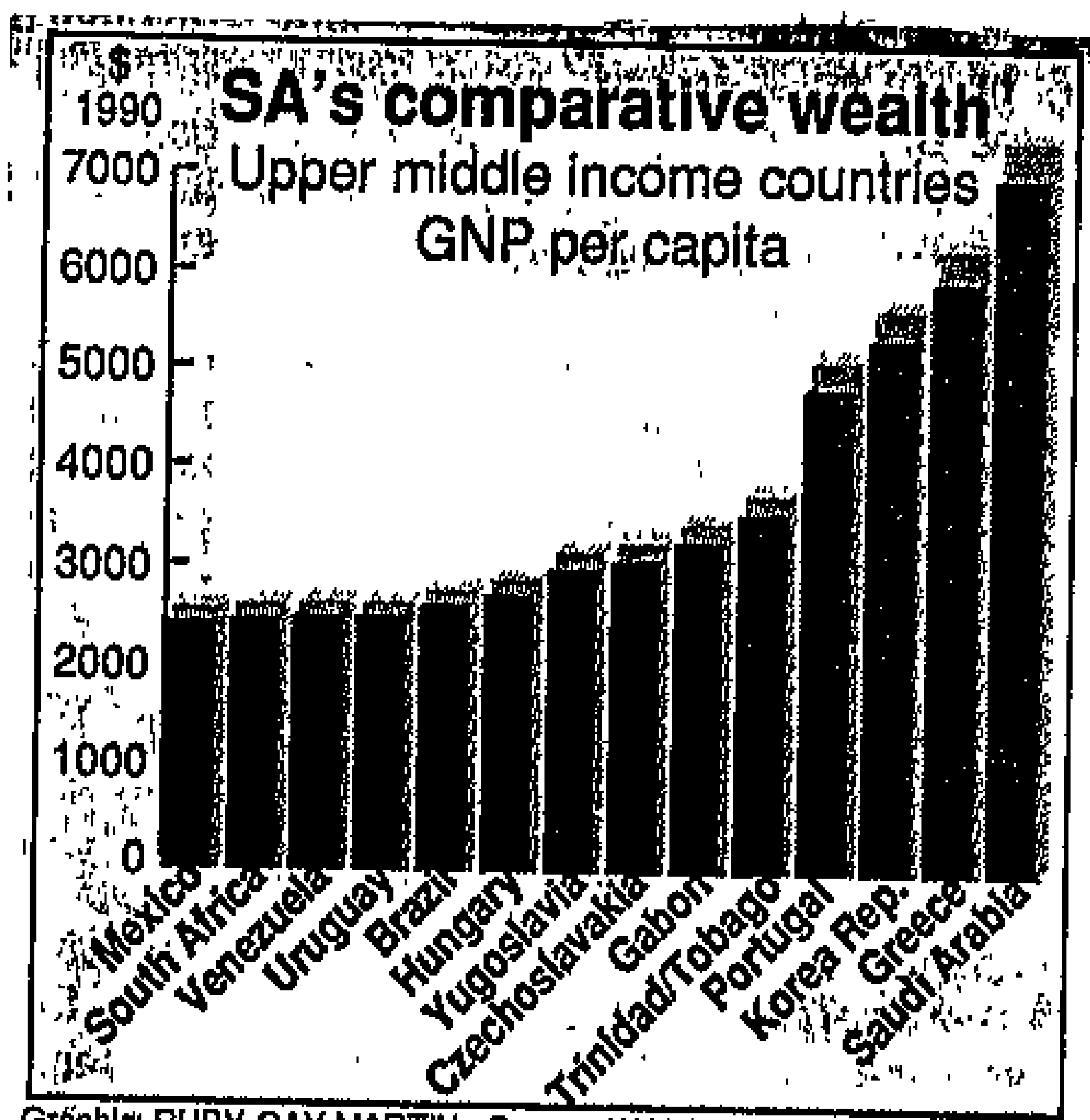
(49)

South Africa has slumped from being the world's 25th most wealthy nation in the '70s, to 39th spot last year.

According to the 1992 edition of the World Bank's development report, South Africa was now defined as a "developing nation" and was the third richest country on the African continent.

South Africa's gross national product per capita was R6 325 in 1990. The world average was R10 500.

According to the report, Switzerland is the richest nation with a gross national product per capita of R81 700, followed by Finland, Japan, Sweden, Norway, Germany, Denmark and the US. — Sapa.



SA's comparative wealth

Upper middle income countries
GNP per capita

Graphic: RUBY-GAY MARTIN Source: WORLD BANK

SA 38th richest in world

(49)

SHARON WOOD B/DAY

SA BECAME the 38th most wealthy nation in the world in 1990, moving up two places from 1989's 40th position, the 1992 World Bank Development Report shows. 15/7/92

However, in the 1970s it was the world's 25th most wealthy nation.

SA's GNP per capita reached $2 530 in 1990, almost half the world's average of $4 200.

SA is the third richest nation in Africa after Libya and Gabon.

Mozambique is recorded as being the poorest nation in the world, with a per capita GNP of $80 in 1990. Switzerland remained the world's richest nation with a per capita GNP of $32 680 followed by Finland, Japan, Sweden, Norway, Germany, Denmark and the US.

Death, taxes — and change

BDay 15/7/92.

(49)

GEOFF RUTTER

BENJAMIN Franklin observed that nothing was certain in this world except death and taxes. With respect, Mr Franklin, South Africans would like to add a third certainty: change.

Perhaps it is trite to observe that change is upon and all around us. Political change dominates our headlines, our discussions, our thoughts.

But the macro business environment is changing rapidly too.

Banks merge. Mines are forced to cut costs. SAA gains competition in its domestic and international markets. Eastern computer suppliers capture market share. Manufacturers are under pressure to improve productivity, deliver better quality products and reduce costs in the face of ever-rising wage expectations.

Personnel managers are no longer administrators but culture change facilitators, and are expected to establish positive labour relations climates with highly politicised workforces who resent change without consultation.

Farmers face the application of the Labour Relations Act to their employees. Strategic planners must envisage a future that is not what it was expected to be. Managers are forced to reconsider traditional policies, strategies and methods of doing business in a climate of great uncertainty.

There are many kinds of micro business environment changes too: restructuring and organisational downsizing, Total Quality Management, JIT manufacturing systems, new management information systems, automation, computerised payrolls, new export markets, social responsibility and "affirmative action" policies.

Tomorrow's businesses will face a growing intensive interaction of the corporation with its social, political, economic and "green" environments. Globalisation of markets, worldwide customer demand for quality, the EC, internationalisation of lifestyles — the list of ingredients in change is seemingly endless.

Change can be defined as the planned or unplanned responses of an organisation to external and internal pressures.

For some people, change is stimulating and a real adventure. For others, it is painful and stress-inducing. "Our new MD promotes his vision for 'a changed organisation to meet the future'. But we have done well for 20 years — what needs to change?" Alvin Toffler's point in Future Shock was that when a person cannot handle the volume and pace of change, acute culture shock results. We are all creatures of habit and much prefer our comfort zones.

On the occasion of his recent induction as an honorary professor of business economics at the University of the Orange Free State, Brand Pretorius of Toyota pleaded for a positive attitude that would respond to the opportunities inherent in the new future for SA.

He noted there was a tendency in business to focus only on the ominous threats which led to a wait-and-see form of corporate paralysis. "The winners in the business world of tomorrow will be those who move ahead faster than their environment."

Since he spoke these words, his company has been hit by costly strikes, as if to give the lie to his optimism and to make it that much more difficult to move faster than the environment.

Leaders may understand that change is desirable, but often do not know how to implement it or adapt to it in their organisations. One reason could be that change goals are too nebulous — "my mission is to change the corporate culture". How is this to be accomplished and by when? Perhaps smaller steps need to be taken and the elephant eaten one bite at a time. Perhaps the "how" actions can be focused on two major areas:

☐ Motivating people to change. Easier said than done, this represents a huge challenge. History is replete with examples of people's RC (Resistance to Change) factor. In 1945 Admiral Leahy told President Harry Truman: "The atomic bomb is the biggest fool thing we have ever done. It will never go off, and I speak as an expert in explosives."

Resistance to change in SA factories can show up in low productivity, sick leave abuse, absenteeism, substance abuse and even sabotage. People resist change for a variety of reasons: their routine or position is threatened, the change does not make sense, it is perceived as someone else's goal, the motives and intentions of the leader are unclear, or because of simple fear of the unknown. People accept change when it appears to make sense, when they are involved in the decision to change and in the design of its implementation methods, their security needs are supported, the implications are specific and clear and when the risks are minimised; and

☐ Making the change effort workable is a leader's most crucial responsibility, requiring expert planning, detailed co-ordination and clear communication, backed up by extensive training.

Some change plans are so complex that few people can understand how to proceed on a practical level. By definition, all change is new — no manuals exist to outline the steps to be taken. This puts greater pressure on the need to be very organised and very specific. There is no magic formula that will make it work, but rather attention to detail and careful decision-making.

☐ **Rutter is a Johannesburg-based management consultant.**

SA moves up world's richest ranks

(49)

CT 15/7/92

Own Correspondent

JOHANNESBURG. — SA became the 38th most wealthy nation in the world in 1990, moving up two places from 1989's 40th position, the 1992 World Bank Development Report shows.

The country's GNP per capita increased by 1,3% between 1965 and 1990, reaching $2 530 (about R6 958) in 1990.

This was almost half the world's average GNP per capita during 1990 of $4 200 (about R11 550).

SA is still classified as an upper-middle income nation and after Libya and Gabon is the third richest nation in Africa.

Other upper-middle income countries are Oman, Libya, Iraq, Saudi Arabia, Greece, Korea, Portugal, Trinidad, Czechoslovakia, Yugoslavia, Hungary, Brazil, Uruguay and Venezuela and Mexico.

Mozambique is the poorest nation in the world, with a per capita GNP of $80 (about R220) in 1990.

Switzerland remained the world's richest nation with a per capita GDP of $32 680 (about R89 870), followed by Finland, Japan, Sweden, Norway, Germany, Denmark and the US.

The SA crisis: Big Seven voice their concern

(49)

The Argus Foreign Service

MUNICH. — Violence in South Africa had interrupted "substantial progress towards the complete dismantling of apartheid", foreign ministers of the world's seven leading industrial nations said at the G-7 summit.

While heads of state and government leaders concentrated on the economic problems of Southern Africa, their foreign ministers tackled political issues.

They called on "all sides" in South Africa to "resume negotiations as soon as possible and make greater efforts to prevent violence".

The foreign ministers said: "We appeal to all parties concerned to continue through negotiations the path to democracy devoid of racial barriers. Sustainable economic growth is essential for an enduring solution of South Africa's problems."

In a separate final statement, the G-7 leaders said they were "deeply concerned about the unprecedented drought in southern Africa".

Noting that two thirds of the Drought Appeal target had been met, they added: "But much remains to be done. We call on all countries to assist".

On other pressing international issues, the G-7 leaders decided:

● to take common action to assure a recovery in world economic growth;

● to work for a new GATT (General Agreement on Tariffs and Trade) treaty by the end of 1993;

● to commit themselves to build confidence for investors, savers and consumers;

● to adopt policies aimed at creating jobs and growth.

Mass action could cost economy R7bn

RAY HARTLEY (49)

LEADING businessman Sam Motsuenyane called yesterday for an end to mass action which a leading economist said would cost the economy up to R7bn.

"If anything can be done to stop mass action, it should be done immediately," Nafcoc president Motsuenyane said.

Referring to the cost of mass action Motsuenyane said the loss could not be "borne by the community".

He said his organisation had already noticed small businesses were suffering as a result of the campaign.

Unemployment would increase and "the very people who are calling for mass action are the people who are going to suffer", he said.

BIDAY 16/7/92

Econometrix chief economist Azar Jammine said in an interview yesterday growth would decline by between 0,5% and 1% — amounting to a loss to the economy of between R2bn and R3bn — due to "the psychological damage done by the threat of mass action".

And if August's three-day general strike went ahead and was 100% effective, "theoretically that would cost another R3bn or R4bn in lost production, or 1,2% of GDP", Jammine said.

He emphasised he was assuming this was permanently lost production that would not be recovered later in the year, which was not necessarily the case.

"If mass action were to continue and a general strike were total it risks pushing the economy over a threshold from which it may never recover," he said.

He feared the 1% decline in growth experienced by the economy in the past three years could be increased dramatically to a point where "it virtually ceases to be important to even measure growth".

He said the economy was in danger of going into "a real tailspin" and, based on the experiences of countries like Chile and the Philippines, a negative growth rate of between 5% and 10% was possible during periods of political turmoil.

Jammine said he hoped mass action would be ended as soon as possible for the sake of the economy.

"I've been encouraged by the developments of the last few days. But they (political leaders) are playing with fire and they must realise this," he said.

☐ To Page 2

(49)

☐ From Page 1

Mass action

BIDAY 16/7/92

Jammine said there were some companies which would welcome the mass action because they would be able to go ahead with planned reductions in working days without having to pay wages.

He added if the mass action stopped the violence, this should begin to "roll back" economic losses. But this would be difficult because "business confidence is something very fragile".

ANC spokesman Carl Niehaus said the organisation was left with no choice but to continue with mass action despite what this might cost the economy..

"If it is at all possible to avoid doing that kind of damage, we are prepared to do that," he said.

He added there would be benefits "in the longer term" when SA was a democracy.

SA richer on paper — but poorer in fact

(49) CT 16/7/92

By MAGGIE ROWLEY
Deputy Business Editor

THE fact that SA moved up two places to become the 38th wealthiest nation in the world in 1990 did not mean we had become richer, economists pointed out yesterday.

On the contrary, they said, there was no doubt SA had become increasingly poorer since the 1970s when SA was ranked the world's 25th richest national according to per capita GNP.

A number of reasons for the country moving from 40th position in 1989 to 38th position in 1990 were put forward by economists.

Rob Lee of the Board of Executors said the relatively stable exchange rate of the rand against the dollar would account for the upward movement as the World Bank's study was undertaken in dollar terms: "It could merely mean that the exchange rate was just slightly better than the currencies of other countries measured".

Absa's Dominick Sutton pointed out that per capita personal disposable income, that is the amount of money one has after tax, had shrunk consistently since 1989 when it dropped by 0,9%, followed by 0,6% in 1990 and 1,3% last year.

"And preliminary forecasts are that per capita personal disposable income will plummet by a further 4% to 5% this year."

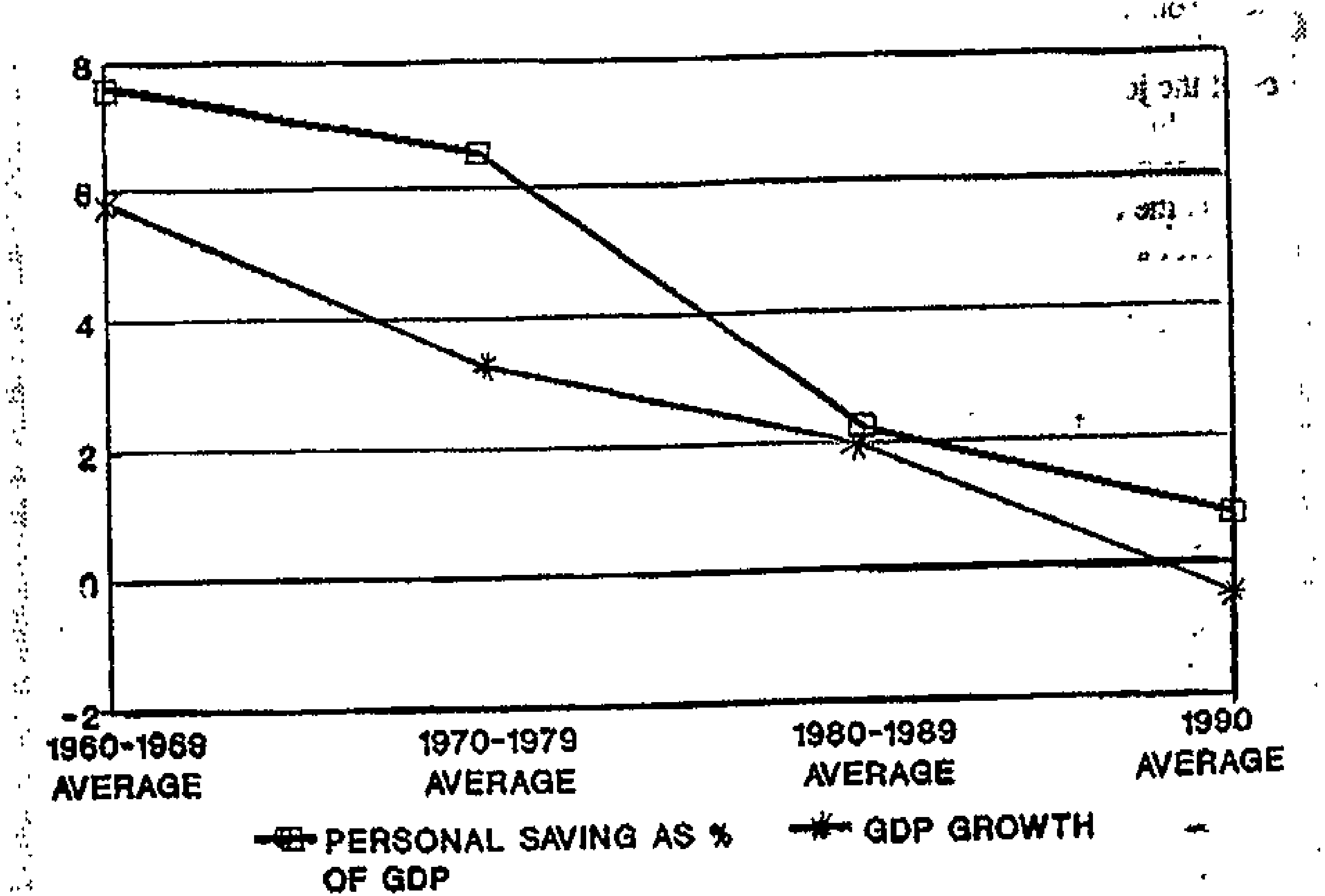
Old Mutual economist Rian Le Roux also pointed to a declining per capita standard of living.

"It simply means that some other countries previously ranked above us have had even faster falling standards of living."

Sutton also pointed out that because SA's population was growing by about 2,2% per annum, per capita GNP had to grow by at least that much to break even.

"Many European countries have zero or even negative population growth which means they derive the full benefit of any GNP growth."

● SA's GNP per capita in 1990 was $2 530 (about R6 958) against the world's richest nation Switzerland, which netted $32 680 and $80 for Mozambique, the poorest country.



A deceptive picture... A fall in growth has accompanied a fall in personal saving, but that doesn't mean one has caused the other

SA thriftier than often made out, says prof

W/Mail 17/7 - 23/7/92

(49)

By REG RUMNEY

THE idea that "thrift has gone out of fashion in South Africa" is dismissed in a just-published report by a prominent economist who has advised the African National Congress on economic policy.

University of the Western Cape economics professor Lieb Loots, in a report on the life assurance industry, deflates a number of other myths about both savings and the role of the assurers in controlling savings.

The report was commissioned by the Life Offices Association.

Chief among those myths is the idea either that not enough or an improper mix of saving or both have contributed in a big way to South Africa's economic malaise.

Loots notes the view is widely held that, particularly in the 1980s, an unwillingness by households to reduce consumption spending in the face of economic decline resulted in low personal saving. This in turn, so the thinking goes, caused low investment and low economic growth.

Loots finds this incorrect: it rests on questionable assumptions about what actually happened in the South African economy, and the idea that savings lead directly to investment.

The assumption that saving causes investment is wrong, he believes, on two counts: savings can constrain investment rather than lead to it, and secondly, total savings, not personal savings, must be looked at.

Total household lending increased from 12 percent in the 1970s to 14 percent of the total value of all goods and services produced in South Africa, or gross domestic product (GDP), in the 1980s.

So policies aimed at increasing saving, particularly personal savings, may not work. Policies must be found to tackle the real causes of slow growth.

Also, Loots finds that the shift to "contractual" saving — ie money going into endowments, retirement annuities and other products offered by the life assurers — from interest-paying deposits with banks is not a problem.

Loots believes lack of investor confidence about future profitability has led to the low rate of investment by corporations in productive capacity.

Corporate saving has risen, not only as a percentage of gross domestic saving but also of GDP, from 2,6 percent in the 1960s to 6,8 percent in the 1980s.

Corporations, says Loots, have been able to use internal funding, which is a form of equity funding, rather than long-term borrowing, to finance expansion.

On the role of the assurers in applying savings, Loots finds the life offices don't seem to be able to channel savings to the more dynamic, non-corporate or small businesses.

Loots addresses the concern, expressed by both conservative and leftwing thinkers, that the weight of investment by financial institutions on the stock exchange represents an unproductive and speculative "paper chase".

Among other things, he points out that the problem with small business in the 1980s has been a high rate of bankruptcies because of high interest rates, not raising the money in the first place.

Loots acknowledges too they may not be able to channel money into socially desirable investments. But he reckons new specialised institutions may have to be developed to take care of these needs.

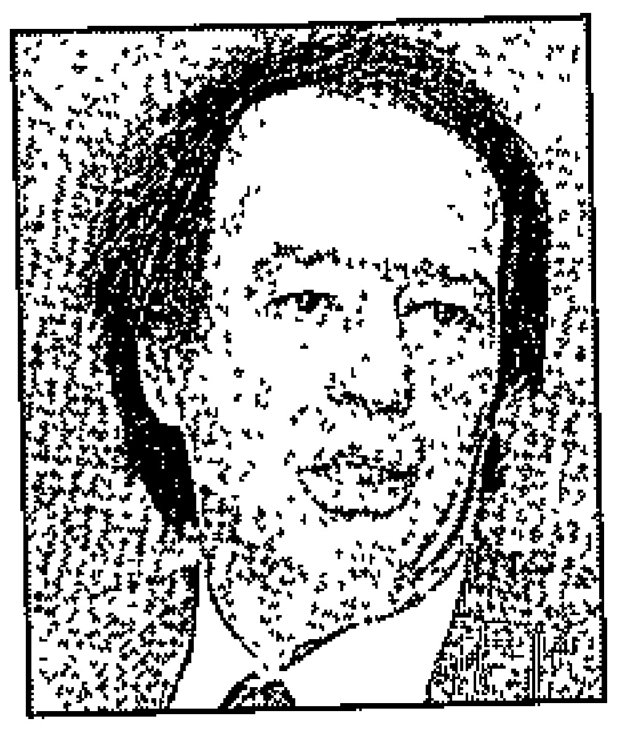
The advantage of having a well-developed financial system cannot be underestimated, says Loots.

Some form of prescribed asset requirement may be necessary, but not to try to reshape banks and life assurers into what they cannot be.

KANTOR COMMENTS

A judgment call

FM 17/7/92 (49)



Brian Kantor is professor in the school of economics at the University of Cape Town

Reserve Bank policies have much to do with the recession. No economy, no matter how structurally sound it is, can grow in the face of a monetary squeeze of the kind SA has been exposed to over the past three years.

The Bank has been forcing down growth in the money supply to reduce the rate of increase in prices. This rate proved unexpectedly resilient and the Bank's policies have been more severe than presumably intended. The severity is illustrated by the behaviour of the real money supply — ie the note issue divided by the consumer price level.

Growth in this aggregate (figure 1) has declined almost uninterruptedly since mid-1989 and further than at any time in the past 20 years — though there is a sign that the bottom of the cycle may have been reached. As may be seen, it would be completely unprecedented to generate a revival in economic activity without a recovery in real money supply.

This recovery could occur if the money supply increased at a faster rate or prices rose at a slower rate.

The relationship between money and prices is close over the long run (figure 2). A sustained increase in prices is impossible without an accompanying increase in the supply of money. However, what is true for the long run is not necessarily true for the shorter run — that is, especially through the course of a year, the period in which inflation is conventionally calculated. In any single year, the effects on prices of exchange rate or oil price shocks, of tax increases or the weather, can cause prices to increase or decrease faster or slower than the long run trend set by the growth in the money supply.

What is important is that, while some prices, for example, of vegetables during a drought, may rise, which, in effect, takes money out of circulation and so puts pressure on other prices to fall, the downward adjustment of such prices may well be delayed, giving an upward bias to prices in general over the short term.

The influence of taxes and drought on food prices and inflation has been particularly important in SA over the past year. Their impact can be identified by comparing actual prices and the rate of inflation with the price level and rate of inflation that can be derived from a simple model predicting the price level from money supply.

The differences between actual and expected inflation (figure 3), both positive and negative, may be regarded as the supply side influence on inflation. The powerful supply side influence on the current rate of consumer inflation, about 8%, may clearly be observed. This upward push on measured inflation will be offset, as in the past, by a roughly equivalent opposite downward influence on inflation over the two years, beginning in October this year.

If a similar exercise is conducted with producer prices, the current level of producer prices and producer price inflation of 8% turns out to be almost exactly where it would have been expected to be if money supply alone were used as the predictor. Monetary policy has clearly worked effectively to bring down producer prices and, in due course, consumer prices will follow.

Pointers

Figure 1 The real money supply and business cycles

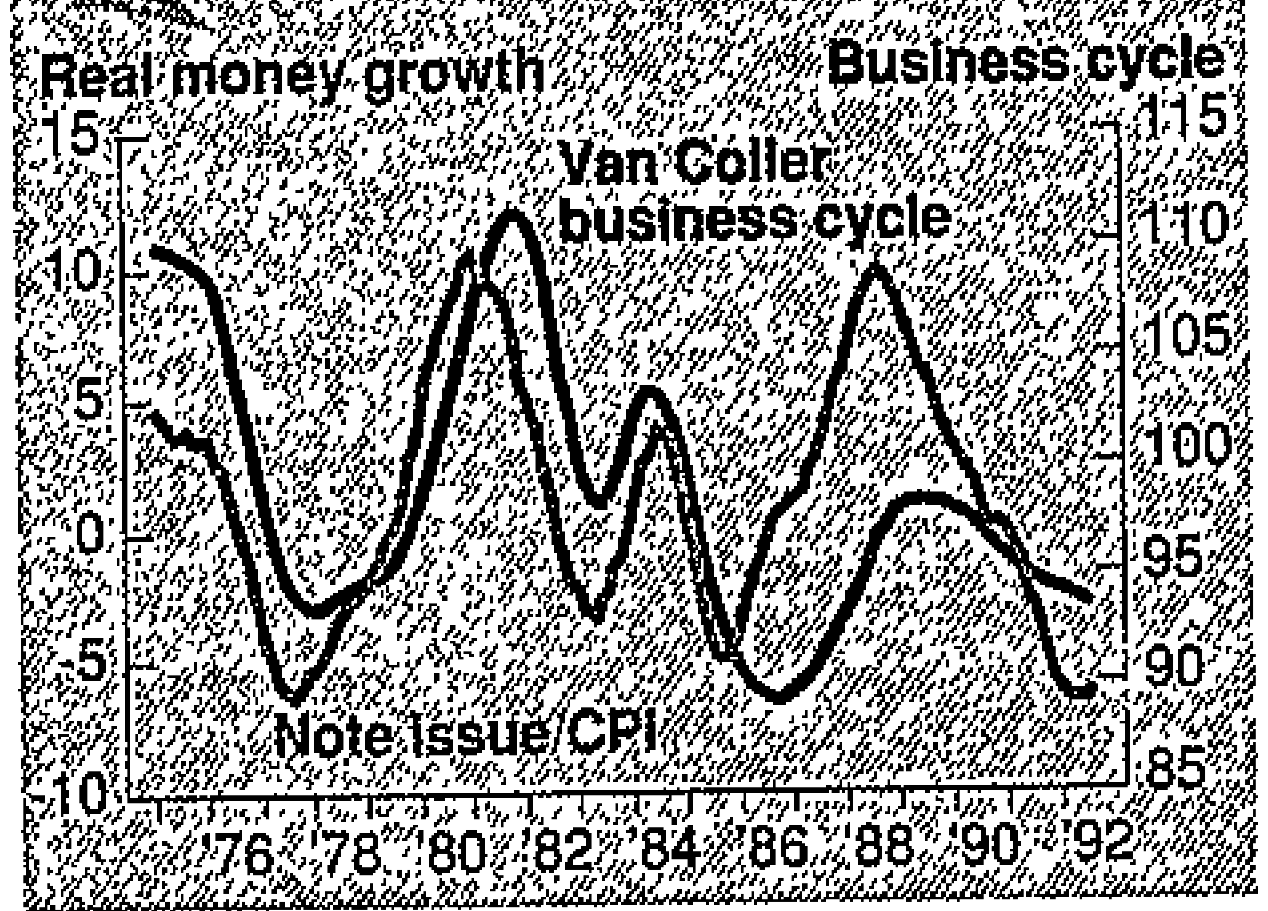


Figure 2 The note issue and CPI

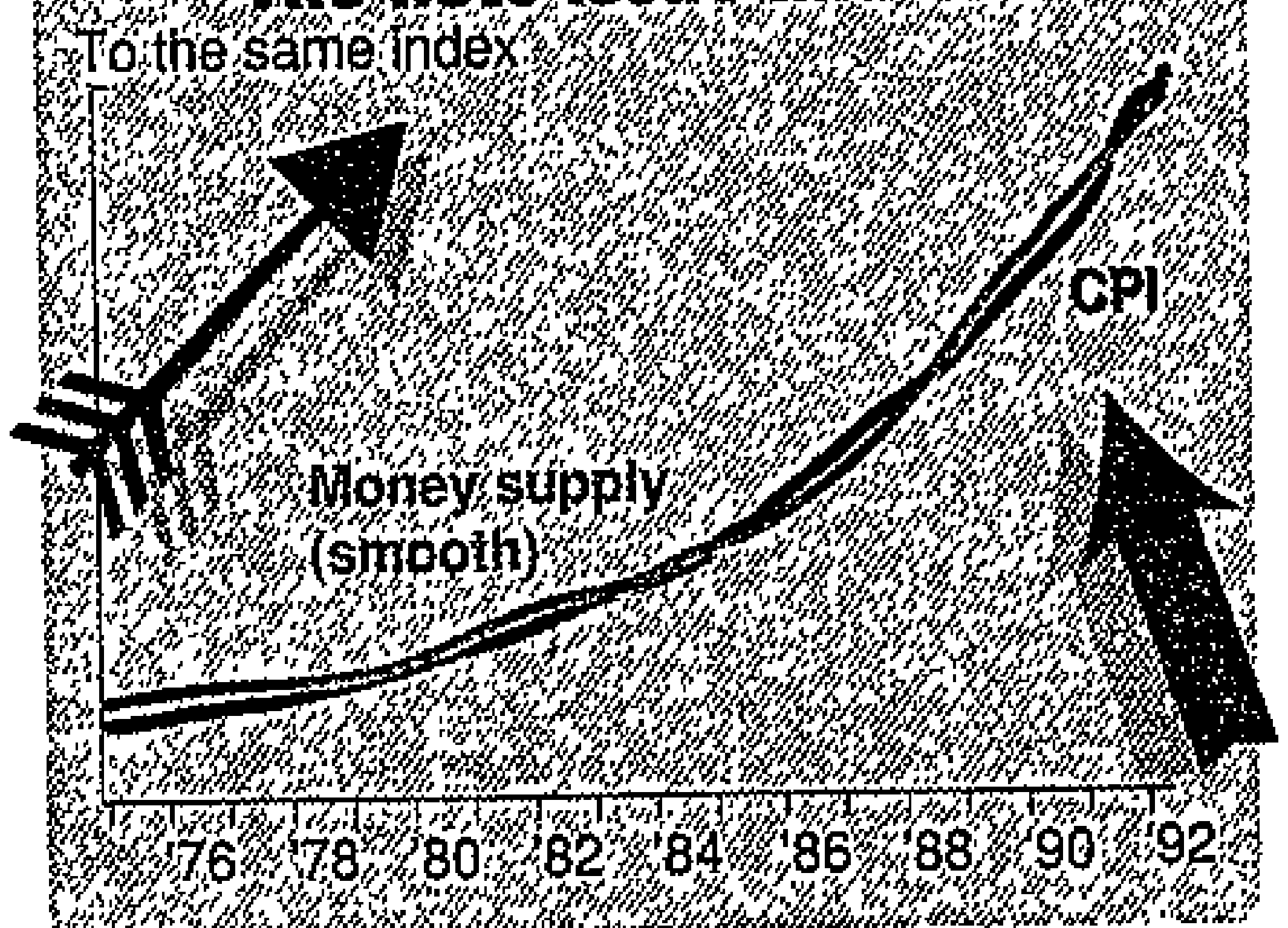
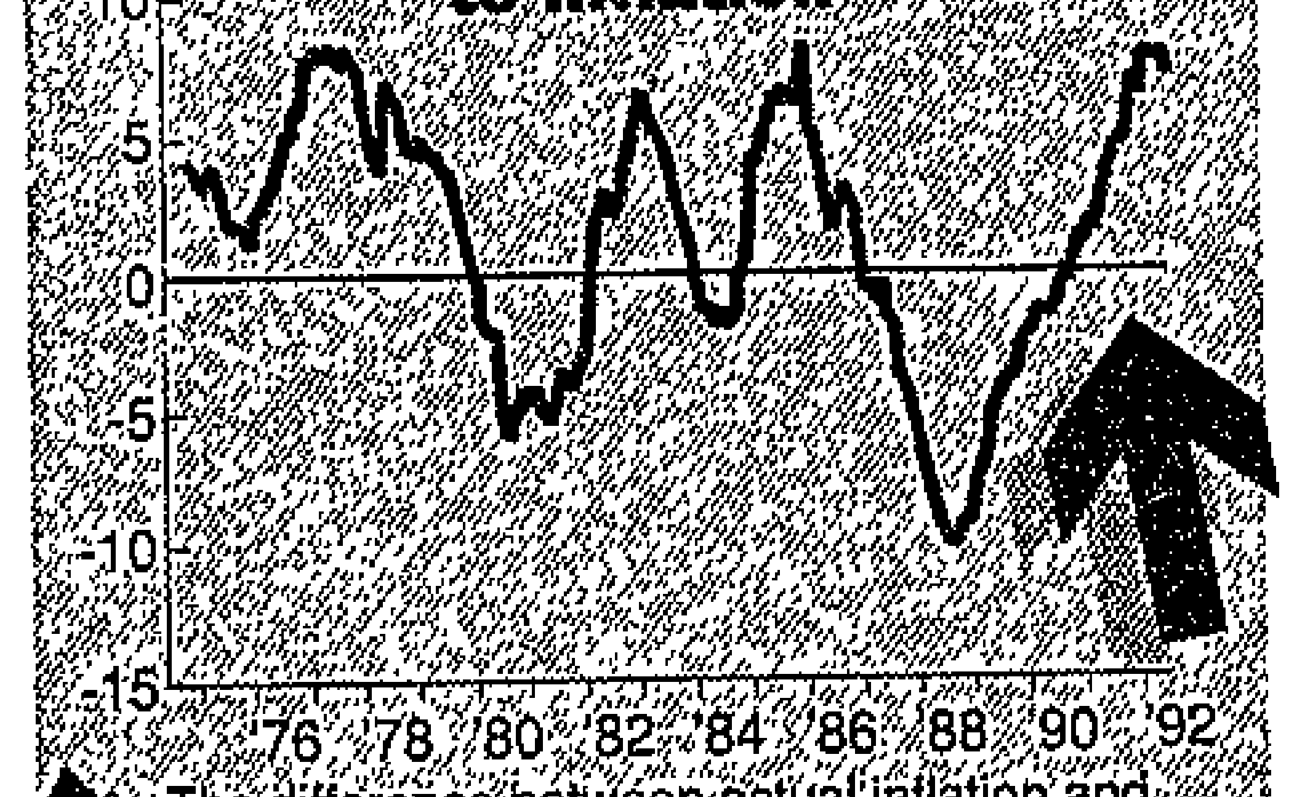


Figure 3 Supply side shocks to inflation



The difference between actual inflation and inflation predicted by money supply

Source UCT

Last October, because of the introduction of VAT on food, food prices in that month increased at an annualised rate of 92%. Increases in petrol and food prices in anticipation of VAT also put upward pressure on prices over that period.

In April the removal of VAT concessions on some foods helped to twist food prices upwards, as did the drought which began seriously to influence food prices about then. These tax and other supply shocks were equivalent in their impact on the economy to a further tightening of an already tough monetary policy stance adopted by the Bank. It is these circumstances and the negative impact they were having on spending power that the Bank should have been willing to recognise but did not The economy has thus suffered from a burst of monetary overkill.

The difference between sound monetary policies and overkill was the difference between the upper and lower ranges of the Bank's own targets for growth in the widest definition of money supply M3 — 8%-12% for 1991. By the Bank's own calculations, the growth rate of M3 was 7,3% in the third quarter of 1991 and 8,5% in the fourth quarter. The latest M3 growth rate for May of 7,14% indicates that the economy is struggling to maintain money supply growth at the lower end of the new policy range of 7%-10%. The difference between the upper and lower end of this range would have been two percentage points off Bank rate by September last year.

Lower short-term interest rates are called for and these will not prejudice the ability of the economy to sustain the value of the rand over the next two years. A stable rand is crucial for maintaining the downward trend in the inflation rate. The deterioration in political confidence will discourage spending and, hence, money supply growth.

Some relief

The economy will get some relief from a slower rate of increase in prices, given money supply policies. The recent sharp deterioration in political confidence will add significantly to recessionary forces acting on the economy. The economy urgently needs relief in the form of lower interest rates. The aim of the Bank should be at the upper end of the money supply targets, at least 10% a year during 1992. Anything less represents more unnecessary misery for many that will make it harder, not easier, for the Bank to achieve its long-term objectives of price stability. The Bank will achieve the political independence it seeks only if it makes the right judgments. Its judgment recently has been seriously flawed.

JULY • 17 • 1992

Financial Mail

LEADING ARTICLES

THE ECONOMY

(49)

FM 17/7/92

Fortitude before recovery

Our misfortune at present is that we are at crisis point in the fructification of two vital political initiatives. Their satisfactory convergence could be decisive.

The dominant one is, of course, negotiation to broaden the franchise to include the majority of the population so that all can share more equitably in the fruits of prosperity. If that should fail, nothing much else matters. For we shall all, without exception, be plunged into anarchy — the hell so feared by Thomas Hobbes.

The other important initiative is the long battle to stabilise prices and squeeze inflation out of the economy. Inflation here had its roots in the profligacy of a government desperate to sustain an apartheid policy inimical to economic growth, socially divisive and morally reprehensible.

The combination over time of inflation, which erodes savings and inhibits investment, and apartheid, which prevents the optimum allocation of resources through the marketplace and undermines initiative, is pretty near lethal.

Since the heyday of apartheid in the Seventies, when inflationary pressures intensified and became entrenched, the SA economy has moved from 25th place among the richest nations to 39th last year, according to the World Bank's latest development report. It lags also behind Libya and Gabon as the third richest in Africa.

GDP per capita here was R6 325 last year against a world average of R10 500. Yet in the Sixties this economy was one of the fastest-growing in the world.

We knew from experience elsewhere that getting rid of inflation was going to be extremely painful. And so it is proving to be. Unemployment is high and rising, so are company liquidations. No-one is shielded from the impact.

But there are encouraging signs. Consumers are no longer spending in anticipation of higher prices. Often they do not have the disposable incomes to spend. Wage demands are moderating with remuneration on some gold mines increasingly being linked to profitability.

Aggregate demand is in greater equilibrium with the economy's ability to supply; the balance of payments is in surplus; there is only modest international debt; there is spare productive capacity and inventories are low. Simply put, the economy is in good nick for recovery.

What is needed now more than anything else is fortitude, especially in the face of what is probably an inevitable campaign of civil disruption. For if negotiations resume, and if inflation is curbed, the euphoria among the economically active could be as high as it was among whites after the referendum. If that happens, a return to sustainable economic growth could be both swift and decisive. ■

NOTICE 635 OF 1992

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 30th day of June 1992

	1992-06-30	1992-05-31	Change
Liabilities	R	R	R
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	93 325 064,70	93 325 064,70	—
Notes in circulation	10 826 565 411,00	10 986 225 325,00	(159 659 914,00)
Deposits:			
Government	11 137 270 727,53	10 664 726 244,50	472 544 483,03
Provincial administrations	120 574 089,53	167 905 218,05	(47 331 128,52)
Deposit-taking institutions	1 055 396 543,41	1 170 859 908,79	(115 463 365,38)
Other	70 227 635,70	74 114 303,10	(3 886 667,40)
Other liabilities	8 692 189 162,65	8 497 845 750,59	194 343 412,06
	R31 997 548 634,52	**31 657 001 814,73**	**340 546 819,79**
Assets			
Gold	5 845 394 294,84	5 860 254 335,11	(14 860 085,27)
Foreign assets	4 342 579 863,88	4 535 875 034,66	(193 295 170,78)
Total gold and foreign assets	**10 187 974 113,72**	**10 396 129 369,77**	**(208 155 256,05)**
Domestic assets:			
Discounted bills	3 960 210 000,00	3 193 310 000,00	766 900 000,00
Loans and advances:			
Government	—	—	—
Other	1 408 610 957,88	1 298 007 536,41	110 603 421,47
Securities:			
Government	318 009 758,76	524 101 733,56	(206 091 974,80)
Other	1 340 985 045,00	1 122 985 045,00	218 000 000,00
Other assets	14 781 758 759,16	15 122 468 129,99	(340 709 370,83)
	R31 997 548 634,52	**31 657 001 814,73**	**340 546 819,79**
Rand per fine ounce	856,13	861,22	(5,09)
Gold holdings in fine ounces	6 827 695	6 804 596	23 099

C. J. SWANEPOEL,
General Manager.

Pretoria, 7 July 1992.

(17 Julie 1992)/(17 July 1992)

KENNISGEWING 636 VAN 1992

DEPARTEMENT VAN VERVOER

WET OP DIE LISENSIËRING VAN LUGDIENSTE, 1990 (WET 115 VAN 1990)

Hierby word ingevolge die bepalings van artikel 15 (1) (b) van Wet 115 van 1990 en regulasie 8 van die Regulasies vir Binnelandse Lugdienste, 1991, vir algemene inligting bekendgemaak dat die Lugdienslisensiëringsraad die aansoeke waarvan besonderhede in die Bylae hieronder verskyn, sal oorweeg.

Vertoë ingevolge artikel 15 (3) van Wet 115 van 1990 ter ondersteuning of bestryding van 'n aansoek moet die Lugdienslisensiëringsraad, Privaat Sak X193, Pretoria, 0001, binne 21 dae na die datum van publikasie hiervan bereik.

NOTICE 636 OF 1992

DEPARTMENT OF TRANSPORT

AIR SERVICE LICENSING ACT, 1990 (ACT 115 OF 1990)

Pursuant to the provisions of section 15 (1) (b) of Act 115 of 1990 and regulation 8 of the Domestic Air Services Regulations, 1991, it is hereby notified for general information that the applications details of which appear in the Schedule hereto, will be considered by the Air Service Licensing Council.

Representations in accordance with section 15 (3) of Act 115 of 1990 in support of, or in opposition to, an application, should reach the Air Service Licensing Council, Private Bag X193, Pretoria, 0001, within 21 days of the date of publication hereof.

Economic forum players talk

B/DAY 17/7/92

(49)

DIRK HARTFORD

LEADING government, business and trade union representatives got together this week to exchange information on the economy in terms of an agreement underpinning the economic forum that the economy be transparent.

Cosatu negotiator Jayendra Naidoo said a transparent economy meant the main players had access to all necessary information affecting the economy, and said this week's meeting was a first step.

B/DAY

Naidoo said Finance Minister Derek Keys had agreed to set up the meeting in May. The meeting was organised and chaired by Keys's special economic advisor Japie Jacobs.

Included in the employers' delegation were Chamber of Mines president Bobby Godsell, Sacob economist Ben van Rensburg and Seifsa executive director Brian Angus.

Cosatu president John Gomomo led a delegation which included Naidoo and economist Alec Erwin.

● See Page 8

Revenue shortfall confirmed

SIMON WILLSON 49

THE Finance Department has confirmed government will not have as much money to spend this year at it had expected.

The department concedes that because of economic recession, receipts from taxes and duties are unlikely to reach the budgeted R84,7bn in the current financial year.

After tallying state spending and revenue for the first three months of the 1992-93 financial year, Finance says it is too early in the year to deduce any trends on the expenditure side of the exchequer.

The trend on the revenue account, however, is already perceptible. A review of the first quarter, drawn up by the Finance director-general's office, admits that the R84,7bn revenue estimated for the full year is unlikely to be reached.

"At this stage, about three months after the presentation of the 1992-93 Budget, it is clear that the economic recession is somewhat more serious and is lasting longer than was foreseen," the review says.

In his Budget speech, the then finance minister Barend du Plessis said he expected a growth rate of about 1% for 1992. In its June quarterly bulletin, published at the end of last month, the Reserve Bank joined a growing number of private sector analysts in predicting a fall in GDP this year.

"Seeing that the expected economic conditions in terms of the 1992-93 financial year thus differ markedly at this stage from those during the compilation of the Budget, the budgeted revenue of R84,7bn appears to be somewhat optimistic," the Finance Department review says.

☐ To Page 2

Revenue

BDAY 17/7/92

☐ From Page 1

The review notes exchequer receipts for the first quarter of fiscal 1992, at R15,9bn, were 10,1% higher than at the same stage in fiscal 1991. Total revenue for the full year is budgeted to rise 15,7% in 1992-93 from 1991-92.

But even this 10% rise in revenue relative to the same period last year is magnified by special factors. First-quarter revenues last year were only 0,7% higher than the previous year as receipts from excise duties, the fuel levy and income tax suddenly slowed as the recession deepened. In the late '80s, first-quarter revenue was at least 20% up on the year before.

Government spending growth in the June quarter is, by contrast, well up with the rate set in previous years. Exchequer issues for the period totalled R25,1bn, 19% above the total spent in the first quarter of 1991-92. Spending is budgeted to grow by 16,5% in the current financial year, and to total R100,7bn.

The review says, however, that there are almost no seasonal patterns in government spending from year to year. "It would therefore be unwise to draw any conclusions regarding the eventual outcome of expenditure at this early stage of the financial year."

Official admission that exchequer receipts for the current year are unlikely to make up their shortfall from budgeted levels sets the stage for another year of missed Budget targets.

Government revenue in 1991-92 came in R1,6bn under budget, at R73,2bn, as the recession and the slow take-up of the newly introduced VAT system held back tax and duty receipts. Last year's revenue undershoot boosted the 1991-92 budget deficit to R13,2bn, 30% over budget.

This swelled last year's budget deficit as a proportion of national income to 4,3%, well over the 3,4% budgeted and the 3% recommended by international financial institutions as a ceiling for the ratio, beyond which economic distortion is thought to result.

Lower Govt revenues send deficit soaring

STAR 17/7/92

By Sven Lünsche (49)

The Government's deficit before borrowing looks set to surge well above the R16 billion provided for in the Budget for the 1992/93 fiscal year.

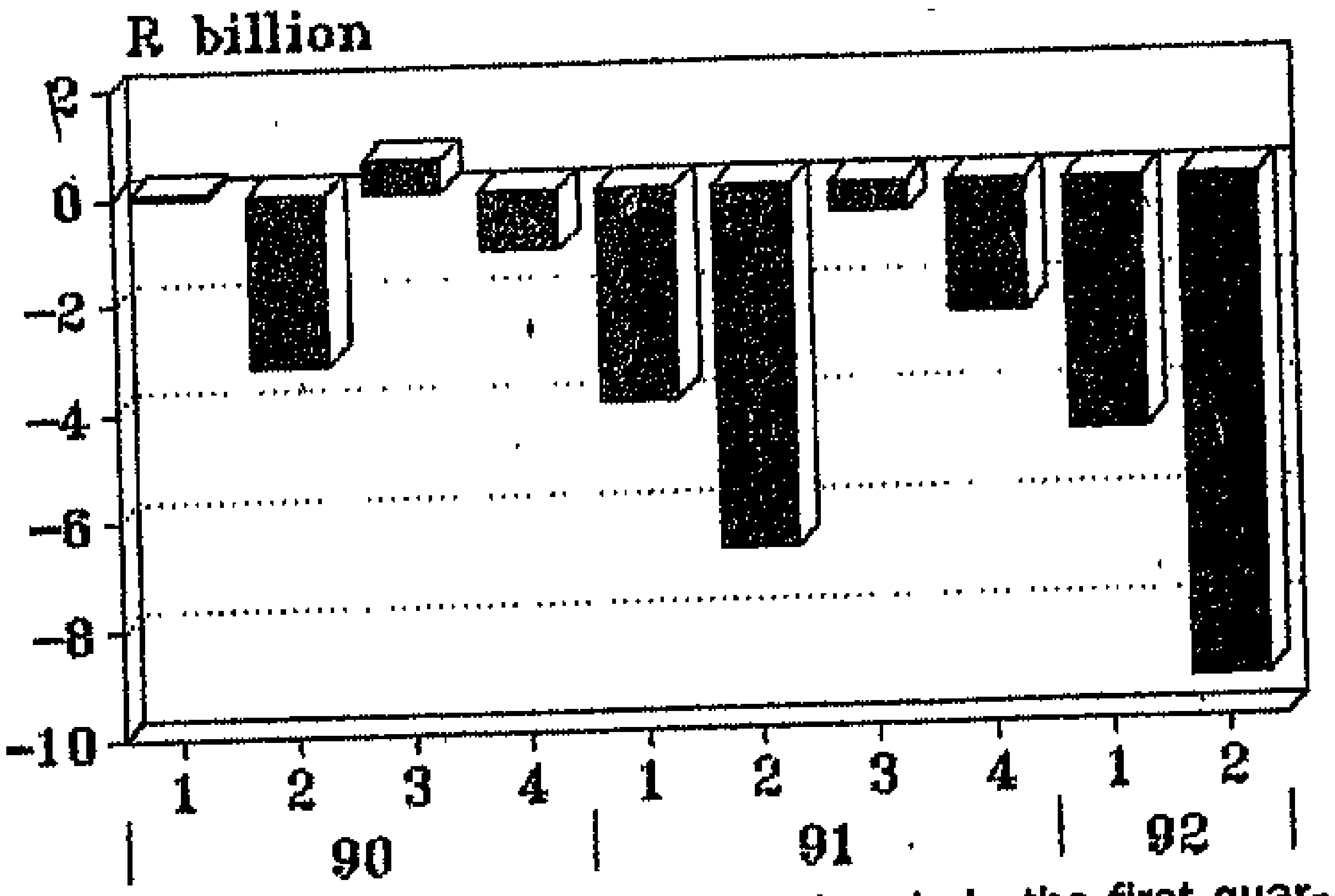
This emerged yesterday when the Director-General of the Department of Finance released state expenditure and revenue figures for the April-to-June quarter, the first quarter of the current fiscal year.

The figures show the deficit before borrowing at a record R9,27 billion on a combination of a sharp rise in spending and lower-then-expected revenue.

Economists estimate that the deficit for the fiscal year will shoot up to at least R20 billion, 25 percent above budget, which will force the Government to raise additional capital at home and abroad.

Gilt rates are set to rise over the next few weeks as the state taps the market to make up the shortfall.

At the end of June the Government had secured total financing of R13,03 billion — R12,15 billion raised on the local market and R880 million on overseas, mainly European, markets.



The deficit before borrowing rose sharply in the first quarter of the 1992/93 fiscal year.

The Department of Finance said yesterday that an agreement had been reached with the Reserve Bank, which would allow issues of government stock and exchequer bills to exceed the budgeted gross amount of R18 billion in the current fiscal year.

"Additional issues will be made over and above this amount, as is deemed necessary in the light of the needs of the Treasury and general market liquidity conditions," it said.

The lower-than-expected exchequer receipts are largely responsible for the surge in the deficit.

Total revenue in the first three months of the fiscal year amounted to R15,853 billion and was 10,1 percent higher than the corresponding figure for 1991/92.

The revenue collected, however, constituted only 18,7 percent of the total budgeted revenue of R84,75 billion for the fiscal year.

While the Department of Finance did did not provide a breakdown of tax collections, economists say revenue from VAT in particular has been disappointing.

During April and May, the first two months of the fiscal year, proceeds from income tax, exluding gold mines, rose by 16,4 percent, compared with 1991/92, but VAT collections were 27 percent lower than revenue from GST.

"At this stage it is clear that the recession is somewhat more serious and is lasting longer than was foreseen.

"Seeing that economic conditions differ markedly from those during the compilation of the Budget, the budgeted revenue of R84,75 billion appears to be somewhat optimistic," the Department of Finance said.

Government expenditure is also running well ahead of budgeted levels.

In the first quarter, total exchequer issues totalled R25,09 billion, 19 percent up on expenditure levels in the same quarter last year.

This amount also represents 24,9 percent of this year's total budgeted spending of R100,7 billion.

The Department said, however, that almost no seasonal patterns appeared in exchequer issues from year to year and that "it would be unwise to draw any conclusions regarding the eventual outcome of expenditure at this early stage of the fiscal year".

A lesson for SA from the Little Tigers?

W/Mail 17/7 - 23/7/92

(49)

ECONOMIC GROWTH IN SOUTH AFRICA: SELECTED POLICY ISSUES
edited by Iraj Abedian and Barry Standish (Oxford University Press, R42,99)

THERE is no time left to wait for a new government to sort out South Africa's economic policy. Sustained economic growth, critical to the success of political transition, demands action now.

That is the thrust of this book, ironic in the light of the current political impasse which has shoved the economic debate aside. Showcasing the talents of a number of University of Cape Town academic economists, it examines macro-economic policy issues such as fiscal and monetary policy and foreign exchange control, what education can contribute, South Africa's resources, and the informal economy.

Finally, arguing there is no blueprint for economic prosperity, Iraj Abedian and Barry Standish devote a chapter to a pragmatic package of long-term and short-term economic policies designed to generate growth in South Africa.

The book is wide-ranging, and it is impossible to do justice to all the chapters. For instance, one of the most tediously debated economic issues for those of us without vested ideological interests is what lessons South Africa as a developing country can learn from the success of the newly industrialised countries (NICs), or Little Tigers.

Left-wing thinkers like to point to the degree of government intervention these countries practised: conservative economists point to wage "restraint" by labour and adherence to competitive free markets.

In a chapter which tries to find pointers for South Africa, Anthony Black stresses that the state will have a central role in industrial policy. However, not only the objectives but the capacity of the bureaucracy will constrain the extent of intervention. He rules out the kind of labour repression that, though not unique, has been a characteristic of the East Asian Tigers. We need not compete with the sweatshops of Hong Kong in garment production.

In the course of his assessment of the NICs, Black also puts paid to the idea that South Africa can somehow turn inward in orientation: "It is clearly fallacious to argue that inward policies can avoid the need for competition on world markets; inward policies will simply change the nature of that competition. The choice facing future South African policy-makers is not whether the country will have to compete on world markets, but the nature of this competition and the types of products."

Abedian and Standish in the concluding chapter note that "the economic success of the NICs ... underlines the role of state competence in co-ordinating private sector activities and spearheading growth." They note too the "single-minded determination with which economic policies were implemented and pursued" in the NICs. "Economic policy was instituted with a clear aim, and all economic policy was designed with this end in mind. The policy packages which were implemented were generally well-thought-out and internally consistent — without conflicting goals or policy instruments."

The editors contrast this with South Africa: "In recent years economic policy has been influenced by a wide variety of institutions and pressure groups, often with divergent agendas. These influences include the Departments of Finance, Labour, Agriculture, and Mining; the Economic Advisory Council of the State President, the Central Economic Advisory Service, the Ministry of Economic Affairs and Technology, the Ministry for Administration and Privatisation, the Board of Trade and Industry, and the Reserve Bank. As these organisations do not share the same economic philosophy, their policy prescriptions are more often than not contradictory. Such an approach is wasteful and inefficient."

In other words, the main lesson to be learnt from the NICs is that policy has been part of an overall economic strategy.

Defining a consistency economic policy is, the editors contend, vital for long-term growth. As important, they say, is defining economic policy with the opportunities and constraints of the economy in mind, eg the need for an export-led growth and necessarily capital-intensive strategy to be balanced by job-creation tactics.

The need for education and training in an appropriate manner, as discussed in detail in one of the chapters, is identified, and a common South African market is seen as being of great economic benefit.

In the short term, redistribution of wealth, accepted as necessary, is advocated — but a redistribution which will be conducive to economic growth, rather than harming it. This includes transfer of ownership of state housing, public corporations, rural land in the homelands, and vacant land in other areas, into private hands.

Abedian and Standish assert that redressing imbalances built up over decades will take time if the result is not to be disastrous. Redistribution of private assets, they believe, will be fatal to growth. They suggest a number of non-controversial steps toward short-term growth, such as reducing uncertainty and so improving the investment environment.

In the same vein they discuss monetary and fiscal policy, suggesting no radical moves, but some common sense alterations, such as changing the allocation criteria of government spending according to economic functions rather than in terms of administrative functions, for the sake of efficiency.

Political pronouncements about the desirability of prosperity rarely get to grips with the practicalities. The value of *Economic Growth in South Africa* is that it does try to do just that in a thoughtful and academically respectable way, and in the process illuminates the issues. Moreover, it should focus our politically troubled minds on the need not to miss evanescent economic opportunities.

Reg Rumney

Development Bank dusts itself off for the new order

SOUTH 18/7-22/7/92

(49)

By Lynda Loxton

IT HAS been a difficult year for the Development Bank of Southern Africa (DBSA). Not only did its founding chairman and chief executive, Dr Simon Brand, die in January, but it found itself operating in very unfavourable economic circumstances which resulted in actual lending for development programmes falling off slightly.

On top of all that, the rapidly changing political environment continued to prompt a wide-ranging review of the bank's aims and priorities.

Established by the government in 1983, at the height of the National Party's "constellation of states" fantasy, the DBSA has long focused on supporting infrastructural projects in the homelands.

But increasing urbanisation and the associated problems of urban unemployment and homelessness have made it pay more and more attention to urban problems over the years. It now has an almost 50-50 rural-urban bias.

Being a largely government-funded institution, the DBSA has at times had an "image" problem with opposition groups.

The ANC, for example, kicked up a fuss recently when the bank took up its first international loan of R497 million. It was felt it was inappropriate for the DBSA to be increasing South Africa's debt before a political settlement had been reached.

The DBSA has tried hard to win wider acceptance by, for example, becoming involved in development initiatives involving civics and other grassroots organisations.

Interestingly, the government has, for reasons of its own, has kept clear of some of these initiatives. As the recently released DBSA annual report indicates, the state has not always heeded DBSA's advice on economic policy issues either.

For example, the government ignored the bank's advice that the R600 million allocated for feeding schemes should be administered by an independent non-political body "to overcome the problems of legitimacy and to create equal access for private sector initiatives as well as non-governmental organisations operating in this field". The result is that little of that money has been distributed to where it is needed.

The DBSA is increasingly being asked for assistance and advice by the ANC and others on pure economic policy issues. But it must be difficult for its staff to be both part of the old regime and hoping to be part of the new, especially when politics is in a state of turmoil.

Yet the Development Bank is hanging on to the hope that it will continue to play a role in the new South Africa, although it is aware of the fact that a shake-out is due in the development field.

Apartheid has spawned a large number of agencies, both pro- and anti-government, which are active in a wide range of development issues, from rural housing to water schemes and job creation.

In a new South Africa, whatever shape or form that takes, there will have to be some rationalisation to provide the most effective service and make the best use of the limited funds available for development work.

A De Loor Commission report on the issue is still under wraps, but is expected to contain recommendations on the way forward, especially in view of the recent Department of Development Aid scandal.

The DBSA is one of the 50 "giants" in South Africa. Capital employed in the year to the end of March 1992 stood at R4,6 billion and disbursements totalled R760 million (or 23 percent down on the previous year), bringing cumulative disbursements on development projects to R4,2 billion.

As such, DBSA will have to be a player in the new order — and it is now obviously positioning itself to ensure that it survives.

White wealth 'won't be siezed'

AFFIRMATIVE action did not mean that white property and wealth would be "appropriated wholesale and given to blacks", ANC constitutional expert Prof Kader Asmal said in Durban this week.

C/Press 19/7/92

Addressing the fifth annual Labour Law Conference at the University of Natal on Friday, Asmal said affirmative action implied that "national resources and revenues will be dedicated in large part to eliminating the advantages possessed by whites".

Labour a worry for Keys

ST Times (Buss) 19/7/92 49

By ZILLA EFRAT

THE "disturbing" rise in labour costs was SA's major economic problem, Finance Minister Derek Keys said yesterday.

He told a Taiwanese Association meeting in Johannesburg that this was also the opinion of Reserve Bank Governor Chris Stals — "a warning given greater point by recent events on the labour front".

A key question was whether the new SA could improve productivity of labour and capital to the extent where a high growth rate could be sustained.

Because capital took flight easily and was highly mobile, SA would have to build up foreign confidence in its stability and make its industrial environment more "user-friendly".

Mr Keys quoted ANC leader Nelson Mandela as saying "any political settlement cannot survive unless we can turn the economy around so that it generates the jobs and the wealth which will make a rapid and visible impact on the standard of living of the black people especially".

THE WEEK AHEAD by Simon Willson

Money supply a key to interest rate levels

BIDA1 20/7/92 (41)

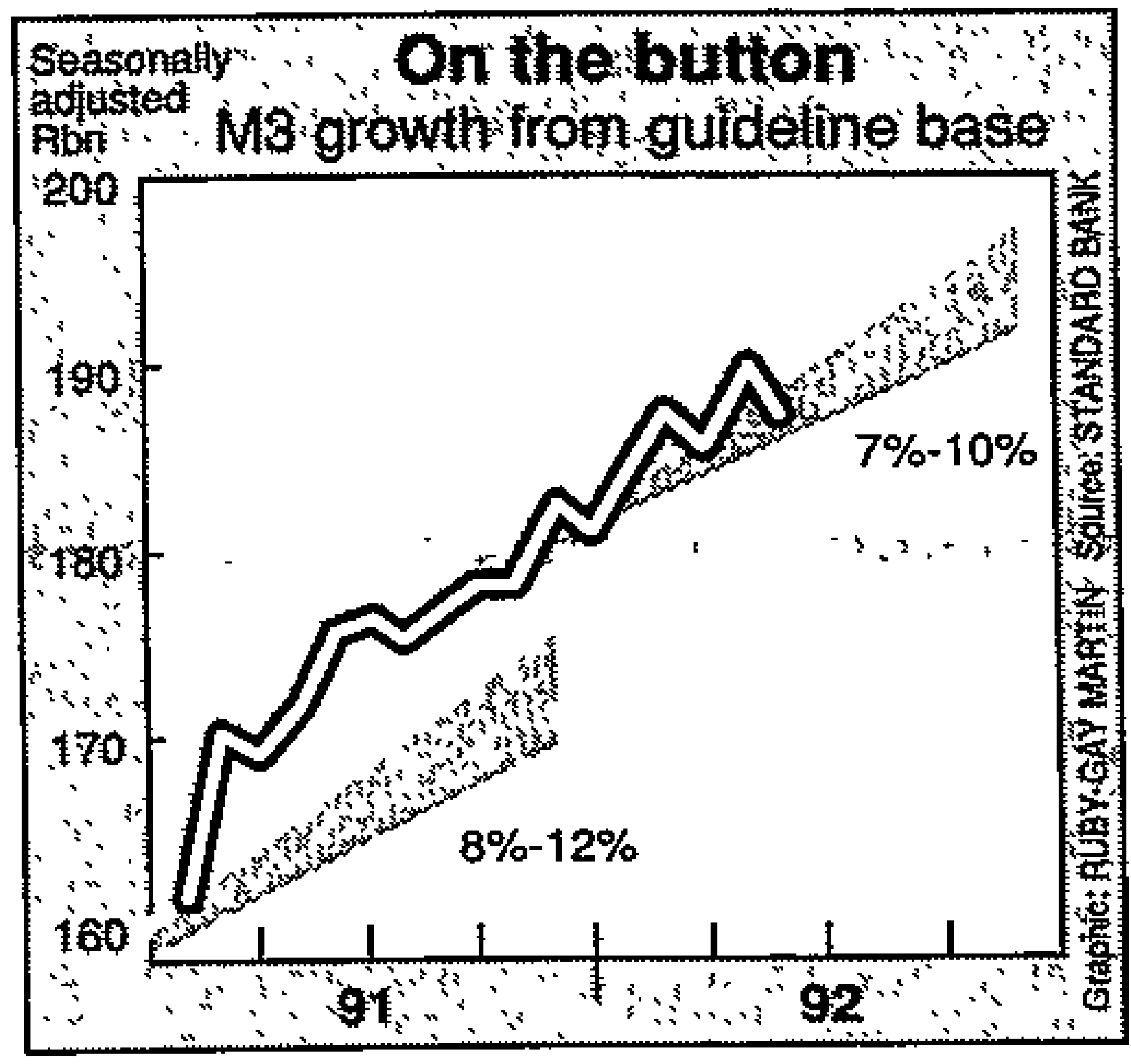
WITHIN hours of the May broad money supply falling solidly into its guideline range in data released last month, the Reserve Bank cut nominal interest rates. Although lower May inflation was also instrumental in the rate cut, the money supply data due this week remain one of the three main factors dictating interest rate levels.

Release of the June trade balance is also imminent and, in any other year, the June consumer price index (CPI) could be expected this week as well. However, publication of the CPI in 1992 has tended to take place at the very end of each calendar month.

The June figures for growth in the targeted broad money aggregate, M3, are likely to be published towards the end of the week. The sharp slowing in year-on-year M3 growth in May, to 7,1% from April's 11,2%, had a hand in the Bank's move, 24 hours later, to cut Bank rate to 15% from 16%.

May inflation also slowed, to 14,8% from 15,6% in April, and this conclusively pushed the Bank into cutting its key rediscount rate. But the M3 figures have been showing a steady slowdown in the demand for credit — one of the goals of a restrictive monetary policy. While this continues, the authorities will be inclined towards a further rate cut provided the other indicators — inflation and the level of reserves — are also heading in the required direction.

The chart shows how well behaved the once unruly M3 variable has become. After last year's turbulence, when the distortions of the Deposit-Taking Institutions Act ensured that M3 would never hit its 8%-12% target range, the rebellious aggregate has been tamed. It has hit its required range — at 7%-10% the lowest and narrowest yet set by authorities — on the nose three out of five times this year.



On the button

M3 growth from guideline base

Graphic: RUBY-GAY MARTIN Source: STANDARD BANK

This is partly the result of the Act's effect dropping out of the picture, but is also because the extended recession, set to post a third successive year of falling GDP this year for the first time in 50 years, is finally stamping on the rate of credit extension. So far this year, the chart shows, growth in M3 from its guideline base at the fourth quarter of 1991 has, almost unrecognisably, spent more time inside the 1992 guideline range than out of it.

The likelihood of the June CPI being released this week is small. If it does make it, the chances of another drop in the rate from May's 14,8% are not too high. The steep drop in May's inflation was in part the result of a high base 12 months earlier, a factor that will not recur in the June year-on-year calculation.

The other domestic figure that may see the light of day this week is the June trade balance, which rose to R1,8bn in May from April's R984m. Imports look likely to remain sluggish as the recession dampens domestic demand, but prospects for exports are not as bright as they were in view of the stalled recoveries in the US and UK. Last week's hike in German interest rates will do nothing to help economic growth in Europe, while the latest cut in US discount rate to a 29-year low of 3% has yet to have any effect on US economic activity.

Internationally, there will be more anecdotal than statistical economic information coming out of the US this week. Tomorrow, Federal Reserve chairman Alan Greenspan delivers the next instalment of his Humphrey-Hawkins testimony on the state of the economy.

Since the Fed has just cut discount rate to a historic low, Greenspan is unlikely to have anything positive to say. Indeed, Democratic congressman Richard Gephardt was blunter than most last week when he told his party's convention that the US was already in a "triple dip" recession.

The week's only significant readout on a fundamental in the real economy comes on Friday, when June durable goods orders are due. After rises straddling 2% in March and April, durable goods fell 2,4% in May and contributed to the sharp subsequent turnaround in dollar sentiment. A lot of the decline was attributable to a slump in defence capital orders which, having a military connection, are particularly volatile. This could reverse out again but, because of the weakness elsewhere in the economy, probably not by enough to swing the outturn anything like 2% positive again.

UK provisional money supply figures for June are out later today, but the targeted British monetary variable has not been above its guideline range since mid-1990. The UK targets the 12-month rate of increase of the narrow money measure, M0. This has been safely within its 0%-4% range for nearly two years and, given the dawdling British economy, it is not about to break up out of it in today's figure. UK June M0 growth is expected to fall below 2% from May's 2,5%, increasing the British markets' wariness of any upward pressure on interest rates arising from last week's increase in Germany's discount rate.

On Wednesday, UK retail sales for June will be scanned for any evidence that Britain's expected post-election spending spree has been a late starter. But there is unlikely to be much in the data pointing to a resurgence in sales from the barely changed levels posted in May. Related High Street surveys suggest that June was another flat month in UK shopping precincts.

Japan's retail sales performance in June is slated for release later in the week, probably on Friday. Sales have been almost as flat as the UK's, and have been falling steadily for two years. The soaring Japanese external surpluses have been telling their own story about consumers' buying appetite. Accordingly, little increase from May's 0,3% rise can be expected.

MONEY MARKETS by Hilary Gush

Liquidity up as shortage falls

B/DAY 20/7/92

(49)

LIQUIDITY picked up last week as the shortage continued its fall from the 28-month peak at the beginning of the month.

The shortage, the extent to which the Reserve Bank — at a price — helps to fund the market, more than halved from a high of R5,125bn on July 3 to R2,359bn on Wednesday. This was due to the R1,8bn in government stock which matured at mid-month and an estimated R1bn in government spending.

Capital market rates seesawed as SA's political leaders faced the UN in New York. On Monday yields reached 2½-year lows with the bellwether Eskom 168 diving to 15,02% and the government R150 falling to a low of 14,93%. The yield on the benchmark R150 was sharply down on Friday at 15,25% from 15,51% the week before. The yield on Eskom 168 followed the trend, falling about 22 points to 15,12% from 15,35% the previous Friday.

Rates are expected to continue their downward trend despite the fact that they were higher on Friday than at the beginning of the week. This can be attributed to a selling off of long positions and a technical correction. The gap between E168 and R150 yields should narrow further over the year as the Bank displays greater willingness to trade in its own stock.

The average rate on the Reserve Bank weekly tender for three-month Treasury Bills was down 12 points to 13,4% from the previous week's 13,52%. Demand for the short-term paper was good due to the improved liquidity in the market.

The Bank attracted bids of R430m for the R150m offered in six-month Treasury Bills, with the rate on these also down from 12,86% to 12,78%.

Economic austerity schemes unjustly blamed for poverty

B|DAY 20/7/92

FRANCES WILLIAMS in Geneva 49

ECONOMIC adjustment measures in developing countries, especially under IMF-inspired programmes, are often blamed for increasing poverty, widening inequality and holding back development.

A study by the development centre of the Paris-based Organisation for Economic Co-operation and Development (OECD) suggests this reputation may be undeserved. Claims that adjustment is a cruel punishment visited on the poor by unfeeling international organisations and greedy bankers miss the point, say Francois Bourguignon and Christian Morrisson, authors of Adjustment and Equity in Developing countries: A New Approach (OECD Publications).

Basing their arguments on case studies in seven countries, which included using economic models to test alternative strategies, the authors conclude that adjustment does not necessarily dampen growth or increase poverty.

Obviously much depends on the severity of the economic crisis. But different measures have different social impacts. This is true both for stabilisation policies that cut domestic demand to curb inflation and rein in trade and budget deficits, and for longer-term structural adjustments to improve supply by making the economy more responsive to market signals.

Political opposition to adjustment that delays government action worsens the social costs, the study argues. The costs of adjusting are lower than the costs of not adjusting, and adjusting before the crisis is better than waiting until the crunch comes and the country can no longer meet its debts or finance its outgoings.

The study is interesting partly because it claims to break analytical ground in disentangling and simulating the effects of different adjustment policies, and partly because it is the work of two academics with no particular axe to grind. Thus, while the authors see adjustment as essential, they do not necessarily endorse IMF prescriptions.

Of the seven countries looked at in detail, Chile, the Ivory Coast, Ecuador and Morocco instituted programmes under IMF supervision. Malaysia and Indonesia did so on their own initiative before running into trouble (and so had more choice of policy measures). Ghana is cited as a prime example of an economy ruined by refusal to adjust when crisis hit in the '70s.

In Malaysia and Indonesia, where the problems and so the stabilisation measures were less severe, living standards rose during adjustment. Poverty also declined in Ghana during adjustment, which got under way in the '80s.

In the other countries, adjustments were accompanied by stable or higher farm incomes and employment but urban poverty increased. In Chile, where the urban poor predominate, and in Ecuador where peasants rely heavily on non-farm sources of income, poverty rose.

The study attributes these differences to the timing of measures and to the policy mix chosen. Some governments, including Ghana's, ran programmes designed to protect the poor. Ecuador made no provision and Chile helped only the poorest.

Adjusting before the crisis meant less drastic cuts in demand, including cuts in public spending. Early adjustment also ensured a continuing flow of foreign capital, bolstering private investment necessary for future growth and cushioning public spending on social services and essential infrastructure.

The economic models used by the study also indicate for the first time how countries might have fared without adjustment. The answer is badly. The authors say critics tend to focus on the costs of adjustments (often confusing them with the costs of the crisis) and ignore the costs of non-adjustment.

In Ghana's case, non-adjustment meant drying up of funds from abroad and a reduction in imports to the low levels of export earnings. This produced falling incomes, output, trade and a "disastrous increase" in poverty. Simulations for other economies confirm that this path leds to socially costly "self-centred underdevelopment".

Looking at stabilisation policies, the authors suggest that devaluation seems to be a more efficient and equitable way of reducing a trade deficit than cutting public spending or running tight money policies. It slows economic activity less and, because it usually favours the poorer rural sector, it reduces inequality and poverty.

The authors conclude that to minimise social costs the best stabilisation programmes combine devaluation, a restrictive monetary policy to keep the lid on inflation (which hurts the poor) and a moderate reduction in public service wages (if they are higher than elsewhere). The worst involve raising the prices of basic goods and laying off public sector workers — recipes for social unrest, but often included in IMF-approved programmes.

Cuts in capital spending, if necessary, should not apply to rural investment which helps reduce inequality and poverty, the study says. Similarly, cuts in social spending and subsidies should avoid measures that impose disproportionate social costs to the sums saved. For instance, making the poor pay for medicines effectively deprives them of medical care, even when treatment is free.

The study in general praises structural adjustments which it says tend to have postive social effects. For instance, price liberalisation usually favours the rural over the urban sector. Moreover, increased economic flexibility reduces the costs of stabilisation.

However, the authors, again disputing conventional IMF and World Bank wisdom, warn countries not to take drastic measures, like privatisation, to reorganise state enterprises during an austerity programme. If attempted, there should be compensation programmes for the unemployed, as in Ghana, and effective longer-term measures to retrain redundant workers and help them find alternative employment.
— Financial Times.

Economic adjustment programmes for developing nations do not necessarily result in poverty, says a new study

Lower State revenues send deficit soaring

(49) ARG 21/7/92

Business Staff

JOHANNESBURG. – The government's deficit before borrowing looks set to surge well above the R16 billion provided for in the Budget for the 1992/93 fiscal year.

This emerged when the Director-General of the Department of Finance released State expenditure and revenue figures for the April-to-June quarter, the first quarter of the current fiscal year.

The figures show the deficit before borrowing at a record R9,27 billion on a combination of a sharp rise in spending and lower-then-expected revenue.

Economists estimate that the deficit for the fiscal year will shoot up to at least R20 billion, 25 percent above budget, which will force the government to raise additional capital at home and abroad.

Gilt rates are set to rise over the next few weeks as the State taps the market to make up the shortfall.

At the end of June the government had secured total financing of R13,03 billion — R12,15 billion raised on the local market and R880 million on overseas, mainly European, markets.

The Department of Finance said that an agreement had been reached with the Reserve Bank, which would allow issues of government stock and exchequer bills to exceed the budgeted gross amount of R18 billion in the current fiscal year.

"Additional issues will be made over and above this amount, as is deemed necessary in the light of the needs of the Treasury and general market liquidity conditions," it said.

The lower-than-expected exchequer receipts are largely responsible for the surge in the deficit.

Total revenue in the first three months of the fiscal year amounted to R15,853 billion and was 10,1 percent higher than the corresponding figure for 1991/92.

The revenue collected, however, constituted only 18,7 percent of the total budgeted revenue of R84,75 billion for the fiscal year.

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This amount also represents 24,9 percent of this year's total budgeted spending of R100,7 billion.

The department said, however, that almost no seasonal patterns appeared in exchequer issues from year to year and that "it would be unwise to draw any conclusions regarding the eventual outcome of expenditure at this early stage of the fiscal year".

Few economists can agree

BDAY 23/7/92 (49)

HILARY GUSH

JOHN Maynard Keynes is alleged to have said that 1 000 economists laid end to end would not reach a conclusion. It appears that 381 SA economists also find consensus difficult.

In the first large-scale systematic attempt to measure the opinion of SA economists, a survey document was sent to all 791 members of the SA Economic Society. Only 381 of the returns were usable — in itself a commentary on the economists.

The results indicated that local economists differed on virtually every issue they were asked to address. Members of the profession, however, bucked the trend in one instance: they did not dispute that the price mechanism was an efficient allocative device.

In a paper on the survey published in the SA Journal of Economic and Management Sciences, Stephanie Geach and Duncan Reekie, both of Wits University's business economics department, showed that support for the price mechanism was widespread among SA economists. This support was reinforced by the general rejection of wage and price controls to contain inflation and the widely-held belief that government expenditures should be reduced.

The ANC would be pleased to note that redistribution of income was considered a just task for government by a 60% majority of respondents. However, 22% of those who replied did not agree with the proposition that nationalisation, in the absence of wage or price controls, would not reduce production costs.

The much-debated ability of agricultural control boards to keep consumer prices down also came under the spotlight, with the majority of respondents discrediting the boards' competence.

"Vigorous" application of competition policy to reduce monopoly power was seen as desirable by 72% of the respondents, while the proposition that consumer protection laws generally reduced economic efficiency was accepted by only 52% of the economists.

Geach and Reekie claimed the survey provided evidence that market failure occurs in SA. "No great faith" was expressed in the general efficiency of financial markets; indeed there were substantial reservations about it.

Age seemed a significant determinant of opinion in the sample, with older economists — those over 30 — displaying monetarist leanings while a redistributive role for government was favoured by the younger economists.

The profession appeared to be male-dominated: 84% of respondents were men. The influence of gender was, however, limited. Response patterns of males and females differed significantly in only one of the 35 questions posed: the proposition that money supply was a more important target than interest rates. This was agreed to by 40% of women and 54% of men.

Consistent with this was the response to the proposition that the Reserve Bank should apply a money supply growth rule. More than 40% of women approved of this, while the figure for men was 56%.

Education levels also affected responses, showing that a higher level of training tended to be accompanied by greater willingness to adopt free trade principles. Perhaps this had something to do with the aquisition of wisdom with age and experience.

Nearly 80% of respondents with post-graduate qualifications beyond honours degrees agreed that tariffs and import quotas reduced general economic welfare. Only 65% of less qualified respondents concurred on this.

Four-fifths of respondents agreed that economic growth should be the chief concern of macro-economic policy and 73% believed SA incomes should be more equally distributed.

Popular acceptance of the stimulative effect of fiscal policy on a less than fully employed economy, together with widespread rejection of a money supply rule fixing the rate of M3 growth, suggested the profession's orientation to be more Keynesian than monetarist.

Some questions facilitated the drawing of international comparisons. SA economists seemed to be closest in opinion to their fellows in the English-speaking world — the UK, US and Canada — and Germany. Opinion in France, Switzerland and Austria, however, differed significantly.

The survey showed that most of the issues on which economists disagreed were not the same across countries. Few SA economists contended that a minimum wage increases unemployment among the young, the black and the unskilled sectors of the population. Yet in Britain — and even more so in France — economists were more resolute in their disagreement on the issue.

Arguably, consensus among economists was rare. Perhaps that was why the discipline kindled interest and why this kind of survey was conducted at all.

COMMENT

Pick up the tab

BDAY 23/7/92 ④⑨

YET another ANC economic policy briefing — in this case delivered by Trevor Manuel at the Centre for Policy Studies — has passed without the organisation facing up to the budgetary implications of its ambitious social spending plans.

In the wake of various ANC policy documents this year which have referred to the "elimination of poverty" and the state's "primary responsibility for responding to the basic needs of the population", the organisation's spokesmen have been noticeably bereft of explanations as to how these commitments will be financed.

Making undertakings about improvements in the quality of life of the poor and loading up the state with extra welfare functions is the prerogative of any movement that expects shortly to canvass for votes. But those same movements owe it to the electorate and to the economy at large to cost these social programmes and to propose how they are to be funded. The ANC has displayed hard evidence of neither costing nor funding at its policy roadshows to date.

By and large, the organisation's social spending proposals are laudable in intent and responsible in scope. The present government has conceded that there are backlogs to be made up in extending welfare benefits and social services to the whole population, and is already diverting resources accordingly. The ANC's proposals extend and accelerate this process.

But whereas the present government has several specific upliftment programmes up and running, and has set up fund-raising operations to finance them, the ANC has been less specific. Worse still, the ANC has been in the forefront of efforts to frustrate the very fund-raising whose proceeds were dedicated to upliftment spending. The extra-parliamentary opposition has tried to prevent Eurobond issues and has obstructed further privatisation, despite the precedents set by the allocation of most of the Iscor flotation billions and the Deutschmark bond issue millions to social spending. The opposition movements duly oppose such fund-raising, citing tendentious ideological constraints, while the poor whose votes they seek wait for shelter, subsistence and services.

The Eurobond issues will probably resume if and when the constitutional negotiations start again. Government and public sector paper is well received in Continental Europe and no amount of ANC badmouthing will alter its acceptability. Privatisation, however, is more vulnerable to the organisation's spoiling tactics.

World governments raised $50bn from privatisation last year. Italy and Germany intend to reduce their budget deficits by launching new sales of state assets throughout the 1990s. It would be no climbdown for the ANC to accept that a similar strategy could finance its own worthy intentions.

A united nation

[redacted]

THE visit by United Nations special representative Cyrus Vance, and the UN debate which authorised it, demonstrate South Africa's return to the international fold. BDAY 23/7/92

Vance is here to help. He is an emissary of a world body keen to promote a peaceful, negotiated settlement and to help find ways to end the violence. He is welcomed by government, and by all opposition groups except the far right.

It was not always so. The UN was founded in 1945; within a year it was in conflict with the Smuts government over the treatment of Indians, and within three it was in opposition to Malan's Nationalists. From then on there was repeated confrontation over apartheid and South African rule in Namibia.

Namibia's independence was achieved with willing South African assistance, and apartheid is dead. The end of the cold war means South Africa is no longer a pawn in the ideological battle between East and West. We are just another trouble spot in a fractious world.

Vance has been sent to try to stop South Africans killing each other and to get them talking again. That may lump us with the Middle East, Yugoslavia and other tormented regions where outsiders are currently seeking to mediate, but we are no longer outcasts. We have been readmitted to a world family ready to do whatever is needed to help us help ourselves.

COMMENT.

Worst of the recession now over — Daly

CT 23/7/92 (49)

By AUDREY D'ANGELO
Business Editor

THE worst of the recession is over, Southern Life chief economist Mike Daly said yesterday. But recovery will be gradual and due to a number of factors.

Presenting his Economic Comment for the third quarter, Daly told a media briefing yesterday that he expected consumer spending to be better in the last quarter of this year than in the same period last year.

"It will be up consistently in 1993. But unemployment is still going to be there."

He expects the economy to grow by only 2,5% in 1993. But he expects the inflation rate to fall to 12% by the end of this year.

He thinks a cut in interest rates of 1% in August or September will be followed by more in 1993.

Daly said SA's export figures had been "surprisingly good" for the past 12 months, particularly in view of the weak metal prices for most of this time.

Exports would give a boost to the SA economy. But in view of the state of the world economy they would not provide a strong catalyst for recovery.

The recent kick-up in the dollar price of gold was of interest, but he was sceptical about how long this would last.

"As long as the dollar falls gold will do well (in dollar terms). But we have got to see it rising in terms of other currencies as well before it can be considered to have recovered. In yen and DM terms it is still falling."

The fact that the dollar was weaker against the rand meant that the rand price of gold had not risen, "to the chagrin of the mines" which were given no relief from high costs.

The economic recovery would be due to the interplay of a number of factors, in addition to improving exports.

Government spending would have to rise by 2%. A lot of this would be damage control' due to the drought. And there would have to be a build up of depleted inventories.

Consumers' disposable income would gradually improve with lower inflation and lower interest rates.

Daly said export prospects were hampered by the fact that the European and Japanese economies were "still heading downwards."

But there was no doubt that the US economy was slowly recovering and seemed to be on track for 2% growth this year.

However, in view of the fact that it suited the US to have a weak dollar that helped its exports, forecasts of a stronger dollar and weaker rand had ben delayed until next year. It was therefore difficult to see the SA mining sector performing strongly.

Daly said mass action would have the effect of depressing the economy in the current quarter. But the ANC recognised the need for growth.

In the Economic Commentary Daly and economist Sandra Gordon say the authorities have recognised the need to put SA on a new, restructured economic growth path.

Mike Daly

Hopes for export boost receding

㊾ [illegible]

BDAY 23/7/92

LINDA ENSOR

CAPE TOWN. — Prospects of improved export earnings giving the SA economy a boost this year were receding and private consumption expenditure could not be expected to raise domestic demand significantly over the next two years, said Southern Life chief economist Mike Daly in the quarterly Economic Comment.

"Given the alarming rate of redundancies still occurring across many sectors of the economy, particularly mining, manufacturing and construction, and an increasing prevalence of shortened work weeks, consumers' inability and unwillingness to spend must have an adverse impact on private consumption expenditure for the rest of the year," he said.

He said the economy would have to sweat itself out of the doldrums without much outside help, but by the fourth quarter there might be a slight improvement in consumer spending as a result of lower inflation and lower interest rates.

However, for the year as a whole, a slight decline in private consumption expenditure was possible. Fixed investment would also fall but, hopefully, would pick up next year.

No positive economic growth this year was expected, and meaningful growth would only take hold in 1993, Daly said. No quick fix for the economy was in the pipeline.

There was a need to place SA on a new, restructured economic growth path which shifted away from the boom and bust cycles of the past.

Economic growth in the developing countries had proved a disappointment relative to forecasts and was not conducive to a strong rise in the volumes of commodity exports. It appeared unlikely that export volumes would show a growth as high as 3% this year. Daly was sceptical about the prospects for gold, the price of which had risen only because of the falling dollar.

The US recession had ended, though growth rate would be a modest 2%-3% this year as real disposable income came under pressure. While sentiment about the dollar was bearish, Daly said, Southern continued to forecast a strengthening in the dollar late in the year. The marked slowdown in the Japanese and German economies continued.

He predicted a further 1% cut in Bank rate in August or September, but did not believe this would have a stimulatory effect on the economy. Another reduction by early 1993 was also likely.

Daly expected the SA consumer price index inflation rate to fall to about 12,5% by year-end, and to about 11%-12% next year. He believed the CPI and producer price index were beginning to converge.

Graham Linscott feels it's time for drastic, visionary economic measures

Step forward, SA's Roosevelt

49

STAR 23\7\92

THE president of the Johannesburg Stock Exchange, Roy Anderson, calls on the Government to stimulate the economy out of concern for thousands of people who have lost their jobs. He says we should be able to get the money from the International Monetary Fund, who would be bankers of last resort.

The man surely speaks truth. In South Africa today we are going through something more akin to a full depression than a recession. Factories are idling or silent. Thousands are being retrenched. We face the spectre of mass starvation due to the worst drought this century.

Much of the blame has to be laid squarely at the door of people who quaintly believe that one can call for political strikes and street marches today and investment capital tomorrow. Laying blame, however, does nothing to get us out of the mess. As Mr Anderson says, we need stimulation on a scale that could be funded only by the IMF. But what kind of stimulation do we need?

Does the situation not call for some kind of quantum leap of the imagination?

In a depression-hit America in the 1930s, Roosevelt proclaimed a New Deal. Huge labour-intensive projects were funded by government and put bread on the tables of desperate men and women, while an infrastructure for the future was built. Why not here?

One of Roosevelt's more notable schemes was the Tennessee Valley Authority. This was an agency which set about building dams, locks and hydro-electric generating stations on the Tennessee River.

The scheme provided vast employment and transformed previously impoverished regions.

Do we have anything corresponding to the Tennessee Valley? We do. The Tugela Basin is a vast natural feature in which the Tugela and its tributaries funnel down from northern Natal to the sea. Its potential has been exhaustively researched by the Natal Provincial Administration since 1947. It's all on file already.

The Basin has a unique topography allowing the construction of a series of large dams which would drive hydro-electric stations producing enough energy for much of the water to be pumped backward after passing through turbines, making dams self-replenishing.

The engineers reckon the Tugela Basin could produce enough electricity and conserve enough water for four or five large modern cities, leaving an outflow at the mouth sufficient to supply water to an agglomeration as large as Greater London.

But so far it hasn't happened. Part of the reason is that, from 1948, the Nats did not have much urgency about developing a region where neither the whites not the blacks supported it politically.

But, to be fair, another school of hydrology took hold, quite unconnected with politics. This maintains that water resources and development should be concentrated on a core region such as the Witwatersrand. The Nats did make hesitant moves to develop the Basin, as when the second Iscor (now virtually closed down) was located at Newcastle.

Whatever the full reasons; the point is that the Tugela Basin is strategically placed adjacent to the country's most densely populated region which is also home to probably the greatest degree of poverty and human misery. The Basin is on the road and rail systems midway between the PWV and the Natal ports and is adjacent to rich coalfields.

Nobody expects that the four or five cities would spring up overnight. But a programme of IMF-funded dam and hydro-electric projects would soak up millions in employment, plus stimulate the PWV industrial sector which would be the major supplier.

It would be the kind of project which, one imagines, international finance could support. It would also lay the firmest of infrastructural foundations for economic growth in the new South Africa.

Do we have a Roosevelt? He could be unstoppable politically. □

ADVERTISING EXPENDITURE

FM 24|7|92

An aura of gloom

49 ~~153~~ [illegible]

Those dependent on advertising expenditure for their livelihoods (media and ad agencies) are bracing themselves for a very tough six months. Continued economic recession, political uncertainty and industrial unrest have combined to turn what was expected to have been the beginning of a recovery phase into a prolongation of the downturn.

"There is a general aura of gloom," says Lindsay Smithers MD John Sinclair. "People are very pessimistic. Unless there is a major turnaround in the mood of the country I can see the second half of the year being disastrous.

"The major cause is economic, but other factors worsen public nervousness. Retail business is just not happening. People are spending less. There have been no major cuts by advertisers but people have not increased their budgets. They are spending at best up to last year's levels, and in many cases below. I think it will get worse. I am not in despair, but I am not far off it. There has been a total turnaround from the mood at the time of the referendum."

Media Shop media director John Barham has noticed a severe contraction in the past couple of months. "You have only got to pick up a magazine and you can feel the weight of advertising has dropped. I can't see it turning around until the Christmas boom, and the recovery may not be until 1993." One result is an emphasis on short-term thinking, with advertisers reluctant to commit for longer periods.

One bright spot, says Barham, is that advertisers are reinvesting the money they previously paid in value-added tax. "So automatically you should see at least 20% growth purely because of that."

There has been "an enormous downturn" in branded advertising, says Graham King, GM of *The Star*. "Retail has not been as badly hit. In classified advertising there has been a continued weakening in staff vacancies, but on the other hand motor advertising in the classifieds has picked up." King expects no improvement until next year.

There is, in addition, very little new business coming into the market, which explains the high level of interest in the Virgin Atlantic Airlines account. Another new advertiser is Guinness, which will be brewed and marketed locally by SA Breweries. Ogilvy & Mather Rightford has been appointed to do the media planning and buying, but the creative work will be done by Guinness's international agency, MAP.

"Everybody is waiting to hear about Virgin," says Mike Wellsford, MD of O&M Transvaal. He says the agency has had no client cutbacks or cancellations "but there is an enormous amount of anxiety about the next three months. May and June were very poor sales months for most of our clients. If July is the same they might want to make cuts."

The threatened general strike will only make things worse. Wellsford is concerned, too, about the SABC labour dispute, which could affect TV and radio advertising. "Some 50%-70% of our business is placed through the SABC. No company can afford to lose 50%-70% of its August sales."

There has also been very little movement of existing business. "It has been the quietest year for major changes in years," says Bernstein Loxton Golding & Klein MD Arlene Klein. "Clients don't see the need for change. No-one wants to change an agency just for the sake of it."

That said, BLGK was the beneficiary of one of the year's biggest changes when it picked up Southern Sun. All the group hotels (which include Holiday Inn and Formule 1) are now housed with one agency.

Bryan Gabriel, whose independent buying agency, Media Business, has had a record year, also attributes this to gaining business. "We won Morkels and other clients, and we are very busy," he says.

BSB Bates MD Dave Kelly reports that "a lot of money is being channelled into below-the-line advertising for instant response. At this stage we are still hitting our budgets but certain categories are going through very difficult times. They include durables, non-essentials and cars." ■

FM 24/7/92 THE WORLD ECONOMY (49)

Once again, jam tomorrow

It used to be said that when the US sneezes, the rest of the world catches cold. The reaction to last week's rate hike by Germany's Bundesbank (see *Economy*) suggests that the source of infection has moved a few thousand kilometres to the east; but this is far from the whole truth.

Simply, the signs of economic revival that were discerned in the major economies earlier this year — admittedly, mostly by politicians rather than economists or businessmen — are starting to look like wishful thinking.

The portents for the US were never particularly convincing. Germany is still struggling with the problems of unification. Last month's stimulatory package in Japan is having little impact.

UK success in bringing down the inflation rate has not been matched in other indicators. Consumer spending remains weak, residential property prices are still sliding (literally hundreds of thousands of people have "negative equity" in their flats or houses in that their mortgages are now more than the depreciating property is worth) and unemployment is up again.

Profit announcements from sectors as diverse as international airlines and Wall Street broking firms suggest that the nascent revival of the first quarter of this year was snuffed out in April-June. Any broad revival in the major economies has thus, yet again, been pushed out to next year.

Coupled with this setback — and by no means unconnected with it — is a spreading mood of political uncertainty. The possibility of a Democratic win in the US presidential election, the wearing off of John Major's honeymoon popularity and strains within the German coalition are just three manifestations of this.

Against this background, it's not surprising that world financial markets are uneasy. And given the importance of the US dollar and US economy, the weakness of the dollar is understandable.

The trouble is that SA cannot just sit back and regard the situation with equanimity. We remain an open economy. Diversification of our export base over the past decade — notably the commendable increase in manufactures — may have cushioned us against crumbling commodity prices but has done little to reduce our vulnerability to low demand in the consuming economies of the northern hemisphere.

It's a truism that political accord and renewed domestic economic growth go hand in hand. But political accord is not enough. No government, of any political complexion and however broadly supported, will be able to preside over a growing economy unless external conditions are also favourable.

That, of course, does not reduce the importance of a political settlement. On the contrary, it underlines the need to get our own house in order, so that we may minimise the damage from external forces beyond our control. ■

DAVID GRAHAM

Can SA become an international hub?

FM 24/7/92 (49)

David Graham is the SA Foreign Trade Organisation's GM for international operations.

President F W de Klerk complimented Singapore, during his visit last month, on becoming "the Switzerland of the south-east Asian region." The question is: what can be learnt from the Singapore model to turn SA into a major international hub along the same lines.

There are a number of international hubs that operate like Singapore — Hong Kong, Dubai, Miami and Vienna, for example. An international hub is a centre that serves as a link to other countries which may be close geographically but quite different in terms of culture, religion, language, development, wealth and political philosophy. International hubs tend to have an excellent transport infrastructure, a high level of trading and distribution expertise, and sophisticated financial services and tourism facilities.

Singapore is a premier international hub for several reasons. It has:

☐ A long trading tradition and links many south-east Asian nations with suppliers and markets in the West;

☐ Outstanding port and airport facilities, coupled with one of the most dynamic airlines in the world. Changi is consistently ranked one of the top airports.

☐ A highly sophisticated international telecommunications network;

☐ A small but vibrant and technically advanced manufacturing base;

☐ A dynamic international banking sector free of exchange controls; and

☐ A remarkably successful tourism industry, with the emphasis on incentive travel, conferences, exhibitions and shopping.

None of this would have been possible without a pragmatic political relationship between Singapore and its neighbours, an effort by government in conjunction with the private sector to promote Singapore, an investment in infrastructure, and the creation of the legal environment necessary to enable Singapore to flourish.

The benefits are self-evident. The country grew at 7% a year in the Eighties and has a *per capita* income five times larger than any of its neighbours. It has been able to provide its population with employment, quality housing, medical services, public transport and education. It has also spurred growth in neighbouring countries.

Can SA follow this example? A hub does not necessarily have to be a city state. It could be a country such as Austria, which played a major role in linking West and East during the Cold War.

South Africans have long regarded themselves as being isolated at the bottom of a continent that is far from major markets in Europe, North America and Japan. This perception was intensified during the concerted international effort to isolate SA further during the sanctions years.

But with sanctions being lifted and isolation easing, SA now has the opportunity to join the select league of international hubs — if, at last, it can see itself as part of the broad international community and not just as a remote appendage of the West in the deep south of Africa. SA is the only country that can link the rest of the world with much of Africa, and the only country centrally placed between South America, Asia, the Middle East and Africa that can operate as the international hub of the South. In fact, Johannesburg is the most direct airline link between Singapore and Rio de Janeiro.

SA already has several key ingredients to become an international hub:

☐ It has a good transport infrastructure, as shown by the efficiency of ports such as Richards Bay and by the role that the railway network is playing in drought relief in southern Africa. Air transport is being liberalised, and, together with the lifting of sanctions, about a dozen more airlines are now flying into Jan Smuts. But if SA is to become an international air transport hub, Jan Smuts and the country's other main airports must be upgraded to the highest world standards. The half-hearted revamp now taking place at Jan Smuts will not do the job;

☐ It has a vibrant trading infrastructure, with about 30% of the foreign trade handled by trading companies. Many small- and medium-sized SA trading houses are well entrenched in markets elsewhere in Africa and are playing a significant role in developing two-way trade with SA's neighbours;

☐ It has a good manufacturing base, which plays a particularly important role in trade with the rest of Africa. But this area must be further emphasised;

☐ It has a good services sector, including forwarding and courier companies, travel organisations and a well-established insurance industry. SA also has a strong banking network, with substantial international representation. But the country's exchange control policy is probably one of the biggest factors inhibiting its development as an international hub; and

☐ It has excellent tourism potential and an adequate tourist infrastructure. SA is starting to attract international conferences and events, and local exhibitions are drawing international exhibitors and visitors.

So clearly the potential is there, but obviously two key missing ingredients are political stability and a long-term view of the country's future. If this vision is to become a reality, it should be adopted by a future government as the cornerstone of the country's international philosophy. It cannot succeed if it is not supported by both government and the private sector. And it will require a determination that individual policy decisions — such as on airports, tax laws, exchange control and visa requirements — should be made with reference to the broad objective of making SA the international hub of the South.

Of course, to put its economy on the right track, SA should follow all of these policy prescriptions — investing in infrastructure, reducing and simplifying taxes, eliminating exchange control, cutting tariffs and promoting exports to boost trade — regardless of whether there's a goal of becoming a hub. Hong Kong and other places did these things without any thought of becoming a hub; that was the happy result, not the goal. But goals help to concentrate the mind and making SA a hub is certainly a worthy goal.

CONRAD STRAUSS

IN MY OPINION

Time to kick the habit

㊾ FM 24/7/92

Conrad Strauss is chairman of Standard Bank Investment Corp.

SA has been engaged in an intense economic debate for many months. Policies, recommendations and options proliferate, some useful and others provocative. Nevertheless, many of these options are still characterised by a basic flaw: they embody attitudes of dependency and the expectation of external deliverance. Until this baggage in our mental cargo is acknowledged and steadily reduced, our thinking and actions will repeat the errors of the past.

These attitudes frequently reflect deep insecurity, a lack of self-reliance and competitive spirit. This malaise is not peculiar to South Africans. Mario Varga Llosa, the Peruvian novelist and presidential candidate, describes the legacy of collectivism as "stupefaction and rigidity." That aptly describes our own legacy of recent authoritarian government and earlier colonial rule.

The malaise is not the preserve of any single social group: it permeates the society. It causes many of us to look outside ourselves for rescue or solutions rather than to take responsibility for success by managing fundamentals. Dependent attitudes will delay, if not prevent, the emergence of a culture of achievement and entrepreneurship. Such a culture is a precondition for strong economic growth — and for policies intended to encourage them.

Many options currently doing the rounds are predicated on the likelihood of handouts magically flowing from the advent of the New SA. One group of options assumes great generosity from the international donor community. A second group of economic remedies also looks to domestic benefactors: the call for low interest rates to be provided to the deserving and needy by "rich financial institutions" or for an accommodating monetary policy favouring borrowers over savers, rather than a focused industrial policy or a comprehensive economic programme to take the economy forward.

A third group could be described as the free-lunch, or redistributive economics, option: it proposes rearranging the edibles on the table or altering the table settings. For example, demands for higher minimum wages ignore the fact that, in a competitive environment, wages can rise only if productivity and profits do, or if the number of employees decreases.

It is understandable that such attitudes of dependency pervade our lives and permeate our thinking. Economic windfalls have encouraged the habit of looking to externals for salvation. For nearly three generations, a strong, central State has regulated many aspects of civic and personal life.

With the acquiescence of its enfranchised citizens, the State assumed the right to intervene between citizens and their political, economic and social choices, by protecting, preventing and prescribing. Since the power to make decisions and to exercise choice is also the power to exercise responsibility, the willingness to accept responsibility has inevitably wasted away. Instead, bucks were passed on to succeeding generations.

Dependency cultures are not only lacking in vigour but are also comfortably protective and this makes them difficult to change. Our culture has insulated many industries and bodies from local and international market pressures and consumers from the fundamentals of real costs and what they reflect. Dependency cultures are not a new phenomenon in our country, but their centres of gravity have shifted. For many years poor whites looked to the State, the Land Bank, the control boards or co-operatives for preferential handouts or employment. Their advancement in society progressively reduced the need for such shelters.

During this period, those without the franchise simply could not hope for this kind of treatment. That is changing with the advent of liberation. However, political promises and the resultant expectations ignore the economy's ability to deliver, or the complex interdependencies of domestic and international economic forces.

Most damaging is that our dependency culture — the old and the new — has effectively insulated many of our citizens from understanding and accepting the fundamental connections between individual reward and effort, or remuneration and output. Unrealistic wage demands indicate this, as do negotiations about wages couched in terms of what people expect to be paid or what they believe their "needs" are, rather than what the value of the production is or what can be afforded.

For SA's economy there are no soft options: our problems are fundamental and so is the need to understand and manage economic fundamentals. When Israel was founded David Ben-Gurion was told that the new State was not economically viable. "Then," he rejoined, "we shall change the laws of economics." Of course, they cannot be changed or wished away. It was recently argued in the *Wall Street Journal* that the existence and expectation of US aid had effectively prevented Israelis from successfully managing their national economy.

Similarly, the habit of believing in external rescue is as debilitating as rescue itself. Both are dependencies and both prevent the formulation of long-term growth strategies based on fundamentals; both encourage quick-fix tactics.

To eliminate dependent attitudes implies that our political leaders will have to educate their followers in the habit of facing uncomfortable facts, making choices and taking control of their economic destinies inside a clear, enforceable and equitable legal framework. People who control their own future have an immediate sense of the basics of economic interaction. Self-reliance both concentrates the mind and dispels stupefaction.

This is particularly relevant to a country such as ours, trying to gain a foothold in a fiercely competitive world economy. We are re-entering a world which does not owe us a living and where productivity and innovative uses of technology both determine and reflect national values: the policies feed the attitudes and vice versa. It is a world where economic success is directly related to attitudes of self-reliance.

The onus to adjust rests on all of us but, ultimately, primarily on political leaders who must guide their followers along the path of attitudinal adjustment. Unless they do so, we shall falter in the process of wealth creation.

Economists warn of strike's toll

(49)

BDAY 24/7/92

[redacted]

GERALD REILLY

PRETORIA — Cosatu's general strike next month would push the economy deeper into recession, Stellenbosch University Bureau for Economic Research economist Nic de Jager said yesterday.

This year's first quarter had had negative growth of 0,6%. The bureau's forecast for the second quarter had been -0,3% and for the third quarter 0,7%. However, the strike would almost certainly mean three consecutive quarters of negative growth.

Pressure on the economy, already stressed by drought and a deeply disturbed political climate, would intensify in the three days, he said.

Econometrix director and chief economist Azar Jammine said the loss of output over the three days could amount to 40%. Hardest hit were likely to be the manufacturing, mining and construction industries. The work stoppage over the three days could chop half a percentage point from the year's growth rate. Jammine said the three days had the potential to explode into widespread violence and intimidation, degenerating into chaos and a massive decline in black workers' confidence in the trade union movement.

The consequences of the strike — wage losses and a growing disillusionment with the trade union movement — would be a severe test of Cosatu's support, expecially if there was no benefit for workers.

He said August would be one of SA's most damaging months.

US's Cohen warns of civil war in SA

BDAY 24/7/92

[redacted]

SIMON BARBER

WASHINGTON — SA faced civil war unless ANC president Nelson Mandela and Inkatha leader Mangosuthu Buthelezi were willing to put aside their differences, Assistant Secretary of State for Africa Herman Cohen said in Congressional hearings yesterday.

He emphasised that any attempt to force the government out of power through mass mobilisation was "unacceptable".

He also flatly rejected any attempt to use the violence as a reason for breaking off talks: "We oppose linking continued negotiations with an end to violence … Negotiations are even more essential precisely becase there is violence."

In the Bush administration's toughest statement on US policy towards SA, Cohen outlined in unusual detail what was expected of the three major parties to get negotiations back on track.

Step one had to be "a moratorium on finger-pointing and name-calling" by all parties, as "inflammatory rhetoric" was serving only to fuel violence.

Government's willingness to investigate the Boipatong killings was "a crucial test of its credibility", he stressed.

In addition, government had to implement more fully the recommendations of the Goldstone commission, in particular its calls for increased police accountability and stepped up security at hostels.

The ANC had to be "receptive to government gestures concerning reducing violence and restarting negotiations".

The movement had to ensure that its mass action campaign did not lead to further violence, and had to "exert greater influence over its members who continue to advocate and perpetrate violence."

While the administration was "neither for nor against mass action" and recognised that it provided a means for black South Africans to "express themselves politically", "it must be done peacefully".

He called on the ANC to "dispose safely" of the arms it had "not denied" having cached both in and outside the country, and warned that transferring weapons into SA would violate the national peace accord.

Inkatha had to do more to ensure that its members were committed to peace, and had to tell its members that "carrying weapons in public is unacceptable".

Citing the Goldstone commission's finding that a common thread to the violence was conflict between the ANC and Inkatha, he warned that the "impasse" between Mandela and Buthelezi "contains the seeds of civil war which neither leader will be able to control but for which they will bear much responsibility".

He was "confident" that UN special envoy Cyrus Vance "will come up with a series of compromises that are useful for both sides", but stressed that "it is up to South Africans themselves to find their way back to the negotiating table".

Foreign capital 'waiting for political settlement'

BDAY 24/7/92 49

ANDREW KRUMM

LARGE inflows of foreign capital — desperately needed to develop major projects and create jobs — would wait for a political settlement, said Investors Mutual Fund chairman HL Shill.

Reviewing unit trusts Sage Fund's and Sage Resources' results for the year ended March 1992, Shill said a political settlement would halt violence and strikes, and promote productivity and foreign interest.

"As we progress politically, the lifting of the last sanctions and the opening of additional markets for export should result. SA's access to World Bank and IMF finance should emerge and promote easier monetary policy as the need for a large current account surplus is diminished."

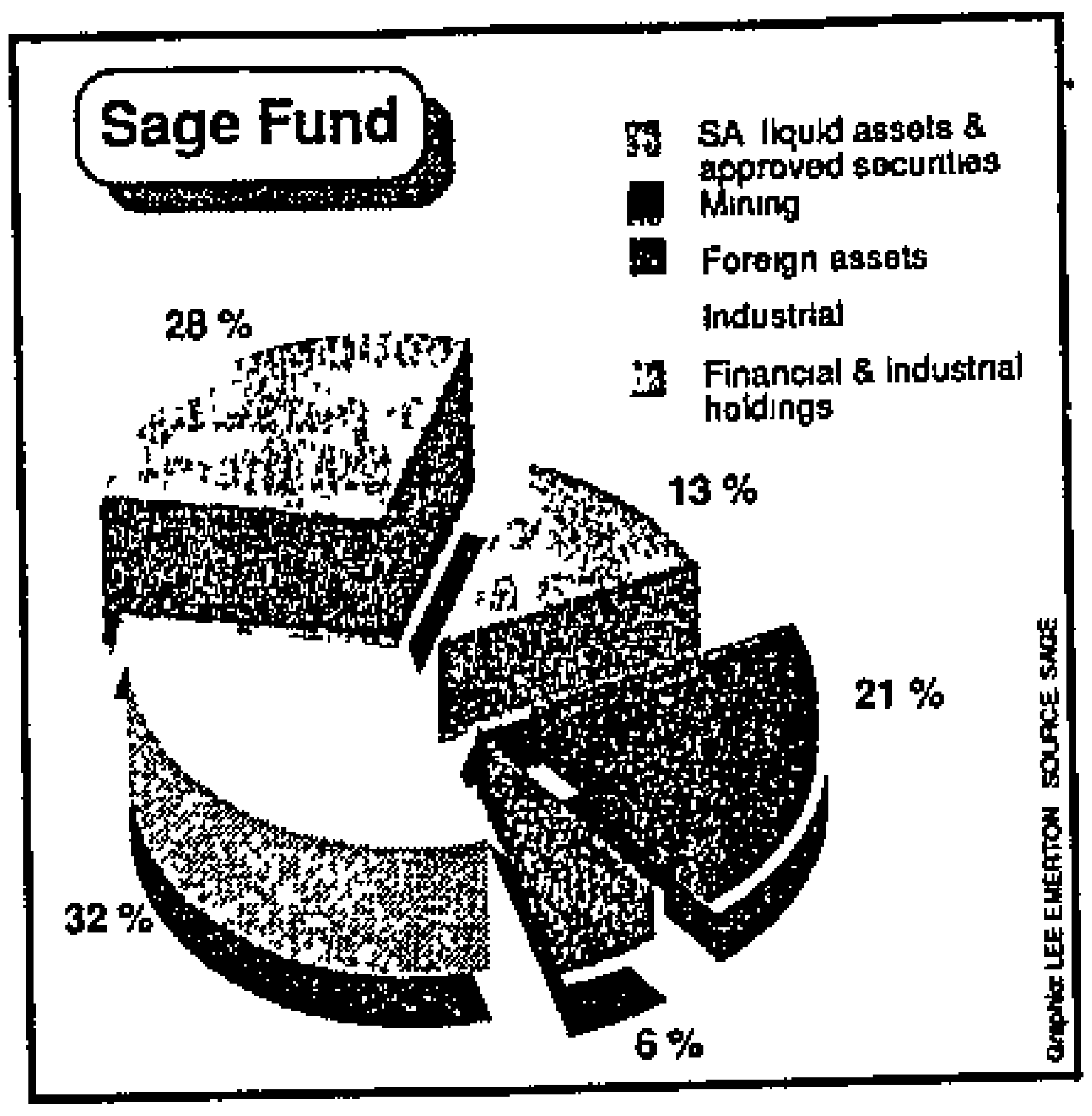
The outlook for the domestic economy was also dependent on political progress and a mild international recovery in 1992.

The domestic upswing would be delayed due to the effect of drought on agriculture.

"The R16bn budget deficit — at 4,5% of GDP — combined with the relaxation of HP restrictions and the lowering of bank rate shows governments attempt to stimulate the economy."

Meanwhile high levels of social expenditure would boost building and construction, while accelerated depreciation allowances to export industries should assist major capital projects.

Shill said the unit trust industry had continued to expand during the year. "Total industry assets rose by nearly 46% to pass the R12bn mark, while the number of unitholders' accounts increased 33% to exceed 1-million for the first time. The net inflow to the industry, which increased 39%, was a record R1,5bn."



Graphic: LEE EMERTON SOURCE: SAGE

Shill said Sage Fund posted a 29% return for the twelve months ended March 1992 and unitholders received 98,7c a unit. The Fund's total assets increased to a year-end record of R989,7m, while unit sales hit their highest ever at R101,5m. However, net inflow at R17,8m was substantially down from R58,7m in the preceding 15 months. "This was due to one institutional holder distorting repurchases with a large redemption."

Specialist unit trust Sage Resources — which focused exclusively on natural resources — only recorded a marginal net inflow. However, Sage Resources posted a return of 14,4% this year, substantially up from the -12,8% in 1991, reflecting the improved performance of the mining and resources sector, Shill said.

Recession-hit SA faces new blows

(49)

ARG 24/7/92

JOHANNESBURG. — South Africa's economy, undermined by a seemingly unending recession, now faces further disruptions from black movements.

Financial analysts question how much more of a battering the sanctions-ravaged economy, further sapped by the worst drought in a century, can absorb as it struggles to shake off its worst recession since World War 2.

The Chamber of Business, which represents 40 000 enterprises, warned that the mass action campaign announced by the African National Congress could provoke a flight of both capital and skills.

"I believe the big impact will be on confidence. And confidence is very brittle — among investors, business, consumers — you name it," said the chief economist with the Old Mutual, Mr Dave Mohr.

The ANC and its allies called yesterday for a national strike on August 3 and 4 to launch a week of protests designed to topple the government.

South Africa is the world's leading producer of gold and platinum and the announcement buoyed prices on precious metals markets. But the financial rand used for foreign investment in South African securities fell 1 percent because of overseas concern.

The Nedbank banking group, in a review published before the strike call, said political violence — which has killed more than 6 000 blacks in the past two years — and persistent stoppages were already severely eroding business confidence.

"International investor confidence has also evaporated," it said. It predicted that the economy, eluding a revival which some analysts had hoped would start in 1991, would shrink by 1 percent this year in a third successive year of contraction.

The ANC was joined by the Communist Party and the 1,3 million-strong Congress of South African Trade Unions (Cosatu) in its call for mass action.

The alliance brought much of the economy to a halt in a tax strike in November. Analysts estimated the cost of a new general strike, if total, at more than R500 million a day.

The manufacturing sector was seriously hit by November's strike, but the analysts said the key mining and farming sectors suffered far less.

The mines, which have laid off more than 40 000 workers since January, 1991, as they seek to combat weak world commodity prices, had a labour turnout of more than 80 percent.

"The industry was not particularly influenced, in production terms, by that stoppage," said a spokesman for the Chamber of Mines, Mr Peter Bunkell.

Some analysts noted that the mainly black National Union of Mineworkers, which claims it has 265 000 members, had agreed on a basic annual wage deal for gold mines.

This, they said, combined with belt-tightening and fears of further job losses could dampen enthusiasm for a strike. — Sapa-Reuter.

EXCHEQUER ACCOUNT (49)

Sliding into the red

FM 24/7/92

The exchequer deficit for the first quarter of the fiscal year amounted to R9,2bn. This is over half the loan requirement for the year of R18bn, of which some R13bn has already been raised.

However, both the Minister of Finance and the Reserve Bank have noted that "the normal issues of government stock and exchequer bills would not necessarily be limited to the budgeted gross amount of R18bn in the current fiscal year."

The low growth in exchequer receipts — R15,9bn (a 10% increase over the corresponding period last year) — is a direct result of the economic recession which the Department of Finance says is more serious than originally foreseen. Consequently, the budgeted annual revenue figure of R84,7bn now appears somewhat optimistic.

The exchequer account shows Inland Revenue was particularly hard hit over the first quarter. At R13,4bn receipts were only 5% up on the previous year. However, receipts

(49)

from Customs & Excise were up 51% (at R2,5bn) with R1,3bn coming through in June alone. The growth was largely the result of increases late last year and in April, in excise duties and the fuel levy. Arrears payments were also made to Namibia in the first three months of the fiscal year 1991/1992, which diminished the net figure for that year.

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Issues for the first quarter amounted to R25,1bn, up 19% on the previous year. This is 25% of the total estimated figure for the year of R100,7bn. The largest proportion of this — 23% — comes from the vote on Regional & Land Affairs. R5,8bn out of a total budgeted allocation of R20,3bn was issued in the quarter. An increase in black pensions in May has been given as a reason for the large issue (*Economy* June 26).

R3bn was issued for Administration: House of Assembly, out of a total budgeted for the year of R9,1bn. R2,8bn (net of RSA stock discount) was issued under the statutory amount for Finance (Budget amount R16,3bn), a 21% increase over the corresponding period last year. This amount includes government debt-servicing costs.

A functional classification of expenditure for the year shows that since 1990/1991, protection services have been reduced from 21,8% of the total Budget to 19,3%, with Defence falling from 13,7% to 9,8%. Economic services are also reduced, from 13,6%

cont →

ECONOMY & FINANCE

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to 13,4%, though the allocation for Agriculture, Forestry & Fishing rises from 2,3% to 3%, reflecting "the cost implications of the prevailing drought." An overlap of the phasing out of the old and the phasing in of the new export promotion schemes sees the allocation to export trade promotion rise from 1,1% to 2,4%. (49)

Social Services rose from 41,3% of the total to 44,3%. But there is also an increase in the interest payable on government debt, from 14,8% to 15,2% of estimated Budget expenditure. ■

Interest rates: How low should they go?

W/mail 24/7-30/7/92 ㊾

Those who rely on savings may disagree but companies claim high interest rates are killing off business.

By **REG RUMNEY**

ARE interest rates too high or too low? Like many other economic issues, the question is not easily answered.

It all depends on who you are. Pensioners will complain they are now too low, as might big corporations: small businessmen will contend the burden of interest rate payments at present levels are killing their businesses.

For those who rely on interest income, such as pensioners, the drop in interest rates has meant that the maximum interest generally available to pensioners (through participation mortgage bonds) is 17 to 18 percent.

Take away inflation at the stubborn level of around 15 percent and that leaves a "real" rate of two or three percent.

While marginally positive, taking tax into account they may actually be negative. In other words inflation may slowly be eating away at the capital.

It is, however, economically fallacious to look at only one part of the population. The Reserve Bank, which is responsible for the level of interest rates, must look at the economy as a whole.

Reserve Bank governor Chris Stals would probably say the plight of pensioners supports his stance that interest rates, far from being high, are low in comparison with the four or five percent level of many other countries.

Those who have savings to invest represent a fairly small part of the population. But their position underlines, so the argument goes, the need for higher real interest rates to encourage savings.

Nedbank chief economist Edward Osborn, arch-critic of the Reserve Bank's high interest rate policy, poses the question: "Isn't our present predicament one of a collapse of consumption rather than a need to increase saving?"

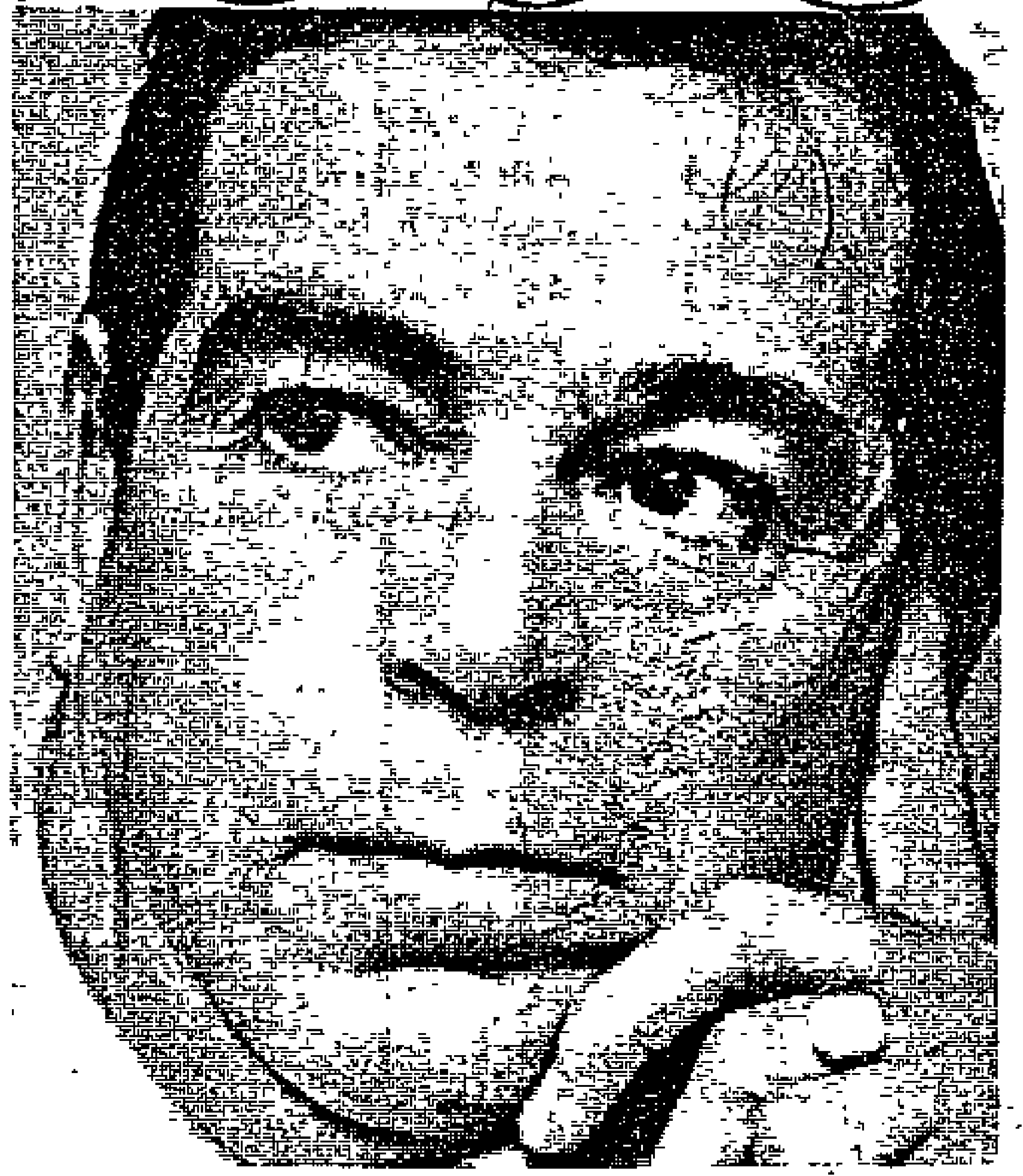
Osborn notes that South Africa is getting deeper in the economic mire every day because of the decline in consumption.

Recent statistics are startling. People don't lightly give up eating and drinking. But the volume of food and beer consumed have dropped. Retail sales are down.

Value Added Tax collections are down, reflecting the decline in consumption and cutting into government financing.

From the point of view of the general economy, the level of interest rates usually influences capital investment decisions.

"It has tended to lose its relevance simply because of the deflation of political confidence.



Reserve Bank governor Chris Stals

If there were a revival of political confidence then interest rates could well become a relevant factor in deciding on capital investments."

High interest rates do not affect big companies the same way it affects small firms.

The borrowings of many big, listed companies are relatively small. In the jargon, most are not "heavily geared", having switched in recent years from using debt to issuing shares to raise capital.

Big corporations with cash to spare can put it into the money market and get a windfall from the interest. Corporations could even use their muscle to raise loans below prime and re-lend that money at a profit — for doing little.

Small to medium-sized firms, on the other hand, are feeling the pinch. These are often highly geared, notes Osborn, and the debt burden with the collapse of consumption is causing them great hardship. The importance of small firms is often stressed, so it would be dangerous to ignore their plight.

Shouldn't interest rates be allowed to find their own level, in free market terms, like other prices in a deregulated economy? The interest rate is, after all, the price paid for borrowing money.

The Bank doesn't directly control interest rates, though it used to. Indeed, Stals has asserted that the Reserve Bank doesn't use interest rates to fight inflation. It focuses on the supply of money. The Reserve Bank draws money out of the banking system to prop up interest rates. Osborn reckons rates would be much lower if the Bank stopped doing this.

But the Reserve Bank could argue that the free market principle should go further. Exchange control should, if this line of logic is followed, also be dropped to allow capital, now bottled up inside South Africa, to leave the country. The consequent scarcity of capital would mean huge increases in interest rates and widespread business failure.

Finrand to remain for a long time

49

S/Times (BUSS) 26/7/92

By CIARAN RYAN

THE financial rand will carry on for the foreseeable future, says the Reserve Bank.

Its widening discount to the commercial rand — caused by violence and political factors — puts paid to hopes that the finrand will be abolished soon. The finrand discount narrowed to 8% earlier in the year, reflecting growing investor confidence in SA, but widened to 30% this week in relatively thin trade.

The finrand was knocked when Inland Revenue took steps to recover tax on interest earned by foreigners in February. It fell further after the Boipatong deaths.

Reserve Bank Deputy Governor Pierre Groenewald says: "We cannot consider abolishing the finrand until we have negotiated the next debt standstill agreement. The present agreement expires at the end of 1993.

"But even if we are in a position to do away with it, it is unlikely that we will."

Mike Brown, economist with Frankel Max Pollak Vinderine, estimates the size of the finrand market in liquid assets, such as money market instruments, at between R4-billion and R5-billion.

In addition, about 15% of all JSE mining shares, with a value of about R6-billion, and about half of Eskom stock are foreign-owned.

Direct foreign holdings in SA were estimated in the latest Reserve Bank Quarterly Report to have been worth $12-billion in 1986. They could be converted into finrands.

Mr Brown says: "As long as there is uncertainty about our debt, the finrand will stay. There was hope that SA's foreign debt in terms of the standstill could be reclassified as normal. But the chances of this have receded.

Maturity

"In terms of the third interim agreement, 20% of the capital must be repaid by the end of 1993. Debt falling outside the standstill agreement is paid on maturity."

At the end of 1991, debt in the standstill net was about $6-billion out of a foreign total of $18-billion.

There are fears that abolition of the finrand would expose the commercial rand, which is used for normal trading transactions, to volatile swings with each new political crisis. The finrand cushions the commercial rand from collapse brought on by waning investor confidence.

When the finrand discount narrowed to under 10% earlier in the year, the Reserve Bank indicated that it was reviewing its future.

The finrand is an investment currency used by non-residents. For every investor taking money out of SA, there must be another bringing money in.

The currency was reintroduced in 1985 after a three-year break to halt the flight of capital after PW Botha's disastrous Rubicon speech.

At a conference in Johannesburg this week, Trevor Manuel of the ANC indicated that his organisation favoured the retention of exchange control. This is an apparent about-turn after indications by the ANC that it favoured abolishing exchange control.

Some economists see this as a signal that the finrand will be retained indefinitely.

Pool

Nedbank chief economist Edward Osborn says there may be an alternative to the finrand: "We used to have a blocked rand mechanism which prevented anyone from disinvesting. Eventually the pool became quite large. The finrand allows non-residents to take their money out, but at a disadvantageous price.

"Nobody likes the finrand, especially the Reserve Bank. But we cannot think of removing it until the political situation is stabilised and there is a clear indication of foreign confidence in SA."

Net capital of about R30-billion has left SA since the mid-1980s, mainly to repay debt. Without the finrand the figure would have been much greater.

Economy flat on its back — Twine

(49)

St Times. (BUSS)

26/7/92

By CIARAN RYAN

MONEY-SUPPLY growth appears to be stabilising at the bottom of the Reserve Bank's guideline range of 7% to 10%.

The most broadly defined measure of money supply — M3 — grew by 8,36% in June compared with a revised rate of 6,93% for May (previously 7,14%).

"These figures indicate that the economy is pretty much flat on its back," says Tony Twine of Econometrix.

"The small increase in money-supply growth between May and June is not significant. If this low growth in money supply continues for another two to three months, we might expect another cut in interest rates."

The Reserve Bank responded to lower consumer price index (cpi) and money-supply growth last month by announcing a one-percentage point cut in bank rate

The seasonally adjusted money-supply figure for June was R190,6-billion from a revised R187,4-billion in May. The money-market shortage dipped to R2,2-billion from about R1-billion six weeks ago.

Index shows production stagnant

BIDAY 27/7/92.

GERALD REILLY 49

PRETORIA — A stagnant SA economy reflected in recent CSS figures is confirmed by the latest indices of the physical volume of manufacturing production.

The CSS's production index has increased by a mere 1,9 points since the base of 100 was set in 1985.

Latest figures show a production decline of 2,3% in the three months to end-April but an increase in sales values of 3,9% to R46,214bn when compared with February-April last year.

Seasonally adjusted, the index fell by 1,3% in February-April, compared with November-January, to 101,7 and the value increased by 0,5% to R45,949bn.

The main contributors to the 1,3% decline in February-April after seasonal adjustment compared with the previous three months, were industrial, chemical, basic iron and steel, machinery and equipment and electrical machinery industries.

In another CSS release at the weekend, trading revenue in the retail motor vehicle and accessories industry increased by 0,9% to R8,981bn in the second quarter this year compared with April-June last year.

STAR 27/7/92 (49)

Stals outlines future policy

Reserve Bank Governor Dr Chris Stals broke new ground on Friday when he addressed black students at the Soweto campus of Vista University to outline the monetary policy a future government should follow.

Stressing that a central bank responsible for monetary policy should retain its independence in the new SA, Dr Stals outlined five key policies to be followed under a democratic government.

A new government would probably want to spend even more public funds on social upliftment programmes than was currently being spent.

Dr Stals said this would exert upward pressure on interest rates and the Reserve Bank would be ill-suited "in those circumstances to try and depress interest rates".

Justifying firm monetary policies to fight high inflation levels, Dr Stals said one of the main reasons for the present unequal distribution of income in SA was the past twenty years of double-digit inflation.

He said South Africa would have to save more to encourage the fixed investment that would create jobs.

"This will not happen unless we have realistic interest rates at an acceptable level above the current rate of inflation.".

Dr Stals said the price of capital, in other words the level of interest rates, would have to be high enough to make capital expensive relative to labour in order to encourage labour-intensive manufacturing processes.

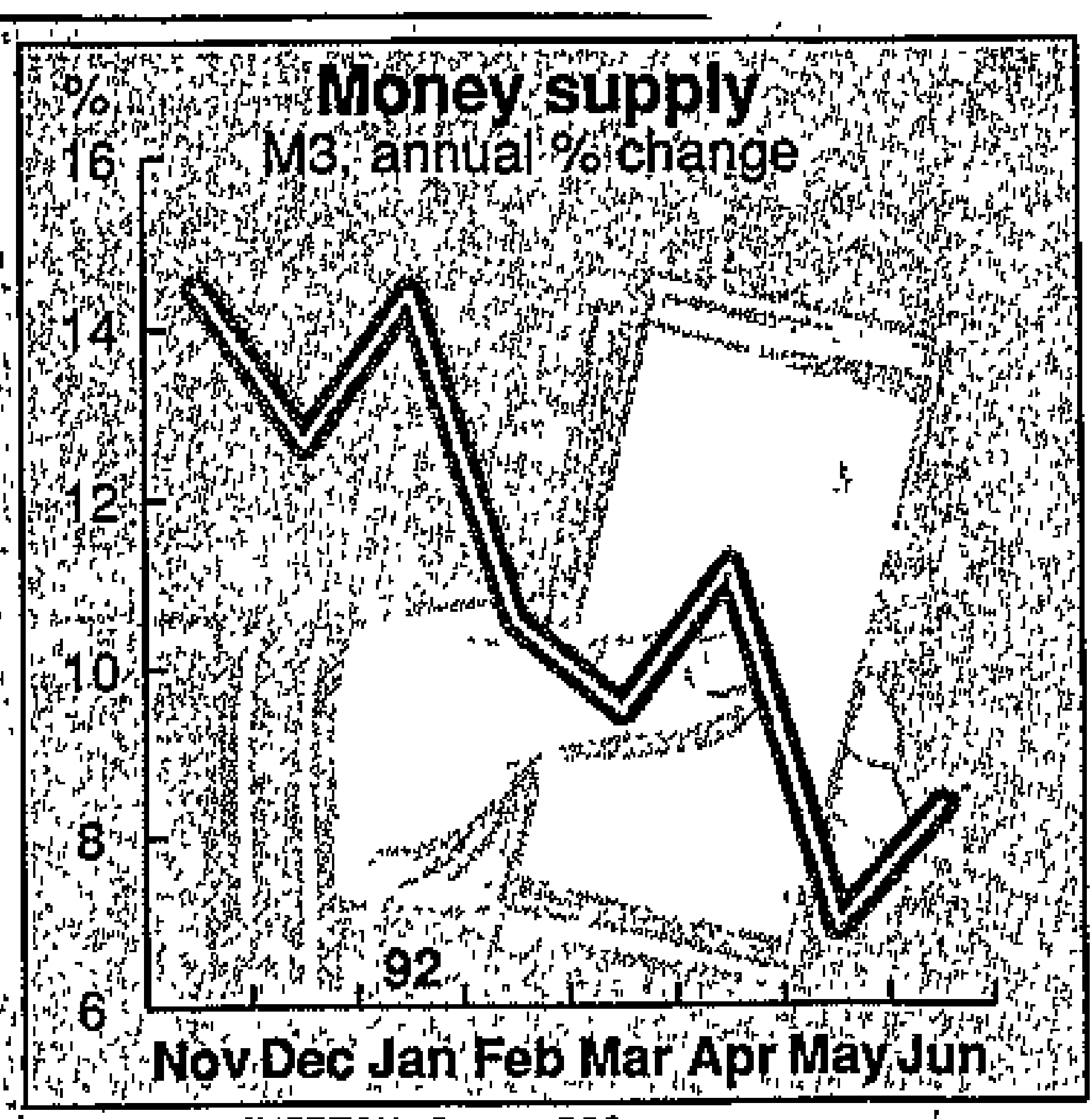
And finally, SA would have to attract foreign investors to generate funding to support high levels of growth.

This would not be possible "if we cannot offer the potential foreign investor an attractive yield on his investment".

He said the bank should avoid dabbling in short-term demand creation to boost the economy, arguing that the prinicples of monetary economics would have to be maintained in a new SA to support long-term growth.

He added, however, that the bank was looking at ways of making the financial system more accessible through:

- Integrating "community and co-operative" banks in the formal SA financial system, without unduly restricting them.
- Extending banking and financial services to emerging new business undertakings and many individuals who are becoming involved in the financial markets. — Sapa.



Graphic: LEE EMERTON Source: CSS

Growth of M3 'is within' guidelines

(49)

HILARY GUSH BDAY 27/7/1992

GROWTH in the broad money supply in June remained within the 7%-10% guideline range specified by the Reserve Bank for 1992, Bank figures released at the weekend showed.

Reserve Bank Governor Chris Stals said there were no reasons for the money supply to move to higher levels during the next six months, reports Sapa.

It was encouraging that the money supply growth for the first six months of the year at 9,05% was within the Bank's guideline range. He was optimistic it would stay there for the rest of the year.

While year-on-year growth in M3 — which consists of cash in circulation and

☐ To Page 2

Money supply

BDAY 27/7/92 (49)

☐ From Page 1

all deposits with banks — edged up to 8,36% in June from the revised rate of 6,93% in May, growth from the base of the guideline year (fourth quarter 1991) rose to 9,05% from 7,12%.

Ivor Jones Roy economist Graham Bell said the downward trend in M3 growth was confirmed by the figure. It was encouraging that May's preliminary figure had spiked down sharply and had since been revised down further. Before this M3 growth had been above 10%.

There was a marked drop in year-on-year growth of total credit extension to the private sector in May which had fallen to 11,6% from 14,3% in April. He said this was the lowest since August 1987 and reflected restrained demand for credit, supporting analysts calling for a further cut in the Bank rate.

Simpson McKie economist Graham Boyd said recent lower money supply growth was part of the overall pattern which pointed to declining inflation and lower interest rates. "Given slow money supply growth we expect inflation to remain subdued well into next year."

MONEY MARKETS by Hilary Gush

Rates ease off as shortage continues steady decline

BDAY 27/7/92 (49)

MONEY market rates eased last week as the shortage steadily fell from its recent highs. Yields in the capital market continued to decline after hitting 57-month lows at midweek.

By Thursday the shortage was down to July's lowest level at R2,293bn from R2,834bn at the beginning of the week.

Liquidity is not expected to pick up until early August when the month's government spending reaches the market.

Expectations of a further two cuts in the Bank rate this year coupled with keen investor demand for short-term paper saw the 90-day liquid BA rate move down from an earlier 13,8%-14,05% trading range to 13,6%-13,75% on Friday.

Negotiable certificate of deposit rates were also lower towards the weekend with nine-month bills trading in a 13,35%-13,45% band from 13,45%-13,55% at the beginning of the week.

Consumer inflation, which fell to a 13-month low in May, is expected to slow further over the next few months. Nedbank's latest economic profile forecasts a decline in consumer inflation to 12,4% and a corresponding fall in the BA rate to 12% by the end of the year.

Applications for the weekly six-month Treasury bill tender saw the Bank receive R740m in bids for the R150m on offer, at an average rate of 12,68% — 10 points down from the previous week's 12,78%. The average rate on the three-month Treasury bills was little changed at 13,39% from 13,4% the week before.

On the back of steady institutional demand capital market rates fell on Wednesday to lows last seen almost five years ago. A hike in the gold price to a seven-month peak fuelled bullish sentiment.

The yield on Eskom 168 bonds — the bellwether semi-gilt — fell to 14,74% on Friday from 15,14% on Monday. The yield on the benchmark government R150 stock slumped 40 points to 14,89% from 15,30% at the beginning of the week.

Rates on long-dated stock are expected to fall further as institutions readjust their positions and increase their bond exposure at the expense of equities.

Russia plans to treble tax on imports

BDAY 27/7/92

MOSCOW — Russia would treble a new import tax for most goods in September and levy higher rates on certain luxury items to help pay off its foreign debt of more than $70bn, Foreign Trade Minister Pyotr Aven said last week.

"We have to spend more on debt servicing and less on imports," Aven said.

"We cannot afford to import the things we sometimes import, for example luxury cars and video recorders."

Russia introduced a 5% import tax on virtually all goods on July 1 to curb imports and try to close a yawning gap in the balance of payments. Aven said that from September the tax would be increased to an average of 15%.

"There are some special excise goods, like vodka and Mercedes cars, which will be (taxed) much higher," he said, but did not detail the higher rates.

Aven put the foreign debt at $70bn, excluding debts to ex-Comecon members.

The tax would also help protect Russian industries against foreign competition and could cut an expected surge in unemployment as market reforms begin to bite and unprofitable enterprises are shut down.

Aven said Russia was owed $140bn, mainly by other former socialist countries and Third World states, but not everyone was keen to pay up. He singled out Cuba as one of the worst offenders. — Sapa-Reuter.

THE WEEK AHEAD by Simon Willson

The factors chipping away at inflation

BDAY 27/7/92

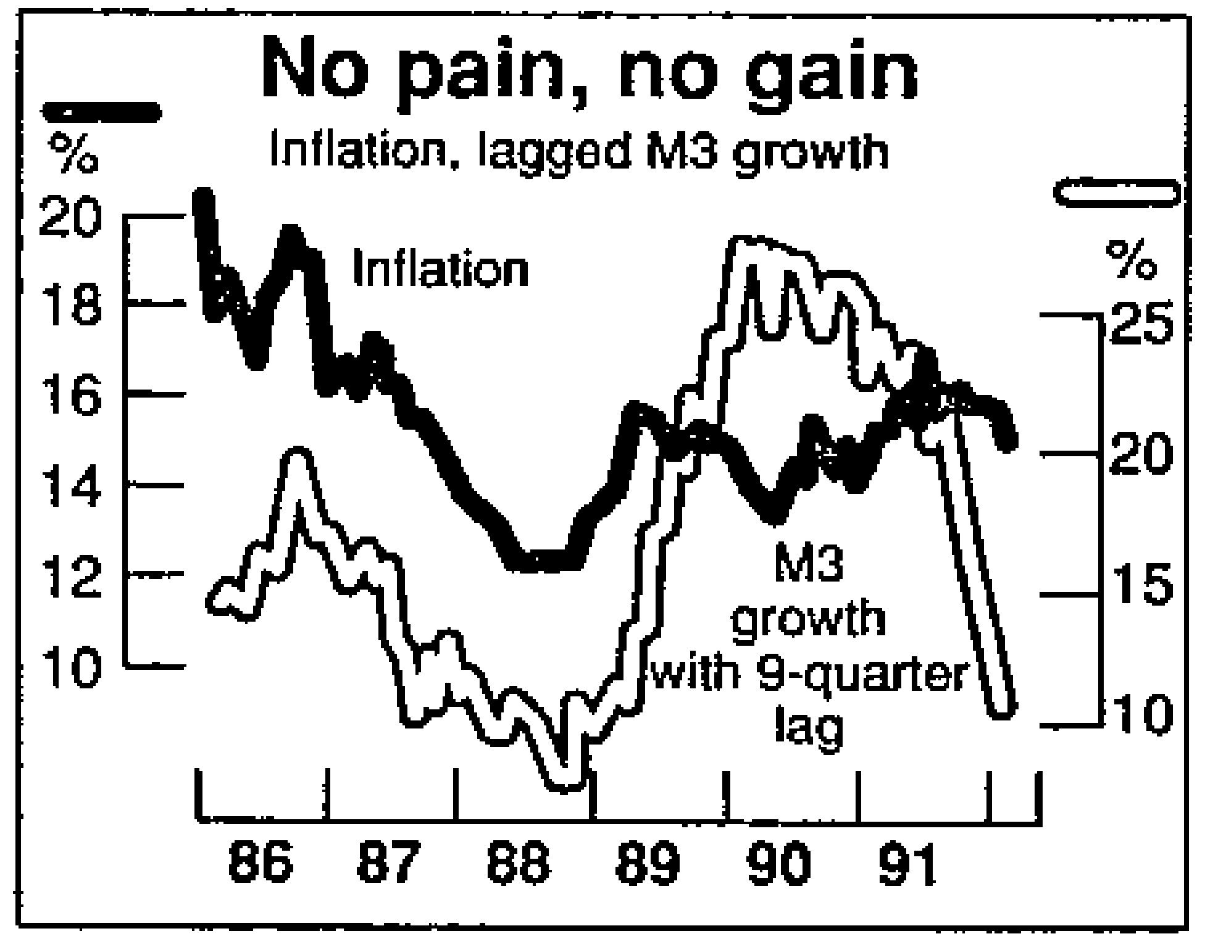
(49)

JUNE's inflation rate, which should be released early this week, may not yet obviously portend the widely expected tumble to around 12% by the end of the year. But the breakdown of the June consumer price index (CPI) should show that the essentials that can drag the inflation rate below the teens are assembling in their appointed places.

The slide in May inflation to 14,8% from April's 15,6% was helped by the movement in the CPI 12 months previously. In May 1991 the index number bounded up by 1,7 points, giving the year-on-year rate of change in the CPI to May 1992 a high base and therefore a low outcome. In June 1991 the index moved up by a more conventional 1,2 points, which offers little in the way of a high base for the rate of change in the index to June 1992.

But other factors are chipping away at the inflation rate. Inflation excluding food eased to 11,5% in May, its slowest pace in 14 months. Inflation excluding VAT dipped to 13,4% in May, the most modest rate since the tax was introduced last September. These sectoral slowdowns in the CPI are narrowing down the field of inflationary villains to a small and very identifiable group, led by food prices and the effect of the consumption tax.

Some remarkably brave — foolhardy, even — forecasts last week by an intrepid university meteorologist predicted a season of good rains later this year, which should slacken the rate of food inflation. Just as the interior's rainy season starts, the VAT effect drops out of the CPI, which should also lend downward impetus to the inflation rate.



No pain, no gain

Inflation, lagged M3 growth

Graphic LEE EMERTON Source BER STANDARD BANK

The chart shows yet another disinflationary drive that should be kicking in to the CPI compilation in the next few months.

One of the main reasons for Germany's controversial discount rate hike in mid-July was the bulge in the country's broad money supply growth. It has been established that the trend in German M3 leads inflation by about nine calendar quarters.

As the chart indicates, there has been a similar match-up since the mid-'80s between SA inflation and M3 lagged by nine quarters. Indeed, the chart suggests that SA has got away lightly in 1989/90 with relatively modest inflationary consequences arising from the 1987/88 ballooning in M3.

The really encouraging bit, however, is the steep fall-off in M3 two years ago. If the internationally tried and tested nine-quarter lag between M3 and the CPI is to hold good, a similar drop in inflation is imminent. The pain of a monetarist recession has to be followed by disinflationary gain to be worthwhile.

Internationally, it is another crunch week for US economic statistics. On Thursday the advance readout of second-quarter GDP is due out. After two upward revisions, first-quarter GDP grew at an annual rate of 2,7% — its best rate for three years. The second quarter is unlikely to emulate this growth pace, partly because recent monthly figures have been so lacklustre and partly because of the US stock cycle.

The increase in US unemployment, the dip in M2 growth and reversals in housing starts, the purchasing managers' index and in factory orders over the past few months have sown enough doubt about recovery to raise fears of a "triple dip" US recession.

In addition, the stock cycle turned in the March quarter, when busy rebuilding of corporate inventories accounted for most of the upward revisions to first-quarter GDP from an advance 2% to final 2,7%. Stock accumulation in the first quarter will, however, probably have been at the expense of second-quarter activity, and accounts for lowered expectations in the market of a second-quarter advance figure of less than 2%.

Also due from the US this week are July consumer confidence, tomorrow, and June factory orders on Friday. Consumer confidence dipped in June, for the first time since February, as concern about job prospects and a three-way presidential election unsettled private spending. The Perot withdrawal has done little to improve matters, and evidence elsewhere in the economy indicates another fall in confidence this month. Factory orders for June can do little but reflect the shortening, in figures already released, of both the non-farm and manufacturing workweeks in the same month. May orders were down 0,8%, and prospects for Friday's figure look similar.

As European markets begin their summer break, the week's other potentially market-moving figures come from Japan.

The Japanese inflation rate for June is due on Friday, but little change can be expected from the pattern of recent months. Three of the five monthly inflation rates for 1992 have been at 2% on the nose and, given the subdued economy and its shrinking asset values, together with a stable oil price, the June figure looks little different.

Japan's merchandise trade balance for June is also scheduled for release on Friday and the surplus, $10,1bn in May, is likely to do its usual dance around the $10bn level as trading partners froth at the mouth about the country's non-tariff barriers to imports.

Australian official moots aid programme for SA

B/DAY 27/1/92

TREVOR BISSEKER

CANBERRA — World governments, the IMF and World Bank should do something positive to help SA when financial sanctions were finally lifted, a top Australian official said at the weekend.

Treasury Secretary Tony Cole, who chaired a committee in 1988 which devised the basis for the British Commonwealth's financial sanctions package, said it was difficult to see SA's political transition going "entirely smoothly".

"The need for capital will be immense," he said. "Official flows will be needed for comfort programmes like education, and these should point the way for unofficial finance to be used for development."

Australia still imposes trade and financial sanctions, in line with the Commonwealth's official standpoint taken at the organisation's Harare summit. (49)

Trade and investment will be permitted when there is agreement in SA on transitional arrangements, and financial barriers will go when a democratic constitution is drawn up.

"At this stage, the Australian government says 'OK' to notebooks, but not to cheque books," a department of trade official said.

Asked about the role Australia could play when financial sanctions were removed, Cole said his country could work through the boards of the [illegible] and World Bank. It could lobby "to get them to do something for SA".

It could also establish a "facility capacity" at its embassy for potential traders.

Cole expected Australian companies to be anxious to establish a presence in SA. Mining companies would be looking for business and wine companies might also be interested.

It would be natural for Australia and SA to renew their old ties. "We would not have felt so strongly about events in SA if it had not been for the kinship," said Cole.

The trade department in Canberra receives about 10 calls a day about possible trade with SA. However, the Australia-Southern African Business Council expected 100 people at a recent meeting here, but only 30 turned up.

Keys moots harsh cuts in govt spending

([illegible]) **BILLY PADDOCK** (49)

GOVERNMENT is considering plans to severely cut government spending in the face of reduced revenue hampering efforts to balance the Budget.

Finance Minister Derek Keys presented various programmes to bring down spending to the Cabinet "bosberaad" which ended on Friday. BDAY 27/7/92.

It is known that a central thrust of Keys's strategy is to reduce expenditure. President F W de Klerk has also committed himself to drastic measures to rehabilitate the economy.

Yesterday Keys said the economy was a high priority at the bosberaad, "and various programmes are in preparation to give effect to government initiatives in a variety of directions".

It is known that Keys has been wrestling with various ways of cutting spending while remaining sensitive to the needs of the various departments.

But the latest Finance Department Review has injected a new sense of urgency into the process.

Revenue for the first quarter was below the targeted level but government expenditure for the June quarter was well up — 19% above the total spent in the first quarter of 1991-2, and higher than the 16,5% it was budgeted to grow by.

Keys refused to discuss details of his proposals to the Cabinet "as it would be premature to do so at this stage".

It is understood that one of the key areas for cuts in government spending would be a reduction in the number of white collar public servants.

Despite repeated government assurances, the public service bureaucracy has continued to burgeon, outstripping the private sector growth rate.

However, trimming jobs in this sector could become an explosive political issue. Cabinet would have to tread very carefully in negotiating such a path.

Keys would not be drawn on speculation from other sources that his proposals include a 20% cut in the budgets of government departments and a drastic austerity programme before next year's Budget.

Keys beefs up plan to axe govt spending

(49)

CT 27/7/92

From BILLY PADDOCK

GOVERNMENT is considering plans to severely cut government spending in the face of reduced revenue, hampering efforts to balance the Budget.

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'Africa must not block imports'

[redacted] [redacted] [redacted]

B/DAY 28/7/92

MICHAEL HARTNACK [redacted]

HARARE — For the sake of a better future, African economic groups must look outwards and not block imports, Zimbabwe's leading economist Prof Tony Hawkins said here yesterday.

The head of business studies at the University of Zimbabwe said it was impossible to talk of all sub-Saharan Africa as a single unit, but it was conceivable that West Africa, southern Africa and East Africa might separately group together around Nigeria, SA and Kenya.

"Bear in mind that the critical thing is to make it outward-looking, rather than inward looking — trying to keep out imports," he said.

Hawkins said for real regional co-operation to develop, governments had to relinquish power and autonomy, which they were most reluctant to do.

"You have to have a cultural change," he said, noting Africa's record of creating inefficient parastatal monopolies behind tariff barriers, which can act as vehicles for politicians to create "patronage" jobs.

Hawkins said fear of post-apartheid SA dominating a regional grouping seemed more prevalent the closer countries lay to Pretoria.

SA and Kenya welcomed the prospect of co-operation, but neighbouring Zimbabwe feared for its manufacturing industries, noting SA's major advantages of scale and technology.

Experience suggested the sub-Saharan problem lay with weak, inefficient implementation of reforms, he said.

He attacked dependence on commodity exports, noting that as the developed world's high-technology industries became more efficient, they required less and less raw materials, meaning depressed prices.

Obstacles remain to economic integration

[redacted]

B/DAY 28/7/92

49 [redacted] [redacted]

HILARY GUSH

ALTHOUGH ample opportunity had arisen from the end of political constraints on SA trade, there were still many obstacles to SA's reintegration into the world economy, a visiting UK academic said yesterday.

Jesmond Blumenfeld, of Brunel University in West London, is a Bradlow fellow of the SA Institute of International Affairs and is in SA to finalise a paper on incorporating the domestic economy into the international arena.

"SA has a long history of state intervention in resource allocation. Shedding this history will be very difficult regardless of who is in power or what government the new SA has," he said.

Industrialisation had always been subject to political manipulation and the attainment of international competitiveness was a complex task. Manufacturers still imported an overwhelming majority of their capital goods, intermediate goods and spare parts, he said.

Although a stable political settlement was needed to attract foreign investment he cautioned against the belief that this was all SA needed to regain its position in the world economy. Structural problems also plagued the domestic economy.

A highly competitive international capital market made it difficult to attract investment. This constituted a chicken-and-egg situation: foreign capital would not flow back into SA until political and economic stability was guaranteed. This, however, could not be achieved until there was investment.

Blumenfeld said there was a conflict between job creation and the kind of goods SA could produce competitively for export.

The manufacturing industry was traditionally capital intensive: the price of capital relative to labour was still cheap and it would be difficult to reverse this trend and generate labour-intensive practices.

"The cliche that SA is the gateway to southern and central Africa is certainly true and the contribution of export earnings from the regional market should not be knocked.

"On the whole central and southern African countries are poor and thus SA's reliance on the regional market for salvation is dubious," he said.

Blumenfeld was sceptical of the success a regional common market would have; trade relations with African countries would continue on a bilateral basis.

He hoped SA's neighbours would become exporters of commodities besides migrant labour, water, live animals and electricity. Financial sanctions which had prevented SA's return to international capital markets were still in place.

This was clear from the inability of the World Bank and IMF to lend to the SA government.

Blumenfeld cautioned that an end to financial sanctions would not lead to a huge inflow of capital, although funds for infrastructural projects and technical assistance would become available.

He suggested that export incentives should be moved avay from those set out in GEIS and towards supply-side measures. Rebates on training programmes and substantial investment in human capital were examples.

Past atrocities are haunting Mugabe

MICHAEL HARTNACK [redacted]

HARARE — Escalating fury over the discovery of bodies in disused mineshafts threatens to undo all President Robert Mugabe's recent efforts to revive political support in Matabeleland for his government. B/DAY

The controversy over the bodies — believed to be opposition supporters killed by government troops — has overshadowed Mugabe's recent tour of Zimbabwe's western provinces — once the stronghold of former Zapu leader, vice-president Joshua Nkomo.

Mugabe travelled around promising land to drought-stricken peasants, but the tour was plagued by the revival of memories of the 1981-87 Matabeleland unrest when thousands were killed.

Churchmen have appealed to SA's Archbishop Desmond Tutu to join them in a march to Antelope mine in memory of all opposition supporters allegedly killed by Mugabe's security forces. Most atrocities were blamed by Amnesty International on his North Korean-trained Fifth Brigade. 28/7/92

Churches have demanded an apology to the people of Matabeleland for the victimisation of civilians during the violence that preceded Mugabe's 1987 unity pact with Nkomo, payment of damages for burned homes and businesses, and support for orphans.

They also want publication of a report on the atrocities — kept secret by Mugabe for the past seven years — prepared by former chief justice Enoch Dumbutshena. B/DAY 28/7/92

The Zimbabwe Human Rights Association at the weekend called for a new inquiry into all cases of those who died in mysterious circumstances.

Recession? SA slides towards depression

④⑨ CT 28/1/92

By AUDREY D'ANGELO
Business Editor

NEARLY 70% of manufacturers in the Western Cape expect no improvement in the economy for at least a year, according to a survey carried out by the Cape Chamber of Industries (CCI).

This has shown that 38% expect an improvement in 12 months' time, 30% think it will take 18 months and 20% expect it to take even longer.

Political uncertainty and the threat of mass action — affecting both the domestic economy and overseas investors and trading partners — emerge as the main reasons for this gloomy outlook, together with the fact that so many firms have gone to the wall during the prolonged recession.

CCI deputy director Colin Boyes commented yesterday: "The situation has definitely deteriorated further, with talk of a recession being replaced with talk of a depression and the most severe economic crisis since the Second World War."

The survey showed that only 5% of respondents were finding business good at present, compared with 45% who find it fair and 50% poor.

None expect profit performance to be much better over the next 12 months, only 17% expect it to be better, 32% expect it to be unchanged, 38% to be worse and 13% much worse.

They put political conflict first in a list of factors that will retard business in the year ahead, with violence and unrest coming second and labour disputes third.

High interest rates, which headed the list in a survey last year, have moved down to fourth in order of importance, followed by foreign competition, increased taxation and the prolonged world recession.

Boyes comments: "Political and social upheaval are uppermost in the minds of industrialists.

"Economic considerations of high interest rates and tax relief have all given way to the realisation that, without political stability, economic recovery is a remote possibility."

But Boyes points out that the Western Cape economy is in many ways better placed than other parts of the economy "particularly the Transvaal, as the level of violence is not as acute."

The Western Cape is not dependent on one major industry such as mining, he continues.

"Another positive factor is that we have escaped the devastating drought. And the deciduous fruit industry is fast becoming to the Cape what the gold mining industry was to the Transvaal.

"The strong growth in the export of fruit is a major source of income for the Cape and is having a multiplier effect on the region as its success penetrates down to the engineering, packaging and other associated industries.

"With consumer spending squeezed, the survey shows that local consumer-orientated industries are paying far more attention to developing export markets and the opportunity of achieveing an export-led recivery is a distinct possibility."

Albert Schuitmaker, assistant director f the Cape Chamber of Commerce, said many of its members, too, seemed to be in a depressed mood.

"Members have realised that it all depends on the politicians now — and the feeling seems to be that we need some form of interim authority in place as quickly as possible, so that we know where we are going.

"We have been inundated with calls from overseas, telling us that we must get our act together and then we can do good business. But foreign business people are slowing down on any involvement with SA until the uncertainty has ended.

"This is a big letdown compared with the situation last year when all of a sudden, everything was going so well — particularly after the referendum.

"In addition to this, all the indications were that the recession was coming to an end late last year. But that didn't happen and the number of liquidations is growing."

Mass action seen bringing disaster

(49)

By Michael Chester STAR 28/7/92

Basic economic foundations vital to democratic reform may be damaged beyond repair if political mass action programmes bring business to a standstill, the Steel and Engineering Industries Federation warned yesterday.

In an interview in the countdown to the general strike threatened next week by the Cosatu/ANC/SACP alliance, Seifsa president Dave Brink said the economy, already severely hit by the longest recession since World War 2, was too weakened to withstand a prolonged battering by violence and disruptions.

Adding his voice to the recent spate of warnings about the economic impact of mass action, Econometrix director Dr Azar Jammine said the campaign could derail any form of economic recovery if it led to the breakdown of law and order.

Mr Brink, chief executive of the Murray & Roberts construction and engineering empire, said: "The urgent need for the creation of an appropriate interim government as soon as possible is now understood by all sides.

"But the use of general strikes and mass action to reach political objectives may wreck the very foundations on which any new government must be based.

"The absence of political consensus has already caused paralysis to economic development. Wide-scale industrial disruptions may prove to be the final fatal blow."

David Brink . . . wave of company closures

He forecast a disastrous wave of more company closures and job losses if production lines came to a halt in nationwide strike action planned for next week.

As a result of recession and political turbulence, no fewer than 700 or more firms in the steel and engineering sector alone had been wiped out by liquidations.

Among steel producers, jobs losses have been running as high as 3 000 every month for the past two years.

"A dramatic acceleration in job losses and company liquidations looks inevitable if August 3 marks the start of more production disuptions," he said.

"The backlashes may be enormous. Jobs can easily be destroyed. But it costs a fortune to create new ones — especially if companies remain under continual harassment.

"The future of many companies looks in the balance. Next week may be decisive for many of them.

"What makes it all the more tragic is the threat of losing the vast opportunities open to a new South Africa to create a vibrant new economy from which the entire population could benefit.

"It is not only South African businessmen who are concerned about August 3 and beyond. The whole world is watching — nobody with more trepidation than potential foreign investors.

"There is little prospect of attracting the overseas funds so deperately needed unless South Africa provides evidence of putting its act together. Events next week could bring us to the crunch," Mr Brink said.

Econometrix's Dr Jammine, in a presentation to the Argus group, warned that the economy could be on the threshold of a major recession, depending on the severity and length of the mass action campaign.

While he forecast negative economic growth this year and positive annual growth rates for the following three years, he cautioned that if the campaign got out of hand, growth could well turn negative in 1993 as well.

focus on Africa

Hans-Peter Bakker of the *Sowetan* Africa News Service takes a cynical and personal look at South Africans - especially those of the white variety with apparently indissoluble links with more distant parts of the world:

Sowetan 29/7/92

WHILE much of Africa is eagerly awaiting South Africa's return to the continent, most people here prefer to remain largely ignorant about the rest of the land mass to which the country is inextricably attached.

They prefer to associate with countries like Germany, Great Britain or the United States, rather than acquaint themselves with the shambles in Africa, ignoring the fact - sad to some, but real nevertheless - that we are Africans in Africa.

Our future lies more than ever before with the African continent. And the sooner we accept that the better for all of us.

More and more businesses are sending teams into African countries to investigate business opportunities.

A future government is sure to have much closer ties with Tanzania than with Great Britain and the political or economic developments in Zimbabwe and Angola are much more likely to affect South Africa than internal political developments in France or Israel.

Ask the average South African where Burundi is and he is likely to tell you it is in the Himalayas or in South America.

Strike conversation

South African newspapers are fixated by the latest romps of the British Royal family.

On the other hand it is quite possible to strike up a conversation with a taxi driver in Lusaka (that is in Zambia, just north of where Rhodesia used to be) about the crisis facing Kenya's President Daniel arap Moi.

He will know who Babangida is and that Sierra Leone has just experienced yet another coup. He will happily chat about the Renamo-Frelimo war and Dos Santos' moment of truth at the end of September.

Good luck

And above all he will have a pretty good idea about what Mandela and FW have been up to.

Back in South Africa, it is rare to find even a well-educated person able to display the same range of knowledge - besides, of course, the tiresome fascination with which we examine our own navels.

While most Africans north of the Limpopo remain abreast of developments on our continent, South Africans are allowing themselves to be left shamefully behind.

Possibly the changes have been too sudden, and most of them are still too busy wiping the sleep out of their eyes to notice that the once impregnable laager on the Limpopo River has all but disappeared.

Maybe the newspapers must share some of the blame. Newspapers in Nairobi and Dar es Salaam are every day filled with news and features on the African continent.

South African newspapers are fixated by the latest romps of the British Royal family.

No exceptions

In contrast South African newspapers, virtually without exception, are so fixated by our own crisis and by the latest romps of the British Royal family that articles on African issues are sadly few and far between.But the fault also lies with a society - especially the white society - which prefers to think of Africa as an unfortunate failure. And the less they know about it the less chance there is of it coming down here to sully their little bit of pseudo-Europe.

Review says economic revamp is imperative

B/Day 29/7/92 (49)

SHARON WOOD

THE current weakness of the economy makes economic restructuring imperative, says Standard Bank's latest Economic Review.

This should be along the lines of a structural adjustment programme which seeks to enhance economic efficiency by working to a detailed programme of policy implementation.

The current economic scenario could have serious socio-political consequences, since stunted growth provides fertile ground for social conflict, says the Review.

"Raising the confidence levels at home and abroad is essential, as is a fundamental restructuring of the economy to make investment both possible and profitable."

Standard Bank believes there is an opportunity to start this process before the expiry of the Third Interim Arrangement with foreign creditors in August 1993.

"SA will benefit tremendously if it could terminate this agreement and thus end the debt standstill, through a normalisation of its relationship with foreign markets." This could be done through a tacit agreement not to call up debt, or the conversion of remaining debt into one- or three-year paper saleable in the secondary debt market. But this could happen only if full access to IMF facilities was restored and a fall-back position was seen to exist.

"This, in turn, would require the acceptance by the IMF of a suitable economic strategy," it adds.

Standard Bank is concerned about the ANC's economic policy and the apparent economic paralysis of government.

The ANC's policy continues to cause concern among investors and potential investors because market forces do not appear to be central to its policy framework. Of more immediate concern is that government appears to have put privatisation, tax reform and tariff reforms on hold.

"Moreover, efforts by the monetary authorities to promote greater economic efficiency through interest and exchange rate policies have not been matched on the fiscal policy side."

It urges employers, trade unions and government to accelerate the creation of an economic forum.

Economy's devastation 'worth the price'

LINDA ENSOR (49)

CAPE TOWN — Devastating the economy was a worthwhile price to pay if the ANC's mass action campaign was successful, Transkei leader Maj-Gen Bantu Holomisa said yesterday. BDAY 29/7/92.

Holomisa told an ANC-arranged news conference there was no reason why blacks should let the private sector, which was supportive of government, flourish.

If mass action successfully conveyed the mood of blacks, then devastating the economy in the process was the price that had to be paid. Big business was duty bound to impress upon government the need for fundamental change, he said.

"The charge that mass action will debilitate an already fragile, bruised and battered economy has a hollow ring of insensitivity to the plight of the majority.

"We are under no illusions that if big business were to support the masses' demands for a genuinely full-blown democracy, the government would execute nimble political footwork to redress all the legitimate demands of the dispossessed and disenfranchised African majority."

He said the SA government was solely responsible for the sorry performance of the country's economy.

He said the manner in which negotiations were conducted had to be reviewed so that they were not subjected to government manipulation.

NEWS FOCUS

An outsider's view of SA's turmoil

B/DAY 29/7/92 (49)

TIM COHEN

BEYOND the hurly burly of the immediate political debate, South Africans face a more fundamental existential question, says outgoing German ambassador Immo Stabreit.

At the root of the political and social instability lies a more essential problem: what kind of people are South Africans? Who are they? What do they really want?

Confusion over these questions has resulted in what Stabreit calls zero-sum politics — a tendency toward conflict-orientated methods of resolving problems.

This has left South Africans — like Germans — depressed about their circumstances. Both nations have tended to become obsessed with the internal issues in their countries recently, quite understandably because of the enormous changes taking place, he says.

But often outsiders see the problem more clearly.

Germans are depressed about seemingly insurmountable political problems and complain that their government is not quite coming to grips with them.

Outsiders are surprised by these complaints, and point to huge possibilities for the future and the astounding success achieved so far.

For similar reasons, he says he remains confident that there is a good chance that the transition in SA will take place successfully.

☐ STABREIT . . . remains confident

The air of depression is understandable, Stabreit says. "You are under pressure; you open the paper in the morning and the blood is dripping from it." But beyond that there is a very strong commitment by SA to get on with it, he says.

What is necessary is the establishment of "rules of the game" — a mutual understanding or working relationship needs to be established between political groups about what constitutes acceptable politics.

The major political players need to get used to working with each other and come to terms with each other. They need to develop a common understanding which occupies an area beyond their differences.

As far as his government is concerned — and other European governments for that matter — Stabreit says they could live with any outcome that is accepted by the majority of South Africans.

Europe does, however, have certain expectations. It would like to see an open and pluralistic society with a social market economy.

"If this takes place, I can be very reassuring," he says.

Private enterprise will invest and beyond that, European countries will be willing to help SA. The stakes are very high. SA is a key part of the subcontinent. If SA fails, it will take the economies in the region down with it, he says.

Asked what advice he would give to a new government, Stabreit says he would tell it to tread very carefully and not be tempted to rush into new programmes. Clearly, though, some problems need urgent attention.

The immediate priorities include job creation, education and health care.

On the form of new constitution for SA, Stabreit says it is clear that there is not only one type of political system that would justifiably fall under the heading "democracy".

All countries have adapted their constitutions to suit their local conditions.

He uses the example of his own country, where members of the small Danish community in Schleshwig Holstein are guaranteed a representative in the regional parliament.

However, all democracies have one thing in common: all voters have votes of equal weight. There is no escaping one person, one vote, although this does not mean ways should not be found to accommodate everyone.

This is not impossible to engineer, and at Codesa the outlines of what could become the new constitution of SA are becoming visible, he says.

"I do not think it is hopeless."

Stabreit, who has been in SA since 1987, will be succeeded by Hans-Christian Ueberschaer. Stabreit leaves SA in August for a post in Washington DC.

Political changes will curb regional economy ㊾ expert

BDAY 29/7/92.

TIM COHEN

PRETORIA — Political changes taking place in southern African countries would impede the development of a regional economic entity, Mozambican academic Prof Augostinho Zacharias said yesterday.

Speaking at a workshop on economic integration in southern Africa, Zacharias said multiparty systems were knocking on the doors of many countries.

Their implementation would take time, and the result would be a level of homogeneity necessary to build meaningful economic integration. Political parties in the region did not represent coherent ideological positions and many still had the characteristics of protest movements, militating against economic integration.

In addition, there were distinct signs of developing "sub-nationalisms".

However, structural adjustment programmes in several countries would result in more homogeneous economic systems, which would make integration easier.

There were also other factors present in the region which could facilitate economic integration. Many regional organisations were beginning to develop, including religious bodies and business forums.

On balance, with a spirit of co-operation and mutual respect, Zacharias said he thought that regional co-operation was both possible and desirable.

Speaking on the energy sector, Prof R K Dutkiewiz of the Southern Africa Foundation for Economic Research said traditional energy resources were being depleted rapidly. Other problems included the shortage of capital, lack of infrastructure and skills, and political instability.

However, the region was almost embarrassingly rich in resources, particularly for the generation of electricity.

Significant gas fields had been discovered in Mozambique and Namibia.

The potential for hydroelectric power was enormous, he said. One particular stretch of the Zaire river at Inga could generate 45 000 megawatts of power, about twice what Eskom produced at peak.

This potential held out the promise of trade in electricity. If half of Inga's electrical production capacity was sold to SA, Zaire's GDP would be boosted by 15%.

The problem was that the resources were in the wrong places.But even so, there was good ground for mutual co-operation, Dutkiewiz said.

Antipodean smirks at the Bureau de Change

49

BDAY 29/7/92

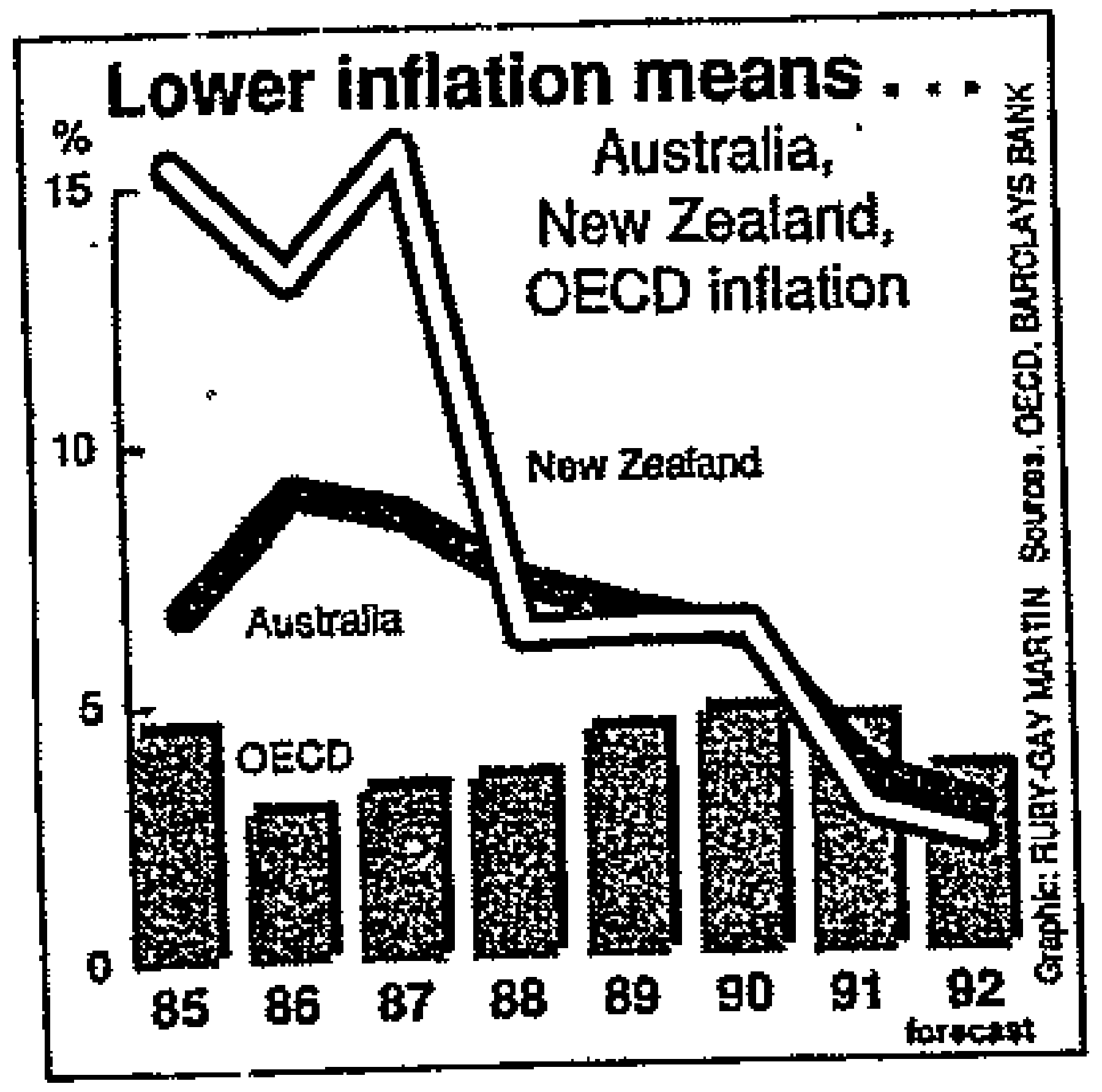
SIMON WILLSON

EARLY today yet another excellent Australian inflation figure will have been released. New Zealand's inflation rate is already the lowest in the industrialised world and Australia's will, by now, be close behind.

This conjunction of events is particularly galling for South Africans. For it comes just as squads of insufferably self-satisfied Antipodean rugby players are arriving on these shores. These musclebound *arrivistes* can now not only smirk about being World Cup rugby champions (Australia) and Cup semifinalists (New Zealand), but they also have impossibly rosy economic prospects at home.

What is more, the currencies of these two Australasian extremities are about to reap the benefits of their home countries' discipline and abstemiousness. From being slightly comical and vaguely exotic high-yield tokens good for a quick punt five years ago, the Australian and New Zealand dollars are poised to become respectable members of the foreign exchange market's wide and influential yen bloc. This membership carries with it numerous *ex officio* benefits based on the substantial investment flows out of Japan and into decent and promising ventures all around the Pacific Rim. And all because the Aussies and the Kiwis learned to tame inflation.

The contrast with the SA experience could hardly be greater. Like SA, Australia and New Zealand have gone through rigorous and cathartic recessions in an attempt to beat inflation. Like SA, these two resource-dependent economies have had to accept historic peaks in unemployment as a means to head off over-ambitious wage demands and thus reduce inflationary expectations. Unlike SA, Australia and New Zealand have succeeded.



Lower inflation means . . .

Australia, New Zealand, OECD inflation

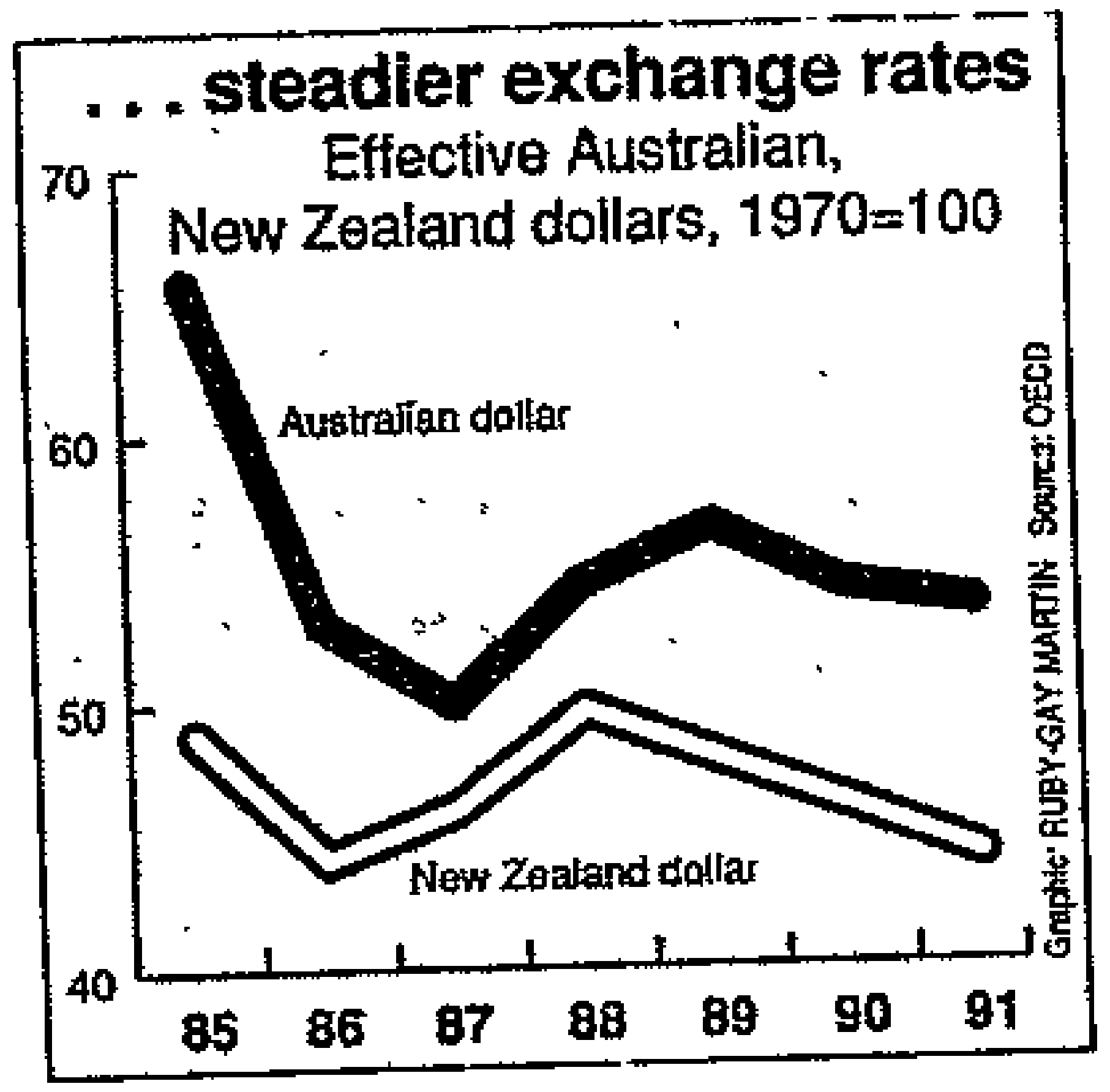
Graphic: RUBY-GAY MARTIN Sources: OECD, BARCLAYS BANK

As the first chart shows, after being the private jokes of the industrialised West only seven years ago with their basketball-score inflation rates, the nations for whom the All Blacks and Wallabies are roving ambassadors have stilled the sniggering. The two countries' inflation records are now substantially better than the average achieved by the OECD, which groups together the 24 richest countries on earth.

This morning's release of the Australian inflation rate for the second quarter is likely, at worst, to have registered zero — that is, no increase in average consumer prices at all from the end of March to the end of June. At best, the quarter-on-quarter inflation readout could have been negative — prices could have fallen over the 90-day period. This quarterly inflation rate puts Australian year-on-year inflation at 1,3%-1,5%.

New Zealand's record is even better. Notwithstanding the fact that the Kiwis have a smaller economy and have endured a longer recession since the end of the '80s, New Zealand officially had the OECD's lowest inflation rate in the year to March at 0,8%, and will probably hold on to the title when all the second-quarter figures are in.

The benefits to the ordinary Antipodean citizen of this exemplary inflation performance are not so much in the more stable shop shelf prices, although this undoubtedly helps. The real, longer-term spin-offs are visible in the effect restrained inflation has on the currency that these Australasians carry in their pockets.



. . . steadier exchange rates

Effective Australian, New Zealand dollars, 1970=100

Graphic: RUBY-GAY MARTIN Source: OECD

As the second chart shows, the steep falls of the mid-'80s in the effective values of the Australian and New Zealand dollars have been arrested. The two currencies no longer need to depreciate hand over fist to maintain the competitiveness of their countries' exports. Indeed, the inflation rate in each country is now below Japan's 2%, and the yen is the Deutschmark of the Pacific Rim — the key currency against which all others in the region are measured.

This means the effective Australian and New Zealand dollars can be expected to flatten out and then even appreciate against those notoriously assertive "Little Dragon" currencies of the Pacific Rim. If a currency can hold its purchasing power against the likes of the yen, the Taiwanese and Hong Kong dollars and the South Korean won, then it is sitting pretty in today's foreign exchange market.

A currency at home in the Pacific Rim is certainly a force in sub-Saharan Africa. That explains the confident expressions on the faces of those Antipodean rugby teams arriving at Jan Smuts Airport: the players are heading across the arrivals hall to the Bureau de Change to buy rands. Lots of them.

LETTERS

(49)

Stable climate vital Sunter

KARIN FRANKEN

ANGLO American director Clem Sunter warned yesterday that a stable economic and political climate would have to be created to encourage South Africans to stay in the country and contribute to economic growth.

Speaking at the TW Business School's Winter Breakfast in Johannesburg, Sunter said SA would have to follow the "high road" to achieve a viable economy and become a global economic player. BDay 30/7/92

"A winning nation is one which values strong work ethics, a small and competent government, multiparty democracy, low tax, low government expenditure, higher savings rates and a strong social justice system."

SA possessed the ingredients to grow with a developed infrastructure, vast mineral resources, limitless potential for tourism and a wealth of talented people, he said.

Rationalisation mooted to curb State spending

STAR 30/7/92

(49)

By Peter Fabricius
Political Correspondent

The Cabinet is planning to rationalise the three racial "own affairs" departments in a new effort to curb spiralling government spending.

And most other government departments are also to suffer staff and budget cuts of up to 20 percent in an effort to keep the 1993 Budget increase down to a nominal 10 percent.

It is understood that the staff of the triplicated "own affairs" departments which administer white, coloured and Indian education, health, housing and welfare are to be rationalised into single departments in each functional area.

The decision was taken in principle at the two-day "bosberaad" which the Cabinet and other senior members of the Government held in the bushveld last week.

Finance and Trade and Industry Minister Derek Keys presented the "bosberaad" with figures showing that government spending for the 1992 financial year was running well over target while revenue was falling short of projections.

It is not clear what the exact implications of the "own affairs" rationalisation will be and, in particular, whether it means that white, Indian and coloured education will at last be brought under a single authority.

The Star understands the decision will affect civil servants rather than politicians. Many civil servants could lose their jobs in the rationalisation programme.

The only departments which will not suffer cutbacks are those concerned with upgrading black social spending, such as black education.

The Cabinet also decided on a possible transitional scenario in which the present Parliament would continue during an interim period while a constituent assembly drafted a new constitution.

Radical overhaul of debt accord urged

(49)

By Sven Lünsche

STAR 30/7/92

Standard Bank has urged the Government to terminate the Third Interim Debt Agreement with foreign creditors and replace it with an IMF-backed Structural Adjustment Programme (SAP).

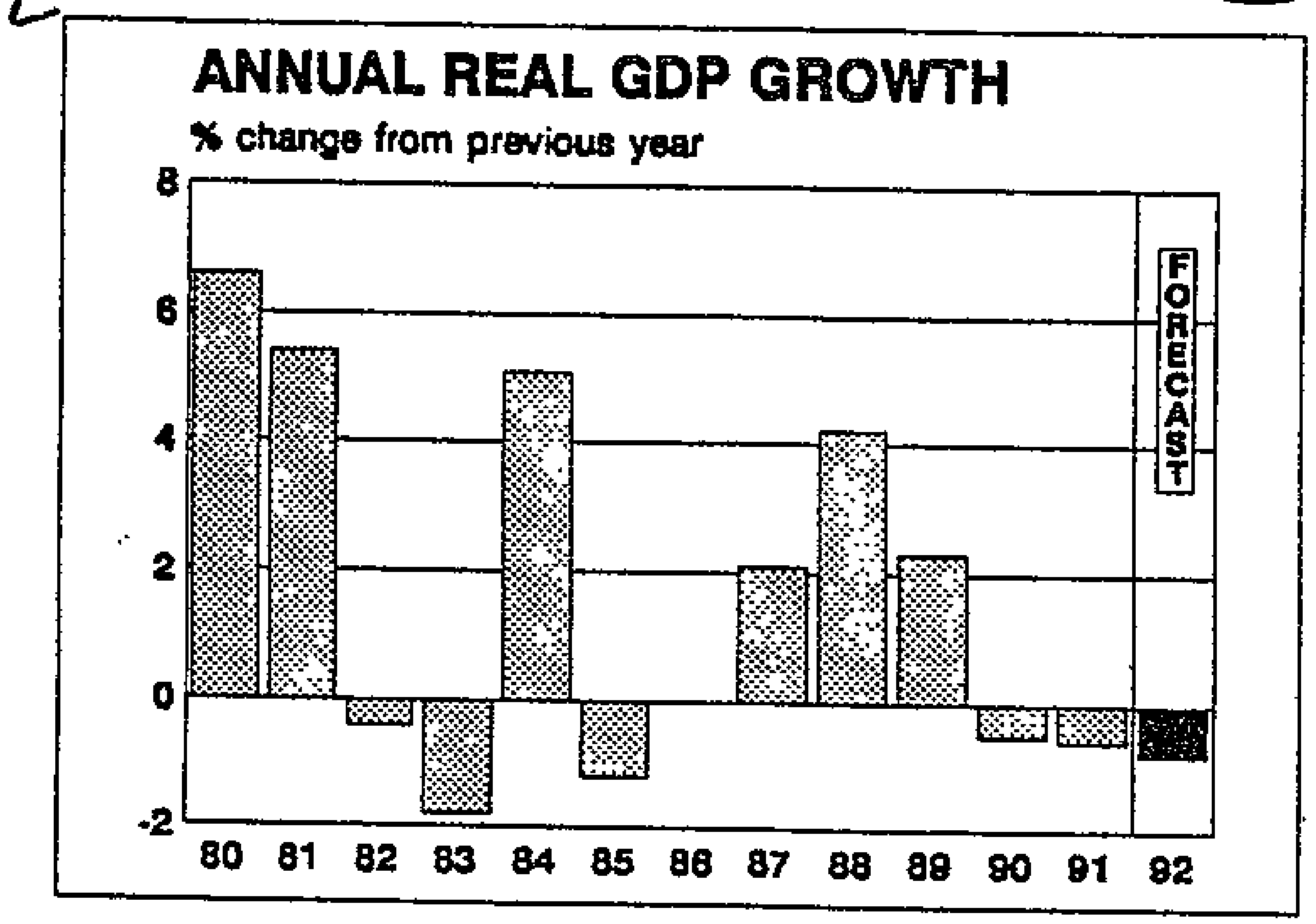
In its latest Economic Review the bank says a SAP is essential to restore confidence in the economy, which it predicts will decline this year by more than it did last year.

"Given the current weakness of the economy, a process of restructuring along the lines of an SAP, must start as soon as possible," Standard Bank says, adding that the process should be started before the expiry of the foreign debt agreement in August next year.

South Africa would benefit tremendously if it could terminate the agreement and bring about a normalisation of its relationship with foreign financial markets, Standard says.

"This could be done through a tacit agreement not to call up debt, or, for example, the conversion of remaining debt into one- and three-year paper, saleable on the secondary-debt market."

The bank warns, however, that such a move can only be undertaken if full access to facilities of the International Monetary Fund (IMF) are restored, so that a fall-back position exists.


ANNUAL REAL GDP GROWTH

% change from previous year

This requires the acceptance of a suitable economic strategy by the IMF which, in turn, would have to be satisfied that such a strategy had broad local backing.

"No such blueprint exists at present: it must be created and must find reasonably wide endorsement."

Standard Bank says the business sector has a key role to play as it is well placed to encourage an economic strategy that could gain support across much of the political spectrum.

The strategy should aim for rapid, sustainable growth, with an emphasis on both efficiency and equity.

"Conventional wisdom points to deregulation and tax reforms as the relevant policy framework for a competitive economy."

The bank says such a strategy is urgently required because the economy is probably in the deepest recession South Africa has experienced in the post-war period.

"The signs point clearly to a third consecutive year of economic decline expected to be around 0,8 percent, and there is no real upturn in prospect before the second quarter of 1993." (see graph)

The bank, however, is slightly more optimistic on the outlook for personal consumption expenditure (PCE).

While the low level of personal savings, reduction in consumer access to credit, slower growth in disposable income and rising retrenchments will continue to take their toll on PCE in the second quarter of the year, Standard predicts a slight upturn in spending during the second half.

The most serious manifestation of the recession was the decline in fixed investment to a low of 13,5 percent of gross domestic product (GDP) in the first quarter of the year.

"The recent trend in investment undermines the economy's future ability to generate growth and absorb work-seekers," Standard says.

Underlining its call for a thorough restructuring of the economy, the bank concludes that quick-fix measures, which might hasten a short-lived cyclical upturn, simply will not restore the kind of growth that is necessary.

MONETARY POLICY 49

A stronger rand?

FM 3/7/92

Reserve Bank Governor Chris Stals says the Bank "will feel freer to allow" the rand to appreciate in view of Finance Minister Derek Keys's indication that SA cannot, at this stage, abandon its protective import tariff policy.

Addressing the Afrikaanse Sakekamer in Johannesburg this week, Stals noted that the Bank spent R2,5bn in the first four months of 1992 buying dollars to prevent the rand from appreciating. "While I personally favour a weak rand as the right weapon to keep import levels low, and while the Bank's exchange rate policy, until now, has been based on the assumption that tariffs will gradually

FM 3/7/92

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fall, the Minister's decision has now placed a different light on the issue.

"If it should be decided that tariffs will not come down, there will be less need to depress the rand and we will not be compelled to buy in such high volumes of dollars. This will help to keep inflation low, as the R2,5bn used to buy dollars in effect offered a wider window for money creation, allowing commercial banks to pump an additional R2,5bn into the system."

Stals says that, at the request of Keys, he has appointed three top Bank officials to assist in devising a proposed structural adjustment programme for the economy. The group will report to Keys "within the next three months. Interested parties are welcome to provide inputs into this study and we would like to encourage a national debate on the necessity of structural changes to the economy." ■

Nafcoc set on talks

Sowetan 31/7/92.

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CONFERENCE DECISIONS Pledge to help revive negotiations process:

BLACK BUSINESS YESTERDAY committed itself to playing a major role in curbing violence and getting negotiations at the Convention for a Democratic South Africa back on track.

This was one of the resolutions of the 28th annual conference of the National Federated Chamber of Commerce at Sun City in Bophuthatswana.

The conference condemned the violence currently gripping the country, adding that millions of rands had gone down the drain.

The outgoing president, Dr Sam Motsuenyane, said black business must expect take part in efforts to resolve problems of South Africa.

The problems he identified included the political impasse, unemployment, poverty and the economy.

He said Nafcoc members should be seen to be playing a meaningful role in bringing about change in South Africa.

Nafcoc had taken part in attempts to formulate an economic policy for the country.

Motsuenyane said the mass action spearheaded by the African National Congress and its allies would destroy the country's economy.

The newly elected president of Nafcoc, Mr Archie Nkonyeni, said the businessmen's organisation would have to play a major role in bringing about peace and stability to the country.

He said issues to be addressed included housing, education and the acquiring of skills and technology for the development of black business.

FM 31/7/92

increases. Rates have become volatile in line with underwriters' concern over political instability and the level of violence.

Cavalieri notes the promoters of the Cameroon soccer tour sought cancellation cover and related insurances just days before the tour was due to commence and when risk of cancellation was at its peak. "The time to negotiate insurance rates is during the event planning," he says. "It should be built into the expense budget from the start."

A typical premium for a special event, on which cover is arranged several months before and at a period of low political tension, starts at about 2% of the sum insured. Hastily arranged cover, under pressure of riot or similar risk, will see the premium go up "at least a few percent — and that's if cover can be obtained at all," says Cavalieri.

The local insurance market has a small but growing capacity to underwrite special events. Reinsurance is invariably used, with Munich Re becoming increasingly active. Most major risks find their way to London, where there are Lloyd's underwriters with a century of specialisation in this type of business. There is a growing interest in underwriting special risks from the European markets, particularly Germany.

Special event cover was placed by a handful of specialist brokers, usually through London, until the sanctions era began. After that, sponsorship — with healthy tax breaks — allowed for an element of self-insurance to be budgeted. Now special event insurance is close to being "normalised" again.

However, in the two decades since sports tours were routine, the numbers have changed. A sell-out of all tickets for the day-night match against India at the Wanderers may attract a total gate worth about R1,25m. Traditionally, tickets which are pre-sold are not refunded in the event of a wash-out but sports administrators are reconsidering this policy in the light of today's high admission prices.

A match scheduled for December in Johannesburg attracts a 20% probability of total wash-out. But the seven day-night matches planned for the Indian cricketers also include venues where the possibility of rain is slight so pluvious cover, should the administrators adopt a refund policy, would probably be spread across all venues. In any case, such insurance costs are effectively built into the ticket prices. ■

MONEY SUPPLY FM 31/7/92

June effect

(49)

A surge in money supply growth in June pushed the growth rate of the broad aggregate M3, over 12 months, to 8,36% (compared with 6,93% recorded in May). According to preliminary figures supplied by the Reserve Bank, M3 grew 1,9% in June (after a 1,59% decline in May) to R190,98bn, or 1,7% to a seasonally adjusted R190,59bn.

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Growth, as measured from the base of the current target year, remains within the guideline range of 7%-10% — an annualised, seasonally adjusted 9,05%. But it is up on May's revised increase of 7,12%.

The acceleration in June, after the slowing in May, brings the absolute level of M3 back to its level at the end of April.

M0 growth, which is not published by the Bank, grew 4,3% over 12 months to R13bn. M0 represents the liquid liabilities of the Bank, in the form of notes and coins in circulation and deposits of deposit-taking institutions with the Bank.

Revised figures for the 12 months to May show:

☐ M1A up 8,11% to R32,9bn;
☐ M1 6,87% to R60,9bn; and
☐ M2 11,37% to R163,3bn.

May's weaker monetary growth is reflected in credit extension figures for that month. Claims on the domestic private sector rose 0,3% in the month (9,27% over 12 months) to R196,95bn. Growth in leasing finance (1,57%) and in mortgage advances (1,32%) was offset in the month by falls in bills discounted (-0,51%), hire-purchase credit (-0,98%) and other loans and advances (-1,14%). Because of a drop in net claims on the government sector (-73,5%), total domestic credit extension declined 1% (rising 7,9% over 12 months) to R197,88bn ■

Buried below the line

FM 31/7/92

Edward Osborn is chief economist at Nedcor Bank

(49)

In his Budget speech in 1984, the then Minister of Finance, Owen Horwood, said accounting practice with regard to the discount treatment on government stock should include the discount as loan costs for the year in which they are raised.

Horwood said: "This results in a nominal increase in expenditure, even though no actual additional expenditures are incurred. A more acceptable way — economically speaking — of dealing with the discounts is to regard them as an interest cost to be redeemed over the full term of the loan involved. Certain technical problems, however, need to be solved before this method can be implemented . . ."

Since then, the discounts have been eliminated from the expenditure aggregate in the State revenue account and in arriving at the Budget deficits. (Though the amounts involved are indicated in brackets in the monthly statements of receipts into and transfers from the Exchequer Account published in the *Government Gazette.*)

In effect, the Exchequer Account is put on to a cash flow basis with loan proceeds recorded net of discounts, as receipts, and loan repayments shown gross at nominal values as payments. The discount costs to the State are accordingly lost below the line of the Budget, as it were.

The discount costs are lost in the capital accounting, but still add to the total public debt in that they have to be covered by subsequent borrowing. They are not inconsiderable; they average about 17% of government issues and, over the years since 1983, have amounted to more than R17bn and, in this last year, to R4,3bn.

As Horwood said, it would be more appropriate to redeem these discount costs over the life of the loan by allowing for them in the Ministry of Finance statutory votes. But the technical problems have not been solved. In all probability they have been forgotten. However, the problem raises its head again with the recent zero-coupon issue. There is no problem with Treasury bills as the discount on them is included in interest payments.

For any stock or bond issue there are two important elements, namely the coupon interest rate and the issue price of the stock, or the discount. These two will determine the yield to the subscriber and it really matters not if the interest rate is lowered and the discount increased, or vice versa. But from government's point of view, this can be important because by lowering the interest rate, it will achieve a saving on the expenditure votes, given the present accounting practice.

It is conceivable, though unlikely, that zero-coupon issues become the fashion and that future borrowing by the State is carried out entirely in this form. Then there would be no further addition to the interest burden in the Budget from stock issues and through this legerdemain there would be an escape from the public debt trap that I have drawn notice to recently (*Economy June 5*). The problem would simply be shifted under the skirts of revenue and expenditure into the capital account. The problem, nevertheless, remains in that it has to be dealt with by ever increasing public debt.

The accounting problem needs to be addressed again to give a more realistic reflection of the costs to the State and the economy.

UN voices fears of bloodshed

Strike may cause lasting harm — Keys

[redacted] 49 [redacted]

B/DAY 31/7/92

TIM COHEN

PRETORIA — Next week's two-day national stayaway could harm SA's standing in international markets for decades, Finance Minister Derek Keys said yesterday as the UN expressed concern that the ANC's action could result in bloodshed.

Government yesterday cleared the way for international observers to monitor mass action. UN spokesman Francois Giuliani said yesterday about 10 UN officials would observe the next two weeks of mass action, Sapa-Reuter reports.

UN secretary-general Boutros Boutros-Ghali told a closed session of the Security Council he had written to ANC president Nelson Mandela and President F W de Klerk expressing fear at the disruptive effects of mass action.

Boutros-Ghali said Mandela had assured him the action would be peaceful and should be watched by monitors from the UN, the Commonwealth and the OAU.

Foreign Minister Pik Botha said UN special envoy Cyrus Vance — who ended a 10-day visit to SA yesterday — had also expressed concern about violence associated with the stayaway.

Japan has also expressed concern about the coming weeks and is to send the head of the foreign ministry's middle eastern and African affairs bureau, Takeshi Ohara, to SA to promote reconciliation between government and the ANC, Sapa-AFP reports.

At the same time Keys warned the organisers of the stayaway that their actions could turn international market opinion against SA, which he said could take decades to rectify.

He also warned them not to antagonise business and government as this would risk depleting the "fund of goodwill" built up between the parties over years.

Botha said "the use of mass mobilisation to impose demands in the negotiation process is as unacceptable as the use of violence for this purpose".

The programme of mass mobilisation would inevitably lead to further violence, delay the search for democratic solutions, damage the economy and seriously disrupt social services, he said.

In the light of Mandela's rejection of a meeting with De Klerk and Inkatha president Mangosutho Buthelezi, Botha said De Klerk remained ready to convene an expanded meeting at short notice. De Klerk had decided to broaden his invitation to include an additional delegation nominated by the national peace committee.

De Klerk had no objection to the presence of "impartial" observers monitoring the mass action campaign. However, they should act in co-ordination with the national peace secretariat and there should be enough of them to be present in the major metropolitan areas.

It should be a condition that these observers have the right to attend demonstrations and other mass actions at will, and at random, to ensure that the secretary-general remained fully informed of the conduct and progress of the campaign as well as any incidents which might arise from these events, Botha said.

Keys told businessmen at an NP fund-raising lunch he thought it was too late to make a fresh attempt to stop the stayaways, something which would inevi-

☐ To Page 2

Strike

B/DAY 31/7/92

[redacted] [redacted] 49

☐ From Page 1

tably involve substantial costs

Jobs would be lost, there would be a loss of income for the people who stayed away from work, and there would be a disruption of the economy

But he appealed for these losses to be minimised in order to preserve the economy's long-term potential.

It was in the power of all those involved, particularly within the power of the "instigators" of the stayaway, to avoid negative long-term consequences of adverse international opinion.

"If this stayaway becomes prolonged for purely political reasons, if it becomes more than simply a gesture of protest, the verdict of the markets overseas is going to be adverse and there is no court of appeal."

● Picture: Page 3

US puts SA's economic aid on hold

SIMON BARBER (49)

WASHINGTON — The Bush administration has decided to defer any economic assistance for SA — beyond the $80m-a-year package already in place — pending the installation of an interim government.

In particular, the White House is holding back on its promise to endorse SA's access to IMF balance-of-payment support. It says it will wait "until the political transition process in SA permits".

The administration is also suspending efforts to persuade state and local authorities to repeal penalties on firms that do business with SA until an interim government is in place. BIDAY 31/7/92

This is the thrust of a July 18 letter sent by US President George Bush's national security adviser Brent Scowcroft to former House Africa subcommittee chairman Howard Wolpe. Scowcroft was replying to a letter sent to Bush and co-signed by Wolpe and 174 colleagues asking the administration to put pressure on Pretoria to meet the ANC's demands on violence and constitutional voting majorities.

The shift is designed not only to head off any new sanctions drive by Wolpe, but to increase the leverage of those who desire a speedy resumption of talks on transferring power to an interim goverment.

The letter outlines economic carrots

☐ To Page 2

Aid deferred

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☐ From Page 1

which Scowcroft says "could serve as a further incentive to move quickly to implement nonracial democracy".

The only new item on the list is a proposal to augment the US Agency for International Development's existing five-year, $30m black housing programme with official loan guarantees to encourage US private lending for low-income home construction at competitive interest rates

A similar guarantee programme to reduce the risk of lending to black-owned businesses is also under consideration.

In neither case has the amount of the guarantees been decided.

Once an interim government is in place, the US government will take the following steps, many of which Bush announced as a "done deal" at the time of the white referendum last March

The Treasury Department will be notified that SA no longer "practises apartheid" so that the US representative on the IMF's board will no longer be bound by the 1983 Gramm Amendment to veto SA borrowings from the fund automatically.

Likewise, the US will actively encourage the World Bank to "increase its involvement" in SA and "assume the lead in coordinating an international effort to provide assistance to the country".

The US Overseas Private Investment Corporation will enter negotiations on a bilateral agreement with the new government to enable the corporation to provide insurance cover for US investors against expropration and related losses.

Although SA firms may already seek loans from the US Export-Import Bank to purchase US capital goods, a number of restrictions still apply to SA borrowers. These may be eased

US officials are at pains to stress that, in real terms, the assistance will be relatively limited and that the US will not be significantly expanding the budgeted $80m.

"It's very dangerous for any party in SA to assume that the world is going to come swooping in and take care of their material needs. Their best hope is still the private sector," a White House official said.

Our Political Staff reports from Cape Town that the ANC has given qualified approval to the announcement that the US plans initiatives to support an interim government in SA. While ANC information and publicity spokesman Carl Niehaus said the ANC would study the proposals before responding, he added anything that would bring government to realise full democracy was needed would be welcomed.

Business Day Reporters, Sapa.

The commission's terms of reference were to inquire and report on:

☐ malpractices in respect of the formation of the group and running of its affairs.

Supply-side tax measures proposed

BIDAY 31/7/92

~~220~~ (49)

SHARON WOOD

IMPLEMENTING supply-side tax measures would harmonise SA's fiscal and monetary policies, says the Bank of Lisbon in its latest Economic Focus.

Cuts in individual and corporate income taxes would promote greater productivity, savings and investment, it says.

The present monetary policy aims to create a better environment for saving and investment by materially reducing inflation. It concentrates on the supply side of the economy.

However, the Reserve Bank is still facing difficulties in applying its strict monetary policy.

"The second fundamental difficulty concerns the need to harmonise monetary and fiscal policies," it says.

The Bank of Lisbon argues that existing special tax incentives favouring certain sectors should be removed and this should be accompanied by a reduction in the nominal rate of corporate taxation.

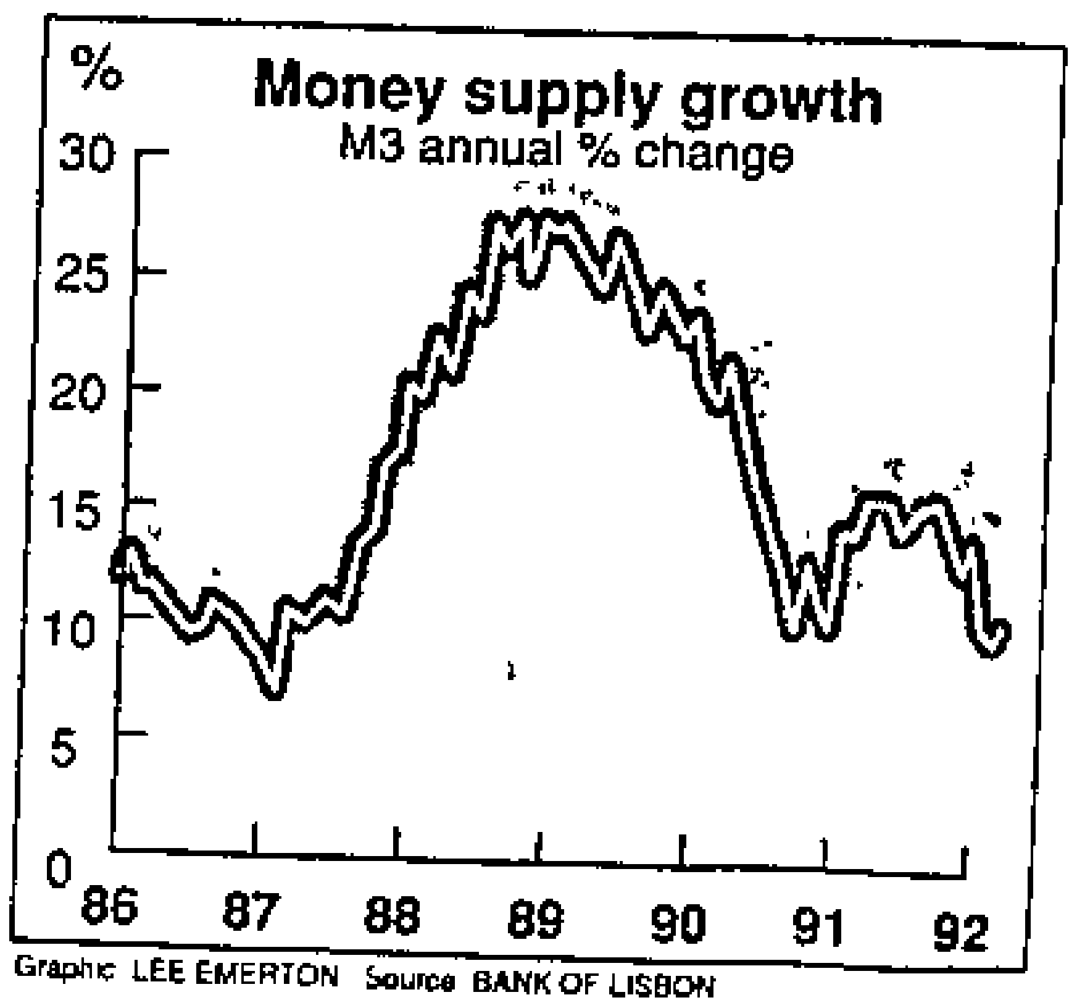
The imperative need for social investment must be addressed, it says, but should be carried out in a manner which does not impair the economy.

The report says that proposals to sharply increase social expenditures clashes with monetary policy and the need for lower taxes.

Privatisation has the potential to provide a supply-side boost to the economy and boost new foreign investment in the Republic.

In addition, the discount on the financial rand could narrow, making way for the elimination of the finrand system.

It says a major challenge facing SA is to convey an unequivocal message to the international community that, despite the magnitude of the socio-economic and political changes under way, it will still be possible to base economic policies on sound internationally accepted principles.



Graphic LEE EMERTON Source BANK OF LISBON

NEWS IN BRIEF

BIDAY 31/7/92

SABC strike settled

THE dispute at the SABC with the Media Workers' Association of SA had been resolved, the SABC said in a statement in Johannesburg yesterday.

The SABC agreed to a minimum wage of R1 300 a month with effect from October 1991 and a 15% across-the-board increase effective from June 1.

News focus for CCV

CCV TV is to launch a news focus programme, Newsline, which kicks off on Sunday night with an interview with ANC president Nelson Mandela and a look at mass action.

Executive producer Phekwane Mashiloane said it would replace the Scoop programme on certain nights of the week.

ET persona non grata

THE Namibian cabinet had declared AWB leader Eugene Terre'Blanche persona non grata in that country, the information ministry said in Windhoek yesterday.

Terre'Blanche offended the government last week by saying in a NAMBC TV interview that parts of SA and Namibia should be set aside exclusively for whites.

Tent town jail

BIDAY 31/7/92

AN ACCOMMODATION shortage may lead to prisoners occupying tents on Robben Island. This was announced in Cape Town yesterday by the deputy commissioner of operational services for the Department of Correctional Services, Maj-Gen Henk Bruyn.

Inflation 'set for substantial fall'

49

BIDAY 31/7/92

HILARY GUSH

ECONOMIC growth this year will be the worst of the current recession, but further cuts in interest rates and a substantial fall in inflation can be expected, says Old Mutual chief economist Dave Mohr.

Speaking in Johannesburg yesterday, Mohr said he expected SA's gross domestic product to fall by at least 1,5% this year, and there was a real risk that the recession would spill over into nest year.

"The greatest risk is that consumer and business confidence may be further jeopardised by the combination of political uncertainty, lingering violence and industrial unrest.

"Consumers may use any increase in disposable income to redeem debt rather than raise spending. Companies may further trim their workforces and curtail investment to an even larger extent than currently envisaged," Mohr said.

The possibility of some external shock — a sharp fall in the gold price, sluggish world economic recovery and accelerating capital outflow — could not be ruled out.

However, Mohr remained "cautiously optimistic" that a mild cyclical recovery would take hold next year. Although the Budget had not contained any net tax relief for individuals, greater willingness by government to finance the Budget deficit through borrowing, not through increased taxes, would support the economy, he said.

As the world economic recovery picked up, domestic exports would benefit in terms of volume and price. A slower rate of destocking and an easing in inflation would also have a positive effect on local cyclical recovery.

Mohr said hard-pressed consumers could look forward to additional interest rate cuts over the next 18 months. "Low money supply growth will probably continue during the rest of the year, leaving room for a further lowering of interest rates."

The Reserve Bank's policy of maintaining positive real interest rates would, however, prevent rates falling below the prevailing inflation rate. Prospects for a continued fall in inflation were encouraging, although sharp increases in food prices remained a major obstacle. Mohr cited last year's introduction of VAT as the most important reason for an acceleration in food inflation.

Examining the effect of drought on food prices, Mohr said the price of meat had dropped 5% since the beginning of the year, while fruit and vegetable prices had risen sharply. As meat had a larger weight in the index, the effect of the higher fruit and vegetable prices had been almost entirely neutralised by the decline in the price of meat.

Masterbond inquiry invites evidence

Liquidity boost for money market

49

[illegible]

TIM MARSLAND

AUGUST promises to be a liquid month for the money market following a decision by the Treasury not to roll over R3,5bn in RSA loans maturing on August 15.

Reserve Bank money market GM Andre Kock said yesterday R699m invested in loan RSA 116, R1,558bn in RSA 029 and R1bn in RSA 117 would not be rolled over.

Kock said only about R1,5bn of the loans would flow into the money market as the Public Investment Commissioner and the Reserve Bank held about R1,7bn of the funds between them.

B/DAY

Further liquidity would be added to the market on August 30 when the Treasury paid about R1,8bn in six-monthly interest on the R150 and R153 stock, he said. This would be offset by tax payments due at the end of the month.

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A senior dealer said the cash boost would be welcome because the market had been under a severe cash shortage pressure in recent months.

The Bank indicated Wednesday's shortage — the market's debt to the Bank — at R4,150bn. The shortage has been more than R2bn for the past month.

Meanwhile, the Bank has provided some relief to the market over the past two days through repurchase agreements worth R1bn.

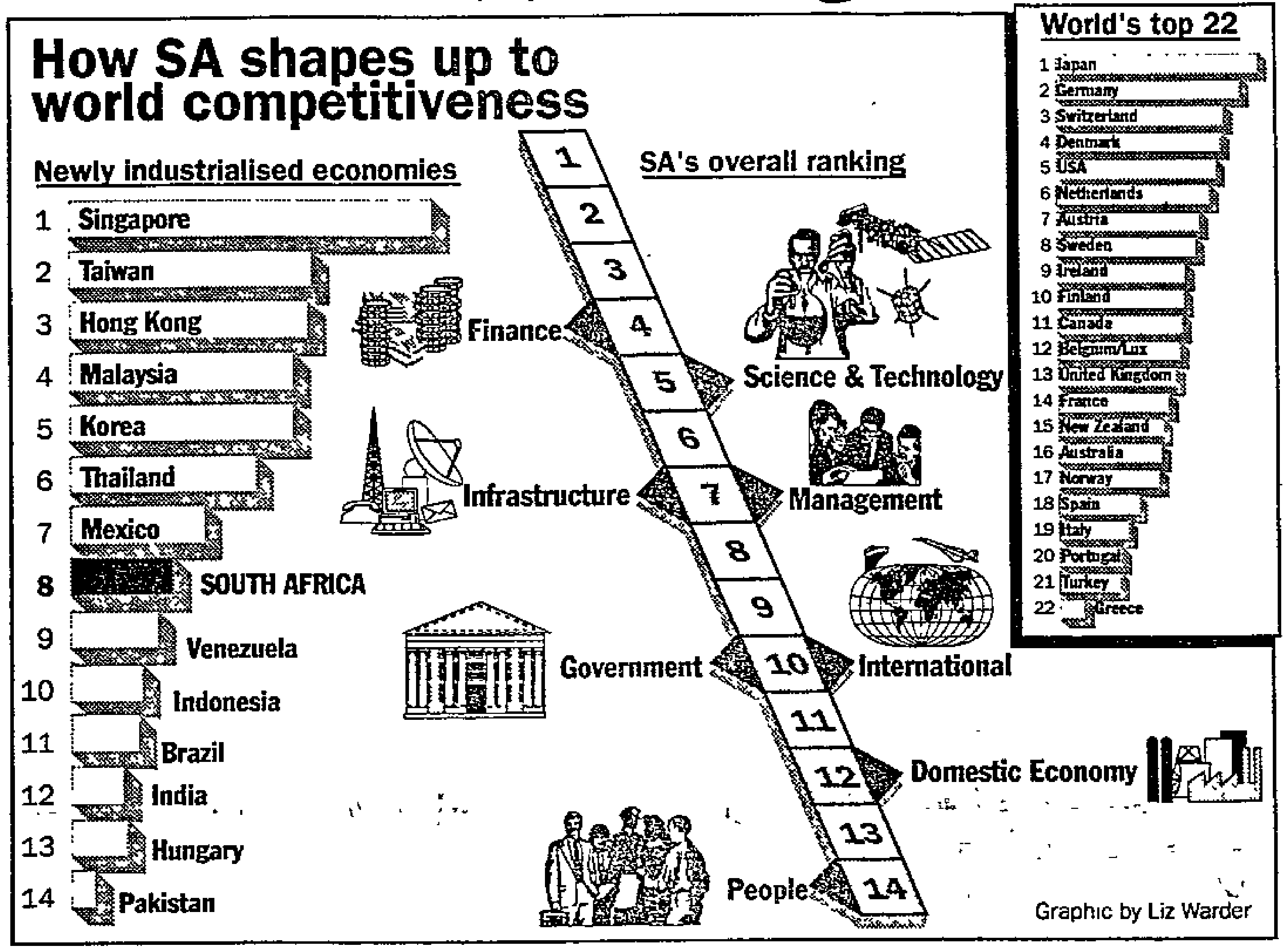
One dealer expressed surprise at yesterday's allotment rate of 15,62% as cheaper cash had been available elsewhere in the market.

SA in minor league

STAR 3/7/92.

(49)

A new global survey has allowed South Africa to compare itself with world rivals in terms of economic competitiveness. South African businessmen have already experienced a number of rude shocks. But a team of experts has formed a new think-tank to search for solutions, reports MICHAEL CHESTER.



How SA shapes up to world competitiveness

Graphic by Liz Warder

THE INITIAL reaction of South African businessmen to the removal of the sanctions blockade and an end to political isolation was a wave of euphoria. But the return to the international economic mainstream has also exposed them to a number of rude shocks.

Shocks have come in an avalanche in a new global survey that measures the economic competitive muscle of all the main players in world trade.

The survey is the latest in an annual series compiled by the International Management Institute (IMD), based in Switzerland, and the World Economic Forum. South Africa, shunned until now, has been included for the first time — and the no-nonsense analysis has made South Africans squirm.

Rules the roost

At least South Africa has been saved the embarrassment of direct comparison with 22 advanced industrial nations in the big league of the Organisation for Economic Co-operation and Development, where Japan rules the roost in competitiveness, followed by Germany.

Instead, more appropriate to its economic size, South Africa has been listed among 14 entries listed as newly industrialised countries alongside nations like Taiwan and Mexico.

Even here, though, it has been shuttled into the bottom half of the table.

South Africa trails way behind rivals such as Singapore, Taiwan, Hong Kong, Malaysia and South Korea in ranking averages. It also trails behind Thailand and Mexico.

"It may sound a little better if you leave SA in the bracket of 14 countries below the list of 22 front-runners," says Dr Paul Strebel of the IMD.

"However, SA's position as a contender in international competition looks a lot sadder when it turns out as low as 29th in an overall list of 36 rivals in the battle for status."

The low ranking has caused shudders to run down the spine of business leaders who realise the urgency of South African needs to face the blunt facts about its economic performance and somehow carve a bigger niche in world trade.

Fortunately, once it is remembered that South Africa is classified among the truncated list of 14 smaller competitors, the country does not fare all that badly in all aspects.

For example, it comes out a respectable fourth among the 14 countries for its talents in running financial services. Also, it makes fifth place for its prowess in science and technology — earned by its advances in areas such as deep-level mining, transport, electricity generation and oil-from-coal processes.

In addition, South Africa reaches seventh place in comparisons of management talents and the level of infrastructure and natural resources.

What drags it down in the rankings is the poor performance of the Government, whose economic policies up to now, according to the analysts, have been counter-productive when it should have been playing a crucial role in providing an environment in which the economy could flourish.

Next, SA tumbles to 10th position in what the survey calls internationalisation — global economic and investment links and a sense of being a global player in the world arena.

It sinks to 12th slot in the measurement of its basic domestic economic strength — the vital factor in growth prospects, job creation, social welfare and export muscle.

But South Africa hits rock bottom, with the worst score of all, when it comes to what the survey calls the "people factor" — which means the mobilisation of human resources.

Among the first findings is that South Africa ranks lowest of all among the 14 countries in expenditure on education and "least meets the needs of a competitive economy" Adult illiteracy is worse only in India, Pakistan and Indonesia.

SA was found to be shortest of all countries in the supply of skilled labour to its workforce. Only Thailand and Indonesia were turning out fewer qualified engineers. Only Indonesia was creating fewer competent new senior managers.

South Africa has also been badly stung by disclosures that it ranks at the absolute bottom of the table when it comes to equal opportunity in jobs.

"Race and family background are seen as posing immense employment handicaps in our society," says Barlow Rand group human resources executive Alan Tonkin. "Only Mexico, Korea and Pakistan provide fewer career opportunities for women."

Mr Tonkin has also found that South Africa ranks lowest in worker motivation — in sharp contrast to the dynamism shown by rivals like Singapore and Taiwan.

South Africa has also been given the sad distinction of sharing a slot with Brazil among the countries with the biggest gaps of all in the disparity between high and low-income earners.

"Our apartheid policies have given birth not only to an income gap but a mighty social chasm between sections of our population," says Mr Tonkin

Concerned about finding solutions, rather than sinking its head in the sand and wishing all the problems would vanish, the Barlow Rand industrial empire has taken the lead in bringing together a team of experts in a think-tank prepared to confront the headache and start the search for remedies

They have been joined by equally concerned executives from such huge enterprises as Transnet and Eskom, plus experts from the Council for Scientific and Industrial Research and the Nedbank/Old Mutual research unit. They also hope to bring in representatives from the trade unions to find as wide a discussion base as possible.

The whole team has trekked off to the eastern Transvaal to hold a bush indaba that they hope will create the framework of a brand new action programme to push the economy into higher gear.

Strengths

"South Africa clearly has many weaknesses, but also many potential strengths that should be exploited" says Professor Alden Lank of the IMD research team.

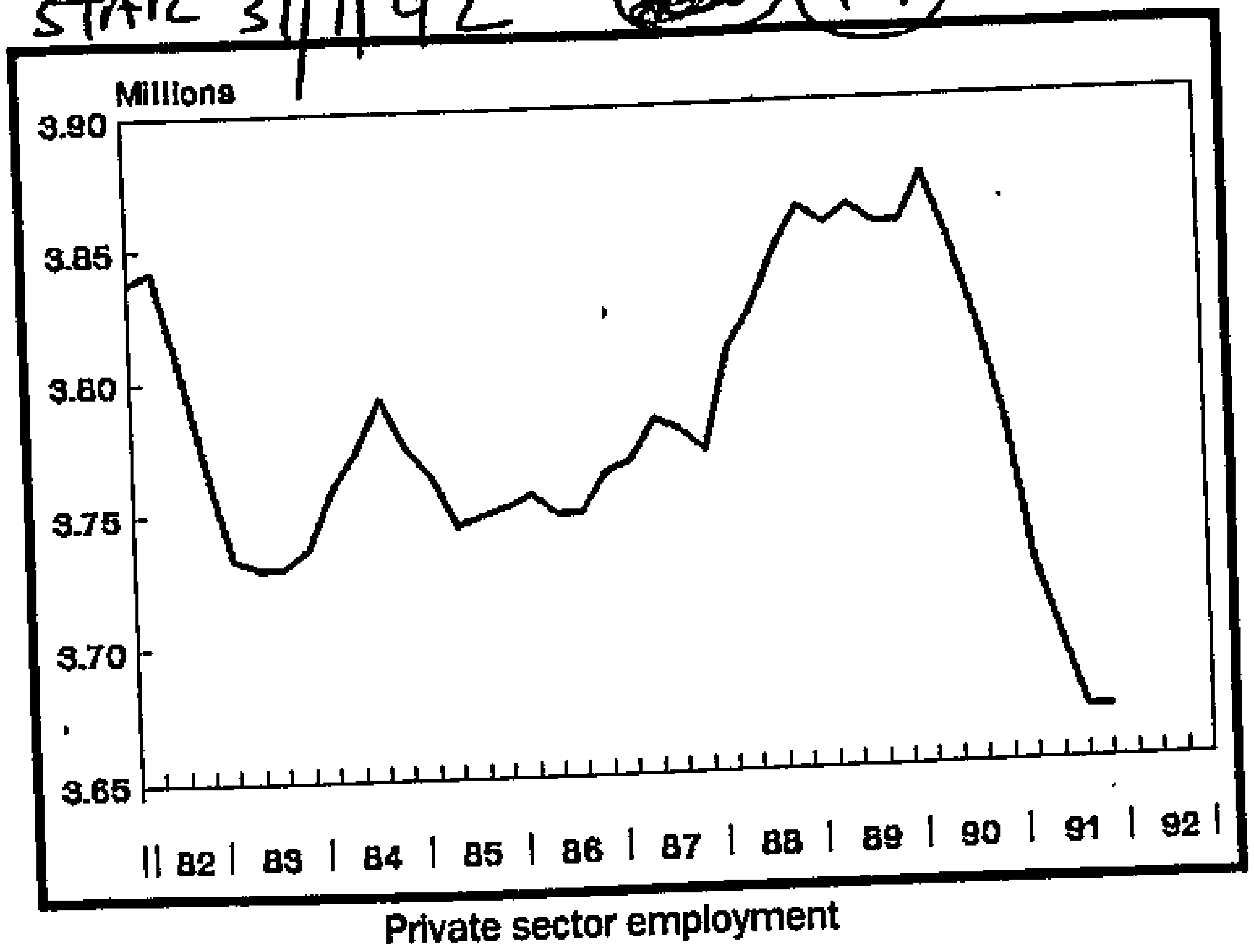
"One of the first priorities should be attention to the 'people factor'. Western Europe, with too many different languages and too many different cultures to count, is creating one of the biggest single economic units on Earth with unification inside the EC.

"Why can't South Africa see similar benefits in blending all the best features from each segment into a widely diversified collection of cultures and talents? Instead of talking about divisions, South Africa could become the crucible to use the diversity of its society to create an economic model that could be the envy of the whole world," the professor says. □

OM analyst sees risk of prolonged recession

STAR 3/7/92 (49)

By Sven Lünsche



Private sector employment

Dave Mohr . . . concern

As consumer and business confidence becomes increasingly dependent on political developments, there is a real risk that the recession may spill over into 1993, says Old Mutual chief economist Dave Mohr.

Writing in the life office's latest Economic Monitor, Mr Mohr says overall economic growth this year, which he foresees slumping by 1,5 percent, will be the worst of the four-year-old recession.

This will continue to have an adverse impact on private sector employment, which has already fallen by nearly 200 000, or five percent, since the start of the recession (see graph).

"In addition to the present weak state of the economy, factors such as increasing political uncertainty have inhibited both consumer and business confidence to such an extent that the recession could well drag on until deep into next year," he says.

"There is increasing concern that the contraction of the private sector may last considerably longer and that the concomitant sustained pressure on the financial position of the consumer and a further cutback in corporate capital spending may jeopardise the chances for a meaningful recovery in 1993."

Mr Mohr says the most crucial aspect of a long-term recovery must by "the breaking of the current political impasse and the resumption of negotiations, followed by fostering of conditions for renewed investment".

Amid the gloomy economic conditions, however, he predicts further cuts in interest rates until the end of next year as well as a substantial fall in inflation.

"As low money supply growth is likely to continue for the rest of 1992, this leaves room for further interest-rate cuts, although the Reserve Bank will ensure the rates stay ahead of inflation."

Mr Mohr says if a measure of political stability returns, a mild cyclical recovery should take hold in 1993, boosted by the easier monetary policy and expansionary fiscal stance of the Government.

"After only three months of the new fiscal year it is already apparent that the Budget deficit will be considerably larger than the budgeted R16 billion."

Mr Mohr predicts that the deficit could widen to over five percent of gross domestic product (GDP) for the current fiscal year.

He adds that an expected acceleration of world economic growth should benefit both the volume of manufactured exports and the prices of key commodities.

The exception to this trend is gold, he says, adding that he would be more surprised to see gold at $400 than at $300.

Recession 'well in to 1993'

(41) CT 31/7/92

Recovery dependent on political stability

By **AUDREY D'ANGELO**
Business Editor

THE recession seems likely to continue well into 1993 and recovery — when it comes — will be slow, Old Mutual chief economist David Mohr says in his Economic Monitor.

David Mohr

This forecast, one of the gloomiest ever made by Old Mutual economists, is in line with the views of local manufacturers who took part in a survey released this week by the Cape Chamber of Industries.

But it is in sharp contrast to that made by Board of Executors economist and senior portfolio manager Rob Lee in his investment newsletter.

Lee, listing positive factors including "highly expansionary government spending", says "a real gross domestic product (GDP) growth rate of 3% plus for 1993 looks entirely feasible."

However, both Mohr and Lee stress that recovery depends on a more stable political situation, with negotiations back on track and leading to an interim government.

Lee also says:"Rapid agreement and implementation of an economic structural adjustment programme (ESAP) must be achieved with the aim of generating sustained investment and export-led growth.

"It is understood that this issue was a major discussion point at the recent Cabinet 'bosberaad'.

"The broad outline of such a programme needs to be something like the following:

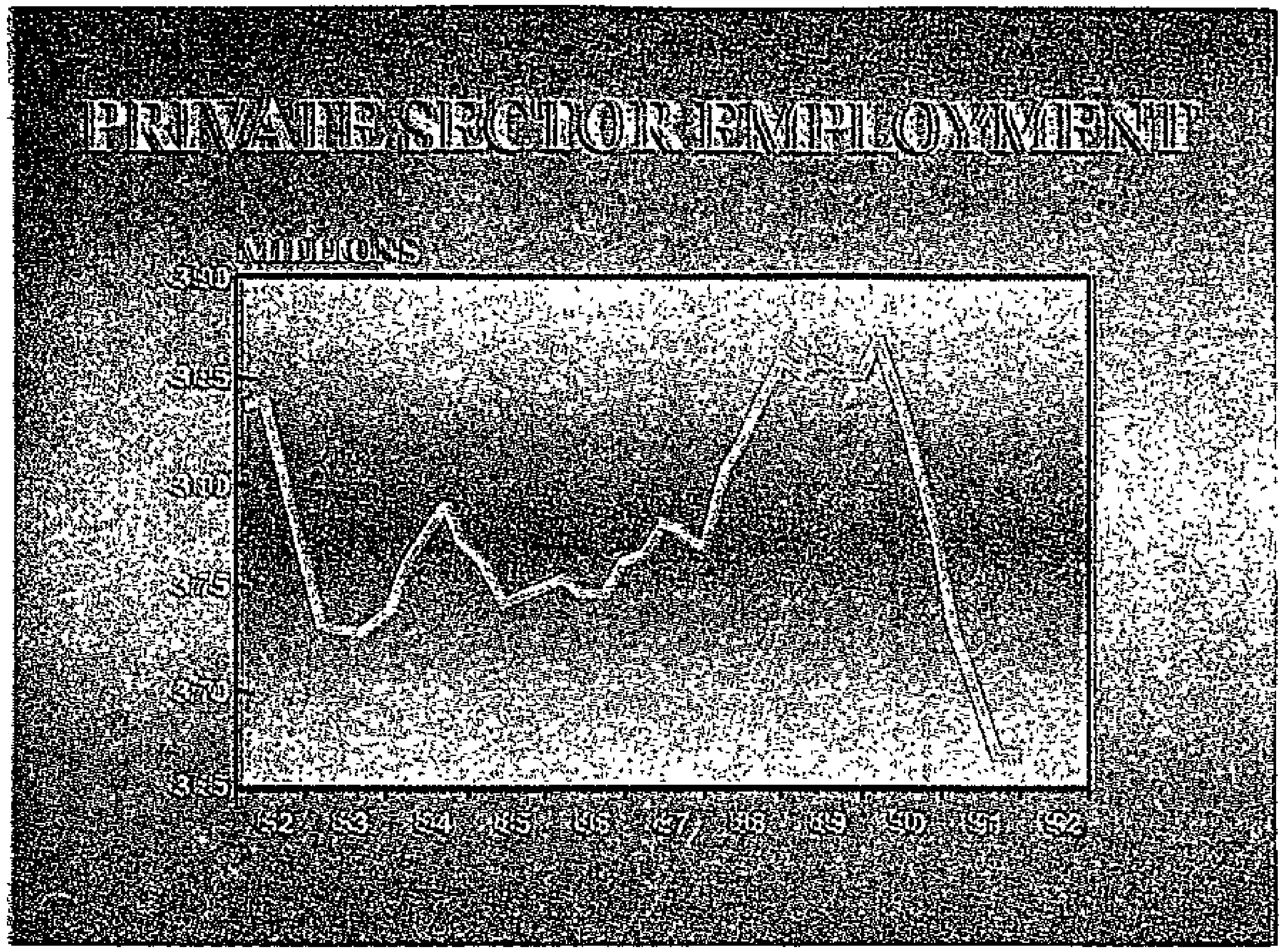
- A major cutback in government consumption spending and an end to government dis-saving;
- Re-targeted public sector investment spending to key areas like housing and electrification;
- A reduction in the income tax burden on individuals and a lower corporate tax rate;
- A drastic reduction in the level of import tariff protection, to be accompanied by a lower commercial rand exchange rate;
- An emphasis on the promotion of manufactured exports;
- A programme to abolish the financial rand and reduce or eliminate other exchange controls; and
- Maintenance of a firm monetary policy, along the lines already carried out by Dr Stals and symbolised by positive real interest rates."

Mohr says he anticipates 1992 will be "the worst of the four recession years.

"In addition to the present weak state of the economy, factors such as the increasing political uncertainty, continued violence and threats of industrial disruption have inhibited both consumer and business confidence to the extent that it could indeed be asked whether 1993 will be a growth year for the SA economy or could the recession drag on until deep into next year?

"There is increasing concern that, against the background of these uncertainties, the contraction of the private sector (and even the public sector) may last considerably longer.

"The concomitant sustained pressure on the financial position of consumers and a further curtailment of capital spending in the private sector may seriously jeopardise the chances for a meaningful recovery in 1993. The probability of such a scenario would, of course, be even higher should the present drought conditions continue."



WIDENING THE GAP ... This graph prepared by Old Mutual shows how unemployment in the private sector has grown. The Old Mutual Economic Monitor says continued retrenchment brought the total number of dismissals in the private sector during this recession to "more than 5% or more than 203 000 employees" by the end of 1991. This trend is thought to have intensified in the current year. In contrast, public sector employment rose by 27 000. Public sector employees also had bigger pay rises than those in the private sector last year. By the end of the year their average pay had risen by 17% compared with 14,1% in the private sector. The combination of lower average income growth throughout the population and higher inflation has caused the sharp decline in consumer spending which has caused the recession to intensify.

But, says Mohr, "we remain cautiously optimistic that a mild cyclical recovery will take hold in 1993.

"Various factors and trends which normally precede a cyclical upswing in the domestic economy are currently evident."

These include more expansionary fiscal policy, with a higher level of deficit spending giving some support to the real economy.

There seemed a greater willingness to lower interest rates.

"This can probably be attributed to growing concern about the state of the real economy. Further declines during the rest of the year and in 1993 cannot be ruled out, particularly in the light of an expected market decline in inflation in the coming months."

ECONOMY – 1992

AUGUST.

Wealth-sharing in SA and US

STAR 3/8/92.

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IN THE long run, when and if black and white South Africans come to some semblance of political terms with each other, they will, like black and white Americans, still be left confronting the biggest, ugliest and most ineradicable problem of all: who gets what share of the wealth ?

There are some remarkable parallels to be drawn between the growth of income levels of blacks and whites in the United States and among South Africa's two main racial groups — and, of course, some crucial differences.

One such difference, an irony if ever there is one, is that with South Africa's blacks possessing no mainstream political rights, indeed with a white-dominated society standing in the way of full black economic progress, the gap between black and white income levels has been steadily closing in the past two decades.

Nothing approaching this has occurred in the United States, where, according to the latest (1990) national census report released recently, the long-standing income gap between black and white households in the US remained almost as wide as ever (the 1989 median annual household income for US whites was $31 435 and for blacks $19 758).

There were some specific regions where black families fared better than whites. In New York State, for example, among whites the median household income increased 19 percent to $35 811, among blacks it increased 29 percent to $24 089. But the gap, of course, is still there.

And across the broad sweep of this continent of 250 million people, especially along a belt of states from Ohio to Minnesota where large numbers of blacks migrated from the south to the vast network of factories of the north just as South African blacks have migrated from their rural homes to the cities in the past four decades, it is a much more sombre picture.

Bronx boy . . . income level gap still a big problem.

Throughout these regions, where industrial decay and the recession have struck hardest, and in the south where black-white income disparities have always been high, the blows have fallen hardest on black families.

The new figures throw up some embarrassing scenarios.

For instance, Democratic presidential nominee, Governor Bill Clinton, may have a hard time explaining to voters that while white incomes rose a paltry 2,0 percent in his state of Arkansas, for blacks it fell 2,5 percent.

In 1979 in Arkansas, 41,4 percent of blacks lived in poverty. Now, ten years later, the figure has barely changed: it is 40,9.

It is a statistical fact also that 44 percent of all black children in the US lived in poverty in 1989, according to the census report. For whites, the figure is 13,8.

How will Governor Clinton — or President George Bush, for that matter — explain all this to the American people?

Or how will the usually compassionate (often hypocritical) American people, adrift in a sea of self-healing criticism about "white South Africa", explain it to themselves? — Star Bureau. □

BUSINESS DAY, Monday, August 3 1992

Pessimism about economic recovery 'an overreaction'

(49)

BDAY 3/8/92

LINDA ENSOR

CAPE TOWN — The prevailing deep pessimism about the economic recovery was an overreaction typical of the end of a recession, Board of Executors senior portfolio manager Rob Lee said in the latest Investment Outlook.

Lee said despite the very weak economy and crumbling confidence, it still remained entirely feasible on fairly conservative assumptions that 1993 would produce a real GDP growth rate of 3% or more.

There was still a high probability of stronger international growth next year. Although the timing of world economic recovery had been pushed out, an even sounder foundation for an upturn was being laid. Commodity prices, including gold, were probably in the early stages of a sustained upswing, he said.

The drought would break, the financial foundations for recovery were improving, and relief to consumers and business would come from a drop in inflation and interest rates.

A turnaround in the inventory cycle was only a matter of time and there were several large scale investment projects that were likely to go ahead. Fiscal policy was highly expansionary with government spending set to rise 4-5%, Lee said.

"Because of weak revenues caused by the deteriorating economy, the budget deficit will probably turn out to be close to 6% of GDP. This is playing an important role in cushioning the economy from an even steeper decline."

Lee expected another 2% drop in the Bank rate within six months and believed inflation would fall to about 12,2% by year-end with 10% possible in 1993.

The recent collapse in capital market rates suggested a break in inflation expectations had occurred.

However, Lee emphasised that a period of high sustained growth required not only an upswing in the world economy, but also a resumption of negotiations, a curb on violence and the adoption of an economic structural adjustment plan.

Lee said earnings- and dividend yields on the JSE were low by historical standards even after the recent downward correction and it would require evidence of high growth prospects to justify a significant upward movement in equities.

"In the absence of such dramatic positive news, the market remains vulnerable to the bad company results that are likely to be announced in coming months, to potential weakness on Tokyo and Wall Street, and to any further deterioration in the domestic and political situation. Overall caution towards the market still seems appropriate, although selective opportunities always present themselves at such times."

Constitution by year end — Stuart

(41)

CT 6/8/92

Business Editor

A CONSTITUENT assembly will almost certainly be elected early in 1993 and a new constitution in place by year end, forecasts Ockie Stuart, director of the Stellenbosch Bureau for Economic Research (BER).

He expects improved exports to boost the economy next year as SA's main trading partners recover from recession.

And, because many retailers started putting up prices in July 1991 in anticipation of VAT, he expects the consumer price index (CPI) to decline from the August figures onwards.

Stuart, who has just come back from a visit to Europe, said yesterday that economic conditions in the UK were "terrible.

"And I noticed a deterioration in Germany. I saw beggars and drunkards in the streets there, for the first time."

"I was told they were unemployed people from East Germany, Yugoslavia, Rumania and other parts of Eastern Europe."

But European economists were forecasting growth rates of 2,5% and 3% next year.

Stuart said he had revised optimistic forecasts for SA in 1992 in the light of the Boipatong massacre, the breaking off of negotiations at Codesa and the current mass action.

"The 1992 growth in SA exports must, logically, be scaled down in the light of reduced growth rates in Germany and, more particularly, the UK.

"Gross domestic expenditure (GDE) in SA could fall by nearly 1% instead of an expected growth of 0,6% in real terms."

But it was heartening that manufactured goods contributed to a great extent to SA's relatively good export performance. "It is expected that the international economies could improve towards year end and this implies that exports could still perform well."

State of economic emergency

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CT 6/8/92

By AUDREY D'ANGELO
Business Editor

THE economic situation in SA can be described as a state of emergency, with unemployment likely to rise by another half a million, Afrikaanse Handelsinstituut chief economist Nick Barnardt said in Cape Town yesterday.

"And emergency measures are required at least to stop the downward spiral in the system, to relieve poverty and to create a refuge of last resort for the unemployed."

Barnardt, speaking at the annual Fedhasa conference at the Cape Sun, called for a government of national unity and an economic forum as soon as possible.

"It is of paramount importance that a future government of national unity and an economic forum direct their energies effectively to the requisite economic emergency measures in the short term.

"Some essential measures would appear to be a wide-ranging basic needs programme in severely-disadvantaged communities, a labour-intensive infrastructural or public works scheme, a scheme to reduce perceptibly the rate of population growth in rural areas in particular, coupled with rapid reform in the field of education and training."

Looking two years ahead, Barnardt forecasts an inflation rate as low as 8% and a cyclical upswing which will "probably accelerate through 1994 and 1995 and last at least into the early part of 1996."

If the economy was properly managed and boosted by a growth in foreign tourism, with government spending under control, the upswing could last until the year 2 000 or longer.

But in the meantime, Barnardt warned, tough times were ahead.

The impact of the current domestic political turmoil on the confidence of business people, consumers, tourists and investors — combined with high inflation, the poor performance of the world economy, the drought and widespread retrenchments — pointed to "a short-term continuation of the recession."

This implied that "the already high rate of business liquidations and closures on the one hand, and those of retrenchments and unemployment on the other, are set to rise even further in coming months.

"After having risen probably by more than a million in the last three years the total number of unemployed is set to swell further by close on half a million people within the next 12 months."

Rapid political change within the context of rising poverty and unemployment implied "an acute risk of an accelerating slide into violence, crime and instability which could eventually threaten the very foundations of civil society.

Boipatong

"In these conditions the recent Boipatong tragedy could quite conceivably become virtually a daily occurrence in our country."

The first prerequisite for avoiding this was "active and constructive co-operation between the major political role-players on the one hand and the major economic role-players on the other."

Barnardt stressed:"I trust that the turmoil we are experiencing in our country this week is the very last attempt by any major political group to use the economy of the country as a battlefield between its own internal factions or between itself and other political groups."

Discussing brighter prospects in the longer term, he said the balance of payments surplus and relative exchange rate stability of the past two years were set to continue for the next two years.

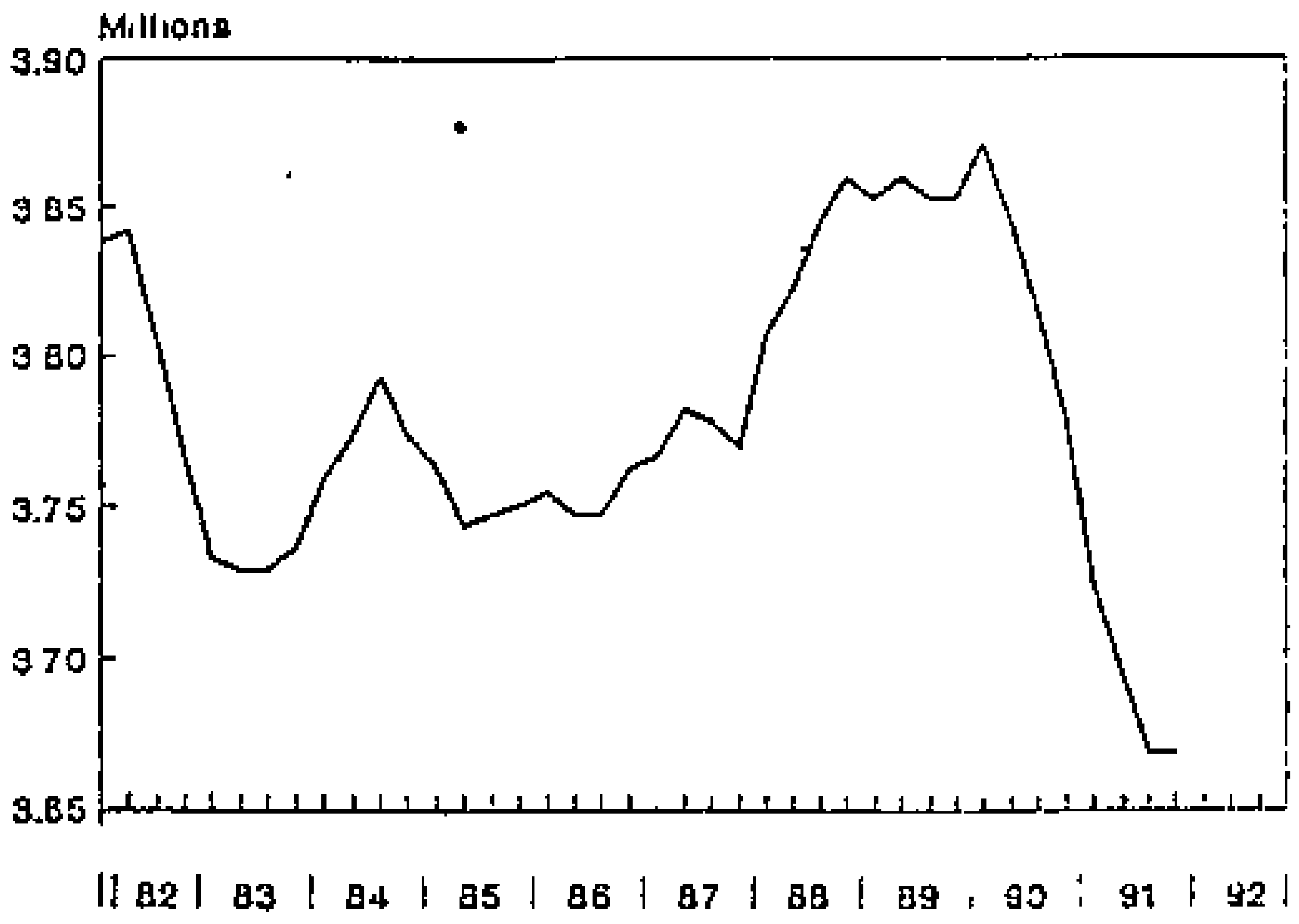
"The country's foreign reserves will continue rising, fundamental inflationary pressures will keep subsiding and interest rates will fall perceptibly further.

"If the country's rainfall pattern returns to normal food price inflation will fall to very low levels by late 1993."

BUSINESS BAROMETER

w/mail 7/8 -13/8/92

PRIVATE SECTOR EMPLOYMENT



A graphic view of what recession has meant for jobs

Source: Old Mutual

(49)

Mohr pessimism on next year

OLD MUTUAL chief economist Dave Mohr believes there is a real risk the present recession might spill over into 1993.

Writing in Old Mutual's Economic Review, he also said that if the economy does move into a recovery phase next year the upswing will probably be sluggish at first.

Mohr forecast real growth in gross domestic product of -1,5 percent for this year, a budget deficit of five percent or more of gross domestic product, a year-on-year consumer price inflation rate falling below 13 percent by December this year and further falls in interest rates.

w/mail 7/8/-13/8/92

... and a gloomy view of this year

THE already high rate of business liquidations and closures, and retrenchments and unemployment would probably rise further in the coming months, Afrikaanse Handelsinstituut chief economist Nick Barnardt forecast this week in Cape Town. Barnardt expected the downswing in the business cycle to continue for at least the rest of the year and possibly into the first few months of next year.

He predicted the number of unemployed, having already probably risen by more than a million in the past three years is set to swell by close on half a million people within the next 12 months.

Jobless set to swell by further 500 000

STAR 7/8/92

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By Sven Lünsche [illegible]

Business and consumer confidence took a pounding in anticipation of the mass action campaign and this is likely to delay the economic recovery into early next year.

As a result, economists now fear that the already huge numbers of unemployed — some estimates exceed five million — could swell by a further 500 000 over the next 12 months.

Two surveys conducted this week by the SA Chamber of Business (Sacob) and the Bureau for Economic Research (BER) indicate that confidence among SA businessmen and black consumers plummeted in anticipation of the mass stayaway.

Sentiment had been eroded by the continued political impasse after the Boipatong violence as well as recent evidence that the economic recession was deepening.

Chief economist at the Afrikaanse Handelsinstituut Nick Barnardt warns that unemployment, "already having risen by more than a million in the past three years, is set to swell further by close on 500 000 within the next 12 months".

South Africa was at a point "where the economic situation was tantamount to a state of emergency".

Sacob yesterday said its Business Confidence Index had fallen by 0,7 points to 90,1 — its third successive monthly decline.

"In anticipating the mass action, there has been widespread concern in business circles that the economy will continue to be used as a political battleground and irreparable damage will be done to its growth potential," Sacob chief economist Dr Ben van Rensburg said.

Potential foreign investors were shying away and domestic investors were also sitting out the transition period until businessmen were confident negotiations would lead to stability.

"The single biggest boost to business confidence will come as soon as the political parties return to the path of reconciliation and negotiation," he added.

A result of mass action could be a further erosion in the job-creation capacity of the economy. This would "exacerbate the already chronic unemployment problem still further".

Businessmen would try to limit exposure to stayaways by adopting capital-intensive production techniques.

In its survey the BER says the low confidence level of black consumers had the potential to delay the expected recovery in the economy.

In its latest consumer survey of metropolitan blacks, the BER says their low confidence would deter private consumption expenditure, which contributes about 56 percent to growth.

On the economic position in the next 12 months, the BER says black consumer confidence in the second quarter of this year decreased by 10 percent.

"A possible explanation for this relative decline in optimism — compared with relative pessimism in the previous survey — can be linked to the breakdown in negotiations at Codesa on May 15."

No pain, no gain for SA

w/Mail 7/8-13/8/92 (49)

South Africa faces some deep-rooted problems as it rejoins the world economy. **REG RUMNEY** *spoke to Bradlow Fellow Jesmond Blumenfeld who has been looking at these issues*

JESMOND BLUMENFELD'S conversation about the future policy choices on the South African economy is scattered with mention of painful and "cruel choices" and warnings of no quick and easy way out. It is clear he is not entirely sanguine about the prospects for immediate prosperity.

The sixth South African Institute of International Affairs Bradlow Fellow, Blumenfeld has been weighing the opportunities and the threats South Africa faces as it is reintegrated into the world economy.

Based at Brunel University in West London, Blumenfeld is preparing a paper on, among other things, the policy implications for South Africa of the lifting of sanctions and the ending of apartheid.

Clearly, there has been optimism with trade sanctions going, says Blumenfeld. Some traditional markets had been restricted and others had been severely limited by sanctions. But, he says, apart from financial sanctions, there has also been more fundamentally a decline in attraction for foreign capital investing in the real sector of the South African economy.

"Certainly since 1976 and even before a combination of factors has led to declining attraction of foreign capital. This was masked by resorting to borrowing abroad."

Equally important, is the much more structural imbalance in South Africa's relationship with the international economy. Blumenfeld points out the history of industrialisation in South Africa is characterised by subordination to political goals. So when industrialisation did take place in the early years of the Union it was to create jobs for whites.

Jesmond Blumenfeld: Tell the marines the new South Africa will not manipulate industrial policy

The seeds of present problems were planted way back then, is the implication. The way industrialisation happened meant it was parasitic, relying on export earnings of other sectors.

So exporting minerals financed imports of machinery to produce goods for replacement of imports. "Industrialisation has always been employed by politicians for ends other than industrialisation."

In the apartheid years industrialisation was used to entrench political structures, not for the sake of the economy. Now industrial development is expected to cater for exports and to create jobs. "It's not clear that these are compatible."

Because of the balance of payments (BoP) constraint South Africa needs more foreign exchange earnings. The only sure route in the long term is manufacturing for export. Politically the need is to create jobs. But exports are capital intensive rather than labour intensive.

Another problem is that manufacturing industry needs lower exchange rates to be competitive: mineral exports, on which we still rely, tend to push up the exchange rate, according to Blumenfeld.

The problem of South African manufacturing is the high cost of labour relative to capital. He reckons you have to push down the cost of labour relative to capital, or make capital more expensive. Its hard to pursue both strands — foreign exchange earnings and job creation — at the same time. It's a cruel choice to have to make. "You could go the employment creation route but you will run into a BoP constraint." The export promotion route could be undermined by joblessness.

Access to IMF loans will not in itself relieve the constraint. IMF loans will have to be repaid five or 10 years down the line, and they don't come cheap. "I would be worried about placing too much reliance on the IMF.

"It would be most unfortunate if South Africa were to find itself in the position of Zambia and Tanzania, chopping and changing policy to get the IMF off its back," Blumenfeld reckons.

It can be argued, he says, that South Africa is overborrowed. "But it wouldn't take a lot of borrowing to make it overborrowed," he says.

The question remains: how do you make foreign loans earn foreign exchange so that they can be repaid?

The bind is that South Africa won't get direct foreign investment until there is stability and economic growth is needed to attain that stability. There is no easy way out of this.

"There is an important role for the political leadership in creating acceptance of what can be achieved in the foreseeable future."

Growth through redistribution, sometimes advocated by thinkers on the left, has the potential to work in the short term but runs the risk of running into the BoP constraint, says Blumenfeld. "The fundamental structural problem is that industrial development in South Africa is predominantly import intensive, and this will take many years to change."

Brazil, for instance, followed an industrial policy which resulted in much lower import intensity than South Africa. Following the example of the Korean tigers would be possible if South Africa was at a stage of industrialisation reached 20 or 30 years ago.

The idea that the goods consumed by poor people have a lower imported content is foolish, he maintains. Whether big or small, most machinery, intermediate inputs etc which industries use have to be imported.

"It can be changed but it's a very slow and painful process. Policies must be implemented which mean some firms go under to make space for others which are more competitive internationally.

"This is what structural adjustment is all about. It's better for a country to do it itself. But if the IMF forces it on a country, the government can say it's not their fault. That ploy has been used by governments all over Africa and Latin America." There are problems in aping other countries.

South Africa starts with a mineral rich economy which dictates domestic structure and exchange rate. The country doesn't start off with well-developed government structure, and doesn't have the option of following the repressive employment practices countries like Taiwan and Korea did.

The fiscal burden of putting export incentives on a par with those for import substitution would be enormous, Blumenfeld reckons. Reducing import substitution incentives is open to special pleading.

While what needs to be done is clear, it is by no means certain a future government will pursue an economically correct industrialisation strategy.

"It seems inconceivable a future government, having observed the way industrialisation has been manpulated in the past, will eschew this as policy lever." He adds scornfully: "Tell that to the marines."

THE DEFICIT FM 7/8/92

Funding choices

(49)

Original estimates of a Budget deficit of 4,5% of GDP are looking increasingly conservative. So the question arises of how a deficit of over 5% should be financed. One option is to increase public-sector borrowing. Another avenue is to raise revenue through increases in taxation, such as increasing the VAT rate.

In Old Mutual's latest *Economic Monitor* chief economist Dave Mohr says the former option is preferable.

"Any increase in the rate of VAT can only suppress consumer demand even further," he adds. Mohr says such an increase may push up inflation even more, as it did when the tax was introduced.

He says a large borrowing requirement would be easy to finance given the weakness of the economy and high levels of liquidity. "Private-sector demand for long-term debt is low, so there's no threat of crowding out."

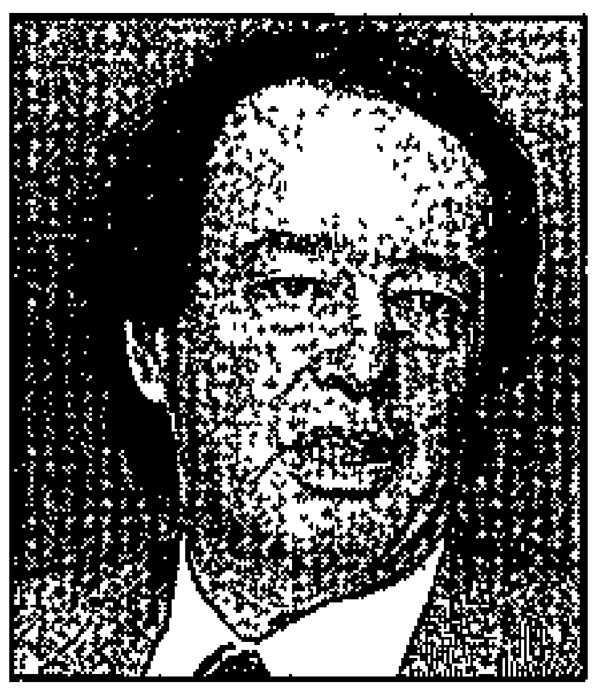
But Mohr issues a caveat: "Government will have to reduce the deficit significantly once the recovery comes, otherwise interest rates will soar." ■

KANTOR COMMENTS

Keeping their distance

FM 7|8|92

(49)



Brian Kantor is professor in the School of Economics at UCT

The prominent role being played by Cosatu and its leadership in the latest phase of the struggle for political power cannot easily be overlooked. One cannot but wonder to what extent the political impasse and mass action represent an escape for the union leadership and its front-line shop stewards from the frustrations and failures of industrial action.

Much has and no doubt still is being promised to the rank-and-file membership of unions by their leaders. Very little recently has been achieved for them. At best, small gains in incomes for some have been accompanied by major sacrifices of income for others during strikes and, more seriously, jobs afterwards. There are very few comparable employment opportunities for the victims of a failed strike.

The economy obviously has been in no position to satisfy the expectations of organised workers. Recession and rapid growth in real wages do not mix well in the private sector. The public sector, that is to say the taxpayer, is a potentially easier target for the unions. But hospitals, universities and local authorities now clearly have less of other people's money with which to placate their low-paid and low-skilled workers.

Not that the tax burden has declined. The public sector generally is not cutting back its spending but the money is going elsewhere. Exactly where is a mystery but the sense of hard times for the managers of public money is overwhelming.

The success of union leaders in growing their membership, in collecting union dues and in improving their own salaries is as dependent on the state of the economy as are the rewards of business leaders. A recovery in the economy, it will be argued, depends on a political solution. This may be true but the union leadership cannot hope to have it both ways: to use their power to achieve political goals in ways that clearly disrupt the economy while at the same time pretending to be able to satisfy the pressing and immediate desires of the rank and file for higher wages and better working conditions.

Whatever the political outcomes, the welfare of workers will always remain dependent on the health of the economy. Moreover, even in cyclical recoveries, there will be no great margin of fat available to business or government with which to improve dramatically the living standards of the rank-and-file union member.

Every study of the economy confirms the severe limits to redistribution. SA is, for its stage of development, by no means undertaxed, nor are the budgets for welfare comparatively small ones. Furthermore, shifting the mix of tax and government expenditure from whites to blacks is a process already well under way and so can do little to satisfy the understandable ambitions for a dramatically improved standard of living. Changing the business mix from profits towards wages will mean less saving and investment upon which the long-term welfare of workers depends.

The danger is that the wrong mix will drive essential capital and skills from SA and make it impossible for workers to make steady economic progress.

Growth and redistribution must go together. Any party proclaiming otherwise is guilty of misleading advertising. One hopes that the freedom we all seek will include freedom of competition, not only between different political parties and businesses, but between rival unions, as well as competition from the non-union shop, that will serve to discipline those who promise workers more than they are able to deliver.

But all those politicians who regard the union movement as a powerful ally should be aware of some very fundamental facts of SA's economic life.

However unsatisfactory the incomes of average union members by comparison with the incomes enjoyed by the elite of business, politics, government or of the union leadership, such incomes and associated fringe benefits compare very well with the incomes of what is a larger number of potential workers not employed by the organisations with which the unions engage so fiercely. There is more than one outsider willing to take the place of every union member — under the same conditions of service. These potential workers are the poorest South Africans and they are anxious to share in the benefits enjoyed by the established workforce.

The major challenge facing the economy is that of absorbing the poor into employment rather than that of raising the standard of living of those with employment. The attitude of the union movement to any labour-absorbing strategy for economic development is bound to be ambivalent.

The trade-off between higher wages and less employment is hard to avoid. Big business will feel comfortable with more labour-saving investment of the kind it has grown familiar with, under constant pressure from unions and labour legislation.

A corporate state that aligns the interests of organised business, labour and government may provide for greater economic success than SA has enjoyed recently. An alliance that carried out sensible macro-economic policies may be the best we can hope for. But it will not address the problems of the poor who will remain locked out of formal employment and all its attendant benefits.

Politicians with a genuine interest in the welfare of the poorest who are not union members should keep their distance from Cosatu.

tion or keyman protection — are not affected by the proposals. ■

ECONOMIC OUTLOOK FM 7/8/92

Signs of sanity

(49)

Since the breakdown in political negotiations, attention has been focused on renewed violence, threats of mass action, a nationwide stayaway — and the deepening recession as investor and consumer confidence slumped further. In the gloom, a number of positive developments have passed almost unnoticed.

There is a spirit of increasing realism abroad. This was evident in an agreement reached, in principle, between the Chamber of Mines gold mining members and the

continued —

FM 7/8/92 (49)

National Union of Mineworkers (NUM) last month. It provided for a 5% increase in workers' wages, plus the proceeds of profit-sharing schemes which are being negotiated.

If the deal is struck, it will build on progress made last year when the level of increases to mineworkers was linked in part to productivity and the gold price. By establishing an important link between profit and pay, this type of agreement ensures workers can share in the good times and it allows wages to fall, in real terms, in the bad times — an important antidote to inflation.


Spicer

In that environment, restrictive monetary policy can operate more effectively. Over the past few years, the Reserve Bank has been obliged to apply what many believed was undue force to rein in inflation. This was because structural flaws were drawing out the usual cyclical lags — and important among these was that upward pressure was coming from wages when output was falling. So stringent monetary policy was effective in cutting back money supply growth but far less so in reducing inflation.

At last, in past months, inflation has been subsiding — though reluctantly and not consistently. And there is evidence that immediate pressure will not be coming from wages. Says Pat Stone of Andrew Levy & Associates: "The trend of recent settlements has been below 15% and, by the end of the year, the national average may be about 12%" — levels which are below the present and expected inflation rate.

If inflationary pressures are being contained, there is more room for real growth in the economy — and, therefore, in incomes.

So progress has been made on a number of fronts, despite the recent political upheavals. And even these have had their good points.

The attempts of Saccola and Cosatu to reach an agreement on the stayaway may have foundered but they were not fruitless. Though talks broke down on a number of issues, they generated agreement on many others. Says Anglo's Michael Spicer: "There is a determination to take forward new initiatives, to press on with concrete programmes for upliftment and to get politicians back to the negotiating table."

Also encouraging were the attempts made to minimise the damage caused by the stayaway. Says labour analyst Duncan Innes: "I know of companies where managements, shop stewards and union officials worked out arrangements to allow the stayaway to occur with minimum disruption to the production process."

He points out that, on the gold and platinum mines, "workers did not participate significantly in the stayaway because of the critical situation faced by those industries. This starkly highlighted that both workers and employers have a joint interest in keeping those industries alive and avoiding further closures."

Clothing is another troubled industry — the size of the labour force in the four major urban areas has shrunk from 120 000 last July to 100 000 — where special arrangements were made to minimise damage.

Says Seardel's group industrial relations executive Johann Baard: "In the two major areas, though there was no agreement on factory closures, employers undertook no work, no pay and no discipline and the union was prepared to be flexible in special circumstances, as, for instance, when there were pressing delivery deadlines and a late delivery could result in cancellation of an order. In the western Cape, the biggest region, attendance on both days exceeded 75%."

The signs are that, in seeking a solution to the political impasse, people are gaining valuable insights into underlying economic realities. This allows the protagonists to evaluate their own interests more accurately and plan their strategies more effectively. After all, there is no point in painting an opponent into a corner if you have to share it with him. ■

Confidence sags on political fears

(49) CT 7/8/92

By **AUDREY D'ANGELO**
Business Editor

FEARS that "the economy will continue to be used as a political battleground" were the main reason for a further fall in business confidence last month, SA Chamber of Business (Sacob) chief economist Ben van Rensburg said yesterday.

The Sacob Business Confidence Index for July continued to fall for the third month in succession. It was down by 0,7% to reach 90,1% compared with 92,4% in April and the average of 93,2% in 1991.

Van Rensburg said it was important, in the current climate, "to see beyond the political difficulties and to recognise that the underlying economic fundamentals are generally well placed for an upturn".

But he warned: "A lack of political progress remains the most important obstacle to renewed economic growth.

"Demonstrable progress will need to be made on this front in the very near future if the economic upturn is not to be further delayed with consequent negative implications for investment and job creation.

"The biggest single boost to business confidence will come as soon as the major political parties return to the path of reconciliation and negotiation."

Meanwhile, the continuing recession with low demand for credit and a poor outlook for retail sales is also depressing the business mood.

But the Sacob Manufacturing Confidence Index for July shows that "conditions in some sectors — particularly those supplying intermediate inputs to other industries — may be starting to bottom out".

Sacob economist Keith Lockwood says in his accompanying report: "This trend is likely to be strengthened if the country manages to put the period of mass action behind it and political negotiations are resumed.

"Prospects of a better agricultural season and some stabilisation in the mining industry should also help to underpin confidence levels in the coming months."

Van Rensburg said yesterday that potential foreign investors were shying away from putting their money and expertise into this country, and domestic investors would sit out the transition period, until there were clearer indications of political progress accompanied by sound domestic policies.

"As a result fixed investment spending, which is already at its lowest level in real terms since 1971, will continue to decline."

Another effect of mass action would be to cause businessmen to reduce their exposure to disruption by switching to more capital-intensive production techniques.

Replacing men with machines would "exacerbate the already chronic unemployment problem still further, with consequent negative implications for social stability."

Insolvencies

More jobs would be lost if mass action "proved to be the final nail in the coffin for businesses which are already struggling to survive through the prolonged recession.

"As a result the number of insolvencies, which is already up by 37% over the last year's levels, may rise still further.

"Sacob hopes that political leaders will recognise these economic realities and that the country will now be able to put the period of mass action behind it before further damage is done.

"The business mood could improve soon if the political outlook became more hopeful. Economic performance and political progress are interdependent."

Little hope of tax relief

Any recovery looks likely to be sluggish

STAR 8/8/92

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ALTHOUGH economists expect the inflation rate to drop, it will not help the swelling ranks of the unemployed. Our FINANCE STAFF reports.

LONG-suffering consumers are being squeezed between higher taxes and rising prices — and there is not much relief in store.

Most economists predict that inflation will drop from 15,1 percent to about 10 percent some time next year. But by then many more people will be out of jobs.

Economists warn that the recovery, when it comes, is likely to be sluggish. Old Mutual economist David Mohr says private-sector employment last year dropped 2,9 percent. By the end of the year more than 203 000 people had been retrenched — one in every 20 from the private sector.

The trend has probably accelerated this year.

Problems

Higher taxes have shrunk disposable income, as has inflation, fuelled by rocketing food prices. The result is a decline in real spending.

Consumer Council executive director Jan Cronje warns that further food price rises could cause enormous socio-economic problems.

In its latest survey of black consumer attitudes, the Stellenbosch Bureau for Economic Research confirms that consumer confidence is dropping, particularly among the lowest-income groups.

Only 55 percent of consumers surveyed in the second quarter of the year expect South Africa's general economic position to improve in the next year.

Consumer confidence will probably drop further in the third quarter, it says. Continuing lay-offs, labour market instability and mass action will further shrink consumer spending, delaying an economic upswing.

Mohr says the next round of salary increases is unlikely to be much greater than the last. No increase in employment can be expected until a recovery has gathered momentum.

Upwards pressure on government spending will probably leave no scope for tax relief to individuals, making any increase in private consumption expenditure largely dependent on declining inflation and interest rates.

Real private consumer spending dropped 3,5 percent between the beginning of 1991 and the end of the first quarter of 1992.

"Given a population growth rate of approximately 2,5 percent per annum, this implies a drop in living standards per capita of 6 percent."

At the beginning of the year most economists were expecting 1992 to be a year of renewed growth: now, partly because of the drought, it looks as if real gross domestic product will drop 1,5 percent.

Any upswing in 1993 is likely to be slow and could be jeopardised by political factors.

Board of Executors economist Rob Lee says resumption of political negotiations and action to end violence are essential for sustained economic growth. If the economy is structurally adjusted, there are prospects for a "reasonable" recovery in 1993 and 1994, he says.

Rebuilding

The world economy is likely to pick up next year, meteorological data show rainfall patterns likely to recover, foreign exchange reserves are rising, and lower inflation and interest rates will bring some relief to consumers and business.

The rebuilding of company inventories will stimulate growth, fiscal policy will remain expansionary and even if general business confidence does not improve markedly, several big investment projects, such as those of Columbus and Alusaf, will probably still go ahead, Lee says.

City sprawl big threat to economy

TOM HOOD (45) ([illegible])
Business Editor

ARG 8/8/92

ACCELERATED urban growth will place enormous strains on the economy and on the environment, says Dr John Hanks, chief executive of the Southern African Nature Foundation.

By 2026, the population of the greater Cape Town metropolitan area would be 6,6 million, a three-fold increase in a mere 40 years, he told the Western Cape branch of the Institute of Directors.

Already in the Eastern Transvaal Highveld, the emission density of 3,1 tons of sulphur dioxide a square kilometre a year from the rapidly expanding industrial base was in excess of the densities for high polluted East Germany, where areas had been declared officially unfit for human habitation.

Dr Hanks found it unacceptable for the government's environment portfolio to be tacked on to the back of National Education, with a key portfolio of Water Affairs and Forestry in a different ministry.

He urged the Institute of Directors through its new environmental sub-committee to actively lobby to have this changed.

Company directors also should take a leading role in introducing environmental auditing in their own businesses.

There was a distinct linkage between environmental issues and economics.

Elsewhere in the world, environmental reports were increasingly moving from the front pages to the financial pages of newspapers.

The only way to halt environmental degradation was to break out of the poverty spiral by economic upliftment through a process of a wide range of development activities.

He said the challenge for every major developer must be to strive for environmental excellence.

R250 million in lost wages, but 'real price has yet to be paid'

49

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ARG 8/8/92

South Africa is counting the cost at the end of the first week of the mass action campaign. Weekend Argus Reporter **PATRICK FARRELL** reports . . .

THE real cost of the stayaway would only be felt in a few months, according to the South African Chamber of Business (Sacob).

Sacob chief economist Dr Ben van Rensburg said yesterday about R250-million had been lost in wages on the two days of strikes, but the real figure in lost revenue from reduced "investor confidence" would only be felt "down the line".

"We only calculated Monday and Tuesday as these were official strike days. By Wednesday, most people were back at work." He said the strike had been replaced by "peaceful protests with minimal disruption to business".

At the end of the first week of the mass action campaign, South Africa is sitting back, taking a breather and wondering what's next. While the ANC and its allies are claiming success, the government is claiming a massive increase in violence because of the campaign.

At least 10 people died and scores more were injured around the country on Monday, the first day of the stayaway.

In the Cape Peninsula and Boland, three men were killed, one by the police in Grabouw. A train coach was damaged, a security guard hut was petrol-bombed and burning barricades were set up in township streets.

The Afrikaanse Handelsinstituut said the strike was one of the largest seen in the country and put the stayaway figure for the Western Cape at 80 percent.

Cosatu claimed the stayaway had been 74 percent effective in the Western Cape while Sacob put the figure at 15 percent.

Political commentators were cautious in anyalysing the first day of the stayaway. "The percentage of people who stayed home does not tell us if they support the ANC's cause or are happy at staying at home, " said Professor Tom Lodge of the University of the Witwatersrand.

By Tuesday, the death toll had risen to 34, but police said they had no direct evidence to link the deaths with mass action.

They said the second day was characterised by incidents of intimidation, petrol-bomb attacks and sporadic attacks on buses, taxis and police patrols.

Minister of Law and Order Mr Hernus Kriel blamed mass action for a "300 percent increase in violence". The ANC accused the government of lumping all incidents of violence together.

On Wednesday, huge marches took place in Cape Town and Pretoria. In the Mother City, a symbolic march from Langa along the N2 to the Grand Parade re-enacted the pass-law march of 1960 to the Caledon Square police station.

A 15 000-strong crowd marched along the highway and joined thousands of others at the Parade, where a peace and democracy flame was lit.

The Receiver of Revenue offices were symbolically "occupied" for 10 minutes, but police prevented another group from occupying Telkom's offices.

Marshals tried to keep a tight rein on the crowd and two men who allegedly stole during the march were paraded before the crowd. Most marchers were orderly, but at least two shops were looted.

A man on his way home was killed when he fell off a train organised to take marchers home and a number of police vehicles had their tyres slashed.

On Thursday, the Civic Centre was occupied by more than 1 000 workers who handed a memorandum to Mayor Mr Frank van der Velde.

Action plan outlines steps to help blacks advance

SOUTH 8/8 - 12/8/92.

GOVERNMENT and the private sector have important roles to play in black advancement.

This emerges from an action plan drafted by the Small Business Development Corporation and the Cape Town Chamber of Commerce to help government and the private sector tackle black advancement.

But the question that remains is to what extent the plan should be legislated or left to individual players to implement at their own pace.

The action plan looks at three main areas — economic empowerment initiatives for black entrepreneurs, black advancement in the workplace and the advancement of the unemployed.

1. Economic Empowerment for Entrepreneurs

Central government can support small business agencies, provide finance for small business concerns, and introduce tax incentives for small businesses.

It can deregulate small business activity, contract out to small business, buy from small businesses, provide premises, support business skills training and introduce a sliding scale of labour law for small business.

Local government can provide concessional rates and electricity and water charges for small businesses and low-cost land in industrial areas next to black housing areas.

It can also contract out functions to small business and buy from small businesses and provide premises for small industries and businesses.

In the private sector, big business can buy from and sub-contract to small businesses and take part in adopt-a-business projects.

It can provide consultancy services and business skills training to small businesses, franchise to small businesses and provide venture capital.

2. Black advancement in the workplace

Central government can provide in-house training, training grants to the private sector, bursary programmes, aptitude tests, literacy training programmes, adult education programmes and general training programmes.

Local governments can provide in-house training, aptitude tests and bursaries.

The private sector can provide these as well as housing support schemes, loan schemes, productivity incentive schemes and employee share participation schemes.

3. Advancement of the Unemployed

Central government can start a national community service corps, provide basic skills training and management training, offer aptitude tests and provide a job placement service.

It can also run welfare and health care programmes, offer literacy training and employment training programmes as well as housing programmes and employment bureaux.

Local government can provide job creation initiatives, welfare programmes, allocate land and basic services for informal housing, employment bureaux and training programmes.

The private sector can provide employment training programmes and social investment programmes.

The development agencies can help in all these areas by providing financing, business premises, training and consultancy services and advocacy.

'Satanic' state has become new horror

SOUTH 8/8- 12/8/92

(49)

The apartheid state has concentrated economic power in white hands yet a new black-dominated state is being feared as a new Satan, says ANC legal advisor Professor Albie Sachs.

"It is frequently said that the playing field for business activity is not level. The truth is far worse: we are not even on the same playing field."

This is borne out by the figures. Less than three percent of managers or executives are black. Less than two percent of all direct shares in companies listed on the Johannesburg Stock Exchange belong to black businesses.

Black shareholding in non-listed companies totals about two percent, while black sole owners are said to account for about 15 percent of small formal businesses.

If one puts together all informal sector enterprises, it is estimated that Africans control about 40 percent of the total and about 30 percent of their capital and turnover.

"Add all these figures and we find that effective African participation in the business sphere is barely 10 percent, even though Africans constitute about 73 percent of the population.

"Thus what we are inheriting is not just inequality, but a system of structured inequality, and one brought about by deliberate state policy," Sachs says.

Many have spoken of the need to Africanise the economy, but Sachs talks about the need to South Africanise it to express the "full and varied richness of all South Africans".

He says: "To the extent that the African people have been the main victims of exclusion in the past, so they will be the main beneficiaries of inclusion in the future.

Yet the objective will not be to replace one form of race rule or hegemony with another. It will be to get rid of the system of race domination altogether."

Another term that has frequently been used (and abused) is nationalisation, mainly by people who are opposed to the principle and place their faith in free enterprise, even though nearly 80 percent of shares on the stock exchange are owned by five major conglomerates.

Sachs criticises this attempt to "create a false debate with high emotional overtones and low practical significance".

This has taken attention away from "the two really great economic questions: how could our economic resources best be used to deal with the massive problems of poverty and inequality created by apartheid? And, how could black people participate on a basis of full equality in economic life?"

Private sector economists have not come up with any answers to these questions, but are suddenly talking about how South Africa is a poor country and how, without economic growth, there can be no redistribution of wealth, even though it can be argued that by reallocating resources available there could be extensive and meaningful redistribution.

The roots of this false debate and failure to tackle the real problems of South Africa lie in a new-found horror of the state (mainly because it will be black dominated) by those who have comfortably lived for years with (white) state intervention in every aspect of their lives.

Sachs therefore talks of the need to "de-Satanise" the state.

He points out that most ANC leaders have spent long years in exile in Africa, where they have learnt first-hand that governments are good at some things, but very bad at others.

"We will not get very far if we rely on simplistic notions either that the state should do everything, or that it should do nothing. The state should be neither glorified nor denigrated. It has a role to play, a role that might expand or contract over time.

"Silly anti-statism which regards the state as the new Satan is unhelpful as blind belief in the state as the universal solver of problems," Sachs says.

Business backing for interim rule

S/Times (BUSS) 9/8/92

49 ~~304A~~

By CIARAN RYAN and ZILLA EFRAT

BUSINESSMEN back the formation of an interim government as soon as possible. They say it will open the door to large-scale investment.

Anglo American deputy chairman Leslie Boyd says: "We hear that an interim government is coming quite soon.

"We have been talking to several foreign companies about joint-venture projects. They are waiting for the political situation to stabilise. Once an interim government is in place, we expect to consummate some of these deals."

Malbak executive chairman Grant Thomas says the world's view of SA will change dramatically once an interim government is in place.

"Investors will regard this as a sign for lifting the embargo. We have no reservations about it. The country is committed to an interim government. Provided the system of checks and balances is adequate, we do not fear what will happen."

Haggie managing director Chris Murray expects less industrial action when an interim government arrives because it will seek economic goals in a unified stance.

Mr Murray believes an interim government could take over in six to eight months. Taxes are likely to rise as the call for more social spending increases.

Mr Murray says higher spending should boost the economy.

Upturn

Standard Bank Investment Corporation (SBIC) managing director Eddie Theron says: "Anything that can provide certainty to the political situation will help to restore confidence. The sooner it happens the better. Thereafter we must strive for the appropriate fiscal and monetary policies."

There has been virtually no growth in SBIC's lending book this year, the result of poor business confidence and the recession. Mr Theron says an interim government would help to restore confidence and increase the demand for borrowed money.

Businessmen say the interim government is unlikely to speed economic recovery, but it will have to wait for an upturn in the world economy.

Rand Merchant Bank economist, Rudolf Gouws says: "We have never had an economic recovery before the rest of the world. But it (interim government) will reduce the lag between world and SA recovery."

SA's economy should grow by 3% next year if there is an interim government.

Few businessmen are worried that the ANC will try to implement a hardline redistributive economic agenda once it shares power. They believe that the ANC has discarded nationalisation as a policy option although the call for more social spending will intensify.

There have been worries that the ANC would carry out threats to reintroduce prescribed assets in the insurance business, but these are being discounted.

"The Life Offices Association initiated a scheme to

● To Page 3

● From Page 1

channel funds to socially desirable projects and this is now getting off the ground," says Liberty Life managing director Alan Romanis.

Businessmen say economic policy differences between business and the ANC have been narrowed. It is held that nationalisation has been discarded by black opposition groups.

S/Times (BUSS)

"There is a great deal of common ground between the ANC and business on the way forward," says Barlows general manager Ken Ironside. "Where there are policy differences they can be discussed."

9/8/92

Interim rule

The SA Chamber of Commerce (Sacob) says an interim government will make it more possible to implement economic policies which enjoy consensus among political groups.

(49 & 304A

"It will also encourage co-responsibility for maintaining law and order and reducing violence," says Sacob director-general Raymond Parsons.

But he urges caution: "In our desire and haste to see an interim government we must also be careful not to go from the frying pan into the fire."

S/ Times (Buss)

Reserves up

9/8/92

THE Reserve Bank's holding of gold and foreign-exchange reserves rose by R1,099-million in July to R11,287-billion. The value of gold holdings rose to R5,983-billion from R5,845-billion in June — although the amount held fell to 6,707-million ounces from 6,827-million. The currency component rose to R5,302-billion from R4,342-billion.

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in the Government Ga-
weeks' time and new duties
into effect from November 1

"One of the worst aspects of gover
treatment of this issue — and of man
er economic issues — has been a la
decision."

AHI 'hopes economy will not be a battleground'

JOHANNESBURG. — The Afrikaanse Handelsinstituut (AHI) "hopes and trusts" the economy will not be used again as a battleground in attempts to attain political goals. (49) ARG 10/8/92

"All political and economic role-players are requested to demonstrate sensitivity to the complex interaction between political, economic and social factors in South Africa," AHI president Mr Du Plessis said in a statement today.

"Rising unemployment and poverty could further accelerate the momentum of socio-political violence and instability, with further negative implications for economic growth and political negotiations in the future," he added.

Mr Du Plessis welcomed the weekend announcement which indicated the National Peace Secretariat and the international community, through the United Nations, would become more involved "in the issue of domestic order and stability". — Sapa.

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BUSINESS DAY, Monday, August 10 1992

MONEY MARKETS by Hilary Gush

Rates dip boosts capital market

THERE was more activity on the streets and rugby fields last week than in the dealing rooms as major players stayed on the sidelines and took a "wait-and-see attitude" to the two-day general strike.

On Wednesday distracted dealers changed the focus of their attention from mass rallies to rugby while rates on the money market took a back seat.

The capital market was, however, more capitivating. By mid-week bullish sentiment had driven rates down to eight-year lows. Expectations of falling inflation and an upturn in economic activity further fuelled gilts buying.

The yield on Eskom's bellwether E168 bond plummeted to 14,34% towards the weekend from 14,72% on Monday. The yield on government R150 followed a similar trend, falling 43 points over the week from 14,87% to 14,44%.

Buoyed by positive political perceptions the bull run is expected to continue.

Feeling in the market is that the yield differential on R150 and E168 stock will narrow substantially over the year, with yields possibly converging.

While the Eskom bond used to be the benchmark stock — the most traded semi-gilt — the government R150 has, since the beginning of the year, taken the lead in terms of tradeability. The E168, however, remains the bellwether bond.

The reason for the initially lower tradeability of RSA 150s was that the Reserve Bank was not involved in the secondary market. This has since changed and an option market in government stock has developed.

(44)

August government spending saw liquidity in the money market pick up towards the end of the week with the shortage at R2,77bn from more than R5bn last month.

Speculation of a further Bank rate cut in September eased money market rates. By Friday the 90-day liquid BA rate was down at 13,4% from 13,5% the week before.

Bolstered by expectations of a Bank rate cut money market rates are expected to fall by at least one percentage point in the next few months.

The average rate on the Bank's weekly tender for three-month Treasury bills was down 13 points to 13,21% from the previous week's 13,34%. Demand for the short-term paper was good due to improved liquidity in the market. The Bank attracted bids of R960m for the R150m offered in six-month TBs, with the rate on these also down from 12,55% to 12,43%.

10/8/92

Businessmen criticised for fostering recession

STAR 11/8/92

49

By Derek Tommey

Businessmen blame the prolonged recession on the Reserve Bank's tight money policy, on political action resulting in a loss of confidence and on the decline in mineral prices.

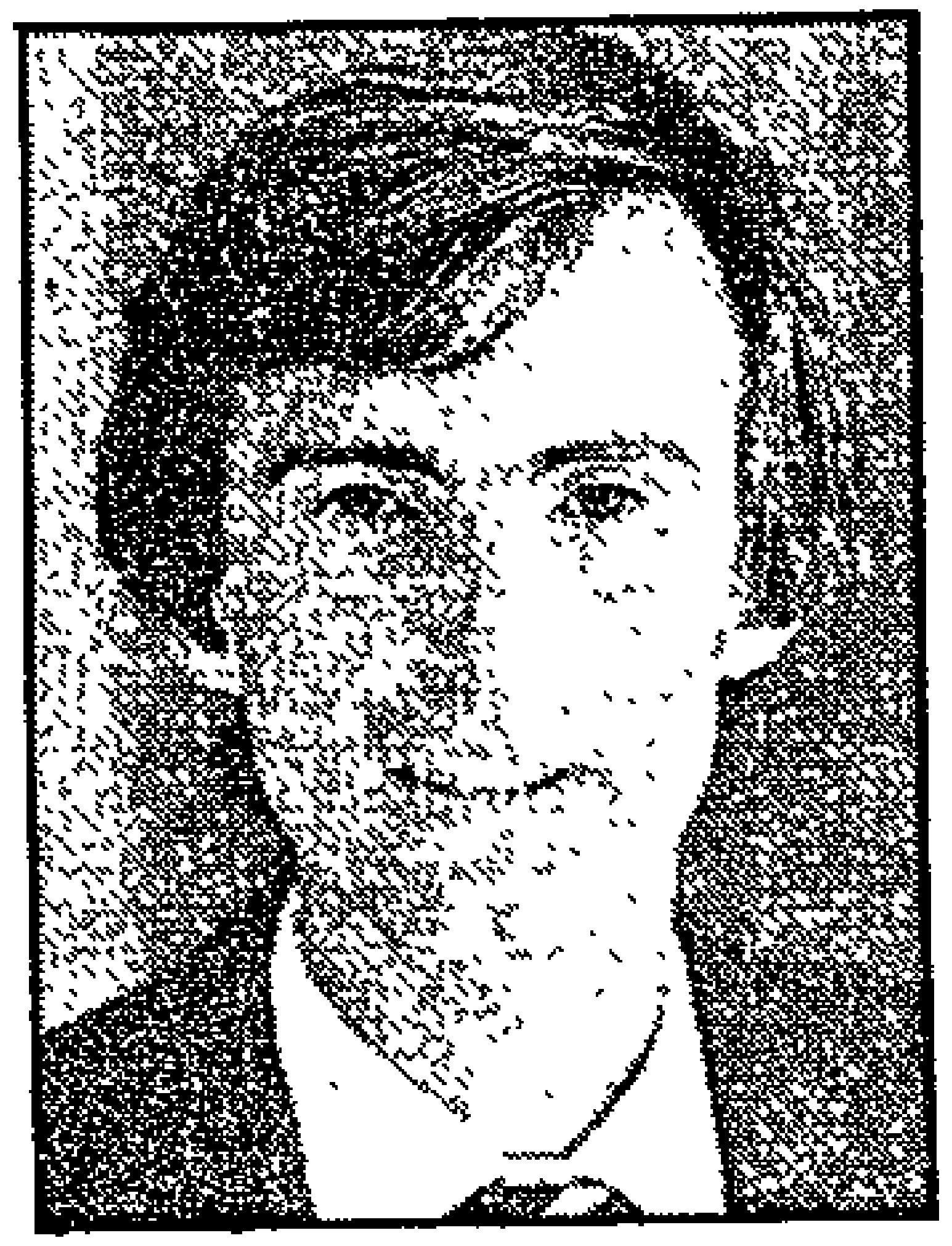
But Cees Bruggemans, chief economist at First National Bank, says there is another important factor — the behaviour of businessmen themselves.

South African businessmen have become so accustomed to benefiting from windfalls that they haven't the ability — common to most overseas businessmen — to generate new business by their own efforts.

All they are able to do when times are tough is to try and overcome problems by cutting costs, "de-peopling" and destocking, claims Dr Bruggemans.

This ignores the fact that one man's cost-cutting becomes another man's lost sale, production and income — resulting in the economy being pushed deeper into recession.

Dr Bruggemans believes that since early 1990 this process has cost SA 300 000 to 400 000 formal jobs, with only a quarter to a third of these losses attributable to the mining industry.



Cees Bruggemans . . . by their own bootstraps

He says that the past two decades have seen five upswings — each marked by fairly impressive windfall events.

South Africans have always been alive to the meaning and opportunities of such windfalls, very much on the principle of Pavlovian conditioning, he says.

Most managers can recognise the "easy" signs that herald a recovery and position themselves for it.

But they have never learned as a group to "pick themselves up by their own bootstraps", he says.

"In other countries, less favoured by external windfalls, managements have learned to be far more self-reliant and specifically to be more world market-oriented."

There was great consternation in mid-1990 when company profit growth started to slip, interest rates were high in nominal terms, labour demands were rising, the political outlook was at best uncertain — and there was absolutely no evidence of windfalls anywhere in the horizon, he says.

Although these conditions encouraged a shift towards more exporting, the overwhelming management response was not outward but inward.

Companies right across the board decided to improve their earnings outlook by cutting costs.

"This set in motion a vicious downward spiral which remains with us in 1992 because few of the conditions that gave rise to this adjustment in mid-1990 are much different today."

The collective cost-cutting has improved the international competitiveness of many businesses.

But the downside is a protracted recession that seemingly wants only to deepen further.

"The irony is that expansionary forces have been operating within the economy for some time," says Dr Bruggemans.

Both exports and government spending have been expansionary for some time.

Unfortunately, these have been overshadowed by the effects of cost-cutting. This will not be so indefinitely, however, and it is a matter of time before the tide turns.

Another irony is that there is one major potential windfall on the horizon, which many are ignoring because it is not a traditional windfall, and rests on promises few people are willing to believe.

"This potential windfall is based on the premise of a successful political transition and the fact that the country is under-borrowed.

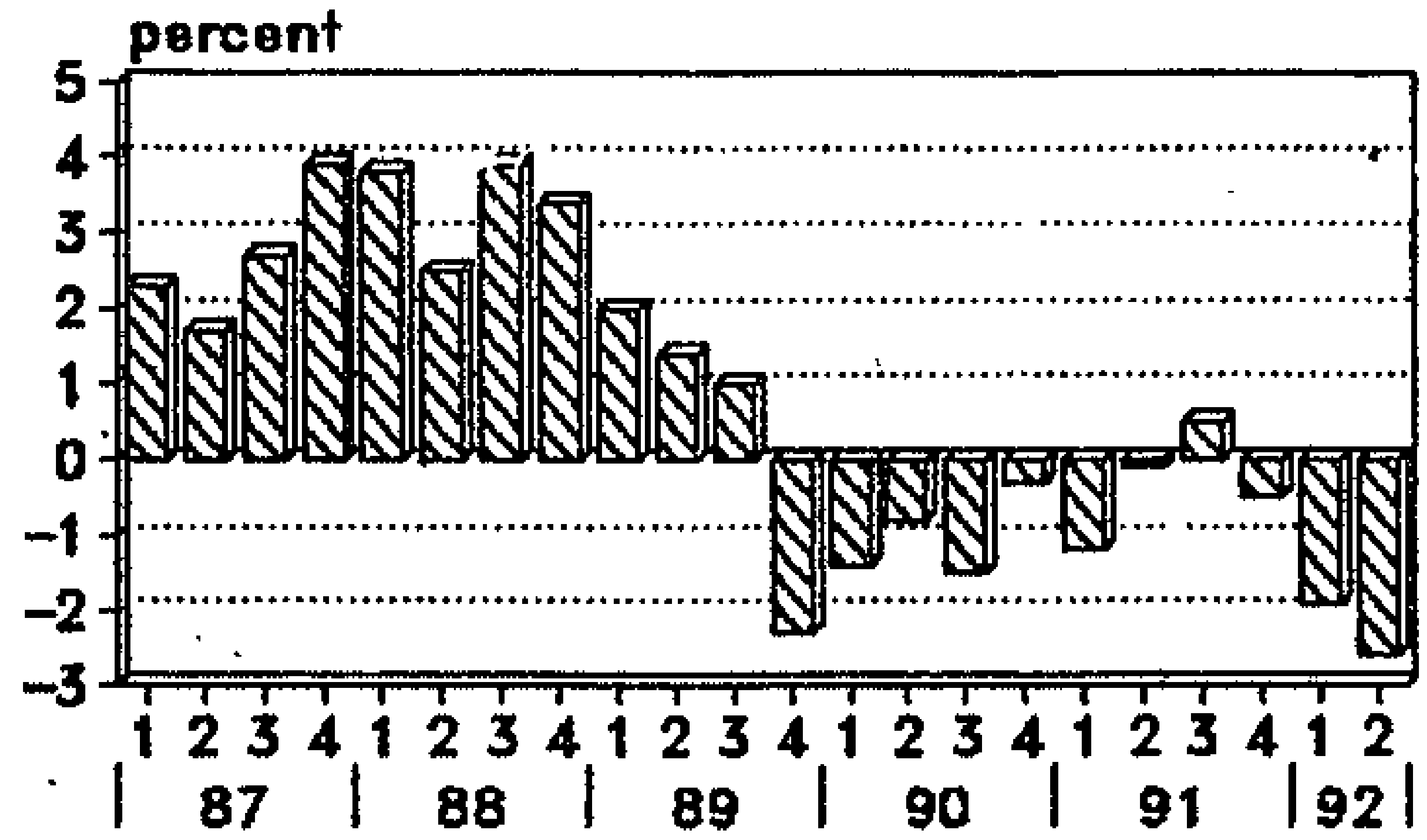
"This would allow it to gain access to substantial foreign capital resources, provided the right domestic conditions come into being," says Dr Bruggemans.

Recessionary fangs sinking ever deeper

49

STAR 14/8/92

By Sven Lünsche


Quarterly GDP growth
(1985 prices)

The economy suffered its most serious blow yet in the recession when gross domestic product (GDP) fell by 2,6 percent on an annualised basis in the second quarter.

The fall confirmed the further spread of recessionary conditions that first took hold in the second half of 1989, but only deepened significantly last year.

GDP (at constant 1985 prices) fell by 0,6 percent in the fourth quarter last year.

Since then, however, the decline accelerated to two percent in the first quarter of this year and to 2,6 percent in the second quarter.

The sharp fall in activity could speed up the decision by the Reserve Bank to cut Bank rate by a further percentage point, provided inflation continues to decline.

The quarterly decline does not bode well for growth for the year as a whole, with analysts predicting the economy could shrink by well over one percent, compared with negative growth of 0,6 percent in both 1990 and 1991.

The Central Statistical Service, which released the GDP figures yesterday, says the quarterly fall was largely caused by declines in agricultural production stemming from the drought.

"As in the case of the first quarter, when real agricultural production fell by 17 percent, the relatively sharp second-quarter decrease can once again be ascribed to declining agricultural production, this time by 28 percent," the CSS says.

However, even if the agricultural sector is excluded from the calculations, GDP would have shown negative growth of 0,7 percent in the second quarter, unchanged from the preceding three months.

With the exception of mining, which grew by 1,3 percent, production in most major economic sectors showed negative growth.

Real production in manufacturing fell by 1,8 percent, in electricity by 1,9 percent, in construction by nine percent and in commerce by 2,3 percent.

Economists believe personal consumption expenditure (PCE), which fell by 2,1 percent and 3,3 percent in the fourth quarter of 1991 and first quarter 1992, once again dipped sharply in the June quarter.

This was confirmed yesterday by durable goods retail sales figures prepared by the Retail Liaison Committee and released by the executive director of the Furniture Traders' Association, Frans Jordaan.

Mr Jordaan said sales of furniture, appliances, TV and audio equipment had increased by a nominal 4,3 percent in the second quarter, compared with the same quarter last year.

However, taking average inflation of 15 percent into account, this means that in real terms sales of these goods have fallen by over 10 percent.

Breaking down the figures, Mr Jordaan said nominal growth in furniture sales was 3,7 percent, in appliances 9,3 percent and in audio equipment 11,9 percent. Sales of TV and video equipment plunged 6,6 percent.

"Until just over a year ago, sales to black consumers were fairly buoyant, but political instability, unemployment and stayaways have ended this upward trend."

Looking ahead, Mr Jordaan was slightly more optimistic. "The latest drop in interest rates means that a reduction in finance charges will follow soon.

"Although this does not have a dramatic impact on monthly instalments, it should boost consumer confidence.".

Lessons we can learn from 1932

W/Mail 14/8-20/8/92

(49)

Dr Mokubung Nkomo

The future of the country is tied to the elimination of black poverty. It needs the same dedication that was shown 60 years ago in the fight against white poverty.

By **DR MOKUBUNG NKOMO**

SCARCELY a day passes without one's sensibilities being assaulted by media accounts of the destitution to which large segments of the population are subjected. Certain traffic intersections offer the spectacle of young black boys begging for coins from motorists. Some motorists avoid the spectacle by looking in the opposite direction or sternly gazing at the traffic light as if to beg for a quick merciful change to rescue them from the "nuisance".

With others the opportunity to make an offering amounts to instantaneous redemption and soothes the conscience. Never mind that the offering may be converted to glue or other squanderings of no value to the supplicants.

At another time South Africa had a similar experience. In testimony given to the Transvaal Indigency Commission of 1906-08, it was noted that "Most of the poor ... in South Africa are country men who have been forced off the land, and live in wretched shanties on the outskirts of towns." A Mrs Faure of the Pretoria Benevolent Society said in her testimony to the commission "that this squatting on government or town lands is on the increase and investigation discloses a terrible state of affairs. The people live in the most miserable condition and are sinking in the social scale".

She continues: "There are no sanitary arrangements. They are most miserable, living huddled together in little shanties — married couples, young children and grown-up young people, all living together, sometimes in one little room or tent."

The commissioner of police for the Witwatersrand testified to "a great deal of immorality and crime — illicit liquor dealing, etc. They fall quickly into crime. It is in consequence of the dreadful conditions under which they live. A large number of them are forced into criminal life."

Although this dialogue is familiar, it describes white poverty at the turn of the century. This is what prompted the establishment of the Transvaal Indigency Commission. A much larger investigation, the Carnegie Commission on the Poor Whites, that ended in 1932 discovered very much the same situation. What is striking is that white poverty then was very similar to black poverty today. The difference being one of scale.

As a result of these two commissions, vast resources were mobilised and systematic plans put in place by successive administrations in order to eliminate white poverty. As a result, white poverty is virtually non-existent. The Second Carnegie Report investigated contemporary black poverty in South Africa and unveiled disquietingly widespread debilities. Nothing of notable consequence has been done to eliminate poverty on the scale of previous government programmes. Now the World Bank is initiating its own study. Will its findings be any different? Is anyone going to pay heed? It appears that there is no serious intention, let alone commitment, on the part of those who govern to implement effective schemes that will eliminate black poverty as was done with white poverty.

Would you believe it that history and amnesia are twins? The relationship between the two resembles that of rival siblings. This seemingly odd pair is not fictive but actually exists in our troubling present.

The great value of history is that it informs us about great or even ordinary events of the past which, if properly understood, enrich our understanding of the present. This is particularly important since the present bears a remarkable resemblance with the past. Most pertinently, history is important in that it offers glimpses into solutions that cured daunting social problems. But, alas, amnesia appears to be the dominant twin.

Many of the whites who live comfortable or affluent lives today are the offspring of indigents at the turn of the century. Pretence and self-righteousness are not only inappropriate responses to the current crisis but destructive. It is the case of those who, upon reaching the top of the social ladder, not only deny that they ever were at the bottom but proceed to dismantle it or deny that there ever was a ladder.

That won't work. The future of this country is intrinsically bound to the achievement of the welfare of all. Indifference and ad hoc solutions will not work either. The debilitating effects, both physically and mentally, of poverty of any section of the population of these dimensions is like a boulder tied to the ankles of one who wants to soar to great heights. Eliminating poverty is the equivalent of unshackling the boulder.

State intervention through the deployment of resources and carefully co-ordinated plans as in the earlier period is the only solution. For example, as a consequence of the findings of the earlier commissions, a variety of schemes were employed both in the public and private sectors. Compulsory primary education and industrial training were effectuated through legislation such as the Job Reservation Act (affirmative action a la South Africa!) and a Department of Social Welfare was established.

In the current period, at the very least, these laws and schemes should be extended to blacks (not the Job Reservation Act, of course). The following are essential considerations: a reconstituted Department of Social Welfare with the power and resources to address poverty-related problems; and, a Department of Human Resources Development which, in collaboration with labour and employers, could develop public works programmes and apprenticeships to provide jobs to the millions of unemployed especially to develop the physical and social infrastructures in urban black and rural areas.

The proposed National Economic Forum could be the venue to begin deliberations on appropriate strategies to eliminate poverty. A vital corollary is the consolidation of the various education departments with unconditional compulsory education extended to all with proper provisions and a serious effort undertaken to turn black schools in particular into healthy learning environments. Needless to say, there is a role for non-governmental agencies to play in such a reconstructive endeavour. For such an undertaking to be successful it is crucial that a genuine and inclusive democracy that can restore the lost legitimacy be established.

Wastage of human resources of the magnitude experienced today is suicidal. Worse, it makes security, peace and prosperity impossible to achieve. Sustainable development is as strong as the weakest block in the social edifice. Two annual surveys compiled by the International Management Institute and the World Economic Forum suggest that South Africa's major weakness is its inattention to the development of the "human factor". Without commitment to the development of the human factor, becoming the "Japan of Africa" can only be a cruel dream.

●Dr Nkomo is a South African who now lives in the United States and is currently a visiting Fulbright Fellow in the Department of Education of the University of the Witwatersrand.

GDP suffers the ravages of drought

B/DAY 14/8/92

(49)

SIMON WILLSON

ANOTHER steep fall in agricultural production pushed real GDP into a decline of 2,6% in the three months to June, the biggest quarterly drop in national output since the recession began three years ago.

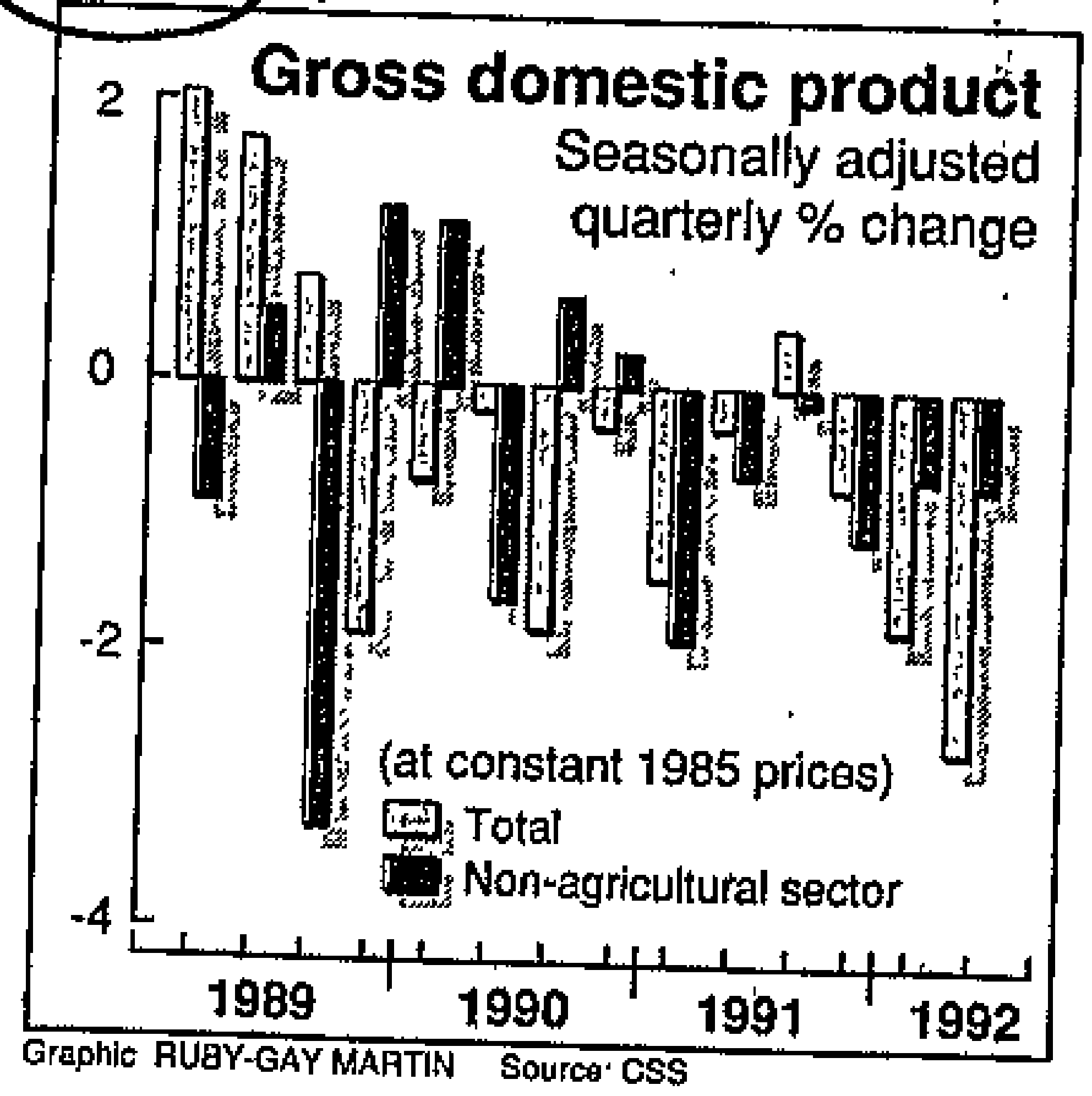
Official figures released yesterday by the Central Statistical Service showed the slump in output in the June quarter was the deepest since the -4,7% posted in the first quarter of 1986.

The change in GDP in the first quarter was revised from -1,9% to -2,0%, matching what was, before yesterday's figure, the worst quarterly outturn of the current recession — the 2% drop in the fourth quarter of 1989.

The data showed that SA could be on course in 1992 to post a drop in GDP second only to its worst annual economic performance of the past 20 years — the 2,5% fall in GDP in 1983.

Agriculture, ravaged by drought, was responsible for most of the deterioration in the economy in the second quarter. After falling 17% in the first quarter, farm output dropped 28% in the June quarter as the full impact of crop failures in the summer rainfall area was reflected in the figures.

Agriculture apart, the average performance of the economy did not deteriorate further in the second quarter from the already low levels of activity registered in the first. The fall in non-agricultural output was no greater in the June quarter than in the previous three months, and significantly better than in the fourth quarter of last year.



Graphic RUBY-GAY MARTIN Source CSS

Under the weight of the crisis on the farms, however, the second quarter drop in total GDP was worse than the previous quarter's for the third consecutive quarter.

Construction, battered by high interest

☐ To Page 2

GDP

B/DAY 14/8/92

(49)

☐ From Page 1

rates and faltering business confidence, had another bad quarter in showing a 9% fall in output against the 8,2% drop in the first quarter The utilities, reflecting sluggish demand for power and rising generation overcapacity, swung from a positive first quarter GDP contribution by electricity and water services to a 1,9% decline in output in the second quarter.

Mining's contribution stayed positive in the June quarter, but eased to a 1,3% rise in output from 1,7% in the March quarter. Financial services and real estate, at 0,6%, and transport and communication, at 1%, showed second-quarter output increases little changed from the first quarter

One of the few bright spots was a slowing in the sinking contribution to GDP of the manufacturing sector, whose slide in production levels shallowed out from -2,5% in the first quarter to -1,8% in the second This reflected the economy's only growth areas at this stage: exports and government spending.

Continued comfortable trade surpluses and buoyant merchandise export volumes are offsetting the slump in domestic demand for durables and semidurables, while higher levels of government spending and a likely overshoot in the budget deficit this financial year constitute a moderate fiscal stimulus to the economy

Economists were downcast at the figures yesterday. Old Mutual chief economist Dave Mohr said little comfort could be drawn from the fact that agriculture had been primarily responsible for the quarter's poor output performance "This remains a broad-based recession and not merely one reflecting the impact of the drought." At best a bottoming out could be expected only at the end of the year.

Anglo American economic consultant Jim Buys said the second quarter figures confirmed industry's impressions of an extended slump in consumer demand.

● Comment: Page 6

ECONOMIC POLICY

FM 14|8|92 (49)

Getting ready for take-off

For the past few months, a top-level government task force has been drawing up a programme to restructure the economy. Now Minister of Finance and Trade & Industry Derek Keys says the programme should be ready to unveil by the end of the month. Then the debate will begin on how much of it can be implemented.

"We should have a prototype of what I would call a normative integrated economic model for SA ready for its first test flight by the end of August," Keys says. "Once the bugs are ironed out, we hope it will be useful for all interested parties."

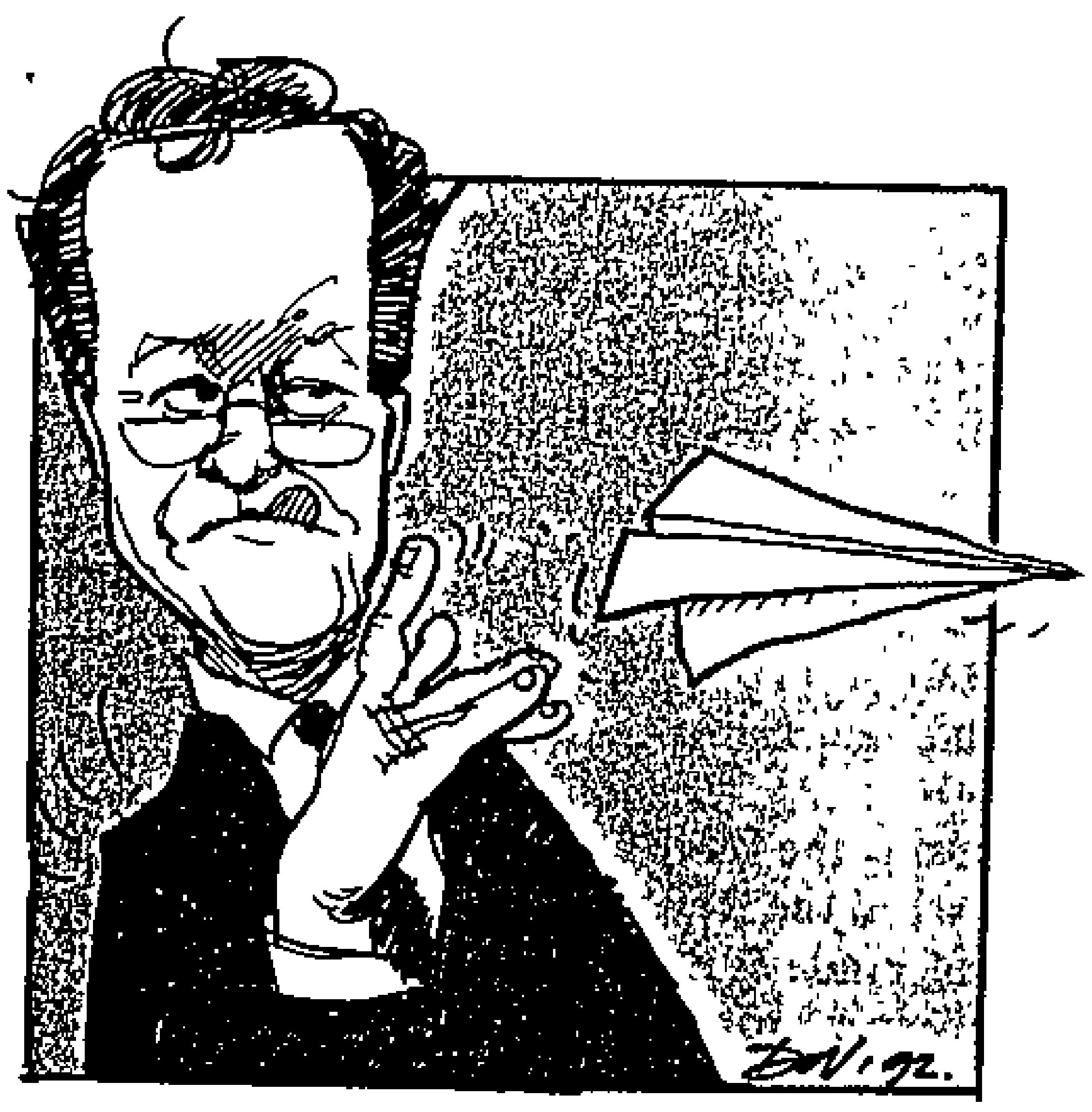
The model will dictate the necessary policy reforms and they will come none too soon for an economy nearing the end of its third year in recession.

The task force, which is headed by Reserve Bank Governor Chris Stals and Japie Jacobs, special economic adviser to the Finance Minister, has revealed few details of what reforms it will suggest. But it is believed that the programme will call for tax changes to promote economic growth, reduced government spending, greater deregulation to spur competition, tariff reductions to increase international competitiveness and create jobs, and a labour policy that improves productivity.

Some of the proposals on boosting industrial competitiveness are expected to be in line with the 1990 Industrial Development Corp (IDC) report, which stressed ending import surcharges and lowering tariffs. It costed protectionism at 14% of SA's GDP.

"Tariff reform is already under way on a timetable broadly linked to our offer to the General Agreement on Tariffs & Trade (to cut some tariffs and refrain from raising others) and is now concentrated on difficult areas such as textiles and clothing and Phase Six of the local content programme (for the motor industry)," Keys says.

The lack of a comprehensive, long-term economic strategy has long caused investor uncertainty. Instead of the hard and fast rules that encourage investment elsewhere, businesses got government "ad hockery" as industrial policies twisted and turned under various Ministers. The Trade & Industry portfolio has had four Ministers in the past three years — Danie Steyn, Kent Durr, Org Marais and Keys — and this has led to confusion, as some Ministers have emphasised lower tariffs, for example, while others have focused on increasing investment.



Keys decided to undertake the study after he took office early this year and was urged to implement the IDC report. Instead, Keys opted to conduct his own broader review,

Continue →

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using the IDC report and other research, and asked the Reserve Bank and the Department of Trade & Industry to participate. Stals has been a strong advocate of a structural adjustment programme to free up the economy, reduce unemployment and limit inflation, and has promoted the idea in several speeches in recent months.

Whatever the programme entails, it will surely be debated at the proposed Economic Forum with organised labour, the ANC and other extraparliamentary political groups, government and the private sector.

The University of Cape Town's Alan Hirsch, who does economic research for the ANC, appears to favour at least some of the policy changes the task force may propose. He says consumers suffer and inefficiency is entrenched under government's protectionist policies, which favour industrial lobbies. "Downstream processors, who could create many jobs, are also prejudiced because

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they're forced to pay more for SA-produced materials than overseas importers do."

He adds: "Section 37E tax benefits should not only favour exporters but also downstream intermediate manufacturers in the local economy. Downstream processing can create more jobs than capital-intensive, export-focused projects."

But Hirsch warns against the perception that cutting tariffs will "automatically" lead to economic growth. He says improving productivity through a stronger focus on training and education should form part of the comprehensive strategy.

Absa economist Dominic Sutton argues that the strategy should include scrapping the General Export Incentive Scheme and using the billions of rands saved to reduce company taxes. "It may well be that SA would have even higher exports as a result of lower production costs."

Democratic Party MP Geoff Engel says that by reducing the top company tax rate from 48% to 35%, government could scrap all special subsidies and tax concessions. "The effective tax rate, after concessions and subsidies, is about 32%. So by scrapping all concessions and reducing the nominal rate to an effective 35%, government would not only increase its tax earnings, but also increase investment certainty." Coupled with this, he says, tariffs could be reduced gradually.

Trade & Industry Director-General Stef Naudé, a member of the task force, says he agrees tariffs should be reduced gradually as part of the strategy. This approach — tariff reform in lockstep with tax reform, lower inflation, greater savings and a reduced government role in the economy — was suggested by the IDC in its report. ■

A demand for talent

FM 14/8/92 49

REDISTRIBUTION AND AFFIRMATIVE ACTION: WORKING ON SOUTH AFRICA'S POLITICAL ECONOMY *edited by Pierre Hugo (Southern Books, 221pp, R39,99).*

Contributors to a book such as this need, in Conrad Strauss's words, to identify dependency attitudes and habits that need to be kicked.

If a contributor to a book like this does not believe that growth is going to take place, or that growth is the precondition of redistribution, or that private enterprise is the engine of growth, such scepticism needs to be stated in express terms at the outset. The reader can then turn to another contribution, or to another book, perhaps even another symposium.

Two contributors see private enterprise, under minimum controls, as alone able to pull us out of our present slough of despondency (or one even worse).

Douglas Rimmer tells the whole sorry story of public enterprise in Ghana. Instead of becoming, as was hoped, a powerful source of government finance, most public enterprises made regular losses, while those that did not owed their apparent profitability to various forms of public protection or subsidy. Productivity compared poorly with comparable private activities. Public enterprise, as a means of redistributing income to those worst off, failed. Ghana was only the most spectacular of a row of failures.

Sachs ... *a country of people, not quotas*

The other champion of free enterprise is Robin Friedland, who examines various forms of economic action that produce redistributive effects — whether intended or not — such as inflation, high taxation, administered prices and marketing controls ... in fact, the whole galaxy of failed Nationalist measures. What, he asks, are "the political deductions to be drawn from this analysis?

The most obvious and important is that emphasis must be on wealth creation rather than redistribution for the foreseeable future. Though rapid wealth creation through the free enterprise mechanism is a guarantee that substantial individual fortunes will continue to emerge, it is also a guarantee that "the absolute level of well-being of the broad masses will be increased more rapidly than under any of the alternative systems of management."

Schlemmer ... *workshops for black executives*

Charles Simkins, in a sombre plea for "a more sophisticated notion of power," shows that there is an inverse relationship between the growth of the economy and the share of personal incomes accruing to whites. This need not surprise us, since past attempts to distribute a larger share of personal incomes to whites have aborted growth. Any attempt to redistribute income to a more numerous section could only obstruct growth further.

The themes of black advancement and its bastard kinsman, black empowerment, recur in this symposium. In general, contributors tend to be hag-ridden by one question: if blacks are to find scope in the private sector, the public service or whatever, who is to move out of their way?

A black MD has recently gone on record as saying that in an apartheid-free SA corporate positions for blacks will be abundant beyond belief. He does not say why, perhaps because this is so obvious: if the economy takes off, it must inevitably perform to increasingly cater to the incomes and tastes of the black majority. And who, if not blacks, will be best suited to bring this about? Is it not time that existing growth paths in black employment were identified and projected into the future?

Albie Sachs gets it right when he says "we want a country of people, not quotas" — that is to say, employment quotas for particular racial groups. Only in the last resort should there be recourse to quotas where voluntary schemes are not tried or where they fail. However, nowhere does Sachs point to demand for talent as the decisive determinant of black advancement

In the public sector, specific talents such as language skills that whites lack should be looked for among blacks and also among Indians The British Foreign Office used to have special branches that operated in the Far East and the Levant and we might find specialised African and Asian branches invaluable.

As to the home civil service, the overall need to make it leaner could surely be reconciled with having, as policy advisers to Ministers, a few dark-skinned graduates of overseas universities. This would help to make the public service more diverse and less orthodox in outlook.

Has anyone thought about what sort of public service we need in the long run? One based on broad academic excellence, as in Britain, or intensive training in specialised institutes, as in France? We need public servants bright enough to see clearly what to keep their noses out of.

As to affirmative action, Schlemmer and Van Antwerpen suggest workshops for black business executives, conducted by black American social scientists who have realised just how destructive the popular "victim" theories held by many black Americans have been for their personal development. Bravo!

Radford Jordan

BUYING BOOKS

Some books reviewed may not be readily available. If you have difficulty obtaining a title from a bookshop, we suggest you contact the publisher's representative. Telephone numbers for books reviewed this week are (code 011):

☐ Southern — 315-3633; and

☐ Struik — 788-3617.

Not dull

THIS IS NAMIBIA *by Peter Joyce, with photographs by Gerald Cubitt (Struik, 160pp, R79,99).*

I suppose, if you tried hard, you could produce a dull coffee table book about Namibia. But this is not it. Cubitt's photographs handsomely recreate that fascinating and beautiful country and Joyce's introduction packs a lot of information into relatively few pages.

The price is reasonable and the quality of colour reproduction excellent.

On the other hand, this is not exactly virgin territory Bookshop shelves groan under the weight of illustrated books about Namibia and a new one needs something extra to set it aside from the herd.

This is Namibia unfortunately does not have any such unique selling proposition. So, while one can say nothing bad about the book, there is equally little reason for potential buyers to hunt it down in preference to the competition.

Michael Coulson

Businesses must blame themselves

49

DEREK TOMMEY, Business Staff

BUSINESSMEN blame the prolonged recession on the Reserve Bank's tight money policy, on political action resulting in a loss of confidence and on the decline in mineral prices.

ARG 15/8/92

But Dr Cees Bruggemans, chief economist at First National Bank, says there is another important factor — the behaviour of businessmen themselves.

South African businessmen have become so accustomed to benefiting from windfalls that they haven't the ability — common to most overseas businessmen — to generate new business by their own efforts.

All they are able to do when times are tough is to try and overcome problems by cutting costs, "de-peopling" and destocking, claims Dr Bruggemans.

This ignores the fact that one man's cost-cutting becomes another man's lost sale, production and income — resulting in the economy being pushed deeper into recession.

Dr Bruggemans believes that since early 1990 this process has cost South Africa upto 400 000 formal jobs, with only a quarter to a third of these losses attributable to the mining industry.

South Africans have always been alive to the meaning and opportunities of such windfalls, very much on the principle of Pavlovian conditioning, he says.

Most managers recognise the "easy" signs that herald a recovery and position themselves for it.

But they have never learned as a group to "pick themselves up by their own bootstraps", he says.

"In other countries, less favoured by external windfalls, managements have learned to be far more self-reliant and more world market-oriented."

He said there was great consternation in mid-1990 when company profit growth started to slip, interest rates were high in nominal terms, labour demands were rising, the political outlook was at best uncertain — and there was absolutely no evidence of windfalls anywhere in the horizon.

Although these conditions encouraged a shift towards more exporting, the overwhelming management response was not outward but inward.

Companies across the board decided to improve their earnings outlook by cutting costs.

"This set in motion a vicious downward spiral which remains with us in 1992 because few of the conditions that gave rise to this adjustment in mid-1990 are much different today."

Western Cape gets thumbs-up

(49)

ARG 15/8/92

■ Home is where the profits are, according to the latest survey of business owners in the Cape.

TOM HOOD, Business Editor

MORE than 41 percent of Cape business owners believe the commercial environment in the Western Cape is improving compared with other regions.

Greater political stability and increased tourism were cited in the latest Western Cape Business Survey as the two main reasons.

However, respondents were short-sightedly dependent on the Western Cape and its environs, said the survey's sponsors, Arthur Andersen and Co, the Graduate School of Business at UCT and Wesgro.

In the past five years, 80 percent of turnover was generated in the Western Cape, with 78 percent forecast for 1992. Only six percent saw competition from other regions as a potential problem.

The six main factors seen as having the most impact on owner-managed business were local economic conditions, interest rates, inflation, the value of the rand, the change in the international perceptions of South Africa and transport costs.

Strategic planning and written business plans were given high priority, but 43 percent of respondents admitted they had not considered the future direction of their businesses.

The sponsors said: "Seen against the backdrop of South Africa's volatile and dynamic political and economic environment, the need for strategic planning becomes even more urgent."

An overwhelming 90 percent of business owners said VAT was a better form of indirect taxation than general sales tax, compared with only 15 percent in the previous survey.

Respondents said VAT had the advantages of spreading the tax burden more widely and reducing evasion and the disadvantages of extra administration and costs.

The fourth annual Western Cape business survey was mailed to about 4 000 business owners and the results represent the views of about 500 respondents, giving what is considered a "very satisfactory" response rate of 12,5 percent.

A profile of the respondents reveals that 69 percent had a post-matric qualification, 42 percent were university graduates, their average age was 46 and their businesses employed an average of 43 employees with an average annual turnover of R5 million.

Owner-managed businesses constitute a major part of the economy. This survey represents the views of a diverse group of chief executives about issues of concern to them and the changes they deem necessary to foster and protect the entrepreneurial spirit in South Africa.

The results reveal that they forecast negative real growth in 1992, with wage increases and general political issues fuelling inflation.

Owner-managers expected the average rate of inflation this year to be about 16,5 percent in spite of the belief of Reserve Bank Governor Dr Chris Stals that it could be 11 percent by the end of the year.

Thirty-two percent perceived an inflation rate of more than 18 percent.

Executives of the top 100 companies listed on the JSE forecast that the prime overdraft rate would slip to 18 percent by the end of the year. They were also more optimistic than Western Cape owner-managers in forecasting inflation at about 15 percent.

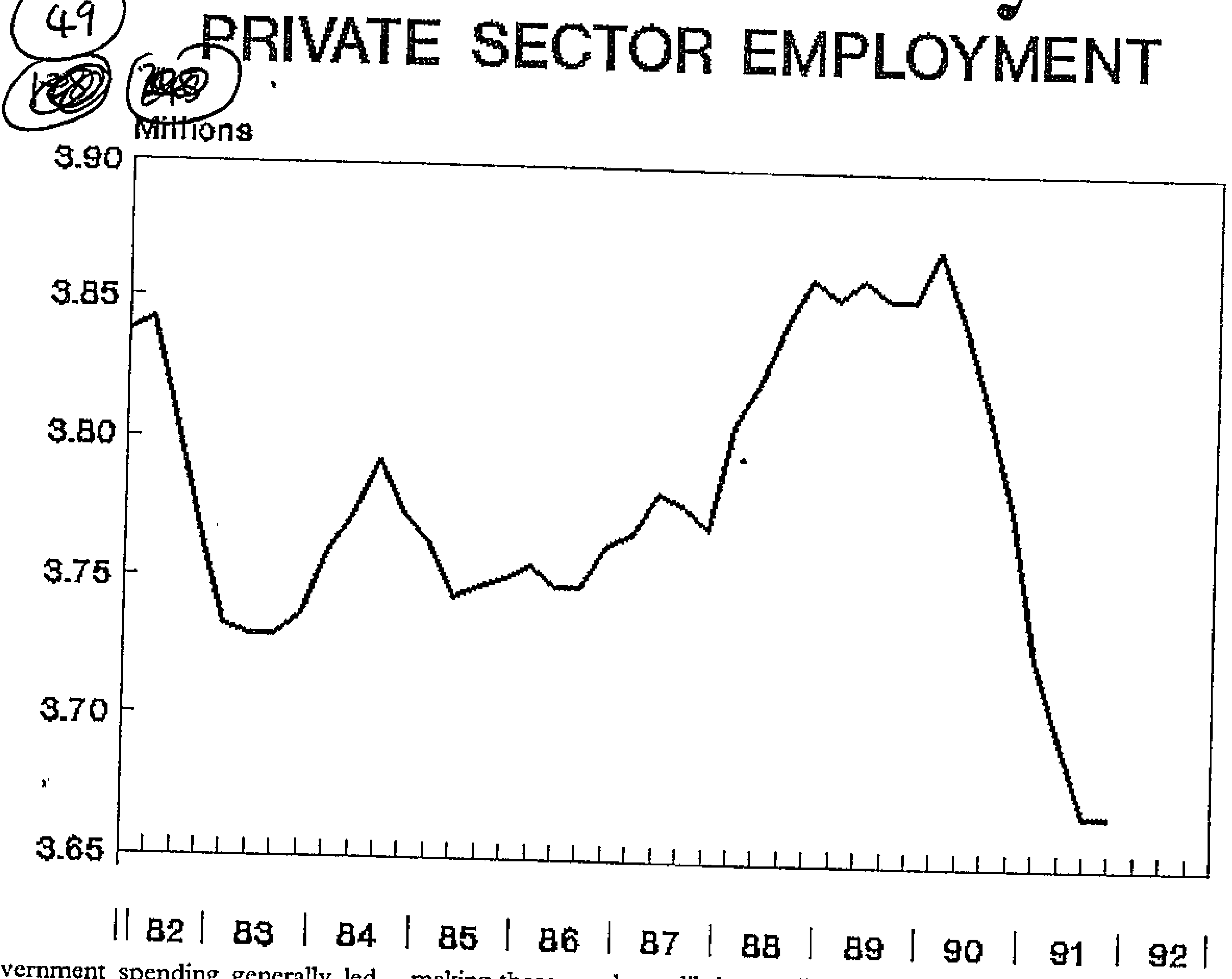
Political stalemate 'will stifle economic recovery'

SOUTH 15/8 - 19/8/92

49

The message from economists is clear: Sort out the politics and end the violence or the recession will continue deep into the future.

Lynda Loxton reports:



THERE is more than politics in the balance in South Africa's politcal deadlock. Latest economic forecasts indicate that unless politicians get it right soon, the recession could continue for another year, putting South African living standards under even more severe pressure.

According to Old Mutual's chief economist, Mr David Mohr, continued tight business conditions over the last year have had "a grave effect on the financial state of employees in the private sector".

Wage increases in the private sector fell from an average of 16,1 to 14 percent, while inflation rose from 14 percent to 16 percent. About 200 000 people were retrenched.

The main reason for rapidly rising inflation has been higher food prices. This has been due to VAT rather than the drought, says Mohr.

Predictably, government employees were much better off. Salary increases, although lower than the previous year, still meant they were earning about 17 percent more while the number of people employed by the state rose 27 000.

State salary increases and higher government spending generally led to higher taxes. This, combined with the fact that private sector incomes grew more slowly, meant a further slowdown in the disposable income available to individuals — so they spent less on non-essential items.

This is reflected in the latest consumer confidence index by the Human Sciences Research Council. The CCI hit its lowest level in April as 79 percent of about 2 000 people of all races interviewed said inflation was out-stripping their incomes. Consumer confidence has important consequences for economic growth. The lower the confidence, the less likely people are to buy consumer durables and the less the companies making those goods are likely to sell, affecting profits and jobs.

Mohr predicts that overall economic growth this year will be the worst in the four-year recession — and he is not too hopeful about any improvement soon.

"In addition to the weak state of the economy, factors such as political uncertainty, continued violence and threats of industrial disruption have inhibited both consumer and business confidence. This has happened to such an extent that it could be asked whether 1993 will in fact be a growth year for the economy, or whether the recession will drag on until deep into next year."

Old Mutual believes the first step towards long-term economic growth "must be the breaking of the political impasse and the resumption of negotiations for a new constitution. This must be followed by fostering conditions for renewed investment.

"An integral element of this process must include efforts from all quarters to address the causes and incidence of violence. Economic growth and persistent violence are simply not compatible," it says.

"Secondly, it is important for a cyclical recovery in economic activity to take hold. Investment in new production capacity and job creation will not occur unless sales and expectations regarding future demand begin to improve."

Master plan cuts State's spending

S/Times (Buss)

16/8/92

By **KEVIN DAVIE**

GOVERNMENT spending is to be cut back and redirected in terms of a new blueprint for the SA economy to be handed to Finance Minister Derek Keys early next month.

The plan aims to break with the past by avoiding inefficient State expenditure and improving economic performance through liberalisation and deregulation.

It also envisages increasing the competitiveness of industries by lowering protective barriers and subsidies built up in the apartheid era.

The plan has been co-authored by the special adviser to the Finance Minister, Japie Jacobs, and Reserve Bank Governor Chris Stals at the request of Mr Keys.

Dr Jacobs says: "We're setting a target of 4% growth by 1996-97.

"We are moving into a new era and have to improve productivity markedly to reach this target.

"This is a winning plan which can contribute to a winning team."

Force

Dr Jacobs stresses that the plan will need the support of trade unions and political parties.

The blueprint, which accords with mainstream international economic thinking, has two aims: to stimulate sustainable economic growth and combat underdevelopment.

Informed sources say it follows an International Monetary Fund report which stresses that investment as a proportion of gross domestic product needs to be raised from the present 19% to 27% if the economy is to grow sufficiently to absorb SA's growing labour force.

The IMF report says "such an increase in investment would need to be supported by a major domestic savings effort, particularly in public savings".

The plan is expected to set targets for reducing the rate of increase in government expenditure, to lower government consumption expenditure and to increase State investment in capital creation.

Mr Keys is said to have sold the approach of the plan to the Cabinet at its recent "bosberaad".

Although some of this new-look policy could be implemented this year and in next year's Budget, much of the restructuring will be phased in over four or five years.

Public-service numbers are likely to be pruned in terms of Mr Keys's plan. But, as in the case of Sats (now Transnet) and Eskom, which shed tens of thousands of workers in the commercialisation process, this is likely to take place over several years.

It is believed that cuts will be attempted through winning the support of the public service rather than trying to impose them unilaterally.

Individual departments are also likely to be scrutinised to see which non-essential spending programmes can be further reduced.

The blueprint intends co-ordinating economic policy so that various aspects, such as tax, labour, fiscal, trade, and monetary policy, form an integrated whole.

(49)

Active

It is likely to support the phased lowering of tariff barriers and the elimination of subsidies to business. Mr Keys says tariff reform is under way on a timetable broadly linked to SA's commitments to the General Agreement on Tariffs and Trade and in areas such as clothing and textiles and the local content programme for the motor industry.

The master plan is likely to be scruntinised by an IMF mission which arrives in SA this month for the annual review of the economy. The IMF team, led by SA-born Desmond Lachman, is said to have been influential in the preparation of the blueprint.

Mr Lachman was the leading author of an IMF report on SA published in January. This report says 'redistribution policies will need to be firmly supported by growth-orientated policies if the social spending gap is to be effectively bridged".

The Development Bank (DBSA) has produced a detailed report on how to combat underdevelopment, which well-placed sources say has been included in the master plan in full.

The DBSA calls for active State intervention in the socio-economic sphere, saying legal barriers which hamper entrepreneurs should be removed and targeted programmes provided to support emergent businesses.

Dr Jacobs says that developing the informal sector and encouraging entrepreneurship are important parts of his study.

Economic forum talks

49

S/Times (BUSS) 16/8/92

By ADRIAN HERSCH

BUSINESS, labour and the Government meet on Tuesday to discuss new proposals about setting up a national economic forum (NEF).

The NEF was supposed to have been established last month. But several issues, including the deadlock at Codesa and the mass action campaign, caused a delay.

Once the NEF gets off the ground one of the major issues for discussion is likely to be the Government's plan to restructure the economy.

The restructuring programme was compiled by a government task force and is expected to be released at the end of August.

The Government team at Tuesday's meeting will be headed by Japie Jacobs, special economic adviser to Finance Minister Derek Keys. Dr Jacobs played a leading role in drawing up the Government's restructuring plan.

Business will be represented at the meeting by Saccola, Nafcoc and Fabcos. Labour's representation will comprise Cosatu, Nactu and Fedsal.

It is envisaged that the principal forum will be the plenary one which will define the mandate of working groups. The working groups will meet between plenary sessions and report back.

Much of the discussion on Tuesday is expected to revolve around proposals about the mechanisms of the plenary forum.

Other issues include a draft founding statement and a "rules of conduct" proposal.

It is not known when the NEF will be operational, but after Tuesday's meeting a clearer picture could emerge. The meeting, to be held in Johannesburg, has been convened by the Consultative Business Movement.

Recession lasts longer than Great Depression

S/Times (Buss) 16/8/92 (49) [redacted]

By ZILLA EFRAT

THE recession has persisted six months longer than the Great Depression, but has drawn less blood.

Mortgage foreclosures and food hand-outs may be growing, but economists insist that SA is nowhere near the depths of the early 1930s.

Econometrix director Azar Jammine says SA's gross domestic product has fallen by about 4% since the downturn began in 1989.

Unlike the early 1930s, also a time of drought, companies are still producing goods and selling them.

SA's economic slump has entered its 41st month — outstripping the Great Depression, which lasted almost three years — and looks set to continue into 1993.

But economists differ widely as to whether SA is in a depression or in the throes of a severe and prolonged recession, possibly because no precise definition of a depression exists.

Many say distinguishing a recession from a depression is like trying to differentiate between a cold and flu. One adage they quote is: "A recession is when your neighbour loses his job, a depression is when you lose yours."

A professor says: "After the Great Depression, it was thought it would not happen again. So nobody bothered to define one."

When it comes to a recession, most SA economists accept the US definition: two consecutive quarters of declining GDP.

On this basis, Handels-Instituut economist Nick Barnhardt says a depression could be two consecutive years of falling GDP.

This would mean SA is in a depression, given that the Reserve Bank predicts that 1992 will be the third consecutive year of falling output.

Break

Mr Barnhardt says depressions may come in degrees of severity.

"That is why the early 1930s are called the Great Depression".

Deputy head of the Reserve Bank economic department Bernie de Jager defines a depression as poor economic conditions that lead to a clear break with the past.

The Great Depression, he says, resulted in a change from laissez-faire policies, which allowed the free play of market forces to regulate the economy, to interventionist or Keynesian policies.

Because, worldwide, attempts to stabilise business cycles have failed in the past 60 years, there has been an move away from interventionism to more market-oriented policies.

Mr De Jager believes governments are now less concerned about cyclical movements and concentrate on growth in the medium to long term.

Industrialised countries made the switch in the early 1980s after the second oil crisis and resulting recession. SA is making the change now.

The Pocket Economist defines a depression as a long-lasting recession in economic activity. "Companies close, demand falls, dole queues lengthen, people get poor. People will always spend their last cent on a newspaper to find out why."

Dr Jammine says the first three years of the current slump were purely cyclical. Conditions, however, have been worsened by the drought and political impasse.

He says not all sectors of the economy have been in recession since 1989. The retail sector began declining in early 1991.

Economists are quick to point out that the recessions that hit SA in the 1980s were shorter but sharper than the current one. The present downturn is also not the longest this century. The slump after the SA War lasted from 1904 to 1908.

Economists generally do not expect any recovery before next year.

Dr Jammine does not believe SA is in a depression. But if the politicians do not get their act together, conditions could approach those of the Great Depression.

Stals happy with debt obligations

(49) [redacted] [redacted] [redacted]

S/Times (BUSS) 16/8/92

By CIARAN RYAN

CHRIS STALS: Gold and foreign-currency reserves satisfactory

THERE is no need to negotiate an early end to the debt standstill, says Reserve Bank Governor Chris Stals.

"The country can comfortably meet its foreign debt obligations because our gold and foreign currency reserves are healthy.

"The affected amount in terms of the third interim arrangement forms a relatively small part of our total foreign debt."

Discretion

Nedbank senior economist, Edward Osborn estimates that SA must repay a total of $1,2-billion to foreign creditors this year, of which $365-million — 30% — falls under the standstill. This is well covered by gold and foreign-currency reserves of more than R10-billion.

A large part of the debt not affected by the standstill will be rolled over by foreign creditors as it matures. By renegotiation, foreign creditors will have the discretion to roll over the standstill debt too, thereby easing pressure on SA's balance of payments. It would also allow foreign creditors to sell the debt on the secondary market.

After the Government's referendum victory in March approaches were made to foreign creditors to renegotiate the third interim arrangement under which SA must repay 3% of the R6-billion every six months.

Dr Stals says: "Our foreign creditors agreed that we should wait until 1993 when the third interim arrangement expires."

Standard Bank says in its economic review that preconditions for normalising SA financial relations with the rest of the world include a return to political negotiations and the presentation of a structural adjustment programme (SAP) which has broad support.

"South Africa would benefit tremendously if it could terminate this agreement and thus end the debt standstill through a normalisation of its relationship with foreign financial markets," says Standard Bank.

The SAP is necessary for the restoration of full International Monetary Fund (IMF) facilities, which would be essential for ending the debt standstill.

Dr Stals says renegotiating the debt standstill may be easier with the SAP in place, but is not essential.

"It depends on the conditions imposed by the IMF. In SA's case, the IMF might not impose the comprehensive conditions they demand of countries with serious balance of payments problems."

SA's total foreign debt is $18-billion, of which $12-billion is not affected by the standstill. The standstill was imposed in 1985 after former President Botha's Rubicon speech.

Pool

Mr Osborn says foreign creditors are happy to roll over non-affected debt because SA borrowers pay a premium for loans from abroad.

"We have been successful in rolling over our non-affected debt in the past and I imagine this will continue to be the case."

Dr Stals says that the phased removal of the financial rand is preferable to abolishing it overnight. SA can only contemplate removing the finrand when political stability is restored and the discount to the commercial rand is maintained at a low level for a reasonable time.

The finrand could be phased out by restricting it to, say, JSE-listed equities. Non-residents could then start using commercial rands for all other types of investment.

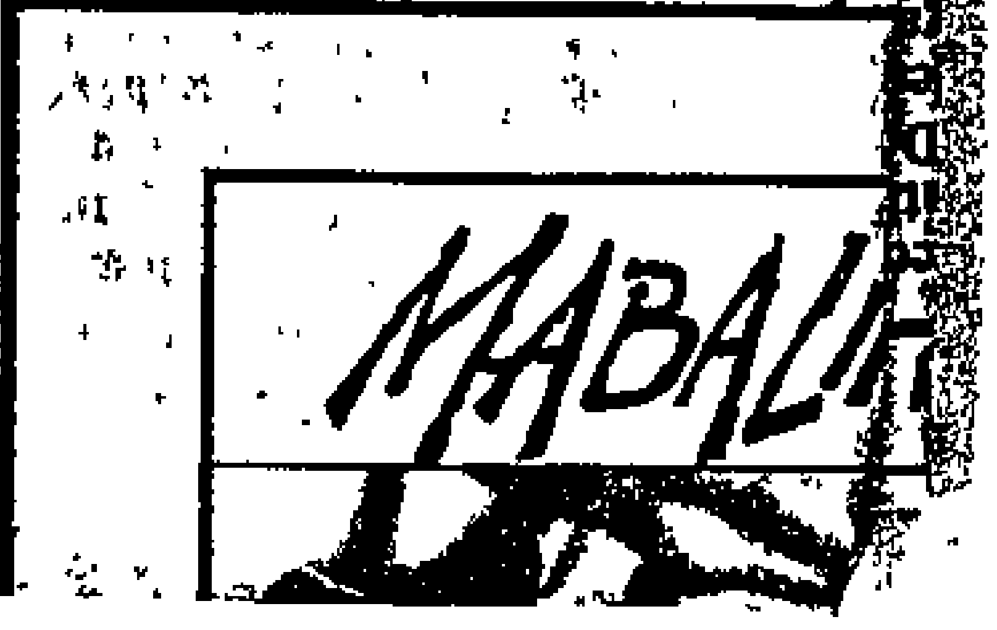
Dr Stals says the Reserve Bank could also intervene in the finrand market to reduce the size of the pool.

"We could use a combination of these two methods. But by phasing it out rather than abolishing it, we can retain some form of protection in case things go wrong and capital starts to leave in a big way."

Dr Stals says the 9,05% growth in M3 money supply in June compared with the fourth quarter of 1991 — although within the 7% to 10% target range — is still too high for a contracting economy.

"But we can live with this rate of growth in money supply. It is not inflationary. Although the nominal inflation rate is over 15%, the underlying one is below it."

A recovery in the economy next year will not exert inflationary pressure on the economy because it will be slow and there is much spare capacity in industry.



Collection of revenue still behind the budget estimate

B Day 17/8/92

(49)

PRETORIA — Revenue collected for the Exchequer for the first four months of this financial year increased by 4,9% compared with the equivalent period in the previous financial year, figures released at the weekend by the Central Statistical Service (CSS) show.

But the R22,576bn collected in the period April to July represented 26,6% of the amount voted for the financial year — down from 28,8% collected last year and well below the 33% needed to keep pace with budget estimates, ANDREW KRUMMM and Sapa report.

Exchequer issues for the first four months of the financial year increased by 15,3% over the same period last year.

Total issues amounted to R31,025bn, causing a deficit of R8,449bn.

"The deficit of the Exchequer, before borrowing and debt repayment and excluding other statutory appropriations, during the first four months of the present financial year, amounted to 52,8% of the deficit voted for the full fiscal year.

"For the same period of the previous financial year, the deficit was also 52,8%," the CSS said.

GERALD REILLY reports that a senior Finance Department source said at the weekend the increase in revenue collections were no reason "to jump for joy".

He said the figures for July had resulted from the fact that large companies normally paid tax in June, and this was reflected in July collections. The financial year would still end with revenue substantially below the Finance Minister's expectations.

This was because VAT collections had sagged below expectations because of consumers' declining disposable incomes, the sharp decline in retail trade, and the continuing escalation of prices.

Economists said consumers were cutting back even on so-called essentials wherever possible in an effort to stay within domestic budgets.

BUSINESS DAY, Monday, August 17 1992 3

Restructuring ‘must be left to market forces

BIDAY 17/8/92

(49)

GAVIN DU VENAGE

THE economy in a post-apartheid SA will have to be restructured and not merely reformed, JCI group economics consultant Ronnie Bethlehem said on Friday.

However any restructuring should be left to market forces and not take on a punitive form, Bethlehem suggested at the Fourth International Organisation and Management symposium.

The central characteristic of capitalism was its flexibility, as seen in takeovers and mergers which played their part in the restructuring of corporate ownership and control.

He cited the example of the transfer of control of General Mining from Anglo American to the Sanlam-Federale Group in the 1960s, which gave Afrikaner capital its first major stake in the gold mining sector.

This transfer irrevocably changed the relationship between English speaking and Afrikaans speaking power interests.

Until then, English speaking capital and Afrikaner labour had engaged in acrimonious and bitter battles into which the Afrikaner nationalist government was often drawn.

Following the transfer, divisions within the white community as a whole subsided, allowing the government to take a more impartial aproach to the sector and industry as a whole.

He said it was possible that similar market-driven restructuring in a changing SA could reduce pressure on the ANC and PAC to demand redistribution through state nationalisation of conglomerates.

However, restructuring would face a number of threats, the most significant of which was the climbing rate of unemployment, currently over 40% of the economically active population.

In addition, Bethlehem said, there was a chronic shortage of housing.

“These are fundamental macroeconomic problems,” he said.

The complexity of SA society meant a solution could not be found in ad hocpolicies, but through an NP/ANC alliance.

This alliance should include all other moderate parties to secure broad national support.

De Beer: Country is nearing anarchy

CT 18/8/92 ㊾

Political Correspondent

THE mood among the unemployed, poverty-stricken, starving masses in South Africa was moving closer and closer to anarchy, Democratic Party leader Dr Zach de Beer said last night.

He told the Institute of Architects in the city that he saw President F W de Klerk's "brave new South Africa seemingly disintegrating in a cacophony of recrimination between those who were to have been partners in creating it".

"I see blood everywhere. I see the investors, who alone can bring us economic growth, hanging back, unwilling to commit their resources in a land which threatens to become a morass of conflict."

However, Dr De Beer said he believed that the leaders of both the ANC and the National Party had been "quite badly frightened by the consequences of their own errors".

Despite the problems facing the country, the new South Africa would arrive "after a year or two or three".

"Even if the businessmen and the churchmen and the academics and others must shame the politicians into working for the nation instead of themselves and their friends, we must and shall find reconciliation and agreement."

Government and business should combine to provide a job-creating, non-import-intensive, socially satisfying programme for South Africa.

The three major priorities facing the country were in the areas of health, education and housing — probably in that order.

Levett wants devaluation of rand

(49) **DUMA GQUBULE**

THE Reserve Bank's policy of maintaining a strong rand was questioned yesterday by Old Mutual chairman Mike Levett, who called for a devaluation of the currency to stimulate exports. B/DAY 19/8/92

Presenting the assurance group's results, Levett said it was worrying that the currency's value was not reflecting differences between world and domestic inflation rates. Such a situation could easily result in a non-competitive currency in a high inflation country in a very short time.

The group reported a 22,6% increase in total income to R14,9bn for the year to end-June. Total managed assets grew by 21% to R87,3bn.

Forecasting an economic growth rate of "less than 2% for 1993", Levett said the country's significant upturns had always been led by exports and the performance of world economies. Stimulating the economy through exports was, therefore, preferable to using lower interest rates, which were already on the low side. He suggested pegging the rand to the weakest of a basket of currencies rather than the average, as the Bank was doing.

A weaker rand would result in better rand revenues for commodity prices and affect job creation by, for example, making marginal gold mines less marginal.

Levett said no country had experienced a successful change to a stable democracy without a sound economic performance before, during and after transition.

What was needed, he said, was a significant reduction in the level of uncertainty. This could happen only when realistic rules for the economic game were established and adhered to.

● See Page 13

Economic forum sets launch date

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BILLY PADDOCK

A NATIONAL economic forum would be launched in mid-September when parties to it would sign a statement of intent, a forum spokesman said last night.

At a two-hour meeting of delegations from business, labour and government in Johannesburg yesterday agreement was reached on the stages needed to set up the forum.

BDAY 19/8/92.

At the meeting, government also accepted the draft proposal for an economic forum, initiated in March by Saccola and Cosatu.

Consultative Business Movement spokesman Debra Marsden said the launch date of the plenary session would be announced on Tuesday.

All three delegations agreed that rapid progress should be made to "ensure that the forum yields results in the shortest possible time", she said.

The agreement was a vital stage in harnessing the support of business and labour for Finance Minister Derek Keys's plan to restructure the economy on a co-operative and consultative basis by liberalisation and deregulation.

The plan Keys is working on aims for an integrated economic policy on such issues as fiscal, trade, and monetary policy, labour and taxation.

The agreement yesterday stated that after the launch, a six-month work pro-

☐ To Page 2

Forum

BDAY 19/8/92

gramme would decide on the detail of the short- and long-term issues.

Then two working groups — on short- and long-term issues — would be formed to carry out the forum's work.

So far it had been agreed that the short-term issues would include unemployment, job creation and restructuring of the public sector, Marsden said.

The longer-term focus would include macro-economic and development strategies.

She said a draft statement of intent would go to all the parties for consideration and this would be formally adopted at the launch.

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☐ From Page 1

Keys's blueprint, approved by the Cabinet at the "bosberaad" last month, had two aims — to stimulate sustainable economic growth and to combat backlogs.

The plan envisages increased competitiveness of industries by lowering protective barriers and subsidies, reduced state consumption expenditure and increased state investment in capital creation.

Among the representatives at yesterday's meeting were members of AHI, Sacob, Saccola, Seifsa, Cosatu and Fedsal, as well as Deputy Ministers David Graaff and Theo Alant, and Japie Jacobs, special adviser to the Finance Minister.

‘Much depends on good rain’

B Day 19/8/92 (49)

HILARY GUSH

EXPORTS and a good agricultural season would determine the prospects for economic growth in early 1993, while chances of growth for the rest of this year were not promising, according to the Nedbank economic unit.

In its latest monthly economic profile, the unit said as long as the political impasse and violence continued, investor confidence would remain shaky.

As prolonged recession, record unemployment and high interest rates had sharply reduced personal disposable income and eroded consumer confidence, a return to growth based on fixed investment and consumer spending was unlikely this year.

An expected fall in inflation in the months ahead would most probably lead to an interest rate cut of at least two percentage points towards year-end. Any significant impact of lower inflation would, however, be felt only in 1993.

Although only moderate growth was expected in the US and UK for the rest of the year and 1993, better conditions were forecast for other industrial countries. SA would benefit from an improvement in world commodity prices.

Normal rains in 1992/93, with substantially larger agricultural output, and a break in the political logjam would provide the fundamentals for a resumption of economic growth from the first quarter of 1993.

The review cautioned, however, that the economy would have to contend with "the undertow of accumulated debts and the structural damage suffered by the manufacturing industry in particular".

In light of this the forecast for GDP growth in 1993 was revised down to 2%, from 3%, although the review said 3% was still possible if all the factors turned favourably for SA.

A further two one-point cuts in the Bank rate were predicted by year-end in line with the expected decline in inflation.

Money market rates remained unchanged yesterday despite expectations of a Bank rate cut. Dealers were unsure of the next cut. If the Reserve Bank kept to its plans to cut the rate only when consumer inflation had fallen significantly, then the drop would occur at the end of October or early November.

No democracy without growth, says OM chief

(49)

STAR 19/8/92.

By Derek Tommey

Mike Levett, chairman of the Old Mutual, SA's biggest financial institution, has appealed to politicians to give top priority to getting the economy moving.

Heading the list of issues needing to be addressed is one of "significantly reducing the level of uncertainty".

Mr Levett warns: "No country has ever experienced a successful transition to a stable democracy in the absence of a sound economic performance before, during and after the transition."

Performance

In the light of this record, the poor performance of the South African economy is cause for grave concern, he says.

In the past two years, real gross domestic product (GDP) has shrunk by 9 percent, and close on 200 000 jobs have been lost in the private sector, a trend that is continuing this year.

With 300 000 people joining the labour market every year, it is not surprising that 40 percent of the work force is believed to be unemployed.

Mike Levett . . . cause for grave concern

Mr Levett says it is obvious that a successful transition to a more democratic dispensation cannot be tackled on the political playing fields alone.

"The task of economic reform cannot wait for the political reform process to run its course. The economic issues need to be addressed urgently."

He says that any political change leads to uncertainty and that the current political impasse is severely aggravating the situation because it is paralysing decision-taking and impeding economic growth.

Any effort to put the economy back on a sustainable growth path will have seriously to address the issue of uncertainty.

"Realistic rules for the economic game need to be established and adhered to," he says.

Without such rules South Africans will not be willing to invest in new production, meaning that unemployment, with all its associated ills, will increase further.

"If South Africans are not prepared to invest, it is unrealistic to expect foreigners to perform the task," he says.

Other requirements for economic growth put forward by Mr Levett include a cut in government spending.

"This is high relative to other more successful economies at a similar stage of development.

"Consequently, tax rates are also high. Without spending restraint, a reduction in tax rates cannot take place."

Mr Levett warns against any attempt to raise living standards by means of populist economic policies.

"The well-known failures of populist policies, such as those in Latin America, demonstrate the vital importance of maintaining macro-economic stability," he says.

The economy must be restructured to being outward-looking and internationally competitive.

Here the management of the exchange rate will be crucial, and the failure of the exchange rate to compensate for the inflation differential is worrying.

● Despite the recession, Old Mutual has lifted its annual premium income by more than R2 billion to above R10 billion for the first time.

Premiums

Income from premiums and annuity considerations in the year to June rose 26,9 percent from R8,06 billion to R10,2 billion.

After including the 13,9 percent rise in investment income from R4,06 billion to R4,63 billion, the society's total income was R14,9 billion — up 22,6 percent on last year's R12,1 billion.

Total assets under management rose 20,3 percent to R87,3 billion, or more than the combined wealth of five of South Africa's mining and industrial giants — De Beers, Anglo American, SA Breweries, Gencor and Rembrandt.

Economic forum on the way

CT 19/8/92 ㊾

Own Correspondent

JOHANNESBURG. — A national economic forum, with organised business, labour and government co-operating, will be launched in mid-September with all parties signing an official statement of intent, a forum spokesman said last night.

This followed a two-hour meeting yesterday of delegations from the three groups when stages were agreed upon to get the economic forum operating.

The government also accepted the draft proposal for an economic forum, initiated by Saccola and Cosatu, and agreed to by organised business and labour in March.

Ms Debra Marsden, a member of interim secretariat of the Consultative Business Movement, said the launch date of the plenary session would be announced next Tuesday.

All three delegations agreed that rapid progress should be made to "ensure that the forum yields results in the shortest possible time", she said.

The agreement was a vital stage in harnessing the support of business and labour for Finance Minister Mr Derek Keys's overall plan to restructure the economy on a co-operative and consultative basis by liberalisation and deregulation.

Mr Keys's plan would co-ordinate economic policy on issues such as fiscal, trade, monetary policy, labour and tax into an integrated whole.

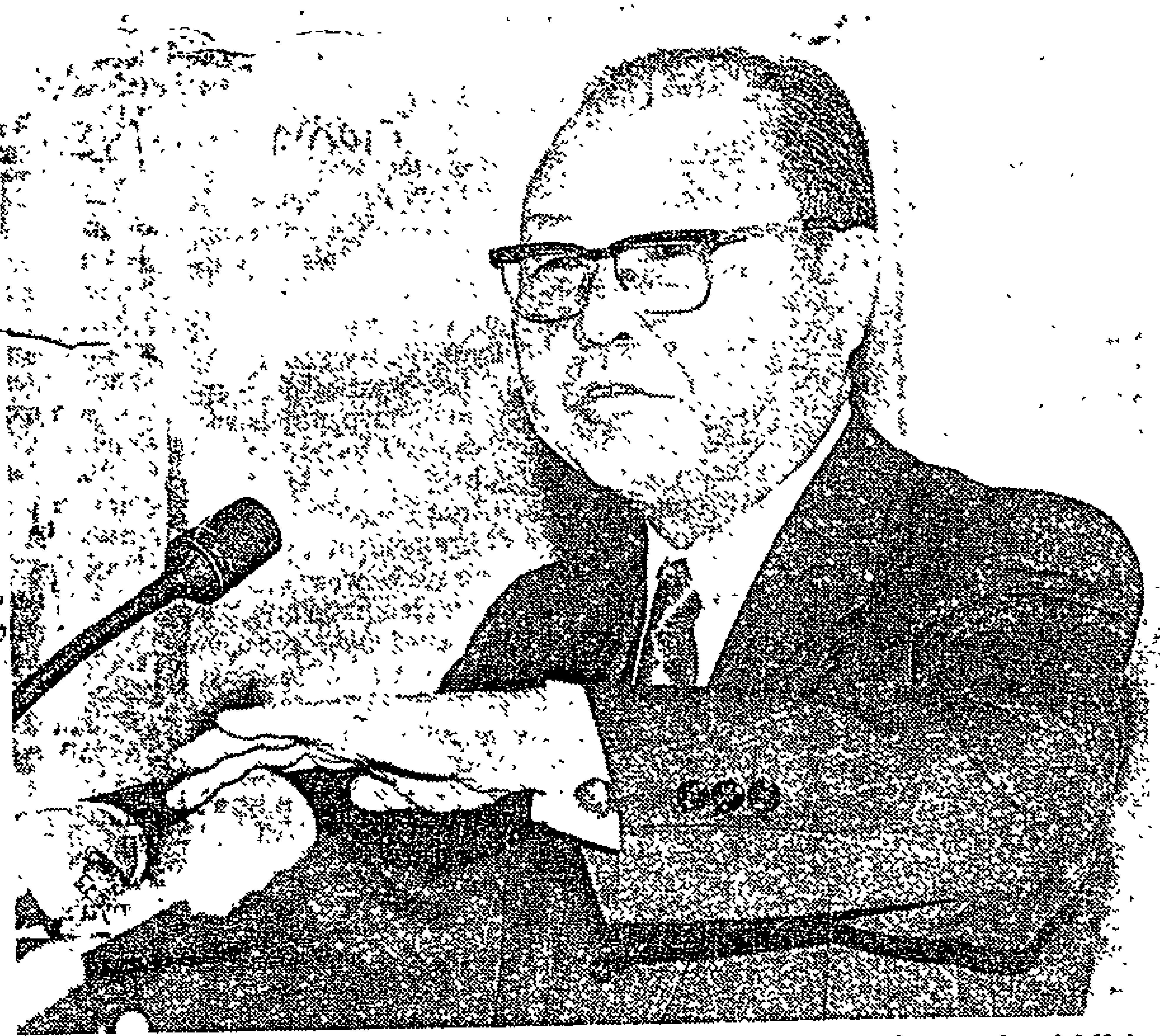
BUSINESS DAY, Thursday, August 20 1992

Forget bitterness of past, says Japanese ambassador

(49)

BDAY 20/8/92

WILSON ZWANE



Japanese ambassador Masatoshi Ohta addressing the SA Institute of International Affairs in Johannesburg last night.

Picture: BRIAN HENDLER

THE prevalence of past bitterness and expectations of instant and drastic redistribution of wealth in a new SA would undermine incentives to work, Japanese ambassador Masatoshi Ohta said yesterday.

In an address to the SA Institute of International Affairs in Johannesburg last night, Ohta said it was quite understandable that during the current transitional period in SA "bitterness from the past is still very tangible".

"However, if such bitterness continues to prevail in the new SA, it will undermine incentives to work," Ohta said.

He conceded, however, that present imbalances in terms of the allocation of resources would have to be addressed in the new SA through a programme of affirmative action.

However, in affirmative action lay the "danger that past bitterness would dominate the issue, and that the expectation of the people for instant and drastic redistribution of wealth will not only destroy the productivity of industries, but also the incentives of the labour force to become more productive", he said.

"To prevent this from happening while an effective affirmative action programme is being formulated, it is advisable to embark on an awareness campaign to abandon bitterness and to transform it into energy to acquire knowledge through learning," Ohta said.

"If people become accustomed to the mentality that everything evil is a result of the old white apartheid regime, then they cannot humble themselves to a position of self-criticism.

"It is only when people confront their weaknesses that they can open themselves to absorb maximum knowledge and skills from those who have the expertise, be they white South Africans or the international community," he said.

Ohta also called upon the SA business community to attract Japanese investment to the country by providing information "in which prospective investors may be interested". This could be provided in booklet form.

The booklet preferably should be written in Japanese, he said.

"The investment from your side in publishing a guide booklet of this nature would be very small in comparison to the results it could yield," he said.

BAs set to be stripped of liquid asset status

B/DAY 20/8/92

HILARY GUSH

(49) (~~58~~)

COMMERCIAL paper is set to become a true short-term funding instrument if the recommendation that the BA loses its liquid asset status becomes a reality, says the Association of Corporate Treasurers of SA (ACTSA).

ACTSA has shown support for Reserve Bank discussion documents released in June which proposed that bankers' acceptances (BAs), self-liquidating bills and promissory notes should no longer qualify as liquid assets.

The Bank suggested liquid assets should consist "of a buffer stock of high quality, truly liquid assets at a level amounting to 12% (from a current 20%) of adjusted short-term liabilities".

ACTSA technical committee chairman Tom Makinson said that BAs would probably lose their liquid asset status within a year.

There would have to be a replacement benchmark instrument by which other derivative instruments in the money market could be measured. He suggested a new form of bankers acceptances, commercial paper carrying a bank endorsement, or an interbank offer rate — a local equivalent of Libor (London interbank offered rate).

"The sudden removal of banks as investors in and marketers of BAs would cause disruption. There would be a need for proper notice and if possible a phased change over. However, the market would quickly re-establish its own level, with little impact on the rates," he said.

He expected some banks, comfortable with the market's structure, to resist the proposed change.

A spokesman for one of the major commercial banks, however, welcomed the move, saying there had long been controversy over the definition of liquid and non-liquid assets.

A spokesman for another large bank expected Treasury and Land Bank bills to become the most popular liquid assets. Indicative of increased demand, rates on these instruments were already falling, with the average rate on Friday's weekly three-month TB down 44 points to 12,77% from 13,21%.

Economic forum is launched

(49) [redacted]

■ Major victory for workers:

Sowetan 20/8/92

THE agreement to launch the National Economic Forum to negotiate burning economic issues facing South Africans was a victory for workers.

This was said yesterday by the Congress of South African Trade Unions following a meeting between the Government, business a trade unions in which the agreement was reached.

Cosatu said workers had struggled to bring the Government to accept that such issues could not be decided on unilaterally. "Cosatu therefore welcomes the agreement between delegations of the Government, business, and trade unions to set up an economic forum aimed at addressing critical economic problems facing the majority, including retrenchments, job creation, high food prices and so on.

"In addition to making concrete progress in addressing such issues, Cosatu expects the forum to ensure that there is a moratorium on unilateral economic restructuring", the union federation said.

End racism, says NSB boss

■ Political power should go hand in hand with economic empowerment:

By Joe Mdhlela 49

Sowetan 20/8/92

A NEW democratic government incapable of feeding its people was not desirable, executive chairman of the National Sorghum Breweries, Mr Mohale Mahanyele said this week.

It was important that the new political dispensation should be tied to a growing economy.

He pleaded for the removal of racism in the corporate world.

The future of a democratic government is invariably linked to a sound economy, he said.

"It would be immoral to burden the next government with an economy that will not deliver."

Mahanyele argued that political empowerment was just as good as economic empowerment, contending that it was wrong to develop one to the exclusion of the other.

However he warned that blacks would remain impoverished if they continued to be landless.

He said even if it were theoretically true that blacks owned 13 percent of the land, the other truth was that "there was a lot of subtraction" to be done on the original percentage.

"In the final analysis this would leave blacks with virtually no land ownership," he said.

Mohanyele lambasted the corporate world for not providing blacks with opportunities towards "self-actualisation".

"White business has the tendency to blame the Government for practising racism. They hide behind a myriad of Government-created laws. The truth, however, is that they are equally guilty of practising racism.

"Except for a few well-meaning businessmen, the majority were racists who would find all the reasons to exclude blacks from participating in business," he said.

Just as much as the violence of guns was undesirable, the neglect of the economy was equally undesirable.

Paying tribute to his company's growth, Mahanyele said this could not have been possible had workers at NSB been denied opportunities to self-actualisation.

"Thirty percent of the company is owned by workers. They have a stake in it...therefore they will guard it with their lives because they are part of it," he said.

Economic Forum

49

Sowetan 20/8/92

BUSINESS, labour and Government delegations met in Johannesburg on Tuesday to consider steps to launch a National Economic Forum and begin substantive talks on economic issues.

A plenary session would be held next month to plan the launch of the NEF, following Government acceptance of a draft proposal agreed to by business and labour for the body, the Consultative Business Movement said.

In a statement the movement said, "All delegates agreed that rapid progress should be made to ensure that the NEF yields results in the shortest possible time."

Union wants facts

(49)

- **Political parties to be quizzed:**

Sowetan 20/8/92

Sowetan Correspondent

VARIOUS political groupings are to lay their economic policies open to scrutiny when they speak on them at the congress of the Black Allied Workers' Union (Bawu) at Madadeni in Newcastle on August 22 and 23.

Bawu general secretary Mr Bheki Khumalo said the union had invited the International Confederation of Free Trade Unions, the African National Congress, the Azanian People's Organisation, the Inkatha Freedom Party, the Pan Africanist Congress, the Congress of South African Trade Unions and unions represented by the United Federation of Independent Trade Unions of South Africa.

A founder member

Khumalo said the Bawu congress would also mark the 20th anniversary of the union.

A founder member of Bawu, Mr Drake Kgalushe Koka, who has returned after 16 years in exile, would give the keynote address.

He said more than 1 000 delegates were expected to attend the congress at the Madadeni Community Hall.

Meanwhile, the ANC and the IFP have accepted invitations from the Free State Agricultural Union to join the National Party and Conservative Party in presenting their agricultural policies at the union's annual congress in Bloemfontein today.

The parties will outline their policies on aspects such as land ownership and agricultural marketing, according to the union's manpower manager, Mr Pieter Moller.

Structural adjustment programme imperative

STAR 20/8/92. (49

The current weakness in the economy makes restructuring imperative.

Indeed, restoring confidence will require that a structural adjustment programme (SAP) be put in place as soon as possible.

SA suffers from a stagflation dilemma: low labour absorption in the established economy coupled with persistently high inflation.

Policy measures designed to rein in cost pressures will allow SA to take full advantage of the prospect of global recovery in 1993. This will only be possible if local products become more competitive on world markets.

A further reason for urgent action to restructure the economy is the expiry of the Third Interim Arrangement with foreign creditors in August 1993.

SA would benefit tremendously if it could terminate this agreement and thus end the debt standstill through a normalisation of its relationship with foreign financial markets.

This could be done through a tacit agreement not to call up debt, or, for example, the conversion of remaining debt into one- and three-year paper, saleable on the secondary debt market.

This could only happen if full access to IMF facilities were restored and a fall-back position seen to exist.

This, in turn, would require the acceptance by the IMF of a suitable economic strategy.

For the IMF to endorse a SA economic strategy, it must be satisfied that it would have broad-based domestic support to make it viable. No such blueprint exists at present: it must be created and must find reasonably wide endorsement.

The business sector has a key role to play in economic discussions, not just because it is an obvious stakeholder in the economy, but also because it is well placed to encourage the adoption of an economic strategy which gains support across much of the political spectrum.

By Nico Czypionka, chief economist Standard Bank

A businss economic strategy should aim for rapid, sustainable growth with an emphasis on both efficiency and equity. Conventional economic wisdom points to deregulation and tax reforms as the relevant policy framework for a competitive economy.

The orientation of this policy should be practical. Contentious issues which need to be clarified include how to phase out exchange controls, including the finrand; how to reduce restrictive trading practices, including tariffs; how wages can be linked to productivity and the optimum allocation of government welfare expenditure.

Such a strategy would, however, also need to show tangible benefits to more people than have past policies.

To this end, employers, trade unions and the government need to accelerate the credible creation of an economic forum, where detailed economic policy options can be discussed before being implemented.

The convening of this forum need not, and should not, be delayed pending the negotiation of a new constitution.

Plan to launch forum a victory, says Cosatu

Staff Reporter 49

STAR 20/8/92

The agreement to launch a national economic forum next month to negotiate urgent economic issues facing South Africans was yesterday described by Cosatu as a victory.

The Consultative Business Movement announced on Tuesday that the forum would be launched in mid-September when parties to it would sign a statement of intent.

The agreement followed a two-hour meeting of delegations from business, labour and Government in Johannesburg.

Cosatu said the agreement was a victory for workers who had struggled "to bring the Government to accept that such issues cannot be decided on unilaterally". This had been a central demand of the general strike called on November 4 and 5 last year, it said.

"Cosatu welcomes the agreement between delegations of Government, business and trade unions to set up an economic forum aimed at addressing critical economic problems facing the majority, including retrenchments, job creation, high food prices, and so on.

"In addition to making concrete progress in addressing such issues, Cosatu expects the forum to ensure there is a moratorium on unilateral economic restructuring."

The forum would also have to address the question of how to reverse damage done as a result of restructuring, such as the unilateral imposition of VAT, said Cosatu.

Send in raiders to toss out featherbeds and free economy

B/DAY 20/8/92.

Two former economic advisers to Margaret Thatcher, SIR ALAN WALTERS and GEORGE GUISE, call for drastic changes to SA's corporate structure

49

SOUTH Africa is a continental anomaly. A Third World country, with the tribalism, the violence, the excessive public spending, overregulation, the overweening bureaucracy, state-owned behemoths, the protection and politicisation of much economic activity.

But superimposed on these is a convincing presence of the First World in the form of the great mining and manufacturing corporations. The English-speaking South Africans have dominated the private business sector, just as the Afrikaners have been predominant in government employment, while blacks have provided the labour. An oversimplification? A caricature? Perhaps, but it conveys the essence of SA for most of this century.

The income generated by the industrial and mining sector produced a large tax revenue to finance the jobs and sinecures in the public sector. The stated objective of the ANC leadership is to capture control of government in order to secure and expand those public sector jobs.

There has also been much talk of expanding the public sector by nationalisation, quotas for blacks, Africanisation, and so on. But now there is growing realisation among black leaders that such measures have been the root of the dismal economic performance of all the Second (communist) World and most of the Third World economies.

If there is a golden rule in economic management, it is that high taxation, expropriation, regulation and control lead to dilapidated infrastructure, political turmoil and uncertainty which drives capital and jobs away. That, in turn, exacerbates both economic and political tensions — and so leads to a vicious circle of decline.

What can the ANC, Inkatha, the NP and other groups do to promote wealth and growth to break out of this vicious circle? The solution is to send not for Marx and Lenin, but for Hanson and Goldsmith.

As in any other dirigiste socialist country (and, with its high ratio of government involvement and interference in economic life, SA must be so classed), the economy is dominated by very large corporations.

In SA, fewer than 10 conglomerates dominate the First World industrial sector. They have pyramidal or interlocking shareholdings which lock out their external shareholders from any influence over management, and protect their management from any true accountability to shareholders.

As is well documented, conglomeration, especially with monopoly power and protection against intruders, leads to much inefficiency. The rate of return on capital in the many peripheral activities is low. This is reflected in the fact that for most of these conglomerates the share price is less than the value of their component assets.

In any free market there would be a corrective, namely a takeover bid. Lords Hanson and White or Sir James Goldsmith would buy up the shares, take control, strip off the peripheral loss-making companies, change management and sell them for perhaps more than their acquisition cost, and get the company back to basics in its mining operations.

But few managements in SA fear a takeover bid.

Many reasons explain these featherbeds in the boardrooms. The most important is that everyone is in a featherbed with everyone else. Large blocks of shares are held by corporations in the same group as well as by controlled pension and insurance funds. It is virtually impossible for any outsider to mount a takeover bid against the interlocked interests of the five conglomerates which account for more than three-quarters of the market capitalisation of the JSE.

It is, however, a moot point whether, in the absence of such interlocking holdings, a protectionist, socialist government of the kind which has been in power in SA for so long would ever allow takeovers. Socialist governments are characterisically averse to buccaneers like Goldsmith and Hanson. They prefer their house-trained managers, who are more amenable to the habits of bureaucracy. Yet, they wonder why foreign capital is so reluctant to appear.

We believe takeovers would benefit virtually all groups in SA. Let us take the difficult one first: would they benefit the blacks? We believe they would.

First, such takeovers and unbundling would create, not destroy jobs. The efficiency gains that can be made are high — perhaps reductions in costs of 50% or more. This would make much industry efficient and competitive in terms of world as well as African markets.

Second, SA manufacturers could flood into their natural markets — displacing Asian manufacturers, but also developing new markets that do not now exist. This is the basis for real jobs and prosperity in the black townships as well as in the grassy suburbs.

As for the owners of these conglomerates, their shareholdings would be worth much more under an open takeover regime. True, some family shareholding groups as well as entrenched management cliques would lose their power to decide the fate of industry, but that is the price they must pay for the opening of the economy — but how handsome would be the rewards.

The Afrikaners would lose their privileged positions in the public sector while all races would be free to exploit the opportunities which a liberalisation of the white cartel-dominated industrial sector will provide. We suspect that removing the featherbeds in both the public and private sectors will be the making of a new generation of multiracial entrepreneurs.

The main task of a reforming government must be to insist on the disentanglement of the crossholdings of the conglomerates and the opening up of SA to foreign as well as domestic corporate raiders.

The first step is so simple. It is for the regulatory authorities of government and the stock exchange to cease the restrictive practice of protecting entrenched management groups from their disenfranchised private shareholders. If a takeover appears, the cross-shareholding should have the option of accepting the offer or of bettering it, but not of turning complacently away.

Such a simple shift in regulatory policy would not only bring SA into line with the most efficient, modern capitalist economies, but simultaneously awaken those sleeping assets which form SA's hidden wealth. — Financial Times.

☐ Walters is AIG Trading Corporation vice-chairman. Guise is former director of Consolidated Goldfields and was a member of the Prime Minister's Policy Unit 1986-90.

STAR 21/8/92

Privatised companies will face ANC nationalisation

(49)

By Sean Feely

A future African National Congress government would immediately nationalise any public enterprise that was privatised in the interim, according to economist Tito Mboweni.

Addressing a conference on commercialisation and corporatisation in Pretoria yesterday, Mr Mboweni sternly warned of the consequences of the Government's policy of privatising public corporations.

"Our policy is that any public corporation which is privatised now will be subject to immediate re-nationalisation without compensation."

Mr Mboweni reiterated ANC opposition to the privatisation of public enterprises, arguing the western countries that were pursuing privatisation could afford to do so as their economies already had developed infrastructure.

A democratic government in South Africa would have to ensure basic services were extended to the majority of the population through public corporations.—Sapa.

Economic forum raises hopes and reservations

W/Mail 21/8 – 27/8/92

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By REG RUMNEY

THE National Economic Forum launched this week will not allow the widespread economic restructuring on which economists and businessmen are pinning their hopes.

The announcement that the forum is now on track after six months of putting its fairly intricated mechanisms into place leaves certain questions unanswered. Among these are how interest groups not represented will be catered for, how cosy "corporatist" solutions by business and labour will be avoided, and how strong the mandates of the participants are.

The forum's launch gives the impression that business, the government and labour have outdone Codesa by agreeing to begin discussing "substantive economic issues". This could give rise to hopes that the strife surrounding what the Congress of South African Trade Unions (Cosatu) calls unilateral economic restructuring may end.

The forum may be able to defuse further confrontation on immediate issues, such as Value-Added Tax on food and retrenchments; but it will not be able to address longer-term changes, such as the reduction of tariff barriers.

Cosatu's Sam Shilowa stresses that until there is a democratically elected government, there can be no agreement on fundamental restructuring of the economy.

Cosatu is intensely suspicious of the economic moves the government has made and is convinced the intention is to saddle a future democratic government with an economy it cannot fundamentally change. It is determined to head the government off at the pass.

Shilowa is candid about what Cosatu hopes to achieve: "We will enter into any negotiations which will deliver the goods. But if it becomes a talk shop or the government wants people to believe that all is well, or employers only want, say, to get a moratorium on strikes, we will withdraw. We accept negotiations are give and take, but we won't compromise on our principles."

In contrast, South African Chamber of Business chief economist Ben van Rensburg, speaking for Sacob, notes the divisions but reckons talking is essential: "We must give it our best shot. The economic forum provides a good alternative to us putting forward our own views in isolation."

He adds: "We can't wait until there is an interim government to create the mechanisms for an economic forum."

Economic growth cannot stand by for politics

B/DAY 21/8/92.

(49)

MIKE LEVETT

NO COUNTRY has ever experienced a successful transition to a stable democracy in the absence of a sound economic performance before, during and after the transition. This was a key finding of the Old Mutual/Nedcor scenario study of 1991.

In the light of this finding, the poor performance of the economy is cause for grave concern. Our estimates show that by the end of the year the economy will have experienced three consecutive years of decline. Real per capita GDP is expected to have shrunk by 9% between 1990 and 1992. In the private sector, close on 200 000 jobs were lost in 1990 and 1991 and the trend appears to be continuing in 1992. In addition, an estimated 300 000 people join the labour force every year.

Against this background, it is obvious that a successful transition cannot be tackled on the political playing fields alone. The task of economic reform cannot wait for the political reform process first to run its course. The economic issues need to be addressed urgently.

Formulating an appropriate economic strategy is by no means a simple task. However, for any strategy to stand a reasonable chance of success, it will have to address the following issues, among others:

☐ A significant reduction in the level of uncertainty must be achieved. Uncertainty impedes economic growth as decision-taking is paralysed. The businessman is likely to postpone decisions to invest in new equipment, build up stock or hire new staff. The consumer is uncertain how to plan his finances. Public policy-makers cannot implement long-term strategies and many critical decisions are delayed as time horizons shorten.

☐ To eliminate uncertainty, realistic rules for the economic game need to be agreed and adhered to.

☐ The level and nature of government spending need urgent attention. Domestic government spending, measured as a percentage of the economy, is high relative to other more successful economies at a similar stage of development. Consequently, tax rates are also high.

Achieving real government spending restraint requires decisive action. The social spending component of government expenditure has been growing fast and the needs are great. Spending discipline will therefore require continued redistribution of spending in favour of the less privileged. Such a restructuring will not be painless, but the long-term benefits should outweigh the negatives.

Another aspect that needs to be addressed is the mix between current and capital spending. In the attempt to contain pressures in recent years, government has drastically cut its capital spending. Between 1980 and the start of 1992 this type of spending fell by 40% in real terms. Moreover, in the broader public sector, including the public enterprises and corporations, fixed investment cutbacks have been even more severe.

A reduction in government spending must therefore concentrate exclusively on current spending. This is the only way to create scope for the public sector to play its role in supplying the capital formation SA so desperately needs.

☐ Any attempt to uplift living standards by means of populist economic policies must be avoided. The failures of populist policies, such as those in Latin America, demonstrate the vital importance of maintaining macro-economic stability. In this regard the current policies of the Reserve Bank are commendable. The progress towards financial stability must not be undone by an undue relaxation of monetary policy.

☐ The long-term decline in SA's economy can be ascribed to a host of reasons, but two stand out: the dominant role of commodity exports and the inward-looking industrial sector. Economic success will largely depend on the extent to which we can restructure the economy towards being outward-looking and internationally competitive, and based increasingly on manufacturing and services (including tourism).

Such economic restructuring will not be achieved overnight and will require a comprehensive industrial and marketing strategy. In a major restructuring of this kind, maximum use must be made of market forces. The management of one of the most important prices in the economy, the exchange rate, will be crucial.

World Bank and IMF policy recommendations always stress that a competitive exchange rate is one of the key ingredients for economic restructuring and industrial success. In ensuring a competitive exchange rate, international inflation differentials have to be taken into account. Failure to do this can easily result in a non-competitive currency in a high inflation country over a short period of time. In this regard, the failure of the depreciation of the rand over the past three years to compensate for these inflation differentials is worrying. The monetary authorities will have to give appropriate attention to this issue in future formulation of policy.

There is a daunting task facing the political leadership to negotiate an acceptable constitutional dispensation. But all political leaders must understand that early progress on economic issues is not a luxury but a necessity for bringing the political transition to a succesful and sustainable conclusion.

☐ **Levett is Old Mutual chairman. This is an editied version of a statement delivered on Tuesday.**

Big guns sign up to join battle for devaluation

B|D AM 2|8|92

SIMON WILLSON

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OF ALL the remedies available to governments looking for a quick way to end a recession, devaluation is one of the easiest to adopt. As the economy faces a third successive year of contraction, devaluation's advocates are breaking cover to promote a strategy that, only a year ago, was widely discredited.

After being mounted on bricks and shut away for nearly three years, the devaluationist bandwagon has been rolled out, polished and prepared for a new parade. After starting out more in hope than expectation with a motley band of supporters, the campaign is beginning to develop appreciable momentum.

The decision this week by Old Mutual to endorse the devaluationist ticket may finally have converted the bandwagon into a serious body of opinion that economic policymakers will now have to counter with solid argument and hard evidence.

The devaluation campaign has developed authority and respectability at a critical moment: next week the Reserve Bank, vested with responsibility for exchange rate policy, holds its annual meeting. It is an occasion when, in theory at least, the Bank is at its most vulnerable on policy issues, being answerable to its stockholders in the same way as any other public company.

The Bank has been able to use recent annual meetings as platforms for the dogmatic restatement of its established exchange rate policy. Its annual economic report, presented as background to the chairman's address delivered by the Bank Governor, has for the past two years, presented a solid, constant and self-assured stance on the rand to an initially sceptical public.

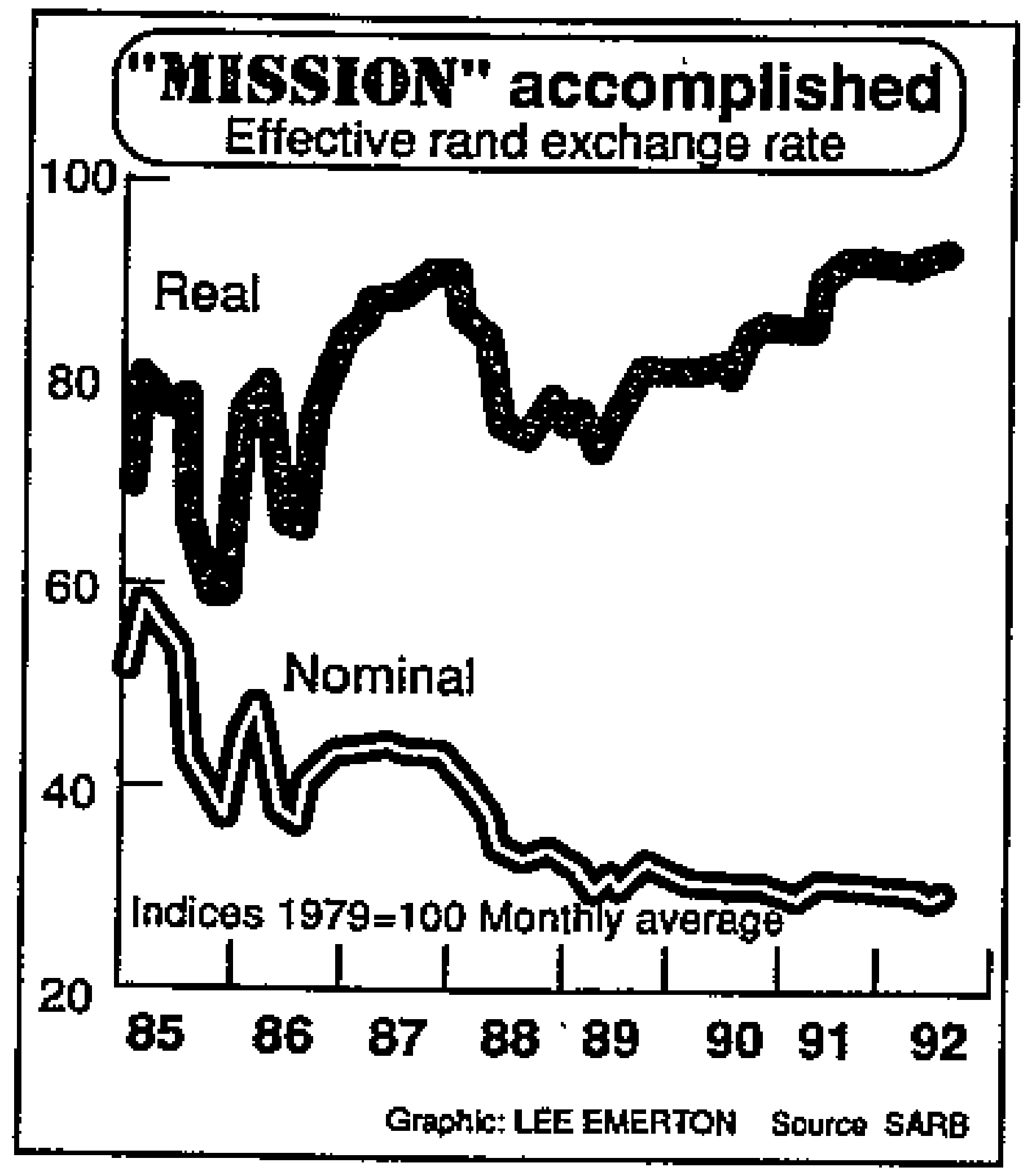
The Bank will no doubt seek to deliver the same package at next week's annual meeting. But will the economy at large buy it this year? Given the sudden groundswell of pro-devaluationist sentiment, Chris Stals could be facing his toughest assignment yet in the Governor's chair: successfully selling another year of his stable-rand exchange rate policy.

The 1990 annual meeting — the first over which Stals had full influence as Governor after succeeding Gerhard de Kock the previous year — was the first at which the Bank set out what has proved to be a forceful and determined policy. The annual economic report presented in August 1990 told how, four months earlier, the Bank's board had "formulated and adopted a clearly defined 'mission' in terms of which the protection of the domestic and external value of the rand was accepted as the prime objective of the Bank".

As the chart shows, the results of the Bank's "mission" did not take long to show through. The precipitate falls and wild volatility that frequently characterised the rand's performance in the mid-'80s have smoothed out into stability. Looked at another way, that nominal stability actually becomes rand strength — an unfamiliar term for one of the world's foremost basket-case currencies of the mid-'80s. The chart shows the stable nominal trade-weighted rand is actually a strong real trade-weighted rand. Under the zealous guidance of its central bank defender and guardian, the rand has been depreciating against a basket of SA trading partners' currencies by less than the inflation differential between SA and those partners.

The chart indicates that the Bank's mission is being rigorously adhered to. For a time after the 1990 formulation of its mission, the Bank enjoyed a honeymoon period in enacting its strong-rand policy. But, as exporters began to be denied their traditional rise in rand proceeds, the mines were the first to grumble about the steady rand. Then the rest of the export sector joined in.

But moans from exporters about the strength of the exchange rate are common throughout the world and, in isolation, represented no material challenge to the Bank's rand policy. A steep fall in producer inflation in the second half of last year helped vindicate the Bank's stance. The rapid slowing in the rise of the producer price index between July 1991 and January 1992 was mainly attributable to intermittently falling import prices — a direct result of the strong real effective exchange rate.



"MISSION" accomplished

Effective rand exchange rate

Graphic: LEE EMERTON Source SARB

As SA's longest post-war recession drew out, however, the mood turned. Suddenly it was no longer only the exporters complaining about the rand's failure to fall. Domestic commercial enterprises, desperate for any adjustment that would inject some life into the moribund economy, joined the bandwagon. Then leading analysts lent their weight to what was becoming a cause.

In June Absa stressed in a paper on economic growth the importance, through the indirect multiplier, of the export sector's domestic spending on private and corporate incomes: "The current level of the commercial rand exchange rate is probably too strong to generate a really dramatic boom in goods exports, and the possibility of allowing a once-off exchange rate depreciation ... should be investigated."

What had previously been insurrectionist backtalk in analytical corridors then burst out into the open as devaluationists took comfort from each other's frankness. In July the Economic Advisory Council's revised long-term strategy document warmed to Absa's theme. "The Reserve Bank will have to manage the exchange rate in accordance with changes in inflation differentials, even though a depreciation may also contribute to inflation by itself. An exchange rate depreciation may be necessary to tide SA's manufacturing sector over the lifting of import protection," the document warned.

It is notable that, in general, proponents of a lower exchange rate instinctively avoid the term "devaluation". A relic of the years of fixed exchange rates 20 years ago, "devaluation" is one of the most instant negative-association terms yet conceived, casting doubts on a nation's strength and security and on its leader's machismo and virility (as applicable).

Strictly, floating currencies such as the rand — and, indeed, the dollar and the yen — do not devalue as they are not fixed to any particular parity. They depreciate, or float downwards, and that sounds more acceptable to countries with delicate sensibilities about the worth of their currencies. But a depreciating currency is also a devalued currency, and the term has to be accepted in the end.

The Board of Executors had few qualms about terms when it jumped aboard the bandwagon at the beginning of the month. BoE's quarterly investment review bluntly proposed devaluation of the rand as part of an export programme to lead the economy out of recession.

Finally, Old Mutual added its considerable weight to the devaluationist cause this week when its chairman's statement declaimed that international inflation differentials had to be taken into account in ensuring a competitive exchange rate.

As the devaluationist chorus swells around him, will Stals be able to retain his core strong-rand support in commerce and government and persuade the uncommitted of the rectitude of his mission? Or is he, like his predecessor, more likely to be overwhelmed by pressure for expediency in exchange rate management? A chance for Stals to challenge the devaluationists is immediately at hand, in the form of his address at next week's annual meeting. It is a challenge he cannot duck.

Can socialism survive the new SA?

W\Mail 21/8-27/8/92 (49)

To mark the 10th anniversary of the murder of Ruth First, her friends and colleagues gathered in Cape Town to ponder the future of her radical socialist ideals in the 'new' South Africa.

GAYE DAVIS *was there*

BERTOLT BRECHT once said that, morally, there wasn't much to choose between "the old, decrepit whore of capitalism and the lithesome whore of deformed socialism — except that, with the latter, there's the possibility of conception".

African National Congress leader Pallo Jordan, in a tribute this week to Ruth First on the 10th anniversary of her assassination in Maputo by a parcel bomb, cited Brecht to make the point that First — committed revolutionary, journalist and academic — never wavered in her steadfast commitment to socialism as an attainable goal, despite the deep flaws she saw emerging in Soviet and Eastern European countries.

First never lived to see socialism's collapse, nor to experience the crisis of credibility and confidence now afflicting socialists. Her absence was keenly felt by the leading leftwing academics and intellectuals, most of them former friends and colleagues, who attended a two-day colloquium organised in her memory by the Centre for Southern African Studies at the University of the Western Cape this week.

They were gathered to consider how, if at all, Brecht's "lithesome whore" might yet give life to a healthier child — or, more specifically, to consider possibilities for the radical transformation of South African society after negotiations.

First gave her life for the national liberation struggle now at the crossroads presented by negotiations. Could the negotiations strategy of the ANC and its allies be seen as a continuation of that struggle? Answering his own rhetorical question, Neville Alexander, currently director of the Project for the Study of Alternative Education at the University of Cape Town, concluded that it did not.

Negotiations, if they succeeded, could lead nowhere but to a "slightly modified, structurally adjusted racial capitalist system" that would continue to generate inequality, Alexander said. The ANC and its allies had committed themselves to seeking a solution within the framework of capitalism — and as a result had rapidly shifted "from a militant quasi-socialism to a common or garden democratic capitalism".

It was true that all negotiations implied compromise — but if the aim was to put oneself in control of the levers of state power within a capitalist framework, one had to realise that the end effect would be to strengthen rather than weaken and destroy that system, Alexander warned.

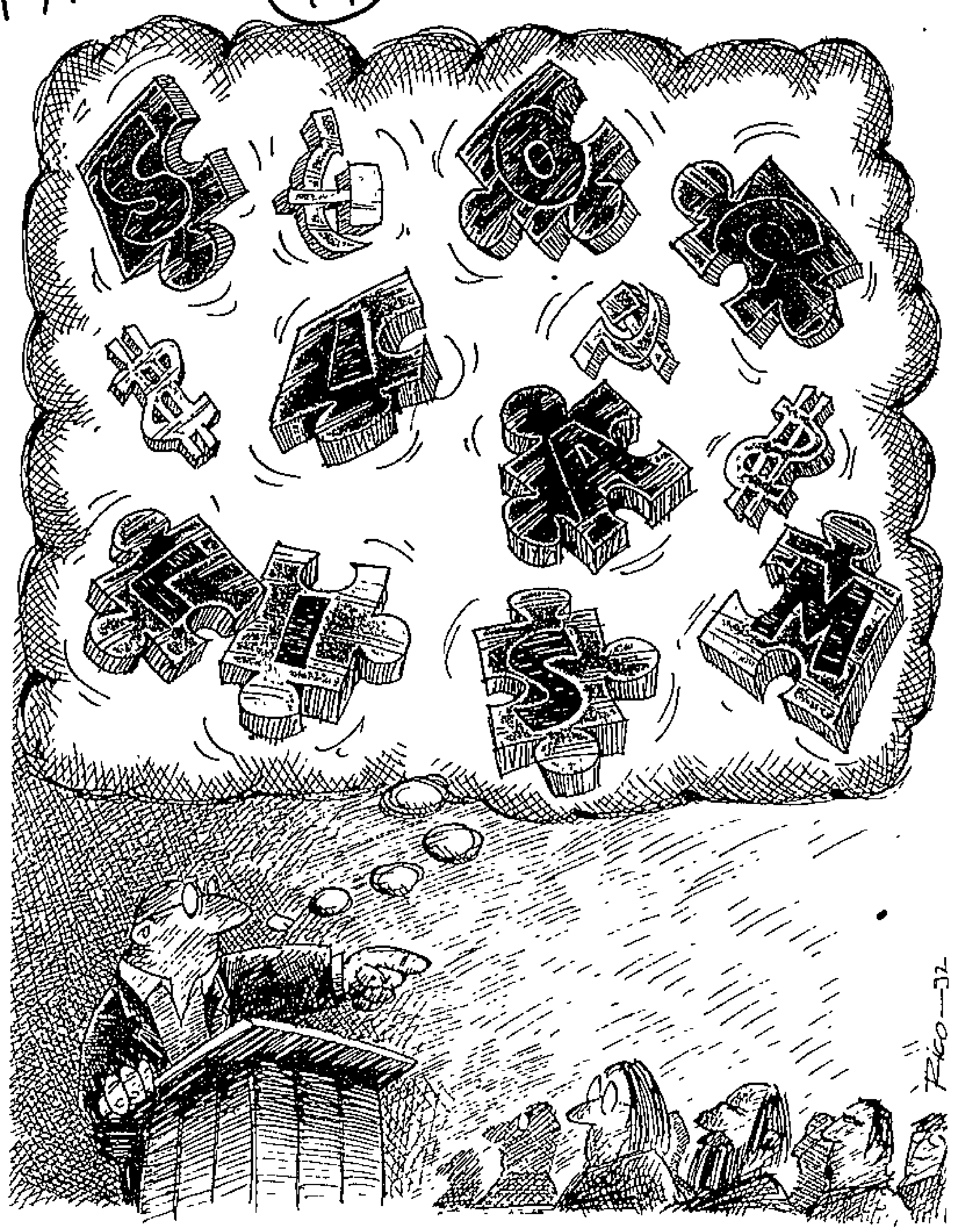
The failure to defeat Pretoria militarily was still a central feature of the political landscape and could not be argued away by pretending that the discourse of the seizure of power was the same as the discourse of the transfer of power.

In the game of power politics, it might be a legitimate ploy to maintain that negotiations were a site of struggle, or that "reform from above" — through a negotiated pact between elites — could translate into some version of "transformation from below".

But, when adopted by a leadership "ostensibly involved in a revolutionary struggle for national liberation, democracy and the emancipation of the working class", such a ploy amounted to "an unseemly and unacceptable sleight of hand".

Leading Marxist economist Laurence Harris, who for 20 years has worked closely with the ANC on questions of economic policy, noted that First herself could never have foreseen that the unbanning of the ANC and South African Communist Party would see leaders carefully avoiding mention of socialism and that cornerstone of the Freedom Charter, nationalisation, for fear of discomfiting big business.

When reading ANC position papers on a future economy, he was struck by an "awful contradiction": they dealt with managing capital better than the National Party, rather than attacking capitalism's claims and suggesting a socialist alternative.



The only idea that socialist economists were debating was "market socialism" (touted as an alternative to a centrally planned economy, in which "the state" and "the market" are seen as different mechanisms for co-ordinating the economy) — but this was fundamentally flawed, said Harris.

It failed to recognise the real character of either markets or the state's role in co-ordinating them, with the assumption being that it should be limited to intervention only when markets failed.

"In my view, if socialism is conceived only as the state stepping in to fill the gaps left by 'market failures' ... then much of the 20th century has been a waste of time," Harris said. "Neither capitalists nor socialists need have struggled for their ideas — and Ruth would still be alive."

Proposals for market socialism did not address the "burning question" facing socialist societies — "the problem of how they can change and adapt over time. It was this inability that made a Greek tragedy of Soviet history", Harris said.

"If, in South Africa, we have a concept of socialism which cannot deal with how the economy generates and responds to change, we cannot have a viable socialism. If it cannot deal with changing technology, a socialist South Africa would become even more of a backwater, irrelevant in the global economy, than it has under apartheid. If it cannot deal with the changing demographics of the labour market, more and more will find themselves on the streets or, in a classic solution adopted by the apartheid regime as much as socialist states, employed in useless jobs.

"The state versus market concept of market socialism has little to offer South Africa until it develops a capacity to handle the complexities of a dynamic socialist society," Harris said.

John Saul, a long-standing scholar of southern Africa's political economy, currently attached to Atkinson College in Toronto, presented a paper which perhaps went further than any other in signposting a route for a transitional strategy that neither denied socialism's ultimate goals nor allowed for a collapse of its ideals.

It hinged on the concept of "structural reform" — real reforms rather than mere improvements, that came not from on high but were rooted in popular initiatives, thus allowing for the further empowerment of the masses.

This alone, argued Saul, could make "revolutionary sense" of short-term struggles and achievements — and forestall a situation in which these took on "no more than the vulnerable half-life of free-standing, one-off ameliorations of some particularly raw attribute of otherwise ascendant capitalism".

Thinking in terms of "structural reform" could help ground a practice that avoided "the twin dangers of, on the one hand, a romantic (and inevitably all-too-rhetorical) ultra-revolutionary approach, and, on the other, collapse into a mild reformism that will do little to alter the balance of inherited class power and conservative or technocratic decision-making".

This approach was "already implicit" in that of the mass democratic movement "at its most promising", Saul said. Embracing the concept more closely could render revolutionary practice even more effective in the long run.

In itself, the colloquium failed to provide any coherent way forward: more than 30 papers were delivered, rapid-fire, in the space of 10 minutes for each presenter; there was little, if any, time for debate.

Nor could it fairly be expected to. But perhaps it went some way in meeting the desire of its organisers, Rob Davies and Peter Vale of UWC's Centre for Southern African Studies, who had hoped that the colloquium — "an assembly of Ruth First's friends and fellow professionals" — would yield "new understanding of South Africa's present and provide new inspiration for its future".

FM 21/8/92 (49)

EXCHEQUER ACCOUNT (49)

FM 21/8/92

Spending on course

State spending, which grew beyond pro rata budgeted amounts in the first quarter, showed signs of slowing down in July. Recently gazetted figures, for the first four months of the fiscal year, show Exchequer issues are in line with the Budget — R32,3bn has been issued out of a budgeted R96,5bn. But expenditure is 24% higher than over the same period last year.

The vote for Defence totalled R3,1bn in the four months to July, out of a budgeted amount for the year of R9,7bn. While the former figure is 46% above that for the four months to July 1991, the R615m issued in the month represents a significant slowdown. State Accountant-General Corrie Pretorius says this is because a number of contracts were paid off earlier than expected, in April: "These will only pick up again in January."

Trade & Industry spending has also slowed down. Though more than half of the budgeted amount — R1,6bn out of R3,1bn — has already been used, only R154m was spent in July. This is because the redemption of promissory notes under export incentive schemes usually takes place between April and June (*Economy* June 26).

The statutory amount under the vote Finance, which includes interest payments for government debt and accounts for R16,3bn of total 1992-1993 budgeted expenditure (after the discount for RSA stock), is well within limits; R3,3bn has been issued so far, R487m in July. "The structure of the loan programme meant that a large amount of RSA stock was issued between April and June, accounting for July's comparatively lower figure," says Pretorius. "The downward trend in interest rates also means that we are saving more on the discount on RSA stock."

But other items are ahead of their pro rata budgeted estimates. Expenditure for the vote Regional & Land Affairs, the largest item in the Budget, at R20,3bn, amounts to R7,8bn, R1,9bn in July. "This is made up of increased payments to the self-governing areas in the form of drought relief, nutritional care programmes and increases in teachers' salaries," says Pretorius.

Of R9,1bn under the vote Administration: House of Assembly, R3,9bn has been issued so far, R883m in July.

Education & Training is slightly ahead of budget, R1,6bn out of R4,6bn, with R408m issued in July. Pretorius says teachers' salaries were increased from July 1: "The provincial education departments fall under the House of Assembly, while black teachers are under Education & Training."

Total revenue collections for the first four months of the fiscal year have raised only R22,3bn or 26% of the R84,7bn estimated in the Budget. This is only 5% higher than over the same period last year.

Inland Revenue raised R19,5bn — the same amount as in the comparable period in 1991 — or 26% out of the Budget estimate of R73,5bn. Customs & Excise receipts, at R2,8bn, were 59% higher than over the same period in 1991. This amounts to 25% of the Budget estimate for the year of R11,2bn.

The Budget deficit stands at R10bn — 54% of the budgeted gross borrowing requirement of R18,5bn. ■

New tax structure needs to be formulated

STAR 21/8/92

[illegible] (47)

The Ministry of Finance and the Reserve Bank have formulated a plan of structural adjustment for the economy which is due to be announced soon.

The plan is said to include as its core the gradual removal of trade barriers and a reduction in government consumption expenditure, with increased emphasis on social fixed investment by the State.

We would welcome a plan of this sort as the ingredients which are being mentioned strike at the heart of the South African economy's long-term structural weaknesses.

While the measures being mooted should greatly assist growth in the long term, we would like to see structural adjustment go further.

One of the problems faced by the economy is that ever more savings are being diverted into equity-linked investments rather than real productive economic activity, leading, among others, to a greater concentration of power in the hands of a few large shareholders.

The source of this problem is the persistence of high inflation coupled with a tax structure which favours capital gains at the expense of income and profits which are heavily penalised.

This stifles initiative and entrepreneurship, makes it more difficult to reduce inflation, dissuades new foreign investors and leads to capital intensive techniques.

A structural adjustment programme should therefore include constructive proposals for a new tax structure, a commitment to the removal of foreign exchange controls and a firm anti-inflationary monetary and fiscal policy.

In addition to these requirements it goes without saying that the economy needs also to raise the level of education and to develop skills appropriate to a growing economy in such a way that the level of wages becomes more competitive in relation to productivity.

For this, the support of organised labour is also clearly imperative. It is also the only way in which export growth can be promoted on a more sustainable bases.

To argue, as some people are doing right now, that the rand needs to be devalued in order to render our exports more competitive is a short-sighted policy, which was discredited seven years ago when it resulted in the inflation rate topping 20 percent.

Quick-fix solutions are short-term solutions. They do no address the long-term structural deficiencies.

Mr Keys and Dr Stals seem to recognise this and their suggestions are in the right direction as a basis for discussion at the proposed Economic Forum.

By going further and including proposals for a new tax structure and for the removal of foreign exchange control it might be possible for the forum to reach agreement on a new structure for the economy which not only pleases all parties but also represents a vast improvement on the present structure.

Higher growth rate vital (49) — De Klerk

BDAY 21/8/92.

BILLY PADDOCK

GOVERNMENT was comfortable with redistribution of wealth, but this required much higher economic growth which could only be achieved if SA became a nation of producers rather than consumers, President F W de Klerk said last night.

Speaking at the AGM of the SA-Republic of China (Taiwan) Chamber of Economic Relations, he said there was a sober appreciation that whatever political settlement was reached, it would not endure without a much higher growth rate.

"The fatuous claim that all other things will follow once the political kingdom is achieved has long been abandoned," De Klerk said.

Taiwan was a textbook example of a country that achieved economic growth in a relatively short time.

It was also gratifying to note that this growth was spread fairly evenly throughout Taiwanese society, so that country did not have to cope with distorted distribution of incomes or disparity between urban and rural sectors.

He said one of the reasons for this was that the "Eastern tigers" had vigorously embraced a philosophy of "producerism as opposed to consumerism".

De Klerk asked whether South Africans were prepared, for a period, to play the role of producers rather than consumers and moderate their claims now for the sake of the returns that would come when the economy improved.

Some of SA's society still enjoyed a standard of public provision, "to say nothing of lifestyle", that was hardly defensible in the current situation.

SA had been crafting an industrial policy which, so far, involved identifying the export sector in particular. It was evident that SA's economic future rested largely on exports, and increasingly on manufactured goods. But export markets had to be worked for and fought for.

"But even the hardest work will not succeed unless, all other things being equal, our prices are competitive on world markets," De Klerk said.

A major factor militating against this was SA's rate of inflation, which was way out of line with its major trading partners.

Quoting Adam Smith on the "number of usefully employed workers", as opposed to bureaucrats, he said government was giving this its urgent attention.

Any unit of labour was likely to contribute more to the GDP if it was employed in producing rather than administering, but there would always have to be a state administration apparatus. A careful balance had to be achieved.

De Klerk said most of the new formal sector jobs created over the past decade were to be found in the public sector rather than the private sector, and this had to be welcomed because it dented the unemployment figure. It was important also that these jobs were mostly in the non-bureaucratic area of nurses, teachers and other service personnel.

"Even so, the situation is obviously not a healthy one and cannot be perpetuated," he said, adding that urgent attention was being given to reducing the public sector's claim on national resources, or to re-allocate these in the light of the changing socio-economic exigencies.

De Klerk rejected retribution as totally unworthy of nation-building and said restitution in certain special and well-defined cases was acceptable, but this also could not be used to plunder.

President F W de Klerk addresses the SA-Taiwan Chamber of Economic Relations AGM in Johannesburg yesterday. Picture: ROBERT BOTHA

Monetary policy 'too cautious'

㊾ CT 21/8/92

Own Correspondent

JOHANNESBURG. — Sacob has told Finance Minister Derek Keys of business concerns that the Reserve Bank's monetary policy is too cautious — and has urged a further drop in interest rates.

An eight-member Sacob delegation met Keys and senior government officials yesterday to discuss next year's Budget.

A memorandum submitted to Keys said most sectors of business supported the Bank's policy on stabilising inflation and the balance of payments, but said "there was concern that it was erring on the side of caution. There now could be scope for a marginal downward adjustment of the Bank rate to follow present market conditions where a lack of demand for credit, together with an overflow of liquidity in the banking sector, were pushing both short- and long-term interest rates down.

"It was further suggested that monetary policy cannot ignore what is happening in the real economy where conditions have deteriorated noticeably. Some further reduction in official interest rates, in line with present economic and financial conditions, would therefore be appropriate."

The Sacob delegation, led by president Hennie Viljoen and director-general Raymond Parsons, told Keys the overriding objectives of the Budget should be to boost business confidence, stabilise the domestic economy and promote international competitiveness. This Budget should be considered the first step in an economic restructuring strategy.

"The biggest casualty of the recession and political instability has been investor confidence, which has declined to very low levels," the memorandum said.

It predicted that inflation could dip below 10% next year if fiscal discipline was maintained, and predicted GDP growth of 2,5% to 3% next year.

Apart from drought, worldwide recession and political uncertainty, the recession could be ascribed to continuing high inflation, which "is largely responsible for our very high tax rates which are crippling the ability of business and consumers to invest or to spend".

The Sacob delegation acknowledged that in the context of only moderate growth next year there was little scope for tax reform. Despite this, SA's company tax rates had to be brought into line with international standards. Import surcharges should be abolished and the marketable securities tax reduced. The VAT rate should not be increased.

Rates cut raised as Sacob meets Keys

B|DAY 21/8/92.

(49)

PETER DELMAR

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The delegation stressed that export growth was the only way to lead SA out of recession. It said SA's export efforts would be undermined if the rate of exchange did not adjust for inflation. It also voiced concern that recent measures aimed at encouraging beneficiation were encouraging

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Sacob

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☐ From Page 1

investment in capital-intensive rather than labour-intensive industries.

Increased incentives or subsidies should be implemented and targeted at those sectors with the most exposure to foreign competition.

The memorandum repeatedly stressed the importance of negotiations succeeding, saying the economy would return to normal only once tangible political progress was made. The economic forum was important to ensure expenditure priorities enjoyed broad-based support.

The delegation told Keys that the private sector was sceptical about government's ability to keep to its Budget, and questioned whether present monetary policies could address high food prices arising from the drought, administered prices and indirect tax increases.

Urging greater fiscal discipline, it said government had to improve efficiency, particularly in view of pressures for increased social spending.

The delegation stressed the importance of containing the deficit before borrowing and came out strongly against financing current expenditure through loans.

Job creation programmes should be linked to large infrastructural projects, particularly in areas such as housing, while privatisation could be given new life by using the proceeds from the sale of state-controlled and owned enterprises to fund such projects.

FM 21/8/92

mium business better reflects the growth of a life office.

Chief operating officer Gerhard van Niekerk says that, for 10 years, real growth in assets has exceeded inflation by more than 11% annually. Expense ratios have been kept lean, with clerical staff numbers remaining virtually constant during the year.

He adds that there has been a major shift out of long-term investments, towards those Old Mutual expects to hold for four to seven years. Of the dip in JSE prices, he notes: "It gives us the opportunity to buy value."

Levett says Old Mutual paid out R6,8bn in policyholder benefits. "Most satisfying was that the largest portion of these benefits was paid to members during their lifetimes."

Old Mutual's interests outside SA had a difficult year. Levett says UK-based Providence Capitol maintained its position in a difficult life market where prospects are influenced by the UK housing market, which is depressed. The Kenyan office is still awaiting the official go-ahead to write new business and the Zimbabwean operation is dealing in a currency which has depreciated 40% in a year. ■

GDP FM 21/8/92 (49)

Matching the metaphor

Second-quarter GDP figures, released by Central Statistical Service (CSS), show a further sharp decline in economic activity of 2,6%. This follows a fall of 2% (revised from -1,9%) in the first quarter. These are seasonally adjusted and annualised figures, as are all other quarterly changes referred to below.

The most important factor was a drought-induced decline in agricultural output of 28% (-17% in the first quarter) — which was in line with expectations considering the poor

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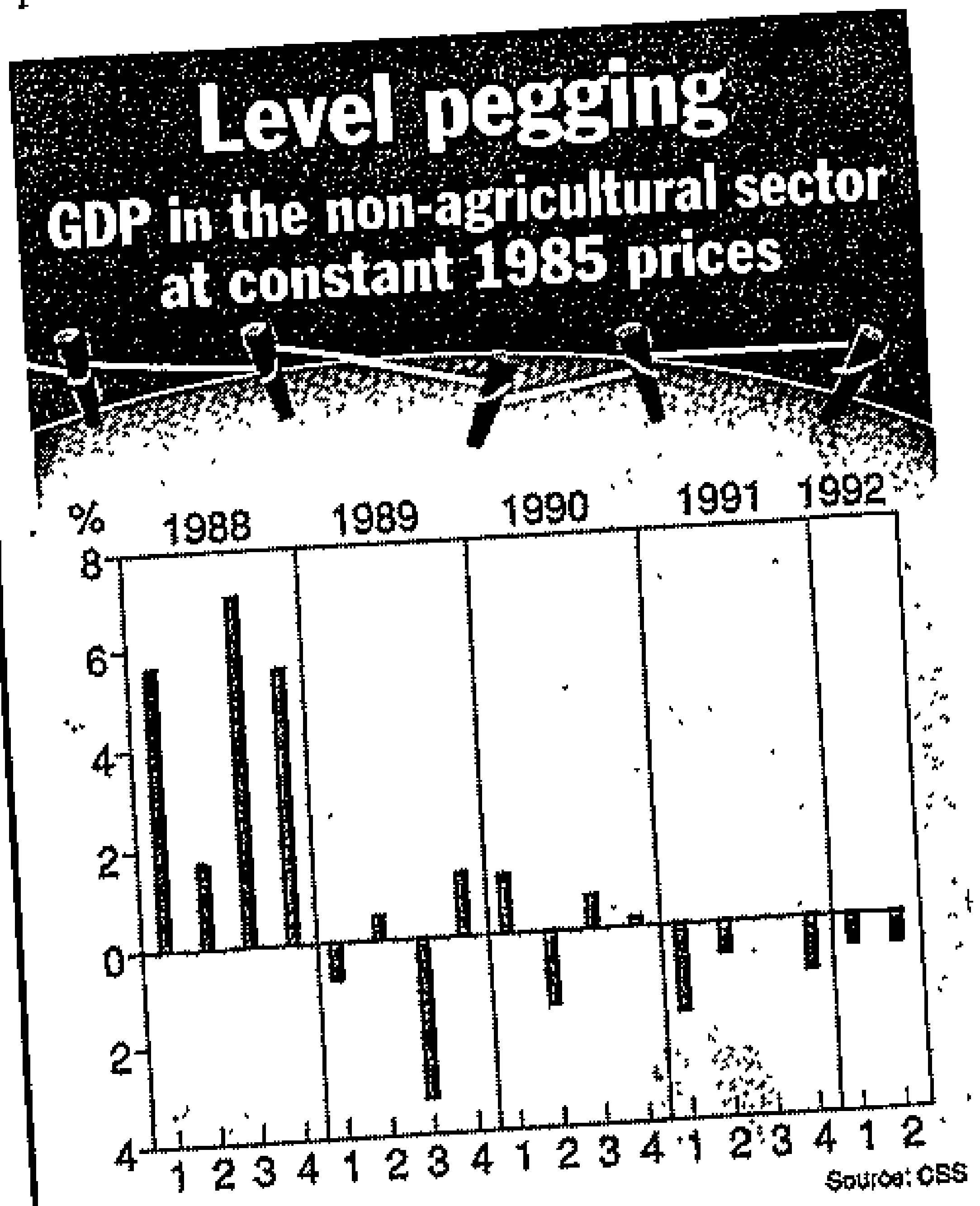
performance in the maize crop. Maize output for the 1992 season is estimated at 2,9 Mt, according to the Department of Agriculture, compared with 7,8 Mt last year. "Given the early harvesting of the crop (all of it by June) this year," says SA Agricultural Union economist Johan Pienaar, "much of this decline is still to be reflected in third-quarter figures."

If agriculture is stripped from the official statistics, the GDP decline in the second quarter is only 0,7% (as in quarter one).

Level pegging

GDP in the non-agricultural sector at constant 1985 prices



Source: CSS

continue →

FM 21/8/92 (49)

While most economic activity depends on the economic cycle, agricultural GDP is influenced largely by weather patterns. So the big drop in overall GDP does not indicate we are about to tumble over an economic precipice. A comparison of quarterly growth figures (see graph on p37) in the nonagricultural sector shows a more accurate metaphor would be bumping along the bottom of an economic trough. Normal rainfall in the coming summer will mean a substantial improvement in GDP — though the full effects will not be felt until the second quarter of next year.

After publication of CSS's latest figures, Old Mutual chief economist Dave Mohr is forecasting economic shrinkage of 1%-1,5% for the year. The more favourable outcome will depend on a return of normal rainfall which would allow for some production in the wheat-growing areas of the Free State. Nedcor's economic unit points out the unexpected rise in GDP, of 0,5%, in the third quarter of last year, came on the back of a 6,2% rise in value added in the agricultural sector that quarter.

A sectoral breakdown for the second quarter shows:

☐ Mining & quarrying 1,3% (1,7% in quarter one);
☐ Manufacturing -1,8% (-2,5%);
☐ Electricity -1,9% (1,2%);
☐ Construction -9% (-8,2%);
☐ Trade & catering -2,3% (-2,7%);
☐ Transport & communications 1% (1,1%);
☐ Finance & real estate 0,6% (0,6%); and
☐ General government 0,3% (0,5%).

The growth in mining is "largely the result of greater efficiency in the sector at a time when commodity prices continue to be depressed by poor economic growth in the industrialised world," says Chamber of Mines senior economist Francois Viruly. On gold mines, for instance, working costs rose only 1,6% in nominal terms in 1991 and he believes that mines are continuing to "contain working costs and increase productivity." ■

August 22 to August 26 1992

Franklin Sonn

'Business leaders not redressing apartheid'

SOUTH 22/8-26/8/92 [illegible] [illegible] (49)

IF THE South African business community did not take the initiative to redress injustices, it could be forced to do so under a democratically-elected government.

This warning was issued by Peninsula Technikon rector, Mr Franklin Sonn at the symposium on affirmative action.

Sonn emphasised the need for practical steps to redress the imbalance of racial discrimination created by "deliberate design".

There was nothing wrong in selecting a black candidate with fewer qualifications for a position if it was in the best interest of the organisation, the firm or country, he argued.

This process of selection could be regarded as tokenism when the intention was to keep the company white with a sprinkling of black faces or if the company denied advancement to black people.

"I have no doubt that the severe economic setbacks apartheid inflicted on our people — the total loss of the fishing industry to whites, our estrangement from our land, the loss of our homes to poor whites and immigrants — will soon be redressed," Sonn said.

He said business leaders were finding all sorts of rationalisations to ensure that capitalism retained the appearance of a system by whites for whites.

"They are doing almost nothing pro-actively to redress the history of disinheritance of our people and still they insist that a democratic government must not do as they have done."

Sonn said he was confident that a democratic government would not take vengeance, however justified it was, and that apartheid — the crudest form of affirmative action — would not be repeated.

"We must rebuild South Africa and apply necessary systems, like affirmative action, in a humane and just manner. This is the big challenge facing us," he said.

JUANITA WILLIAMS

S/Times (Buss)

Forum date

23/8/92

REPRESENTATIVES of government, business and labour decided this week to launch an economic forum in mid-September.

A six-month programme, in which working groups will look at short- and long-term economic issues, will be set up. (49)

Cosatu's Neil Coleman says alternatives to retrenchment and the establishment of public works programmes are some of the proposals his organisation will make to rectify short-term problems.

Unbundle or you die

Margaret Thatcher's guru warns SA's big corporations to change their ways or the "wild bunch" will nationalise them.

S|Times (Buss) 23/8/92

(49)

JOHN CAVILL IN LONDON

SIR Alan Walters has a deserved reputation for plain speaking. As Prime Minister Margaret Thatcher's in-house mentor on economic policy, Sir Alan enraged many.

His blunt criticism of Chancellor of the Exchequer Nigel Lawson's policies led to the resignation of the man who had been hailed as one of the great economic reformers of Britain.

This week leaders of South Africa's great corporations felt the caustic sting of the 66-year-old British professor of economics from John Hopkins University in Baltimore. He has also been an adviser to the World Bank and is now vice-chairman of AIG Trading, part of the American International Group, which deals in gold, oil and other commodities and currencies.

With George Guise, another former adviser to Lady Thatcher who spent several years in SA when he was with Consolidated Gold Fields, Sir Alan co-authored an article in the Financial Times this week

It called for the break-up of the agglomeration of economic power in the hands of the big mining and finance houses.

Sir Alan and Mr Guise take a tough line. The giants are part and parcel of SA's "dirigiste socialist" system with its controls, protection and monopolies.

They are inefficient and costly. In any normal free economy they would be take-over targets to be stripped down, sold off and the capital tied up in them mobilised. But they are invulnerable because of the web of cross-controls and holdings.

"Everyone is in a featherbed with everyone else of entrenched management cliques. The small outside shareholders are rendered powerless."

Their answer: break up the conglomerates into smaller, focused operations, awaken the sleeping assets and make SA industry more efficient and competitive to provide jobs and wealth.

Sir Alan visits SA three times a year on AIG business — although he was last there to watch the Grand Prix at Kyalami. From his office in Washington he told why he and Mr Guise had felt moved to write what they did.

Sir Alan said: "We did so because South Africa is changing from a socialist economy; because it is important to make more mobile the major factors of production and free up capital; and because the generation of more jobs is a matter of life and death for the country."

HE concedes the historical reasons for the growth of the conglomerates whose huge cash flows are locked in the country by foreign-exchange controls. Sanctions, which Sir Alan and Mr Guise totally opposed, also helped.

"I do think that the conglomeration was exacerbated by sanctions because they forced Western companies to sell up in South Africa and the only buyers with enough money were the large groups.

"The result is that the amount of economic activity concentrated in a few hands is far greater in South Africa than in any other normal capitalist country. It is one of the golden rules in a free market that too much concentration is a bad thing."

Part of Sir Alan's case is based on empirical studies of the transport industry which he carried out for the World Bank.

"There we showed that where conglomerates were involved they had costs 30% to 50% higher than those of smaller independent companies," he said.

"They impose a costly bureaucratic structure on top of their unrelated activities. Anglo American, Gencor and the others are extremely efficient at mining. But outside that they run what is almost an alternative civil service over other operations, some of which are near or actual protected monopolies."

He also thinks the situation does not help foreign investment.

"It is one of the big things which strikes anyone who looks at South Africa, but people who want to keep sweet relationships with the big corporations tend to shut up about it."

Sir Alan is convinced that a freer, more accessible SA economy would pull in investment, especially if privatisation takes place.

"Look at the reforming Latin American economies like Mexico, Chile and Argentina. They are being deluged with capital. It even applies to China in its own way

"South Africa could attract enormous investment. It has the labour, the skills and the infrastructure and the potential rates of return on capital are very large."

THE professor admits the process will probably not be easy. "There is a lot of hidebound opinion which is against unbundling the conglomerates."

But he is pleased to hear that Finance Minister Derek Keys floated the idea when he ran Gencor.

Sir Alan says. "I am sure some of what I had to say will get up some people's noses. However, I can't temper my prose to suit sensitive noses.

"But I would warn South Africa that it had better find a way and quickly.

"All reforms involve pain and although the ANC has moderated its views about economic policy and nationalisation, there is a chance that the wild bunch — Joe Slovo and his gang — might yet take control.

"I think the idea that they have all become reasonable house-trained communists is a nonsense. Unless you break up the economic concentrations, you are presenting them with ready-made targets.

"All they would have to do is nationalise Anglo, Gencor and the others and that would be that..."

Stals in the hot seat amid calls for slump quick-fix

S/Times (BUSS) 23/8/92

By CIARAN RYAN

ALL eyes are on Reserve Bank Governor Chris Stals who delivers his annual review on Tuesday against the backdrop of the longest recession since 1904.

Dr Stals is under pressure to lower interest rates to stimulate growth.

But on past behaviour he is unlikely to heed the chorus for a quick-fix without the fundamentals of lower inflation and money-supply growth being in place.

However, he told Business Times last week that lower interest rates would not be inflationary because too much surplus capacity existed in the economy.

(41)

Unrest

Businessmen are challenging Dr Stals' restrictive monetary policy at a time when unemployment has reached crisis-point and the economy has shrunk by 9% since 1990.

JSE president Roy Andersen says: "I question whether we have not pushed the economy further than we can afford to.

"Unless we do something about it, social unrest could well get out of hand."

Standard Bank Investment Corporation (SBIC) managing director Eddie Theron says positive real interest rates should be maintained. He urges fiscal and monetary discipline.

"Having come this far under the present policies it would be a pity to resort to those which are inflationary and result in distortions in the economy."

Dr Stals' address may coincide with the expected release of the money-supply and inflation figures. Dr Stals uses the figures as a measure of consumer demand and to peg interest rates above the rate of inflation.

Consumer inflation was increasing at 15,2% a year last month. Bank rate is now 16%.

But economists say consumer inflation is artificially high because the drought has raised food prices and last year's VAT increases are still counted in the figures.

Econometrix's Tony Twine says consumer inflation could fall from 15,2% to as low as 14% in the next two months. Short-term money market rates have dipped below 13% in response to the build-up of liquidity in the economy. Banks are dropping deposit rates to deter cash from entering the system.

Board of Executors' Rob Lee says underlying inflation is about 12% compared with a prime lending rate of 18,25%. Most European countries enjoy positive real interest rates of between 5% and 6%.

A lowering of interest rates results in an automatic devaluation of the rand as borrowers move on-shore in search of cheap money and demand for imports increases, resulting in gradual debasement of the currency.

Finrand

Old Mutual chairman Mike Levett has called for a devaluation of the rand to stimulate growth.

His plea is supported by several economists, including Mr Twine and Mr Lee, who say devaluation will have to be part of a structural adjustment programme aimed at cutting government spending, maintaining positive real interest rates, reducing taxes and tariff barriers, abolishing or phasing out the financial rand and introducing incentives for manufacturers.

Reserve Bank gloom on current recession

(49) CT 24/8/92

JOHANNESBURG. — The current recession is now SA's second longest downturn this century, the Reserve Bank says in its annual economic report published today.

But the report appears to rule out any relaxation or adjustment of the Bank's monetary policy.

The report reviews economic and financial conditions and is issued as background to the chairman's address at the Bank's annual meeting, to be held in Pretoria tomorrow.

The economic downswing, after a relatively mild beginning, has become severe due to its length. Only the 1904-1908 recession lasted longer.

Recalling that Bank rate was cut by one percentage point to 16% in March and by another percentage point to 15% in June, the Bank emphasises that this year's reductions in official rates do not amount to a relaxation of monetary policy.

"These adjustments were effected to acknowledge the success reached so far in attaining monetary policy objectives, but should not be seen as the abandonment of financial discipline. The monetary authorities have indicated they will not tolerate any excessive monetary expansion."

The Bank's implicit concern about the impact on the economy of political instability emerges in the report's commentary on the capital account of the balance of payments. It notes that the R4,7bn capital outflow in the fourth quarter of last year shrank to a "negligible" R21m in the three months to March this year.

"Recent political developments, however, again had a large negative impact on these capital flows and led to a net outflow of total capital of R1,9bn in the second quarter of 1992," the report says.

It detects "encouraging" signs of lower inflation in most of the price indices. The Bank singles out for particular attention the sharp recent deceleration in the quarter-on-quarter rate of increase in the consumer price index (CPI).

● Meanwhile, hopes of an export-led recovery in 1993 took a knock in the third quarter as exporter confidence continued its downward trend.

The SA Foreign Trade Organisation's (Safto) quarterly export confidence barometer fell to 16 in the third quarter from 27 in the first and second quarters and 32 in the fourth quarter last year. The barometer measures exporters' outlook for sales values in the year ahead.

Safto economist Bruce Donald attributed declining exporter confidence to sluggish world economic recovery, domestic political upheaval, a prolonged drought and high inflation combined with a stable rand exchange rate.

Respondents indicated that uncompetitive prices remained the major obstacle. — Own Correspondents

Reserve Bank warns politicians

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ARG 24/8/92

SVEN LUNSCHE

JOHANNESBURG. — The Reserve Bank is sending a warning signal to politicians not to sacrifice economic development for political gain.

In its 1992 report ahead of today's annual general meeting the central bank estimates that growth this year will plunge by 1,8 percent — worse than most economists had expected.

In the first two quarters this year gross domestic product (GDP) dropped by 2 and 2,5 percent respectively.

"It is absolutely essential that a definite programme be developed for a gradual, but concerted removal of structural impediments to economic growth," the Bank says.

It urges the Government, business and labour to cooperate in the implementation of such a programme.

Calls to slash rand coming after event

DEREK TOMMEY ㊾ ARG 24/8/92

JOHANNESBURG. — Some businessmen seeking ways to kick-start the economy — now entering its fourth year of stagnation — have been calling for the devaluation of the rand against all the major currencies, but they have not been doing their homework.

The devaluation they are calling for has already happened — and some of the expected benefits, such as increased exports and, if foreigners can be assured that it is safe to come here a big jump in tourism, should soon be upon us.

The fact is that in the past 12 months the rand has been heavily devalued against many of the world's most important currencies — and by as much as the inflation rate.

Since last August the rand has dropped by 12 to 14 percent against the Belgian, Danish, German, French, Italian, Dutch, Austrian, and Swedish currencies.

It has fallen more than 11 percent against the Norwegian, Spanish and Swiss currencies, by 9,8 percent against the British pound, and by 4,2 percent against the Japanese yen.

But there have been some gains.

It has risen 3,7 percent against the US dollar, 8,9 percent against the Canadian dollar and 12,3 percent against the Australian dollar.

But these gains are probably only temporary.

A win by President George Bush in the November election could see the US and Canadian dollars rise sharply.

Any gains made by the rand against these currencies could be wiped out overnight.

A recovery in the world economy would help the Australian dollar.

Admittedly, depending on the political situation in South Africa, it could also help the rand.

But then the economy should again be moving and perhaps South Africa could be able to live with a firmer currency.

Part of the apparent attractiveness of a devaluation, especially against the dollar, is that it could increase the rand earnings of exporters of gold, platinum, manganese, diamonds, manganese and many other products priced in the US currency.

But this would not increase the total wealth coming into the country.

Moreover it could lead to a jump in inflation as South Africa would have to pay more for imports, and particularly for petrol, which is also priced in US dollars.

South Africa would just have a recurrence of the huge increase in inflation that followed the 1985 rand devalation, which left most people worse off.

The figures showing the extent of the devaluation of the rand against European currencies help explain the sharply higher interest of European airlines in South Africa.

Given a more peaceful social structure, the persuasive powers of these airlines could lead to South Africa shortly enjoying its biggest tourist boom — and a brighter Christmas than expected.

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Rand under pressure

STAR 24/8/92.

By Derek Tommey

A number of businessmen, seeking ways to "kick-start" the economy, which is now entering its fourth year of stagnation, have been calling for the devaluation of the rand against all the major currencies.

But they have not been doing their homework.

The devaluation they are calling for has already happened — and some of the expected benefits, such as increased exports and, if foreigners can be assured that it is safe to come here, a big jump in tourism should soon be upon us.

The fact is that in the past 12 months the rand has been heavily devalued against many of the world's most important currencies — and by an amount equal to the inflation rate.

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World economy 'to grow in 1993'

B/DAY 24/8/92 (49)

LINDA ENSOR

CAPE TOWN — The world economy had consolidated this year and a marked acceleration in the rate of its expansion could be expected for 1993, Sanlam chief economist Johan Louw said in the group's Economic Survey.

Louw said in line with this anticipated growth there should be some improvement in the demand for and prices of commodities.

International economic expansion would also enhance the growth prospects of the SA economy.

Other factors which would contribute to a domestic recovery, according to Louw, included the continued crumbling of sanctions, a more normal agricultural year, a firmer gold price, the rebuilding of low inventories, accelerated government spending, lower inflation and further reductions in interest rates.

But he warned that economic recovery could be delayed unless political peace and stability were quickly achieved, as these were crucial for fixed investment to occur.

Without this the predicted growth rate of 2% to 3% next year might not be attainable.

Louw predicted a surplus of about R5bn on the current account of the balance of payments this year compared with the R7,4bn of 1991.

Inflation should drop to about 12% by December and the 14% average for the year should move to lower levels in 1993.

One more cut in Bank rate was also likely this year while the prime overdraft rate should fall to 17,25% from 18,25%.

Louw pointed out that employment in the current downturn had fallen far more sharply than in previous downturns with over 1-million people being unable to find work in the non-agricultural formal sector during the past three years.

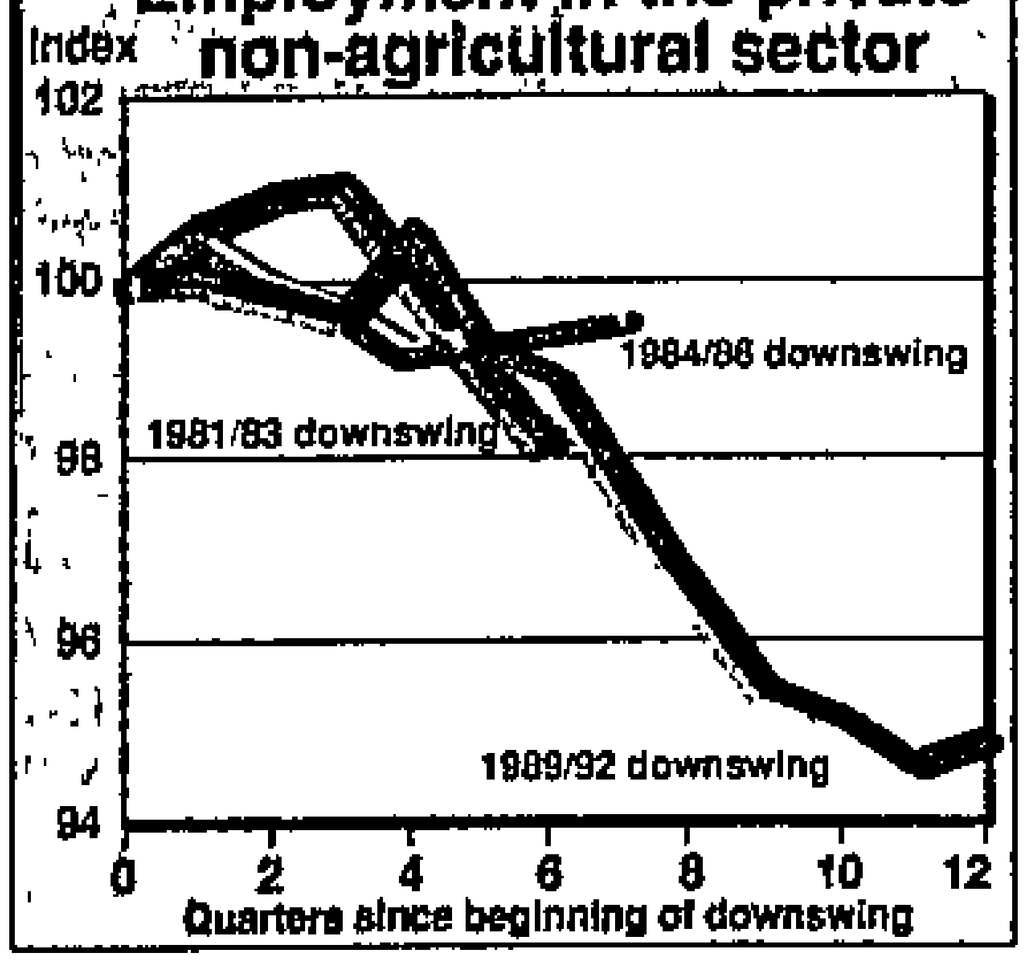
He said the economy had also undergone a structural change in its capacity to absorb labour as a result of capital intensification.

The labour absorption capacity of the economy had declined from 72% in the 1970s to 22% in the 1980s and had now reach a point where only about one in 10 entrants into the labour market could currently be accommodated in the formal sector.

"It is clear that appropriate measures will have to be taken to promote labour intensive industries with a view to increasing the labour absorption capability of the formal sector of the economy.

"These would include maintaining positive real interest rates, responsible action on the part of trade unions and encouraging greater productivity," Louw said.

Employment in the private non-agricultural sector



Graphic RUBY-GAY MARTIN Source

THE WEEK AHEAD by Simon Willson

Bank needs good inflation rate to fend off detractors

B|DAY 24|8|92

(49)

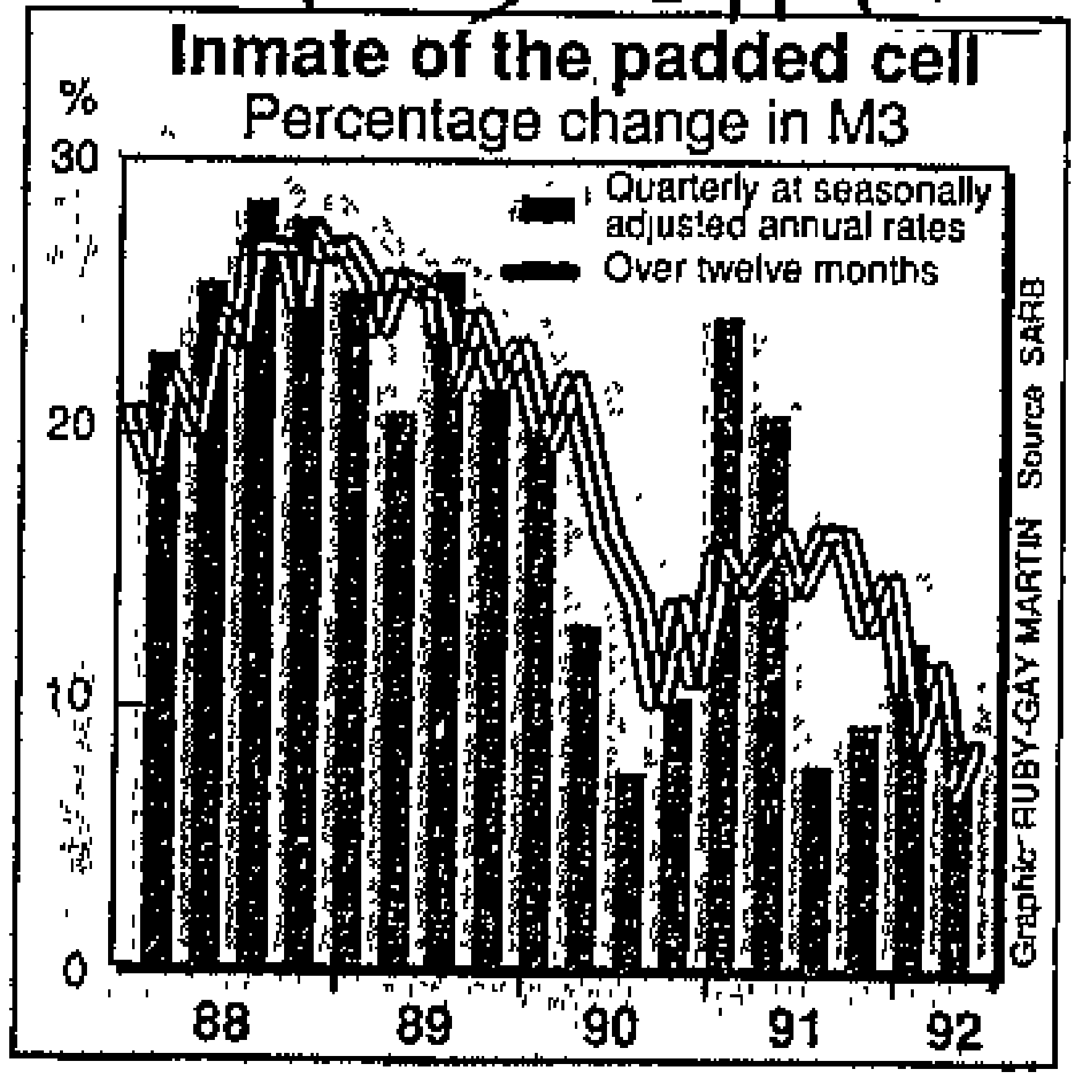
UNDER attack from a growing number of interest groups for its running of monetary and exchange rate policy, the Reserve Bank needs good news from this week's July inflation and money supply figures to help repel its critics. The chances are that the data will swing the Bank's way or, at least, will not embarrass it.

Tomorrow the Bank faces its stockholders at its annual meeting in Pretoria amid a growing clamour for a weaker rand and lower interest rates. The monetary authorities could do with some hard statistical evidence of success from nearly three years of tighter credit conditions.

If the level of inflation, as former British chancellor Nigel Lawson once said, is "judge and jury" of overall economic policy, then the Bank and the Finance Ministry are in the dock with a strong prosecution case against them. Inflation in June, at 15,1%, is little different from the 14,9% it stood at when the credit squeeze was at its tightest in October 1989.

On the face of it, the authorities do not have a lot to show for the stiff deflation inflicted on the economy; in mitigation, the Bank has said all along that its outlook is medium term. Like 18th century French revolutionaries, Bank officials are fond of quoting a three-word mantra which is said to guide policy: "stabilisation, liberalisation, stimulation".

The economy has yet to complete the first stage of this process. However raucous the howls of impatience from interest groups, the stimulation part is still a little way off.



Inmate of the padded cell

Percentage change in M3

Graphic: RUBY-GAY MARTIN Source SARB

The recent tendency of inflation to straddle 15% should continue in the July readout; this time, it may be the favourable side of 15%. Non-food inflation should ease again from its four-year June low of 11,5%, leaving the fickle food element to sway the headline rate by rising or falling from its June 11-year high of 29,3%.

The July monetary aggregates are also due out this week and, if those calling for monetary policy relaxations are to be believed, then activity is so low in the real economy that indicators like M3 should be subdued. Year-on-year M3 growth ran at 8,4% in June, and was 9,1% from the base of the guideline year — well inside the Bank's 7%-10% guideline range. The latest Bank annual economic report, published today, says credit extension to the private sector remains low, and this should be reflected in the July M3 data.

As the chart shows, M3 has stopped struggling against the straitjacket slipped on it by the Bank in 1989. The only question now is whether the padded cell is the best place for the restrained patient to recover, or whether it is worth loosening the straps and even risking a period of parole to accelerate rehabilitation.

Internationally, the August index of US consumer confidence is published tomorrow. The index plunged to a four-month low of 61 in July which, for the Bush administration, is uncomfortably close to the 59,4 posted at the height of the US consumer's anxiety and uncertainty during the climax of the Gulf war.

The outlook for US durable goods orders in July, out on Wednesday, is a little brighter in view of the relative buoyancy of the average US workweek. Resilience in the number of hours worked means that, irrespective of rising US unemployment, more is being asked of those still in jobs, and the change in orders should stay positive after June's 2,3% rise.

On Thursday the first revision to US second-quarter GDP is released, and the volatility of the first quarter's revisions make this one tough to call. US real growth in the first quarter started at a preliminary 2% and was revised successively to 2,4%, 2,7% and 2,9% — meaning the preliminary was a mere 45% wide of the mark. The second-quarter preliminary was a modest 1,4%.

Weekly new claims for unemployment insurance jumped to a 16-month high last week at 474 000, indicating a fresh downturn in the weak jobs market. The figure for the week to August 15 emerges on Thursday, and a further rise towards 500 000 would be an alarm signal.

UK trade and current account balances for July are released this morning, with interest likely to be concentrated on the state of British consumer demand. In rising to £922m in June the trade deficit showed a 2,5% drop in imports over the month, offset by a 3,5% fall in export earnings. UK retail sales fell again in July, so still lower imports may prevent a widening of the July trade deficit

Sometime this week the German inflation rate for August should be published. It fell to 3,3% in July from June's 4,3%, but this was probably a technical easing that could be partially reversed this month. The rate still looks headed back towards 4% by year-end.

The Japanese July inflation rate should also emerge later this week. At 2% in June, inflation is hardly high enough to obstruct another Japanese discount rate cut to stem the fall in the Nikkei and the M2 money supply, which hit a new record low of 0,2% year-on-year growth in July.

Don't tamper with economy, Reserve Bank tells politicians

STAR 24/8/92.

By Sven Lünsche (49)

The Reserve Bank is sending a red warning signal to politicians not to sacrifice economic development for political gain.

In its 1992 report — ahead of tomorrow's annual general meeting — the central bank estimates that growth this year will plunge by 1,8 percent — worse than most economists had expected.

In the first two quarters this year gross domestic product (GDP) dropped by two and 2,5 percent respectively.

"It is absolutely essential that a definite programme be developed for a gradual but concerted removal of structural impediments to economic growth," the Bank says.

It urges the Government, business and labour to co-operate in the implementation of such a programme.

In an impassioned plea to the major political players, the Bank says: "In pursuing this objective, political parties should accept that economic development should not be sacrificed for political gain.

"Damage to the economy brought about by political actions may be difficult to restore once political objectives have been achieved.

"All and sundry should rather become committed to the promotion of economic growth through adjustments which may be painful in the short term, but will be to the benefit of the whole country over the long term."

The Reserve Bank says it seems unlikely that a merely normal cyclical recovery will result again in sustained increases in living standards.

Analysing current economic trends, the Bank says that agricultural production could recede by as much as 15 percent in 1992 as a result of the drought.

"The drought has already caused a sharp increase in food prices and, without any financial assistance, could already have led to a loss of 69 000 job opportunities.

"The lower agricultural employment could have caused the movement of an additional 250 000 people to the urban areas with substantial implications for public authorities."

Investment capital, crucial to job-creation opportunities, has been hardest hit by political uncertainties.

Gross domestic fixed investment, which fell by 8,5 percent last year, dropped by 6,5 percent in the first quarter and by four percent in the second quarter this year.

"Uncertainty regarding the future political dispensation and a general lack of confidence led to a wait-and-see attitude which did not favour capital investment," the Bank says.

Expenditure also came under renewed pressure in the second quarter.

While a rise in government expenditure led to an increase of eight percent in gross domestic expenditure in the first quarter, it fell by 6,5 percent in the second quarter, led by a three-percent fall in private consumption expenditure.

Turning to foreign trade accounts, the Bank discloses that a large net outflow of capital, amounting to R1,9 billion, mainly in short-term funds, took place in the second quarter, which the Bank attributes to renewed internal unrest and uncertainty over political developments.

It adds, however, that the capital account of the balance of payments was aided by the inflow of proceeds of funds from foreign debt issues totalling R2,1 billion.

New foreign credit lines of £30 million from the UK Export Credit Guarantee Department and $50 million from the Finnish Export Credit were also secured.

The current account of the balance of payments, however, recovered to a surplus R6 billion in the second quarter from R4,5 billion in the first quarter.

Other key developments reported by the Reserve Bank include:

- Net gold and foreign exchange reserves rose by R1,5 billion in the first half of 1992.
- Inventories were once again reduced — by about one percent — in the second quarter this year.

Growth rate of 6% possible, says analyst

RAY HARTLEY (49)

SA could see a growth rate of up to 6% if violence ended, constitutional negotiations succeeded and a future government adopted a free market economic model, political analyst Mike Olivier said at the weekend.

Speaking at the launch of a Business Futures Group (BFG) future scenarios workshop, Olivier said three factors — violence, negotiations and the economy — would jointly determine the socio-political climate of a future SA.

"There's a massive amount of uncertainty. There isn't any guarantee that the outcome of negotiations is going to be a democratic government."

He said the ANC would probably not make radical changes to the economy if it were to assume power. "I don't think the ANC on its own can develop enough expertise to do things differently to now."

He listed the major challenges facing SA as normalisation of the political process and democratisation of the constitution, state, civil service, budget and economy.

BD 24/7/92

No hint of monetary policy easing

Reserve Bank warns of more 'pain' to come

B/DAY 24/8/92. (49)

SIMON WILLSON

THE RESERVE Bank's annual economic report has warned of the necessity for adjustments which might be painful in the short term, but will ultimately be of benefit to the country.

The report, published today, appears to rule out any relaxation of the Bank's monetary policy.

It says the current recession is now SA's second longest downturn this century. Only the 1904-1908 recession lasted longer.

The report reviews economic and financial conditions and is issued as background to the chairman's address at the Bank's annual meeting, to be held in Pretoria tomorrow.

It says the economic downswing, after a relatively mild beginning, has become severe due to its length.

The Bank goes out of its way to contrast the conduct of monetary policy in the current recession with the reaction of monetary authorities to previous downturns. And the report gives no indication of a change in the current monetary stance.

"All and sundry should . . . become committed to the promotion of economic growth in SA through adjustments which may be painful over the short term, but will be to the benefit of the whole country over the long term," the report says.

"In earlier recessions monetary policy was pro-actively applied to stabilise growth in aggregate domestic demand over the short term. Since 1989 monetary policy has been directed towards protecting the domestic and external value of the rand as a first step towards correcting some of the many structural weaknesses of the economy."

Recalling that Bank rate was cut by one percentage point to 16% in March and by another percentage point to 15% in June, the Bank emphasises that this year's reductions in official rates do not amount to a relaxation of monetary policy.

"These adjustments were effected to acknowledge the success reached so far in attaining monetary policy objectives, but should not be seen as the abandonment of financial discipline. The monetary authorities have indicated on various occasions that they will not tolerate any excessive monetary expansion."

Adding its weight to the economic forum concept, the Bank states that it is essential for government, business and labour to co-operate to remove structural impediments to economic growth.

"In pursuing this objective, political parties should accept that economic development should not be sacrificed for political gain. Economic retrogression is not an easily reversible process.

"Damage to the economy brought about by political actions may be difficult to restore once political objectives have been achieved," the report affirms.

The Bank's implicit concern about the impact on the economy of political instability also emerges in the report's commentary on the capital account of the balance of payments. It notes that the R4,7bn

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capital outflow in the fourth quarter of last year shrank to a "negligible" R21m in the three months to March this year.

"Recent political developments, however, again had a large negative impact on these capital flows and led to a net outflow of total capital of R1,9bn in the second quarter of 1992," the report says

It detects "encouraging" signs of lower inflation in most of the price indices. The Bank singles out for particular attention the sharp recent deceleration in the quarter-on-quarter rate of increase in the consumer price index (CPI).

From a peak of 18,8% in the fourth quarter of last year — when VAT was introduced — the annualised quarterly increase in the CPI slowed to 12,8% in both the March and June quarters this year Excluding food, quarterly inflation slowed from 18,2% in the fourth quarter of 1990 to 8,4% in the three months to June this year.

● Comment: Page 8

Keys aims to cut State spending

ARG 25/8/92

ROY COKAYNE

PRETORIA. — Minister of Finance Derek Keys is determined to reduce state spending as a ratio of gross domestic product and so eliminate the erosion of saving by the Central Government, says Reserve Bank Governor Dr Chris Stals.

Dr Stals told the general meeting of the Reserve Bank in Pretoria today that during the past year an ominous trend continued in government finance when the pace of growth in current revenue again fell behind the growth in total expenditure.

He said the deficit before borrowing on the Budget therefore not only increased, but also absorbed a greater share of domestic saving.

During the fiscal year government expenditure increased by 16,1 percent and revenue by only 7,4 percent. The deficit before borrowing accordingly increased to R14,3 billion or 4,7 percent of gross domestic product, he said.

Dr Stals said this trend continued in the first quarter of the current fiscal year when Exchequer issues rose by 13 percent, compared with the first quarter of the preceding fiscal year, and Exchequer receipts rose by only 8,9 percent.

He said these trends in government finances were, to some extent, counter-cyclical and provided a stimulus to a very depressed economy.

But he said that to the extent that they reflected 'automatic stabilisers' based on cyclical falls in incomes and employment in the private sector, they were hardly cause for alarm.

"There is, however, always the danger that because of a ratchet effect, the situation will not be easily corrected again once private sector expenditure starts moving up.

"The Department of Finance, however, is very much aware of this danger and the Minister of Finance is determined to reduce state spending as a percentage of gross domestic product, and so eliminate the erosion of ssaving by the Central Government," he said.

Meanwhile Dr Stals has hinted at lower nominal interest rates.

But lower interest rates would have to be justified by lower inflation, he told the general meeting.

"The Reserve Bank is of the opinion that as a first step towards lower interest rates, the basic causes of inflation should be identified and eliminated because low nominal interest rates can only become sustainable in an environment of low inflation.

"The Reserve Bank's preoccupation with a policy of fighting inflation is therefore indeed a policy of striving for lower interest rates," he said.

Dr Stals said that from a monetary policy viewpoint, it was rather disappointing that consumer price inflation remained stubbornly high in spite of the significant progress made in reducing monetary support for rising prices.

But Dr Stals said it should be possible to bring down South Africa's inflation rate to a much lower level over the next 12 months.

Rand could slump to R6 to the £, bankers fear

By TOM HOOD
Business Editor

㊾ ARG 28/8/92

BANKERS in Johannesburg forecast the rand could slump to R6 to the pound soon if, as expected, Britain raises interest rates and gives a new boost to sterling.

The rand plunged to a record low of R5,49 to £1 today, cheering Western Cape exporters to Britain but depressing importers and South African tourists.

The commercial rand has been dragged down by the headlong fall of the American dollar on world markets.

It worsened yesterday from its R5,41 to £1 at the weekend and from R5,33 only a week ago.

The rand is also worth little more than half a German mark, falling to its lowest level of DM 0,51 yesterday.

In spite of the fall in the rand's value, holiday traffic to Britain remains heavy, according to a Cape Town travel agent.

"Few South Africans can afford to stay in British hotels and most either stay with relatives or go for bed and breakfast accommodation," he said.

Bed and breakfast costs about R110 a head in a modest establishment in London and about R80 in the countryside, he said.

Exports of Western Cape fruit, wines and other goods could bring in record earnings this year, as Britain is one of the biggest markets.

But goods imported from Britain could cost much more, pushing up local prices and inflation.

The rand faced fresh danger as the United States and its rich allies were losing the battle to stop the dollar's plunge, and economists said a full-blown currency crisis could erupt.

Most South African exports are denominated in US dollars and are therefore not assisted by the rand's strength against the American currency.

The slump could not have come at a worse time, economists said.

No ground made on sagging dollar

Rand plunges despite strong Bank support

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SIMON WILLSON and GRETA STEYN

THE commercial rand sank to new lows against sterling and the Deutschmark yesterday, despite repeated Reserve Bank attempts to support it.

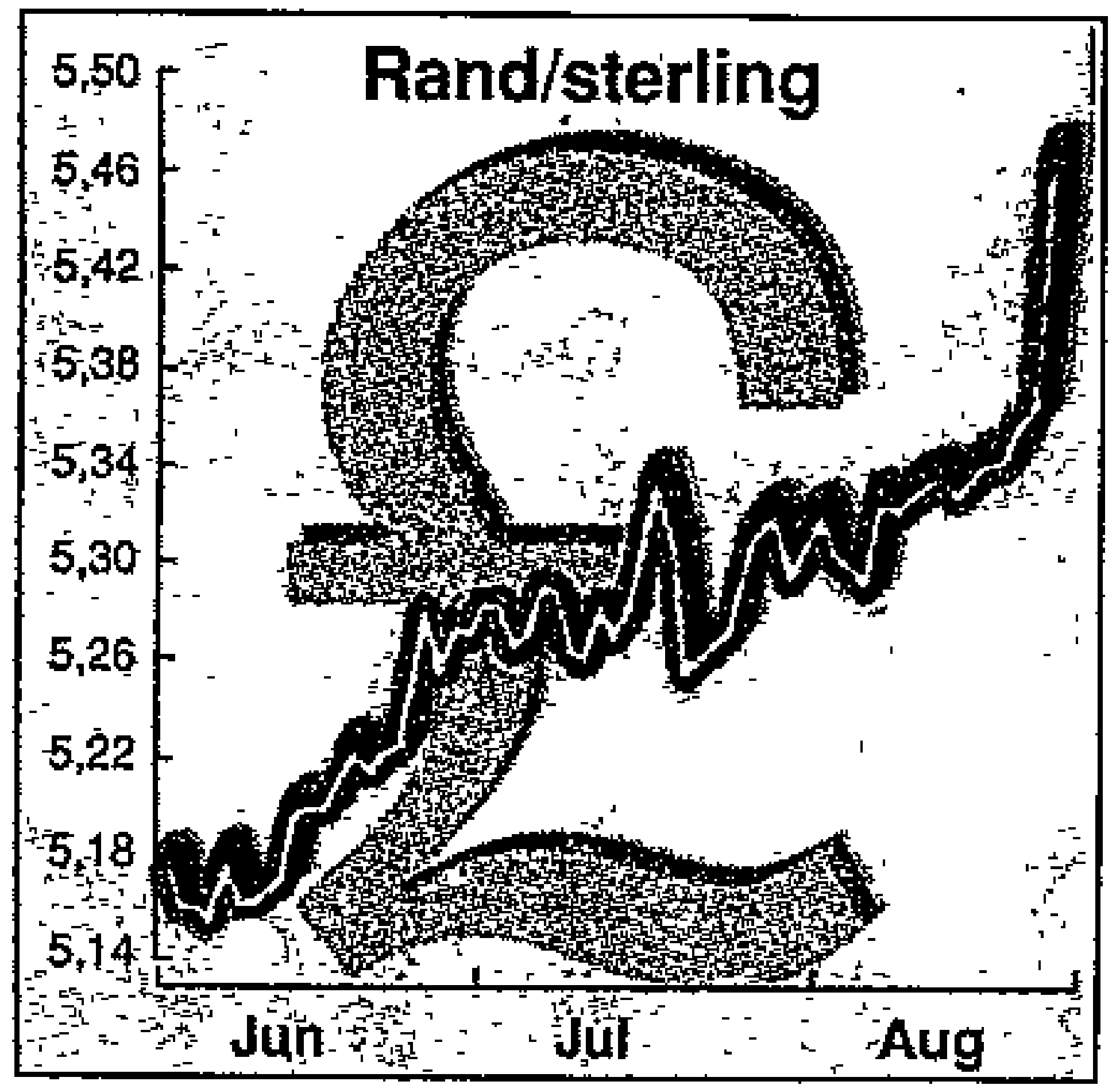
By the close of a turbulent session on the foreign exchanges, the rand had dropped to R5,4720 against the pound, and bought only DM0,5115. A week ago the rand stood at R5,3320 and DM0,5290.

In a clear rebuttal of recent calls for the rand to be allowed to depreciate, the Bank has, over the past two weeks, frequently entered the market to defend it and did so again yesterday. Dealers said Bank intervention to support the rand was almost continuous.

The Bank, almost alone in selling dollars while other Western central banks were buying them in concerted action to support the US currency, made little headway. The rand ended the day at R2,7608 — nearly a cent adrift of its opening dollar level of R2,7518.

On a day when the dollar lost two pfennigs against the Deutschmark in afternoon trading, the rand should have posted appreciable dollar gains as the US unit dived to new Deutschmark lows. Instead, the rand hovered in the mid-R2,75s before easing against the dollar late in the day.

"We should have had the rand at R2,72 as the dollar dropped to DM1,40. Instead, we would have seen R2,78 without the intervention," a dealer said.



Graphic RUBY-GAY MARTIN Source I-NET

By not making any ground on the sagging dollar, the rand was trampled on the cross-rates against major third currencies which made dollar gains all day long.

"It was incredible. We saw the dollar drop 200 ticks in two hours while the rand basically stood still and did nothing. It really took a bath on those crosses," a trader said. "The big black tower (dealing room argot for the Reserve Bank) put dollars in all day and got nowhere."

One analyst reckoned the rand lost around 2% of its trade-weighted value against a basket of trading partners' currencies in yesterday's eight-hour trading session alone.

Dealers believe a few large import or-

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Rand dives

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ders for dollars are passing though the market in tranches. The dollar orders are thought to be unfinished, with the buyers poised to bid for anything up to another $200m today while the dollar continues to test record lows on world markets.

Further pressure on the rand cross-rates is therefore expected to develop soon after the market opens this morning. Traders are convinced the Bank will again defy the calls for a weaker rand and enter the market to defend the rand if its trade-weighted value is again threatened.

The Reserve Bank will provide the market with more signals on exchange rate and monetary policy at its AGM today. Its policy on keeping the rand firm and maintaining high real interest rates has come under fire as SA fails to emerge from the second longest recession this century.

The Bank's note of caution on monetary policy at the weekend failed to dampen bullish sentiment in the money market, with interest rates signalling a two percentage point cut in Bank rate in the next few months.

The key 90-day liquid BA rate softened further to its lowest level in more than four years at 12,4% from Friday's 12,55%. The bullish sentiment was also reflected in the sharp drop in the Treasury bill rate to below 12%.

Dealers said the wide margin between the BA rate and Bank rate (15%) showed the market had already discounted a cut of about two percentage points in Bank rate, the rate at which the Reserve Bank lends to the banks. Rates are out of line with Bank rate as demand and supply conditions in the market continue to push them lower. The demand for credit has failed to revive as the recession continues to bite.

Bullish sentiment was further fuelled by expectations that inflation would fall to 12% by the year-end, dealers said. Economists said July's inflation rate, due for release this week, could be as low as 14,3%.

Capital market rates bucked the trend by hardening slightly but dealers said this reflected profit-taking rather than a reversal from the recent bull run.

Rand's fall small in long-term

CT 26/8/92 (19)

By AUDREY D'ANGELO
Business Editor

ALTHOUGH the rand fell to R5,53 against the pound yesterday this is still "a comparatively small move in the long-term picture," Board of Executors economist and senior portfolio manager Rob Lee said yesterday.

"On a long-term chart you would hardly even notice that drop," he explained.

Lee considers it would be better for SA to have an old-style once-off devaluation of the rand — provided it was part of a restructuring of the economy — than to continue to have a gradual decline in the value of the currency without any compensating advantages such as the removal of exchange control and import tariff protection.

He explained that the devaluation could be achieved by abolishing the two-tier exchange rate.

Commenting on Reserve Bank governor Chris Stals' statement yesterday that he would continue to support the real value of the rand, Lee said this was predictable.

10% inflation

But the rand would continue to fall in line with the difference between SA's inflation rate and those of its trading partners.

Stals would succeed in lowering the inflation rate, probably to 10% in the course of next year.

But at present Lee could not foresee it dropping below this level.

Lee thinks it likely that the French will vote against the Treaty of Maastricht next month — as the Danes have already done — forcing the European Economic Community to abandon the European Exchange Rate Mechanism (ERM), at least for the time being.

Meanwhile, he said yesterday, the British government, which had firmly committed itself to ERM, was faced with a dilemma.

"Every sensible analysis of the British economy shows that this is a time to be lowering their interest rates.

"But they will probably raise them to stay within the ERM range."

Offshore purchasing adds to gilts boom

BDay 26/8/92

HILARY GUSH

SHARPLY increased government stock sales by the Reserve Bank were matched by steadily rising foreign purchases of public sector bonds in the first half of 1992, said the Bank's annual economic report.

The report, published on Monday, said net sales of government stock had reached R10,3bn in the first four months of this financial year compared to R7,7bn and R12,2bn recorded in financial years 1990/91 and 1991/92.

Softening interest rates and an expected decline in long-term fixed interest stock yields saw trading activity in public sector stock pick up in the second quarter of this year to R112,3bn.

This was sharply higher than the R89,5bn recorded in the first quarter, and 1991's average quarterly trading level of R62,3bn.

Foreign investors had been active in the local capital market in the first quarter when net non-resident purchases of public-sector stock amounted to R1,1bn, compared with 1991's total of R2bn. The Bank attributed the markedly higher overseas gilts trade to the "favourable returns offered on fixed interest securities purchased with financial rand".

An end to the EC's financial sanctions had enabled SA institutions to roll over maturing loans or successfully float large stock issues in European financial centres. The report said since the public sector's first stock issue in September 1991 it had raised R2,7bn on foreign capital markets.

In line with the goal of financial market development, total Reserve Bank transactions in government stock increased from a monthly average of R3,9bn in 1991 to R10,4bn in the six months to June 1992.

Government stock option trading by the Bank also ticked up — from 1991's monthly average of R2bn to R4,6bn in the first six months of this year.

Stals considers changes in banking supervision

BIDAY 26/8/92

(49) (BK)

GRETA STEYN

THE Reserve Bank is considering major changes to banking supervision after what Governor Chris Stals described as "various controversial issues".

He gave a clear indication that a new regulatory structure was in the offing, but noted that no firm decisions had been made.

The "controversies" that triggered the move apply to the difficulties surrounding small banks, notably CIB.

The most important objective was to establish an arms-length relationship between the Office for Deposit-Taking Institutions and the Reserve Bank. The Office, formerly the registrar of banks, was brought into the Reserve Bank's fold five years ago. Central bank officials at the meeting yesterday did not want to express an opinion on whether the two offices would once again go their separate ways. But it is clear that Stals is unhappy with the Bank acting as finacial supporter to depositors who lose money when banks fail.

The Bank felt that the combination of the functions of monetary policy and banking supervision had led to confusion. The confusion stemmed from the Bank providing some depositors who had had money with insolvent banks with refunds.

"This assistance gave rise to the perception that the Reserve Bank has a 'duty of care' to protect the interests of a wide range of investors," he said. He added that the credibility of the central bank as monetary authority could be undermined. The bank would examine the extent to which its credibility as monetary authority could be undermined by its involvement in bank supervision.

One of the main considerations would be the feasibility and financing of a limited deposit insurance scheme for private savers. The provision of financial support to deposit-taking institutions in financial distress should be aimed solely at preserving the stability of the banking system and of the broader financial system. The combination of the two functions would also have to be questioned in the light of the international trend towards integration of financial services.

It might not be feasible for the central bank to regulate financial services not related to banking.

Debt 'may spell trouble in upswing'

Stals sounds warning on govt deficit

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GRETA STEYN

RESERVE Bank Governor Chris Stals yesterday described the widening government deficit as "ominous" and warned it could spell trouble once the economy moved out of recession.

Stals's warning at the Bank's AGM is underscored by the Bank's economic report, which expresses concern over government's debt burden.

The Bank is worried about the trend of sluggish revenue and rapid spending that emerged in fiscal 1991/92 and continued into the present fiscal year. After only a quarter into 1992/93, the deficit is almost half of that budgeted for the whole year. Revenue rose by only 8,9% compared with a budgeted 15,7%.

● STALS

Stals said trends in government finance were to some extent counter-cyclical and had stimulated a very depressed economy. At this point in the deep recession, there was not cause for alarm. "There is, however, always the danger that because of a ratchet effect, the situation will not be easily corrected again once private sector expenditure starts moving up."

He also linked a decisive move out of recession to the political situation. "The keen interest shown in the economy by many potential local and foreign investors in the early months of 1992, before the breakdown in the political negotiations, provided encouraging signs of what could be expected if South Africans could only get their political act together."

The economic report expressed concern about government's debt burden, saying it was disquieting because debt had been increasing to finance current expenditure, not infrastructural development.

Growing staff numbers in the governments of the TBVC and the self-governing states partly accounted for the high current expenditure by general government — central government, provincial administrations and local authorities. Another reason noted by the Bank was the growth in security force personnel numbers.

If the pattern in the first half of the fiscal year continues, government's use of loan finance to pay for current outlays will hit a record of more than R9bn. The report said this was harming the country's savings.

It said that as a developing country with high unemployment, SA needed satisfactory economic growth which, in turn, required adequate investment and therefore adequate supply of domestic saving or access to external funds. "Since the easy access to foreign saving came to an end in 1984, adequate domestic saving is essential for the financing of domestic investment or to repay foreign debt."

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Rupert calls for an end to political in-fighting

(49) [illegible]

THEO RAWANA

SBDC chairman Anton Rupert speaks to journalists shortly before the organisation's AGM which was held in Johannesburg yesterday.

ROBERT BOTHA

SBDC chairman Anton Rupert yesterday urgently called for SA's political leaders to stop their in-fighting, reach consensus and work for economic growth.

Addressing the media before the SBDC's AGM in Johannesburg, Rupert said leaders who were embroiled in in-fighting should know that a "scorched-earth policy" did not work.

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"It's easy to say I want to govern, but when you govern ... you are responsible for everyone," Rupert said.

He said he hoped leaders would reach consensus and work to solve the unemployment problem. SA needed to help uplift neighbouring countries, because the numbers flooding into the country would grow if it did not do so.

"Mozambique must come right, or more and more will come through the electric fences. We must get them to help themselves," he said.

In his chairman's address, Rupert said that, since the world economy remained sluggish, SA would have to depend on its entrepreneurial resources.

"SA is undoubtedly at a critical juncture in its history. Comprehensive strategies are needed to promote economic growth and employment creation to meet the rising political and economic expectations of all South Africans. I believe that this can be done only by creating a favourable climate for business enterprise."

Evidence worldwide suggested that the free enterprise system was best able to meet the needs of the people and the most conducive to entrepreneurship.

Listing the achievements of the SBDC over the past 11 years, Rupert said it had:

☐ Promoted more than 310 000 jobs at a cost of less than R5 000 each;

☐ Granted more than R1,327bn in loans to more than 35 000 business entrepreneurs;

☐ Developed projects to the value of R280m and with an area of more than 800 000m² at an average of only R350m²; and

☐ Assisted more than 1,481-million people with information and advice since 1984, with inquiries running at about 1 100 a working day.

low levels. An economy that is beset by inflation and a fear of future inflation cannot and will not function well. This has been the experience of countries all over the world, and it applies equally to South Africa.

The Reserve Bank therefore believes that it is in the interest of all South Africans to persist in the fight against inflation, even if this does require the retention of currently painful and unpopular measures. The reduction of the inflation rate must remain a policy priority, even in the present subdued economy.

Easier liquidity conditions and lower interest rates

Money market conditions eased considerably during the past year and the easier conditions were reflected in a decline in the amount of accommodation provided to banking institutions at the Reserve Bank's discount window. The average daily level of accommodation thus declined from R4,8 billion in January 1990 to R2,4 billion in December 1990 and to R1,0 billion in April 1992, before increasing again to R3,5 billion in July 1992.

A number of factors contributed to the easing of the money market situation:

- an increase in the country's net holdings of gold and other foreign reserves of about R6 billion from the end of 1990 to the end of June 1992 provided additional liquidity to the market;
- the introduction of lower cash reserve requirements for banking institutions in terms of the new Deposit-taking Institutions Act released approximately R1 billion to the banks over the period March to September 1991, which they now had available to invest in the money market;
- shortfalls incurred by the Reserve Bank in the execution of maturing forward foreign exchange contracts added R652 million in the second half of 1991 to the overall amount of money market liquidity; and
- a decline in the demand for bank credit from the private sector contributed to an easing of the liquidity situation of money market institutions.

In line with the changes in the underlying situation and the decline in the need for Reserve Bank accommodation at the discount window, the emphasis in the Bank's role in the money market shifted gradually from a restrictive role to a more supportive one, namely to assist money market institutions to find appropriate assets for the investment of their surplus short-term liquidity. Thus the Bank:

- in conjunction with the Treasury, raised the amount of the weekly issues of ordinary Treasury bills of 91 days' maturity;
- with the co-operation of the Treasury also issued, from 20 March 1992, Treasury bills of six and nine months' maturity at a weekly tender;
- issued special negotiable Reserve Bank bills of nine months' maturity on public auction;
- granted authorised dealers in foreign exchange scope for increasing their deposits with foreign banks from a total of US $316 million to $632 million; and
- required all registered deposit-taking institutions to hold an additional interest-earning cash reserve deposit with the Reserve Bank.

The easier money market conditions exerted some downward pressure on money market interest rates, a development which the Reserve Bank did not counteract with any aggressive open-market or other intervention operations. Thus the rate on three-month bankers' acceptances, which had already declined from 18,60 per cent in February 1990 to 16,40 per cent at the end of December 1991, receded further to 13,55 per cent at the end of July 1992 and to 12,70 per cent on 20 August 1992.

The Reserve Bank signified its approval of the downward trend in market interest rates by reducing its Bank rate, that is the rate at which the Bank is prepared to rediscount Treasury bills for registered deposit-taking institutions, from 17 to 16 per cent on 23 March 1992 and to 15 per cent on 30 June 1992. The Bank acquiesced in the lower level of interest rates mainly because it was satisfied with the progress made towards reducing the

The development and protection of a sound and efficient banking system

The Reserve Bank has a vested interest in the development of a sound and efficient banking system, and also in the development of efficient financial markets. The Bank's responsibilities with regard to the function of bank supervision have over the past year involved it in various controversial issues which may well question the wisdom of the five-year old "marriage" of the Reserve Bank and the Office of the Registrar of Deposit-taking Institutions.

Earlier actions by the Registrar of Deposit-taking Institutions to bring two small banks under curatorship and place another one in liquidation in order to safeguard the interests of depositors, continued to have repercussions during the past year. To a significant extent this further reaction was related to the decision of the monetary authorities to compensate smaller depositors for losses arising from the financial problems of these banks. This assistance gave rise to the perception that the Reserve Bank has a "duty of care" to protect the interests of a wide range of investors who have entrusted their funds indiscriminately to unregulated persons and agents. Ill-founded and injudicious financial reporting unfortunately served to strengthen this false perception. As a result many of these investors have already lost or stand to lose money because of the investment of their funds in fraudulent schemes or in schemes that have been affected adversely by the protracted economic recession.

> *"The Reserve Bank cannot protect investors against the results of their own poorly considered and often unsound investment decisions."*

The Reserve Bank cannot protect investors against the results of their own poorly considered and often unsound investment decisions. Even in the case of depositors with registered deposit-taking institutions which are subject to supervision by the Reserve Bank, the Bank cannot accept a so-called duty of care. Ultimately, the responsibility for the safety and financial soundness of deposit-taking institutions lies with the managements of such institutions. The Reserve Bank's supervision can only promote better management, especially of the risks inherent in banking business. In the interest of maintaining confidence in the banking system and, more generally, the stability of the banking and financial systems, the Reserve Bank may, however, in special situations decide to assist depositors with registered deposit-taking institutions which find themselves in financial distress. However, this is not an automatic process and the feasibility of providing assistance in each individual case must be determined with regard to considerations related directly to the aim of maintaining stability in the banking sector.

Unwarranted claims by investors with deposit-taking institutions and unregulated entities alike for financial assistance by the Reserve Bank, which have received wide publicity and unjustified support in the financial press, have actually forced the Reserve Bank into the position of being a defendant in time-consuming and costly litigation. It cannot be denied that these events have had a negative impact on the general standing of the Reserve Bank and, if carried too far, the credibility of the central bank as a monetary authority could be undermined.

In the light of these developments, two fundamental questions arise. The first is whether the Reserve Bank, as central bank and monetary authority, should continue to involve itself in bank supervision. The second question is whether the Bank could be expected to provide, without any legal obligation to do so, deposit insurance by acting as financial supporter of last resort. These questions become even more relevant when it is realised that no country in the world has succeeded, or will succeed through banking and other financial regulation, in totally averting all financial failures of banks and other financial institutions. Regulators can only contribute to the financial soundness of institutions by

The need for economic structural adjustment

In this year's *Annual Economic Report* of the Reserve Bank special attention has been given to causes of the development of structural weaknesses in the South African economy. The country is now faced not only with an urgent need for a cyclical recovery, but also with some painful structural adjustments to bring the economy back onto a path of sustainable higher growth.

Although each country must design a strategy suitable to its own requirements, South Africa can learn from the experience of other countries that have already applied successful economic restructuring programmes. In general, these countries have:

- pursued prudent financial policies, providing for a stable macro-economic environment with low inflation;
- adopted outward growth strategies, with appropriate exchange rates and tariff structures;
- maintained high levels of real investment, financed mainly by improved domestic savings;
- cut back on excessive regulation and exposed domestic industries to healthy foreign competition so as to boost productivity;
- given priority to spreading education as widely as possible;
- ensured that all sectors of society, and particularly the most disadvantaged, have greater access to productive assets and so acquire a genuine stake in economic progress; and
- carefully defined the role of government, making government concentrate on the things it alone is able to do well, and encouraging it to refrain from interfering or competing in the areas of production and distribution where private sector entrepreneurs can perform best.

South Africa has already gone some distance on the road of economic restructuring. We have already, for example:

- consolidated the foreign debt position and established a relatively sound overall balance of payments situation;
- succeeded in stabilising the growth rates in the domestic monetary aggregates in conformity with the objective of a stable macro-economic financial environment; and
- stabilised the exchange rate of the rand and eliminated some of the underlying inflationary pressures in the economy.

Much more, however, remains to be done. The financial markets, and particularly the foreign exchange market, must be liberalised further to ensure more realistic interest and exchange rates. There must be a more harmonised and co-ordinated approach in overall macro-economic policies directed towards the common goal of permanently increasing the growth capacity of the South African economy. Such a programme will have to incorporate fiscal, monetary and labour policies, trade policies, an industrial strategy and all other aspects of macro-economic policies.

In the South African context the programme will also have to provide for certain special features of contemporary economic developments in this country. These include:

- the growing importance of the informal sector, and the major part it has come to play as an employer;
- the emergence of many small businesses that not only need financial support, but also management advice and appropriate technical assistance;
- the traditional "communal" approach of especially Black people, which is now carried into the business world, in the form for instance of co-operative savings clubs such as stokvels and credit unions; and
- the major requirement of a social upliftment programme that must at the same time take account of the existing large disparities in the distribution of wealth and income.

The Minister of Finance and of Trade and Industry has expressed a great interest in such a comprehensive economic restructuring programme for South Africa, and the Reserve Bank has offered him its full support. The Bank is of the opinion that economic restructuring to their present levels should not hold any threat of an early escalation in the demand for credit from banking institutions, and should therefore also not jeopardise the Reserve Bank's attempts to keep the rate of increase in the money supply within the guidelines of 7 to 10 per cent set for 1992.

There are still many people who refuse to acknowledge the importance of realistic market interest rates for sound and balanced economic development, and expect the Reserve Bank to use its power to create money to reduce interest rates to artificially low levels. For instance, people often refer disapprovingly to the so-called "high interest rate policy" of the Reserve Bank, or it is said that the high interest rates "fixed" by the Reserve Bank will not reduce inflation. These views are, of course, false. In a market-oriented economy interest rates must reflect the forces of supply and demand, and the Reserve Bank can only change the rates by changing the rate of increase in the money supply. Once the Bank has, however, decided on an acceptable rate of increase in the money supply, it cannot simultaneously attempt to also determine interest rates.

Interest rates maintained at artificially low levels for any lengthy period of time send out wrong market signals and create many distortions in the economy. The result is a gradual but persistent erosion of the ability of the economy to meet even the basic requirements of the community. Artificially low interest rates reduce saving, discourage the inflow of capital from abroad, lead to the misallocation of available investment funds, and make the cost of capital unduly low relative to the cost of other production factors, for instance labour, and therefore encourage capital-intensive production processes. In South Africa interest rates have been allowed to remain artificially low for long periods under the protection of an extensive system of exchange controls, through the subsidisation of foreign borrowings and by permitting excessive increases in the money supply. Many of the current deficiencies in the South African economic structure were either caused or aggravated by policies in support of unduly low interest rates. No country can in the longer run escape the unpleasant consequences of misdirected monetary and financial policies.

It is true that high interest rates, and in particular high real rates of interest, cause many hardships. But this is what they are intended to do: to act as a conduit that must force a downward adjustment in an economy that is suffering from basic deficiencies in the system. To try and avoid the unpleasant consequences of high interest rates without curing the basic causes of the upward pressure on the rates, will only lead to a delay in the basic adjustments that are unavoidable. Any attempt to depress interest rates by adding more newly created money to the system will be a fraudulent act intended to cover up the real problems of the economy. Eventually, we shall all pay for such folly through higher inflation, lower growth and more unemployment.

> *"... as a first step towards lower interest rates, the basic causes of inflation should be identified and eliminated, because low nominal interest rates can only become sustainable in an environment of low inflation."*

The debate is not whether high interest rates are bad or good for the economy — they do discourage certain sub-marginal economic activities and therefore depress growth. The question is rather why high interest rates are sometimes essential and what can be done to reduce them. The Reserve Bank is of the opinion that as a first step towards lower interest rates, the basic causes of inflation should be identified and eliminated, because low nominal interest rates can only become sustainable in an environment of low inflation. The Reserve Bank's preoccupation with a policy of fighting inflation is therefore indeed a policy of striving for lower interest rates.

[illegible] proper standards, proper risk assessment, and appropriate internal accounting, information and control systems.

In reappraising its position, the Reserve Bank will have to be guided by several considerations, including the following:

- the extent to which its credibility as a monetary authority could be undermined by its involvement in bank supervision;
- the likelihood that it will attract a moral obligation to provide financial assistance to a deposit-taking institution under its supervision when such an institution ends up in financial difficulty;
- given the international trend towards integration in the provision of financial services, the feasibility of regulation, not only of banking and services related to banking, but also of other financial services, by the central bank; and
- the validity of an earlier assumption that bank supervision constitutes a logical extension of a central bank's many day-to-day relationships with the banking sector.

Firm decisions have not yet been reached, but some preliminary conclusions are the following:

- the functions of bank supervision and lender (or financial supporter) of last resort should be separated clearly;
- practical ways of establishing an arms-length relationship between the Office for Deposit-taking Institutions and the Reserve Bank itself should be devised in order to allow the Registrar of Deposit-taking Institutions to focus exclusively on prudential supervisory matters, and the Reserve Bank to focus on the stability of the financial system;
- the provision of financial support to deposit-taking institutions in financial distress should be aimed solely at preserving the stability of the banking system and of the broader financial system;
- attention should be devoted to the feasibility of introducing a **limited** deposit insurance scheme for private depositors in South Africa and to finding ways and means of funding such a scheme; and
- the effect of an integrated approach to the provision of financial services on the future structure of financial regulation as well as the co-ordination of financial regulation during the period of transition to a new regulatory structure should be investigated.

These issues will require further investigation and discussion before final conclusions can be reached. It is hoped that good progress will be made during the coming year.

Ominous signals from government finance

During the past year an ominous trend continued in government finance when the pace of growth in current revenue again fell behind the growth in total expenditure. The deficit before borrowing on the Budget therefore not only increased, but also absorbed a greater share of domestic saving.

During the fiscal year 1991/92, government expenditure increased by 16,1 per cent and revenue by only 7,4 per cent. The deficit before borrowing accordingly increased to R14,3 billion, or 4,7 per cent of gross domestic product. This trend continued in the first quarter of the current fiscal year when Exchequer issues rose by 13,0 per cent compared with the first quarter of the preceding fiscal year, and Exchequer receipts rose by only 8,9 per cent.

These trends in government finance were, to some extent, counter-cyclical and provided a stimulus to a very depressed economy. To the extent that they reflected "automatic stabilisers" based on cyclical declines in incomes and employment in the private sector, they were hardly cause for alarm. There is, however, always the danger that because of a ratchet effect, the situation will not be easily corrected again once private sector expenditure starts moving up. The Department of Finance, however, is very much aware of this danger and the Minister of Finance is strongly determined to reduce state spending as a ratio of gross domestic product, and so eliminate dissaving by the Central Government in due course.

debate that is now developing about this subject.

Concluding remarks

Most South Africans share the concern which the Reserve Bank feels for the depressed real economic conditions in the country. The low and, at this stage even negative economic growth rate, aggravates the already serious unemployment problem, increases poverty and reduces the average standard of living of the people of South Africa. Neither the cause of, nor the solution to this dilemma, should be looked for in monetary policy. Attempts to stimulate the economy at this juncture by the injection of more money will again stimulate inflation and eventually erode the growth potential of the economy even further, giving rise to even more unemployment.

The present cautious approach of monetary policy has contributed to the improvement in the overall balance of payments position and to the stabilisation of the domestic financial situation. These improvements, which reflect normal developments in a period of economic recession and adjustment, are laying a sound foundation for the future recovery of the economy, and for supporting sustainable economic growth in the longer run.

Monetary policy has also made a major contribution towards reducing inflationary pressures in the economy. Although the abatement of inflation has not yet been reflected in the consumer price index, South Africa finally has a great opportunity to terminate the long spell of double-digit inflation. If consumers, employers, traders, labour unions and government all join forces with the Reserve Bank, we should be able to bring inflation down to a much lower level over the next twelve months, which will also justify lower nominal interest rates.

Increasing attention was recently focused on the structural deficiencies of the South African economy, and the need for a major economic restructuring programme was identified. It is, however, a pre-condition for the success of such a programme that South Africa shall continue to pursue prudent financial policies, providing for a stable macro-economic environment with low inflation. Good progress has already been made towards attaining these goals, but real economic adjustment takes time and can only succeed if the public is convinced that the appropriate policies will be applied seriously and unceasingly.

> *"The entrepreneurs of the world ... look for greater economic, political and social stability before they will be prepared to expand the economy's production capacity and create new employment opportunities for the growing work force of our community."*

Economic recovery in South Africa also remains dependent to an important extent upon the re-establishment of political and social stability in the country. The entrepreneurs of the world, including the prudent South African business community, look for greater economic, political and social stability before they will be prepared to expand the economy's production capacity and create new employment opportunities for the growing work force of our community. The keen interest shown in the economy by many potential local and foreign investors in the early months of 1992, before the breakdown in the political negotiations, provided encouraging signs of what could be expected if South Africans can only get their political act together.

In the meantime, the Reserve Bank holds the conviction that its policy approach of maintaining overall financial stability evidenced by a low rate of increase in the money supply, positive real rates of interest and a relatively stable exchange rate of the rand is in the best interest of the South African economic situation. The Bank therefore remains committed to pursue its mission of protecting the internal and the external value of the rand.

SOUTH AFRICAN RESERVE BANK

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CT 26/8/92

GOVERNOR'S ADDRESS

Address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-second ordinary general meeting of shareholders of the Bank on 25 August 1992

Introduction

The past year has been one of frustration and disappointment for the South African economy. The encouraging signs identified a year ago of a possible economic recovery turned out to be misleading, and the widely projected upturn did not materialise.

On the contrary, during the first six months of 1992 economic conditions in general deteriorated further and the recession deepened. A number of reasons may be advanced for this disappointing performance, including:

- a much slower than expected recovery in the economies of the major industrial countries;
- the severe drought in the summer rainfall areas which caused a major decline in agricultural production;
- disappointment with the progress made in the search for a new constitutional dispensation;
- an escalation in violence, industrial actions and mass demonstrations, which not only adversely affected the physical performance of the economy, but also depressed the psychological mood; and
- further erosion of investors' and consumers' confidence, which led to a continued decline in gross domestic expenditure.

These developments reinforced the cyclical downturn which had its origin in the early months of 1989, and undoubtedly made a further contribution towards the longer-term trend of a continuous weakening in the economic structure of the country.

> *"It is heartening, however, that despite the depressed real economic situation, both the external and domestic financial situation improved."*

It is heartening, however, that despite the depressed real economic situation, both the external and domestic financial situation improved. The South African economy still responds normally in many ways, with latent vitality and a clear-cut potential to support a substantially higher growth rate in the future. The current downward phase in the business cycle has not only led to an improvement in the overall balance of payments situation, but also to a more stable domestic financial environment, thus preparing the way for a future recovery.

The extent and duration of such a future upswing will be largely dependent upon the appropriateness of overall economic policies pursued at this stage of the business cycle. So often in the past short-sighted stimulatory measures taken in the recessionary period sowed the seeds for an early abortion of subsequent expansionary phases. A premature and artificial stimulation of the economy through an unwarranted relaxation of monetary policy at this juncture could, for example, again easily lead us on a similar course of unsustainable recovery.

Africa. From a monetary stabilisation point of view, almost embarrassingly large amounts of short-term capital flowed into the country at times, as in the third quarter of 1991 when the net gold and foreign exchange reserves increased by almost R2 billion.

These developments enabled the Reserve Bank to terminate its special concessionary rates for forward foreign exchange cover in September 1991, with the result that a large amount of short-term finance, mostly linked to foreign trade transactions, was switched from foreign to domestic sources in the fourth quarter of last year. Since then, the movement of short-term foreign finance into and out of the country has increasingly been influenced by normal economic factors such as changes in the overall value of foreign trade, expected exchange rate movements, interest rate differentials and the cost of forward exchange

Against the background of the improved balance of payments situation and in keeping with the objectives of official policy, the real exchange rate of the commercial rand remained relatively stable. Over the nineteen months from 31 December 1990 to 31 July 1992, the average weighted value of the rand in nominal terms depreciated by 7,9 per cent. This was slightly less than the difference between the rates of production price inflation in South Africa and the comparable inflation rates in South Africa's major trading partner countries. The result was a modest appreciation of 1,6 per cent over this period in the real average weighted value of the rand against a basket of currencies of its major trading partners.

In March 1992 the Reserve Bank announced that it would from time to time intervene in the financial rand market, and use part of future increases in the foreign reserves to purchase financial rand for cancellation. The Bank said at the time that the main purpose of such intervention would be to partly neutralise unwarranted increases in domestic liquidity that might be brought about by the rising level of the foreign reserves.

Subsequent events in the political arena have proved that the Reserve Bank is not yet in a position to stabilise the financial rand exchange rate through its intervention operations. Despite net purchases from the market of financial rand amounting to R229 million over the four months from April to July 1992, mainly as a supplementary instrument for liquidity management purposes, the financial rand exchange rate depreciated from US $1 = R3,36 on 21 April 1992, to R3,87 per dollar on 31 July 1992, or to a discount of 28,5 per cent on the commercial rand rate of exchange.

More stable domestic monetary situation

The most important intermediate objective of monetary policy remains the creation of a stable financial environment that will be conducive to and supportive of sustainable long-term economic growth. Monetary policy on its own cannot guarantee growth. At the same time, however, economic growth will not be sustainable unless it takes place in an environment of general financial stability.

> *"Further progress was made over the past year towards establishing the basic conditions for the achievement of greater overall financial stability:"*

Further progress was made over the past year towards establishing the basic conditions for the achievement of greater overall financial stability:

- the rate of increase in the M3 money supply over twelve months declined from 27 per cent in December 1988 to 22 per cent in December 1989, 12 per cent in December 1990 and 10,6 per cent in February 1992. Over the twelve months to June 1992, M3 increased by only 7,5 per cent; and

Real gross domestic product declined by $^1/_2$ per cent in both 1990 and 1991, and at annualised rates of 2 and $2^1/_2$ per cent in the first and the second quarter of 1992, respectively. The acceleration in the rate of decline in total production during the first half of 1992 was caused mainly by a decline in agricultural production which, it is estimated, will recede by as much as 15 per cent this year. But even excluding agriculture, total production contracted further at a seasonally adjusted annual rate of 1 per cent in the first six months of 1992.

Total domestic expenditure likewise contracted in real terms during the past year. On a quarterly basis total expenditure fluctuated rather widely and at times, such as in the first quarter of 1992, even showed a substantial increase. This was mainly due to changes in the level of inventories. The more stable components of gross domestic expenditure, namely private consumption expenditure and gross domestic fixed investment, declined persistently up to the middle of 1992 as investors' and consumers' confidence waned. Against this trend, however, real consumption expenditure by general government, which is less susceptible to the extraneous factors behind the recessionary trends, continued to increase. It rose by as much as $5^1/_2$ per cent in 1991 and by a further 3 per cent at a seasonally adjusted annual rate in the first half of 1992.

This depressing pattern of developments in production and demand has several undesirable consequences that are not only of a short-term cyclical nature, but also affect the long-term capacity of the economy to provide for the growing needs of the South African community. Thus:

- the rate of increase in aggregate nominal factor income at market prices slowed down. In the process the rate of increase in the **total** remuneration of employees **(not remuneration per worker)** declined from 17 per cent in 1990 to $14^1/_2$ per cent in 1991, and to about $11^1/_2$ per cent on an annualised basis in the first half of 1992;
- the ratio of total savings to gross domestic product, which had averaged about $24^1/_2$ per cent in the eighties, declined to 19 per cent in 1991 and 18 per cent in the first six months of 1992; and
- there was a further contraction of 2,1 per cent in total employment in the non-agricultural sectors of the formal economy in 1991. This means that the number of persons who are engaged in informal economic activity or who are unemployed, increased rapidly over the past year.

Against the background of these depressed economic conditions, there is growing pressure on the Reserve Bank to relax monetary policy in order to stimulate the ailing economy, regardless of the remaining unacceptably high level of inflation. However, in the present situation, efforts to cure the fundamental deficiencies of the economy through monetary stimulation will only serve to conceal inherent weaknesses under a veil of monetary expansion. Such a course will stimulate inflation and eventually require an even more painful adjustment.

Improvement in external economic relations

One of the more encouraging developments in the economy over the past year has been the sustained favourable performance of the current account of the balance of payments. Last year was the seventh year in succession in which the total exports of goods and services exceeded total imports. The current account surplus of R7,4 billion in 1991 equalled no less than $2^1/_2$ per cent of gross domestic product. As was expected, however, the surplus declined slightly to a seasonally adjusted and annualised figure of R4,5 billion in the first quarter of 1992 and to R6,0 billion in the second quarter. In the light of the current low gold price, subdued international economic conditions and the effects of the adverse local climatic conditions on the balance of payments, a further decline in the current account surplus over the next twelve months can be expected.

A significant improvement also took place on the capital account of the balance of payments, particularly in the factors underlying the inflows and outflows of capital. As the negotiations for a new political dispensation progressed and economic sanctions were lifted, many international banks and other investors re-established normal relations with South Africa. In the first quarter of 1992 the total net outflow of capital declined to a negligible R21 million. Subsequent political events, however, then again served as a reminder of the sensitivity of the capital account to adverse political developments, with the total net outflow increasing to R1,9 billion in the second quarter.

Over the twelve months that ended in June 1992, the surplus on the current account of the balance of payments amounted to R8,5 billion, which exceeded the total net capital outflow of R6,6 billion over this period by R1,9 billion. This last amount was, therefore, added to the country's gold and foreign exchange reserves and caused the level of the total gross foreign reserves to rise to R11,8 billion as at 30 June 1992.

An important milestone was reached in January 1992 when the Reserve Bank repaid the last outstanding amount of its foreign loans raised for balance of payments purposes. Since then, the Bank's gross gold and foreign exchange reserves have reflected the Bank's **net** reserves position. At the end of July 1992, these net reserves amounted to R11,3 billion, which contrasted sharply with the position on 30 June 1989, when the total of the Bank's net foreign reserve holdings amounted to only R0,4 billion.

The Bank still holds the opinion that a comfortable level of gold and foreign exchange holdings for South Africa should be one that is sufficient to cover at least three months' imports of goods and services. On the basis of the 1991 balance of payments statistics, this would require a minimum reserve level of at least R17 billion. However, as with all macro-economic objectives, there can be no rigid statistical rule for this requirement. When assessing the country's foreign exchange position, due account must also be taken of available but unutilised credit facilities, access to the facilities of the International Monetary Fund and the World Bank, the changing perceptions of foreign investors, the outlook for the current account and the prospects for a more stable political environment. For the time being, with the prospect of a sharp rise in imports once economic growth recovers, the Bank's cautious approach regarding the level of foreign reserves required for cyclical purposes, continues to be justified.

The favourable balance of payments developments over the past year enabled the Bank, through active intervention in the foreign exchange market, to pursue its objective of supporting a relatively stable real exchange rate for the rand, that is, after adjustment for the difference between the South African and foreign rates of inflation. Through its intervention operations the Bank therefore encouraged a slight depreciation of the nominal average weighted value of the rand against a basket of currencies. Although these intervention transactions were not always in harmony in the short term with the Bank's overriding objective of strict control over changes in the money supply, the Bank with its exchange rate policy nevertheless lends support to the notion that South African producers must remain competitive in international markets, both as exporters and as suppliers of the domestic market.

"We cannot rely continually on a depreciation of the exchange rate of the rand to provide protection against inherent weaknesses in the local production structure ..."

In the interest of future economic development, however, South Africa must remain open to foreign competition, and South African producers must be exposed to international pressures for improved productivity, greater efficiency and a higher quality of products which will be to the benefit of the South African consumer. We cannot rely continually on a depreciation of the exchange rate of the rand to provide protection against inherent weaknesses in the local production structure, just as we cannot look to a large-scale injection of new money to stimulate growth. In the short term a depreciation of the internal or the external value of the currency conceals under a veil of rising prices the shortcomings of the system; in the long term it erodes the capacity of the economy to meet the needs of the community.

sector to the private sector declined from 28 per cent in December 1988 to 20 per cent in December 1989, 16 per cent in December 1990 and 9,1 per cent in June 1992.

It is also encouraging to note that not only did the rate of increase in the broadly defined M3 money supply slow down, but also those of M1A, M1 and M2, and that almost all these aggregates are now expanding at rates well below the current rate of inflation. Admittedly, pure monetarism would dictate even lower rates of increase in these aggregates, particularly in an economy where the total volume of goods and services produced by the system is indeed contracting. The Reserve Bank is, however, satisfied that, if the present rates of increase are maintained, the monetary aggregates will not contribute to any new escalation in the rate of inflation nor will they restrain production, but will rather gradually reduce inflationary pressures further.

From a monetary policy point of view it is rather disappointing that consumer price inflation remained stubbornly high, despite the significant progress made in reducing monetary support for rising prices. It must be accepted, however, that not least because of many rigidities in the market transmission mechanism, there are unavoidable and relatively long time-lags between the application of market-oriented monetary instruments on the one hand, and the eventual effects they may have on consumer price inflation, on the other.

The developments over the past year in the production price index are more encouraging, and serve as an early indicator of what could hopefully be expected of developments in consumer prices. The rate of increase in the all-goods production price index over periods of twelve months declined from a peak of 14,6 per cent in November 1990 to 6,7 per cent in January and February 1992, before rising again to 9,2 per cent in June 1992. The rate of increase in the production price index has now remained below the level of 10 per cent for eight months in succession.

In contrast to these changes in the production price index, the rate of increase in the consumer price index did not resume its downward movement immediately after the conclusion of the Gulf War early in 1991. After having declined from 15,7 per cent in June 1989 to 13,3 per cent in July 1990, the rate of increase in the consumer price index over periods of twelve months rose to 16,8 per cent in October 1991; only then did it start to move hesitantly downwards to 14,8 per cent in May 1992 and to 15,1 per cent in June 1992.

There are certain "once-only" factors that affected the consumer price index over the past year which must be taken into account in the assessment of these trends. These include:

- the introduction of value-added tax in October 1991 and its further extension to certain foodstuffs in April 1992;
- the adjustment of the weights used in the consumer basket for purposes of calculating the index; and
- the devastating drought that reduced the supply of certain foodstuffs in particular.

These factors are either non-recurring or reversible, and the statistical measurement of the consumer price index does not truly reflect the progress that has been made over the past year in reducing the underlying inflationary pressures in the economy. It is therefore important in this context to take note of the encouraging deceleration recently in the quarter-to-quarter rate of increase in the consumer price index which, on a seasonally adjusted and annualised basis, declined from 18,8 per cent in the fourth quarter of 1991 to 12,8 per cent in both the first and the second quarter of 1992.

Inflation remained one of the major contributing factors to the continuous weakening in the structure of the South African economy. Its adverse effects on saving, on the allocation of resources, on the competitiveness of South African producers in world markets and on the distribution of wealth and income, make it undesirable from both an economic and social point of view. It is a fallacy to believe that more inflation can stimulate the economy, or that a strong economy needs inflation as a crutch to lean on, or, for that matter, that South Africa is different from other countries and must therefore be more tolerant of this cancerous phenomenon, particularly in a global environment where so many other countries recently succeeded in reducing their rates of inflation to relatively

Rising deficit alarms Reserve Bank

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CT 26/8/92

Own Correspondent

JOHANNESBURG. — The governor of the Reserve Bank, Dr Chris Stals, yesterday described the widening government deficit as "ominous" and warned it could spell trouble once the economy moved out of recession.

Dr Stals's warning at the bank's annual meeting yesterday is underscored by the bank's economic report, which expresses concern over the government's debt burden

STALS DIGS IN HEELS ON POLICY

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The report also expresses concern about the government's debt burden

Growing staff numbers in the governments of the homelands and the security forces were to blame for part of the high current expenditure, the report said.

If the pattern in the first half of the year continued, general government's use of loan finance to pay for current outlays would hit a record of more than R9 billion.

The report said that after only a quarter into fiscal 1992/93, the deficit stood at almost half of the deficit budgeted for the year as a whole.

● The Minister of State Expenditure, Mr Ami Venter, said yesterday he was getting tougher on government departments' spending

He denied that the government was not in control of spending

Bid to rein in state spending

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BILLY PADDOCK

B/D4 26/8/92

STATE Expenditure Minister Ami Venter said yesterday he was getting tougher on government departments in a bid to keep a tight rein on government spending.

Following last week's first review of the Budget, Venter confirmed that revenue was in bad shape and increased overspending was cause for great concern. However, he denied that government was not in control of spending and outlined his department's approach to curb expenditure.

He said there had been instances of government departments trying to swindle ("verneuk") additional allocations under the guise of necessary projects.

The checks and balances of the system meant such manipulation was quickly discovered. Where funds were found to have been diverted, they were immediately withdrawn, said Venter.

He said preliminary figures from the first review of departments' expenditure, compared with budgets set at the beginning of the year, gave him hope that he would meet his target.

He hoped the spending would have evened out by November, when a clearer prediction would be possible.

Enforcing the correct use of capital accounts and reducing state consumption to "the correct balance" were among measures he had adopted to ensure government stayed within Budget.

But this was not enough. Because of the reduced level of revenue, drastic steps would have to be employed during this financial year to get some departments to reduce their budgets so that savings could go to other departments. This was neces-

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sary because of the legitimate, but increased, demands on the Treasury for socio-economic spending.

Some of the measures the State Expenditure Department was taking to keep within budget and, in some cases, force savings were:

☐ Natural attrition in employment;
☐ Careful assessment of state assets, such as buildings and land, so that those not being fully utilised could be sold;
☐ Diverting money from administrative tasks to functional projects where funds for these had run out; and
☐ Improvements in productivity.

Venter said government had introduced a longer-term view of the Budget and, through a procedure of planning for a period of three to five years, was avoiding a start-stop attitude. This helped in planning capital expenditure as well as in persuading departments to save rather than "blow the whole budget each year".

He said "specialist officials" from his department were sitting in each department to monitor management plans. Ten functional committees also met to assess departments' priorities in terms of the management plans.

Devaluation of the rand is ruled out

(49)

SIMON WILLSON

RESERVE Bank Governor Chris Stals yesterday ruled out any relaxation in monetary policy or devaluation of the rand to ease the effects of the recession.

Speaking at the Bank's annual meeting in Pretoria, he said the reduction of inflation remained a policy priority, even if it involved painful and unpopular measures.

Stals acknowledged that pressure had been growing for a relaxation in monetary policy to stimulate the ailing economy. But monetary stimulation and rand depreciation merely provided veils to conceal weakness and inefficiency.

"Attempts to stimulate the economy at this juncture by the injection of more money will again stimulate inflation and eventually erode the growth potential of the economy even further, giving rise to even more unemployment," Stals said.

"We cannot rely continually on a depreciation of the exchange rate of the rand to provide protection against inherent weaknesses in the local production structure, just as we cannot look to a large-scale injection of new money to stimulate growth."

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Stals said the Bank's exchange rate policy supported the notion that SA producers had to remain competitive in international markets, both as exporters and as suppliers of the domestic market.

In the interest of economic development, SA should be open to foreign competition. SA producers had to be exposed to international pressures for improved productivity, greater efficiency and a higher quality of products which would be to the benefit of the SA consumer.

"In the short term a depreciation of the internal or the external value of the currency conceals under a veil of rising prices the shortcomings of the system; in the long term it erodes the capacity of the economy to meet the needs of the community."

Efforts to cure the fundamental deficiencies of the economy through monetary stimulation would only conceal inherent weaknesses under a veil of monetary expansion. "Such a course will stimulate in-

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flation and eventually require an even more painful adjustment," Stals said.

In keeping with the objectives of official policy, the real effective exchange rate of the commercial rand had shown a modest appreciation of 1,6% between December 1990 and July 1992. However, the Bank had not achieved its financial rand goals.

After announcing earlier this year its intention to intervene in the finrand market, the Bank had made net purchases totalling R229m in the four months to July. The finrand had, however, depreciated over this period from R3,36 to the dollar in April to R3,87 at the end of July.

Stals said events in the political arena "have proved that the Reserve Bank is not yet in a position to stabilise the financial rand exchange rate through its intervention operations".

It was disappointing that consumer inflation remained stubbornly high despite the significant progress made in reducing monetary support for rising prices. There were unavoidable and relatively long time lags between the application of monetary instruments and their effect on inflation.

In addition, there were certain "once-only" factors that had affected the inflation rate over the past year, including VAT, the change in the consumer basket used to measure price changes, and the drought. These factors were either non-recurring or reversible, and meant the consumer price index did not truly reflect the progress made over the past year in reducing underlying inflationary pressure.

"An economy that is beset by inflation and fear of future inflation cannot and will not function well. This has been the experience of countries all over the world, and it applies equally to SA.

"The Reserve Bank therefore believes that it is in the interest of all South Africans to persist in the fight against inflation, even if this does require the retention of currently painful and unpopular measures. The reduction of the inflation rate must remain a policy priority, even in the present subdued economy."

The Bank was convinced that its policy of aiming at a low rate of money supply growth, positive real interest rates and a relatively stable exchange rate was in the best interests of the SA economy.

"The Bank therefore remains committed to pursuing its mission of protecting the internal and external values of the rand."

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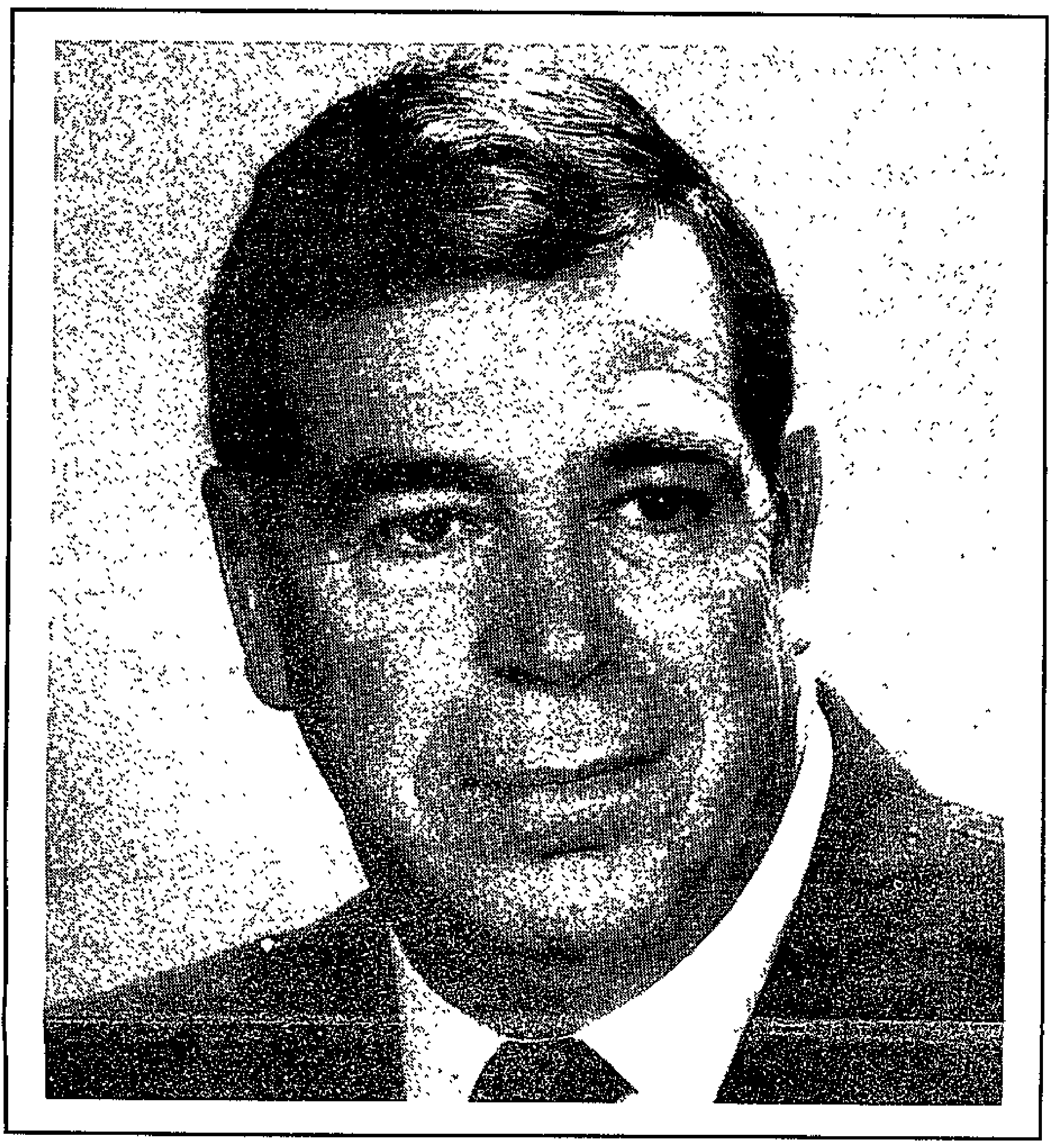
GOVERNOR'S ADDRESS

Address by Dr C. L. Stals, Governor of the South African Reserve Bank, at the seventy-second ordinary general meeting of shareholders of the Bank on 25 August 1992



Introduction

The past year has been one of frustration and disappointment for the South African economy. The encouraging signs identified a year ago of a possible economic recovery turned out to be misleading, and the widely projected upturn did not materialise.

On the contrary, during the first six months of 1992 economic conditions in general deteriorated further and the recession deepened. A number of reasons may be advanced for this disappointing performance, including:

- a much slower than expected recovery in the economies of the major industrial countries;
- the severe drought in the summer rainfall areas which caused a major decline in agricultural production;
- disappointment with the progress made in the search for a new constitutional dispensation;
- an escalation in violence, industrial actions and mass demonstrations, which not only adversely affected the physical performance of the economy, but also depressed the psychological mood; and
- further erosion of investors' and consumers' confidence, which led to a continued decline in gross domestic expenditure.

These developments reinforced the cyclical downturn which had its origin in the early months of 1989, and undoubtedly made a further contribution towards the longer-term trend of a continuous weakening in the economic structure of the country.

> *"It is heartening, however, that despite the depressed real economic situation, both the external and domestic financial situation improved."*

It is heartening, however, that despite the depressed real economic situation, both the external and domestic financial situation improved. The South African economy still responds normally in many ways, with latent vitality and a clear-cut potential to support a substantially higher growth rate in the future. The current downward phase in the business cycle has not only led to an improvement in the overall balance of payments situation, but also to a more stable domestic financial environment, thus preparing the way for a future recovery.

The extent and duration of such a future upswing will be largely dependent upon the appropriateness of overall economic policies pursued at this stage of the business cycle. So often in the past short-sighted stimulatory measures taken in the recessionary period sowed the seeds for an early abortion of subsequent expansionary phases. A premature and artificial stimulation of the economy through an unwarranted relaxation of monetary policy at this juncture could, for example, again easily lead us on a similar course of unsustainable recovery.

Further declines in gross domestic production and expenditure

Real gross domestic product declined by $\frac{1}{2}$ per cent in both 1990 and 1991, and at annualised rates of 2 and $2\frac{1}{2}$ per cent in the first and the second quarter of 1992, respectively. The acceleration in the rate of decline in total production during the first half of 1992 was caused mainly by a decline in agricultural production which, it is estimated, will recede by as much as 15 per cent this year. But even excluding agriculture, total production contracted further at a seasonally adjusted annual rate of 1 per cent in the first six months of 1992.

Total domestic expenditure likewise contracted in real terms during the past year On a quarterly basis total expenditure fluctuated rather widely and at times, such as in the first quarter of 1992, even showed a substantial increase. This was mainly due to changes in the level of inventories. The more stable components of gross domestic expenditure namely private consumption expenditure and gross domestic fixed investment, declined persistently up to the middle of 1992 as investors' and consumers' confidence waned. Against this trend, however, real consumption expenditure by general government, which is less susceptible to the extraneous factors behind the recessionary trends, continued to increase. It rose by as much as $5\frac{1}{2}$ per cent in 1991 and by a further 3 per cent at a seasonally adjusted annual rate in the first half of 1992.

This depressing pattern of developments in production and demand has several undesirable consequences that are not only of a short-term cyclical nature, but also affect the long-term capacity of the economy to provide for the growing needs of the South African community. Thus:

- the rate of increase in aggregate nominal factor income at market prices slowed down. In the process the rate of increase in the **total** remuneration of employees **(not remuneration per worker)** declined from 17 per cent in 1990 to $14\frac{1}{2}$ per cent in 1991, and to about $11\frac{1}{2}$ per cent on an annualised basis in the first half of 1992;
- the ratio of total savings to gross domestic product, which had averaged about $24\frac{1}{2}$ per cent in the eighties, declined to 19 per cent in 1991 and 18 per cent in the first six months of 1992; and
- there was a further contraction of 2,1 per cent in total employment in the non-agricultural sectors of the formal economy in 1991. This means that the number of persons who are engaged in informal economic activity or who are unemployed, increased rapidly over the past year.

> *"... efforts to cure the fundamental deficiencies of the economy through monetary stimulation will only serve to conceal inherent weaknesses under a veil of monetary expansion."*

Against the background of these depressed economic conditions, there is growing pressure on the Reserve Bank to relax monetary policy in order to stimulate the ailing economy, regardless of the remaining unacceptably high level of inflation. However, in the present situation, efforts to cure the fundamental deficiencies of the economy through monetary stimulation will only serve to conceal inherent weaknesses under a veil of monetary expansion. Such a course will stimulate inflation and eventually require an even more painful adjustment.

Improvement in external economic relations

One of the more encouraging developments in the economy over the past year has been the sustained favourable performance of the current account of the balance of payments. Last year was the seventh year in succession in which the total exports of goods and services exceeded total imports. The current account surplus of R7,4 billion in 1991 equalled no less than $2\frac{1}{2}$ per cent of gross domestic product. As was expected, however, the surplus declined slightly to a seasonally adjusted and annualised figure of R4,5 billion in the first quarter of 1992 and to R6,0 billion in the second quarter. In the light of the current low gold price, subdued international economic conditions and the effects of the adverse local climatic conditions on the balance of payments, a further decline in the current account surplus over the next twelve months can be expected.

A significant improvement also took place on the capital account of the balance of payments, particularly in the factors underlying the inflows and outflows of capital. As the negotiations for a new political dispensation progressed and economic sanctions were lifted, many

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international banks and other investors re-established normal relations with South Africa. From a monetary stabilisation point of view, almost embarrassingly large amounts of short-term capital flowed into the country at times, as in the third quarter of 1991 when the net gold and foreign exchange reserves increased by almost R2 billion.

These developments enabled the Reserve Bank to terminate its special concessionary rates for forward foreign exchange cover in September 1991, with the result that a large amount of short-term finance, mostly linked to foreign trade transactions, was switched from foreign to domestic sources in the fourth quarter of last year. Since then, the movement of short-term foreign finance into and out of the country has increasingly been influenced by normal economic factors such as changes in the overall value of foreign trade, expected exchange rate movements, interest rate differentials and the cost of forward exchange cover.

In the first quarter of 1992 the total net outflow of capital declined to a negligible R21 million. Subsequent political events, however, then again served as a reminder of the sensitivity of the capital account to adverse political developments, with the total net outflow increasing to R1,9 billion in the second quarter.

Over the twelve months that ended in June 1992, the surplus on the current account of the balance of payments amounted to R8,5 billion, which exceeded the total net capital outflow of R6,6 billion over this period by R1,9 billion. This last amount was, therefore, added to the country's gold and foreign exchange reserves and caused the level of the total gross foreign reserves to rise to R11,8 billion as at 30 June 1992.

An important milestone was reached in January 1992 when the Reserve Bank repaid the last outstanding amount of its foreign loans raised for balance of payments purposes. Since then, the Bank's gross gold and foreign exchange reserves have reflected the Bank's **net** reserves position. At the end of July 1992, these net reserves amounted to R11,3 billion, which contrasted sharply with the position on 30 June 1989, when the total of the Bank's net foreign reserve holdings amounted to only R0,4 billion.

The Bank still holds the opinion that a comfortable level of gold and foreign exchange holdings for South Africa should be one that is sufficient to cover at least three months' imports of goods and services. On the basis of the 1991 balance of payments statistics, this would require a minimum reserve level of at least R17 billion. However, as with all macro-economic objectives, there can be no rigid statistical rule for this requirement. When assessing the country's foreign exchange position, due account must also be taken of available but unutilised credit facilities, access to the facilities of the International Monetary Fund and the World Bank, the changing perceptions of foreign investors, the outlook for the current account and the prospects for a more stable political environment. For the time being, with the prospect of a sharp rise in imports once economic growth recovers, the Bank's cautious approach regarding the level of foreign reserves required for cyclical purposes, continues to be justified.

The favourable balance of payments developments over the past year enabled the Bank, through active intervention in the foreign exchange market, to pursue its objective of supporting a relatively stable real exchange rate for the rand, that is, after adjustment for the difference between the South African and foreign rates of inflation. Through its intervention operations the Bank therefore encouraged a slight depreciation of the nominal average weighted value of the rand against a basket of currencies. Although these intervention transactions were not always in harmony in the short term with the Bank's overriding objective of a strict control over changes in the money supply, the Bank with its exchange rate policy nevertheless lends support to the notion that South African producers must remain competitive in international markets, both as exporters and as suppliers of the domestic market.

> *"We cannot rely continually on a depreciation of the exchange rate of the rand to provide protection against inherent weaknesses in the local production structure ..."*

In the interest of future economic development, however, South Africa must remain open to foreign competition, and South African producers must be exposed to international pressures for improved productivity, greater efficiency and a higher quality of products which will be to the benefit of the South African consumer. We cannot rely continually on a depreciation of the exchange rate of the rand to provide protection against inherent weaknesses in the local production structure, just as we cannot look to a large-scale injection of new money to stimulate growth. In the short term a depreciation of the internal or the external value of the currency conceals under a veil of rising prices the shortcomings of the system; in the long term it erodes the capacity of the economy to meet the needs of the community.

Against the background of the improved balance of payments situation and in keeping with the objectives of official policy, the real exchange rate of the commercial rand remained relatively stable. Over the nineteen months from 31 December 1990 to 31 July 1992, the average weighted value of the rand in nominal terms depreciated by 7,9 per cent. This was slightly less than the difference between the rates of production price inflation in South Africa and the comparable inflation rates in South Africa's major trading partner countries. The result was a modest appreciation of 1,6 per cent over this period in the real average weighted value of the rand against a basket of currencies of its major trading partners.

In March 1992 the Reserve Bank announced that it would from time to time intervene in the financial rand market, and use part of future increases in the foreign reserves to purchase financial rand for cancellation. The Bank said at the time that the main purpose of such intervention would be to partly neutralise unwarranted increases in domestic liquidity that might be brought about by the rising level of the foreign reserves.

Subsequent events in the political arena have proved that the Reserve Bank is not yet in a position to stabilise the financial rand exchange rate through its intervention operations. Despite net purchases from the market of financial rand amounting to R229 million over the four months from April to July 1992, mainly as a supplementary instrument for liquidity management purposes, the financial rand exchange rate depreciated from US $1 = R3,36 on 21 April 1992, to R3,87 per dollar on 31 July 1992, or to a discount of 28,5 per cent on the commercial rand rate of exchange.

More stable domestic monetary situation

The most important intermediate objective of monetary policy remains the creation of a stable financial environment that will be conducive to and supportive of sustainable long-term economic growth. Monetary policy on its own cannot guarantee growth. At the same time, however, economic growth will not be sustainable unless it takes place in an environment of general financial stability.

Further progress was made over the past year towards establishing the basic conditions for the achievement of greater overall financial stability:

- the rate of increase in the M3 money supply over twelve months declined from 27 per cent in December 1988 to 22 per cent in December 1989, 12 per cent in December 1990 and 10,6 per cent in February 1992. Over the twelve months to June 1992, M3 increased by only 7,5 per cent; and
- similarly, the corresponding rate of increase in total credit extended by the monetary sector to the private sector declined from 28 per cent in December 1988 to 20 per cent in December 1989, 16 per cent in December 1990 and 9,1 per cent in June 1992.

It is also encouraging to note that not only did the rate of increase in the broadly defined M3 money supply slow down, but also those of M1A, M1 and M2, and that almost all these aggregates are now expanding at rates well below the current rate of inflation. Admittedly, pure monetarism would dictate even lower rates of increase in these aggregates, particularly in an economy where the total volume of goods and services produced by the system is indeed contracting. The Reserve Bank is, however, satisfied that, if the present rates of increase are maintained, the monetary aggregates will not contribute to any new escalation in the rate of inflation nor will they restrain production, but will rather gradually reduce inflationary pressures further.

From a monetary policy point of view it is rather disappointing that consumer price inflation remained stubbornly high, despite the significant progress made in reducing monetary support for rising prices. It must be accepted, however, that not least because of many rigidities in the market transmission mechanism, there are unavoidable and relatively long time-lags between the application of market-oriented monetary instruments on the one hand, and the eventual effects they may have on consumer price inflation, on the other.

The developments over the past year in the production price index are more encouraging, and serve as an early indicator of what could hopefully be expected of developments in consumer prices. The rate of increase in the all-goods production price index over periods of twelve months declined from a peak of 14,6 per cent in November 1990 to 6,7 per cent in January and February 1992, before rising again to 9,2 per cent in June 1992. The rate of increase in the production price index has now remained below the level of 10 per cent for eight months in succession.

In contrast to these changes in the production price index, the rate of increase in the consumer price index did not resume its downward movement immediately after the conclusion of the Gulf War early in 1991. After having declined from 15,7 per cent in June 1989 to 13,3 per cent in July 1990, the rate of increase in the consumer price index over periods of twelve months rose to 16,8 per cent in October 1991; only then did it start to move hesitantly downwards to 14,8 per cent in May 1992 and to 15,1 per cent in June 1992.

There are certain "once-only" factors that affected the consumer price index over the past year which must be taken into account in the assessment of these trends. These include:

- the introduction of value-added tax in October 1991 and its further extension to certain foodstuffs in April 1992;
- the adjustment of the weights used in the consumer basket for purposes of calculating the index; and
- the devastating drought that reduced the supply of certain foodstuffs in particular.

These factors are either non-recurring or reversible, and the statistical measurement of the consumer price index does not truly reflect the progress that has been made over the past year in reducing the underlying inflationary pressures in the economy. It is therefore important in this context to take note of the encouraging deceleration recently in the quarter-to-quarter rate of increase in the consumer price index which, on a seasonally adjusted and annualised basis, declined from 18,8 per cent in the fourth quarter of 1991 to 12,8 per cent in both the first and the second quarter of 1992.

> *"Inflation remained one of the major contributing factors to the continuous weakening in the structure of the South African economy."*

Inflation remained one of the major contributing factors to the continuous weakening in the structure of the South African economy. Its adverse effects on saving, on the allocation of resources, on the competitiveness of South African producers in world markets and on the distribution of wealth and income, make it undesirable from both an economic and social point of view. It is a fallacy to believe that more inflation can stimulate the economy, or that a strong economy needs inflation as a crutch to lean on, or, for that matter, that South Africa is different from other countries and must therefore be more tolerant of this cancerous phenomenon, particularly in a global environment where so many other countries recently succeeded in reducing their rates of inflation to relatively low levels. An economy that is beset by inflation and a fear of future inflation cannot and will not function well. This has been the experience of countries all over the world, and it applies equally to South Africa.

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The Reserve Bank therefore believes that it is in the interest of all South Africans to persist in the fight against inflation, even if this does require the retention of currently painful and unpopular measures. The reduction of the inflation rate must remain a policy priority, even in the present subdued economy.

Easier liquidity conditions and lower interest rates

Money market conditions eased considerably during the past year and the easier conditions were reflected in a decline in the amount of accommodation provided to banking institutions at the Reserve Bank's discount window. The average daily level of accommodation thus declined from R4,8 billion in January 1990 to R2,4 billion in December 1990 and to R1,0 billion in April 1992, before increasing again to R3,5 billion in July 1992.

A number of factors contributed to the easing of the money market situation:

- an increase in the country's net holdings of gold and other foreign reserves of about R6 billion from the end of 1990 to the end of June 1992 provided additional liquidity to the market;
- the introduction of lower cash reserve requirements for banking institutions in terms of the new Deposit-taking Institutions Act released approximately R1 billion to the banks over the period March to September 1991, which they now had available to invest in the money market;
- shortfalls incurred by the Reserve Bank in the execution of maturing forward foreign exchange contracts added R652 million in the second half of 1991 to the overall amount of money market liquidity; and
- a decline in the demand for bank credit from the private sector contributed to an easing of the liquidity situation of money market institutions.

In line with the changes in the underlying situation and the decline in the need for Reserve Bank accommodation at the discount window, the emphasis in the Bank's role in the money market shifted gradually from a restrictive role to a more supportive one, namely to assist money market institutions to find appropriate assets for the investment of their surplus short-term liquidity. Thus the Bank:

- in conjunction with the Treasury, raised the amount of the weekly issues of ordinary Treasury bills of 91 days' maturity;
- with the co-operation of the Treasury also issued, from 20 March 1992, Treasury bills of six and nine months' maturity at a weekly tender;
- issued special negotiable Reserve Bank bills of nine months' maturity on public auction;
- granted authorised dealers in foreign exchange scope for increasing their deposits with foreign banks from a total of US $316 million to $632 million; and
- required all registered deposit-taking institutions to hold an additional interest-earning cash reserve deposit with the Reserve Bank.

The easier money market conditions exerted some downward pressure on money market interest rates, a development which the Reserve Bank did not counteract with any aggressive open-market or other intervention operations. Thus the rate on three-month bankers' acceptances, which had already declined from 18,60 per cent in February 1990 to 16,40 per cent at the end of December 1991, receded further to 13,55 per cent at the end of July 1992 and to 12,70 per cent on 20 August 1992.

The Reserve Bank signified its approval of the downward trend in market interest rates by reducing its Bank rate, that is the rate at which the Bank is prepared to rediscount Treasury bills for registered deposit-taking institutions, from 17 to 16 per cent on 23 March 1992 and to 15 per cent on 30 June 1992. The Bank acquiesced in the lower level of interest rates mainly because it was satisfied with the progress made towards reducing the underlying inflationary pressures in the economy. The reductions in nominal interest rates to their present levels should not hold any threat of an early escalation in the demand for credit from banking institutions, and should therefore also not jeopardise the Reserve Bank's attempts to keep the rate of increase in the money supply within the guidelines of 7 to 10 per cent set for 1992.

There are still many people who refuse to acknowledge the importance of realistic market interest rates for sound and balanced economic development, and expect the Reserve Bank to use its power to create money to reduce interest rates to artificially low levels. For instance, people often refer disapprovingly to the so-called "high interest rate policy" of the Reserve Bank, or it is said that the high interest rates "fixed" by the Reserve Bank will not reduce inflation. These views are, of course, false. In a market-oriented economy interest rates must reflect the forces of supply and demand, and the Reserve Bank can only change the rates by changing the rate of increase in the money supply. Once the Bank has, however, decided on an acceptable rate of increase in the money supply, it cannot simultaneously attempt to also determine interest rates.

Interest rates maintained at artificially low levels for any lengthy period of time send out wrong market signals and create many distortions in the economy. The result is a gradual but persistent erosion of the ability of the economy to meet even the basic requirements of the community. Artificially low interest rates reduce saving, discourage the inflow of capital from abroad, lead to the misallocation of available investment funds, and make the cost of capital unduly low relative to the cost of other production factors, for instance labour, and therefore encourage capital-intensive production processes. In South Africa interest rates have been allowed to remain artificially low for long periods under the protection of an extensive system of exchange controls, through the subsidisation of foreign borrowings and by permitting excessive increases in the money supply. Many of the current deficiencies in the South African economic structure were either caused or aggravated by policies in support of unduly low interest rates. No country can in the longer run escape the unpleasant consequences of misdirected monetary and financial policies.

It is true that high interest rates, and in particular high real rates of interest, cause many hardships. But this is what they are intended to do: to act as a conduit that must force a downward adjustment in an economy that is suffering from basic deficiencies in the system. To try and avoid the unpleasant consequences of high interest rates without curing the basic causes of the upward pressure on the rates, will only lead to a delay in the basic adjustments that are unavoidable. Any attempt to depress interest rates by adding more newly created money to the system will be a fraudulent act intended to cover up the real problems of the economy. Eventually, we shall all pay for such folly through higher inflation, lower growth and more unemployment.

> *"... as a first step towards lower interest rates, the basic causes of inflation should be identified and eliminated, because low nominal interest rates can only become sustainable in an environment of low inflation."*

The debate is not whether high interest rates are bad or good for the economy — they do discourage certain sub-marginal economic activities and therefore depress growth. The question is rather why high interest rates are sometimes essential and what can be done to reduce them. The Reserve Bank is of the opinion that as a first step towards lower interest rates, the basic causes of inflation should be identified and eliminated, because low nominal interest rates can only become sustainable in an environment of low inflation. The Reserve Bank's preoccupation with a policy of fighting inflation is therefore indeed a policy of striving for lower interest rates.

The development and protection of a sound and efficient banking system

The Reserve Bank has a vested interest in the development of a sound and efficient banking system, and also in the development of efficient financial markets. The Bank's responsibilities with regard to the function of bank supervision have over the past year involved it in various controversial issues which may well question the wisdom of the five-year old "marriage" of the Reserve Bank and the Office of the Registrar of Deposit-taking Institutions.

Earlier actions by the Registrar of Deposit-taking Institutions to bring two small banks under curatorship and place another one in liquidation in order to safeguard the interests of depositors, continued to have repercussions during the past year. To a significant extent this further reaction was related to the decision of the monetary authorities to compensate smaller depositors for losses arising from the financial problems of these banks. This assistance gave rise to the perception that the Reserve Bank has a "duty of care" to protect the interests of a wide range of investors who have entrusted their funds indiscriminately to unregulated persons and agents. Ill-founded and injudicious financial reporting unfortunately served to strengthen this false perception. As a result many of these investors have already lost or stand to lose money because of the investment of their funds in fraudulent schemes or in schemes that have been affected adversely by the protracted economic recession.

> *"The Reserve Bank cannot protect investors against the results of their own poorly considered and often unsound investment decisions."*

The Reserve Bank cannot protect investors against the results of their own poorly considered and often unsound investment decisions. Even in the case of depositors with registered deposit-taking institutions which are subject to supervision by the Reserve Bank, the Bank cannot accept a so-called duty of care. Ultimately, the responsibility for the safety and financial soundness of deposit-taking institutions lies with the managements of such institutions. The Reserve Bank's supervision can only promote better management, especially of the risks inherent in banking business. In the interest of maintaining confidence in the banking system and, more generally, the stability of the banking and financial systems, the Reserve Bank may, however, in special situations decide to assist depositors with registered deposit-taking institutions which find themselves in financial distress. However, this is not an automatic process and the feasibility of providing assistance in each individual case must be determined with regard to considerations related directly to the aim of maintaining stability in the banking sector.

Unwarranted claims by investors with deposit-taking institutions and unregulated entities alike for financial assistance by the Reserve Bank, which have received wide publicity and unjustified support in the financial press, have actually forced the Reserve Bank into the position of being a defendant in time-consuming and costly litigation. It cannot be denied that these events have had a negative impact on the general standing of the Reserve Bank and, if carried too far, the credibility of the central bank as a monetary authority could be undermined.

In the light of these developments, two fundamental questions arise. The first is whether the Reserve Bank, as central bank and monetary authority, should continue to involve itself in bank supervision. The second question is whether the Bank could be expected to provide, without any legal obligation to do so, deposit insurance by acting as financial supporter of last resort. These questions become even more relevant when it is realised that no country in the world has succeeded, or will succeed through banking and other financial regulation, in totally averting all financial failures of banks and other financial institutions. Regulators can only contribute to the financial soundness of institutions by promoting competent management based on fit and proper standards, proper risk assessment, and appropriate internal accounting, information and control systems.

In reappraising its position, the Reserve Bank will have to be guided by several considerations, including the following:

- the extent to which its credibility as a monetary authority could be undermined by its involvement in bank supervision;

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- the likelihood that it will attract a moral obligation to provide financial assistance to a deposit-taking institution under its supervision when such an institution ends up in financial difficulty;
- given the international trend towards integration in the provision of financial services, the feasibility of regulation, not only of banking and services related to banking, but also of other financial services, by the central bank; and
- the validity of an earlier assumption that bank supervision constitutes a logical extension of a central bank's many day-to-day relationships with the banking sector.

Firm decisions have not yet been reached, but some preliminary conclusions are the following:

- the functions of bank supervision and lender (or financial supporter) of last resort should be separated clearly;
- practical ways of establishing an arms-length relationship between the Office for Deposit-taking Institutions and the Reserve Bank itself should be devised in order to allow the Registrar of Deposit-taking Institutions to focus exclusively on prudential supervisory matters, and the Reserve Bank to focus on the stability of the financial system;
- the provision of financial support to deposit-taking institutions in financial distress should be aimed solely at preserving the stability of the banking system and of the broader financial system;
- attention should be devoted to the feasibility of introducing a **limited** deposit insurance scheme for private depositors in South Africa and to finding ways and means of funding such a scheme; and
- the effect of an integrated approach to the provision of financial services on the future structure of financial regulation as well as the co-ordination of financial regulation during the period of transition to a new regulatory structure should be investigated.

These issues will require further investigation and discussion before final conclusions can be reached. It is hoped that good progress will be made during the coming year.

Ominous signals from government finance

During the past year an ominous trend continued in government finance when the pace of growth in current revenue again fell behind the growth in total expenditure. The deficit before borrowing on the Budget therefore not only increased, but also absorbed a greater share of domestic saving.

During the fiscal year 1991/92, government expenditure increased by 16,1 per cent and revenue by only 7,4 per cent. The deficit before borrowing accordingly increased to R14,3 billion, or 4,7 per cent of gross domestic product. This trend continued in the first quarter of the current fiscal year when Exchequer issues rose by 13,0 per cent compared with the first quarter of the preceding fiscal year, and Exchequer receipts rose by only 8,9 per cent.

These trends in government finance were, to some extent, counter-cyclical and provided a stimulus to a very depressed economy. To the extent that they reflected "automatic stabilisers" based on cyclical declines in incomes and employment in the private sector, they were hardly cause for alarm. There is, however, always the danger that because of a ratchet effect, the situation will not be easily corrected again once private sector expenditure starts moving up. The Department of Finance, however, is very much aware of this danger and the Minister of Finance is strongly determined to reduce state spending as a ratio of gross domestic product, and so eliminate dissaving by the Central Government in due course.

The need for economic structural adjustment

In this year's *Annual Economic Report* of the Reserve Bank special attention has been given to causes of the development of structural weaknesses in the South African economy. The country is now faced not only with an urgent need for a cyclical recovery, but also with some painful structural adjustments to bring the economy back onto a path of sustainable higher growth.

> *"The country is now faced not only with an urgent need for a cyclical recovery, but also with some painful structural adjustments to bring the economy back onto a path of sustainable higher growth."*

Although each country must design a strategy suitable to its own requirements, South Africa can learn from the experience of other countries that have already applied successful economic restructuring programmes. In general, these countries have:

- pursued prudent financial policies, providing for a stable macro-economic environment with low inflation;
- adopted outward growth strategies, with appropriate exchange rates and tariff structures;
- maintained high levels of real investment, financed mainly by improved domestic savings;
- cut back on excessive regulation and exposed domestic industries to healthy foreign competition so as to boost productivity;
- given priority to spreading education as widely as possible;
- ensured that all sectors of society, and particularly the most disadvantaged, have greater access to productive assets and so acquire a genuine stake in economic progress; and
- carefully defined the role of government, making government concentrate on the things it alone is able to do well, and encouraging it to refrain from interfering or competing in the areas of production and distribution where private sector entrepreneurs can perform best.

South Africa has already gone some distance on the road of economic restructuring. We have already, for example:

- consolidated the foreign debt position and established a relatively sound overall balance of payments situation;
- succeeded in stabilising the growth rates in the domestic monetary aggregates in conformity with the objective of a stable macro-economic financial environment; and
- stabilised the exchange rate of the rand and eliminated some of the underlying inflationary pressures in the economy.

Much more, however, remains to be done. The financial markets, and particularly the foreign exchange market, must be liberalised further to ensure more realistic interest and exchange rates. There must be a more harmonised and co-ordinated approach in overall macro-economic policies directed towards the common goal of permanently increasing the growth capacity of the South African economy. Such a programme will have to incorporate fiscal, monetary and labour policies, trade policies, an industrial strategy and all other aspects of macro-economic policies.

In the South African context the programme will also have to provide for certain special features of contemporary economic developments in this country. These include:

- the growing importance of the informal sector, and the major part it has come to play as an employer;
- the emergence of many small businesses that not only need financial support, but also management advice and appropriate technical assistance;
- the traditional "communal" approach of especially Black people, which is now carried into the business world, in the form for instance of co-operative savings clubs such as stokvels and credit unions; and
- the major requirement of a social upliftment programme that must at the same time take account of the existing large disparities in the distribution of wealth and income.

The Minister of Finance and of Trade and Industry has expressed a great interest in such a comprehensive economic restructuring programme for South Africa, and the Reserve Bank has offered him its full support. The Bank is of the opinion that economic restructuring needs the support of all the people of the country, and therefore welcomes the public debate that is now developing about this subject.

Concluding remarks

Most South Africans share the concern which the Reserve Bank feels for the depressed real economic conditions in the country. The low and, at this stage even negative economic growth rate, aggravates the already serious unemployment problem, increases poverty and reduces the average standard of living of the people of South Africa. Neither the cause of, nor the solution to this dilemma, should be looked for in monetary policy. Attempts to stimulate the economy at this juncture by the injection of more money will again stimulate inflation and eventually erode the growth potential of the economy even further, giving rise to even more unemployment.

The present cautious approach of monetary policy has contributed to the improvement in the overall balance of payments position and to the stabilisation of the domestic financial situation. These improvements, which reflect normal developments in a period of economic recession and adjustment, are laying a sound foundation for the future recovery of the economy, and for supporting sustainable economic growth in the longer run.

Monetary policy has also made a major contribution towards reducing inflationary pressures in the economy. Although the abatement of inflation has not yet been reflected in the consumer price index, South Africa finally has a great opportunity to terminate the long spell of double-digit inflation. If consumers, employers, traders, labour unions and government all join forces with the Reserve Bank, we should be able to bring inflation down to a much lower level over the next twelve months, which will also justify lower nominal interest rates.

Increasing attention was recently focused on the structural deficiencies of the South African economy, and the need for a major economic restructuring programme was identified. It is, however, a pre-condition for the success of such a programme that South Africa shall continue to pursue prudent financial policies, providing for a stable macro-economic environment with low inflation. Good progress has already been made towards attaining these goals, but real economic adjustment takes time and can only succeed if the public is convinced that the appropriate policies will be applied seriously and unceasingly.

> *"The entrepreneurs of the world … look for greater economic, political and social stability before they will be prepared to expand the economy's production capacity and create new employment opportunities for the growing work force of our community."*

Economic recovery in South Africa also remains dependent to an important extent upon the re-establishment of political and social stability in the country. The entrepreneurs of the world, including the prudent South African business community, look for greater economic, political and social stability before they will be prepared to expand the economy's production capacity and create new employment opportunities for the growing work force of our community. The keen interest shown in the economy by many potential local and foreign investors in the early months of 1992, before the breakdown in the political negotiations, provided encouraging signs of what could be expected if South Africans can only get their political act together.

In the meantime, the Reserve Bank holds the conviction that its policy approach of maintaining overall financial stability evidenced by a low rate of increase in the money supply, positive real rates of interest and a relatively stable exchange rate of the rand is in the best interest of the South African economic situation. The Bank therefore remains committed to pursue its mission of protecting the internal and the external value of the rand.

Penrose Financial 15393

'Highest deficit in history'

(49)

CT 27/8/92

Political Correspondent

THE government was in the process of incurring the highest budget deficit in the country's history, Democratic Party finance spokesman Mr Ken Andrew said yesterday.

Responding to the warning by Reserve Bank governor Mr Chris Stals that the mounting government deficit was reaching "ominous" proportions, Mr Andrew said the government was borrowing money on a grand scale to finance current expenditure.

"All South Africans are reaping the whirlwind of the mismanagement and corruption of successive National Party governments," he said.

The country was living beyond its means and future generations would be landed with the debts the current government was incurring.

● The Minister of Finance, Mr Derek Keys, was scheduled to deal with the issue of SA's widening deficit at a press conference at the Union Buildings today.

However, a spokesman for Mr Keys said last night that he would no longer be participating in the media conference which will also be attended by the Minister of Constitutional Affairs, Mr Roelf Meyer. It is understood that Mr Keys may address a press conference next week on the state of the economy.

Conflict resolution specialist **Dr Don Beck** is back in the country (his 40th visit) to speak at a conference on Multicultural Conflict Management, organised by the Human Sciences Research Council. He discusses the problems and urges leaders to rethink strategies:

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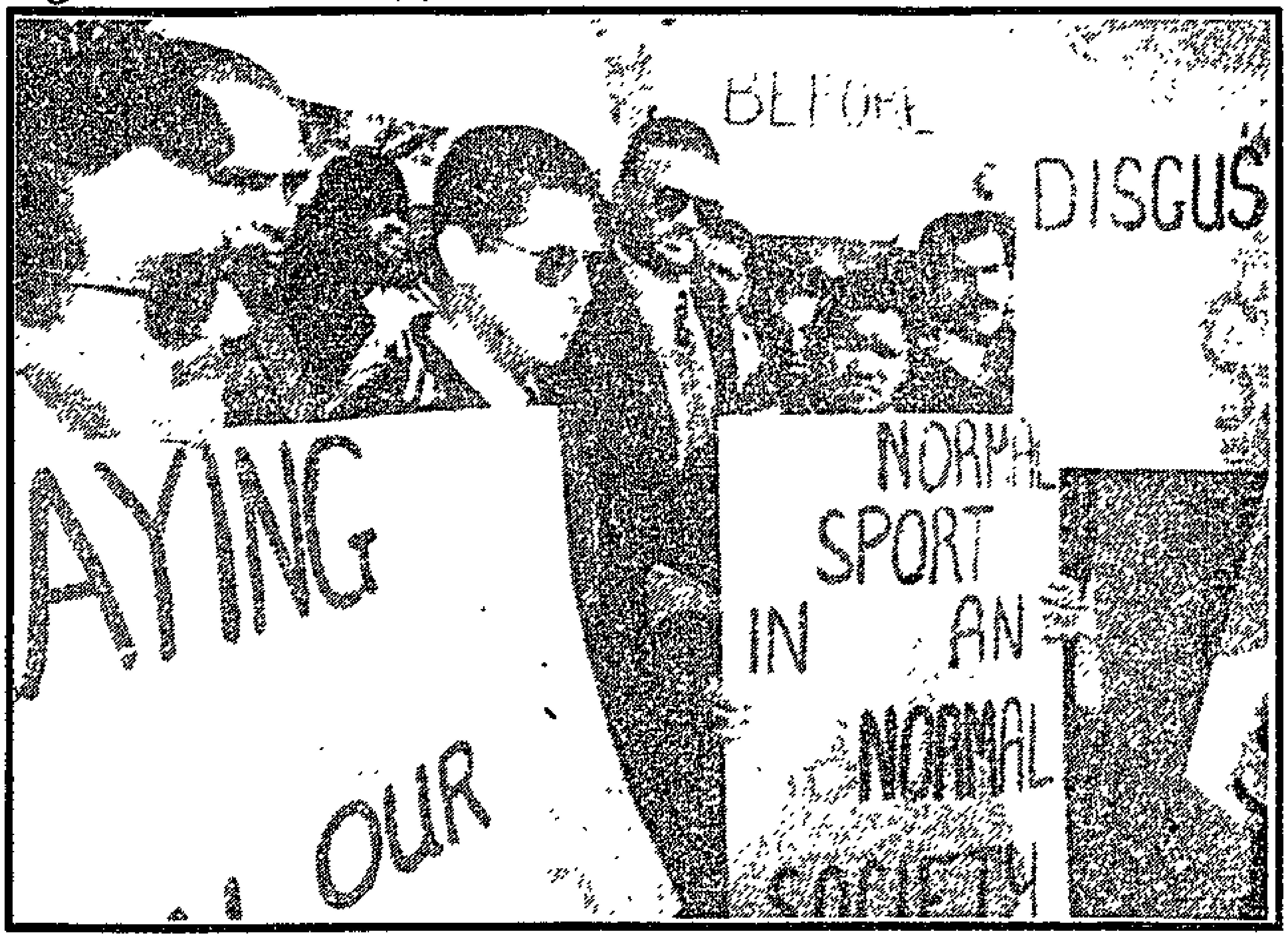
Sowetan 27/8/92



Members of the South African Council on Sports stage a placard demonstration protesting against the arrival of the Australian rugby team in Cape Town last week.

A RUGBY metaphor seems appropriate in South Africa today.

We had the example at Ellis Park of what should have been a grand and unifying event suddenly showing up so many of the fault lines in South African society - essentially an obsession with the past when you should be building the future.

Then at Newlands we saw the effects of isolation. South African rugby has not kept up with the world game; its techniques and strategies are outmoded.

I suggest that, just as South African rugby players need to learn new skills and new approaches, exactly the same is true of the political leaders.

A new South Africa will not be built using the designs and methods of the past - neo-apartheid or a continuation of "the struggle".

To stay with the rugby metaphor, it is now half-time. Codesa 1 and 2, the referendum, mass demonstrations, recriminations and political posturing in all kinds of guises occurred in the first half.

In spite of noble effort, good intentions and moral certitudes, things have got a whole lot worse instead of better. It might be time to devise a new strategy for the second half.

Instead of quarrelling over comparative political or economic models or dredging up injustices from the past, or even focusing on present inequities, it would be more useful to shift discussion to a careful and systematic process and recipe for meeting the real needs of all South Africans in the future.

The task is to engineer a new society that addresses the realities of value system distributions in this country.

Ethnic, racial, cultural and economic stereotypes need to be replaced with a sensitive understanding of the diverse levels of human development along a First World to Third World continuum. To deny the existence of these differences (which are perfectly natural and nothing to be ashamed of) is foolish and naive. The distributions do not follow strict racial lines. There are probably as many black First Worlders in South Africa as white.

Once the stereotypes have been disposed of, it should be possible to craft a national consensus around a plan to facilitate the development of the many, rather than redistribute the wealth of the few.

A "healthy society" is the desired outcome, not "black majority rule" or "continued white privilege".

The bulk of the South African population is stacked in the Third World to Second World (authoritarian) transition. This huge bulge is poor and ill-housed and has minimal education and job opportunities. It struggles daily just to survive. But these people have seen the bright lights of Egoli and want a better life for themselves and their children.

Yet if the management of the entire society is determined exclusively by the needs of this population mass, the First World component will be compromised. Wealth and technical skill will head offshore and the very resource needed to uplift the have-nots will disappear, shattering the raised expectations of millions.

And if the central operating principle to determine South Africa's future is located exclusively within the "haves", the rich will tend to get richer and the poor will have to make do with crumbs from the table of affluence.

Herein lies the dilemma, the cause of the current political impasse.

From one principle flows the demand for wealth redistribution and communal, authoritarian command structures controlled by a few power-driven elites. Prosperity is supposed to "bubble up" through Government spending and the activities of bureaucrats.

From the second principle emerges an emphasis on self reliance, the free market and a strong bill of rights, enforced by an independent judiciary, which will protect the individual and private property. Prosperity is supposed to "trickle down" a class-based distribution staircase.

Those who have crossed Rubicon 2 recognise that real progress and prosperity can come only when both operating systems work in concert, in synergy. Unless the First World component is mobilised to create wealth and maintain standards, the have-nots will inherit nothing and society will continue to deteriorate. But unless the needs of the bulk of the population are met, the quality of life of the haves will suffer and emigration becomes an option.

The development South Africa needs can be likened to a series of dams and locks, which move the entire society upstream. Each stage will require a different ratio or mixture of self reliance and collective effort.

It will take all South Africans, working in concert, to create and maintain such a developmental process - every bricklayer, teacher, entrepreneur.

Deficit could widen to 5,5%

Low revenue worsens govt debt burden

BDAY 27/8/92.

(49)

BILLY PADDOCK

GOVERNMENT would be forced to go to the market to borrow money because of a revenue shortfall larger than estimated only a month ago, Finance director-general Gerhard Croeser said yesterday.

The revised deficit before borrowing would be about a percentage point higher than the budgeted 4,5% (R15,9bn), forcing government to raise at least an extra R1,5bn.

A month ago the Finance Department said the deficit before borrowing as a percentage of GDP would be about 5% (about R17,5bn), but Croeser said this was an optimistic figure.

This could mean the deficit at year-end could be between R19bn (about 5,5%) and R21bn.

Government could not raise taxes at this stage, nor could it increase VAT — a political hot potato, requiring Parliament's approval. The only other route was to borrow the money, Croeser said.

In the first three months of the fiscal year government's deficit was nearly half that budgeted for the entire year.

Croeser said the revenue figures in the past had always been excellent but this year things had gone wrong.

He said that in preparing the Budget last year, government had had 10 months' figures and had had to project figures only for two months. Nonetheless, it had overestimated.

As a result, the base from which the department was working was lower than expected, with growth factors being absent. The economy was more depressed than anticipated and the expected turnaround did not materialise, he said.

Croeser said there was unlikely to be any positive growth in the second or third quarters, a situation made worse by the drought. Also, government expenditure would result in some overrun.

"This all means that the deficit is going to be higher than the 5% we predicted a month ago," he said.

He expected that government could borrow the extra shortfall at about 15%, and would have to make at least one unbudgeted payment of at least R150m this year.

He said it should not be too difficult to borrow at this stage because the market was very liquid.

Croeser said he was not happy with the size of the deficit. But it was acceptable — during a downswing and on a temporary basis — to have such a deficit and fund it through borrowing.

He said if government tried to cut back drastically on its expenditure, it would stop a large flow of funds into the economy w[illegible] would depress it even further.

☐ To Page 2

Revenue shortfall

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Although he expected an upswing to begin by the year-end, he warned this would be slight as it would be off a low and depressed base. But if accompanied by a "normal agricultural year", there would be positive growth next year.

He said it was vital that some form of political accord was reached, spilling into an economic accord. An increase in the VAT rate and government's structural adjustment programme could then be discussed by all parties.

If negotiations continued on a stop-start basis much longer, the implications for the economy could be serious.

"The light at the end of the tunnel can be extinguished and it will be very difficult for the economy to recover."

He added: "We are not going to just sit back and wait. We still have to govern and keep the country running."

Forum faces formidable task

STAR 27/8/92

(49)

The new National Economic Forum has finally reached the launch pad. Out of negotiations due to start next month, it is expected to spell out both short and longer-term policies, MICHAEL CHESTER writes.

Dr Anton Rupert . . . founded the successful Small Business Development Corporation.

SETTING the agenda for the new National Economic Forum that starts work next month will bring South Africa to the moment of truth about the formidable scale of problems to be solved as it emerges from the apartheid era

How far back it has slipped in global economic status in recent years has been measured by international studies done by the World Forum and the Institute of Management Development in Switzerland

In the 1992 count, in terms of overall economic muscle, South Africa has been shunted towards the bottom of the scale.

Out of 36 countries, South Africa was ranked no better than 29th. Even among the smaller economies in the second league, South Africa failed to reach mid-way on the ladder. When it came to what the researchers called the people factor -- items such as equal education and job opportunities — South Africa hit rock bottom.

While South Africa was wrapped in its apartheid cocoon and isolated internationally, it has been overtaken by a swarm of rivals that started from smaller and weaker bases a couple of decades ago — even former weaklings like Singapore, South Korea, Thailand and Malaysia

How SA decides to start climbing to higher rungs on the ladder will be watched not only by researchers in Switzerland in their annual reviews

Methods and strategies agreed upon inside the National Economic Forum will be closely scrutinised by keen eyes at the World Bank and International Monetary Fund, whose nod or shake of the head may be crucial to new flows of foreign investment needed to reach socio-economic targets

Before they put their hands in their pockets, potential overseas investors as well as investors at home will need the assurance of practicality and coherence in the blueprints that are drawn.

"It's no use weaving fanciful day-dreams that may raise high expectations and then crash to earth in a couple of years," said one seasoned observer

"There are no magic wands to be waved real progress will begin only once cast-iron determination and credibility have been tested "

The first obstacle may equal the challenge of an Everest expedition on its own· the unemployment crisis

Dr Edwin Basson, of the Small Business Development Corporation (SBDC), found that a strict economic definition put the unemployment total at 6,3 million — no less than 44 percent of the worker population

However, what was missing in all the calculations, he found, was the role of the informal sector Deeper research showed that the informal sector, which began its phenomenal growth in the 1980s, now had a combined labour force of 3,5 million — from hawkers and street-traders to auto engineers and high-technology experts running their own businesses.

How to bring them from the outskirts into the mainstream of economic performance?

Slashing away at government red-tape ever since its foundation by tobacco magnate Dr Anton Rupert of the Rembrandt Group under the shadows of apartheid in 1980, the SBDC today operates a nationwide network of no fewer than 40 workshop complexes known as industrial hives

The number of individual small businesses it has created has soared above 2 700, which in turn has created jobs.

The head of the SBDC central region, Jo Schwenke, who masterminds operations, estimates combined annual turnover at R600 million or more

Better still, in many ways, even big business has learnt to build more and bigger bridges to the small business sector and how to cut down overall production costs by handing the mini-companies subcontract work

The value of subcontracts awarded so far has already topped R50 million Economists agree that the potential for big/small business contact is almost without limit. They take their cue from some Far East economies

So far the SBDC has created no fewer than 312 000 new jobs out of thin air under its loan programmes It believes even that impressive total could be overshadowed by new initiatives of high-finance giants

A think-tank has worked out that an avalanche of more than 50 000 new small and medium-size enterprises — with as many as 2,5 million new job opportunities — could be provided over the next five years.

The scheme revolves around agreement between the State and big financial institutions — insurance companies and pension funds — to invest in the masterplan

No one is following behind-the-scenes discussions with more attentive ears than millions of potential entrepreneurs now standing in unemployment queues as the recession swings its scythe.

Tuned in even closer are school-leavers, now spilling out into the labour market at the rate of 400 000 a year — and with only about seven in every 100 likely to find vacancies in the formal industrial and commercial sectors, according to estimates by the SA Chamber of Business.

But the agenda confronting the National Economic Forum does not end with the unemployment issue Yet to be resolved is the clash in arguments about the merits of privatisation — or nationalisation

Somehow, every time the nationalisation debate seems to retreat into the background, it springs back again. So, too, the pros and cons of privatisation, which many private-sector economists advocate as an exercise in Thatcherism, with the Government using incomes from sales of State operations to finance more socio-economic programmes, but which the ANC has vowed to reverse.

The issue remains one of the hottest potatoes of all — and neither the African National Congress nor the National Party seems to be sure about precisely how to handle it

In purely economic terms, also to be tackled are issues such as the future of exchange controls, interest rates and how best to attack the inflation syndrome, the missing link between productivity and wage increases

On the agenda, too, come questions about economic power concentrations in the hands of so few corporate giants — suspicions of monopolies, oligopolies and cartels

More barbed wire faces members of the forum over reform of the whole taxation system — sorting out equitable levels of VAT and company and individual tax rates to turn disincentives into incentives

In turn, nerves still jangle over which decisions may emerge on which basic economic theories to pursue Marxism? Watered-down socialism? Mixed economy? Free-market economy?

Final agreement on the launch of the National Economic Forum, as a think-tank formed to bring together business, labour and the Government around the table, was reached last week Members are due to get talks under way in mid-September

They are pledged to work out integrated economic strategies on issues that range from fiscal and monetary policies to labour and trade policies

But it would be a gross error to talk above the heads of the restless mass of the population, peppering progress reports with obscure economic jargon that is supposed to impress everyone with its erudition

South Africans also want – and deserve — a practical timetable of solutions to traumatic shortages of housing, a better education system, more career opportunities, more job creation, and higher living standards for everyone

Mission impossible? Not necessarily so if the success formula of several overseas countries is examined in detail — rivals that set out with far fewer assets in natural and, especially, potential human resources

Even if down-to-earth economic limitations make the trek towards an ideal new South Africa look a long and hard slog, at least the forum should be able to inspire hope by erecting a set of credible signposts

Until such signposts are visible, the level of confidence among both businessmen and consumers can be expected to roll in the doldrums. ◻

Only the naive blame pyramids for economic ills

BDM 27/8/92. **JOS GERSON** (49)

EVEN eminent economists should tread warily when they prescribe solutions for distant countries with which they are not intimately familiar. Sir Alan Walters and George Guise obviously felt no need for such caution when they wrote their piece on SA (Business Day, August 20).

Much of what they say about the political environment is valid and perceptive, but the same cannot be said of their rather facile attack on the country's corporations.

They fail to take into account the fact that most of the serious distortions (for instance, excessive agglomeration) are attributable to 30 years of exchange control regulations, which forced groups such as Anglo-American to diversify into industry instead of into other mining ventures overseas.

If the political situation were normalised and exchange controls lifted, the re-entry of foreign corporations into the country would afford the large groups the opportunity of spinning off many of their subsidiaries without the wholesale collapse of the pyramided holding companies being necessary. Until then, unbundling remains a mere panacea. Where unbundling is called for (as in the sale of Tradegro), it will occur anyway, without interference from politically inspired meddlers.

Walters and Guise are patently wrong when they accuse SA management of being "featherbedded" and unaccountable to shareholders. On the contrary, most of SA's operating companies are under the control of powerful family shareholders, such as the Ruperts and others (and, of course, the life insurers) to whom management of the operating companies is clearly accountable. Senior managers in SA are considerably less powerful and less well-paid than their counterparts in the UK and the US, and that is all to the good.

If, indeed, the pyramids are so inefficient and oppressive to the broader body of shareholders, how does one explain the significant premium in the price-to-earnings ratios of pyramid-controlled operating companies relative to those of the independent operating companies? In any event, it is absurd and extravagant of Walters and Guise to infer that collapsing the pyramids could lead to a cost saving of 50%.

They also show no sensitivity or awareness of the international debate about alternative systems of corporate governance that is now emerging.

Harvard University's Bradford de Long concedes that in almost every country the unfettered forces of the market tended over several decades to produce extremely concentrated structures of corporate control: from J P Morgan and the other great investment bankers of the US (cut down by Roosevelt for political reasons in the '30s) to the powerful banks of Imperial and even modern Germany; from the prewar Zaibatsus and postwar Keiretsus of Japan to the conglomerate Chaebols of South Korea; from the Agnellis of Italy to the Wallenbergs of Sweden.

Surely, the market must have had some purpose in fostering these structures, the development of which was almost always associated with phenomenal national economic growth rates. Only in the enigmatic case of the UK did such structures fail to emerge. Perhaps their absence provides a clue to Britain's dismally slow, long-run growth rate and its relative decline since the late 19th century, despite its undeniable success at developing impressive and sophisticated financial markets.

It may be significant that many US economists and financial scholars of diverse ideological persuasions now question the benefits of the Anglo-Saxon system of corporate governance. On the left, the Massachusetts Institute of Technology's Lester Thurow believes the "democratisation" of America's corporations in the '30s was a mistake. On the right, Harvard Business School's Michael Jensen, a defender of the wave of leveraged buyouts and takeovers of the '80s, wants the market to be entirely free to produce powerful shareholders, even if this leads to their becoming entrenched.

The point that has to be understood is that while corporate raiders such as Lord Hanson have undoubtedly helped to shore up the performance of the management-dominated corporations that characterise the UK and US, hostile takeovers and contestable control should not be seen as ends in themselves. Otherwise, the classic family-controlled firm would have to be considered — necessarily but implausibly — as an inferior anomaly (whatever the family's underlying shareholding).

Families could then add value simply by surrendering control and, surely, most families are not so vain as to forgo the resulting increase in their wealth! Regulations enforcing the principle of "one-share, one-vote" would then be superfluous. Yet, in the real world that is not the case. Such regulations are expressly designed to thwart the will of investors (and, in this country, institutions) who, with their eyes open, enthusiastically take up new issues in pyramided holding companies, which also serve to concentrate and to preserve the control function. The road to mutually negotiated takeovers should always be kept wide open, but in this respect SA's laws are more liberal than those of the UK.

Walters and Guise automatically assume that the present structure facilitates monopoly pricing Yet the only effective antidote for that is foreign competition. SA consumers certainly overpay for a wide range of goods, but the root of their problem is to be found in the country's protectionist trade policies and various regulations that suppress competition. Industry structure per se has very little to do with it — as an excellent empirical paper by Wits University's Dan Leach shows

What about the service industries, however, which by their very nature are less open to foreign competition? One such industry, namely supermarkets, may illustrate the point. In SA, in normal years, the major supermarket companies earn a net return of about 2%, which is roughly the international norm. In the UK, despite the prominence and power accorded the Monopolies & Mergers Commission, the return exceeds 6%. Have we not a case here of the pot calling the kettle black?

In one respect Walters and Guise are, unfortunately, correct. Dirigiste regimes have, in general, been more tolerant of concentrated corporate structures. There are many deep reasons for this, but one is that many voters and, above all, the intelligentsia of the English-speaking countries, seem incapable of differentiating between the world of politics and that of commerce.

In ideal circumstances, we should be able to reap the advantages of a highly devolved political system as well as those of a market-driven (if necessary, very concentrated) corporate structure. Alas, in reality, that may be asking for too much.

☐ Gerson is a consultant economist to Davis Borkum Hare & Co and a visiting lecturer at UCT's Graduate School of Business. The topic is the subject of his unpublished doctoral dissertation at UCLA and also forms part of a UCT-based research project which he has undertaken in collaboration with Professors Brian Kantor and Graham Barr.

Study expects $15bn foreign funds inflow

(47)

B/DAY 27/8/92

CHARLIE PRETZLIK

THE SA economy could grow by between 3% and 4% a year between mid-1993 and 1996, economic consultant Thierry Apoteker concludes in a study produced for the French Bank of Southern Africa.

From its current negative annual growth rate, a post apartheid economy would be boosted by at least $15bn in foreign funding over a three-year period.

Apoteker predicts a Budget deficit which would be restricted to 3% of GDP.

A consumer led recovery will operate alongside an increase in exports, spurred on by the suspension of sanctions and the exploitation of SA's advantageous position for trading with Asia and Europe, Apoteker says.

Although inflation would be a prominent feature on the post-apartheid economic landscape, Apoteker is confident any future government, whatever its political hue, will be forced to adopt a relatively conservative and liberal economic policy and contain public spending within limits acceptable to international funding institutions.

This optimism is matched by French Chamber of Commerce and Industries of Southern Africa (FCCISA) GM Dominique Brunin.

Brunin said in an interview: "We have seen French interest in SA take off this year as businesses realise the reticence of British and German companies is an opportunity not to be passed over by them."

He said since January the FCCI had recorded more than 50 businesses arriving in SA from France to investigate business potential, and added most departed either with contracts or with a commitment to return.

He explained this French optimism — at a time when other overseas businesses were "keeping their powder dry" — was borne out by the fact France was already the largest investor in sub-Saharan Africa and considered the gap left by other countries as an opportunity to move in to SA.

In recent months, contracts have been signed between French computer company Bull and Mohawk, between Alusaf and French steel giant Pechiney, and between Sun International and France's Accor hotel group.

SA's technology 'lagging behind'

GERALD REILLY

B/DAY 27/8/92

PRETORIA — The rest of the world was way ahead of SA in the technological field, even more so than was realised in the "comfortable" days of sanctions and isolation, Foundation for Research and Development Council (FRD) chairman Johan van der Walt says in the organisation's annual report published yesterday.

Van der Walt said government and the private sector would have to make a far greater investment in training scientists and technologists than it was doing at present.

The report, handed to National Education Minister Piet Marias yesterday, said more than R59m was allocated to the FRD in 1991/92 for developing human resources in science and technology.

Arg 28/8/92

SA debt to UN now 3rd highest

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The Argus Foreign Service

NEW YORK. — South Africa's debt to the United Nations for the regular operating budget is approaching $50 million (R140 million), placing it third among delinquent members.

South Africa also owes millions more on other accounts, mainly for UN peackeeping operations.

The United States leads the debtors list at $524 million (R1,4 billion), followed by the Russian Federation at $138 million (R386 million).

The debt is not expected to be settled soon, given the virtual certainty that South Africa will not be permitted to reclaim its General Assembly seat this year.

Before the Boipatong massacre there had been hopes South Africa would be allowed back at the session opening on September 15.

Uncertainty contributes to a gloomy outlook

BDay 28/8/92

LINDA ENSOR

CAPE TOWN — The outlook for 1993 was gloomy with a zero economic growth rate likely, Santam investments GM Roy Justus said in his latest quarterly economic review.

A feeling of uncertainty, acting as a restraint on consumer spending, was likely to continue for at least the next 12 to 18 months, he said.

And the lack of investor confidence meant there would be no meaningful investment expenditure and, therefore, no new formal job creation.

"Even with a substantial improvement in the political situation, some time will elapse before fixed capital investment becomes a reality," Justus said.

"Any hopes of an upward movement in the world economy to stimulate the SA economy probably would have to wait until 1994, as global conditions were likely to remain flat for the rest of this year and for most of 1993, he said.

"With a world situation like it is, virtually all commodity prices will remain low. You cannot have an export-led upturn in SA if commodity prices remain at the bottom."

Justus said US economic indicators remained fairly neutral, a further rise in UK interest rates could not be ruled out, while Japan's economy remained flat with demand low and the financial sector facing problems of asset deflation.

Justus did not envisage much change in SA's rate of inflation. He said that when the effect of the original imposition of VAT moved out of the calculations, the inflation rate might sag a little but it would remain at an unacceptably high level largely because of the drought. He said it was difficult to envisage an inflation rate below 12%.

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"Rates of interest will remain under downward pressure and we might see a further reduction of 1% in the rates pattern during the next 12 months," he said.

Share prices would continue to look high relative to short and medium-term prospects, especially when faced with negative interest rates.

Left-wing scenarios unveiled

BDAY 28/8/92

(49)

GRETA STEYN

SA's GDP would be shrinking at an annual rate of about 2% by the next century if the country failed to achieve a representative government, according to a new economic scenario released yesterday.

The Mont Fleur scenarios were compiled by a diverse team that included the University of the Western Cape's Prof Pieter le Roux and Unisa's Prof Philip Mohr, the ANC's Tito Mboweni and Trevor Manuel, businessmen Christo Wiese and Michiel le Roux and representatives from the PAC, the Black Sash and various education institutions. Shell's London head of scenario planning, Adam Kahane, was the facilitator.

The team came up with four future scenarios which they have presented to Finance Minister Derek Keys.

Le Roux said yesterday: "Despite the participants' diverse backgrounds they reached consensus on the scenarios. These scenarios are not presented as truths or blueprints. The purpose of the exercise is to stimulate debate around the implications of these possible futures and to create an awareness that the future is not predetermined but that it depends on the strategic decisions taken during the next year or two."

The group found if there was a political settlement with a long transition period and "sunset clauses" that inhibit effective government, the scenario was of sluggish growth dipping into recession by the next century.

Mboweni said a transitional government with a multiparty cabinet would be unable to act decisively. The result would be decisions reflecting the lowest common denominator. Uncertainty because of the long transition would see investors holding back.

Another possible scenario described by the team was "boom-bust" after a speedy transition to a democratic government. Expansionary policies could push growth up to 6% but the upswing would be short-lived — less than two years. The economy would then plunge into a protracted recession with GDP shrinking at an annual rate of 4% by the next century.

While there was consensus within the group that this scenario was to be avoided, they were unable to agree on details such as the size of the deficit and the precise role of monetary policy. There was, however, agreement that fiscal and monetary discipline were necessary. They also agreed that growth and redistribution had to take place, within a framework that was market-orientated rather than free market.

The optimistic scenario assumed a political settlement with broad participation and cautious economic policies. After a slow start, SA had a potential economic growth rate of about 6%.

The project was funded by the Friedrich Ebert Stiftung and the Swiss Development Agency. It is one of a spate of similar exercises on SA's future, first started by Old Mutual and Nedcor. Unlike the Mutual/Nedcor scenarios, the Mont Fleur plan has been publicly released for debate. It also claims to be the first left of centre scenario plan for SA.

The team emphasised they were not offering a blueprint, but did identify basic elements that had to be in place for the optimstic scenario to be realised. Elements needed in the social system included empowerment of women, while those in the political system included a culture of justice, proportional representation and a break from authoritarianism.

Four options for the economy

STAR 28/8/92

By Sven Lünsche

(49)

A grouping of leading academics, trade unions and extra-parliamentary political parties, including the ANC and the PAC, have drawn up four possible economic scenarios for the next decade.

Named the Mont Fleur scenarios, they examine the economic consequences of the four most likely political developments.

The presenters of the scenarios, which include ANC economists Trevor Manuel and Tito Mboweni, PAC economist Mosebyane Malatsi and Unisa economics professor Philip Mohr, stress that they are not providing a blue-print for the desired economic course of the country.

Options such as "populist" economic expansion did not enjoy the support of most parties involved. Neither was there broad backing for "absolutely unfettered free-marketism".

The initiator of Mont Fleur and director of the Institute for Social Development at the University of the Western Cape, Professor Pieter le Roux, says that all four scenarios were considered likely options in SA over the next 10 years:

The 'Ostrich' scenario: This assumed a breakdown of negotiations and a formation of a moderate alliance between the government and some black political groups.

There would be widespread internal resistance which could lead to repressive counter measures. The current economic stagnation would continue and most probably deepen as business confidence waned before a return to negotiations.

The 'Lame Duck' scenario: A negotiated settlement is followed by a long transitional period with strong minority vetoes entrenched and decisions reached using only the lowest common denominator.

A transitional all-party government of this nature would fail to agree on urgently required longer-term commitments while investors would hold back awaiting the final nature of a post-transitional government.

The 'Icarus' scenario: A popularly elected government immediately engages in massive expenditure to address the socio-economic needs of the black population in one go.

This would result in massive economic growth for the first few years, but as economic resources were exhausted through inflationary pressures and capacity constraints, there would be economic and social collapse.

The 'Flamingo' scenario: A decisive political settlement would see the emergence of a new government adopting sound policies and observing macro-economic constraints, thus attracting local and foreign investment.

While economic growth would be slow to take off, it could pick up to average about five percent for the next 10 years.

It was evident at the presentation that the 'Flamingo' option enjoyed broad support but Professor le Roux admitted that interpretations of an ideal economic scenario differed widely among the participants.

The basic elements of economic growth in a market-oriented economy were defined by the participants as "a good investment environment, basic needs provision, development of exports and monetary and fiscal discipline".

Blueprint for prosperity

STAR 28/8/92. (49)

An economic and tax convention "Blueprint for Prosperity, will be held at the Johannesburg Sun on October 8, where ideas will be exchanged between organised business, organised labour and the major political parties.

The forum will bring together speakers from the ANC, IFP, DP, government, NAFCOC, Sacob, Fabcos, AHI, Cosatu and the private sector and is being sponsored by Southern Life and The Star.

"The poor performance of the South African economy is cause for great concern," said Martin Sweet, assistant general manager, legal and tax services, Southern Life.

"Mr Mandela and others have called on big business to find ways of breaking the present economic deadlock. The response of Southern Life and The Star was to back a forum for debate where key players in the political, economic and business environment could exchange ideas.

"Economic issues need to be addressed urgently. We cannot wait for the political reform process to run its course. A sound economic performance before, during and after any such political transition is the cornerstone of any stable democracy.

"Political liberation must be underpinned by economic stability if we are to prosper and make foreign investment more than just a pipe dream. There can be no democracy without economic growth.

"Now, more than ever, we need to build bridges and to direct the enormous potential of our country.

"It is the settling of differences and the discussion of the future with a common purpose that will enable South Africa to take its place as a major player, not only on the African continent, but also in the world", Mr Sweet added.

Mr Sweet said the future economic policy had to be developed according to an equitable system for a new South Africa, and any system decided upon only after consultation with all interested groups.

"The convention speakers will also discuss future tax scenarios and whether certain taxes can be used as a redistributive mechanism.

"Capital gains tax, transfer tax and land taxes will be debated. Other issues like unemployment, job creation, poverty and crime will also be addressed.

"We hope that 'Blueprint for Prosperity', which is set against the present economic scenario of doom and gloom, will give hope for and insight into the future.

"In the final analysis, it is the sharing of ideas and the discussion of differences that will be the benchmark for a better economic future for South Africa," Mr Sweet stated.

Martin Sweet . . . There can be no democracy without economic growth.

Speakers at the conference include: Dr Zach de Beer (leader of the Democratic Party), Cyril Ramaphosa (secretary general, African National Congress), Dr Stef Naudé (director general, Department of Trade and Industry), Khehla Mtembu (managing director, Afsure), Professor Katz (chairman, Tax Advisory Committee), Archie Nkonyene (president NAFCOC), Professor Sipho Shabalala (Department of Business Management, University of the Transkei), Professor Dennis Davis (Professor of Law, Centre for Applied Legal Studies, University of the Witwatersrand), Dr Frank Mdlalose (national chairman, Inkatha Freedom Party) and Yayandra naidoo (negotiations co-ordinator, Cosatu).

BONDS AND BLACK HOUSING [redacted] FM 28/8/92 49

Moses views the promised land

Until this week, there were signs that progress was finally being made in breaking the impasse in the moribund black housing market. But the controversial president of the SA National Civic Organisation (Sanco), Moses Mayekiso, may have over-reached himself in his linkage of mortgage lending to political demands.

On Tuesday the Council of Southern African Bankers issued a statement rejecting his position that a boycott will be instituted at the end of this month unless the institutions pressure government to accede to Nelson Mandela's famous 14 demands for the resumption of constitutional talks.

A boycott would throw the black housing market into chaos and essential investment would be lost.

The council — the umbrella body designed to promote the "common interests" of SA's banks and building societies — puts this clearly but politely: "Our objectives agree with yours. Where we must differ is in tactics. You require us to stop all services and activities relative to the public sector on the basis that this would force President F W de Klerk to concede to Dr Mandela's 14 demands.

"This we regret we cannot agree to. Quite apart from the damage it would do to the internal economy, which is already on its knees, it would kill off the last vestige of foreign loan and investment interest as we would be seeing the banking system co-opted by a political agenda. This precedent would render us liable to pressure from all future political agendas."

This development is unfortunate. At a recent meeting initiated by Mayekiso, with Manpower, Local Government & National Housing Minister Leon Wessels, there was a productive exchange of ideas and perceptions. And on a broader level, a certain amount of relationship-building has occurred between the financial institutions and the civics which Mayekiso represents.

The spur which led to the bankers' response this week was Mayekiso's dual call for government to dissolve all apartheid local authorities forthwith — and for financial institutions to halt all credit to government pending acceptance of the 14 demands. The first plea is familiar; the second is absurd.

Mayekiso's position is not incomprehensible. At grassroots level, he charges that government's restructuring of local authorities is being handled in a unilateral manner. He told the *FM*: "Restructuring in the interim period should be characterised by a negotiated national approach, one which should provide ... national guidelines ensuring a national framework for the destruction of apartheid local government structures and the introduction of new democratic ones."

Civics' Mayekiso ... *the market gives way to rhetoric*

Of course, this makes sense — but his call for the dissolution of local authorities to facilitate "constitutional restructuring within the framework of the national constitutional negotiations" does not. For this would trigger a breakdown of local authority — as we have already witnessed in certain PWV regions — pending a national settlement.

Talks on the housing crisis had been in progress. A further meeting was due to be held this Wednesday at which the Mortgage Lenders Association would furnish Sanco with details of its exposure in black and coloured townships, which Sanco estimates at R6,7bn. Sanco said that if the banks addressed the issues in good faith — which include Sanco's request for exposure levels and proposals for a set of technical suggestions to improve the provision of financial services to urban and rural communities — then "it is more likely than not Sanco will discourage mass action campaigns against the banks."

This has not happened. The bankers' statement suggests that "we revert to the *status quo ante* where at an operational level the Mortgage Lenders Association is working closely with you, and where the political agenda is put to one side for consideration in more appropriate forums outside the banking industry."

As the *FM* went to press, Mayekiso appeared ready to call a bond boycott on political grounds. It remains to be seen whether the ANC — and Mandela in particular — can dissuade him. In the recent past he has ignored Mandela's well-considered rebuke that a boycott would blight investment in black housing He is projecting himself as a man of the people. ■

DEEDS OFFICE

Back in 10 minutes

Johannesburg's Registrar of Deeds announced last week that as many as 20 000 deeds could be in arrears by mid-November — because of a month's study and exam leave for Deeds Office staff. As a result, the property industry has been thrown into a state of anxiety.

On August 10, Registrar At Hanekom issued a circular to conveyancers warning of the impending delays in registrations — a notice that has enraged estate agents, conveyancers and, of course, buyers and sellers. Property lawyers say the delays could cost the seller of a R10m building as much as R108 000 in interest at 13% a month.

Werksmans property partner Laurence Kaplan says this is not the first time the industry has had to pay for delays at the Deeds Office He says it is time to privatise the service.

He argues: "A seller would be prepared to pay, say, R500 to have his transfer go through in 24 hours while another who can afford to wait a month could pay R10. In other words, the market is willing to pay for better service and, by privatising the Deeds Office, better salaries could attract better staff and deliver the service required."

Kaplan wants institutions and major market players to lobby government towards that end.

For his part, Hanekom believes the outcry is out of proportion to the delays. He says there is now only a seven-day delay, not three months as reported. "My circular was only a warning that in the worst-case scenario, there could be a delay of one month or 20 000 deeds in arrears."

Staff leave for studying and writing exams for the Diploma in Deeds Registration is an annual event. But numbers have been particularly high this year, with 14 of Hanekom's staff taking second-year exams. He concedes, however, that in coming years, ways of staggering leave will have to be found. As for privatisation, Hanekom questions how any private organisation would be able to guarantee title, though he says backlogs could be eliminated.

Failing privatisation, it has been mooted that were the industry to pay the Deeds Office R5 or R10 registration fees across the board, with no time limits, more staff and better service could be afforded. ■

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Further declines in gross domestic production and expenditure

Real gross domestic product declined by $^1/_2$ per cent in both 1990 and 1991, and at annualised rates of 2 and 2$^1/_2$ per cent in the first and the second quarter of 1992, respectively. The acceleration in the rate of decline in total production during the first half of 1992 was caused mainly by a decline in agricultural production which, it is estimated, will recede by as much as 15 per cent this year. But even excluding agriculture, total production contracted further at a seasonally adjusted annual rate of 1 per cent in the first six months of 1992.

Total domestic expenditure likewise contracted in real terms during the past year. On a quarterly basis total expenditure fluctuated rather widely and at times, such as in the first quarter of 1992, even showed a substantial increase. This was mainly due to changes in the level of inventories. The more stable components of gross domestic expenditure, namely private consumption expenditure and gross domestic fixed investment, declined persistently up to the middle of 1992 as investors' and consumers' confidence waned. Against this trend, however, real consumption expenditure by general government, which is less susceptible to the extraneous factors behind the recessionary trends, continued to increase. It rose by as much as 5$^1/_2$ per cent in 1991 and by a further 3 per cent at a seasonally adjusted annual rate in the first half of 1992.

This depressing pattern of developments in production and demand has several undesirable consequences that are not only of a short-term cyclical nature, but also affect the long-term capacity of the economy to provide for the growing needs of the South African community. Thus:

- the rate of increase in aggregate nominal factor income at market prices slowed down. In the process the rate of increase in the **total** remuneration of employees **(not remuneration per worker)** declined from 17 per cent in 1990 to 14$^1/_2$ per cent in 1991, and to about 11$^1/_2$ per cent on an annualised basis in the first half of 1992;
- the ratio of total savings to gross domestic product, which had averaged about 24$^1/_2$ per cent in the eighties, declined to 19 per cent in 1991 and 18 per cent in the first six months of 1992; and
- there was a further contraction of 2,1 per cent in total employment in the non-agricultural sectors of the formal economy in 1991. This means that the number of persons who are engaged in informal economic activity or who are unemployed, increased rapidly over the past year.

> *"... efforts to cure the fundamental deficiencies of the economy through monetary stimulation will only serve to conceal inherent weaknesses under a veil of monetary expansion."*

Against the background of these depressed economic conditions, there is growing pressure on the Reserve Bank to relax monetary policy in order to stimulate the ailing economy, regardless of the remaining unacceptably high level of inflation. However, in the present situation, efforts to cure the fundamental deficiencies of the economy through monetary stimulation will only serve to conceal inherent weaknesses under a veil of monetary expansion. Such a course will stimulate inflation and eventually require an even more painful adjustment.

Improvement in external economic relations

One of the more encouraging developments in the economy over the past year has been the sustained favourable performance of the current account of the balance of payments. Last year was the seventh year in succession in which the total exports of goods and services exceeded total imports. The current account surplus of R7,4 billion in 1991 equalled no less than 2$^1/_2$ per cent of gross domestic product. As was expected, however, the surplus declined slightly to a seasonally adjusted and annualised figure of R4,5 billion in the first quarter of 1992 and to R6,0 billion in the second quarter. In the light of the current low gold price, subdued international economic conditions and the effects of the adverse local climatic conditions on the balance of payments, a further decline in the current account surplus over the next twelve months can be expected.

A significant improvement also took place on the capital account of the balance of payments, particularly in the factors underlying the inflows and outflows of capital. As the negotiations for a new political dispensation progressed and economic sanctions were lifted, many international banks and other investors re-established normal relations with South Africa. From a monetary stabilisation point of view, almost embarrassingly large amounts of short-term capital flowed into the country at times, as in the third quarter of 1991 when the net gold and foreign exchange reserves increased by almost R2 billion.

These developments enabled the Reserve Bank to terminate its special concessionary rates for forward foreign exchange cover in September 1991, with the result that a large amount of short-term finance, mostly linked to foreign trade transactions, was switched from foreign to domestic sources in the fourth quarter of last year. Since then, the movement of short-term foreign finance into and out of the country has increasingly been influenced by normal economic factors such as changes in the overall value of foreign trade, expected exchange rate movements, interest rate differentials and the cost of forward exchange cover.

In the first quarter of 1992 the total net outflow of capital declined to a negligible R21 million. Subsequent political events, however, then again served as a reminder of the sensitivity of the capital account to adverse political developments, with the total net outflow increasing to R1,9 billion in the second quarter.

Over the twelve months that ended in June 1992, the surplus on the current account of the balance of payments amounted to R8,5 billion,

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and supportive of sustainable long-term economic growth. Monetary policy on its own cannot guarantee growth. At the same time, however, economic growth will not be sustainable unless it takes place in an environment of general financial stability.

Further progress was made over the past year towards establishing the basic conditions for the achievement of greater overall financial stability:

- the rate of increase in the M3 money supply over twelve months declined from 27 per cent in December 1988 to 22 per cent in December 1989, 12 per cent in December 1990 and 10,6 per cent in February 1992. Over the twelve months to June 1992, M3 increased by only 7,5 per cent; and
- similarly, the corresponding rate of increase in total credit extended by the monetary sector to the private sector declined from 28 per cent in December 1988 to 20 per cent in December 1989, 16 per cent in December 1990 and 9,1 per cent in June 1992.

It is also encouraging to note that not only did the rate of increase in the broadly defined M3 money supply slow down, but also those of M1A, M1 and M2, and that almost all these aggregates are now expanding at rates well below the current rate of inflation. Admittedly, pure monetarism would dictate even lower rates of increase in these aggregates, particularly in an economy where the total volume of goods and services produced by the system is indeed contracting. The Reserve Bank is, however, satisfied that, if the present rates of increase are maintained, the monetary aggregates will not contribute to any new escalation in the rate of inflation nor will they restrain production, but will rather gradually reduce inflationary pressures further.

From a monetary policy point of view it is rather disappointing that consumer price inflation remained stubbornly high, despite the significant progress made in reducing monetary support for rising prices. It must be accepted, however, that not least because of many rigidities in the market transmission mechanism, there are unavoidable and relatively long time-lags between the application of market-oriented monetary instruments on the one hand, and the eventual effects they may have on consumer price inflation, on the other.

The developments over the past year in the production price index are more encouraging, and serve as an early indicator of what could hopefully be expected of developments in consumer prices. The rate of increase in the all-goods production price index over periods of twelve months declined from a peak of 14,6 per cent in November 1990 to 6,7 per cent in January and February 1992, before rising again to 9,2 per cent in June 1992. The rate of increase in the production price index has now remained below the level of 10 per cent for eight months in succession.

In contrast to these changes in the production price index, the rate of increase in the consumer price index did not resume its downward movement immediately after the conclusion of the Gulf War early in 1991. After having declined from 15,7 per cent in June 1989 to 13,3 per cent in July 1990, the rate of increase in the consumer price index over periods of twelve months rose to 16,8 per cent in October 1991; only then did it start to move hesitantly downwards to 14,8 per cent in May 1992 and to 15,1 per cent in June 1992.

There are certain "once-only" factors that affected the consumer price index over the past year which must be taken into account in the assessment of these trends. These include:

- the introduction of value-added tax in October 1991 and its further extension to certain foodstuffs in April 1992;
- the adjustment of the weights used in the consumer basket for purposes of calculating the index; and
- the devastating drought that reduced the supply of certain foodstuffs in particular.

These factors are either non-recurring or reversible, and the statistical measurement of the consumer price index does not truly reflect the progress that has been made over the past year in reducing the underlying inflationary pressures in the economy. It is therefore important in this context to take note of the encouraging deceleration recently in the quarter-to-quarter rate of increase in the consumer price index which, on a seasonally adjusted and annualised basis, declined from 18,8 per cent in the fourth quarter of 1991 to 12,8 per cent in both the first and the second quarter of 1992.

> *"Inflation remained one of the major contributing factors to the continuous weakening in the structure of the South African economy."*

Inflation remained one of the major contributing factors to the continuous weakening in the structure of the South African economy. Its adverse effects on saving, on the allocation of resources, on the competitiveness of South African producers in world markets and on the distribution of wealth and income, make it undesirable from both an economic and social point of view. It is a fallacy to believe that more inflation can stimulate the economy, or that a strong economy needs inflation as a crutch to lean on, or, for that matter, that South Africa is different from other countries and must therefore be more tolerant of this cancerous phenomenon, particularly in a global environment where so many other countries recently succeeded in reducing their rates of inflation to relatively low levels. An economy that is beset by inflation and a fear of future inflation cannot and will not function well. This has been the experience of countries all over the world, and it applies equally to South Africa.

The Reserve Bank therefore believes that it is in the interest of all South Africans to persist in the fight against inflation, even if this does require the retention of currently painful and unpopular measures. The reduction of the inflation rate must remain a policy priority, even in the present subdued economy.

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Many of the current deficiencies in the South African economic structure were either caused or aggravated by policies in support of unduly low interest rates. No country can in the longer run escape the unpleasant consequences of misdirected monetary and financial policies.

It is true that high interest rates, and in particular high real rates of interest, cause many hardships. But this is what they are intended to do: to act as a conduit that must force a downward adjustment in an economy that is suffering from basic deficiencies in the system. To try and avoid the unpleasant consequences of high interest rates without curing the basic causes of the upward pressure on the rates, will only lead to a delay in the basic adjustments that are unavoidable. Any attempt to depress interest rates by adding more newly created money to the system will be a fraudulent act intended to cover up the real problems of the economy. Eventually, we shall all pay for such folly through higher inflation, lower growth and more unemployment.

> *"... as a first step towards lower interest rates, the basic causes of inflation should be identified and eliminated, because low nominal interest rates can only become sustainable in an environment of low inflation."*

The debate is not whether high interest rates are bad or good for the economy — they do discourage certain sub-marginal economic activities and therefore depress growth. The question is rather why high interest rates are sometimes essential and what can be done to reduce them. The Reserve Bank is of the opinion that as a first step towards lower interest rates, the basic causes of inflation should be identified and eliminated, because low nominal interest rates can only become sustainable in an environment of low inflation. The Reserve Bank's preoccupation with a policy of fighting inflation is therefore indeed a policy of striving for lower interest rates.

The development and protection of a sound and efficient banking system

The Reserve Bank has a vested interest in the development of a sound and efficient banking system, and also in the development of efficient financial markets. The Bank's responsibilities with regard to the function of bank supervision have over the past year involved it in various controversial issues which may well question the wisdom of the five-year old "marriage" of the Reserve Bank and the Office of the Registrar of Deposit-taking Institutions.

Earlier actions by the Registrar of Deposit-taking Institutions to bring two small banks under curatorship and place another one in liquidation in order to safeguard the interests of depositors, continued to have repercussions during the past year. To a significant extent this further reaction was related to the decision of the monetary authorities to compensate smaller depositors for losses arising from the financial problems of these banks. This assistance gave rise to the perception that the Reserve Bank has a "duty of care" to protect the interests of a wide range of investors who have entrusted their funds indiscriminately to unregulated persons and agents. Ill-founded and injudicious financial reporting unfortunately served to strengthen this false perception. As a result many of these investors have already lost or stand to lose money because of the investment of their funds in fraudulent schemes or in schemes that have been affected adversely by the protracted economic recession.

> *"The Reserve Bank cannot protect investors against the results of their own poorly considered and often unsound investment decisions."*

The Reserve Bank cannot protect investors against the results of their own poorly considered and often unsound investment decisions. Even in the case of depositors with registered deposit-taking institutions which are subject to supervision by the Reserve Bank, the Bank cannot accept a so-called duty of care. Ultimately, the responsibility for the safety and financial soundness of deposit-taking institutions lies with the managements of such institutions. The Reserve Bank's supervision can only promote better management, especially of the risks inherent in banking business. In the interest of maintaining confidence in the banking system and, more generally, the stability of the banking and financial systems, the Reserve Bank may, however, in special situations decide to assist depositors with registered deposit-taking institutions which find themselves in financial distress. However, this is not an automatic process and the feasibility of providing assistance in each individual case must be determined with regard to considerations related directly to the aim of maintaining stability in the banking sector.

Unwarranted claims by investors with deposit-taking institutions and unregulated entities alike for financial assistance by the Reserve Bank, which have received wide publicity and unjustified support in the financial press, have actually forced the Reserve Bank into the position of being a defendant in time-consuming and costly litigation. It cannot be denied that these events have had a negative impact on the general standing of the Reserve Bank and, if carried too far, the credibility of the central bank as a monetary authority could be undermined.

In the light of these developments, two fundamental questions arise. The first is whether the Reserve Bank, as central bank and monetary authority, should continue to involve itself in bank supervision. The second question is whether the Bank could be expected to provide, without any legal obligation to do so, deposit insurance by acting as financial supporter of last resort. These questions become even more relevant when it is realised that no country in the world has succeeded, or will succeed through banking and other financial regulation, in totally averting all

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- carefully defined the role of government, making government concentrate on the things it alone is able to do well, and encouraging it to refrain from interfering or competing in the areas of production and distribution where private sector entrepreneurs can perform best.

South Africa has already gone some distance on the road of economic restructuring. We have already, for example:

- consolidated the foreign debt position and established a relatively sound overall balance of payments situation;
- succeeded in stabilising the growth rates in the domestic monetary aggregates in conformity with the objective of a stable macro-economic financial environment; and
- stabilised the exchange rate of the rand and eliminated some of the underlying inflationary pressures in the economy.

Much more, however, remains to be done. The financial markets, and particularly the foreign exchange market, must be liberalised further to ensure more realistic interest and exchange rates. There must be a more harmonised and co-ordinated approach in overall macro-economic policies directed towards the common goal of permanently increasing the growth capacity of the South African economy. Such a programme will have to incorporate fiscal, monetary and labour policies, trade policies, an industrial strategy and all other aspects of macro-economic policies.

In the South African context the programme will also have to provide for certain special features of contemporary economic developments in this country. These include:

- the growing importance of the informal sector, and the major part it has come to play as an employer;
- the emergence of many small businesses that not only need financial support, but also management advice and appropriate technical assistance;
- the traditional "communal" approach of especially Black people, which is now carried into the business world, in the form for instance of co-operative savings clubs such as stokvels and credit unions; and
- the major requirement of a social upliftment programme that must at the same time take account of the existing large disparities in the distribution of wealth and income.

The Minister of Finance and of Trade and Industry has expressed a great interest in such a comprehensive economic restructuring programme for South Africa, and the Reserve Bank has offered him its full support. The Bank is of the opinion that economic restructuring needs the support of all the people of the country, and therefore welcomes the public debate that is now developing about this subject.

Concluding remarks

Most South Africans share the concern which the Reserve Bank feels for the depressed real economic conditions in the country. The low and, at this stage even negative economic growth rate, aggravates the already serious unemployment problem, increases poverty and reduces the average standard of living of the people of South Africa. Neither the cause of, nor the solution to this dilemma, should be looked for in monetary policy. Attempts to stimulate the economy at this juncture by the injection of more money will again stimulate inflation and eventually erode the growth potential of the economy even further, giving rise to even more unemployment.

The present cautious approach of monetary policy has contributed to the improvement in the overall balance of payments position and to the stabilisation of the domestic financial situation. These improvements, which reflect normal developments in a period of economic recession and adjustment, are laying a sound foundation for the future recovery of the economy, and for supporting sustainable economic growth in the longer run.

Monetary policy has also made a major contribution towards reducing inflationary pressures in the economy. Although the abatement of inflation has not yet been reflected in the consumer price index, South Africa finally has a great opportunity to terminate the long spell of double-digit inflation. If consumers, employers, traders, labour unions and government all join forces with the Reserve Bank, we should be able to bring inflation down to a much lower level over the next twelve months, which will also justify lower nominal interest rates.

Increasing attention was recently focused on the structural deficiencies of the South African economy, and the need for a major economic restructuring programme was identified. It is, however, a pre-condition for the success of such a programme that South Africa shall continue to pursue prudent financial policies, providing for a stable macro-economic environment with low inflation. Good progress has already been made towards attaining these goals, but real economic adjustment takes time and can only succeed if the public is convinced that the appropriate policies will be applied seriously and unceasingly.

Economic recovery in South Africa also remains dependent to an important extent upon the re-establishment of political and social stability in the country. The entrepreneurs of the world, including the prudent South African business community, look for greater economic, political and social stability before they will be prepared to expand the economy's production capacity and create new employment opportunities for the growing work force of our community. The keen interest shown in the economy by many potential local and foreign investors in the early months of 1992, before the breakdown in the political negotiations, provided encouraging signs of what could be expected if South Africans can only get their political act together.

In the meantime, the Reserve Bank holds the conviction that its policy approach of maintaining overall financial stability evidenced by a low rate of increase in the money supply, positive real rates of interest and a relatively stable exchange rate of the rand is in the best interest of the South African economic situation. The Bank therefore remains committed to pursue its mission of protecting the internal and the external value of the rand.

Penrose Financial 15393

THE ECONOMY (49) FM 28/8/92

Why the Phoenix won't fly

The essence of Reserve Bank Governor Chris Stals's annual address on Tuesday was that the economy is adjusting quite well to his tighter money policy of the past three years — despite the lengths to which he had to go to counter government's spendthrift ways.

Demand is coming into closer kilter with the economy's ability to supply and, while this has not yet been reflected in consumer prices, indications are that it will do so soon.

Moreover, on the face of it, the economy is well placed to soon begin a sustainable recovery — reserves are rising, the balance of payments is in good nick, there is surplus capacity and foreign borrowings are modest.

What is needed now is a steady nerve to ensure that a bit more of the same will stabilise prices. To draw back from the brink by cutting interest rates or devaluing the currency would be to forsake a rare opportunity to reduce inflation to below the double-digit level and keep it there.

The cost, of course, has been high, especially in unemployment and all the other hardships that declining economic growth inevitably brings. The severe drought in parts of the country have aggravated those problems — but good rains are promised.

It would be nice now to say that, despite the discomfiture of having to wait for the final fructification of Stals's sensible policies, a return to relative and increasing prosperity might not be far off. Were economic adjustment the only factor in this equation, that would be so.

But that is not so. Political developments of the past few months have sent businessmen and investors, consumers and workers, into a slough of economic despondency. No longer is the economy in the process of an austere but orderly economic adjustment; it is in the process of a very dangerous free fall that could lead to severe and prolonged impoverishment.

The breakdown of Codesa, strikes and stayaways, as well as threats of tax and bond boycotts have brought about a sea change.

Simply put, the economic price of a political settlement is not yet high enough to force either government negotiators or those of the African National Congress, its communist allies and labour supporters, into agreement.

Government, which has control of the lion's share of this country's resources and a powerful means of preferment through the public service, is cushioned for the time being from the consequences of its intransigence.

Likewise, the ANC and black labour leaders still have the protection of secure jobs in their own bureaucracies. The folly of their political extravagance has not yet sunk home. And it is for that reason they argue that the economy is in such a mess that more austerity, wrought of disruption, doesn't matter. It most certainly does.

They are soon to find out their folly. The SA economy is a modern industrial one that will take time to atrophy. It is going to be a slow and painful process that will hurt blacks more than whites.

And once its productive resources are run down, no quick reversal of policy will restore prosperity even to current levels. Besides, taking political measures to destroy jobs while simultaneously demanding living wages and more jobs is irrational.

As those who have jobs steadily become fewer in number, trade union membership will erode and so will the power of its officials.

The great mistake of Codesa was for politicians to believe that a political settlement could be achieved without the involvement of business and labour. Had this not been the case, it is possible that faced with the economic consequences of their political folly both sides would have been less inclined to walk away from negotiations.

The latest Reserve Bank figures show that the economy has moved from a mild, though prolonged, recession into a steep slump. Business activity is declining, there is no new investment as corporate profits and share prices tumble, disposable incomes are falling and there is no new saving.

What has hit the economy in recent months is not merely adjustment to more straitened circumstances — it is a tidal wave of despair and it has been whipped up by the politicians. Neither monetary nor fiscal policy is capable of changing that situation.

Instead of prosperity rising Phoenix-like from the ashes of inflation, the politicians have contrived to have the bird plunge back into the flames of civil destruction and economic despair.

Indeed, any attempt now to kickstart the economy by cutting interest rates, increasing government spending or devaluing the currency will simply compound the problem by stimulating inflation, eroding the balance of payments surplus and increasing official debt.

The politicians will have to provide the stability and certainty that is basic to any return to economic growth. And the greater their insensitivity to the economic cost of their political intransigence and folly, the harder that achievement is going to be.

They should reflect too on whether once a political settlement has been reached, the austerity they are forcing on their respective supporters now will ensure the continuation of their own leadership positions. ■

Cosatu and ANC will be at forum

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BDAY 28/8/92

GAVIN DU VENAGE

SOUTHERN Life yesterday announced a major political and economic forum would be held in Johannesburg in October to discuss the poor performance of the SA economy.

Southern assistant GM Martin Sweet said the forum would include the ANC's Cyril Ramaphosa, DP leader Zach de Beer, and Trade and Industry director-general Steph Naude. Among topics to be discussed would be future economic scenarios, tax as a redistributive mechanism, and capital gains tax, Sweet said.

"Mr Mandela and others have called on big business to find ways of breaking the present economic deadlock, and our response was to back a forum where key players in the political, economic and business environment could exchange ideas," said Sweet.

Other organisations to be represented at the forum would be the PAC, Inkatha, National African Federated Chamber of Commerce, Sacob, Afrikaanse Handelsinstituut and Cosatu.

ANALYSIS *No dramatic improvement in new SA*

Expert warns against high expectations

Sowetan 28/8/92.

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POST-APARTHEID WARNING *Tom Lodge, an associate professor of Politics at Wits University, says the country faces major challenges and a new Government will struggle to find money for social programmes:*

Most predictions about post-apartheid South Africa include the observation that popular expectations are going to be disappointed.

Whatever the predispositions of the new government, it is going to have to work within tight economic constraints.

Whether they are capitalist or socialist, economists agree that any government cannot tax people much more than the present one and that therefore any redistribution of public resources will have to be within the limits of existing government revenues.

That rules out the likelihood of quick and dramatic improvements to black schooling, for example.

If per capita expenditure per child was evened-up between white and black school children without a total disruption of facilities in the "white" suburbs, black parents could hope for schools of the quality, which presently exist in "coloured" areas, by the end of the century.

Of course there might be some savings from spending less on defence and on duplicate apartheid ministries. Not much, though

It is reckoned that the total savings from "rationalising" government into a unified civil service will be about R3 billon.

You could build decent accommodation for about 150 000 people with that, not more.

Money currently spent on the army is unlikely to provide much for more houses or hospitals, not while the police are so badly paid and less in a post apartheid South Africa

If the civil service is to implement affirmative action while at the same time retaining its white employees - and fairness and expediency requires both - it can only get larger and more expensive.

International competition

If the South African economy is to grow to keep up with population increases, it will have to expand through the development of internationally competitive manufacturing. That will need foreign investors - there are not sufficient capital resources locally.

So materially, life under a democratic government is not going to change very much. Therefore people will have to adjust their expectations That is all very well Up to now, though, whereas there has been a lot of expert advice on why popular visions of life after apartheid are unrealistic, there has been very little informed speculation about what people might reasonably expect from the new government which they have chosen.

What sorts of expectations are reasonable in the first few years of post apartheid South Africa?

Less violence, political and criminal, may be one substantial benefit of living under a democratic and legitimate government.

In a legitimate political order, police, teachers and even parents may regain the moral authority they have lost over the last two decades.

A government which did not sponsor murderers would itself represent a substantial contribution to making the country more peaceful.

Institutionalised forms of political competition might alleviate some of the tensions which currently explode in the streets

People have a right to expect less venal and more efficient officials. That does not require scarce resources.

Tom Lodge ... fancy cars and luxury homes are a cause for worry.

Open and accountable government would allow less room for the wastage and theft which has been such an alarming characteristic of the administration during the last decade. It should not cost more to have an administration composed of honest, intelligent, and conscientious men and women as opposed to the stupid criminals who all too often are responsible for running things today.

Opposition parties which reward their leaders with fancy cars and luxurious homes are giving worrying signals about their perceptions of how governors and bureaucrats should be maintained in future.

Then, even if resources are stretched, it is reasonable to expect that government is at least trying to cope with poverty.

There are simple ways to determine whether authorities are trying. Fore example, a city council which devotes millions of rands to refurbishing a municipal theatre while refusing to finance adequate shelters for homeless children is not trying.

An urban administration which imposed heavy taxes on suburban office blocks and provided financial incentives to private contractors for the construction of low income housing would be trying Even under austerity, there can be plenty of trying.

Finally it is reasonable to expect popularly -elected or publicly-paid officials to behave as if they were servants of the people.

They must persuade and consult, not order and bully. They must speak a language which ordinary folk can understand. They must be able and willing to defend and explain their decisions and actions in public and as often as they are asked to.

Please and thank you

They must say "please" and "thank you".

None of these things would need more money or more skills than we have already None of these things is unreasonable to expect.

By themselves they won't suddenly raise living standards or instantly remove social injustice But they will make the country a more civilised place to live in

They are substantial and worthwhile goals. They represent what ordinary people should be claiming as their right.

Politics could shape course of economic revival

HILARY GUSH (49)

A BALANCE of payments-led recovery could be expected in 1993, but political developments would play an overriding role in an economic upswing, Rand Merchant Bank chief economist Rudolf Gouws said yesterday. B/DAY

Addressing members of the SA Foundation, Gouws listed international economic revival, the abolition of trade sanctions and continued improvement in the capital account as the fundamental reasons for an expected cyclical upswing next year. 28/8/92.

The chance of a local economic recovery was enhanced by a more stable financial environment, which included higher foreign exchange reserves, declining interest rates, slower growth in the broad money supply and a stable exchange rate.

Other factors contributing to improved economic performance were a fall in the cost of capital, continuing mild fiscal stimulus and "normal" summer rainfall.

But he cautioned that weakening export volumes, the multiplier effects of the drought, "tightish" monetary policy and the impact of mass action on business, consumer and international confidence would prevent an upswing before the year-end.

International cyclical developments were the most important reasons for continued recession in the short term. The terms of trade, which had been declining since mid-1988 should, however, improve next year as world economic recession bottomed out.

"We will see an increase in SA's export volumes once — with a lag — US industrial production volumes start rising," he said.

Single-digit consumer inflation could be expected by mid-1993, while there would probably be three more cuts in official interest rates during the current fiscal year, he said.

Will we be pretty flamingos or lame ducks?

W/Mail 25/8 - 3/9/92.

A left-of-centre group of businessmen and economists met recently to draw up some scenarios for South Africa's economic future.

REG RUMNEY *reports* (49)

AN alternative economic crystalgazing roadshow to the Old Mutual/Nedcor scenario presentation has been launched.

With a dash of humour usually lacking in such sombre forecasting exercises, the left-of-centre Mont Fleur Scenarios, named after the place in Stellenbosch where the participants met, uses the bird world to depict the economic futures South Africa might face.

Co-ordinated by the Institute for Social Development at the University of the Western Cape, the Mont Fleur Scenarios were initiated by UWC's Professor Pieter le Roux.

Rather than looking at the next 18 months, they cover the decade up to 2002.

According to Le Roux, the scenario presentation differs from the well-travelled OM/Nedcor one mainly in that it is not prescriptive. Despite being launched by those close to the African National Congress, it does not advocate a particular economic approach but in the true tradition of scenarios spells out different economic futures.

"Our good scenario — 'A Flight of Flamingoes' — can encompass a conservative social market economy to a radical one. There is no blueprint which will position us on the political spectrum," he says.

Scenarios are archetypal stories about the future, stimulating "what if" questions and challenging pre-conceived notions.

The presentation does not have as much detail as the OM/Nedcor version, but allows for a great deal of discussion.

In one respect the Mont Fleur presentation can be seen as to the left of the OM scenario in that it stresses the importance of a quick transition with broad participation, says Le Roux. A long transition with its attendant uncertainty will lead to a "Lame Duck" scenario.

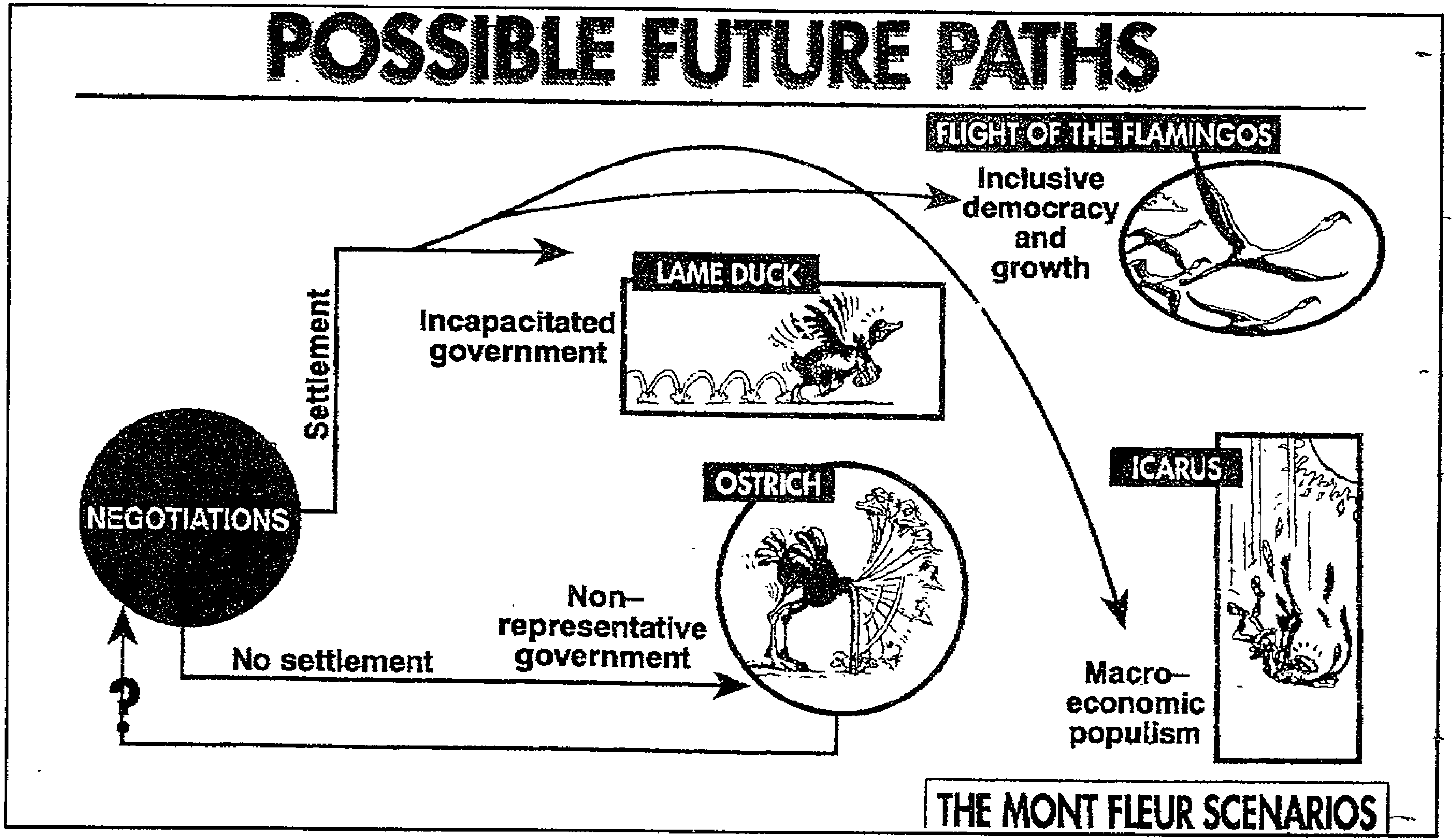
In the Lame Duck scenario a settlement is reached which is followed by a long transitional period. The all-party transitional government is incapacitated by sunset clauses which preserve [illegible] elements of the old order [illegible] eight to 10 years. Policies are indecisive. The government proves to be incapable of meeting even basic needs. It purports to respond to all, but satisfies no one. In spite of the political settlement, investors hold back. They are uncertain about what the nature of the post-transitional government will be and worried about the political instability which flows from the government's inability to effect social delivery. So they hold off on longer-term commitments. There is insufficient growth. The social crisis is inadequately addressed, aggravating the vicious circle of political instability, economic stagnation, and social decline.

The Ostrich scenario starts with the breakdown of constitutional negotiations when the government has some sympathy from the international community. A "moderate alliance" of the government and some black political groupings is met with widespread internal resistance leading to repressive counter measures. The resulting violence and economic stagnation causes a crisis and an eventual return, probably, of all groups to negotiations.

In the Icarus scenario the popularly elected government tries to address all the country's economic problems in one go with massive spending and runs up massive deficits. The growth rate shoots up initially to five or six percent a year in the first year or two, but tremendous inflationary pressures and exchange rate instabilities are the result. There is hyper-inflation and a collapse of the rand. The economy follows the path of many Latin American countries where the economy goes into a rapid downward spiral, and it is likely that some form of authoritarian regime emerges from the crisis.

In the Flamingos scenario a decisive political settlement is reached. The new government adopts sound policies, observes macro-economic constraints, curbs corruption in government [illegible] raises levels of efficiency. [illegible] social investment leads to a decrease in violence. Business confidence is boosted, investment grows and employment increases. South Africa moves on to a new growth path and the average rate of growth for the next 10 years is about five percent. The overall income of the richer groups grows around one to three percent a year, while that of the poorer classes grows around six to nine percent a year. Many social and economic problems cannot be addressed in the short term but confidence grows that in the longer run the democratic government will be able to meet expectations.

Le Roux says the 22 participants in the formulation of the scenarios were drawn from diverse backgrounds. They include Pepkor executive chairman Christo Wiese and Distillers Corp managing director Michiel le Roux as well as the ANC department of economic policy head Trevor Manuel and Pan Africanist Congress economist Mosebvane Malatsi.


POSSIBLE FUTURE PATHS

THE MONT FLEUR SCENARIOS

Levett urges action for economic growth

South 29/8 - 2/9/92

(49)

LIFE assurance giant Old Mutual has raised some eyebrows with an unusually hard-hitting statement by chairman Mr Mike Levett on the need for quick action to get the economy on track for growth again.

He said the "task of economic reform cannot wait for the political reform process to first run its course. The economic issues need to be addressed urgently."

The politicians had a duty to ensure that there was a "significant reduction in the level of uncertainty. Any political change by its very nature leads to uncertainty and the current political impasse is severely aggravating the situation. Uncertainty impedes economic growth as decision-taking is paralysed."

In the present situation business is likely to postpone decisions about investment in new equipment, building up stock or hiring more staff, he said.

Consumers were likely to be uncertain how to plan their finances, while public policy-makers could not implement long-term strategies and many critical decisions were delayed.

To ease this uncertainty, "realistic rules for the economic game" needed to be established, agreed up on and adhered to. In the absence of such a set of rules, there was unlikely to be any willingness to invest in new production capacity. Unemployment, with all the ills associated with it, would increase further.

"If South Africans are not prepared to invest, it is unrealistic to expect foreigners to perform the task," Levett said.

Specific issues that needed attention included the level and nature of government spending. Government was spending too much and, to do this, was taxing everyone too much, which was inhibiting economic growth.

Levett recognised that it would be tricky to cut government spending in view of the enormous need to redistribute social spending to the less privileged.

This should continue but the government should do more to cut down on the civil service. However such cuts were risky in South Africa where the civil service was the bedrock of the National Party.

He warned against any attempt to improve living standards through populist economic policies, especially through dramatically lower interest rates, in an attempt by the government to woo voters.

He commended the Reserve Bank's conservative stand on interest rates and hoped this would be allowed to continue.

Levett said it was important to restructure the economy away from dependence on commodity exports and an inward-looking industrial sector, to being outward-looking and internationally competitive with a wider range of exports.

This would not happen overnight and an important ingredient would be to ensure that South Africa had a competitive exchange rate that could maximise export earnings.

Levett said early progress on the economic issues he mentioned was a necessity for bringing the political transition to a successful and sustainable conclusion.

- Announcing its results for the year to the end of June 1992, Old Mutual said total assets under its management on behalf of members and clients had reached R87,3 billion, up 20,5 percent on the previous year.

This made it the 38th biggest assurer in the world.

LYNDA LOXTON

Holidays get cheaper

THERE'S nothing like a bit of competition — and tourism being affected by continuing violence and political uncertainty — to suddenly make "getting away from it all" a bit more affordable.

Once-dominant South African Airways suddenly has to compete with Comair and Flitestar, while South African hotels are less than full as potential tourists are put off by massacres and rising crime.

So, in a weird way, it makes sense for SAA to join forces with hotel giant Southern Sun to offer — until November only, mind — what is calls an "affordable new air hotel plan ... where inclusive packages now cost just a little more, or even LESS, than the regular return airfares".

The rates include airfares in economy class, bed and breakfast accommodation and optional car rents at special daily rates. The packages are valid for a minimum of two, five or seven consecutive nights at a choice of 13 hotels around the country.

For example, a two-night package from Johannesburg to Cape Town with accommodation at the Holiday Inn will cost R807 — or R157 less than the full economy class return airfare.

MONEY MARKETS by Hilary Gush

Players rethink forecasts after Stals scotches rumours

BDAY 31/8/92 (49)

THE money market was on hold last week as persistent rumours of a cut in official interest rates were scotched by Reserve Bank Governor Chris Stals. At the Bank's annual meeting on Tuesday Stals stuck to his guns and vowed to maintain strict monetary policy.

Subdued money market activity saw the rate on the liquid 90-day BA rate hold steady over the week in a narrow 12,4%-12,5% band from a previously wider 12,4%-13% range. Twelve-month NCDs also held their ground at 11,55%.

The money market shortage drifted between R2,5bn and R3bn. Although month-end is nigh and cash — in the form of tax payments — will be leaving the system, no great swings in the shortage are predicted as interest payments on government stock balance any outflows.

Rates on the Bank's weekly three- and six-month Treasury bill (TB) tenders were modestly up on Friday from the previous week's lows. Bids totalling R515m were received for the R150m offered in six-month TBs. These were allocated 15 points up at 11,43% from an earlier 11,28%. The average rate on the three-month bill was 12,03% from 11,99% the week before.

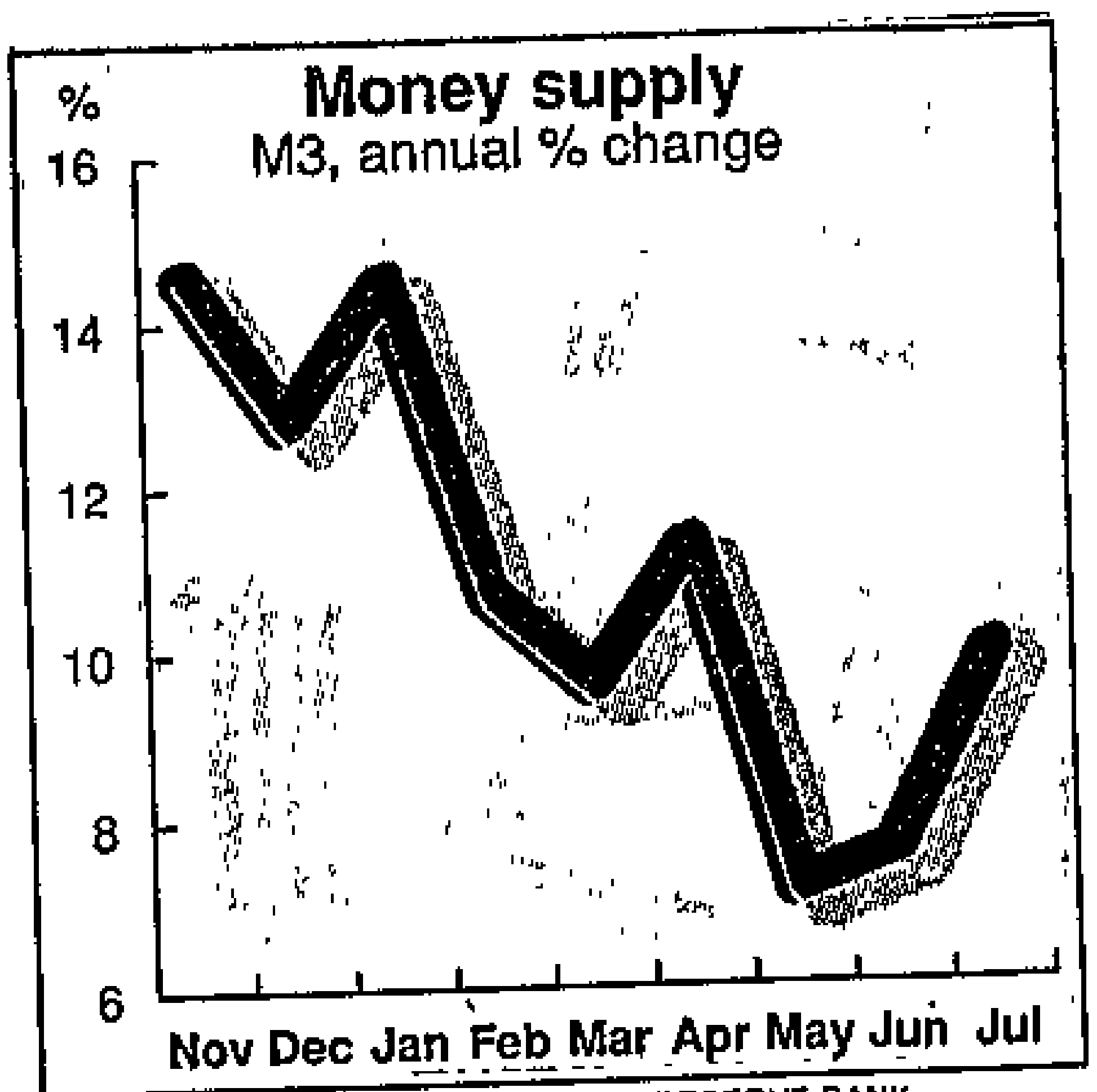
Much rests on consumer inflation figures, due for release early this week. An inflation rate of 14% or less would again spark off rumours of a Bank rate cut and money market rates would be driven down further. However, broad market perception is that July consumer inflation will be between 14% and 15% If this is the case, chances of a cut in official rates are slim

In line with this, money market rates are unlikely to soften until inflation is substantially down. They are expected to remain steady, perhaps with a little sideways movement until then.

Capital market rates maintained an upward trend last week with the yield on Eskom's bellwether bond, the E168, trading 14 points up at 14,23% towards Friday's close from 14,09% the week before.

After Tuesday morning's indications from the Reserve Bank that there would be no respite from strict monetary policy, players were forced to rethink their forecasts. At the session's close on Tuesday the yield on government's R150 stock shot up to 14,47% from an overnight 14,24%.

By Friday the government stock had recovered some of its losses and the yield was back down to about 14,33%, but still higher than the previous week's close of 14,18%. Due to the weakness of equities, support for capital market instruments is likely to be sustained. As more and more new funds move into gilt-edged stocks, rates should continue to come off steadily.



Graphic RUBY-GAY MARTIN Source RESERVE BANK

Money supply nips out of Bank limits

HILARY GUSH (49)

GROWTH in broad money supply in July has jumped out of the 7%-10% guideline range specified by the Reserve Bank, Bank figures released at the weekend show.

While year-on-year growth in M3, which consists of cash in circulation and deposits with banks, was up to 9,85% from a revised rate of 7,52% in June, growth from the guideline year base (fourth quarter 1991) shot up to 10,16% from a revised 7,69%.

Econometrix economist Tony Twine said the higher figure ruled out any possibility of a Bank rate cut in the next month.

"The authorities might have been inclined to cut interest rates even if July consumer inflation was above 14%, provided monetary growth was comfortably inside the target range. However, as it is near the range's upper end, we will have to wait at least another month before official rates come down." B/DAY 31/8/92

Frankel Max Pollak economist Mike Brown, unconcerned about the higher July figure, said that considering the general trend of low money supply growth, it was probably a one-month phenomenon.

"It appears there was a forced demand for credit last month as a result of the drought. There is no doubt the figure has imparted a sense of caution on the Bank's part. One can entirely discount an interest rate cut for now. The depressed state of the economy is clearly reflected in the 7,82% rate of growth in total domestic credit extension," he said.

Brown expected money supply growth to return to its downward trend.

Setting out the ground rules for fiscal federalism

BIPA7 31/8/92.

GERHARD CROESER (49)

FROM a political point of view, federalism is seen by some as a way to protect individual rights From the economic point of view, the most important feature of federalism is the relationship between different levels of government — fiscal federalism.

Full fiscal autonomy for regional or local government is never possible There are problems in devolving sufficient revenue resources to lower tiers of government; certain public services require co-ordination between different levels of government, and there is a need for redistribution between different regions

Although regional imbalances can never be eliminated, redistribution can be used to ensure that the poorer regions are able to render at least a minimum standard of services.

It is extremely important that the fiscal relations and transfers between various levels of government should be clearly defined, and as far as possible be based on objective norms. Fiscal transfers made on an ad hoc basis, or to buy political favours from regional or local authorities, should be avoided.

Macroeconomic policy remains an important central government function in a decentralised system. Questions therefore arise about the extent to which regional and local authorities should be able to determine the overall level of their public expenditure and taxation, since this can have a major impact on the resources in the economy for productive investment, job creation and economic growth, especially if one accepts that these are primarily private sector responsibilities

The most important government function from the point of view of economic growth is stabilisation — the use of public policy to ensure high employment, a reasonable degree of price stability and an appropriate rate of economic growth, with allowance for the effects on trade and on the balance of payments

Since policies to achieve these objectives will affect the whole community and not only a particular region, fiscal federalism literature stresses that stabilisation policies are best carried out by the central government. The ability of central government to control or influence the key fiscal and monetary variables is therefore crucial for the success of macroeconomic policies.

Regional and local governments could have a direct influence on these important fiscal policy instruments The fiscal federalism literature often refers to the so-called "free-rider" effect, which can take various forms, but with the same result — reducing the effectiveness of stabilisation measures taken by the central government.

Take a situation where the central government tries to stimulate demand by reducing its taxes, but regional and local authorities use this opportunity to increase their own tax rates Or the central government could decide to increase expenditure, partly through increased transfers to regional and local government, and these latter authorities free-ride by reducing their own expenditure, thus reducing the effectiveness of stabilisation measures

One should not overemphasise the role of fiscal policy in short-term stabilisation. However, fiscal policy co-ordination between different levels of government remains important.

What form should that co-ordination take, and how is it to be reconciled with the need for fiscal autonomy at lower tiers of government? How does one ensure that co-ordination does not eventually end up in central control? Here are some of the questions that need to be addressed regarding expenditure:

☐ CROESER

☐ Should maximum levels be set for public expenditure at the different levels of government?

☐ If such budget targets are set, how will they be enforced?

☐ How should differences in expenditure needs of different regions due to, for example, rapid urbanisation or economic expansion, be accommodated and reconciled with a macroeconomic stabilisation policy?

Similar questions arise with regard to taxation:

☐ How, if at all, could the overall tax burden in the economy and in particular regions be limited so as not to hamper economic growth and the incentive to work?

☐ Should tax rates between different regional authorities be harmonised, and to what extent, without unnecessarily reducing their fiscal autonomy and manoeuvrability?

☐ Who should decide what may be taxed — to what extent may a particular community decide to levy taxes on specific goods? Certain limits probably would have to be set to avoid exporting tax burdens to other regions, for example the levying of consumption taxes on products primarily consumed in other regions. Some flexibility should, however, be allowed at the regional and local level to give them the instruments to finance higher levels of services according to their priorities.

In addition to fiscal policy co-ordination, other mechanisms of future intergovernmental fiscal relations will need to be analysed once agreement has been reached on the basic principles. These include:

☐ The type of grants needed to ensure efficiency and effectiveness of government;

☐ As with tax and expenditure, borrowing by regional and local government can destabilise the economy, since it may crowd out private users of capital in the capital markets causing increases in interest rates, and could lead to a suboptimal allocation of scarce resources in the economy The borrowing powers of all levels of government should therefore be strictly defined,

☐ Formulas for revenue sharing and intergovernmental transfers could become a serious bone of contention in a future constitution Any formula for fiscal transfers should be simple and easily understood to reduce potential disputes. An independent statutory or judicial body, representing all levels of government, could be created to deal with these issues.

☐ Given the relative scarcity of skilled manpower and the high level of expertise needed in tax collection, it can be argued that it is not feasible in practice to devolve taxes to lower tiers of government, since it might lead to a proliferation of large, inefficient tax bureaucracies

A possible solution, however, would be the creation of a joint tax collection body that can collect complex taxes on behalf of all the levels of government, including the central government Such a body would be involved in collection only and not in determining tax rates, tax bases or tax policy;

☐ Mechanisms would also have to be created to ensure proper financial accountability, reporting and voter control at all levels of government. The role of the auditor-general, an ombudsman or even a special accountability body would have to be considered; and

☐ Care would need to be taken in the timing of the transfer of revenue sources and expenditure responsibilities to lower tiers of government.

The 1988 Brazilian constitution transferred various revenue sources to state and local governments, without a corresponding shifting of expenditure responsibilities, leaving the central government with insufficient revenue. The opposite is more often true, where expenditure responsibilities are transferred without revenue sources. This process will have to be carefully managed to enable long-term planning and to ensure that a stable climate is created for economic growth and investment.

☐ Croeser is Finance director-general. This is an edited version of a speech delivered to a Centre for Policy Studies and Institute for Multiparty Democracy workshop in Cape Town last week.