ECONOMY — 1992

JANUARY — FEB.

Stanley Uys reports from London that it is not only the British Left that is intellectually adrift

Is capitalism capable of rising to the occasion?

STAR 3/1/92. (49)

A rather chic farewell party was held in London last month to mark the closure of Marxism Today. Established in 1957 as a monthly of the now-dissolved British Communist Party, it came under the editorship (in 1977) of the iconoclastic Martin Jacques, who turned it into the flagship of what The Wall Street Journal calls Yummies — young, upwardly mobile Marxists. Now even the trendy Marxism Today has had its day.

What remains for the British Left to read" Labour Weekly and the New Socialist have folded, Tribune (Labour's left-wing journal) is a "ghost of its former self", while the New Statesman "hovers on the edge of death".

Measured by this dearth of publications, observed one commentator, the Labour Party is brain dead. "Sometimes," he said, "in the right light, Labour looks more impressive than it has for a generation disciplined, talented, responsible, well-presented. And then you stand still for a moment and listen and you can hear .. nothing. It is eerie. It is like walking down a street built on a film set: the technicians have put up wonderful frontages, but behind them — thin air."

This loss of faith on the Left is not, of course, confined to Britain: it has the whole of the former Soviet bloc in its grip. The lament of communists, socialists, leftists everywhere today is — what is there left to believe in?

But it is not only the Left who are intellectually adrift. This should be the moment of capitalism's triumph. but it, too, is not exactly an inspiration. It was briefly so in the former Soviet bloc after communism fell into its black hole, but an opinion poll published in Pravda in November recorded that only 33 percent of the under-20s now support capitalism, 14 percent of the 21-30 age group, and declining numbers in succeeding age groups.

When Mikhail Gorbachev took over the Soviet leadership in 1985, he inherited a system "in terminal decay, characterised by rampant corruption, coercion, technological and economic obsolescence, and trapped in a costly arms race". When he resigned, after nearly seven years of reform, he had liberated the Soviet Union and performed wonders internationally, but the five percent budget deficit he inherited was up to 50 percent, foreign debt had quadrupled to $65 billion (R175,5 billion), gold reserves were one-tenth of the 1985 level, hyperinflation was just around the corner, and the shelves of Moscow shops were even emptier than in 1985.

One can understand the disenchantment in the republics of the new "Commonwealth". The old system did not work, reforms don't work (not yet), and the capitalist alternative is not a beacon of hope.

So where will the republics go from here? The Guardian's Ian Aitken suspects that "What eventually emerges from the chaos is unlikely to look much like liberal capitalism. It could easily be fascism." With prices in Russia freed this week, and discontent mounting in the army, talk of a second coup is now widespread.

The West will give what help it can, but if you read its financial writers they do not inspire much faith in the West's ability to pull even itself out of recession. In Britain, one explanation offered for Labour's erratic lead over the Conservatives in the opinion polls is that "maybe the electorate has simply lost faith in Britain, in its institutions, its politicians and its future".

Too many people, it seems, have lost faith in the ability of either party to restore prosperity in the immediate future.

The first signs of panic are evident already in the Conservative Party as the new year begins and the deadline for the general election (March-May?) approaches

The government has tried every trick in the book and yet the economy refuses to emerge from recession All the Tories are left with at the moment are affirmations of faith

The Marxist economist Eric Hobsbawn (writing in the final issue of Marxism Today) suggests: "Capitalism will presumably get over this period of secular crisis, as it got over similar periods, even its dark age between the wars. But I would hazard two guesses The golden decades of a capitalism without serious social and economic problems won't come back, and capitalism will need to be reformed yet again, as in the Keynesian era"

In few countries will the pressure for reform of capitalism be stronger than South Africa. Among Patriotic Front organisations there are broadly two approaches: those who believe that through reforms they can run capitalism better than the capitalists, and those (like the SACP) who want to replace capitalism with socialism.

The test for both schools will be the extent to which capitalism can deliver the goods. If capitalism fails, the demand for State intervention will increase — not only by the SACP and other Marxists, but also by most of the major black parties, even if the scale of the proposed intervention differs.

It always comes back to the economy. Political negotiations, however successful, will always be so much pie in the sky if they are not sustained by a job-delivering economy. The more jobs are delivered, the less effective the pressure will be for State intervention, and vice versa. The economy is the issue that could rip any political agreement apart. So can capitalism rise to the occasion? □

MONEY SUPPLY

In check

(49)

FM 3/1/92

The broad monetary aggregate M3 grew by an annualised 9,24% between February and November, according to Reserve Bank provisional figures. Though up on the annualised 7,45% between February and October, it remains within policy limits.

February is used as the base month because subsequent growth is free of that month's technical distortions which substantially boosted monetary growth as various transactions, previously not reflected on banks' balance sheets, were brought within the definition of money supply.

M3 grew 13,84% to R182,1bn over 12 months, while from the base of the current target year in mid-November the annualised rate is 15,1% to a seasonally adjusted R182,1bn.

Revised figures for October show M3 grew at a marginally lower rate than the provisional figures published last month:

- Over 12 months, 15,77% to R179,9bn;
- From the base of the current target year, an annualised 14,22% to R178,7bn; and
- From February, an annualised 9,24%.

Growth over 12 months to October in the other monetary aggregates was:

- M1A 15,6% to R30,8bn;
- M1 24,85% to R58,5bn; and
- M2 21,71% to R152,2bn.

From February to October credit extended to the private sector grew at an annualised rate of 12,7% to R189,9bn. ■

THE OUTLOOK FOR 1992

FM 3/1/92 (49)

The only certainty is uncertainty

In an age when every year seems to bring even more momentous change than the one before, it's difficult to know what lies ahead for 1992.

Who, at the beginning of 1989, could have expected the Berlin Wall to be knocked down by year-end? Who, at the beginning of 1990, would have expected Nelson Mandela to be free within six weeks and communist eastern Europe to win freedom during the year? Who, at the beginning of 1991, would have expected change in the Soviet Union to go so far by year-end as to abolish the USSR itself and relegate the architect of reform, Mikhail Gorbachev, to history?

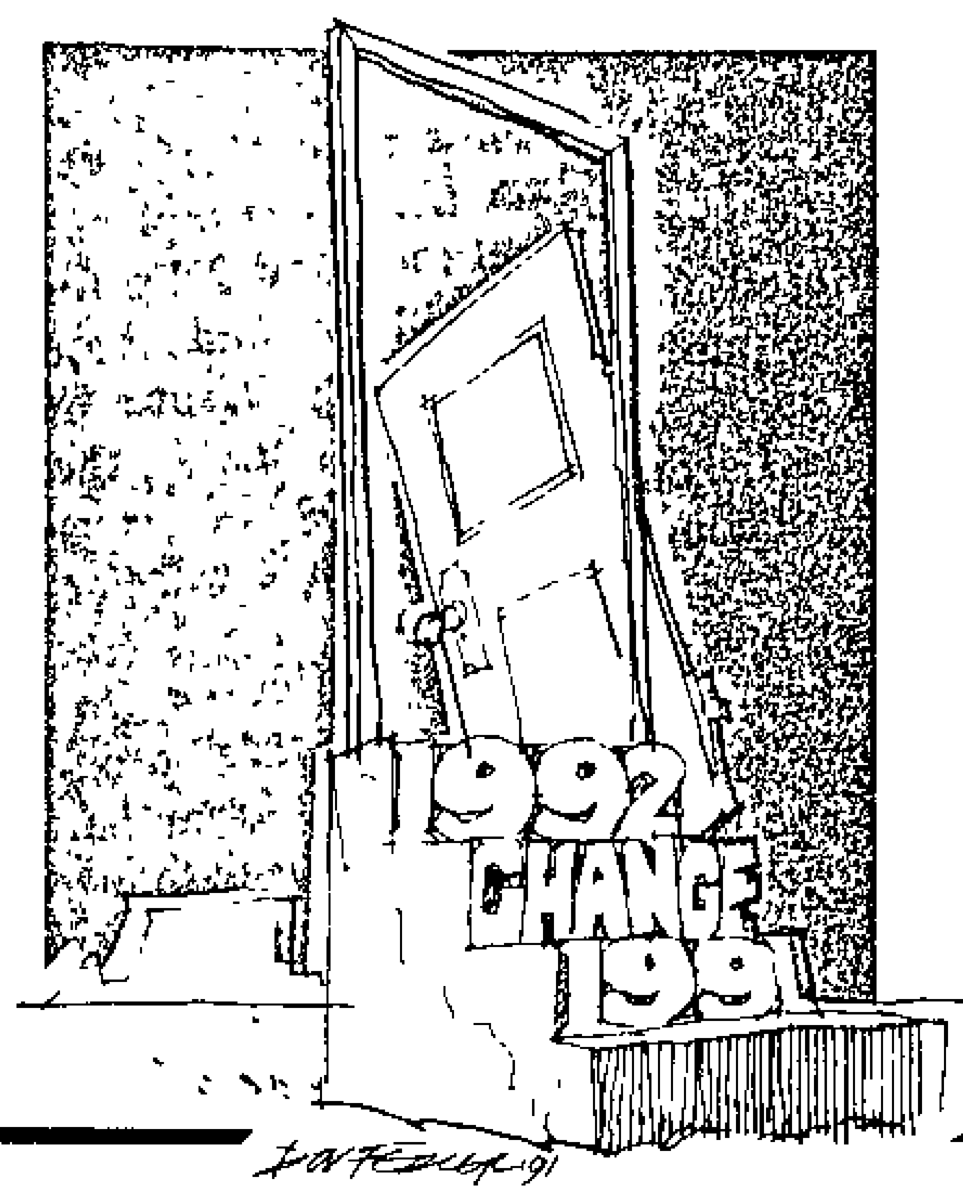
At home, sadly, there was rather too much of an element of *plus ca change, plus c'est la même chose.* All major players except the Conservative Party and a piqued Mangosuthu Buthelezi managed to sit down in the same room and make significant progress towards devising a mechanism to draw up a new constitution; but the ANC continues to have difficulty formulating a coherent economic policy and baulks at necessary changes (as shown in the stupid anti-VAT campaign, which happily seems to have died the natural death many predicted), encouraging government in the renewed inertia which has gripped policy-making.

Take meat as an example, where the pernicious control board system succeeds neither in maximising returns to the producer nor in stabilising prices for the consumer, and blocks cheaper imports. In the long run, the entire nation (including the farmers themselves, whom the system is intended to protect) is impoverished by such lunacies.

It is difficult to believe that even the ANC, to whose lower-income supporters food prices are even more vital than to upper-income whites, could resist reform in such areas.

The *FM* has more than once voiced suspicions that the NP's commitment to deregulation and privatisation was never more than skin deep, and that it is only too happy to use ANC resistance as a pretext for not disturbing the kleptocrats and pork-barrel gluttons. We can but hope that Derek Keys won't stand for this rubbish but resume the structural reforms that any new government will need if it is to restore the growth rate to the level needed to create jobs for the surging hordes of job-seekers.

Indeed, if it really knew what was good for it, the ANC would actually tacitly encourage renewed economic reform, so it could blame the unavoidable short-term costs on the *ancien régime* and take the credit for the long-term benefits. But though some claim to discern greater sophistication in ANC economic thinking, it's probably not that astute.



As it is, structural rigidities seem to be a major factor keeping consumer price inflation distressingly high. Some of our apparent successes — like the healthy trade surplus and decline in demand for credit — sadly owe as much to the sapping effects of prolonged recession as to the necessarily restrictive policies of Reserve Bank Governor Chris Stals.

Nor do external preconditions for renewed growth look favourable. Interest rate cuts in the world's two largest economies, the US and Japan, suggest that the long-awaited upturn in the Western economy — the only thing that can bring about the major rally in commodity prices that is so essential for our own recovery — is still some way off. The remarkable political changes in eastern Europe and what was the USSR have done nothing even to begin to solve those regions' overwhelming economic problems.

While the jury is still out, indications are that Christmas retail sales showed no real growth. Given the sheer length of the recession, the need at some stage to rebuild stocks and the impossibility of deferring capital spending decisions indefinitely — irrespective of the economy — we may be bumping along the bottom, but even the most optimistic forecasts for growth this year are below the rate of population increase, so on average we will again become poorer.

It cannot be repeated too often that the changeover to a new government will be a disaster if it is not accompanied by at least perceptions of an end to economic stagnation — a truth that could soon stare Boris Yeltsin in the face. Economic reform cannot be left to the new government, and if the ANC doesn't like this, it must just lump it.

Arguably, therefore, it could be Derek Keys who'll take the decisions that matter most this year, not Codesa and its cohorts. We can't imagine a better man for the job, and wish him well in overcoming the recalcitrant existing and prospective *nomenklatura.*

Nevertheless, Codesa has a vital role on the political front. Those who have excluded themselves from the political process have only marginalised themselves, and it will be interesting to see how far the pro-negotiation elements in the CP are prepared to go. If they split the party, it could virtually eliminate the white rightwing threat to President F W de Klerk.

But it would be folly more than bravery to offer this as a prediction rather than a possibility. By the time we come to look back on 1992, the expectations we have for it now will probably turn out to be as remote from what will actually happen as they were in the past three years. ■

Sacob president views 1992 with optimism

B/Day 3/1/92

SOUTH Africans could look forward to 1992 with optimism, SA Chamber of Business (Sacob) president Hennie Viljoen said in his New Year message yesterday.

He warned, though, that to take advantage of — and to maximise — SA's "many opportunities" required a commitment from everyone.

"This means giving his/her best at all times to help to speed up these developments which will give hope to all South Africans for a bright and prosperous future.

"Political and economic developments worldwide are indicative of a new economic era that would most certainly be forthcoming," Viljoen said.

"SA has undergone a metamorphosis. We are now becoming part of the real world and opportunities are opening up for us in both old and new markets.

"The improvement in our export performance is evidence of this and hopefully all remaining sanctions will be lifted during this year," Viljoen said.

"But as so often happens when changes of this nature occur, they are accompanied by uncertainty and violence, and in SA these factors have contributed substantially to a protracted economic downswing during the past decade.

However, SA was presently experiencing the beginning of an upturn in international tourism, Viljoen said.

"The number of foreign airlines again utilising our airspace has increased dramatically in the past few months, and this bodes well for the tourist industry."

There were "many other positive developments taking place around us", Viljoen added.

These included promising progress "as regards the political negotiating process"; and acceptance by government, as well as all political parties, that what was urgently required in SA was economic growth. Moreover, all political parties were now focusing specifically on economic policy.

The Peace Accord was well in place and provided all were committed, the peace and stability needed to generate renewed confidence in SA would be acheived.

"In this regard, it is pleasing to note that chambers of commerce and industry have accepted the importance of their role as facilitators in the implementation of the Accord at local level.

"I am further encouraged by so many recent company reports that talk of expansion plans and new projects in the pipeline, and I believe we will also start seeing some foreign investment." — Sapa.

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ECONOMIC FORUM

What's good for business

The next major step forward for all the political players who participated in the Convention for a Democratic SA (Codesa) is becoming clearer. It is an independent forum to bring economic policy to the negotiating table

Sharp differences exist between government and the ANC over the ambit of Codesa itself and the extent to which issues such as nationalisation, redistribution of wealth and land reform can be included in their deliberations But broad consensus exists that Codesa cannot be expanded to include a detailed economic debate.

ANC international affairs chief Thabo Mbeki is emphatic that there is no constitution in the world that contains economic policy as such. The sole exception is the right to private property — which all parties, including the ANC, endorse for entrenchment in a justiciable Bill of Rights

Mbeki's view is backed by DP leader Zach de Beer. He regards discussion of economic policy between the major political players as a matter of urgency -- yet argues that Codesa would not be the right forum

Finance Minister Barend du Plessis concedes that "economic policy as such" will not feature at Codesa. In an interview with the *FM*, Du Plessis did not reject the idea of an independent economic forum, but indicated that consensus on a "transitional arrangement" would pave the way for a wider economic debate.

It is ANC policy that all sanctions will be lifted once a negotiated interim government is in place. Mbeki indicated that there would be little use in engaging the government in economic debate while it was soon be replaced by an interim authority. From both government and ANC viewpoints, therefore, reaching consensus on transitional arrangements could be a decisive step towards unlocking at least some restraints on the economy.

With the signing of the Declaration of Intent at Codesa the major players have committed themselves to be bound by and to implement agreements reached at the convention. This power raises questions about

ANC's Mbeki *not ideologically tied to nationalising*

the suitability of Codesa's expansion into an economic forum De Beer argues that economic policy by its very nature has to change from day to day - and he doubts whether political parties would be prepared to go to an economic forum which grew of Codesa-style consensus.

Barend du Plessis ... *accepts the idea of an economic forum*

Du Plessis agrees that Codesa has not been structured to equip itself for debate — at the right level — about macro-economic, fiscal and monetary policy. So there is grudging agreement that economic policy is the prerogative and responsibility of the government of the day. It is this awareness that lies behind calls for a multiparty forum to address economic issues

The importance with which the economic debate is viewed by NP negotiators was made clear in a speech by Public Enterprise Minister Dawie de Villiers, leader of the NP delegation at Codesa. A major part of his speech was concerned with economic issues — and De Villiers launched a strong appeal for sound economic growth and prosperity. He warned that nationalisation, increased taxation, labour unrest, consumer boycotts and unrealistic wage demands would continue to undermine the confidence of business and of foreign investors

Mbeki objects to this "red-herring approach" — as he terms it — to ANC economic policy. He repeats the ANC's stated intention of pressing for a mixed economy — though finer detail would have to emerge in a

FM 3/1/92

new parliament

Mbeki argues, too, that the ANC is not ideologically bound to nationalisation but rather to a more equitable redistribution of wealth in which elements of privatisation are not ruled out In practice this comes down to a debate on the degree and form of State intervention necessary to redress historical socio-economic injustices.

According to Mbeki, a more detailed economic policy plan will be put forward by the ANC in the first quarter of this year. An economic policy conference is planned for March or April.

Both political players and spokesmen for industry and commerce have good reason for pressing for an economic forum Commerce, particularly, would like to see growth, investment and sound industrial relations viewed with the same degree of importance as the ANC has hitherto accorded nationalisation.

In November the ANC and Cosatu signed a statement of intent to set up a national forum for economic research and policy formulation Government, the NP and Inkatha would be loath to join an ANC initiative, and so responsibility for convening such a forum shifts — as was the case with Codesa to nonpolitical players Organised business is an obvious candidate as convenor.

For the moment business is having to pin its hopes on Codesa itself as a significant step in restoring business confidence. The creation of a stable and peaceful political climate, and the prospect of a constitutional settlement, should take the process further The convergence of opinion on the desirability of an economic forum distinct from Codesa and its committees is also being seen as good news on the business front ■

New proposals say govt could raise R40bn without tax increases

B Day 3/1/92 (49)

LESLEY LAMBERT

THE state could raise additional tax revenue of R40bn over five years without increasing corporate or individual tax rates, according to new proposals published by the Wits Centre of Applied Legal Studies.

The proposals, drawn up by centre director Denis Davis, were initially developed to test the ANC's proposals that government expenditure should be increased to 35% of GDP and tax revenues should be increased from 25% to 30% of GDP in order to raise an extra R40bn over five years.

Now the proposals are being presented as an alternative to the Margo Report, which Davis says has "enormous intellectual and political inadequacies".

Davis argues that the additional revenue could be achieved even with a reduction in corporate tax to 43%, the existing maximum marginal rate for individuals.

But a reduction in rates would have to be coupled with a minimum tax of about 30%, which is higher than the effective rate currently paid by many companies.

Government would also have to cut back on discretionary allowances and incentives in virtually all areas other than those that promote training and housing. This, and an increased inspectorate, would help to make effective corporate tax rates, which are as low as 20% in some cases, more representative of nominal rates.

A reduction of rates would also have to be accompanied by a range of wealth taxes including capital gains tax, capital transfer taxes and land and property taxes, Davis proposes.

He notes that in almost all Organisation for Economic Co-operation and Development (OECD) countries the maximum marginal tax rate for individuals has decreased fairly dramatically over the past five years. In many developing countries this trend has been accompanied by an increase in tax revenues because of the introduction of indirect taxes, many of which were previously considered regressive and inefficient.

Davis says the principle that taxes be levied according to benefits received from expenditure they finance has returned to favour, as opposed to the "ability to pay" principle which dominated during the theory of high maximum marginal tax rates.

But whatever the principle, Davis argues that a tax system can succeed only if two important conditions are met. The administration must be accountable to civil society, ensuring that revenue is put to the most effective use, and it must be effective and efficient, removing corruption and collecting the maximum possible amount of revenue.

Contributers should be updated regularly on revenue practice and interpretation.

Davis supports the ANC's recommendations that wealth taxes such as capital

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Proposals

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□ From Page 1

gains tax, capital transfer taxes and land and property taxes be introduced.

A majority of the Margo Commission voted against the introduction of capital gains tax because its potential yield was low and it would create a bias towards holding onto appreciated assets which could seriously retard and distort markets.

Davis argues, however, that the commission missed the point made by the Irish Tax Commission that a main advantage of capital gains tax was to prevent avoidance of income tax by switching income gains into a form in which they were regarded as capital gains.

He says that while land taxes will not resolve the pressing land issues confronting SA, they should not be discounted as part of an overall package of reform.

"It is estimated conservatively that there is some R60bn worth of agricultural land in SA. Even allowing for an exemption from tax for the poorer farmer, an annual tax of 2% could yield R1bn. Provided that this revenue is used to develop the agricultural sector, it could prove important particularly as a fiscal base for rural local authorities," Davis says.

Inheritance taxes, which are imposed in most Western nations, should raise between 1% and 2% of total tax revenues, he says. In SA, estate duty, which yielded R82m in 1990, should raise at least R1bn. Combined with other forms of taxes on property, the contribution of wealth taxes to total tax revenues could be as high as 10% without being totally out of line with OECD countries such as the UK.

Another means of raising additional revenue would be to tax interest earned by non-residents on Eskom and other parastatal stocks. This, Davis estimates, could raise an additional R300m a year.

He criticises the decision to scrap tax on dividends, saying it provided scope for dividend stripping and for using subsidiaries to channel profits by way of tax-free dividends which were immune from undistributed profits tax.

Dividend tax could have earned R500m in 1991 terms, he says.

Sacob president optimistic

STAR 3/1/92 (49)

Many opportunities existed in South Africa, but to take full advantage of them required the commitment of the entire country, SA Chamber of Business president Hennie Viljoen said in his New Year's message yesterday.

"South Africa has undergone a metamorphosis," he said. "We are now becoming part of the 'real' world and opportunities are opening up for us in both old and new markets.

"The improvement in our export performance is evidence of this and hopefully all remaining sanctions will be lifted during this year," Mr Viljoen said.

He added: "As so often happens when changes of this nature occur, they are accompanied by uncertainty and violence, and in South Africa these factors have contributed substantially to a protracted economic downswing during the past decade."

He said political progress made him feel more confident about the future. This was heightened by the acceptance of the Government and all political parties that economic growth was urgently needed.

Mr Viljoen was optimistic about the year ahead, saying: "I am further encouraged by so many recent company reports that talk of expansion plans and new projects in the pipeline, and I believe we will also start seeing some foreign investment soon."

He was also heartened by increased attention given to small and medium businesses.

Staff Reporter.

Wealth tax: let the public cast the final vote

S Times 5/11/92

JAMES MOULDER challenges Ken Owen's views on the redistribution of wealth

(49)

KEN OWEN'S comment on our passing show tends to tell it as it is, but sometimes he gets it wrong.

It usually does not matter; but his bee-in-the-bonnet opposition to redistribution of wealth, which he consistently equates with stealing, is a serious mistake.

It also is dangerous because it suggests that just as thieving is so obviously wrong that it does not have to be discussed, so redistributing wealth is obviously wrong and does not have to be debated.

Using his favourite example: If Joe Slovo is encouraging people to nick swimming pools, Owen has a right to be outraged because, as the 10-point programme says, "thou shalt not steal". But when Slovo calls for a redistribution of wealth, what he wants may be silly but it is not morally reprehensible.

He believes, I think correctly, that we cannot have a new South Africa if those of us who have benefited from the way in which apartheid worked are unwilling to give back some of the goodies we got in the accumulation game.

In fact, if Slovo kicked his addiction to a Joe called Stalin, he could employ Robert Nozick, a professor of philosohy at Harvard, to put his case for redistribution.

According to Nozick, wealth is not "manna from heaven"; it has to be worked for and we are entitled "to possess whatever we acquired without injustice".

I have referred to Nozick because he defends the idea of a minimal state with a free market, but he does not reject redistribution policies when the system under which one's wealth was acquired was unjust, and so he reminds us that apartheid has helped to decide who are "haves" and who are "have nots".

This means that those of us who are stuffed while others are starved cannot justify what we have simply by showing that we worked for it. We have to go further and show that we would have got what we did even if apartheid had not tied logs to the legs of most of our competitors.

What is required is a debate on how wealth should be distributed rather than on whether it should be.

And in this debate it is not enough to invoke Adam Smith's (very) "invisible hand"; it also is necessary to adopt at least three rules to make it work.

The first rule is Smith's Strategy: it tells us that it is always acceptable to ask how the productivity and wealth of an organisation or society can be increased.

The second rule is Marx's Manoeuvre: it tells us that it is always acceptable to ask how the present and future wealth of an organisation or society can be distributed more fairly.

The last rule is Felicity's Finesse: it tells us that it is never acceptable and always illegitimate to employ Smith's Strategy (to increase productivity and wealth) without also using Marx's Manoeuvre (to distribute present and future wealth more fairly), and the other way round.

Another way to make Smith's hand more visible is to adopt "an index of achievement and need" for financing things like education, health, housing and rural development.

An index of this kind applies to a geographical area like a municipality, a magisterial district or a development region. It weighs the achievements and needs of the people in an area, puts this information into a formula (which is always open to public scrutiny, debate and revision) and distributes public monies in ways which both encourage the achievers and help the needy.

If we applied an index of this kind to the education budget, things like high teache/pupil ratios, textbook shortages and congested classrooms would count as needs; and things like regular attendance, students who graduate from universities and technikons in the minimum amount of time, and scores in English, Maths and Science Olympiads would count as achievements.

This, of course, is only an example. But it makes a point that is seldom made in the debate on redistribution: we do not have to choose between welfare (eliminating need) and meritocracy (rewarding achievements).

It is possible to balance these goals and, what is more important, to have a public debate on how this should be done. But this is impossible while Ken Owen equates redistribution with thieving and Joe Slovo calls for redistribution without giving us the rules of the game.

□ *James Moulder is professor of philosophy at the University of Natal, Maritzburg.*

R1bn boost seen for SA surplus

B10ay
6/1/92

SHARON WOOD

LARGER sales of strategic oil stockpiles and growing exports could push SA's current account surplus up to R7bn this year from an expected R6bn last year, Standard Bank chief economist Nico Czypionka said at the weekend.

"The running down of oil stockpiles started late last year, if at all, and sales are likely to be bigger this year," he added.

This would dampen the stimulatory effect of a pick-up in the economy on imports in the second half of the year.

Czypionka expected exports to rise during the year because of a continuation in the momentum built up last year and the positive effect of the lifting of sanctions. There would probably be no increase in the gold price, he said.

"The increase in exports will not be because of higher commodity prices."

In contrast, Bankorp economist Jacques du Toit predicted a sharply lower current account surplus for the year. The current account surplus would probably fall to R5.5bn in 1992 from an expected R7bn surplus last year, he said.

Imports would surge by about 37% during the year because of a growing economy, compared with an estimated 4% rise in imports in 1991, he said.

THE MONEY MARKETS by Sheridan Connolly

Reserve Bank resists sliding rates

THE Reserve Bank continued its struggle against strong liquidity levels and sliding rates this week. (4,9)

Despite a high Treasury bill tender of R200m, the allotted rate came in four times oversubscribed at 16,09%, down from last week's 16,13%, indicating that liquidity levels are unchanged.

Continued downward pressure on rates indicated the market is anticipating an imminent cut in the official Bank rate. Market players expect a cut of at least one percentage point within the next two months, and institutions are thus funding short- rather than long-term investments.

Reserve Bank Governor Chris Stals has so far ignored the market's lead for a cut in Bank rate but some analysts expect him to bow to pressure should the December consumer inflation rate come in lower than November's 15,5%.

The 90-day BA rate eased to 16,35%, bringing it to 1,15% points below the Reserve Bank's 17,5% rediscount rate, and with little room for any further downward movement, some analysts feel rates are at rock bottom. 13/Day 6/1/92

The money market shortage dropped to R1,407bn on Thursday, far down from R2,864bn on Tuesday. The drop, which was in line with market expectations, followed a routine inflow of money arising out of government spending which is processed at the beginning of every month.

In the capital market, trade was quiet and volumes were thin with a general lack of interest following the festive season.

Rates followed a downward trend this week with players expecting a cut in official interest rates. The key Escom 168 dropped to 16,12%. Interest was mainly in the medium-term stock which would offer investors a better value should there be any cut.

Hopes of upswing get a boost

STAR 7/1/92.

By Colin Vineall (49)

Two major reports released today offer hopes of an upswing in the economy and a strong revival in the private housing sector early this year and in 1993.

The Bureau of Economic Research (BER) at Stellenbosch University has issued its latest survey of the commercial sectors, saying retailers expect a relative improvement in business conditions in the first quarter of 1992.

Prof WF Kilian and GJJ Snyman of the Stellenbosch-based building economists, Medium-Term Forecasting Associates, also believe the economic turnaround has begun.

The BER says, however, that the employment situation still looks rather bleak, with only seven percent of new entrants to the labour market employed in the formal sector.

Consumer spending will not be particularly buoyant, but wholesalers, retailers and motor dealers have relatively better expectations for the first quarter of the year — retailers expecting higher sales volumes.

However, personal taxes are expected to remain high and, coupled with BER's inflation forecast of 13,2 percent in 1992, will keep disposable income under pressure. Growth is forecast at 1,8 percent.

Prof Kilian and Mr Snyman base their building predictions on two factors.

First, the expected decrease in interest rates cannot be delayed much longer.

Second, there is an overhang of a few billion rands that has been earmarked for low-income housing.

The experts, presenting their authoritative annual forecast for the building industry, say: "Even though it will take time to implement the increased expenditure, the housing cycle should gather momentum in 1992-3.

"By contrast, we see a sharp reduction in growth in the non-residential sector — already vacancy levels have risen in the commercial sector of the market. Over-building is a recurring phenomenon in protracted recessions."

Ron Schurink argues for the establishment of an economics parliament

SA needs to follow Europe's path for growth

STAR 8/1/92. (49)

DAILY we witness increasing fractiousness among South Africa's population as majority rule approaches. On the Left, it stems from the fear that that rule won't be complete enough; on the Right, from fear that the Afrikaner heyday will turn into subservience.

However, it seems the best approach towards achieving a peaceful transition lies in focusing on our greatest joint asset, the economy.

In Europe, an economics administration has gradually taken over certain reins of sovereignty from 12 different nation states.

Here, the equivalent would be for the current, white-dominated parliament to transfer economics administration to a majority-dominated economics parliament.

Economics administration could be defined as everything which has a direct bearing on the functioning of the economy, and should include taxation, initial allocation of revenue, control of the macro-infrastructure and industrial relations legislation.

Envisage, then, that the ANC has the majority in the economics parliament and an ANC Cabinet or commission is the executive arm of the parliament. This can be achieved even before the passion-arousing issues of language, flag and anthem.

On coming to power in this way, the ANC must act in the best way possible to, at last, manage the economy in the interest of its long-suffering constituency. However, as in Europe, there will be no question of turning against the (in our case, electorally) vanquished, but rather an effort to get the best out of everyone.

The spirit of Adam Smith, the canny Scot who first delineated how a free-enterprise economy works, will surely cheer. It is a sad reflection on Codesa 1 that nobody there invoked the name of Smith. His legacy routed Marx and Lenin and caused even Western European nations to alter their course for the sake of better economic achievement.

Putting the economy under majority rule as quickly and smoothly as possible is something foreign investors will applaud. And the far Right and the far Left will be under increased pressure to participate in the parliament.

Even within our economy and its benefiting society as at present constituted, there is a great deal of regional divergence.

Pretoria has been "Afrikaner", Johannesburg and Durban "English" and Cape Town a mixture. Pressure of economic growth is likely to make Johannesburg "black" faster than Pretoria, which could be a sort of "Luxembourg" haven for Afrikanerdom

This sort of easy adaptation under regional political government subordinate to the economics parliament will exactly suit an economically focused society. Our people, rather than bowing to rigid hegemonies, whether Boer, Zulu, Xhosa or other — will be free to best follow Smith's wisdoms, to the advantage of us all. □

● *Ron Schurink is an independent writer*

Economists are more upbeat about prospects this year

STAR 8/1/92

By Magnus Heystek
Finance Editor

49

Economic growth is set to recover to around 2 to 2,5 percent this year, according to a survey of leading local economists.

Inflation is heading lower, while an inflow of foreign capital could also boost the economy.

Taking a longer-term view, there is a fair amount of consensus that the next upswing — which some say has already started — could be longer and more durable than most upswings of the Eighties.

Most economists canvassed agree that the world economy is set to grow at a faster pace than in 1991, which would improve the prices of South African commodities, encourage trade and lead to higher foreign investment.

On the local scene, the economy is set to receive a boost from the low level of inventories, coupled with a number of large capital projects now in the pipeline.

New export incentives and the VAT zero-rating of exports should stimulate large capital projects and export growth.

The survey appears in the latest issue of Professional Marketing Review, which warns, however, that a check on government expenditure might be necessary because it is running way ahead of budget and has grown faster than any other component of domestic spending.

Many demands

This is a result of large increases in spending on the police, the homelands and black education in the first five months of the fiscal year.

According to the economists (see table), there is very little scope for significant cuts in interest rates.

The Reserve Bank needs to maintain policy credibility by keeping interest rates consistently higher than the inflation rate.

This means that high mortgage payments and expensive credit will continue to cut into the consumer's disposable income.

Looking beyond 1992, the economists see a good chance of growth performance building up progressively — if current constraints on foreign capital are eased — towards what appears to be a latent potential growth rate of 4 to 5 percent per annum.

The upswing, which will start to be felt towards the middle of the year, will attract higher imports.

Consequently, the overall performance of the balance of payments, as reflected by the level of gold and foreign exchange reserves, remains the fundamental determinant of the durability of the upswing.

Export-led growth is essential in coming years if the economy is to expand without undue pressure on the balance of payments.

Table illustrating views for prospects '92 (NB: Q = quarter)

Questions	1 GNP growth '92 over '91 %	2 Which Q will downswing bottom out	3 % inflation '92 over '91	4 Prime rate - end of 2Q and 3Q	5 Private savings - % change '92 vs '91	6 Unemployment %	7 Violence level '92 vs '91
BANKORP	1,8%	1st Quarter	Year end 11% Average 13% 3Q - 18,25%	2Q - 19.25%	Non-existent	Increase of a ¼ million	Potential to worsen
INVESTEC	-	2Q or 3Q	Published 14-15% unpublished 20-25%	1% down	Unchanged	Worsen	Hope of improvement
FNB	2-2½%	Has bottomed out	11-12% range, 11-15% year	1% down	Very little	Worsen	-
NEDBANK	2%	1Q	13,8% - whole year	2Q 18,5%; 3Q 18,0%	Still negative	Worsen	Worsen
ABSA	2-2½%	2Q	13%	20%	Uncertain and hopeful	Remain catastrophic	Cannot worsen
STANDARD	1,8%	1Q	Average 14,5%, Year end 12,5%	2Q 18% 3Q 17,5%	Will increase minimally	Decrease a little	Decrease

Seminar finds economy skewed

(49)

TIM COHEN

THE SA economy is severely and chronically unbalanced, a three-day seminar held by the Macro-Economic Research Group, a body initiated by the ANC, has concluded.

The seminar, held at Wits University, was the consequence of a decision taken last year by the vice-chancellors of several universities and ANC president Nelson Mandela to form bodies to develop ANC economic policy and research.

The weekend workshop defined the terms of reference for various research initiatives. BDay 8/1/92.

It decided that its overriding concern would be to consider how to achieve macro-economic balance while transforming the economy.

In a statement, the ANC's economic policy department said the unbalanced state of the SA economy was demonstrated by mass unemployment and worsening poverty together with high inflation and a chronically weak balance of payments.

"In addition, the seminar made clear that macro-economic balance is to be seen as a positive framework for radical post-apartheid transformations, not as a constraint that blocks it," the ANC statement said.

About 50 economists from SA and abroad took part in the seminar.

They included US and British academics and economists from India and Turkey.

During the discussions projects were launched covering macro-economic modelling; fiscal policy; financial policy and the balance of payments; labour market policies and affirmative action.

Other projects include mining and industrial development; regional policy and international trade; and the role of the state in the economy.

The seminar focused on the process of identifying research projects and the economists to work on them.

The Macro-Economic Research Group is committed to training a new generation of economists in policy analysis and would publish its output, the statement said.

Economic revival hopes fall flat (49)

Own Correspondent CT 9/1/92

JOHANNESBURG. — Economists believe there is little chance of an economic revival until the second half of the year and, even then, growth for the year as a whole is expected to be no better than 1% to 2%.

Those polled said hopes of an improvement in the economy in mid-1991 had proved unfounded, as were expectations that there would be a visible revival in the first half of this year

SA Chamber of Business (Sacob) chief economist Ben van Rensburg was the least optimistic, forecasting average growth of 1% for 1992.

SA had reached a stage in its business cycle similar to that of some of its major trading partner economies; the turning point in the downswing had not arrived as early as expected and the upswing was slower than forecast, he said.

Nedbank, the Bureau for Economic Research and the Foundation for African Business and Consumer Services are setting their sights on a 2% upturn this year but have tempered their forecasts with a distinct lack of enthusiasm.

The economy should edge up during the third quarter but there would be no vigour in the recovery, said Nedbank chief economist Edward Osborn.

First National Bank's Cees Bruggemans said the 0,5% rise in GDP in the third quarter of last year confirmed that the overall economy bottomed out in the middle of 1991. But this did not signal an end to the recessionary conditions.

● Finance Minister Barend du Plessis said yesterday he envisaged growth of about 1,5% in 1992 which should accelerate next year.

That would compare with private sector estimates of a contraction in the economy of some 0,5% last year, after it shrank by 1% the previous year.

In a New Year message published in Finance Week, he said certain economic weaknesses remained which could militate against the momentum of an upswing when it arrives.

Growth of 1,5% likely (49) Barend

STAR 9/1/92.

Economic prospects for 1992 look more promising than the tough times experienced last year and GDP growth could reach 1,5 percent, according to Finance Minister Barend du Plessis.

In a new year message published yesterday in Finance Week, Mr du Plessis said not only was there the expected upturn in the world economy — which should further boost the country's export growth — but recent developments involving SA's relationship with the outside world seem set to return the country to the international trading and financial community.

He added that the foreign debt ratio "must now be the envy of many countries" with gold and foreign exchange reserves now at a safer level even though they are not yet at the desired ratio to imports.

Mr du Plessis said he expected consumption and investment to be boosted by the recent implementation of value added tax and the extension of tax incentives for export oriented industrial growth, along with the growing outlays of the Independent Development Trust on social spending and the channelling of funds from the sale of redundant strategic stockpiles into social projects.

But, Mr du Plessis said while an export-led upturn in economic activity was probable it would require the support of a rise in private fixed investment.

In addition he warned there were certain weaknesses which could slowdown the momentum of the upswing — when it comes.

Negative factors

Factors which could negate the momentum include the continued high rate of inflation, levels of real wage settlements arising from perceived material need rather than from productivity improvements and business confidence that is weak.

But despite the negative factors Mr du Plessis said he was looking towards gross domestic product growth of about 1,5 percent, which should accelerate next year.

He added that besides the solid gains made during 1991 there were also substantial advances in economic understanding.

"There is now a much greater measure of agreement on the sort of economic structure that will and should mark the new SA," he said.

The finance minister said there was now an explicit or implicit acceptance of a mixed economy "one in which the private sector is left to get on with its job of wealth and income creation (albeit with a growing emphasis on a wide social responsibility) while state expenditure is restructured more towards social spending". — Sapa.

Slow growth in '92, say economists

(49) SHARON WOOD

ECONOMISTS believe there is little chance of an economic revival until the second half of the year and, even then, growth for the year as a whole is expected to be no better than 1% to 2%.

Those polled by Business Day said hopes of an improvement in the economy in mid-1991 had proved unfounded, as were expectations that there would be a visible revival in the first half of this year.

SA Chamber of Business (Sacob) chief economist Ben van Rensburg was the least optimistic, forecasting average growth of 1% for 1992.

SA had reached a stage in its business cycle similar to that of some of its major trading partner economies; the turning point in the downswing had not arrived as early as expected and the upswing was slower than forecast, he said.

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First National Bank's Cees Bruggemans said the 0,5% rise in GDP in the third quarter of last year confirmed that the

□ To Page 2

Growth BDay 9/1/92

(49) □ From Page 1

overall economy bottomed out in the middle of 1991. But this did not signal an end to the recessionary conditions in many key areas of the private sector.

There was broad agreement among the economists that domestic economic growth would be primarily based on an increase in exports. The US, UK, Europe and Japan were expected to move out of recession in the second half of the year, which would buoy low world commodity prices and boost international trade.

SA consumer demand was expected to remain depressed despite expectations of at least two one-percentage-point reductions in the prime overdraft interest rate during the year. Consumers were believed to be so shell-shocked by the recession and high interest rates that a small cut in lending rates would have little effect.

"Most people are looking towards a budget correction for bracket creep which may provide some demand stimulus to the economy," said Van Rensburg.

Osborn said consumer expenditure would remain flat this year and expected private consumption spending to grow by 1,5%.

"Expenditure is unlikely to be stronger than this because of the depth of the recession, retrenchments, muted increases in average wage awards and the high level of indebtedness," he said.

There would be no effective reduction in the individual's tax burden in the next Budget. Fiscal drag would still operate because it was unlikely that the Finance Minister would increase the top taxable income level, Osborn said.

US, Tokyo announce economic strategy

TOKYO — US President George Bush and Japanese Prime Minister Kiichi Miyazawa yesterday announced a strategy for international growth designed to strengthen the world economy.

The president and the prime minister expressed concern that the growth of the world economy in 1991 slowed to the lowest level in nearly a decade. They recognised that the outlook for growth in the world economy this year was weaker than previously expected.

This situation could adversely affect the prospects for income and jobs, undermine the efforts of newly emerging democracies and developing countries to implement sound market-oriented economic reforms, and also raise the spectre of renewed protectionism.

The US and Japan together account for nearly 40% of total global production and more than 20% of world trade.

In a joint statement the two said they were aware of a special responsibility placed on their countries by their position, and recognised that each needed to pursue responsible economic policies that strengthened the international economy and global trading system.

They had therefore decided "to undertake domestic policies to improve growth prospects, as a part of a co-operative effort which contributes to the attainment of sustainable growth with price stability and the promotion of worldwide economic recovery."

Miyazawa said, with these considerations in mind, the Japanese government would submit to parliament a 1992 budget and fiscal investment and loan programme "aimed at strengthening domestic demand by increased public investment and contributing to the world through its official development assistance (ODA) and other measures", despite tight fiscal conditions.

He said the recent decision by the Bank of Japan to reduce interest rates was also

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Strategy

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□ From Page 1

intended to maintain sustainable growth with price stability.

Bush stated that he also would be submitting to the US congress a comprehensive programme to strengthen US growth and competitiveness. The details of the programme would be contained in the president's state of the union message and his budget proposals for fiscal 1993 to be announced later this month.

Bush noted that the recent reduction in interest rates reflected the determination by the Federal Reserve to facilitate US economic recovery and growth. The president also reaffirmed his commitment to achieve a substantial reduction of the US budget deficit over the medium term

Bush and Miyazawa expressed their continued support for economic policy coordination among G-7 countries as essential for achieving their common objectives as expressed in this statement.

They stressed the importance of continued co-operative efforts and called on other industrial countries to join with them. — Sapa-Reuter.

Turnaround in SA's economy seen for '92

B/Day 10/1/92. (49)

SA WAS witnessing the bottoming out of the business cycle and a return to positive growth was envisaged for 1992, Sage Fund directors said yesterday.

The declining inflation trend — possibly down to 12% by year end — coupled with continued surpluses expected on the current account of the balance of payments should allow for an easier monetary policy by the Reserve Bank early this year.

"We therefore expect short-term interest rates to fall over the course of the year, leading to cuts in the overdraft rate, followed by a decline in capital market rates as inflationary fears are dampened."

Sage Fund's total return over the past year was 37% and Sage Resources Fund showed a total return of 17,5%.

Sage said the JSE all share index for 1991 showed a return of 30,7% over the comparable period, with returns of 16,9% in the mining producer's and 20,3% in the mining financial indicies.

Sage Fund portfolio holdings were increased in Anamint (1,68%), Driefontein (0,97%), Western Deep Levels (0,71%), Samancor (0,33%), Rustenburg Platinum (1,55%), Anglo American (3,76%), Malbak (1,36%), Nedcor (0,84%), Sage Holdings (1,07%) and CNA Gallo (0,75%).

Holdings were reduced in South Vaal (0,07%), GFSA (1,04%) and Plate Glass (0,29%). During the last quarter, holdings in Impala, Amic and Nampak were sold.

An interest was acquired in PP Rust Platinum as a result of a distribution in specie from Rustenburg and holdings in Barlows and Foschini were increased marginally as a result of acceptance of shares in lieu of dividends.

ROBERT WICKS

At the year end, Sage Fund's 10 largest holdings were Richemont, Remgro, Rembeheerend, Anglo American, De Beers, Tiger Oats, JCI, Murray & Roberts and HLH.

The Sage Resources Fund portfolio includes new holdings in Harties, Western Deep Levels, Lebowa and PP Platinum.

Investments in Kloof, Freddies, Fedfood and Rainbow were disposed of.

Increased holdings were established in Driefontein, Freegold, Kinross, Lydenburg, Kelgran, Vogels, Blue Circle and Sappi.

Sage said a robust domestic recovery could soon get under way, despite the anticipated delay in achieving increased prices and volumes for commodities.

"The initial impetus could be investment-led for the first time in more than two decades. These perceptions arise from an improved outlook on the capital account, significant capital projects already announced by the private sector, and the eventual actual expenditure of the large sums allocated for social upliftment, particularly in housing."

The expected consolidation of the JSE industrial index materialised in the last quarter of the year, with the index increasing by a modest 4,9%.

For the year as a whole, the index rose by 38,2%. Sage said consolidation was necessary in many of the leading stocks to bring prices into perspective.

ANC gets in foreign experts

(49)

By REG RUMNEY

THE African National Congress has drawn in some top overseas economists to help develop economic strategy. W/Mail 10/1/-16/1/92

Present at a three-day Macro-Economic Research Group (Merg) seminar over the weekend were professors Lance Taylor, based at MIT in the US, and Lawrence Harris, from the UK, as well as academics from India and Turkey. They were among 50 economists present, according to the ANC's Department of Economic Policy (DEP).

The Merg — formed last year — began its work with a three-day seminar on macro-economic policy at the weekend.

One of the projects launched at the seminar is the creation of a macro-economic model. This allows economic planners to see the effects of certain decisions on the critical balances in the economy.

Other projects launched at the seminar were fiscal policy; financial policy and the balance of payments; labour-market policies and affirmative action; mining and industrial development; regional policy and international trade; and the role of the state in the economy.

The seminar, says the DEP, focused on the process of identifying the research projects and the economists who can work on them.

"It also firmly committed the Merg to training a new generation of economists in policy-analysis, to capacity building and to publishing its output."

The DEP says the purpose of the Merg seminar was to initiate and plan its policy-oriented research over the next 18 months.

"The apartheid economy is at present severely and chronically unbalanced in many respects. Overall, the absence of macro-economic balance is shown by mass unemployment and worsening poverty together with high inflation and a chronically weak balance of payments. The work of Merg has an overriding concern with how to achieve macro-economic balance while transforming the economy."

Grim econor

STAR 11/1/92 (49)

Dig in for 2 hard years, warns Keys

"I can say with confidence that the beginning of the next upswing will probably be towards the end of this year (1991) and the beginning of next year (1992). When we ask about the extent of the upswing and how long it will last, two cardinal questions arise. In the first place ... how long are our reserves going to last? The second question is to what extent we are going to gain access to foreign financing. That is the crucial question." — *Finance Minister Barend du Plessis in an address to Parliament on June 18 1991.*

"I'm not at all optimistic. There is every sign elsewhere in the world that the pick-up will be extremely slow." — *Derek Keys, top industrialist who becomes Minister of Trade and Industry, and of Economic Co-ordination, on January 20.*

FRANS ESTERHUYSE

CAPE TOWN — Hopes raised last year by Finance Minister Barend du Plessis and others of an early economic upswing this year have proved unfounded, according to economists.

And President de Klerk's new economic strongman, Derek Keys, agrees.

The voice of top industrialist Mr Keys, who becomes Minister of Trade and Industry and of Economic Co-ordination on January 20, has introduced a new note of realism into the crucial debate on the country's economic crisis.

Mr Keys, chairman of the giant mining, energy and industrial group Gencor, has astonished Government and Opposition politicians with his frankness in declaring openly he is not optimistic about early economic recovery.

"I'm digging in for two more hard years," he told an interviewer when asked about his hopes for an upturn in the economy.

This is bad news for South Africa at a time when constitutional negotiations are just beginning to get off the ground, but the good news is that we are at last being told the bad news so that we can face up to it.

Grim as it is, the message is clear: South Africans must prepare themselves for tougher times ahead. More unemployment, more bankruptcies, more inflation, more price rises, more tax increases, a further decline of the rand, and a further tightening of belts.

The earliest the economists expect any upswing is in the second half of this year. Even then they expect no better than a 1 percent or 2 percent growth rate.

Least hopeful is SA Chamber of Business (Sacob) chief economist Ben van Rensburg, who forecasts an average growth of only 1 percent for 1992.

Others set their sights on a 2 percent upturn this year, but were not enthusiastic.

Nedbank chief economist Edward Osborne says: "Clearly the South African economy, however cleverly engineered, will fail in resolving the unemployment problem through growth.

"The time has come to stop talking about the problem and do something about it head-on."

Meanwhile, Minister du Plessis said this week he envisaged growth of about 1,5 percent this year, which should accelerate next year.

Open-minded

He said certain economic weaknesses remained, which could militate against an upswing.

Mr Keys's frank and open-minded approach to economic problems is reflected in a recent interview. Significant responses to key questions include:

How optimistic are you that the economy will begin to recover from 1992 onwards?

I'm not at all optimistic. There is every sign elsewhere in the world that the pick-up will be extremely slow.

So when would you hope to see an upturn?

I'm digging in for two more hard years. Even if commodity prices were to improve today, they will not have a marked effect on producers' results for anything up to 12 months. This is because you sell a certain amount forward, there are contracts to work through, and so on — all of which create a lag effect.

Can the Government and the private sector do more than they are at present to get the economy moving?

Many investment inhibitions were put into various pieces of legislation when the economy was rampant, and are now quite inappropriate, he said.

Democratic Party leader Dr Zach de Beer this week pinpointed political stability as the key to getting South Africa out of the woods. The country's economic crisis is largely "a crisis of the cessation of investment".

The country's growth rate began declining in 1976 and foreign investment virtually dried up. During the 1980s the growth rate averaged little more than 1 percent a year. Since 1985, when former state president P W Botha made his notorious Rubicon speech, there has been no investment and also capital outflow. In these circumstances there has been little or no job creation.

Coalition

To restore confidence and achieve political stability will not be easy, says Dr de Beer, and will depend on early agreement on a new constitution.

He is confident this can be achieved. The scenario he envisages is the formation of a coalition government involving the National Party and the ANC as the main partners. "That will restore confidence," he says.

Asked where the DP would fit in, Dr de Beer replied: "Ideally we sit between the NP and the ANC."

Will such a government be able to bring the current violence to an end? Dr De Beer is also confident about achieving this. "The recent Codesa talks gave hope that they can do it."

Dr de Beer distinguishes between two types of violence — political violence and violence associated with crime. The latter has increased as a result of unemployment and related economic conditions.

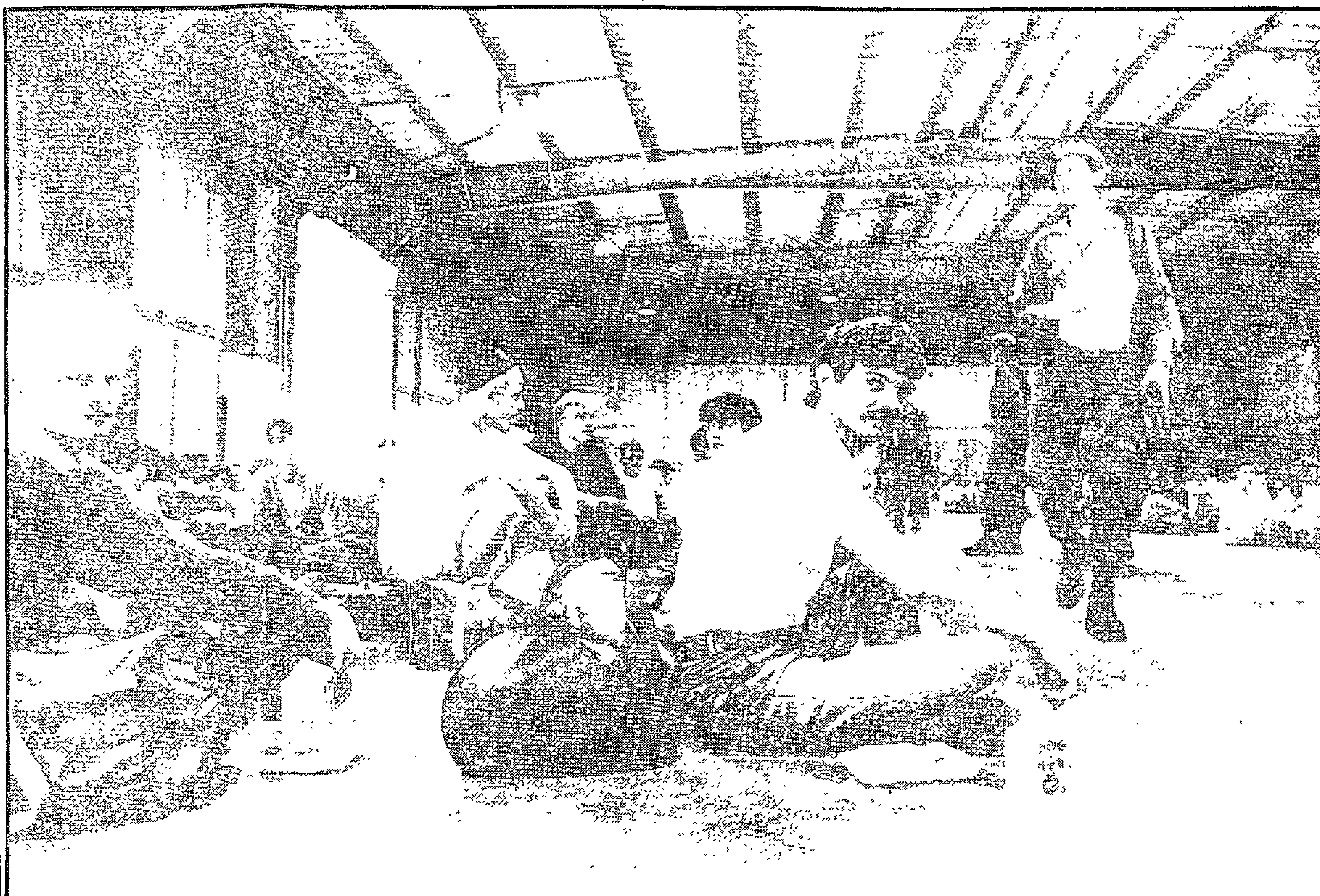
Political violence, on the other hand, arises largely from "the desperation of racists on the Right and racists on the Left

"A strong government of the centre, representing the majority of the people, will eventually get the violence under control," he predicts.

Adding to the economic gloom are forecasts by Dr Ockie Stuart and his researchers of Stellenbosch University's Bureau for Economic Research. They include:

- The squeeze on consumer spending will be tightened further this year with an increase in personal tax, lower wage increases and continued inflation.
- The Government is likely to continue to use income tax as an instrument to redistribute income, with personal taxes increasing by 16,3 percent in 1991 and 18 percent this year.
- Wage increases this year are likely to average 15 percent, a drop on the average of more than 16 percent for the past two years.
- Building costs are set to more than double within five years.
- The already weak rand is likely to depreciate by 10 percent in 1992 and inflation will remain high.
- The petrol price could increase substantially in March to make provision for a depreciating rand.
- Job prospects remain gloomy and unemployment will continue to go up. The average economic growth rate for 1992 is projected at minus 0,5 percent.

nic times lie ahead



SHELTERED EMPLOYMENT: The army may be a bit of a drag, but it might be the only "work" these school-leavers will get for a while.

Photograph: JOHN HOGG

"I can say with confidence that the beginning of the next upswing will probably be towards the end of this year (1991) and the beginning of next year (1992). When we ask about the extent of the upswing and how long it will last, two cardinal questions arise. In the first place ... how long are our reserves going to last? The second question is: To what extent are we going to gain access to foreign financing. That is the crucial question" — Finance Minister Barend du Plessis in an address to Parliament on June 18 1991.

"I'm not at all optimistic. There is every sign elsewhere in the world that the pick-up will be extremely slow" — Mr Derek Keys, top industrialist who becomes Minister of Trade and Industry, and of Economic Co-ordination, on January 20.

'Bite the bullet for at least 2 years' — Keys

(49) ARG 11/1/92

What is happening to South Africa's economy? Where is the upswing promised by the government last year? FRANS ESTERHUYSE, Weekend Argus Political Correspondent, investigated and found one good reason for optimism: At last we are being told the bad news so that we can face up to it.

HOPES raised last year by Finance Minister Barend du Plessis and others of an early economic upswing this year have proved unfounded, according to economists.

They hold out little hope of an early economic revival, as promised — and President De Klerk's new strongman of economic affairs, Mr Derek Keys, agrees.

The voice of top industrialist Mr Keys, who becomes Minister of Trade and Industry and of Economic Co-ordination on January 20, has introduced a new note of realism into the crucial debate on the country's growing economic crisis.

Mr Keys, chairman of the giant mining, energy and industrial group Gencor, has astonished government and opposition politicians with his frankness in declaring openly he is not optimistic about early economic recovery.

"I'm digging in for two more hard years," he told an interviewer when asked about his hopes for an upturn in the economy.

This is bad news for South Africa at a time when constitutional negotiations are just beginning to get off the ground, but the good news is that we are at last being told the bad news so that we can face up to it.

Grim as it is, the message is clear: South Africans must prepare themselves for tougher times ahead. More unemployment, more bankruptcies, more inflation, more price hikes, more tax increases, a further decline of the rand and a further tightening of belts.

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Least hopeful is SA Chamber of Business (Sacob) chief economist Mr Ben van Rensburg who forecasts an average growth of only one percent for 1992.

Others set their sights on a two percent upturn this year, but were not enthusiastic.

Nedbank chief economist Mr Edward Osborne says: "Clearly, the South African economy, however cleverly engineered, will fail in resolving the unemployment problem through growth ... the time has come to stop talking about the problem and do something about it head-on."

Mr Du Plessis said this week he envisaged growth of about 1,5 percent this year, which should accelerate next year. He said certain economic weaknesses remained, which could militate against the momentum of an eventual upswing.

Mr Keys's frank and open-minded approach to economic problems is reflected in an interview published in the latest *Leadership* magazine.

Significant responses from him to key questions include:

■ How optimistic are you that the economy will begin to recover from next year (1992) onwards? — "I'm not at all optimistic. There is every sign elsewhere in the world that the pick-up will be extremely slow ..."

■ So, when would you hope to see an upturn? — "I'm digging in for two more hard years. Even if commodity prices start improving today, they will not have a marked effect on producers' results for anything up to 12 months, because you sell a certain amount forward, there are contracts to work through, and so on; all of which create a lag effect."

■ Can government and the private sector do more than they are to get the economy moving? — "Many investment inhibitions were put into various pieces of legislation when the economy was rampant and are now quite inappropriate ...".

Democratic Party leader Dr Zac de Beer this week pinpointed political stability as the key to getting South Africa out of the woods.

The country's economic crisis is largely "a crisis of the cessation of investment," he told Weekend Argus.

The country's growth rate began declining in 1976 and foreign investment virtually dried up. During the 1980s, the growth rate averaged little more than one percent a year. Since 1985 — when former president Mr P W Botha made his notorious Rubicon speech — there has been no investment and capital outflow. In these circumstances, there has been little or no job creation.

To restore confidence and achieve political stability will not be easy, says Dr De Beer; it will depend on early agreement on a new constitution.

He is confident this can be achieved. The scenario he envisages is the formation of a coalition government involving the National Party and the African National Congress as the main partners.

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"A strong government of the centre, representing the majority of the people, will eventually get the violence under control."

The latest forecasts by Dr Ockie Stuart and his researchers of Stellenbosch University's Bureau for Economic Rese[illegible]

- The squeeze on consumer spending will be tightened further this year with an increase in personal tax, lower wage increases and continued inflation;
- The government is likely to continue to use income tax as an instrument to redistribute income, with personal taxes increasing by 16,3 percent in 1991 and 18 percent this year;
- Wage increases this year are likely to average 15 percent, a drop on the average of more than 16 percent for the past two years;
- Building costs are set to more than double within the next five years;
- The rand is likely to depreciate by 10 percent in 1992 and inflation will remain high;
- The petrol price could increase substantially in March to make provision for a depreciating rand;
- Job prospects remain gloomy, in spite of a likely 1,7 percent fall in unemployment in the non-agricultural sector and zero growth in 1992. The implication is that such trends will continue and unemployment will go up; and
- The average economic growth rate for 1992 is projected at minus 0,5 percent.

A ray of light is a forecast by Stellenbosch building economists that the private housing market is set for a strong revival in the next two years.

However, Dr Stuart predicts the building sector will start reviving only in mid-1992 and even then the greatest activity will be in residential building. In the long term, the real growth market will be in houses for the low-income group.

Growth options in sub-Sahara

Sowetan 13/1/92.

SOUTH Africa believes it has what it takes to become the engine for growth in much of sub-Saharan Africa, but not without help from the rest of the region.

FOCUS

"Unless African countries get their act together, drop trade barriers and create conditions more conducive to investment, growth is going to be the one-way affair that everyone fears," said Mr Andrew Maggs, manager of the Johannesburg-based Africa Trade Intelligence Programme.

With trade opportunities opening up daily in a potential market of 150 million people, local businessmen are criss-crossing borders.

Likewise, delegations from at least 23 African countries visited South Africa last year. But they were looking less for markets than pitching for investment, particularly in manufacturing and mining.

South African officials are keen to see a cohesive economic community evolve in Southern Africa, but other countries fear its domination of the weaker, less developed markets.

Sensitive to the resentment that would cause, South Africans see joint venture projects, even in the services sector, as a logical means of sharing economic benefits in the long term. But it is not going to happen on its own.

Standard Bank's group economist, Mr Nico Czypionka, sceptical of grand ideas such as a common market, says South Africa cannot do anything by itself and "can only act as a catalyst"

He said African countries seeking growth would have to offer incentives such as attractive tax and investment codes, stable currencies, attractively priced labour and less bureaucracy.

"The fastest growth in the EC (European Community) is in Portugal because it has created a desirable environment for location," Czypionka said

For South Africa to assume a pivotal role in regional economic growth, it will have to meet its own challenges

These include access to world capital markets, fiscal discipline in the face of high expectations among the five-to-one black majority for greatly enhanced living standards in a post-apartheid society, and a return to health of its own sanctions-bled economy.

Mr Ron Haywood, deputy director-general of the South African Chamber of Business, is optimistic, saying the country is already becoming part and parcel of the regional economic scene.

"The agreement late last year between (South Africa's state power company) Eskom and Namibia, Angola and Zaire to start feasibility studies for the western leg of the proposed Southern African electricity grid is of critical importance to manufacturing capabilities.".

Haywood said South African representatives are likely to attend the annual conference in Zambia in January of the 18-nation Preferential Trade Area of Eastern and Southern African countries.

South Africa's entry into the mainstream of other economies and the PTA's own, but slim, hopes for a common market are expected to be discussed

Meanwhile, the Africa Trade Intelligence Programme has targeted Nigeria, Uganda, Angola and Kenya for special investigation this year, having already covered Mozambique, Madagascar and Cameroon.

But Maggs said South Africa cannot secure many business contracts overnight, although the foreign exchange savings it offers through shorter supply lines and the relatively depressed rand give it an advantage over European countries and others.

Angola, for instance, has for years imported most of its goods from Portugal on open account, which requires no prior bank guarantees on payment. The best route for South Africans there would be via reconstruction, in which it has specialist civil engineering expertise, he said.

Because of a regional shortage of funds, Maggs is advising companies to tap into World Bank aid projects, which involve services as well as development contracts

Deputy Foreign Affairs Minister Mr Renier Schoeman spoke for many in summing up South Africa's hopes for future ties on the continent "Its destiny is linked to Africa," he said.

Africa, analysts say, must help South Africa to help them - *Sapa-Reuter*

Brand is optimistic about SA's political and economic future

BDay 13/1/92

LESLEY LAMBERT

(49)

SIMON Brand, the former Development Bank of Southern Africa chairman and CE who relinquished his posts last week because of ill health, is confident that foundations are being laid for agreement on SA's economic future.

With constitutional negotiations on track, Brand indicated in an interview last week that participants in the economic debate were making more progress behind closed doors than many people realised.

His wide-ranging involvement in national economic planning at the highest levels and community development projects through the Development Bank and the SA Housing Trust, has given him an insight into the political and economic debates which, to outsiders, often seem frustratingly sterile and directionless

After Nelson Mandela's release from prison, Brand was among the first commentators to say that participants in the negotiations would have to break out of their old ideological moulds and learn to understand the reasons for their opponents' scepticism before they would be in a position to reach consensus on key economic issues And only once they had reached consensus would they be able to start thinking creatively of ways to realise their ideals

In the interview, Brand said he believed this process had begun.

"There are still ideologues on both sides who want to emphasise stark models which differ in very important respects. But my experience has been that when people have sat down to talk about particular issues, say housing, these ideological models have receded into the background and the participants have started concentrating on what is possible, not only on what is desirable."

Using the National Housing Commission as an example, Brand said many of the development initiatives under way were establishing a basis for negotiations. "By the time Codesa comes round to discussing the way of reaching consensus, a lot of the groundwork will already have been done," he said.

Another positive sign was the large degree of duplication in the economic policy statements of leading opponents in the negotiations. "I believe points of difference have been exaggerated. People often use different words for the same thing If the ANC talks of a mixed economy and government talks of private enterprise, they are both saying there is a role for the public sector That is an important point of departure."

Brand said he believed SA had the potential to meet one of its greatest challenges, the socio-economic expectations fuelled by the prospect of political reform — provided the expectations were realistic. The public sector had the infrastructure and resources to provide education, housing and health care in urban and rural areas, while the private sector had the capacity to assist in the delivery of services and mobilisation of additional funding, provided the risk was not too great.

But, he warned competing political parties not to damage the prospects of long-term growth, employment and peace, by buying public support with extravagant promises

While he did not expect additional public expenditure on education, housing and health in this year's national Budget — because SA is already spending more on these services than other countries at comparable stages of development — Brand said available funds would be allocated more effectively. Government's attempts to start facilitating this trend in previous Budgets would have to be followed by more drastic adjustments and more sacrifices to

□ BRAND

address backlogs and disparities.

Brand said strong demands by the business sector and other interest groups for concessions in the Budget should not be allowed to limit the planned adjustments. Consultation with other major participants in the negotiations would help to prevent this and thus hasten the redistribution process. "I am not saying that every detail of the Budget must be cleared by each party but that the broad parameters and priorities should, through Codesa, be planned on a consultative basis."

Asked about the time it would take for development projects to start having an effect on socio-economic backlogs, Brand said the bank and other development agencies expected to see significant progress in housing after three to five years.

"We will not have eliminated the total backlog and may not even have caught up with the growth in demand, but there will have been significant progress and people will be able to see something is being done."

Current housing initiatives, the largest of which is the Independent Development Trust's R750m site and service plan, would start having an effect this year. But unless they were followed by other larger projects, people would become disillusioned and this would rekindle conflict and violence.

Brand said discussions he had had with foreign funding institutions had left him feeling confident about SA's ability to attract the foreign loans and assistance required to keep the process of development moving. International capital markets were becoming accessible again and foreign funding organisations, like the World Bank, and the development agencies of individual countries were likely to start providing financial aid Once the World Bank showed a commitment, private investors would follow provided the thorny issue of violence was resolved

The Development Bank had the infrastructural and manpower capacity to become involved in additional projects worth R1bn, but it required additional funding and was planning to raise a part of this on foreign capital markets this year. Brand said Additional funds would enable the Development Bank to increase its involvement in urban development and to start addressing some of its objectives in southern Africa

It was under Brand's guidance that the bank was transformed from an institution seen to perpetuate apartheid by propping up the homeland system into one which placed socio-economic development at the top of its future agenda

In spite of criticism by some extra-parliamentary groups that the bank has not provided sufficient evidence of its ability to deliver projects on the scale needed to make an impact, Brand said "In spite of the criticism which is often based on political misgivings about the bank's history, I believe it has proved its ability to do things on a significant scale and will play an important role in future development"

He stressed, however, that further structural transformation, in its shareholding, membership and policy framework, was inevitable

The future would also see the Development Bank participate in efforts to rationalise and co-ordinate the activities of all the development agencies and institutions in SA "We are trying to avoid a situation where the bank tries to muscle out the other organisations We have been talking to them, discussing the projects we will concentrate on, developing similar approaches where we operate in similar areas and undertaking not to undercut one another."

It was hoped that these discussions would result in the removal of barriers which had kept some of the organisations apart, often at the expense of progress. "After all, our common purpose is development. It is not to protect particular institutions or interests I think that kind of philosophy is gaining ground"

Government forced to increase borrowings

STAR 14/1/92

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By Derek Tommey

Money market sources expect the Department of Finance to increase its issue of Treasury bills in the next few weeks to raise funds to offset revenue lost from sagging tax receipts.

Recent Treasury figures show that tax revenues are falling well behind estimates.

In his Budget speech last March, Minister of Finance Barend du Plessis forecast that tax revenue would rise by R7,5 billion in the current fiscal year.

However, in the eight months to November, Treasury receipts increased by only R2 billion to R45,5 billion.

Treasury figures for December should be published this weekend, but are not expected to show much improvement.

The Department of Finance has been steadily increasing its issues of Treasury bills to ease its cash shortage.

For most of last year the Treasury bill tender issue was around R100 million a week.

It remained at that level until April 5 last year when the amount was raised to R130 million a week. On May 24 the issue was raised to R150 million a week and on November 1 to R200 million a week.

Barend du Plessis . . . forecast tax revenue would rise by R7,5 billion

On these figures, the Treasury is now borrowing about R430 million a month more from the money market than a year ago, although there were no plans in the Budget to increase borrowing.

Money market dealers say the expected increase in Treasury tenders could come this week.

So far, the increase in the bill issues has not had any effect on interest rates owing to the huge amount of surplus funds in the money market.

At last week's tender, R1 billion was tendered for the R200 million worth of bills on offer.

However, there seems to be a possibility that the Government's need for cash could result in some hardening in rates in the capital market.

The Treasury projected Government stock issues this year at R14,15 billion and by the end of November had raised R10,6 billion of this sum.

If the Treasury limits its stock issues to the outstanding R3,4 billion in the remaining four months, rates should not be affected.

But if it continues to borrow at the rate it has been doing, some firming in short-term capital rates seems possibile.

Detailed figures for November's tax collections will only be available at the weekend. However, if the October figures are anything to go by, they will not be happy reading..

In October, income tax collections at R3,5 billion were only R105 million more than a year earlier, while sales tax collections at R1,56 billion were down R30 million.

Overall, inland revenue collections in October showed an increase of R180 million on last year.

The other main source of government income — customs and excise duties — showed little increase

Total collections amounted to R1,1 billion, up R72 million on last October.

After taking into account Customs Union payments, total customs and excise receipts for the month were R64,2 million, against R334,1 million a year ago.

In view of the low level of state revenue and the apparent inability so far of VAT to make up the shortfall, there has been speculation in some financial circles that the Government will have to increase taxes in the next Budget. A sharp hike in VAT seems to be the most favoured method.

However, any increase in taxes would seem to be an unwise move with the economy in its present parlous state. Raising even more taxes from an already weak private sector could be courting disaster.

There are hopes that the resurgent US economy might lift the SA economy, but this cannot be relied upon.

It looks increasingly as if SA will have to pull itself up by its own bootstraps. For this it needs a major increase in domestic savings — and also a big change in tax policy.

But there is no doubt that the economy could grow much faster than it has been doing, if income tax policy were changed so that the Government stopped using SA's seed corn to feed a bloated public service

Budget unlikely to hold hope of a respite for the overtaxed

B/Day 14/1/92 (49)

There was a time when the Finance Minister limited his fiscal adjustments to the Budget speech and the taxpaying public could prepare themselves for the one-off shock. Now it seems that the Budget is no more than a brief outline of the state's current financial position, writes **GILLIAN HAYNE**. Major changes and policy repositioning take place regularly, announced through media releases. It is easy, through this piecemeal approach, to lose sight of the overall picture.

THE stated aim of Finance Minister Barend du Plessis has been to reduce the overtaxation in SA, but has he succeeded?

BDO Spencer Steward tax director Matthew Lester says neither companies nor individuals have benefited from the fumbling of the fiscus.

"It is impossible to make a categorical statement that all taxpayers have been prejudiced by amendments made to the Income Tax Act over the last two years, but most believe the concessions removed from the Act far exceed the limited reductions in the tax rate," he says.

Companies were given a reduction in the flat rate of tax from 50% to 48%, effective from April 1 1991. They were also granted VAT input credits on capital expenditure and other items that were previously subject to GST.

The concessions that have been taken away, however, make more meaty reading.

The LIFO reserve concession — in effect a tax holiday — granted in 1984 when companies shifted from the LIFO to the FIFO method of accounting, is to be phased out during the next 10 years.

Lester concedes that although a cursory glance indicates a generous phasing-in period, its effect on companies' tax liabilities is substantial.

Even worse is government's adoption of the five-year write-off period of fixed assets.

"Companies can no longer postpone their tax bill through the wear and tear allowance, which was loaded in the first year to help finance expansion. Fiddling with the 50-30-20 formula has been a major blow," he says.

Companies' consumable stores are now open to taxation; construction work in progress is to be included in closing stock (both over a period of 10 years); training allowances and the marketing allowance on exports have been removed; and a financial services levy has been imposed.

Individuals have fared equally badly.

The maximum marginal tax rate for individuals earning R80 000 or more fell to 44% in 1991 and 43% in the current tax year.

The separate taxation of married women was finalised (although in many cases, however, it can be argued that this was not a concession as married women reach the maximum tax rate of 38% at R40 000).

Taxpayers were given the option to elect a capital gain in respect of quoted shares held for more than 10 years, and dividends were exempt from tax. In addition, the tax-free portion of interest income rose from R1 000 to R2 000, and there was a marginal increase in the travel allowance deduction tables.

Much, however, has been taken away:

- Primary rebates for married and single people have decreased by R100 and R175 respectively, although for married women the primary rebate has increased by R100. Trusts no longer qualify for any rebate at all;
- Tax-free instruments, such as Post Office savings accounts, are to become fully taxable over a period of five years;
- The residential accommodation perk was removed where an employee had an interest in the property;
- The tax-free bursary scheme is to be removed on March 1;
- The tax-free exam bonus will also be removed on March 1;
- The deemed value of company cars was increased twice;
- PAYE was imposed on directors' emoluments;
- The official interest rate was increased;
- Travel allowances were partially subjected to PAYE from August 1 1991;
- The deemed private mileage used in the travel allowance deduction formula increased from 10 000km to 12 000km a year, and a ceiling of 20 000 business kilometers was imposed unless detailed records were kept;
- VAT was imposed on many goods and services previously exempt from GST;
- The three-year spread allowed on lump sums received on retirement or retrenchment was removed; and
- Seventh-schedule fringe benefits enjoyed by retired employees will, with effect from March 1, attract tax in the same manner as those of ordinary employees.

Tax experts agree Du Plessis is in a tight spot for his next Budget. VAT collections are purportedly far behind Revenue's liability for VAT input credits, adding to its already strained budgets.

Lester believes the VAT rate may rise to 12% early in 1992, and could even go as high as 14% by the end of the year.

Price Waterhouse Meyernel national tax director Chris Frame says, however, that it will be politically impossible to raise the rate. "VAT was lowered from 12% to 10% as a result of political pressure. It would be too difficult to raise it again so soon."

Other options to cover the shortfall are limited. Du Plessis has given his assurance that neither company nor personal tax rates will rise. He has also committed himself to continued dividend exemptions.

The odds are shortening on the possibility of a capital gains tax being introduced. This would tap a new source of revenue for the fiscus and act as a sop for those calling for redistribution of wealth.

Other experts believe a withholding tax on interest will also be on the agenda.

However, Frame says it is more likely that the Finance Minister will withdraw the R2 000 exemption on interest rather than introduce a whole new form of tax.

"Du Plessis' hands are tied at virtually every turn. His hope for the coming year lies in a surge in the economy rather than a change in the tax regime.

"If gold stays firm and the economy does improve it will solve his problems temporarily, which is all he can hope for," Frame says.

One thing the experts agree on is that there is little hope of a respite for the overtaxed people of SA.

Industrial market OUTLOOK '92

By Syd Vianello
industrial analyst,
Ed Hern, Rudolph

STAR 15/1/92

When I made my predictions for 1991, my confidence level was reasonably high because I had come through the previous year with virtually full marks.

This past year I regret to say it was not to be.

Not that I misread the market completely — all that happened was that the market rose by more than 40 percent instead of the predicted 20 percent.

Perhaps in analysing prospects for this year, we should examine why this seemingly strange paradox has occurred — a paradox of an incredibly strong market (with a substantial re-rating) against the background of a fundamentally very weak economy.

A few reasons come to mind:

● The composition of the industrial index is an important factor, in that around 10 stocks comprise around a weighted 50 percent of the industrial index

Many of these stocks are consumer-related stocks or rand ...ges where the impact of the ...rating economy, in both in... has been delayed (and ... been felt) or is irrel...

...ds theory remains a factor in that the institutions and now certain government or quasi-government pension funds have become major investors in equities in order to beat inflation.

● World wide there has been a substantial re-rating of stock markets in the face of deteriorating economies, so what has happened in SA represents a natural spill-over, given our strong correlation with London and New York.

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It is noteworthy that the PE ratio of the Dow Jones is now nearly 30.

In the coming year we think the position will be somewhat different, in view of these factors:

● Profitability of consumer-related companies has at last come under pressure, with earnings growth having declined to well below the inflation rate

Who knows — we may even witness negative earnings growth

Profitability of GDFI-related companies has in the meantime deterioted even more significantly

Clearly the economic slowdown precipitated by Dr Stals' economic policies is now having the logical impact on company profitability.

● We are not so sure the weight-of-funds theory will hold true to the same extent this year

In particular, we refer to the huge government overspending in its budget and expectations of even greater demands for social upliftment in coming years.

Someone must finance this and for it to be non-inflationary, government will have to borrow from the very assurance companies whose prescribed investment requirements were lifted some years back, thus precipitating the strong rise originally in the JSE indices.

We thus expect these rules to be re-introduced to fund the budget deficit with the inevitable negative impact on the market. The converse is increased taxes, with the same negative impact.

● World economies remain precarious, particularly in the UK and US and while the respective governments can be expected to do everything possible to revive their economies before elections later in 1992, it seems right now that no great success may be achieved before such elections

This in turn will delay an export-led recovery.

If the lessons of the last recession are something to be re-enacted, then it may take a long time before the impact of the expected interest rate drop in early 1992 filters through via an improved economy.

More particularly, the political situation remains very unstable (people still remember the ANC threat of a 33 percent tax on assets, despite it being denied) and I think it may well be most difficult to encourage increased spending against this climate

This in turn will prolong the delay in creating a climate for increased employment. It is noteworthy that in more than one annual report recently published company chairmen were questioning whether the recovery will occur before the end of 1992 or whether it will not be delayed to 1993.

● The gold price remains locked in between seemingly upper and lower limits, thus proving unable to revive the economy

We predict therefore that the industrial index will drift down in the coming year and while we think evidence of a recovery in the economy may become apparent (with the inevitable positive impact on the market), we have difficulty in believing the overall level of the industrial market will be much above present levels by the year-end

Trade flow secrecy has rand-watchers groping in the dark

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SIMON WILLSON B/Day 15/1/92

RAND-watchers will have had a perplexing year-end in 1991. Any attempt to examine the effective strength of the currency by looking at its trade-weighted value will have yielded a bewildering range of measurements from official and private sector sources.

The various published calculations of last year's effective rand in the market are so divergent that they appear to be dealing with totally different currencies.

Last month, for instance, the professional rand-watcher will have received at least two respected and authoritative publications containing a carefully calculated trade-weighted index for the rand during 1991. the December edition of the Reserve Bank Quarterly Bulletin and the December edition of Standard Bank's Economic Review.

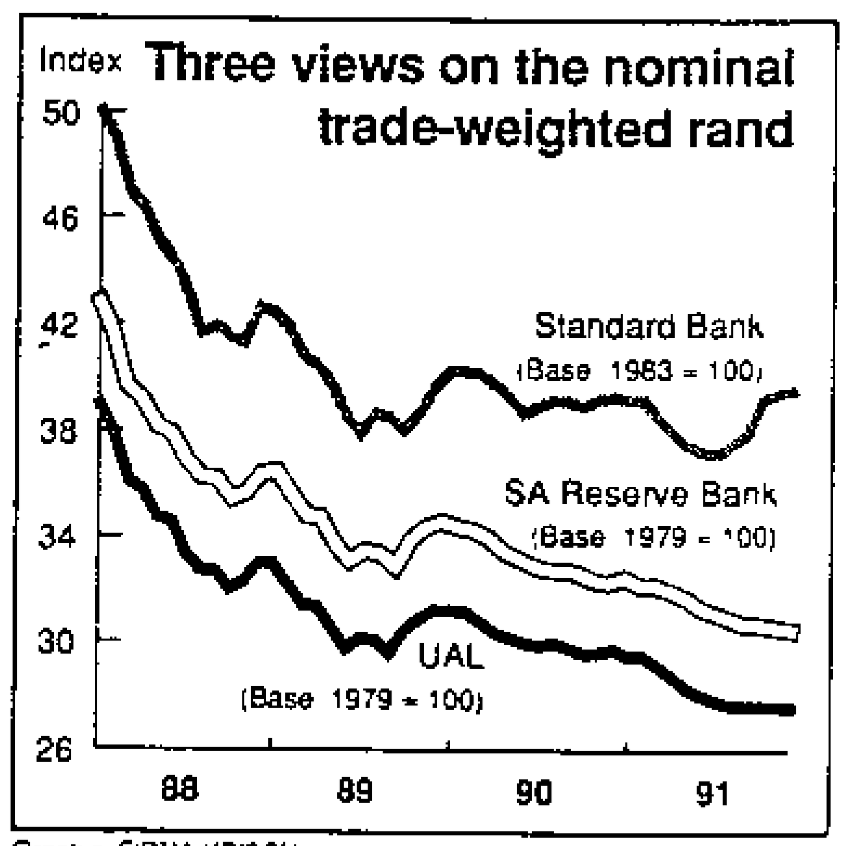
But our diligent observer will have been little the wiser as to the rand's true effective value after reading each of these estimable publications. The Economic Review will have told him of the "fairly stable trade-weighted rand exchange rate, which declined by just 1,6% from December 1990 to November 1991".

The Quarterly Bulletin, on the other hand, will have confused our anxious professional by declaiming: "The nominal effective exchange rate of the rand has now declined by 5,5% from the end of 1990 until the end of October 1991." Reference to the bulletin's accompanying tables will have shown the Reserve Bank's calculation of the December 1990-November 1991 fall in the effective rand to be 5,4% against Standard's 1.6%.

Which of these sharply contrasting figures is the earnest rand-watcher to believe? Does the true figure lie, instead, in the range between the two published figures or, indeed, outside it?

The confusion has its source in the authorities' decision in 1985 to withhold SA's official trade figures from the public domain to reduce the country's vulnerability to sanctions. Calculation of the trade-weighted, or effective, rand relies on the revelation of bilateral trade flows with major trading partners to determine the weight in the effective "basket" of each of the trading partners' currencies.

Among the traders in the rand market, only the Reserve Bank currently knows the size of these trade flows, which enables it to calculate the official trade-weighted rand index published in the Quarterly Bulletin. The essential official data for assembling the trade-weighted index of the national currency are secrets



Graphic FIONA KRISCH

not disclosed to the rest of the financial sector.

The main scheduled dissemination of this crucially important measure of the rand's value is carried out through the Quarterly Bulletin, which updates the table of the trade-weighted rand's value at — for traders of the rand — frustratingly infrequent three-month intervals.

The Bank also releases monthly figures on the financial economy, which include updates of the effective rand index. But for institutions which trade the rand in the foreign exchange market, the change in the trade-weighted rand over 30 minutes can abruptly reverse trading sentiment and, unsurprisingly, they find a minimum 30-day wait for an effective rand level a shade beyond their preferred dealing horizon.

Many of the nation's financial institutions therefore distil their own trade-weighted rand indices from various mixtures of currencies and weights.

The effective rand recipes are jealously guarded for, in the absence of an official set of currencies and weights, many institutions like to believe they have a version that parallels the one deployed by the Reserve Bank.

Thus, the rand-watcher looking for the change in the trade-weighted rand over calendar 1991 before the official data were released by the Reserve Bank would, earlier this month, have had a variety to choose from: FNB -7,1%; Old Mutual -6,4%; Sanlam -7,1%, Standard -2,3% and UAL -7,5%.

The official Bank index has not been published yet but will be around -6,3%, probably leaving Old Mutual's as the nearest proxy index for last year.

The wide range of changes in the effective rand measured by the insti-

...ward premiums and discounts apply to the US dollar

STERLING INDEX

		Jan 9	Previous
8 30	am	91.2	91.5
9 00	am	91.2	91.4
10 00	am	91.2	91.5
11 00	am	91.2	91.5
Noon		91.2	91.5
1 00	pm	91.1	91.5
2 00	pm	91.1	91.5
3 00	pm	91.1	91.4
4 00	pm	91.0	91.4

CURRENCY MOVEMENTS

No secrets: The Bank of England calculates sterling's effective index nine times a day, and the results are published in UK newspapers

tutions arises from their different methods of calculating the rand's trade-weighted index. Standard's basket of trading partners' currencies contains 12 currencies, the Reserve Bank's basket holds six and UAL uses four. The Bank and most other institutions use 1979 as the base year for the index, Standard uses 1983

An accurate and constantly updating trade-weighted rand index is more than a badge of respectability in the foreign exchange market. under certain circumstances it may allow rand traders in the market to second-guess possible Reserve Bank intervention to support or restrain the rand, depending on its strength or weakness.

Indeed, perhaps mindful of the old saying "information is power, prior information is wealth", economists like Sanlam's Eric Coetzee feel there is a thin dividing line between second-guessing the level of the effective rand and actually anticipating it.

"When you have a secret trade-weighted rand then you create the opportunity for people to profit from it. If the currency weightings are secret, no one can check what is really going on."

Coetzee says the authorities could make the effective rand's weightings public without giving much away about SA's bilateral trading relationships "So much trade is denominated in dollars anyway that the weightings won't give a true picture of who our main trading partners are. Although we give a 53% weighting to the dollar in our index, our trade with the US is definitely less than 53% of our total trade."

Sanlam economists plan to visit the Reserve Bank later this year to lobby for more openness in the calculation of the trade-weighted rand. Specifically, Sanlam will be speaking for many in the foreign exchange market in asking that the weights accorded each of the trading partners' currencies in the Bank's effective rand basket be made public.

Monetary policy to remain tight

SA to seek final deal on foreign debt

B/Day 15/1/92

(49)

SHARON WOOD

THE Reserve Bank would push for a final debt arrangement to deal with the outstanding \$5bn when the third interim debt arrangement ended in 1993, Reserve Bank Governor Chris Stals said yesterday.

In an interview, Stals said there would have to be another arrangement to deal with outstanding debt because SA could not afford to repay the whole amount in 1993. The \$5bn owed was not big by world standards and SA always acted in accordance with the arrangements.

STALS

"I hope the political process will make enough progress this year, making it easier to come to a more permanent arrangement next year with SA's creditors.

"This will be extremely difficult if we do not have normal relations with the IMF and the World Bank, but I do not think it will be too difficult to get co-operation."

If SA managed to secure the agreement with international creditors, it would no longer be a country with an outstanding debt problem. SA's foreign debt has been subject to three interim debt arrangements since the debt standstill in 1985.

The \$1bn debt due this year was relatively small and the foreign reserves position was fairly comfortable, he said. This year would be an easy year for the balance of payments, when the current account surplus would again exceed capital outflows.

Stals warned the balance of payments would be a big problem in the future, when imports soared on the back of renewed private and public sector fixed investment. But this would not occur in 1992 because the economy was too depressed.

On the inflation front, Stals said he was confident that inflation would fall this year but not to single digits. "Single-digit inflation is still achievable and the Reserve Bank will have to go on fighting inflation until it reaches that stage, which will certainly not be this year."

Monetary policy had been successful in a number of areas, particulary in reducing money supply growth and bank credit extensions, but it would remain restrictive this year. Money supply had grown at 9,5% seasonally adjusted and annualised since February last year, which was acceptable, but there would be a shift in monetary policy stance only if the rate of growth

☐ To Page 2

Debt

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(49)

☐ From Page 1

dropped to between 2% and 3%.

A rough estimate showed that money supply growth would not be inflationary if it grew at three times the rate of real growth, he added.

Stals said the reason inflation had not fallen despite more than two years of restrictive monetary policy was because of built-in structural factors and not as a result of government spending.

Correcting these would take priority in the fight against inflation in the future, he said. Monetary policy had gone as far as it could and would now be used to contain inflation rather than reduce it.

Stals believed a social accord between business, government, trade unions and the Reserve Bank, was necessary to address the structural component of inflation.

He was confident this would be more easily achieved in a new SA and under a new government because there would probably be a different relationship between labour and employers which would make it easier to break down structural inflation.

Monetary policy would not be used to restimulate the economy because the severe problems experienced by the various sectors of the economy did not stem from restrictive monetary policy, but rather from the climate of uncertainty that prevailed in SA, he said.

NEWS

UN sees weak SA economic recovery

#49 STAR 16/1/92

By Mike Littlejohn

NEW YORK — South Africa's recovery from a recession "largely driven by domestic considerations" is expected to be weak, but the African continent's output is projected to grow by 3 percent in 1992, about the same as in the past two years, according to the United Nations.

An updated report on the world economy issued by the Economic and Social Council placed South Africa among "the smaller developed market economies" that were in recession last year. Finland, Sweden, Australia and New Zealand were named alongside South Africa.

Referring to Africa at large, the report said that as the continent's population grew at about the same rate as the economy, "per capita output will remain unchanged for a third consecutive year, following almost a decade of decline".

The threat of food shortages remained primarily in Ethiopia, Somalia and Sudan.

"The output decline in these countries and in the Ivory Coast and Zaire largely offsets the modest growth in some of the other oil-importing countries."

"Attempts at economic reform and diversification in Africa have yet to be translated into sustained increases in income," added the report.

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SOWETAN BUSINES

Business has got to rise above idealism

Sowetan 16/1/92 49

It's my business

THAMI MAZWAI

THE Black Consciousness Movement of Azania has to think much more deeply about its economic policy.

Two weeks ago, chairman Mr Mosibudi Mangena said the choice facing South Africa was between socialism and barbarism, a view held by blacks, though not in the same terms.

We tend to associate socialism with socio-economic transformation. This is not surprising, for capitalism South African style has, for all our lives, been part and parcel of apartheid.

However, regardless of this past - in fact more because of it - the BCMA has to have an economic policy which goes beyond idealism, which is what socialism is turning out to be.

Even China, the remaining socialist giant, is now tinkering with market principles in its southern provinces as it experiences severe shortcomings in socialism.

While our leaders also realise these shortcomings, they talk instead of democratising socialism.

If we say Government must be democratised, that makes sense.

But if we say socialism *per se* must be democratised, we must spell out what exactly we mean for there is an inherent contradiction. Socialism presupposes the ownership of factors of production by the State. For as long as this is its linchpin, economic democracy may still be some lightyears away.

What is mooted is that the State must share control of companies (I assume the major ones) with the private sector Its investment, in the form of shares, will earn dividends which the Government will use for the betterment of society. Mangena says high taxes kill investment.

He says this is why Zimbabwe, which has high taxes, has meagre investment flowing into the country. He also points out that a few concerns in which President Robert Mugabe's government has shares are doing very well against their competitors.

I have not studied the Zimbabwean economy and I accept what he says. Nonetheless, the size of the Zimbabwean economy is a fraction of that of the South African economy.

If our next Government decides to invest in medium-to-large companies, what amount of money are we talking about? Obviously it is billions Where would we get such money? If acquired from overseas, would it not result in the mortgaging of our country?

Prosper

In any case, the problem with investing in companies is that there is no guarantee that these companies will prosper, and thus provide dividends. On the other hand, some may fail and millions of rands will go down the drain. When this happens, and large scale layoffs loom, pressure will obviously be exerted on the Government to intervene.

As an investor it could resist these pressures, but as investor and Government it simply cannot, unless it wants to be out of power in the next elections.

Would all this money then, and money is a scarce and expensive commodity, not have been better used for schools, roads, electricity, housing, dams, telecommunications, health and educational facilities, to name a few? This would then leave the private sector to do what it knows best - create wealth and jobs.

In addition, would Government involvement in business activity not result in a new bureaucracy to decide and monitor Government investment in businesses?

What happens when the Government has shares in competing companies and these have a fight for the market? On the other hand, if it has shares in only one of these companies, is this not being referee and player?

The above conflicts show that our political organisations have to pay much more attention to that invisible and absolutely essential divide at the same time a link between national economic policy and the economic activity of enterprises.

Strings attached to development aid

(49)

Sowetan 16/11-22/11/92

DEVELOPMENT aid from Germany is increasingly being made dependent on certain political conditions being met in recipient countries.

This is in line with the trend in the West.

Europe insists that aid to a country depends on its government accepting severe economic restructuring, a cut in the bureaucracy and military spending, an observance of human rights and "good governance".

A German Foreign Ministry official freely admits to problems in defining "good governance" as a condition for aid. "Does the USA show good governance with the huge deficit it has incurred?" he asks.

A German expert on Africa, Dr Rolf Hofmeier, says: "Traditionally the left has seen conditions for aid as a prescription for intervention."

But such pressure can have a positive impact, "such as in Kenya where it helped shift a stubbornly authoritarian regimè towards political pluralism".

Hofmeier acknowledges a contradiction in the demand that aid recipients cut their military spending: "It would only be fair if Southern leaders turned around and asked what the North is doing."

Apart from these conditions, Africa will face a relative decline in development aid from Germany in the coming years, says Hofmeier.

The German foreign aid budget has increased in the face of demands from Eastern Europe, while the amount allocated to Africa is unchanged.

"Many African politicians had actually feared the worst — that there would be an absolute switch. But the position is that there will be no increase in the next few years," says Hofmeier.

Stals's inflation policy takes in a social strategy

BDay 16/1/92

(49)

SHARON WOOD

MONETARY policy has carried the primary burden in the fight against inflation, and it is now time to look towards a social accord to address the problem of structural inflation.

This is the view of Reserve Bank Governor Chris Stals, who believes that an accord between government, labour, business and the Reserve Bank is necessary to address structural problems such as labour, exchange control and tariff protection.

"The Reserve Bank has done what it can on the cyclical side . . . perhaps we could now look forward to more success in the fight against inflation on the structural side," he says.

Stals sees a social accord as involving agreement between all the major players in the economy to limit wage and price increases below a certain percentage. This would reduce the inflation rate by breaking inflationary expectations and restraining the cost-push pressures prevalent in the SA inflation rate. This will only be successful if there is greater co-operation between the different parties but Stals says he is optimistic that Codesa will build greater co-operation.

Exchange controls and tariff protection must also be reduced to assist in reducing inflation, he says. The Department of Trade and Industry is working hard on the Independent Development Corporation tariff proposals, which Stals sees as an important part of the structural solution to the problem.

But the structural approach to inflation does not mean that Stals will let go the reins on monetary policy. He is adamant that the Reserve Bank has no alternative but to continue fighting inflation by applying not an unduly restrictive monetary policy, but a disciplined one.

Stals is still confident that inflation could reach a single digit and says that the fight against inflation has to continue until it reaches that stage, because if it does not SA will have to isolate itself from the world.

With inflation still above 15%, even after two years of restrictive monetary policy, single-digit inflation appears out of reach. But Stals does not think it an impossible goal in a new SA and under a new government. He believes, in fact, that a policy addressing inbuilt structural problems may have more success under a new government.

"We shouldn't concentrate on the negative aspects of a new SA, because perhaps a new government will bring about a different relationship between labour and employers, which could make it easier to break down structural inflation," he says.

Stals's view of the future of the battle against inflation hinges on whether the new government will attach as high a priority to inflation as does the Reserve Bank, and on whether the Reserve Bank will retain its independent role in implementing monetary policy.

There have been unofficial discussions between the Reserve Bank and ANC economists, says Stals. The ANC is aware of the importance of reducing inflation through restrictive monetary policy.

But the future of the Reserve Bank in the new SA remains unclear, and Stals is unwilling to discuss the future set-up at this stage. He does believe that it should remain largely unchanged and that the Bank's independence should remain intact.

Low-income blacks will become the more important voters and they are normally worse hit by inflation because middle- and high-income earners can better protect themselves against it. Therefore any new government will have a vital interest in fighting inflation.

The Reserve Bank will not be directly involved in Codesa, which is in line with its view that it should not get involved in political activities. It may, however, participate in a professional advisory capacity at workshops if asked to do so, Stals says.

He also suggests another way to deal with structural inflation — a macroeconomic structural adjustment programme. SA can bring in the World Bank, the IMF and international investors if they want to play a role in SA, he says.

"As SA makes more progress on political negotiations it will become easier to put such a programme together. It would be comprehensive, with its main objective to reduce poverty."

Fighting inflation will have to be an important element of the programme, says Stals, because financial discipline will remain crucial in the new SA. Persistent inflation is the most serious obstacle to income redistribution and sustainable growth.

Stals remains tight-lipped on the outlook for interest rates for the year and his hints are ambiguous. On the one hand, he says the present rate of growth in money supply is acceptable and monetary policy has run its course. But on the other hand he says reducing interest rates by creating more money will not solve the problems in the economy and he will not stimulate the economy by injecting more money into the system.

"If SA was in the same situation as the US, where monetary policy is almost dead because consumers have built up substantial debt during the long upswing and banks are not in a position to advance new loans, I would have been happy to reduce interest rates But SA's situation is not the same because there is still a huge demand for bank credit and consumers will spend if interest rates come down."

Whichever way the new government and the Reserve Bank choose to revitalise the fight against inflation, it is clear that restrictive monetary policy is here to stay. Single-digit inflation remains a distant dream, along with unity and co-operation between SA's major political players, but the Reserve Bank governor is optimistic that these goals are within reach.

Stals drops hint of a possible rate cut

STAR 17/1/92

By Sven Lünsche 49

Speculation is mounting that an interest rate cut will be announced around Budget time in March.

Some economists suggest, though, that a one percent reduction could come sooner — as early as mid-February.

Reserve Bank Governor Chris Stals yesterday slightly relaxed his hard-line monetary stance by telling the SABC that there were encouraging signs pointing to a reduction in interest rates.

He added that the growth in the money supply, bank credit extension, producer price inflation, the foreign exchange and gold reserves and the exchange rate were moving in the right direction, reports Sapa.

He added, however, that the continued high level of inflation remained the major obstacle to an imminent cut in interest rates.

Dr Stals said that reducing rates while the inflation rate remained relatively high would bring only short term relief. In the long term, high inflation led to a lower economic growth rate.

For this reason a strong monetary policy was necessary for stability, he said.

Under control

Attaching the condition of lower inflation rates to a possible rate cut has been standard policy by the Bank over the past few years.

Nevertheless, many of the factors that contribute to upward pressure on prices have been brought under control by the Bank's tough monetary stance.

Credit extension has virtually come to a standstill and wage and salary increases have been well below the ruling inflation rate over the past few months.

Producer price increases are running at their lowest level in almost seven years and these will inevitably work themselves through to the consumer level, economists say

Certainly the money market has been anticipating a decline in interest rates for some time.

Short-term rates (the 90-day Bankers Acceptance rate) this week eased to 16,2 percent, its lowest level in almost three years, widening the gap to the prime rate to over four percent.

In the beginning of 1990, a few months after the last rise in the Bank rate was announced, the gap was just over two percent.

Good signs

In its latest Economic Review, released yesterday, Syfrets economists comment that the deepening recession and shrinking bank credit supply would enable the Reserve Bank to lower interest rates in the first quarter this year.

As a result they expect the economy to start picking up steam over the next few months, although consumer spending is expected to lag the recovery by six months.

A possible cut in interest rates is likely to be the only sweetener for consumers in the 1992/3 Budget, which Syfrets expects will hold little relief in the form of personal income tax cuts.

They say that the participation of extra-parliamentary groups in the Budget process was an unknown factor, but that it could prove crucial to tax policy this year.

"We believe that there is already a fair amount of co-operation and if that is the case, it is most unlikely that direct tax rates will be lowered.

"Although it has been stated that the long-term aim is to bring down the level of direct taxes and increase indirect taxation, this seems highly unlikely in view of the political sensitivity of VAT.

"The Minister may still surprise us but if our assumption on the level of co-operation — strengthened by Codesa -- is correct, scope for tax relief is limited," Syfrets comments.

FW, Mandela for alpine forum

GENEVA — President F W de Klerk and ANC leader Nelson Mandela will attend the annual World Economic Forum in Switzerland, organisers said yesterday. (49

A forum statement said the two, together with other key figures on the South African political scene, would take part in the week-long gathering of government and business leaders from across the world in the mountain resort of Davos.

Among top politicians who have accepted invitations or said they might attend the forum from January 30 to February 4 are Russian President Boris Yeltsin and Indian Prime Minister P V Narasimha Rao.

This year's theme is "Global Co-operation and Megacompetition".

The forum statement said Mr de Klerk and Mr Mandela will take part in talks on how to stimulate economic growth.

Also taking part will be Inkatha Freedom Party leader Chief Mangosuthu Buthelezi and Congress of South Africa Trade Unions secretary-general Jay Naidoo. — Sapa-Reuter.

STAR 17/1/92

SA cash crisis

(49) CT 18/1/92

Raging fire smokes out suburbs

...DED VALLEY . . . Curious bystanders parked on Ou Kaapseweg to watch firefighters battle the Peninsula's third ...ountain blaze in less than a week.

Pictures: HAROLD KING

(51) CT 18/1/92

By AUDREY D'ANGELO
Business Editor

THE petrol price is likely to go up steeply in the next budget, economists forecast yesterday.

The gloomy prediction came as Minister of Finance Mr Barend du Plessis announced yesterday that government spending in the first nine months of the current financial year was 18,5% above budget.

On top of this, the governor of the Reserve Bank, Dr Chris Stals, warned that interest rates would not be lowered and the government's monetary policy would not be relaxed to stimulate the economy

Economists believe Mr Du Plessis's statement means a substantial rise in fuel tax because value-added tax (VAT) is too politically sensitive to be increased without the consent of extra-parliamentary groups.

VAT 'close'

They also said it spells the end of any meaningful cut in personal income tax in the next budget.

Mr Du Plessis emphasised that he did not expect spending for the year as a whole to be 18,5% above budget and that money to be transferred to the exchequer from strategic reserves was not yet included in receipts for the nine months

He said indications were that the estimated revenue from VAT, allowing for the reduced rate of 10% and the zero rating of additional items, would be "fairly close to target".

STALS CAN ONLY GIVE 'SUBDUED FORECAST'

See PAGE 21

But the government would have to ask Parliament on February 17 to approve "a substantially larger additional budget than was envisaged by way of the contingency reserve of R1,2 billion".

The statement said the overspending was due mainly to "higher spending pressure on health, inter-governmental grants to black local authorities and interest on public debt".

"On previous occasions it was mentioned that the total expenditure level for the 1991/92 financial year could amount to R85,984bn, which is 15,1% above the revised estimated capital expenditure level of R74,731bn for the 1990/91 financial year.

"This figure includes the contingency reserve of R1,2bn as well as the provision of R1 95bn to be financed from the reduction in stretegic reserves

"Total exchequer issues in the first nine months of the financial year amounted to R62.443bn, which represents an increase of 18,5% on the issues for the corresponding period in the 1990/91 financial year and accounts for 72,6% of the total estimated amount of R85.984bn

"A mere mechanical projection of the growth in expenditure for the full financial year on the basis of this growth rate would be very misleading

"Although this growth of 18,5% appears to be relatively high it should be kept in mind that the total exchequer issues for the first nine months of the 1990 financial year increased by only 10% so this year's growth is from a relatively low base."

Receipts up

Mr Du Plessis said total exchequer receipts for the period from April to December amounted to R52.767bn, which was only 7,6% higher than the corresponding period for 1990/91.

"After an increase of only 0,7% in the first quarter of the present financial year, receipts were up by 8,2% and 13,4% respectively in the second and third quarters of the 1991/92 financial year"

Mr Du Plessis said that at this stage the collections from VAT for only two months were known — R1,2bn for November and R1,8bn for December.

● SA 'must learn to live with budget deficit' — Page 21

(49) ARG 18/1/92

Stage is set for an economic upswing

JOHN SPIRA
Weekend Argus Correspondent

The business-cycle upswings have closely followed the movement of industrial share prices. In all cases the Industrial Index advanced before the upswings in the economy.

HISTORY has a habit of repeating itself in financial markets.

In South Africa a long-established relationship exists between the trend in industrial share prices and the course of domestic economic cycles. Attention was recently drawn to this feature by Southern Life managing director Jan Calitz.

If the pattern continues to hold, further advances in industrial shares can be anticipated in the months ahead.

The open nature of the SA economy and its dependence upon volatile commodity exports helps to explain why the country has experienced pronounced business cycle volatility.

Fluctuations in the balance of payments have been reflected in marked mutations in the domestic economic scene and cyclical fluctuations in the business cycle.

The financial markets in turn have been strongly linked to developments in local economic cycles.

During the past 30 years South Africa has experienced seven separate business-cycle upswings, ranging in duration from 15 months (between April 1983 and June 1984) to 44 months (between January 1978 and August 1981).

These upswings have been closely correlated with the movement of industrial share prices. In all cases the Industrial Index began to advance before the commencement of the upswings in the economy.

The share market invariably anticipates pending upwings in the business cycle — which herald higher profitability as spare capacity is reduced, thereby benefiting costs of production, and sales growth accelerates.

For example::

☐ The JSE turned upward five months before the 1966 economic upswing.

☐ The 1986-89 upswing was anticipated by the JSE 12 months before it got under way.

Such share-price advances have been accompanied by falls in interest rates, which have reinforced the bullish trend in share values.

The current bull market in industrial shares got going in October 1990, alongside a gentle fall in domestic interest rates. Although underpinned by burgeoning institutional cash flows, the rise has been based partly on an anticipated economic recovery in line with a strengthening of the balance of payments.

History reveals that industrial share prices do not peak simultaneously with the start of cycle upswings. Instead, the JSE tends to show further strength thereafter.

During the past 25 years the market has continued to push ahead after the commencement of upswings in the economy, varying from a peak nine months after the start of the September 1972 to August 1974 upswing, to a peak of 34 months in the case of the January 1978 to August 1981 upswing.

The duration of market advances following the onset of new upswings in the economic cycle have therefore varied, but past performance strongly suggests that the present advance in the Industrial Index has further to go.

Past evidence suggests, moreover, that the longer the upswing in the business cycle the longer the market continues to advance after the start of the upswing.

This finding is especially important, since there are grounds for arguing that the anticipated new upswing in the economic cycle will be relatively long.

The withering of financial sanctions is leading to some strengthening in the capital account of the balance of payments.

SA's renewed access to international bond markets indicates that it could raise as much as R4billion a year from this source in the next few years.

This factor alone could be sufficient to ensure that the massive outflows of the 1980s are turned into net capital inflows.

An external position thus improved should render it possible for the economy to experience a longer upswing than occurred in the late 1980s. Greater access to foreign finance will help to finance any deficits on the current account which may develop as the upswing gathers momentum.

Another pointer to a durable upswing is the buoyancy of exports — witness the regularity of substantial foreign trade surpluses.

One cannot, of course, be certain that the established patterns of the past will necessarily be repeated.

Nevertheless, the long historical pattern in the relationship between business cycle upwings and the industrial share market indicates that share prices will go higher.

SAA considers compulsory crew tests

Staff Reporter Star 29/7/91

South African Airways will continue to discuss the possibility of introducing compulsory Aids tests for its cabin attendants, a spokesman for the airline said yesterday.

This follows disclosures in newspapers that more than 40 cabin attendants may have died of Aids-related diseases since 1983.

One of the most recent deaths was that of a man who had continued to serve passengers on SAA aircraft until just a few weeks before his death.

Reports said that other airline staff were so alarmed by the situation that they had refused to accept liquid refreshments from stewards unless the containers were sealed.

The SAA spokesman said there were ongoing discussions between SAA management and the unions on the subject of Aids tests.

In 1989, the SAA Cabin Attendants' Association rejected compulsory Aids testing outright because it was an invasion of human rights and dignity.

There was also a fear that disciplinary action would be taken against cabin attendants found to be infected with the Aids virus HIV.

This was unfounded, said the SAA spokesman.

"The type of work they do means it is impossible for them to infect passengers and they are therefore not grounded when we discover they are carrying the HIV virus," she said.

However, if the attendant contracted an Aids-related illness, he or she would be given other work.

SAA employees were constantly exposed to an Aids information campaign, the spokesman said.

Leon Els, also a spokesman for SAA, said at the weekend that the airline had no idea how many cabin attendants had Aids.

Reserve Bank damper on the rand

By DIRK TIEMANN

THE Reserve Bank has been buying foreign currency for many months to build up reserves and dampen the rand's growing strength, which has been underpinned by strong current account surpluses.

The foreign asset component of the reserves reached a 1991 high of R3,2-billion in November.

The Reserve Bank intends keeping the rand's real effective exchange rate "on an even keel", says Deputy Governor Jaap Meijer.

Fall

This means allowing the rand to depreciate by the inflation differential between SA and its major trading partners.

The real effective rand exchange rate gained in October. It rose 0,7% on September on the Reserve Bank's real rand exchange index to 92,1 points. The index started the year on 92,5%.

The increase came after a 5,5% fall in the nominal rand exchange rate in the first nine months of last year. This drop was greater than the inflation differential, causing a 4,6% decline in the real effective rand exchange rate.

Dr Meijer says the bank faces a dilemma: "On the one hand, a strong rand assists our fight against inflation. But on the other, we have to consider a weak economy and do not want to disadvantage our exporters.

"We are happy to see our exports and our reserves rise and do not want too firm a rand."

Dr Meijer warns that the rand could "become an integral part of the inflation process" if allowed to depreciate by the inflation differential for too long.

The December figures should show that in nominal terms the rand has fallen at least another 10% against all major currencies.

The real average effective exchange rate for the year will probably be slightly more than 92 points — about the same as for 1990. This overall stability in the real exchange rate is maintained in spite of the huge losses the rand has posted against the yen, mark and pound.

These losses are balanced by the rand's gain against the dollar.

Test

In 1979, the Reserve Bank's exchange rate index was 100. At slightly above 92, the rand has weakened by about 8% more than can be attributed to the inflation differential between SA and its trading partners

This is due to political factors. The index for 1985 was 74,9 and it remained about this level until 1989.

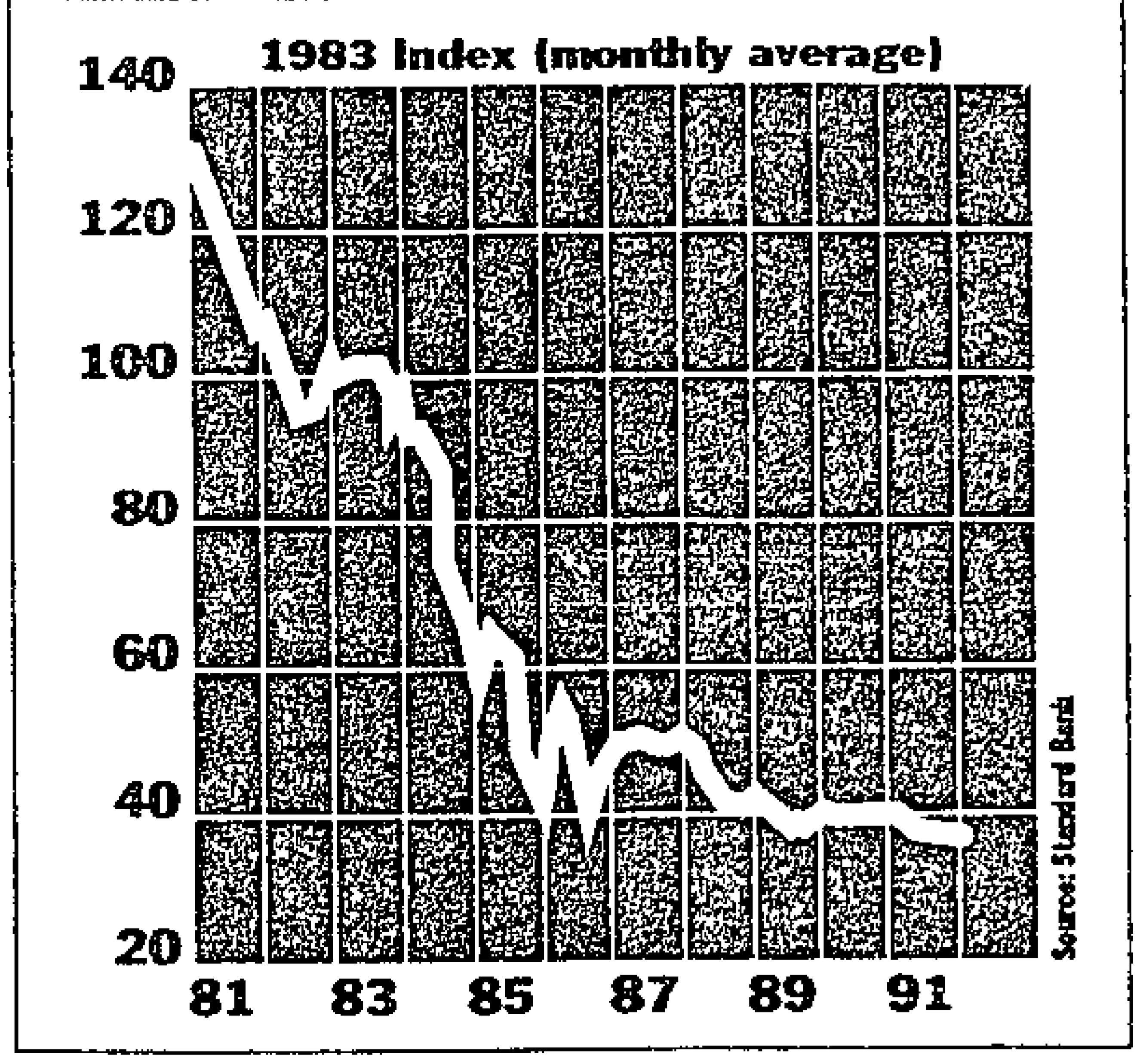
Sanlam forecasts a slight appreciation in the real rand exchange rate in 1992. The nominal effective exchange rate is expected to drop 6%, which is less than the inflation differential.

Standard Bank treasury assistant general manager Willie Potgieter says the rand could test R2,70 to the dollar while weakening to R5,20 to the pound and R1,88 to the mark in the first quarter of this year

Mr Potgieter says the US economy is not picking up and the dollar is weak But he expects White House intervention by the end of the second quarter to strengthen the dollar and reduce the wide interest rate differentials between Europe and the US.

He expects the exchange rate to be R3,00 to the dollar by the end of 1992

TRADE WEIGHTED VALUE OF THE RAND



R9,7m deficit highest ever

S/Times (Bus) 19/1/92.

(49)

By ZILLA EFRAT and DIRK TIEMANN

THE shortfall between State spending and revenue for the first nine months of the fiscal year was R9,7-billion — the highest ever in nominal terms.

The gap fuels speculation that the year's deficit before borrowing could be higher than 4% of gross domestic product and above the 3,4% provided for in the Budget.

Finance Minister Barend du Plessis says higher government expenditure and lower revenue are expected for the 1991-92 financial year.

As a result, the "gross" deficit before borrowings will be higher than the revised estimate in October of R11,8-billion.

Mr Du Plessis says Exchequer issues, an indicator of government spending, for the first nine months rose by 18,5% over the same time last year.

But receipts increased by only 7,6% — against the 11% forecast after provisions for a lower VAT rate of 10% and extra revenue from excise duties and the fuel levy.

Loans

The Government is expected to ask Parliament on February 17 to approve a "mini-Budget" seeking more than the contingency reserve of R1,2-billion.

Exchequer issues amounted to R62,4-billion for the first nine months.

Mr Du Plessis attributes the "higher-than-budgeted" expenditure largely to increased spending on health, inter-governmental grants to black local authorities and interest on public debt.

He says the rise will not cause any further financing pressure because the expected overshoot has been accommodated.

The gross financing requirement, which includes new loans and redemptions, for the nine months amounts to R13,8-billion. A total of R18-billion, excluding Treasury bills and including rollovers, has been obtained.

The rise in Exchequer issues is also off a relatively low base because the previous year's figures for the same time were up by only 10%.

In the current financial year, Exchequer issues jumped 20,7% in the first quarter, 14,8% in the second and 20,3% in the third when compared with the previous year.

Target

The issues include expenditure related to the strategic stockpiles, but they are not included in receipts because the funds have not been transferred to the Exchequer.

A reliable source, who does not wish to be named, says the latest figures show that December's issues actually fell.

He says issues for the eight months to November were 19,7% higher than the comparable figures last year.

Exchequer issues need to be kept at R7,5-billion for the next three months to enable the Government to meet its target.

The issues for the nine months account for 72,6% of the total estimate for the year of R86-billion, including the contingency reserve and a provision of R1,9-billion from a reduction in strategic reserves.

Mr Du Plessis says collections for 1991-92 are expected to be lower than the R74,2-billion forecast because of the recession.

Revenue for the nine months was R52,8-billion after rising 0,7% in the first quarter, 8,2% in the second and 13,4% in the third over the corresponding periods last year.

The source believes that Exchequer receipts must have received a boost in December of R7,2-billion.

In the eight months to November, revenue was only 4,6% higher than in the same time last year, he says.

Government receipts would have to average at least R7,2-billion for the next three months to reach the 11,1% rise forcast for the year.

Technical

But he doubts that the tempo of December's receipts can be maintained.

However, Mr Du Plessis says it seems that the estimated revenue from VAT, after allowances for a lower rate and other concessions, is close to target. In November, R1,2-billion was collected from VAT and R1,8-billion in December.

The difference between these two figures is largely attributed to technical problems experienced in the first month of VAT collection, which also affected the second month.

Mr Du Plessis says it must be borne in mind that VAT collected in a specific month must be paid before the 25th of the following month.

In addition, some businesses pay VAT monthly. Others pay every two months. Farmers pay twice a year.

Mr Du Plessis will not comment on speculation about the 1992-93 Budget and measures that the Government could adopt in lowering tax rates.

Economic indaba raises hopes

MONEY TALK

THE recent ANC-sponsored economic indaba has been criticised as being too academic.

However, the fact that it was held in an atmosphere where expert knowledge of economic realities prevailed has encouraged local and overseas businessmen.

So far, most of the ANC's economic pronouncements have been regarded as uninformed political rhetoric.

Usually, they have been couched in high-sounding moralistic phrases which are today discredited worldwide as a result of the collapse of communism and socialism. CITIZEN 19/11/92

The speakers may not have intended to convey support for discredited ideas, but that is the way their remarks have been perceived. (49)

Prof Lieb Loots, professor of Economics at the University of the Western Cape and an ANC adviser, said in his contribution to a recent book that redistribution – reducing poverty and inequality – was desirable and worth serious consideration by economists.

All seven contributors to the book considered income redistribution from rich to poor to be morally desirable and politically necessary to achieve a stable and democratic society.

But they warned that South Africa must guard against slick "polevaults to equality".

In many instances, efforts at redistribution have simply led to greater poverty for all.

Some African economies are unlikely to recover for decades to come.

SA set for upswing this year

(49) CT
20/1/92

By AUDREY D'ANGELO
Business Editor

A SUBSTANTIAL and lengthy economic upswing will start this year — and it is time for South Africans to adopt a more positive attitude, says Boland Bank chief economist Louis Fourie.

Emphasising that better times are ahead, Fourie says in his January Economic Review: "The current business sentiment in SA seems to be quite negative and at times very vulnerable.

"An objective evaluation of economic prospects for 1992 does, however, show that the day is breaking and the average South African is on the verge of better times."

Fourie points out that a combination of factors, including lack of consumer spending power over the Christmas shopping period, have caused the present pessimistic mod.

"This picture was clouded by statistical confirmation that the lacklustre performance of important world economies is due to continue for some time.

"Moreover, domestic socio-political hiccups and an increasing crime rate created an air of uncertainty not conducive to business confidence.

"Without negating the relevance of these indicators it is important that South Africans start viewing the economy in a more positive light and take cognisance of the changing environment and opportunities offered.

"Economic decisions will always embody risks. These risks, however, seem to be the most acceptable in years. Allowing poor confidence to inhibit the exploration of the unfolding potential of this country may eventually prove to be very expensive. The current strength of the stock market underscores this view."

Fourie says SA's re-admission to "the international economic playground" will increasingly rub off favourably on the domestic economy.

"Declining interest rates, albeit at a moderate pace, will add to this trend of relief."

Fourie says long-delayed social spending projects will "start materialising to a more significant extent.

"Labour cost pressures also show signs of subsiding as realities on the labour market make way for the return of market principles.

"Lastly, the restoration of financial stability — as reflected by the steady rand and the most encouraging inflation figures released recently — is not an illusion any more."

Fourie forecasts that 1992 "will go down as the year of entrance into a substantial and comparatively lengthy upswing of the SA economy.

"Certainly not a boom year, but neither a year of deteriorating economic conditions.

Interest rates hurt Barend

B Day 20/1/92 (49)

SIMON WILLSON

UNCHANGED official interest rates since the tabling of the 1991/92 Budget constitute one of the main reasons government may have to present a supplementary budget to Parliament four weeks from today.

In a weekend statement, Finance Minister Barend du Plessis said government spending in the first nine months of the financial year was running 18,5% ahead of the comparable period in fiscal 1990/91. Govt had budgeted for a 15,1% increase in state spending in 1991/92.

Revenues, meanwhile, were running only 7,6% ahead of the same period a year earlier, against a budgeted revenue increase of 11% in 1991/92. Du Plessis said 1991/92 revenue would probably be even lower, in cash terms, than total revenues in the 1990/91 financial year.

He said Parliament might be asked to approve a bigger spending overshoot than could be accommodated by the R1,2bn contingency reserve — the extra funds set aside to cover unexpected demands on the exchequer. February 17 was mentioned as a possible date for such a supplementary budget.

Du Plessis' statement blamed the state spending overrun in the first three quarters of the current financial year on higher spending in the fields of health, inter-governmental grants to black local authorities and interest on public debt.

Although the share of the likely spending

☐ To Page 2

Barend

B Day 20/1/92.

(49)

☐ From Page 1

overrun accounted for by each of the three problem categories was not detailed, the increase in public debt interest is thought to be the least expected extra burden.

"At the time the Budget was drawn up last year it looked as though interest rates might come down during the year ahead, and interest payments were projected accordingly," said Nedbank chief economist Edward Osborn.

The Reserve Bank's discount rate was cut by one percentage point to 17% nine days before the delivery of the March 1991 Budget, and many forecasts projected one or more further cuts in official rates during the rest of the year. However, the discount rate has remained at 17%.

Osborn said higher expenditure on health had probably arisen as it became plain that cuts in health spending over 1990/91 might have been "too close to the bone" to preserve satisfactory levels of service.

He said it was not unusual for government to request parliamentary approval of extra expenditure at this stage of the financial year. What was not clear was the amount of extra spending that Parliament would be asked to approve.

"The Finance Minister's statement is not clear on whether the expected overrun is likely to be beyond a total covered by the R1,2bn contingency reserve and the R1bn committed proceeds from the sale of strategic stockpiles.

"Even if it is contained, government still needs specific parliamentary approval for the use of those funds."

Bankorp chief economist Nick Barnardt agreed the fact that government spending was 18,5% ahead instead of the budgeted increase of 15,1% was not in itself a cause for concern. Spending for the full year would not necessarily have increased by the same margin.

Barnardt said he was more concerned about possible measures to boost revenue in the 1992/93 financial year. "The economy is poised at a delicate stage after two years of recession, and any tax increases in the next Budget would be most unfortunate and should be avoided at all costs."

High hopes for Keys in Cabinet

.B/Day 20/1/92.

(180) (49)

LESLEY LAMBERT

FORMER Gencor chairman Derek Keys today steps into his new role as Minister of Trade, Industry and Economic Co-ordination. He has the mammoth task of bringing order to economic policy, and creating an industrial framework within which wealth can be generated.

Keys, who bowed out of the corporate world at Gencor's AGM last week, assumes immediate responsibility for the creation of a new industrial policy which could make or break SA's ability to compete on foreign markets and generate jobs and wealth at home.

The portfolio of Economic Co-ordination gives him added influence over economic policy decisions, making him one of the most powerful members of Cabinet.

A senior official in his department said recently that Keys had a number of plans in mind, but did not want to pre-empt other Cabinet Ministers by disclosing them ahead of the Budget. The official added that once Keys was ready to discuss his plans, he would take on a higher profile than his predecessor in Economic Co-ordination, the late Wim de Villiers.

Keys has a reputation for restructuring and restoring ailing companies.

During his five years as chairman of Gencor, SA's second largest mining house, Keys produced 142% growth in the capital base on compound earnings of 21% a year. The restructuring of the gold division and industrial interests under Malbak focused the group's activities and resulted in the re-rating of Gencor shares which rose by more than 100% during his term.

The majority of capital projects currently under way in SA are linked to Gencor.

Keys' earlier restructuring of Malbak produced similarly impressive results.

There is great hope within government and the private sector that he can work the same magic on the macro-economy by bringing entrepreneurial vitality and creativity into the rigid structures of government and the public sector.

His predecessor, Org Marais, whose new portfolio is Productivity, Tourism and Administration, has established the basis for much of Keys' work.

The Industrial Development Corporation tariff report, which recommends the reduction of protective tariffs and the creation of an environment conducive to exports, is expected to be considered by Government early in the parliamentary session.

The technology report, which, together with the IDC report, is likely to dovetail with a broader industrial policy, is also before Cabinet.

There has been progress in efforts to resolve the conflicting demands of the clothing and textile industries. A task group, appointed by Marais to investigate a new policy to help the industries adapt to lower levels of protection, has submitted its recommendations.

The Board of Trade and Industry has been restructured and a new chairman has been appointed to implement the IDC proposals and new anti-dumping measures. The BTI's investigation into food prices has yet to report its findings and it is possible that a similar investigation will be conducted into building materials.

Marais was also responsible for the introduction of section 37E of the Income Tax Act, an incentive programme which allows for accelerated tax write-offs on mineral beneficiation projects that add value to local minerals and export at least 60% of production. Anglo American and Gencor's joint Columbus project is likely to be one of the major beneficiaries of the programme.

Keys' biggest task is likely to be the co-ordination of all these policies into comprehensive industrial policy, interwoven with economic policy.

Exploratory agenda for meeting

Business and labour set to finalise forum

(49)

B/Day 20/1/92

DIRK HARTFORD

ORGANISED business and labour will meet at the Premier Group headquarters in Johannesburg tomorrow to thrash out the mechanisms for the establishment of a national economic negotiating forum.

The meeting results from several months of informal discussions between union and employer groups.

A South African Chamber of Business (Sacob) spokesman said the meeting, which has been convened by the Consultative Business Movement (CBM), would be "exploratory" and would aim at agreement on the structure, tasks and methods of an economic forum. Several employer organisations supported this view.

The meeting is expected to discuss and, where possible, take decisions on:

- The aims, objectives and terms of reference of the economic forum;
- Whether the forum should attempt to establish a social accord and/or negotiate economic policy or guidelines;
- Who should participate, in particular whether the forum should include representatives of government and political parties;
- The forum's structure and financing;
- The forum's relationship with Codesa and other transitional structures; and
- How agreements would be implemented and a time frame for them.

The CBM confirmed it was convening the meeting. It drafted the agenda in consultation with the principal parties.

Employer groups scheduled to attend include the Afrikaanse Handelsinstituut, the Chamber of Mines, Fabcos, Nafcoc, Saccola, Sacob and Seifsa. They will each have between two and five delegates.

On the labour side Cosatu, Nactu and the Federation of Staff Associations will have 10 delegates each.

The question of government and party political participation in the forum has been a matter of intense informal debate in recent months. There are influential leaders in organised business and labour who argue that policies should be negotiated and agreed between themselves alone and then, where necessary, put before government for implementation.

Both parties fear that, were the forum to fall under Codesa, critical economic policy issues might be sacrificed in the horse-trading of broader constitutional and political negotiations.

Others in the unions argue, however, that once the ANC is in government the organisation could be a useful ally in economic negotiations.

Other groups argue that political parties should be involved as organised business and labour represent only the elite in the economy, while political parties can claim to represent a broader spectrum.

Cosatu assistant general secretary Sam Shilowa said he hoped the meeting signalled the beginning of formal negotiations at national level, but said the unions had to decide on the aims and scope of the forum and whether they were aiming for a social contract or an agreement.

He said Cosatu expected employers to use the forum to convince unions to accept wage restraint. Cosatu opposed this.

He said the unions would demand a mor-

□ To Page 2

Forum

B/Day 20/1/92

□ From Page 1

atorium on retrenchments. Other issues Cosatu would seek to place on the agenda were VAT, housing, pensions and labour legislation affecting farm, domestic, public sector and homeland workers.

Shilowa said Cosatu wanted to participate in Codesa if it was open to non-political organisations.

Nactu assistant general secretary Mahlomola Skosana said the federation wanted a tripartite structure involving government, business and labour to be set up.

He said the CBM had already convened a series of meetings between parties to the talks and "while it was nice drinking tea" it was urgent to get "a properly constituted tripartite structure off the ground".

He said the union movement did not want an economic forum to be a "junior partner" to Codesa. Nactu believes the forum must be "democratic and accountable" if it is "to take the workers with it".

Nactu's general secretary Cunningham Ngcukana, speaking last week at Cosatu's summer school, urged unions to play a "pro-active role" and said the forum should address all the macro-economic issues facing SA. He cited investment, taxation, economic restructuring, trade and GATT as examples.

(4B)(ECA)(49

Business wants a say in Codesa

Sowetan 21/1/92

By JOSHUA RABOROKO

THE National African Federated Chamber of Commerce and Industries and the Foundation for African Business and Consumer Services will lead high-level delegations to the economic forum to be held in Johannesburg today.

The meeting, convened by the Consultative Business Movement, will include delegations from trade unions and business organisations.

Nafcoc's economic adviser, Mr Vincent Phaahla, said yesterday that there were strong sentiments among black businessmen that the Convention for a Democratic South Africa was addressing political issues to the exclusion of economic matters.

"The business community will have to come out with clear solutions and options. Political power without economic muscle might is meaningless," he said.

Fabcos' public affairs manager, Mr Mike Ntlatleng, said the meeting would have to decide on "an action plan and objectives" that should be taken regarding Codesa.

Clewlow spells out SA troubles

(49)

BiDay 21/1/92

SHARON WOOD

SA would have to overcome certain key economic problems before the new SA could be a success, Barlow Rand chairman Warren Clewlow said last night.

Speaking at a Johannesburg Afrikaanse Sakekamer meeting, Clewlow said these areas were stability, developing the small business sector, increasing the competitiveness of big business, bringing the inflation rate down and co-operation between the major economic players.

Clewlow pinpointed stability as the most pressing economic problem that needed to be addressed.

"There is no doubt that instability, violence, and all that accompanies it, is the biggest switch-off to consumers and investors alike ... it is unlikely that we will see any kind of meaningful economic recovery, even if other fundamentals are in place, without stability being restored," he said.

The development of a viable, vibrant small-business sector was also an urgent priority because there was no doubt that small businesses had been over-regulated.

Clewlow said he supported far stronger anti-trust legislation and regulations to prevent the "snapping up of small businesses by large business willy-nilly".

"It is necessary to accept that SA must operate a kind of dual logic economy," he added.

A labour-intensive small business sector, oriented to services and distribution, should run parallel to internationally competitive bigger business.

However, business would have problems competing internationally because it had been relatively isolated and productivity and competitiveness were extremely low by international standards.

Business would have to set itself the target of being the best and most cost-efficient in the world in a particular field before it would become internationally competitive.

Inflation was far too high and would only be at an acceptable level when it reached that of SA's major trading partners, he said.

A working tripartite alliance between business, organised labour and the state was becoming a reality but was not yet working as it should, Clewlow said.

"It lies in the hands of business and labour to create a consensus about the economic process and to work together to achieve their mutual goals."

SA success in European issue

(49) CT 21/1/92

By ARI JACOBSON

SA received yet another signal of acceptance in international finance circles with the successful launch of its R890m European Currency Unit (ECU) issue in Europe yesterday.

The previous bonds issued late last year of DM400m (about R680m) was used to re-finance a maturing issue. The latest move however represents "new" money which will be aimed at contributing towards SA's national budget.

Director-general of Finance Gerhard Croeser said in a statement that the issue for ECU 250m (1 ECU is about R3,56) had a coupon rate of about 10,4% and a six-year period to maturity (redeemable in 1997).

Croeser mentioned that this was the first SA ECU issue since 1984 and followed the highly successful September re-entry into the international capital markets.

Frankel, Max Pollak economist Mike Brown said that although the coupon rate was high — a risk for investing in SA — "it was not that bad".

Brown added that the government was obviously looking for a broad appeal by focusing on the entire European market.

"This capital inflow will impact positively on the balance of payments and could even lead to a reduction in taxes in the coming budget."

He explained that the net budget deficit up to December was R10bn with R4bn required to finance redeemable loans. But R18bn had already been raised in the domestic market "which provided the government with a comfortable surplus and was now well ahead of its financing schedule."

Brown said the capital from abroad would add "to the funds used to finance the deficit" and would provide an excess which could allow certain taxes to be lowered in the coming budget.

The current bond issue was joint lead-managed by Banque Paribas and Swiss Bank Corporation and the underwriters were from leading European financial institutions.

Croeser said "the thrust of this is increasingly the upliftment of the less-advantaged segments of the community".

"It will also play an important part in strengthening the reserves which should pave the way for a slightly less restrictive monetary policy and enable the economy to achieve a higher growth rate and alleviate unemployment."

Croeser said that the Codesa talks, political developments in general and prompt repayment of money owed had created the supportive environment for the latest bond issue.

SA raises R890 million of 'new' money in Europe

STAR 21/1/92

(49)

Finance Staff

South Africa successfully launched a R890 million five-year European Currency Unit (ECU) issue in Europe yesterday, hard on the heels of its successful return to the international capital markets last September.

The money will be used to finance the shortfall in revenue, which is expected in the current fiscal year, the Director-General of Finance, Gerhard Croeser, said yesterday.

"Unlike the previous Dm400 million issue in September, which was used to re-finance a maturing issue, the latest move represents 'new' money which is aimed at contributing towards the national budget," he said.

Mr Croeser said the thrust of the national Budget was increasingly directed to the upliftment of the less-advantaged segments of the community.

"It will also play an important part in strengthening the reserves, which should pave the way for a slightly less restrictive monetary policy and enable the economy to achieve a higher growth rate and alleviate unemployment."

Mr Croeser said the ECU250 million issue, the first ECU issue since 1984, carried a coupon rate of 10.375 percent and was redeemable in 1997.

It was lead-managed by France's Banque Paribas and the Swiss Bank Corporation, while the underwriters were leading financial institutions from a number of European countries.

Paribas was also involved in South Africa's D-mark issue in September, which was largely placed within Germany, mainly with retail investors.

Banks involved in the deal stand to lose the business of some Canadian state borrowers, which have a strict policy on the matter, the Star's London Bureau reports.

A $200 million Eurobond for the government-funded Independent Development Trust had to be pulled last November when the ANC refused to back the deal.

The ANC's approval for this offering had not been sought, banking sources said.

Meanwhile, the End Loans to South Africa pressure group in London has condemned the launch of the ECU bond issue.

Sacob supports call for cut in income tax

STAR 21/1/92

49

By Derek Tommey

The poor performance of the economy is adding weight to a recent submission by the South African Chamber of Business (Sacob) to the Government for an immediate cut in personal income tax in the next Budget.

The submission included a warning that the recession could become much worse.

The argument gains increasing relevance as signs mount that if South Africa wants a brighter economy this year, it will have to pull itself up by its own bootstraps.

Stimulus

Reports indicate that it could be six months or even a year before the economy receives any major stimulus from overseas.

Yesterday's sharp fall in Japanese share prices is just another indication of a continued weakening in international economic conditions.

The fall was triggered by Friday's report of a marked decline in American imports in November.

This was taken as showing that the US was now exporting its recession with all its painful effects to Japan — and one could add to South Africa, as well.

Sacob, in its submission to the Minister of Finance, said that the South African economy had been underperforming for the past 15 years and it was imperative to maximise the next upswing.

It warned against regarding the mild appearance of the recession in 1991 as a sign that it could soon be over.

The length of the recession, combined with the effects of bracket creep (not adjusting income tax for inflation), and the tight money policy had finally started to affect spending and the final phase of the recession in South Africa "could prove to be unexpectedly severe", it said.

It pointed to the expectation that only seven out of every 100 job-seekers were expected to find employment in the formal sector as an indication that the economy was already in serious trouble.

As a remedy, it proposed a reduction in both the rate of company income tax and individual income tax.

It said the most effective incentive to investment was a reasonable personal and company tax rate.

Adjustment

At present these tax rates were far too high when compared with those of our trading partners, it said.

It pointed out that there was no allowance in these taxes for the effect of inflation on profits and individual incomes.

The individual was automatically paying a greater proportion of income to the taxman, even if salary increases were to compensate for the effects of inflation.

Sacob said the Government made no significant adjustment in the last Budget and not much in previous Budgets for bracket creep.

This had resulted in an increase in personal income tax as a proportion of total tax revenue from 25 percent to 37 percent.

Sacob said the maximum marginal personal income tax rate of 43 percent was far too high.

It reduced the ability of the individual to save and also to spend, thereby retarding South Africa's economic growth.

Sacob also called for the new income tax tables to come into effect soon after the Budget so that taxpayers could at once feel in their pockets the benefits of tax cuts.

It said a marked reduction in the company tax rate was also necessary to enable companies to plough back a higher proportion of their earnings.

The nominal rate of 48 percent was much higher than in many other countries, and compared with 34 percent in the United States.

Thirty years ago the company tax rate in SA was 30 percent.

Sacob also opposed any increase in the rate of VAT from its present 10 percent.

Although it did not mention it, it must be appalled by the effect an increase of, say, two percentage points in VAT would have on already extremely depressed retail sales.

The Third World beats capitalists at their own game

B/Day 21/1/92. (49)

AMBROSE EVANS-PRITCHARD in London

IT IS well known that South Korea has become a global force in steel production — but few people are aware that Turkey, Brazil and India, to name but three, are moving quickly up the international charts.

The Mexican steel company Tubos de Acero, which hardly exported anything five years ago, is now selling successfully throughout the Middle East.

Steel is not alone. The same pattern is emerging in industrial components, textiles, shoes and electronics. The tectonic plates of the world economy are shifting.

Vast concentrations of mankind, long held in poverty by misguided ideologies, are now learning to play the capitalist game, and play it well.

After witnessing the total failure of dirigiste models of development in their countries, the ascendant, educated elite of the Third World has embraced the free market with fervour. Foreign investment, once held at bay, is now courted.

Tariff barriers are being torn down. Prices are being freed, and so are people. It is possible that the economic revolution seen over the past generation on the Pacific Rim is about to be writ on a global scale.

We have acquired such a habit of dismissing the Third World as a hopeless assemblage of economic cripples that we often fail to see what is happening before our eyes. The debt crisis of the early 1980s, far from being a disaster for them, was a blessing in disguise. It discredited the old order, and because no more easy money was forthcoming, it served as a catalyst for radical economic reform.

Mexico is the classic example. A decade after going bankrupt in 1982 with the second highest foreign debt in the world, it has succeeded in reducing its debt and is now able to borrow again on the international credit markets. The economy is well on its way to recovery, after a wrenching transition to the free market, and looks set for high rates of export-led growth of 6% to 7% annually in the 1990s. The Mexican stock market, anticipating the new boom, has gone up 1 200% in dollar terms since 1985.

Chile, the first country in Latin America to dismantle its bloated, socialist system, is now an integral part of the Pacific economy, and after a sustained recovery is growing at 5% a year. The good news has spread. Argentina, Peru and Venezuela are now copying parts of the Chilean model. Much of south Asia has embarked on a similar if fitful course in the same direction. So has Turkey, which had 9% growth in 1990 and seems set for a strong recovery from the recession induced by the Gulf war.

These countries have the huge advantage of a young population with a strong work ethic prepared to toil long hours for low wages.

In the past this advantage was offset by the deliberate closure of their economies from the outside world and the slower spread of technology and information.

Today, pocket radios are ubiquitous in the Third World. Young people are often well informed. They leave school with basic skills in maths, physics, reading and writing that often equal or even surpass levels attained by the European working class.

Moreover, economic necessity has made them resourceful. The typical teenager in a Mexican village knows how to tune a car engine or fix a television — skills that are being lost in the affluent cultures.

Millions of these youngsters are entering the world labour force each year, capable of manufacturing increasingly sophisticated products at low cost.

Advanced countries can benefit from the coming challenge if they remain flexible, always in the vanguard of technology and quick to cut their losses in the older industries where they cannot compete.

Mass-produced steel, for instance, may be a loser but small US mills have shown it is possible to flourish in specialist niche areas of the industry. But prospering in this environment requires a fluid labour force, low costs for business and low taxes.

The EC is moving in precisely the opposite direction. Tucked away in the November monthly report of the German Bundesbank is a set of figures that shows how the EC is digging itself into a hole.

It shows that German business, already handicapped by some of the highest wage rates in the world, has to spend a further £6 an hour on generous benefits for its workers. These include costs such as long maternity leave at full pay and equal benefits for part-time workers. These are basic elements of the EC's social chapter, from which Britain is exempted under a special opt-out clause secured recently.

Supporters of the social chapter argue that these benefits, far from hurting Germany's economic performance, have enhanced productivity by creating a cohesive workforce. That may have been true once, before costs got out of control, but Germany is now beginning to decay.

The evidence for this is not so much economic, though Volkswagen has already shifted much of its car production abroad and both BMW and Mercedes are considering doing the same.

There are signs that Germany is suffering the erosion of moral capital that invariably catches up with high-tax, corporatist, welfare societies. Absenteeism from work is rising. The trade unions, once models of restraint, are beginning to demand double-digit wage rises. And the rot is not confined to Germany.

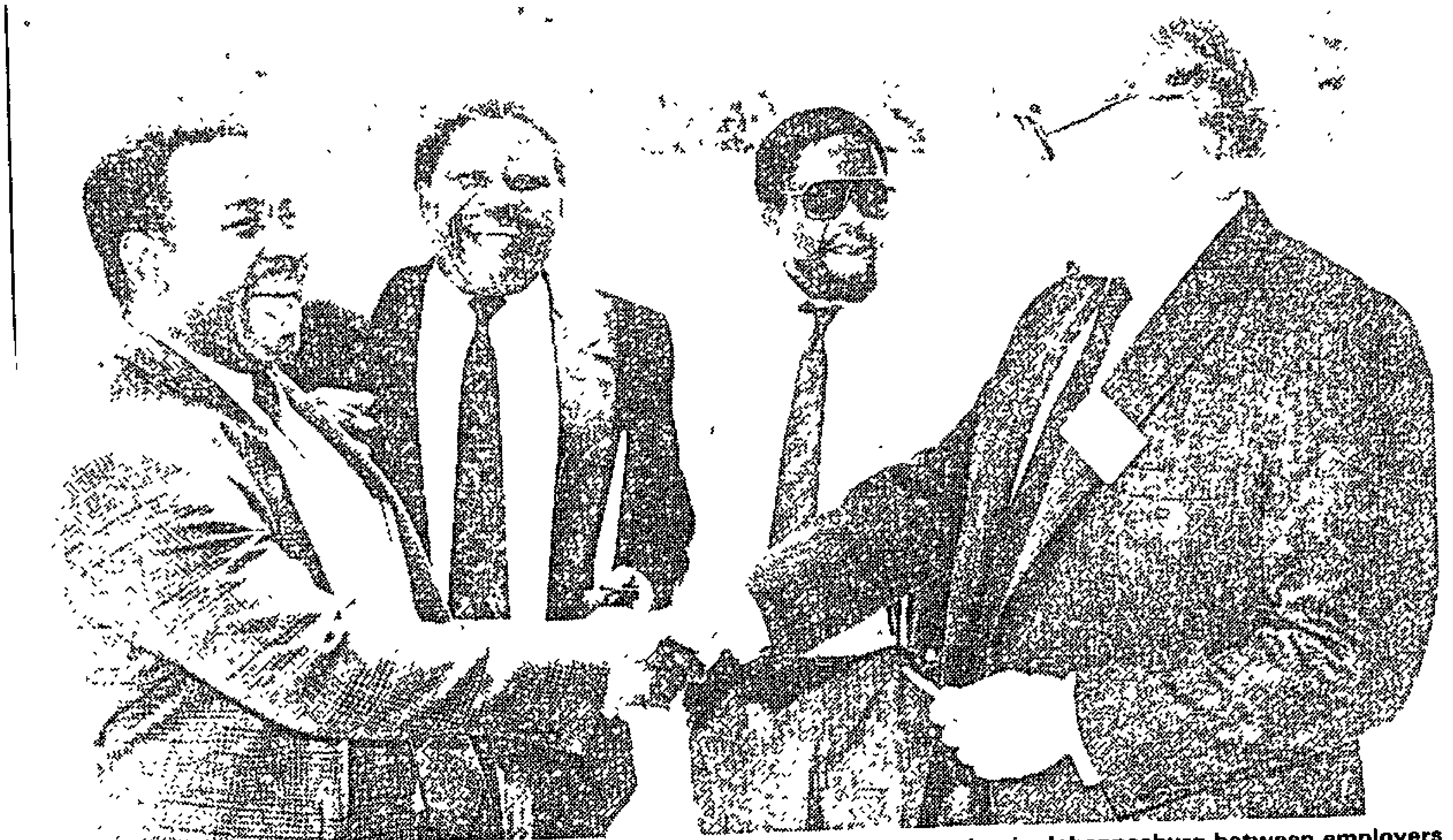
Holland's disability system, which pays people 70% of their salary indefinitely, for ailments as vague as stress, is now the country's fastest-growing industry.

Such labour practices have an insidious effect. They make it expensive to take on new employees and prohibitive to sack them if things go wrong. This discourages the emergence of new companies and investment in areas of unproven profit.

It also tends to inhibit job creation. In the US, about 20-million jobs have been added since the mid-1970s. The EC has added none. Instead it is grappling with high unemployment, much of it long term.

The whole system, apparently benevolent and caring, is in fact deeply cynical. It favours the incumbents, those with jobs, and established firms — to the disadvantage of the newcomer. Its natural response to competition and further unemployment will be protectionism. It is hard to imagine a formula more likely to produce stagnation. — Daily Telegraph

☐ **Simon Barber is ill and his column has been delayed.**



Sacob president John Hall, right, greets Fabcos delegates at yesterday's meeting in Johannesburg between employers and trade unionists to discuss convening an economic summit later this year. The Fabcos delegates are, from left, Jabu Mabuza, Joas Mogale and Mike Ntlatleng. Picture ROBERT BOTHA

Bosses, labour call for forum

Bday 22/1/92

DIRK HARTFORD

MORE than 60 delegates from organised business and labour yesterday agreed on "the urgent need to set up an economic forum", said the meeting's facilitator, the Consultative Business Movement (CBM).

The CBM said a working group had been set up and would report back in March. It would approach government to take part in the forum. (49)

Representatives of Cosatu, Nactu and Fedsal, and Sacob, the AHI, Fabcos, Nafcoc, Seifsa, Saccola and the Chamber of Mines attended the meeting.

Sacob director-general Raymond Parsons said the working group would examine whether the forum should make an input at Codesa. In an Agenda TV discussion he said he was "very positive" about the meeting.

Cosatu assistant general secretary Sam Shilowa said during the Agenda programme Cosatu was not contemplating an alternative "Budget".

Green light for economic forum

49

22/1

The Argus Correspondent

JOHANNESBURG. — The drive to form an economic forum to address South Africa's chronic economic ills — a demand of last November's worker stayaway — was given a major boost when organised labour and business finally agreed to see to its establishment "urgently".

The landmark summit in Johannesburg yester-day — attended by more than 60 representatives of business and labour — also agreed to ask the government to join the forum.

Organisations represented at the meeting were the Congress of SA Trade Unions, the National Council of Trade Unions, the Federation of Staff Associations, the SA Chamber of Business, the Afrikaanse Hadelsinstituut, Fabcos, the Steel and Engineering Industries Federation, the SA Consultative Committee on Labour Affairs, the Chamber of Mines and the Consultative Business Movement.

After a meeting lasting nearly three-and-a-half hours the parties said in a joint statement that they recognised that South Africa faced "serious economic challenges," and "agreed upon the urgent need for an economic forum".

The meeting, described by chairman John Hall as "constructive" formed a working group made up of equal representatives from business and labour.

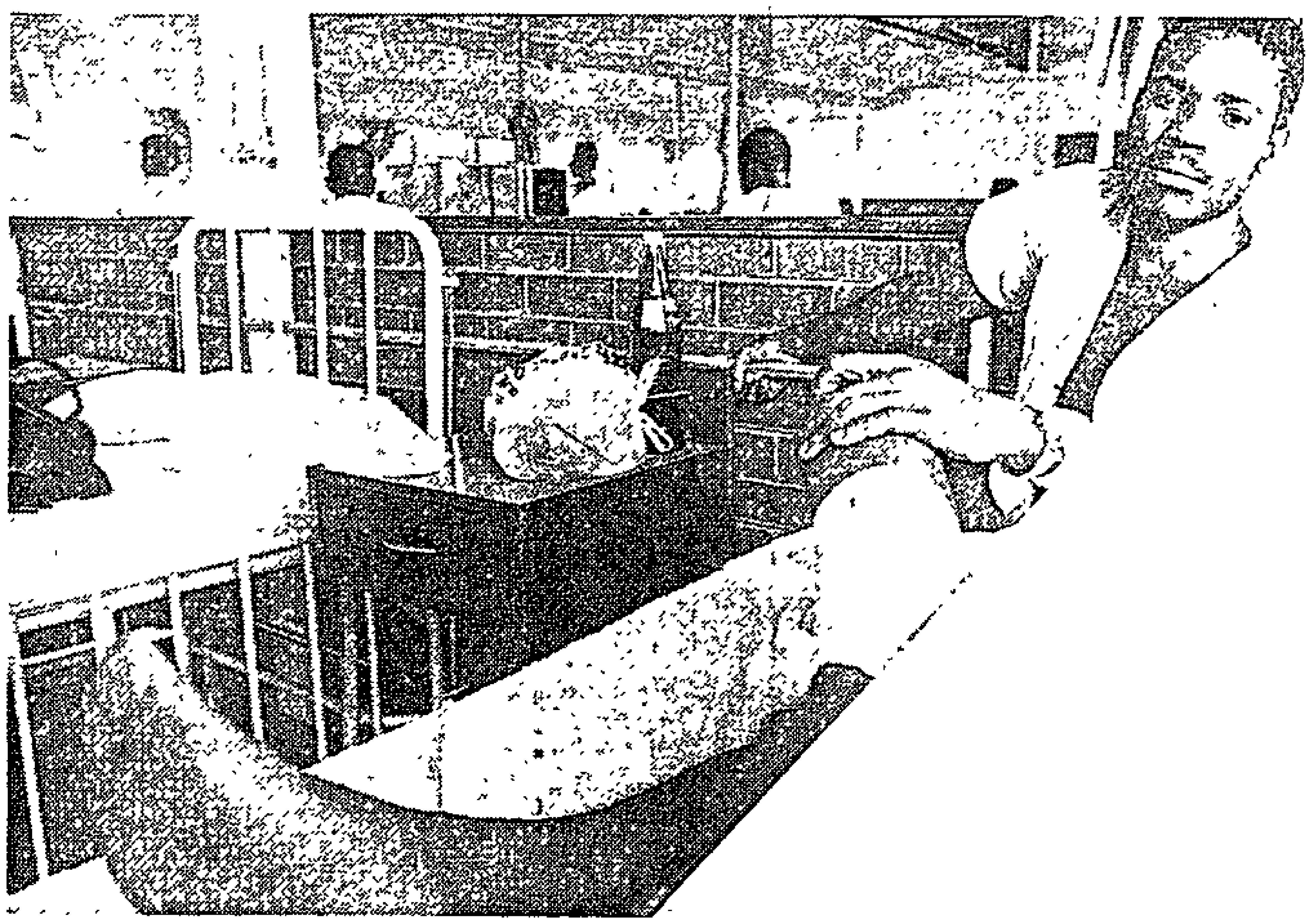
The task of the committee is to find areas of agreement on.

- Aims, objectives and scope.
- Who should participate.
- Structure and funding.
- Relationship between the forum and transitional bodies.
- Process and time frame.

The committee will meet again and then report back in March.

At yesterday's meeting Cosatu, Nactu and Fedsal presented a joint position on the question of the forum, which is a development on agreement reached between the unions, the government and employers on new labour legislation.

Parties to that agreement acknowledged the need to "discuss, in an appropriate forum, the impact of labour relations issues on the economy".



KILLER'S TARGET: "He aimed at
28, said after being hit in

Suspected m

The Argus Correspondent

LADYSMITH. — Police
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pact of labour relations issues on the economy".

ANC warns on loan repayment

The Argus Correspondent (49) ARG 22/1/92

JOHANNESBURG. — The ANC has once again warned that a future government could renege on the debt repayments of foreign loans entered into by the present government.

In reaction to South Africa's latest R890 million loan issue on the Eurobond market, the ANC said foreign loans were in gross violation of financial sanctions on South Africa.

ANC general secretary Cyril Ramaphosa caused an outcry among South African and overseas bankers inOctober when he warned a future government would "not be keen" to honour past loans.

● See page 18

statement that ... people that ... Klerk would be

Move 'undermines' interim govt

ANC sounds warning on bond issue

(49)

BDay 22/1/92

SHERIDAN CONNOLLY
and TIM COHEN

THE ANC has criticised government's 250-million ecu (R890m) public bond issue and warned that a "democratic" government would "assess its obligation" to service and repay debts contracted by the present government.

The ANC said in a statement yesterday the bond issue was in gross violation of financial and investment sanctions in force against SA, and of UN resolutions.

It implicitly criticised — without naming — lead managers Banque Paribas and Swiss Bank Corporation.

The ANC said it was "bound to declare, once again, that a democratic government will carefully assess its obligations to service and take responsibility for debts contracted by the SA government and its various agencies".

The ANC statement said it was particularly critical because the issue took place just before the formation of an interim government and such a government's formal request for the lifting of economic sanctions.

One ANC source said, however, that the ANC's anger was more a "shot across the bow" than an outright refusal to honour all new foreign loans, although ANC members insist the threat had to be taken seriously.

The ANC's concern derived from its impression that government was engaged in a cynical attempt to buy votes in a future election and to present itself as the champion of the poor for political purposes, the source said.

Finance director-general Gerhard Croeser said in a statement the money raised would contribute to the financing of the national Budget, "the thrust of which is increasingly the upliftment of the less advantaged part of the community".

In its statement, the ANC said it was significant that the ecu loan carried onerous interest rate charges. This represented a heavy burden on the economy and the people of SA.

"The ecu bond is for five years, and was launched at 10,375%, and is selling at par. This is some 3% higher than straight market rates of interest," the ANC said.

But a senior analyst rejected this claim, saying the interest rate was not unreasonable considering it was the country's first major entry into the ecu bond market.

In addition, considering the political risk involved, interest rates normally charged to developing countries were at a premium to those charged to developed countries, the analyst said. In any event, the 10,375% rate was only marginally higher than benchmark issues in the ecu market.

The ANC said it had learnt that Transnet planned to issue an equity-linked financial instrument to foreign subscribers which has the potential for providing investors with a rate of return of as high as 25%. A Transnet spokesman declined to comment.

The ANC said: "It is clear that the SA regime remains bent on a course of curbing the economic options of a future democratic government through the imposition

☐ To Page 2

Bond issue

BDay 22/1/92

(49)

☐ From Page 1

of a costly burden of indebtedness on the economy."

Cosatu spokesman Neil Coleman said his organisation fully supported the ANC's position that a future government would have the right to review loans raised by the current government.

Coleman also rejected Croeser's statement that the loan was raised to help finance the Budget which was increasingly orientated towards social upliftment, adding that the loan was raised unilaterally.

"In whose judgment are they benefiting the majority?" he asked, criticising what he said was government's "top-down" approach and its reluctance to enter into negotiations on the issue.

In response to the proposition that European banks had indicated the ANC and Cosatu were bluffing when they suggested a new government would not repay the debts, Coleman said: "Their bluff may be called."

● Comment: Page 6

Mr Sam Shilowa of Cosatu and Mr John Hall at the economic forum yesterday.

Economic forum 'victory for unions'

Sowetan 22/1/92 (49)

THE labour movement and big business yesterday agreed to co-operate in an endeavour to solve the economic crisis in the country.

This was said by Mr John Hall, chief executive of Barlow Rand, after a meeting of 60 business and labour represenlives held at the offices of Premier Group in Johannesburg.

The meeting decided to form an economic forum which is expected to hold its first meeting next month.

By JOE MDHLELA

Hall, interim chairman of the forum, said it had also been resolved that the Government be approached to become part of the envisaged forum.

Organisations

Sixty delegates from Cosatu, Nactu, Seifsa, Saccola, Chamber of Mines, Sacob, AHI, Fabcos, Nafcoc and the Consultative Business Movement, attended the meeting.

Political organisations and parties also attended.

The National Council of Trade Unions said the forum should not be seen as an extension of the Convention for a Democratic South Africa.

Nactu general secretary Mr Cunningham Ngcukana said it should rather be seen as victory by the unions following the workers' summit in which the unions sought representation in the formulation of the Labour Relations Amendment Act.

A Cosatu representative, Mr Sam Shilowa, said it was the working committees of the forum that should look into the relationships the forum should have with Codesa.

"It is the working committee that must decide if we need Codesa," he said.

Opportunities

The chief economist of Nafcoc, Mr Vincent Phaahla, said his organisation would appreciate if blacks became employers in great numbers

"Black business should strive towards expanding employment base, in that way they would create more job opportunities," Mr Phaahla said

Economic forum given kick-start

STAR 22/1/92 (49)

By Mike Siluma

The drive to form an economic forum to address South Africa's chronic economic ills — a demand of last November's worker stayaway — received a major boost yesterday when organised labour and business finally agreed to "urgently" see to its establishment.

The landmark summit in Johannesburg, attended by more than 60 representatives of business and labour, also agreed to ask the Government, which was not represented, to join the forum.

Organisations represented at the meeting were the Congress of SA Trade Unions (Cosatu), the National Council of Trade Unions (Nactu), the Federation of Staff Associations (Fedsal), the SA Chamber of Business, the Afrikaanse Handelsinstituut, the Steel and Engineering Industries Federation, the SA Consultative Committee on Labour Affairs, the Chamber of Mines and the Consultative Business Movement.

After a meeting lasting more than three hours, the parties said in a joint statement that they recognised that South Africa faced serious economic challenges, and had therefore agreed on the urgent need for an economic forum.

The task of the committee is to find areas of agreement on:

- The forum's aims, objectives and scope.
- Who should take part in the forum.
- The forum's structure and funding.
- The relationship between the forum and transitional bodies such as Codesa.
- The process and time frame for the forum.

The committee is to meet in just more than a week's time to carry out its task.

At yesterday's meeting Cosatu, Nactu and Fedsal are understood to have presented a joint position on the question of the forum, which is a development on agreement reached between the unions, the Government and employers on new labour legislation.

Parties to that agreement acknowledged the need to "discuss the impact of labour-relations issues on the economy".

Issues the unions want addressed by the forum include retrenchments and job creation, improving South Africa's international competitiveness, manpower training, and food prices.

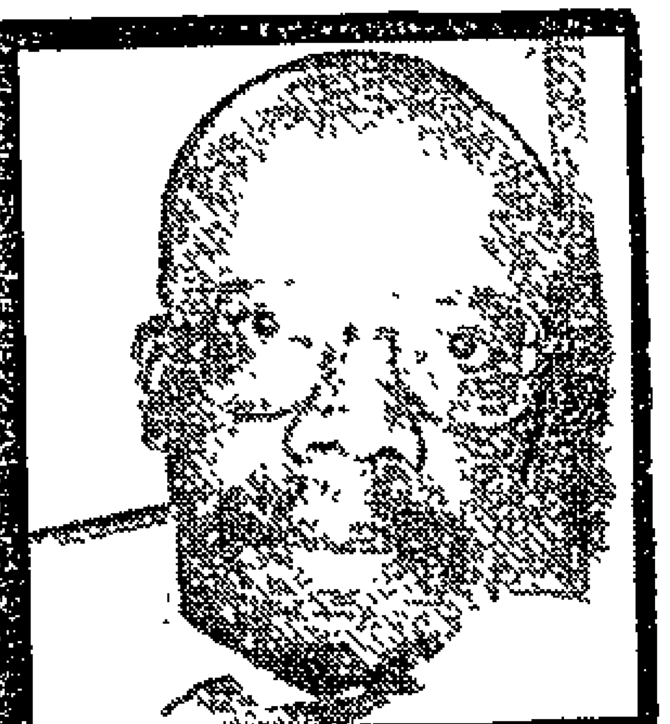
On the other hand, employers would want agreement on matters such as pay restraint and shopfloor stability.

Exhume Motsuenyane's plan

Sowetan 23/1/92

(49)

It's my business



THAMI MAZWAI

THE Sam Motsuenyane document on black economic empowerment must be exhumed and placed on the table as the economic Codesa continues.

Obviously at this stage the parameters of socio-economic restructuring are being discussed, but the Motsuenyane document needs to get a closer look in one of the working groups

Two years ago Motsuenyane incurred the wrath of white business when he said:

All companies listed on the Johannesburg Stock Exchange must have about 30 percent of their board members chosen from the black community;

Forty percent of their shares must be in black hands;

At least 50 percent of their purchases must be from black suppliers and contractors; and

At least 60 percent of their top managers must be from the black community.

All this, he said, must happen over a period of 10 years. As usual, and despite the time frame, the bulk of the white business community was enraged. Only the white Institute of Directors supported the scheme. Blacks rallied behind Motsuenyane.

Looking at what he said, I wonder what the fuss was about, and why a leading white financial weekly contemptuously called this "corporate dreams".

This is not the only time that the white business community has come out smoking when our leaders speak about economic reconstruction.

Last year an ANC workshop suggested, - mind you, merely suggested - that the "haves" be taxed and there was an outcry. Then Mr Nelson Mandela talked about nationalising some major institutions - and we had another outburst.

Every time the PAC, SACP and Azapo have opened their mouths, the white business community has gone into convulsions. Is this community suggesting, as the finance weekly did, that things are now nearing normality? What about the fact that blacks still languish at the bottom of the scrap heap while whites live in luxury?

The education system and other apartheid laws have ensured that we are denied business acumen and knowhow, and whites are thus always on top.

A look at income differentials published by the SA Institute of Race Relations shows that in 1990 blacks on average earned R12 660 a year, and whites R43 332.

This is the sad story of apartheid and the system is now so deeply ingrained that it no longer needs legislation. It will need major surgery, and for that matter without an anaesthetic, to ensure apartheid dies. And the Motsuenyuane strategy, simple and pragamatic, is nowhere near that type of surgery.

If whites oppose the Motsuenyane plan, can they just say what they are doing to benefit blacks on a grand scale as Motsuenyane's plan would?

Even this year, programmes to develop managers run by universities have a white intake of more than 90 percent. This shows that white organisations are just not prepared to absorb blacks into positions of control and influence.

Instead of lambasting Motsuenyane, white businesses should be queueing outside his office, asking him when and how to start.

Motsuenyane deserves a medal, for he has come up with a programme which will give the lily-white corporate world a South African face.

What I suspect is that white business wants to maintain that much vaunted market system without us first agreeing to it, and then saying how it should be adapted to benefit blacks.

Privatisation and the introduction of VAT are two examples of this general ploy to impose an economic system on the next government. What we must not forget is that the economic Codesa deals with the basic necessities of life, what the struggle was about in the first place.

Solutions such as the one suggested by Motsuenyane must be encouraged because - as I will show next week - they will stimulate the economy while uplifting blacks.

Eric Stillerman argues for the establishment of an economic convention

Harness all sides to 'Ecodesa'

STAR 23/1/92

(49)

THE emerging political consensus in Codesa has now put the emphasis on the need for a similar forum, of equal standing, to address socio-economic development in South Africa.

The success of Codesa depends on the maintenance of the balance of economic, military, international and people power between the participating and non-participating parties, in the new dispensation.

The concepts of sufficient consensus and a balance of power promise to create the requisite legitimacy for the new government and the enforceability of the new constitution.

While Codesa negotiates the balance of power in the new constitution, a forum equal to it is needed to address the vital issues and needs for socio-economic development. Such a forum may be appropriately called Ecodesa — Economic Convention for Development in South Africa.

The concept is being discussed by interested parties, including the Consultative Business Movement (CBM), Fedhasa, Sacob, the Afrikaanse Handelsinstituut, the Chamber of Mines, Seifsa, Cosatu and Nactu (National Council of Trade Unions).

This week, more than 60 representatives from business and labour met under the chairmanship of Barlow's John Hall, and agreed on the need for an economic forum. The issue now centres on the composition, scope, mandate and substantive agenda of an economic policy-making body, going beyond informal consultation.

Economic policy is currently in a stalemate, caught between the competing priorities of government, business and the black movements. Government, which normally has a sole mandate, is unable to devise or implement short or long-term economic policy with any degree of confidence or consistency.

The need for an economic policy-making forum has so far been advanced by the ANC, Cosatu and Nactu as well as Sacob and the CBM.

The urgency is highlighted by the prevailing economic recession and uncertainty towards the future. Ecodesa should thus not be delayed until the completion of political negotiations, but be convened as an early priority, running concurrently with Codesa.

While the ANC and its allies are excluded from economic policy-making, the threat of destabilisation and nationalisation bedevils local confidence and foreign investment. The formation of Ecodesa will allow a concrete policy framework to be developed now, based on a negotiated pragmatic consensus, stimulating confidence and investment.

Any efforts by the key participants individually are unlikely to succeed as ownership by all stakeholders is the overriding call and ethos today. Informal contacts between the parties also fall short of a legitimate common forum, with decision-making responsibility.

Government's Department of Economic Co-ordination has not yet succeeded in achieving co-ordination within government, let alone with other stakeholders. The recent appointment of Derek Keys to this ministry promises that at least Government, business and the Public Service may be more effectively co-ordinated.

Development agencies, such as the Independent Development Trust and the Development Bank, lack the broad base of support and policy framework necessary for the effective application of their source of funds.

Business has convened various forums, for instance Sacob, Saccola and the Consultative Business Movement.

The Mass Democratic Movement has established the National Development Forum (NDF) to clarify and consolidate its own position, in preparation for a broader-based forum. The ANC has indicated that it favours a definite role in economic policy decision concurrently with Codesa.

It is rapidly emerging that the major players share a common goal and agenda for economic policy co-operation. The time is now ripe to harness these separate endeavours in a genuine forum, embodied in the concept of Ecodesa.

While Ecodesa might be set up under the auspices of Codesa, its mandate would be more immediate and proactive, with long-term policy implications. Codesa has not included economic issues in its primary mandate and agenda.

Ecodesa's initial objectives would focus on the co-ordination of a broadly based socio-economic development. Ecodesa would provide a constructive balance between Government and the key participants in the economy maintaining a sense of mutual confidence and long-term commitment to development.

The age of rigid political economic ideology has given way worldwide to a more pragmatic approach towards effective economic development.

The major parties are also converging towards a pragmatic framework for a mixed economy. The lack of a common framework underlies the prevailing sense of paralysis and uncertainty, with dire socio-economic consequences.

The fruitless debate continues over Government intervention versus free enterprise. Government and private enterprise should not be in conflict but in consensus. The Pacific Rim countries are the most successful examples of government/private sector consensus and co-operation for development.

The political industrial alliance is also well established in such bastions of free enterprise as the West. Similarly, other economic participants, such as trade unions, are an integral part of economic policy co-operation in many advanced economies.

South Africa needs a policy for *both* rapid growth and the equitable distribution of economic resources. A large degree of consensus exists as to these goals.

However, no clear progress is evident towards either real growth or distribution. In the absence of a proactive strategy framework, growth is currently negative, with progressively less to distribute.

Lip service to either goal is no substitute for a concrete action plan to achieve both amidst the climate of social unrest, uncertainty and the spectre of nationalisation.

● Eric Stillerman is director of London School of Management and Economics and of Strategy Management Services. □

6

Don't laugh off Cosatu's economics

W. Mail 3/4/92.

Those who believe in free markets should engage Cosatu in serious debate about its economic ideas — even if they find them wonky. The federation's real motive is to ensure it is not left out of decision-making

REG RUMNEY *reports*

IT must be tempting for the business sector to dismiss all the Congress of South African Trade Unions' (Cosatu) latest economic pronouncements as cloud-cuckoo-land stuff, hardly worthy of debate

Some of the language, with its calls for worker control and nationalisation of the leading heights of the economy, harks back to days when the hammer and sickle flew proudly over Red Square

Some is common sense Cosatu wants a public works programme to mop up unemployment, though the demand is couched in a way which would give the union movement power to see such a programme doesn't undercut union wage levels

The overall impression that has emerged from Cosatu's Economic Policy Conference last weekend is of a have-your-cake-and-eat-it approach. World competitive prices of industrial goods are demanded, together with "living wages" and full employment Similarly, Cosatu wants price control but not wage freezes, a "slim" state but quite extensive nationalisation And so on

But that doesn't mean the ideas should be dismissed out of hand Real ideas hide there, even if they are unpalatable to many of those who dominate debate about our economic future Moreover, such a conference reveals the canyon that still separates the business community, the state and labour

Listen to Cosatu secretary general Jay Naidoo explain the underlying principles and motives and you will know he is serious about the broad thrust of the principles enunciated at the conference It is clear the union movement deeply distrusts the ability of a market economy to redress past imbalances.

Naidoo says basic needs must be addressed in a programmatic way so that ordinary people can be assured their needs are not being neglected.

Proposals not a blueprint ... Cosatu general secretary Jay Naidoo and president John Gomomo at last weekend's Economic Policy Conference Photo WILLIAM MATLALA

Take Cosatu's Growth Path document, which advocates nationalisation. Naidoo stresses the objective of nationalisation is providing basic goods and services

Most of what is listed for keeping in public hands is already wholly or partly under state control, such as Eskom, the Post Office and education.

The exception is Iscor. Though the iron and steel manufacturer is not directly a provider of basic goods and services it forms part of a master plan for industrial restructuring lurking below the surface of the Growth Path document. This is none other than the "redistribution through growth" strategy which emerged in the African National Congress' first economic policy documents

So Iscor would form part of a grand plan of redistribution, the kingpin of which is directing industry to produce basic goods and services for the black masses. The state would intervene to direct industry to produce these basic goods. "Luxury goods" would be discouraged by taxation

Redistribution would be financed by redirecting existing investment, higher company taxes and new taxes such as land and wealth taxes, and increasing the level of savings

It seems a neat way of kick-starting the economy Both production of basic goods and services *and* demand will be stimulated by pumping money into those industries such as food, clothing, housing, and electricity Workers will have more money to buy the basic goods which they are producing

Southern Life chief economist Mike Daly noted recently that a demand-restructuring economic policy that relied on labour-intensive production of basic goods was flawed. Black spending power has risen to more than half of consumer spending

Yet buying patterns over the past four decades do not show a remarkable swing to semi-durable goods such as clothing, or "non-durable" goods such as food, away from "durable" goods such as cars and fridges

So there is no evidence that giving the masses money would mean they would stop wanting "luxury goods", whatever the meaning of that loaded phrase

Other plans for kick-starting the economy pin South Africa's hopes on a huge export drive to pay for social spending on houses and education Cosatu's inward-looking programme does not stress exports

However, South Africa, it is acknowledged, does not make all the machinery needed to step up production of those basics. So a drive to export processed raw materials would be needed, says Cosatu, to buy that machinery.

On industrial policy itself, Cosatu acknowledges South Africa will have to function within the world economy, but doesn't really come to terms with the implications of the modern global economic order An accompanying code of conduct for multi-national companies asks mainly what the multinationals can do for the workers, not what the country can do to entice the multi-nationals to come here

Naidoo says it is all very well to jump on Cosatu for its economic pronouncements, but these come from within and are endorsed by the movement, not the leadership alone Unpalatable as they may be, they are not smoothed out in quiet boardroom discussions, Naidoo points out

If those in power only want to hear soothing noises they are in for a shock Cosatu's proposals, he says, must be seen in the context of dealing with what Cosatu sees as the core of political dispossession and economic deprivation

Naidoo reacts angrily to the idea that the basis of many of Cosatu's ideas crumbled along with the Berlin Wall

"It is said we have old-fashioned views. Given what we have suffered, why must we change our policies?" If changes are to be made, he suggests, they should be made to the economic strategies that have benefited the minority

This misses the point somewhat, since the world is not going to wait for us to compete while we squabble over who should make sacrifices

Mention of Trade and Industry Minister Derek Keys' idea of a golden triangle", a compact between labour, the state and business on the economy, brings the comment, "Keys is talking about everything the government isn't doing"

Though there is a central role for the state to play in reorganising the economy it must be done with a number of key players, Naidoo says There is an acceptance of the need for restructuring and Cosatu is trying to create forums where no single player can impose its will

The bottom line is the insistence on negotiation — not consultation as envisaged by the government, but participation in the decision-making process "What increases our resistance is when our attempts to negotiate are blocked"

Consensus, says Naidoo, must be reached by the major players on the new growth path for the economy the state, labour and government."The idea is not to come out with an economic blueprint. These are proposals for negotiation."

Cosatu committed to socialism

By Mike Siluma STAR 1/4/92.

Cosatu yesterday committed itself to socialism and said a future government would have to re-nationalise recently privatised public utilities

The Congress of SA Trade Unions also said legislation was needed to break up conglomerates and monopolies "to ensure economic efficiency and growth".

Cosatu made the call at the conclusion of a three-day economic policy conference in Johannesburg, aimed at putting the federation in a position to play a key role in the restructuring of the South African economy

The trade union federation forms an important alliance with the SA Communist Party and the ANC It will put its economic policy to the ANC economic conference in May

Cosatu general secretary Jay Naidoo said the Government's present economic programme was "aimed at sabotaging a future democratic government's ability to meet the basic needs of the majority (and) plunge millions of our people into hunger and starvation as costs of food, clothing, education and health spiral out of control"

Ensure

Believing that wealth redistribution was essential to growth, the conference resolved to ensure a redistribution of resources and power by "a process of State intervention combining nationalisation, anti-trust legislation and other forms of legislative intervention including price control

"The State must ensure that basic services are retained in public hands, and any such services that have been privatised should be re-nationalised

"In particular, the objective of providing basic goods and services to all requires that the following be under public control Eskom, public transport, the Post Office and Telkom, State forests, municipal services, water, education, Iscor, roads and health," said Mr Naidoo

While Cosatu was committed to a society "based on production for need rather than profit", it conceded that not all industries should be nationalised

Cosatu assistant general secretary Sam Shilowa accused "the present monopolies" of neglecting job creation and instead investing their profits in the stock exchange

To counter this, a future government would have to intervene in capital markets "to direct the economy to meeting the people's basic needs"

The conference also called for a programme of land reform and assistance to small business

On the contentious issue of investment and sanctions, the conference put together a code of conduct for multinational companies investing in South Africa, which includes abiding by International Labour Organisation employment conventions, as well as South African labour laws, and a commitment to job creation

Regarding the national economic negotiating forum, the conference vowed to ensure that it "does not lead to wage restraint or limit the possibilities of mass action"

Issues to be placed at the top of Cosatu's economic agenda were identified as

- Opening talks with the Government on VAT and campaigning for lower food prices
- Establishing a programme of job creation, including public works projects
- A review of the tax system
- Challenging the Government's 'unilateral restructuring" of the economy, including privatisation

On the political front, the conference endorsed the call by Cosatu's central executive committee earlier this month which demanded an interim government by the middle of the year and the holding of constituent assembly elections by year-end

Pressure

The weekend conference suggested that if Cosatu's economic and political demands were not met, members would embark on mass action, including putting pressure on employers not to deduct income tax from their pay packets

Australian model of pay restraint is ideal to fight SA inflation

49

SIMON WILLSON B/Day 23/1/92

RESERVE Bank Governor Chris Stals's call for a social accord to combat inflation will be brought into sharp focus next week by the release of a normally humdrum southern hemisphere statistic.

The figure, scheduled for publication next Wednesday, is the rate of inflation in Australia in the year to the fourth quarter of 1991 (the Australians measure inflation only by the calendar quarter, not month by month).

Until recently, the Australian inflation rate was just one more erratic number from a primary product-based economy going through the throes of restructuring. Suddenly, however, Australian inflation has locked into a pattern. Next Wednesday's figure is likely to be one that astonishes not only comparable, competitor economies such as SA's but also the developed Western industrial economies.

Australia is about to announce an annual inflation rate of about 1,5%.

This will mean that Australian inflation is lower than Japan's, lower than Switzerland's, lower than Germany's — lower than in all the economies famed for their thrift and abstemiousness. For at least the first quarter of this year, Australia's inflation rate is likely to be the lowest of all those reported to the 24-nation Organisation for Economic Co-operation and Development (OECD) — the grouping of advanced Western industrial economies.

Australia with the OECD's lowest inflation rate? How can this be?

Is this the same Australia as the one that has been living way beyond its means for nearly two decades; the country whose sustained import binge has chalked up an unbroken current account deficit since the mid-'70s? Yes.

It is the same Australia as the one which has splurged fantastic sums on grandiose domestic projects, in the process ballooning its gross foreign debt from a mere $US15bn in 1980 to more than $120bn last year.

It is the country that, for most of the '80s, has been governed by a trade union-friendly Labor government. Moreover, the Labor prime minister for all but the past two months of this period was previously a hard-drinking, womanising trade union boss. It is a nation of instinctively militant organised labour, whose miners and transport workers are famous for their rapid deployment of the strike weapon.

How, it may reasonably be asked, can a free spending, import loving, strike happy, debt ridden economy such as Australia's have an inflation rate that puts to shame other OECD economies of legendary parsimony and self denial?

The answer to this perplexing question provides the link with Stals's social accord prescription for combating inflation. The main reason Australia's inflation rate has fallen so consistently and is now so low is that Australia has the industrial world's longest lasting, most successful and least publicised incomes policy.

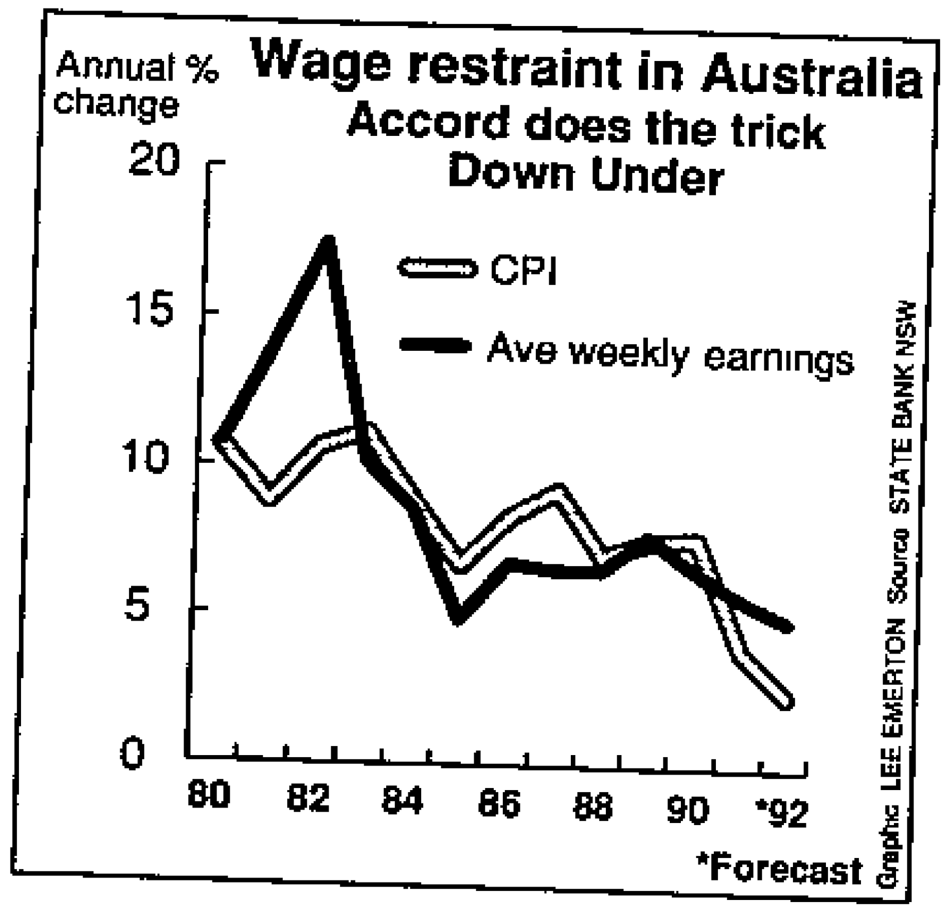
Recession has only helped disinflate the Australian economy since the end of 1990; Australian economic growth tanked ahead during the '80s — at more than 5% in 1985 and by more than 4% in 1987 and 1989 — while inflation was slowing.

The incomes accord between the federal government and the Australian Council of Trade Unions (ACTU) was instituted in 1983 and has been renewed every year since. The accord involves government and unions agreeing on a maximum limit for pay increases in the year ahead, and sticking to it.

The government has used the accord to cut real wages — pay levels adjusted for inflation — with the co-operation of national trade union representatives. There have been disagreements, when the government's offer and ACTU's claim were referred to arbitration. But, as the chart shows, the results in terms of inflation have been spectacular. There has been an incontrovertible correlation between the decline in inflation rate and pay restraint.

How has the Australian government managed to sweep the ACTU militants along with an incomes policy that ostensibly undercuts the trade union function by eroding the real pay levels of ACTU members?

The Labor government did, it is true, start out with an advantage in that it was an avowedly socialist party when it was elected in 1983,



headed by a former ACTU boss in Bob Hawke. But the government also needed a carrot to give some incentive to ACTU to go along with the accord, and cannily used tax reform as that carrot.

The government, elected on a platform of restructuring the Australian economy, was planning anyway to follow the Thatcherite/Reaganite formula of cutting direct taxation and loading up indirect taxation as the main federal revenue-generator.

In the early days of the accord, Hawke made personal tax cuts conditional on acceptance of statutory pay limits. His argument, which proved quite persuasive when the nascent accord was at its most vulnerable, was that ACTU members would be no worse off in disposable income terms if they accepted a cut in real wages that was offset by lower direct tax takes from their wage packets.

It worked like a charm. The accord was accepted at the outset and had a chance to operate. Australian real wages began to fall, with all the favourable knock-on effects on export competitiveness and on inflationary expectations. By the time the tax incentive part of the package was delivered, there was real evidence of lower inflation to support the extension of the accord. The Hawke government won four consecutive elections.

Australian inflation, which was well into double digits and close to SA levels 10 years ago, is about to become the lowest in the industrialised West. Wednesday's figures will show that Australian prices take a year to rise by as much as SA prices often do in a month.

Stals's advocacy of a social accord in SA to tackle structural inflation and inflationary expectations is, whether intended as such or not, an endorsement of Hawke's accord model and a recommendation that it be emulated, at least in part, in SA without delay. And why not? When there are two large land mass, southern-hemisphere primary product exporters with competitiveness and productivity problems among their militant labour forces, and one has an inflation rate of more than 15% and the other one of less than 2%, there must be something the first can learn from the second.

Given the Australian precedent, Stals's point about a social accord attacking structural inflation and inflationary expectations is well made. What better time to approach SA organised labour with a plan to start agreeing pay limits for a year or so ahead than when government, business and labour are all sitting around tables anyway?

In forums such as Codesa and gatherings convened by the Consultative Business Movement, collective action in the national interest is already being discussed in the constitutional, political and social fields. It is a relatively small step to accommodate pay bargaining among other such weighty topics.

It is not only the SA unions that would have to be persuaded to accept the concept of an accord. The government has been unusually proscriptive about regulating national pay levels, as this statement last year by the Finance Minister's special economic adviser Japie Jacobs shows: "...government has no intention of intervening in wage negotiating procedures. Government has no wish to cross swords with organised labour. It has no intention of even considering the implementation of an incomes policy."

A figure due out in the early hours, SA time, of next Wednesday morning should change the preconceptions of Jacobs and [illegible]

ODAY

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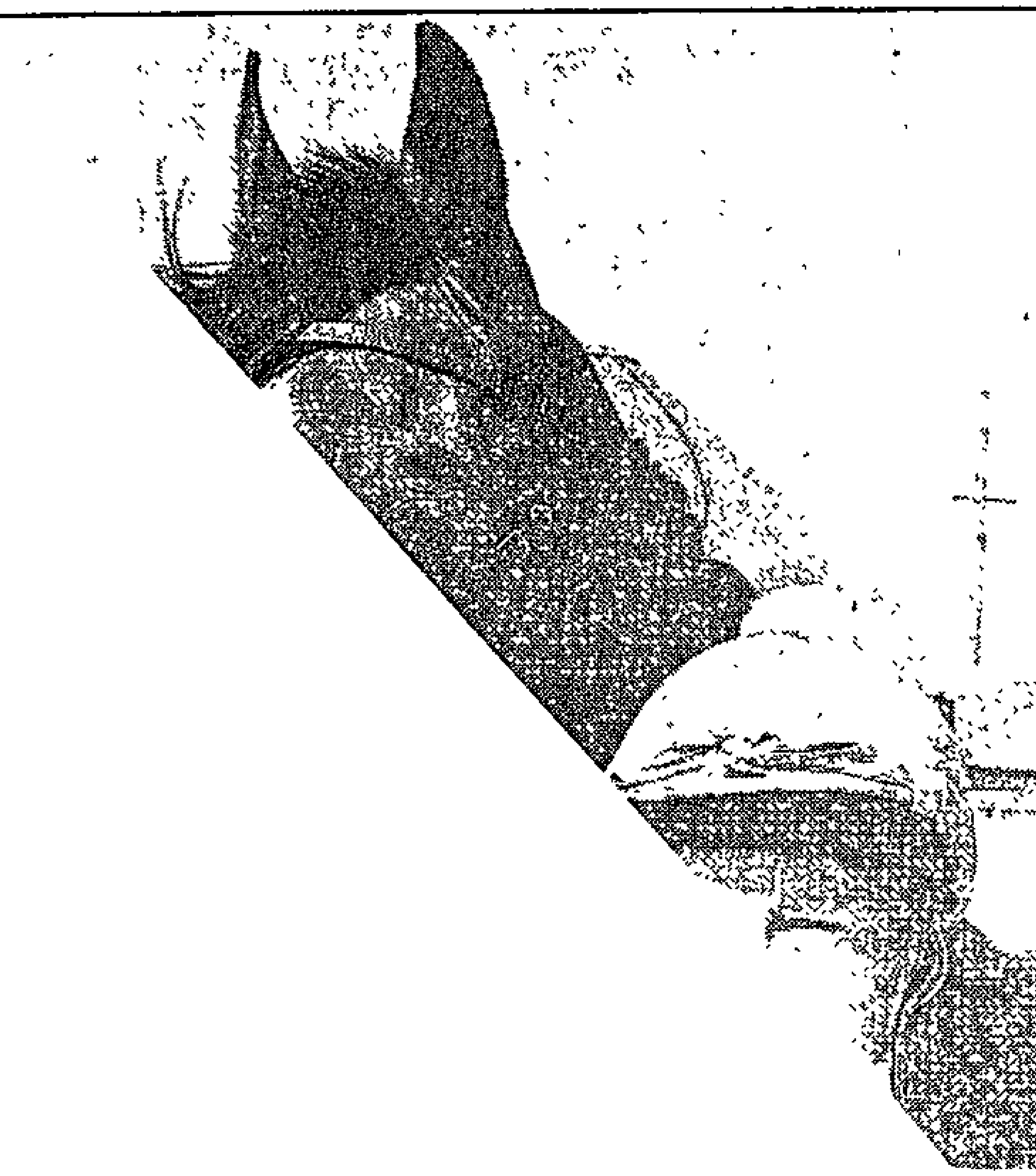
ARG 23/1/92 (49)

Aid billions for SA

Bush administration begins talks on huge support deal



HUGH ROBERTON
The Argus Foreign Service

WASHINGTON. — The Bush administration has begun unofficial talks with Congress on proposals that a multi-billion dollar aid package be set up for South Africa, and supporters of the plan hope that detailed negotiations will begin later this year.

A spokesman for Congressman Ron Dellums, one of the 18 leading members of Congress who signed a letter to President Bush last year requesting that he initiate the aid package, said yesterday that some "encouraging progress" had been made.

He said that in response to the letter from Congress — which was signed by conservatives and liberals and members of both major parties — Mr Bush had asked Secretary of State, Mr James Baker, to investigate the proposal.

Three unofficial sub-committees had been formed under the aegis of the Assistant Secretary of State for African Affairs, Mr Herman Cohen, to examine various aspects of the proposal and two of the sub-committees had already held unofficial meetings with professional advisers to members of Congress.

"So far the contacts have taken the form of unofficial exploratory discussions, and we believe some encouraging progress has been made, but we expect to move on to more official and specific discussions in the next few months and possibly to reach some agreement in principle," the spokesman said.

The unofficial sub-committees are looking into three broad areas of assistance — direct United States government aid, investment by the private sector, and aid through international organisations such as the World Bank and the International Monetary Fund.

There appears to be agreement on the concept of an aid package that would contain all three elements and that the US should initiate what is envisaged as an international programme of assistance spread over a decade or more.

Supporters of the proposal envisage the aid beginning only after a new constitution has been agreed to and a new and democratically elected government is in place.

KENNISGEWING 56 VAN 1992
SUID-AFRIKAANSE RESERWEBANK
Staat van bates en laste op die 31ste dag van Desember 1991

	1991-12-31	1991-11-30	Verandering
	R	R	R
Laste			
Aandelekapitaal	2 000 000,00	2 000 000,00	—
Reserwefonds	77 831 863,11	77 831 863,11	—
Note in omloop	11 679 317 184,00	10 925 684 356,00	753 632 828,00
Deposito's:			
Regering	8 300 380 582,66	6 765 135 429,38	1 535 245 153,28
Provinsiale administrasies	264 964 267,02	433 306 335,69	(168 342 068,67)
Depositonemende instellings	761 717 612,98	847 332 820,42	(85 615 207,44)
Ander	90 919 913,35	84 180 161,48	6 739 751,87
Ander laste	7 143 214 894,16	10 180 899 213,93	(3 037 684 319,77)
	R28 320 346 317,28	**29 316 370 180,01**	**(996 023 862,73)**
Bates			
Goud	5 689 771 591,81	5 897 504 829,05	(207 733 237,24)
Buitelandse bates	2 462 627 375,60	3 173 349 546,66	(710 722 171,06)
Totaal aan goud en buitelandse bates	**8 152 398 967,41**	**9 070 854 375,71**	**(918 455 408,30)**
Binnelandse bates:			
Gediskonteerde wissels	2 773 916 205,51	1 658 190 000,00	1 115 726 205,51
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 156 663 358,55	1 150 708 959,21	5 954 399,34
Sekuriteite:			
Regering	430 983 309,23	486 684 624,34	(55 701 315,11)
Ander	1 134 985 045,00	1 134 985 045,00	—
Ander bates	14 671 399 431,58	15 814 947 175,75	(1 143 547 744,17)
	R28 320 346 317,28	**29 316 370 180,01**	**(996 023 862,73)**
Rand per fyn ons	879,36	923,27	(43,91)
Goudbesit in fyn onse	6 470 355	6 387 627	82 728)

C. J. SWANEPOEL,
Hoofbestuurder.

Pretoria, 9 Januarie 1992.

NOTICE 56 OF 1992
SOUTH AFRICAN RESERVE BANK
49

Statement of assets and liabilities on the 31st day of December 1991

	1991-12-31	1991-11-30	Change
	R	R	R
Liabilities			
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	77 831 863,11	77 831 863,11	—
Notes in circulation	11 679 317 184,00	10 925 684 356,00	753 632 828,00
Deposits:			
Government	8 300 380 582,66	6 765 135 429,38	(1 535 245 153,28)
Provincial administrations	264 964 267,02	433 306 335,69	(168 342 068,67)
Deposit-taking institutions	761 717 612,98	847 332 820,42	(85 615 207,44)
Other	90 919 913,35	84 180 161,48	6 739 751,87
Other liabilities	7 143 214 894,16	10 180 899 213,93	(3 037 684 319,77)
	R28 320 346 317,28	**29 316 370 180,01**	**(996 023 862,73)**
Assets			
Gold	5 689 771 591,81	5 897 504 829,05	(207 733 237,24)
Foreign assets	2 462 627 375,60	3 173 349 546,66	(710 722 171,06)
Total gold and foreign assets	**8 152 398 967,41**	**9 070 854 375,71**	**(918 455 408,30)**

Liabilities	1991-12-31 R	1991-11-30 R	Change R
Domestic assets:			
Discounted bills	2 773 916 205,51	1 658 190 000,00	1 115 726 205,51
Loans and advances:			
Government	—	—	—
Other	1 156 663 358,55	1 150 708 959,21	5 954 399,34
Securities:			
Government	430 983 309,23	486 684 624,34	(55 701 315,11)
Other	1 134 985 045,00	1 134 985 045,00	—
Other assets	14 671 399 431,58	15 814 947 175,75	(1 143 547 744,17)
	R28 320 346 317,28	**29 316 370 180,01**	**(996 023 862,73)**
Rand per fine ounce	879,36	923,27	43,91
Gold holdings in fine ounces	6 470 355	6 387 627	82 728

Pretoria, 9 January 1992.

C. J. SWANEPOEL,
General Manager.

(24 Januarie 1992)/(24 January 1992)

KENNISGEWING 57 VAN 1992

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

INTREKKING VAN REGISTRASIE VAN 'N WERKGEWERSORGANISASIE

Ek, Gerhardus Coenraad Papenfus, Assistent-nywerheidsregistrateur, maak hierby kragtens artikel 14 (1) van die Wet op Arbeidsverhoudinge, 1956, bekend dat aangesien ek rede het om te vermoed dat die Transport Employers Association (Natal) nie as werkgewersorganisasie funksioneer nie, sy registrasie ingetrek sal word, tensy redes daarteen binne 'n tydperk van 30 dae vanaf die datum van publikasie van hierdie kennisgewing aangevoer word.

G. C. PAPENFUS,

Assistent-nywerheidsregistrateur.

(24 Januarie 1992)

NOTICE 57 OF 1992

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

CANCELLATION OF REGISTRATION OF AN EMPLOYERS' ORGANIZATION

I, Gerhardus Coenraad Papenfus, Assistant Industrial Registrar, hereby notify, in terms of section 14 (1) of the Labour Relations Act, 1956, that as I have reason to believe that the Transport Employers Association (Natal) is not functioning as an employers' organization, its registration will be cancelled unless cause to the contrary is shown within a period of 30 days from the date of publication of this notice.

G. C. PAPENFUS,

Assistant Industrial Registrar.

(24 January 1992)

KENNISGEWING 58 VAN 1992

DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

INTREKKING VAN REGISTRASIE VAN 'N VAKVERENIGING

Ek, David William James, Nywerheidsregistrateur, maak hierby kragtens artikel 14 (2) van die Wet op Arbeidsverhoudinge 1956, bekend dat ek die registrasie van die Greytown Association of Municipal Employees met ingang van 13 Januarie 1992 ingetrek het.

D. W. JAMES,

Nywerheidsregistrateur.

(24 Januarie 1992)

NOTICE 58 OF 1992

DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

CANCELLATION OF REGISTRATION OF A TRADE UNION

I, David William James, Industrial Registrar, hereby notify, in terms of section 14 (2) of the Labour Relations Act, 1956, that I have cancelled the registration of the Greytown Association of Municipal Employees with effect from 13 January 1992.

D. W. JAMES,

Industrial Registrar.

(24 January 1992)

FW's parliamentary speech to focus on economy, crime and Codesa

B/Day 24/1/92 (49)

BILLY PADDOCK

CAPE TOWN — The economy, violence and crime, the status of Codesa and Parliament's sovereignty will be the central focus of President F W de Klerk's opening address to Parliament today.

Headline-grabbing announcements are not expected and government sources were yesterday at pains to downplay the speech. They insisted De Klerk would keep it low-key.

A source said De Klerk could not be expected "to pull another rabbit out of the hat". There was very little, if anything, government could do unilaterally as almost all issues were tied up in negotiations at Codesa, he said.

Another source said that for the past two years De Klerk's main aim was to regain respectability in the international community and to position SA to obtain access to international funds.

"Now that this has largely been achieved — with even sanctions crumbling as is seen from the two substantial bond issues in the past six months — he will shift his emphasis to setting the stage for the NP's battle with the CP," he said. This could be the most hard hitting part of his speech.

De Klerk is expected to once again call for monetary discipline and to promise to put pressure on his Cabinet to ensure discipline in state spending.

He will claim he and government have endeavoured to get the economy going by pointing to his appointment from the private sector of Economic Co-ordination Minister Derek Keys as sufficient cause for business to have confidence that government will get it right this time.

De Klerk will criticise the ANC for refusing to disband its military wing and for holding on to sanctions.

He is also expected to announce rationalisation within own affairs administrations, specifically in the health and education sectors.

Rationalisation could also extend to the four provinces providing services to the six non-independent homelands on an agency basis, similar to that provided by the Cape to the Ciskei.

De Klerk will also indicate that South Africans will have to tighten their belts and expect a tougher year economically with a real possibility of the Budget running into a bigger deficit than before.

In addressing white fears, De Klerk will concentrate on announcing measures to reduce crime. He is expected to say the police will intensify patrols and strengthen its force.

De Klerk is also expected to announce measures he intends taking on the carrying of traditional and cultural weapons at political rallies. He has apparently reached consensus with Inkatha leader Mangosuthu Buthelezi.

● See Page 3

'Tentative' upswing likely

SHARON WOOD

SA's long-term growth prospects are encouraging but the international climate suggests that the upswing this year will be tentative at best, Investec says in its latest Economic Focus, released yesterday.

Despite the credible performance of non-gold exports and the improved access to foreign markets, recovery in the US will not be strong enough to support vigorous domestic growth, it says.

However, the strong performance of the current account of the balance of payments and the build-up of gold and foreign exchange reserves point to an increased capacity for growth in the longer term.

Investec is confident that commodity prices will improve from their current all-time lows before the mid-1990s, at least supporting the later phases of the domestic upswing.

The low level of real fixed investment is a critical problem, it says. "It seems unlikely that world economic conditions will be buoyant enough to inspire a major investment drive during 1992."

A genuine recovery in investment is dependent on a resurgence of confidence in the economic future of SA.

"Although the violence and the uncharted political waters into which Codesa is leading the country naturally give rise to fear and trepidation, there are a variety of forces at work within the SA political economy which provide grounds for guarded optimism," Investec says. These include the easing of sanctions, the potential involvement of the IMF and the World Bank in SA and the regional "peace dividend".

In addition, a new realism has started to emerge on the labour front which has promoted frank debate on the crucial socio-economic problems confronting SA.

Money supply growth rate still shrinking

STAR 24/1/92

(49)

The growth rate of money supply is still shrinking.

Figures released by the Reserve Bank yesterday show the preliminary annualised estimate of the increase for the broadly defined M3 in December was 12,42 percent, well down on November's 14,48 percent and the year's peak in October of 15,75 percent.

The sharp drop brings the growth rate well within the targeted range set by the Reserve Bank of 11 to 15 percent.

Unadjusted M3 was R180,4 billion in December (R183 billion in November).

In November, the narrowly defined M1A rise was 21,38 per cent, M1 was 24,17 percent and M2 21,21 percent. — Sapa.

BUSINESS

It's time for the ANC to get tough

W/Mail 24/1-30/1/92. (49)

Why is the African National Congress giving the government such an easy ride when it comes to economic policy, asks
REG RUMNEY

ANY government-in-waiting worth its salt should be launching a full-frontal attack on the present government's handling of economic policy. So why isn't the African National Congress tackling the government's economic policy where it is most vulnerable?

We're not talking about the attempts to embarrass the government over Value-Added Tax. For all its sound and fury that battle is more politics than economics. After all, the ANC doesn't seem to want to do away with VAT. It only has qualms about its implementation. And VAT is a replacement for GST, not a radically new tax aimed at restructuring the economy, etc, etc.

More seriously, attacks on the handling of VAT are focusing on one small area of fiscal policy. Where is the outrage at continuing "fiscal drag", the ploy governments use to raise taxes through inflation, and one which arguably contributes itself to inflation?

What the ANC should be addressing is the failure of government to bring the rate of inflation down significantly and its reliance almost solely on the fairly blunt instrument of high interest rates.

One could look further back, but for almost two years years the government has relied on monetary policy and in turn high positive rates of interest to fight inflation.

That these are only nominally high (ie may not be that high in comparison to other countries after taking out inflation) doesn't matter much to those who have to service loans. Nedcor chief economist Edward Osborn argues that with other factors such as high corporate tax rates those interest rates make the cost of capital in South Africa among the highest in the world.

Despite tight monetary policy we have stagnation and stubbornly high inflation. It could be argued that monetary policy is the preserve of the Reserve Bank, which is supposed to be an independent entity. Its independence, however, relies largely on the will of the government. The government cannot lay the blame off on the governor of the Reserve Bank.

Questioning the reliance on monetary policy has been left to virtually the only economist in the private sector who isn't convinced of its correctness.

Osborn notes scornfully that monetarism is a simplistic and in South Africa naive faith in the effect of monetary demand on prices.

"Theoretically," he said in a speech which caused a stir in the economists' community last year, "it is so straightforward: in the money equation prices are proportional to total demand given a constancy in the velocity of circulation, but this is elevating a truism into a causal dynamic with some *deus ex machina* pulling the strings connecting money supply and prices."

Chris Stals

The speech should have received more widespread attention, and not only because it was a notable dissent amid an undynamic uniformity of views. Osborn rebuts most of the arguments about why monetary policy hasn't worked. Lack of space prevents all his arguments being detailed here.

What he has pointed to was that inflation in South Africa is a deep-rooted structural problem. Unlike other economists he believes it is immune to the would-be curative short-term monetary efforts of the Reserve Bank. Far from solving the problem, he believes, the Bank's harsh monetary regime has caused considerable damage, particularly to small business.

Big businesses raise money through equity: small businesses often have to borrow it.

The small business sector is a constituency the ANC would do well to foster. And here is the opportunity.

So should we drop interest rates drastically? Or abandon the fight against inflation?

Not necessarily either.

One would hope the history of macro-economic recklessness that helped ruin Latin American states is still fresh enough not to be copied by any future government.

Firstly, we need to keep the problem of the inflation level in perspective. Those who believe inflation is so great an evil that it should be squeezed out of the system in an almost vengeful way should take note of a recent paper by World Bank economist Michael Walton and Abdel Senhadji of Pennsylvania University. They note, in *South Africa — Macroeconomic Issues for the Transition*, that pushing inflation down to low levels has a high cost in lost jobs.

"It may be best to live with continued moderate inflation during the transition provided there is strong corrective action whenever an inflationary acceleration threatens."

This is not to accept the World Bank or its employees as oracles. But if even conservative economists can live with a bit of inflation, we should take note.

We do need to look for some creative solutions to our economic crisis. For example, is it not time to examine urgently the creation of a national community service corps?

And it seems obvious urgent attention must be paid to the constraints that keep inflation at 15 percent willy nilly, such as a lack of competition.

Assurances that competition thrives despite intense economic concentration in South Africa ring hollow. And government-created Control Boards still hold sway in agriculture.

As Osborn says: "The only markets in South Africa that I can think of as being free, in the sense of the price being determined by supply and demand, are vegetable and flower markets, but even the latter I am told are rigged."

To crib from Gandhi, any economist on the left asked if he believed in the free market in South Africa could answer: "It would be a good idea."

Another aid, not a panacea would be through a compact between labour and business to restrain wage increases which fuel inflation. This idea was floated by Reserve Bank governor Chris Stals recently in an interview.

Such a move could bring a future government into conflict with the union movement. But the ANC has a better chance of reining in the Congress of South African Trade Unions than the present government.

Apart from those issues, the ANC should soon be able to take on the government's macro-economic policy.

The model the ANC's Macro-Economic Research Group is setting up should give the ANC a clearer picture of the possible consequences of such economic policy decisions as lowering interest rates, and help it formulate policy.

Tax cut coming, promises FW

(49) STAR 25/1/92

By Derek Tommey

THE STATE President Mr FW de Klerk has given an undertaking that taxes will be reduced in the next Budget.

He has also indicated that for the first time in many years that some Government departments will get "reduced" allocations.

In previous years these departments could at least count on getting increases equal to the inflation rate and usually on top of that a bit extra

The Government has been under increasing pressure from commerce and industry to reduce Government spending in order to reduce the high rate of taxation and stimulate the economy and end the recession.

Speaking at the opening of Parliament yesterday Mr de Klerk said the Government regarded the reduction of taxation as "a matter of urgent importance".

He added that "inasmuch as it is at all possible, it will be attended to in the forthcoming Budget, difficult as that may be."

Daunting challenges

Mr de Klerk said that chief among the daunting challenges facing South Africa was the pressing need to accelerate the process of economic growth. This would generate work and income for the fast increasing workforce and support the extensive development programes which the country had embarked upon.

The long recession, with all of the social problems it brought with it, coupled on the one hand with urbanisation, droughts and natural disasters, and on the other hand with combatting crime and violence, had placed heavy demands on the Government.

"We have had to grapple with resulting strong and often justifiable demands for higher state spending, but we have succeeded in limiting expenditure to levels which could be financed with minimal disruption.

"However, if we are to ensure that the level and composition of state expenditure plays an ongoing positive role in economic growth, additional and relatively drastic structural changes will have to be made, especially in respect of current expenditure."

Tight rein

He said that many departments would receive "reduced" allocations and warned that the Government would crack down on departments which overspent.

He said a tight rein was being kept on all allocations for 1992-93.

All Government departments would have to submit a proper management plan to ensure that they kept within their "reduced" allocations.

New approaches and methods were being used to this end, and unprecedented discipline in respect of public spending would be applied in the coming year.

"Our determination to keep State expenditure within rigorous limits is not a fad. The high and rising level of such expenditure impinges directly on our already onerous burden of tax and debt-servicing."

Mr de Klerk said the Government was still pursuing the systematic lowering of tax rates on companies and individuals to neutralise their impact on domestic interest rates and savings and also improve international competitiveness.

MR DE KLERK: "Our determination to keep State expenditure within rigorous limits is not a fad.

Important

"Regrettably, circumstances have prevented the Government from moving as rapidly on this front as it would have wished. Nevertheless, it remains a matter of urgent importance."

"Further cuts in the tax rates of companies and individuals are an indispensible part of our policy."

He said the cut in the rate of VAT from 12 percent to 10 percent had produced an appreciable loss of revenue. But this had helped, together with other forms of aid, to reduce the adverse impact of the change-over from GST.

The changeover to VAT and the decline in economic activity had resulted in lower income and a higher deficit than planned.

"Fortunately, this temporary imbalance was concentrated in a period of pronounced weakness in general demand. Therefore, it performed a valuable counter-cyclical role, was easily financed and had a negligible effect on inflation, which is still in a long-term downtrend to healthier levels."


DON BODLEY


BARRY SWART


BRIAN GILBERTSON


ALBERT WESSELS


DORIAN WHARTON-HOOD


MERVYN KING


GORDON UTIAN


HUGH HERMAN

Blueprint for the Budget

(49) ARGT 25/1/92

Businessmen urge: 'Create tax incentives to boost growth in SA'

CLAIRE GEBHARDT
Weekend Argus Correspondent

SLASH government spending. Don't increase taxes. Create tax incentives.

That s the overwhelming consensus of South Africa's top businessmen, who, polled by Business this week, called for Mr Barend du Plessis to give tax incentives for growth.

Six weeks before the Minister of Finance delivers his Budget they were unanimous that in spite of the government's severe shortage of cash, more money must be ploughed back into business and to private individuals to stimulate the economy

The overwhelming consensus was that the solution to the revenue shortfall was not for government to seek new sources of revenue, but to cut its own expenditure drastically

The biggest whinge was bureaucratic duplication of apartheid structures

Nearly all the businessmen urged cuts in defence and some suggested the money saved be used to bolster the police force

Increasing the rate of VAT "willy-nilly" sent shivers down most spines

Another specific suggestion was to reverse the decision to tax bursaries, as education would assume a pivotal role in the new South Africa

There were hardly any calls for lower interest rates because most accepted that the inflation bogey was rampant

Businessmen called for job creation and said high corporate and personal tax rates were killing the economy

The Budget this year is regarded as crucial because of the volatile political climate and the huge risks implicit in constitutional change.

This newspaper set out to discover what the backbone of South African business felt could be done to get the country on an even keel economically in these difficult times This is what they said.

Mr Brian Gilbertson, chairman of Gencor: "The real problem facing South Africa is rising unemployment as a consequence of no growth We need a fiscal environment which is conducive to new investment such as exports Tax holidays could be considered and low cost funds for new ventures that add value.

"The Section 37E allowance for beneficiation is a good incentive but doesn't go far enough. Ring fencing prohibits investment and must be abolished Barplats would still have been open were it not for this

"We have another gold mining project we are looking at and it is a tricky decision beause of ring fencing." (Ring fencing limits mines from making effective deductions of capital expenses on new mines from older mines)"

Mr Barry Swart, First National Bank chief: "The Minister must encourage investment in productive means by giving a boost to confidence Businessmen are loathe to take the necessary longer term view — five years is about as far as you want to right now

"We need tax incentives or a cash payment once the thing is up and running — say an 80 percent payback This will get employment levels up and increase economic activity A housing boost is crucial and would take a couple of thousand people off the unemployment list

"From a purely financial view, banks and mortgage lenders have a commitment to make funds available but do not want to lend on an empty piece of land. Corporate and individual income tax rates brought down to 40 percent as soon as possible"

Mr Dorian Wharton-Hood, Liberty Life managing director: "The main emphasis must be on containing expenditure and cutting corporate and individual tax rates rather than raising more revenue — there s an enormous amount of waste"

Mr Gordon Utian, Premier's deputy chief executive: "The Minister must stimulate the economy through industrial incentives which will give people jobs and get exports going Company tax must be reduced to encourage overseas investment

"We need to give VAT relief on essential foodstuffs and medicines and then negotiate a one or two percent increase with all the political players"

Mr Eugene van As, Sappi managing director: "Cut government spending drastically and spend it where it is needed. If you spend on infrastructure, at least at the end of the day you have a railway line or a hospital The way we're going we just have more bureacrats"

Mr Don Bodley, Adcock Ingram chief executive: "Increase export incentives, reduce government spending, give incentives for personal saving, spend more on health care"

Mr Bert Wessels, Toyota chairman: "The manufacturing industry needs support through investment allowances. Company taxes are too high Because we don t do inflation accounting when we replace our capital equipment our effective tax rates are well in excess of 48 percent."

Mr Hugh Herman, Pick 'n Pay managing director: "Government should allow a tax reduction or some specific allowance for job creation. The poor relief scheme must be accelerated and exemptions given for VAT on basic foodstuffs

Mr Gerald Leissner, Anglo American Properties chairman. "The best way to create employment is to grant tax incentives to stimulate manufacturing and construction activity

"The provision of shelter has to be a priority and there must be assistance through subsidies a lowering of the interest rate or the allocation of more money to the IDT"

Mr Mervyn King, Frame chairman: "Reduce taxes and eliminate bureacracy Keeping money tight and interest rates high may be technically correct but given the increase of employment in the non-productive government sector and the decrease in private sector employment, it is disastrous and won t bring down inflation To increase VAT would be suicide"

SA in throes of full recession

ARG 25/1/92

DUMA GQUBULE
Weekend Argus Correspondent

'It's like the Great Depression of 1929'

SOUTH AFRICA'S unemployment rate is comparable with that of the Great Depression in the United States in 1929.

The nation is in the throes of a full-blown recession — not just the "long and shallow" label the Reserve Bank and other commentators have given it, according to Investec economist Mr Hendrik du Toit.

Mr Du Toit, in Investec's latest economic focus, says the conventional approach of comparing one year's performance with the previous one is misleading because, after a decade of miserably low economic growth, the bases used in such comparisons are extremely low.

For example, part of the reason for the small decrease in demand since the second quarter of 1989, when the recession started, is the low base from which the cyclical downturn began.

Even before the present downturn, the stock of durable and semi-durable consumer goods — as well as capital goods — was already worn down.

In addition, because the current recession has been so long, the cumulative effects have been much greater.

"When one looks at absolute figures, a different picture emerges. Real fixed investment, in absolute terms, has fallen 7,7 percent during the current recession compared with the 2,3 percent the Reserve Bank uses. The bank's figure is based on an annualised rate of change."

The main effect of the slump in fixed investment has been the sharp decline in the ability of the economy to absorb new entrants. The rate of unemployment is comparable with that of the Great Depression in the US in 1929.

As a result, the decrease in employment during this recession has been much greater than during previous recessions.

However, the good news is that after 1,5 to 2 percent growth this year, the economy could be on the way towards achieving sustainable and higher rates of growth.

"This will depend on being able to attract vast amounts of foreign capital and being able to generate sufficient confidence in the economy to inspire a major investment drive."

Public service faces axe

ST Times 26/1/92 : 49

FW vows to curb rampant state spending

ENTIRE branches of the public service could face the axe to enable President FW de Klerk to fulfil an election promise to cut taxes.

Stung by growing criticism by business leaders of his economic management and aware that despite his repeated commitment to maintain fiscal discipline government spending is way over budget, Mr De Klerk has promised "unprecedented" measures to slash spending.

By MIKE ROBERTSON
Political Correspondent

In terms of the new financial management plans which he announced in his opening of Parliament speech, ministers will have to prove to the cabinet within three months of the Budget that they have taken steps to keep spending in line with their reduced budgetary allocations.

Survive

Where sticking to budgetary limits has political implications — for example the rationalisation or even axing of a section — the cabinet will decide.

Explaining the new system, Finance Minister Barend du Plessis said that in the past when departments had been asked to cut spending, they had simply "shaken the tree until enough leaves had fallen off" to enable them to survive.

Now Mr De Klerk was insisting that departments not only "shake leaves off but get rid of branches", he said.

Job losses in the civil service would depend on management plans, Mr Du Plessis said.

Last week he announced that government spending in the first nine months of the financial year was 18,5 percent above budget.

As a result, the government would have to ask Parliament for a substantially larger additional budget than was envisaged by way of the contingency reserve of R1,2-billion, he said.

National Party MPs, meanwhile, have become increasingly concerned about the government's management of the economy and high levels of state spending.

Some said this week that Mr De Klerk and his cabinet would have to cut government expenditure — and not just promise such cuts. This was the only way the government would be able to do something about lowering the onerous tax burden on individuals.

In the 1989 general election, the NP promised to drop the top marginal rate by five percentage points during its term of office.

Arrogant

To date Mr Du Plessis has dropped the maximum marginal rate from 45 percent to 43 percent, but has made no adjustment for fiscal drag.

Response to Mr De Klerk's announcement was varied.

Democratic Party leader Zach de Beer said his party would take the NP seriously when it actually cut, rather than spoke about cutting, state expenditure.

The ANC attacked Mr De Klerk for arrogantly claiming the right to unilaterally restructure the economy.

Government debt soars to R112bn

By DIRK TIEMANN

GOVERNMENT debt rose by 15,2% in the first nine months of fiscal 1991-92 to R112-billion last December.

It has increased by more than 80% since 1984.

The cost of servicing the debt has risen by about 80% since 1984 to R11,2-billion This cost excludes the discount on new government stock.

The Reserve Bank does not include the discount because the interest cost is amortised over the loan's life. If the interest charge on the discount is included, the interest burden will be about R15-billion for 1991. ST imes (6455) 26/1/92.

Gross

The Government issues stock at a discount to make the stock more attractive. On maturity, the Government must refund the full capital amount and interest on the discount.

The interest cost has become a problem only in the past three years. It was well below R1-billion before 1980 when it exceeded R1-billion for the first time at R1,28-billion.

By 1985 the interest bill had risen to R4,1-billion and in 1990 it was R9,4-billion. It is now the single biggest expenditure item in the Budget.

Government debt is unlikely to rise this fiscal year because R4,3-billion more than the gross financing requirement of R13,7-billion has been raised.

Government expenditure is likely to be R2-billion higher than the R84,9-billion approved last year.

The Government announced additional expenditure of R1-billion for socio-economic projects in August. It will be financed by the sale of strategic stockpiles. The Government then gave an assurance that the new total spending figure would not be exceeded.

It is now expected to ask Parliament to approve expenditure of another R1-billion in the mini-Budget next month.

It will also seek approval for spending R1,2-billion from the contingency reserve — it was included in the original Budget.

Should government spending rise to R87-billion in 1991-92, it would exceed the revised total for 1990-91 by 16,4%. This exceeds the average inflation rate of 15,3% for 1991 and is far above the budgeted 13,7% increase planned for the current year.

The Government needs the extra money to meet the over-runs on health, education, interest payments and black local authorities.

Director-General of State Expenditure Henri Kluever says there are good reasons for the overspending, such as the need to improve health and education services.

But overspending on servicing government debt is due to an underestimate by the authorities of interest rates this year.

Large revenue shortfalls at various stages of the first nine months of the fiscal year have forced the Government to borrow at high interest rates to make up the difference.

Another item on which there is heavy overspending is the allocation of grants to black local authorities. Many are virtually bankrupt because of rent and service charge boycotts.

Smaller 49

Last year, the Government asked Parliament for permission to spend an extra R1,8-billion on top of a R1-billion contingency reserve.

The money was needed for salaries of the police and nurses which were raised by R579-million, black housing which received R137-million and education which took R217-million.

Prosperity has its price

C/Press 26/1/92

(49)

The new "economic forum" that was created recently will face some crucial questions about South Africa's economic future.

Some of the problems the country must solve if it wishes to prosper were highlighted recently by Mike Sander, chief executive of the chemical group AECI.

According to Sander our high taxes and unacceptable inflation rate are causing investors to shy away from South Africa and seek more attractive pastures elsewhere.

Just how unattractive we have become is reflected in a study showing that projects undertaken in South Africa pay almost 2,5 times as much tax as in Britain and almost six times as much as Taiwan. Investor returns, given some cash margin, are 4,5 percent in South Africa, 8 percent in Britain and 10,2 percent in Taiwan.

□ MONEY TALK

These figures are alarming considering that the manufacturing sector must provide future employment opportunities.

Sander points out that for our factories to compete successfully internationally we need a tax system that makes us competitive with other world players. Other key factors are a stable and productive workforce and enterprising management within companies.

The low productivity of South African workers will also have to be tackled over a wide front. Sander says an imbalance between technical and non-technical education in the workforce and boycotts and stayaways in black schools all contribute to our low productivity.

He pleads for a sound partnership between labour and management to enable us to become internationally competitive.

What we have in our favour are relatively low-cost raw materials, good infrastructure, high calibre technical resources, an established support industry, a professional and adaptable management base and good links with international companies.

One hopes that the above remarks will lead to fruitful discussions in the new forums that have been created. For there must be no doubt in our minds that we will have to drastically change our ways to be become successful economically.

Self-financing route to curb govt spending

CT 27/1/92. (49)

Own Correspondent

JOHANNESBURG. — Government is moving steadily towards usercharging and self financing as President F W de Klerk and his Cabinet attempt "to put a lid on the growth in State Expenditure", Finance Minister Barend du Plessis said yesterday.

Deputy Finance Minister Japie van Wyk also said yesterday that in its endeavour to cut spending government was looking to an overall cutback on the annual Budget.

He said income had not been up to expectation and the treasury could not really expect to get more revenue next year than it got this year.

"But there are numerous uncertainties such as the income on VAT and what it will bring in in the next few months. But we are expecting the deficit to be greater than we planned for and bigger than last year," he said.

Van Wyk said that despite governments attempts to cut the overall Budget, inflation and absolutely necessary expenditure would result in an increase in real terms.

Du Plessis said government was absolutely committed to curtailing spending. President De Klerk's unprecendented firm statement on discipline from government was a promise he meant seriously because SA just could not afford to carry on as it has without serious pruning.

He said that certain departments such as Constitutional Development Services would have a substantial increase in its budget because it would be footing the bill for Codesa and constitutional negotiations. This increase would have to be accommodated by moving money from other departments and hopefully foreign loans.

"Cabinet will be evaluating which services to stop and, looking at the legal and political implications of this, will implement these and then keep departments within their budgets," Du Plessis said.

He said certain department's budgets would of necessity increase and this would mean shifting funds from one department to another — for instance "cuts can be executed in forestry and reallocated to health services or further defence cuts could be made in favour of black education".

This would not necessarily mean that public servants will be retrenched but government has instituted a policy of freezing posts and where some departments are overstaffed, members will be transferred to those that are understaffed. One option open to government was that civil servants can be offered voluntary retrenchments.

"There are very strict legal requirements for retrenching staff in the public sector but when this happens the deal is very attractive," he said. He mentioned that Armscor had retrenched certain numbers in order to accommodate the cut in its budget last year.

He indicated that the quality of service might drop but that this was an inevitable price the country would have to pay if government wanted to avoid higher taxes while still upgrading and equalising services across the racial spectrum. He refused to be drawn on indirect taxation and the possibility of this being increased.

Du Plessis said that the public service government was definitely moving in the direction of adjustment to usercharging, levies and self financing in order to supply services.

"In the case of roads we are looking at a multi-year adjustment to usercharging and moving increasingly towards getting the toll system to account for much more of the road construction. But the state can never be totally relieved of its responsibility in this field as was shown this year when government allocated R200m to roads from the R1bn raised through the sale of strategic stockpiles," he said.

In a further development along these lines government at the weekend tabled a Financial Services Board Amendment Bill which, if passed, will mean that the board will no longer be funded in any way from the Budget.

The Bill states that in future the board will be "fully funded by usercharging and by levies on industry, and the necessity of Parliamentary appropriation as a source of funding will fall away".

Provision is also made for the board to appoint auditors in private practice, the executive officer to disclose information to foreign financial services regulatory authorities and for the appointment of a secretary to the board of appeal.

This is broadly in keeping with the proposal drafted by former Economic Co-ordination Minister Wim de Villiers in which parastatals that could be cut loose and operate on their own would be encouraged to get their own financing and operate on their own.

Others that could not, would be brought fully on Budget.

Emphasis moves to self-financing

Barend warns of sharp cuts in spending

(49)

B/Day 27/1/92

BILLY PADDOCK

CAPE TOWN — Government was moving steadily towards user charging and self financing as President F W de Klerk and his Cabinet attempt "to put a lid on the growth in state expenditure", Finance Minister Barend du Plessis said yesterday.

Deputy Finance Minister Japie van Wyk also said yesterday that government's endeavour to control spending would mean some severe cutbacks in the Budget.

He said income had not been up to expectations and the Treasury could not really expect to get more revenue next year than it got this year.

"But there are numerous uncertainties such as the income on VAT and what it will bring in in the next few months. But we are expecting the deficit to be greater than we planned for and bigger than last year."

Van Wyk said that despite government's attempts to cut the overall Budget, inflation and absolutely necessary expenditure would result in an increase in real terms.

Du Plessis said government was totally committed to curtailing spending. De Klerk's unprecedented statement on discipline from government was a promise he meant seriously because SA could not afford to carry on as it had without serious pruning.

"The days of patchwork cuts here and there in departments had ended," he said.

"As a result of government putting a lid on the growth in state expenditure there will of necessity be substantial intra-departmental and inter-departmental adjustments," Du Plessis said.

Certain departments would have substantial increases in their budgets. An example was Constitutional Development because it would be footing the bill for Codesa and constitutional negotiations.

This increase would have to be accommodated by moving money from other departments and hopefull' through foreign loans.

Cabinet was gearing itself to reassess past decisions and look at how it would exercise the necessary cuts.

The management plan would be used to assess where the pruning would take place and how to stop the "runaway train".

"Cabinet will be evaluating which services to stop and looking at the legal and political implications of this," he said.

He said certain departments' budgets would increase and this would mean shifting funds from one department to another. "For instance cuts can be executed in forestry and reallocated to health services or further defence cuts could be made in favour of black education."

This would not necessarily mean public servants would be retrenched. Government had a policy of freezing posts and where some departments were overstaffed, members would be transferred to those that were understaffed.

Civil servants could also be offered voluntary retrenchments.

Du Plessis indicated that the quality of service might drop but said this was an inevitable price the country would have to pay if government wanted to avoid higher taxes while still upgrading and equalising services across the racial spectrum. He

☐ To Page 2

Barend

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☐ From Page 1

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In a further development, government at the weekend tabled a Financial Services Board Amendment Bill which, if passed, will mean the board will no longer be funded from the Budget.

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Those that could not would be brought fully into the Budget.

● Comment: Page 8

Confidence - only missing ingredient

Sowetan 28/1/92 (49)

Sapa-Reuter

GARDEN CITY (New York) - The ingredients for faster world economic growth - falling interest rates and low inflation - are now in place, only the confidence is missing, according to the Group of Seven (G7) industrialised nations.

Indeed, after a day of talks between the G7's economic policy makers in this New York suburb on Saturday, the word "confidence" appeared six times in the final communique and cropped up many more times in the news briefings that followed

"We have expressed our resolve to accelerate the economic recovery," French Finance Minister Mr Pierre Beregovoy said. "This is a message of confidence to investors and consumers."

"There was a strong note of confidence expressed, particularly by the Americans," added Mr Norman Lamont, his British counterpart.

But the problem nagging at the world's economic pace-setters is that Germany, a key member, might choose to go its own way.

If hopes for lower German interest rates later this year are dashed, the prospects for other European countries whose currencies are pegged to the mark will remain grey.

Germany, struggling to contain inflation triggered by unification, repeatedly raised interest rates last year, most recently on December 19, despite pleas from other industrial countries to hold fire.

The G7 communique expressed the hope that if money supply growth slows and wage pressures ease, and if inflation falls, this "could create room for lower interest rates" in Germany.

Mr David Mulford, the US Treasury's top international official, admitted it was too early to expect the Bundesbank, Germany's powerful central bank, to take its foot off the economic brakes. But he said the communique pointed the way.

"If certain conditions are met, you will look for an easing in a number of countries," Mulford said.

But this was not the gloss Germany put on the statement.

Finance minister Mr Theo Waigel said the G7 stressed the need for a steady medium-term strategy, not quick fixes. "In no way are we talking about deviating from our strict financial policies," he said.

"Nothing was asked of us that is not in line with our policy," added Bundesbank president Mr Helmut Schlesinger.

So where does the truth lie? Is it business as usual, as the Germans suggest, with each country going its own way?

Or has the G7, as Beregovoy said, rediscovered a will to act together that will make the Garden City agreement as significant as the Group's 1985 Plaza deal to curb the high-flying dollar?

It is certainly about time the world economy did better after 18 months of recession or slow growth in many countries; and the growth package unveiled by the G7 is not as limp as some of its predecessors.

Japan has cut interest rates and pledged to boost government investment, and President Bush tomorrow will announce what the communique called "a comprehensive programme to strengthen growth and competitiveness."

JSE boss lists SA's priorities

BDay 29/1/92 (49)

WILLIAM GILFILLAN

THE housing shortage was one of the main economic challenges facing the country, incoming JSE president Roy Andersen said last night.

Addressing the SABC Diagonal Street banquet, Andersen said there was shortage of more than three-million houses — "but sadly in 1990 we built only 40 000 houses to meet this need".

"Some excellent initiatives have already been taken, but we need to do more. The UK experience has also proved that the mere provision of housing is not enough. The housing programme must be integrated with a project to create overall national wealth."

Opportunities in the country had to be equal. He said that although the desired manager/worker ratio was 1:25, the ratio in SA in 1988 was a 1:60 and expected to worsen.

"Education cannot provide the experience and judgment required of managers. This takes time and we therefore cannot delay in the advancement and training of more managers from all race groups."

He said that when SA's productivity figures were compared with those elsewhere in the world it became obvious that SA's productivity had to be improved. Over the past 15 years SA's productivity rose by 18% while wages soared by more than 500%. In Taiwan, by comparison, productivity increased by 112% and wages by 110% over the same period.

Andersen said exports were essential for the country's future success and so new projects such as the Columbus stainless steel plant were most welcome.

Referring to labour opportunities and job creation, he said SA's population was expected to jump to 60-million by the year 2010 while reliable estimates indicated that unemployment was already at about six-million.

SA's high tax rate was not only demotivating but also made it difficult for companies to be internationally competitive.

However "although the government has expressed its commitment to cutting the rate, this will be difficult to achieve with much needed social spending".

'Do not be scared of a future govt'

BDay 29/1/92

SHERIDAN CONNOLLY

THE business sector has a major role to play in assisting in the creation of medium-sized black business and should begin making in-house efforts to redress current inequalities, Rand Merchant Bank executive director Rudolf Gouws said yesterday.

Addressing the Johannesburg Junior Afrikaanse Sakekamer, Gouws said the business sector should be cautious but not scared of a new government in SA.

Socio-political stability would be a prerequisite for economic growth but there was now growing consensus that both policy targets were mutually interdependent, Gouws said. The ruling government in a "new SA" would need to achieve a suitable balance between the two targets. (49)

Commenting on economic policy issues in a "new SA", Gouws said it would be important for a new government to attract higher levels of foreign investment.

Gouws said to do this a new government would have to ensure internationally competitive after-tax returns in order to build investor confidence and attract foreign investors.

Govt heading for record deficit

STAR 29/1/92

By Sven Lünsche (49)

Excessive government spending and lower-than-expected revenue income could push the deficit before borrowing to its highest level of the past ten years.

In its quarterly Economic Monitor, Absa's economics department predicts a record deficit before borrowing of R13,7 billion for the current fiscal year — R3,6 billion ahead of the budgeted target, and equivalent to 4,5 percent of Gross Domestic Product (GDP).

The Government has set a long-term target of three percent of GDP, in line with the level recommended by the International Monetary Fund.

Difference

"The interesting difference is that this year's deficit is not only due to excessive expenditure, but also to the fact that government income is not living up to expectations," Absa says.

Even if a positive view is taking of VAT income, Absa expects an under-recovery of income of 2,8 percent, compared with the Budget, while expenditure could rise by 1,8 percent above the budgeted amount. "This leaves a deficit before borrowing of 35 percent over Budget, which makes great demands on the savings funds.

"Furthermore, it means that the dissaving of the central government could amount to more than R8 billion and it is thus hardly foreseeable that any significant tax relief should be expeted in the coming Budget," Absa says.

Inflation

The poor fiscal position is also of great concern for the inflation rate, "as the state is using inflation as a tax instrument to offset its growing Budget deficit".

"Therefore, unless government dissaving is eliminated and deficit financing is conducted in a non-inflationary way, severe inflationary pressures will remain in force from this source," Absa says.

The economists forecast an average inflation rate of 12 to 13 percent for 1992.

Absa expects the business cycle to show a slight upward trend in the first half of 1992 and a growth rate of about two percent for the year as a whole.

The economy will be largely driven by a continued rise in exports and a moderate restocking of inventories, although domestic expenditure will remain at a low level.

Curbs paying off, says Stals

BDay 29/1/92.

PRETORIA — Although a sustained drive to tame inflation appeared at face value to have had little effect, fears of a South American-style spiral had evaporated, Reserve Bank governor Chris Stals said.

But he said the latest data showing inflation rose to an annual 16,2% in December from 15,5% in November, was disappointing.

"Certainly we will continue with our restrictive monetary policy."

But, referring to unemployment estimated to be running at 40% of the formal workforce and socio-economic development needs, he said: "We cannot really use monetary policy to the extreme because of the hardship it would cause." (49)

He said monetary policy had become "relatively neutral", and portrayed it as a means now to contain inflation while the structural problems feeding it were addressed.

Greater attention should focus on factors such as wage negotiations, monopolistic practices and concentration of economic power, among others, he said. — Reuter.

Top brains gather for economic conference

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ZURICH — Leading businessmen and politicians from around the world will gather in Switzerland this week for a conference which is expected to be dominated by the global economy and developments in the former communist countries.

The 22nd annual meeting of the World Economic Forum in the Swiss ski resort of Davos will run from tomorrow to February 6.

Organisers expect a record 2 000 participants, including 250 political figures. Security will be tighter than usual.

Opening five days after the New York meeting of the Group of Seven rich industrial nations to promote economic growth, the forum will provide a useful arena for international policymakers to discuss how much real substance the G-7's pledges contained.

Among those present will be US Federal Reserve Governor Wayne Angell and German Bundesbank Deputy-Governor Hans Tietmeyer, as well as government ministers from those and other G-7 nations.

Angell will join German Economics Minister Juergen Moellemann, US Treasury Under-Secretary David Mulford and other policymakers in a public debate about the "Economic outlook and policy perspectives".

But the political and economic upheavals of Eastern Europe and the former Soviet republics will catch much of the limelight, with strong delegations expected from all the countries involved.

"The urgent need for Western aid to East Europe and the Commonwealth of Independent States will be high on the agenda, as will Asia's role in the new world order," said forum spokesman Barbara Erskine.

The presidents of Bulgaria, Czechoslovakia, Romania and several former Soviet republics, including Ukraine, Belarus, Latvia and Lithuania, have said they will come.

But Russian President Boris Yeltsin has dashed hopes that he will attend. He is off to the US for a Security Council summit and talks with President George Bush. — Reuter.

Maize Board to honour certain southern African supply

CP leaders 'choosing a path of armed struggle'

B/Day 29/1/92

CAPE TOWN — CP leaders gave the impression that they were deliberately choosing the path of armed struggle rather than negotiation, Piet Swanepoel (NP Nominated) said yesterday.

Speaking in debate on the President's address, he said the best thing the CP could do would be to come to Codesa to participate and put their case.

NP secretary-general Stoffel van der Merwe said the reasons given by the CP for not participating in Codesa were not valid. He said the principle of self-determination was recognised by the NP and would be by Codesa. The CP should not hide behind the Codesa's declaration of intent as a reason not to take part.

The CP had still not made it clear what it meant when it spoke of self-determination for the *volk*. Some members of the CP referred to whites, others referred exclusively to Afrikaners. The CP was also not prepared to map out a territory or area in which it wanted self determination.

But Cehill Pienaar (CP Heilbron) said the CP would act counter to its programme of principles and would damage its credibility if it took part in Codesa.

He said the CP could not simply erase three centuries of progress. Codesa's declaration of intent did not acknowledge the principle of self-determination for which so much blood had been spilled.

The NP reminded him of the spider that was eaten by its partner after mating. "After the NP has mated politically with the ANC, that partner will bite your head off," he said.

Pienaar also challenged President F W de Klerk to make one less trip overseas and visit the drought-stricken highveld farmers instead to see how their financial situation was deteriorating daily.

De Klerk had said SA could not become a food importing country, but with the drought it would in all probability have to do so.

"Inflation is still the farmer's biggest enemy, and if government does not take drastic action to protect the farmer one way or another we will indeed become a food importing country."

Reduce the tax burden, says chamber

GERALD REILLY

PRETORIA — The business community would believe government commitment to cutting state spending when they actually saw it happening, Johannesburg Chamber of Commerce and Industry president Mike Cato said in a statement yesterday.

Stressing the urgent need for action, Cato said President F W de Klerk had made it clear he excluded from the definition of effective action cosmetic conversion of state revenue sources from direct to indirect taxation. B/Day 29/1/92

Political rhetoric had been the background to continued inflation, increasing state spending, rising budget deficits and an accelerating sluggish economy.

Increasing the tax burden as a quick fix directly or indirectly would be economically and politically foolish and would drive big and small business to the wall, he warned. (49)

Cato said there was a desperate need for stimulating business growth.

Never before had the timing been so right for an economic recovery. "The coming Budget must reduce the tax burden. This can only be done by reducing the demands of the state on the fiscus."

Any increase in the VAT rate, in particular, was absolutely unacceptable to business in Johannesburg in particular and SA in general.

SA could lead the whole southern African trading area into an era of growth and development if given the opportunity.

Development Aid to be dismantled

B/Day 29/1/92

CAPE TOWN — The Cabinet had decided to dismantle the Development Aid Department by March 31 in a move towards more equitable government services, Regional and Land Affairs Minister Jacob de Villiers said yesterday.

The Cabinet also had decided on January 22 to dismantle the SA Development Trust with effect from April 1, he said.

The Act which established the trust had been repealed by the Abolition of Racially Based Land Measures Act of 1991.

The Act provided for the trust to be phased out, as well as providing that the President could repeal the remaining sections of the 1936 Trust and Land Act, which were retained for transitional purposes.

"Government is committed to rationalisation of the civil service with the view to the improved rendering of services and savings, where possible. Apart from this, the implementation of new policies since September 6 1989 also brought about the need for existing institutions to be investigated with the view to adaption, restructuring and reform to allow equitable government services, without discrimination on the basis of race or colour."

Against this background, the role and place of the Development Aid Department in the government system was again thoroughly reviewed. 29/1/92

Investigations and recommendations by the commission of administration since 1984 had also been taken into account.

Staff would be transferred to other departments. — Sapa.

Rugby to round off talks

IAN HOBBS

LONDON — President F W de Klerk and Prime Minister John Major are expected to round off talks in London on Saturday by watching England play Ireland in the Five Nations rugby match at Twickenham.

Political sources said that subject to time, security matters and protocol being satisfied — meaning no note of disapproval from the Dublin government — the afternoon at Twickenham is on.

BUSINESS

Little relief seen for consumer this year

STAR 30/1/92

By Sven Lünsche (49)

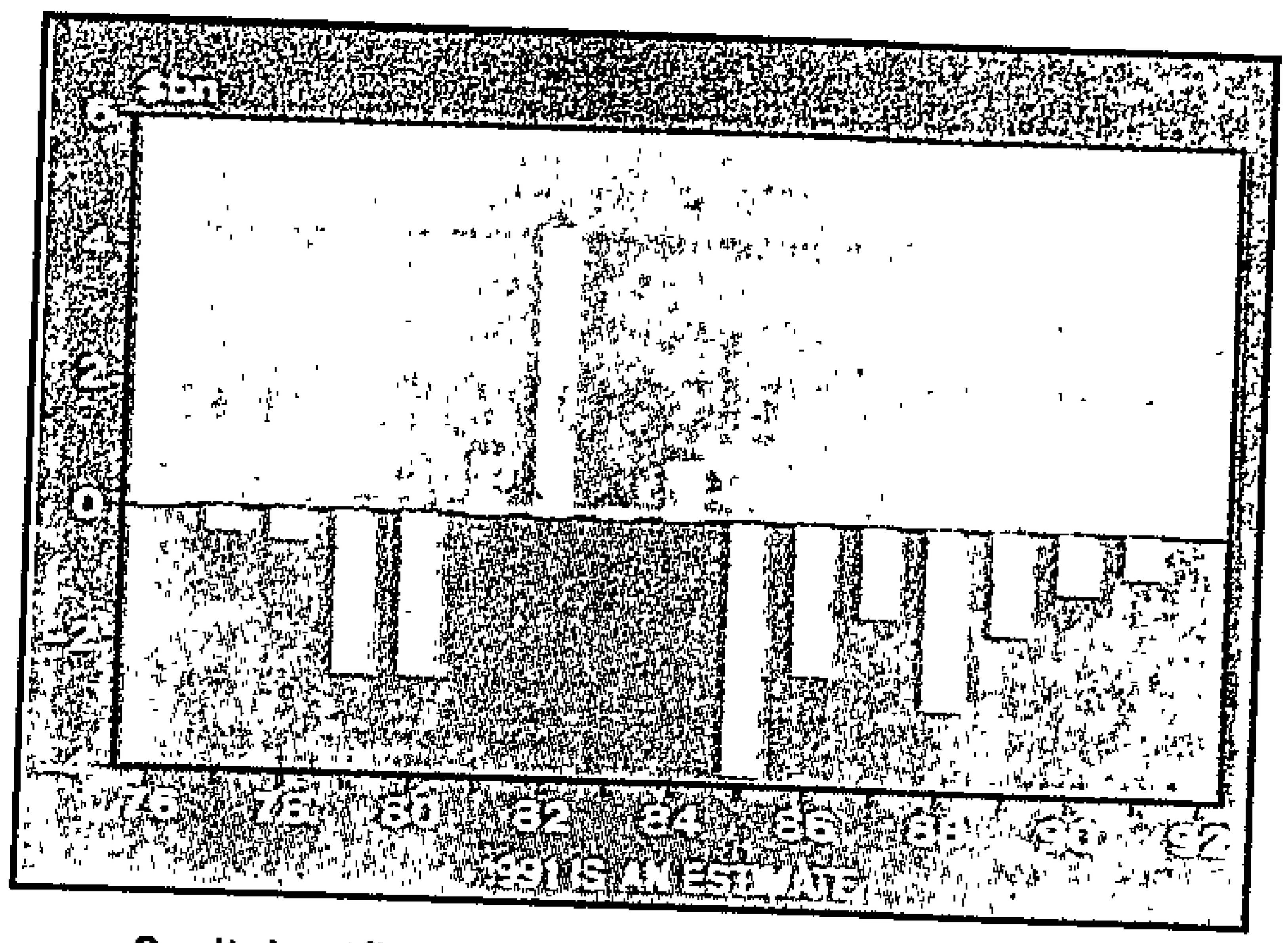
The downswing in the economy seems to have intensified in the second half of last year, Old Mutual economist Dave Mohr said yesterday.

Presenting the life office's latest Economic Monitor Mr Mohr said that the consumer may remain under pressure into late 1992 or even early 1993.

The most significant indicator of the continued recession is the decline in final domestic demand during the second half.

This indicator combines private consumption expenditure, fixed investment and government consumption expenditure, all of which showed sharp falls in the second and third quarter of last year.

"There are also preliminary indication that this trend intensified in the fourth quarter," Mr Mohr says.



Capital outflow slowing down. *Source Old Mutual*

Major factors

He adds that the slower rate of decline in the Gross Domestic Product over the period was largely attributable to the improved performance by the country's exporters.

"The latest indicators would seem to suggest that the recovery may be delayed somewhat longer and could be even weaker than previously expected."

Mr Mohr says his views are based on three major factors:

- A slower than expected recovery in the economies of SA's major trading partners resulting in a small decline in foreign demand for local goods.
- The long-awaited relaxation of monetary policy has been postponed into 1992 and will in all probability be of a moderate nature compared to previous economic cycles.
- Given the consistent upward pressure on government spending and tax revenues any tax relief in the forthcoming Budget will probably be very moderate.

"Thus, although the overall economic policy stance is expected to become gradually easier during the course of the year, it is unlikely to provide any strong stimulus to domestic economic conditions," Mr Mohr says.

Employment

Particularly hard hit will be the consumer, he says, arguing that disposable income of consumers had been hard hit last year by slowing renumeration and a sharp decline in employment levels.

"Aggregate personal income growth is unlikely to accelerate meaningfully until such time as corporate profits begin to recover and employment levels stabilise, which is unlikely to occur before the second half of this year."

Mr Mohr adds though that some improvement in fixed investment, a lower level of inventory destocking as well as a better position of SA's external accounts could see GDP growth in 1992 average between one to two percent this year.

The one bright spot for the economy over the past year has been the strong recovery of the country's exports, he says.

"This is a major factor behind the healthy current account surplus, which should be close to R7 billion for 1991 as a whole.

"It also implies a lessened dependence on commodities, which would strenghten South Africa's international trade dependence."

Mr Mohr was also encouraged by the slowing down of capital outflows from SA in 1991.

Capital outflow

"Outflows for the first nine months of the year amounted to less that R1,9 billion, compared with a total outflow of R2,9 billion recorded in 1990, which has reduced the pressure on the capital account significantly."

He says the major reason for the reduced outflows was SA's improved standing in the international community, enabling it to roll over maturing foreign debt.

STAR 30/1/92

Reassure investors, ANC urged

By Carina le Grange

South Africa would be a good country for future investment — but it was up to the ANC to reassure potential investors that their money would be safe, said British Cabinet Minister Lynda Chalker in Johannesburg yesterday.

Mrs Chalker said she knew British investors would be welcomed in South Africa by all the major political game players, but that they were still unsure.

"Nothing throws off investment as much as violence. It is what is preventing South Africa becoming an engine for growth," she said.

The Minister of State for Foreign and Commonwealth Affairs and for Overseas Development spoke at a press conference at Jan Smuts Airport at the end of a two-day visit.

She said it was unfortunate that the outside world could not enjoy the benefit of seeing and hearing what she saw and heard during her visit. "What they see are snippets of violence — not what I'm saying here today."

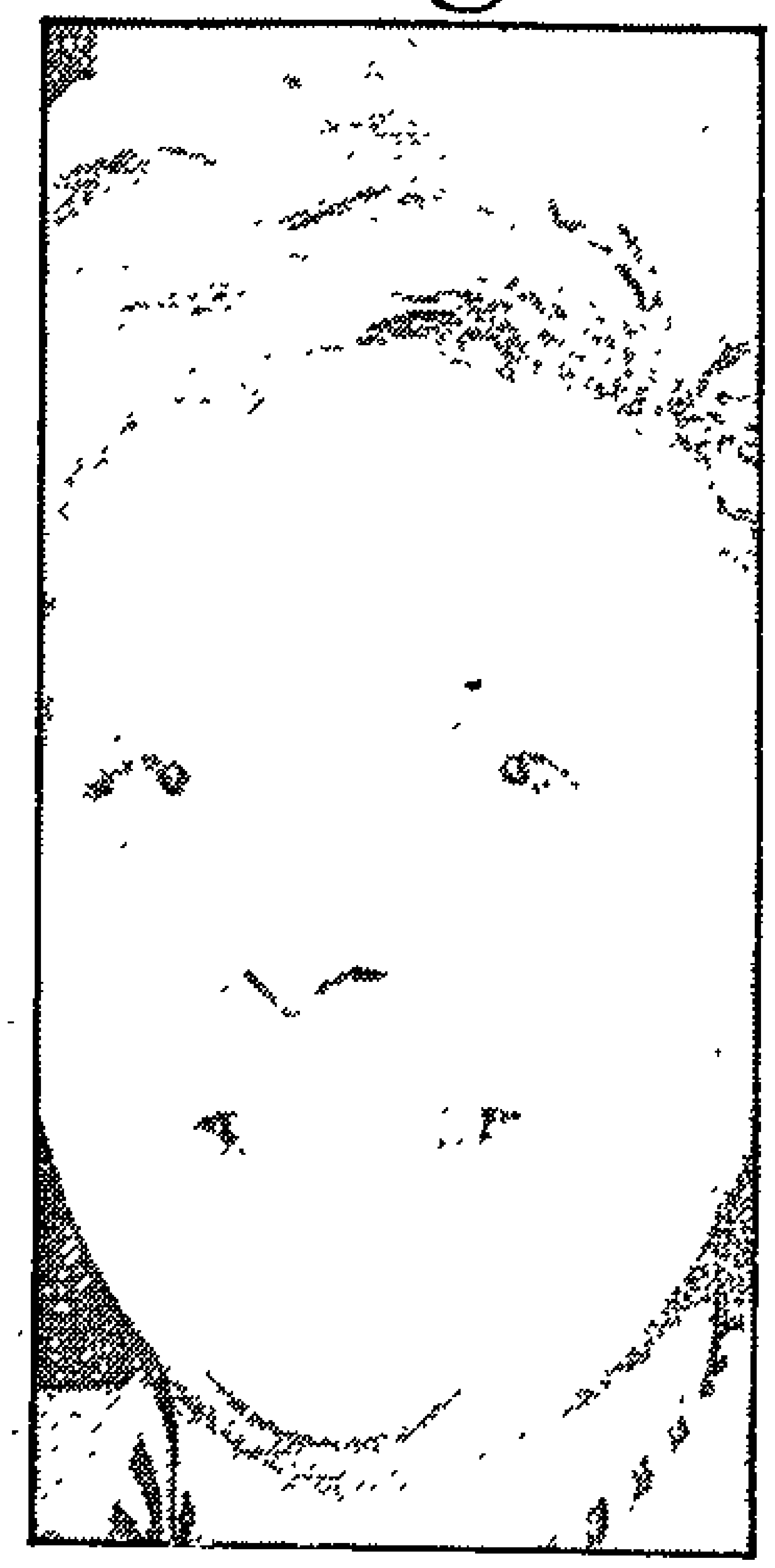
Mrs Chalker met a range of political leaders, including President de Klerk, ANC president Nelson Mandela, IFP leader chief Mangosuthu Buthelezi and PAC representatives.

She said her priorities had been to offer support for Codesa, to discuss the need for economic growth, and to assess the process of transition to a democratic South Africa.

South Africa needed jobs and investment. International capital was a necessity, but it was in short supply, with many other countries, including those in eastern Europe, clamouring for it.

She said she awaited with interest the ANC's economic policy statement expected in April. For the time being, she was heartened by having seen the "dawning of realism" in this regard.

She said she still held the view, expressed earlier, that Mr Mandela "in his heart of hearts" knew that remaining sanctions had to be lifted.



Lynda Chalker . . . "nothing throws off investment as much as violence".

Bank fears money printing route

LINDA ENSOR

CAPE TOWN — The Reserve Bank's biggest fear of a new government was that it would resort to printing money to satisfy the aspirations of the people, Reserve Bank Deputy Governor Jaap Meijer said at a media briefing yesterday.

"Unfortunately the world is full of unhappy examples of societies in turmoil which are unable to collect the right amount of taxes but which have to go on spending and resort to the printing process. We are fully aware of the risk and hope to do our best by maintaining as far as we can a truly independent stature for the central bank."

Meijer said SA's foreign debt of about $6bn represented about 70% of exports and about 18-19% of GDP with the interest to service the debt representing about 7% of exports. The debt should drop to about $5bn in 1993 when negotiations with SA's creditor banks in terms of the debt standstill were due.

He said an optimistic scenario would see the negotiations taking on a different character. One option mooted was that SA would pay back the full $5bn only to take it back from creditor banks on a voluntary basis which would mean the reserve requirements fell away. Alternatively, a package deal could be negotiated in which some of the debt was repaid immediately, some in five years and the rest in 10 years.

While the Reserve Bank would "dearly like" to do away with the two-tier currency, this was not possible as it formed part of the debt standstill. 549

Meijer said Reserve Bank governor Chris Stals had mooted the possibility of buying up finrands to work down the excessive levels of dollars which were sometimes held. This would ease the task of controlling the money market shortage. Further discussions, however, were necessary with creditor banks who might object to this use of dollars instead of them being used to accelerate repayment of the money owed them.

He said the impact of violence on foreign investment in SA was considerable.

Keys: Fixed investment crucial to SA growth

CT 30/1/92

(49)

Political Staff

FINDING ways to get the private sector to venture more on fixed investments was an issue of crucial importance for economic growth and one he was prepared to become obsessed by, Economic Co-ordination Minister Derek Keys told a rapt Parliament in his maiden speech.

"It could not unfairly be described as the question which brought me to this place."

Speaking with a bold confidence that might have belied the nervousness he said he was feeling, he said growth meant confronting challenges and momentous decisions, overcoming them and moving on.

"The equivalent of these decisive moments of growth in our own lives is in the economic sphere, the fixed investment decisions of business, and particularly those relating to increased capacity . . . to new lines of business," he said.

SA needed to ask itself why it was finding it so difficult to achieve growth in the economic sphere.

In answering this question it did not help to trot out the "usual list of external factors — like the oil crisis and the Gulf War — for the umpteenth time," he said.

Other countries that have had satisfactory growth were also dependent on these factors, and found ways to overcome them.

He said there was one common factor than ran through countries that achieved successful superior economic growth — Sweden in the 30's, Germany and Japan postwar, Korea in the 60's. The factor was "The golden triangle" — business, labour and the State joined in a consensus carefully and consciously aimed at economic growth.

"This is very much on my mind and I am watching every attempt to develop areas of business/labour consensus with the keenest interest," he said.

He said the decisions for new business investment for the longer term, which were of cardinal importance, were not taken in Parliament. Nor were they taken in cabinet minister's offices or those of their officials.

"These decisions, the growth-determining decisions, are taken in firms, big and small, throughout the country in the light of their projections and expectations, their visions of opportunity the future holds for them," Keys said.

"But we need more. How do we get private sector firms to decide to venture more fixed investment?"

The root of the problem was investor confidence.

As a country SA had reached a point where in the background of a lukewarm world economy it had to enter two new investment fields where the risks and rewards equation for the private sector were less encouraging that what it was accustomed to.

The first was the export market for manufactured goods and their intermediate products; the second the socio-economic field domestically.

Compared to the domestic market the export market was a jungle. There was plenty for South Africans to learn, he said.

In the socio-economic area a satisfactory mechanism for fully enlisting private sector participation had to be found.

The answer was simple. Confidence. The State had to express its confidence and live it out in a calm and planned way to achieve the highest longterm economic goals.

The entrepreneur had to be able to rely on the State.

Bishops' letter urges indaba on economy

STAR 30/1/92

(49)

By Carina le Grange

The South African Catholic Bishops Conference (SACBC) yesterday proposed the formation of a Codesa-like consultation to develop a new "sound economic policy".

The proposal was made in a pastoral letter, "A Call to Build a New South Africa", which appeals to the Catholic community to take part in and work for the establishment of a democratic society.

Thrash out

The SACBC suggested that the Government, the business community, trade unions, and the development and small business sectors attend the consultation to "thrash out a new economic system — what we have now doesn't work".

The pastoral letter was released at a press conference in Pretoria following the closure of the annual plenary session.

It will be read in all Catholic churches during Lent (which begins on Ash Wednesday (March 11)

The letter stressed the need for a new democratic order saying that democracy on its own could not solve all the country's problems.

"We also need economic justice, a fair distribution of the wealth of the country among all its people.

"We have a society in which there is a sinful difference between the very rich and the very poor.

"Less than 5 percent of the population own 88 percent of the personal wealth of the country.

About 6 million people — between 25 percent and 40 percent of those able and willing to work — are unemployed and only 12 percent of school-leavers are likely to find jobs.

"One million people are homeless and 7 million live in squatter camps," the SACBC said.

Archbishop Denis Hurley said people would say the church had tackled political issues in the letter — but the church believed politics depended on moral standards.

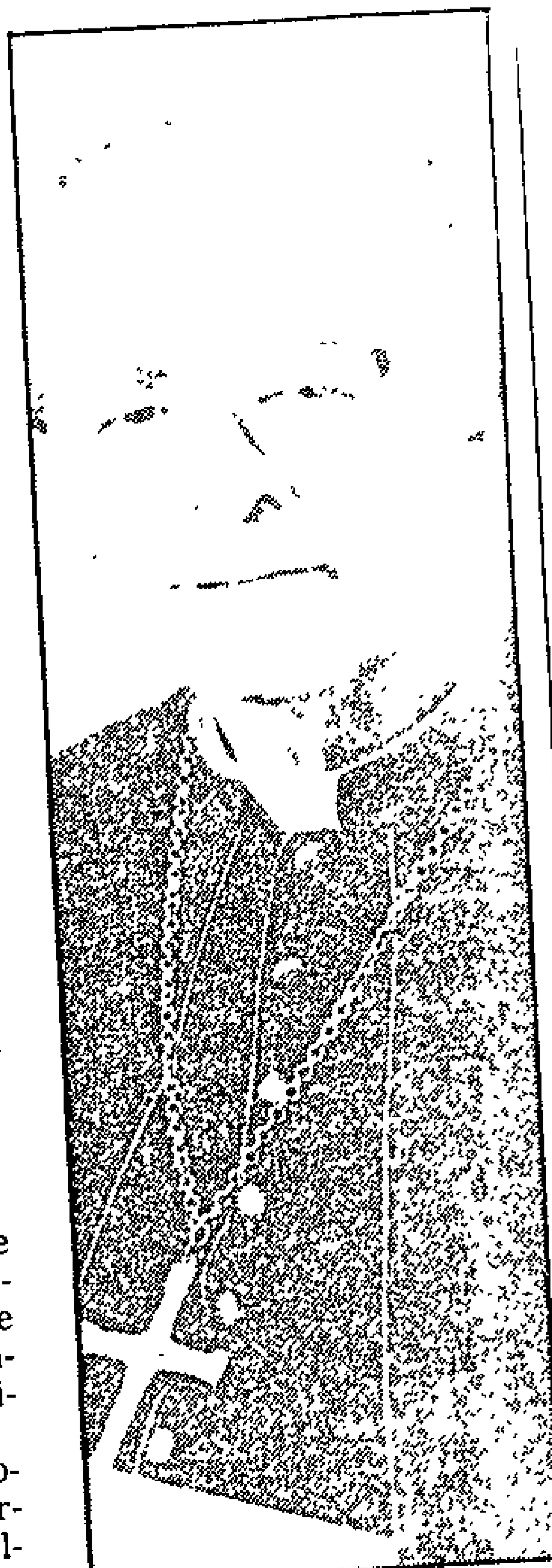
"Transformation can only succeed if certain moral standards are supported and maintained," he added.

Intended to be the basis of discussion, the pastoral letter also expressed thanks for the National Peace Accord adopted in September and the formation of Codesa.

Tolerance

It further emphasised the need for democracy and tolerance and proposed a code of conduct with regard to politics for Christian communities.

● Statistics quoted were provided by Stellenbosch University, Professor Francis Wilson of the University of Cape Town, the South African Institute of Race Relations and the Land Committee.



Archbishop Denis Hurley . . . politics depends on moral standards.

Delay tabling of Budget, DP's Andrew suggests

STAR 30/1/92

By Esther Waugh
Political Reporter

49

CAPE TOWN — The tabling of the Budget should be postponed and it should be negotiated at Codesa and the newly established multiparty economic forum, DP finance spokesman Ken Andrew said yesterday.

Speaking in the debate on the State President's opening address, Mr Andrew said the Budget should be removed from "the centre of divisive controversy" and that there was no time to wait a year or more for an interim government.

"The Government should then, via Codesa and the economic forum, ask for suggestions about a suitable process for inputs to be made," he said.

Mr Andrew said prerequisites for economic growth were economic and social accords that enhanced stability and encouraged investor confidence.

The country could not afford another year of poor economic performance during which the economy remained "the battleground of major party-political power struggles", he said.

Mr Andrew added: "Either through Codesa or an economic forum, or a combination of both, we must aim to achieve a national social and economic accord as soon as possible."

Mr Andrew appealed to the NP to encourage and provide for genuine participation in economic and social policy decision-making without delay

The Budget is to be tabled on March 18. Asking for a postponement, Mr Andrew said it could be done without creating insuperable difficulties.

"We would have to have a larger than usual Part Appropriation, such as was the case in the election years of 1981 and 1987, and the main Budget in July and August," he said

STAR 30/1/92 (49)

No cheer from Reserve Bank

CAPE TOWN — This should be a better year for the economy than 1991, but there would probably be no drop in interest rates, said the Deputy-Governor of the Reserve Bank, Dr J Meijer, at a press briefing last night. However, he predicted a drop in the inflation rate.

Defending the Reserve Bank's policy of using high interest rates to bring down the inflation rate, Dr Meijer said if the Bank had not acted they way it had, the inflation rate "would have got totally out of hand".

"We don't feel ourselves open to make harsh attacks on interest rates. If we do see an improvement (in inflation), we should drop the interest rates. But our room for manoeuvre is very limited."

He said it was impossible to predict when interest rates would drop.

He also did not foresee an end to the two-tiered currency system, as it had been justified by the debt standstill.

"It does invite criminal attempts to bypass the system, and we would like to see it go. But we are not putting dates on anything.

"However well things go in South Africa, it is a country with many uncertainties and a country that sometimes reacts violently."

Violence had had a considerable impact on the economy, even though there had been positive feelings from other countries towards South Africa.

"There is great willingness to give us the benefit of the doubt, but they are saying we are going to have hang back until the political process has been worked out."

He said the Reserve Bank's big fear was that any future government would be tempted to "go over the rails" with spending, citing the Soviet Union as an example.

"We are fully aware of the risks and hope to be able to maintain our independent stature."

The Budget had become the victim of political developments. "We find this extremely hard to come to terms with. Like the State President, we are informed of government expenditure just about when it is too late."

● Reserve Bank governor Dr Chris Stals said today that while he welcomed the reduction in the bond rates announced by banks, this was no reason why the bank rate should be reduced.

The move was a good reflection on competition in the banking industry and an excellent indication of the underlying stability of the money markets.

But the bank rate was not linked to bond rates. — Sapa.

Government urged to (49) hold Budget

MICHAEL MORRIS
Political Correspondent

THE government has been urged to postpone the Budget this year to allow for consultations outside parliament on spending priorities in an effort to create a unity of purpose in the economic sphere.

The Democratic Party argued this would be "an imaginative gesture in a critical area that needs urgent attention".

In a second challenge yesterday, the DP also called on the ANC to suspend its campaign for sanctions.

The appeals were made in parliament yesterday by DP MP for Gardens Mr Ken Andrew. ARG 30/1/92

Investment 'the greatest challenge' for Keys (49)

ARG 30/1/92

Political Staff

THE new Minister of Trade and Industry and Economic Co-ordination, Mr Derek Keys, said in his maiden speech to parliament that his greatest challenge was to give the private sector the confidence to invest in the economy.

Speaking in the debate on the State President's vote yesterday, former Gencor chief Mr Keys — widely regarded as an economic whizzkid — gave the first inkling of his basic approach to his new job and why he had taken it.

"How do we get more private sector firms to decide to venture on more fixed investments?" he asked.

Mr Keys said there was a "veritable arsenal" of government actions that could be taken to promote investment.

In a luke-warm world economy, South Africa now had to enter two important new investment fields where the risk/profit relationship for the private sector was less promising than before.

The first was the export market for manufactured goods and intermediate products and the second was the socio-economic field internally.

Government

DP call: Postpone the Budget

(49) LT 30/1/92

Political Staff

DEMOCRATIC PARTY finance spokesman Mr Ken Andrew yesterday called on President F W de Klerk and Finance Minister Mr Barend du Plessis to postpone the Budget and allow consultation in an economic forum and Codesa.

"The objective would be to reach as much agreement as possible on macro-economic issues and spending priorities," he said.

Mr Du Plessis also faced a call from the deputy-governor of the Reserve Bank, Dr J Meijer, for him to admit he had a "severe dilemma" in his handling of the economy.

Dr Meijer said the minister could not hope on the one hand to make the country redistributive and on the other to implement tax restructuring. "He can't do both at the same time to the extent that they should be done. He should admit as much and should spell out where he is going to find a middle course."

Dr Meijer said he believed the interest rate might be reduced during 1992. However, he said this would have to be linked to a significant and sustained drop in the inflation rate.

If this happened he thought Reserve Bank governor Dr Chris Stals "will see his way clear for a relaxation of monetary policy".

Keys launches his quest for growth

BILLY PADDOCK (49)

CAPE TOWN — Finding ways to get more private sector firms to venture on more fixed investments was of crucial importance for economic growth and an issue he was prepared to become obsessed by, Economic Co-ordination Minister Derek Keys told a hushed Parliament in his maiden speech. B'Day 30/11/92

"It could not unfairly be described as the question which brought me to this place."

Speaking with a confidence that might have belied the nervousness he claimed to be feeling, he said growth as individuals meant confronting challenges and momentous decisions, overcoming them and moving on to the next stage of growth.

"The equivalent of these decisive moments of growth in our own lives is in the economic sphere, the fixed investment decisions of business, and particularly those relating to increased capacity ... to new lines of business," he said.

SA needed to ask itself why it was finding it so difficult to achieve growth in the economic sphere. It did not help to trot out the "usual list of external factors like the oil crisis and the Gulf war for the umpteenth time". Other countries with satisfactory growth had found ways to overcome such factors.

One common factor ran through countries that achieved successful superior economic growth — Sweden in the '30s, postwar Germany and Japan, and Korea in

☐ To Page 2

Keys

B'Day 30/11/92

(49)

☐ From Page 1

the '60s. The factor was "the golden triangle": business, labour and the state joined in a consensus aimed at economic growth.

"This is very much on my mind and I am watching every attempt to develop areas of business/labour consensus with the keenest interest," he said.

He said the decisive decisions of new business investment for the longer term were not taken in Parliament, nor in Cabinet Ministers' offices.

"These decisions, the growth-determining decisions, are taken in firms, big and small, throughout the country in the light of their projections and expectations, their visions of opportunity the future holds."

Their record had not been bad in spite of some of the investment going in the wrong places. They had also not stopped investing. "But we need more. We need more. How do we get private sector firms to decide to venture more on fixed investment?" he asked.

He preferred to reach the root of the problem than tinker with remedies for symptoms. The root of the problem was investor confidence. "As a country we have reached a point where in the background of a lukewarm world economy we have to enter two new investment fields where the risks and rewards equation for the private sector is less encouraging than it is used to."

The first was the export market for manufactured goods and their intermediate products, the second the socio-economic field domestically.

Compared with the domestic market, the export market was a jungle where "every man's hand is against you and he's backed by his government at every turn". There was plenty for South Africans to learn, he said.

In the socio-economic area a satisfactory mechanism for fully enlisting private sector participation had to be found.

The answer was simple — confidence. The state had to express its confidence and live it out in a calm and planned way to achieve the highest long-term economic goals.

The entrepreneur had to be able to rely on the state.

Barend faces choice over tax, social spending

BDay 30/1/92

(49) **LINDA ENSOR**

CAPE TOWN — Finance Minister Barend du Plessis should clarify what course he intended following as he could not make SA a redistributive country and implement recommendations on tax restructuring at the same time, Deputy Reserve Bank Governor Jaap Meijer said at a parliamentary news briefing yesterday.

"He cannot do both at the same time to the extent that they should be done and he should admit as much and spell out to us where he is going to find his middle course. He should admit the severe dilemma he finds himself in," Meijer said.

Government was finding it difficult to reconcile its attempts to increase social expenditure with its planned tax reforms.

"Like the State President I would imagine the Reserve Bank is informed about the course government expenditure is taking when it is just about too late," Meijer said. The Bank was presented by Treasury with an absolute minimum figure of expenditure for the forthcoming year and was asked only what it proposed to do about it with regard to the deficit and taxation.

"It is very hard to start cutting back on state expenditures by departments when the figures have already been published."

Meijer disclosed that there had been substantial outflows of all capital (unrelated to reserves) in the fourth quarter of last year owing to technical reasons, though the capital account for 1991 had improved over 1990. The outflow for the first three quarters was only about R1,4bn.

No breakdown of the capital account for the last quarter of 1991 was available yet but it had been tentatively suggested by Reserve Bank officials that the substantial outflows were due to the abolition by the Reserve Bank of the preferential terms on much of the forward cover and forward exchange reductions.

The Reserve Bank estimates an economic growth rate of minus 0,5% for 1991.

He said the slowdown in output had been remarkably mild. Until the third quarter total SA output in real terms was less than 1% lower than at the start of the recession in first quarter of 1989. The contraction in domestic expenditure had been larger —

☐ To Page 2

Barend

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(49)

☐ From Page 1

slightly more than 5% — starting in the first quarter of 1989 up to the third quarter of 1991 The discrepancy between these two rates of contraction had been responsible for surpluses on the current account.

Meijer said the soft figures for household consumption expenditure for the fourth quarter suggested a further acceleration in the rate of contraction

"It is sad that after holding up so well expenditure seems to have turned into a cumulative downward spiral of the typical recession type," Meijer said.

Impressive achievements had been made with building up current account surpluses on the balance of payments over the past 28 quarters. The current account surplus built up over 1991 from about R1,5bn in the first quarter to an unofficial figure of over R11bn in the last quarter to give an estimated surplus for the year of roughly R7bn.

Regarding the gold and forex reserves, Meijer said there was a decline in December but the entire banking system was heading for reserves of about R10bn towards the end of 1991 January had also been good Although the strengthening of the reserves might have justified an upward movement of the rand, it was Bank policy not to allow this to happen.

There was a 5,5% drop in the nominal effective exchange rate during the first 10 months of 1991 against the basket of currencies of SA's major trading partners. There was a further drop in the fourth quarter and a level pegging in January. The 5,5% decline was slightly larger than the inflation differential between SA and its major trading partners, which meant there had been a marginal decline in the the real effective exchange rate.

Preliminary figures suggested a growth of 14,4% in M3 money supply figures last year, which was outside the guidelines of 8%-12% Meijer believed that the changes to the Deposit-Taking Institutions Act had had the effect of causing a lot of non-money to become money. If this was allowed for, then money supply had been within or below the lower limits of the guidelines since February 1991.

The Bank wanted the budget deficit to be maintained at the IMF standard of about 3% of GDP. However, as the Bank believed the economy was "in greater recess than it needs to be", a mild relaxation in fiscal policy would not be opposed.

● See Page 3

Warning on govt deficit

49

SHERIDAN CONNOLLY

EXCESSIVE government expenditure and an under-recovery of income could result in a record R13,7bn budget deficit for the 1991/92 fiscal year, Absa warned in its latest quarterly economic monitor.

The group's economics department said a budget deficit amounting to 4,5% of gross domestic product for the year would be one of the largest deficits of the past decade. Such a deficit would make great demands on the country's savings fund and would result in further crowding out of the private sector.

It said central government was not "living within its means" and this had several negative influences on the economy. Sharp increases in current government expenditure had effectively reduced capital expenditure and had led to higher levels of direct and indirect taxation.

Moreover, a possible R8bn dissaving by central government would limit the likelihood of any significant tax relief in the coming Budget. 30/1/92

The article said there were indications the inflation rate could decline in the coming year.

'Let's give investors confidence in SA'

STAR 30/1/92.

49

By Peter Fabricius
Political Correspondent

New Minister of Trade and Industry and Economic Co-ordination Derek Keys said in his maiden speech in Parliament yesterday that his greatest challenge was to give the private sector the confidence to invest in the economy.

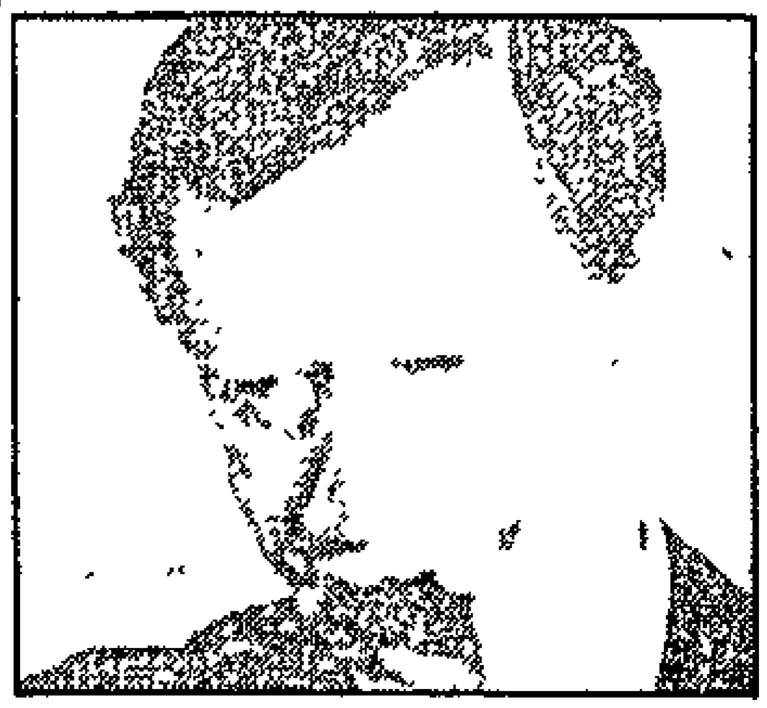
Speaking in the debate on the State President's vote, former Gencor chief Mr Keys gave the first inkling of his basic approach to his new job.

"How do we get more private-sector firms to decide to venture on more fixed investments?" he asked.

"It's the question that I'm prepared to become obsessed by. It could not unfairly be described as the question that brought me to this place."

He said that before an entrepreneur decided to invest, he had to reach a certain level of security.

In a luke-warm world economy, South Africa now had to enter two important new investment fields where the risk/profit relationship for the private sector was less promising than before.



Maiden speech . . . new Minister Derek Keys.

The first was the export market for manufactured and intermediate products and the second was the socio-economic field internally.

The export market was a "jungle" and SA still had plenty to learn about this area. In the socio-economic area, SA had not developed a satisfactory mechanism to fully enlist private-sector participation.

To achieve the necessary security level for entrepreneurs to enter these fields, confidence had to be inspired. The State had a crucial role in this.

Mr Keys said that because he had been talking about entrepreneurs, this did not mean he underrated the critical importance of labour's contribution to growth.

In all examples of superior economic growth, such as Germany, Japan and Korea, there was one common factor — "the Golden Triangle (Business, Labour and the State) joined in a consensus carefully and consciously aimed at economic growth".

Mr Keys said he wanted to become the "confidence-channel" to the business world, but the source of this confidence had to be Parliament.

Du Plessis under fire

CITY/NATIONAL

49

30/1/92

Finance Minister 'can't achieve goals'

Political Staff

THE deputy governor of the SA Reserve Bank has called upon Finance Minister Barend du Plessis to "come clean" and admit that he cannot fully achieve his goals of redistributing wealth and imposing tax discipline.

Asked if he had any criticism of the way the government was handling the economy, Dr D J Meijer said at a press briefing in Johannesburg that Mr Du Plessis should admit that he had a "severe dilemma."

He said it was impossible fully to redistribute resources while imposing the necessary tax discipline

Mr Du Plessis should admit that these goals were to a degree mutually exclusive and tell the country what middle course he intended to follow.

Dr Meijer also suggested that interest rates could come down this year. He said he thought that the economy would improve in 1992 and show a real growth rate — of about 1,5 percent — and that Reserve Bank Governor Mr Chris Stals "will see his way clear to relaxing monetary policy".

But Dr Meijer stressed that interest rates could only drop if there were a visible sustained improvement in the inflation rate.

It was necessary to maintain a positive real interest rate and there was little room for manouevre at the moment because this rate was only 0,8 percent.

But there were encouraging signs that the underlying causes of inflation were being dealt with, including the significant drop in the Producer Price Index (PPI) in November last year.

Hoiwever the continued high Consumer Price Index was "extremely disappointing" and the Reserve Bank could not explain why it was not coming down when the PPI was dropping.

Reviewing the economy, Dr Meijer said the good news was slightly better, but the bad news was worse.

The good news was that the current account of the balance of payments had now shown a surplus for an unprecedented 28 consecutive quarters and this surplus was up to about R7 billion for the year 1991.

The capital account of the balance of payments was also higher last year than in 1990.

Gold and foreign exchange reserves were heading for the R10 billion mark and the rand exchange rate was stabilising.

The bad news was that the real economy had performed poorly in 1991 with an estimated negative growth rate of 0,5 percent.

Although a soft touchdown had been forecast for the economy, the economy was experiencing a "bumpy run out" after landing, displaying typical features of a recession.

Budget not Codesa's business, says Barend

STAR 31/1/92.

Political Reporter (49)

CAPE TOWN — Finance Minister Barend du Plessis yesterday rejected a call by the Democratic Party for the Budget to be negotiated at Codesa and the newly established multiparty Economic Forum.

DP spokesman on finance Ken Andrew called in Parliament on Wednesday for the Budget to be "removed from the centre of divisive controversy".

Speaking in the debate on the State President's opening speech yesterday, Mr du Plessis said "I believe there is no way any forum will be able to improve on the success, or lack of success, this Parliament has had in all its history with solving the Budget."

Mr du Plessis, however, added that discussions could take place about macro policies

Devaluation the key to export-led economic growth

B/Day 31/1/92 **EWALD WESSELS** 49

A SENSE of gloom has recently pervaded SA's economic debate. Yet there is no reason to succumb to despair. South Africans are in the habit of undervaluing themselves by believing that good ideas which have been successful elsewhere would not work here. Perhaps that is why the economic policies gaining the greatest credence abroad have not yet been examined seriously in the SA media.

The three-pronged strategy of devaluation while simultaneously liberalising trade and controlling inflation through the interest rate mechanism first adopted by Taiwan in 1958 was so convincingly vindicated in the decades which followed that this development strategy is now rapidly replacing the old economic orthodoxy. On the advice of Harvard University economics professor Jeffrey Sachs, Poland took this route to economic development on January 1 1990 and, inspired by Poland's success, the Russian Federation has followed suit.

Why should SA cling to policies labelled by Sachs as "the discarded structuralist doctrines once so ruinously applied to Latin America: that devaluation does not promote exports but only raises the prices of imported inputs; that trade liberalisation wipes out manufacturing jobs; and that protectionism should be pulled back only slowly"?

Perhaps part of the answer is to be found in the fact that the effects of devaluation, trade liberalisation and real interest rates have been looked at in isolation from one another.

The harmful effects of tariff protection have been highlighted by the IDC. But the removal of tariffs without a compensatory devaluation would be disastrous for manufacturers, so industry has opposed it.

When devaluation is suggested, the usual objection is that devaluation is inflationary. However, inflation will follow devaluation only if there is a failure to control the money supply. This is where the interest rate mechanism is relevant.

The compensating price-decreasing effect of a simultaneous removal of tariff barriers would in any case minimise inflationary pressure if the package of devaluation, tariff reduction and appropriate interest rates is carefully constructed and managed.

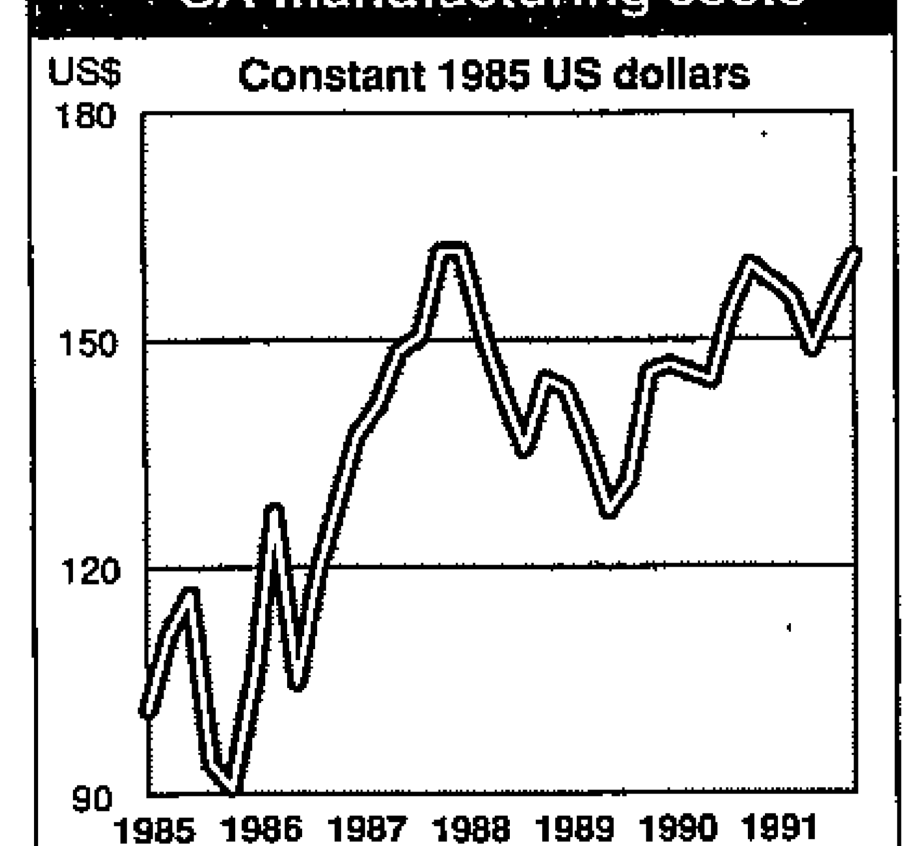
There is much confusion surrounding the notion of a "correct" exchange rate. There have been reports that the rand is undervalued by as much as 20%. In contrast, Harvard Business School professor Bruce Scott stated recently, in a presentation given as part of the Nedbank/Old Mutual scenario analysis, that the rand is substantially overvalued. The reason for the discrepancy is simply that the former view, which can be traced to the SA Reserve Bank, uses 1979 as a standard of comparison whereas Scott uses a functional standard — he compares the current value of the rand with that value required to stimulate a satisfactory growth rate.

The Reserve Bank and many private sector economists use the so-called "purchasing power parity" method for making comparisons. All these calculations use a "basket" of currencies weighted according to SA's foreign trade, whereas the competitiveness of SA products is actually determined by trade in the world market as a whole. There is, in any event, no unanimity on how to construct an appropriate basket. None of the purchasing power parity calculations correctly reflects the effect of the exchange rate on SA's international competitiveness.

A picture of what has been happening in the economy can be obtained by looking at the dollar cost of manufacturing. The US dollar is the most convenient unit for comparisons since it dominates world trade; 70% of SA's exports and 60% of imports are dollar-denominated.

If the ruling world price for widgets was $120 in January 1985 and an SA entrepreneur could produce them for $100, he would have been in business. He would have had to cope with all the defensive tactics of his competitors, including predatory price decreases, but provided the manufacturing cost of international competitors was no lower than $100, our entrepreneur would have been entitled to expect to survive.

SA manufacturing costs



Graphic FIONA KRISCH Source STANDARD BANK

Widgets being a product not prevously made in SA, he would have enjoyed no tariff protection in the domestic market even though he bore the cost of tariff protection of his inputs. But, allowing for the vagaries of government policy, he would have been able to count on export incentives to help him become established in foreign markets.

Allowing purely for SA inflation and the rand/dollar exchange rate, his manufacturing cost would subsequently have changed, as shown in the graph. The manufacturing cost of an American competitor would have risen by the US inflation rate. But since we divide both dollar figures by the US inflation rate in order to express both in constant 1985 dollars, the American competitor's cost remains at $100 and similarly the world market price remains at $120.

By 1987 the failure of the exchange rate to compensate for the inflation differential between the US and SA would have put the local manufacturer into a loss position. Eventually he would have been driven into bankruptcy. There is no way he could have prevented his labour rates from increasing at the SA inflation rate or higher, because wage increases are determined in industrial councils and then forced on all companies in an industry. The prices of local materials, such as steel, have also in-

ased at about [illegible] A inflation rate. Suppliers of these materials are equally affected by inflation.

There are those who will criticise the choice of starting point in January 1985. But immediately before the sharp devaluation in 1984 the rand was overvalued by as much as 30%, even by the Reserve Bank's purchasing power parity measure. The starting point chosen illustrates the degree to which real exchange rate fluctuations have increased business risk. This variability forces a risk premium on investment in the SA economy as a whole.

Some will say: "But what about the Deutschmark?" (or any of the other strong currencies). It is true that the Deutschmark has also, like the rand, appreciated against the dollar. But the world market is relatively efficient and if German manufacturers raise their dollar prices to compensate for the strengthening of their currency, customers simply switch their business to US suppliers.

The world price remains roughly constant in real terms. In fact, Germany has paid the price for the strengthening of its currency. Between 1985 and 1991 US export volumes increased by more than 90% while Germany's exports increased by less than 30%. In the same period US imports increased by only 40% while German imports jumped 64%.

The German economy, with its wealthy population and the huge trade surplus it enjoyed before the revaluation of the mark, could afford the loss it suffered in world market share. Can the same be said of SA?

There is no chance of stimulating here the growth of the kind of labour intensive manufacturing industries which have made the people of Taiwan wealthy until SA monetary and tariff policies change. If the policies pioneered in Taiwan, successfully followed since then in other countries, and now being implemented in Eastern Europe, are adopted here, SA will see a resource reallocation leading to a sustained boom and the employment creation and wealth distribution we need for our society to survive and prosper.

□ **Wessels is executive chairman of Cape Manufacturing Engineers. He holds an MBA from Harvard.**

Summit rejects SA regional 'hegemony'

BDay 31/1/92 (49)

TIM COHEN

MAPUTO — ANC deputy president Walter Sisulu yesterday pledged his organisation's support for regional economic integration, emphasising the importance of the regional market for SA manufactured goods.

Sisulu emphatically rejected SA economic "hegemony" at the start of the 12th annual Southern African Development Co-ordination Conference's (SADCC) consultative conference. Sisulu joined other speakers in rejecting an SA orientated approach to economic development and he warned that SA's contribution to the economic life of the sub-region was likely to be limited in the early stages.

"We do nevertheless believe that by actively participating in the restructuring of existing relations on a more equitable basis and addressing current imbalances, a climate conducive to development and mutually beneficial co-operation can be created," he said.

Sisulu, who was speaking on behalf of the ANC and the PAC, said the liberation movements' desire for eventual economic integration derived, in the first instance, from their belief that it would be in the best interest of SA and its people.

In the context of SA's need to become a more significant exporter of manufactured goods, he said: "The countries of Africa will be potentially important trade partners for a democratic nonracial Africa.

"Already, some have suggested that an increase in regional trade could provide a much needed 'kick-start' for growth and development in a post-apartheid SA."

Almost all speakers spoke positively about the changes taking place in SA, reflecting an increasing concern in the SADCC about SA's future role in the region.

While hailing Codesa, Botswana vice-president Peter Mmusi said: "The unco-ordinated withdrawal of sanctions, before the process of change becomes irreversible, threatens to undo the fruits of decades of international co-operation."

The time was not right to establish normal relations with SA.

"Recent developments seem to suggest that the SA government is succeeding in creating a euphoria for change, in order to reduce international pressure and to gain international legitimacy and acceptability," he said.

Mmusi said his government also viewed with concern the "weakening of the unity of the oppressed majority". He urged members to unite effectively under the banner of the patriotic front.

In order to achieve the SADCC's aim of developing economic integration, it would be necessary to enhance the organisation's status, redefine its mandate and strengthen its institution, he said.

Mozambique President Joaquim Chissano invoked the spirit of the pioneers of Pan Africanism in support of the SADCC's attempt to achieve integration. Pan Africanists were advocating union at the turn of the century, he said.

The private sector needs a partner in the state

B/Day 31/1/92.

(49)

DEREK KEYS

THE fixed investment decisions of businesses are not taken in Parliament. They are also not taken in the offices of Ministers and government officials. These growth-determining decisions are taken in large and small businesses throughout the country, in the light of their projections and expectations and their views of the opportunities the future offers them.

Their record is not a bad one. There are examples of where the private sector invested in the wrong direction and received no return. On average, however, our entrepreneurs have shown healthy judgment and have read the future investment climate well.

But we need more investment. We need more investment in productive capacity. How do we get the private sector firms to decide, to a greater extent, to venture in the fixed investment area? This is the crucial question. It is the main question I am interested in. If you like, it is the question I am prepared to become obsessed by. It could not unfairly be described as the question that brought me to this place. In terms of instruments to promote investment, there is a veritable arsenal available in the shape of goverment actions of one kind or another. In this my first speech I would prefer to try to reach the root of the problem rather than tinker with remedies for symptoms.

The root of the problem of an inadequate level of investment is uncertainty. Before an entrepreneur takes a growth decision, he must reach a particular level of certainty. In times of strong growth in the world economy, it is relatively easy to reach this level, and also when the decision is in essence simply the extension of an existing undertaking.

As a country we have, however, reached the point where, against the background of a lukewarm world economy, we must enter two important new investment fields where the risk-reward relationship for the private sector seems less promising than that to which it is accustomed.

The first of these is the export market for manufactured goods and their intermediate products. The second is the whole domestic socio-economic field.

Compared to the internal market, the export market is a jungle. This jungle is not neutral. Every man's hand is against one, and he is backed by his home government at every turn. The governments of the largest countries jump left and right in trade matters to protect and advance the interests of their nation's firms. There is still plenty for South Africans to learn in this area.

As regards the socio-economic area, a crucial one for us to get right, we have still not developed a satisfactory mechanism for fully enlisting private sector participation. If we want to win, we shall have to do so. Clearly, the underlying basis of this challenge will not change quickly. How then, against this background, can we increase entrepreneurs' level of certainty?

The answer is simply confidence. Firstly, the state must demonstrate its own confidence by calmly and systematically striving towards the highest long-term economic goals.

Secondly, we must let entrepreneurs develop confidence in the state as a reliable partner in the successful extension of business. I am not talking about money. I am referring to co-operation, flexibility, and the willingness to undertake any transactions that will advance the general welfare. The motto must be that the entrepreneur can depend on the state.

This does not happen overnight: we are talking attitudes, we are talking transactions, we are talking deals, we are talking about a process which begins with a trickle and ends in a flood of confidence.

I have been talking about investment decisions which centre on the entrepreneurial factor. However, I should not like anyone to think that I underrate the role to be played by labour or the critical importance of its contribution to accelerated economic growth.

In all the international examples of superior economic growth — Sweden in the '30s, postwar Germany and Japan, Korea in the '60s and so on — there is one common factor, the golden triangle of business, labour and the state joined in a consensus carefully and consciously aimed at economic growth.

This is very much in my mind, and I am watching every attempt being made to develop areas of business-labour consensus with the keenest interest

☐ **This is an edited extract of Trade and Industry and Economic Co-ordination Minister Keys's maiden speech in Parliament on Wednesday.**

LETTERS

MONEY SUPPLY

FM 31/1/92

Down to basics

(88) (49)

The growth rate of the broad monetary aggregate M3 is decelerating — despite technical distortions still in the pipeline. Preliminary estimates of the two official measures of M3 for December show a rise of:

- ☐ 12,42% over 12 months (to R182,2bn), down from 14,48% in November and 15,75% in October; and
- ☐ 13,03% annualised, from the base of the current target year in mid-November 1990 (to a seasonally adjusted R180,5bn), down from 15,72% and 14,22%.

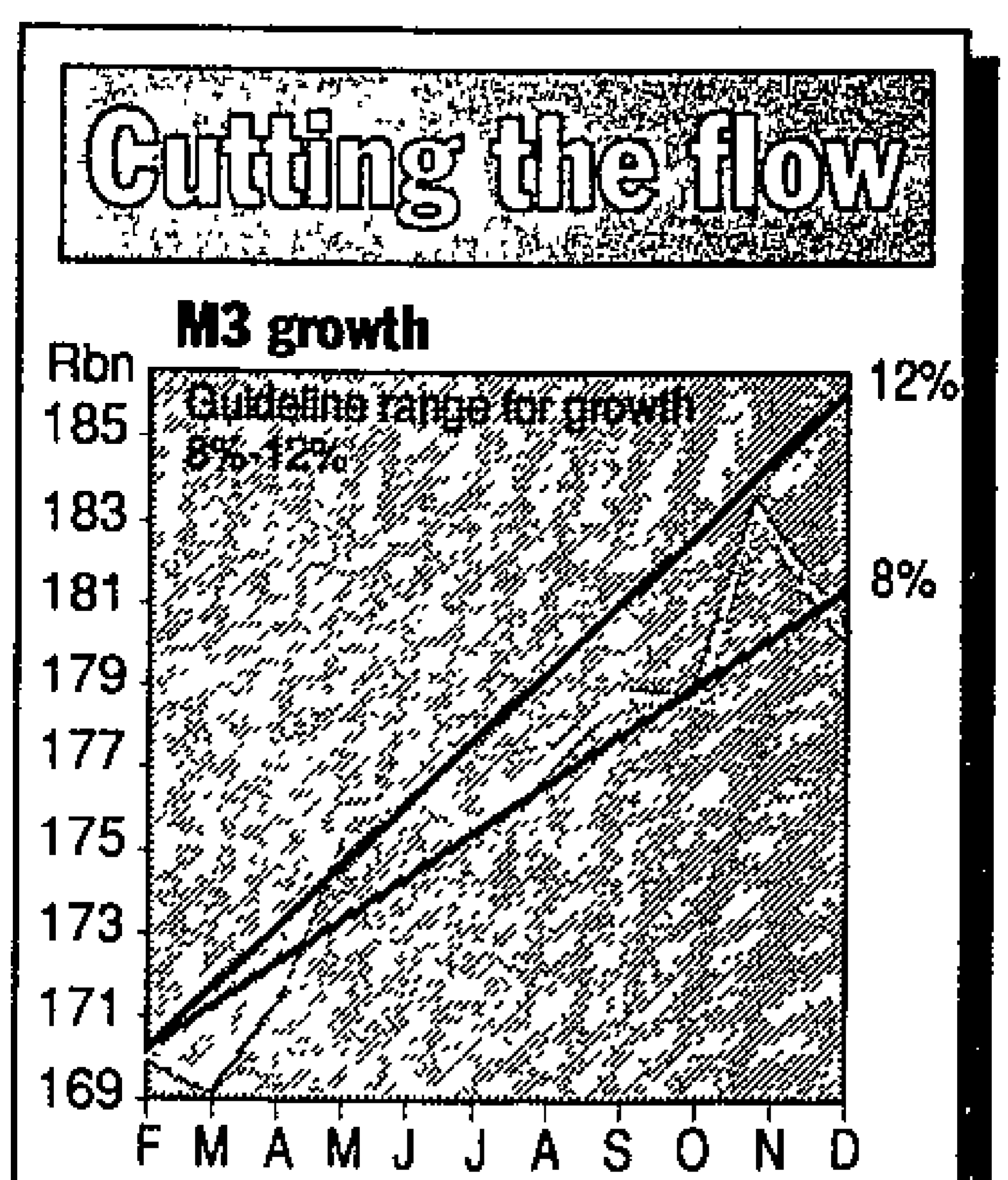
In February last year money supply figures were inflated following changes in banks' regulatory legislation. The effect will be eliminated only in this February. Meanwhile the fundamental trend in money supply can be measured by the seasonally adjusted annualised rate of growth between February and December. The Reserve Bank calculates this at 7,1%. This is also down on preceding months (see graph).

The guideline range for growth in the 1991 target year is 8%-12%. This range is under review by the Reserve Bank. A decision will be announced over the next few weeks and a new guideline will be established dating back to November. At that point figures for the current target year will be re-based (on the average level in the final quarter) and revisions published.

December figures for the other monetary aggregates will not be available until next month. In the 12 months to November:

- ☐ M2 grew 21,21%;
- ☐ M1 24,17%; and
- ☐ M1A 21,38%.

Figures available on credit creation show that in the 12 months to November credit extended to the private sector rose 17,78% and total credit extended rose 17,84%. These figures too were influenced by technical factors last February. Using that month as a base, credit extended to the private sector rose 13,3%, seasonally adjusted and annualised, up from 12,7% in October. ■



Budget date to stay (49) — Barend

Political Correspondent ARG 31/1/92

FINANCE Minister Mr Barend du Plessis has ruled out postponing the March 18 Budget.

He firmly rejected an appeal to do so by Democratic Party finance spokesman Mr Ken Andrew who argued that postponement would allow consultations on spending priorities with organisations outside parliament.

This would help achieve a more widely accepted Budget.

Mr Andrew believed Codesa and the Economic Forum should have a say in formulating the Budget.

Mr Du Plessis insisted that parliament itself remained the most suitable forum for the Budget debate.

However, he acknowledged that the "necessity of an economic accord (also advocated by Mr Andrew) is something we can all agree on immediately as a means of promoting economic growth".

BUSINESS

10-year credibility gap! (49)

ARG 1/2/92

Promises ... promises — but state spending spirals out of control

CLAIRE GEBHARDT
Weekend Argus Correspondent

FINANCE Minister Barend du Plessis's commitment to cutting State spending faces a credibility gap of 10 years as government expenditure grows beyond control.

Every year for the past decade the electorate has been promised cuts in government expenditure — and every year spending has soared.

This year is no exception. Mr Du Plessis this week echoed President De Klerk's commitment to cut State spending and reduce taxes by promising "severe cutbacks in the Budget."

However, in apparently contradictory vein, Deputy Finance Minister Japie van Wyk immediately added that government spending would have to increase in real terms because of inflation and "absolutely necessary expenditure."

And just to confuse the electorate further, Mr Du Plessis promised that civil servants would not be retrenched.

Most of the State's unbridled expenditure has been blamed on a massive inefficient public service whose numbers have almost doubled from 325 000 in 1980 to 570 000 in 1991.

Private-sector employment, meanwhile, is on the decline.

This has led to a situation where the State's wage bill now stands at an astronomical R26,2 billion, or 30,7 percent of the Budget.

Sceptical businessmen doubted that the stated long-term aim of bringing down the level of direct taxes by increasing indirect taxation could be adhered to, given VAT's political sensitivity.

Yet the government would have to cut spending this year "or lose out on being able to point a finger at a future government".

Already spending is 18,5 percent higher in the first nine months of the current financial year against the comparable period last year and five percent up on the budgeted increase of 13,7 percent.

Revenues are only 7,6 percent up against the 11,1 percent increase projected in the Budget and a strong increase in the growth rate is not foreseen during 1992.

At the same time the government is under extreme pressure from extra-parliamentary parties to provide welfare programmes, redistribute income and fund infrastructural projects to improve the living conditions of the poor.

The bottom line for consumers is that their heavy tax burden is closely related to the government's continuous overspending.

At present the man in the street contributes 38 percent to the government's total tax revenue — against 23 percent 10 years ago. And the figure is likely to rise to above 40 percent in the coming Budget.

Given the widening gap between expenditure and revenue, fears are growing that if State spending keeps increasing and revenues continue to lag behind, the government could be faced with a fiscal deficit in 1995 of close to R26 billion, or 7,5 percent of GDP, in a worst-case scenario.

Econometrix's Dr Azar Jammine says even if one uses the same figures as budgeted for in 1991, a 15 percent increase in spending and an 11 percent increase in revenue — and projected this into 1992/93 — South Africa will end up with a fiscal deficit of R15,6 billion, close to five percent of GDP.

"A real increase in taxation to avoid such a huge deficit will therefore be difficult to avoid. A rise in the VAT rate to 13 percent aimed at cutting the deficit to a slightly more modest R14 billion, or four percent of GDP, cannot be discounted.

"As a rule of thumb, each one percent increase in the VAT rate should raise an additional R2-billion. And a 15c-a-litre increase in the fuel levy will raise R1,5 billion."

Dr Jammine says government spending must rise by no more than nine percent against an inflation rate of 13 percent and that R2 billion could be saved from defence cuts and R4 billion by cutting the civil service.

Barend won't talk to ANC on Budget

Arg 11/2/92

49

No 'soft options' during period of economic and political change

MICHAEL MORRIS
Political Correspondent

FINANCE Minister Mr Barend du Plessis has firmly ruled out any formal or informal consultations with the ANC on formulating the Budget.

He told journalists during a briefing yesterday that while he was fully in favour of an accord between business, labour and the State on macro-economic goals and the formulation of a code of investment to boost investor confidence, no other forum was better equipped than parliament to address the "very emotional short-term issues of tax and budgetary expenditure".

As far as the ANC was concerned, Mr Du Plessis said: "There is no formal or informal structure of consultation to share thoughts on the Budget.

"It is an ideal situation that there should be the widest possible participation in the Budget. That is why we are keen to get a transitional government in place to deal with these issues.

"But then it will be within the framework and structures of government, of the constitution and democratic institutions.

"We have no intention of consulting with the ANC," he said.

Mr Du Plessis expressed confidence that the downward trend in the inflation rate would continue this year, and ruled out any relaxation in fiscal discipline.

He said: "We cannot go for soft options, even during a period of sensitive political and economic transition, which will make South Africa a hyper-inflation country.

"If we abandon fiscal discipline for the sake of artificially supporting negotiations we will pay a very dear price. It is not worthwhile."

He also responded to a call from the deputy governor of the Reserve Bank Dr D J Meijer to "come clean" and admit that he could not fully achieve his goals of redistributing wealth and imposing tax discipline.

Mr Du Plessis said: "I have not spoken to Dr Meijer, but I do not believe the Budget presents a simple choice between growth and redistribution. I do not think it is a fair representation in such a compartmentalised form. One has trade-offs."

Mr Du Plessis added: "From what I have read, he said that if we go a bit stingy on the social side, we can use those resources for promotion of growth either directly — spending it as the government — or by giving it back to the public through tax reductions.

"My point is that the trade-off is not that delicate. There are many other trade-offs in the budget."

Softening the blow of a tight budget

(49)

Political Staff ARG 1/2/92

THE government is involved in delicate discussions on ways of minimising the blow of a tight education budget.

The minister in charge of white education, Mr Piet Marais, told parliament yesterday that no final decisions had been taken. He was responding to speculation of an imminent R620-million cut (15 percent) in spending on white schooling.

"No one can escape economic realities. All the government's advisers are unanimous: state spending must be curbed.

"If this applies to other state departments, it applies to ours as well," he said.

Mr Marais said 83 percent of the budget went into salaries. "We could have laid off large numbers of teachers and closed many schools. I regard that as too simplistic."

The aim was to ensure that education was not unduly destabilised, that standards were maintained and that the security of the teaching profession was protected.

SA must couple its engine to Africa

STAR 1/2/92 (49)

A MAJOR shake-up in economic relations in southern Africa is expected as South Africa comes in from the cold. FRANS ESTERHUYSE spoke to Africa specialist Professor Willie Breytenbach of the University of Stellenbosch about the emerging new economic scenario.

DECISIONS that could affect the lives of hundreds of millions of people are facing leaders of 10 southern African states who met in Maputo this week.

They attended a crucial session of the Southern African Development Co-ordination Conference (SADCC), formed nearly 12 years ago to reduce the region's economic dependence on the hated apartheid regime.

With apartheid on the way out, the future of the SADCC in its present form is in the balance, as the very purpose of its existence falls away.

At the same time it faces the challenge of new directions in Western economic policy towards Africa, and a potentially powerful role for a new democratic South Africa.

One of the first positive moves the conference made this week was to endorse the Commonwealth position of the phased lifting of sanctions on Pretoria.

However, there is much more than meets the eye in the latest developments and in the challenges and options facing not only the SADCC but also South Africa, according to Professor Willie Breytenbach of Stellenbosch University's department of political science.

He said in an interview this week that even after apartheid, conditions in the subcontinent could get far worse before they get better.

He envisages a future economic order based on a free-market system and private enterprise — with socialist dreams dumped overboard.

'The signs are clear that the days of socialism in Africa have gone. Foreign funds are not going to be attracted by the old ideas'

Increasingly the message coming to Africa from the West and from powerful institutions such as the International Monetary Fund, the World Bank and the European Community is: go for a free market and private enterprise; go for better financial management and development.

Professor Breytenbach says the signs are clear that the days of socialism in Africa have gone.

Foreign funds are not going to be attracted by countries adhering to the old ideas.

The thinking among Western powers and world economic institutions is increasingly that a new democratic South Africa could be the hub of the subcontinent, even the Japan of Africa.

Some even say Johannesburg-Midrand could become the Hong Kong of southern Africa.

A powerful economic role for a new democratic South Africa in the subcontinent is on the cards — but political stability will be an important consideration.

Professor Breytenbach says outside forces, such as the Euromarket and Western economic institutions, are likely to prefer to deal more directly with a post-apartheid South Africa with its stronger economy.

One issue that looms large in the reshaping of subcontinental relationships is that of economic inequality.

The enormity of this problem is shown by the fact that South Africa's gross domestic product is almost 3½ times that of the 10 SADCC states together.

This huge imbalance of economic power — in itself a major issue — creates much uncertainty.

For example, the dependence of neighbouring states on South Africa's stronger economy — long a source of contention — could remain as important as before, or even become more important.

Also worrying to many members of the 10 is the spectre of Africa's marginalisation in the international context deepening as South Africa becomes politically more acceptable to the world.

Pulling continent out of morass a priority

Africa is being abandoned economically because of its own internal crises and because of the new opportunities for Western capital, technology and trade in the Pacific Rim and Eastern Europe.

The issue is this: will these outside donors and dominant trade partners focus on the region as a whole or on South Africa as the "springboard" into Africa?

An important decision awaits South Africa's first genuinely post-apartheid government: will it promote regional interests, or will it make full use of its new-found attractiveness to further its own interests?

The disappearance of apartheid, and better prospects for growth in South Africa, could attract millions of workers from marginalised African neighbours.

This could be helped by Africa's many crises — weak states, unemployment, mass movements of refugees, high population growth, collapsing commodity prices, rising debts and, worst of all, food insecurity.

Professor Breytenbach notes that for the ANC the most urgent priority must be South Africa's 7 million — mostly black — unemployed

With apartheid and destabilisation apparently a thing of the past, South Africa seems certain to rejoin the African fold.

A basic question is: will South Africa join the SADCC — or will the SADCC in fact join South Africa?

Another important development towards peace and stability in southern Africa is expected to be the formation of security accords.

'Conditions in the subcontinent could get far worse before they get better — and the future economic order will based on a free market'

Professor Breytenbach suggests that the legacies of a decade of destabilisation (the 1980s), decades of militarisation (since the 1960s) and high levels of violence in South and southern Africa (well into the 1990s) will make such accords more or less unavoidable.

One way of curbing this will be to let a new South African Economic Community, involving South Africa and the SADCC states, acquire a security dimension in the post-apartheid, post-destabilisation era — an institution similar to the Council for Security and Co-operation in Europe, established in 1990 after the end of the Cold War.

A major shake-up in economic relations in southern Africa is expected as South Africa comes in from the cold. Weekend Argus Political Correspondent **FRANS ESTERHUYSE** interviews Africa specialist Professor Willie Breytenbach of the University of Stellenbosch about the emerging new economic scenario.

(49) 1/2/92

Future SA shapes as new Japan

(49) ARG 1/2/92

DECISIONS that could affect the lives of hundreds of millions of people are facing leaders of 10 states, including the most prominent "frontline states" who met in Maputo this week.

They attended a crucial session of the Southern African Development Co-ordination Conference (SADCC), formed nearly 12 years ago to reduce the region's economic dependence on apartheid South Africa.

Now, with apartheid on the way out, the future of the SADCC in its present form is in the balance. The very purpose of its existence has fallen away. At the same time it faces the challenge of new directions in Western economic policy towards Africa and a potentially powerful role for a new democratic South Africa.

One of the first positive moves the conference made this week was to endorse the Commonwealth position of the phased lifting of sanctions against South Africa.

However, there is much more than meets the eye in the latest developments and in the challenges and options facing not only the SADCC but also South Africa, says Professor Willie Breytenbach of Stellenbosch University's department of political science.

He told Weekend Argus that conditions in the sub-continent after apartheid could get "far worse before they get better".

He envisages a future economic order based on a free market system and private enterprise — with socialist dreams dumped overboard.

Increasingly the message coming to Africa from the West and from powerful institutions such as the International Monetary Fund, the World Bank and the European Community is go for free market and private enterprise Go for better financial management and development.

At the same time, factors which have impeded South Africa's relations with the continent in the past are falling away. Notably, Africa's rejection of apartheid and the acrimony in regional relations during years of destabilisation.

Professor Breytenbach says the signs are clear that the days of socialism in Africa have gone. Foreign funds are not attracted by countries adhering to the old ideas.

The thinking among Western powers and world economic institutions is increasingly that a new democratic South Africa could be the hub of the sub-continent, even the Japan of Africa.

Johannesburg-Midrand could become the Hong Kong of southern Africa.

A powerful economic role for a democratic South Africa in the sub-continent is on the cards — with political stability an important factor.

The 10 SADCC states are Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe.

Professor Breytenbach has outlined further details of his vision in a paper to Stellenbosch University's Institute for Futures Research. Among trends he foresees is South Africa and the SADCC states and structures moving closer.

Outside forces such as the Euromarket and Western economic institutions are likely to prefer to deal more directly with a post-apartheid South Africa, with its stronger economy.

One issue that looms large in the reshaping of sub-continental relationships is that of economic inequality.

The enormity of this problem is shown by the fact that South Africa's gross domestic product (GDP) is almost three-and-a-half times that of the 10 SADCC states together.

This huge imbalance of economic power — in itself a major issue — creates uncertainties.

Ramifications of this imbalance include:

■ Dependence of neighbouring states on South Africa's stronger economy could remain as important an issue as before, or even become more important. Future relations could either reinforce this hegemonic pattern or attempt to foster more equitable outcomes.

■ The crisis of Africa's marginalisation in the international context deepens at a time when South Africa becomes politically more acceptable to the world. Africa is being abandoned economically in the face of its own crises and against a backdrop of new opportunities for Western capital, technology and trade in the Pacific Rim and Eastern Europe.

The issue is: will these outside donors and dominant trade partners focus on the region as a whole or on South Africa as the springboard into Africa?

■ Important decisions on post-apartheid South Africa's role await the government of a new democracy here. Will South Africa try to promote regional interests, or will it rather make full use of its new-found attractiveness for the sake of its own immediate needs?

■ The disappearance of apartheid and prospects of better economic growth in South Africa could attract millions of workers from marginalised Africa. Pressures that could force open the floodgates for such migrations to South Africa could arise from Africa's many crises — weak states, unemployment, mass movements of refugees, high population growth, collapsing commodity prices, rising debts, and insecurity about food.

Will the South African economy bear this additional burden? Will the African opportunity not turn into an albatross?

All these issues imply many obstacles ahead, says Professor Breytenbach.

With apartheid and destabilisation apparently a thing of the past, South Africa seems certain to rejoin the African fold.

A basic question is is: will South Africa join the SADCC or will the SADCC join South Africa?

A reshuffling is expected between two major blocs in southern Africa — the networks to which South Africa belonged and those from which South Africa was excluded.

Professor Breytenbach expects new links between South Africa and the European Community. Rather than being linked multilaterally, South Africa is more likely to "join" the Euromarket on a bilateral level, that is, in the same market-driven way as some erstwhile Eastern bloc economies are now gaining access to the European market.

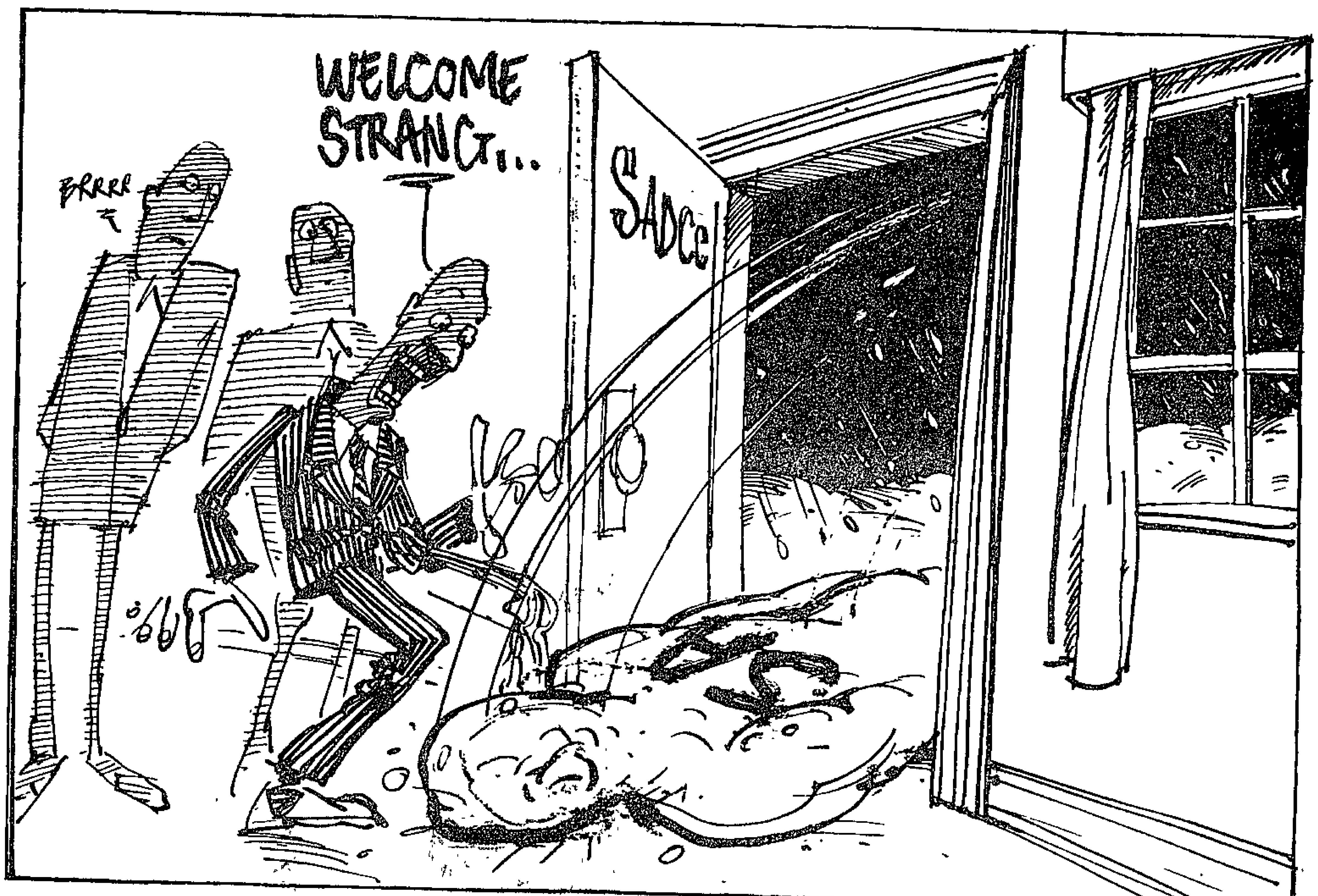
Meanwhile economic inequality in the sub-continent is still so vast that the speedy transformation of southern Africa into an Afromarket (with zero tariffs and free trade) with South Africa as an equal member is unlikely for the foreseeable future.

It is more likely that integration will evolve gradually. Firstly, in political and diplomatic relations — with at least half-a-dozen more ambassadorial links within the next two years. Secondly, technical co-operation, especially intra-regional water and electricity projects, are bound to increase — probably with foreign funding, for example, by the World Bank.

Another important development towards peace and stability in southern Africa is expected to be the formation of security accords.

Professor Breytenbach suggests the legacies of a decade of destabilisation (the Eighties), decades of militarisation (since the Sixties) and high levels of violence in South and Southern Africa (well into the Nineties), will make such accords unavoidable.

One way of curbing this will be to let a new South African Economic Community (SAEC), involving South Africa and the SADCC states, acquire a security dimension in the post-apartheid, post-destabilisation era — an institution similar to the Council for Security and Co-operation in Europe, established after the Cold War in 1990.



Burden of post-apartheid role in the sub-continent

SA leaders put their views to world body

S Times 2/2/92

By MIKE ROBERTSON
Political Correspondent in Davos, Switzerland

SOUTH AFRICA'S most senior politicians will today have 75 minutes to parade their ideas on how the country's economy should develop before 1 300 delegates representing the world's political and economic elite.

The occasion is the annual meeting of the World Economic Forum.

President FW de Klerk, who flies into Switzerland from London today after a meeting with British Prime Minister John Major, will open the session on South Africa with a speech titled: "The contribution of a post-apartheid South Africa to the new world order."

ANC president Nelson Mandela follows him to the podium, where he will address 35 heads of state, 150 senior cabinet ministers and more than 1 000 top businessmen on the subject of: "The integration of those on the fringes of society into the new world."

Listening

After the ANC leader's speech the two men will be joined by Inkatha President Mangosuthu Buthelezi, National Peace Committee chairman John Hall, Cosatu secretary-general Jay Naidoo and Lebowa Chief Minister Nelson Ramodike for a panel discussion on "How to stimulate growth in the new South Africa."

Among the leading world figures attending the forum who could be listening in are US Secretary of State James Baker, UN Secretary-General Boutros Ghali, French Prime Minister Edith Cresson, European Community President Jacques Delors and Chinese Prime Minister Li Peng.

Businessmen include Fiat president Giovanni Agnelli, Olivetti managing director Bruno D'Avanzo, Ford Motor Company president Philip Benton, Deutsche Bank senior vice-president Paul Grosse, Coca-Cola president Donald Keough and Sony chairman Akio Morita.

Foreign Minister Pik Botha and Mr Mandela held private discussions at the forum on Friday — probably to ensure there would be no public bickering before such an august body.

Mr Botha said the issue uppermost in the minds of the businessmen who had quizzed him over the past two days was whether it would be safe to invest in SA.

Mr Mandela, in the text of his speech prepared for delivery today, calls for a global offensive for development, prosperity and human survival.

He says that in making the call he is fully aware of the general shortage of capital in the world, its sensitivity to economic imperatives and its mobility.

Demands

The prepared text adds that: "We also say this knowing that the underdeveloped countries have to continue addressing such issues as better utilisation of resources and management of their economies, better governance, human-resource development, including the upliftment and liberation of women, as well as protection of the environment."

Turning to SA, the speech says no force on earth can stop its march towards democracy.

But this would be accompanied by demands from millions of South Africans for an end to poverty.

In a section prepared for use in a panel discussion on achieving economic growth, Mr Mandela again reiterates that nationalisation is something the ANC will consider.

However, he adds: "Nationalisation in our view does not mean a universal, blanket policy or sticking rigidly to old dogma.

"It means examining selected major enterprises on a case-by-case basis. Our starting-point would be those bodies and corporations already in state hands."

In a section included as an optional insert, Mr Mandela complains that too many South African companies have gone on an investment strike or have transferred assets abroad.

State to spend more

49

STimes 2/2/92

(BUSS)

By CIARAN RYAN

DEPUTY Minister of Finance Japie van Wyk has dashed hopes of cuts in State spending in the March Budget.

He tells Business Times spending will increase in real terms because of inflation.

This appears to contradict statements by President De Klerk at the opening of Parliament that "relatively drastic structural changes will have to be made in respect of current expenditure".

Mr Van Wyk says: "President De Klerk was making a general statement about State spending. We are busy with the Budget and certain areas, such as social welfare, will require more spending. Others will require less.

"The government is privatising some departments and this will make it possible to effect some cuts in spending.

"But in the present inflationary climate we will see an increase in spending in real terms."

ANC assurance on foreign debt

FW, Mandela unite to sell SA at Davos

BDay 3/2/92

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BILLY PADDOCK

DAVOS — President F W de Klerk and ANC president Nelson Mandela this weekend worked according to a joint strategy to sell SA to some of the world's most influential businessmen and political leaders at the World Economic Forum.

Both men gave optimistic views of SA's prospects, and Mandela gave new assurances on foreign debt repayments and nationalisation under a prospective ANC government.

Present at the Forum were 35 heads of state and the chairmen, MDs or other senior personnel of many of the world's major corporations.

Speaking yesterday at a media briefing at this luxury ski resort in Switzerland's Alps, Mandela said he had met Foreign Minister Pik Botha on Friday, and they discussed a co-ordinated stategy.

Senior government sources confirmed this and said the arrangement would be of great benefit to SA.

Mandela said any statement from ANC spokesmen that a future ANC government might renege on loans transacted under the present NP government represented only their personal views and not those of the ANC, whose executive had not discussed the issue.

"We are obliged to honour these loans or else we will be in a great deal of trouble, and we are still dealing with this issue."

In his address to the Forum, Mandela called on businessmen to investigate business opportunities in SA now.

On nationalisation, he said the ANC envisaged a mixed economy in SA in which the private sector would play a central and critical role.

For the new SA to succeed in creating wealth and jobs for its people, future economic policy would have to address such questions as security of investments, the right to repatriate earnings, realistic exchange rates and the rate of inflation.

De Klerk told the Forum the industrialised world was deluding itself if it believed whole continents could be written out of the international scenario. "Ignore the plight of Africa at your peril," he said.

Referring to Codesa, he said he was convinced "that from this will emanate an accord on which we shall build a stable and greater SA".

Despite their differences, De Klerk said, he, Mandela and Inkatha president Mangosuthu Buthelezi, who was also present, had a message for the world: "We are overcoming the antagonisms of the past ... together we will build a new SA."

SA could play a constructive role in its region and, in so doing, make a positive contribution to global advancement.

The reason for this was that SA was faced within its borders by the same problems that confronted the international community on a global scale.

These problems included:

☐ The need to develop all-embracing strategies to reduce backlogs for less priviliged communities.

☐ Finding resources to provide better housing, education and health services for all its

☐ To Page 2

Davos

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☐ From Page 1

people;

☐ Stimulating rapid and sustained economic growth, and

☐ Ensuring that differences were resolved by negotiation.

The country had achieved and would achieve success in providing solutions to providing low-cost housing, electricity to rural communities and agricultural assistance to smallscale farmers.

De Klerk argued that emphasis on Africa's economic decline tended to obscure the continent's enormous potential.

Mandela said he held a long talk with AHI president Attie du Plessis at the conference, and they had arranged a further formal meeting to deal with the issue of nationalisation in greater depth.

In the private discussions they were having with businessmen and leaders, both government delegates and the ANC were "concentrating on putting forward views and presenting a picture of those things that are uniting us rather than our differences", Mandela said.

"We expect an interim government in six months time and then all sanctions except for the oil and arms embargoes will be lifted," he said.

It took time to plan investment, and companies should not wait until sanctions were lifted before investigating the possibilities. He told delegates that in consultations with SA businessmen they were required to come up with alternatives to nationalisation as a means of redistributing wealth, and these discussions were continuing in depth.

"It is quite clear this matter has not been properly addressed and many SA businessmen have agreed here that this is so."

The ANC had no ideological attachment to nationalisation but there were problems it seemed could be addressed only through some form of nationalisation.

A democratic government which did not try to win the support of the business sector as well as the masses stood no chance of surviving, Mandela said

FW, Mandela in harmony

STAR 3/2/92

ANC chief nearly upsets the applecart

By Peter Fabricius
Political Correspondent

DAVOS (Switzerland) — An extraordinary public clash between ANC president Nelson Mandela and the chairman of the World Economic Forum came close to wrecking a carefully co-ordinated approach by the Government and the ANC aimed at inspiring investor confidence.

In an important breakthrough for South Africa's hopes of attracting foreign investment, President de Klerk and Mr Mandela — for the first time — presented a united front to the world's most powerful economic and political leaders

But the moment was marred when Mr Mandela complained — before his illustrious audience — that he had been given less speaking time than Mr de Klerk.

Forum chairman Professor Klaus Schwab smoothed over the potential row, but Mr Mandela remained stony-faced as he left the podium. (See other report on this page.)

Before that the South African leaders had deliberatly put aside their local differences to speak as South Africans to the 1 300 industrialists and politicians in the World Economic Forum — one of the world's biggest concentrations of economic and political muscle

Inkatha Freedom Party leader Chief Mangosuthu Buthelezi joined in the new spirit of accord with a speech of conciliatory gestures.

All three leaders sounded a common plea to the world's economic giants to divert their development funds and energies to South and southern Africa

SA trio . . . President de Klerk, Mr Mandela and Chief Buthelezi listen to World Economic Forum president Klaus Schwab yesterday. Picture: AP

They were addressing the forum on South Africa's place in the new world order, before taking part in a panel discussion with Cosatu secretary-general Jay Naidoo, National Peace Committee chairman John Hall and Lebowa Chief Minister Nelson Ramodike.

In an extraordinary dual performance which suggested they had compared notes beforehand, a conciliatory and moderate Mr Mandela often sounded like Mr de Klerk, and vice versa.

Mr Mandela took his softest approach to nationalisation so far, assuring the industrialists that their investments would not be endangered by nationalisation

He was responding to Professor Schwab, who said that the one question which most industrialists at the forum were asking was "was the ANC still committed to nationalisation"

Mr Mandela said that to the ANC, nationalisation was an appropriate alternative but it was aware of the great concern about the issue and was therefore trying to reach agreement with employers and unions.

"Give us time," he said.

When Professor Schwab pressed him for clarity on whether new foreign investment would be menaced by nationalisation, Mr Mandela said the ANC was well aware that a political organisation unable to co-operate with business would never succeed in generating growth

He was quite sure ANC discussions with business would achieve a decision that would attract investment

The ANC would like to create an environment for investors that would assure them that their investments would not be nationalised and that their profits could be repatriated.

Mr de Klerk complained — as an African — that the continent was suffering because of the West's trade protectionism, while Mr Mandela joined him in arguing the Government's familiar case for southern African economic co-operation and integration, and for economic discipline and a safe investor climate.

"Despite our differences, we stand here today, my compatriots Dr Mandela, Dr Buthelezi and I, together with distinguished political business and financial leaders from South Africa, with one message to the world. we are overcoming the antagonisms of the past, we have the desire and the will to face the future together, and together we will build a new South Africa," Mr de Klerk said

Like Mr Mandela, he warned the industrialised world that it could not simply write off entire continents such as Africa. He raised the spectre of rich nations being swamped by refugees from the poor nations.

Mr de Klerk said South Africa was looking to the international community for "constructive involvement" because it believed it could play a constructive role in its region.

"SA would have to fight tooth and nail to win a place at the international trade table. It needed loans and investment, not as hand-outs, "but because we are a sound economic and financial proposition"

Mr Mandela struck several conciliatory notes which chimed with Mr de Klerk's address and offered assurances to the industrialists about the security of their investments in a future South Africa.

In an earlier press brief-

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Alpine pique over minute detail

STAR 3/2/92

DAVOS — Nelson Mandela clashed yesterday with the World Economic Forum chairman, claiming he had been given less speaking time than Mr de Klerk.

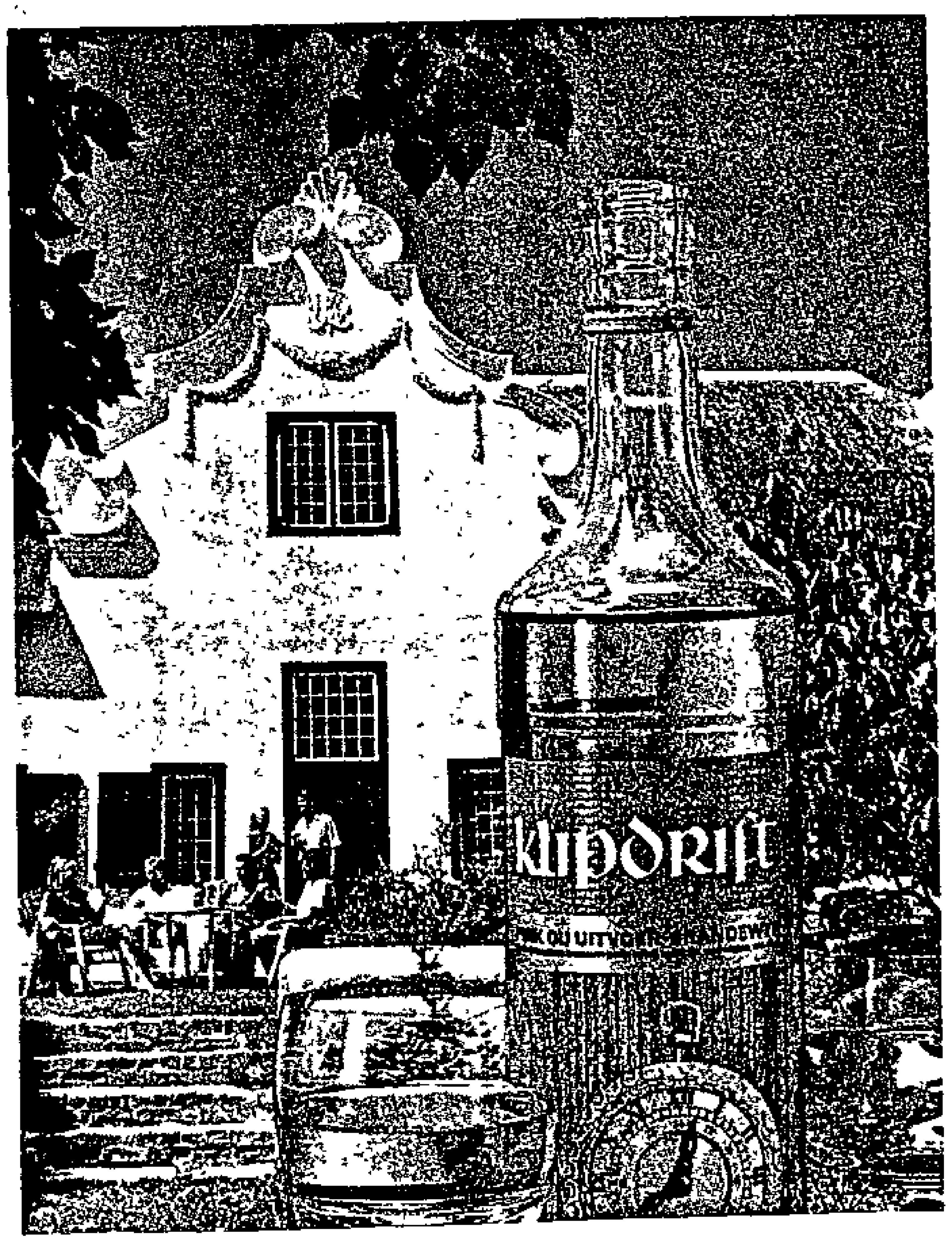
After the overall discussion had been shortened because Mr Mandela spent 47 minutes in his opening remarks — instead of the 15 he and Mr de Klerk had been allocated — Mr Mandela complained he had been given only a minute to reply to a panel discussion while Mr de Klerk had got five.

While Professor Klaus Schwab was closing the panel discussion, Mr Mandela complained that by giving Mr de Klerk extra time, he may have given the impression he had not been fair in appointing time-limits

"Mr Mandela said Professor Schwab had given the understanding that each panellist would have five minutes

"I didn't expect you to give anyone one minute."

The professor pointed out "It was also our understanding that the introductory remarks should be for 15 minutes only Yours were 47"



De Klerk, Mandela in harmony

STAR 3/2/92

From Page 1

ing, Mr Mandela repudiated recently repeated threats by some of his ANC colleagues to review the repayments of loans granted to the present Government.

These were merely the opinion of individuals.

"We can get into serious problems if the image we project is one of a country which is not prepared to honour its debts."

After calling for a global initiative to redress the imbalances of wealth, the ANC leader:

- Strongly stressed the need for higher productivity from labour and capital.
- Stressed that future economic policy would have to address such questions as security of investments, the right to repatriate earnings, the need for realistic exchange rates.
- Appeared to be in accord with Government's federalist policy when he supported the idea of a "devolution of power to regional and local levels of government".
- Asserted that the private sector should play "the central and critical" role in a mixed economy.
- Suggested that a future public sector would be no bigger than those in Germany, France and Italy where public enterprises constituted nine, 11 and 15 percent respectively of the economy.

The united front presented by the South Africans was carefully planned in order to avoid the disastrous public rows at international forums of the past which shook investor confidence.

Mr Mandela disclosed at his briefing that he had co-ordinated the ANC's and Government's approaches in a meeting with Foreign Minister Pik Botha and Public Enterprises Minister Dawie de Villiers at Davos at the weekend.

Mr Mandela told South African pressmen: "This is not the place to discuss our differences as South Africans, but a place where we are expected to put a picture that raises hopes that we have the leaders with the calibre and abilities to solve our country's problems."

If the South Africans attacked one another it would destroy investor confidence.

These remarks took on an ironic quality when Mr Mandela himself nearly upset the carefully contrived harmony.

Economic forum vital — Barend

(49)

BDay 3/2/92

SIMON WILLSON

THE establishment of an economic forum consisting of labour, business and government was essential, Finance Minister Barend du Plessis said at the weekend.

He told a news briefing in Cape Town that, while such a forum could not supercede Parliament as a body for transforming conflicting political views into law, it could be structured to address specific issues.

"It must be structured in such a way that macro-economic issues get preference," Du Plessis said.

The forum should not concern itself with short-term policies such as taxation and the composition of the Budget. But, he added: "I believe a social accord being part of that forum is essential."

A further issue relevant to the forum could be that of investor confidence.

"A code on investment will secure a place in the confidence equation of both local and international investors. Such a code must express itself on issues such as nationalisation," Du Plessis said.

Du Plessis said he had received no formal or informal submissions from the ANC on the structure of next month's presentation of the 1992/93 Budget.

He noted that the ANC had made major economic policy shifts since the day, two years ago, when ANC president Nelson Mandela made his first public speech after his release from jail.

There was still a need to cover some economic policy gaps between government and the ANC, such as their respective views on the total individual tax load.

"We believe that at 25% the load is too heavy and not equitably distributed across the tax base. The ANC believes it should be raised to 35%," Du Plessis said.

Referring to the possible restoration of normal links between SA and the IMF, Du Plessis parried questions on whether government expected the US Congress to repeal the Gramm Amendment which obliges US representative at the IMF to vote against any application by SA for an IMF loan facility.

"If I had a view on IMF links I would not be able to share it with you because it is too sensitive," Du Plessis said.

IMF funds would be needed if SA's ability to run a balance of payments deficit was to be restored. This would not be necessary in the short term, however, due to the slow start of the economic recovery.

Acknowledging a country's access to

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Forum

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IMF facilities was usually conditional on the country running a deficit on the current account of the balance of payments, Du Plessis said. There were no plans to generate such a deficit on SA's balance of payment to motivate an IMF application.

"You do not jump without a parachute," he said

However, Reuter reports Du Plessis said if SA wanted "to restore the ability of our economy to respond to the needs of our society in terms of backlogs, in terms of population growth, in terms of jobs needed, then we will need the IMF facilities".

It would be impossible to develop SA without going into a balance of payments deficit at some point, he said

He hoped that countries buying SA raw materials would consider equity participation schemes inside the country now that sanctions had been lifted

SA was negotiating double taxation treaties with several countries to encourage renewed investment and reduce transfer pricing "This could be very important for SA's future," Du Plessis said

He declined to say whether the talks involved the US, which cancelled a double-taxation treaty as part a package of punitive sanctions Most of these, affecting trade on a wide range of goods, were lifted in July

Du Plessis said his advisers expected the economy to grow about 1,5% this year, after two years of shrinkage

Economic forum essential — Barend

(49) CT 3/2/92

Own Correspondent

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Higher taxes and less to spend, warns economist

STAR 3/2/92

(49)

The international economic slowdown will be deeper and last longer than expected, and South Africans will pay higher taxes and have less to spend, says insurance giant Southern Life's chief economist, Mike Daly.

In his latest Economic Comment, Mr Daly says the US economy in particular is struggling to emerge from recession.

"Interest rates have been dramatically reduced to encourage a new borrowing and lending cycle, but to little avail so far," he adds.

Mr Daly cautions that continued low US inflation does not hold out much promise for the gold price, while non-gold metals and mineral prices have yet to break out of their steep three-year decline.

He foresees continuing pressure on the profitability of gold mines and more retrenchments in the first half of this year.

"South African export volumes grew by a satisfactory four percent in 1991.

"But in view of the recession in the industrially developed countries at the start of 1992, the outlook for South Africa's international trading environment appears to be far from encouraging," he says.

Mr Daly believes export volume growth will be at its strongest in the second half of the year, coinciding with accelerating economic growth overseas.

"The deepening inability of the formal sector to provide jobs for the increasing number of workers entering the labour force annually is leading to a feeling of despair among school-leavers, a questioning of the value of education and a rising crime rate as a survival strategy," Mr Daly adds.

He predicts a further weakening of real personal disposable income (PDI) growth in 1992 and that fiscal drag will ensure the individual's tax burden becomes even greater.

"Inflation will also remain high, particularly in the food sector," he says.

Longer-term benefits stemming from the introduction of VAT should ease domestic inflation, and low inflation at the producer level will be reflected in consumer prices, he says — Sapa

SA economic pot on boil

Political Staff ARG 3/2/92 (49)

SOUTH AFRICA'S role as a gateway to Africa and melting pot for growth on the continent will come under the spotlight at a regional conference on Sub Saharan Trade and Investment.

Speakers from Kenya, Angola, Ivory Coast and Namibia will attend the conference in Johannesburg in March, ending an era in which similar private sector meetings were held outside South Africa.

Visitors from other African countries and European Community interest groups will examine opportunies to improve trade and investment.

The two-day conference is being organised by the South African Foreign Trade Organisation.

SA gets warning on nationalisation

STAR 4\2\92

By Derek Tommey

49

Wesley A Stanger Jr, chairman of ASA, a major South African investment company listed on the New York Stock Exchange, has told his American shareholders that the current pace of political change taking place in South Africa is "quite astounding". He says it deserves improved media attention in the United States.

Sanctions

But he warns that calls in South Africa for the continuation of sanctions and the nationalisation of resources could affect the country's future.

He says: "It remains to be seen whether those participants, having consistently demanded a role in the governing process, are prepared to carry the joint responsibility stemming from the status they seek."

"It will be necessary for those having entrenched positions on sanctions and nationalisation to reconsider such views, thus affording the economy an opportunity to progress — the vital ingredient to success."

Bullet

American investors in ASA again had to bite on the bullet in 1991, the annual report shows.

Since 1987 their dividends have been steadily falling. In 1991 they received $3 a share against $3,50 in 1990 and $4,50 in 1987.

South Africa desperately needs new foreign investment. But it will have to promise to show a better performance than ASA has put up recently if it is to have any hope of bringing in foreigners and their money.

The lower dividend reflects the reduction in ASA's net assets a share in the 12 months ended November last year to $44,71 a share from $48,54 a year earlier.

The fall continued into December and by December 5 the net asset value was down to $44,20 a share.

Net investment income dropped from $2,08 to $1,51 a share, while share-dealing profits dropped from $2,45 to $0,01 a share. At the same time, the capital value of the shares declined by $2,35 which, however, was not as bad as in 1990 when the capital value fell by $22,50 a share.

ASA is a major investment company with a portfolio worth worth R1,8 billion ($419,8 million).

Only the best

Being able to afford the best investment advice going, the constituents of its portfolio are of more than normal interest.

Being originally founded on investment in South African gold shares, it is not surprising to find that 21 percent of its assets are invested in the Driefontein gold mine. A futher 14,7 percent is invested in Kloof, 10,6 percent in Vaal Reefs and 9,5 percent in De Beers.

Other important investments are Southvaal (7,6 percent), Rustenburg Platinum (6,0 percent) Amcoal (5,7 percent), Winkels (4,25 percent) Harties (3,3 percent), Anglos (3,2 percent) and Sasol (3,0 percent)

Smaller investments are in Zandpan, Samancor, Western Deep, Imapal, Gencor, Beatric, Kinross, JCI, and Potgietersrus Platinum.

It also has investments in two Canadian gold mines, Teck and Placer, but together they amount to only 13,7 percent of the total portflio.

FW, Mandela plea for investment

Sowetan 4/2/92

49

DAVOS (Switzerland) - A public clash here between Mr Nelson Mandela and the chairman of the prestigious World Economic Forum came close to wrecking a carefully co-ordinated approach by the Government and the ANC aimed at inspiring investor confidence.

In an important breakthrough for South Africa's hopes of attracting foreign investment, President de Klerk and Mandela, for the first time, presented a united front here to the world's most powerful economic and political leaders.

But the moment was marred when Mandela complained - before his illustrious audience - that he had been given less speaking time than De Klerk.

The forum chairman, Professor Klaus Schwab, smoothed over the potential row but Mandela remained stony-faced as he left the podium.

Before that the two leaders had deliberately put aside their local differences to speak as South Africans to the 1 300 mega-industrialists and politicians in the prestigious World Economic Forum - widely regarded as one of the world's biggest concentrations of economic and political muscle.

IFP leader Chief Mangosuthu Buthelezi also joined in the new spirit of accord with a speech of conciliatory gestures.

All three leaders sounded a common plea to the world's economic giants to divert their development funds and energies to South and Southern Africa.

They were addressing the forum on South Africa's place in the new world order before taking part in a panel discussion with

Top executives hopeful of upturn

STAR 4/2/92

By Sven Lünsche (49)

South Africa's top 100 businessmen foresee an improvement in business confidence alongside an improvement in the political situation in the current year, a survey by the Bureau for Market Research at the University of Pretoria reveals.

But they are not overly optimistic that the growth rate will increase to much more than one percent during 1992, which compares with a zero growth rate last year, but is below the 1,5 percent predicted by most economists.

Most of them expect a continuation of economic stagflation — high inflation plus low growth — during 1992.

The executives are also more pessimistic on the inflation rate than economists, who are expecting a rate of 12 to 13 percent this year.

According to the survey, forecasts averaged 14,8 percent.

Worsening

As far as the average dollar/rand exchange rate for this year is concerned, the executives expect a further worsening, predicting an average of R2,90 against the dollar.

About 75 percent of the executives totally disagree with a scenario predicting a drop in the percentage of unemployed, in line with their pessimistic forecast on economic growth.

However, they are more optimistic about interest rates, foreseeing a prime rate of 18 percent towards the end of the year, over two percentage points down on the current 20,25 percent.

A large number of the executives do not expect the political situation to worsen in 1992, but the majority is uncertain about the political outlook.

This optimism spills over to their views on confidence in the economy and greater business confidence is expected.

On the labour front, the executives still expect unions to play an important role this year, but are more optimistic that labour unrest and strikes will not intensify.

Summarising the findings of the survey, Unisa says the forecasts "clearly point to an economically, socially and politically uncertain business environment this year".

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SA among world's 'most affordable' countries

(49) ARG 4/2/92

VANCOUVER. — South Africa and two of its neighbours are among the world's most affordable countries

A global survey in the latest issue of International Living, a monthly US magazine that monitors the world's investment opportunities, retirement havens and travel destinations puts South Africa high in that category.

The countries are rated in six categories — cost-of-living, freedom, infrastructure, culture, prosperity and health.

South Africa scored 89 out of a possible 100 in the cost-of-living category, as did neighbours Zimbabwe and Swaziland, placing them near the top of the affordability list.

With a 62 rating in the freedom category, South Africa was placed ahead of more than half the countries including Zaire (14), Angola (17), Mozambique (23), Lesotho (29), Swaziland (29), and Zambia (50), but behind Botswana (92), Zimbabwe (70) and Namibia (79).

On infrastructure South Africa scored a middling 57 and the same mark for prosperity.

South Africa was given an average rating (71) on health and health care, and overall it was rated 65 — in the middle. — Sapa

Politicians pave a way for business at economic forum

(49)

BDay 5/2/92

BILLY PADDOCK in Davos

PRESIDENT F W de Klerk and ANC president Nelson Mandela's co-ordinated weekend strategy at the World Economic Forum was carefully orchestrated to lay a political foundation for SA businessmen and government officials to use to woo investors at Davos.

The industrial and trade focus of the forum was scheduled to run from Tuesday to Thursday this week.

Among the businessmen present are Premier Group CE Peter Wrighton, Eskom CE Johann Maree, SA Druggists executive chairman Johan van der Walt, Gencor executive director Naas Steenkamp, Sasol chairman Johannes Stegmann, Standard Bank MD Conrad Strauss and Gencor's Anton Roodt. There are also government officials from various departments including Public Enterprises.

Mandela worked hard publicly and privately to reassure potential investors. He said he had learned a great deal at Davos. He was hearing from foreign businessmen the same concerns that their SA counterparts had already voiced about the ANC's views on nationalisation and secretary-general Cyril Ramaphosa's threat that an ANC government would consider reneging on loans granted to the NP government.

Mandela was at the forum from the start, and Foreign Minister Pik Botha and Public Enterprises Minister Dawie de Villiers and their staff were there from at least Friday. This allowed all parties to gauge the mood of the conference and plug into it very neatly by Sunday.

Inkatha president Mangosuthu Buthelezi also plugged into the strategy. He is well known at the forum and the mostly conservative audience has come to respect his views on a free market economy.

Those of the 35 SA business leaders canvassed were pleased with the politicians' performances. They said the session appeared adequately to have addressed potential investors' major problems on issues such as nationalisation.

However, they said investors wanted to see tangible economic and social progress. Areas of continuing concern include:

- ☐ Social stability;
- ☐ The liberalisation of the economy through reduced state operations in the construction, industrial and commercial sectors;
- ☐ Deregulation and an opening up of the market through reduced protectionism, and a greater emphasis on the provision of services being farmed out to the private sector on a contractual or agency basis;
- ☐ The peaceful transition to a democratic political system; and
- ☐ Lower corporate taxes to make risky investment more attractive in SA than in Europe.

It is understood that the main thrust of the SA businessmen's and officials' work in Davos this week will be to urge investors to help broaden SA's productive base. There is concern that, with industry already operating at about 80% of capacity, that capacity will be exhausted within a few years once economic growth resumes.

One official said they were attempting to explore recommendations by foreign businessmen at the forum that SA, while trimming government spending, should operate an expansionary Budget geared to encouraging capital investment in industries aiming at the export market.

Botha and government officials are also seeking assurances from other governments that they, too, will liberalise their own international trade policies.

Mandela, the SA businessmen believe, emerged satisfactorily from a grilling on ANC nationalisation policy. Forum founder and president Klaus Schwab made a point of saying he wanted all 2 000 delegates and the public, through live television coverage, to hear the assurances Mandela had given in private groups and bilateral exchanges.

He asked: "Are you saying that new investments will never be menaced by nationalisation?" Mandela's response, his strongest statement to date on nationalisation, was warmly welcomed. He said: "We have made this clear... we are well aware that if you cannot co-operate with business you cannot succeed in generating growth.

"We are busy discussing this with (SA) businessmen and I have no doubt we will reach a decision that will make it easy for investors to invest in our country," he added.

"We would like to create the conditions for investors to invest without any fear of their properties being nationalised, or of not being able to repatriate their profits and getting a safe return on their investments — that is our intention," he said.

De Klerk argued that government was already applying the economic policies that had proven successful elsewhere in the world. "We are curbing state expenditure, we are fighting inflation, in the ways that you all know it should be fought. We are spending money on priorities necessary for economic growth — in infrastructure and education, especially human infrastructure," he said.

In trying to convince investors of political and economic stability, he said the peace accord under the chairmanship of John Hall had been set up to prevent violence.

In negotiations a constitution based on the proven democratic principles would be brought into being. There was a growing concensus that the constitution would offer investors in SA and future investors a sense of security to enter into a long-term economic association.

This was capped by John Hall expressing confidence in the leadership of SA and saying that he believed SA had the intellectual capability to reach its goal.

SA businessmen said they were concerned that, except for the focus on SA on Sunday, Africa was becoming the forgotten continent. A growing north-south divide was leading to the further impoverishment of African countries.

They felt Africa had to force itself onto the world agenda again. They argued that SA had gone a great deal further along the road to democratising and liberalising its political and economic systems than many of the former East European countries, and was a better investment prospect.

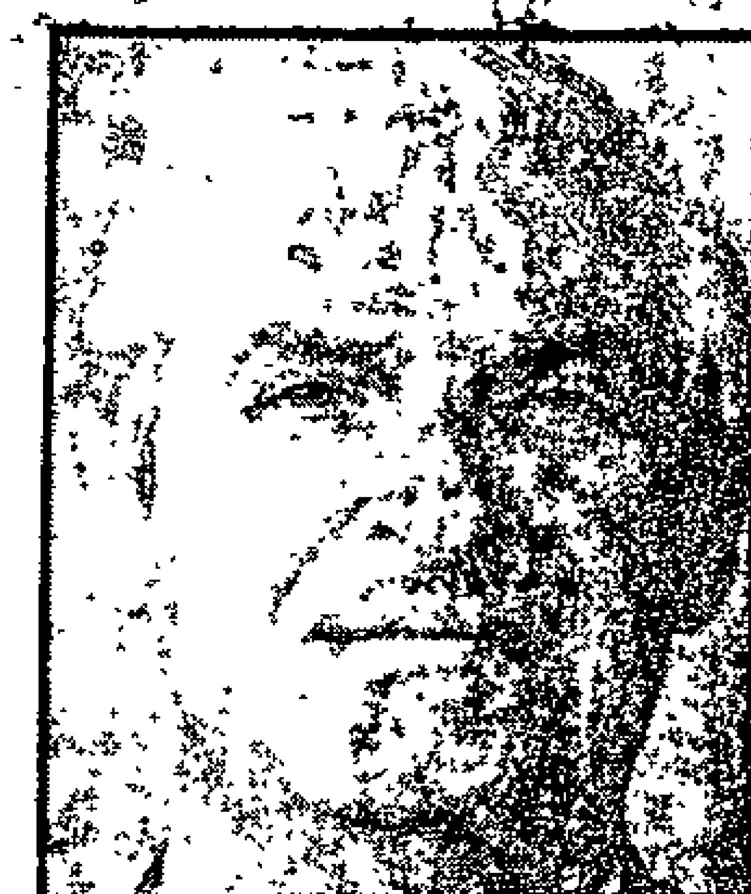
De Klerk emphasised this when he argued in his speech that the world ignored Africa at its peril.

Schwab commented on this issue in concluding the panel discussion: "The world needs a stable Africa and a stable Africa needs a stable SA."

He was positive about SA's prospects. He concluded that the SA presence at the forum had shown the country was irreversibly committed to a negotiated settlement. While there were still strong differences, he believed these would be overcome.

He also said all the South Africans present had demonstrated they were committed to the fact that "it is in the end entrepreneurship, whatever framework is given to it, which creates economic and social progress".

☐ WRIGHTON



☐ MAREE

☐ The name of Paul [illegible], co-author of the article "Cities will suffer if not built on a sound rural base" (February 3) was misspelt. Business Day regrets the error.

SA high on list of affordable places

Star 5/2/92 (49)

VANCOUVER — South Africa and two of its neighbours are among the world's most affordable countries, says a global survey in the latest issue of International Living, a monthly US magazine that monitors the world's investment opportunities, retirement havens and travel destinations.

Syria and Switzerland are the least affordable, the magazine found.

The countries are rated in six categories — cost-of-living, freedom, infrastructure, culture, prosperity and health.

South Africa scores 89 out of a possible 100 in the cost-of-living category, as do neighbours Zimbabwe and Swaziland.

The absolute top position in that category is shared by Ecuador and Venezuela, each scoring 100 points. Rock bottom Syria is rated 20. Switzerland, at 25, emerges as the world's second-most expensive country

With a 62 rating in the freedom category, South Africa is placed ahead of more than half the countries including Zaire (14), Angola (17), Mozambique (23), Lesotho (29), Swaziland (29), and Zambia (50), but behind Botswana (92), Zimbabwe (70) and Namibia (79). The freedom score is a perfect 100 for Japan, the US, Canada, Australia, New Zealand and all EC members.

Top place for infrastructure, which considers communications and transport, goes to Switzerland with a score of 99. The second-highest infrastructure rating, 90, is awarded to two countries, Japan and Monaco. South Africa scores a middling 57.

The US is judged the most cultured country, with a 93 rating. South Africa scores 81, well above average in this category. At the bottom of the list is Chad (four).

The most prosperous people on earth, according to the survey, are the Swiss (99), followed by the Japanese (90) and the Swedes (89)

The compilers give South Africans 57 prosperity points — about half-way down the list — but they caution that this is an overall average that disregards gaps between population "layers"

South Africa gets an average rating on health and health care — 71. Luxembourg leads in this category with 99, followed by Denmark (98) and the US, France and Finland (each with 97). Mozambique (26) is shown as one of the world's worst countries in terms of public health, life expectancy and health care.

On an overall rating, based on the average of the six scores, the US is the overall winner, with 89 points. Near the top of the list are Japan Australia and Canada. — Sapa.

IFP calls for economic freedom

By Esther Waugh

CAPE TOWN — The Inkatha Freedom Party will propose an economic constitution at tomorrow's meeting of the Codesa working groups.

IFP spokesman Suzanne Vos confirmed that the proposal would be made in the working group on constitutional proposals.

Democracy in Codesa meant, in addition to equality in the voting booth, equality of economic opportunity for all South Africans, she said.

"It means equal freedom to secure employment, to enter into contracts, to engage in business activities and to own property."

It was the future South African government's task to ensure these rights, she added.

Achievement of economic equality involved the maintenance of a strong currency by the government, the encouragement of capital formation and foreign investment, the promotion of exports, and the advancement of education and training.

In order to achieve an economic constitution, Codesa should endorse the following:

- The Government should pledge judicial enforcement of all contracts entered into, provided they were not discriminatory or inconsistent with public safety.
- A sovereign government should have the power to expropriate private property, but only after establishing there was no reasonable alternative. Fair and immediate compensation should be given, and the owner of the property should have an opportunity to challenge either, or both, the expropriation and the amount.
- There should be no licensing restrictions on private business.
- Taxes should be designed to encourage business operations, capital formation, foreign investments and exports. "For example, it would be desirable to exempt saving bank interest from taxation," she said.
- A commission on privatisation should be mandated in the future constitution.
- An autonomous central bank should be constitutionally mandated. It should be given the power to control the emission of money and set interest rates.
- An independent, autonomous auditor-general should be provided for.

49 2/9/92

SA still out in the cold for investors – poll

(49)

STAR 5/2/92

By Shaun Johnson
Political Editor

Those who believe that international businessmen are queueing up to invest in the new South Africa had better think again, according to the results of a Gallup poll commissioned by the London office of the South Africa Foundation (SAF).

In spite of the optimism expressed in South Africa after President de Klerk and ANC leader Nelson Mandela addressed the Davos World Economic Forum, British investors are not convinced of this country's attractions – and there is no reason to believe that their European and American counterparts think any differently.

In influential British circles, South Africa is regarded as being an investment prospect only marginally more enticing than Russia, Czechoslovakia and Brazil, the survey reveals.

The survey, conducted among influential UK fund managers, MPs and journalists, is cause for "considerable concern regarding UK-SA investment and trade", according to the SAF.

"Not only are the levels of ignorance about South Africa surprising, but when it comes to matters of trade and investment it is very clear that SA has not come in from the cold.

Some 25 fund managers, 50 MPs and 25 media figures were polled. Their attitudes suggested a worrying level of indifference towards South Africa – a sentiment which, observers note, could be even more debilitating than active hostility.

Some of the key findings are

- Nearly half of all respondents believe much of or most apartheid legislation is still in force.
- Close to 40 percent said it would take 10 years or more for South Africa to correct current social, political and economic imbalances.
- Nearly half believed a future South African government would have an economic policy of "free market with partial State intervention".
- South Africa was regarded as a "medium risk" investment.
- Just less than 70 percent of respondents cited "political instability" as the greatest disincentive to investment.
- "Violence" was cited by close to half of those polled

The SAF interpretation of the results is that, in spite of the freer climate created by the negotiations process, British decision-makers are not expressing marked interest in investing in South Africa. It is pointed out, for example, that the current generation of fund managers was trained in an environment in which there were little or no dealings with South Africa.

Western Cape conference to explore growth areas

(41)

BDay 6/2/92

LINDA ENSOR

CAPE TOWN — A conference involving about 350 prominent industry, trade union, political and civic leaders in the Western Cape is to be held on March 17 to work out economic strategies to promote growth in the region.

The conference is the culmination of the 18-month period of preparation and research undertaken by the Western Cape Growth Organisation (Wesgro) to assemble information about the Cape economy and identify its key growth sectors. Wesgro is supported by about 200 private sector members.

Wesgro executive director David Bridgman said yesterday the conference at the Cape Town Civic Centre had been carefully structured to lead to problem solving. The conference would break down into seven working groups each led by a prominent chairman to identify growth areas and work out suitable strategies.

A four- to six-month period of follow up to explore the strategies would then take place, with some institutions hopefully taking responsibility for particular strategies.

Among the issues to be addressed would be improving the competitiveness of Cape business, housing delivery and urban development; education and training; black economic advancement; poverty alleviation and the financial and an institutional environment for regional development.

Bridgman stressed the importance of stimulating economic growth in the Western Cape.

"Merely to maintain the present high rate of unemployment, 38 000 new jobs have to be created a year — and that does not even start to take care of the backlog.

"The Western Cape economy has performed well relative to the rest of SA in recent years and many key aspects are in place both nationally and at regional level to fuel strong growth for the rest of the 1990s," Bridgman said.

Co-convenor of the workshop and Small Business Development Corporation head Wolfgang Thomas emphasised there was nothing automatic about the process of regional growth and positive developments such as export orientation needed to be intensified.

Only hard work by entrepreneurs, workers, local business and community leaders and local authorities could give the Cape the competitive edge needed to create jobs.

There was no shortage of capital, only a shortage of co-operation and vision, he said.

The Growing the Cape project is funded by the Development Bank of Southern Africa and three regional development associations.

CT 6/2/92

Business leaders meet to plan economic strategy

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MAGGIE ROWLEY
Deputy Business Editor

ABOUT 350 economic and civic leaders in the Cape are to meet next month under the auspices of Wesgro to identify needs and define strategy initiatives to accelerate future development of the region's economy.

The workshop, constituting the third phase of the Growing the Cape project launched in 1990, will be led by 15 of the top regional business, labour, community and civic leaders.

David Bridgman, executive director of Wesgro and co-ordinator of the project which is co-funded by the Development Bank of Southern African and three regional development associations, said the one-day workshop had been carefully structured to lead towards problem solving.

More than 350 leaders from chambers of commerce, industry, trade unions, political groupings, local authorities, financing institutions, government departments and parastatal organisaitons as well as community service bodies have been invited to attend.

Findings of the first two phases will be presented at the workshop and used as a basis for discussion.

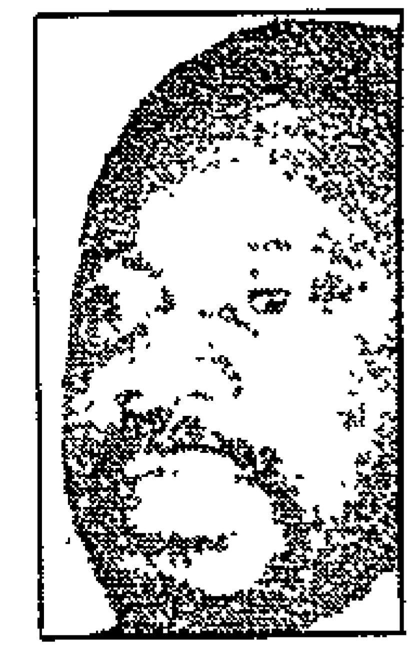
Topics to be addressed by the workshop, he said, included improving the competitve-ness of Cape business, housing delivery and urban development, education and training, black economic advancements, poverty alleviation and the financial and institutional environment for regional development.

Wolfgang Thomas co-convener of the workshop and head of the Small Busenss Development Corporation said the Western Cape economy had performed relatively well over the past two or three years.

"Strengths and problems areas have been identified but we are now at a critical phase where we have to deliver."

The workshop is to be held at the Cape Town Civic Centre on March 17.

Another shock warning to overseas financiers



Ramaphosa . . . created rumpus last year.

Loans: ANC, Mandela differ

STAR 6/2/92 (49)

By Esmaré van der Merwe

The ANC yesterday again warned world financiers that a future democratic government would not be obliged to honour loans granted to the De Klerk administration — pouring cold water over ANC president Nelson Mandela's efforts this week to boost investor confidence in the country.

The organisation's department of information and publicity (DIP) said in a hard-hitting statement that a new government would, before the formation of an interim government and a formal request by a transitional government for the lifting of sanctions, be "compelled to weigh with great care" its obligations to service and take responsibility for the debts contracted by the present "illegitimate" Government.

On Sunday, Mr Mandela told a prestige World Economic Forum gathering in Switzerland that threats by some of his colleagues to review the repayments of loans granted to the present Government were merely the opinion of individuals.

"We can get into serious problems if the image we project is one of a country which is not prepared to honour its debts," Mr Mandela said in Davos, where he shared a platform with President de Klerk.

A senior ANC source yesterday expressed surprise at the DIP statement, describing it as highly irresponsible.

The ANC's first warning

Judge finds Laurent guilty of slaying boss

By Susan Smuts and Jacqueline Myburgh

A callous, cold-blooded woman killed her boss the day he was going to expose her R2,3 million fraud, a judge said yesterday as he found Nicolette Laurent guilty of murder

Wendy, the widow of murdered Omnimed financial manager John Royce Fernandez, sobbed after her husband's killer was convicted.

Laurent (51), dressed in a turquoise crepe dress, was expressionless as she listened to Mr Justice L Weyers delivering judgment in the Rand Supreme Court She looked down at her folded hands when the verdict was given.

Her husband, Jean-Michel Laurent, who has been her only supporter throughout the trial, sat silently behind her as the judge spoke

Laurent, of Ruimsig, Roodepoort, had "every reason to do away with" Mr Fernandez on January 2 1991, said Mr Justice Weyers.

Mr Fernandez had said Laurent had been "bullshitting" Omnimed.

her lavish lifestyle was over "

Mr Fernandez was not an office-wanderer, had an appointment to see Mr Pule, and "would hardly pop out for a little drink", he said.

The probabilities were strongly against Laurent having had an affair with Mr Fernandez, and "her claims were a scurrilous attack on the reputation of a dead man who could not defend himself, and a grave and unjustified embarrassment to his widow and children"

Laurent had formed the intention to murder Mr Fernandez when she visited the office on January 2 last year and Mr Fernandez told her that her time had run out.

"She then lured him to her house where she tried (to offer him) money, probably offered him sex and, when all else failed, she used a firearm."

The judge said everything pointed to a discovery of the fraud at the end of 1991, which had "excited suspicion and ire" in Mr Fernandez

Laurent claimed she had "paid" Mr Fernandez with money and sex for his silence about her theft, which boost investor confidence in the country.

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"We can get into serious problems if the image we project is one of a country which is not prepared to honour its debts," Mr Mandela said in Davos, where he shared a platform with President de Klerk.

A senior ANC source yesterday expressed surprise at the DIP statement, describing it as highly irresponsible.

The ANC's first warning on the repayment of loans was issued by its general-secretary, Cyril Ramaphosa, in October. It caused a local and international rumpus — and much confusion in ANC ranks, with senior officials claiming Mr Ramaphosa had either been misquoted or had acted contrary to formal policy.

However, the organisation has, on several occasions, reiterated its stance that it might renege on the present Government's foreign debt obligations once in power.

Yesterday's DIP statement was issued in response to the Development Bank of Southern Africa's reported plan to issue bonds worth 100 million Deutschmarks on the European capital market.

This bond issue, the ANC said, followed two earlier issues last month — one of 400 million Deutschmarks and one of 250 million European Currency Units.

"It is clear that the South African authorities are pursuing a systematic programme of foreign borrowing with a view to both breaking the existing range of economic — in particular financial — and investment sanctions," the statement said.

"The ANC further believes these borrowings are de-

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Swiss hothouse breeds SA truce

(49)

STAR 6/2/92

With the unblinking gaze of so many of the big names in world business fixed upon them at the World Economic Forum in Switzerland this week, both the Government and the ANC got their act together fast, reports Political Correspondent PETER FABRICIUS.

WHILE the world's political and economic movers and shakers were engrossed in lofty debate about global co-operation and mega-competition at the World Economic Forum in Davos, Switzerland, at the weekend, critical things were happening among the South African contingent that could have a lasting impact on the country.

The forum became a sort of concentrated laboratory of international pressure on SA.

The concentration of about 35 heads of state, between 100 and 200 Cabinet Ministers, 800 or so giant industrialists and bankers, and scores of heads of world media turned the icy Swiss alpine resort into a hothouse.

And one could see the remarkable effects of international pressure at work.

They seemed to have produced a growth spurt in co-operation between the Government and the ANC and in the economic thinking of ANC President Nelson Mandela.

Mindful of how they had shaken investor confidence with their fall-out at the World Economic Forum's special South African forum a few months ago, the Government and ANC — and the IFP, it seems — worked behind the scenes to present a united front.

It was not easy. Whenever Mr de Klerk and Mr Mandela share a public platform nowaways the air becomes charged with high-voltage electricity.

Add IFP leader Mangosuthu Buthelezi and one has a political situation as delicate as transporting nitro-glycerine over a bumpy road.

But somehow they managed it, despite a very wobbly moment when Mr Mandela raised the spectre of another Codesa clash by complaining that Mr de Klerk had been given more speaking time than he had.

Nevertheless, the two men buried their differences at home, to plead to the industrial world for investment.

Mr Mandela appeared to make more concessions although Mr de Klerk's speech differed from his custom.

Hardly surprising since, in this exclusive club of capitalism — where politicians are invited "like zoo animals to be scrutinised" as one diplomat put it — Mr de Klerk was more at home.

That was obvious from the greater volume of applause when he ended his speech.

Most curiosity and pressure was directed at the ANC's residues of socialism. Under the razor-sharp interrogation of these hard-headed men and women, there was no room for party-political rhetoric.

This was the reality of the new world and Mr Mandela clearly recognised it as such and acted accordingly.

By the end of it, he had demarcated for himself and the ANC an economic position rather different from what it had seemed before.

In his speech, he promised that the ANC would allow repatriation of profits.

And, in an earlier briefing, he had repudiated his own secretary-general Cyril Ramaphosa's remark that an ANC government would review foreign loans granted to the present Government in defiance of ANC sanctions policy.

In the question session one could almost see Mr Mandela bowing under pressure.

When chairman Professor Klaus Schwab put to him the one question which most participants had been asking, was the ANC still committed to nationalisation?, Mr Mandela reiterated that the ANC would regard nationalisation as a viable option until the business world offered a better way of closing the wealth gap. He pleaded for time to discuss the problem with SA business.

But Professor Schwab sharpened the question and asked "will nationalisation menace foreign investment?"

Mr Mandela at first ducked the question but then made an extremely important concession when he said the ANC would like to create a commercial environment in which foreign investment was safe from nationalisation.

It was a moment at which the abstract phrase "international pressure" became a tangible reality. □

ANC, Mandela differ on loans

STAR 6/2/92

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signed to impose a costly and heavy burden of international indebtedness on a future democratic government and the people of South Africa.

"This in turn, in our view, has the purpose of severely restricting the economic policy options available to such a government to overcome the effects of apartheid on our people, and the policies required to advance their living standards."

The ANC remained opposed to international loans and once again wished to remind international banks and foreign capital markets that borrowing by Government agencies was in gross violation of financial and investment sanctions still in place.

"We appeal to prospective investors to desist from collaborating and participating in unilateral restructuring of our economy by the outgoing apartheid regime," the DIP said.

Mr Mandela has used his public appearances with Mr de Klerk in front of influential audiences in Switzerland and France to calm investors' fears that their money would not be safe in South Africa and that their assets might be nationalised.

However, in Denmark on Tuesday, he reiterated the ANC's view that trade sanctions should not be lifted before blacks had the vote.

The National Party yesterday labelled the ANC leader's sanctions stance as "unpatriotic", reports **Esther Waugh**.

In a sharp attack, NP spokesman Sheila Camerer said Mr Mandela's remarks deserved the outrage and criticism of his countrymen.

She noted that Mr Mandela had acknowledged that the negotiations process was irreversible and that the ANC was an enthusiastic participant at Codesa.

"Why, then, does Mr Mandela still cling to old-style liberationist rhetoric, unless he has a double agenda?"

She added: "If Mr Mandela is so intent on continuing to damage the economy, which has resulted and continues to result in the deprivation and suffering of our own underprivileged compatriots, perhaps he could arrange for the ANC to donate some of the money contributed to ANC coffers by Colonel Gaddafi of Libya on Mr Mandela's recent trip to that country, to assist the Government's Food Relief Fund for the needy."

Mandela rethinks economy

CT 7/2/92

(49)

COPENHAGEN. — The ANC will reconsider its policy on nationalisation because it is so unpopular among potential investors, Mr Nelson Mandela said yesterday.

"Nationalisation is our policy," he told Danish businessmen, "but there is a shift in our thinking. We have observed the hostility and concern of businessmen towards nationalisation, and we can't ignore their perceptions.

"If we want to create a climate where investors will not fear losing their investments, their dividends, we have to take a decision on the question of nationalisation."

Mr Mandela was answering questions after a speech to business leaders on the third and final day of his visit to Denmark.

Foreign loans

He said he had been told at Davos that it was no longer feasible in a world of inter-linked economies to provide jobs and stimulate economic growth through nationalisation.

Meanwhile, ANC sources in Johannesburg said yesterday that the conflicting statements by Mr Mandela and the organisation's department of information and publicity on the repayment of foreign loans granted to the Nationalist Party government had created a sensitive situation.

The issue would probably be discussed by the NEC on Mr Mandela's return to South Africa at the weekend, the sources, who asked not to be identified, said.

On Sunday Mr Mandela told the World Economic Forum that an ANC government would be obliged to honour the loans. On Wednesday the ANC's department of information and publicity said the organisation would weigh its obligations to service and take responsibility for foreign debt incurred by the NP government. — Reuter and Own Correspondent

Mandela 'rethinks' nationalisation stand

BIDay 7/2/92

COPENHAGEN — The ANC would reconsider its policy on nationalisation because it was so unpopular among potential investors, ANC president Nelson Mandela said yesterday.

"Nationalisation is our policy," Mandela told Danish businessmen, "but there is a shift in our thinking. We have observed the hostility and concern of businessmen towards nationalisation, and we cannot ignore their perceptions.

"If we want to create a climate where investors will not fear losing their investments, their dividends, we have to take a decision on the question of nationalisation," he said.

Mandela was answering questions after a speech to business leaders on the third and final day of his visit to Denmark.

He said he had been struck by the concern over the ANC's nationalisation stand among the 2 000 businessmen present at the World Economic Forum at Davos, Switzerland, last weekend.

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He had also been told that whereas countries emerging from war and other traumatic events in the past had been able to nationalise to provide jobs and stimulate economic growth, this was no longer feasible in a world of interlinked economies.

"We have to choose whether we want investment from foreign companies," he said. "We have to make a choice. This is the spirit in which I am going back to SA."

Mandela said the ANC had to form its economic policies for a future, democratically ruled SA in co-operation with business circles. It would have to seek capital investment to help stimulate growth and provide jobs for the country's unemployed, while removing "rigidities" that had resulted from apartheid in areas such as education and training.

DARIUS SANAI reports that SA Foreign Trade Organisation (Safto) spokesman Wim Holtes yesterday hailed Mandela's comments as "very welcome and very sig-

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Mandela

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nificant". Holtes said the ANC leader's latest comments were indicative of a "definite shift in position" by the ANC since the beginning of negotiations.

He said he believed the positive comments would influence potential foreign investors, but added he still expected confusing signals from the ANC. "They are still struggling (to form an economic policy), and one must accept that. We had to wait long enough for the government to realise that protection did not spark growth in the SA economy."

ANC spokesman Gill Marcus said Mandela's comments were in line with what the organisation had said before. — Reuter

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Havel endoses FW's call for a free market

(49)

By Peter Fabricius STAR 7/2/92
Political Correspondent

PRAGUE — Internationally revered Czechoslovakian President Vaclav Havel has given President de Klerk a warm welcome and implicitly endorsed his fight against the ANC for a free market-based future for South Africa.

And Czechoslovakian Prime Minister Marian Calfa is almost certain to visit South Africa later this month — the first by a European or Western head of government in three decades.

This emerged here yesterday after Mr de Klerk's lightning one-day State visit when he met Mr Havel, Dr Calfa and the presidents of the Czech and Slovak republics.

It was the first visit by a South African head of state.

The two governments also signed a new trade agreement and begun negotiations on others to promote investment.

Mr de Klerk was received with full honours by Mr Havel.

A military band played the South African and Czechoslovakian national anthems and then Mr de Klerk inspected the Castle Guard before he and Foreign Minister Pik Botha began a series of meetings with national and federal leaders.

Drumming up support for the Government's negotiating position versus the ANC on free-market principles and on interim constitutional proposals is emerging as an important theme of the tour.

Yesterday Mr de Klerk repeated his view that the Government was adamant that it would not experiment with economic systems that had failed elsewhere.

Mr Havel said that Mr de Klerk had also explained the National Party's proposals for transitional government. The Czechoslovakian leader drew many parallels between the Czechoslovakian situation and the NP's interim government proposals.

At a state banquet which Mr Havel gave in his honour last night, Mr de Klerk said it was clear that SA would join other countries in some form of regional economic co-operation. This would open up an attractive market which countries like Czechoslovakia should begin exploring now.

Today Mr de Klerk will met Polish President Lech Walesa, Prime Minister Jan Olszewski and parliamentary leaders in Poland.

IMF rejects spending cut for whites

(49) ARG 7/2/92

Report supports rapid economic growth

HUGH ROBERTON
The Argus Foreign Service

WASHINGTON. — Top officials of the International Monetary Fund have concluded that it would be unwise to significantly reduce public expenditure on whites as a means of redistributing wealth in the new South Africa.

They believe such a policy would do little to relieve the poverty of blacks and would be less effective than the alternative of rapid economic growth.

In a long-awaited report by six senior managers and economists, which draws on the findings of an IMF investigation conducted inside South Africa last year, the officials also suggest that rather than trying to narrow the wage gap as a means of equalising incomes it would be better to concentrate on improved training and employment opportunities for blacks.

While the report is not binding on the IMF's directors, who make the final decisions on loans and investments, it is the most detailed and clearly defined outline of policy on South Africa to emerge from the organisation and it is likely to serve as a basic guide in dealings with whatever government emerges.

The report is also critical of the existing tax structure in South Africa and finds that the tax burden on the white community is "relatively high even by industrial country standards" and that raising taxes any further would bring with it the risk of "heightening disincentive effects" — apparently a clumsy euphemism for the flight of capital and brainpower from the country.

Dealing with the "poverty profile" of South Africa, the report notes that the reduction in economic growth which accompanied sanctions and domestic uncertainty in the 1980s, resulted in "a slowing of the earlier trend toward a more equal distribution of income and led to a sharp rise in the proportion of the black labour force outside the formal sector of the economy, to its present level of over 40 percent.

"The main conclusion to be drawn is that poverty in South Africa is so severe that redistribution policies, which alone will not be adequate to counter it, must be supported by policies designed to place the economy on a higher growth path. Only then could the economy be expected to generate the resources necessary to satisfy the needs of the least privileged sectors of society on a sustained basis."

The report acknowledges that the narrowing of the "wedge" between white and non white wages was largely responsible for the improvement in the share of income by blacks over the past two decades.

But it adds: "For purposes of policymaking, this finding suggests that future improvements in income distribution between the races will need to derive mainly from better training and better employment opportunities for non whites rather than from a further compression of the wedge between wages for different racial groups."

Budgetary priorities in recent years had shifted towards social goals and a comparison of South Africa's overall level of social spending with that of other countries at a similar stage of development suggested that it was relatively high by international standards.

"This comparison also suggests that the scope for further compressing non-social spending in South Africa is limited and therefore implies that social expenditures will need to be reordered if the budget is to attend to the needs of the least privileged groups of society without significant resort to deficit financing or to higher taxes.

"The examination of the per capita level of social spending by different racial groups indicates that, despite some progress in recent years, South Africa's budget still reflects very marked differences between the races."

Issues that face a future SA

wl mail 7/2 - 13/2/92 (49)

REFORM AND REVOLUTION: SOUTH AFRICA IN THE NINETIES *edited by Gordon Naidoo*
(Skotaville, R32,95)

THIS is not just another of those "new" South Africa books that have filled bookstore shelves in the aftermath of February 2 1990. This is a collection of well researched and well considered works collated by some sharp minds. It spans a wide range of subjects, all of which will present great challenges to the order that is to emerge from the ashes of apartheid.

Reform and Revolution emerged out of a group of foreign-based South Africans — most of them exiles — which called itself the South African National Working Group.

The man responsible for collating the book kicks off with a scientific analysis of the main catalysts for change and the political and social forces shaping the transition process. Of these he pinpoints the decisive battle of Cuito Cuanavalle in the Angolan war, which forced the belligerents to the negotiation table. This battle, Gordon Naidoo contends, had far reaching implications for South Africa in that it undermined South Africa's claim to unchallenged regional superiority and led to Namibian independence — a forerunner of South Africa's reform process. It led to an alteration in Soviet policy towards southern Africa and to the removal of the African National Congress fromAngola, making insurgency impossible. Thus the protagonists in the South African conflict were propelled towards the negotiating table and its concomitant compromises. Organised labour's role is also highlighted.

But can negotiations deliver the goods? Moeletsi Mbeki wrangles with this question in a subsequent chapter. Mbeki also examines the pressures which gave birth to negotiations and, while he casts some doubt on whether they will solve South Africa's problems, he states clearly that the country's political payers have little choice but to make negotiations work.

Looking beyond negotiations, other writers examine the issues that will confront the new state. Cape Town-born University of Zimbabwe law student Jeniffer Mohamed tackles the shape of the constitution and how it should deal with issues such as ethnicity and minority rights. Also addressed in this chapter are the contentious issues of workers' versus business rights, as well as women's rights.

But the book's strongest quality is that it gives ample space to the most intractable area facing a post-apartheid South Africa: economic issues.

A good half of the book is taken up by an analysis of South Africa's political economy and future options. Economists Selim Gool and Peter Ellis tackle the issues of nationalisation, privatisation and the concentration of economic power.

Other issues covered in the book include the future role of the trade union movement and the likely contribution of small businesses and co-operatives.

Although it tends to get very technical and rather clichéd in certain instnaces, *Reform and Revolution* certainly does not gloss over isues. It gives every issue an in-depth examination. Its only downfall is that the authors' opinions are more or less of a similar poitical cast, and one does not get a sense of the debate which a book of its calibre should encourage.

Mondli Makhanya

'Sanctions-busting' loans anger ANC

WlMail 7/2-13/2/92.

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Economists say the ANC dare not renege on foreign loans, reports **REG RUMNEY**

THE African National Congress dare not renege on foreign debt entered into by the present government — even if the loans are expensive and politically motivated.

That is the opionion of economists canvassed by *The Weekly Mail*.

At the same time the government was criticised by a bank economist for raising expensive foreign loans instead of raising the money domestically.

The ANC threatened this week to reconsider foreign loans. It believes the government is systematically borrowing abroad as a sanctions-busting exercise.

It also believes the borrowings are designed to impose a costly burden of international indebtedness on a future democratic government. This in turn would limit economic policy options for overcoming the effects of apartheid and hamper policies required to advance living standards.

The cause of the ANC's anger is a proposed new Development Bank of Southern Africa Deutschemark loan. The DM100-million issue, with a tenure of six to seven years, is lead-managed by the German Bayersiche Landerbank on the Euro-capital market, the ANC says.

It adds that this bond issue follows two earlier issues — a DM400-million issue in September 1991 and a 250-m European Currency Unit (US $315-million) five-year bond issue last month.

Reneging on foreign loans would mean South Africa would probably be blacklisted by foreign institutions and would never be able to borrow abroad again.

Nedcor economist Edward Osborn points out that independent Zimbabwe, for instance, repaid all loans but one. This was a tax levy to pay for the bush war.

"Modern convention is that you accept the liabilities of the past."

It would be especially difficult not to repay public bond issues, such as the ECU bond issue. These were excluded from the South African debt standstill.

An ANC source says that while an ANC government might be forced to repay loans the ANC is probably considering other punitive action against banks lending money or underwriting loans.

That a future government may have to service and repay all foreign loans does not exonerate the government. Firstly, the loans are arguably expensive, and secondly the money could have been raised in South Africa.

That foreign loans to South Africa carry a poltical premium for lenders is not in doubt. They are a few percentage points higher than other issues. This could happen even to a new ANC government.

In an article in Nedcor's latest economic review Osborn also looks in detail at the desirability of all foreign capital inflows and expectations of what these will do for the country.

In passing, he questions the economic value of direct borrowing by the state, pointing out that domestic inflation makes foreign loans more expensive than they appear. He says that if the local market can accommodate the loan the money should not be borrowed abroad.

"Foreign borrowing by the state in a situation of chronic currency decline is thus an unnecessary burden on the finances of the state and should be approached most circumspectly and not as a triumphant test of financial vigour and creditworthiness."

'No contradiction' says ANC on loans row

STAR 7/2/92

(49)

Political Staff

The ANC has attempted to avert a fresh controversy over warnings that it might not honour our foreign loans negotiated by the present Government — but the organisation has not withdrawn the threat.

General secretary Cyril Ramaphosa yesterday rejected claims that a statement issued in Johannesburg on Wednesday by the ANC's department of information and publicity (DIP) ran counter to remarks on the repayment of loans made by ANC president Nelson Mandela at the World Economic Forum in Switzerland on Sunday.

Mr Mandela told his international audience that threats by some of his colleagues to review the repayments of loans granted to the present Government were merely the opinion of individuals.

"We can get into serious problems if the image we project is one of a country which is not prepared to honour its debts," he said.

However, Mr Ramaphosa yesterday maintained there was no contradiction between the two positions. There was no contradiction as the DIP statement referred only to the Development Bank loan, he said.

DIP spokesman Gill Marcus echoed this view: "I see no contradiction and have nothing further to add to the statement."

Asked on whose authority the statement had been issued, Miss Marcus said it — like all other statements released by the DIP — came from the organisation's national executive committee.

But The Star has learnt that at least one senior NEC member was not aware of the loans threat.

Another ANC source described the statement as highly irresponsible.

There is still confusion about the position — both within ANC circles and outside — and sources say the matter will in all likelihood not be cleared up until Mr Mandela's return from a trip abroad. Attempts to contact him in Denmark proved unsuccessful.

The statement followed reports of a 100 million Deutschmark bond issue being planned by the Development Bank of Southern Africa in the European capital-market.

It condemned the planned issue as a breach of financial sanctions, noting that loans should not be granted before the formation of an interim government and a formal request for the lifting of sanctions.

This is the second time that ANC warnings on the repudiation of international loans has caused a controversy. The first warning was delivered by Mr Ramaphosa in October.

It caused a local and international rumpus — and much confusion in ANC ranks, with senior officials claiming Mr Ramaphosa had been misquoted or had acted contrary to policy.

Can Barend snip taxes without cutting himself?

W/Mail 7/12 - 13/12/92 (49)

As the Budget draws near, Finance Minister Barend du Plessis will be looking for new forms of revenue. One thing he should but probably cannot look at is doing away with medical aid subsidies.

REG RUMNEY *reports*

The central government budget deficit (Rm)

	1990/91		1991/92	
	Budget	Actual	Budget	Projection
Expenditure	72 932	74 396	84 984	86 480
Revenue	64 938	67 130	74 866	72 763
Deficit	7 994	7 266	10 118	13 717
Plus Redemptions.				
Domestic marketable stock	3 229	3 229	4 969	4 969
Other loans (domestic non-marketable stock and foreign loans)	576	368	447	447
	11 799	10 863	15 534	19 133
Less Funds from other sources	–	-319[1]	-950[2]	-1 950[2]
Adjusted financing requirement	11 799	10 544	14 584	17 183
Deficit/GDP (%)	2,8	2,7	3,4	4,5

1) Sale of assets as a result of privatisation
2) Sale of strategic assets and stockpiles

At the limit ... The deficit before borrowing in this fiscal year is around 4,5 percent, leaving little room for tax relief in the Budget Source: ABSA

IT'S guessing time again as the Budget draws near. State President FW de Klerk has committed the government to further tax cuts for individuals and companies.

Can his finance minister, Barend du Plessis, deliver this — beyond making mere cosmetic changes in the top marginal rate?

Most economists think not.

They think that the top marginal rate will be cut, by one or two percent, but that the tax tables will not be changed radically.

So fiscal drag will come to the government's aid again and salary increases will push taxpayers into higher tax brackets even though their salaries may stay the same or even drop when adjusted for inflation.

Old Mutual chief economist David Mohr, for instance, reckons that if government were to change the tax tables to account for fiscal drag it would lose R2-billion and Du Plessis could not find that elsewhere given the demands on the Budget for increases in social spending.

Azar Jammine of Econometrix reckons that cuts in company and personal taxes can only be made up through other forms of taxes, such as the fuel levy or an increase in Value Added Tax.

Putting up the VAT rate would be disastrous. The whole issue of VAT has died down for the moment, but a VAT increase would fan the flames again.

Another source of new revenue in the past has not been new taxes or even increases in existing taxes but eliminating tax loopholes and tax perks.

The Centre for Health Policy estimates that the tax rebate on medical aid payments by employers costs the government between R1,1-billion and R1,7-billion in lost revenue.

The centre would like to see the rebate done away with to restructure the health system, but getting rid of it also provides a nice source of revenue.

Many in the medical profession are likely to oppose such a move vigorously. Removing the rebate would make medical aid even more expensive.

Medical aid is at the heart of private health care, which employs half of South Africa's doctors, 90 per cent of all dentists and most parmacists.

The world is full of economically reasonable moves which have been ruled out by politics.

Also, while the government has been moving away from using tax as an instrument of policy, last year it once again took to using tax breaks as a way of encouraging investment in South Africa.

For instance, Southern chief economist Mike Daly, looking at the coming Budget, reckons there may be a return to the accelerated depreciation formula which was done away with in favour of straight line depreciation in 1990. This means businesses can once again write off 50 percent of an investment in the first year, 30 percent in the second year and 20 percent in the last year. This would help boost new fixed investment in the private sector, which has been declining.

He notes that gold mines only account for one percent or less of tax revenue. In view of the low gold price there should be no increase of revenue in the coming fiscal year from this source. It also means that from a revenue point of view it would be easy to lift "ring-fencing on mines", now at 25 percent of a company's tax base. So mines could use tax losses on one mine to offset profits on another.

The mines are efficient creators of employment and this would help mining capital expenditure enormously, believes Daly.

He agrees some cosmetic tax relief may be forthcoming.

Overall, the percentage of government revenue coming from personal tax could rise to 40 percent or more. This is assuming the increase in the tax take will be more than 20 percent, even after a one percentage point cut in the marginal rate, Daly says.

Total government revenue will then comfortably rise 13 percent, largely because of fiscal drag. Excise duties on alcohol and cigarettes and other luxuries could be increased, and revenue from Customes and Excise could grow by around 15 percent.

Company tax will garner no more than last year.

The other move Du Plessis could make is to scrap import surcharges, which have already been reduced.

The "loss" in tax revenue because of these moves could be R2,5-billion.

That tax loss will have to be recouped through an increase in the fuel levy, by around 15c a litre, as well as above-mentioned increases in excise duties.

Daly put the loss in tax revenue for the 1991/92 financial year at R1,8-billion.

If Du Plessis uses in the 1992/93 financial year the fuel levy and excise duties in the same way he did this financial year there will be an extra R700-million or so. This will have to be financed in some way, possibly going into the deficit before borrowing.

An increase in the fuel levy will artificially boost the consumer price index but it will still be a setback to the Reserve Bank's anti-inflationary drive.

The budgeted increase in government spending will probably be around 12 percent, which is what Du Plessis will expect the inflation rate to be by the end of 1992.

Daly says the deficit before borrowing could be just over four percent, which he thinks is manageable.

ABSA's latest quarterly economic monitor reckons the deficit this fiscal year will be around 4,5 percent. Thus there will be little room for significant tax relief in the coming Budget.

Action on Budget day

THE VAT Co-ordinating Committee (VCC) has declared Budget day on March 18 a day of mass action. And the committee is also planning a food price summit.

These campaigns were finalised at last week's VAT summit held in Johannesburg and attended by 80 delegates representing 39 organisations. W/mail 7/2-13/2/92

The committee is also planning a number of public hearings on VAT in eight centres across the country. (49)

The VCC demands that the VAT rate not be increased and that the zero-rating of basic foodstuffs be extended.

The Congress of South African

W/mail 7/2-13/2/92

Trade Unions this week admitted that the need to broaden the campaign because the VAT campaign seems to be faltering.

Boycotts 'worsened black poverty'

(49) CT 8/2/92

JOHANNESBURG. — The International Monetary Fund (IMF) said this week that poverty in South Africa had reached such critical levels that the redistribution of wealth would not be enough to erase it.

The IMF said in a report released in Washington this week that only a higher growth rate would result in meeting the needs of the underprivileged in the community.

The document was drawn up by a group of IMF economists after a visit to South Africa last year.

The report said poverty and the negative effects that apartheid had on the distribution of income between the different racial groups must be overcome through better training and the creation of jobs for blacks.

The IMF said an increase of 3,5% in the growth rate would result in an increase from 8% to 27% in the ratio between investment and the gross national product.

The SABC's correspondent in Washington said the report was the first of its kind about South Africa and would probably serve as the basis for preconditions for future loans to the country.

The Minister of Finance, Mr Barend du Plessis,said the report supported the government's economic approach, and particularly the fiscal and monetary policy.

Mr Du Plessis said the fact that the IMF had drawn up the report was important because South Africa would be able to share in the expertise being gathered worldwide.

He said South Africa had to develop an economy that was in agreement with the principles applied in the rest of the world. — Sapa

OPINION

Sea change for N-words

STAR 8/2/92 (49)

Undercurrent Affairs

SHAUN JOHNSON

HANDS up, please, all of you who fully understand the position regarding ANC policy on 1) nationalisation and 2) non-repayment of international loans.

No one?

Good. Then I can leap into the swirling, treacherous waters without fear of immediate humiliation.

This week has seen the "will-they-won't-they" saga (will they nationalise? won't they pay?) reach its zenith of complication and confusion. The two "N-words" first reared their heads again when ANC President Nelson Mandela came under pressure at the World Economic Forum — a gathering of super-heavyweights at Klosters, Prince Charles' favourite Swiss Alps ski resort.

Hounded on the question of whether the ANC would consider repudiating international loans negotiated by the De Klerk Government, Mr Mandela responded with what seemed like finality. Those ANC officials who had threatened to review repayments of loans were speaking merely as individuals, Mr Mandela said, adding: "We can get into serious problems if the image we project is one of a country which is not prepared to honour its debts."

So far so clear. But not for long.

The ANC's Johannesburg publicity office issued a statement condemning a Development Bank of Southern Africa bid to secure a large loan on the Eurobond market. This was in flagrant breach of the still-in-place ANC policy of financial sanctions.

It added the crucial rider: "Hence, a future democratic government will be compelled to weigh with great care its obligations . . . for the debts contracted by the present illegitimate regime."

This sentiment was, understandably enough, interpreted locally as being somewhat out of step with Mr Mandela's latest public view. ANC spokesmen flatly refused to accept any such contradiction, but the row simmered on.

Then there came — from Copenhagen this time — fresh word from Mr Mandela. He said he had been struck by the concern shown by delegates in Switzerland about the nationalisation policy. For this reason, he promised a comprehensive rethink when he returned to South Africa.

So what are we to believe? Well, a brief digression is necessary before an answer can be attempted. There are one or two shibboleths in circulation that need to be dealt with.

The first is that the ANC has been, in official policy terms, inconsistent on the question of nationalisation. It has not.

Like it or not, nationalisation has been a formal policy option of the ANC's throughout. "Shifts" and "rowbacks" have been identified by observers, but these have been our outside interpretations, not ANC policy.

Secondly, the ANC's antipathy toward international loans prior to the formation of a representative transitional government may be galling to many, but it is not irrational. Mr Mandela's organisation is not against foreign loans per se — on the contrary, it recognises that the South African economy will atrophy without them.

Rather, the ANC is worried about having to take responsibility for particular loans which it had nothing to do with securing — it is not happy about being bound by conditions agreed to by someone else. It is also concerned that the present Government (which will very soon surrender its absolute control of the State and be fighting for electoral support just like any other party) might be tempted to divert at least some of said funds under its control to serve its own, narrow, purposes.

Now these would not, in any international context, be considered unreasonable concerns. An incoming Labour government, for example, would be leery of last-minute international transactions concluded unilaterally by an outgoing Tory administration.

Therefore those who want the ANC, in the national interest, to encourage an inflow of capital so that alleviation of socio-economic problems can begin immediately, are asking the organisation to accept President de Klerk's bona fides and to place its trust in the irreversibility of the transition to democracy. Many interested parties — this newspaper included — believe the ANC should take this constructive course.

But we must be clear that we are requesting a gesture of goodwill, not demanding a right.

So much for that. The important question is which nuanced voice of the ANC — Mr Mandela's conciliatory and others inflexible — best represents the direction in which the organisation is heading from here on.

There is no doubt that the nationalisation and loans questions are among the most sensitive in ANC circles, and there are many who do not want the existing hard-line position altered. But in reality the formal ANC position is now entering an historic period of flux which could result, for the first time, in its being changed.

Mr Mandela told the Danish businessmen: "Nationalisation is our policy. But there is a shift in our thinking. We have observed the hostility and concern of businessmen towards nationalisation and we cannot ignore their perceptions.

"If we want to create a climate where investors will not fear losing their investments, their dividends, we have to take a decision on the question of nationalisation. We have to choose whether we want investment from foreign companies. We have to make a choice. This is the spirit in which I am going back to South Africa."

Mr Mandela arrives this weekend, and the internal ANC debate will begin. Only when it is concluded will we have clarity.

I would think, though, that the odds are better than even on a result which will be to the satisfaction of the international money-lenders — and to the captains of industry at home.

IMF warns SA against high taxes

49 S Times 9/2/92

From Simon Barber in Washington

ANY attempt to redistribute wealth in South Africa through a state spending spree, spiralling wage demands or increased rates of taxation will be self-defeating, a study prepared by the International Monetary Fund warns.

The report, Economic Policies for a New South Africa, suggests that, even if South Africa's economic policymakers get most other things right, unchecked wage growth and budget deficits will seriously impede the development of a more equitable society.

In its timing and contents, the study is clearly designed to deliver a healthy jolt of reality to South Africa's economic debate. Significantly, the authors do not think the nationalisation question is worthy of discussion.

In a blunt message to both unions and employers, they state: "The effect of high wages could be to raise the inequality of income distribution by keeping a much larger portion of the working population underemployed and, through lower economic growth, by limiting the scope for fiscal redistributive spending."

Likewise, the more resources the state "appropriates for current expenditures", the fewer there will be for "capital accumulation" — which, in turn, means "less growth to generate resources in the future".

As for taxes, the "net burden" on whites — the portion of their tax bill for which they get nothing back from the budget — is 23 percent, among the highest in the world.

To heighten it further could have a growth-crippling "disincentive effect".

A better way to raise revenue is by improving the efficiency and equity of the tax system, broadening the tax base and changing the mix between direct and indirect taxes, says the report.

Cutting fat off the budget — administrative costs and salaries and defence outlays being the most obvious places to start — can also help. However, the authors are not particularly hopeful that a new South African government is going to shrink the removal of apartheid-spawned duplications notwithstanding.

To counter the expectations raised by South Africa's political transformation, the authors demonstrate that, even assuming per capita social expenditures are made the same for all, the net increase for blacks will be extremely limited.

Positing, optimistically, a growth rate of four percent in 1995, plus a pupil-teacher ratio of 30 to 1 and a standard teacher salary of R26 229, equalised annual per capita education expenditures at public schools would work out at around R1 377.

While, for whites, that would represent a precipitate drop nearly of two-thirds from the 1990 figure fo R4 087, for blacks it would be an increase of just R470 from R907, or a little under half as much again.

The corollary to this finding — which is also echoed in public health and social pension expenditures — is that "redistribution policies alone will not be sufficient to ensure a sustained overall improvement in living standards".

Rather, such expedients "will need to be supported by policies aimed at placing the economy on a higher growth path that would generate employment ... and provide the budgetary base for raising the level of social spending."

SUNDAY TIMES, February 9 1992 9

The dirty word of SA politics

ANC's N-word sparks controversy

City Press 9/2/92

(49)

By SEKOLA SELLO

TO nationalise or not is one of the issues the ANC will have to clarify at its economic policy conference in April.

ANC spokeswoman Gill Marcus said the purpose of the conference is "to look", among other issues, "at the whole question of nationalisation".

This conference comes amid growing concern among local and foreign businessmen that the organisation's ambiguous utterances on nationalisation are frightening away potential investors.

The matter has been given added urgency following what appears to be conflicting statements by ANC leader Nelson Mandela during his addresses to some of the world's top businessmen in Switzerland and Denmark a few days ago.

Addressing 2 000 businessmen at the World Economic Forum in Davos, Switzerland, last weekend, Mandela reiterated the ANC's intention to nationalise some business sectors.

He is reported to have said that in certain cases it seemed problems could be addressed only through some form of nationalisation. This drew strong criticism from the businessmen, some of whom represent major international companies.

Stung by this criticism, Mandela seemed to backtrack on the issue a few days later when speaking to businessmen in Copenhagen, Denmark.

He told his audience that "nationalisation is our (ANC) policy. But, there is a shift in our thinking. We have observed the hostility and concern of businessmen towards nationalisation, and cannot ignore their perceptions".

Mandela went on to say that "if we (ANC) want to create a climate where investors will not fear losing their investments and their dividends, we have to take a decision on the question of nationalisation".

The ANC leader's statement has not allayed the fears of big business. Their confidence has also been shaken by the organisation's seemingly conflicting reports on whether it will repay foreign loans obtained by the present government.

Marcus denies that Mandela's statements in Denmark and Switzerland are contradictory.

She says the organisation took a decision at its national conference in Durban last year to consider, among other matters, the whole question of nationalisation. "Mandela's speech in Denmark was in line with the conference decision."

IMF says poverty in SA 'critical'

THE International Monetary Fund has said that poverty in South Africa had reached such critical levels that the redistribution of wealth would not be enough to erase it. (49)

The IMF said in a report released in Washington this week only a higher growth rate would allow the needs of the underprivileged to be met.

The negative effects of apartheid must be overcome through better training and the creation of jobs for blacks, it added. Citizen 9/2/92

An increase of 3,5 percent in the growth rate would result in an increase from eight percent to 27 percent in the ratio between investment and the Gross National Product.

MY WAY

With Khulu Sibiya

We can't cut both ways!

C/Pres 9/2/92 (49)

WITH the ANC and Nelson Mandela's permission, may I be allowed to enter the debate presently raging on nationalisation and economic sanctions against South Africa.

Not so long ago, I was rapped on the knuckles for speaking my mind on this controversial issue.

My sin at that time was to have warned the ANC on the eve of their first Consultative Conference in December 1990 to seize the initiative by lifting some sanctions in phases.

To me the writing was on the wall in that many countries were about to reward FW de Klerk by easing up on some sanctions.

It is history now that the conference became divided on this thorny issue, with moderate ANC old guards losing the battle to the young lions.

More than a year later, the ANC is still split on the issue.

Person to person sanctions have been lifted and now most airlines are landing at our airports.

Take the contradictory statements made this week by Mandela in Switzerland, and by the ANC's Department of Information here at home.

Mandela told 2 000 businessmen at the World Economic Forum that there was a shift in the thinking of the ANC on nationalisation.

He said: "If we want to create a climate where investors will not fear losing their investments and their dividends, we have to take a decision on the question of nationalisation."

He added: "We have to choose whether we want investment from foreign companies or not. This is the spirit in which I am going back to South Africa."

The ANC back home then issued a warning to world financiers that a future democratic government would not be obliged to honour loans granted to the De Klerk government.

This conflict of interest within the ANC reminds me of Ayn Rand, that pro-capitalist American author of *The Fountainhead*, who once said: "Contradictions do not exist. If you find any, check your premises."

Ayn Rand is not my favourite writer, but people like Mandela and the ANC could take take heed of her perception of capitalism.

If Mandela finds any contradictions within his organisation, he should not be alarmed or become despondent, he should look at his premises.

The history of this country has made us paranoid when it comes to facing reality.

As a leader of millions of South Africans, Mandela has to try and make the best out of any situation for his people. At times, as was the case this week, he can be humiliated and embarrassed by the very people he seeks to help.

Two years ago most progressive forces in this country were unanimous in their decision to maintain economic sanctions. The reasons were there for everyone to see.

Our leaders were imprisoned and banished to remote areas; our organisations were banned and the might of apartheid repression affected all our people.

The situation has changed somewhat over the last two years. What we are fighting for now is complete political power – that is, power that will allow us to vote for leaders of our choice.

As a leader Mandela wants to see his people freed from this bondage. But at the same time I think he is mindful of the plight of thousands of political exiles coming back home without any capital.

The economic realities of this country should take precedence over political ambitions.

We agree that sanctions have been effective in pushing the government into negotiations.

But it is equally true that, despite an emerging political democracy, we will inherit a wasteland if sanctions remain in place over the next two years.

The problem can be resolved soon if the government moves fast on an interim government and a constituent assembly.

Bring some seats for the chiefs

STAR 14/1/92

THE quest by Mangosuthu Buthelezi and the Inkatha Freedom Party to win an independent place at Codesa II for the Zulu monarch Goodwill Zwelithini is undoubtedly prompted in part by considerations of realpolitik.

But that should not obscure the point that there are cogent arguments which have nothing to do with political calculations for demanding that he be given a place at the negotiating table.

These arguments, however, apply with equal validity to all traditional leaders, from relatively minor chieftains to the paramount chiefs of Transkei, Ciskei and Venda.

Chief Buthelezi, like all the main players at Codesa, is anxious to strengthen his hand at Codesa. One way of doing so is to secure a place at the negotiating table for King Goodwill.

It is an open secret that the relationship between the two men is close and that King Goodwill — who is Chief Buthelezi's nephew — is unlikely to pursue a line at Codesa which contradicts or challenges that taken by Chief Buthelezi or the IFP.

The relationship between the two Zulu leaders is encapsulated in Chief Buthelezi's depiction of their political roles as those of prime minister and constitutional king. Even within the Zulu paradigm, with its history of strong Zulu kings from Shaka to Dinizulu, the balance of power resides with the prime minister.

But that does not reduce the drive to secure a seat for the king to a mere political manoeuvre.

Traditional leaders still play an important, if diminishing, political role in South Africa; King Goodwill, as the only tribal leader to claim and be granted the title "king", is no exception.

Even if, as Chief Buthelezi has insisted in the past, King Goodwill's role is that of constitutional monarch rather than a absolute potentate, he is still a substantial political figure.

More important, however, as the SA Law Commission's exhaustive Report on Constitutional Models points out, one of the options before South Africa's constitution-makers is whether — and, if so, how — traditional leaders should be accommodated in the "New South Africa".

Once that point is conceded, and it is difficult to see how it can be rejected out of hand, it follows logically that traditional leaders should be given some say in the political deliberations which precede the drafting of a new constitution.

The drive by most South African leaders to dismantle the last of the apartheid structures — the nominally sovereign TBVC states set-up between 1976 and 1981 — strengthens the argument for representation of traditional leaders at Codesa.

The constitutions of all four of the TBVC states provide for representation of traditional leaders.

Transkei's constitution goes even further it gives more seats to chiefs than popularly elected members: 77 against 75.

The jettisoning of constitutional rule by military juntas in three of the four states — Bophuthatswana is the only exception — does not gainsay the fact that traditional leaders fulfilled, and still fulfil, important functions in their political lives.

It is no coincidence that Bantu Holomisa, the first of the military rulers to emerge in the TBVC states, is the son of a chief: his father Chief Bazindlovu Holomisa was a member of the Transkei Legislative Assembly and the young Holomisa attended Jongilizwe College, a school for the sons of chiefs and headmen.

In the minds of some South Africans arguments for recognising the right of traditional leaders to a place at Codesa, and perhaps even in the new constitution, smack of manipulation. They revive suspicions of an indirect role in colonial Africa and Verwoerdianism in South Africa.

But, as the Law Commission Report makes clear, independent black Africa has recognised that traditional leaders are not obsolete symbols of a dying past. The constitutions of several post-colonial states provide for a continuing role by traditional leaders.

To cite the case of Botswana: the constitution provides for a 15-member House of Chiefs; the chiefs of the eight most important tribes are ex-officio members and the remaining seven are elected indirectly by chiefs and sub-chiefs.

In Zimbabwe, to quote another case, chiefs are given 10 seats in the 40-member Senate, five from Mashonaland and five Matabeleland. Parity of representation pertains even though Mashonaland's population is much larger than Matabeleland's.

The clearest sign, however, that recognition of the importantance of traditional leaders is not in itself a sign of the re-emergence of Verwoerdianism, comes from the African National Congress.

The ANC has been careful to stress that it is not hostile to traditional leaders per se.

The ANC has successfully brought the Congress of Traditional Leaders of South Africa (Contralesa) into the alignment of political forces acting its aegis. Contralesa's present president is Sango Paketile Holomisa, who, unsurprisingly, is a relative of Transkei's military ruler. Contralesa is itself pressing for a place at Codesa.

Its endeavour, which has the backing of General Holomisa and, at the least, the sympathy of the ANC, strengthens the case for giving a place to the King Goodwill.

In a political sense, the presence of the ANC-aligned Contralesa at Codesa will partly neutralise the increased leverage which King Goodwill's participation is likely to give to Chief Buthelezi and the IFP.

It should be noted in passing that King Goodwill's application has the formal backing of the De Klerk administration and the National Party following a meeting last Friday between President de Klerk and a Zulu delegation.

The whole question of representation for traditional leaders has been referred to Codesa's management committee. Should the committee opt to grant representation to traditional leaders, it will have face another difficult decision how to allocate seats between the various leaders and whether to give the Zulu monarch greater weight than, say, the Paramount Chiefs of Transkei.

One last point should be recorded. The ANC has not yet given up on its objective of wooing and winning King Goodwill to its side, a strategic gambit, which, if successful, could be fatal to the IFP.

It cannot be coincidental that the ANC has chosen to single out the Zulu king, Dinizulu, for special tribute at its 80th anniversary celebrations last week.

Noting that King Dinizulu was one of the first honorary presidents of the ANC after its formation in 1912, the ANC anniversary message hails him as "that patriotic leader of our people." □

'Golden triangle' viable

Citizen 9/2/92

MONEY TALK

(49)

THE maiden speech in parliament of Derek Keys, new Minister of Trade and Industry and Economic Co-ordination, contains virtually no politics in the normal sense of the word.

But it is required reading for everyone interested in the economic wellbeing of South Africa.

Hopefully the policy direction spelt out by him will become the foundation stone of new prosperity for the country.

His point of departure is the development of the so-called "golden triangle" which is needed by any country hoping to achieve success in the highly competitive world of international business.

This triangle – consisting of business, labour and the state – should be in a consensus aimed at achieving economic growth, according to Keys.

Obviously this is easier said than done, because the government and businessmen are often at loggerheads, and we have a sceptical labour movement. Yet there are positive signs that all three parties are moving closer on many issues.

Indications are that Keys has enough stature to knock heads in government and business together to attain a measure of consensus on long-term policies and in so doing put economic growth back on track.

It remains to be seen to what extent labour will co-operate.

Keys rightly pointed out that there can be no capital investment without confidence, which – locally and internationally – is a tender plant constantly needing attention from government, labour and business.

SA 'not investing enough for economic development'

SHERIDAN CONNOLLY

SA IS not investing enough to ensure economic development that would benefit all communities, and should recognise the need to establish a political and economic framework conducive to investment. B/Day 10/2/92

This view was expressed by the economic and financial department of French bank Paribas in a study published in its journal Conjoncture.

Paribas said government and the ANC agreed that an upturn in growth hinged on investor confidence.

Excessively rapid population growth (3% a year) and the resulting difficulties of integration in the economy would make it imperative for the level of unemployment to be stabilised, Paribas said.

Lifting sanctions and the settlement of the debt problem enabled SA to promote an ambitious growth policy by revitalising investment and private consumption. Foreign currency earnings from exports would enable SA to import capital and intermediate goods needed to expand its production capacity and build up a manufacturing industry.

Its re-emergence into the world economy should enable it to change the protected nature of its economy and concentrate its resources on sectors in which it had a comparative advantage, such as textiles and iron and steel.

ADRIAN HADLAND reports that a code of ethics for investment in SA will be discussed at a conference in Broederstroom near Johannesburg today. The conference, hosted by church organisations, will be attended by representatives of business, trade unions and political bodies.

● See Page 13

(49)

IMF warns against SA redistribution

B/Day 10/2/92.

(49)

SIMON BARBER

WASHINGTON — A report by a team of IMF economists warns that any government in the new SA will have little scope to redistribute wealth through increased taxation without wrecking the country's growth prospects.

The study, entitled Economic Policies for a New SA, also notes that SA will start running a deficit on the current account of its balance of payments as its access to foreign capital increases — thus becoming eligible for IMF standby credits

The study argues strongly against fiscal expansion to meet post-apartheid social needs, stressing instead the desirability for increased government savings to stimulate investment and capital accumulation.

The authors warn against excessive real wage increases, which they argue will aggravate unemployment, hamper growth, reduce resources available to government for redistribution and prolong racial disparities.

Income inequality should rather be addressed through "better training and better employment opportunities for non-whites".

The limits on redistribution are dramatically illustrated by calculations of various categories of per capita social spending once racial disparities have been removed.

Assuming a 3.5% GDP growth rate, equalised per pupil education expenditure could only be expected to reach about R1 345 by 1995, the study finds While this would be a massive drop for whites, who presently enjoy a figure of over R4 000, it would only represent an extra R340 for blacks.

"Redistribution policies alone will not be enough to ensure a sustained overall improvement in living standards, but will need to be supported by policies aimed at placing the economy on a higher growth path."

The authors, several of whom have been closely associated with the IMF's annual consultations with SA, come out firmly against increased tax rates for whites, noting that existing rates are already high and any further increase may have a powerful "disincentive effect".

"The SA tax burden and its marginal tax rates cannot be judged low by international standards ... the tax burden on the white community appears to be relatively high even by industrial country standards."

The proportion of GDP SA devotes to social spending has been rising steadily in recent years and is already — at 38,9% — high by international standards.

● Comment: Page 8

Loans:ANC speaks

THE ANC said yesterday it accepted that any future government had an obligation to repay foreign loans made to the present administration. (EA) (BB)

However, and as general policy, the next government could re-negotiate the repayment of foreign loans. Sowetan 10/2/92 (49)

In a statement, the ANC denied suggestions that discrepancies existed between the organisation and its president, Mr Nelson Mandela.

The statement followed Mandela's assurances to investors in Europe last week which were said to be in conflict with remarks made on debt repayment by the movement's secretary-general, Mr Cyril Ramaphosa.

"The articles create an impression that the ANC secretary-general issued a statement on the loans issue in relation to the Development Bank of Southern Africa to raise funds in international capital markets.

... men could do was try to | a gunman opened fire with | ... residential area According to witnesses, | breaking into the abandoned houses and removing

ANC rethink on economic policy

STAR 10/2/92.

Political Staff (49)

Nelson Mandela has arrived back in South Africa after his European trip with the promise of a fundamental review of ANC economic policy.

This follows a week during which the ANC's international credibility took a severe knock as a result of apparently conflicting signals from the organisation on nationalisation and the repudiation of foreign loans.

In an interview with the Financial Times of London, Mr Mandela conceded that without the support of business "we cannot solve our economic problems".

"Nationalisation is like a sword of Damocles hanging above those who want to invest. So long as nationalisation is our policy, we will not attract investors."

Mr Mandela is aware that his organisation is under the intense gaze of the international business community, and that like local financiers, those in international markets are pushing for quick answers.

The latest storm over ambivalent ANC policy on nationalisation and the honouring of foreign loans follows views expressed by Mr Mandela in Switzerland and Denmark and a seemingly hard-line statement issued in Johannesburg by the ANC's department of information and publicity (DIP).

During his trip abroad Mr Mandela intimated that the nationalisation policy and threats of loan repudiation would be reconsidered in the light of blanket international hostility, while the DIP reiterated the threat to renege on debts incurred by the "illegitimate Pretoria regime".

The ANC has attempted to play down contradictions between Mr Mandela's conciliatory views in Europe and the DIP's statement on Wednesday.

But in spite of the ANC's damage-control moves — the latest being, in his interview with the Financial Times, Mr Mandela's blaming of the media for the controversy — observers believe that an internal ANC showdown on nationalisation is imminent.

Mr Mandela conceded in Copenhagen that the ANC "had to make a choice" on the issue. "This is the spirit in which I go back to South Africa."

In business circles, the hope is being expressed that

● To Page 2

ANC plans economic rethink

STAR 10/2/92

● From Page 1 (49)

Mr Mandela will be able to convince ANC hardliners that times have changed and that the old policies are no longer saleable in the current international climate.

They point to a crucial ANC meeting on economic policy, scheduled for April, as the moment when final clarity can be expected.

Much internal debate and lobbying will take place before that meeting, however, and Mr Mandela will come under intense pressure to convince business that he is serious about clearing up the ambiguity, once and for all.

In his interview with the Financial Times, Mr Mandela insisted that there had been no contradiction between his statements and the DIP threat regarding an attempt by the Development Bank of Southern Africa to raise a loan on the Eurobond market.

The media had misinterpreted the issue, he said.

Mr Mandela told the newspaper that the ANC accepted in general terms that a future government would have to service prior foreign loans, but said the terms might have to be renegotiated.

"What is totally unacceptable to us is the attempt by the South African regime, acting in concert with certain foreign financial institutions, to bust financial sanctions adopted by the international community," Mr Mandela said.

Lending to South Africa by private-sector institutions is not prohibited. But international banks cut off credit lines in 1985 in a move which Mr Mandela believes hastened the collapse of apartheid.

He is trying to impede the Government's access to international capital markets until an interim government is installed to oversee democratic elections.

Foreign financial institutions arranging bond issues on behalf of South Africa were undermining the negotiating process, said Mr Mandela, singling out German banks.

If they had a genuine interest in South Africa they would apply pressure for the immediate installation of an interim government of national unity.

Loans will be repaid — ANC

CT 10/2/92

(49)

Own Correspondent

JOHANNESBURG. — The ANC has said it accepts that a "future democratic state" will have an obligation to pay foreign debts incurred before financial sanctions were imposed, but says the terms of repayment might have to be renegotiated.

At the same time, the ANC reiterated its opposition to the Development Bank of South Africa's Eurobond issue, launched in Frankfurt on Friday.

It has denied there is conflict between the organisation's publicity department and ANC president Mr Nelson Mandela on the issue.

"What is totally unacceptable to us is the attempt by the South African regime, acting with certain foreign financial institutions, to bust financial sanctions adopted by the international community."

The ANC said foreign loans to South Africa would "delay our forward march to freedom, democracy and development".

In a statement to the Financial Times of London at the weekend, Mr Mandela blamed the press for confusion over whether or not the ANC, as part of a future democratic government, would repay foreign loans negotiated by the present government.

Mr Mandela said his views did not differ from those of the ANC.

"In actual fact there is no such discrepancy. The previous statements of secretary-general Cyril Ramaphosa and other ANC spokesmen have been taken out of context by the press," Mr Mandela's statement to the Financial Times said.

"The articles create an impression that the ANC secretary-general issued a statement on the loans issue in relation to the attempts by the Development Bank of Southern Africa to raise funds in international capital markets. Mr Ramaphosa did not issue such a statement. The statement was issued by the department of information and publicity of the ANC."

"The articles also combine the debt issue with the nationalisation question even though there is no direct link between the two," Mr Mandela said.

The ANC, he said, accepted as a general policy that a future democratic state had an obligation to pay foreign debts which were incurred by the present regime before financial sanctions were imposed by the international community.

Mandela: US 'concerned'

JOHANNESBURG. — The US embassy indicated yesterday that it had expressed concern to Mr Nelson Mandela over his support for Libya's refusal to hand over suspects in the 1988 Lockerbie airliner bombing.

An embassy spokesman said he could not fully confirm a newspaper report here that ambassador Mr William Swing had warned Mr Mandela his support for Colonel Muammar Gaddafi was unacceptable and his status as an anti-apartheid figurehead would not protect him from the unspecified consequences of any such future statements. — Sapa-Reuter

'Small govt key to economic growth'

LINDA ENSOR

CAPE TOWN — Two of the four conditions necessary for SA to take off on the "high road" of economic growth had been fulfilled, Anglo American scenario planner Clem Sunter said at the weekend. B Day 10/2/92

Updating the "high road/low road" scenario he painted in 1986, Sunter said the two conditions that had been met were the start of negotiations for a political solution and the lifting of sanctions.

There were two other conditions which had to be met if SA was not to sink into a stagnating wasteland of low economic growth, Sunter told an audience of 1 500 at the Nico Malan Opera House. (49)

Firstly, there had to be small government. The key to whether the economy would grow fast was the ratio of government expenditure to GNP. The existing surplus on the current account had to be nurtured and the inflation rate brought down to single digit figures.

The other condition was the introduction of a highly decentralised system of government which encouraged local involvement and initiative.

MANDELA

Divided ANC faces showdown on nationalisation

ARG 10/2/92 (49)

The Argus Political Staff reports on the conflicting signals in the ANC's economic policy

NELSON MANDELA has arrived back in South Africa after his European trip with the promise of a fundamental review of ANC economic policy.

This follows a week during which the ANC's international credibility took a severe knock as a result of apparently conflicting signals from the organisation on nationalisation and the repudiation of foreign loans.

In an interview with the Financial Times of London, Mr Mandela conceded that without the support of business "we cannot solve our economic problems".

"Nationalisation is like a sword of Damocles hanging above those who want to invest. So long as nationalisation is our policy, we will not attract investors."

Mr Mandela is aware that his organisation is under the intense gaze of the international business community and that like local financiers, those in international markets are pushing for quick answers.

The latest storm over ambivalent ANC policy on nationalisation and the honouring of foreign loans follows views expressed by Mr Mandela in Switzerland and Denmark and a seemingly hard-line statement issued in Johannesburg by the ANC's Department of Information and Publicity (DIP).

During his trip abroad Mr Mandela intimated that the nationalisation policy and threats of loan repudiation would be reconsidered in the light of blanket international hostility, while the DIP reiterated the threat to renege on debts incurred by the "illegitimate Pretoria regime".

The ANC has attempted to play down contradictions between Mr Mandela's conciliatory views in Europe and the DIP's statement last Wednesday.

But in spite of the ANC's damage-control moves — the latest being Mr Mandela's blaming of the media for the controversy, in his interview with the Financial Times — observers believe that an internal ANC showdown on nationalisation is imminent.

Mr Mandela conceded in Copenhagen that the ANC "had to make a choice" on the issue. "This is the spirit in which I go back to South Africa."

In business circles, the hope is being expressed that Mr Mandela will be able to convince ANC hard-liners that times have changed, and the old policies are no longer saleable in the current international climate.

They point to a crucial ANC meeting on economic policy, scheduled for April, as the moment when final clarity can be expected.

Much internal debate and lobbying will take place before that meeting, however, and Mr Mandela will come under intense pressure to convince business that he is serious about clearing up the ambiguity, once and for all.

In his interview with the Financial Times, Mr Mandela insisted there had been no contradiction between his statements and the DIP threat regarding an attempt by the Development Bank of Southern Africa to raise a loan on the Eurobond market.

The media had misinterpreted the issue, he said.

Mr Mandela told the newspaper that the ANC accepted in general terms that a future government would have to service prior foreign loans, but said the terms might have to be renegotiated.

"What is totally unacceptable to us is the attempt by the South African regime, acting in concert with certain foreign financial institutions, to bust financial sanctions adopted by the international community," Mr Mandela said.

Lending to South Africa by private-sector institutions is not prohibited. But international banks cut off credit lines in 1985 in a move which Mr Mandela believes hastened the collapse of apartheid.

He is trying to impede the government's access to international capital markets until an interim government is installed to oversee democratic elections.

Foreign financial institutions arranging bond issues on behalf of South Africa, said Mr Mandela, singling out German banks, were undermining the negotiation process in South Africa. If they had a genuine interest in South Africa they would put pressure for the immediate installation of an interim government of national unity in South Africa.

The ANC believes that new loans will bolster the position of President De Klerk at the Codesa negotiations.

Growth is only way to achieve redistribution, says IMF paper

(49)

CT 11/2/92

THE authors of the IMF's newly released occasional paper, "Economic Policies for a New South Africa", stress at the outset that the views they express are their own, not those of the fund's shareholders or staff.

Technically, this may be true. The paper is, however, highly reflective of the fund's basic institutional biases. As such, it should be read as a fairly definitive guide to the kinds of policies it will be asking of South Africa in return for access to its facilities.

That means, in essence, that the IMF will be loath to help the present or any future South African government finance anything that might smack of instant gratification. In the fund's view, the politicians' task is to take care of politics as best they can while laying the foundations for sustained, long-term economic growth. The less willing or able they show themselves to act in this manner, the tighter the fund's conditions will become.

'Baseline scenario'

The message is straightforward. Acknowledge that redistribution can only be achieved through growth, not vice versa, or, even more particularly, via budgetary expansion. Restrain the urge for fiscal stimuli. Increase government and private saving. Keep using monetary policy to bring down inflation. Be firm with spiralling wage demands. Lower protective trade barriers. And don't for a minute think you will increase revenues by raising tax rates. Seek rather to make the system more equitable, efficient — VAT is a good idea, in this regard — and conducive to job-creating investment.

Washington Letter
by SIMON BARBER

What the authors of the paper, and by implication the IMF, would like to see over the next 10 years is laid out in what they call (in order to avoid sounding too prescriptive) a "baseline scenario". It is not a prediction of what will happen, rather a model of what ought to happen if South African policy-makers make the right choices.

The scenario goes like this ...

Apartheid is fully dismantled and not replaced by other "structural impediments to the functioning of the market" (a polite way of saying that the ANC abandons its nationalisation and other utopian fetishes). Monetary policy continues to be deployed to curb inflation. South Africa regains full access to international financial markets and technology, which in turn helps fuel an average annual productivity growth rate of 0,5%. Capital inflows resume at a level representing 1,75% of GDP a year, rising to 2% by the end of the decade.

Tax practices

The population grows by 2,25% annually. Ensuring an appreciable rise in living standards therefore requires a 3,5% GDP growth rate and employment growth of at least 3% a year. This can only be achieved through a marked improvement in investment performance.

"Specifically, capital accumulation would have to be strong enough to raise the investment/GDP ratio steadily, to 27% by the end of the period from its current level of 19%."

The removal of distortionary tax practices that have favoured capital intensive production and artificially boosted corporate earnings contributes to an 0,25% a year increase in labour's share of income. Assuming 3,5% GDP growth and 3% employment growth, this permits average real wage expansion of around 0,75% a year.

All of this is contingent on increased investment, part of which will be financed from abroad and through "the anticipated swing in the external balance from surplus to deficit" (sustained, perhaps, by IMF stand-by facilities), but which will also need to be backed by domestic savings. It will be helpful, therefore, if the private sector savings ratio could move from under 21% at present to 21,5% by the year 2000. Likewise, the public sector will need to stop being a net dissaver and start contributing about 1,6% of GDP a year to national savings.

That will call for fiscal restraint, especially since tax revenues — which represented some 28,5% of GDP in 1990 — cannot be significantly increased "without inducing severe disincentive effects". To keep the annual deficit at under 1% of GDP, government can only realistically hope to increase its spending from 1990's 28,1% of GDP to 30,3% on net annual revenues of 29,6%.

Ergo, to avoid damaging growth prospects, the only real option is to re-order social priorities within the budget and cut fat where possible — most likely in defence and, less probably, administrative costs. What such a re-ordering would look like can be seen from the authors' estimates of what annual per capita education, health and pension expenditures would come to in 1995 after being made equal for all races and assuming a 3,5% growth rate.

Given a 30:1 pupil to teacher ratio and a standard teacher salary of R26 299, equalised per student expenditures would come to R1 345 in 1990 rands, up from R907 for blacks in 1990, and down from R4 087 for whites.

The levelled figure in health expenditures is R221, down from R322 for white and up from R147 for blacks. Old-age and disability pensions would equalise at R2 270, as against 1990's R3 312 for whites and R1 980 for blacks.

The numbers are sobering: fiscally responsible equality is going to mean disappointingly small gains for blacks and quite dramatic losses for whites, many of whom will presumably forego savings to make up the difference out of their own pockets. The upside is that if government can keep its expenditures at, or under, 30% throughout the projection period, real per capita spending will be up by 10% at decade's end from what it was at the start.

If, however, government, industry and unions fall off the wagon and go for quick gratification, the picture becomes considerably bleaker.

Fewer resources

The scenario posits government spending averaging 30,3% of GDP between now and 2000. Raise that figure by just one percentage point with no corresponding increase in saving from other sources, but let all other assumptions stand. The result is that 0,3% of GDP and employment growth is foregone each year, the reduction in unemployment slows and per capita expenditures instead of growing by 10% over the decade rise by only 1%.

The paper explains: "If resources are appropriated for current expenditures, there are fewer resources for capital accumulation and less growth to generate resources in the future."

The effects of higher wage growth are even more pronounced. The baseline calls for an annual rate of increase of 0,75%. An extra 0,5% — everything else remaining equal — pushes unemployment to 46,3% by 2000, nearly 10% higher than it would have been otherwise. GDP growth is slowed by a full percentage point to 2,5%. 1,25 million fewer jobs are created, and real per capita government expenditures are 0,3% less by 2000 than what they were in 1990.

The moral here is that income disparities, far from being evened out by artificial wage increases, will in fact be exacerbated.

IMF report lays down strict ground rules for aid to SA

(49)

BDay 11/2/92

SIMON BARBER in Washington

THE authors of the IMF's newly released occasional paper, Economic Policies for a New SA, stress at the outset that the views they express are their own, not those of the fund's shareholders or staff.

Technically, this may be true. The paper is, however, highly reflective of the fund's basic institutional biases. As such, it should be read as a fairly definitive guide to the kinds of policies it will be asking of SA in return for access to its facilities.

That means, in essence, that the IMF will be loath to help the present or any future SA government finance anything that might smack of instant gratification. In the fund's view, the politicians' task is to take care of politics as best they can while laying the foundations for sustained, long-term economic growth. The less willing or able they show themselves to act in this manner, the tighter the fund's conditions will become.

The new paper contains little that SA's economic policymakers do not already know from private discussions with the fund or from the confidential reports its staff prepare for the executive directors after each year's Article IV consultations. Not coincidentally, two members of the team that prepared the paper, Kenneth Bercuson and James Wein, have been closely involved with the consultations for some years.

Their message is straightforward. Acknowledge that redistribution can be achieved only through growth, not vice versa, nor, even more particularly, via budgetary expansion. Restrain the urge for fiscal stimuli. Increase government and private sector saving. Keep using monetary policy to bring down inflation. Be firm with spiralling wage demands. Lower protective trade barriers. And do not think you will increase revenues by raising tax rates. Seek rather to make the system more equitable, efficient — VAT is a good idea in this regard — and conducive to job-creating investment.

What the authors of the paper, and by implication the IMF, would like to see over the next 10 years is laid out in what they call a "baseline scenario". It is not a prediction of what will happen, rather a model of what ought to happen if SA policymakers make the right choices.

The scenario goes like this. Some of its assumptions, as even the authors admit, are brave.

Apartheid is fully dismantled and not replaced by other "structural impediments to the functioning of the market" (a polite way of saying the ANC abandons its nationalisation and other utopian fetishes). Monetary policy continues to be deployed to curb inflation. SA regains full access to international financial markets and technology, which in turn helps fuel an average annual productivity growth rate of 0,5%. Capital inflows resume at a level representing 1,75% of GDP a year, rising to 2% by the end of the decade.

The population grows by 2.25% annually. Ensuring an appreciable rise in living standards therefore requires a 3,5% GDP growth rate and employment growth of at least 3% a year. This can be achieved only through a marked improvement in investment performance. "Specifically, capital accumulation would have to be strong enough to raise the investment/GDP ratio steadily, to 27% by the end of the period from its current level of 19%."

The removal of distortionary tax practices that have favoured capital intensive production and artificially boosted corporate earnings contributes to an annual 0,25% increase in labour's share of income. Assuming 3,5% GDP growth and 3% employment growth, this permits average real wage expansion of about 0,75% a year.

All of this is contingent on increased investment, part of which will be financed from abroad and through "the anticipated swing in the external balance from surplus to deficit" (sustained, perhaps, by IMF standby facilities), but which will also need to be backed by domestic savings. It will be helpful, therefore, if the private sector savings ratio could move from under 21% at present to 21.5% by the year 2000. Likewise, the public sector will need to stop being a net dissaver and start contributing about 1,6% of GDP a year to national savings.

That will call for fiscal restraint, especially since tax revenues — which represented some 28,5% of GDP in 1990 — cannot be significantly increased "without inducing severe disincentive effects". To keep the annual deficit at under 1% of GDP, government can only realisticically hope to increase its spending from 1990's 28,1% of GDP to 30,3% on net annual revenues of 29,6%.

Ergo, to avoid damaging growth prospects, the only real option is to reorder social priorities within the budget and cut fat where possible, most likely in defence and, less probably, administrative costs. What such a reordering would look like can be seen from the authors' estimates of what annual per capita education, health and pension expenditures would come to in 1995 after being made equal for all races and assuming a 3,5% growth rate.

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The numbers are sobering: fiscally responsible equality is going to mean disappointingly small gains for blacks and quite dramatic losses for whites, many of whom will presumably forgo savings to make up the difference. The upside is that if government can keep its expenditures at, or under 30% throughout the projection period, real per capita spending will be up by 10% at decade's end from what it was at the start

If, however, government, industry and unions fall off the wagon and go for quick gratification, the picture becomes considerably bleaker.

The scenario posits government spending averaging 30,3% of GDP between now and 2000. Raise that figure by just one percentage point with no corresponding increase in saving from other sources, but let all other assumptions stand. The result is that 0,3% of GDP and employment growth is forgone each year, the reduction in unemployment slows and per capita expenditures, instead of growing by 10% over the decade, rise by only 1%.

The paper explains: "If resources are appropriated for current expenditures, there are fewer resources for capital accumulation and less growth to generate resources in the future."

The effects of higher wage growth are even more pronounced. The baseline calls for an annual rate of increase of 0,75%. An extra 0,5% — everything else remaining equal — pushes unemployment to 46,3% by 2000, nearly 10% higher than it would have been otherwise. GDP growth is slowed by a full percentage point to 2,5%, 1,25-million fewer jobs are created, and real per capita government expenditures are 0,3% less by 2000 than what they were in 1990.

The moral here is that income disparities, far from being evened out by artificial wage increases, will in fact be exacerbated, just as they were, the authors contend, by financial sanctions. Instead, improved income distribution "will need to derive mainly from better training and better employment opportunities".

That, at any rate, is what the capitalist, neo-imperialists have to say.

SA can sustain growth rate from 1995 (49) bank

B/Day 11/2/92

SHERIDAN CONNOLLY

SA stands a good chance of regaining a momentum of rapid economic growth in the second half of this decade, provided all South Africans are allowed to take part in income generation and distribution, a recent study by the Development Bank of Southern Africa showed.

The study on SA's international creditworthiness showed that a 4% growth rate may be structurally sustainable from 1995 onwards.

Job creation should grow at a rate of 2,5% and capital structure at 2,3%.

It said it saw the net outflow of domestic savings through the balance of payments now coming to an end.

As a result of this, the gross domestic savings propensity should return to about 25% from its present low of 20%.

According to the bank's study, greater levels of participation in the processes of production, income generation and distribution should result in an improvement in the output productivity of capital.

A marked shift in black and white population groups' relative shares in national income should produce a national income level of about 33% greater in real terms at the turn of the century than the 1991 level, the bank added.

The bank said international sanctions had placed unprecedented contraints on the domestic economy to finance capital outflows from current account surpluses.

In so doing, the integrity of SA's currency and its international creditworthiness had been protected.

It stressed the need to restore the country's economic domestic growth potential, which was necessary to prevent the further impoverishment of the rapidly growing SA population.

Last week the bank launched a highly successful Deutschmark bond in the European capital market.

Investor demand for the bond proved better than expected and the issue was lifted 33% to DM200m.

Money raised through the issue would be used to finance development projects in underprivileged communities.

The bank said it planned to raise a further R500m in borrowings on local and overseas capital markets.

The launch of an Eurobond issue by the bank follows two earlier SA issues — the government's 250m ecu bond in January and government's DM400m issue in September last year.

Zac de Beer warns on overspending

OVERSPENDING by a future government desiring to uplift the poor will be by far the greatest danger to the success of the new South Africa, Democratic Party leader Dr Zac de Beer said today.

"All our thoughts, plans and efforts must be concentrated on the avoidance of this danger," he told a business function in Cape Town.

Internationally, it had been shown that fiscal caution and strict control of the money supply were the way to prosperity and South Africa was no exception.

"There is good ground for optimism in regard to the negotiations for a new constitution.

"While the danger of ethnic conflict will always be with us, there is again good reason to hope that it can be held at minimal levels.

"The greatest danger by far to the success of the new South Africa is that a future government, motivated no doubt by a praiseworthy desire to uplift the poor, is going to spend money that it has not got," he said.

(49) ARG 11/2/92

Over-spending would introduce massive budget deficits, pumping up the money supply and causing galloping inflation, currency collapse and in the end economic ruin, Dr De Beer said. — Sapa.

Judgments for debt soar

(49) ARG 11/2/92.

Business Staff

STATISTICS by the Central Statistical Services (CSS) for January to November last year show that judgments for debt continue to hit record levels for the fifth consecutive month.

During the 11 months to November, the courts granted a total of 487 413 judgments amounting to a staggering R2,4 billion — a massive 32 percent increase over the same period in 1990.

Individuals were responsible for R2,1 billion while businesses bear the burden of R288 million — or 12 percent — of unpaid debt.

ITC, the country's largest supplier of business and credit information says that these figures are the highest on record and that indications are that the position will become worse.

Says Tony Leng, chief exective officer of ITC:

"While the slight reduction of home loan interest rates announced by some financial institutions recently may ease overextended household budgets, this reduction is expected to result in neither an upswing in consumer confidence nor spark off a consumer buying spree."

ANC, Reds: plan for SA

112 FEB 1992

(49) CT 12/2/92

POLITICAL STAFF

JOHANNESBURG.— The ANC and the SA Communist Party yesterday released separate sets of constitutional principles, each favouring a multi-party democracy, a government elected on a basis of proportional representation, and entrenched checks and balances.

The ANC also proposed that an Interim Government Council, with legislative and executive powers, be appointed by Codesa to oversee the transitional period

Because of the flexibility of the ANC proposals and the degree of consensus reached on a range of issues, some delegates at Codesa speculated on the possibility of the negotiations being completed in six weeks

Officially releasing its proposals on transitional arrangements at Codesa, the ANC envisaged two possibilities once elections for a constituent assembly had taken place

"Either the interim government council continues to function in the agreed manner until the constituent assembly has completed its work and a new Parliament is in place or the constituent assembly is vested with sovereign powers so that it functions both as a constituent assembly and as a legislature until the new constitution has been adopted"

Nelson Mandela ANC President

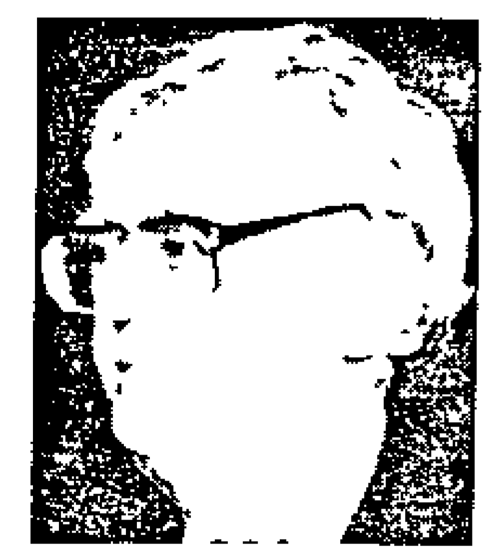
It was, however, still considering the implications of the suggestion that the constituent assembly be vested with sovereign powers and did not yet have a firm position on this

"What concerns us is that the constituent assembly should not be diverted from or in any way hindered in achieving its primary purpose which will be to adopt a new constitution."

The ANC declared in its document, presented by a delegation headed by secretary general Cyril Ramaphosa, that in a united state, the diversity of peoples' languages, cultures and religions "shall be acknowledged"

Among other points it made were:

The constitution should allow for the application of affirmative action "to help redress the racial and gender imbalances created by past discrimination



Joe Slovo SACP Chairman

"Within the context of an undivided South Africa, government will function at national, regional and local levels, the appropriate division and decentralisation shall be such as to encourage non-racial, democratic participation and administration at all levels

"All shall enjoy universally accepted human rights, freedoms and civil liberties including freedom of religion, speech and assembly protected by an entrenched and justiciable bill of rights and a legal system that guarantees equality of all before the law.

"The constitution will be the supreme law and will be guarded over by an independent non-racial, non-sexist and impartial judiciary"

Meanwhile the SACP stipulated in its position paper at Codesa that regions would not have the right to secede or to separate from a united South Africa, and there would be a clear delineation of power between the legislative, executive and judiciary

The future constitution should not prescribe or delimit the balance between private and state involvement in economic activity, the SACP said

Codesa therefore should not prescribe economic constitutional provisions which would pre-empt a future parliament from continuing with or departing from the key elements of the existing econonmic system

The SACP also called for the entrenched protection of cultural, language and religious rights of every individual

The SACP said it accepted that provisions had to be made for a role for traditional leaders

On the issue of affirmative action, the SACP said

"No constitutional provision shall prevent a future parliament from addressing the process of rectifying racial discrimination, racial injustices and the racial imbalance of wealth through affirmative action The same applies to gender questions"

There was no need for Codesa to prescribe the entrenchment or institutionalisation of political power sharing — enforced coalitions — between political parties as a principle to be enshrined in a future constitution, the SACP paper said (Own Correspondent and Sapa)

Urbanites gloomy about SA's future

B Day 12/2/92

LINDA ENSOR

CAPE TOWN — Most urban South Africans believe the prospects for political violence and anarchy are increasing and that violence is threatening the establishment of democracy, a survey has found.

The survey, undertaken by MarkData for the Human Sciences Research Council's Information Update found a high level of insecurity, with almost half (46%) of respondents feeling unsafe or very unsafe. This insecurity was particularly marked among blacks. Only 47% of the respondents thought that there was enough mutual goodwill to make a peaceful and happy future possible, compared with 27% who did not believe this was possible.

Pessimism was also apparent in expectations of an improved life in a new SA with only 46% responding positively and 29% believing conditions would worsen.

The national survey was carried out in October and November last year and was based on 2 000 personal interviews of adults over 18 living in urban areas.

Excluded from the sample were rural areas and squatter settlements.

ANC president Nelson Mandela was the most popular leader among all population groups with 42% support, followed by President F W De Klerk with 27%. But De Klerk commanded a high level of credibility among all population groups — 62% of the total sample and 52% of black respondents thought he was credible.

Among whites, 51% chose De Klerk as their leader, while 65% of blacks chose Mandela and 9% De Klerk.

KwaZulu Chief Minister Mangosutu Buthelezi came in with 3% of the total leader's vote while CP leader Andries Treurnicht garnered 13% of the white urban vote, an increase from 9% in a survey conducted in August last year.

The poll showed that while the ANC would take 37% of the total urban vote in an election and the NP 28%, the ANC lagged significantly behind the NP in Indian and coloured support.

It found that the NP would get 54% of the coloured, 52% of the Indian, 49% of the white and 6% of the black votes in any election. The ANC on the other hand would obtain 67% of the black, 8% of the Indian, 7% of the coloured and 3% of the white votes. The PAC and Inkatha would get 3%.

The CP would win 20% of the white vote, although about 40% of Afrikaans-speaking whites felt close or very close to the CP, the survey concluded.

HSRC GM Prof Laurence Schlemmer told a news briefing on the survey's findings that there was a high uncertainty factor which could be explained in terms of the realignment of allegiances common in periods of transition. He said there was a genuine state of confusion in the country.

Schlemmer said the survey had limitations in excluding the rural areas. For instance the 20% of whites who said they would vote for the CP could be an underestimation by a few percentage points. Also, by including rural areas Inkatha could come up with about 15% of the vote.

Success depends on fiscal restraint — Zach

LINDA ENSOR

CAPE TOWN — The success of the new SA would depend on fiscal restraint and strict control of money supply, DP leader Zach de Beer said at a Seeff Breakfast Club function yesterday.

"The greatest danger by far to the success of the new SA is that a future government, motivated no doubt by a praiseworthy desire to uplift the poor, is going to spend money that it has not got, thereby introducing massive budget deficits, pumping up the money supply and causing galloping inflation, currency collapse and, in the end, economic ruin."

De Beer said a black government would want to manage the economy in the interests of its own people, a desire that could bring in its wake a growth in the bureaucracy, public sector expenditure and interference with private sector management.

If this happened, the result would be poverty for all, most especially for the very people it would be intended to help.

B D 12/2/92 (49)

Population

De Beer said only a high rate of economic growth would make a redistribution of wealth possible but that this would be undermined by the country's population growth of about 2,5% a year.

This meant that with a 2% growth in the economy, per capita income would actually fall by 0,5%.

"We need to knock down that terrifying population growth rate by every available means."

De Beer said the economic prerequisites for the new SA were a high rate of economic growth, small government, a lower inflation rate and a healthy surplus on the current account of the balance of payments.

He foresaw a deterioration in the balance of payments as the level of imports increased with the end of the recession.

"From this point of view, it will be very important for us to gain readmission to the IMF. The repeal of the Gramm Amendment would certainly be a major help," De Beer said.

Mandela and 9% De Klerk.

by including rural areas Inkatha could come up with about 15% of the vote.

help," De Beer said.

BDay 12/2/92

Opposition to housing for immigrants in Irene

PRETORIA — The Irene Vigilance Association has opposed a development project that will apparently house 550 families, mainly from Hong Kong, at Verwoerdburg near Pretoria.

Association chairman Rowan Haarhoff confirmed yesterday the association had notified the Verwoerdburg council that it opposed the development on town planning principles.

The stands in Irene were large single stands and luxury townhouses on Irene's borders would not constitute suitable town planning, Haarhoff said.

A municipal townships advisory committee overruled the association's objections. However, a further hearing before the Transvaal Provincial Administration's townships board would be held soon, Haarhoff said.

On the other hand, he believed the immigrants would be businessmen who would bring capital and skills into the country. — Sapa.

Privatisation 'has not stalled'

(49)

Business Day Reporters

PRETORIA — Government's privatisation programme, as part of an overall economic restructuring plan, had not stalled.

It would be promoted "in no uncertain terms" at the proposed multiparty economic forum, a Privatisation Commission spokesman said yesterday. BDay 12/2/92

Earlier yesterday Parliament passed legislation providing for the incorporation of the Tweefontein Timber Company and the Alexander Bay Development Corporation into public companies.

The Tweefontein Timber Company Act said the conversion would enable the company "to be managed in modern, independent manner".

In terms of the Alexcor Act, the Public Enterprises Minister may sell up to 25% of its shares to employees. Alexcor will have a share capital of R50m.

The Privatisation Commission spokesman said yesterday there was a general expectation after Iscor and Sasol were privatised that many more public utilities would follow suit

However, these two were among a few entities which had business records and results sound enough to enable them to be prepared easily for privatisation

Preparatory work was necessary to give government and future shareholders a clear picture of business records and performances

The privatisation of the Abattoir Corporation would also come before Parliament this session.

However, DP trade and industry spokesman Brian Goodall said if the programme had not stalled it was crawling along at a snail's pace

Privatisation should be placed on the Codesa agenda as a matter of great urgency. Expanding the privatisation process was seen as vital by the IMF and the World Bank, he added.

Chikane warns against IMF

(49)

ADRIAN HADLAND

SA should not subject itself uncritically to IMF and World Bank policies, SA Council of Churches general secretary Frank Chikane this week told a conference on investment in SA.

In the past these policies had been followed by "universal outcry and misery in those Third World countries where they had been applied", he said.

"We cannot believe that the salvation of our country lies in an uncritical and undemocratic subjection of our country to IMF and World Bank policies."

Chikane was speaking at the opening of the Toward a Code of Investment conference in Broederstroom. BDay 12/2/92

The conference aims to pool ideas on an ethically sound investment practice for foreign and local investors.

Chikane said he believed "unbridled capitalistic investment practice" could not be proposed as a solution to SA's economic crisis.

The present tendency of local business to invest in capital intensive, instead of labour intensive, ventures meant business had to share the blame for the current crisis, he said.

Politicians fiddle while SA crumbles

Sowetan 12/2/92 (49)

FOCUS

By ISMAIL LAGARDIEN
Political Correspondent

STRONG signals of substantial economic investment in South Africa have been coming into the country recently, and on Friday, the president of the International Monetary Fund, Mr Lewis Preston, is expected to arrive here.

And last night a top Washington lawyer told a South Africa Foundation forum in London that the World Bank was preparing, within four years, to make this country the largest recipient of aid on the continent - Nigeria, the largest to date, has presently received more than R15 billion

All of this could mean absolutely nothing because it appears as if the single criterion for investment in South Africa, according to the ANC, PAC and Azapo (to name but three political movements), is not widespread hunger, rampant poverty and creeping economic deprivation or stagnation, but reaching a "satisfactory" political settlement.

The Government, on the other hand, uses the investment issue as a battering ram against the ANC in the current electioneering campaign, or constituency-building, as it were...

It does so with a perceived disregard for the current carnage and mayhem in the country

When State President FW de Klerk arrived from Europe on Monday morning, where he addressed investors and met world leaders, he was as bouncy as a newly married person - complete with that smile of benign delight pasted on his face.

De Klerk told a snap media conference at Cape Town's DF Malan Airport that he felt "bullish" about South Africa's future, and that there was growing trust in South Africa's future among all the political and business leaders in Europe.

The biggest concern among all business and political leaders, however, was that the future must hold some kind of guarantee of safety for investors' money.

De Klerk promised them protection, and repeated this upon his return to South Africa this week.

Protection

The Government would make sure that some legal protection was built into any new constitution to protect investors from abuse of power by the rulers in the next South Africa, he said.

In stark contrast, the ANC last week stressed - perhaps quite correctly - that it would not, as a government, feel bound by any loan agreements entered into with the present administration.

This is perhaps better summed up by the analogy that if any person buys a house, that person cannot be held responsible for debts incurred by the previous owner - not unless there is some kind of prior agreement to this effect

This is perhaps also why the ANC says it would only approve lifting economic sanctions when an interim government is in place.

Be that as it may, an interim government or transitional authority will be an extremely tentative scenario, given the fact that real elections for the real next government of the real next South Africa was still not a reality...

It will take careful if not cunning political reasoning to secure loans and development aid for the next South Africa, now and during the interim government stage.

South Africa is fortunate in that it has for many years been unable to secure any foreign loans; this effectively means that the country has very little foreign debt.

Between the rigours of apartheid and the subsequent sanctions campaign, the country has been shredded into fragments of great deprivation and, needless to say, the present drought does nothing to ameliorate this situation.

An obvious and logical next step, in any other normal country, would be to seek foreign aid from the Bretton Woods institutions - the International Monetary Fund and the World Bank.

But, this is not yet possible, for two reasons. One is because of the sanctions campaign; the other is, to a great extent because of apartheid.

Coupled with the economic recession in the country, and the deficit in the Budget, there appears to be no way out of South Africa's economic misery.

Not for as long as both Government and its extra-parliamentary opposition still choose to use investment and sustainable economic growth as a political weapon.

This way of determining South Africa's economic growth through the ideological ordering of society is succinctly summed up perhaps by the ANC's refusal to allow the Independent Development Trust to accept R100 million loan to help fund a national school and clinic building programme.

The ANC's reply to the argument, and indeed to black people for whom the schools and clinics were to be erected, is that the money would "bust economic sanctions".

The Government too, and especially De Klerk, is not entirely committed in its search for economic solutions in South Africa.

De Klerk has become such a gad-about that he has aircraft landing gear for legs and safety belt imprints across his lap, while in horrendous counterpoint the country is quite literally coming apart at the seams

Murderous violence continues to rack the social fabric of the country. Black education is in a pathetic state.

Evidence

Reports and evidence is published daily about either South African Police or military involvement in the political violence in the country.

The country is trapped in a vicious recession Serious drought is threatening to destroy millions of hectares of farmland

And all of this is happening against the background of a spontaneous uproar across the country over the indiscretion with which criminals are being released into a society already riddled with crime and violence

At exactly what point investment, economic stability and sustainable economic growth can be encouraged in South Africa is not clear at this point, but what is clear from the indications is that it doesn't matter among politicians that there is not enough money, jobs, schools, clinics, personal security and confidence to go once around the country

Privatisation 'has not stalled'

Business Day Reporters

PRETORIA — Government's privatisation programme, as part of an overall economic restructuring plan, had not stalled. (49)

It would be promoted "in no uncertain terms" at the proposed multiparty economic forum, a Privatisation Commission spokesman said yesterday. BDay 12/2/92

Earlier yesterday Parliament passed legislation providing for the incorporation of the Tweefontein Timber Company and the Alexander Bay Development Corporation into public companies.

The Tweefontein Timber Company Act said the conversion would enable the company "to be managed in modern, independent manner".

In terms of the Alexcor Act, the Public Enterprises Minister may sell up to 25% of its shares to employees. Alexcor will have a share capital of R50m.

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However, these two were among a few entities which had business records and results sound enough to enable them to be prepared easily for privatisation.

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Privatisation should be placed on the Codesa agenda as a matter of great urgency. Expanding the privatisation process was seen as vital by the IMF and the World Bank, he added.

Bank chief's visit boosts funding hopes

(49) LESLEY LAMBERT

THIS week's visit by World Bank president Lewis Preston and a forecast that by 1996 SA could attract R3bn a year from the bank, has renewed this country's prospects of future foreign funding.

On Friday, Preston will pay a short visit to SA as part of his four-country African visit. He is scheduled to meet various government, extra-parliamentary, Reserve Bank and possibly Development Bank of Southern Africa representatives.

Although the visit has been termed informal, it confirms the improvement in relations between SA and major international funding institutions such as the World Bank and IMF, and the advancement in prospects for financial assistance.

MICHAEL HARTNACK reports from Harare that Preston said yesterday he would meet ANC president Nelson Mandela to ensure the bank could respond quickly when SA's political problems were resolved. Although no loans could be given until SA became a World Bank member, teams were in the country studying education and housing. BDay 12\2\92

"It seems wiser to proceed with these missions and not wait until the political situation is resolved. I think a delay once a political resolution has been accomplished would be counterproductive for the new constitution," Preston said.

In another development this week, a former US representative of the SA Foundation forecast that within four years the World Bank would be making annual disbursements to SA of about R3bn.

John Chettle, a partner in the Washington law firm of Freedman, Levy, Kroll & Simonds, said in London yesterday this would make SA the largest recipient in Africa of World Bank funds.

Chettle's forecast was challenged by Finance Department officials, who said R3bn a year was unrealistically high and that SA would have difficulty repaying it, particularly since World Bank funds attracted interest rates slightly higher than prevailing market rates.

Subsidised loans are offered by the In-

☐ To Page 2

World Bank

BDay 12/2/92 (49)

☐ From Page 1

ternational Development Agency, the bank's soft loans arm for the poorest countries, and mildly concessionary loans are offered to less poor countries. But intense pressure from Third World countries, and SA's comparatively high per capita GDP, will limit its access to the softer loans.

"The World Bank is considering support for SA projects but will not make a decision before a legitimate government is in place," one official said.

The World Bank has indicated that its funding priorities will be housing, rural electrification and education because such investments would enhance political stability and economic growth.

Although SA's per capita GDP is slightly higher than \$1 400 — the bank's cut-off for unsubsidised funds — it has accepted that much of SA's population fits into categories below this level, which means the country could still qualify for mildly concessionary loans, the official said.

"The funding involved is potentially huge and the opportunities for SA companies unprecedented," the SA Foundation said in a statement yesterday. The bank mobilises \$55bn to \$65bn a year, of which up to 20% is allocated to Africa. The largest aid recipient in Africa is Nigeria with \$6,1bn in aid.

While the bank would be cautious about exacerbating inflation in SA, the need to kickstart the economy and reduce high unemployment is likely to cause it to intervene on a significant scale.

● See Page 6

Success depends on fiscal restraint — Zach

LINDA ENSOR

CAPE TOWN — The success of the new SA would depend on fiscal restraint and strict control of money supply, DP leader Zach de Beer said at a Seeff Breakfast Club function yesterday.

"The greatest danger by far to the success of the new SA is that a future government, motivated no doubt by a praiseworthy desire to uplift the poor, is going to spend money that it has not got, thereby introducing massive budget deficits, pumping up the money supply and causing galloping inflation, currency collapse and, in the end, economic ruin."

De Beer said a black government would want to manage the economy in the interests of its own people, a desire that could bring in its wake a growth in the bureaucracy, public sector expenditure and interference with private sector management.

If this happened, the result would be poverty for all, most especially for the very people it would be intended to help.

BID ??? 12/2/92 (49)

Population

De Beer said only a high rate of economic growth would make a redistribution of wealth possible but that this would be undermined by the country's population growth of about 2,5% a year.

This meant that with a 2% growth in the economy, per capita income would actually fall by 0,5%.

"We need to knock down that terrifying population growth rate by every available means."

De Beer said the economic prerequisites for the new SA were a high rate of economic growth, small government, a lower inflation rate and a healthy surplus on the current account of the balance of payments.

He foresaw a deterioration in the balance of payments as the level of imports increased with the end of the recession.

"From this point of view, it will be very important for us to gain readmission to the IMF. The repeal of the Gramm Amendment would certainly be a major help," De Beer said.

5 percent only enjoy SA wealth

Sowetan 12/2/92

(49)

EIGHTY-EIGHT percent of South Africa's wealth was designed to be enjoyed by only five percent of its population, SA Council of Churches general secretary the Rev Frank Chikane said.

Opening a church conference at Broederstroom on Monday night, Chikane said apartheid entailed "gross mismanagement of the economy".

"It is also a fact that successive apartheid governments have guided this country on faulty and ill-conceived macro-economic principles," he said.

He blamed the country's present economic position on:

- The introduction of the homeland system "with its dual economic contradictions of a racist migratory system and the multiplication of structures of public administration leaving South Africa with 14 education ministries"; and

Monopoly

- Massive subsidies given to white farmers "who command a politically determined monopoly over agricultural production"

"Sanctions cannot be blamed as the primary source of the poverty of our people and South Africa's structural economic ills."

The country's salvation, however, did not lie "in an uncritical and undemocratic subjection to IMF and World Bank policies which caused misery in Third World countries".

Addressing a four-day consultative conference expected to come out with an authoritative code of investment for foreign companies, Chikane said pressure had to be maintained on South Africa until there was "an acceptable form of transitional arrangement" to replace the current Government.

The conference has been convened by the SACC, the Southern African Catholic Bishops Conference, the Institute for Contextual Theology and the Kagiso Trust

Govt overspending would ruin new SA — De Beer

CT 12/2/92

(49)

THE greatest danger by far to the success of the new SA is that a future government will spend money it has not got, according to Democratic Party leader Zach de Beer.

Addressing the Cape Times/Seeff Organisation executive breakfast club yesterday, De Beer said such overspending would no doubt be motivated by a praiseworthy desire to uplift the poor.

The excessive spending, however, would induce massive budget deficits, pump up the money supply and cause galloping inflation, currency collapse and, in the end, economic ruin.

A new government including a number of black politicians would manage the economy in the interests of their own people. This was understandable, but it would mean poverty for all if such a government caused bureaucratic growth, growing public sector expenditure, and interference with private sector management. The National Party had transformed SA from a country of reasonably small government to one of huge government.

Huge aid package for SA planned

Political Staff

South Africa may, as soon as an interim government is elected, become the largest recipient of World Bank funds in Africa.

Over the past two years, the World Bank has been working on an intensive aid package for South Africa that would exceed the R17 billion presently allocated to Nigeria.

The World Bank was waiting to see an interim government elected before it disbursed the funds, a top Washington laywer, John Chettle, told a South Africa Foundation Forum in London on Tuesday.

He said the World Bank had had 80 staff professionals engaged in "economic and sectorial analyses" of the South African economy over the past two years.

"South Africa is seen as the dynamo for the South African region, and even for much of Africa, bringing hope for a renewal of economic progress in a deeply disappointing area."

He cited the visit to South Africa of the president of the World Bank, Lewis Preston, as an example of the importance attached to this country.

The sums mooted for South Africa were huge, and the opportunities for local companies unprecedented, Mr Chettle said.

STAR 2/12/92

Central forum will not work, says Marais

BPDay 13/2/92 (49)

GERALD REILLY

PRETORIA — Manpower Minister Piet Marais last night came out against the establishment of a central economic forum.

He told an Institute for Personnel Management function in Stellenbosch that employers in countries such as Sweden, Belgium and Italy had found that centralised forums retarded economic growth. BDay 13/2/92

"The question is: Why should it work in SA?"

An economic forum established for political or reasons other than economic expansion, would fail. There had to be no hidden agendas, said Marais.

He also warned against nationalisation: "It has been proved over and over that the private sector can run a business better than any government."

Marais said unlawful strikes, unauthorised absenteeism, stayaway actions, intimidation and low productivity had become an increasingly worrying factor.

On raising productivity to justify wage increases, he said a close look would have to be taken at the across-the-board wage increases and greater incentives in agreements.

Marais said despite shrinking employment in the private sector, trade unions' membership continued to increase and there was now a greater possibility of solidarity between union federations than ever before.

Employer organisations' and trade unions' involvement in macro-economic and social issues was increasing.

Switzerland vows to support blacks

CAPE TOWN — Swiss deputy foreign minister Klaus Jacobi yesterday pledged continued financial support for blacks and urged Pretoria to strengthen ties with the rest of the region. BIP 13/2/92

Addressing the SA Institute of International Affairs, Jacobi called for broader political dialogue between Switzerland and SA.

"Taking into account what has been achieved already, I believe that the time is now ripe for enlarging the agenda of co-operation between our two countries

"Because in the past we did not participate in economic sanctions against SA but limited ourselves to the control of detour movements in capital transactions, we still have a solid basis for expanding economic relations." (49)

Citing SA's high economic potential, he said the country would have a special responsibility of promoting regional co-operation to strenghten the position of southern Africa in global forums.

He said security arrangements, economic co-operation and respect for human rights should progress in parallel.

Acknowledging political developments, Jacobi said there was no longer a need for external pressure for the promotion of dialogue. "But support for those people suffering from the consequences of apartheid must certainly continue and will have to continue for quite some time"

Jacobi touched on how federalism had functioned in Switzerland.

"Caution is advisable in applying a model from one society to another."

All possible ways of distributing power between the central government and regional or local bodies would be ineffective if the political will to remain together in one country was lacking, he said.

On minorities, he said the hurdle was to find "justified measures for protection of minorities and unjustifed priviledges for them. In Switzerland we tend not to give minorities special group rights but to protect individuals extensively". — Sapa.

Harry O argues for closer economic ties

B/Day 13/2/92 (49).

HARARE — Political and economic changes in southern Africa are a step in the right direction but will not result in an attraction of foreign investors overnight, mining magnate Harry Oppenheimer said yesterday.

Briefing journalists after meeting President Robert Mugabe at Zimbabwe House Oppenheimer, retired chairman of Anglo American Corporation, said he saw prospects of "positive new reactions" in business activities in the sub-region.

But he said this would not happen quickly, Ziana national news agency reported.

Oppenheimer said investors might look in other directions such as eastern Europe, because of favourable changes also taking place there.

If the economies of southern Africa could be integrated more strongly, then he did foresee them attracting more foreign investment.

"For instance, if Zimbabwe can work together with SA and SA also works together with Zimbabwe, they could attract more foreign investment."

He said because SA was an economically strong country, its existence in the sub-region would help boost trade.

Oppenheimer said he and Mugabe had talked about the political changes in SA. They had agreed events were moving in the right direction and that a democratic and free SA would emerge soon.

Oppenheimer is in Zimbabwe for a five-day visit. He will tour Anglo operations and address senior staff of the Corporation in Zimbabwe at a dinner in his honour.

□ Anglo CE Roy Lander said yesterday the drought in Zimbabwe had threatened the corporation's business activities in the Lowveld with certain projects being suspended.

Speaking to reporters at Zimbabwe House, Lander said his organisation was supportive of Zimbabwe's economic structural adjustment programme.

"However the current drought is threatening our activities, particularly in the lowveld."

Lander said Anglo had recently pumped millions of dollars into Bindura nickel mine in order to upgrade and modernise its operations.

Anglo was also involved in various sectors of the economy in line with the objectives of the adjustment programme, he said. — Sapa.

Three 'own affairs' over R1bn in red

CT 13/2/92 **Political Staff** #49

THE three "own affairs" administrations have overspent by more than R1 billion — more than half of it on education and salary increases.

Bills outlining the additional appropriations for the administrations were tabled yesterday.

The white administration is asking for an additional R651 million, with R238m allocated for "improvement of conditions of service".

The House of Delegates overspend amounts to R84m.

And in the House of Representatives, Minister of the Budget Mr Gerald Morkel has asked for an additional R347m.

'Time of essence' to attract capital

BIDay 13/2/92

(49)

SHERIDAN CONNOLLY

SA WOULD have to accelerate radically its timeframe for achieving political stability and demonstrating a coordinated economic programme if it was to wrest capital flows from alternative destinations, Morgan Grenfell & Co directorMartin Kingston said yesterday.

He was speaking at a conference on investment, hosted at the Sandton Sun by the trade group British Invisibles

In his address on The implications of developments in Eastern Europe and the former Soviet Union for South and southern Africa, Kingston said that eastern Europe, the former Soviet Union and South and southern Africa would be fighting for both private and public capital.

In the competition to attract such capital "... it will be the combination of internationally accepted economic policies, a recognition of the explicit guarantees that need to be afforded to external capital and an enduring, stable political environment which will reap rewards", Kingston said.

As the gateway to southern Africa, SA had much to offer.

"SA is the natural point of entry for the continent if satisfactory benefits are to be gained," he said.

"To achieve its potential in the face of competition from countries that will, effectively, attempt almost anything to achieve economic growth and maintain a degree of political stability, SA will actively need to stimulate the interest of foreign parties," he added

He said the City of London currently provided assistance to Poland, Hungary, and other Eastern European countries which were undergoing transition to a market economy

"The City of London is playing a leading role in providing such support. — in the creation of structures, institutions and regulatory frameworks, in advising on corporatisations followed by privatisations, on large scale project financings and the mobilisation of capital flows."

Kingston said that it was increasingly apparent that southeast Asia had become the bailiwick of Japan and Korea, while Latin America had become the primary target for the US That meant inevitably that eastern Europe and the former Soviet Union, and Africa, including South and southern Africa, were the natural focus for Europe.

He stressed that investors from outside SA and the region were highly sensitive to the apparent levels of uncontrollable violence. Thus the need to bring violence under control would be a key component of an overall strategy to attract foreign investment

Foreign investors would be significantly influenced by the willingness of the local community to demonstrate confidence in their domestic environment instead of exporting capital, Kingston said.

Delegates to the conference hosted at the Sandton Sun by the British Invisibles, clockwise from top left: Anglovaal chairman Basil Hersov; Guinness Mahon and Co chairman David Potter; Anglo American Corporation chairman Julian Ogilvie Thompson; and Standard Chartered plc chairman Rodney Galpin. Pictures ROBERT BOTHA

Hugh Roberton reports on US views of ANC naivete

Bankers amused by debt threats

STAR 13/2/92

(49)

A recent dinner party in New York brought with it a surprising revelation. Contrary to popular belief, big bankers do little more than smile patronisingly at the periodic threats from ANC officials that a future government might renege on debts incurred by the country's present rulers.

Bankers blame the politicians for doing most of the huffing and puffing about the issue, and question their motives, saying most politicians privately agree that the ANC's threats are pretentious and unenforceable.

One of the bankers explained why it is that the only awe which the world's banking community has of ANC general secretary Cyril Ramaphosa is awe of the naivete and ignorance which he and others display when they speak on matters financial.

International law unambiguously requires all governments to honour the debts incurred by their predecessors and there has been no recent instance of a government renouncing this obligation.

But what if a future South African government should do so and, as Mr Ramaphosa and some others in the ANC have suggested, should refuse to repay debts incurred by the present government or delay paying them?

First, they would have to change an unchangeable fact of life in South Africa — no matter who is running the country, the economy is of such a nature that it cannot grow vigorously without significant infusions of foreign investment and aid.

Then they would have to face another irreversible reality — in the new world order, foreign investment and aid comes almost exclusively from those creditors on whom Mr Ramaphosa and others in the ANC threaten to renege.

Furthermore, bankers point out, since a future government in South Africa would have no financial record, its only means of winning the confidence of foreign lenders and investors would be by establishing a solid reputation for financial wisdom and responsibility. Not exactly the ANC's strongest suit right now.

There was an example this month of political rhetoric collapsing in the face of the cold-eyed realities of banking.

The city authorities of San Francisco, in seeking to extend their magnificent underground railway system, sought $520 million (R1 445,6 million) in loans at home and abroad.

Credit Suisse came up with an offer, but the naughty boys of Credit Suisse do business in South Africa and, at the behest of the ANC, San Francisco has adopted some of the toughest sanctions against all manner of people who fall into that category of sinners. Frisco's board of supervisors declined and waited for alternatives

None was forthcoming. So they appealed to Credit Suisse to stop doing business in South Africa. Credit Suisse refused firmly and publicly. The city waited.

Then, as a softener, the bankers said they had always disapproved of apartheid. That was the opening which a desperate board of supervisors wanted. They grasped the Credit Suisse offer with both hands, ignored their own clearly stated policy, and the deal was done.

But sitting sullenly on the sidelines, bankers say, were several US and European banks who did not even bother to make an offer because of San Francisco's long standing policy on South Africa and who now are looking with envy, admiration — and no small measure of encouragement — at the chutzpah of the Swiss. □

Stals urges repeal of US block on SA loans

(44)

STAR 13/2/92

By Derek Tommey

Governor of the Reserve Bank Dr Chris Stals appealed yesterday to the United States to repeal the Gramm Amendment which, he said, was seriously limiting South Africa's economic growth.

The Gramm Amendment stipulates that any appliciation by South Africa for loan funds from the World Bank and IMF has to be submitted to the US Congress for approval.

Dr Stals was addressing a seminar in Sandton arranged by British Invisibles, a trade body which is in South Africa to promote London's financial services.

He said the Gramm Amendment placed an immediate restriction on the expansionary monetary and fiscal policies South Africa could follow at this stage, and also acted as a deterrent to potential foreign investors.

Dr Chris Stals . . . Gramm Amendment placing restriction on expansionary policies

"It is therefore a matter of urgency for South Africa that these restrictions should now be repealed, as the American government has already done with the Comprehensive Anti-Apartheid Act.

"The process of economic development must be stimulated if we want to benefit from a more rapid rate of economic expansion downstream.

"The restrictions on South Africa from making normal use of IMF and World Bank facilities still places a major constraint on the ability to prepare for more rapid economic growth in a new political environment with a new constitutional dispensation.

Dr Stals made it clear that although the balance of payments had improved, South Africa's economic growth would have to be restrained as long as the country could not attract foreign capital.

Any increase in the rate of economic growth led to a rapid rise in imports, he said.

Even if imports were to rise by only 10 percent, this would wipe out the trade surplus within a year.

In the past it had been known for imports to jump by 35 percent in a year.

It could be assumed that any substantial increase in domestic expenditure would be accompanied by a sharp rise in imports and the emergence of substantial balance of payments deficits.

Dr Stals warned that South Africans must be modest in their expectations about foreign borrowings and foreign capital inflows.

The world today was very different from what it was before sanctions were imposed.

The debt crisis of the Third World had had a far-reaching impact on the willingness of financial institutions to make loans to developing countries

This meant that South Africa must become more attractive to foreign investors.

"Only those countries that can offer security plus reasonable yields on investments will be able to draw capital from foreign markets.

"In the case of South Africa, apart from the need for further progress in the political process of reform, we will have to present to foreign investors a stable and sound financial environment.

"This requires a continuation of the a policy of guarded financial discipline," Dr Stals said.

49 AHG 13/2/92

ANC could not renege on debts

US ISSUES

HUGH ROBERTON in Washington

A RECENT dinner party in New York brought with it a surprising revelation — contrary to popular belief, big bankers do little more than smile patronisingly at the periodic threats from ANC officials that a future government might renege on debts incurred by the country's present rulers.

Bankers blame the politicians for doing most of the huffing and puffing about the issue, and question the motives behind this because — so they say — most politicians privately agree that the ANC's threats are pretentious and unenforceable.

One of the bankers explained why it is that the only awe which the world's banking community has of ANC general secretary Cyril Ramaphosa is awe of the naivete and ignorance which he and others display when they speak on matters financial.

While expedient politicians and diplomats often "interpret" international law to suit themselves, and get away with it, the law is inviolate when it comes to money. International law unambiguously requires all governments to honour the debts incurred by their predecessors and there has been no recent instance of a government renouncing this obligation.

But what if a future South African government should do so and, as Mr Ramaphosa and some others in the ANC have suggested, should refuse to repay debts incurred by the present government, or delay paying them?

First they would have to change an unchangeable fact of life in South Africa — no matter who is running the country the economy is of such a nature that it cannot grow vigorously without significant infusions of foreign investment and aid.

That is why sanctions were so effective and why a financial crisis was precipitated when a single New York bank called in its loans to South Africa in the mid-1980s.

Then they would have to face another irreversible reality — in the new world order, foreign investment and aid comes almost exclusively from those creditors whom Mr Ramaphosa and others in the ANC threaten to renege on.

Furthermore, bankers point out, since a future government in South Africa would have no financial record, its only means of winning the confidence of foreign lenders and investors would be by establishing a solid reputation for financial wisdom and responsibility — not exactly the ANC's strongest suit right now.

As for institutions like the World Bank and the International Monetary Fund, these now are controlled almost entirely by the United States and the European Community and loans or credit from either almost certainly would be denied to a government which reneged on its international obligations.

There was an example this month of political rhetoric collapsing in the face of the cold-eyed realities of banking, and it involved South Africa and the ANC. The city authorities of San Francisco, in seeking to extend their magnificent underground railway system, sought $520-million in loans at home and abroad.

Credit Suisse came up with an offer, but the naughty boys of Credit Suisse do business in South Africa and, at the behest of the ANC, San Francisco has adopted some of the toughest sanctions against all manner of people who fall into that category of sinners. So the city's board of supervisors declined — and waited for alternatives.

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But sitting sullenly on the sidelines, bankers say, were several US and European banks who did not even bother to make an offer because of San Francisco's long standing policy on South Africa and who now are looking with envy, admiration — and no small measure of encouragement — at the chutzpah of the Swiss.

Big business is on the rack

MG 13/2/92 (49)

Sales and profits of top firms plunge

TOM HOOD, Business Editor

BIG business warned today that the country was in a full-scale recession that could continue for another year.

Sales and profits of several top companies have plunged and retailers say many people cannot afford food or new clothes.

Hopes of an early upturn were squashed by the governor of the Reserve Bank, Dr Chris Stals, who said last night the country's economic growth would be severely restricted because it could not borrow from the International Monetary Fund and so had to maintain a balance of payments surplus.

Any increase in the rate of economic growth would lead to a rapid rise in imports which, even if it rose by only 10 percent, would wipe out the trade surplus within a year and South Africa would run into a balance of payments crisis.

Shock financial results were announced today by three blue-chip companies — the Wooltru food and clothing giant, the McCarthy Group, the country's largest motor retailers, and Consol, the paper and packaging giant.

Profits by the Woolworths chain plunged by 55 percent in the six months to December 31 — a period that included the normally-lucrative Christmas shopping spree.

This helped to slash the group's operating profits by nearly R43 million to R107 million.

In spite of price markdowns and profit margins trimmed to 5,4 percent from 8,8 percent a year ago, the group was left with R377 million of stock on the shelves.

But chief executive Mr Colin Hall said the group had managed to keep its dividend payout at 77c a share — an indication of its confidence and strength in the future.

He said the decline in South African consumer spending was cause for deep concern because it pointed to real human hardship on a very wide scale.

Motor giant McCarthy Group suffered the full effect of the current slump in new and used car sales with a 12 percent drop in profits for the first half of its financial year.

The directors say the total dealer market for new cars and commerical vehicles declined by 13 percent compared with the same six months in 1990.

Sales increased by R101 million to R1,59 billion but profits fell by R4 million.

The company was also hit by higher interest payments as a result of higher stock levels.

The directors say they do not expect an improvement for the full year.

A drop in profits by Consol was cushioned by R301 million raised by issuing new shares to its shareholders and using the cash to repay loans.

● See page 18

Region (49) well suited to take off

South 13/2-19/2/92

GROWTH in the Western Cape economy during the next decade will depend on factors which could have a positive or negative impact.

The population in the greater Western Cape (up to Namaqualand, Beaufort West and George) is approaching four million, significant enough for the development of local industries. But expansion of them will be dependent on national and international markets.

The absence of base minerals has prevented the establishment of heavy industry and encouraged manufacturing of "high value-low weight" goods.

The lack of other minerals and basic energy resources prevented the formation of capital intensive mining and electricity generating projects (except for Koeberg), thereby further strengthening the search for high value-added manufacturing as well as the growth of non-manufacturing sectors.

As in industry, agriculture has not been dominated by one product, but geographic, climatic and historical factors allowed the growth of a range of production subsectors, suitable for local as well as export markets.

Historical factors and political forces have made the Western Cape an important centre for government and semi-state activities, even though the capital is located in the PWV area.

The population structure and a relatively well-developed secondary and tertiary educational infrastructure have brought about a relatively well-educated and skilled labour force.

In the absence of large enterprises, heavy industry and a large mining sector, small business has had more scope to unfold and the region has been far more dependant on this to generate employment and wealth.

The region has not suffered from the worldwide decline in traditional growth sectors like mining, base metals, iron and steel, electricity generation and staple food export production.

Newer growth forces — high technology, upmarket clothing, tourism, education, printing and publishing, light industrial consumer goods, processed agriculture, financial and professional services and the informal sector — are established here.

Girl from Ipanema or the Cape Flats?

49 South 13/2 - 19/2/92

COULD Cape Town become a South African Rio de Janeiro? Economic experts believe the city could improve its economic growth if it models itself on the South American metropolis.

Economic growth in the Western Cape slowed down during the sixties and seventies — its share in the national product and income gradually slipped from 12 percent to below 10 percent.

"This occurred at a time when certain, mostly artificial, stimuli — like decentralisation benefits and large state-financed projects — accelerated growth in other areas, while disincentives, like the coloured labour preference policy and the lack of heavy industry, dampened growth in the Western Cape," the Growing the Cape report said.

"Difficulties in entering export markets and the lack of systematic support or encouragement of small enterprises further dampened economic growth and structural transformation.

"However, since the mid-eighties nationwide forces for change have attained the upper hand as far as activating this region's growth potential is concerned," said the report.

The region's greatest strength now is a rapidly expanding population and purchasing power, the balanced nature of the economy and its wide resource base, export potential, tourism potential and the region's capacity to improve labour and managerial skills.

"Viewed in international perspective, it would seem inappropriate to compare the Western Cape with the famous 'success cases' of island or seabed enclave economies like Singapore, Hong Kong or Taiwan, where the regions coincide with the country and historic as well as socio-political factors have resulted in unique development paths," the report read.

"More appropriate would seem to be the Californian coast, Rio de Janeiro, Vancouver and possibly some of the north African and central American port-towns.

"In each case, local entrepreneurs were forced to focus very strongly on exports, tourism, tertiary education and training, a sophisticated services sector, the pensioners' market and, the public sector, without any particular sector playing an all-out dominating role." In this context, parallels can be drawn between Cape Town and Rio de Janeiro, Brazil's six-million coastal metropolis and former capital city, the report argues.

Rio's relative significance in Brazil's economy has also declined, due to a shift of government departments to Brasilia, the concentration of industrial growth in Sao Paulo, a decentralisation of financial institutions and the declining significance of its large harbour — a worldwide phenomenon.

At the same time, tourism has developed as one of the key sectors in the metropolitan economy, the informal sector is booming, low-income squatting has led to the development of vast new housing estates far out of town, the urban physical infrastructure is under severe strain and social problems like crime, child neglect, drug abuse and gang warfare are widespread and possibly still increasing.

The urban economic structure also reveals a very strong tertiary sector, a relatively small primary sector (fishing and agriculture) and certain leading industries in the secondary sector (like clothing, leatherwork, high technology, machinery, publishing and printing, as well as food and beverages).

"While many Capetonians may hesitate to make such a comparison, hoping that the Western Cape will perform better than Rio in terms of employment, economic growth and quality of life for its inhabitants, it nevertheless seems important to understand similarities in underlying structures and strains," the report said.

"As far as the rapid influx of rural Africans — a direct parallel to Rio's rural-urban migrants of the sixties — is concerned, the absence of nearby homeland areas has a significant effect on the pattern of local economic growth, making it more closely comparable to the Rio situation.

"Thus, bearing in mind these comparative perspectives, we have to explore how the Western Cape can equip itself to face the challenges which will arise in the next decade. From an economic perspective these challenges relate to the rate of regional economic growth, job creation, income and wealth generation and the funding of public sector functions," the report said.

Wanted: Ideas for growing the Cape

As opportunities for economic development in South Africa improve, the Western Cape needs to plan its own unique growth path. There is a great deal of potential in the region according to a panel from "Growing the Cape", a local business initiative formulating strategies for future economic development, Rehana Rossouw reports.

South 13/2 - 19/2/92

GROWTH and development of the Western Cape economy depend primarily on the actions of its people and their ability to use their skills and energy to maximum effect.

However, to ensure the region's economy operates best for the needs of local people and reduces poverty and unemployment, a definition of the most promising areas for growth over the next five to 10 years is required.

"Identifying areas of growth and defining strategies to obtain them is what Growing the Cape is all about," says the organisation's first report, entitled "The Western Cape Economy in 1990, Sources of Growth to 2000".

"Growing the Cape requires input from a range of local leaders in formulating strategies and projects to promote economic development."

The project has been divided into three phases — collecting information, identifying the most promising sources of growth over the next decade and devising development strategies to obtain growth.

The project's first report was distributed in draft form and serves as a basis for a number of workshops attended by a broad range of leaders and experts.

The report outlines the state of the Western Cape economy, past growth and development performance and indications of longer trends and directions of expected future changes.

"Foreign and local trade have always played an important role in the early phases of the region's economic development," the report read.

"Between the thirties and early seventies the mining sector — almost totally absent in the Western Cape — was the 'engine' of economic growth in South Africa, but could only stimulate the Western Cape indirectly.

"With the rise of the industrial sector after 1922 and the increasing significance of heavy industry centred around raw materials and dominant markets, the Western Cape lost further in its relative growth in the country.

Dampened

"The concentration of government and parastatals in the Pretoria/Witwatersrand area also dampened relative growth in the Western Cape, in particular during the years of rapidly expanding state spending."

"Systematic restriction of African migration into the Western Cape dampened overall population growth in the region and restricted the supply of low-wage, unskilled labour.

"South Africa's politics and isolated development restricted the growth of tourism, which had considerable potential in the Western Cape, but could not take off in the fifties and sixties."

The report said these and related forces shaped a pattern of comparative growth in the Western Cape, often described as "stagnating" or "declining", relative to the Witwatersrand, Natal and other growth points.

SMALL BUT BOOMING: The small business and informal sector of the Cape economy is a vital growth area

(49)

Due to the more stable pattern of economic development in the region, this relative decline was not always visible — the Western Cape improved its position during certain recessionary phases — nor did it bring a decline in living standards of people in the region.

"Yet it created a strong feeling among business and community leaders that the economic future is at risk," the report reads.

During the late seventies growth in the Western Cape picked up, relative to other parts of the country, but the start of a more rapid influx of Africans into the region raised a new area of concern — whether the region had a sufficiently strong and dynamic economy to absorb the larger population and still improve overall living standards.

With an eight to nine percent share in the South African population, the Western Cape's share in the country's Gross Domestic Product, aggregate Personal Income and Sector Output constitutes a good approximation of the performance of the regional economy.

The Western Cape economy lacks the mining sector but compensates by relatively greater strengths in agriculture, services, trade, accommodation and even the manufacturing sector.

"Compared to virtually all the other regions in the country, the Western Cape has a broader-based and better-balanced economic structure," the report stated.

"The Western Cape further increased its relative share in the South African economy between 1984 and 1990 and grew somewhat faster than the national average.

"The absence of any single dominating sector — like gold and other mining in the Witwatersrand and (formerly) the automobile industry in the Eastern Cape — combined with the broad range of significant economic sectors has made the Western Cape economy less prone to violent upward or downward swings in its regional business cycle."

ANC debt proposal will not hurt SA's future credit rating

B/Day 14/2/92

NEVA SEIDMAN MAKGETLA

49

IMAGINE that, on coming to power, a democratic government discovers plans to invest the equivalent of the annual national product in an electricity plant. Suppose the project's high interest and construction costs would ultimately double the price of electricity; that it would aggravate a regional oversupply of electricity, causing a reduction in trade; and that it would endanger the environment.

In short, imagine that this enormous project would serve, not to raise living standards on a broad scale, but essentially to enrich a coal supplier — one of the conglomerates that already owns much of the economy.

Finally, suppose the new government declared it would realise the project nonetheless, above all because of contractual obligations to foreign lenders that the previous regime had entered in its final days.

Does this scenario sound far-fetched? Does it underline the absurdity of the ANC's fears about the state's current quest for foreign loans? Alas, no. It merely describes the position of the Zimbabwe government, which inherited the debt for the Wankie power plant from the previous state at a disastrous cost to the economy and hoped-for social improvements.

The ANC's anxiety over foreign debt was learned in a hard school. For the past 15 years, ANC economists have watched the appalling deterioration of social and economic infrastructure throughout the Third World, and especially in southern Africa, as a result of the struggle to repay international loans. It is chilling, then, to watch the current government get unnecessary foreign credits at exorbitant effective interest rates — estimated by Nedbank's economists at more than 26% if devaluation keeps pace with inflation.

The ANC's position on foreign debt is hardly radical. It never said it would repudiate all SA's loans. Rather, it has warned lenders not to take advantage of state agencies that want a fling on international capital markets before a democratic government takes over. This warning is coupled with the reassurance that the ANC will respect all debts incurred before 1985, and renegotiate only specific loans made thereafter.

For any economist who has studied international credit markets, the ANC position is prudent and responsible. It means foreign creditors can easily assess their risks. If they will wait a few months or years, they can invest safely in the myriad development projects a democratic government will certainly pursue. If they find the high interest rates on loans to state agencies today offset the risks of renegotiation in future, that is their prerogative. They may not like the choice, of course, but it will not deter future lending.

Research shows low international creditworthiness typically results from inconsistency and poor export performance. Even if couched in radical rhetoric, stable policies in a relatively prosperous country rarely scare off lenders. Through the mid-'80s, Angola's avowedly Marxist regime enjoyed a higher credit rating with many international financial institutions than Malawi's true-blue capitalist semi-dictatorship.

From this perspective, the nature of reporting on ANC proposals may prove a greater threat to future creditworthiness than the proposals themselves. All too many reporters and leader writers sensationalise open-minded discussion, even mere differences in phrasing, as inconsistencies in policies. Democratic debate, in their eyes, becomes a conflict that could even derail Codesa. These commentators seem oddly intent on pushing the democratic movement into the adoption of policies ahead of research and discussion — hardly the way to establish effective or durable programmes.

All too often, the tenor of replies to virtually any ANC proposal to change the status quo is oddly uncivil, more the reproof of a Victorian pater familias to unruly children than an input into a conversation between equals. The intolerance of SA's leader writers may sell newspapers, but it accords ill with civilised discourse. The need to learn the language of democracy obviously extends far beyond the people fighting in Soweto streets.

In this case, the ANC is damned whatever it does. If it proposes policies to improve services to blacks, it is criticised for potential fiscal imprudence; if it condemns government borrowing at recklessly high interest, it is blamed for scaring off investors.

Analysis of the agencies seeking foreign loans — the Independent Development Trust and the Development Bank of Southern Africa — underlines the dangers of allowing the current state to pile up debts. These institutions hive off welfare and development functions normally assumed by the central government. If, thanks to foreign funds, they remain semi-autonomous in future, crucial aspects of national policy will fall outside democratic control.

Experience already shows that neither agency can respond adequately to community needs. They spend extraordinary amounts of time and money on bureaucrats, consultants and local politicians. (The Development Bank alone employs more than 600 people.) Flying a liberal flag abroad while failing to deliver the goods at home scarcely justifies an increase in foreign debt. It would make more sense to wait until a democratic government can establish agencies to transmit resources to communities in a responsive and efficient manner.

Let us not forget, either, that money is fungible. If government agencies raise funds abroad they free up resources for the state. Yet that state has repeatedly demonstrated its unwillingness to spend as much on blacks as on whites — witness the failure to bring about an integrated educational system, substantially improve infrastructure in black areas, or even equalise pensions.

Moreover, the present state has already come under pressure to provide golden handshakes for constituents and employees. The generous retirement pay granted to white teachers unwilling to teach black pupils provides an early warning. Under these circumstances, this government must be tempted to raise foreign loans at any price — after all, it will not have to repay them.

If we are truly concerned about international creditworthiness, we should ask why SA has had such a poor rating in recent years. The answer, of course, lies in the system that disempowered and impoverished the majority to the point where, until recently, they saw open revolt as their only option.

Insiders at Chase Manhattan Bank say the bank withdrew its loans in 1985, causing a disastrous credit crunch, not because of political pressure or some abstract belief in democracy, and certainly not on expert advice. Rather, according to a senior Chase official, the vice-president responsible saw a television news report on unrest, decided it looked like pictures from Iran just before the Shah fell — and ordered an immediate end to loans to SA.

If the lack of democracy and prosperity for the majority causes a poor credit rating, no ANC statement can make SA attractive to foreign lenders. Only a rapid transition to a democratic state committed to a growth path that will benefit all South Africans can provide a solution.

☐ **Makgetla lectures in economics at Wits University and is a member of the ANC's economic policy department.**

OPINION

Patrick Laurence interprets the twists and turns in ANC economic policy

Pragmatism versus idealism

STAR 14/2/92

(49)

THE African National Congress is involved in a reappraisal of its economic policy, including its controversial commitment to nationalise the mines, banks and "monopoly industry".

ANC president Nelson Mandela focused attention on the reassessment during his recent tour of Europe. On at least two occasions he acknowledged that the ANC's commitment to nationalisation was a deterrent to foreign investment and was in need of revision.

"Nationalisation is our policy but there is a shift in our thinking," he told businessmen in Copenhagen last week.

"We have observed the hostility and concern of businessmen towards nationalisation and we cannot ignore their perceptions. If we want to create a climate where investors will not fear losing their investments, we have to take a decision on the question of nationalisation."

Later, in London, Mr Mandela said: "Nationalisation is like a sword of Damocles hanging above those who want to invest. So long as it is our policy, we will not attract investors."

His statements in Europe contrast with the pronouncement he made in a message sent through "the people's post" from prison shortly before his release just over two years ago.

"The nationalisation of the mines, banks and monopoly industries is the policy of the ANC and a change or modification of our views in this regard is unthinkable," he declared. "Black economic empowerment is a goal we fully support and encourage but in our situation state control of certain sectors of our economy is unavoidable."

Mr Mandela's prison message was a re-statement of ANC policy as defined in the Freedom Charter. He felt obliged then to reaffirm his commitment to the ANC's position because of reports that his thinking had shifted in a capitalist direction and that he had become a sybarite.

Adopted by the "Congress of the People" in June 1955, the Freedom Charter — with its pledge to transfer ownership of the mines, banks and monopoly industry to "the people as a whole" — is still official ANC policy.

But that commitment is certain to be revised at a special ANC conference in April, where economic policy will be reassessed fundamentally.

Mr Mandela's statements in Europe aside, the ANC's economic policy has already began to shift, judging from a draft discussion document prepared for debate within the ANC.

The document speaks not of wholesale nationalisation under a future ANC government but of a mixed economy "based on the principles of democracy, participation and development".

Signalling their awareness that time has moved on since 1955, and that mistakes have been made in the name of socialism, the drafters of the 12-page document state: "We are convinced that neither a commandist central planning system nor an unfettered free market system can provide adequate solutions to the problems confronting us."

The fluidity in ANC economic thinking is manifest in the contradictory statements made by Mr Mandela in Europe and the ANC leadership at home on the question of foreign loans.

Thus, while he was in Switzerland, where he and President de Klerk were invited to address the World Economic Forum, Mr Mandela refuted the official ANC position of foreign loans.

The ANC's position, as reflected in two official statements, issued in January and last October, is clear: the lending of money by foreign banks to the De Klerk administration contravenes its sanctions policy and bankers who do so should note that a future ANC government may not feel bound to honour debts incurred by the white minority regime.

In Switzerland, however, Mr Mandela said: "We can get into serious problems if the image we project is one of a country which is not prepared to honour its debts." He reportedly dismissed the ANC's official view as the opinion of individuals.

Within hours the ANC, responding to reports that the government-controlled Southern African Development Bank was on the brink of raising another loan with a German bank, reaffirmed its opposition to loans and, contradicting Mr Mandela, renewed its warning that a future ANC government might not feel obligated to honour loans raised by the De Klerk government.

"The ANC remains opposed to these international loans and once again wishes to remind the international banks and foreign capital markets that ... a future democratic government will be compelled to weigh with great care its obligations to service and take responsibility for the debts contracted by the present illegitimate South African regime."

Later still, apparently embarrassed by reports on discrepancies between its position and that espoused by Mr Mandela, the ANC issued a statement in which it tried to reconcile its stand with that adopted by Mr Mandela.

The ANC, like Mr Mandela, was committed to honouring loans raised before the imposition of financial sanctions against South Africa; it stood, however, by its opposition to loans granted in contravention of its sanctions policy.

Financial sanctions, including a prohibition on new loans, should be maintained until the installation of an interim government of national unity, the ANC said. Mr Mandela made a similar statement to the Financial Times.

The ANC denied that there had been a divergence of views between Mr Mandela in Europe and its senior officials at home. It blamed the media for misinterpreting official statements.

What the media was doing, however, was reflecting different nuances and thinking in the ANC and Mr Mandela's spontaneous reaction to the dismay and concern which the official ANC positions has evoked in financial circles in Western (and Eastern) Europe.

The ANC, as the "Parliament of the African People", — to quote Mr Mandela's description of it — embraces a widerange of different and even opposing ideological tendencies. They stretch from old-style communists through traditional black leaders to modern black nationalists. Another division separates pragmatists from ideologues.

Mr Mandela, who has denied that he advocates socialism, appears to be at the conservative end of the spectrum he is, it seems fair to conclude, wont to publicly express his views from time to time.

The major policy conference — at which the ANC's broader approach as well as its economic policy will be reconsidered — is now only weeks away. The different schools of thought are beginning to manoeuvre for position. Hence the seepage of contradictions.

They may be exacerbated by ANC speech writers who try to use Mr Mandela's voice to boost the positions they espouse. Thus while he was expressing reservations about nationalisation, the written speech that he took with him to the World Economic Forum reaffirmed that nationalisation of "key (monopoly?) industries" was still on the agenda. □

Subcontinent could be left high and dry

STAR 14/2/92

(49)

The economic damage wrought by the drought could pose severe political problems for countries in southern Africa, reports HANS-PETER BAKKER of The Star Africa Service

AT A TIME when the countries in the southern African region hoped to see an upturn in their economies with peace in sight in Angola and Mozambique and exciting prospects for open trade with South Africa their hopes are being dimmed by crippling drought

The economic damage caused by the drought could pose severe political problems for these countries leaders as unemployment, poverty and crime increase

Efforts to entrench free-market systems and multiparty democracy in the subcontinent could be set back

With stocks of maize the staple food depleted throughout the subcontinent, most if not all of its countries will be forced to divert scarce foreign exchange to import maize or seek food aid

Even Angola which was blessed with enough rain will not be able to avoid the effects of the drought in its neighbouring countries

Emergency food aid to the countries in the area is becoming a matter of urgency but aid agencies are not very optimistic about either further donations or the logistics of getting food to the places where it will be most needed

Maize is the staple diet of most of the people living in the region and is used widely to feed livestock

In South Africa, usually a maize exporting country thousands of farmers face ruin in the devastation, which is likely to cost the country more than R2 billion in imported stocks

The Maize Board estimates that this year's crop will be a 50-year low of between 4 million and 5 million tons — 2 million tons less than local consumption demands

Economists predict that the effect on the economy will be a retarding of the bottoming-out of the recession, price rises and a drain on foreign reserves

The depleted supplies in South Africa are further exacerbated by commitments already undertaken to export maize mainly to the Far East, but also to neighbouring countries

The vast quantities needed to satisfy local demand will place additional pressure on the transport system, which will be further clogged up by the enormous demand for food from the other drought-stricken countries in the region

The drought has not been merciful to war-torn Mozambique, where hundreds of thousands of people have been displaced by the war and would have been facing severe food shortages even without the drought

In Mozambique's central provinces of Sofala and Manica, the failure of the rains has played havoc with the maize crops.

Thousands of peasant families who in the past have been able to sell surplus crops now face starvation.

Another country severely affected by the drought is Zimbabwe, whose crucial economic restructuring programme is in danger of being derailed

Large areas in the south, south-west and east of the country have already lost their maize crops

Predictions are that the country will have to import a million tons of maize to supply its consumption

Social Welfare Minister John Nkomo expects the need for emergency food aid to swell to 6 million people.

Some farmers with records going back to the turn of the century have described it as the worst drought in more than 80 years

Production from the commercial farming sector is expected to drop to only 30 percent of last year, and supplies from the communal areas could drop by about 90 percent

One of the most immediately pressing effects of the drought is the critical shortage of water in many areas, particularly in the south

The drought problem is being exacerbated by transport difficulties in the Buhera district in the east of Zimbabwe, officials say 40 000 people are facing starvation because food aid has not arrived

Swaziland, which normally has consistent rains, has also not escaped the drought Under normal conditions Swaziland imports only about 20 000 to 40 000 tons of maize from South Africa, but this year it will have to import much more

Thousands of rural Swazis and refugees engaged in subsistence farming in the Lubombo district have been warned to save water, which is now being supplied to them by tankers from distant sources

The Ministry of Agriculture has warned that the drought which is already killing large numbers of cattle and ruining maize crops in north-eastern Swaziland, could become the worst drought-induced crisis in the country's history

The minister also warned farmers to sell off some of their cattle immediately rather than have them starve to death through lack of pasture and water

Even in Botswana, a country not unused to drought, emergency measures are being applied Most of the country is in the grip of drought, except for areas near Chobe in the north

Cattle are dying in the Jwaneng area and further reports of cattle dying in major villages like Molopolole, 55 km from Gaborone, have been received

David Finlay, executive chairman of the Botswana Meat Commission has warned cattle farmers to sell their livestock while they are still in good condition

The government has set up an inter-ministerial drought committee which has toured the country to assess the drought The committee's report is expected to result in President Quett Masire declaring much of the country a drought-stricken area

In Zambia, President Frederick Chiluba has declared half the country a disaster area, apparently due to the drought

But reports from Zambia are conflicting Two weeks ago Zambia's deputy minister of agriculture proudly predicted a bumper maize crop following late, but timely, rains

Southern Namibia had good rains in September and October but virtually nothing since.

The situation has been aggravated by very high temparatures, and a meteorologist said "If the region doesn't get rain before the end of summer it will be a disaster"

The southern parts of Malawi will be severely affected by the drought, according to Regie Mugwara, sector co-ordinator for food security in the Southern African Development Co-ordination Conference

The estimated 1 million Mozambican refugees in Malawi are in the south of the country

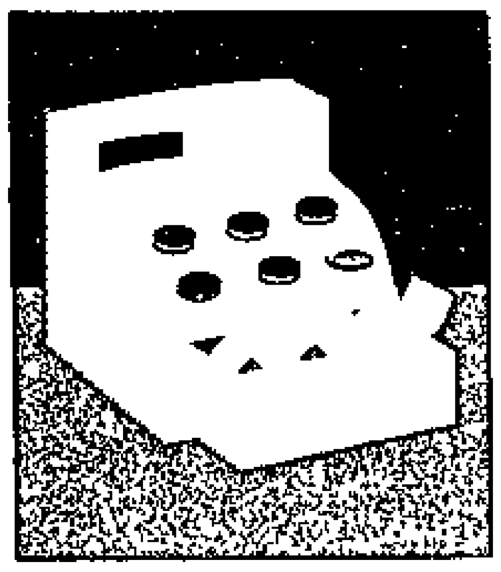
In Tanzania, serious food shortages are being experienced despite rains in the north Relief supplies of 52 000 tons are urgently needed to meet the needs of 1,7 million people in Dar es Salaam and 870 000 elsewhere, according to Mr Mugwara

Lesotho, landlocked within South Africa, is suffering alongside SA, from which it normally imports much of its basic foodstuffs The drought has hit at a time when the economy of Lesotho has been put under unusual strain by the return of thousands of mineworkers who were laid off from South African gold mines. □

ECONOMIC GROWTH FM 14/2/92 (49)

More than a wing and a prayer

Sustaining prosperity is not possible from a quick monetary kick-start

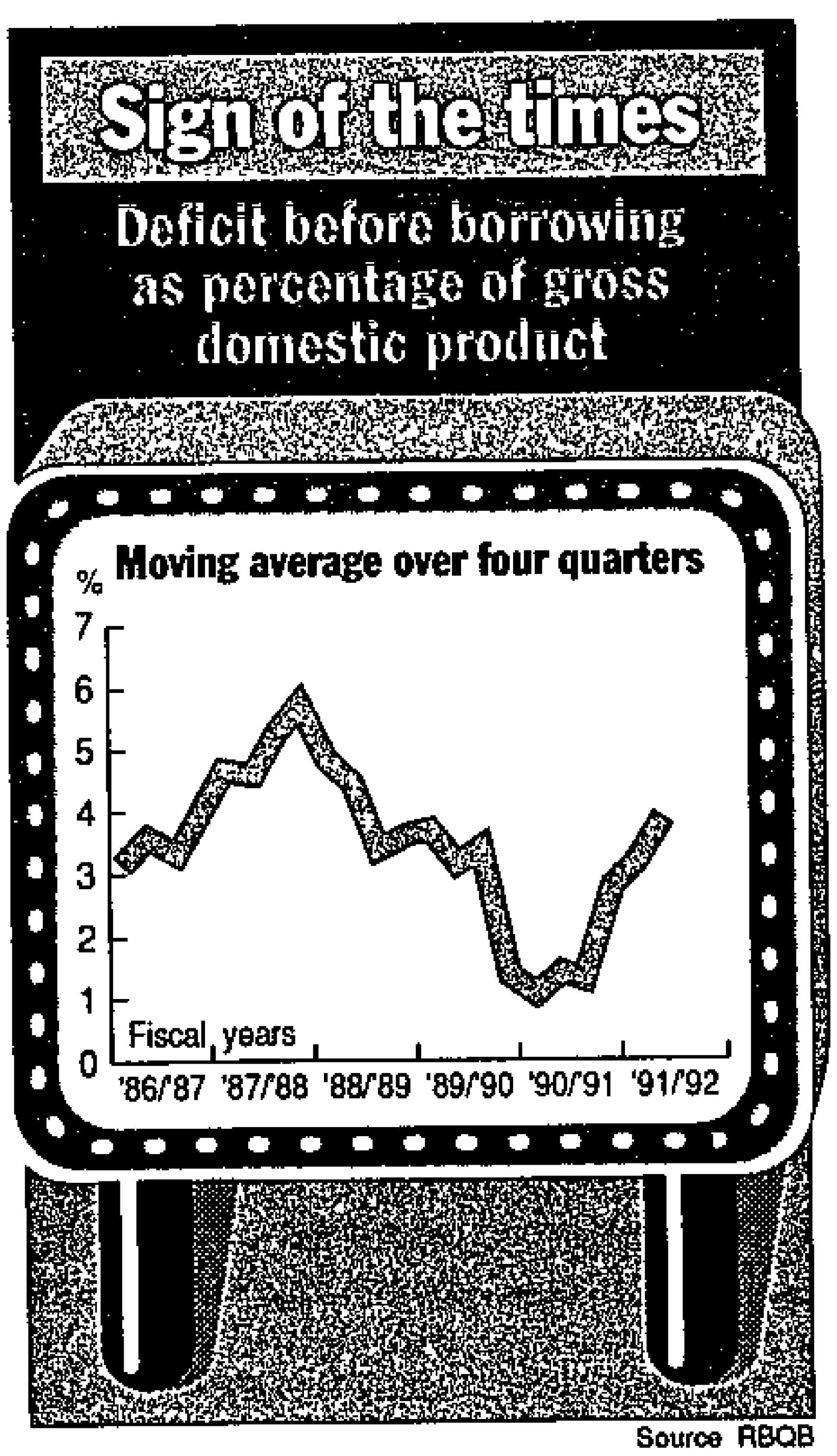


With interest rates wavering after a prolonged recession, there is increasing clamour for a strong monetary boost to kick-start the economy into flight. In other words, a sharp official reduction in the cost of capital.

No doubt some industrialists feel beleaguered by high financing costs — their susceptibilities are understandable. But the danger is that, while a monetary kick-start might get the rickety economy into the air, it won't be sufficient to sustain flight. Nor, tiresome though prolonged austerity may be, are the monetary authorities unaware of the need for a growth initiative which will require sustained effort from a number of groups and political constituencies.

For this reason, Reserve Bank Governor Chris Stals has neatly packaged a number of economic objectives and sold them under the label of fighting inflation. A good salesman knows the importance of both simplicity and making a product visible and accessible.

"But inflation," as he explains, "is only the final important symptom of underlying structural weaknesses. And monetary policy deals not only with the symptom but with the root causes."



Source RBQB

Longer-term goals of monetary policy are little understood by the public, mainly because the Governor has chosen to emphasise his short-term target: getting down money supply growth to reduce inflation. Now he sees the need to put this target in a broader perspective — and explain why he has always insisted that monetary policy should also have medium- and longer-term objectives.

Falkena . . *a job made more complex*

The real debate about monetary policy, he says, is whether it is contributing to SA's process of structural economic adjustment and ultimately to greater prosperity. The debate about when would be the appropriate time to apply countercyclical measures is dead — Stals is determined not to use monetary policy countercyclically again. In future it will remain neutral.

"In the last recession, we had to stimulate domestic demand. It was a matter of survival and we had to accept the consequences in terms of higher inflation and reduced living standards. Now SA's situation has changed and this has provided the opportunity to switch from demand management to supply-side policies practised so effectively in other countries during the Eighties."

Stals identifies three fundamental flaws in the economy that need interest rates at realistic levels for an "ultimate cure":

☐ "Productivity of capital is low. There are many reasons for this but, as far as monetary policy is concerned, our contribution is to make capital expensive so entrepreneurs are forced to put it to good use;

☐ "Our capital:labour ratio is too high. Another element of the structural adjustment programme is to change that so that we use less capital and more labour. Realistic interest rates will make entrepreneurs realise capital is expensive; and

☐ "We are not saving enough. The naive answer is that saving is a function of income, so you must let income grow and then we will have more saving. But that is not what we are talking about; that's moving on a cyclical curve. What we are talking about is that we must shift the savings-income curve upward. We must save more at all levels of income. So we need attractive yields on savings."

If the ratios of output and labour to capital and of savings to income improve, the financial environment will stabilise. "That's not all that has to be done to achieve a structural adjustment," Stals argues, "but that is the contribution the central bank can make." The importance of strong positive interest rates will be demonstrated as soon as economic recovery gets under way. Imports rise very quickly when there is an increase in expenditure and, after two years of declining fixed investment, capital stock is at a low level. Much of it is past its peak and technologically outmoded. So a revival in consumer expenditure will quickly strain what is now underused production capacity

Stals expects renewed capital expenditure programmes, when they come, to raise import volumes by as much as 40% a year, for perhaps two years — probably creating a deficit on the trade account.

"To finance this, we will need strong capital inflows. We can only attract these if domestic interest rates are realistic relative to international interest rates, which are high at the moment." Stals wants to emphasise these longer-term objectives because, in present circumstances (see graph), he suspects many will look to the central bank for quick economic stimulus.

Prospects for 1992 are modest. Stals predicts non-agricultural output may rise by 1,5%. At best the agricultural sector will contribute nothing to GDP and at worst it may reduce overall growth — depending on the extent of the drought. Right now, he says, we have not reached the lower turning point of the economic cycle; the third-quarter recovery in output of 0,5% (seasonally adjusted and annualised) was a statistical blip rather than a sign of a turnaround.

We all hoped for better things when the war in the Middle East ended speedily a year ago. But recovery in the international economy has been delayed, so there will be little additional demand on world markets for SA commodities. The drought is threatening domestic agricultural output, consumers are cutting back on spending, and investor uncertainty is inhibiting capital expenditure.

There are bright spots. We can look for further growth in exports despite recession abroad, according to Stals. And when export demand builds up and consumer and investor confidence begin to revive, the SA economy should be well-placed to respond.

Many short-term monetary policy objectives have been accomplished: money supply

continue →

growth has fallen sharply, the rate at which credit is extended has dropped, and a comfortable surplus was achieved on the current account of the balance of payments in 1991. Like everyone else, Stals is nonplussed by the persistent rise in consumer prices but suggests rigidities in the system (exchange controls) impair the efficiency of the market, increasing the time lag between the fall in money supply and the fall in prices.

There is much, of course, that falls beyond the power of the central bank to remedy. Whatever Stals' views on the desirability of exchange controls, the decision to abolish or retain them is political. No doubt any future government will be as reluctant as the present one to test its credibility in the international community by removing them.

By damming up investment funds within the country, exchange controls create an artificial lake of liquidity. This is reflected in the 68% rise in the JSE's Industrial index since October 1990, at a time when business confidence is low and capital expenditure almost static — despite benefits conferred by VAT. It is also seen in the build-up of funds in the money market, aided now by a mounting government Budget deficit.

Absa economist Hans Falkena points out that exchange controls make the job of the central bank far more complex than it is "in countries of a similar size, European, where the financial markets are open and the currency is effectively linked to the German mark." In a freer economy, official rates at which the central bank accommodates the banking sector relate directly to rates charged on forward cover for currency transactions.

But Stals has to simulate a forward market. Worse still, he is not free to create a realistic imitation. The truth is that our nominally high domestic interest rates are not high enough in real terms, says Falkena, in relation to real interest rates in trading partner countries.

Since the reintroduction of controls in 1985, many billions of rands in forward cover losses have reflected the extent to which SA rates have been too low. At the same time they have fed into the inflationary process, adding to credit creation. They compounded the effects of low or negative real interest rates in 1985-1989 and countered the effects of higher real rates thereafter.

Another factor distorting the economy is the share of GDP consumed by government. Government spending rose sharply during the Eighties while GDP growth was falling; so the ratio of the latter to the former rose from about 20% at the end of the Seventies to 28% in fiscal 1990/1991 (see graph).

Van Rensburg . . . *facing new demands*

The rising government deficit — it is likely to be over 4% of GDP in the present fiscal year — is not an immediate stimulus to inflation because the level of demand in the economy is low The problem is that it has implications for the future. Budgeting in SA is not zero-based — the budget for each fiscal year is based on that of the previous year.

This snowball effect in government spending is not peculiar to SA — the 20th Century has seen a general tendency of governments to increase their share of resources.

What is peculiar to SA is the cost of financing a tricameral parliament and a policy designed to establish 10 independent black states. Though we will soon dispense with these oddities, we are now faced with pressures that arise in a time of transition. And transitional arrangements themselves could prove costly in terms of pensions, new posts and so on.

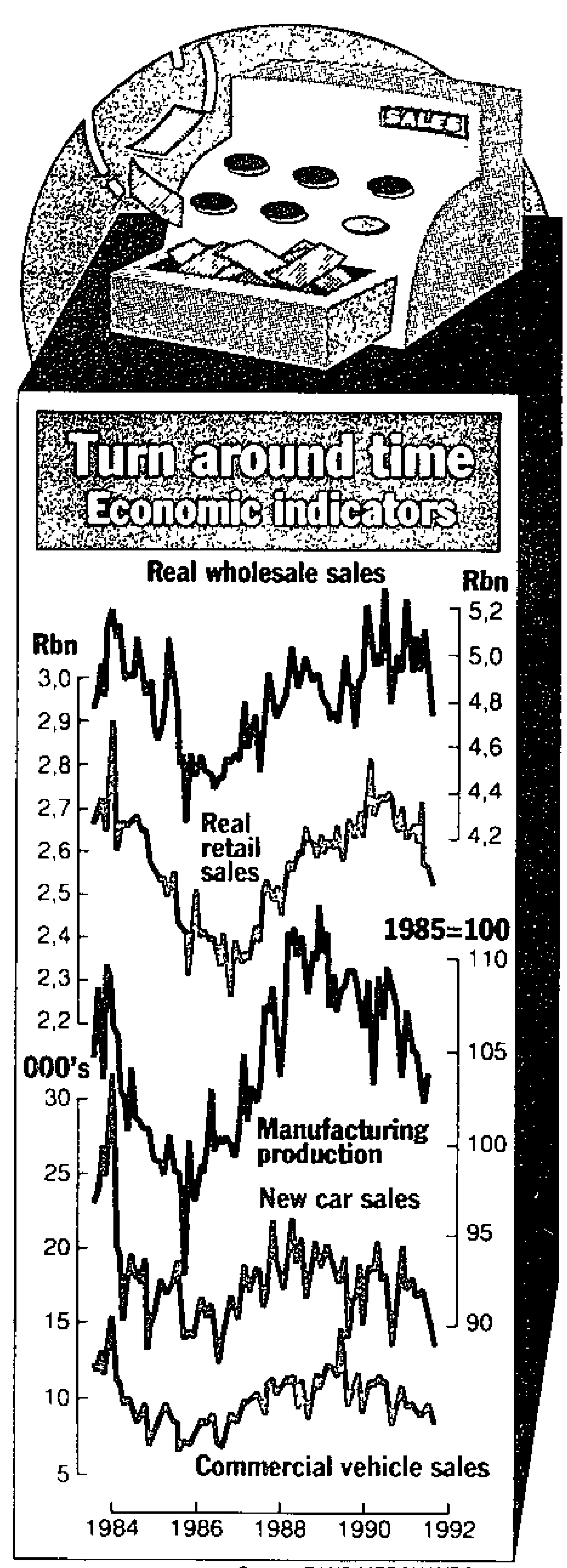
SA Chamber of Business chief economist Ben van Rensburg says: "Changes in the composition of the voter population create a new profile for the average voter, with a new set of needs. And in a democratic society, the allocation of resources is determined by the desires of the electorate." It was these pressures that led to an increase in State spending in 19th Century Europe when the vote was extended to all adults.

Yet another area that will have to be tackled if SA is to become competitive is foreign trade policy. Tariff structures designed to nurture a *laager* economy place intolerable pressures on domestic costs at a time when SA is attempting to reintegrate with the world economy. They must be urgently revised along with the export incentive programme to bring trade policy into line with Gatt requirements.

So an enormous challenge lies ahead. And it can be met only by encouraging growth. There are many dimensions to structural adjustment and, however effective monetary policy may be, it cannot bear the entire brunt of the operation. If it is used to compensate for or neutralise other defects in the economy, the cost becomes prohibitive in terms of nominal interest rates

Contributions must come from many quarters. Responsibility for economic policy ultimately lies with President F W de Klerk. More specifically, government finance is in the hands of State Expenditure Minister Amie Venter and Finance Minister Barend du Plessis. The burden will also weigh heavily on newly appointed Minister of Trade & Industry and of Economic Co-ordination Derek Keys.

They will have to prove they can break with the vacillating policies of the past and move determined-



Source RAND MERCHANT BANK

ly towards implementing coherent market-related policies.

But at this point in the country's political evolution, they are not the only players. Extra-parliamentary organisations are determined to take part in decision-making and this could give government a useful excuse for its own inertia As the transition process gains momentum, there is an increasing need for representatives of tomorrow's voters to recognise their own responsibility They have the ability to influence government policy; they must consider the consequences

Since even the correct policies take time to become effective, they must not be postponed until the proliferation of political issues is resolved The poverty already entrenched in this country does not allow for the luxury of sustained, systematic negotiation. Simply put, we cannot afford an economic policy hiatus while politicians hammer out a political settlement. ■

FM 14/2/92

THE IMF & ECONOMIC POLICY

(49)

An encouraging voice of reason

There are parts of the world where the IMF is regarded as a creature of the devil, sent to spoil profligate governments' time-honoured practice of raping their ever-suffering subjects. Fortunately, as most of those governments have turned their economies — in many cases, once flourishing — into basket cases which now need international assistance only IMF endorsement will bring, they have to listen to IMF prescriptions willy-nilly.

While the ANC still seems incapable of getting a coherent, consistent economic policy together, there are welcome signs that it too is at last coming to realise the difficulty of swimming upstream. Attendance at last week's Davos economic summit seems to have been an enlightening experience for ANC president Nelson Mandela and it is to be hoped that he will now be able to disillusion some of his still starry-eyed Marxist colleagues back home, perhaps fortified by the IMF's new report: *Economic Policies for a New SA.*

The IMF's message is blunt: redistributing wealth through increased taxes could wreck growth prospects and income inequality should rather be addressed through better training and employment opportunities for blacks.

Taxes on whites are already high, and to raise them further could have serious disincentive effects. Rather than fiscal expansion to meet post-apartheid social needs, government must trim spending to stimulate investment and capital accumulation.

These are, of course, very much the policies the *FM* has advocated — it seems for decades — in the pre-post-apartheid SA, which only underlines the point that our social problems will be the same whatever government, of whatever socio-economic philosophy, is in power.

It also, sadly, implicitly confirms the criticisms that have been made of the disastrous economic policies this government has followed for the past 20 years or more.

However much our present economic woes owe to drought and the uncontrollable vagaries of the world economy, we would be much better placed to handle the transition to democracy if we had a less bloated civil service, less regulation and fewer State-(mis)run businesses, and had not for so long deliberately stifled the emergence of a black middle and entrepreneurial class.

That, sadly, is water under the bridge. What we must do now is plan for the future; here the lessons of the IMF report are that policies inspired by jealousy or retribution will be counterproductive. The basic debate is between those who believe redistribution can stimulate growth and those who believe that growth must come first. It's heartening that the IMF comes down firmly in the latter camp. ■

Cosatu warns of impending conflict

B/Day 14/2/92 (49)

DIRK HARTFORD

COSATU said yesterday that if government insisted on excluding major players in the economy from decision-making, it would plunge the country into confrontation and jeopardise the negotiating process.

The labour federation was responding to Manpower Minister Piet Marais's reported rejection of the proposed economic forum between organised labour and business.

The economic forum decided at its meeting last month to invite government. The forum so far has had no response, but Marais reportedly told an Institute for Personnel Management function an economic forum established for political reasons would fail. Yesterday Marais's office would or could not clarify what he meant.

A leading business source pointed out government had committed itself in the Laboria Minute to discussion of labour issues.

Cosatu said it found it "reprehensible" that Marais had rejected the forum without consulting labour or business. "Marais does not seem to have learnt anything from the VAT debacle. The time is long gone when the government could unilaterally dictate changes ..."

The government held different positions for local and international audiences, according to Cosatu. It said the international positions taken by Finance Minister Barend du Plessis and President F W de Klerk contrasted with "retrogressive steps" in SA.

These included government's refusal to meet the VAT committee, its withdrawal from the housing forum and government's attempt to remove the right to pensions.

Hopes of growth hit by fall in GDP

BDay 14/2/92 (49)

SIMON WILLSON

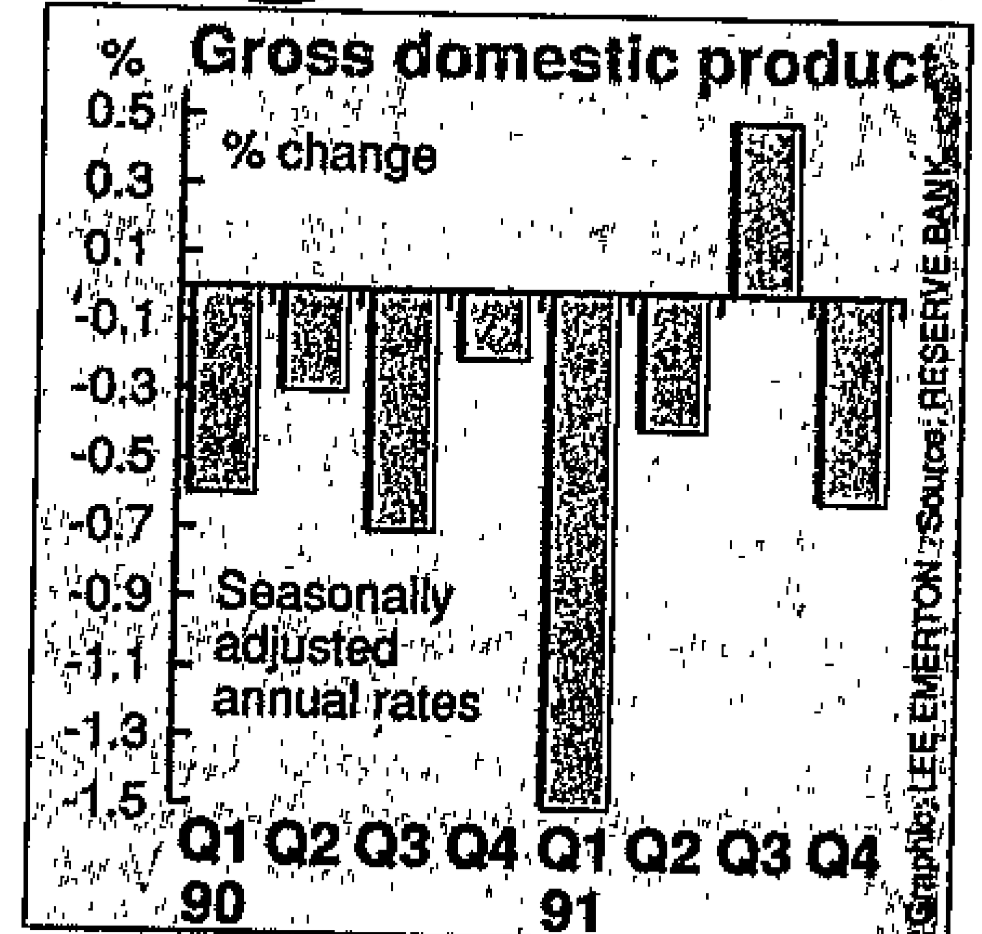
THE economy shrank again in the fourth quarter of last year, rapidly snuffing out the tentative signs of resumed economic growth that emerged in the third quarter.

Central Statistical Service figures released yesterday showed national output, as measured by the inflation-adjusted change in GDP, fell in the three months to December by 0,6% at a seasonally adjusted annual rate.

Real GDP edged ahead by 0,5% in the September quarter, breaking a sequence of seven consecutive quarterly contractions which constituted SA's longest postwar recession. The generally accepted, formal definition of recession is two consecutive quarters of economic contraction.

Although the positive GDP outturn in last year's third quarter technically ended the 1990/91 recession, there was little optimism among analysts that a single quarter of rising national output signalled a return to sustained economic growth.

Ironically, the brief resumption of



growth in last year's September quarter resulted mainly from a larger than expected maize crop that boosted agricultural output when it was harvested in the July-September period. The maize factor is set to constitute a significant drag to the current quarter's GDP figures as this year's

☐ To Page 2

GDP

BDay 14/2/92 (49)

☐ From Page 1

harvest is decimated by drought.

The official data show that the agricultural sector's contribution to GDP, although much lower than in the third quarter, remained positive in the December quarter. Climatic conditions were relatively normal in the first part of the summer and output held up ahead of the sudden deterioration later in the season, which is not reflected in the fourth-quarter figures.

Mining output volumes also maintained in the fourth quarter the small rate of growth that showed up in the third, when coal production was a particularly bright spot in an otherwise lacklustre sector.

Manufacturing production, a category accounting for all industrial output, fell for the fourth successive quarter in spite of what is likely to have been a record year for manufactured exports in 1991.

The commercial sector was another weak spot. After a small positive contribution in the first quarter of last year, commercial output declined for the next three quarters. Commercial activity for GDP purposes encompasses the small retail trade, the wholesale trade and, most significantly, the motor trade. Motor manufacturers' dismal sales year in 1991, when the new car sales total hit a five-year low, was the main drag on the commercial sector throughout the year.

Another factor that contributed to the renewed decline in economic output in the fourth quarter was the national anti-VAT stayaway that closed industries and halted production across much of the economy for two days early in November.

Bankorp chief economist Nick Barnardt cautioned that, although the figure was disappointing, businesses looking for trends should not be too quick to project the future by extrapolating the present.

"The index of leading indicators turned up over a year ago and, since the lead time of the index is around 18 months, we can expect an upswing in the second half of this year," Barnardt said.

"This figure vindicates our scepticism at the earlier claims by some high-profile economists that an alleged upswing had started last year. But industry should not cut back on investment, inventories and employment on seeing this figure. We should all be careful not to overreact at the bottom of a downswing."

The key to a sturdy upswing would be a visible decline in inflation, followed by a decline in interest rates. A world economic recovery in the second half of the year would also contribute to SA's economic recovery, Barnardt said.

Economy shrinks

(49) CT 14/2/92

Gross domestic output drops 0,6%

Own Correspondent

JOHANNESBURG. — The economy shrank again in the fourth quarter of last year, rapidly snuffing out the tentative signs of resumed economic growth that emerged in the third quarter.

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Getting poorer by the day

STAR 15/2/92 (49)

Money Matters

MAGNUS HEYSTEK

HOW often have we heard the expression: "Things will get worse before they get better."?

Well, we're going to be hearing it a lot more.

Most people know by now that the economy did not pick up as was forecast at the beginning of 1991. In fact, its performance was dismal with the gross domestic product (GDP), the sum total of all goods and services, declining by just under one percent.

And with the drought tightening its grip on the country one can expect further declines in GDP this quarter.

Figures released yesterday by the Central Statistical Service (CSS) reveal that the economy unexpectedly slumped back again during the fourth quarter of last year. This is also clearly evident in the latest batch of company results, especially companies exposed to the spending power of consumers.

And how do we know that the economy deteriorated during 1991? Simple. Most of us had less money in our pockets than a year earlier. In fact, Mr Average experienced a per capita decline of four percent in real wealth.

The economy at year-end was officially in the grip of its longest-ever recession; more than 36 months. Some would argue that this is more like a depression. The answer depends on whether or not you kept your job during 1991.

But watch out when the economists start losing their jobs.

This sad state is the result of several factors: the continued high level of interest rates, low levels of political confidence, a fall-out from a world-recession as well as high levels of taxation.

Under the governorship of Dr Chris Stals the Reserve Bank has kept a tight lid on monetary policy by keeping interest rates very high. But up 'til now it has not had the desired effect on the persistently high inflation rate.

Inflation is still stuck around the 14-16 percent levels and shows no signs of coming down. However, there is reason to believe that it could decline to around 12 percent by the end of the year. But haven't we also heard that before?

The local economy has also been affected by slower world growth. The US economy is still struggling to emerge from its recession while the UK and other major European countries are still in a recession. This obviously has a negative effect on our trade with these countries.

But perhaps the major factor affecting the economy is the political uncertainty created by the negotiation talks, the high levels of unrest and crime.

However, not all is gloom and doom. Exports, despite weak world markets, are rising. This is mainly the result of the removal of trade barriers with former major trading partners.

It augurs well for the future when world trade picks up but it will take time for this to filter through into the pocket of the man-in-the-street.

Another factor depressing the spending ability of ordinary consumers is the high levels of taxation combined with wages increasing at a lower rate than inflation. This situation also, will only change once the economy starts growing again in real terms.

But the good news is that the foundations are currently being laid for a longer and more sustainable upswing. Inflation is coming down, the growth in money supply is well down while wage and salary increases are being moderated.

Any upturn in world economies, which could happen very soon, will immediately lead to higher exports, higher revenues and ultimately more job opportunities.

Hopefully the next upswing will be longer than the previous upswings of the '80s. But only time will tell.

PATRICK LAURENCE interprets the twists and turns in ANC economic policy.

ANC is wavering on plan to nationalise

(49) Arg 15/2/92

THE African National Congress is involved in a reappraisal of its economic policy, including its commitment to nationalise the mines, banks and "monopoly industry".

ANC president Nelson Mandela focused attention on the reassessment during his recent tour of Europe.

In Copenhagen he told businessmen: "Nationalisation is our policy but there is a shift in our thinking.

"We have observed the hostility and concern of businessmen towards nationalisation and we cannot ignore their perceptions. If we want to create a climate where investors will not fear losing their investments, we have to take a decision on the question of nationalisation."

In London, Mr Mandela said: "Nationalisation is like a Sword of Damocles hanging above those who want to invest. So long as it is our policy, we will not attract investors."

Those remarks contrast with the pronouncement he made in a message sent through "the people's post" from prison just before his release: "The nationalisation of the mines, banks and monopoly industries is the policy of the ANC and a change or modification of our views in this regard is unthinkable.

"Black economic empowerment is a goal we fully support and encourage, but in our situation state control of certain sectors of our economy is unavoidable."

At that time, in reiterating ANC policy as defined in the Freedom Charter, he had felt obliged to reaffirm his commitment to the ANC's position because of reports that his thinking had shifted in a capitalist direction and that he had become a sybarite.

The Freedom Charter, adopted by the "Congress of the People" in June 1955, pledged to transfer ownership of the mines, banks and monopoly industry to "the people as a whole" — and is still official ANC policy.

But that commitment is certain to be revised at a special ANC conference in April.

Mr Mandela's statements in Europe aside, the ANC's economic policy has already begun to shift.

A draft discussion document speaks not of wholesale nationalisation under a future ANC government but of a mixed economy "based on the principles of democracy, participation and development".

The ANC's position, reflected in official statements issued in January and last October, was that the lending of money by foreign banks to the De Klerk administration contravened its sanctions policy and bankers "should note that a future ANC government may not feel bound to honour debts incurred by the white minority regime".

This Mr Mandela in Switzerland reportedly dismissed as the opinion of individuals.

Then, within hours, the ANC responded to reports that the government-controlled Southern African Development Bank was on the brink of raising another loan with a German bank by reaffirming its opposition to loans and, contradicting Mr Mandela, renewing its warning that a future ANC government might not feel obliged to honour loans raised by the De Klerk government.

Later still, apparently embarrassed by reports on discrepancies between its position and that espoused by Mr Mandela, the ANC issued a statement in which it tried to reconcile its stand with that adopted by Mr Mandela.

The ANC, like Mr Mandela, was committed to honouring loans raised before the imposition of financial sanctions against South Africa. However, it stood by its opposition to loans granted in contravention of its sanctions policy.

Financial sanctions, including a prohibition on new loans, should be maintained until the installation of an interim government of national unity, the ANC said. Mr Mandela made a similar statement to the Financial Times.

The ANC denied that there had been a divergence of views between Mr Mandela in Europe and its senior officials at home. It blamed the media for misinterpreting official statements.

What the media was doing, however, was reflecting different nuances and thinking in the ANC and Mr Mandela's spontaneous reaction to the dismay and concern which the official ANC positions has evoked in financial circles in Western (and Eastern) Europe.

The ANC, as the "parliament of the African people" — to quote Mr Mandela — embraces a wide range of different and even opposing ideological tendencies. They stretch from old-style communists through traditional black leaders to modern black nationalists. Another division separates pragmatists from ideologues.

The major policy conference — at which the ANC's broader approach as well as its economic policy will be reconsidered — is now only weeks away. The different schools of thought are beginning to manoeuvre for position. Hence the seepage of contradictions.

They may be exacerbated by ANC speech writers who try to use Mr Mandela's voice to boost the positions they espouse.

Thus, while he was expressing reservations about nationalisation, the written speech that he took with him to the World Economic Forum reaffirmed that nationalisation of "key (monopoly?) industries" was still on the agenda.

Stals warns on SA growth crunch

(49)

ARG 15/2/92

DEREK TOMMEY

JOHANNESBURG. — Until the US repeals the Gramm Amendment which limits South Africa's access to IMF and World Bank funds, the country's economic growth will be severly limited, Governor of the Reserve Bank Dr Chris Stals has warned.

Because South Africa could not borrow from the IMF it had to maintain a balance of payments surplus which meant the expansion of the economy had to be restricted, he explained.

Dr Stals, who was yesterday speaking at a seminar in Sandton organised by the British Invisibles, a UK trade body which is here to promote London's financial services, added that the Gramm Amendment was also a deterrent to potential foreign investors.

"It is therefore a matter of urgency for South Africa that these restrictions should now be repealed, as the American government has already done with the Comprehensive Anti-Apartheid Act."

"The process of economic development must be stimulated if we want to benefit from a more rapid rate of economic expansion downstream.

Dr Stals said that the restrictive economic policies imposed since 1985 had limited imports and had enabled South Africa to run a balance of payments surplus big enough to finance capital outflows.

But he warned that any increase in the rate of economic growth would lead to a rapid rise in imports.

Even if they were to rise by only 10 percent, this would wipe out the current trade surplus within a year, and South Africa would run into a balance of payments problem.

He pointed out that in the past it was not unknown for imports to rise by 35 percent in a year.

In such a case South Africa would be dependent upon foreign capital to offset the deficit and obtain full employment growth in the economy.

Dr Stals said that the Gramm Amendment stipulated that any application by South Africa for loan funds from the World Bank and IMF had to be submitted to the US Congress for approval.

Dr Stals warned that South Africans must be modest in their expectations about foreign borrowings and foreign capital inflows.

The Third World debt crisis had reduced the willingness of financial institutions to lend to developing countries.

This meant that South Africa had to become more attractive to foreign investors. To do this South Africa would have to present foreign investors with a stable and sound financial environment.

"This requires a continuation of a policy of guarded financial discipline," Dr Stals said.

The British viewpoint on South Africa was put by Mr David Potter, chairman and chief executive officer of Guinness Mahon, a leading London financial institution.

He said South Africa should be aiming at.

- Continuing the positive evolution of the domestic political process;
- Keeping up pressure for the lifting of remaining sanctions, principally applied by the US in relation to IMF access. This was particularly important because without IMF accreditation the commercial banks would be reluctant to lend to South Africa;
- Stimulating private portfolio and corporate investment from those companies with existing South African operations; and
- Convincing the world that the issue of nationalisation was buried and there was respect for existing financial contracts.

A most positive way in which South Africa could signal this was to embark on a privatisation programme.

They insisted on hav-

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often abducted in broad daylight from the taxi rank in Vereeniging,

Some of the gir being abducted th

Mandela bid to ease investors' fears

By SEKOLA SELLO

49

THE ANC, reeling from international opposition to its economic policies, is considering adopting an investment code to encourage foreign capital.

The issue of an investment code comes in the wake of Nelson Mandela's recent trip to Europe, where he encountered open hostility from leading industrialists about the ANC's nationalisation policies.

Mandela, speaking to journalists at his Soweto residence yesterday, said that as long as a future ANC government maintained its policy of nationalisation, it would drive away potential investors.

CITIZEN 11/2/92

In a rare admission of the consequences of nationalisation, the ANC leader said: "As long as we maintain nationalisation, we will not get investors."

Mandela and members of the organisation's national working committee went into a three-day retreat this week to have an "in-depth look into the overall political situation, ways of addressing the fears of minorities and the peace process".

The issue of nationalisation and the attitude of big business was also discussed and the matter will be dealt with at length at the organisation's economic policy conference in April.

At the end of the session the ANC reiterated its opposition to a whites-only referendum on constitutional changes. It also rejected regional self determination.

A weary argument takes another fruitless turn

(49)
ST Times 16/2/92

A NEW book on the redistribution of wealth in South Africa proclaims that "selling capitalism won't work" because black people see all the arguments in favour of capitalism as mere attempts by rich whites to rationalise an unjust division of wealth.

The short answer is that, if so, the new South Africa will fail. Capitalism, as Hayek says, rewards successful behaviour and punishes unsuccessful behaviour, and countries which hope to feed their people, house the poor or heal the sick must subject themselves to that discipline.

Fortunately, things are not quite so bad. The ANC, including its SACP pilot fish, talks these days of the need for markets, and goes out of its way to reassure people that their property will be safe under the new régime. The idea of nationalising land, mines and banks waxes and wanes, like the smile of the Cheshire cat, depending on who is speaking.

Mr Nelson Mandela, bowing to the capitalist winds that sweep the global landscape, is promising to review his economic ideas. Mr Joe Slovo and his fellow-communist, Mr Chris Hani, have set themselves up as property owners in middle-class suburbs, where they are learning, no doubt, the cost of insurance, plumbers, pools and burglar bars.

Like Mr Thabo Mbeki, who is struggling to protect his BMW from summary liberation, they have switched from "struggle" to "system," no doubt to the acute distress of such erstwhile strugglers as Professor Sampie Terreblanche and Mr Wynand Malan.

What remains of the socialist threat is little more than a residue of prejudices and hostilities, and a lust for the power to equalise incomes, distribute wealth and dish out jobs for pals in the parastatals. What we have to fear is not socialism but a kind of crippled capitalism, loaded down with remnant bits of socialist theory and practice, like Wilson's Britain.

Foremost among the dangers, I would say, is the illusion that governments, given power to coerce in the name of the people, can overcome poverty and, in various ways, make a better world.

Governments, as even the Swedes and the New Zealanders now acknowledge, know less about overcoming poverty than do monasteries, but the idea that, somehow, a Big Daddy government will solve our problems is still assiduously propagated both by the ANC, which aspires to power, and by the Nationalist bureaucracy that clings to it.

One apologist for the ANC argued this week that if Jan Steyn's Independent Development Trust were allowed to raise money abroad freely and so remain semi-autonomous, "crucial aspects of national policy will fall outside democratic control". Leaving aside the tendentious definition of "democratic", the implication is nevertheless destructive: Judge Steyn must not be allowed to solve the housing shortage except under proper control.

We have heard this argument before. It came from the National Party in the days when Dr Verwoerd was determined that black people must not be educated by semi-autonomous churches, and he destroyed the work of the church schools as the ANC is now trying to destroy the work of the IDT.

TWO emotional impulses underlie this socialist (or national-socialist) Utopianism. The first is megalomania, and the second insecurity, and they go together. The ANC attacks capitalism not because it still believes socialist mythology, or finds it hard to let go of yesterday's demons, but because capitalism depends on free choice, and free people are apt to behave unpredictably. Bureaucracy, by definition, knows no greater threat.

That is why suspicion of capitalism is immune to all rational argument, and even to fact. The book cited above, titled **Redistribution and Affirmative Action**, edited by Pierre Hugo (Southern), includes, in a chapter by two Free State academics, this passage: "In answer to the questions *Who benefits?* and *Who decides?* critics of the capitalist order have always pointed to the inherent tendency in such an order to concentrate both power and privilege. In turn, capitalists defend this distribution of privilege as the just reward for talent, effort and the consistent application of individual skills. . . ."

How does one debate at this level? Peter Berger has shown, in an empirical study that remains unchallenged, that in capitalist societies the poor tend to prosper because their choices proliferate with economic growth and industrial complexity. Besides, the proliferation of choices itself tends constantly to create new power centres (like Greenpeace, to cite a topical example).

THIS is the century of Hitler, Stalin and Verwoerd, who presided over the evil that ensues when political power coincides with economic control; yet educated people still talk of the concentrations of power in capitalist societies, where the right to behave autonomously, or semi-autonomously, has been granted as a right to hundreds of millions of free individuals.

The argument is tiresome and pointless. Forty years of nepotism and patronage have set a South African style, deeply embedded in the psyche of both black and white communities, which is deferential, dependent and bureaucratic. As a nation we are devoted to authority, to "teacher-knows-best", to the "official" truth, to "experts", to hand-me-down solutions.

Our choice is not between capitalism and socialism but between free-enterprise capitalism and state capitalism, and I note somewhat dispiritedly that on this point there is very little to choose between the Nationalists and the ANC, the main negotiators at Codesa.

But I have grown weary of the argument, and bored by it. If black South Africans will not, as the academics suggest, learn the lessons of capitalism by precept, they must do so by experience. One day, perhaps, they will be as enthusiastic about capitalism as the Poles and the Mozambicans.

As my grandmother used to say, laying about her with a wooden spoon, those who will not learn must suffer. So be it.

KEN OWEN

I failed to sell nationalisation, admits Mandela

STAR 17/2/92

(49)

Political Staff and Sapa

Nelson Mandela has admitted at home his failure to "sell" the ANC's nationalisation policy to international financiers and industrial leaders.

Addressing a press conference in Soweto on Saturday following discussions by the ANC's national working committee (NWC), which met for three days last week, the ANC president said: "The hostility towards nationalisation could be cut with a knife. I was unable (during the World Economic Forum in Davos, Switzerland, two weeks ago) to persuade industrial leaders nationalisation was no threat to their investments."

Mr Mandela said he had pointed out that the ANC was drawing up an investment code to protect investments.

Rethink

He said nationalisation was still official ANC policy, but because of the international view he would refer the issue to the organisation's national executive committee.

Previously, during his Denmark stop-over, Mr Mandela promised a comprehensive rethink on nationalisation.

He told businessmen in Copenhagen that the ANC would reconsider its policy in the wake of Davos. "There is a shift in our thinking. We have observed the hostility and concern of businessmen towards nationalisation, and we cannot ignore their perceptions.

"If we want to create a climate where investors will not fear losing their investments, their dividends, we have to take a decision on nationalisation."

Mr Mandela also said at his weekend press conference the ANC opposed black majority rule as much as it did white minority rule — although it stood for majority rule.

He said the NWC had discussed the necessity for allaying minorities' fears — especially those of white, coloured and Indian groups — of majority rule.

Other items on the agenda had included the right wing; a whites' only referendum; self-determination and political alliances.

Mr Mandela reiterated the ANC's rejection of self-determination for any ethnic group.

Although the ANC did not underestimate the right wing, as it could cause a great deal of harm, it was not being overestimated either as "no force in South Africa could stop the march forward of the peace process".

Mr Mandela said the right wing was dangerous in terms of the National Party's appeasement of Conservative Party's demands.

He added there was also the threat of neo-Nazi parties launching an armed struggle against a future democratic government.

Mr Mandela reiterated the ANC's objection to a whites-only referendum which could veto decisions taken by the Convention for a Democratic South Africa.

He said such a practice would be unacceptable in any democracy.

Mr Mandela said the NWC had also discussed the issue of political alliances such as the ANC-Cosatu-SA Communist Party alliance and the Patriotic Front.

Science of body talk finds a whole new language

Hearty happiness . . . smile and your body smiles with you, according to research.

The mere act of making a facial expression is enough to make the body respond as if the emotion depicted were real, a study says.

Dr Robert W Levenson a professor of psychology at the University of California in Berkeley, says studies in two cultures show a direct connection between facial expression and physiological activity such as the heart rate.

The professor claims there is a pattern detector in the brain which will detect a fearful face and activate a fear physiology. The same is true of other emotions such as anger, disgust sadness, and happiness, he says.

The study was conducted by getting subjects to make the face of an emotion without actually naming the emotion.

The subjects were connected to instruments that monitored heartbeat and skin temperature.

When they made the expression of fear, for example, the heart rate increased and the hands cooled down.

With anger, the heart raced and the hands warmed up. With sadness, the heart beat rose, and with disgust, the heart slowed down.

The tests were conducted with subjects aged 16 to 90 and reactions were consistent, Dr Levenson says.

"Young people report feeling the emotions, but older people say they don't," he says.

Dr Levenson conducted the same studies with subjects in Indonesia and found the same reactions suggesting the finding may be universal — Sapa-AP

TOMORROW

No-one likes paying tax or worse, paying more than is necessary. A tax consultant says tax "avoidance" is your right

'Get real' – and get rich

STAR 17/2/92.

(49)

PURE PROFIT Productivity and profit are the wheels that keep society moving in the right direction, says the founder of the Objectivist Forum. MARIKA SBOROS reports.

NOW you no longer need feel any guilt about amassing all that lovely lolly by the sweat of your own brow. The Objectivist Forum is poised to clean up the lacklustre image of filthy lucre, and solve the world's problems along the way.

Being productive and making piles of profit are the wheels that keep society moving in the right direction for survival and growth, says ardent capitalist and forum founder Steven Weiss, a Johannesburg assurance broker.

After all, the incentive to produce is drastically curtailed if the fruits of one's labour are just going to be handed over to someone else.

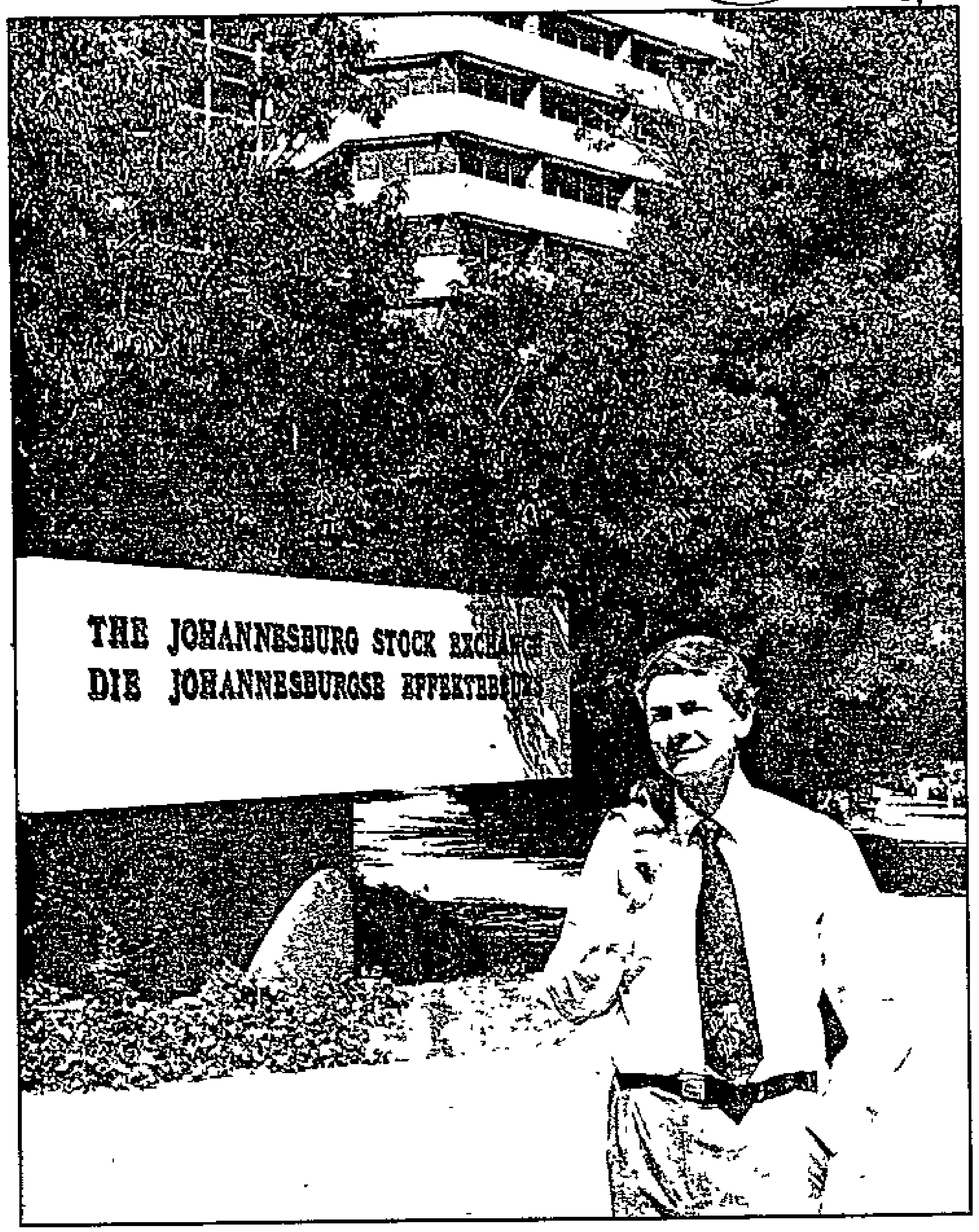
Mr Weiss launched the forum earlier this year with a group of businessmen to promote "the right ideas", the essence of which is pure capitalism — "the truest form of free enterprise" — which is not practised anywhere on this earth, he says.

The Objectivist Forum is based on the four tenets of author Ayn Rand's philosophy enshrined in her epic novel, Atlas Shrugged: objective reality (believe it or not, there is such a thing, Mr Weiss says), reason, self-interest and capitalism.

Capitalism is the only social system truly consonant with man's rational nature, says Mr Weiss. Self-interest and capitalism, he says, are related concepts, which recognise the primacy of reality and reason.

Profit is not a dirty word, if you go through a productive process to acquire assets, says Mr Weiss.

"Profit should be a measure of your productivity," he adds.



Capitalist bastion . businessman and objectivist Steve Weiss outside the Johannesburg Stock Exchange. Picture: Etienne Rothbart

Objectivists claim to be right not because they have any authority he says, but because their philosophy is based on reality and reason. Other values follow through logic, he says, and then no other options are available.

Objective truth is possible but it can only be determined by reason. Most people don't like using their reason and thinking abstractly, he says. They prefer to languish in the myths of religion, group collective consciousness and cults which separate the participants from reality.

The most productive members of society should be rewarded, says Mr Weiss who has a horror of parasites.

You don't need to penalise the unproductive he says. A truly free market will do that automatically.

Altruism is out and egoism is in, says Mr Weiss. Altruism is predicated on non-value of the self" — self-sacrifice — the aim of which must be death. Only a system based on freedom of exchange and no coercion can possibly sustain itself.

Mixed economies just don't work, he says, because they combine antithetical values.

Any compromise of capitalism is ultimately theft, he says.

Through the forum, he hopes to explore solutions to problems that are not peculiar to South Africa. The events in Eastern Europe and the Soviet Union, he says, have demonstrated what happens when a society is based on false or compromised values.

● The Objectivist Forum is holding a meeting on Wednesday February 19 in Parktown from 5 30 to 7 30 pm

Govt forces stricter spending

(49)

CT 17/2/92

Own Correspondent

THE government moved to give effect to President F W de Klerk's promise of tighter spending control by forcing stricter parliamentary accountability on all public entities that rely on the exchequer for more than 50% of their spending requirements.

The State Expenditure Department last week tabled a bill setting in motion greater public control of taxpayers' money.

Altogether 340 public entities, ranging from the Development Bank to the agricultural control boards, were identified that needed to be more strictly controlled. Others include universities and technikons, the performing arts councils and research institutions such as the CSIR and the HSRC.

Business practices

The Reporting by Public Entities Bill sets in place regulations forcing all public entities to comply with the Companies Act.

It also enforces a strict accountability on the directors of these parastatals to use resources efficiently by following sound business practices.

Auditor-general Mr Peter Wronsley said yesterday in the past public accountability of money spent disappeared once funds voted by parliament were transferred to the parastatal.

DP finanace spokesman Mr Ken Andrew yesterday said he welcomed any measure that increased public accountability.

MONEY MARKETS by Sheridan Connolly

Dealers keep up the pressure, but Stals maintains tight rein

BIDay 17/2/92 (49)

HOW much longer can the Reserve Bank continue its struggle to keep a tight rein on liquidity — and on the banks — as rates continue sliding downwards?

Expectations of a cut in official interest rates have been building up over the last year or so, but Reserve Bank Governor Chris Stals has put up a tough fight and has, thus far, not relented to market pressure.

With all factors in the market firmly in place for a Bank rate cut, dealers are confident the move is in sight and most feel the release of January's CPI data this week will be a major deciding factor for Stals.

Last week the 90-day liquid BA rate dipped to its lowest level in three years when Standard Bank held its BA rate at 16,00%. Dealers said the lower rate was in line with investor demand, liquidity levels and expectations of a cut within the week.

Most of the other major institutions lowered their BA rates to 16,10% from the previous week's 16,20%.

Meanwhile, the strong demand for liquids was reflected in Friday's weekly Treasury bill (TB) tender. The average three-month TB rate dropped 14 points to 15,80% from 15,94% at the end of the previous week.

The Reserve Bank received a massive oversubscription of R1,449bn in the allotted R200m tender with tenders at the average price only partially allotted. There were no full allotments, the Bank said.

High levels of liquidity in the market have warranted a downward trend in the TB and associated rates, and this has seen the banking sector benefiting through lower deposit rates.

Consumers, on the other hand, have been at the wrong end of the stick — they have had to face high and stubborn inflation, lower deposit rates and crippling lending rates.

The Bank continued its liquidity-draining operations from the market last week with two special TB tender issues of R600m and R500m respectively. Dealers said the action was taken to drain the routine inflow of cash at mid-month.

Last week, the money market shortage had edged up to R1,872bn on Thursday from R1,334bn on Wednesday.

Construction industry suffers

Drop in SA output hits six-year low

B|Day 17|2|92

(49)

NATIONAL output fell by the biggest margin in six years last year as SA's longest post-war recession depressed economic activity.

Figures released by the Central Statistical Service at the weekend show that national output, as measured by the inflation-adjusted change in gross domestic product (GDP), fell by 0,6% in 1991. This is the biggest fall in GDP since the -1,2% recorded in 1985.

The figures are preliminary, which means they are subject to revision later, but they broadly confirm analysts' expectations that last year's economic growth performance would not differ greatly from that posted in 1990, when GDP fell by 0,5%.

It is no coincidence that the two calendar years of economic contraction — 1990 and 1991 — are those in which interest rates peaked out in the current business cycle. Prime overdraft rates plateaued at a five-year high of 21% for the duration of 1990 and were only one percentage point lower for most of 1991.

Most authoritative forecasts project an economic recovery this year, expecting GDP growth for 1992 to be about 2%. Such an outturn would deliver the highest rate of economic growth since the 2,3% recorded in 1989.

The sectoral breakdown of the data shows the sharpest decline was in the construction industry where output dropped 4,5% last year after dipping by only 0,2% in 1990 following a 7,9% rise in 1989.

The fall in the sector reflects the in-

SIMON WILLSON

creasing dismay that has been signalled by non-residential building contractors over recent months. New contracts have been increasingly scarce, and overbuilding has been reported in some areas.

The fall in manufacturing output steepened to -2,4% last year from -1,3% in 1990 as high interest rates, destocking and falling business confidence dampened industrial activity. The manufacturing decline would have been much more marked had exports not chalked up a 9% increase in nominal rand terms last year.

Production in the mining sector continued its steady slide, falling by 1,5% last year after a 1,2% fall in 1990 and a 1% dip in 1989. The largely static gold price, combined with rising labour costs and deteriorating ore grades, has left the non-coal mining sector in a poor state, with a negative contribution to GDP in all but two of the last seven years.

Agricultural production rallied last year to fall by only 1,3% after a tumble of 7,4% in 1990. The late rise in the maize harvest, a solid contribution from deciduous fruit and a good wheat crop provided the foundation for the rebound, although the current drought threatens to abort the recovery in agricultural output this year.

Elsewhere among the GDP sectors, positive contributions were recorded by the electricity and water utilities, financial services, community services and general government. Transport contracted for the first time in five years.

SA's output plummets by record margin

49

CT 17/2/92

From SIMON WILLSON

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Peter Fabricius comments on the Government's turnabout on foreign pressure

Looking to others to temper ANC

STAR 17/2/92

(49)

ONE of the more enjoyable ironies of President de Klerk's trip to Europe last week was the way the Government suddenly became an enthusiastic advocate of foreign meddling in South Africa's domestic affairs.

The main purpose of the trip was to mobilise foreign governments and industrialists to pressure the ANC into dumping the vestiges of its socialist economic policies.

It was not too long ago that this same Government was berating the world for interfering in South Africa's affairs. The Government's philosophy then was that apartheid was purely an internal matter.

The new approach to foreign involvement — most sharply mani fested at the World Economic Forum at Davos — dramatically gave the lie to this old argument.

It revealed the truth of the NP position all along, that foreign pressure is fine, as long as it not applied to you.

Even as late as last week a slight contradiction in the Government's approach underscored the truth of this observation.

When President de Klerk received the Unesco peace award in Paris, he took the opportunity to warn Unesco that while it should encourage change, it should not "interfere". This warning was apparently issued for fear that Unesco might "interfere" on the wrong side — the ANC's.

Davos was an intense crucible of free market pressure, one of the most concentrated gatherings of world political and economic leaders ever. Under that pressure, ANC president Nelson Mandela offered important assurances to foreign investors which could prove crucial for the success of a post-apartheid economy: he promised their investments would be safe from nationalisation.

And in an earlier press briefing at Davos, he had made it very clear that he disapproved of ANC statements threatening to review foreign loans granted to the present Government. Mr Mandela said he did not think it would be wise to acquire the image of an organisation that "did not honour its debts" — implicitly repudiating his hardline colleagues.

On his visits to Hungary, Czechoslovakia and Poland, Mr de Klerk also tried to mobilise these governments against ANC economic policy. In nations which had just shrugged off the shackles of 40 years of oppressive communism, it was not hard to find endorsement for the free market.

The trip, and Davos especially, showed how in the future SA might come to be very grateful for foreign pressure — as it should have been grateful for the role which foreign pressure played in the past in persuading the Government to abandon apartheid.

But it is by no means certain that that all white South Africans are grateful. Witness the quiet but persistent rumblings in the National Party establishment about Mr de Klerk's foreign excursions, similar to the criticisms of Mr Gorbachev and Mr Bush The line is that instead of currying favour abroad, he should have been fighting the Potchefstroom by-election

That surely shows a misunderstanding of the purpose of the mission, to win support for critical policy decisions.

"A few years ago we had little support outside the country, now we probably have more than the ANC," a senior government source said.

"If you strip away the personal reputation of Mr Mandela, the ANC is being slowly destroyed by its exposure to the world."

That is putting it much too strongly, but the general drift is right. The ANC is not so much being destroyed as moderated. Thank God for world pressure. □

Nationalisation has flaws (49) Mandela

BDay 18/2/92

CAPE TOWN — While the ANC was prepared to use nationalisation — its basic policy — as a strategy, it was aware of its unpopularity, ANC president Nelson Mandela said yesterday.

"It is clear that it won't attract investment if it appears to be a sword of Damocles hanging over people's heads," he told a President 100 Club luncheon.

"We have no ideological attachment to nationalisation but are prepared to use it as a strategy. But we are aware of its upopularity and that it is an outdated concept. We have to create a climate suitable for investment," he said.

The ANC was drawing up an investment code which, it was hoped, would satisfy businessmen.

"We must still consider our attitudes towards nationalisation because no doubt it has become an upopular concept."

This would not be easy, as for many years ANC followers had been told this was the solution.

"It is going to be quite a task to put this over to our people, but if this is the best way to solve the problems of our community, then we have to face it."

He also said sanctions would remain until the objectives for which they were introduced had been attended to. These objectives were the removal of apartheid and blacks getting the vote. — Sapa.

Economist voices hope of upswing

BDay 18/2/92 (49)

HAROLD FRIDJHON

AN UPSWING in the SA economy might now be realistically contemplated with a real GDP growth which could average between 2,5% and 3% in the second half of 1992, Frankel Max Pollak Vinderine (FMPV) economist Mike Brown said yesterday.

In a presentation to visitors who will attend today's FMPV investment conference in Johannesburg, Brown forecast an inflation rate of around 13% this year and lower interest rates "which should be confined to a reduction of between 2% to 3%".

Although equity prices were shifting into expensive territory, Brown said there were still valid reasons for the market to go up further. These were:

- ☐ Economic recovery appeared to be on the way, locally and abroad;
- ☐ Institutional cash flows, supplemented by demand from state pension funds, would provide support in a market in which quality stocks were tightly held; and
- ☐ All the usual criteria indicated that the market was not overvalued on a historical comparison basis.

Nor was the JSE over-valued on a world scale, he said. The world p:e, according to the Institutional Brokers Estimate System (IBES), which monitors 27 major world stock exchanges was 17,3 times at the end of November 1991, or 13,5 times if Japan was excluded from weighted calculations. Brown said that the JSE p:e, according to the IBES, was 11,7, probably calculated through the financial rand.

"Even eliminating the currency effect, the SA market at its current p:e of 13,2 times is below the world average," said Brown. But he added "it cannot be denied that the market is in expensive territory and that earnings growth will need to accelerate in the near future to justify the market's postive expectations".

With these caveats Brown recommended heavy exposure to equities, suggesting that allocation of funds toequities this year be increased to 70% from last year's 65%.

He advocated that by the end of the year a portfolio should include 15% in gilts, because of the relative yield gap between gilts and equity dividend yields.

The rest of the portfolio should include 10% in property and 5% in liquid assets.

Brown was cautious on direct mining investment, but he was confident that an overweighting in mining financials would "provide an adequate insurance against an earlier than expected recovery in commodities".

The breakdown of the recommended portfolio structure for equities in a small fund is: industrials 53%, banks and financial services 9%, property 1%, gold 5%, mining finance 20%, platinum 3%, diamond 8% and other 1%.

Warning over output drop

B Day 18/2/92

THE decline in national output in the last two years was alarming and should be seen as a clear warning that time was running out for SA unless everyone put aside their differences and concentrated on increasing productivity, Johannesburg Chamber of Commerce and Industry president Mike Cato said in a statement yesterday.

"Organisations and individuals alike must all now put the growth of the economy at the top of their priority lists. It cannot wait for Codesa or a new dispensation," he said. — Sapa.

ANC is still undecided on a trade policy for SA

B/Day 18/2/92 (49)

THE ANC has no trade policy, its economic adviser on international economic relations, Alan Hirsch, told a trade briefing in Johannesburg yesterday.

"The ANC's general economic policy documents have very little to say about trade policy, if anything," he told about 100 businessmen, manufacturers and exporters who expected to hear whether a new government would support changes being made to the country's trade policies.

He attributed the lack of a policy to the ANC's reasoning that it was an adjunct to central economic questions, "many of which we are still grappling with".

He was confident his views were broadly in line with ANC economic policy in the making; the ANC and Cosatu ("though I cannot speak for Cosatu") accepted exports of manufactured products and services to be vital for medium and long-term economic growth. However, "it is true that most ANC advisers expect economic concerns in the first few years of transition towards democracy to focus internally on providing for the basic needs of economically deprived South Africans."

SA's existing trade policy was in dire need of reform, and protectionist tariffs were being abused by manufacturers who priced products according to import parity rather than to cost or demand.

He warned against Industrial Development Corporation proposals that tariffs be homogenised and lowered to World Bank standards for a strongly outward oriented policy.

This assumed, he said, that exposure to world prices would make manufacturers more competitive because it would force them to allocate their resources efficiently.

Strategise

"This may be fine in the abstract world of neo-classical economics, but in the real world many other factors impinge on the ability of a country to compete internationally." Among these were access to technology, terms of relationships to foreign buyers or sellers, and the role of foreign investment.

The ANC felt it necessary to "think deeply and strategise carefully" about restructuring SA's relationships with trading partners and international bodies such as GATT, PTA, the EC and Lome. However, it would be necessary to move quickly.

Government's reluctance to reposition SA as a "developing country" rather than as a "developed country" was due to pride, and it was losing economic advantages as a result.

He said "government had made no attempt to even consult the ANC, let alone negotiate with it, over revisions to trade policy.

Replying to Hirsch, Trade and Industry director-general Stef Naude said export incentives had been changed because they had been abused.

The government was aware of the possible advantages of joining trade groups such as Lome, but until now this had been politically impossible

No mechanism existed at GATT for the reclassification of SA as a developing nation and pride had nothing to do with the issue.

In his earlier briefing, Naude rejected any idea of a "big bang" move away from protectionism, saying SA had a responsibility through the Customs Union to some of the poorest countries in the world. But tariff levels would have to be reduced. — Sapa.

Govt's revenue collection back on target

STAR 18/2/92 (49)

By Sven Lünsche

Government revenue collection is back on target judging from state expenditure and income figures released in the latest Government Gazette.

From April to January government revenue totalled R59,75 billion compared with R55,72 billion for the same period in the 1990/1 fiscal year.

During the first 10 months of the current year the government has thus collected 81,5 percent of its budgeted income of just over R73 billion. At the same stage last year income had reached 82,9 percent of the budgeted total.

While the figures do not give a detailed breakdown of tax collections — including the income from VAT — they show that total inland revenue was up by 10,9 percent to R53,29 billion (R48,81 billion).

Income from Customs and Excise, however, was 6,2 percent less than last year at R6,41 billion (R6,84 billion).

Government expenditure continues to run ahead of budgeted targets. In the first ten months of the fiscal year the government spent R72,34 billion, 19,1 percent more than in the comparative period in the 1990/1 fiscal year

Finance Minister Barend du Plessis has budgeted for total expenditure of R85,35 billion in the current year and is set to ask Parliament to approve additional budgets before the end of the month

The deficit before borrowing during the first ten months has thus surged to R12,6 billion and is already amounting to 92 percent of the budgeted deficit for the year as a whole

Drought sets back hopes of economic recovery this year

(49)

STAR 18/2/92

By Sven Lünsche

Hopes of economic recovery this year have been dealt a severe blow by the drought.

Central Statistical Service (CSS) said at the weekend that Gross Domestic Product (GDP) fell by 0,6 percent last year after an 0,5 percent drop in 1990.

Economists had generally expected growth would recover to a positive 1,5 percent in 1992, but they are now scaling down their forecasts in the wake of the drought.

Econometrix analyst Dr Azar Jammine estimates that the loss of agricultural production will be R2 billion to R4 billion.

While the contribution of agricultural production to GDP is no more than five percent, such a loss implies a decline in the projected economic growth rate this year of 0,5 percent to one percent, Dr Jammine says.

He now expects overall GDP to record a mere 0,5 percent growth.

The most immediate impact is that the country will have to import up to four million tons of maize, resulting in a foreign exchange loss of R1 billion to R2 billion.

However, given the record trade surplus of R18 billion last year and renewed access to foreign capital markets, the loss does not represent a significant blow to the build-up in gold and foreign exchange reserves.

Food prices

More significantly, Dr Jammine says, the drought means that certain food prices may rise as a result of the shortage.

Agricultural production fell by 1,3 percent last year, despite slight increases on a quarterly basis, according to CSS.

The majority of business and financial sectors showed a drop in output over the year.

The list was headed by construction, where output plunged 4,5 percent. This was followed by manufacturing (—2,4 percent), transport (—1,5 percent), mining (—1,5 percent) and commerce (—0,6 percent).

On a quarterly basis, GDP growth fell by 0,6 percent in the fourth quarter of 1991.

In the third quarter GDP rose by 0,5 percent, but this was preceded by seven quarters of negative growth.

● The decline in South Africa's national output in the last two years was alarming and should be seen by all as a clear warning that time was running out for the country, said Johannesburg Chamber of Commerce and Industry president Mike Cato.

Sapa reports that Mr Cato said the year had not started well in economic terms with the drought bringing serious threats to national agricultural output.

"Whilst recent surveys have indicated a slight improvement in general confidence levels among businessmen, they have also shown that slack capacity will have to be filled before the levels of employment will rise," he said.

Bank stands firm on inflation

Stals holds out hope for dip in interest rates

B/Day 19/2/92

(49)

SHERIDAN CONNOLLY

DECLINING inflation this year would allow for a slight reduction in interest rates, Reserve Bank Governor Chris Stals said yesterday.

Addressing the Frankel, Max Pollak, Vinderine investment conference in Johannesburg, Stals said the Reserve Bank would continue with its policy of pursuing financial stability at all times. This policy had begun to produce the desired results in 1991 and would, he hoped, also begin to reduce consumer price inflation in the course of this year.

"To the extent that the rate of inflation does decline, scope will be created for some relaxation in monetary policy," he said. "Nominal interest rates may therefore come down slightly from their present levels, although we cannot expect nominal interest rates in SA to decline to the same low levels that now prevail in many industrial countries where inflation rates are so much lower than what we still have here."

The Reserve Bank would continue its fight against inflation in 1992.

Stals said it was a tragedy that the path to financial stability had been strewn with so many obstructions. The Gulf war had intervened at a critical stage when the inflation rate had just begun to decline.

The switch to VAT had created "unnecessary speculation about possible price effects of the switchover, and again prevented the psychological breakthrough we so desperately need in our struggle against inflation".

Stals warned that drought conditions threatened to obstruct the path to lower inflation.

Commenting on arguments that the Bank should relax monetary policy in order to kick-start the economy, Stals said that after almost 20 years of double-digit inflation, SA could not afford to revert to the "arcane policy of short-term cyclical demand management, and its inevitable results of a stop-go economy".

The Reserve Bank would therefore continue to pursue medium-term objectives and general financial stability.

Expectations for the balance of payments again to produce an overall surplus should enable the Bank to maintain a relatively stable exchange rate of the rand, Stals said.

A smaller current account balance would probably remain in excess of an expected modest net capital outflow.

The main objective of the Bank's monetary policy over the past three years had been to establish a relatively stable financial environment conducive to sustainable economic growth over the long term.

Stals said the Bank's objectives of reducing the rate of growth in money supply and restricting the level of bank credit extended to the private sector, had necessitated the retention of interest rates at a positive real rate of return. It was the Bank's duty to improve the quality of banking supervision and to encourage the development of financial markets in order to pursue targets for monetary policy.

● Picture: Page 3
● See Page 9

SA markets must be free, says Chiluba

SIMON BARBER (49)

WASHINGTON — A new SA government must learn from the economic mistakes of the rest of the African continent and allow the free market to flourish, Zambian President Frederick Chiluba said in an interview this week. (288)

Asked whether he was concerned by the ANC's nationalisation rhetoric, he said the movement "must understand what hell such policies have created in Africa". B'Day

He also indicated that Lusaka would no longer give the ANC special treatment, but would be "even-handed" in its approach to all political organisations in SA. 19/2/92

He noted that the previous Zambian government had never fully adhered to sanctions on SA and made it clear he had no intention of doing so now.

His government was opening a trade mission in SA in order to promote "bilateral co-operation" and "reduce the costs of dealing through third parties".

Chiluba, on his first visit to Washington since defeating Kenneth Kaunda at the polls last October, will see President George Bush today.

In a meeting with US businessmen on Monday, he vowed to dismantle completely the "command economy" put in place by his predecessor and that the "80% of the economy which was nationalised had to be given back", to private ownership.

STMENT CONFERENCE

Climate of certainty 'needs to be created'

(49) B/Day 19/2/92

EDWARD WEST

NEW investment was the most effective way of achieving economic growth, Anglo American Industrial Corporation (Amic) deputy chairman Leslie Boyd said at the Frankel Max Pollock Vinderine investment conference yesterday.

Speaking during the industrial strategy session, he said apart from increasing investment in new industrial facilities, SA needed to curb population growth and improve productivity.

To encourage new investment, Boyd said Reserve Bank Governor Chris Stals's policy of tight money supply needed to be supported.

Tax incentives needed to be tailored. Extended tax free holidays were commonplace in other countries and such avenues should be explored.

Boyd said a climate of certainty needed to be created. Government could no longer keep changing the "rules of the game" or the "level of the playing field" as it had done over the past 10 years.

Industrial Development Corporation (IDC) MD Carel van der Merwe warned the conference that distribution of wealth through redistribution of privately held assets would have negligible effect on economic growth.

High economic growth would enable the present or a new government to distribute wealth through the budget via an equitable tax system to fund socio-economic development.

ANC representative Alan Hirsch pointed out that though the ANC had not yet committed itself to a detailed industrial policy, it was developing a broad economic framework which would include an industrial strategy.

Hirsch distanced himself from traditional industrial policy mechanisms such as tax rebates, duty relief, depreciation allowances and, sometimes, subsidised interest rates.

He said potentially competitive firms might be more usefully served by agencies supported by government, but directly responsible to boards in which those receiving help were strongly represented.

PAC representative Sipho Shabalala saw the increasing participation of the marginalised black majority in the mainstream economy as critical.

He said future economic policy should not necessarily maximise the returns of investors, nor maximise equity, but should be a satisfactory balance between employment creation and the need to redistribute means of social consumption and production.

ANC 'will not hurt economy'

BDay 19/2/92

THE ANC said yesterday it would not adopt policies that would hurt the SA economy. (49)

ANC secretary-general Cyril Ramaphosa said the group was still formulating its economic plan for a future government. Nationalisation was one option being considered as a way to redistribute wealth, but only if it were in the country's best interests.

"You would have to as a government see how well the people would be served by the option being taken. The ANC would not, and I underline would not, pursue policies that would be harmful to the economy," he said.

HAROLD FRIDJHON reports the panel discussion on "Democratic SA — how far have we come" could have been dull.

But it was not, in spite of four politicians of conflicting persuasions — Inkatha chairman Frank Mdlalose, Defence Minister Roelf Meyer, the PAC's Sipho Shabalala and Ramaphosa — earnestly vying for the moral support of the several hundred business people.

Except Meyer and Ramaphosa, the speakers lacked magnetism. And that is where chairman Stephen Mulholland pulled the panel together.

The speakers responded. The discussion came alive. The panel was a conference highlight.

Don't nationalise, warns Chiluba

(49) CT 19/2/92

Own Correspondent

WASHINGTON. — A new South African government must learn from the economic mistakes of the rest of the continent and allow the free market to flourish, Zambian President Frederick Chiluba said in an interview here this week.

Asked if he was concerned about the nationalisation rhetoric of the ANC, he said the movement "must understand what hell such policies have created in Africa".

At the same time, he indicated that Lusaka would no longer be giving the ANC special treatment, but would be "even-handed" in its approach to all South African political organisations.

He noted the previous Zambian government had never fully adhered to sanctions against South Africa, and made it clear he had no intention of doing so now.

His government was opening a trade mission in South Africa to promote "bilateral co-operation" and "reduce the costs of having to deal through third parties".

The normalisation of relations between Lusaka and Pretoria would in itself "facilitate the negotiating process" in South Africa, he said.

Mr Chiluba, on his first visit to Washington since defeating Dr Kenneth Kaunda at the polls, is to see President George Bush today.

In a meeting with US businessmen on Monday, he vowed to completely dismantle the "command economy" put in place by his predecessor and "to get the government off everybody's shoulders". To this end, "the 80% of the economy which was nationalised must be given back" to private ownership.

No harmful policies: ANC

(49)
CT 19/2/92

Own Correspondent

JOHANNESBURG. — The ANC said yesterday it would not adopt policies that would hurt the SA economy.

ANC secretary-general Cyril Ramaphosa said the group was still formulating its economic plan for a future government. Nationalisation was one option being considered as a way to redistribute wealth, but only if it were in the country's best interests.

"You would have to as a government see how well the people would be served by the option being taken. The ANC would not, and I underline would not, pursue policies that would be harmful to the economy," he said.

He said the ANC was carefully studying the experiences of other countries.

ANC president Nelson Mandela said earlier this month the group would reconsider its nationalisation policy because it was so unpopular among potential investors.

Tax on foreign residents 'under review'

Own Correspondent

JOHANNESBURG. — Inland Revenue officials were reviewing "the universal taxability of earnings on non-residents", Finance Minister Barend du Plessis said yesterday.

Addressing the investment conference, Du Plessis said he was awaiting clarification from the Commissioner of Inland Revenue concerning tax on foreign residents.

He said although it was policy to tax such investments at their source, the world had changed since SA's isolation and it was necessary to review the country's position.

Du Plessis said government was committed to getting the corporate tax rate to around the 40% level. Although there was scope for tax relief, only limited funds were available to finance tax relief projects — fiscal drag, import surcharges and personal and corporate tax rates were some areas that would be investigated before next month's Budget, he said.

Du Plessis said the economy had not yet bottomed out and the upswing expected this year would be modest and gradual. Although SA's potential growth rate would be limited by the economic performance of its main trading partners, conditions in the world economy would still be favourable and a slight rise in international commodity prices would hopefully benefit the volume of SA exports.

With irreversible reform under way, traditional and new markets were opening up to exporters, he said. Manufacturing exports showed great potential and would be further stimulated by tax incentives for export-oriented projects.

● Du Plessis' speech boosted the financial rand yesterday and it staged a small comeback. It closed at R3,61 a dollar compared to Monday's R3,77 close.

A *slight* reduction in interest rates — Stals

CT 19/2/92 (49)

Own Correspondent

JOHANNESBURG. — Declining inflation this year would allow for a slight reduction in interest rates, Reserve Bank Governor Chris Stals said yesterday.

Addressing the Frankel, Max Pollak, Vinderine investment conference in Johannesburg, Stals said the Reserve Bank would continue with its policy of pursuing financial stability at all times. This policy had begun to produce the desired results in 1991 and would, he hoped, also begin to reduce consumer price inflation in the course of this year.

"To the extent that the rate of inflation does decline, scope will be created for some relaxation in monetary policy," he said. "Nominal interest rates may therefore come down slightly from their present levels, although we cannot expect nominal interest rates in SA to decline to the same low levels that now prevail in many industrial countries where inflation rates are so much lower than what we still have here."

The Reserve Bank would continue its fight against inflation in 1992.

Stals said it was a tragedy that the path to financial stability had been strewn with so many obstructions. The Gulf war had intervened at a critical stage when the inflation rate had just begun to decline.

The switch to VAT had created "unnecessary speculation about possible price effects of the switchover, and again prevented the psychological breakthrough we so desperately need in our struggle against inflation".

Stals warned that drought conditions threatened to obstruct the path to lower inflation.

Commenting on arguments that the Bank should relax monetary policy in order to kick-start the economy, Stals said that after almost 20 years of double-digit inflation, SA could not afford to revert to the "arcane policy of short-term cyclical demand management, and its inevitable results of a stop-go economy".

The Reserve Bank would therefore continue to pursue medium-term objectives and general financial stability.

1974 if a state of lawlessness exists in his area, a chief may prohibit the carrying of dangerous weapons [Time expired.]

Mr A J LEON Mr Chairman I should like to draw the hon the Deputy Minister's attention to two affidavits, which I have referred to him before which clearly indicate that the police simply stood by at various train stations in Johannesburg while 20 armed thugs boarded the trains One cannot operate like this This is the SA Police Force which has to be the arbiter between the contestants in this country When the police were challenged about it, they simply said "We enforce the law according to circumstances" That is a quote from their Press release

If we are going to prevent South Africa from deteriorating into further anarchy and civil war, we must act swiftly The chief guardian of law and order, the hon the Minister, should first of all announce today the repeal of all regulations—and there are at least two that I am aware of—which permit the carrying of dangerous weapons, except in strictly defined circumstances because he has allowed them to be carried in Natal Secondly, his department must provide for the stringent enforcement of the Dangerous Weapons Act If we fail to do that, it will simply lend credence to charges of a Third Force, of State complicity in violence and the escalation of massive unrest Those things are the sort of things we should be trying to avoid [Time expired]

The DEPUTY MINISTER OF LAW AND ORDER Mr Chairman, I must emphasise that negotiations on this aspect started before we signed the National Peace Accord on 14 September 1991 It is very important to get the co-operation of the parties concerned—that is why it took us so long to consult with the interested parties in an effort to get a proclamation which we could issue as soon as possible.

It is easy to make affidavits, but it is very important that the contents of affidavits can be tested I appeal to the hon member for Houghton to take this matter up with the hon the Minister and to submit these affidavits to an investigation

I want to emphasize my serious concern with regard to the existence of Umkhonto weSizwe We had a debate on traditional and dangerous weapons, but we are also concerned about the existence of Umkhonto weSizwe and the possession of arms caches in the Republic In this regard we have not had the co-operation of the ANC to address this problem in terms of the National Peace Accord

I want to state that paragraph 3 7 3 emphatically states that no private army shall be allowed or formed Paragraph 3 7 6 provides that all existing structures, called self-defence units, shall be transformed into self-protection units which shall function in accordance with the principles contained in paragraph 3 7 The ANC has done nothing as yet to implement these provisions in terms of the Peace Accord Consequently the implementation of paragraph 3 7 will have to be dealt with as a matter of high priority In this regard I wish to point out that the liaison structures referred to in paragraph 3 7 4 cannot be implemented, owing to the lack of co-operation from the ANC. [Time expired]

Debate concluded.

QUESTIONS

†Indicates translated version

For oral reply

General Affairs

State President

Question standing over from Tuesday, 4 February 1992

Secret projects: investigation

*1 Mr D J DALLING asked the State President.

(1) When (a) did the comprehensive investigation of secret projects commence and (b) was the investigation completed;

(2) whether the report relating to this investigation has been handed to him; if so, on what date?

B10E

The STATE PRESIDENT

(1) (a) The Advisory Committee on Special Secret Projects under the chairmanship of Prof Ellison Kahn SC, started with its work on 2 September 1991

continued

(b) Yes

(2) Yes 19 November 1991

Question standing over from Tuesday, 11 February 1992

Committee on National Priorities

*1 Mr K M ANDREW asked the State President

Whether the State President's Committee on National Priorities has met during the past two years, if not, why not, if so, (a) when did it meet and (b)(i) which of its statutory objects was it able to fulfil and (ii) in which respects were these fulfilled?

B127E

†The STATE PRESIDENT. 49

No Since I took office, several matters previously dealt with by the Committee have been discussed and dealt with by the Cabinet as a whole The determination of priorities and how they should be reflected in the budget is an example of this Nonetheless, these discussions are preceded by the acquisition of suitable inputs from smaller committees which, I am convinced, are functioning effectively. They include the new Cabinet Committee for Economic Coordination under the chairmanship of the Minister of Trade and Industry and for Economic Coordination, as well as regular discussions with the newly-established executive of the Economic Advisory Council.

(a) and (b) Fall away.

Ministers.

Questions standing over from Tuesday, 11 February 1992

Male/female teachers: equalisation of salary scales

*1. Mr R M BURROWS asked the Minister of National Education

(1) Whether agreement has been reached to bring about the equalisation of the salary scales payable to male and female teachers of equivalent qualifications, if so, (a) as from what date will payments be made in terms of such scales and (b) what scales will be applied,

(2) whether he will make a statement on the matter?

B52E

The MINISTER OF NATIONAL EDUCATION

(1) The Cabinet had already during 1990 undertaken to eliminate disparities on the grounds of gender and undertook to take the final step regarding the implementation thereof during 1992 93

(a) Should funds be allocated for this purpose, payments in terms of such scales will commence during the course of the 1992 93 financial year

(b) The scales which at present are applicable in respect of male teachers in the qualification categories concerned, will apply

(2) As soon as funds have been allocated, I will make an announcement

Universities/technikons: less money from State

*2 Mr R M BURROWS asked the Minister of National Education:

(1) Whether any universities or technikons are to receive in respect of 1992 the full amount which they should receive under the formula-funding policy administered by his Department, if not, why not;

(2) whether any of these universities or technikons are to receive less money from the State in real terms in 1992 than they did in 1991 in terms of the amounts determined by his Department; if so, which of these institutions;

(3) whether he will make a statement on the matter?

B53E

†The MINISTER OF NATIONAL EDUCATION:

Since the Minister of Finance has not submitted the Draft Budget Bill for the 1992 93 financial year to Parliament yet, the figures are not presently available

(1) Lapses

(2) Lapses

(3) Lapses

Contin - P

the necessary proclamations to implement the principles of paragraph 3.6.2 after consultation with the interested parties

In order to give effect to clause 3.6.4, the South African Police has undertaken extensive research bearing in mind the objects of the Dangerous Weapons Act, 1968 (Act No 71 of 1968), with particular reference to the powers of the Minister as provided for by sections 2(2) and 2(3) of the same Act

This research having been finalized, the South African Police decided that the most effective manner to honour the contents of the spirit of the National Peace Accord is the drafting of an explicit prohibition which will prohibit a person attending or participating in any political gathering in or on any public place from being in possession of any dangerous weapon or any firearm or a replica thereof

Of paramount importance is the definition of a political gathering which includes any political gathering, concourse or procession which has been organised, convened or held or otherwise brought about with the prime intention to discuss, attack, criticise, promote, or propagate the principles or policy of a political party or organisation, whether or not such party or organisation is registered in terms of any law. Excluded from the definition of a political gathering would be any traditional or cultural gathering or any ceremonial gathering

In order to evaluate the ambit of the prohibition, the attention is drawn to the proposed definition of a dangerous weapon which reads as follows.

'dangerous weapon' means

(a) any object which has been designed or manufactured with the object of inflicting a bodily injury; or

(b) any object which has not been designed or manufactured with the object of inflicting a bodily injury, but which may inflict a bodily injury if it were used to commit an assault, unless a person in possession of such an object is able to prove that with respect to the surrounding circumstances he at no time had any intention of using such object for any unlawful purpose or that he at no time had any intention of using such object to intimidate any other person or persons,"

Thus the definition of a dangerous weapon will include, amongst other objects, assegais, spears and battle-axes

Members of the South African Police will as soon as the Proclamation has been published receive instructions to arrest persons in possession of dangerous weapons or firearms at any political gathering. Members of the South African Police will, however, not be expected to usurp the functions of the courts in any manner whatsoever

With regard to the provisions of section 2(1) of the Dangerous Weapon Act, 1968 (Act No 71 of 1968) which contains a prohibition on the possession of dangerous weapons accompanied by the necessary unlawful intent, members of the South African Police are instructed to ensure that the prohibition is enforced.

Provision may be made for certain exemptions, for example, persons in the service of the State, security guards or *bona fide* bodyguards.

After consultation with the IFP and the ANC on 18 February 1992, the Government is now in a position to announce the proclamation

(2) No

Investigation of poverty problem: working group

*15 Mr J J ~~WALSH~~ asked the Minister of Finance:

(1) Whether the working group under the chairmanship of the current Deputy Director-General (Financial Planning) of his Department appointed by the Government to investigate the poverty problem has submitted a report, if not, (a) why not and (b) when does he expect such a report to be submitted, if so,

continued

(2) whether the contents of this report will be published or made available in any other way, if not, why not, if so, what are the relevant particulars?

B99E

The MINISTER OF FINANCE

(1) (a) No

(b) The working group followed an operational approach. The results of its work were submitted to Cabinet in the form of memoranda on the basis of which various decisions were taken. These decisions were reflected in this year's Budget, notably the introduction of the food intervention scheme for which the Minister of National Health was made responsible

(2) It is not intended to make a public report available, for the reason mentioned in (1)(b)

Number of prisoners previously convicted

*16. Mr A J LEON asked the Minister of Correctional Services.

How many persons in South African prisons as at 31 December 1991 had been convicted of offences previously?

B121E

The MINISTER OF CORRECTIONAL SERVICES

The precise information is not centrally available and can only be obtained by a costly and manpower intensive country-wide survey

However, a survey undertaken on 24 July 1991 shows that at that stage approximately 14,6% of the prison population were first offenders whilst approximately 85,4% were recidivists. Should this percentages be made applicable to the prison population of 31 December 1991, it means that of 73 214 sentenced prisoners, approximately 10 689 would have been first offenders whilst one or more previous convictions would have been recorded against approximately 62 525. The fact that a previous conviction is recorded against a person does not necessarily mean that he had served a sentence of imprisonment since sentences may include for instance the following, a warning and dismissal, corporal punishment, fines, suspended sentences, postponed sentences, referral to a rehabilitation centre or reformatory, etc. My department is presently undertaking an investigation into the whole question of recidivism but due to the extent of this project it is unfortunately not possible to give an indication as to when it would be completed. I nevertheless undertake to furnish the hon member with more information after completion of the project

Further allocations: targeted aid schemes

*17 Mr K M ANDREW asked the Minister of Finance

Whether any further allocations were added to the R220 million originally budgeted for targeted aid schemes, if so, what are the amounts involved?

B130E

The MINISTER OF FINANCE

None for the 1991/92 financial year.

Interest on deposit made by tenant

*18 Mr B B GOODALL asked the Minister of Trade and Industry.

(1) Who receives the interest paid on the deposit made by a tenant dealt with in terms of the Estate Agents Act, No 112 of 1976;

(2) whether it is the intention to amend the said Act in this regard; if so, (a) what amendments are contemplated and (b) when is it anticipated that the amending legislation will be submitted to Parliament?

B131E

The MINISTER OF TRADE AND INDUSTRY

(1) Interest on moneys deposited in an estate agent's trust account must, in accordance with the Estate Agents Act, 1976 (Act No 112 of 1976), be paid by the estate agent to the Estate Agents Fidelity Fund. The Estate Agents Board, however, refunds a portion of the interest to the estate agent concerned in order to compensate him for costs incurred in this regard

(2) The matter is under consideration.

continued

Stals sticks to monetary guns

STAR 19/2/92

(49)

By Sven Lünsche

Reserve Bank Governor Dr Chris Stals yesterday put paid to speculation about an imminent cut in interest rates.

He strongly re-affirmed the Bank's policy of linking a reduction in interest rates to clear signs that consumer price inflation was receding.

Economists have been speculating that the Bank could announce a cut in its rate before or at the time of the Budget speech next month.

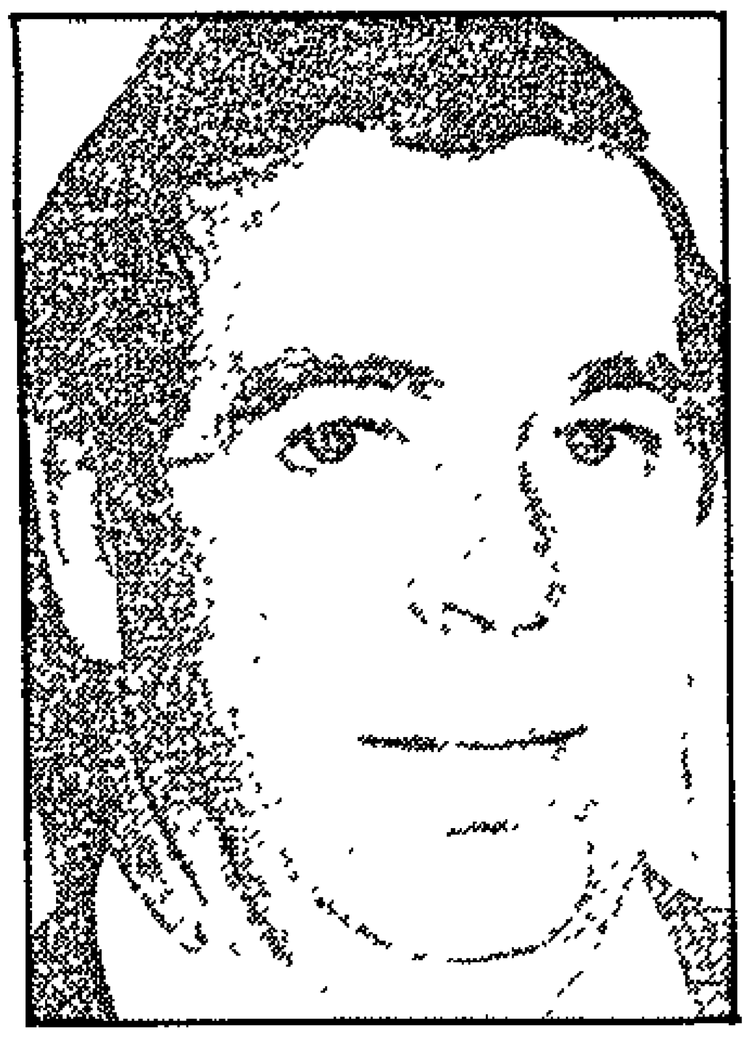
On the money markets short-term interest rates have been falling steadily in the past few weeks in anticipation of a cut in the Bank rate.

However, Dr Stals told delegates at the annual Frankel Max Pollak Vinderine conference yesterday the bank would "maintain its present level of monetary tightness".

He warned that after almost 20 years of double-digit inflation, South Africa might already be in some form of stagflation (high inflation coupled with negative growth rates).

"In this situation we cannot afford to revert to the arcane policy of short-term cyclical demand management and its inevitable results of a stop-go economy.

"The Reserve Bank therefore continues to stick to its policy of medium-term objectives and general financial stability, rather than short-term spurts of growth that slowly but surely step us up to higher levels of inflation, and a lower macro-economic growth potential."



Dr Chris Stals . . . adamant

The Bank's tight monetary policy had already achieved a number of desired results:

- The broad money supply measure M3 had increased by an annual rate of only 7,4 percent since February last year and credit extension to the domestic sector had slowed to an annual 10,7 percent over the past 10 months.
- The gold and foreign exchange reserves had increased to R9,4 billion, equal to just over two months' worth of imports, while the Bank had no foreign liabilities outstanding.
- Producer price inflation had declined from a high of 14,6 percent in November 1990 to 8,6 percent in December last year.

However, Dr Stals also listed a number of factors which mitigated against a premature cut in interest rates.

Topping the list were high consumer price inflation rates and the pressures on the Minister of Finance to create additional expenditures to meet the demand for social spending.

Furthermore, the drought in the summer rainfall areas threatened to prevent "the breakthrough we so desperately need in our struggle against inflation"

Dr Stals emphasised, however "To the extent that the rate of inflation does decline during 1992, scope will be created for some relaxation in monetary policy."

But in calling for a major overhaul of South Africa's entire production structure, he warned that such a restructuring could not be jeopardised by an early balance of payments crisis, or by escalating inflation.

"At this stage there can be little doubt about the need for the retention of disciplined monetary and fiscal policies."

Looking at other monetary factors in the year ahead, Dr Stals said the balance of payments should produce a slightly smaller current account balance, but sufficient to offset the modest net capital outflow expected.

"Against this background it should be possible to keep the exchange rate of the rand relatively stable."

In his keynote address to the conference, Finance Minister Barend du Plessis warned that the economy had not yet bottomed out, but added that a positive growth rate should be achieved.

Investment spending could take the lead in boosting the economy, after gross domestic fixed investment had slumped by 8,5 percent in 1991, he said.

Negotiate trade and industrial policies, says ANC

(20) (49) ARG 19/2/92

The Argus Correspondent

JOHANNESBURG. — The ANC has called on the government to negotiate trade and industrial policies with all major parties, to avoid a revision of these policies when a new government comes to power.

Outlining the ANC's trade and industrial policies this week, ANC economic adviser Alan Hirsch said the government "was trying to rush through major economic policy changes in order to lock an incoming government into a policy straitjacket".

Mr Hirsch said that unless policies were based on consensus the trade and industrial policy environments would continue to be ruled by uncertainty — "the cardinal enemy of investment".

He admitted that the ANC had not yet formulated detailed policies on trade and industrial strategies but gave an outline of ideas on the subjects which enjoyed popular support within the organisation.

Addressing a seminar organised by law firm Webber Wentzel, Mr Hirsch said the fundamental focus of trade policy should be to raise domestic productivity and therefore increase the wealth of the nation.

"An additional objective of trade policy is to try to strengthen the balance of payments," he said, adding that both trade and industrial policies should be integrated into a broader economic strategy.

He emphasised that existing trade policy was in dire need of reform as protectionist tariffs were being abused by manufacturers who priced products according to import parity rather than to cost or demand.

He warned against the outright implementation of proposals by the Industrial Development Corporation, which called for all tariffs to be homogenised and lowered to match World Bank standards for a strongly outward oriented policy.

This assumed, he said, that exposure to world prices would make manufacturers more competitive because it would force them to allocate their resources efficiently.

"Just because protectionism was a major cause of uncompetitiveness in domestic manufacturing does not mean that simply doing away with tariff protection will make manufacturers competitive."

He said that wholesale tariff reform in the economy was potentially "suicidal" and that a gradual reduction of protective measures would be more appropriate for the local economy.

Turning to export promotion policies, Mr Hirsch said the government could play a major role in contributing towards companies' export competitiveness through policies which supported skills training and research and development activities.

While he agreed that a realistic exchange rate policy based on a stable rand was essential to boost exports, he questioned the IDC proposal calling for lower corporate taxes on profits.

"Across the board, tax cuts on profits might simply create the space for uncompetitive, inward-looking firms to continue to operate."

On international trade relations he said the government's reluctance to reposition South Africa as a developing country rather than as a developed country was losing major economic advantages.

No more 'security prisoners'

THE category "security prisoners", describing those who had committed crimes against the security of the state, had been abolished in the wake of the Pretoria Minute, the Minister of Correctional Services, Mr Adriaan Vlok, said in a written reply tabled yesterday.

Answering a question from Mr Dave Dalling (DP Sandton) he said that on December 31 last year 413 prisoners under 18 and 72 801 over 18 were serving sentences in South African jails. — Sapa.

Softening policies 'would hurt Bank's reputation'

BDay 20/2/92

49

SHARON WOOD

THE Reserve Bank would probably persist with its present restrictive monetary policy because the costs of deviating from it would be too high, Bank of Lisbon said in its latest Economic Focus released yesterday.

The Reserve Bank had changed from short-term crisis management to a medium to long-term monetary policy directed at bringing down the rate of inflation.

The costs of giving up on the new monetary policy framework would include a loss of reputation and the erosion of any future ability to diminish inflationary expectations through changes in policy, it said.

The Bank faced two major difficulties in applying the new monetary policy, which aimed to create a stable financial situation within a less inflationary environment.

The first problem was the need for harmonising monetary and fiscal policies, it said. On the fiscal side, the tax system needed to be geared towards improving incentives for saving and investment.

"Making tax concessions in this direction, however, is being rendered more difficult by the pressures upon the government to increase spending in the social fields, as well as by the current slow growth in state revenues," the bank said.

The second difficulty facing the SA monetary authorities was convincing people they would continue to adhere to strict monetary policies. The authorities needed sufficient credibility to successfully bring down inflation.

"If the Reserve Bank continues to adhere to its present policies its reputation could well be enhanced, so that in the future people will view its monetary policies with greater credibility, and behave more in line with the aims of such policies."

International experience showed that success in moderating inflationary pressures was a long, drawn-out process and with rare exceptions a shift from moderate to low inflation involved losses in output and employment that had stretched over years. This provided another reason for maintaining the status quo on the monetary policy front, Bank of Lisbon said.

Mandela left me speechless

49

Sowetan 20/2/92

It's my business

THAMI MAZWAI

THAT word "nationalisation" is once more doing the rounds.

ANC president Mr Nelson Mandela left me speechless on Saturday. He wants the ANC's national executive to have another look at nationalisation.

"It is keeping overseas investors away and we desperately need investment," he says.

For the record, I am not a disciple of doctrinaire nationalisation, or socialism for that matter. A mixed economy appears the sensible route to take.

I am, however, worried about the nature and timing of the ANC rethink on nationalisation. The reasoning is flawed.

Also, the sudden hurry to ditch nationalisation as if having it as a policy is a sin of the first order, is frightening.

Blacks have wanted nationalisation because of its success in the economic empowerment of the Afrikaner.

After First World 1 there was a slump in the world markets for agricultural produce. The agricultural sector was dominated by Afrikaners.

This led to them flocking to the urban areas in search of jobs. They were, however, without skills for the developing industries.

They were then employed in the civil service. Also, when the Government of the day created the Iscors and Eskoms in the twenties, there was this ready army of unemployed Afrikaners to be trained for the newly created jobs.

Of course, nationalisation was not necessarily aimed at creating these jobs.

At the time it was economically wise for Governments to control major industries. Just about all the western countries did it.

It then made a lot of sense, although our Government spiced its nationalisation by employing whites only, whom it called "civilised labour".

Cutting a long story short; the success of nationalisation in empowering Afrikaners economically has made the policy attractive to blacks. Simple as all that. Has this been taken into consideration as the ANC now talks of a rethink?.

Last year Mandela said the white business community was quick to criticise nationalisation but did not come with viable alternatives.

Now that he thinks nationalisation should be dumped, what alternatives have been offered?

In addition, why must foreign investors fear nationalisation in this country, before even knowing the form it will take, when they have investments in countries who have some of their industries owned by the Government?

Must they determine our policies?

Is it not enough to guarantee them that their businesses will not be taken over, and they are free to repatriate their profits?

This is just as good, for scrapping nationalisation today does not mean it will not be considered in future.

In rushing to rethink nationalisation, it appears the ANC wants to accommodate white fears rather than black aspirations in shaping its economic policies.

Also, saying that overseas investors fear nationalisation borders on the naive. Investors want security for their investments. Nationalisation is one side of the coin, and the other is political instability.

And this instability is President F W de Klerk's department.

The Government is doing very little to stabilise the country. Lurking behind the violence in the country are the CCB, Askaris and rogue elements in the security forces.

The ANC makes this point every other day.

What should happen is that as the ANC jettisons nationalisation, which scares investors away, the Government should precede this by stabilising the country.

At the moment, it is simply bludgeoning everybody to its point of view.

Time that somebody told Mandela it takes two to tango. So far the ANC has been doing the giving; time that it asked De Klerk to do the same.

Drought knocks hopes of recovery

Business Staff (49) ARG 20/2/92

JOHANNESBURG. — Hopes of economic recovery this year have been dealt a severe blow by the drought.

Central Statistical Service (CSS) said that Gross Domestic Product (GDP) fell by 0,6 percent last year after an 0,5 percent drop in 1990.

Economists had generally expected growth would recover to a positive 1,5 percent in 1992, but they are now scaling down their forecasts in the wake of the drought.

Econometrix analyst Dr Azar Jammine estimates that the loss of agricultural production will be R2 billion to R4 billion.

While the contribution of agricultural production to GDP is no more than five percent, such a loss implies a decline in the projected economic growth rate this year of 0,5 percent to one percent, Dr Jammine says.

He now expects overall GDP to record a mere 0,5 percent growth.

The most immediate impact is that the country will have to import up to four million tons of maize, resulting in a foreign exchange loss of R1 billion to R2 billion.

However, given the record trade surplus of R18 billion last year and renewed access to foreign capital markets, the loss does not represent a significant blow to the build-up in gold and foreign exchange reserves.

More significantly, Dr Jammine says, the drought means that certain food prices may rise as a result of the shortage.

Agricultural production fell by 1,3 percent last year, despite slight increases on a quarterly basis, according to CSS.

The majority of business and financial sectors showed a drop in output over the year.

The list was headed by construction, where output plunged 4,5 percent. This was followed by manufacturing (-2,4 percent), transport (-1,5 percent), mining (-1,5 percent) and commerce (-0,6 percent).

On a quarterly basis, GDP growth fell by 0,6 percent in the fourth quarter of 1991.

In the third quarter GDP rose by 0,5 percent, but this was preceded by seven quarters of negative growth.

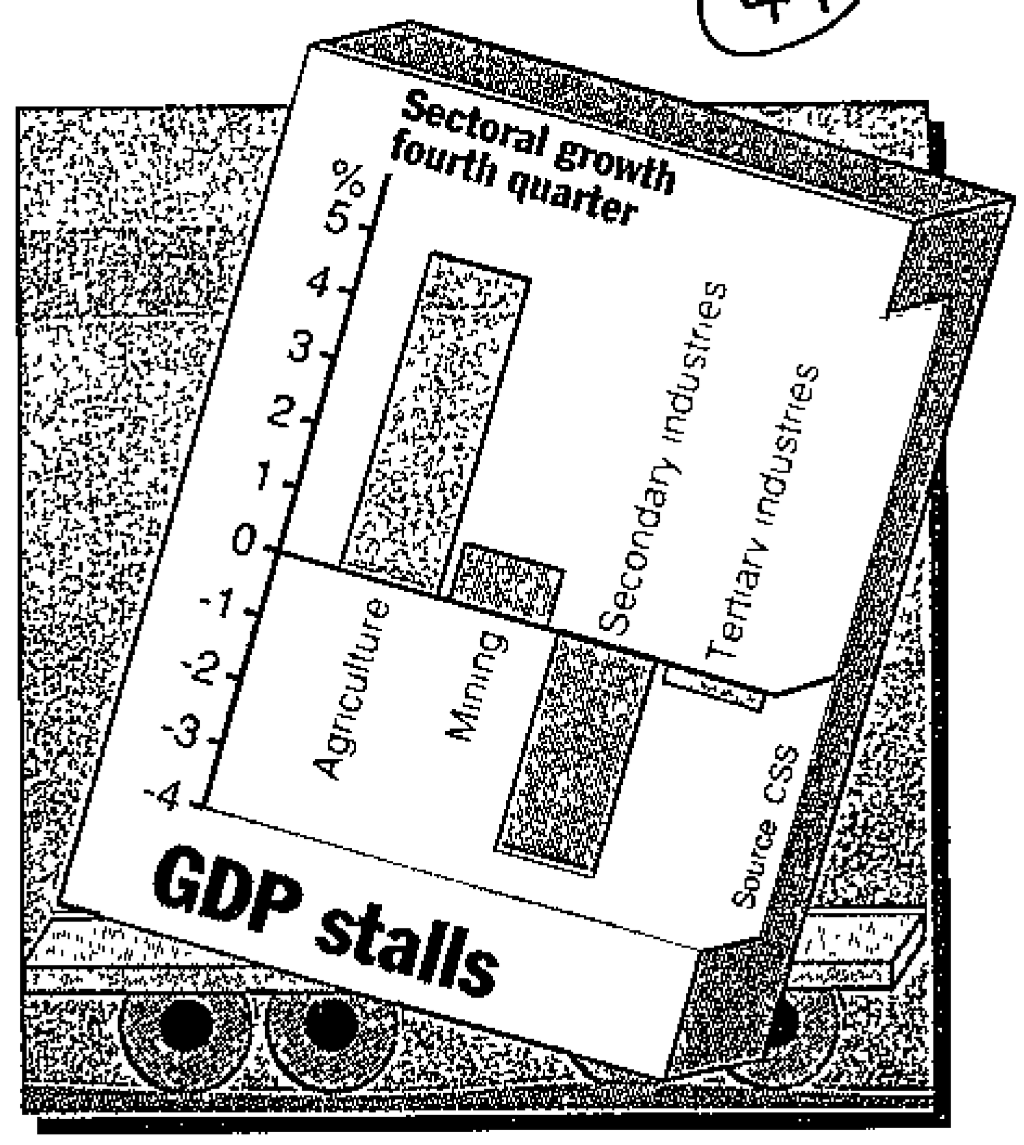
■ The decline in South Africa's national output in the past two years was alarming and should be seen by all as a clear warning that time was running out for the country, said Johannesburg Chamber of Commerce and Industry president Mike Cato.

Sapa reports that Mr Cato said the year had not started well in economic terms with the drought bringing serious threats to national agricultural output.

"Whilst recent surveys have indicated a slight improvement in general confidence levels among businessmen, they have also shown that slack capacity will have to be filled before the levels of employment will rise," he said.

FM 21|2|92 **ECONOMY & FINANCE**

(49)



GROSS DOMESTIC PRODUCT
FM 21|2|92

Still bottoming out

(49)

SA's recessions in the Sixties and early Seventies tended to be V-shaped, says Sanlam economist Pieter Calitz. "They touched bottom briefly and turned around sharply after six to 12 months.

"In the mid-Seventies, the economy went through a double dip (W-shaped) recession. The downturn started in 1974 and lasted until 1977, but it was interrupted by a brief spurt of growth after the gold price rose from \$140/oz to \$185/oz in the second half of 1974 and the effects were felt in the economy the following year. The recessions of the Eighties were U-shaped, which means they lasted longer than they did in the Sixties and the upturn was more gradual."

Now, after nearly three years of declining activity with no sign of a recovery, economists are thinking in terms of an L-shape, says Calitz.

Gross domestic product figures released by the Central Statistical Service last week show a 0,6% decline in the last three months of 1991. The estimate is based on the value-added portion of output and is measured at market prices. It is a quarterly change in constant 1985 prices, at a seasonally adjusted annual rate, as are all other quarterly figures reported here.

Two-year drop

This poor performance ensured that, for the second successive year, GDP declined — by 0,6%, after a fall of 0,5% in 1990.

The chances are that, despite a quarterly upturn of 0,5% between last July and September, the recession will not qualify for the W-shape label. The spike of growth was too tentative and the outlook for the future so bleak that the "economy will probably continue to slide along the bottom for some time," says Rand Merchant Bank's Rudolf Gouws.

The most alarming aspect of the fourth-quarter figures is that what little growth there was came almost entirely in agriculture. GDP measured at factor incomes — which excludes taxes and subsidies — declined 0,8% in the fourth quarter and 0,7% in the year.

A breakdown shows:

☐ Agriculture +4,9% (-1,3% in the year); and

☐ Non-agriculture -1,2% (-0,7%).

Continue →

FM 21|2|92 (49)

A breakdown of the second aggregate shows:

☐ Mining +0,9% (-1,5%),

☐ Secondary industries -3,4% (-2%); and

☐ Tertiary industries -0,3% (+0,3%).

With the drought turning agriculture into a disaster area, this sector is going to drag down GDP in the months ahead.

Mining is largely dependent on commodity prices set in world markets. Says Chamber of Mines senior economist Francois Viruly: "International forecasts indicate that economic growth in the industrialised economies will pick up only in the second half of the year and there is a significant lag before improvements in economic growth are felt in commodity markets. So I see little prospect of improvement this year."

Value added in manufacturing, the vital engine of the economy, which constitutes 74% of secondary industry, declined by 3,8%. This is not likely to improve until consumer confidence recovers. Expenditure figures for the fourth quarter will be published next month in the Reserve Bank Quarterly Bulletin. They are not identical to output figures but they are expected to show the same declining trend.

Calitz points out that the decline in GDP since March 1989 amounts to no more than 1,2% "So it is not the severity of the recession that is causing hardship but the length. The greatest impact has been in the labour market; the longer the recession lasts, the worse this will get."

On a more upbeat note, he lists positive factors that he sees inducing the next upturn:

☐ The outlook for exports is reasonable (apart from agriculture);

☐ There should be a change in the inventory cycle;

☐ Government spending will probably remain high — large amounts of the extra-budgetary sums allocated last year are still to be spent; and

☐ Capital inflows are expected.

He predicts growth of 1% this year and 4% next year. ■

Govt and provinces need extra R28,6bn

Bday 21/2/92 (49)

LINDA ENSOR

CAPE TOWN — Government has requested an additional R28,6bn to tide it and the provinces over the four months until July when the 1992/93 Budget is promulgated.

State Expenditure Minister Amie Venter, tabling the Part Appropriation Bill yesterday, said R23,9bn was required by central government, including the own affairs administrations. The amount was needed for salary and pension adjustments as well as the costs of continuing with schemes such as export promotion and food development programmes.

The central government appropriation represented an increase of 16% or R3,3bn over that of last year.

The provincial administrations would need an additional R4,7bn — R2,1bn for the Transvaal, R1,4bn for the Cape, R700m for Natal and R500m for the Free State — which was 14,6% more than the 1991 part appropriation. Salary adjustments, increases in social welfare pensions and a rise in intergovernment grants were the reasons given for the extra funding.

Venter said signs pointed to an overshoot in government's deficit before borrowing for 1991/92 "with certain negative implications for public debt costs".

Exchequer issues for the first nine months of the financial year — April to December — showed an increase of 18,5% over the same period last year compared with the budgeted increase of just more than 15%. On the other hand, exchequer receipts in this period increased 17,6% as against the budgeted 11,1%.

Factors affecting state debt costs negatively were the higher interest rates and the depreciation of the rand against major currencies in which SA's foreign debt commitments had to be met.

"Despite falls in foreign interest rates, there has thus been an overshoot in the servicing of foreign debt."

Regarding the impression that might have been created that unnecessary re-

☐ To Page 2

Extra R28,6bn

Bday 21/2/92 (49)

☐ From Page 1

course had been made to short-term bank credit to finance state expenditure, Venter said that in an attempt to raise the status of Treasury bills as a negotiable money market instrument, the Reserve Bank initially sold more TBs during the course of the financial year.

"The target in this regard, however, has already been met and the intention is to maintain the outstanding amount of these bills at more or less the present level of some R2,5bn. This policy aims at having available the paper necessary for money market management."

US pledges its aid to SA

(49)

SIMON BARBER

WASHINGTON — In the wake of government's Potchefstroom by-election defeat, the Bush administration yesterday pledged to be "as helpful as possible" in promoting SA's economic growth.

The State Department issued a formal statement encouraging Pretoria to apply for IMF credits and urging use of US Export-Import Bank facilities which could substantially reduce the price SA must pay for capital goods from the US.

This means that aside from the arms embargo, the last significant federal sanctions on SA have been effectively removed.

"SA's economic conditions will have a direct and decisive impact on the success of the new democracy which emerges from the current negotiations... In this regard, we want to be as helpful as possible," the statement read.

Reiterating what President George Bush had already indicated privately in a letter to President F W de Klerk, the statement said the US was now "prepared to consider an IMF facility for SA subject to the terms of the Gramm Amendment".

Assistant Secretary of State for Africa Herman Cohen has said repeatedly in recent weeks the US believes all those terms have been met except one, which requires SA to have "an imbalance" on its balance of payments current account.

That condition is redundant. The existence of such an "imbalance" — caused by the use of foreign currency reserves to help reflate the economy — would be SA's principal reason for applying to the fund in the first place.

The statement also stressed that the Export-Import Bank (Exim) was now open for SA business and would provide guarantees and credits for imports by the public and private sectors.

SA access to Exim facilities has been restricted since passage of the Evans Amendment in 1978, which barred the bank from supporting exports to SA government-controlled entities unless the president certified Pretoria had made "significant progress towards the elimination of apartheid". Bush issued the necessary certification on Wednesday.

"We are also encouraging US exports to non-government SA importers who have

☐ To Page 2

BDay 21/2/92

US pledge

(49)

☐ From Page 1

endorsed and proceeded towards the implementation of fair labour standards," the statement noted.

While Exim's function is to facilitate US exports, the guarantees, credits and insurance it issues to exporters enable importers to borrow the purchase price of goods on more reasonable terms than might otherwise have been available.

For SA, whose growth and capacity to create new jobs will be heavily dependent on imports of new capital equipment, this could mean an important reduction in likely capital costs

"Assisting US exports to SA ... will demonstrate our commitment to the agreement reached at the (July G-7) summit that the industrialised nations find ways to help SA," the statement said.

● See Page 4

BDay 21/2/92

Giant invests R20-bn in SA projects

Sowetan 21/2/92

MORE than R20 billion is to be invested by the Sanlam group of companies in mining and other industrial projects to be completed within the next five years.

This is roughly equal to the value of South Africa's annual gold production or a quarter of the annual national Budget, says Sanlam's chairman, Dr Abe van der Berg

Speaking at the company's annual meeting in Bellville, Cape, he made no reference to the controversial kaolin mining project at Noordhoek, which has brought widespread criticism that could hit the insurance giant's business.

New

But he said a new gold mine and expansion to other gold mines as well as platinum and coal mines were some of the projects involved

"Investments in ferro-alloys, alloy steel, paper and wood pulp, liquid energy and a large variety of smaller industrial developments ensure that our group is well represented in the most important mining and industrial activities."

Property investments in new areas of development created by urbanisation already comprised more than 100 000 sq m and they were still increasing With these investments, Sanlam was fostering development and progress in neglected areas

These investments showed how the policy-owners were contributing to economic growth, job creation and development.

The market value of Sanlam's assets grew to more than R50 billion last year while more than 450 000 people are employed in the Sanlam group of companies

Poverty

Van der Berg said the great disparity in the standards of living of South Africans of different races and the poverty of a large percentage of the population, were stumbling blocks to successful constitutional reform

The key was a prosperous South Africa for which, he believed, a market-oriented economic system, a higher economic growth rate to enable the creation of new opportunities at a faster rate, a lower inflation rate and a campaign to curb Aids were required

Without better economic prospects for the poor and the economically deprived, no political change would be able to effect lasting peace in South Africa Political ideologies alone could not ensure economic prosperity. - *Sapa*

Mike Siluma reports that investors should observe certain guidelines

An economic balancing act

STAR 21/2/92 (49)

DURING his appearance recently at the World Economic Forum in Switzerland, Nelson Mandela went out of his way to reassure potential investors, promising a review of the ANC's policy on nationalisation and debt repayment.

But the other side of the investment coin, he might have added, relates to growing concern in his constituency that any new investments, while ensuring returns for investors, must also lead to visible material benefits for the majority.

The imminent restoration to full membership of the world economic community has galvanised the ANC and the Congress of South African Trade Unions into urgently considering the critical issues of when and how foreign businesses should be allowed to invest.

In Davos, Mr Mandela called on the world's investors not to pour in their money now, but to hold off at least until an interim government had been installed.

In Johannesburg last week, after a church-sponsored conference on investment, SA Council of Churches general secretary Dr Frank Chikane used even stronger language to emphasise the point made by Mr Mandela, declaring that to invest in South Africa now would be tantamount to collaborating in the oppression of the majority of South Africans.

The issue of the terms on which foreign investment should flow back into South Africa is not so straightforward. It is being examined with renewed urgency by both the ANC and Cosatu.

While mindful of the fact that international investors, despite their growing interest in South Africa, are not exactly scrambling to do business in the country, the Johannesburg conference warned that "foreign investments must be regarded with caution".

"Investors," it argued in its communique, "should only operate within the framework of control mechanisms which make it most advantageous for them to enhance a life-sustaining economy."

Delegates to the conference — representing the SACC, the Institute of Contextual Theology, the Southern African Catholic Bishops Conference and the funding group, Kagiso Trust — all commited themselves to co-operate with the liberation movements, the trade unions and other groups to draw up a code of investment and corporate conduct.

So far, debate on the issue of an investment code has tended to focus on the following areas:

- The need to stimulate economic growth with the objective of raising the standard of living of disadvantaged communities through, for instance, the provision of housing and electricity.
- Ensuring that the influx of new investments does not encroach upon the rights of workers and that all employers (including local companies) adhere to the International Labour Organisation (ILO) conventions.
- Encouraging employers to play an active part in improving living conditions in the disadvantaged communities through social responsibility programmes.
- The necessity of affirmative action within companies to advance the position of those previously discriminated against.

In addition, companies investing in South Africa would be asked to adopt responsible policies towards the natural environment.

Whatever form the code eventually takes, those who draw it up will have to do a delicate balancing act of ensuring that South Africa remains attractive to foreign investors (without too stringent an investment code) while at the same time striving to redress the injustices of apartheid and breathing new life into the stricken economy. □

Thumbs-up for SA's monetary policy (49)

A RG 21/2/92

Business Staff

THE Reserve Bank's tough monetary stance has been applauded by Robin Leigh-Pemberton, Governor of the Bank of England.

But he says economic policies will only be effective if they enjoy the broad support of all sectors of the population.

Mr Leigh-Pemberton was presenting the Gerhard de Kock Memorial Lecture at the Reserve Bank in Pretoria last night.

"It cannot be stated too strongly that any economic strategy is only part and parcel of a domestic social consensus and general political legitimacy ... and nowhere will this be more relevant in the next few years than in South Africa.

"Both current and future architects of South Africa's economic policies should note the growing international consensus that a government can achieve its broad social and economic objectives only if it accepts as a starting point the need for free markets, open trade and monetary policies aimed at low inflation and price stability," Mr Leigh-Pemberton said.

He said the South African economy might show a moderate recovery this year, but stressed that over the medium term a continuation of the Reserve Bank's anti-inflationary stance would remain central to economic prospects and international financial credibility.

He said that free markets, open trade and responsible monetary policies were the necessary conditions for sustainable growth and wealth-creation, and in turn the bedrock for the prosperity that can eliminate proverty.

"In building a political consensus, a key element will be gaining widespread acceptance of these economic principles."

Mr Leigh-Pemberton said that the normalisation of international relations promised clear economic benefits.

"Most obviously, the restoration of normal trading links could provide the basis for obtaining the economic growth I would think is recognised as necessary for acute social needs to be addressed."

Embracing the principles of free and open trade would not only benefit South Africa, but the whole southern African region, he said.

He warned, however, against the temptation to erect barriers against outside producers to protect trade flows within the region.

13

Witches' brew is doomed to failure

Sow, 25/5/92.

By MONK NKOMO

FOCUS

WHEN 13 white academics quit the National Party 37 years ago protesting against apartheid, especially the scrapping of coloureds from the voters' roll, they were labelled "traitors" and "kafferboeties".

On May 17 1955 11 professors from the University of Pretoria and two senior lecturers from the University of South Africa submitted a petition to the Press to protest against the law.

The law to scrap coloured people from the common voters' roll was the last straw for them and they broke away from the ruling National Party.

Of those 13 academics, only five are alive today to witness the scrapping of the very laws they rejected and which forced them to resign from the National Party.

"Instead of feeling happy at the Government's decision to scrap apartheid laws, I am very despondent and disillusioned because of the irreparable damage apartheid has done to this country," said political scientist, Professor Willem Kleynhans, one of the 13 academics who protested against apartheid 37 years ago.

Kleynhans said the four other academics who quit the National Party and were still alive were Professors Ben Marais, Daan Swiegers, J A Louw and JJN Cloete.

He said the 13 quit the NP and submitted their petition to the Press to protest against the scrapping of coloureds from the voters' roll.

"That was the last straw in our fight against injustices in this country. We called it quits and I have never joined any political party since."

He added: "Today coloureds are now represented in Parliament and are embraced by the National Party whose members labelled us 'traitors' and 'kafferboeties' when we rejected apartheid 37 years ago.

"We have fortunately lived to prove that our actions were justified."

Kleynhans dismissed the formation of an interim government as "a witches' brew which is doomed to failure".

The Afrikaans political scientist said the Government had capitulated to pressure from the African National Congress to form an interim government.

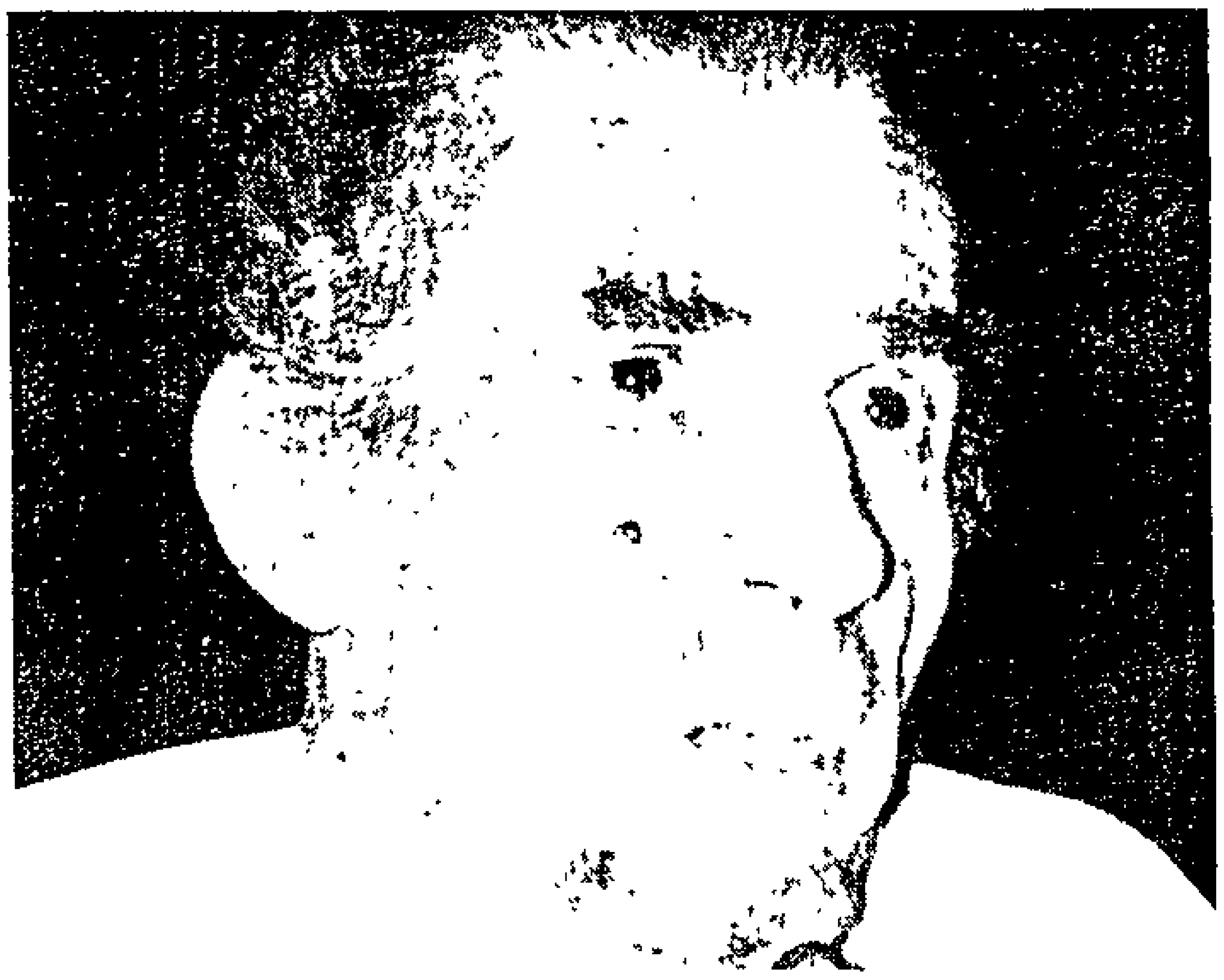
"The machinery of an interim government cannot work. It is a monstrosity," said Kleynhans.

The majority of whites, he added, were not in favour of this because they fear majority rule. He said most of the delegates at Codesa had no knowledge of constitutional and State affairs.

"They have no experience of the intricacies involved in drawing up a constitution. And with the speed at which they are moving and lack of reportback to the communities, I wonder if these delegates know the practical implications and consequences."

Kleynhans said he was pessimistic about the future of this country and added that about 95 percent of whites in this country still harboured racial prejudices.

"The majority of whites still have racist attitudes following long years of brainwashing by the Government."



LAWRENCE SCHLEMMER

He shared the view released this week by the Human Sciences Research Council after a survey which revealed that South Africans were cautious about an interim government.

According to the survey, most whites, Asians and coloureds view an interim government with some trepidation. Even black views were divided on the issue.

"Only some 25 percent of the Asians and coloureds, roughly 50 percent of the blacks and some 14 percent of the whites appear to want an interim government as soon as possible," according to Professor Lawrence Schlemmer of the HSRC.

Kleynhans said a major task faced the 12 million blacks who had to be politically educated and taught how to fill in simple ballot papers.

"Black political organisations now need thousands of trained officers to help the new Third World voters how to fill in ballot papers which will not be rejected should there be general elections," said the retired head of Political Science at the University of South Africa.

He hoped that the National Party was genuine in its recruitment of people of all colours to its fold.

"I hope they recruit them to politically educate them and improve their expertise and not just to exploit their votes and forget them after elections."

Asked about the future of this country, Kleynhans replied: "I see no light at the end of the tunnel. The future is gloomy."

Professor Willem Kleynhans:

Born June 7 1921 Koppies in the Northern Free State. Both parents were members of the NP. He was politicised in 1930. Matriculated in 1934 and came to work in the Government service (in Pretoria in 1940.

1949 to 1952 Chairman of the Transvaal Youth League of the NP.

June 17 1955 Broke away from the NP.

Present political affiliation: None.

Row brews over state economic moves

W/Mail 21/2/– 27/2/92 (49)

The Congress of South African Trade Unions has demanded an end to what it terms unilateral economic restructuring by the government as the start of what could be a new campaign on the scale of the anti-VAT drive of last year. **REG RUMNEY** *reports*

THE African National Congress/Congress of South African Trade Unions/South African Communist Party alliance this week launched in earnest a campaign to force the government to consult it on all aspects of the economy.

The alliance claims the government's moves in the economic sphere are part of a plot to tie any future government's hands and entrench white power.

Some — not all — of the claims being made are as dicey as the more fevered allegations made about Value-Added Tax. But the campaign could take on the dimensions of the VAT campaign, which drove home an important point about how groupings in the ANC see negotiation.

The introduction of VAT itself, though a change from one form of sales tax to another, was painted as major economic restructuring. This time the alliance has fixed on the pending "sell-off" of state forests.

The "privatisation" — or rather "corporatisation" or "commercialisation" — of the forests has been raised at the Convention for a Democratic South Africa (Codesa) by the SACP.

The SACP said the cabinet was on the point of considering a proposal to corporatise the forestry department, which is part of Water Affairs and Forestry Minister Magnus Malan's portfolio.

The SACP, reminding that Malan is no stranger to secret projects, accused him of indecent haste in wanting to push through the proposals to "pre-empt" democracy.

Making no distinction between the terms, the SACP has accused the National Party government of wanting to dilute any future government's control over state assets.

Fuelling the fire, a leaked document on a meeting between Malan and the Forestry Council, representing timber industry interests, appears to underline Malan's "indecent haste".

"The minister stated that he was determined to get this whole matter settled by July 1992 as any delay beyond that date could mean that nothing would ever happen."

Southscan, a weekly newsletter close to the ANC, carries a report this week which claims a Bill to corporatise state forests was to be pushed through parliament but that its tabling was hurriedly postponed.

Southscan also mentions armaments parastatal Armscor as a possible target for privatisation.

The economic forum campaign is founded on an apparently widespread belief within ANC circles that the government is approaching a two-pronged strategy to head off the ANC at the pass. A key part of this, it is understood, is to refuse to negotiate on any socio-economic matters.

Cosatu this week pulled together a number of disparate strands to support its argument that the government is unilaterally restructuring the economy.

Cosatu cited the government's refusal to meet with the Co-ordinating Committee on VAT; withdrawal from the housing forum set up by the Independent Development Trust and Development Bank of South Africa; the Bill removing the legal right to social pensions; Manpower Minister Piet Marais' rejection of an economic forum on the grounds that it would retard economic growth; and a statement by a Privatisation Unit spokesman that privatisation was being promoted "in no uncertain terms".

Magnus Malan ... in hot water

"They lend weight to the claim that the government has made private undertakings to bodies such as the International Monetary Fund and

tion for quite some time now. It has even been criticised by free-marketeers for delaying privatisation.

He points out that commercialisation and corporatisation are not the same as privatisation.

A commercialised company remains under state control.

If any future government wanted to it could quite easily reincorporate a 100 percent state owned company in the central government. A privatised company would have to be re-nationalised.

Commercialisation, he says, normally takes most effort and time. Iscor could be privatised relatively quickly because it was already run on commercial lines.

A Privatisation Unit spokesman confirms that Armscor is being rationalised and commercialised. The state forests would first have to be commercialised. According to a Forestry Department spokesman this could take a year or more to do.

So quick privatisation of those groups would not be an option. Telkom, formerly the telecommunications arm of the Post Office, could be privatised quite quickly. It is — almost — merely a matter of issuing shares.

Andrew says the government clearly had political motives in raising its most recent foreign loans. And he refers to Nedcor chief economist

Five-year plan to limit govt spending

49

CT 22/2/92

Political Staff

THE government has announced a far-reaching five-year plan to limit government spending.

The Minister of State Expenditure, Mr Amie Venter, told Parliament yesterday the cabinet had decided to form a special task group that would devise a five-year "macro-economic framework".

It would set "global expenditure limits, revenue forecasts and borrowing", he said during the Additional Appropriation debate.

Members of his department, the Department of Finance, the Economic Advisory Council and the Reserve Bank would serve on the committee.

The Department of State Expenditure has also been instructed to formulate a long-term plan for expenditure so that spending targets will be set on a three-year basis.

Meanwhile, it was revealed yesterday that an increase in state debt, the introduction of VAT and the need to prop up the state pension fund had led to the government overshooting its R1,2 billion contingency reserve for 1991/92 by R1,4bn.

However, according to Additional Appropriation estimates tabled yesterday, savings in other areas mean spending for the year is only half-a-percent higher than the R85,98bn envisaged at the beginning of the financial year.

Total revised spending is now R86,4bn, including the R2,9bn additional appropriation which MPs are to be asked to vote on next week.

This is 15,6% up on the previous additional appropriation.

R186m for Defence Fund

AN extra R186,45 million has been allocated to the Special Defence Fund — although the auditor-general disclosed this week that CCB members still owed the state nearly R7 million.

The further allocation is part of an additional R2,9 billion requested in the Additional Budget which will be presented on Wednesday.

Apart from Defence, the major overspends are in the departments of Finance (R361 million), Police (R102m), Trade and Industry (R202m), Education and Training (R134m), Planning, Provincial Affairs and National Housing (R250m) and Development Aid (R595m).

New **Worker**

NUM to secure re-instatement of sacked workers

A fresh attempt has been launched by the National Union of Mineworkers (NUM) to secure the re-instatement of about 1 700 workers sacked by JCI's Atok platinum mine in Lebowa almost 18 months ago.

Workers were fired following an underground strike, during which the NUM members were also accused of sabotage. According to union reports at the time of the strike, workers were forced to smuggle food down to the shaft to sustain the strike.

The latest attempt comes in the form of a proposal by the NUM and mine management to resort to arbitration in an attempt to find a resolution.

This was after JCI had indicated that it was prepared to take the workers back if there were vacancies.

JCI's proposal differed slightly from past responses to union demands for the re-instatement of the workers.

According to the NUM, JCI had in the past shown a reluctance to take back at least 500 of the 1 700 dismissed workers.

JCI made its offer to the union at a recent meeting which was also attended by Sekhukhuneland chiefs.

The NUM's resort to arbitration is based mainly on the fact that an Industrial Court application would be too time consuming.

It is possible that, had the union applied to the Industrial Court for relief in the matter, it would have been asked to wait another 18 months before a date could be issued for the hearing

But JCI has already rejected the arbitration proposal, saying it saw no merit in proceeding along that line.

Before the latest round of meetings aimed at resolving the dispute, workers had demanded that Lebowa issue a decree compelling JCI and the NUM to attempt a resolution of the dispute through arbitration

In addition to the arbitration, the NUM also proposed that JCI agree in principle that it was taking back the 1 700 workers on a date that could be agreed upon. And in the event of retrenchments, the company should negotiate a severance package, which would be extended to workers who remain without jobs once the re-employment exercise is completed.

Dismissal

The NUM also wants a commission of inquiry into the circumstances that led to the dismissal of the 1 700 workers.

But JCI says it does not see its way clear to negotiate a retrenchment package for workers not re-employed. It has also rejected the NUM proposal for an independent commission of inquiry.

It has, however, offered to give employment preference to 1 538 of the estimated 1 700 workers for two years from the date an agreement is reached.

Workers who are denied employment on the grounds of "unacceptable conduct", JCI said, would be allowed to appeal against such a decision.

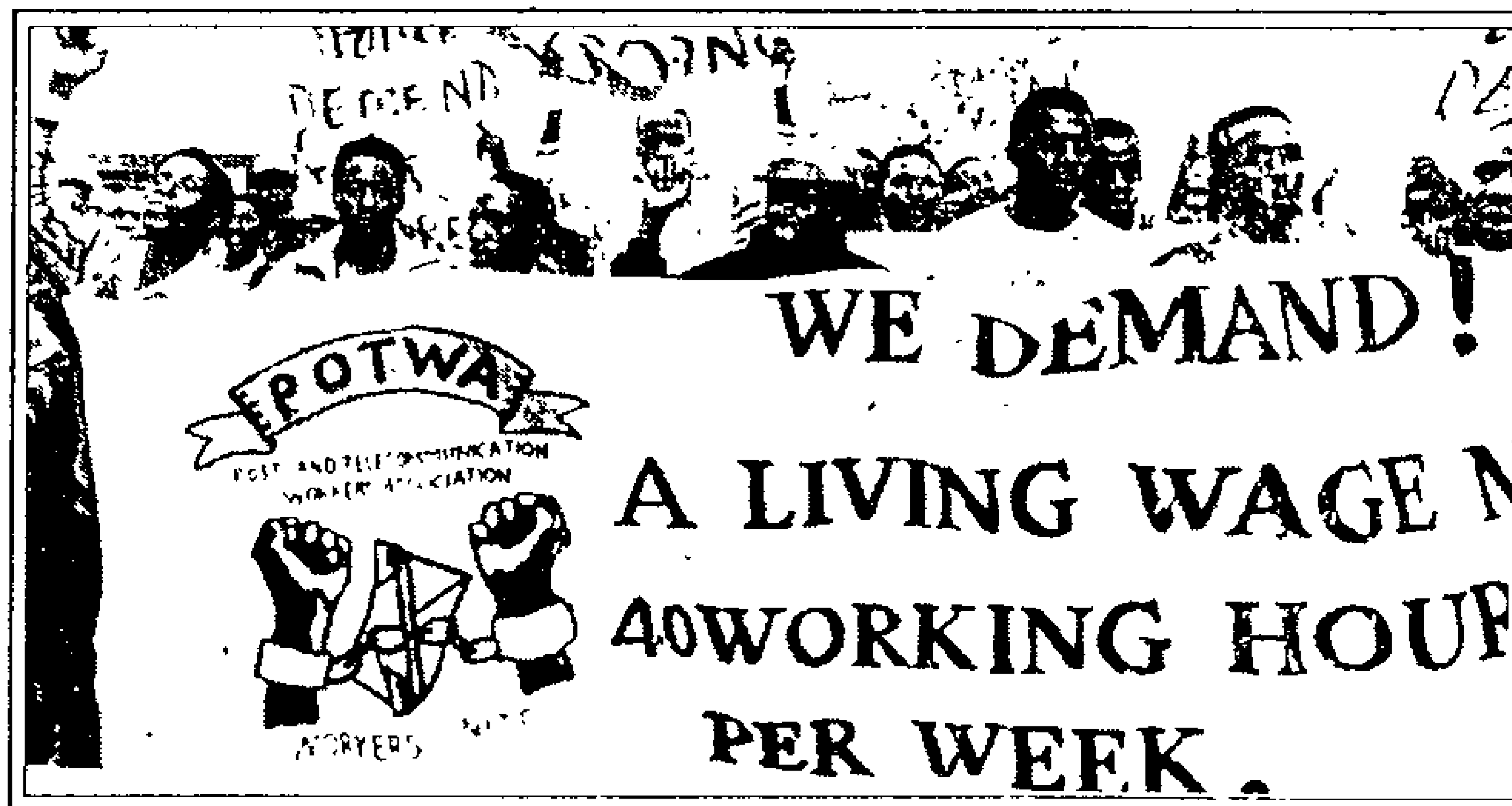
It is only in the event of such an appeal failing that the trade union would be allowed to participate in a joint commission with management to resolve the exclusion of a worker

The worker may also choose to resort to independent arbitration.

While this offer from management suggests an acceptance in principle by JCI that it would be willing to re-employ the workers, the company says it by no means implies an admission on its part that it was wrong in sacking the workers

JCI says it was hopeful that the acceptance of the offer by the NUM would result in the employment of the majority of the workers by the end of this year.

What is significant about the current efforts underway to resolve the dispute is the involvement of traditional chiefs from Sekhukhuneland. It is believed that pressure from the chiefs in the area had helped bring the parties together at a meeting Several attempts in the past to meet with management had failed. The chiefs would also be called on to help trace workers who become eligible for employment.



Wage talks in the post and telecommunications sector reached a difficult stage last week, prompting workers to march in support of their pay demand

CP slams 'home' allowances

49

CT 22/2/92

Political Staff

FOUR white ministerial representatives each receive about R5 900 a month as an allowance because they live in their own homes, the Chairman of the Ministers' Council in the House of Assembly, General Magnus Malan, has disclosed.

Raising the question of the R283 200 during the own affairs Additional Appropriation, Conservative Party spokesman on finance Mr Cas Uys said this money was being spent while the government was retrenching teachers.

Replying to Mr Uys, the minister said ministers, deputy ministers and ministerial representatives could choose to live in an official house or in their own private residence.

To qualify for the scheme, members had to live within 40 minutes travelling time of the office and live in a house of the same standard as an official residence.

1

Metal unions declare dispute

B.DAY 15/5/92

DIRK HARTFORD

NEGOTIATIONS in the metal industry ended in deadlock yesterday with 11 out of 12 unions declaring a dispute with Seifsa.

Seifsa responded by indicating that it would also declare a dispute soon.

And the fifth negotiation meeting at the end of May — which was meant to be the final one — will now be an executive committee meeting of the Industrial Council to discuss the dispute.

Seifsa and the metal unions, with the exception of the Iron and Steel Workers' Union which did not declare a dispute, have not moved from their opening positions. Seifsa has offered a 6,4% increase and the unions, which have about 50 demands on the table, are still seeking increases of up to 42,6%.

Seifsa said if the unions did not drop some of their demands it could not continue negotiating.

The National Union of Metalworkers (Numsa) urged Seifsa to start meaningful negotiations on the key issues it had raised.

Chief among these was Numsa's demand for a moratorium on retrenchments. This took up most of yesterday's negotiations.

Numsa said workers had accepted alternatives to retrenchment which meant a cut in wages. It was unfair to expect workers to accept retrenchments as well.

Seifsa said Numsa's demand was "completely impractical" as only improved economic conditions could stop job losses. Numsa is demanding an increase of R2 an hour or 25% of actual wages.

Several hundred leaders in Numsa-organised factories picketed the negotiations in Johannesburg.

Numsa said the demonstration showed the "groundswell of feelings" among its members about the negotiations.

Employers also rejected Numsa's core demands on parental and workers' rights, but undertook to respond at the next meeting to union calls for a code of practice to end unfair discrimination.

Seifsa said that while some unions had modified their positions, others had made no concessions at all and had rejected every employer proposal for changes to the industry's agreement.

Sapa reports Seifsa executive director Brian Angus said that by declaring a dispute, employers would be able to consider lockout action if it was not resolved

Conflict looms in auto industry

New Nation

FIRST signs that this year's pay talks in the auto industry could be heading for conflict emerged this week when auto assembly workers embarked on lunch-time demonstrations in support of wage demands.

Workers decided to stage the demonstrations when auto assembly bosses seemed unmoved by the National Union of Metalworkers' (Numsa) motivation for a R2 across-the-board increase on the hourly minimum wage. This was despite two full rounds of negotiations.

And the sticking point remains the demand for a moratorium on retrenchments.

According to Numsa's national secretary for collective bargaining, Les Kettledas, employers had come to the third round of talks last week with a set of pre-conditions instead of a wage offer.

Kettledas says bosses want the demand for a freeze on retrenchments scrapped before they begin negotiating wages. But Numsa rejected the precondition and warned that the auto bosses approach to negotiations threatened the collective bargaining process – something that would certainly lead to conflict, which would not be in the interest of either party.

Conciliatory

Bosses in the rubber and tyre sectors, however, have taken a somewhat more conciliatory line. Although rejecting the demand for an unconditional moratorium on retrenchments, employers have offered a freeze on retrenchments for 12 months. The offer is, however, subject to review in the second six month period of the agreement on the basis of business conditions in December this year.

But Numsa says only an "unconditional life-long moratorium on retrenchments" could guarantee a settlement of the current round of negotiations.

In the meantime, tyre employers remain resolute in their refusal to improve their offer of R1 on the hourly minimum rate.

Numsa says this falls far short of the inflation rate and does not accommodate the spiralling food price index, currently pitched at 28 percent.

Despite the absence of movement on the central issue of wages and retrenchments, significant progress has been achieved in the key area of productivity. Consensus was reached that new or revised performance standards would be subject to agreement between the union and employers.

Num seeks government help on gold mine's future

New Nation

The National Union of Mineworkers (NUM) this week made a set of proposals to the Harmony gold mine to seek government help to avert the planned retrenchment of 8 000 workers.

Harmony says it expects to be making losses by June, by which time it would have had to shed 8 000 jobs.

Between 1990 and this year, Harmony cut back its total employment from 29 000 to 20 000.

This week's proposal echoes a recommendation in the 1990 report of the Marais Committee, which was appointed to investigate the viability of marginal mines.

Although the committee anticipated that some of the marginal mines would require some form of government aid by 2008, it also pointed out that if mining economic conditions deteriorated before then, the position of Harmony and other mines should be reconsidered.

Indications

There has, however, been no aid forthcoming from the government despite indications from Harmony that it was going to be making losses soon.

It is believed that the union has proposed government help of around R4 000 for every kilogram of gold produced. This calculation is based on the estimated amount that the government stands to gain in the form of direct and indirect taxes from each kilogram of gold produced by a marginal mine like Harmony.

But Harmony has projected a dramatic escalation in costs and it is not certain that a R4 000 subsidy would help it out of its crisis for any significant length of time. This nevertheless depends on the accuracy of the mines projections, which has been questioned in some circles.

The subsidy would nevertheless help the mine to adopt a more gradual approach to downscaling.

Downscaling the mine by 8 000 jobs represents a substantial cut back in its operations when examined against the fact that Harmony employs a total of 20 000 workers.

Proposal

The NUM proposal is aimed at helping the mine over a five year period, during which Harmony would have to maintain employment levels, change underground working methods to raise productivity and find alternative employment for those that are retrenched.

If the cutback in employment is viewed against the background of the consequences of the dismissal of 4 000 workers last year, the retrenchment of twice as many employees may not yield the desired results for Harmony.

Jittery market awaits referendum day

(49) CT 22/2/92

JOHANNESBURG. — SA's financial markets are expected to remain vulnerable in the run up to a critical all-white referendum, after recovering slightly yesterday from Thursday's shock battering.

Analysts said a host of concerns were likely to take their toll in coming weeks.

Two key indicators of sentiment, the financial rand foreign investment currency and capital market rates made partial recoveries following Thursday's freefall, but dealers said sentiment remained nervous.

"I can't remember being in a position where the financial situation has been so confused, both internally and internationally," Meades de Klerk director Dawid Meades said.

However, he believed the equity market was likely to come out of the referendum relatively unscathed because of the strong surplus liquidity in the country.

John Rogers, partner of stockbroking firm Edey Rogers, said there were a host of uncertainties that were likely to plague the market in the next few weeks.

Share prices were mixed as they gained support from a weaker financial rand earlier in the day but were given a double blow in afternoon trade when the financial rand recovered and the gold price fell back.

The overall index ended yesterday 15 points lower at 3 526 and the all gold index lost 23 points to 1 214. The industrial index ended one point higher at 4 326.

De Beers gave up its early gains to end 25c off at R88,75, but Minorco managed to hold onto most of its gains to finish 150c up at R52,25

Business owners more optimistic

ARG 22/2/92 (49)

Losses, but most see improvements in 1992

TOM HOOD
Business Editor

CAPE TOWN'S owner-managed businesses lost seven percent in turnover in the past year and expect to show a negative real growth rate in 1992. But they predict that this negative growth would be lower than last year.

This is disclosed in the latest top-level Western Cape business survey undertaken by Arthur Andersen, Wesgro and UCT's Graduate School of Business. It showed that business owners were less pessimistic about the future.

The 500 business owners who took part said wage increases and general political issues were the main reasons for fuelling inflation and stifling growth.

Salary increases were slightly higher than last year, 16 percent going to managerial staff and 18 percent to both skilled and unskilled employees.

The impact of retrenchments is shown in the reduction of average staff employed to 43 last year from 57 two years earlier.

A profile of the owner-manager shows he is generally aged 46, has been in the hot seat for 12 years. Fifty-two percent of bosses started the business, 22 percent bought them, nine percent were there from a management buy-out and 15 percent run a family business.

Almost 70 percent have a university degree or technical diploma but only eight percent left school at standard 8.

Mr David Friedland, a partner at Arthur Andersen, says optimism was shown in that more than 41 percent of the respondents believed the business environment in the Western Cape was improving compared to other regions in the country.

Greater political stability and increased tourism were cited as the two main reasons for this improvement.

"However, they predicted the bank ovedraft rate to remain high at 19,5 percent until June 1992 and they expected the average rate of inflation for 1992 to be about 16,5 percent, in spite of Reserve Bank Governor Chris Stals' belief that inflation could be down to 11 percent by the year end."

An overwhelming 65 percent of business executives said a continuation of the present high level of interest would seriously harm their business while 32 percent perceived an inflation rate of more than 18 percent.

"Executives of the top 100 companies listed on the JSE forecast the prime overdraft rate would slip to 18 percent by the end of 1992. They were also more optimistic than Western Cape owner-managers in forecasting inflation around 15 percent."

An overwhelming 90 percent of respondents — compared with 15 percent in the 1991 survey — believe VAT is a better form of indirect taxation than general sales tax. They listed VAT's advantages as providing a wider spread of taxpayers and reduced evasion and its disadvantages as additional administration and costs.

Mr Bruce McDonald of the Graduate School of Business, who analysed the findings, said a disturbing fact uncovered by the survey was business owners in the Western Cape were very short-sighted and did not regard other regions as important competition or as potential areas for expansion.

Dr David Bridgman, Wesgro's executive director, said one of the most remarkable findings of the survey was 77 percent of the respondents believed the Western Cape was improving as an area to do business in.

"This is a strong endorsement of the relative growth prospects of the region's economy and it reflects the lower level of political violence."

He believed the expectation of a lower percentage of sales in the Western Cape probably indicated a greater export performance rather than an increase in sales to other parts of the country.

□ See Page 3

South Africans locked into huge debt burden

(47) 22/2/92 ARCT

JEAN LE MAY

Weekend Argus Reporter

GOVERNMENT overspending has locked all South Africans into a huge burden of public debt from which there appears to be no escape.

For the taxpayer, this will mean an ever-increasing spiral of increased taxes — and this is already one of the most over-taxed countries in the world.

Moreover, massive government borrowing to finance decades of overspending will become more difficult and much more expensive, according to a Cape Town financial expert.

It is possible that overseas money may be sought to help pay the debt, he said.

The public debt now runs at an astronomical R100 000 billion.

Last year, the deficit before borrowing was R7 994 billion, an increase of 110 percent on the previous year.

Paying interest on the public debt has absorbed between 16 and 17 percent of the Budget over the past few years, an amount second only to the share, until two years ago, of the security forces, the civil service pay packets and education, the biggest charges on recent budgets

And, the chunk of taxpayers' money needed to finance this disastrous spending spree is likely to increase.

This is because, in future, the government will have to pay interest at market prices on the money it borrows — up to 18 percent — instead of paying a lower rate of interest (about 16,80 percent) for money borrowed from the Public Investment Commissioners (PIC).

Mr John Winship, senior general manager of The Board of Executors, told Weekend Argus this week that the recent privatisation of pension funds wouldmake it more difficult and much more expensive to fund the public debt.

Until recently, pension funds and the Public Investment Commissioners, who are responsible for investing government money, were obliged to invest only in government and semi-government stock like Eskom.

Now, if the State pension funds follow the new prudential investment guidelines for private pension funds and the assurance industry, and they are expected to do so, they now could invest up to 75 percent of the total in shares and up to 25 percent in property, to an overall total of 90 percent. The remaining 10 percent must remain in prescribed stock

■ Turn to page 3

P.T.O

Taxpayer will foot bill

(49) ARG 22/2/92

■ From page 1

and in bank deposits.

The funds now will move slowly away from financing a major part of government deficit and start acquiring equities and other investments.

Mr Rian le Roux, an economist with the Old Mutual, said one of the problems was that the government was paying interest on loans raised at 8,5 percent 20 years ago.

"These loans are now maturing, but the government is rolling them over at a much higher rate of interest. The higher interest will amount to no less than R2 billion this year," he said.

For years, opposition spokesmen have fiercely attacked the government for over-running its budget.

Mr Ken Andrew, Democratic Party spokesman on finance, said that although there was nothing inherently wrong in borrowing money to finance assets, "the trouble here is that the government habitually has to borrow money to finance current expenditure."

"The government is spending more of the R300 000 billion Gross Domestic Product than any government should spend: Last year, it amounted to 28 percent before borrowing. It has gone up steadily since the early 1970s when it was 18,8 percent.

"Apart from the enormous problem of the public debt, the more the government takes, the less there is for individuals. The government consumes wealth, it doesn't create it. This is very harmful to the economy.

"It looks as if this year the government is 18,4 percent over-budget after the first nine months, whereas they budgeted for 15 percent over-budget for the year.

"However, you have to be a little bit careful here. Spending is seasonal, they aren't spent equally in 12 chunks.

"My biggest concern is that while deficit before borrowing will be a few million more than budgeted, the target level of borrowing will be exceeded. Only time will tell."

Apart from taking too much of the GDP for itself, the government had four bad habits of over-spending, said Mr Andrew.

"It takes out loans to finance current expenditure; there is a lack of good financial discipline in meeting budgets; it wastes money on things that money should not be spent on; and for years the money supply was out of control."

Mr John Rich, president of the Actuarial Society of South Africa, had something to say about the first of these in his recent address to the society.

"We must emphasise the fallacy and extreme danger of the short-term or 'pay as you go' mentality which, up to now, has permeated so much of the government sector," he said.

"There is a lesson to be learned from the bankruptcy of New York. Constant consumption on the never-never basis has to be stopped somewhere. On occasion, it has been stopped by revolution."

As for financial discipline in meeting budgets, one need look no further than this week's report from the Auditor-General, Mr Peter Wronsley.

Millions of rands had been wasted through inefficient financial management, he said.

Referring to "inadequate control" in government departments, he said that management and control procedures either did not exist or did not function effectively.

His performance audits, which have not yet been completed, showed that needs stated for certain purposes exceeded requirements, office space and buildings had been leased or bought and not used, uneconomic stock levels were kept in warehouses, development works were completed, but the structures were not used for years and tariffs were not regularly revised nor market-related.

Mr Henri Kluever, director-general of the new Department of State Expenditure, told Weekend Argus that much of the department's time and energy since it was established last year had been spent in setting up sophisticated data processing equipment and in training more than 700 staff to use it.

The department's function would be to monitor expenditure and check that everyone was keeping within budget, he said.

Asked what happened when a department was over-running budget seriously, he said: "We report it to the Minister, Mr Amie Venter, and he takes it to the Cabinet."

Some of the wasteful expenditure for which we are now paying in the form of a massive debt burden became public scandals. Some of it was in floods of misspent money, some in drops that helped to fill the bucket.

There was Koeberg, R5 billion; the Sishen-Saldanha railway, R814 million; Mossgas, R12 billion — R5 billion more than planned; R60 million on a new building to accommodate the tricameral parliament whose total lifespan can probably be counted on the fingers of two hands.

A R25 million jet was written off; R25 million for the hanging gardens of Eskom; R57 million that "vanished" from Eskom accounts; R5 million for houses built for cabinet ministers who refuse to occupy them; about R1 million for flats for Land Bank officials to use during trips to Cape Town; the list, sadly, is far from complete.

And the wasteful expenditure goes on: Mr Harry Schwarz, former DP spokesman on finance and now ambassador in Washington, spent a great deal of his last year in Parliament hammering the government for wasting money on the "own affairs/general affairs" set-up, described by colleague Mr Jasper Walsh as "a costly experiment in constitutional tinkering".

Cleverness is fine, but where's the leadership?

(49)

S Times 23/2/92.

BY calling for a referendum to renew his mandate to negotiate, President De Klerk has cut the Gordian knot of Afrikaner right-wing politics, but he has not gone to the root of his problems.

Tactically, the referendum is a brilliant move. It compels white South Africans to face up to the realities, which they have so far been very reluctant to do, and it traps all liberal and left-wing voters into making a show of support for the National Party, if only for fear of the alternative.

That alternative is simply appalling. Defeat of the National Party in the referendum would presage certain defeat in a general election, especially since Mr De Klerk, like General Smuts in 1948, has been lamentably careless in failing to order a redelimitation of constituencies.

Dr Andries Treurnicht says soothingly that he would continue to negotiate with black leaders, but on the basis of separate development. That is fantasy. No African leader would negotiate on that basis, and Mr Nelson Mandela could not, even if he wished, prevent a return to "armed struggle" by the rank and file of the ANC.

"Armed struggle" might well be a pitiful affair — a few bombs, some random AK-47 fire in the night, the assassination of black policemen — but it would be sufficient to trigger full-scale, universal and immediate sanctions. This time Britain, Germany and Switzerland would throw their support behind the campaign.

All prospect of economic recovery would be lost. On the contrary, capital flight, emigration, military service and the decline of living standards would soon inflict greater hardship and unhappiness than during the worst days of the Eighties. The international intervention would be ferocious.

Behind this referendum lies a simple truth: the civilised world has decided, in one of those rare moments of moral consensus such as led to the eradication of slavery in the last century, that white domination of southern Africa must end, and end quickly. Therefore, it will end.

The only choice remaining to white South Africans is whether they yield up power sensibly and wrest from the process a liberal constitution to protect the rights and liberties of every person, or whether they go down fighting in a last, futile battle, and find themselves cast on the mercy of their conquerors. For Afrikaners it would be worse, far worse, than 1902.

President De Klerk has put before us a choice of a future and, however the question is phrased, the gravity of that choice is not in doubt.

Fortunately, provided the ANC can control the mad-dog element on its left who want to exploit the referendum to spread disorder and fear in advance of the voting, there is little chance that President De Klerk will lose. We are all trapped into voting for him, even those callow political commentators who think it cowardly to prefer the Nationalists to greater evils.

My long-range guess, for what it is worth, is that Mr De Klerk will get not less than 55 percent of the vote, and he may get a good deal more. But then he needs to face up to the fact that his tactical brilliance as a politician has not been matched by his performance as head of government.

THE announcement, on the eve of the Potchefstroom by-election, of another radical shift in education policy requiring the retrenchment of 4 000 teachers in the middle of a depression was so inept and so calculated to aggravate the anxieties of white parents that it came close to being political sabotage.

Personally, I don't think it a bad idea to transfer the responsibility for education to parents and principals, with the central government merely setting the syllabus, providing subsidies and offering specialist back-up. However, the latest policy proposals seem to me to contain a concealed racist agenda, besides squandering the scarce resources of a country crying out for education.

However, for the moment the only point I wish to make is that such radical innovation cannot simply be dumped on the public from on high. By his clumsy handling of the matter, Education Minister Piet Marais has done nothing but show himself unfit to govern.

Nor is he alone. VAT was a good idea, handled with equal ineptitude by Finance Minister Barend du Plessis. He proved completely incapable of defusing a campaign by major newspapers, more ignorant than malicious, to exaggerate the inflationary effects of the tax and so discredit it in advance. In the end he was desperately lopping bits off his policy to throw to the wolves, thereby confirming his critics in their prejudices.

PRIVATISATION was a good policy, abandoned halfway because the government could not resist the pressures either from the white special interests or from the blacks who plan a future as corrupt as our past. The withdrawal of the support that enabled farmers to build up R17-billion of debts in the good years was a sensible policy which promised, in time, to lower the ridiculous cost of land, but it has been tardily executed. Now the farmers have hit a bad year, and the result is catastrophe.

The settlement of urbanising millions of black people is both good policy and inescapable, but the authorities fall around absurdly, issuing and withdrawing edicts, while the ordinary people, struggling to understand what awaits them and their families, grow angrier and more fearful. Nobody explains, nobody tells them where we are going. Nobody *talks* to them.

This is the nub of it. In Britain's gravest hour, Winston Churchill promised blood, sweat, tears and toil, and his people responded. In our gravest hour, our leaders shuffle and sidle, they duck and weave to avoid the hard questions, and they scuttle off in their Mercs to their over-plush offices and their palatial homes. They are not of their people, nor even among them. They are above and beyond, isolated by status, and they are making a thorough mess of steering us through this transition.

That is why we have been cast back on Mr De Klerk's tactical brilliance.

KEN OWEN

BUSINESS DAY, Monday, February 24 1992

No tax break due in Budget

LINDA ENSOR

CAPE TOWN — Finance Minister Barend du Plessis is likely to give a moderate impetus to economic recovery in his March Budget, but will have little scope for tax concessions, Sanlam chief economist Johan Louw says in the latest Economic Survey. BDay 24/2/92

The current Survey is largely devoted to a preview of the Budget.

Louw expected tax revenue to rise by about 13,5% in the 1992-93 financial year, with government expenditure increasing by a budgeted 12,5%. This would result in a fairly large budget deficit of about R15,6bn — or 4,5% of GDP — which would act to stimulate the economy.

Louw's expectations include a drop in the top personal tax rate to 42% from 43% and a drop in tax rates at lower income levels; a further reduction in the rates of import surcharges; increases in the fuel price levy and excise duties and an extension of investment allowances.

No change is foreseen in the company tax rate, but Louw said company profits should improve as a result of the budget.

The Budget's moderate stimulation of the economy should enable the monetary authorities to follow a less strict policy and a 1% reduction in bank rate by the end of March was forecast. The prime overdraft rate was expected to fall to 17,5% by year end while inflation should fall to 14,5% from 15,3% in 1991. (49)

Louw said the drought could delay the recovery, but he expected improved economic activity later this year and predicted an average real economic growth rate of about 1% for 1992 (minus 0,6% for 1991).

Lower exports of agricultural products, continuing weak commodity prices and an expected uninspiring performance of the gold price would mean the excellent export performance of the past few years would not be repeated in coming months.

Merchandise imports would increase as the recovery gained momentum. Louw predicted a current account surplus on the balance of payments of R4bn this year compared with the estimated favourable R7bn in 1991 and R5,8bn in 1990.

The increase in foreign loans would compensate for the decline in the surplus on the current account.

THE WEEK AHEAD by Simon Willson

New M3 range could be set within weeks

BDay 24/2/92 (49)

REFERENDUM considerations may interfere with the timing of the Budget, but the setting of a new guideline range for M3 is likely to go ahead in the next three weeks.

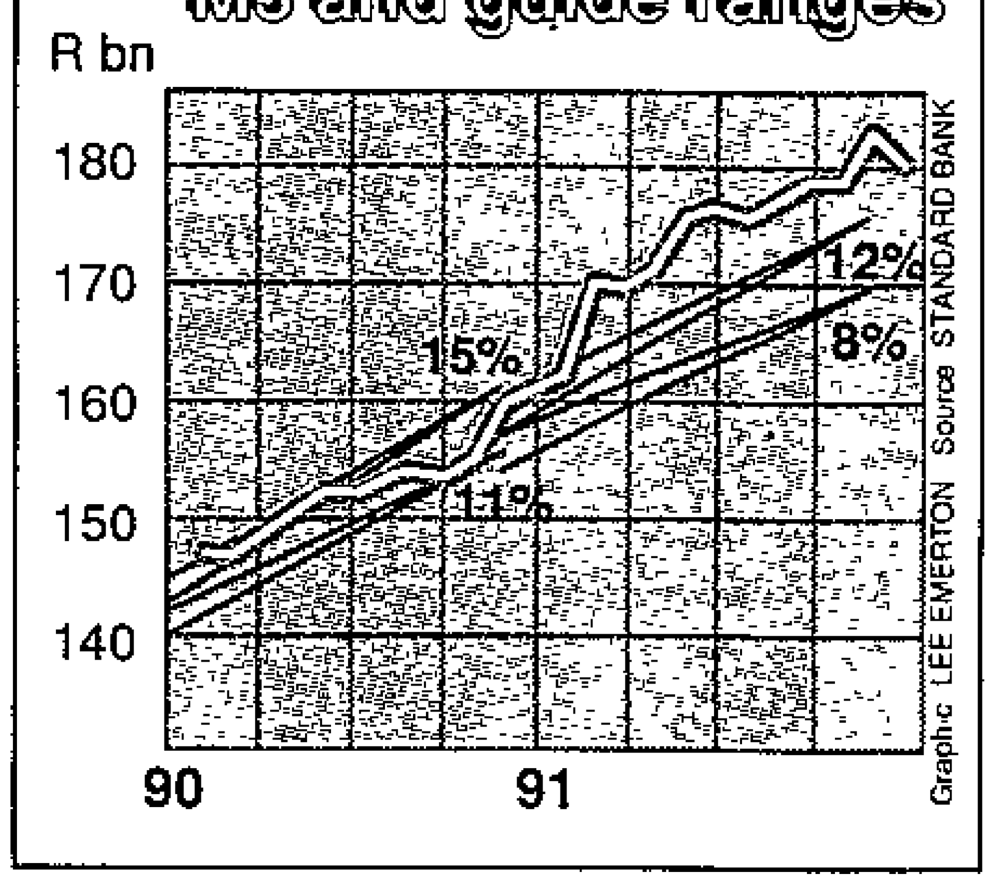
Because of this, January money supply data, expected early this week retain their importance in helping to determine where the Reserve Bank will fix its guideline range for 1992.

In line with its progressively more restrictive monetary policy stance during the past few years, the Bank has been lowering the range for what it judges is an acceptable increase in the money supply.

The range is applied to the increase in the broad money aggregate, M3, from a base consisting of average annual M3 growth in the fourth quarter of the previous calendar year.

The 14% to 18% range for 1989 was lowered to 11% to 15% for 1990 and to 8% to 12% for last year. The 1991 range was announced during the second week in March last year, a week before the presentation of the 1991-92 Budget.

M3 and guide ranges



Graphic LEE EMERTON Source STANDARD BANK

On that timetable, irrespective of the referendum's effect on the 1992-93 Budget, the announcement of the 1992 guideline is only days away.

Strictly interpreted, M3 growth overshot the Bank's guideline for most of 1991. But special factors were behind the swelling in the M3 aggregate – mainly the effects of the Deposit-Taking Institutions Act, which affected aggregates in February 1991.

A popular estimation in the markets is that the Bank will go for a 1992 range of about 6% to 10%, slowing to two points the three-point drop in the range for each of the past two years. Analysts reckon the top of the range will be pitched at the likely rate of nominal GDP growth for the year – about 14% – but slimmed down to about 10% to maintain downward pressure on inflation. The traditional four-point spread for the range gives a floor of 6%.

This week's January M3 figures should confirm that a range of about this magnitude is easily attainable this year.

Year-on-year M3 growth slowed for the third consecutive month to 12,4% in December, while deposit-taking institutions-inclusive growth from the 1991 base quarter was 13%, and deposit-taking institutions-exclusive growth with a February 1991 base was a mere 7,4%.

The January rate of inflation as measured by the consumer price index is also scheduled for release early this week. Consumer inflation accelerated to 16,2% in the year to December from November's 15,5%.

On the international front, the US economy's flirtation with full double-dip recession continues on Friday with the release of the first revision to fourth-quarter US GDP. The advance figure published three weeks ago saw a slump to 0,3% from the third quarter's 1,8%. This week's revision and the final revision two weeks hence could establish that US GDP declined by a small margin in the fourth quarter.

This year's first-quarter GDP outturn already has all the hallmarks of economic contraction, as the voters of New Hampshire gently reminded the administration in the presidential primary last week. Calculations doing the rounds put the likely first-quarter decline at about 1%, so any dip in the revised fourth-quarter figure could set up the official achievement of a double-dip US recession.

EC urged to support SA economic development

BDay 24/2/92 (49)

LINDA ENSOR

CAPE TOWN — EC Commission vice-president Martin Bangemann is to recommend to the commission that the economic development of SA and southern Africa be underpinned by a wide range of supportive measures from the EC.

Bangemann announced this at a media briefing on Friday to mark the opening of an SA office of the Friedrich Naumann Foundation. Bangemann is chairman of the foundation's board of trustees.

The measures would be aimed at providing public backing to private industrial co-operation between EC countries and SA, although ideally the measures would apply to a southern African regional bloc.

The measures could, for example, provide guarantees for investment; grant a southern African regional bloc greater access to the EC market with its 350-million consumers; and include SA in a private and publicly funded system of insurance covering the risk of losses incurred when investing in countries with which the EC has industrial co-operation agreements.

Other measures could provide political backing in the form of investment protection agreements, agreements for capital transfers and the transfer of profits, and the legal protection of intellectual property rights.

Bangemann said it was incumbent on European countries to back the political development of SA towards a fully fledged democracy.

Democracy without economic growth and stability was not possible and economic development could take place only with international co-operation.

Bangemann said he would recommend that Europe offer this co-operation to SA.

In his address at the opening of the foundation, Bangemann stressed the importance of regional co-operation.

It was impossible in the modern world to attempt to foster economic development on a national basis, he said. Doing away with the Customs Union in southern Africa would be a first, shy step towards regional integration. More important would be the standardisation of technical and tax systems and possibly the introduction of a common currency.

The Freidrich Naumann Foundation has an annual budget of about DM30m, of which about DM2m has been allocated to SA projects. It is involved in projects throughout the world but its attempts to improve living conditions in developing countries had not had the success desired, Bangemann said. A lack of regional co-operation had been a major obstacle to economic development.

He saw the foundation's role in SA as being to stimulate debate by holding seminars and conferences on different subjects and to bring out constitutional and other experts to SA.

Economy may slow

STAR 24/2/92

Staff Reporter (49)

South Africa's beleaguered economy seems likely to stagnate until the outcome of next month's whites-only referendum.

This is the view of Econometrix, a leading economic thinktank, expressed in the latest edition of its newsletter, Ecobulletin.

According to the newsletter, last week was the "most worrisome on the economic front in a long time".

A number of factors, including the drought, the reported plummeting of retail sales in February, the results of the Potchefstroom election and poor trade figures in January, had added to the sense of "uncertainty and despondency on the economic outlook".

"Even though the Potchefstroom by-election result may not have been unexpected, it brought into sharp focus the reality of the possibility of a return to apartheid-type policies."

Econometrix said the referendum implied that some of the uncertainties in white politics would be removed sooner rather than later.

BUSINESS DAY, Tuesday, Feb

Bid to do away with mini-Budget

49

B/Day 25/2/92

BILLY PADDOCK

CAPE TOWN — Government has decided to scrap the Part Appropriation or mini-Budget and will ask Parliament to approve its replacement with a statutory provision.

Legislation to this effect was expected to be tabled during the current session of Parliament.

State Expenditure Minister Amie Venter said the measure was designed to fundamentally cut costs and bring real savings.

He said the provision would be based on a financing formula that would approve funds from the Treasury to tide it over the period before the new Budget was approved.

He proposed that for the first four months of the new financial year, funds in the Treasury equal to 45% of the previous year's Budget should be made available.

For every month thereafter that it takes to approve the new Budget for each department a further 10% of the previous Budget should be made available, Venter said.

He said this measure was designed under the leadership of former deputy auditor-general and state expenditure director-general Henri Kluever to streamline the work and operation of his department.

The department spent many man-hours to prepare the Part Appropriation every year and then there were the extra costs of printing and distributing the Bill.

"These are all cost aspects that unnecessarily increase state expenditure," he said.

The measures would also ease, streamline and speed up the work of Parliament.

He insisted that acceptance of the statutory provision would in no way sacrifice proper control.

Parliament and the various parliamentary select committees would still exercise the same control that they currently had over the mini-Budget.

Internal markets, exports to grow — Keys

(49)

JOHN CAVILL

LONDON — Internal markets which will grow for decades as living standards improve and the potential for exports provide powerful reasons why foreign companies should invest in SA, Trade and Industry and Economic Co-ordination Minister Derek Keys said here yesterday.

In his first overseas appearance since taking office five weeks ago, Keys was speaking at a conference on Investing in SA organised by Business Research International with the SA Foundation.

Keys was confident reform would continue with President F W de Klerk winning the March 17 referendum.

He listed four growth imperatives to which any future government would hold. "Nobody wants to even mildly inconvenience the golden goose, let alone kill it, if its egg production can be stimulated to everyone's benefit."

Government wanted to see per capita incomes growing by 1% annually, implying expansion of 4% a year.

SA's large population of young people promised "big and growing markets . . . (which) won't even approach saturation for decades to come," Keys said.

To reduce unemployment government was likely to maintain the encouragement of local production At the same time it was necessary to generate competition "and a careful lowering of tariffs" would encourage this

In many export markets, especially for intermediate and manufactured goods, SA was "small beer", he said. "There is room for us in the world supermarket of industrial goods."

BDay 25/2/92

Here SA's proximity to sub-Saharan Africa gave it an advantage. While sub-Saharan Africa was not "much of a prize" at present, Keys said the world could not stand idly by an see the region "become effectively de-linked from world economic growth".

There was a need for partnerships between SA and the developed economies which would play crucial roles elsewhere in Africa. These would benefit SA exports to the rest of Africa and boost the region's two-way trade with SA and sales to the rest of the world

SA told to sell its opportunities

BDay 25/2/92

(49)

JOHN CAVILL

LONDON — SA's present package of investment incentives looked like a script from the Goon Show, British Industry Committee on SA (Bicsa) director Nick Mitchell declared here yesterday.

Mitchell, whose organisation represents 80% of UK companies with investment worth £10bn in SA, made a strong appeal for a coherent strategy and concentrated effort to sell the country's opportunities to international investors.

He was speaking at the two-day conference, Investing in SA, organised by Business Research International with the SA Foundation.

Apart from problems such as the violence in SA, Mitchell said there were several problems with attracting business in spite of the wide range of opportunities for British companies. The removal of disincentives, such as high corporate taxation and bureaucratic obstacles, were probably more important.

There was a need to clarify objectives and priorities and then to promote SA's case coherently in the markets of the world.

Mitchell said: "In the last year I have attended 15 seperate presentations — from promotions for Johannesburg and Qwa Qwa, Pietermaritzburg and KwaNdebele or the Cape and Transkei — but nothing which counted as investment in SA itself.

"The first decision in making an investment is the choice of country and the second is the choice of region. The case must be presented as a south or even southern African story. It is a fact that opportunities which are not sold in the market place means they go unfulfilled."

Mitchell said he hoped the National Economic Forum would produce a united effort from "those representing the present and the future" but he also warned of the dangers of bringing in codes of conduct, as proposed by Frank Chikane of the SA Council of Churches.

However much people might agree with the morality behind such codes, said Mitchell, "you must bear in mind that there are many competitors for investment in the world and conditionality can be dangerous".

He described urgency on the economic front as the "great missing ingredient" in developments in SA.

At the same time he warned British businessmen to be on the alert to the competitive advantage of acting now "before SA gets its act together".

There was already "a scrum" for investment prospects "with French, Germans, Italians and Japanese running around SA looking for opportunities", he said.

Americans trying to ensure that the new SA succeeds

BDay 25/2/92 (49)

SIMON BARBER in Washington

THE outside world's past contributions to ending apartheid can be endlessly debated. Some argue that foreigners were an impediment and the sanctions they imposed served merely to hamper the pace of change. Others contend that President F W de Klerk would not have acted as he has over the past two years were it not for external pressures that gave him no choice.

The issue at this stage is, or at least ought to be, academic. With SA's future dangling in the balance, the focus should be on the present. And currently, outsiders are being as helpful as they can be both in steering SA away from fresh folly and helping it prepare for the economic recovery without which no political negotiation has much chance of bearing long-term fruit.

South Africans across the spectrum must surely be aware of what will happen if De Klerk is defeated in the forthcoming referendum. Their country will be isolated as never before with horrible consequences for all its people. Sanctions will not even have to be reimposed — although undoubtedly they will be — because the hidden hand of the marketplace will descend as a not-so-hidden iron fist. And make no mistake, it will crush everyone without a thought in the world for their politics.

Whoever is tempted to believe that the mayhem which will ensue from a CP victory is preferable to the uncertainties of life under a nonracial government should think hard on this: whatever stance it has taken in the past, the international community is working overtime to prevent SA's next government from doing the very things most feared by those who might be tempted to vote against De Klerk.

The interfering uitlander is no longer lecturing the SA government on the evils of apartheid. He is badgering the ANC and its allies on the stupidity of their hitherto most cherished policies. He is letting them know that nationalisation, expropriation and other forms of commandist redistribution will not wash if they hope to have access to the resources that will enable them to meet the expectations of their constituents.

It is hard to imagine a colder bucket of water than the one the IMF poured on the ANC's traditional economic thinking in its recent staff paper, Economic Policies for a New SA. Redistribution, said the authors, could be achieved only through sustained economic growth, which in turn required higher levels of savings, both public and private. So, comrades, do not start squandering wealth and investor goodwill on nationalisation. Do not put any additional squeeze on the already overburdened white taxpayer. And, above all, do not try closing the wage gap between blacks and whites by artificial wage increases.

Nor is it just "neo-colonialist" governments, businessmen and institutions who are delivering the message. The mail is flooding in from all sides, even from countries which have traditionally been the ANC's staunchest protectors. Zambia's new president Frederick Chiluba was asked last week what he thought of the ANC's nationalisation rhetoric. "Just let them try," he replied contemptuously. "Surely they have learnt from what has happened everywhere else in Africa."

It is suddenly a very tough world for the ANC out here. Time was when Nelson Mandela or Cyril Ramaphosa addressed a foreign audience you needed a knife to cut through the sentimental adulation. Now, as Mandela himself recently admitted, it takes the same instrument to deal with the hostility to the ANC's economic policies. One might add that a veritable machete is required whenever the subject of Mandela's relationship with Colonel Muammar Gaddafi arises.

Mandela and his colleagues are being told, in effect, that the same sanctions that were applied to make Pretoria mend its ways will be applied to an ANC government if it commits itself to building socialism. Only this time it will not take years of campaigning to get the sanctions written into legislation or adopted as national policies. No $700 000 a year lobbyists will be necessary.

Foreign companies will not have to be legally restrained from investing. Bankers will not have to be convinced by boycotts and other domestic activism not to lend. There will have to be no new Gramm Amendment to prevent SA obtaining BoP support from the IMF and loans from the World Bank. If the ANC does what it has said in the past it wants to do, foreign capital and investment will dry up automatically. Investors will pack their bags and leave without waiting to be told.

There is, of course, a more positive side to all of this. If the outside world has begun to deliver large doses of unvarnished truth to the ANC, it is not doing so because it finds amusement in kicking a village idiot. Fact is, almost everyone wants the new SA to succeed. Evidently this is a point many white South Africans, bound up in their fear and loathing of outsiders — Americans in particular — are still having difficulty hauling aboard.

US officials have made themselves hoarse recently trying to get across the message that they will support an SA application to the IMF. That is how they wish to be understood when they say, as they said for the nth time on Thursday, that "we would be prepared to consider a proposal for an IMF facility for SA subject to the terms of the Gramm Amendment".

To explain, the administration believes that any conceivable SA proposal has already, without even having to be submitted, met three of Gramm's four conditions which relate to the removal of market distortions caused by apartheid.

The fourth requires SA to be experiencing "a genuine balance of payments imbalance that cannot be met by recourse to private capital markets". At present, the government is quite deliberately not having such an experience, and is limiting the economy's growth potential as a result. But it will have decided to have the experience when it applies to the fund. The fourth condition, therefore, is moot.

In sum, so long as Pretoria presents the IMF with a request that meets the fund's own technical criteria, the US will cast its decisive 19% share of the votes in SA's favour, regardless of whether a new government and/or constitution is in place.

Taken in conjunction with President George Bush's statement on Wednesday formally reopening the US Export-Import Bank's trade credit window to SA importers, this means all formal restraints the US federal government has placed on SA access to international capital markets have effectively been removed.

Why is the US doing these things? For the benefit of The Citizen's editorial writer, who seems to have slipped into the Yank-bashing mode after being gulled by a claim that Washington recently halted a $1,6bn arms sale to Saudi Arabia, here is what the vile Americans said last week: "A healthy economic situation in SA is of critical importance as a new nonracial consitution is being negotiated. In this regard, we want to be as helpful as possible."

For once, believe them.

Major economic changes 'needed now'

(49) CT 25/2/92

By MAGGIE ROWLEY
Deputy Business Editor

MAJOR social and economic changes have to be made immediately if there was to be any chance of a successful political transition.

This was the message of the Old Mutual-Nedcor scenario plan which highlighted areas through which social and economic transition could be spurred — housing, electrification, education and employment.

Old Mutual's corporate planning officer Mr Rupert Ingram said recent political events, such as the National Party's defeat at Potchefstroom and the white referendum, were diverting attention away from other issues.

However, there was hope that the Economic Forum and Codesa might solve some of these issues.

The longer it took for social and economic transition to take place, the greater the chance of failure on the political scene, he said.

Real per capita growth in South Africa had declined over the past 10 years, as had the ratio between investment and GDP. Unemployment had soared to 5,4 million from 3,1m. As such, economic performance in the past decade was hopelessly inadequate to meet black expectations, he said.

Achieving parity in social services for all races would cost R70 billion, or an increase of 24% a year.

Of 40 countries studied by the scenario team, political transformation had not succeeded where living standards declined.

Absa knocks R100-m off price for Bankorp

Finance Staff STAR 25/2/92

Absa has chopped R100 million from the price it is prepared to pay for Bankorp.

Absa said yesterday that as a result of valuations based on its own accounting practices and policies it had reduced its offer from 312,5c to 288,5c for each Bankorp share — a reduction of 7,68 percent. This will reduce Absa's offer price from R1,31 billion to R1,21 billion.

Bankorp' shares are currently trading at 250c.

Absa will finance the takeover by issuing 107,5 million new Absa shares at 1125c.

Bankorp ordinary shareholders will receive 100 Absa shares for every 390 Bankorp shares, and not 360 as previously decided.

The scheme is subject to approval by Absa and Bankorp, sanction by the courts and approval of the additional shares by the JSE.

Analysts said that the reduction followed a "due diligence" exercise.

While it will be a blow to Bankorp shareholders to receive less than the original offer, the comparitively small reduction suggests Bankorp is not in such bad shape as had been thought.

Keys sees partnership role for EC in new SA

STAR 25/2/92 (49)

By Neil Behrmann

LONDON — South Africa and other Southern African nations should negotiate a trade agreement with the European Community, Minister of Trade and Industry Derek Keys suggested yesterday.

At a Business Research International conference in London, Mr Keys said that South Africa would become the "economic flywheel" for sub-Saharan Africa.

The world cannot stand idly by and see the other sub-Saharan countries be delinked from world economic growth and consigned to some kind of "too-poor-country scrapheap", he said.

There was thus a need for the developed world and South Africa to form a partnership, which would see South Africans playing crucial economic roles elsewhere in Africa, Mr Keys said.

This would have a favourable impact on trade within the region and with the rest of the world, he said.

"In this connection, one would also wish to contemplate some arrangement of linkage to existing economic power concentrations."

Probably the EC would be the best economic power bloc, said Mr Keys.

Either Southern Africa should enjoy some existing EC trade arrangement or negotiate a separate arrangement for the region, entailing corresponding benefits and obligations, he said.

"South Africa's prospects for increasing exports are quite promising," he said.

Derek Keys . . . to everyone's benefit

"We have a stream of products heading north and a stream of products to which value can be added," he said.

Exports were typically between 25 percent and 32 percent of gross domestic product, he said.

There were four basic determinants of any SA government's trade and investment policy, said Mr Keys.

Firstly, it should encourage internal markets to grow for decades ahead.

Secondly, it should develop the industry so that it could supply internal markets, while lowering tariffs for goods that could not be made locally.

Thirdly, businessmen should be encouraged to stimulate exports by developing value-adding plants.

"Like all governments, we would like to see income per capita growing by at least one percent per annum, implying growth close to four percent a year," said Mr Keys.

"This may be beyond us, although I don't think that it is, but just maintaining per capita income still implies real growth of around three percent," he said.

The greatest growth would be in demand for the basics of living, notably food, shelter, clothing and education, he said.

"We are starting to get some good quantitative advice from a number of sources, which is helping to define the limits of the possible," said Mr Keys.

"Just how much in the way of resources is it feasible to apply to socio-economic ends and to what cost?" he asked.

"Nobody wants to even mildly inconvenience the golden goose, let alone kill it, if its egg production can be stimulated to everyone's benefit.

"I think it's Mr Mandela himself who said he doesn't care what colour the cat is, as long as it catches mice."

Mr Keys predicted that President FW de Klerk would win the referendum hands down and that Codesa would swiftly negotiate an interim government.

"As the political pressure gets transferred to the right quarters and the economy gets into higher gear, inflation should decline.

"Once capital flows swing from outwards to inwards," he said, "the rand will appreciate and reduce inflation by a point or two," he forecast.

Defence cutbacks hit Grinaker

By Derek Tommey STAR 25/2/92

Tough conditions in the construction industry and a cutback of defence orders for electronic equipment hit Grinaker Holdings in the six months to December.

Attributable profit dropped by 57 percent from R14,5 million to R6,2 million and earnings dropped from 41,5c to 17,8c a share. The interim dividend has been halved from 10c to 5c a share.

Grinaker's electronic subsidiary, Grintek, fared rather better. A reduction in defence contracts affected Grinaker Electronics, one of its two operating companies. But its second operating company, Siltek, managed a 15 percent rise in earnings.

This helped limit the drop in Grintek's earnings in the six months to 11 percent from R13,8 million to R12,3 million, and the decline in earnings a share to 10 percent from 7,1c to 6,4c.

Nonetheless, the interim dividend has been cut by 29 percent from 2,4c to 1,7c a share.

Grinaker chairman Jan Robbertze said yesterday the construction company's earnings were 62 percent lower and similar results were expected for the second half.

He said the construction group had suffered from decreasing margins, particularly in civil engineering and related activities. Order intakes declined in real terms.

Discretion to mark foreign borrowing

BDay 26/2/92

SA WOULD remain prudent in its foreign borrowing in spite of keen interest to lend to the country since it re-entered world capital markets last September after a six-year absence, a top finance official said.

Finance Department director-general Gerhard Croeser said: "We are going to remain discreet."

He noted the Finance Department co-ordinated local activity in international capital markets via a formal queuing system. "International underwriting banks and investors can thus expect a well co-ordinated approach by SA institutions."

Croeser was responding to reports abroad that the latest triumph, the recent DM200m issue by the Development Bank of Southern Africa might trigger a flood of new issues in 1992.

The six-year issue, with a 10% coupon and 101,25% issue price, was raised from an original DM150m as a result of strong demand.

It followed a 250-million ecu bond issue in January by government which last September launched a DM400m bond — raised from an original DM300m.

In spite of such interest, along with widely held views that SA had become relatively underborrowed since foreign banks cut off new credit in 1985, and its reputation for reliable repayments, Croeser said 1992 funding would focus largely on rollovers, plus some new money.

Interim

New money would include government's ecu issue, the Development Bank issue and perhaps one issue each by Telkom and a private sector corporate.

The Independent Development Trust hoped last year to launch a $100m loan for welfare needs.

It shelved the deal following conflicting views expressed on support for the issue by the ANC.

Croeser said his department had a continuing "non-political administrative task" to fund the exchequer from both domestic and foreign sources and could therefore not be hamstrung by political interference.

He noted that recent loans had not only strengthened reserves but also exchequer finances which increasingly were going towards upliftment of the disadvantaged. He also rejected attempts to question recent borrowings on economic grounds, including cost and burden, and needs.

Not only did the foreign borrowing reduce pressure on the domestic market and hence rates, but the Finance Department itself had to use the natural opening in the SA borrowing queue in the international capital markets. — Reuter.

Time for De Klerk to present IOU to Bush for payment

BDay 26/2/92

RONNIE BETHLEHEM

(49)

PRESIDENT F W de Klerk's decision to call a whites-only referendum after Potchefstroom was correct both in terms of realpolitik and economic realities. It was neither an impulsive response to a disappointing by-election result, nor a foolhardy gamble.

Indeed, to have acted otherwise and deferred taking a necessary decision would have been to speculate on events, over which he has little or no control, coming to his rescue — thus putting the whole Codesa process at greater risk.

Realpolitik made the referendum decision unavoidable for two reasons. The first concerned a matter of principle, the second the difficult question of process management. The importance of De Klerk and ANC president Nelson Mandela to negotiations is that they respectively claim to be — or are accepted as being — able to deliver whites and blacks en masse to a constitutional compromise. If their credentials in this regard come into doubt, they are duty-bound to demonstrate that they still have support, or to hand over to someone else. The ANC and others have a word for it — legitimacy.

Potchefstroom raised a question mark over De Klerk's legitimacy to negotiate on behalf of whites. That legitimacy needs to be restored.

The second matter of realpolitik — process management — relates to judgment and leadership. Trends of opinion within the white electorate, especially within De Klerk's own Afrikaner constituency, have been moving against him for some time. This has been inevitable, given the turbulent politics and economics of the new SA and the drought.

The miracle is that, despite all of these, he and his government can still muster such large support among white farming communities. That support is a measure of their understanding of how much things have changed and of the fact that the institutions of the old SA (which, until comparatively recently, had served their interests well) have ceased to be viable. But it would have been taking too great a chance on that understanding in the face of further likely economic and related social deterioration, to have done nothing.

However, it is the economic reality which forms the background to the present crisis. That is most important and inescapable. This has to do primarily with the relationship between the SA and global business cycles, and where we are currently in respect of both.

The SA cycle lags the global cycle by about 12 to 18 months, and the global cycle has not yet turned from the bottom of a protracted recession. Not only De Klerk, but also US President George Bush and Britain's Prime Minister John Major (both of whom have to face the judgments of voters in 1992) had hoped that the state of the global economy would have been more favourable to their re-election chances. In the circumstances, because of global influences, the likelihood is that the domestic SA economic situation will continue to get worse rather than better in the next six months.

In purely business cycle terms, SA must follow, not lead, its main trading partners. For local policy to be different would require not only domestic political urgency, but also the financial wherewithal to reflate and to ensure that a new upswing can be maintained. Unless it can be its quick benefits will just as quickly be lost; they would not then produce their desired political effects.

Ideally, the SA economy should be in a sustained recovery when the negotiations on a new constitution reach their climax. Despite all that has happened in the past week, and all that can be expected to happen in the wake of Potchefstroom, the economy can still be in such an upswing at the appropriate time if De Klerk plays his cards right.

In the recent past the government has mismanaged the relationship between economics and politics on a number of occasions. It has wanted the benefits of tough monetary policies without a preparedness to accept uncomfortable supporting fiscal requirements.

COHEN

The introduction of VAT was bungled. The timing of the announcement of white teacher retrenchments and of the imposition of substantially higher education costs on an already hard-pressed white parent population was an invitation to further disaffection. Had government acted earlier and with greater determination, the battle against inflation would, politically speaking, have been less drawn out and debilitating.

Mass black unemployment has already become the central issue in the quest for social and political stabilisation and hence, also to sustainable economic growth. Yet it evidences no macroeconomic ideas as to how to combine tough demand management with a clear need for job-creating initiatives. Lacking is a strategic vision for the economy, and the connection between such a vision and what is happening politically.

The factor most favourable in the SA economic picture is the net reserve position. This has shown a positive turnaround of about R7bn since the end of 1989. Then the total of the country's gross gold and foreign currency holdings exceeded the short-term foreign liabilities of the monetary banking sector by approximately R3bn — almost exactly, incidentally, the position that prevailed when President P W Botha delivered his fateful Rubicon speech. Once more, SA has demonstrated that when monetary policy is tight and fiscal policy not too profligate, it has remarkable financial resilience.

The net reserves, however, even at their much improved level, are not high enough to allow, by themselves, for a premature stimulation of the economy. Especially given global cyclical developments, only a limited domestic expansion would, through greater imports, quickly result in their depletion. This is to say nothing of what the effects on them would be were large capital outflows to be triggered for any extra-economic reasons.

The third interim agreement with foreign banking creditors about debt repayment is still in force, and SA's relationship with the IMF, the World Bank and other international financial institutions have still not been normalised. It was bordering on the fatuous for US Assistant Secretary of State for African Affairs Herman Cohen to suggest that SA spend its way into a balance of payments deficit in order to satisfy the last and critical Gramm Amendment requirement to enable the US government to vote for a release of IMF funds.

One wonders what the reaction of the IMF technical staff has been to such a suggestion. In a US election year, and remembering previous occasions when Republican presidents with Democrat-controlled congresses have failed to deliver on their promises, it would be reckless in the extreme for De Klerk to follow such a course.

But De Klerk holds an important IOU which has on it the moral signatures of all G-7 countries, the US included. That IOU concerns the bold changes he has already initiated in SA and the need now to change the Gramm specifications to permit IMF lending to SA while the onerous requirements of the third interim agreement remain in force. SA may not get its desired new constitution if its economy continues to stagnate.

If black unemployment continues to rise, social and political tensions driven by a decline in real per capita incomes, and hence crime, will also continue to increase. Whites will retreat further into shells of anxiety, anger and defiance. If an economic recovery is to be initiated in advance of a global recovery for these reasons, it is going to have to be given backing and sustainability. Also, whatever is done to generate cyclical improvement here must not compromise longer-term restructuring requirements.

De Klerk must now present his IOU to Bush for payment. He must move without delay and without apology for any embarrassment caused. And Mandela should be giving him every encouragement even if, as regards the IOU, it is encouragement he can offer only privately before the referendum.

Bethlehem is JCI group economics consultant. The views expressed here are his own.

Poll result crucial to future investors

49

BDay 26/2/92

WILLIAM GILFILLAN

THE outcome of the referendum will play a major role when international companies assess the political risk of making an investment in SA, director-general of the Confederation of British Industry (CBI) Sir John Banham said yesterday.

Speaking at a lunch hosted by the South African Chamber of Businessin Johannesburg, Banham said SA's transport and general infrastructure and the large home market provided great potential for foreigners to invest in SA.

But political instability and a command economy would dissuade people from investing here.

Banham humorously illustrated the inefficiencies brought about by a command economy by noting that piles of rubbish left over after the last world war could still be found on side streets in eastern German cities.

He said the Pacific Rim countries, India and the Gulf states would all compete with SA in vying for foreign investment by UK firms.

India was becoming increasingly attractive considering it was currently deregulating its economy and also it had an instant market of 200-million middle class consumers.

And the Gulf region was excellently located as it was so central, he believed.

"But SA also has attractions for foreign investors. These include a world class transport infrastructure and — if the economy develops — a potentially large home market," he said.

The opportunity to serve the many other markets in southern Africa increased the attractiveness, Banham added.

"But businessmen don't like uncertainty, either political or economic. And therefore CBI members will be watching out closely for any portents on both the political and economic fronts," he stated.

Sacob president Hennie Viljoen, left, meets Confederation of British Industry director-general Sir John Banham at a lunch hosted by the SA Chamber of Commerce in Johannesburg yesterday.

Picture ROBERT BOTHA

ANC 'will regulate business'

JOHN CAVILL

LONDON — A future democratic government in SA was bound to bring in regulations to ensure that the big mining and business conglomerates "serve the public good", ANC economic adviser Vella Pillay said yesterday. B|Day 26/2/92

Speaking at the Investing in SA conference to bankers, businessmen and investors, Pillay, a former international banker, made no mention of nationalisation. But he spelled out a nationally planned restructuring of the SA economy involving a mandatory social compact between the state, business and trade unions.

"The ANC does not possess any doctrinaire position relating to the control of the conglomerates."

But they should be seen to serve the public good, to be accountable for the enormous power they wielded in the economy and their boards of directors should "cease to be self-renewing oligarchies", he said. (49)

Thus a democratic government was bound to enact "regulatory arrangements" committing conglomerates to a set of social obligations to their workforces and to long-term investments in productive capacity to generate employment, technological innovation and progress, he said.

Pillay said there was no "quick start" to solve the deep-seated structural crisis in SA inherited from the apartheid system.

The "mindless" adoption of monetarist policy by the Reserve Bank had undermined the role of interest rates and monetary policy as an anti-inflationary device.

The ANC envisaged a mixed economy, with a sizeable private sector encouraged by monetary and fiscal policies but steered by an equally significant public sector.

of what statutory provisions or regulations, if not,

(2) whether the management board of a model B school may impose compulsory school fund contributions as a requirement for admission at such a school, if so, in terms of what statutory provisions or regulations,

(3) whether he will make a statement on the matter?

B166E

†The MINISTER OF EDUCATION AND CULTURE.

(1) No,

(2) no,

(3) no

Departmental schools: African language as subject

*3 Mr K M ANDREW asked the Minister of Education and Culture:

How many (a) schools falling under the control of his Department were offering, and (b) pupils were taking, an African language as a subject in 1991?

B192E

The MINISTER OF EDUCATION AND CULTURE

(a) 923.

(b) 150 863.

White teacher-training colleges: African language ( )

*4 Mr K M ANDREW asked the Minister of Education and Culture:

Whether any White teacher-training colleges offer an African language as a course subject; if not, (a) why not and (b) what steps are being taken in this regard; if so, (i) which colleges, (ii) what African languages are being offered and (iii) how many student teachers took such language courses in 1991?

B193E

†The MINISTER OF EDUCATION AND CULTURE.

Yes,

(i) Boland College of Education
Port Elizabeth College of Education
Bloemfontein College of Education
Edgewood College of Education
Durban College of Education
Natal College of Education
Onderwyskollege Pretoria
Onderwyskollege Goudstad
Johannesburg College of Education
Onderwyskollege Potchefstroom
College of Education for Further Training,

(ii) Xhosa, Southern Sotho, Zulu, Northern Sotho and Tswana,

(iii) 1 265.

White old-age pensioners: means test

*5 Mr B B GOODALL asked the Minister of Health Services and Welfare:

Whether any steps are being taken by her Department to adjust the means test for White old-age pensioners; if not, why not, if so, what steps?

B254E

The MINISTER OF HEALTH SERVICES AND WELFARE:

No

When social pensions were increased as recently as 1 October 1991 the income leg of the means test was extended.

QUESTIONS

†Indicates translated version.

For written reply.

General Affairs·

Revenue/expenditure categories

35. Mr G C ENGEL asked the Minister of Finance: 49

In respect of the 1991-92 budget year, (a)(i) which categories of revenue have fallen short of or exceeded the budgeted target and (ii) by how much in each case, (b)(i) which categories of expenditure have fallen short of or exceeded budgeted amounts and (ii) by how much in each case, (c) how will the additional deficit be financed or has it been financed and

(d) what is the latest estimate of the Government deficit before borrowing as a percentage of the gross domestic product?

B104E

The MINISTER OF FINANCE: 49

Since there will be a full report on the course of the 1991/92 financial year in my next Budget Speech, it is premature to answer this question at this stage.

In the meantime, I attach a copy of the press release on the course of state finances for the first nine months of the 1991/92 financial year, released on 17 January 1992.

Information release on the course of the 1991/92-budget for the first nine months of the financial year

Issued by the Minister of Finance, Mr B J du Plessis, MP

1 *Introduction*

In accordance with its aim to report regularly on the course of the state finances and, more specifically, the annual Budget, the Department of Finance has already issued two information documents during the current financial year. This statement reports on the course of the 1991/92-Budget for the period April to December 1991, it will be the last report for the current financial year until the next Budget Speech

2 *Update on the 1991/92-budget*

2 1 *Total expenditure*

On previous occasions it was mentioned that the total expenditure level for the 1991/92 financial year could amount to R85,984 billion, which is 15,1 per cent above the revised estimated expenditure level of R74,731 billion for the 1990/91 financial year. This figure includes the contingency reserve of R1,2 billion, as well as the provision of R1,95 billion to be financed from the reduction in strategic reserves

Total exchequer issues in the first nine months of the 1991/92 financial year amounted to R62,443 billion, which represents an increase of 18,5 per cent on the issues for the corresponding period in the 1990/91 financial year (see table 2) and accounts for 72,6 per cent of the total estimated amount of R85,984 billion. A mere mechanical projection of the growth in expenditure for the full financial year on the basis of this growth rate, would be very misleading Although this growth of 18,5 per cent appears to be relatively high, it should be kept in mind that the total exchequer issues for the first nine months of the 1990/91 financial year increased by only 10 per cent, so that this year's growth is from a relatively low base The quarterly analysis of total exchequer issues illustrates this point (table 1)

Although 18,5 per cent can in no way be regarded as an indication of the eventual growth in budgetary expenditure, it might in fact now appear that the Government will have to ask Parliament on 17 February 1992 to approve a substantial larger additional budget than was envisaged by way of the contingency reserve of R1,2 billion. The expected higher-than-budgeted expenditure requirements are related mainly to higher spending pressure on health, intergovernmental grants to Black Local Authorities, and interest on the public debt. As indicated below, these higher expenditures will not bring about any further financing pressures

2.2 *Total revenue*

In the previous information release, which appeared in October 1991, total revenue was estimated at R74,156 billion, after provision had been made for the lowering of the VAT rate to 10% and for the additional revenue from excise duties and from the fuel levy. This amount represents an increase of 11 per cent above the actual collections of R66,8 billion in the 1990/91 financial year

Total exchequer receipts for the period April to December 1991 amounted to R52,767 billion, which is 7,6 per cent higher than the corresponding period for 1990/91 (see table 2).

After an increase of only 0,7 per cent in the first quarter of the present financial year, receipts were up by 8,2 per cent and 13,4 per cent respectively in the second and third quarters of the 1991/92 financial year (see table 1). Although it is expected that this rising trend will be continued in the last quarter, it would at this stage appear that collections for the 1991/92 financial year will probably be even lower than the above-mentioned R74,156 billion, a phenomenon which clearly relates to cyclical factors

2 2.1 *Value Added Tax*

In analysing the receipts from Value Added Tax (VAT), various factors need to be taken into account Some of these are:

— VAT which is collected in a specific month, for example October, must be paid over to Inland Revenue before the 25th of the following month (i e November) and therefore will be reflected in the November revenue figures only (49)

— Some businesses pay VAT on a monthly basis, and others on a two-monthly basis, while farmers pay their VAT over to Inland Revenue only on a bi-annual basis

At this stage the collections from VAT for two months only are known, namely R1,2 billion for November and R1,8 billion for December 1991 The fairly large difference between these two figures is attributable mainly to technical problems experienced in the first month in which VAT was collected and which, in terms of the previous paragraph, had an effect on the figures for the second month. The largest portion of VAT collected by Customs and Excise in November, was paid over only in December The same also happened in respect of transfers and repayments that took place electronically. Furthermore, no VAT was paid back to the TBVC states in November, with the result that the December payment included two months' VAT The seasonal effect should also be borne in mind, for example, the fact that early Christmas shopping was done in November already, which resulted in higher VAT collections than for example in October

From the previous paragraphs it will be clear that the VAT collections for the first few months after introduction should be interpreted with great caution. It would, however, at this early stage appear that the estimated revenue from VAT (after having allowed for the lower rate and other concessions) is fairly close to target

2 3 *Difference between exchequer issues and receipts*

The difference between issues and receipts therefore amounted to R9,666 billion for the period April to December 1991, compared with a revised estimate (which appeared in the October information release) of R11,828 billion for the total "gross" deficit before borrowing. Since higher levels of expenditure and lower levels of revenue are now expected, the "gross" deficit before borrowing for the 1991/92 financial year will now be higher than this revised estimate. The total financing requirement will consequently also be higher However, in order to establish the effect of the deficit before borrowing on the capital market, the expenditure to be financed from the reduction of strategic stockpiles should be deduced from the "gross" deficit before borrowing.

The relatively large difference between exchequer issues and receipts for the first nine months of the current financial year can be ascribed to two factors, i e the specific seasonal nature of issues in the current financial year and the cyclical influence on revenue collections It should however be borne in mind that exchequer issues for the first nine months of the financial year include expenditure regarding aforementioned R1,95 billion Funds to be obtained from the reduction of strategic stockpiles, are however not yet transferred to the Exchequer and thus not included in the exchequer receipts for the first nine months of the financial year

Loan redemptions during the period April to December were as follows

	R million
Bonds	70,4
Domestic stock	3 785,1
Foreign loans	275,1
Loan levy	0,2
Total redemptions	4 130,8

The total *gross* financing requirement (new loans plus redemptions) for the first nine months of the 1991/92 financial year amounts to R13,797 billion

Financing to the amount of R18,049 billion (excluding treasury bills and including roll-overs) has already been obtained during this period (inclusive of PIC loans), made up as follows:

	R million
Bonds	3,9
Domestic stock	17 221,5
Foreign loans	821,8
Loan levy	2,0
Total financing	18 049,2

As indicated, there is a relatively large difference ("surplus") between the financing obtained for the period up to 31 December 1991 and the financing requirement for the same period. Even after provision has been made for further redemptions of government stock scheduled for February, the funds already acquired are sufficient to accommodate the expected overshoot of the budgeted contingency reserve (i.e higher-

than-budgeted expenditure level), as well as lower-than-expected revenue collections For the remainder of the current financial year there will be no further pressure from the side of the Central Government for financing (49)

3. *Conclusion*

For the first nine months of the 1991/92 financial year, total exchequer issues showed an increase of 18,5 per cent and total exchequer receipts an increase of 7,6 per cent over the corresponding period in the previous financial year, while the difference between issues and receipts amounted to R9,666 billion.

Although the growth rate of 18,5 per cent cannot be regarded as an indication of the growth in state expenditure for the 1991/92 financial year, it would however appear that the budgeted contingency reserve of R1,2 billion will be exceeded by a substantial amount

With regard to total revenue, it would appear that for the current financial year, there is an even lower collection of revenue than was expected when the VAT rate was reduced and excise duties and the fuel levy were increased.

These factors will however bring about no further financing pressure up to the end of the financial year, since the difference between the financing requirement up to 31 December 1991 and the financing obtained for the same period, has shown a relatively large surplus.

As in the past, debate and speculation continue on the 1992/93-Budget and the measures that the Government can and should adopt regarding tax adjustments. Experience in South Africa, as in other countries, has shown that it is not desirable to respond to such speculation outside the context of a budget, since this will merely give rise to further speculation and could even benefit some parties and disadvantage others The 1992/93-Budget, to be tabled in Parliament on 18 March 1992, offers the appropriate opportunity

TABLE 1

Exchequer issues and receipts (quarterly)

This table has been compiled from the Statements of Receipts in and Transfers from the Exchequer Account published monthly Any analysis of these statements should bear in mind that they are shown on a cash flow basis, i e :

(a) Total Exchequer issues

Total issues do not represent actual expenditure Late issues and surrenders in respect of a specific fiscal year result in total issues (as shown here) differing from the actual expenditure figures as shown in the Budgetary documentation

(b) Total exchequer receipts

The receipts for month X do not include amounts in transit for that month, but include those in transit for month (X-1). This means that the April figure of each fiscal year includes the "in transit" figure for March (the previous fiscal year).

Proceeds from privatisation, other capital revenue and loans are excluded from these figures

(c) Difference between issues and receipts

As a result of (a) and (b) this does not represent the actual deficit before borrowing

TOTAL EXCHEQUER ISSUES

(R million)

	1987/88	% growth	1988/89	% growth	1989/90	% growth	1990/91	% growth	1991/92	% growth
Apr-Jun	11 944	18,5%	12 979	8,7%	16 395	26,3%	17 478	6,6%	21 089	20,7%
Jul-Sep	10 983	22,4%	12 974	18,1%	15 746	21,4%	18 354	16,6%	21 065	14,8%
Oct-Dec	11 346	23,2%	12 937	14,0%	15 758	21,8%	16 858	7,0%	20 279	20,3%
Jan-Mar	13 666	12,2%	17 715	29,6%	17 900	1,0%	21 706	21,3%		
Total	47 940	18,7%	56 604	18,1%	65 799	16,2%	74 396	13,1%		

TOTAL EXCHEQUER RECEIPTS 49

(R million)

	1987/88	% growth	1988/89	% growth	1989/90	% growth	1990/91	% growth	1991/92	% growth
Apr-Jun	7 291	5,9%	8 773	20,3%	11 986	36,6%	14 302	19,3%	14 399	0,7%
Jul-Sep	10 445	18,3%	13 236	26,7%	16 850	27,3%	18 969	12,6%	20 517	8,2%
Oct-Dec	9 270	8,9%	12 298	32,7%	14 202	15,5%	15 747	10,9%	17 851	13,4%
Jan-Mar	10 617	6,8%	13 904	31,0%	17 963	29,2%	17 776	−1,0%		
Total	37 623	10,2%	48 210	28,1%	61 000	26,5%	66 794	9,5%		

DIFFERENCE BETWEEN ISSUES AND RECEIPTS

(R million)

	1987/88	1988/89	1989/90	1990/91	1991/92
Apr-Jun	4 653	4 206	4 409	3 176	6 691
Jul-Sep	539	(262)	(1 104)	(615)	547
Oct-Dec	2 076	639	1 556	1 111	2 428
Jan-Mar	3 049	3 811	(63)	3 930	
Total	10 317	8 394	4 798	7 602	

( )Surplus

+Deficit

TABLE 2

Exchequer issues and receipts (cumulative)

This table has been compiled from the Statements of Receipts in and Transfers from the Exchequer Account published monthly. Any analysis of these statements should bear in mind that they are shown on a cash flow basis, i.e.:

(a) Total Exchequer issues:

Total issues do not represent actual expenditure. Late issues and surrenders in respect of a specific fiscal year result in total issues (as shown here) differing from the actual expenditure figures as shown in the Budgetary documentation.

(b) Total exchequer receipts

The receipts for month X do not include amounts in transit for that month, but include those in transit for month (X-1). This means that the April figure of each fiscal year includes the "in transit" figure for March (the previous fiscal year).

Proceeds from privatisation, other capital revenue and loans are excluded from these figures.

(c) Difference between issues and receipts

As a result of (a) and (b) this does not represent the actual deficit before borrowing.

TOTAL EXCHEQUER ISSUES (cumulative)

(R million)

Period	1987/88	% growth	1988/89	% growth	1989/90	% growth	1990/91	% growth	1991/92
April to									
Jun	11 944	18,5%	12 979	8,7%	16 395	26,3%	17 478	6,6%	21 089
Sep	22 927	20,3%	25 952	13,2%	32 141	23,8%	35 832	11,5%	42 154
Dec	34 274	21,3%	38 889	13,5%	47 899	23,2%	52 690	10,0%	62 433
Mar	47 940	18,6%	56 604	18,1%	65 799	16,2%	74 396	13,1%	

TOTAL EXCHEQUER RECEIPTS (cumulative) 49

(R million)

Period	1987/88	% growth	1988/89	% growth	1989/90	% growth	1990/91	% growth	1991/92
April to									
Jun	7 291	5,9%	8 773	20,3%	11 986	36,6%	14 302	19,3%	14 399
Sep	17 736	12,9%	22 008	24,1%	28 836	31,0%	33 271	15,4%	34 916
Dec	27 006	11,8%	34 306	27,0%	43 038	25,5%	49 018	13,9%	52 767
Mar	37 623	11,5%	48 210	28,1%	61 000	26,5%	66 794	9,5%	

DIFFERENCE BETWEEN ISSUES AND RECEIPTS

(R million)

	1987/88	1988/89	1989/90	1990/91	1991/92
April to					
Jun	4 653	4 206	4 409	3 176	6 691
Sep	5 192	3 944	3 305	2 561	7 238
Dec	7 268	4 583	4 861	3 672	9 666
Mar	10 317	8 394	4 798	7 602	

Guarantees/sureties: Ciskei

81. Mr K M ANDREW asked the Minister of Foreign Affairs:

(1) Whether any guarantees or sureties were given directly or indirectly by the Government or any Department or agency of the Government to any person or organization for (a) loans granted, (b) lines of credit granted and (c) other specified financial services rendered to (i) the Government of, (ii) any Government Department of, (iii) a development corporation in and (iv) any other specified person or organization in Ciskei in the 1990-91 financial year; if so,

(2) (a) what amounts were involved in each case and (b) what was the total amount outstanding in terms of such guarantees or sureties as at the latest specified date for which information is available,

(3) whether foreign currencies are involved in any of these guarantees or sureties; if so, (a) what currencies, (b) how much is involved and (c) who is responsible for bearing the potential cost of exchange rate fluctuations?

B226E

The MINISTER OF FOREIGN AFFAIRS:

(1) (a) No.

(b) Yes, a guarantee in respect of overdraft facilities to the Government of Ciskei.

(c) No.

(2) (a) R262 Million.

(b) R262 Million.

(3) No

(a), (b) and (c) fall away

Guarantees/sureties: Venda

82. Mr K M ANDREW asked the Minister of Foreign Affairs:

(1) Whether any guarantees or sureties were given directly or indirectly by the Government or any Department or agency of the Government to any person or organization for (a) loans granted, (b) lines of credit granted and (c) other specified financial services rendered to (i) the Government of, (ii) any government Department of, (iii) a development corporation in and (iv) any other specified person or organization in Venda in the 1990-91 financial year; if so,

continue →

World's investors focus on referendum

STAR 26/2/92 (49)

By Michael Chester

The eyes of international investors were fastened on the March 17 referendum as a guideline to future investment plans, Sir John Banham, director general of the influential Confederation of British Industry, told businessmen in Johannesburg yesterday.

The result, he told a South African Chamber of Business (Sacob) luncheon, would be seen as a vital pointer to the kind of economic system that would emerge.

Crucial

"As far as overseas investment decisions are concerned, the stakes are high," he said.

Signals from the referendum and the Codesa negotiations would be crucial.

Indications of progress with a free-market system would flash a green light to overseas investors.

The alternative of trends towards a central-government command economy would bring about a crisis in business confidence.

The referendum aside, the omens looked good. British inquiries about the prospects of closer business ties with South Africa were running 10 times higher than two years ago.

Interest in current events was intense South Africa ranked high among Britain's list of world-wide trade partners — one of its biggest single markets outside Europe, North America and Japan.

Since the early 1980s, the UK had ploughed tremendous amounts of investment cash into the US and Europe and was now looking elsewhere for new opportunities

"Investors are now looking towards South Africa again," Sir John said. "They see remarkable potential — but for the moment they also have to balance the political risks

"Businessmen don't like a climate of uncertainty, especially uncertainty about economic systems under which they are expected to operate.

"British investors are following developments here very, very closely."

● It was announced in Johannesburg yesterday that two businessmen have launched a campaign for a positive vote in the coming referendum.

Support

A statement said the fund, suggested by Times Media Limited managing director Stephen Mulholland, would seek financial support from business for a non-party-political campaign that would include extensive print and electronic-media coverage.

The fund would be jointly chaired by Dr Chris van Wyk and George Thomas

Businessmen gear up for referendum

(49)

Business Staff ARG 26/2/92

BIG business is gearing itself to support the March 17 referendum, with a number of leading businessmen coming out in support of President De Klerk's initiative.

"From the point of view of business confidence and the investment climate, it is now important that the referendum takes place as soon as possible to reduce political uncertainty," said Hennie Viljoen, president of the South African Chamber of Commerce.

"Many local and overseas businessmen will be watching the outcome of this key referendum with great interest to see whether the reform process in South Africa will continue or not.

According to a European diplomat, the general attitude was that efforts such as Codesa should continue.

"Everything that facilitates, as quickly as possible, a negotiated constitution in a peaceful way is welcomed," he said.

The eyes of international investors were fastened on March 17 as a guideline to future investment plans, Sir John Banham, director general of the influential Confederation of British Industry, told businessmen in Johannesburg yesterday.

NUM drive to recruit more Whites

CIT. 29/5/92

Hugo Hager

THE National Union of Mineworkers (NUM) says about 2 000 White mineworkers have joined the union since the start of the year. NUM chief organiser, Mr Louis Vosloo, said yesterday the union had embarked on a drive to recruit more Whites and that the number of White members was expected to grow significantly in coming weeks.

He said more were joining daily and their numbers had been increasing "The largest number to join was in Kimberley, where 63 were registered within three weeks "

On Wednesday, six White mineworkers joined the NUM in Klerksdorp after several colleagues in Carletonville, Westonaria, Welkom and Newcastle had enrolled.

They were artisans, underground mineworkers and shift supervisors.

Mr Vosloo said projections by the NUM indicated it could expect to represent 60 percent of White mineworkers within three years

He described the development as historic, indicating a growing trend which trade unions should expect in the new South Africa." It will be of crucial importance that the interests of all peoples be served instead of the largely segregated structures existing at present "

The NUM is already recognised as the largest trade union in South Africa, and is one of the largest mining unions in the world, but until now it has represented mainly Black and Coloured workers.

It enjoys widespread support in the mining industry and, lately, among power station workers

Mr Vosloo said Whites were attracted by the NUM's aggressive campaigning for parity in benefits for members. They were also very impressed by the active interest taken by the NUM in improving medical benefit payouts for instance in cases of occupational diseases.

R100m hopes for unit trust

B.DAY 29/5/92

PATRICK BULGER

THE Community Growth Fund (CGF) trade union unit trust could grow to R100m by the end of its first year, a spokesman for the trust's managers said at the weekend.

The fund, which will invest workers' pension and provident funds in blue chip companies on the JSE, officially comes on stream today, but it has already attracted several millions from investors.

It will be managed by Syfrets, which has itself invested R2m in the CGF. Contributions of R1m have already been raised from Times Media Limited and the NUM's Johannesburg branch.

And Syfrets spokesman Ian Hamilton said pledges and commitments had been received from "mining houses, banks, retail groups and industrial conglomerates".

"We can safely say that the market response has far exceeded everyone's expectations," said Hamilton.

The fund aims to marry high returns and socially responsible investment. It is being backed by the NUM, the Construction and Allied Workers' Union, the Transport and General Workers' Union and the Paper, Print, Wood and Allied Workers' Union.

Nactu unions are also involved. Portions of the pension and provident funds of these unions will be invested in the CGF.

The fund will target a portfolio of blue chip shares, but will exclude those of companies involved in weapons manufacture, environmentally harmful businesses and offshore investments with little benefit to SA workers. Three union representatives will serve in a joint Syfrets-union company managing the portfolio.

NUM spokesman Martin Nicol said the fund would invest in companies promoting job creation, recognition of trade unions, affirmative action and environmental awareness.

"It is not a fund which seeks to invest in low-return housing projects, for example," Nicol said. He said the fund would also attempt to influence companies to follow policies consistent with criteria decided on by the managers and the unions.

Hamilton, who is also a director of the fund, said client confidentiality precluded him from disclosing names and figures, but said the commitment from major investors had exceeded expectations.

Mines' workforce down by over 20%

B.DAY 28/5/92

MATTHEW CURTIN

THE number of workers employed on gold and coal mines affiliated to the Chamber of Mines sank below 500 000 in 1991, equivalent to a 20% or 120 000 fall in the mines' workforce since 1987.

The workforce on the mines stood at 472 934 last year, compared with 529 337 in 1990 and 594 803 in 1987.

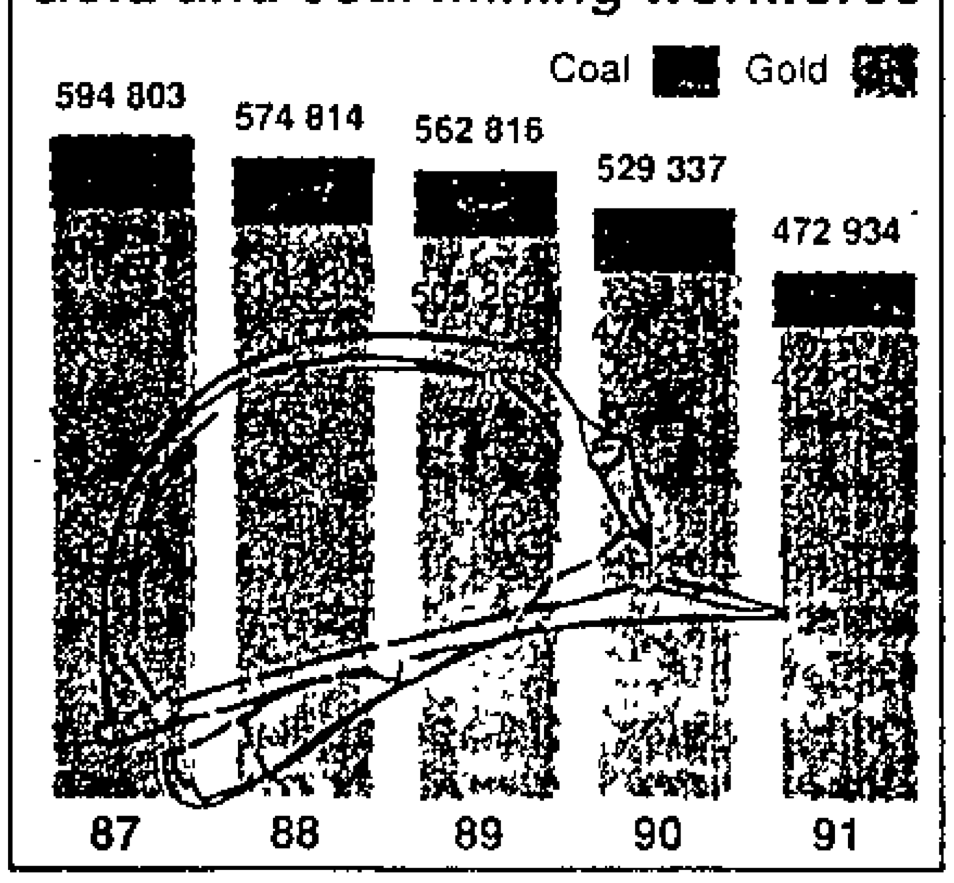
Drastic restructuring on the gold mines, as gold prices have plunged and working costs soared, has been well documented. More than 100 000 jobs have been lost over the past five years in the gold mining industry alone, with an average 424 250 workers mining gold in 1991 compared with 530 574 in 1987. Last year's figure is the lowest since 1977.

Employment at collieries has dropped nearly 25% over the same period, in spite of the steady increases in coal mining capacity, domestic coal consumption and exports by SA's leading coal producers. Coal mines employed 48 684 workers in 1991 compared with 55 652 the year before, and 64 229 in 1987.

Chamber economist Ivor Liebowitz said at the weekend that the coal mines were facing a similar cost squeeze to that which confronted gold mines in the late 1980s.

He said that while coal producers enjoyed healthy profit margins, they were concerned to avoid the fate of the gold mines which had suddenly to restructure operations after years of good prices and above-inflation wage increases.

Gold and coal mining workforce



Graphics RUBY-GAY MARTIN Source CHAMBER OF MINES

Gold mining job cuts have continued this year, with nearly 10 000 workers likely to lose their jobs on the Free State gold fields

Liebowitz said employment levels on the gold mines would level off only when the profitability of the sector was restored through better gold prices.

He said Gold Fields Mineral Services' Gold 1992 report had painted a picture of "measured gloom".

However, there were encouraging signs that coal base metal prices were on the move upwards.

(49)

Billions hang on March poll

ARG 26/2/92

Bush warns SA not to go back on Codesa

The Argus Foreign Service

WASHINGTON. — In its first public reaction to the March 17 referendum, the Bush administration warned today that any retreat from the Codesa negotiations would be "a devastating step backward toward international isolation and domestic discord in South Africa".

The warning came as initiatives in Congress to set up a multi-billion dollar aid package for South Africa were suspended pending the outcome of the referendum. A defeat for President De Klerk undoubtedly would lead to the collapse of the scheme, Congressional advisors said today.

And officials suggested that moves now under way to facilitate loans and financing for South Africa through the International Monetary Fund and the World Bank probably would be "put on hold" until a clear signal had come from South Africa's whites on what the country's future course would be.

Only last week the Bush administration declared in a statement that it was prepared to consider an IMF loan application from South Africa — an indication that funds were not only available, but that Washington was eager to assist in the rehabilitation of South Africa's economy.

In a statement today, the State Department said the US "fully and firmly" supported negotiations through Codesa. "We are pleased at reports that dscussions in the Codesa working groups will continue during the referendum campaign.

"The referendum is an internal matter for South Africa. However, its results will have profound implications. Retreat from negotiations would be a devastating step backward toward international isolation and domestic discord in South Africa."

On Capitol Hill, aides involved in intiatives to set up the multi-billion dollar aid package, the so-called Solarz-Dellums initiative, said informal talks would be suspended until the outcome of the referendum was known. "For all practical purposes US-South African relations have been anaesthetised until we know what the whites decide," one said.

But contingency plans probably would be drawn up for the reintroduction of sanctions and other measures aimed against any pro-apartheid government that might emerge in the wake of the referendum, he added.

SA agriculture 'hit hard by high rates'

B/Day 27/2/92

GERALD REILLY

PRETORIA — Much of SA's agricultural industry had been hit by declining profitability caused by high production costs and high interest rates, the Commodity Control Boards said.

The boards will table their annual reports to the Agricultural Outlook Conference (Agrocon) in Pretoria today.

The cotton industry has been pinpointed by the SA Agricultural Union's report as one sector in particularly serious trouble.

Its survival was in the hands of government, which had to make decisions on protection, the report said.

Without protection the textile industry would be further weakened.

The National Cotton Committee has asked for a one-channel marketing system.

According to the Maize Board report, SA will have to put up with regular maize shortages in years ahead, and crops would have to be supplemented by imports.

The fact SA was no longer an exporter of maize meant the marketing system would have to be adjusted.

Profitability would have to improve drastically and producers would need adequate access to production credit.

Continued weakened profitability had resulted in less land being planted to mielies, the Maize Board said.

Causes included the withdrawal of government subsidies to the industry, high inflation and interest rates, producer prices which failed to take production costs into account, and government's land conversion scheme to planted pastures.

Gross value of deciduous fruit produced last year increased 7% to a record R1 177bn.

Production climbed 0,3%. The gross value of fruit exports increased 9% to R854,1m, with a 3% volume increase.

Declining profitability in the industry was due to high inflation which drove production and export costs up by 14%

The deciduous fruit harvest is expected to beat the record set in 1991.

But heavy competition was expected from southern hemisphere countries, particularly Chile.

Local market prices would rise by less than the inflation rate due to the unfavourable economic climate and decreased consumer spending.

SA's high inflation rate and resultant fast-rising production and export costs had resulted in a weakened competitive position against countries with lower rates.

SA wool production for the 1990/91 season was estimated at 98,9-million kg.

A price decline of 20% was expected for the season.

Export earnings totalled R618,9m, with prices dropping 31,3% from last season to R6,09 a kg.

SA wool production in the 91/92 season was likely to decline to 88-million kg.

The SA Sugar Association said the crop expectation for 1991/92 was 19,8-million tons — almost 10% up on the previous season.

The 1992/93 crop had got off to a great start with early summer rains, and near perfect growing conditions.

The proposed opening of new cane areas and the establishment of a new mill in the Onderberg region of the eastern Transvaal was the most significant expansion project for more than 20 years.

Total area under cane was likely to rise to 420 000 ha, the association said.

'SA must be competitive overseas'

BLOEMFONTEIN — It was critically important for SA to compete economically overseas. If it did not, the country's political situation would be negatively affected, Trade and Industry director-general Stef Naude said yesterday.

He was giving the opening address at the Free State congress of the National Woolgrowers' Association.

He said SA had the ability to recover economically, provided the country became stable, restored the confidence of overseas investors and became a full player in the international economy.

Despite sanctions and other trade restrictions however, the country had had export successes since the middle 1980s, Naude said. B/Day 27/2/92

The association's unanimously re-elected Free State president J A Neethling said the discrepancy that had developed because farmers' producer prices had not kept pace with the inflation rate was one of the main reasons for farmers' poor financial position.

He called on government to make it possible for long-term interest rates to be adjusted in accordance with the income from farmers' capital investment — Sapa

(49)

SA's economy full of cartels — unionist

(49) BD 27/2/92

GERALD REILLY

PRETORIA — The SA economy was dominated by a few very powerful financial giants and riddled with cartels in cement, packaging and other businesses, National Union of Metalworkers (Numsa) national secretary Bernie Fanaroff said yesterday.

Speaking at a Foundation for Research and Development function, he said the free market would not be applied uncritically to "everything in sight".

In SA the laissez faire approach dominated all government and business policy thinking in a way reminiscent of religious dogma.

Fanaroff charged that SA's tax system allowed the development of capital intensive projects where a large part of the risk is borne by the state".

He said the ANC and Cosatu had agreed that growth should come via a redistribution of resources and incomes. They had also agreed that SA would have to grow as a manufacuturing economy able to compete without significant protection.

Investors, he said, had in the past turned to government for subsidies often disguised through the grossly distorted tax system to ensure investors got a rapid, high return which was paid for by the taxpayers.

For political and expedient reasons government had allowed the development of an education crisis of a magnitude experienced nowhere else. It had poured money into bantustans and ethnic parliamentary structures and funded the disastrous regional industralisation policy.

FW made shrewd move, say foreign investors

304 (49)

ARG 27/2/92

The Argus Foreign Service

LONDON. — Business Research International's conference on South Africa has ended in a confident mood, as long as President De Klerk wins the referendum.

Most delegates at the investment conference thought that Mr De Klerk had made a shrewd move and that voters would support him. The only uncertainty was over the degree of support.

"Speakers were upbeat and prospects look interesting," said Mr Lafayette Barnes, a Washington-based black American investment analyst who represented business advisers Capital Strategy Research.

Mr Barnes had stopped off in London for the conference before going on to South Africa to investigate the political situation, economy and market.

Relative optimism at the conference, however, contrasted with the uncertain mood of foreign investors who are avoiding South African securities. Their pessimism is reflected in a financial rand discount which is currently 23 percent.

But Mr John Taylor, specialist on South Africa at London stockbrokers James Capel, said from the speakers platform that "this is the best buying opportunity we have seen for almost a year".

"We believe that the odds are substantially in favour of significant positive political developments within the next six months."

Assuming a positive vote for the referendum, the interim government could well be formed by September 1992, he predicted.

Mr Taylor is advising his clients to buy South African government and para-statal bonds which are presently yielding 21 percent for the international investor.

"We can see the financial rand discount narrowing to a conservative 13 percent within six months, with a potential for a 10 percent currency gain," he said.

Mr Taylor said he could easily see the JSE share index rising to 3 850 from around 3 540 points, and is recommending shares such as Gencor and Barlow Rand, which for the foreign investor are trading on a price earnings ratio of only 8,5.

Mr Taylor foresees a 20 percent return for international investors over six months and believes they will take profits if the market becomes too euphoric.

Mr Taylor was cautious about the South African market and financial rand between August 1991 and February this year as during that period, foreign investors incurred large currency losses.

Many foreign investors were losers because they tended to buy at the top soon after President Bush lifted sanctions, said Mr Taylor. Months before, when the financial rand and securities were cheap, they ignored advice to buy, he recalled.

"I believe that they are making the same mistake again," he said.

While the foreign fund manager was fearful of buying, domestic investors were accumulating securities, he said.

"There is demand for scrip, but little selling," said Mr Taylor.

Mr Robert Guy, director of bankers N M Rothschild & Sons, was more cautious, but not bearish. He was concerned about the rand.

"If Mr De Klerk is defeated, prospects of foreign investment would be nipped in the bud," warned Mr Guy.

"The financial rand would fall. The move towards accommodation with the World Bank and the IMF would come to a grinding halt. Trade would decline and unemployment rise."

But Mr Guy holds the "more optimistic view" that the movement towards a non-racial interim government will proceed swiftly.

The process would help ease the mining industry's dearth of long-term capital, he said.

In the new South Africa, there was likely to be scope for joint ventures with foreign mining companies, said Mr Guy.

"Asset swops and mergers between local and foreign companies can provide a mutually attractive means of diversifying asset portfolios," he said.

The World Bank would open the door for its affiliate, the International Finance Corporation, to provide project finance for mineral developments, said Mr Guy.

Escondida, a huge new copper mine in Chile was financed by BHP in Australia, RTZ and Mitsubishi, but Kutubu, a major oil development in Papua New Guinea, was aided by the IFC.

International agencies accepted the country risk and banks took on the lending risk on the project. There would also be opportunities in Africa for South African mining companies, said Mr Guy.

Workers' injuries pose problems

PERMANENT disability from workplace accidents and occupational diseases is a major problem for workers under the current Workmen's Compensation Act (WCA), says occupational health researcher Shelley Arkles.

She says every year thousands of claims are lodged with the Workmen's Compensation Commissioner, but the financial redress for workers with a permanent disability is extremely low.

If a worker is totally disabled (for example, paraplegia) a pension equal to 75% of his former monthly income is paid. If partial disability is greater than 30%, the worker is paid a pension that is proportionally reduced. If the injury is rated at less than or equal to 30%, a lump sum is paid.

Arkles says this approach — known as the "meat chart" approach — focuses on the physical impairment of the worker only. It takes no account of the worker's loss of earnings or loss of future earnings capacity.

She believes the WCA — which makes provision for financial compensation for workers injured in accidents at work or who suffer from scheduled occupational diseases — fails to meet the needs of disabled workers because:

□ The wages on which compensation is calculated are low for unskilled and semi-skilled workers;

Erodes

□ High inflation erodes the buying power of compensation pensions which, although periodically increased, are not linked to inflation or increased annually;

□ The legislation does not distinguish between impairment and disability in calculating compensation and;

□ Employment opportunities for disabled workers without appropiate skills are very limited.

She says a white collar worker who loses a leg and is assessed at 70% disabled (according to the meat chart) could still continue working. But a blue collar worker who loses four fingers and is assessed at 40% receives a much smaller pension and might never work again.

"Manual workers who rely on their physical capabilities for a living find their employment opportunities significantly reduced with any physical impairment.

"The WCA offers no protection against the dismissal of disabled workers who are often unemployable ..."

The level of benefits workers receive is extremely low because employers only pay an average of 1% of their wage bill on compensation, according to Arkles.

She says a restructured health system needs to consider permanent disability and workers' compensation in relation to:

□ Social security generally;

□ Health and safety prevention;

□ Rehabilitation and;

□ Appropriate structures for effective employer and employee negotiations on the issue.

10% of staff weak — bank

TIM MARSLAND

NEDCOR Bank believes 10% of its staff members are underperforming, and the banking group plans to whittle this figure down to zero by September 30.

Confidential documents show the company believes 20% of employees are "highly exceptional top performers" and that Nedcor "will have only superior staff members in our employ by September 20 1992".

According to the documents, Nedcor has embarked on a programme to identify workers who, it believes, are not up to standard. It will then attempt to retrain them.

Executive GM, human resources Nedcor Bank, Philip Bacchioni said these workers — about 500 — would not necessarily be retrenched. They would first be given the opportunity to improve themselves through a personal improvement programme (PIP) and could be offered a job at a lower grade.

As a last resort, they would be retrenched. However, 95% of staff put on PIP came up to standard. Overall, the Nedcor group had cut its staff complement by 400 since October 1, mostly through attrition. He said 35 workers were laid off. The cost of the programme would be minimal.

Staff turnover in the Nedcor group was about 10% of the total 17 000, so numbers could be cut by not replacing staff. "We will make sure we look after performing employees," Bacchioni said.

Nehawu is a major player in the sector

WORKERS in the health sector are organising to fight "health for profit and the unilateral restructuring of services," says the assistant general secretary of the 50 000-strong National Education, Health and Allied Workers' Union (Nehawu), Neal Thobejani.

Thobejani says the union is involved in a Progressive Health Unity Forum — that includes organisations like the ANC and the National Medical and Dental Association — where policy for a future health system in SA is being discussed.

He says the bottom-line is that the state must take responsibility for the health of people — especially the young, old and unemployed.

This month tariffs at public hospitals were increased by 12% and the union is "consulting with the community" about action against the increase. Nehawu sees the increase as part of the "commercialisation" of health services which is putting health out of reach of most people.

Dispute

Nehawu and three other unions are in dispute with the Commissioner of Administration over wages and working conditions.

Thonejani says industrial action — including sit-ins, demonstrations and strikes — is certain in the industry if the commissioner does not improve on the wages offer.

On private hospitals, Thobejani says the conditions are slightly better. "But our main struggle is for centralised bargaining in the private hospitals."

The Nurses Forum has called on Codesa to decide the status of the SA Nurses Association (Sana), which, with about 150 000 members, has a majority of black members. Membership is compulsory.

Thobejane says many black nurses are also members of Nehawu and the referendum is a response to pressure on Sana to be a trade union. If Sana accepts union status the prospects for unity will be better.

Nehawu and Sana are at loggerheads on issues like the right of nurses to strike, whether health is an essential service or not and whether health workers should be covered by the Labour Relations Act.

Nehawu has been organising in hospitals for the past seven years, but it was only after the nationwide hospital strikes in 1990 that it was taken seriously by the health authorities and other unions in the sector.

Merging

Now Nehawu is on the brink of merging with four other unions in the sector — the Cape-based Health Workers Union, Northern Transvaal Public Sector Union, Venda Public Sector Union and the Kwa Ndebele Public Sector Union. This will increase its membership by a further 12 000.

In addition, Nehawu is discussing unity with Nactu's 30 000-strong Public Sector Union (PSU) under the auspices of the joint Cosatu-Nactu Workers Summit this weekend.

Outside the staff associations, Nehawu and the PSU are the main players in the health sector.

If they unite, the new union will be the major force among health workers.

Mr Ken Andrew ... sobering figures.

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DP critical of R10-billion debt

IT appears that the government has run up debts of R10 billion more than it budgeted for 1991/92, says DP spokesman on finance, Mr Ken Andrew.

MU 27/3/92

Speaking in the Additional Appropriation debate yesterday, he noted that Minister of State Expenditure Mr Amie Venter had said an additional R785,1 million was needed to cover interest on State debt.

This amount seemed very large, and would indicate that the debt was about R10 billion more than budgeted for, Mr Andrew said.

Minister of Finance Mr Barend du Plessis, said it was a "rather large amount" but it should be seen in the context of total State overspending, which was made up of huge chunks of expenditure resulting from factors beyond the control of the treasury and the Department of Finance.

When compiling the Budget it was very difficult to guess the interest rate pattern for the coming year, Mr Du Plessis said.

The fact that interest rates had remained stubbornly high had impacted heavily on the correctness of the estimates.

In addition the structural issue of the meagre increase in State revenue also had to be addressed. This had caused a great need for borrowing early in the financial year, Mr Du Plessis said. — Sapa.

SA labour laws still need reform — ILO

GENEVA — The UN International Labour Organisation said at the weekend SA labour laws still needed wide-ranging reform, but cited government's awareness of that fact as a hopeful sign.

A report by a special ILO commission appointed to investigate labour relations in SA also said "anti-union violence, which has prevailed in SA, is totally unacceptable". It demanded that government bring perpetrators to trial.

The rights to form a trade union and to collective bargaining were "vital attributes of a free society", the report by three law experts said.

These were among the basic freedoms that were "diminished or lost altogether" under the apartheid racial segregation system. The report urged Pretoria to push "vigorously" for reforms of the country's Labour Relations Act, which should include ensuring the independence of trade unions, the right to strike and collective bargaining rules.

It noted reforms had begun under President F W de Klerk, but said further changes should ensure that "basic civil liberties" were provided by law and guaranteed in practice in a democratic society.

SA is not a member of the ILO, whose conventions set down international labour standards. The report urged Pretoria to join key ILO conventions on freedom of association and collective bargaining.

The panel held hearings with union, employer and government representatives in SA last February.

It was formed after a 1988 complaint by Cosatu, the country's biggest labour group, against amendments to the Labour Relations Act. — Sapa-AP.

Affirmative action supported

SUSAN RUSSELL

MOST urban blacks support affirmative action in the employment field, according to a survey published by Market Research Africa this week.

The survey found two out of every three urban blacks were in favour of blacks being offered jobs rather than whites, even if black applicants were less qualified.

The findings are based on interviews with 2 000 urban black over the age of 16, representing over 7-million people.

The largest groups in favour of affirmative action employment policies were in sales (52%) and office workers (49%).

Next came students and skilled blue collar workers, 38% of whom felt blacks should be given a chance even if they had fewer qualifications, while 34% of unskilled blue collar workers were in favour of the concept.

Market Research Africa found that fewer people in professional and managerial positions believed employers should discriminate in favour of blacks when taking on or promoting staff.

People whose home language was Sotho (51%) were also more likely to endorse the concept than those whose home language was Zulu (37%) or Xhosa (31%).

Market Research Africa chairman and MD Clive Corder said it was simply a matter of time before SA followed the US example of instituting an affirmative action programme to level the playing field as far as employment was concerned.

"However, it should be recognised that while this may please one sector of the community, it will upset another.

"Reverse discrimination could well have negative social and economic repercussions," said Corder.

Meanwhile, the results of a similar survey published by Market Research Africa last week revealed that two out of five urban blacks supported a programme of redistribution of wealth by law.

That survey showed that 38% of urban blacks in the Cape favoured redistribution while 37% in Transvaal, 31% in the Free State and 25% of those living in Natal supported the idea.

Gift for media strikers' fund

STAR. 28/5/92.

By Montshiwa Moroke

The National Association of Co-operative Societies of SA yesterday donated R500 to the Media Workers Association of SA's strike fund in support of Mwasa's wage dispute with the SABC.

The country's two largest trade union federations, Cosatu and Nactu, as well as a wide range of political, cultural, church and sports organisations, have thrown their weight behind the nationwide strike at SABC facilities.

The strike, in its 10th day, follows a demand by Mwasa members for a 30 percent increase and a minimum monthly wage of R1 500 a month.

On the other hand, the SABC has offered an 11 percent increase and a minimum monthly wage of R1 000.

Nactu, Cosatu clash over campaign

WILSON ZWANE

UNION federation Nactu has told Cosatu in firm terms that it will not campaign for demands relating to Codesa negotiations, government corruption and covert security operations.

Nactu spokesman Mudini Maivha said in a statement this week his federation and Cosatu agreed to launch a mass action campaign to demand an end to government's unilateral restructuring of the economy; the extension of trade union rights to farm, domestic and public workers; and for a constituent assembly.

Cosatu has announced a programme of unprecedented mass action if demands relating to political negotiations, government corruption and covert security operations were not met by the end of June. It has the ANC's and SACP's blessing.

Maivha said Nactu and its affiliates — they claim a combined membership of 300 000 — would not take part in campaigns which were directly or indirectly related to Codesa negotiations. "We do not support Codesa and the demand for the establishment of an interim government."

He said Nactu would campaign only for the establishment of a constituent assembly and "issues which directly affect workers". If Cosatu wished to campaign for other issues, it could do so alone.

Sacob spokesman Gerrie Bezuidenhout said yesterday a five-day strike would cost workers about R600m in wages.

from Pg 4

"We have been constantly on the road presenting the concept to major pension funds," Hamilton said. "If this level of interest continues, we would not be at all surprised if the fund reached R100m within the first year."

Labour Research Services (LRS) — a Cape Town-based labour advice unit — would play a major role in investment selection. Chief LRS spokesman Gordon Young said three provident funds and two pension funds had committed money to the CGF. Two of them are connected to the NUM. A large provident fund associated with the Paper, Print, Wood and Allied Workers Union had committed a large sum from both cash flow and assets.

NUM assistant general secretary Marcel Golding said: "Companies have been taken by surprise by the CGF. They had not thought of applying social criteria before."

Syfrets expects the fund to remain fairly liquid in the initial stages until a well-rounded portfolio of shares is put together.

Syfrets will make the initial share selections based on standard commercial and investment practices.

A joint board, chaired by Prof Anthony Asher of the Wits Actuarial Science Department, will then approve these investments after receiving input from the LRS and the unions.

INTEREST RATES

FM. 28/2/92

Springing the liquidity trap

(49)

After a fall from 17% last May, the rate on three-month bankers' acceptances slid below 16% on February 18, to remain around 15,9% at the start of this week. Rates on longer-term paper also have continued to soften — six-, nine- and 12-month certificates of deposit that were quoted at 17% in December were available at 16,25%, 16,25% and 16,15% by Tuesday this week.

An important factor in this softening of rates is that the Budget deficit for the fiscal year so far is running above the pro-rata amount estimated in March, so bullish spirits have been roused by the liquidity flowing into the market. But the firm hand of Reserve Bank Governor Chris Stals is seen regularly as he attempts to siphon it out — to preserve a substantial shortage.

These lopsided conditions are likely to prevail because monetary and fiscal policy are not synchronised.

The Bank's attempts to neutralise the effect of the deficit by removing money in open-market operations have resulted in high levels of over-funding — as much as R3bn, says Frankel Max Pollak Vinderine economist Mike Brown. This boost to government debt increases the cost of servicing it — which pushes the Budget deficit up further. And so it goes.

The best way to break out of this liquidity spiral, Brown says, would be to reduce the level of State debt arising from losses incurred by forward cover provided, via the Bank, to domestic borrowers of off-shore funds. Last March, this amounted to about R10bn and, given the slight decline of the rand against other currencies in the past year, it is probably a little higher now. If the R3bn that goes to create a surplus after borrowing were to be directed towards redeeming part of this debt, the cash would be effectively destroyed.

This would be Stals's choice because it would have a deflationary effect. At the recent Frankel Max Pollak Vinderine investment conference, he concluded his address by saying: " . . the fight against inflation, *at least as far as monetary policy is concerned*, cannot be abandoned."

Possibly unintentionally, he has voiced his doubts about fiscal discipline. He has learnt a lesson, perhaps, from his decision last year to reduce the official Bank rate, from 18% to 17% just ahead of the Budget — which proved more stimulatory than was appropriate at the time. A range of supplementary proposals, probably decided on at the last moment, boosted expenditure allocated for the 1991-1992 fiscal year from R81,6bn to R82,8bn (see *Leaders*).

For this reason, he is likely to delay a cut in Bank rate until after the Budget. The days

of Primrose Prime, when government forced the central bank to reduce its rate ahead of a by-election, are over. Stals is his own man and seems, anyway, to have the backing of Cabinet in application of monetary policy.

In recent weeks, he has sounded some important warnings. In an interview with the *FM* he stressed the role that monetary policy plays in structural readjustment (*Economy & Finance* February 14) by correctly pricing the cost of capital. And he referred to the need to attract capital — by keeping interest rates realistic — to finance the expected deficit on the current account of the balance of payments when the economy recovers.

His latest speech raised both themes again. And, ominously for the bulls, he commented: "In view of the high priority attached to a reduction in the rate of inflation, the valid question is asked, whether monetary policy should not now be pushed into a third phase — that is, a phase of deliberate deflation."

He stopped short of this move, however, saying: "(Such a policy) may become counter-productive. We should rather use all available instruments of monetary policy to protect and retain the present situation of financial stability. This route . . . leaves little scope for any premature relaxation in the disciplines which are, with unavoidable time lags, showing some beneficial results."

This is an answer to those who continue to urge him to stimulate demand by allowing the pattern of interest rates to fall. ■

FM 28/2/92

(49)

CONTINGENCY

Figures published in the Additional Appropriations Bill, tabled in parliament this week, show the contingency reserve was exceeded by R1,5bn.

In the Budget announced last March, total expenditure was estimated at R84,984bn. Included in that figure was:

☐ A contingency reserve of R1,2bn; and

☐ Capital expenditure of R950m to be financed from the sale of assets.

In April, the State President made a further R1bn available from the sale of strategic oil supplies to reduce social backlogs, bringing total spending to R85,984bn.

The need for further additional appropriations came despite the fact that only R809m of the R1,95bn — comprising the R1bn allocated in April and the R950m — was spent. Thus, after an estimated R640m in departmental savings was brought into account, the revised total estimate of expenditure amounts to R86,388bn.

The main reasons were:

☐ R785,1m in the cost of State debt;

☐ R309,7m to make good shortfalls on the Civil Pensions Stabilisation Account; and

☐ R330m in increased expenditure of departments and administrations arising from the implementation of VAT.

Cash inflow tied to progress — Chalker

B/Day 28/2/92

CAPE TOWN — Development funds would not flow into SA until there was progress beyond Codesa and all parties were committed to sound economic policies, Britain's Overseas Development Minister Lynda Chalker has stated.

"There is no going back now, but we want to see the CP, the PAC and Azapo joining in and I don't think donors in general will say the whole thing's going forward until all parties are involved."

SA's government of the future had to tackle the bitter social and economic legacy of apartheid, she said in an interview in the latest issue of Leadership, published yesterday.

Political Staff

A new constitution could not do that and an early return to economic growth was vital.

"That is why I have long advocated the early abolition of all economic sanctions, and we do believe that, as well as getting the investment, much more assistance will be needed in SA.

"But I think donors do want to see progress and, unfortunately, the failure of the CP and the other parties to join in, and even the less than wholehearted consent, perhaps, of some in Inkatha, is wearying for people who want to help make this change."

Chalker said it was difficult for her to say what sums of money SA could expect if these problems of participation were overcome.

Until there was a commitment by all parties to sound economic policies "you won't get the international financial institutions, who will be major donors, to come up with large sums at all.

"What I am keen to do is make sure that throughout the world SA's needs are understood, and to get the commitment of all political parties in SA to tackle those needs by having a nonracial government system.

"If we can show that to donors, they will respond," Chalker said.

Laste	1992-01-31 R	1991-12-31 R	Verandering R
Binnelandse bates:			
Gediskonteerde wissels	1 820 156 205,51	2 773 916 205,51	(953 760 000,00)
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 185 829 770,32	1 156 663 358,55	29 166 411,77
Sekuriteite:			
Regering	507 309 153,73	430 983 309,23	76 325 844,50
Ander	1 134 985 045,00	1 134 985 045,00	—
Ander bates	14 493 849 569,48	14 671 399 431,58	(177 549 862,10)
	R28 506 211 388,61	**28 320 346 317,28**	**185 865 071,33**
Rand per fyn ons	898,15	879,36	18,79
Goudbesit in fyn onse	6 469 112	6 470 355	(1 243)

Pretoria, 7 Februarie 1992.

C. J. SWANEPOEL,
Hoofbestuurder.

NOTICE 166 OF 1992

SOUTH AFRICAN RESERVE BANK (49)

Statement of assets and liabilities on the 31st day of January 1992

Liabilities	1992-01-31 R	1992-12-31 R	Change R
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	77 831 863,11	77 831 863,11	—
Notes in circulation	10 589 439 277,00	11 679 317 184,00	(1 089 877 907,00)
Deposits:			
Government	9 668 460 272,19	8 300 380 582,66	1 368 079 689,53
Provincial administrations	360 795 904,54	264 964 267,02	95 831 637,52
Deposit-taking institutions	491 281 070,99	761 717 612,98	(270 436 541,99)
Other	86 977 879,63	90 919 913,35	(3 942 033,72)
Other liabilities	7 229 425 121,15	7 143 214 894,16	86 210 226,99
	R28 506 211 388,61	**28 320 346 317,28**	**185 865 071,33**
Assets			
Gold	5 810 233 058,70	5 689 771 591,81	120 461 466,89
Foreign assets	3 553 848 585,87	2 462 627 375,60	1 091 221 210,27
Total gold and foreign assets	**9 364 081 644,57**	**8 152 398 967,41**	**1 211 682 677,16**
Domestic assets:			
Discounted bills	1 820 156 205,51	2 773 916 205,51	(953 760 000,00)
Loans and advances:			
Government	—	—	—
Other	1 185 829 770,32	1 156 663 358,55	29 166 411,77
Securities:			
Government	507 309 153,73	430 983 309,23	76 325 844,50
Other	1 134 985 045,00	1 134 985 045,00	—
Other assets	14 493 849 569,48	14 671 399 431,58	(177 549 862,10)
	R28 506 211 388,61	**28 320 346 317,28**	**185 865 071,33**
Rand per fine ounce	898,15	879,36	18,79
Gold holdings in fine ounces	6 469 112	6 470 355	(1 243)

Pretoria, 28 February 1992.

C. J. SWANEPOEL,
General Manager.

(28 Februarie 1992)/(28 February 1992)

Growth 'threatened by drought'

B/Day 28/2/92 (49)

GERALD REILLY

PRETORIA — The expected positive growth rate of SA's economy could be "obliterated" in the second half of the year because of the drought in summer crop areas, Agriculture Minister Kraai van Niekerk said yesterday.

He warned the Agricultural Outlook Conference (Agrocon) the commodity control boards would have to be privatised in a market-driven economy.

"We cannot privatise the functions of government but we can and must deregulate and privatise the control boards."

This move was aimed at reducing government involvement in the economy and boosting business opportunities for the private sector.

Van Niekerk said that in the development of the present marketing systems some industries had been over-protected, preventing the optimal use of market and business opportunities.

Van Niekerk said much more than the previously predicted 3-million tons of maize would have to be imported during the 1992/93 season.

If drought conditions persisted, the harvest prospects would weaken to an extent where 4,5-million tons would have to be imported and it would become necessary to mix more than less preferred 50% yellow maize with white maize for local consumption. This would be introduced on May 1.

Van Niekerk said agriculture's net income had declined in the past two years and this year's summer grain disaster would mean a further weakening of total income. The critical cash flow problems of farmers reflected the distressed position of the industry.

Investment in production equipment had decreased sharply in the past two years and this would reflect on the industry's production potential.

Van Niekerk said the continuing increase in consumer spending — which now amounted to R47bn a year — was mainly due to rising food prices and an expanding population.

Bankorp official warns of vast unemployment

B/Day 28/2/92

GERALD REILLY

PRETORIA — A sharp increase in unemployment would be the most serious of a whole series of adverse consequences flowing from the disastrous drought in the summer grain areas, Bankorp executive chairman Piet Liebenberg said yesterday

Speaking at the Agricultural Outlook Conference (Agricon) he said it had been expected total jobs in the economy would increase by 50 000 this year. "We must now rather expect a further decrease of between 50 000 and 100 000 jobs."

This meant that with 300 000 new workers entering the labour market the number of jobless could rise by about 400 000.

Rural areas would be worst affected

There was a danger of a large scale migration of homeless families to urban areas, exacerbating the squatter problem

Liebenberg said drought conditions would have a dramatic impact on virtually all aspects of the economy this year.

Apart from the direct impact of a massive drop in production, the indirect effect on other sectors would be more serious than any other drought since the end of the Second World War.

Although the agricultural sector made up only 6% of the economy, negative effects on it had a ripple effect on many other sectors, including manufacturing, banking and transport.

Agriculture's direct and indirect contribution to the economy was about 10% which made it comparable to gold mining

Many farmers had come to the end of the road and their spending in other sectors would drastically decline.

The drought would have an intense detrimental effect on economic sub-systems of the northern Free State and the western Transvaal.

Liebenberg said low PPI growth was an indication of financial balance and the softening of underlying inflation pressure

The CPI increase could fall to 12% by the end of the year and about 10% by the middle of next year

A growth rate expectation at the end of last year of between 1,5% and 2% would have to be scaled down to 0% to 0,5%

There was also a risk of a third successive year of a shrinking GDP for the first time since the Second World War ended.

On these grounds, banks' lending rates ought to decline by about three percentage points in the coming 15 months

The downward phase in the business cycle, which started in 1988, had lasted through 1990 and 1991 and had deepened in the past few months, Liebenberg said

The domestic downswing could not be associated with the political changes of the past two years

The recession was more likely the result of excessive domestic credit provision and sharp increases in imports in 1988 and 1989 in a framework of financial sanctions and large scale capital outflow, he added

Economy 'riddled with cartels'

49

Own Correspondent

PRETORIA. — The SA economy was dominated by a few very powerful financial giants and riddled with cartels in cement, packaging and other businesses, National Union of Metalworkers (Numsa) national secretary Bernie Fanaroff said yesterday.

Speaking at a Foundation for Research and Development function, he said free market would not be applied uncritically to "everything in sight".

In SA the laissez faire approach dominated all government and business policy thinking in a way reminiscent of religious dogma.

Fanaroff charged that SA's tax system allowed the development of capital intensive projects where a large part of the risk is borne by the state".

He said the ANC and Cosatu had agreed that growth should come via a redistribution of resources and incomes. They had also agreed that SA would have to grow as a manufacuturing economy able to compete without significant protection.

Investors, he said, had in the past turned to the government for subsidies often disguised through the grossly distorted tax system to ensure investors got a high return.

CT 28/2/92

Mixed views from the churches

W/mail 28/2 – 5/3/92 (48)

By PAT SIDLEY

THE Dutch Reformed Church, often dubbed "the National Party at prayer", will not be advising its congregants to vote for President FW de Klerk. It will not tell them which way to vote at all.

It will, however, urge them to participate in the election, according to DRC assessor Professor Johan Heyns, whose church has a substantial number of Conservative Party members among its ranks, including CP leader Andries Treurnicht.

"I don't think it is the task of the church to state explicitly how people should vote, but it is our task to try to urge them to participate in the voting," Heyns said.

The president of the Southern African Catholic Bishops Conference (SACBC), Bishop Wilfred Napier of Kokstad, and his bishops have urged parishioners to participate and vote yes.

A yes vote was a clear apology for apartheid and would indicate a desire for peaceful, if difficult negotiations, a statement from the SACBC said. Napier said a church needed to give moral and ethical direction in an issue like this.

The South African Council of Churches (SACC) has, however, decided to stay quiet on the issue — for the time being at least.

In a statement it expressed concern that the calling of the referendum would add to insecurity and instability of society and that it could lead to a delay in the negotiating process "at best — and a full racial conflict, even civil war, at worst".

SACC general secretary Reverend Frank Chikane stressed that while De Klerk had a right to consult his constituency, this should not be construed as meaning that he approved of a racial referendum.

Chikane and the Anglican Bishop of Johannesburg, Duncan Buchanan, pointed out that until a new constitution was in place, all those statutes removed from the book could simply be put back.

However, he and many of his priests in white parishes will be urging voters to vote yes. "It's a horror to have a white referendum which looks and feels like it is a white veto ... but we have to vote yes.

"If somebody steers a boat on to the rocks and it starts sinking, you do not ask too many question at that point. You refloat the boat and then sink the captain," he said.

South Africa's Chief Rabbi Cyril Harris said that the South African Jewish Board of Deputies would call on all South Africans with a vote — not only the Jewish community — to vote yes in the referendum, and he would be urging all the Orthodox rabbis to deliver this message in synagogues during the runup to the poll.

"More important than South Africa winning the World Cricket Cup is that we win the approval of the world for a democratic South Africa," he said.

Waiting for the swan song

(49) FM 28/2/92

Mild redistribution is more likely than serious cuts

Coming the day after the white referendum on March 17, the 1992/1993 Budget is bound to be an anticlimax. Deciding not to postpone the Budget, as on previous occasions when elections or referendums were held in March, poses practical problems. But it has strategic advantages.

It will allow government to present an electorally unpopular programme — and the reaction will be muted, lost in the announcement of the referendum outcome.

But the referendum will most likely mean that decisions which would have been made over the next three weeks will now have to be made this week — or this weekend. For Finance Minister Barend du Plessis, who is also leader of the NP in the Transvaal, will now be sucked quickly into the maelstrom of political campaigning.

Much of the groundwork involved in presenting a Budget has already been done. A good deal of the supporting document, the Budget Review, will have been written. Departments have negotiated preliminary figures with the Department of State Expenditure under Minister Amie Venter. He, in turn, will probably have concluded his negotiations with the Department of Finance, under Du Plessis, who is responsible for the Budget.

Du Plessis . . . *trying to make ends meet*

This will be the first year in which Venter has played a role in Budget planning, so there are some changes to the usual procedure. Departments have been asked to submit management plans which will serve as guidelines for the coming year. Moreover, as President F W de Klerk told parliament, they must manage on reduced allocations.

For logistical reasons, expenditure is dealt with first — when the Budget is compiled — because of the size of the document containing figures on departmental votes. The probability is that, because of the time needed to print and proof it, this will already be at the printer. The estimate of revenue is contained in a smaller document and dealt with later.

Last-minute decisions are incorporated in the annexures accompanying the Budget Review and these are printed only days before the event. They incorporate tax proposals and supplementary appropriations. They are often the most critical measures.

In the current fiscal year, for instance, the first printed estimate of revenue, published in Annexure E to the Budget Review, amounted to R76,7bn — but this amount was reduced by the proposals to R74,9bn. The largest projected loss (R1bn at that stage) flowed from the abolition of GST and lower revenues expected from VAT.

On the expenditure side, the first printed estimate of R81,6bn was pushed up to nearly R82,8bn by supplementary appropriations and to nearly R85bn by "capital expenditure financed from the sale of assets" and a contingency reserve of R1,2bn.

This year's tax proposals and supplementary appropriations, which will appear in a similar annexure, will have to be finalised far earlier than usual.

The question must be asked: will the quality of planning be damaged by the haste? A cynical answer is that government's record on achieving its target deficit is so poor that the figures announced in the Budget each year don't amount to much anyway. Government regularly exceeds its allocated amount (see graph), though it is often rescued by bigger-than-expected revenue collections which have allowed it, on several occasions, to produce a deficit before borrowing lower than projected.

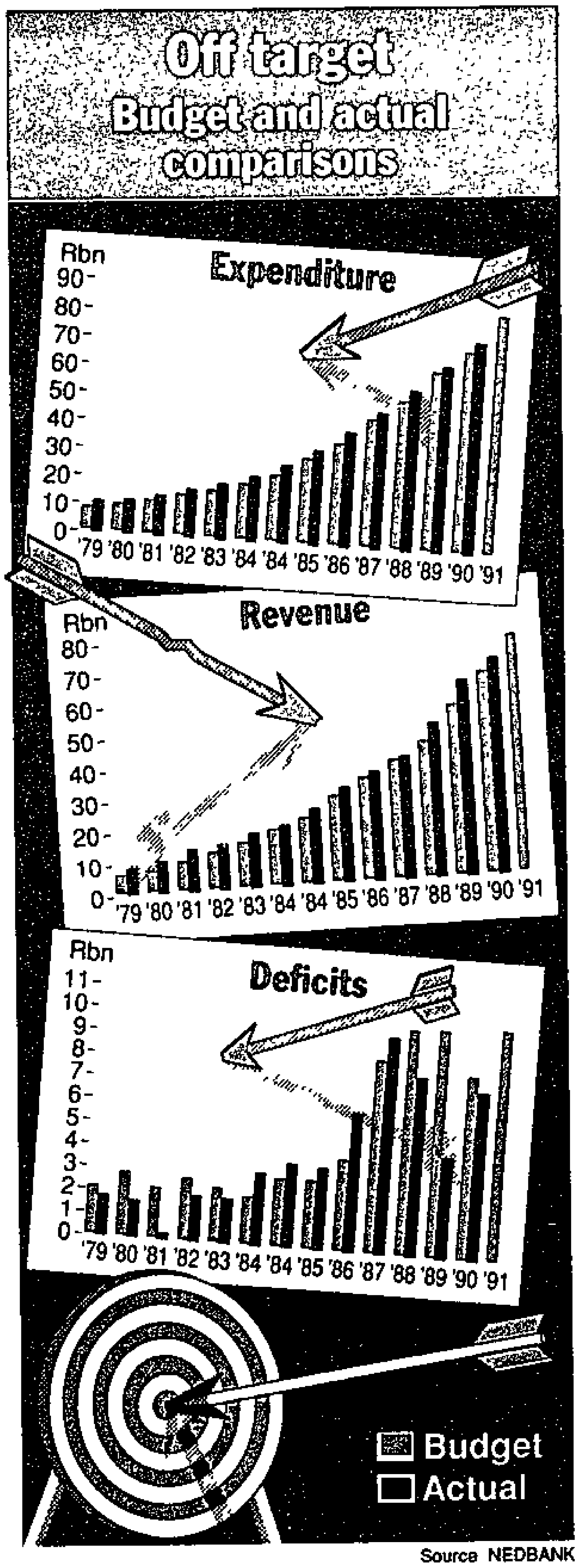
This fiscal year, and probably next, there will be no such relief because the recession has cut into the tax intake. So there is more chance of the stringent financial planning promised by De Klerk in his opening address to parliament. "Relatively drastic structural changes will have to be made," he said, "especially (on) current expenditure."

But government faces a huge credibility gap nurtured over a number of years.

In a document presented to government in February 1990, the SA Chamber of Business (Sacob) and Afrikaanse Handelsinstituut (AHI) said the essential problem was that "a public will exists but not yet a public way to hold down spending." The central concern is that the ratio rises despite repeated commitments to keep it at lower levels.

There is little prospect that the year ahead will see improvement. Not only are we dealing, as we have for many years, with the tendency of bureaucratic programmes to perpetuate and replicate themselves. Now, as government constructs what is almost certainly the last white Budget, it is subject to considerable pressure to make up backlogs in such areas as housing, social welfare and education. The 1991/1992 supplementary appropriations went almost entirely to these areas, while an amount of R75m went to the Small Business Development Corp, which promotes largely black businesses.

Whether government can make sufficient



Source NEDBANK

cuts in other expenditures to fund such programmes in future, while avoiding fiscal profligacy, remains to be seen.

"A large element of expenditure," says Nedbank chief economist Edward Osborn, "is civil service salaries and these have still to be decided." So this could be the swing factor in balancing the Budget and certainly an additional reason for not holding a referendum after it is presented.

Another huge outflow from the State Exchequer account goes towards servicing government debt. The size of this has built up as Reserve Bank open market operations have drained liquidity from the market. But even in the 1990/1991 fiscal year, before the operations were conducted on their present scale, this item was considerable.

The report of the Auditor-General for that year records that the cost of loans raised amounted to R14,5bn. Of this, R11,3bn was in interest while nearly R3bn went to the discount on RSA stocks and R284m to management costs. In the 10 months of the fiscal year to the end of January, statutory costs amounted to R13,7bn, of which R4bn was discount on RSA stocks.

With revenue running well below the amount budgeted in the current fiscal year, Du Plessis has to look for additional sources of income for the coming year.

The most fruitful would be an increase in the VAT rate from 10%. Osborn calculates that, with VAT collections so far averaging R1,5bn a month, "an additional one-percentage-point increase would net a minimum of R1,8bn more over a year." Other available sources of revenue are small beer, he adds.

The pickings from a higher VAT are rich, and, unlike an increase in income tax, the flow to the Exchequer is rapid. Economically, VAT is a neutral tax that does not inhibit wealth creation. But an increase in the VAT rate will almost certainly not be included in the Budget package. It is politically too sensitive: firstly because indirect taxes take proportionately more from the incomes of the poor than they do from the more affluent; and, secondly, by mishandling the introduction of the tax, government made it a rallying point for extra-parliamentary opposition while alienating traditional supporters.

"A soft target," says Ernst & Young tax partner David Clegg, "is the fuel levy." He suggests several reasons why an increase in the levy is likely:

- ☐ The price is relatively low compared with the cost of fuel in other countries — with the exception of the US;
- ☐ It is a user charge and an indirect tax; and
- ☐ With the oil price declining, the levy could be increased without necessarily increasing the pump price of fuel.

Nominal increases in individual tax rates are unlikely, he says. "There was a time in the early Eighties, after a series of tax reductions, that South Africans looked undertaxed compared with people in other countries. But, since then, most countries have lowered their nominal tax rates. At the same time, inflation has increased South Africans' real tax rate."

But he suggests the present top marginal rate on individuals, of 43%, will remain, despite the undertaking made last year to reduce it to 40% over a period. "Though the ceiling at which taxpayers enter the tax bracket may be raised from R80 000 to R100 000, the net effect of these two decisions would be more revenue because of the powerful effect of fiscal drag as inflation pushes people into higher tax brackets."

Corporate tax, he predicts, will come down to 47%, as promised, and the subsequent loss of income may be partially offset by the reduction of sectoral incentives.

What will work in favour of the Department of Inland Revenue is the elimination, over a period of years, of a number of tax shelters. "The effect of prior changes will now be coming through," says Clegg.

Osborn suggests: "A minimum company tax of, say, 30% may be introduced because

continued

of the low average company tax paid in practice." On the other hand, he says accelerated depreciation allowances may be reintroduced to encourage investment.

The extension of user charges has been mooted. Their potential must still be explored but several problems are apparent, says Rand Afrikaans University's Jack Heyns. "They are more appropriate at local government level because of the nature of the services provided. At central government level, opportunities are limited because services are provided collectively — foreign affairs, defence and so on."

Some income could be derived by reducing or scrapping subsidies on transport. But Heyns believes the only substantial source of funding through user charges would be on education. "We don't know whether this is technically possible or politically feasible," he says. But a start has been made. Says Osborn: "The movement to Model C is in itself a relief on the white education vote by pushing a direct user charge on to the parent." At all events, user charges are no quick-fix in that they can't be introduced suddenly.

Suggestions, from extra-parliamentary sources, for raising revenue include various forms of wealth tax. But these are unlikely to feature in this Budget.

In the longer term, revenue will be boosted by an economic recovery. The prospects are uncertain but not unfavourable. And as the economy grows, the absolute level of State spending can grow without increasing the proportion of resources it absorbs. Benefits are likely to be limited in the coming fiscal year.

Given the pressure on spending and the scarcity of revenue, the remaining option is a larger deficit. Clegg is sure government will take this route in the belief that an inflow of foreign funds will relieve any resulting pressure on domestic markets.

Apart from the immediate problems of balancing the Budget in any given fiscal year, there is the further problem of government's increasing share of the economy. Says Sacob: "If a government expenditure/GDP ratio approaching 20% was officially regarded as excessive and economically dangerous less than a decade ago, surely it has become a matter of urgency to reverse the trend now that it has reached a level of almost 30%."

If the country is to avert sinking under the strain, government will have to embark on the rigid programme of financial planning which De Klerk announced. Osborn says: "The hasty, unconventional appropriation of socio-economic backlog expenditures, first of R2bn in 1990 by the State President from surplus borrowings, and then R1bn in 1991 against strategic stock sales, smacks of political expediency and a lack of fiscal planning."

Though various levels of management must implement corrective measures, the Cabinet is responsible for ensuring this happens. And, though Du Plessis is responsible for balancing the Budget, decisions are made collectively by the Cabinet. So the buck stops with De Klerk. ■

Future being ignored, business survey finds

Business Staff

(49) Arg 29/2/92

CAPE companies are bumbling along with no strategic plan in the face of South Africa's volatile political and economic environment, according to a top-level survey.

Nearly half the respondents in the Western Cape Business Survey undertaken by Arthur Andersen, The Graduate School of Business and Wesgro, said they have not considered the future direction of their businesses.

Mr Martin Kaplan, who heads Arthur Andersen's Operational Consulting division, says it is alarming that companies have no long term direction.

"It is like driving a car while looking in the rear view mirror — you know where you have been, but have no idea where you are going.

"In the current uncertain political and economic times, the need for strategic planning has become critical.

"We know there is going to be rapid change in South Africa. What companies need to do is recognise the changing trends in our economy and convert these to their advantage.

"Research has proven that planning is essential for a company's long term success and that those with plans outperform their counterparts by 40 percent. Those companies that adopt strategic plans, have been found to outperform their pre-planning performance history."

Mr Kaplan says strategic planning includes formulating your company's future objectives and identifying the appropriate strategies and resources to accomplish them.

ECONOMY — 1991

NOVEMBER ~~[illegible]~~ — DEC.

Reserve Bank calls Treasury bill tender

ANDREW GILL

THE Reserve Bank called a special R1bn five-day Treasury bill tender yesterday to offset an expected R2,4bn cash inflow into the money market today from maturing government stock and monthly government spending.

The tender is effective from today to prevent a huge shortage over month-end and to ensure liquidity does not swamp the market when the inflow occurs.

About R1,7bn emanates from maturing government stock and R700m is expected to flow in from government spending channelled to the homelands and other sectors.

The shortage — the market's debt to the Reserve Bank — stands at R2,3bn but the expected inflow could wipe it out in a day and leave the market in a surplus position.

The Bank has also increased its weekly allotment of TBs from R150m to R200m. This follows last week's dramatic 10-point drop in the TB rate to 16,26%.

Investment and skills needed — Ramaphosa

Star 1/11/91

South Africa would be unwise to alienate investors or drive out skills, says ANC secretary-general Cyril Ramaphosa.

He told the conference: "The ANC has been unwavering in its commitment to a non-racial, non-sexist South Africa.

"It is these commitments plus our acceptance of the link between investment and redistribution being critical for future stability that will enable the ANC as a political organisation to unify a divided society around common objectives."

Mr Ramaphosa said South Africa had a potentially dynamic private sector and that the government of the future had a duty to ensure the potential was fulfilled.

"But this is not an invitation to complacency on the part of the private sector. It does not mean business as usual.

"It means we have to face new challenges and find new ways of meeting those challenges.

"The private sector, in co-operation with the public sector, must go out and create job opportunities, especially for those people, the black people of South Africa, who through no fault of their own were sent off the field before the economic game started."

Mr Ramaphosa added. "At present in the public debate one side fears that redistribution will stop investment, while the other side fears the pursuit of investment will be at the expense of redistribution.

"Both are legimate fears, but we must go beyond expressing our fears as if they were iron laws of economics."

Mr Ramaphosa told the delegates that the ANC was concerned about the additional and potentially serious long-term obstacles to investment.

"This is a concern that is very strongly shared by our alliance partners," he said.

Participation

"Addressing these problems requires a very high degree of participation by all the key actors in society and the economy.

"The Nationalist Government is not capable of either addressing these problems alone or of involving all the key actors."

Mr Ramaphosa said that the overwhelming proportion of investment in South Africa came from domestic sources and that this would continue for economic reasons.

"However, foreign investors can, and we hope will, play a valuable role in taking a democratic SA along the path to prosperity.

"Our general objective is to revive investment within a framework that maximises our capacity to eradicate poverty" — Sapa.

DAILY COLUMN

Vital role for business

Star 1/11/91.

49

More and more these days it is being accepted that the active role of business leaders in the development of the economy, is an issue vital to all of southern Africa.

AIESEC International, through its eastern Cape (Rhodes) branch, believes the issue of business playing an increasingly active part in stimulating the general economy to be of such importance that it is already doing long range planning for a symposium for southern African delegates to be held in Durban towards the end of July next year.

Acronym

The congress is to be styled Symposium of Future Southern African Business Leaders.

AEISEC is a French acronym for the International Association for Students interested in Economics and Commerce.

First launched in 1948, it is a non-profit making organisation with 70 000 members on more than 800 campuses in 71 countries.

Says AEISEC Rhodes spokesman, Toni Hugill: "The purpose of the symposium is to further the trend towards economic unity and to address the need for continuing business development in southern Africa."

Stoep Talk

MICHAEL SHAFTO

Quoting the publication, "Leadership" (1991), the AIESEC project document underlines that, "In Africa, relations with neighbouring states will remain a top priority in the years ahead.

The interests of individual African states, together with the logic of a constructive regional policy on the part of southern Africa, should bring about a climate conducive to co-operation."

Mission

The project document further states: "AIESEC's mission is to contribute to a future changing South Africa by striving to develop students interested in economics and the management process to be more aware and effective participants in the environment, while fostering international perspective."

One of the means of doing this is to offer people "the opportunity to interact with their social and economic environment".

It is proposed to have students and young future business leaders of 21 nations at the symposium.

There will be some 200 delegates, with each country limited to about 15 representatives.

Besides South Africa, Namibia, Angola, Zimbabwe, Zambia and Mozambique, invitations are to be sent to countries as far afield as Kenya, the Commores, Tanzania and Uganda.

Needs

The symposium will aim at clarifying the development needs of future business leaders of southern Africa who can, in turn, have an impact on the region.

It will provide action plans for developing the business sector within the countries, and attempt to bridge the gap between students' theoretical studies and the practical world.

The manifesto emphasises AIESEC's belief in mutual respect for cultures and the equality of all people.

For more information on the symposium, Toni Hugill's address is AEISEC Rhodes, c/o SRC Building, Rhodes University, Box 94 Grahamstown.

ANC aims to get it straight

Sowetan 1/11/91

(49)

THE African National Congress will have an official economic policy by December or January, according to head of the organisation's economics department, Mr Max Sisulu.

The organisation has come under fire for sending out contradictory views on a future economy, particularly as it concerns nationalisation.

However, in an interview with Work In Progress magazine, Sisulu says the ANC, being a democratic organisation, continues to seek the active involvement of the people in drawing up official policy.

He says the process of drawing up policy has been an ongoing one, including workshops and discussion of a draft policy document in ANC branches.

Sisulu says a December/January policy conference will look at macro-economic policy.

Despite not having an official economic policy, Sisulu says the ANC does have views on the economy and he spelt out a future based on a mixed economy.

'It is hindering economic growth so we need a completely new growth path'

He says the three basic ingredients for a mixed economy are a democratic political framework, economic growth and redistribution.

He talks of a slogan: "Growth through distribution", which he says means redistribution of wealth, income and opportunity.

Sisulu emphasises that without growth it is impossible to address poverty.

He talks of 90 percent of the wealth being concentrated in white hands and one seventh of the population consuming 60 percent of the Gross Domestic Product.

But he says the economy is presently stagnating and "the GDP per capita is negative and has been for the past decade".

Minority

"There has been no formal job creation in this period because the growth path followed up to now is based on sectorial interests, designed to serve the interests of the white minority.

"It is hindering economic growth so we need a completely new growth path designed to satisfy basic needs of the majority of people."

Some of the basic needs he talks about meeting are housing and electricity. He says developing these sectors could open up opportunities for job creation, welfare and pensions through doing away with duplication and triplication in Government departments and cutting the defence budget.

He says the manufacturing sector needs to be turned into "an engine for growth" with emphasis placed on industrial research.

Sisulu believes there is a need to restructure the capital market because "a lot of resources are not used in a productive capacity".

He says a lot of companies are recognising the need for investment, yet are investing outside the country. "A democratic government has to mobilise its domestic resources."

'We need to manage our economy so that we don't go cap in hand to borrow money on their terms'

Despite emphasising redistribution, Sisulu says macro-economic balances will need to be maintained "otherwise inflation will have a serious effect on the economy".

Addressing the role of the International Monetary Fund and World Bank, Sisulu says he is sceptical of these organisations. "We need to manage our economy so that we don't go cap in hand to borrow money on their terms," he says. - *Sapa*.

There's a lot more to next week's strike than taxes

W/Mail 1/11-7/11/91

The looming two-day stayaway is, the unions tell us, about taxes. But there are more fundamental things at stake here, reports **DREW FORREST**. The real issue is: Who controls the economy?

NEXT week's two-day stayaway is more than a tax revolt — it is part of a frontal challenge to the government's right to frame economic policy.

The immediate issue is Value-Added Tax, but the underlying agenda of the labour movement and its political allies is to force a moratorium on economic change and to bring it within the ambit of negotiations.

The state's "unilateral restructuring of the economy" has become the latest union buzz-phrase and VAT is seen as one facet of this.

The stayaway — the Congress of South African Trade Unions (Cosatu) prefers the less accurate but more apocalyptic term "general strike" — is the first concrete expression of emerging unity on the left.

Spearheaded by Cosatu, it also involves the National Council of Trade Unions and 12 other worker bodies, and has received the backing of the African National Congress, the Pan Africanist Congress, the Azanian People's Organisation and the South African Communist Party.

Process is partly at issue: the campaign is integral to a broader push for a transitional order in which the government starts to cede power to the black majority. But the conflict also centres on the nature of change — two philosophies are at odds: socialism, in a loose sense, and economic liberalism a la former British prime minister Margaret Thatcher.

There is general agreement that restructuring is taking place, but that it is nothing new

Faced with declining growth rates in the early 1980s, says top Finance Department official Coen Kruger, the government moved to spur economic activity in line with world trends by scaling down its role and giving the private sector its head.

"When the economy was strong, policy was essentially a response to the business cycle," he said. "For some years there has been a long-term, comprehensive approach to restructuring."

Alan Hirsch, a Cape Town economist who advises the ANC, believes that the influence of Afrikaner capital, notably in the person of former Gencor boss Wim De Villiers, was crucial to the shift. He also argues that the government came to see apartheid as synonymous with economically interventionist government.

Linked to this was a move from import replacement to an export orientation — largely because local production of former imports, an offspring of "total strategy" thinking, had reached its ceiling.

The new outlook gave rise to a cohesive package of fiscal, monetary, trade and other policy reforms designed to boost private business and expand its role. These included privatisation and commercialisation of state concerns, deregulation and moves, in the 1988 Labour Relations Amendment Act, to limit the power of organised labour.

Fiscal reforms have seen a cut in direct taxation on companies — by two percent to 48 percent in the last budget, but the official aim is 40 percent — coupled with a move to a broader-based consumption tax, VAT.

VAT is central to the state's new "outward" policy. By taking machinery purchases out of the tax system — capital goods were subject to GST — the new tax is designed to put South African exporters on the same footing as their foreign rivals.

The tide of laissez-faire is also nibbling at the protective walls around local industry: in moves to boost business efficiency, reduce prices and spur exports, the government has scrapped quantitative import controls and is restructuring protective tariffs. A recent Industrial Development Corporation report, under consideration by the government, calls for tariffs to be reduced gradually.

Coen insists that the government's aim is to promote growth, create jobs and broaden the tax base, to raise additional revenue for social spending. A key rationale for VAT, for example, is that as a more efficient instrument, it will stem leakages in the tax system.

The unions take a very different view. Their first concern is that almost every government measure hits jobs or the living standards of the poor.

VAT, they argue, has been introduced in a particularly pristine form without regard for the impoverished, while privatisation and commercialisation have brought swinging job cuts wherever they have been applied. Tariff reform may also encourage lean, mean enterprises with fewer employees.

But there is a more sinister perception of the government agenda: "The underlying theme of all these measures is to ensure that the economy stays in white hands," asserts National Union of Mineworkers' economist Martin Nicol. "Political reform will take place without economic reform, without redistribution except on the terms of capital."

The argument is that by forcing through major economic change in advance of political negotiations, the National Party government is undermining the capacity of a post-apartheid state to re-apportion wealth.

There are signs that popular resistance has put the brake on aspects of the government's programme. Commercialisation is proceeding apace in such areas as the post office, Transnet and state forests, but since last year's mass protests privatisation appears to have been quietly shelved.

It is significant that in March last year President FW de Klerk announced that R1-billion earmarked for social projects might be raised from the proceeds of privatisation. Instead, the money that was spent came from one of the government's strategic funds.

Next week's stayaway is unlikely to force changes in the VAT system, but it will undoubtedly encourage greater state circumspection about economic reform without consultation.

The conflict also raises some prickly questions for the unions, which are formally committed to spurring growth, improving industrial efficiency and promoting exports.

Can these objectives be squared with Cosatu's own restructuring proposals, which lay heavy emphasis on job security and expanded worker power? Will they be served by the greatly increased strike rights Cosatu is demanding? How, without rewarding and reinforcing inefficiency, is one to protect employment in uncompetitive industries and the bloated public sector?

While formally acknowledging a post-apartheid role for private business, unionists often evince a knee-jerk hostility to profit as inherently exploitative. More broadly, what is Cosatu's attitude towards company profitability and to government measures which seek to promote it?

The Mexican option to free the economy

WMail 1/11 - 7/11/91.

(49)

The 'new' South Africa should take a leaf from Mexico's book on managing the economy, believes Mexican businessman **ARMANDO CANALES**

IN 1981 the Mexican economy was at the height of five years of fast-paced growth (average 8,4 percent a year) fuelled by oil revenues. Suddenly, in the early 1980s, the oil price fell and the economy came tumbling after.

As the economy deteriorated the government began to feel the political pressure from its electorate. The people, tired of inefficiencies, demanded a change. And only through fundamental changes in basic economic policy was the government able to achieve growth and stability by moving away from government control and implementing free market, outward looking policies.

With the recent openness in the political climate of the country, the Mexican government began implementing an outward-looking policy as early as 1985.

However, it was not until the current president, Carlos Salinas de Gortari, took office in 1988 that bold steps were taken to enforce this new policy. Since, Mexico has executed a complete economic turnaround. This year the country is back to a three percent annual growth rate and annual inflation is below 15 percent for the first time since 1981.

Privatisation and commercialisation of state-owned enterprises have provided a base for the development of new economic structures.

Since 1986, over two-thirds of all state-owned enterprises have been either sold, merged or closed. The resultant savings by the government have been used to re-educate labour in new technological skills. Mexico now can offer foreign investors a better technically educated labour force than in the past.

The in-bond industry, or *maquiladora*, programme has proven to be a great success. *Maquiladoras* are foreign-owned assembly plants taking advantage of Mexico's lower labour costs.

There are more than 1 600 of these plants throughout the country providing employment for 450 000 people. Most are located near the US border and take advantage of a US commerce law that allows for the payment of import tariffs only on the added value of US goods assembled abroad.

Among the most important, based on value added, are the electronic assembly and automotive parts industry. The establishment of this industry has been made possible only through the recent changes in fiscal and foreign policy. The corporate income tax rate has dropped from 42 percent in 1986 to 35 percent in 1991.

Perhaps the most important incentive to increased competitiveness, both locally and internationally, for Mexican companies has been the nearly total opening of the Mexican economy to foreign trade.

Today, the consumer not only has a larger disposable income than in the past but can also choose from a larger and better selection of products.

The changes implemented were not without pain. One immediate effect of the new free-market approach was massive unemployment, though this was later followed by employment rates much higher than the 1980s.

Also, free market policies have not — so far anyway — been accompanied by far-reaching political reforms. Employees of the *maquiladora* companies, for instance, cannot belong to traditional Mexican unions. In pursuing its economic policy the Mexican government incarcerated popular but corrupt union leaders.

The people are now experiencing the social and economic benefits of these changes. They can see them in their cities, they can feel it in their pockets. South Africans and their present and future governments should take note of Mexico's new policies and successes.

●Armando Canales is a Mexican businessman, temporarily based in South Africa. He is also involved in the normalisation of political and business relations between South Africa and Mexico.

Monetary policy to remain tight

Stals moots tax breaks to spur recovery

(49)

B/Day 1/11/91

SIMON WILLSON

ALTHOUGH economic recovery was imminent it was likely to be relatively mild, and some stimulus to reinforce normal market forces might be required, Reserve Bank Governor Chris Stals said yesterday.

He told the Financial Mail Investment Conference in Johannesburg that short-term prospects for a revival in the economy had improved significantly over recent months. There was an emerging consensus that real GDP should increase by 1%-2% next year.

"Initially, however, the recovery is likely to be relatively mild and some stimulants of the right substance may be required to reinforce normal market forces."

Pressed later to specify what he meant by "stimulants of the right substance", Stals said he was not referring to monetary expansion by the Reserve Bank, which was unsustainable.

"Fiscal measures to stimulate new investment are what I have in mind. I have no objection to incentives such as tax concessions to new industries, but these incentives should be concentrated on smaller businesses in the manufacturing sector."

In his address, Stals acknowledged that government and the Reserve Bank — with its special powers to create money — were being urged to "kick-start" the economy. Some proposals linked restimulation of the economy to the huge social backlogs, and others had more short-sighted sectoral or political objectives.

"They all have one thing in common, however, and that is a lack of confidence in the ability of the SA economy to pull itself out of stagnation by its own bootstraps."

The proposals for a "kick-start" to the economy were not without merit, but should be aimed at reinforcing the imminent recovery, not initiating it.

Stals signalled a continued tight monetary stance over the short term by restating his view that, taking account of the persistently high rate of inflation, SA interest rates were relatively low.

"The official discount rate of the Reserve Bank at 17% has, indeed, the smallest margin above the current rate of inflation of all the industrial countries with which SA has important economic links."

It was a major frustration that inflation was still above 15%, but the present monetary policy was no longer feeding inflation.

He said in order to maintain maximum economic growth and optimal living standards for all, economic decisions on important issues "should not bargain on an accommodating monetary policy stance to bale out those who took wrong options".

For the next year, monetary policy would remain cautious, he said.

Stals forecast a current account surplus of R5bn-R6bn for this year and one of R3bn-R4bn for 1992 and envisaged a continued decline in net capital outflows, from last year's R2,9bn to possibly less than R2,5bn this year.

Fixed-maturity foreign loan repayments next year added up to less than $1bn — less than the expected current account surplus. Foreign debt obligations for next year probably would be reduced by capital inflows and by new foreign borrowings.

● See Pages 12 and 13

Turmoil 'threat to democracy'

B/Day 1/11/91.

CONTINUING violence and the lack of strong economic growth threaten the establishment of democracy in SA, says Institute for Multiparty Democracy executive chairman Oscar Dhlomo.

Democracy could not survive in an environment where there was civil turmoil, he told the conference yesterday. (49) (50EA)

He hoped that the national peace accord, signed by political leaders, would result in peace. "If we give up on peace, we might as well give up on democracy."

The masses harboured very high expectations — some of which might be unrealistic — and if a new democratic state failed to deliver the "economic and quality of life goods" it risked rejection.

A new democracy was expected to dramatically increase access to wealth creation and social services and to help future rulers address the plight of unemployed, alienated township youths.

A strong economy was needed. If benefits were not seen, democracy would not be welcomed.

A political culture should not only be preached but practised by all, since without clarity on its characteristics the killings and imprisonment would continue in the name of democracy. — Sapa.

Brokers hold talks on nationalisation

88 SEAN VAN ZYL 49

THE SA Insurance Brokers' Association (SAIBA) has met a number of leading black political and business organisations to avoid misunderstandings imposed by the threat of nationalisation. BDay 1/11/91

The SAIBA announced recently that a special affirmative committee had been formed to assist the industry through the necessary transitional changes for a new SA.

The association had also scheduled a strategic meeting for February next year to formulate an overall strategic policy for SAIBA, affirmative committee chairman Peter Walters said.

Walters said informal dialogue had already been held with organisations like the ANC, Azapo, PAC and black business representatives. He hoped these discussions would eventually embrace all major black representative organisations and insurance firms.

Increased black membership of SAIBA and encouragement of new entrants to the broking community was a major issue being addressed by the association, Walters said.

The means of educating new entrants to the field was also being considered.

He said SAIBA would be able to provide a formulated strategy of its future role next year.

ANC sees pivotal role for private sector in creating wealth and jobs

BDay 1/11/91

BILLY PADDOCK

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THE ANC wanted a strong private sector to play a central role in a future democratic SA, ANC secretary-general Cyril Ramaphosa said yesterday.

However, businessmen should not take this as an invitation to become complacent, he told delegates at the Financial Mail Investment Conference.

The ANC had to pursue policies that enhanced investment, did not alienate investors or drive away skills.

Ramaphosa stressed the importance of foreign investment, saying competition for international investment would be fierce. Eastern Europe, Asia and the Americas were strong contenders for investments and loans.

With such demand for capital, it would not come cheap or be abundant. A future SA would be dependent on its domestic resources to achieve very demanding objectives, Ramaphosa said.

SA had a potentially dynamic private sector and the ANC saw a central role for it in the creation of wealth and jobs.

"But it does not mean business as usual. The private sector, in co-operation with the public sector, must go out and create job opportunities," he said.

Individual business leaders might feel no direct culpability for SA's racist economic system and some might even believe they were contributing to its destruction. "But whatever they believe, they are among the chief beneficiaries of apartheid economics and must pack in the front row of the struggle to end inequality."

The ANC's objective was to revive investment within a framework that maximised the capacity to eradicate poverty, while remaining acutely conscious of the need to reintegrate SA's economy internationally.

Political democracy on its own would not satisfy black South Africans nor could democracy be guaranteed if economic inequalities were not immediately addressed, he said.

Any democratic state had to accept that it had to address poverty and inequalities by redistributing resources. This could be done through "progressive taxation and a benefit or welfare system that supports those with low incomes".

SA had to ensure that economic growth was revived in a way that benefited all. "We must ensure that employment, wages and profits spread rapidly into the disadvantaged and poor communities."

SA's economy was failing because of the low level of investment. It was not capable of creating jobs for even one out of every 10 new job seekers each year.

Most growing economies set aside at least 25% of GNP for investment. The successful industrialisers of the Far East invested about 30% of GNP during the 1980s.

□ To Page 2

Private sector

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□ From Page 1

SA had invested no more than 20% of GNP during the past eight years.

Public sector investment had shrunk a great deal and the private sector had failed to fill the gap. "Instead the country has continued to suffer from the flight of capital," he said.

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It was wrong to blame the ANC-SACP-Cosatu alliance's insistence on sanctions for this. Apartheid had dealt a death blow to the investment climate, he said.

It was vital to create a climate conducive to investment: strong and growing domestic and regional markets; political stability; transparent and consistent economic policies.

"We do not need fancy incentive schemes that will be harmful to our country and people. Evidence of the efficacy of financial incentives such as tax breaks in attracting investment is ambiguous at best. Such incentives can merely lessen the benefit derived by the country from the investment," he said.

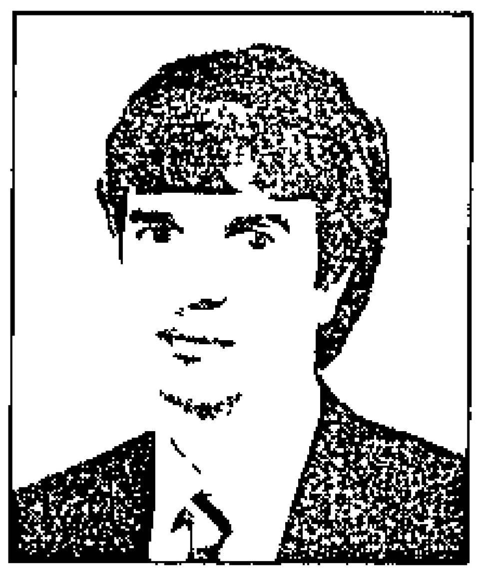
In establishing a framework for economic growth government's role had to be determined carefully. It should provide information, co-ordinate and organise for the revival of investment.

The ANC wanted to reintegrate SA in the world economy, making it more competitive. Foreign investors and transnational corporations would be crucial in the organisation's efforts to restructure and regenerate the economy.

Ramaphosa said the ANC's think-tanks were developing an inducement package based on assurances rather than financial or industrial relations incentives. There were sound international precedents.

More and more in common

(49)



Gary Taylor is director of human resources at Medscheme.

The seeds of an interim "government" have already germinated in a number of areas within the SA society, but in a form not necessarily envisaged by the various players.

The model might not involve the United Nations (as happened in Namibia), nor a committee of Wise Men comprising politically neutral but widely credible referees. If certain current trends develop we might well see a "second tier" of policy-makers emerging in all major areas, which in effect runs the country by democratically devising policy on key issues. They could well go further by having a say in budgetary reallocation during this interim phase.

These committees would exist in each of the major functional groupings of government — security, finance, manpower, health, housing and so on; and would involve the major stakeholders in that particular field, not just the politicians.

The groupings, though cumbersome at first because of their size and the need for effective mandating, will form more democratic and acceptable forms of interim structures than any externally imposed caretaker government could. Parliamentary power would diminish considerably, as the legislature would be effectively rubber-stamping budgets and policies emanating from committee level.

There are some areas where such multilateral efforts are successfully under way and such initiatives could serve as models for other interim structures.

The labour relations field is perhaps the most developed of these, where the latest amendments (and proposed future changes) to the Labour Relations Act have been dubbed "the first post-apartheid legislation."

FM 1/11/91

To summarise the process, the major stakeholders in the labour arena got together to produce an accord which finally resulted in legislation being generated through the National Manpower Commission (NMC) for mere enactment by parliament. Despite the recent tactical withdrawal from the NMC by Cosatu in order to ensure that it becomes more democratic and powerfully reconstituted, the body is certain to continue to drive policy and not the Department of Manpower.

Leading labour lawyer Halton Cheadle articulated the vision recently by stating that "the thinking is that the NMC ought to have a special relationship to parliament as a policy body, that laws relating to labour and the labour market must proceed through, before they are tabled in parliament ... Though it will not usurp the sovereignty of parliament, it will play a policy formation role."

On the economic front, a number of moves have been made — again with organised labour and business deciding that this country's future economic survival, let alone growth, should not be left solely to politicians.

Recent press reports of behind-the-scenes working parties reflect high-level involvement through the Consultative Business Movement, Cosatu and others in creating an interim forum for economic policy. The prevailing thinking is that the economy cannot wait for a referendum, a new constitution or an all-party election.

The shift by Finance Minister Barend du Plessis, as hinted at the IMF conference, shows some evidence of government's readiness to consider a new approach. A new structure might by now have been established if the consultations with the VAT delegation had yielded a more widely acceptable compromise.

Even with VAT we saw a structure emerging, in which labour, consumer and even medical stakeholders formed a grouping to challenge old-style decision-making. Cosatu's Jay Naidoo has confirmed that the planned mass action is to support the "issue of process" rather than VAT per se. It has been proposed that the unions want these interim structures in place *before* a new government is elected to ensure their future survival and influence.

In health care, similar moves are under way. The unpopular amendments proposed to the outdated Medical Schemes Act are bound to be scuttled as the Minister gets buffeted by vested interests.

Recent calls by the Medical Association for the Bill to be referred to "a joint consensus forum which enjoys representation by all role-players in the health environment" will stand a better chance of achieving an acceptable redistribution of health.

Though security issues would originally have seemed to defy consensus, we have already seen some interim structures emerging in an attempt to combat violence.

Clearly, peace is the most elusive of goals at present, but the joint efforts of stakeholders, including church leaders, in the Peace Accord have given some direction. It is worth noting that acceptance was gained for the principle that the police owe allegiance to higher values than traditional line authority.

Peace initiatives at community level have enjoyed lower profile, but facilitating bodies have been achieving meaningful results in some areas.

The conclusions which could be drawn from the above examples — and there are several other working groups already in place, including on local government and telecommunications — is that we are already evolving an "interim government" within the present legislative framework. The National Party has already demonstrated a willingness to accommodate such initiatives and seems likely to be supportive of informal interim structures.

There are several major advantages to informal forums which harness the energies of vested interests, expert opinion, idealism and experience. They tap into democratic processes during the interim phase while the constitutional scene is still developing. This could relieve the politicians of some of the work and deter government from ruling by decree — both now and in the future. ■

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growth and development national strategy. He believes there should be an economic accord before political negotiations are completed and suggests that wealth can be given to the have-nots without taking from the haves.

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Says Bethlehem: "I don't believe the haves need to be hurt at all. If the State is going to be a leader in this transformation, it is not going to do so by direct intervention in the economy, but by acting through market forces and creating the incentives for the private sector to deliver the wherewithal of improving the disposition of the deprived masses."

The scenario he proposes is called Faith, Hope and Foreign Bankers. Explains Bethlehem: "You balance the growth of the economically active population with the growth of employment. This is the best long-term objective we can have."

The proposal also suggests a decoupling of the industrial economy from the rural economy, together with a few kick-start mechanisms for the economy. Bethlehem suggests that income and wealth disparities can be addressed through market processes, share-incentive schemes and home ownership; and,

☐ Other proposals have been more controversial. The Nedcor-Old Mutual scenario, which advocates massive State spending in an attempt to kick-start the economy, has largely been discredited for having the potential to fuel inflation and create greater State involvement in an already over-regulated economy The scenario also is said to be ultimately producer-oriented rather than consumer-oriented.

Thus, it's clear business has made an effort to offer alternatives to nationalisation. The key problem seems to be a lack of communication — particularly on the part of the ANC. Either Mandela has never been briefed by his cadres or else these detailed and economically complex, but, nevertheless, worthy alternatives are unacceptable to the ANC Either way, it is Mandela and the ANC who need to talk.

Mirryèna Deeb

ECONOMIC OUTLOOK

FM 1/11/91

Pick a number

(4-9)

Why we can't trust official statistics

In the days when economic policy-makers were trying to navigate a soft landing, the Reserve Bank's late Governor, Gerhard de Kock, pointed out the danger of opening the door before the aircraft touched down. His successor, Chris Stals, has heeded the warning and kept the door of monetary policy tightly closed; he is waiting for a signal from the tower before he climbs out and overhauls the engines for the next ascent.

Pity the man — the signals have been seriously scrambled

Money supply has been artificially inflated by technical factors; consumer prices have been powered by pre-emptive increases before the introduction of VAT; and producer prices were only recently revised to remove an error which added 2,9 percentage points to producer price inflation in June. These events have all influenced inflationary perceptions at a time when underlying inflation may well have been subsiding.

Without a clear indication that inflation *is* heading down, Stals, quite simply, is unable to relax monetary policy to allow the economy to expand.

At the same time, uncertainty has arisen about the accuracy of national accounts. Natal University economist Charles Meth points out that over a long period there was a close correlation between CPI and the implicit GDP deflator in the manufacturing sector. But since the early Eighties this deflator (the ratio of current to constant prices) has grown at a pace which outstrips the inflation rate. The implication, he suggests, is that growth in manufacturing output between 1979-1989 was far greater than official figures indicate (see page 40).

As manufacturing contributes more than 20% to GDP (see graph), an underestimate in this sector would have had a significant impact on estimates of total output in the economy. This, in turn, would affect estimates of the value-added portion of the volume of production captured in GDP data.

Another anomaly is the large and growing negative "residual item" which appears in the national accounts. For nine consecutive quarters it has swallowed a significant slice of economic growth. If it is added back into the sum, a more positive picture of the economy emerges.

GDP is measured in two ways: in terms of output and expenditure. Theoretically, the two aggregates should be equal; in reality a balancing item is needed to reconcile them and, in the past two years, the production figures have reflected a deeper recession than the expenditure figures. In 1989, at R1,2bn (in constant 1985 prices), the residual represented nearly 1% of GDP; in 1990, at R2,6bn, it was 2% of GDP. Without the burgeoning residual, declining GDP of nearly 1% in 1990 becomes marginal growth that year.

The difference may seem of little importance when activity is at such low levels. But an extrapolation of the figures shows that this difference will grow when the cycle turns and growth takes place again.

CSS's George Mills ... *something must be done*

The question of which side of the balance sheet more accurately reflects reality may seem academic — after all, we know what we are experiencing. But it has important practical implications. Policy decisions by government, investment decisions by business and wage demands by trade unions are based on what official figures tell us about the present state of the economy.

Policy-makers have to balance two economic priorities — growth and keeping inflation at acceptable levels. There has been considerable pressure on Stals to relax monetary policy which, it is argued, will plunge us into a depression. But if, in fact, the recession is milder than official figures indicate, there is clearly more room to manoeuvre.

On the other hand, if inflation is lower than current perceptions indicate, there is more scope for relaxing monetary policy. And if growth prospects are better and inflationary impetus less than we thought, the growth potential is far greater than we have assumed.

Three different situations which present us with three different challenges. No wonder economists in the private sector are expressing concern over the quality of official statistics.

The issue arose when revisions were published by the Reserve Bank to exclude Namibia from the historical estimates and, at the same time, other revisions were incorporated in the new series (see graph). Standard Bank group economist Nico Czypionka comments: "The difference between the first and latest estimate was, in some cases, much larger than would be considered acceptable; they have changed the way in which the economy is statistically said to have behaved."

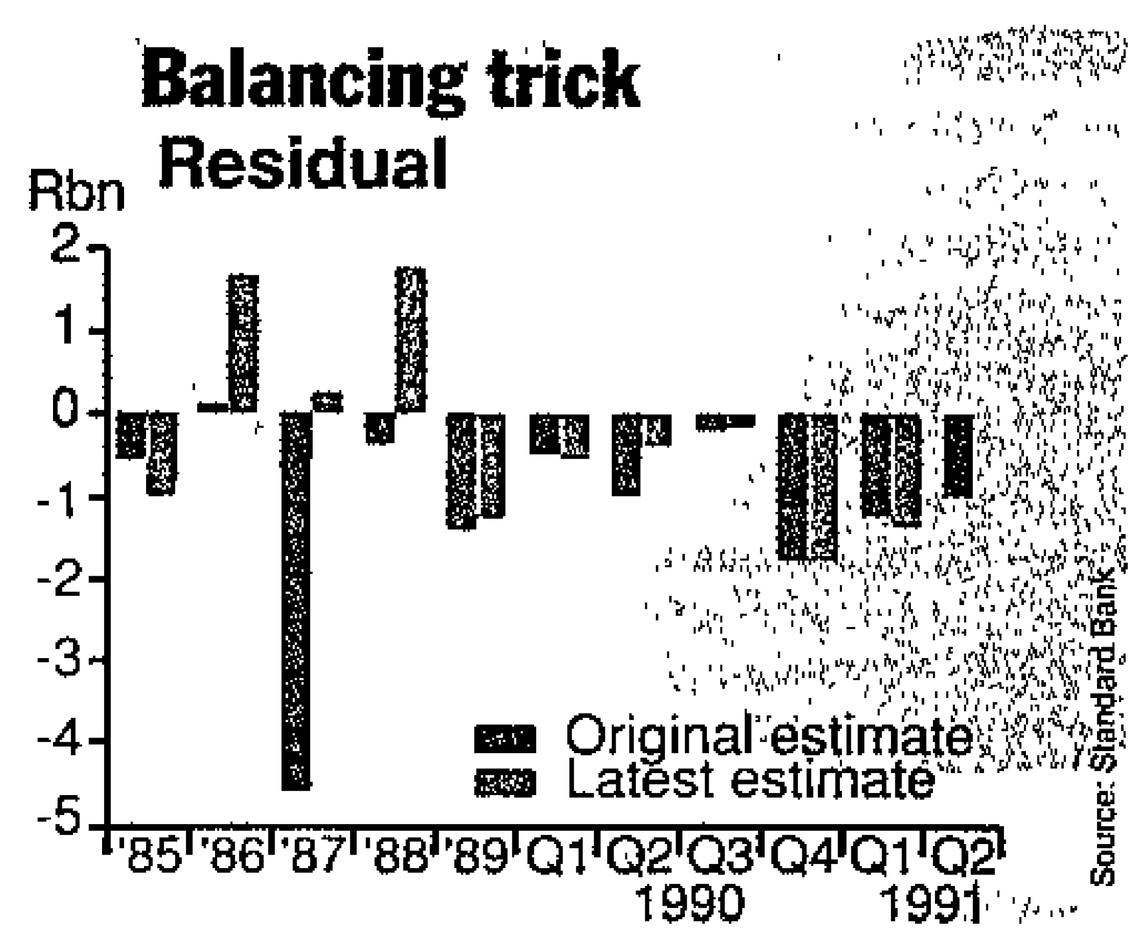
He points out that "forecasts which relied on published data would have been severely undermined by the changes."

The problem for statisticians is that the economic landscape can't be photographed by satellite. A picture of past and present must be laboriously constructed by collecting countless slivers of information about economic activity in the country, and piecing them together to create a credible composite.

The process is strewn with booby traps. From the point when information is extracted from (sometimes unhelpful) respondents, through complex calculations which make the data compatible with the eventual framework into which subsectoral and sectoral figures must fit, and on to publication of the findings, it is vulnerable to error.

Because of the complexity and the need for accuracy, there are considerable time lags before publication. Results of a manufacturing census conducted in 1988, for instance, have not yet been published.

The problem is compounded by a shortage of skilled staff. As Meth's investigations of the manufacturing sector figures revealed, monthly sample surveys on output are still being interpreted in the light of data collected in the 1979 census — because Central Statistical Service did not have the resources to update its procedures. CSS has restructured the index according to subsectoral weightings established in 1985, but the size of the universe is estimated on the basis



continued

Blueprint details investor needs

B/Day 1/11/91 49

LESLEY LAMBERT

FOREIGN investors need more than political stability and the promise that a future SA government will not become a latter-day Robin Hood.

They want widespread agreement on new economic policies and specific details of tax policies and incentives for the next decade.

Francois de Selliers, a Belgian businessman in SA, has drawn up a blueprint for the type of economic environment which would make SA an attractive destination for foreign investment. The document, based on consultations with foreign investors and local businessmen, has been submitted to Cabinet and is being shown to the trade union movement.

De Selliers, MD of Port Elizabeth-based textile producer Industex and formerly a director of the merchant banking and foreign exchange divisions of Banque du Benelux in Brussels, says there are "hundreds of millions of rands in Europe waiting to be invested in SA should a proper economic plan be enacted".

He argues that recent reports by Sacob, the IDC and the State President's Economic Advisory Council emphasise the philosophical aspects of economic policy but fail to make practical recommendations.

De Selliers sets out to clarify specific issues which foreign investors feel government should address. He suggests ways in which organised labour could assist the process of economic restructuring, and identifies some of the contributions foreign investors could make.

The objectives of his plan are similar to those of most other economic restructuring proposals. However, his proposals on how these objectives could be achieved are specific, and he reiterates that their success will depend on agreement between government, labour and business.

The plan is based largely on the assumption that economic growth will be export-led. To improve international competitiveness, De Selliers says government would have to remove all unnecessary regulations such as price fixing, restrictive trade practices and commodity control boards. It would also have to commit itself to a reduction in corporate tax rates to 40% after four years and 35% after a further five years.

Tax reform would have to be accompanied by non-discretionary incentives to support investment in new machinery. These incentives could take the form of a 30% cash grant of the purchase price and the removal of all non-refundable taxes, duties and levies on the purchase price. Government would also have to commit itself to the lowering of input costs by reducing inflation, import duties and labour costs.

De Selliers recommends that import duties be reduced to give industry the time it needs to adjust to the removal of protective legislation. He recommends that the authorities increase protection, then begin to decrease it after three years by reducing import controls and formula duties and reducing ad valorem duties to 10% over 10 years.

To attract the foreign investment required to boost economic growth, government would have to clarify legislation affecting foreign investment and address certain restraints such as double tax liabilities and withholding tax on dividends.

It would also have to modify exchange control regulations in order to reduce administration in the banking community. This could include allowing foreigners to distribute dividends and pay management fees and royalties offshore without Reserve Bank approval, subject to certain limitations to prevent repatriating all profits.

De Selliers also recommends that the use of financial rands be restricted to, say, share or bond purchases and that government eventually remove the dual currency system and all other exchange controls.

To support government's commitments to fiscal and exchange reform, De Selliers says companies should undertake to make capital investments equal to their annual tax depreciation amounts during the next five years. They should also agree to commit at least 1% of their annual turnover to research and development and should work with organised labour to achieve stability in the labour market.

Organised labour should, in turn, undertake to improve productivity and contribute to social and industrial peace by abstaining from political stayaways, boycotts and strikes for three years. It should also agree to limit wage or salary increases to, say, 5% a year for the same period, provided that individual companies agree to distribute quarterly special bonuses of, say, 20% of the previous quarter's taxed profits.

For its part, industry could undertake not to retrench for three years and to use short time and layoffs to counter economic downturns.

Central to the plan is the development of an export-oriented industrial sector. To achieve this, government should first consider equalising all incentives offered by GATT affiliated countries and eliminating trade tariff barriers.

Then it should replace existing export incentives with short-term tax incentives or subsidies which could be phased out and replaced by a reduction in the corporate tax rate of companies which perform well in export markets.

Industry's contribution could be to develop products demanded by foreign customers, while organised labour could agree to assist actively in promoting access to all world commercial and financial markets.

To create employment, De Selliers says government could offer incentives such as low-interest loans or capital grants to industrial developments which broaden the job market. These actions would have to be accompanied by improvement of welfare and education facilities.

Fiscal 'kick start' call is good news for SA economy

Economists celebrate as new era heralded

(49) ARG 2/11/91

DAVID CUMMING
Weekend Argus Correspondent

The call this week by Reserve Bank Governor Chris Stals for a fiscal "kick start" to the economy is good news for both business and consumers on a variety of fronts.

This was the view of economists at week's end who said his remarks could well indicate that revenue collections had improved in the second half of the the year and that Finance Minister Barend du Plessis therefore had some room to manoeuvre in considering granting of tax relief in the next Budget.

And, they said, his firm rejection of calls to relax his stance on monetary policy meant the risk of "substantially higher inflation" referred to in Absa's Economic Monitor earlier in the week remained remote.

"There is no doubt about it, he has earned his spurs as a conservative central banker and his approach to monetary policy is widely admired, not the least by potential investors overseas," said Southern Life economist Mike Daly.

"On the monetary front everything but CPI inflation is moving in the right direction and there is a good chance of lower interest rates next year."

"There is no doubt that under the previous regime we would now be staring inflation of 30 percent in the face, and after 30 percent anything can happen," said Tony Twine of Econometrix."

He said the very fact that Dr Stals had called for fiscal measures to stimulate the economy was encouraging. "Maybe he knows something we do not yet know about revenue collections."

Mr Twine said there was a possibility that the greater efficiencies in the collection of VAT as opposed to GST would gather substantially more for the fiscus than had been envisaged at the time the Budget was drawn up.

In this case, a number of relief options suggested themselves. First, since the Budget had made no provision for relief from fiscal drag, such relief could be contemplated in the next Budget, bringing relief to hard-pressed consumers and stimulating the economy in the process.

Second, he could further extend the tax incentives for the establishment of new industry. This, together with the benefits of the VAT system, would result in a lower cost structure, to the ultimate benefit of the consumer. (Dr Stals suggested such incentives could target smaller businesses).

Mr Twine said an additional encouraging economic signal this week had been the disposal by the IDC of its stake in Sasol. This was an indication that the corporation could be building up its cash pile ahead of its declared intention to invest R10 billionlion in new projects.

Mr Daly said he believed additional fiscal relief, if granted, would come in the form of extensions to the existing tax incentives for industrial projects.

"However, it should be borne in mind that these incentives fly in the face of the Margo Commission's call for a neutral tax system. The commission said entrepreneurs should be encouraged to make investment decisions on the basis of the pre-tax situation."

He said the Margo Commission had favoured direct cash grants obove tax incentives.

"Beyond that, it is difficult to see what the Minister could do. He is trying to do so much on so many different fronts that there is already potential for a fiscal accident so any further moves would have to be very carefully considered."

Mr Daly said there was a possibility that second half revenue collections had improved but the first half figures did not inspire confidence on this front.

Reality behind the economic miracles

S/Times 3/11/96 (49)

SO KEN OWEN was exasperated at the IMF conference over an ANC proposal to confiscate a third of the wealth of the rich (Sunday Times, October 20).

He complained the ANC "does its best to drive capital and capitalists away" through such proposals.

Perhaps he ought to reflect that it was his newspaper which caused such a fuss over this idea (proposed at a fairly obscure conference in Port Elizabeth), gave it international prominence and created most of the adverse publicity.

Fashion

No doubt, the point of the Sunday Times' revelations about the wealth tax was to drive ANC economic policy further to the right, and in this Mr Owen may yet prove successful.

His concern for the international reputation of the South African economy obviously comes in a distant second to scoring propaganda points against the ANC.

But it is Mr Owen's extended prattle about the alleged Eastern economic miracle (Thailand, China, and I could add other favourites such as South Korea, Singapore and Taiwan) which really deserves a response.

Mr Owen's remarks are part of a widespread fashion for celebrating market economics and monetarism in the Third World. But we should remember this is a relatively new phenomenon.

Until recently, the state's dominant role in Third World economies was not seriously questioned (South Africa was no exception). Indeed, Western colonial powers left little to chance and first promoted it as part of the decolonisation process.

The minutiae of economic life in newly "independent" states were regulated through state intervention and in many cases this state role was termed socialism to gain it popular support.

Reality determined such policies: no Third World economy was able to survive by relying on the free market. Local capitalist classes lacked the resources to go it alone.

Mr Owen's Eastern "miracle" countries were no exception. The free market is conspicuous by its absence in South Korea, Taiwan or Thailand.

The alleged success of these countries is not the reward of free enterprise — they are no less dependent on state intervention than so-called Marxist failures like Ethiopia, Angola or Burma and their governments are just as repressive.

So what makes Thailand, South Korea *et al* such favourites with Mr Owen and his co-thinkers?

The answer is that all of them adopted policies during the 70s which opened them up to the West. Their policy of export-led growth looked to Western finance to promote industrialisation.

In most cases, their trade policies were not even liberalised that much, but their orientation to Western business ensured a positive response from international agencies, such as the IMF.

Austerity

For the IMF and the West today, the "miracle" economies provide a stick with which to beat the rest of the Third World. Credit and finance for poor countries are made conditional on the acceptance of deregulatory IMF policies.

Such policies have the twin objectives of reducing the consumption of the population through implementing further austerity measures and opening up these countries to further Western exploitation by removing all state controls

Mr Owen is eager to jump on the bandwagon and use these arguments to domesticate a radical nationalist movement such as the ANC, which still sometimes proposes oldstle interventionist economics.

Mr Owen's fulsome praise for the grossly exploitative conditions of labour which he witnessed in totalitarian Thailand and China, combined with his concluding remarks about people who are "too idle" to get on with the job, should warn us of what he and his co-thinkers have in mind for the people of this country. — RUSSEL GRINKER, East London.

KEN OWEN ON SUNDAY

S/Times 3/11/91. 49

A GENERAL strike, such as we are promised for the next two days, is different from a two-day stayaway, which is different from a work stoppage, but the distinctions elude me. I can't tell the general strike from that most cherished of South African institutions, the Stretched Weekend.

Experience has shown that businessmen will twitter anxiously, thereby encouraging labour to stay away again another day, that gangs of township beasties will thrash would-be commuters and perhaps burn some taxis and taxi-drivers, and that in most cases the white skeleton staff will ensure that production is maintained at 60 percent or 70 percent of normal levels.

The risks — and they are real — lie in the townships where followers of Cosatu and Inkatha, the former intimidatory and the latter defiant, may well end up killing each other again, but I don't believe the organisers actually intend to create the occasion for another bloodbath. It's merely that they don't care.

I don't even believe they really want to harm the economy. The Great General Strike of 1991 will do about as much economic damage as the Easter weekend, and it is revealing that Cosatu shows no signs of wanting a general strike of consequence, say six weeks, or six months. Its leaders know they don't have the muscle for a proper test of strength.

It's a circus, a reckless brand of showbiz. In its disregard for life, it is a variant of armed propaganda but its purpose is petty: a show of ferocity, a roar of circus lions, intended to frighten whites into believing that foreign capital will flee to Poland, thereby hardening Chris Stals's heart, and squeezing profits for another year.

Cosatu's Jay Naidoo is determined, in his words, to show the government that it cannot reshape the economy without him. By calling the Stretched Weekend a "general strike", he hopes, I imagine, to exploit the stereotypes which, at the end of this century, we all carry in our minds: brave workers, fists up, sleeves rolled over brawny forearms, marching beneath the red banner . . . oh, quake, capitalist, quake!

The reality is different. The ANC, Cosatu's main ally, is struggling to formulate an economic policy which, as general secretary Cyril Ramaphosa tried to explain to businessmen at the Financial Mail conference this week, will not drive away investors or the skills (implicitly possessed mainly by whites) which this country has accumulated.

WHERE Cosatu is trying to frighten the wits out of us, the ANC itself has begun to try to reassure us.

Mr Ramaphosa did not talk of general strikes, he spoke of creating a climate conducive to increased investment. He spoke of the need to establish strong and growing domestic and regional markets, of political stability, of transparent and consistent economic policies, and of a well-trained, flexible and productive work force.

"Foreign investors in general, and transnational corporations in particular, will be crucial in our effort to restructure and regenerate the South African economy . . . we want to reintegrate South Africa into the world economy in such a way that we are more competitive than before. . . ."

He invited business to "pack in the front row" of the scrum to end the inequality of economic opportunity, and he spoke of redistribution by mechanisms which are common to successful, modern industrial states: progressive taxation, welfare for the poor, and redistribution of "new income".

SOME of his audience listened to him with gloomy disapproval but I find it difficult to imagine what more he might say to reassure white South Africans. After all, do we not want equality of opportunity? Help for the very poor? An attractive climate for investment? Progressive taxation?

It is surely no secret that on most of these questions I have serious differences of opinion with the ANC and, indeed, with the "soft left"; but the space between Mr Ramaphosa's views and those of Finance Minister Barend du Plessis, it seemed to me, was less than the space between Neil Kinnock and Margaret Thatcher. On the main principles of economic policy, we seem to have entered the realm of legitimate policy dispute.

I make these observations intending to quarrel furiously with the ANC, for as long as I am able to do so, in order to persuade its leaders to avoid foolish nationalisations, to free the markets, to privatise government enterprises, and to reduce the government's role in the economy to maintaining an equitable basis of law and an atmosphere of order.

But it strikes me that, were I to emigrate to New Zealand or Britain, or Australia or Zimbabwe, I would find myself embroiled in the same arguments. These are disputes over means, not ends, and over priorities, not goals.

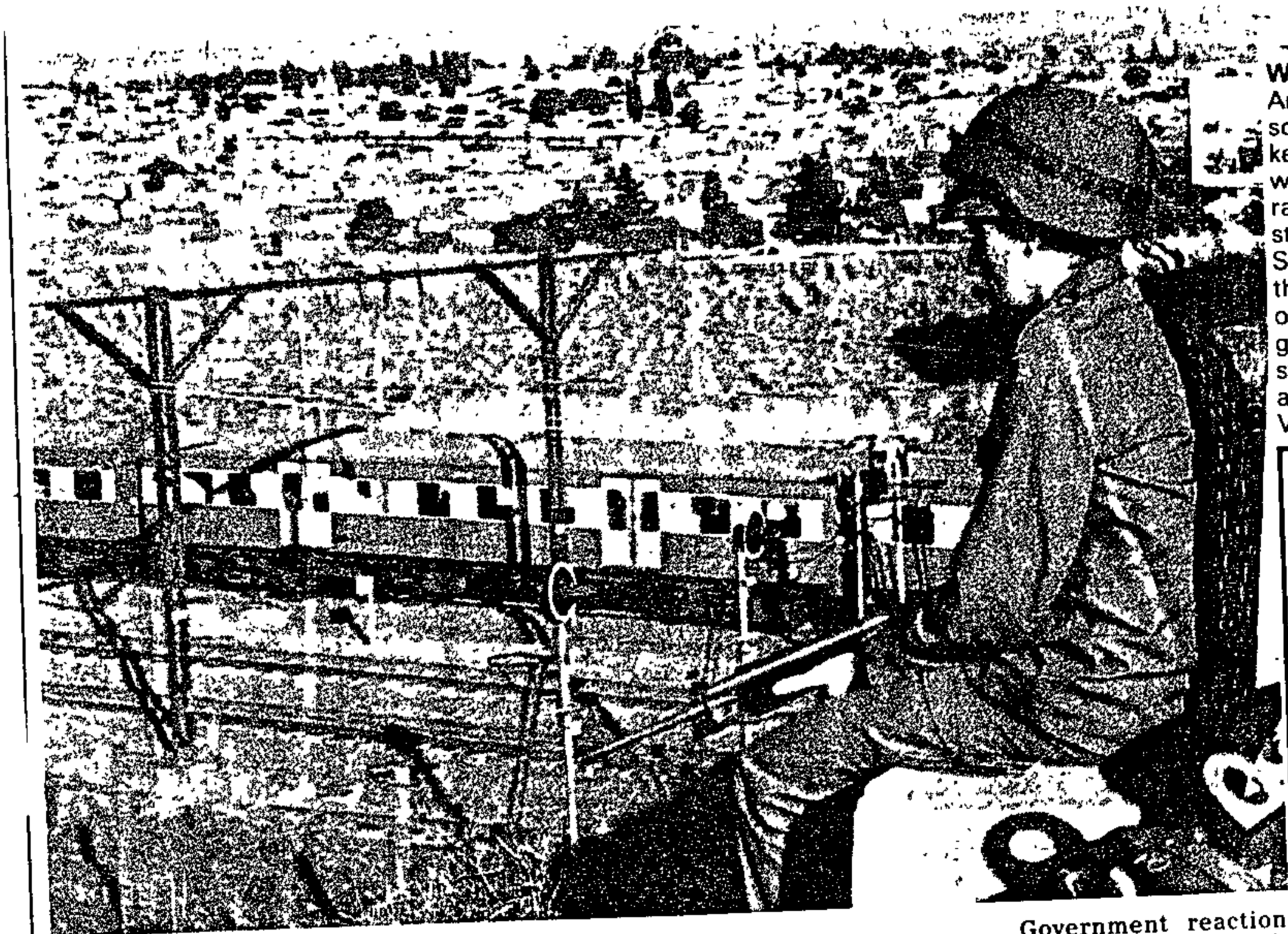
Why, then, the gloom? Wherever I go among whites these days, I am asked whether I am "optimistic" or "pessimistic"; when I say "optimistic", I encounter a sceptical, sometimes sullen, silence.

Only the gloomiest prognosis wins applause.

Many years ago, I worked briefly in Mississippi as a volunteer for SNCC, the civil rights organisation known as "Snick" — it was the time in which the movie, *Mississippi Burning*, was set — and it seemed to me that American whites were making very heavy weather of quite limited social changes.

WITH that experience in mind, I have watched white South Africans go through truly traumatic change in the past 18 months, with quite unusual courage and composure. But I suspect their nerve is beginning to fray. There has been simply too much killing, and life has become rather too uncertain.

However, it would be a great pity if, now that we are beginning to bring the ANC round to see economic sense, we allowed ourselves to be so frightened by the street theatre of Cosatu that we failed to hear the invitation from Mr Ramaphosa to pack in the front row in the struggle for a just society.



WATCH ... An armed soldier keeps watch at a railway station in Soweto on the last day of the general strike against VAT.

Strikes threat over the budget

PSZ 49 CT 6/11/91

Own Correspondent

DURBAN. — Cosatu has threatened more stayaways unless it and "other major players" are consulted on the content of next year's budget.

And the ANC-Cosatu alliance last night issued a plea to the government to immediately freeze further implementation of VAT.

Cosatu's secretary-general, Mr Jay Naidoo, said it wanted an immediate and total re-examination of the country's budgeting and taxation system.

The two-day strike was effectively "a vote of confidence in Cosatu and no-confidence in the government ... it gives us legitimacy", said Mr Naidoo. "Government has no right to unilaterally restructure the economy."

Stayaway levels on the second day of the anti-VAT strike remained largely unchanged at between 80% and 100% in the Witwatersrand, Eastern Cape and Durban, while the least support was in the Free State, Northern Natal and the Western Cape.

Government reaction has been minimal. President F W de Klerk said yesterday the strike was unjustified.

Cosatu's Mr Neil Coleman said the second day of the strike had been as succesful as the first. He said 80% of the workforce in the manufacturing and industrial sectors had not turned up for work and a total of 3,5 million had joined the stayaway.

The ANC-Cosatu alliance last night warned that the authorities' attitude to stayaway would inevitably have an impact on the coming all-party conference.

● More die in VAT strike violence — Page 2

932 5280

SA setting new trend to export-orientation

Star 6/11/91 (49)

By Sven Lünsche

The greater export-orientation of the SA economy is the key to more sustained long-term economic growth, says Rob Lee, economist at the Board of Executors.

In the BoE's latest monthly Investment Outlook, Mr Lee says the cumulative impact of sanctions was extremely damaging to SA's economic performance and growth potential.

The removal of these barriers has allowed the business community to seize some of the new export opportunities and set a new trend towards export orientation of the economy.

"SA is now better placed to sustain this export growth because of a dramatic but little noticed change in economic policy that has taken place in recent months," Mr Lee says.

"The authorities have taken some radical steps towards the creation of a classic outward-looking economic strategy that is focused on exports and industrial developments as the key to sustained economic growth."

Mr Lee lists six key areas of this strategy:

- The VAT exemption on capital and intermediate goods and the zero rating on exports.
- The export tax incentive scheme ensuring private sector involvement in major export projects.

Transport

- Low increases in key transport and electricity tariffs.
- The deregulation and promotion of tourism.
- A disciplined monetary policy by the Reserve Bank, including the commitment to a high real level of interest rates.
- A phased reduction in tariff and other protection to restore the international competitiveness of the manufacturing sector.

"Should this policy approach be maintained and built upon, the long-term impact on export performance will be dramatic, which in turn will substantially raise SA's sustainable growth rate," Mr Lee says.

He believes the next economic upswing "which will start to become noticeable to the man in the street only in the second half of 1992" will be significantly better than the two cyclical upswings in the 1980s.

Until then, however, he expects economic growth to remain under pressure from depressed private consumption expenditure (PCE), the biggest single component of gross domestic product.

"High inflation, fiscal drag, increasing unemployment, a falling level of wage increases and no relief in terms of lower interest rates, will keep PCE under pressure for several more months to come.

"Furthermore, although there are signs that the decline in fixed-investment spending may soon bottom out and a potential investment boom may await farther down the track, no strength in fixed investment can be expected in the next few months."

The Nobel laureate who helped shape modern economic thought

B\Day 6\11\91

6\11\91 **TONY ELLISON** (49)

THE award of the 1991 Nobel Prize for Economic Sciences to Ronald H Coase confers the triple crown on the Chicago School of Economics. Milton Friedman, the recipient in 1976 for his work on monetary theory and policy and George Schultz (1982), for his contribution to the economic theory of information and public regulation, have been provocative scholars who contested and vanquished the Keynesian and the Harvard School of Industrial Organisation.

Born and educated in England, Coase has not written a textbook, produced a weekly column in a national magazine, nor appeared on television programmes. He has been sparing in his published work, producing four notable papers, all of which appeared before 1964.

The theorem that bears his name was christened 30 years ago by Schultz and subsequently explored and developed by hundreds of others. The ripples, however, have swelled into a tidal wave.

Coase looked at a familiar activity, the exchange of resources, in a different way and in so doing redirected the view of economists and lawyers as to the formation of institutions. He observed resources through the eyes of a lawyer and as an economist formulated the factors that constrained their exchange.

He identified resources not as the economist did, exclusively in either physical or monetary terms, but as consisting of bundles of rights or entitlements. He then specified the costs incurred in exchanging bundles of rights. The transaction costs included the costs of negotiating and enforcing agreements, costs of information needed to formulate a bargaining strategy and protection against cheating.

To Coase, the market exists because it reduces the costs of executing exchange transactions. Accordingly, in 1937 he suggested firms were established at the points where the costs of organising the transactions rise to equal the costs of undertaking the activity through the market.

In 1959 Coase published his examination of the practical problem involved in bidding for segments of radio frequency spectrums. His consideration of this practical issue led him to suggest that if rights to perform certain actions can be bought and sold, they will be aquired by those for whom they are most valuable.

In his next paper, The Problem of Social Cost, Coase explored the implications of assuming zero transaction costs. He outlined the proposition that although the delineation of rights was necessary before market transactions could take place, the maximisation of the value of production would result independently of the legal decisions so long as there are zero transaction costs.

In exploring the assumption of zero transaction costs, Coase opened up to theoreticians a world of economic fiction. They dived in. With zero transaction costs, exchange could be speeded up such that eternity would be experienced instantly. There would be an unfamiliar shapelessness to society, for if all costs of transaction were zero, the deployment of resources would be guided exclusively by the market. Firms, lawyers, governments, insurance companies, all the familiar organisations, would not exist.

Reality is somewhat different. Lawyers and transaction costs exist, along with pollution. Prof Pigou of Cambridge had argued that in guiding the assignment of responsibility, the common law concept of causality served to promote economic efficiency. Where the law failed, action was required, such as imposing a tax upon polluters equal to the social cost of pollution.

Coase disagreed with the interpretation and course of corrective action. The fact that a party is deemed to be judged, by common law principles, to have "caused" a nuisance does not imply that it is efficient to hold the party liable. For Coase, efficiency is to be decided by a balancing of costs and benefits, not by who is deemed to have caused the nuisance.

If transaction costs are sufficiently high to erect obstacles to spontaneous private solutions, Coase's analysis suggested government should attempt to lubricate the exchange of private entitlements rather than issue commands or attempt to allocate entitlements efficiently. Coase pointed out that the latter action was founded on the notion of what constitutes an ideal market, and that departures from the ideal constituted a prima facie case for government intervention, and that the costs of intervention were negligible.

By pillorying the implied dichotomy between imperfect markets and perfect government, Coase forced the interventionists on the retreat and probably contributed to the containment of the intervention of some governments.

His principal finding is that transaction costs impede mutually beneficial exchange. The law schools of North America, unlike those of other parts of the English-speaking world, were not slow to explore the possibilities of this finding. Transaction costs are considered a major determinant of the law's effect on economic activity and behaviour. The economic analysis of the law has also been launched. The economic explanation of legal doctrines, and consideration as to whether the fundamental logic of the common law is economic, are topics considered by growing numbers of legal scholars.

Coase's insights are central to the property rights school of analysis and to those who make the case that the poor economic performance and eventual demise of the communist and apartheid states were due to the high and eventually shifting form of transaction costs that they bore.

□ **Ellison is a Johannesburg-based economic consultant.**

Reserve Bank under Stals acquiring the look of independence

B/Day 6/11/91 49

SIMON WILLSON

WHEN Bank of England governor Robin Leigh-Pemberton mentioned in a speech a couple of months ago that the UK recession appeared to be bottoming out, he earned hoots of derision from the British opposition parties and parts of the Press.

His perceived offence was to have echoed the ruling Conservative Party's own analysis of the British economy at a politically sensitive time — within months of the next general election.

Last week SA Reserve Bank governor Chris Stals performed almost exactly the same feat: at a time of high political sensitivity — within months of the start of multiparty constitutional negotiations — he told a conference that there was "ample reason for being optimistic and even for getting excited about the prospects for the economy".

The reaction was markedly different. Commentators soberly reported the substance of his remarks in the Press, and not a whisper was raised among local opposition movements of any suspicion that the governor was fulfilling any political expectations.

This sharp contrast, together with the Reserve Bank's thinly veiled but increasingly frequent reproof of government for the growth of public spending, strengthens the perception that the Bank has assumed a role fully independent of the executive.

SA's monetary authority thus finds itself in a slightly unfamiliar position — in the vanguard of a growing trend among Western industrialised countries for the full and statutory independence of the national central bank.

Leigh-Pemberton's bona fides in making what was probably a straightforward statement of economic fact were questioned only because of the system in which the Bank of England operates. The UK central bank makes no pretence at independence. It is, in effect, an arm of the Treasury and is legally bound to implement instructions from the Treasury. The Treasury, in turn, is a government department run by the Chancellor of the Exchequer — the minister who holds the finance portfolio in the cabinet.

When the Bank of England changes its money market intervention rate — the key short-term money market rate that underpins commercial banks' base rates — it does so only on a signal from the Treasury. Although the Bank ostensibly moves the rate, the Treasury tells it when, by how much and in which direction.

Hence the uproar when Leigh-Pemberton issued his opportune pronouncement about economic performance. Because the Bank of England governor had no nominal veneer of independence to cover him, he was seen as a high-profile Treasury functionary making a convenient intervention on behalf of his political masters.

Stals's standing in the eyes of political opposition, Press and, indeed, his foreign counterparts, could hardly be more different. In his two years in office he has turned around the image — and perhaps, now, the reality — of the Reserve Bank from one of being an arm of the Department of Finance to one of *de facto* independence.

The Reserve Bank of the 1980s had a distinctly Bank of England look about it. "Primrose prime" has entered money-market folklore as the classic local example of the executive trampling on the monetary authority. Over a two-month period in late 1984 the prime rate dipped from its 25% peak just before a sensitive by-election and then rose back to 25% again, where it stayed for another four months.

Then in the mid-1980s the Reserve Bank participated in chopping real interest rates down to negative levels as the government of the day opted to prompt the economy into spending its way out of its last cyclical downswing.

But as soon as Stals took office towards the end of 1989 he appeared to set about changing the Bank's role — if only by defining it more clearly. Within months it had adopted and publicly declared a "mission": the protection of the domestic and external value of the rand. This formal goal is restated often and has become a kind of monetary mantra.

The frequent and open reaffirmations of this ultimate goal are possibly the strongest manifestation of the Bank's newly asserted independence, and a totem which distinguishes it from other, less independent central banks.

The Bank of England cannot pretend to have had any such mission as it presided over the rate-cutting of the third Thatcher government in the late 1980s that stoked up a consumer boom that then had to be stifled by credit squeeze and recession. The Bank of England may soon join the swelling ranks of its more independent counterparts; however, the treaty on European Monetary Union to be signed next month requires that the Bank of England become independent by 1994.

The SA Reserve Bank, then, currently finds itself at the independent end of the world central bank spectrum, not far behind assertively autonomous institutions such as the Bundesbank, the Swiss National Bank, the Bank of Japan and the US Federal Reserve. By its statements and actions it has set itself apart from the extensions of government that are the central banks at the other end of the spectrum — those of Italy, Spain, Britain and France.

But it cannot claim to be among the most independent central banks until the government openly calls on it to change interest rates. The Bush administration, seeking re-election next year, is putting public pressure on the Federal Reserve to cut US interest rates; as a new prime minister takes office in Tokyo, the Japanese government is publicly urging the Bank of Japan to cut its discount rate. Could the Reserve Bank join this illustrious group if rates are still at penal levels ahead of a constitutional referendum?

The Bundesbank chose a unique way of showing its independence from Bonn a couple of years ago. Amid ripe conditions for a monetary tightening in Germany, the French had asked the Germans to delay a rate rise temporarily as the French would have had to match any increase to protect the franc. The Germans duly took note of the French representations.

A short time later German chancellor Helmut Kohl went on an official visit to Paris. He had no sooner set foot on French soil than the Bundesbank announced a hike in German rates, forcing Kohl and his hosts to wear rather wintry smiles. Now that's independence.

OVERALL ASSESSMENT :

EXAMINER

SA on high road 'as soon as 1995'

(49) CT 7/11/91

By AUDREY D'ANGELO
Business Editor

SA COULD be on the high road towards becoming a winning nation by 1995 or 1996 — "sooner than people think" — if politicians reach a negotiated settlement and the problem of violence is stopped, Anglo American executive director Clem Sunter said in Cape Town yesterday.

He told the Menswear Group of SA, at its annual seminar at the Cape Sun, that the question was not whether this country could achieve 10% annual growth but why it should not.

It had mineral resources "other countries would give their eye teeth for", which should be exported with added value as manufactured goods, and the potential for tourism to become its biggest industry.

And, Sunter continued, "we are a nation of entrepreneurs, outside the civil service."

In Khayelitsha alone R74m worth of goods and services were produced every year. This was part of a miracle of small business success taking place in SA.

There was no need for a black or white messiah to lead SA to success. The countries with the most successful economies, such as Switzerland, Japan and Italy, did not have strong leaders.

"It is the middle class that makes a country successful."

People must be trained and developed, given equality of opportunity, and protected by the rule of law.

Sunter said the most successful countries were those which had a high level of education and the least government, and low income tax.

Political formulas

He admitted that politicians negotiating with each other for a new constitution would be "a formula for the doubling of government" rather than its reduction. It would be a problem to persuade the politicians to reduce their own role.

But the economic forum taking place alongside these negotiations could play a very useful part.

The next government should rule with a very light hand. Politicians should be persuaded to abandon any idea of central planning. "Ordinary people are far more brilliant at directing their lives than intellectuals are at doing it for them."

It was encouraging that the ANC had moved from hardline socialism to soft socialism, and that he National Party had realised it should stand back from the economy.

But, Sunter warned: "The only way we can get to our high road scenario is through negotiated settlement."

There was still a danger that SA could take the low road to disaster, with civil war and economic misery, if the politicians failed to reach a settlement

And continuing violence, in which housewives were shot in their own homes by burglars who had already taken all they wanted, and people were massacred in trains, would "send us careering down the low road."

Sunter said he believed national service should be replaced by community service.

He saw no need for national service since this country was not threatened by any outside enemy. But some form of community service was needed in which people handicapped by an inadequate education could be trained, while receiving a minimum wage from the government.

"A political settlement will resolve a lot of the strains we are under. There is no tension in Harare now."

Nationalisation cuts both ways

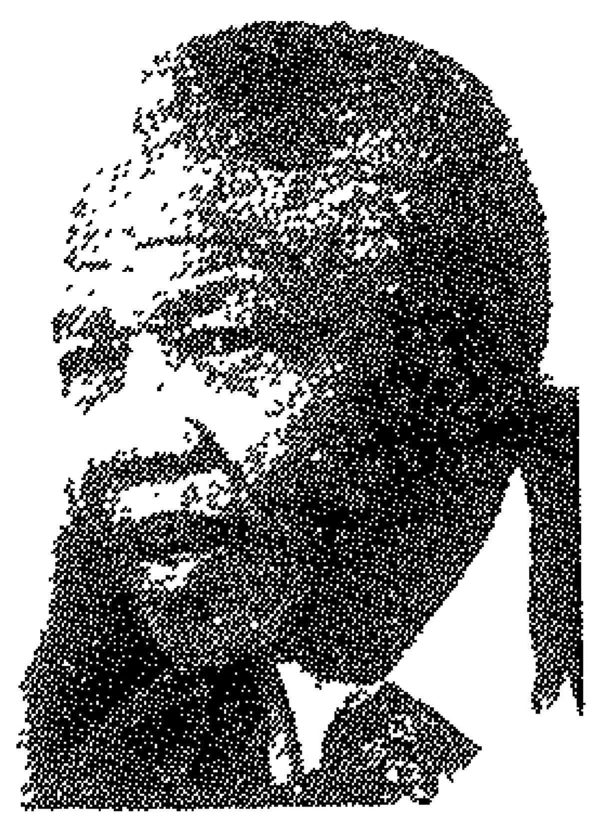
Sowetan 7/11/91 (49)

I would like to highlight a few points concerning nationalisation and apartheid.

There is always a big outcry whenever Mr Nelson Mandela mentions nationalisation, especially among our white fellow countrymen

What surprises me is that the white Nationalist Government did the very same thing when it took over.

The railways and post offices were put under State control to provide poor whites with employment and housing through subsidies. This is still happening.



MANDELA

I work for Telkom, where even whites who are blind and mentally retarded are employed. Now that they are aware that the next government will be black they privatise these institutions.

I appeal to the African National Congress to deprivatise them immediately they get into power.

Concerning apartheid, I think it is only the laws that have been abolished but apartheid is still alive and kicking, especially at Telkom

Promotion is still taboo for blacks We had thought with the dawn of the new South Africa that things would change but they have gone from bad to worse

Academic and technical qualifications no longer count but the colour of your skin, especially in the East Rand When Potwa won the fight for parity of salaries in 1987 most, if not all, whites were promoted so that they could not earn the same as blacks

A black with matric and three years technical training is on the same marking level or even lower that a white woman with Standard 8 and no technical training. So, is Mr FW de Klerk a man of intergrity?

WORRIED UMSEBENZI, East Rand.

No. 2668 **8 November 1991**

ERKENNING VERLEEN AS EREKONSUL

Hierby word bekendgemaak dat aan mnr. Juan Luis Cabral met ingang van 26 Junie 1991 erkenning verleen is as Erekonsul van Uruguay in Johannesburg, met die provinsie Transvaal as sy regsgebied.

Mnr. Cabral is die opvolger van mnr. J. J. M. Hughes Ramos.

(72/47/3)

No. 2669 **8 November 1991**

ERKENNING VERLEEN AS VISEKONSUL (HANDEL)

Hierby word bekendgemaak dat aan mej. Sarah Anne Maxwell Dring met ingang van 7 Oktober 1991 erkenning verleen is as Visekonsul (Handel) van die Verenigde Koninkryk van Groot-Brittanje en Noord-Ierland in Johannesburg, met die provinsies Transvaal, Natal en die Oranje-Vrystaat, asook die gedeelte van die provinsie die Kaap die Goeie Hoop ten noorde van en met uitsondering van die landdrosdistrikte Philipstown, Britstown, Victoria-Wes, Carnarvon, Kenhardt en Gordonia, as haar regsgebied.

(72/20/4)

No. 2668 **8 November 1991**

RECOGNITION GRANTED AS HONORARY CONSUL

It is hereby notified that Mr Juan Luis Cabral has, with effect from 26 June 1991, been granted recognition as Honorary Consul of Uruguay in Johannesburg, with the Province of the Transvaal as his area of jurisdiction.

Mr Cabral is the successor to Mr. J. J. M. Hughes Ramos.

(72/47/3)

No. 2669 **8 November 1991**

RECOGNITION GRANTED AS VICE-CONSUL (COMMERCIAL)

It is hereby notified that Miss Sarah Anne Maxwell Dring has, with effect from 7 October 1991, been granted recognition as Vice-Consul (Commercial) of the United Kingdom of Great Britain and Northern Ireland in Johannesburg, with the Provinces of the Transvaal, Natal and the Orange Free State, as well as that portion of the Province of the Cape of Good Hope to the north of and excluding the Magisterial Districts of Philipstown, Britstown, Victoria West, Carnarvon, Kenhardt and Gordonia, as her area of jurisdiction.

(72/20/4)

DEPARTEMENT VAN FINANSIES

No. 2639 **8 November 1991**

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1991 tot 30 September 1991.

Tesourie, Pretoria.

DEPARTMENT OF FINANCE

No. 2639 **8 November 1991**

Statement of Revenue collected during the period 1 April 1991 to 30 September 1991.

Treasury, Pretoria.

Inkomstehoof	Head of Revenue	Begroting Estimate 1991/92	Maand September Month of September 1991	Maand September Month of September 1990	Totaal 1 April tot 30 September Total 1 April to 30 September 1991	Totaal 1 April tot 30 September Total 1 April to 30 September 1990
		R	R	R	R	R
Staatsinkomsterekening	***State Revenue Account***					
Binnelandse Inkomste	Inland Revenue					
Belasting op inkomste	Tax on income	44 817 200 000	4 949 316 299	4 101 424 287	20 605 476 792	18 627 873 474
Lenningsheffing 1989–94	Loan Levy 1989–94	—	—	—	1 754 663	264 800
Verkoopbelasting	Sales tax	19 444 000 000	1 500 668 928	1 412 095 993	9 013 936 989	8 795 975 140
Belasting op toegevoegde waarde	Value added tax	—	23	—	23	—
Ander belastings	Other taxes					
Belasting op buitelandse aandeelhouers	Non-resident shareholders' tax	430 000 000	22 697 665	66 895 771	171 387 490	246 133 280
Rentebelasting op buitelanders	Non-residents' tax on interest	—	13 110	30 454	3 854	1 284 772
Onuitgekeerde winste	Undistributed profits	—	(5 412)	12 785	203 649	304 149
Geskenkbelasting	Donations tax	6 000 000	394 597	475 186	2 517 946	3 242 486
Boedelbelasting	Estate duty	75 000 000	13 422 680	6 509 714	48 305 281	51 160 225
Handelseffekte	Trade securities	175 000 000	19 968 944	32 457 849	112 606 978	145 241 801
Seëlregte en gelde	Stamp duties and fees	655 000 000	52 835 649	44 217 626	366 201 631	314 901 165
Hereregte	Transfer duties	675 000 000	70 157 344	58 682 231	456 198 696	377 833 872
Diverse	Miscellaneous	—	—	—	—	—
Mynverhurings- en eiendomsregte	Mining leases and ownership	320 000 000	144 281	8 149 146	139 075 168	156 891 317
Rente en dividende	Interest and dividends	55 000 000	9 652 936	1 860 557	31 284 569	27 259 970
Heffings	Levies	9 000 000	365 402	2 700 013	6 191 465	922 082
Terugvorderings van lenings en voorskotte	Recoveries of loans and advances	56 000 000	8 395 504	3 047 446	17 862 695	12 760 879
Departementele bedrywighede	Departmental activities	994 000 000	125 539 726	188 603 816	544 117 988	628 507 009
	R	67 711 200 000	6 773 567 676	5 927 162 874	31 517 125 877	29 390 556 421
Min Betalings aan selfregerende nasionale state	*Less* Payments to self-governing national states	1 075 200 000	90 354 000	75 521 000	541 706 000	454 031 000
Totaal Binnelandse inkomste	Total Inland revenue R	66 636 000 000	6 683 213 676	5 851 641 874	30 975 419 877	28 936 525 421
Doeane- en aksynsregte	Customs and excise duties					
Doeanereg	Customs duty	2 635 000 000	277 089 447	195 615 209	1 453 523 432	1 210 670 268
Aksynsreg	Excise duty	3 555 000 000	321 340 030	257 625 195	1 594 759 462	1 365 946 277
Bobelasting	Surcharge	1 409 000 000	150 593 601	153 880 572	765 188 699	1 032 698 295
Diverse	Miscellaneous	233 000 000	27 874 921	24 057 575	109 748 959	95 766 846
Brandstofheffing	Fuel levy	4 520 000 000	407 426 052	366 595 349	2 256 121 605	2 024 701 341
Gewone Heffing	Ordinary Levy	111 000 000	5 031 452	3 975 697	32 173 812	59 247 241
	R	12 463 000 000	1 189 355 503	1 001 749 597	6 211 515 969	5 789 030 268

Inkomstehoof	Head of Revenue	Begroting Estimate 1991/92	Maand September Month of September 1991	1990	Totaal 1 April tot 30 September Total 1 April to 30 September 1991	1990
		R	R	R	R	R
Min	*Less*					
Bedrag tot krediet van Sentrale Inkomstefonds	Amount to the credit of Central Revenue Fund	—	—	37 250 000	—	223 500 000
Betalings ingevolge Doeane-unie-ooreenkomste .	Payments in terms of Customs Union Agreements .	4 233 000 000	17 269 000	—	2 253 915 250	1 419 089 500
Totaal Doeane- en aksynsregte ...	Total Customs and excise duties R	8 230 000 000	1 172 086 503	964 499 597	3 957 600 719	4 146 440 768
	R	74 866 000 000	7 855 300 179	6 816 141 471	34 933 020 596	33 082 966 189
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	50 000 000	6 154 203	34 671 236	35 671 057	56 377 052
Fonds vir Sorghumbiernavorsingfonds	Sorghum Beer Research Fund	1 200 000	—	—	—	—
Toewysings uit brandstofheffing	Allocations from fuel levy					
Oliebesoedelingsfonds	Oil Pollution Fund	6 000 000	—	—	—	—
Suidwes-Afrika	South West Africa ...	10 000 000	—	—	—	—
TBVC-lande	TBVC Countries .	140 000 000	—	—	—	—
	R	207 200 000	6 154 203	34 671 236	35 671 057	56 377 052
	R	75 073 200 000	7 861 454 382	6 850 812 707	34 968 691 653	33 139 343 241
Inkomsterekening: Volksraad	***Revenue Account: House of Assembly***					
Binnelandse inkomste... ...	Inland revenue	—	21 814 641	8 036 329	106 512 613	51 124 408
Inkomsterekening: Raad van Verteenwoordigers	***Revenue Account: House of Representatives***					
Binnelandse inkomste . .	Inland revenue	—	3 322 708	2 256 870	19 399 141	18 554 958
Inkomsterekening: Raad van Afgevaardigdes	***Revenue Account. House of Delegates***					
Binnelandse inkomste	Inland revenue	—	464 933	1 491 801	3 714 455	3 740 537
	R	—	25 602 282	11 785 000	129 626 209	73 419 903
Groottotaal	Grandtotal R	—	044230007 887 - 056 664	6 862 597 707	35 098 317 862	33 212 763 144
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 2478 in *Staatskoerant* van 18 Oktober 1991	Reconciliation with statement published by Government Notice 2478 in *Government Gazette* of 18 October 1991					
In Transito, 31 Maart 1991	In Transit, 31 March 1991	—	—	—	198 934 099	—
In Transito/Te veel oorgedra 31 Augustus 1991	In Transit/Overremitted, 31 August 1991	—	26 737 518	—	—	—
Invorderings soos hierbo	Collections as above	—	7 887 056 664	—	35 098 317 862	—
	R	—	7 913 794 182	—	35 297 251 961	—
In Transito/Te veel oorgedra, 30 September 1991	In Transit/Overremitted, 30 September 1991	—	(240 949 206)	—	(240 949 206)	—
In Transito Inkomsterekening Administrasies	In Transit Revenue Account Administrations	—	(15 600 492)	—	(104 023 927)	—
In Skatkisrekening ontvang	Received into Exchequer Account R	—	7 657 244 484	—	34 952 278 828	—

No. 2640 **8 November 1991**

STREEKTENDERRAAD

Die Minister van Staatsbesteding het kragtens artikel 3 van die Wet op die Staatstenderraad, 1968 (Wet 86 van 1968), mnr. H. Wandrag met ingang van 1 Oktober 1991 as lid van die Streektenderraad: Bloemfontein aangestel om die Bou-Industriee Federasie Suid-Afrika te verteenwoordig.

No. 2640 **8 November 1991**

REGIONAL TENDER BOARD

In terms of section 3 of the State Tender Board Act, 1968 (Act 86 of 1968), the Minister of State Expenditure has appointed Mr H. Wandrag as member of the Regional Tender Board: Bloemfontein with effect from 1 October 1991 to represent the Building Industries Federation South Africa.

No. 2641 **8 November 1991**

STREEKTENDERRAAD

Die Minister van Staatsbesteding het kragtens artikel 3 van die Wet op die Staatstenderraad, 1968 (Wet 86 van 1968), mnr. B. A. van der Vyver met ingang van 1 November 1991 as Voorsitter van die Streektenderraad: Kaapstad aangestel.

No. 2641 **8 November 1991**

REGIONAL TENDER BOARD

In terms of section 3 of the State Tender Board Act, 1968 (Act 86 of 1968), the Minister of State Expenditure has appointed Mr B. A. van der Vyver as Chairman of the Regional Tender Board, Cape Town with effect from 1 November 1991.

No. 2642 **8 November 1991**

STREEKTENDERRAAD

Die Minister van Staatsbesteding het kragtens artikel 3 van die Wet op die Staatstenderraad, 1968 (Wet 86 van 1968), mnr. J. D. Marx met ingang van 1 Oktober 1991 as lid van die Streektenderraad: Bloemfontein aangestel om die Afrikaanse Handelsinstituut te verteenwoordig.

No. 2642 **8 November 1991**

REGIONAL TENDER BOARD

In terms of section 3 of the State Tender Board Act, 1968 (Act 86 of 1968), the Minister of State Expenditure has appointed Mr J. D. Marx as member of the Regional Tender Board: Bloemfontein with effect from 1 October 1991 to represent the Afrikaanse Handelsinstituut.

Unions warned to cool it — or miss out

By ARI JACOBSON

TRADE unions should realise they were not fighting for white capital — but for capital which was flowing to — among others — the Pacific rim countries, Johann Rupert, Richemont CE, said yester Consequently ly SA business should stand their ground against certain demands, the Rembrandt executive vice-chairman said. 49 8/11/91 CT

Rupert, speaking at the Afrikaner Sakekamer luncheon held at the President Hotel, elaborated that capital inflows would only be attracted to a country run on free market principles and possessing a stable monetary currency and sound living standards.

Africa, he added was unlikely to be the recipient of international capital especially "sub-Saharan Africa which continues to hover at third world status".

Rupert emphasised that "perceptions determined the flows of international capital". He said the US with twin-deficit problems and Germany struggling with the costs attached to a unified Germany would not simply pour capital into the country.

"But I am optimistic and positive about SA's future — most people realise that every financial deal into Africa will soon be going through Johannesburg."

Should SA collapse this would affect the whole of Africa, he said.

And should standards drop dramatically in the medium term those professionals required to boost the potential of the country would leave and "SA in turn will be no different to the rest of Africa".

"All particpants need to realise that political and financial restructuring, currently underway in SA, is a dangerous concoction."

But Rupert said "we are all in the same boat — either the nation learns to row or we will all end up swimming".

● Foreign trade missions visiting SA are increasingly worried about the degree of labour volatility and instability in the country, according to Marius de Jager, CE of Johannesburg's Chamber of Commerce and Industry.

De Jager said the chamber hosted foreign trade missions almost daily "and this concern was particularly evident in comments made by members of the Engineering Association Mission from Britain".

Financier challenges ANC to lift curbs

B/Day 8/11/91 (49)

ROBERT GENTLE

A LEADING American financier has challenged the ANC to endorse publicly the lifting of exchange controls as part of a bold, four-point free enterprise plan aimed at bringing in foreign capital and boosting economic growth.

He is Joel Stern, managing partner of New York strategy and advisory firm Stern Stewart & Co, and advisor to a number of SA blue chip companies.

"The ANC should stop playing defence on free enterprise and start playing offence," said Stern in an interview in Johannesburg yesterday. Previous talk of nationalisation and redistribution had been "disastrous".

Incentive

Stern said contacts with financiers in Europe and the US had convinced him that foreign capital could flow into SA once controls were lifted, reducing unemployment by 50% and boosting annual economic growth rates by 5%-6%.

Experience in other countries had shown that the inflow of new capital exceeded the initial outflow of capital once investors knew their capital flows were no longer restricted

"The ANC should come out and say it believes that only through a rapidly growing private sector and permanent job creation will there be a future for the unrepresented population of SA."

Secondly, the ANC should support the slashing of corporate and private taxes. This could enable the economy to grow by between 6% and 8%. While the rest of the world was moving towards lower tax rates, SA was going "the other way".

Thirdly, the ANC should also take up the US offer of a Marshall Plan package to boost education and upgrade black skills "The US would be pleased to pay that money over the next five to 10 years if it was assured a market economy would follow."

Fourthly, private sector companies should grant black employees equity certificates. These could be converted into real equity after 10 years with the company.

"It would give people a stake in their companies and provide stability," said Stern. Similar incentive schemes in the US, whereby occupants were given stakes in the buildings they occupied, had prevented the buildings from becoming slums

Apart from putting government on the defensive, the plan would restore the credibility of the ANC in the eyes of the international investment community, and spur economic growth.

"World markets are still very concerned about earlier statements by the ANC on nationalisation and redistribution," said Stern. "These have not been withdrawn."

SA is, and will remain, the giant in a small room, writes **Stanley Uys** from London

Old diplomacy in a new guise

Star 8/11/91 (49)

MOST of us have assumed that as South Africa's internal politics become "normalised", its external relations will be "normalised" simultaneously — and that this process is already under way, particularly in Africa. Neil van Heerden, Director-General of Foreign Affairs, calls the process the New Diplomacy.

But how new is this New Diplomacy? The question is asked by two academics in the October issue of International Affairs, journal of the Royal Institute of International Affairs.

One is Professor Peter Vale, co-director of the Centre for Southern African Studies at the University of the Western Cape, and the other is Graham Evans, lecturer in International Relations at the University College of Swansea.

In a recent column, I discussed the likely relationship between a post-apartheid South African government and its neighbours, and suggested that sentiment would not prevent a black majority government from "dominating" the region economically. Vale and Evans take this argument further.

Vale, referring to the expectation that once South Africa is liberated, "the region's destiny and economic salvation would be sealed by a concordat of the majority-ruled states", says changes in the international system have killed these predictions. "If anything," he says, "the ending of the Cold War has accented the lopsided distribution of power in southern Africa."

Vale says that President de Klerk, by focusing particularly on southern Africa in his February 2 1990 speech, not only raised the prospects for a new regional order, but also staked his Government's claim to regional domination. "The New Diplomacy aimed to manipulate the fears and expectations of South Africa's neighbours with a view to extracting international support for the South African Government for the ending of sanctions."

Vale suggests that even if individual southern African countries have been drawn to the New Diplomacy, the policy so far has been only a partial success, because no one outside Zaire and Kenya (both peripheral to the region) has agreed to join Malawi in establishing diplomatic relations with Pretoria. Also, the New Diplomacy has failed to create a common regional market.

Vale continues: "In its primary desire to control the process of transition inside South Africa, the National Party was unwilling to change the substance of regional relations. The New Diplomacy merely replaced South Africa's early military domination of the region with a mix of diplomatic and economic levers. Style rather than substance was the leitmotif."

Professor Vale also believes that the New Diplomacy further confused South Africa's neighbours by making it seem as if the ANC had no stake in regional affairs. As a result, "the ANC has been unwilling to engage the De Klerk Government in serious debate over the future of southern Africa ... there has been an unwillingness to spell out serious policy options".

Evans is even more critical than Vale. He believes that "despite reassuring noises from Pretoria, there is no unambiguous signal that a fundamental re-evaluation of the foreign policy means/ends formula is under way. The indications are that the new political dispensation has not, so far, spilt over into the foreign policy realm".

South Africa's foreign policy, Evans contends, will not suddenly become "normal" once apartheid disappears. He notes the view that whoever formulates policy, geopolitical and economic realities will dictate that South Africa gravitates towards its "natural" role as the regional hegemon, that of the giant in the small room, and that overlying this thesis "is the belief that the giant will be a gentle one"(gentle giantism?).

If this were true, the new South Africa would be "a beneficial and benevolent force in the neighbourhood ... the bully boy on the block will be transformed into the genial policeman-cum-social welfare worker". Both Mr van Heerden and the ANC's Thabo Mbeki, says Evans, "share this idealistic vision of harmonious and non-exploitative relations with their neighbours".

On the other hand, says Evans, it might be argued that, contrary to popular belief, a post-apartheid South Africa "is likely to be a net recipient of aid rather than a more or less benevolent donor of it".

Evans's conclusion is that the New Diplomacy "is neither particularly new, nor does it involve a significant deviation from South Africa's traditional regional and international objectives".

He writes: "Despite a presumption in favour of equality with its neighbours, a new majority-rule government, perhaps after a brief honeymoon period, would be unable to resist the obvious benefits of being the key player in local balance-of-power politics.

"This would not preclude regional co-operation or the creating of an integrated trading bloc, but it would be on South Africa's terms. In the absence of an external force, the role of manipulating 'balances' seems pre-ordained, whoever occupies the Union Building in Pretoria."

It's an interesting debate, and an ongoing one. I have space for only one comment. If, as Evans admits, "it is extremely unlikely that a reconstructed ANC in office would be able to resist the temptation to lord it over the neighbouring states", and if, as he further observes, "it is one of the very few truisms of world politics that neither ideological affinity nor emotional attachment will preserve 'special relationships' for long unless they are firmly grounded in a bedrock of mutual interest", then what would the difference be between the New Diplomacy and an ANC government's regional policy? □

LAW COMMISSION FM 8/11/91

Some confusion

The SA Law Commission's report on human rights is essentially a liberal document. It emphasises the rights and freedoms of the individual, believing that "group" rights would follow from such protection.

The report pays the usual homage to the vital abstract freedoms of speech, movement, assembly and political affiliation; it supports accepted Western principles of justice, and favours a nonracial universal franchise

But its crucial recommendations are found in two particular Articles of a proposed Bill

Contin -D

of Rights, without which those abstract freedoms would be of little comfort. These articles would provide that:

☐ "Everyone has the right freely and on an equal footing to engage in economic enterprise, which right includes the capacity to establish, manage and maintain commercial undertakings, to acquire property and procure means of production, and to offer or accept employment against remuneration"; and

☐ "Everyone has the right individually or jointly with others to be or to become the owner of private property . . ."

The commission defends the first article against protests from the affirmative action, redistribution and socialist lobbies. It says the article embodies "no more than common law rights or freedoms . . and it is purely coincidental if they are characteristic of a capitalist structure."

In writing the property clause, the ANC's proposed Bill of Rights was considered by the commission. The report finds that while the ANC "pays lip service to the concept of private property, this concept is undermined rather than respected." For instance, in the ANC's proposals, "the existing right to ownership in any natural resource is overturned."

The commission also finds fault with the ANC's recommendations on compensation for expropriated property: the nature and extent of expropriation could be legislated, rather than determined by market value and there would be no appeal to the courts against inequitable rulings.

"In short," says the report, "the whole question of compensation is manipulated" by the ANC to provide for arbitrary nationalisation of private property.

The ANC proposals on property, says the commission, compare badly with Article 16 of the Namibian Bill of Rights, which recognises private property and provides simply for fair compensation in the event of expropriation.

The commission also considers what are known as secondary rights, which are intended to meet material needs such as medical care, food and shelter and to guarantee education and employment. It points out that these go beyond protection of the individual, which is the watchdog role of the classical rights. They would demand positive action by the State — which, in turn, would mean the allocation of resources to enforce them.

There are obvious practical problems with these rights. The commission, while noting the problems, sees a need to "afford them a greater measure of practical recognition." Thus, for instance, it recommends that free and compulsory education at primary school level be made a right.

The minefield is immediately clear: what if the State and the private sector combined are simply unable to pay for enough classrooms and teachers? How can this "right" be enforced? And if it cannot, the legitimacy of the entire Bill of Rights would be undermined.

In this area the commission's thinking seems as confused as that of the groups it criticises so forcefully It is difficult to see why an acknowledged national priority should be made into a "right." ■

FM INVESTMENT CONFERENCE FM 8/11/91 (49)

Reaching for the right climate

The Reserve Bank Governor sees a green light for growth

FM 8/11/91

After the longest recession since World War 2, it may now be safe for animal spirits to come out to play.

Looking ahead to 1992, Reserve Bank Governor Chris Stals told the *FM* Investment Conference last week: "Prospects for a revival in the economy have improved significantly in recent months."

He said monetary policy in the year ahead would be "cautious but perhaps more relaxed." And, though he opposes "unrealistic extraneous injections, like the artificial creation of more money by the central bank" to initiate recovery, he is not averse to "stimulants of the right substance" to "reinforce normal market forces."

After this signal from the central banker, what business needs is reassurance from the ANC that investment per se is worthwhile in the longer term. And a measure of this came, too, at the conference, from ANC Secretary-General Cyril Ramaphosa.

Obviously, any statement on economic policy by the ANC is treated with caution by the business community. That policy is still in its formative stages and subject to ebbs and flows of a variety of viewpoints within the organisation — as well as to strategic manoeuvring ahead of negotiations. But, for what it was worth, Ramaphosa spoke more of investment than of redistribution

The ANC, he said, was "acutely conscious of the need to successfully reintegrate our economy into the world economy. What is under consideration in our think-tanks . . is a simple but powerful inducement package based on assurances rather than financial or industrial relations incentives and allowances There are successful international precedents for this. More details on this approach will emerge relatively soon."

The tone of the speakers at the *FM*'s 21st annual Investment Conference ranged from cautious to upbeat.

Governor Chris Stals . *things are looking up*

Apart from political considerations, Stals had one serious reservation about the future. the strength of inflation. In reply to a question from the floor, he said a central bank's objective is always to get inflation lower, so the target for inflation is zero.

On the other hand, he suggested, progress had been made; a development which would be more fully reflected as the new weighting of the CPI basket was phased in over the next year — a process which began in August.

He is, at least, satisfied that "the rate of growth in the money supply and domestic credit extension and the level of interest rates are now more in line with the requirement of an environment conducive to growth with stability."

The green light for some policy relaxation has come from the balance of payments.

At a time when the current account is likely to show a surplus of R3bn-R4bn — a conservative estimate — the capital account is improving The net outflow in 1991 may be even smaller than the R2.9bn last year — "easily less than R2.5bn."

***FM*'s Nigel Bruce and ANC's Cyril Ramaphosa**

For 1992, the prospects are "comforting." Commitments to repay foreign loans with formally fixed maturities add up to less than US$1bn.

Against this background, it will be possible to maintain a relatively stable exchange rate against a weighted basket of currencies

"We now have greater scope to accommodate a sustainable upturn in the economy — particularly if foreign finance is used to finance imports of capital goods."

Foreign funds and, in particular, real capital investment, might be more readily available than seemed likely a year ago, when a huge capital drain to eastern Europe was expected Morgan Guaranty Trust MD Rimmer de Vries told the conference this is not imminent. He argued that these countries have to prepare themselves to absorb foreign capital

There are other factors.

- ☐ The present Latin American current account deficit of about $12bn is not likely to rise much;
- ☐ The needs of the Gulf countries "are likely to be a two-year phenomenon, freeing $25bn a year by 1993-1994";
- ☐ Japan is expected to run a much larger annual current account surplus — probably about $50bn more in two to three years' time than the 1990 surplus; and
- ☐ The US current account deficit can reasonably be expected to be significantly smaller than 1990's $100bn, freeing funds for other borrowers.

So the capital requirements of eastern Europe will be met relatively easily by world markets

De Vries, however, balanced this optimism with some sobering long-term projections: if there is no change in present government policies and business attitudes in the US, Europe and Japan, the steady drift towards forming protectionist blocs will reduce growth everywhere over the next two decades.

In the near future, he foresees only a modest recovery in the US. The significance of this for SA is that the benefit which a boom confers on commodity prices will be that much less. Gold is now included in the commodity category of exports.

Its changing role was described by another speaker, Alfred Schneider of the Zurich Swiss Bank Corporation, who concluded that gold prices "will increasingly reflect the fundamental relationship between supply and demand, as is the case with base metals." Fortunately, demand for gold fabrication is likely to grow and will "sustain a solid basis for demand for gold "

Some encouraging factors are emerging on the supply side, according to Gengold MD Gary Maude, who spoke on SA's gold mining prospects In the Eighties, new opportunities were created by the development of comparatively inexpensive leaching technology which added substantially to the supply

FM 8|11|91 (49)

This gold rush has now subsided

Given the costs of production, any further fall in the gold price will see the demise of a number of mines throughout the world, which will cut supply and send the price up again. So, despite a number of bearish considerations such as forward sales of gold, the price has probably bottomed.

This matched Schneider's projection that the price will show an upward trend "within the established range of $350-$400/oz."

Maude said successful cost-cutting measures have strengthened the industry, saving mines from closure and avoiding expensive future start-up costs when the price rises.

Prospects for the non-mining sectors are more favourable in the short term. If proof is needed that animal spirits have been waiting in the wings for their cue, it comes from the performance of the Industrial index, which rose from 2700 at the time of the 1990 *FM* Investment Conference and reached a record high on October 31 when it closed at 4269. In that period, the p.e ratio rose from 8,5 to 13,9 and the dividend yield fell from 4,1% to 2,6%.

These figures were quoted at the conference by Southern Life MD Jan Calitz, who pointed out that the run-up of the index has already exceeded run-ups seen in the previous five economic upturns.

"On historic yield criteria," he argued, "the industrial market cannot rise much further The current dividend yield has been lower on only two previous occasions — 1,4% in 1969 and 2,5% in 1987 — immediately preceding two bear markets." So "it is not unreasonable to expect a downward correction in the near future."

However, for a number of reasons, there is further growth potential. The market is unlikely to have peaked just as the economy is "embarking on a new growth cycle." Moreover, "previous market peaks have always been associated with frenzied interest and high turnovers — features noticeably absent in the current market."

On scrip supply and demand, he says:

☐ Institutional cash flows could amount to about R40bn in 1992. Up to 50% could find its way into equity investment; and

☐ Supply of scrip through new issues, rights issues, bonus issues and net foreign sales is likely to amount to R9bn in 1992.

"On balance, in a market already short of good quality scrip, the demand for equities — and industrial equities in particular — would appear to outweigh supply."

On the outlook for company profits in the next 12 months, he predicted the top industrial companies which make up the bulk of the index will see earnings growth of 16% and dividend growth of 14% (against a projected 14% inflation rate in 1992).

Though inflation will erode the benefits, the investment has to be compared with others which could well produce negative real returns (for example savings). And the capital appreciation will be significant in a growth phase. Given all the factors, he believes the index could appreciate to between 4600 and 4800.

The mildness of the recession and the extended run-up to recovery on the stock market has kept business on its toes.

Speaking on mergers and acquisitions, Ernst & Young's Claire Herbst said that in the 12 months to June, SA had been active by world standards. In that period, 249 acquisitions worth R8bn were announced

"This is equivalent to 10% of the number of deals announced in the US last year, or 3% by value — both of which are disproportionately large, compared with our respective GDPs." In essence, there were too many buyers chasing too few acquisitions.

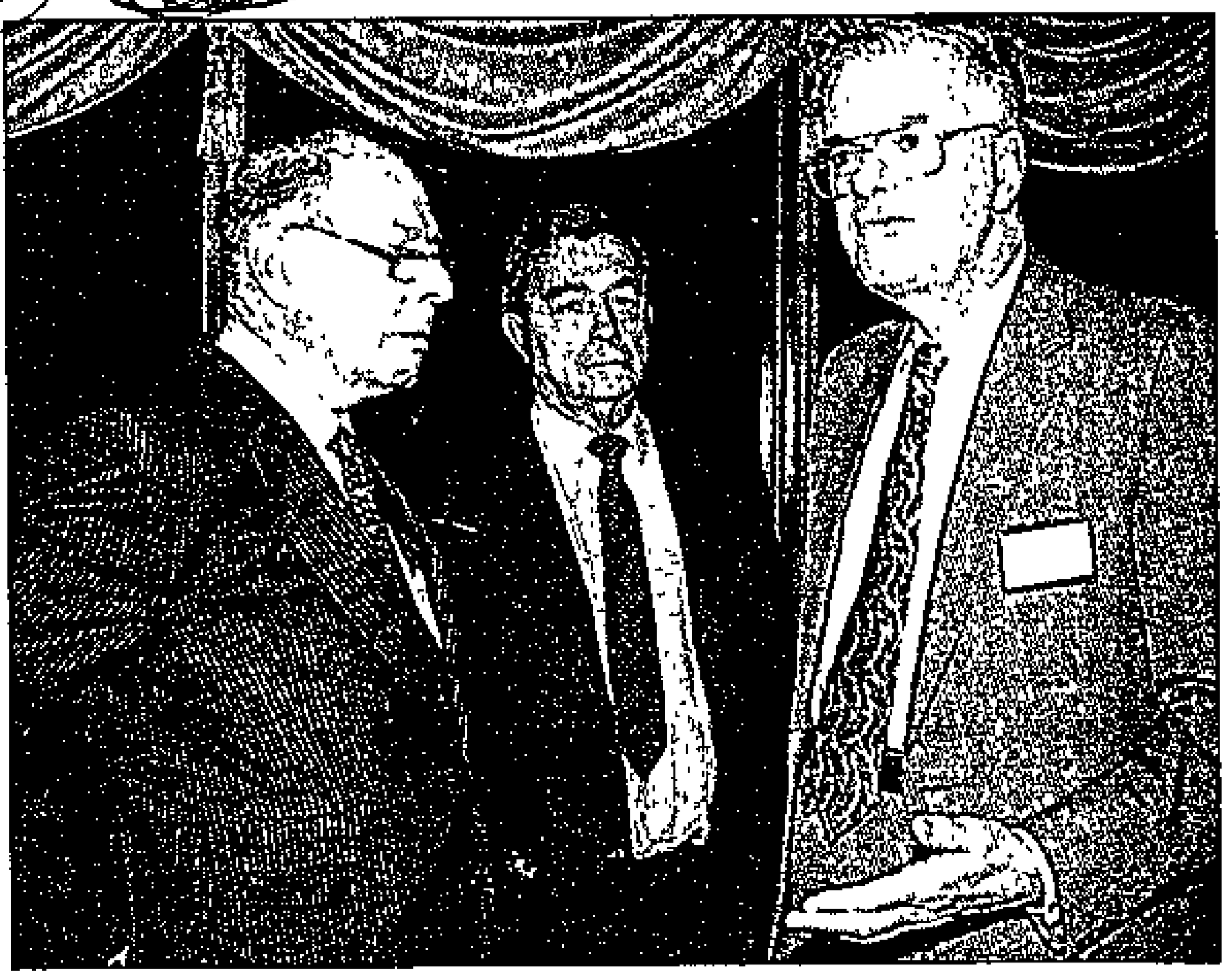
This has prompted SA investors to look abroad — an indication that "the inward looking trend of the Eighties could be over."

Of the 13 management buyouts, only one involved a foreign seller — a reversal of the experience in previous years when foreign parents disinvested.

Herbst suggested that, in the present environment, SA companies should be preparing for increased competition locally. "A possible strategy could be to proactively seek potential world partners, rather than watch them enter anyway and compete for market share." She advised also that they consider expanding abroad.

As SA's international opportunities widen, businesses are concerned about their ability to compete, handicapped as they are by corporate tax rates well ahead of most trading partners. This is not only a direct additional burden — it has a cascading effect.

Nedbank chief economist Edward Osborn talked of a "tax accelerator: for any given increase in taxable income, there will be a greater offtake of income tax. On average, the accelerator is 1,66, which means that for an increase of 15% in taxable income, there will be a 25% increase in income tax. This is a powerful inflationary factor built into the system, in that salary earners must always seek an increase in salary in excess of current inflation "



Cecil Margo, Zac de Beer, Rimmer de Vries *positive caution*

But, though businessmen speak of the need to level economic playing fields, they tend to lobby for special deals.

It was Ramaphosa who pointed out that there is little evidence that "fancy incentive schemes such as tax breaks" attract investment — a view expressed at an OECD conference earlier this year (And it was Stals who said he had no objection to tax incentives on certain capital projects — though he would prefer them to go to small business where employment generation is greater.)

Ramaphosa identified the real attraction for investors: the "right climate " Whether he is prepared to take this to its logical conclusion we won't know until the contents of the "think-tank" package are revealed. To create the right climate, certainty is needed above everything else.

As long as the ANC speaks with many voices on economic policy, it will not win the confidence of investors If the mild recession is to be followed by anything more than a mild recovery, an important contribution must come from the ANC. Hopefully, demands made on the organisation in 1992 will force it to come to terms with its new role.

At this stage, it is likely that the first formal meeting of what will amount to a second national convention on the constitution will occur this year The ANC and its allies — buoyed by the apparent success of this week's nationwide stayaway — will be pressing for an interim government. If this is acceded to in one form or another, it could help to place the ANC in a position of greater understanding of responsibilities inherent in the limitations of public resources

But, as matters stand, the tentative note struck at the conference highlights the need for the ANC to move swiftly on to its next major challenge of formulating a coherent and rational economic policy — a step which would set the country on a growth path. ■

Enos Mabuza and Alistair Ross Goobey
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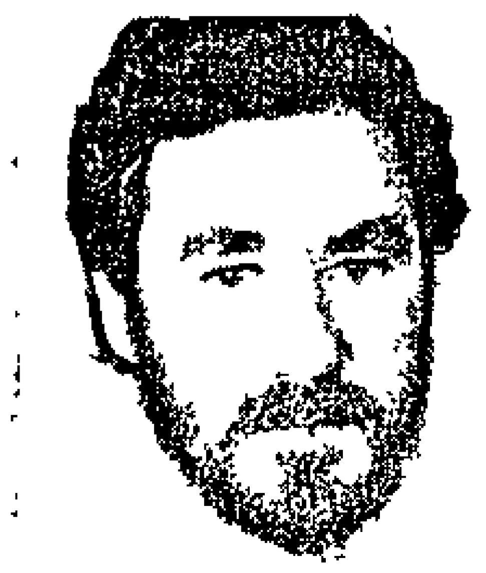

THE man most in the news this week has undoubtedly been Jay Naidoo, general secretary of the Congress of South African Trade Unions. For many white South Africans he has replaced Joe Slovo as the man they would love to get to grips with in a dark alley. The man, as is often the case, is very different from his public persona. He spoke to Saturday Star Deputy Editor KEN VERNON about what the VAT strike was really about.

'The Government has made a Cabinet decision to marginalise Cosatu from the process of negotiations — and that is the major component of what the anti-VAT strike was about'

'We were not prepared to be involved in a subcommittee and let crucial South African economic issues be decided by the political agendas of political parties — irrespective of who they are.'

'We cannot wait for political democracy before addressing the need for socio-economic development. The struggles for democracy and bread are both urgent and both must start now'

(6607) (49)

THIS week's two-day national "anti-VAT" strike was a desperate attempt by Cosatu to prevent its being frozen out of future political negotiations — and had little to do with VAT

In an exclusive interview with Cosatu general-secretary Jay Naidoo, it has emerged that the "major" reason for the strike was a last-ditch attempt to force the Government to admit Cosatu as a full partner in negotiations towards the creation of a government of national unity

"The spark, in a sense, was VAT But VAT was only the tip of the iceberg" of what the strike was about, said Mr Naidoo, the man labelled in one newspaper this week as "public enemy number one".

"The Government has made a Cabinet decision to marginalise Cosatu from the process of negotiations — and that is the major component of what the strike was about," he said

"It (the Government) has made a policy decision that it will not negotiate with Cosatu on economic issues, that all economic issues are to be decided at the level of a sub-committee of a future all-party conference (APC) This is unacceptable"

He said the Government's view of the APC was that it should not include either Cosatu — representing the trade union movement — or business

"We found ourselves in a Catch 22 situation We were not prepared to be involved in a subcommittee and let crucial South African economic issues be decided by the political agendas of political parties — irrespective of who they are"

A solution to the impasse presented itself in the Government's inept handling of the VAT issue Mr Naidoo said this had allowed Cosatu to flex its "mass action" muscle on an issue that had popular appeal and thereby to forcefully bring home its demands to the Government

"In the negotiations around the imposition of VAT it became apparent that VAT was part of a broader economic restructuring programme on the part of the Government This was being unilaterally imposed

Star 9/11/91.

on us," Mr Naidoo said

The policies of privatisation, deregulation and the shifting of the emphasis of taxation to the general public (VAT) "brought into focus the notion that a minority government, in a period of transition, was unilaterally restructuring the economy This was politically unacceptable to us"

Replying to a question about Cosatu's political aspirations, he said the union's congress this year had adopted a resolution that the organisation wanted to be present at the APC — "but so does Sacob"

"Political transition is not only for political organisations In our view it is for all the key players — for all those with a constituency"

It is as part of this "wider vision" of democracy that Mr Naidoo said Cosatu's call for a Macro-Economic Forum (MEF) was presented He said he saw these two forums, the APC and the MEF, as operating more or less at the same time and possibly sharing players "within an environment created by the Peace Accord"

In a speech to a group of businessmen this week Mr Naidoo explained that the MEF should be convened as a matter of urgency

He said he saw the MEF as being composed of employers, the major political parties, unions and the State

ITS mandate would be to develop programmes that would

- Create jobs
- Develop sophisticated training and retraining programmes for the workforce
- Improve South Africa's international competitiveness and capacity to export
- Increase the country's capacity for beneficiation — for adding value before export
- Plan for State assistance and intervention where needed, and remove it where not
- Give the people the capacity to buy — create larger internal and regional markets
- Develop South Africa's construction, electrification and associated industries
- Scrap wasteful, racist and bureaucratic government expenditure

He foresaw no confusion in the operation of the two bodies, saying the APC would concern itself with ideas such as constitution-making, a bill of rights, international relations and so on The MEF on the other hand would deal with the creation of a national framework within which economic policy could be implemented

Mr Naidoo left little doubt as to which body he felt was the more important He said there was a tremendous amount of confusion in both the private and public secto[r] the economy was [re]structed At pre[sent] being carried out [in a piece]meal fashion and th[e] vital to resolve th[e]

WATCHDOG'S SPOKESMAN: Jay Naidoo sees Cosatu as a watchdog, and i irrespective of what government is in power. He is that wo

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WATCHDOG'S SPOKESMAN: Jay Naidoo sees Cosatu as a watchdog, and is adamant it will remain a watchdog, irrespective of what government is in power. He is that watchdog's public voice.

tution-making, a bill of rights, international relations and so on The MEF on the other hand would deal with the creation of a national framework within which economic policy could be implemented

Mr Naidoo left little doubt as to which body he felt was the more important He said there was a tremendous amount of confusion in both the private and public sectors about how the economy was to be reconstructed At present this was being carried out in a piecemeal fashion, and the MEF was vital to resolve this confusion

"We cannot wait for political democracy before addressing the need for socio-economic development The struggle for democracy and bread are both urgent, and both must start now"

Asked whether Cosatu's foray into the political world had created tensions with the ANC, Mr Naidoo said the Government had tried to create this impression, but it was untrue

"That the ANC, along with the PAC and Azapo, was central in organising the strike disproves this

However when the questions turned to the call by Mr Naidoo this week for mass action to bring down the Government a position his ANC partners have abandoned he became less emphatic

Our view is that the Government is the biggest opposition in the transition to a democracy in that it continues to act unilaterally on the political and economic fronts

Our central task is to remove this Government and replace it with a government of national unity

HE said his understanding was that the ANC concurred in this assessment, 'but you must speak to them'

Pressed on the idea of a government of national unity a new entry into the negotiation stakes he said he felt such a government was tantamount to an interim-government structure closer to accepted ANC policy

Asked what Cosatu hoped to achieve if it gained a seat at the APC MEF tables he said the main aim was to bring together major players who would then make decisions collectively

However, if the Government remains intransigent and continues to act in a paternalistic and arrogantly racist manner we have no option but to bring it down with mass action

A question on suggestions that Mr Naidoo was trying to further his own political aspirations through the national strike brought forth a laugh 'Some journalists have tried to place all the economic woes of South Africa, and all the mass action, on the shoulders of Jay Naidoo I'm just a spokesperson for an organisation

A final question Do you have political ambitions yourself? brought a bigger laugh "Oh no! I'm a trade unionist! I know what problems politicians can have with trade unionists! I'll not venture into that seat'

Cosatu is like a watchdog It will remain a watchdog irrespective of what government is in power

We are challenging the Government in this way to get across the message that in future we want publicly accountable governments We want taxpayers money to be used to serve the interests of all the people, and at the end of the day we want ordinary people to have a say in what happens in the country"

Big business and Cosatu may get say on economic strategy at talks

(49)

S/Times 10/11/91

By EDYTH BULBRING
Political Reporter

COSATU and the SA Chamber of Business are demanding involvement in the all-party talks.

And the demand was made more insistent by this week's successful two-day stayaway.

Despite strong opposition from some cabinet ministers to Cosatu's involvement, there are indications that both organised labour and business will be given a say in an economic sub-committee of the multi-party conference.

While business, Cosatu and the government differ on details of an economic negotiating forum, there is a recognition that economic restructuring and budgetary expenditure during the transition cannot take place unilaterally.

Cosatu general secretary Jay Naidoo said this week that the union movement wanted to take part in all-party talks where interim mechanisms and the framework of a constitution would be drawn up.

But, in addition, Cosatu also wanted the establishment of a macro-economic forum, separate from an all-party conference, equal in status and comprising all interested parties which would deal with economic issues.

The forum would identify a priority agenda, a timetable and strategy for the restructuring of the economy during the transition.

Mr Naidoo sees the forum addressing economic growth on a macro-economic rather than a piecemeal approach — addressing the issues of taxation, expenditure and budgeting.

It would also address industrial policy, socio-economic policy and trade union policy.

He says that while the forum would address the immediate economic crisis, it should also impact on the legislative process and the negotiating forum could at some stage converge with the all-party conference.

South African Chamber of Commerce chief economist Dr Ben van Rensburg said the organisation had decided at the highest level that it was important for business to participate in one way or another in the all-party conference.

Both business and labour should be involved in future constitutional discussions and suitable mechanisms to achieve this had to be devised, he said.

"This message is already being conveyed by Sacob to the main political players on the eve of the multi-party conference," he said.

Dr Van Rensburg said Sacob was also in favour of further economic discussions with Cosatu and other extra-parliamentary organisations.

Studies it had done of economic growth, industrial strategy and the challenge of poverty in SA would be at the heart of such discussions.

However, he added, no formal decision had been taken by Sacob on the structure, nature and role of any possible economic forum as had been suggested in various business and trade union quarters.

"This proposal remains to be discussed with various interested parties shortly. Sacob hopes that all groups will participate in any such discussions in good faith and without ulterior political motives."

The government had proposed the issue of Cosatu and business involvement in the all-party talks be placed on the agenda of the first meeting of the multi-party conference scheduled for November 29, senior government members said this week. It had also proposed that the issue of how economic policy was to be decided in the transition be placed on the agenda under the item of transitional arrangements.

They indicated that the government would not be averse to the idea of business and organised labour being involved in a sub-committee of the conference which dealt with economic matters.

This would be on the clear understanding that any sharing of power would also entail a sharing of responsibility.

However, ministers still rejected the Cosatu proposal for a macro-economic forum that would operate separately from the multi-party conference.

South Africa, one senior member of the government said, did not have the culture for a macro-economic accord.

The government, he added, did not trust Cosatu to abide by an agreement that might be made at the proposed forum.

● CHARLES LEONARD reports that the government's decision on Friday to extend the terms of the Labour Relations Act and Wages Act to farm workers has gone some way towards healing the rift between the government and the unions caused by the two-day stayaway.

But the decision has outraged Transvaal Agricultural Union president and Conservative Party MP Dries Bruwer who said yesterday farmers had been betrayed by Minister of Manpower Eli Louw.

Cosatu attented Friday's National Manpower Commission meeting — during which the minister also announced the restructuring of the NMC — in an observer status after it withdrew from the commission on October 1.

It withdrew then because of what it saw as delays on the government's side to implement NMC proposals and restructure the commission.

Economic forum on the cards

CT 11/11/91 (49)

From BILLY PADDOCK and TIM COHEN

JOHANNESBURG. — An economic forum involving organised labour and business in negotiating macro-economic restructuring during the transition phase was on the cards and could operate separately from the multi-party conference, government and business sources said at the weekend.

It is understood that the government, while recognising the need for an economic forum, will not accept it interfering with the day-to-day functioning of the Finance Department.

It could have an important say, or even veto, on macro-economic policy but the day-to-day workings would have to be left to those with the requisite skills, one minister said.

It is unclear whether the government will be prepared to allow the forum a say over the composition of the budget.

Manpower Minister Eli Louw said at the weekend he had sent invitations to Cosatu and organised business to discuss an economic forum. Cosatu, he said, had already accepted.

Eleven days ago Saccola and the government tried to set up a meeting with Cosatu to discuss the establishment of such a forum, but the trade union federation did not want to take part at that stage — just before the two-day anti-VAT stayaway.

Before last month Finance Minister Barend du Plessis opposed the concept of an economic forum. But at the IMF conference in Bangkok, he indicated that he was prepared to have a social accord on the economy.

It was envisaged that the negotiations on setting up an economic forum would be discussed at the meeting on the accord between the government, business and labour.

On Wednesday the Cosatu, ANC and SA Communist Party alliance agreed that a national macro-economic negotiating forum should "negotiate an overview policy on major economic issues and ensure a moratorium on unilateral economic restructuring". Next year's budget should also be planned by this forum, they said.

Cosatu insists that the forum should operate separately from the multi-party conference and be of equal status.

But it is understood that the ANC, in meetings with the government and the NP on the convening of the multiparty conference, had agreed that the scope and role of the forum would be negotiated at the first meeting of the conference.

Cosatu is pressing for a greater emphasis on the forum than ANC negotiators and it insists that the forum should have the power to bind the government.

There is a body of thought within Cosatu which feels that the negotiations process should be put on hold until agreement is reached on the powers of the economic forum during the interim period, one senior Cosatu shop steward said.

Cabinet ministers attending the NP's Transvaal congress at the weekend said the government recognised and accepted that there was a need for an economic forum, particularly during the transition period.

"No-one is against it in principle but there has to be negotiations on what form it would take and what its role should be," one Minister said.

South Africa needed for reconstruction

Sowetan 11/11/91

49

AFRICA expects South Africa to power development on the continent, economists at a conference in Yaounde, Cameroon, have said.

FOCUS

By JOSHUA RABOROKO who attended a business conference in North Africa. In this report he reflects on the mood of the conference.

The dismantling of apartheid and the creation of an equitable order in South Africa are facilitating the country's formal involvement in African ecnomic development.

A liberated South Africa would be a member of the Southern African Development Co-ordination Conference, which is already investigating the possibility of orchestrating resources to enable the whole region to benefit from those pooled resources.

A free South Africa joining the SADCC will develop immeasurable potential and even stimulate economic development in the south-west African Preferential Trade Area and possibly in Africa.

The future of trade relations with the rest of Africa is positive due to the economic principle of supply and demand, African economists observed at the All-Africa Conference last week.

Participants contended that, because of its knowledge of local conditions and established industrial infrastructure, South African business is able to offer competitive services.

This also applies to South African merchandise, whose competitive prices, comparatively short delivery times and compatibility with African conditions stimulate demand.

There are few African countries which do not have trade agreements with South Africa.

The efficiency and credibility of South Africa's transport system, its technical and research services in agriculture, nature conservation, engineering, construction, transport, telecommunication, water and energy supplies, health, education and training, focus on the specific problems which plague Africa.

As aptly put by the Minister of Foreign Affairs, Mr Pik Botha: "South Africa is part of Africa and must survive or die in Africa. It has a calling to assist in the development of Africa.

"What is needed now is a concerted effort to initiate, co-ordinate and execute an African development programme."

This historic conference was attended by 11 African states including Cameroon, Nigeria, Tunisia, Senegal, Morocco, Guinea and Togo.

The president of the Paris-based Movement for Dialogue and Cooperation, Mr Desire Atangana Onambele, said with the end of the century near, the collapse of communism and thawing of the cold war, Africa was still characterised by a lack of strategy.

"Now is the time to take up the challenge for economic growth. In this regard, the huge disengagement of the Soviets and lack of poliitical interest by the United States now frees Africa from numerous constraints.

"We at the MDC have invested a huge effort in our determination to bring Africans a truly great event and we are very fortunate to have the backing of several distinguished guests, including South Africa," he said.

Speaking on "Finance, Aid and Development in Africa", Mr Jean Bonvin stressed that most African states were in debt as a result of mismanagement of funds, corruption and lack of education and training.

Consequently many African states were in a state of poverty and poor economic conditions seemed to have dealt a heavy blow on any development with unemployment growing at an alarming rate.

One delegate said: "I know of a country in Africa where the state actually borrowed money from the monarchy - a clear indication of the extent of corruption.

"This monarch had obtained money from the international community but it was used for his own needs. He built his own economic empire. This is the reason why there are many *coups d'état* in Africa. Let us stop this," the delegate pleaded.

"Africa must learn that political power must be accompanied by economic power," another delegate said, adding, "Most African leaders are interested in empowering themselves and forget the interests of the people who elected them."

Different solutions were proposed and Mr Joas Mogale, general secretary of the Foundation for African Business and Consumer Services, said: "Southern Africa in particular has the potential to become a prosperous region.

"What is needed is for the nations of Africa to join hands and work together. It is time to put behind all the differences that have separated us in the past.

"There is a changing mood in Africa and also a growing realisation that true independence and a national identity can only be accomplished once economic stability has been achieved," he said.

Seven workshops during the conference came up with possible solutions that could be undertaken to make the African continent economically viable with less dependence on countries like the United States, the United Kingdom and the European Economic Community.

One of the salient points was reached with the appointment of a committee to look at stimulating inter-African developments.

Some of the solutions included:

The creation of an African Economic/Business Community like the EEC - a means through which finance could be channelled in Africa through the use of a unitary currency;

Investments must be directed towards utilising local potential and should include manufacturing, industry, agriculture, food production and rural development;

With the help of South Africans, transport and tourism should be encouraged in Africa and communications improved;

African markets and obstacles towards economic expansion must be looked into as a matter of urgency; and

The development of the informal and small business sectors must be encouraged and joint ventures and matchmaking, finance, aid and development among the African states must be encouraged.

This was backed by the Cameroon Minister of Social and Feminine Affairs, Mrs Yao Aissatou, who encouraged women to improve their agricultural skills.

Future Swedish aid hinges on SA market economy

CT 11/11/91 (49)

ANTHONY JOHNSON, political correspondent of the Cape Times, and BARRY STREEK of the Morning Group's political staff, have just returned from a two-week visit to Sweden, Norway and Denmark as the first South African journalists to be invited to make an official visit to the three Scandinavian countries. They met a cross-section of activists, politicians, academics, trade unionists and journalists. This is the first of their articles on their impressions.

THE warm relationship between the ANC and Sweden, including support of more than R60 m this year, could be threatened unless the ANC backs off from its continued support for nationalisation and socialist economics.

This follows a decision by the new centre-right Swedish government to link the provision of development aid to the promotion of multi-party democracies and market economies.

"We have very little faith in socialist experiments," the new chairman of the Parliamentary Standing Committee on Foreign Affairs, Mr Daniel Tarschys, said in an interview.

Mr Tarschys, a Liberal Party MP and a longstanding opponent of apartheid, added: "We are not interested in sinking money into projects that are hopeless and are even counterproductive. We are going to move money out of bad projects into good projects."

He added: "We are trying to move away from socialism, but we will be prepared to give help to the victims of socialism."

MPs from political parties across the spectrum indicated that continuity and consensus in foreign policy matters, particularly in regard to South Africa, was a priority and that sudden shifts from the current stance of maintaining pressure on the South African government as well as traditional support for the ANC were unlikely.

While the Liberal Party has, despite its membership of the the ruling centre-right alliance, always backed sanctions and the isolation of South Africa, the 'conservative' Moderate Party, the major partner in the alliance, has adopted a more pragmatic attitude.

"The conservatives have less interest in sanctions against South Africa because they don't think they are effective," the Under-Secretary of State of the Cabinet Office, Mr Peter Egardt, stated.

Nevertheless, Mr Egardt, who is also a Moderate Party MP, emphasised that there was logic to efforts to achieve consensus between the parties in their policies towards South Africa.

It seems unlikely that current levels of Swedish support — R300 m a year, including R60 m to the ANC mainly for exiles and refugees and R180 m for scholarships, study abroad and legal aid — will come under immediate review.

Still hot issue

However, clear signals are emerging that Sweden is not only changing its approach to development aid, which amounts to close to one percent of its gross national product, but these changes will also have implications for South Africa in future, particularly if a new government opts for a centrally controlled economy with heavy state involvement in the markets.

Mr Tarschys, very much at the centre of Swedish politics, emphasised this when he said investors would find it dangerous and difficult if a new South Africa had a strong socialist movement in control that wanted to nationalise everything.

"I have spent my life studying socialism and it is easy to see how it has destroyed the economies of Europe and I hope it will not destroy the political economy of South Africa and Africa in general," he added.

Despite the reassessment of Swedish policies towards South Africa and developments in Eastern Europe and the nearby Baltics, South Africa remains a hot issue in Sweden.

As Mr Bengt Gunnar Herrstrom, head of the political section of the Department of Foreign Affairs, pointed out: "There are a number of Swedish organisations — in the area of labour, solidarity movements and other fields — which support projects in South Africa and this has been the case for decades."

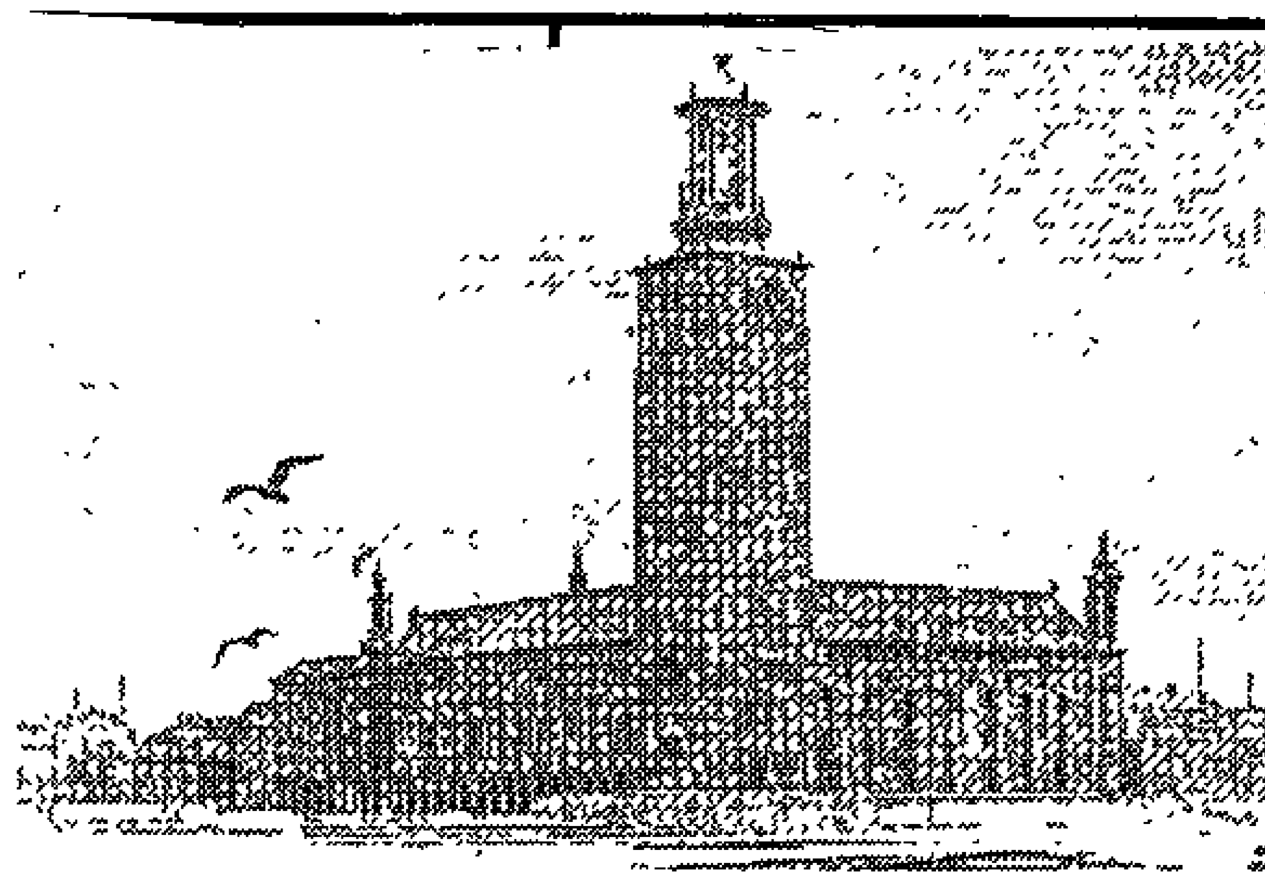
Dr Per Wastberg, former editor, author, vice-president of International Pen and a key figure in the anti-apartheid movement, said Sweden's involvement in South Africa was the longest-standing political issue in the history of the country.

"South Africa is very close to many Swedes. Once the green light is given, I think Sweden will make an enormous effort in South Africa."

Asked if international developments, particularly in Eastern Europe, would not see a decline in this interest, Dr Wasterg replied: "I don't think so. I don't think South Africa will go away for Sweden. It has been with us for such a long time."

This, underlined by the active lobbying programme of the ANC mission in Sweden, headed by Ms Nozipho Diseko, who although relatively new in her position is determined to use every opportunity to press all the buttons in Swedish society to keep up the pressure on the South African government.

Her mission is backed up by the Isolate South Africa Committee of Sweden (Isak), which has 63 national affiliates, many individual members and scores of volunteers involved in solidarity work, the Swedish Trade Union Confederation, the Swedish National Union of Students and other organisations.



STOCKHOLM VISTA... The town hall on the shores of Lake Malar, one of the prominent landmarks of modern Stockholm.

While these groupings are adapting and thinking ahead for creative responses to the changing circumstances in South Africa, they remain highly critical and sceptical about the South African Government's intentions and they have the capacity to mobilise public opinion if the negotiation process falters in South Africa.

Also adapting to the changes in South Africa are Swedish businessmen and industrialists, who are carefully assessing the prospects for trade and investments in the post-apartheid era.

Business delegations have already made on-the-spot inspections in South Africa and in February, a top-level visit by senior exeutives of leading Swedish businesses is to be made.

The February visit could result in significant Swedish investment in a post-apartheid South Africa and neighbouring countries because of the perceived potential of the regional market, but business people stressed that they would not be prepared to invest if violence, instability and misguided economic policies prevailed in the sub-continent.

Cosatu to participate

Economic forum given green light

(49)

B/Day 11/11/91.

AN ECONOMIC forum involving organised labour and business in negotiating macro-economic restructuring during the transition phase was on the cards and could operate separately from the multiparty conference, government and business sources said at the weekend.

It is understood that government, while recognising the need for an economic forum, will not accept it interfering with the day-to-day functioning of the Finance Department.

It could have an important say — or even veto — on macro-economic policy, but the day-to-day workings would have to be left to those with the requisite skills, one minister said.

It is unclear whether government would be prepared to allow the forum a say over the composition of the Budget.

Manpower Minister Eli Louw said at the weekend he had sent invitations to Cosatu and organised business to discuss an economic forum. Cosatu, he said, had already accepted.

Eleven days ago Saccola and government tried to set up a meeting with Cosatu to discuss the establishment of such a forum, but the trade union federation did not want to take part at that stage — just before the two-day anti-VAT stayaway.

Before last month Finance Minister Barend du Plessis opposed the concept of an economic forum. But at the IMF conference in Bangkok, he indicated that he was prepared to have an economic accord.

It was envisaged that the negotiations on setting up an economic forum would be discussed at the meeting on the accord

BILLY PADDOCK and TIM COHEN

between government, business and labour.

On Wednesday Cosatu, the ANC and SACP alliance agreed that a national macro-economic negotiating forum should "negotiate an overview policy on major economic issues and ensure a moratorium on unilateral economic restructuring". Next year's Budget should also be planned by this forum, they said.

Cosatu insists that the forum should operate separately from the multiparty conference and be of equal status.

But it is understood that the ANC, in meetings with government and the NP on the convening of the multiparty conference, had agreed that the scope and role of the forum would be negotiated at the first meeting of the conference.

There was a body of thought within Cosatu which felt the negotiations process should be put on hold until agreement was reached on the powers of the economic forum during the interim period, one senior Cosatu shop steward said.

Cabinet ministers attending the NP's Transvaal congress at the weekend said government recognised and accepted that there was a need for an economic forum, particularly during the transition period.

"No one is against it in principle, but there has to be negotiations on what form it would take and what its role should be," one minister said.

A business source said that before the stayaway government had been willing to negotiate an economic forum in talks separate from those on a multi-party confer-

☐ To Page 2

Forum

B/Day 11/11/91.

ence. However it was now concerned that it could be seen to be buckling under pressure from Cosatu, so did not want to meet right now.

Rather, to save face, there was the feeling that this should form part of the multiparty talks scheduled for November 29.

Ministers stated that an economic forum should be set up in negotiations at the multiparty conference, rather than in a separate meeting.

Manpower Minister Eli Louw told a news briefing on Friday he had invited Cosatu and Saccola to a meeting on the economic forum "because I regard the economic debate as very important".

While it is understood that Cosatu had accepted the invitation last month, Louw refused to disclose details of the invitation or the date of the meeting.

"In the Laboria Minute we said we would discuss, in an appropriate forum, the effect of labour relations on the economy.

"I have informed Cosatu that, although organised labour and organised employers are not the only players, they are impor-

(49)

☐ From Page 1

tant players. And government supports this view," he said.

The mandate and the role of the economic forum had to be discussed and negotiated with all the major players and this would probably now be done at the multiparty conference, he said.

The meeting with Cosatu and Saccola would be a first step in forming some proposal that could go forward to form a basis for final negotiations.

Senior Cosatu shop stewards said at the weekend there were differences of opinion within the ANC/SACP/Cosatu alliance about the formation of the economic forum and how this demand should be achieved.

The ANC was prepared to accept something less than a fully fledged interim government which would be called an "interim board" and which would have limited powers over only some aspects of government.

Cosatu's main reason for pressing for the creation of the forum was to carry forward the demands of the two-day VAT stayaway.

Government deposits up R1,85bn

A PEEK at last month's reserves figures reflects the current state of the money market to a tee. B/Day 11/11/91

Government deposits were up R1,85bn on the month, with two possible reasons for the move — increased activity on the short-term side from the Bank and an uptick in government revenues after the implementation of VAT.

It is still too early to tell whether VAT receipts are going to save government from funding an unruly deficit with the first six month's running R2,8bn over budget on a pro-rata basis.

Any hope of redressing this looks bleak but fingers must be crossed in Pretoria that this early jump in deposits represents a change for recession hit revenues.

The Bank appears to be ready to counter any further revenue shortfalls in issuing Treasury bills (TBs) through to end-March sometime later in the year, a move which could take care of the short-term financing needs ahead of next year's Budget and squeeze the wind out of a market more than ready to drop the BA rate a full percentage point below the rediscount rate.

Reserves-related inflows show forex inflows continue to add to the liquidity growth — to the tune of R107m in October. Added to this, producers received more than R500m for their gold in October. 49 58

The liquidity that these factors have created has resulted in declining rates, much to the glee of banks hit by the R200m tax levy, and some players from the long-term market are misreading the moves.

With the 90-day liquid BA rate 95 points below its rediscount rate as of the middle of last week the "sixth floor rumours" came out with a vengeance.

Strong demand nevertheless continued on Friday at the weekly tender with over a three-times subscription for the R200m on offer. The rate climbed a point to 16,26%, a reasonable rate considering the second extra R50m a week on offer.

Stals warns on money supply

BDay 12/11/91 (49)

SHARON WOOD

MONEY supply growth which exceeded the real economic growth rate would inflate prices and jeopardise financial stability, Reserve Bank Governor Chris Stals said yesterday.

Money supply grew at an annualised 8,7% in September from February when the Deposit-Taking Institutions Act was implemented. This was well above present levels of economic activity and the estimated potential economic growth in SA of between 2% and 5%.

Speaking at a Bureau for Economic Research conference in Somerset West yesterday, Stals said monetary policy had not been restrictive enough and SA's real interest rates remained much lower than in most industrial countries

The Reserve Bank had succeeded in bringing money supply growth down to lower levels,even though it remained higher than real economic growth.

"Until now greater financial stability has perhaps reduced the upward monetary pull on the inflation rate but has not succeeded tempering the non-monetary factors," he said.

Creating financial stability would be the most important monetary policy objective during the 1990s.

Stals said the objectives of the Reserve Bank did not conflict with the future economic environment.

"Optimum economic growth becomes possible only in an environment of financial stability.

"Financial instability . . . leads to greater poverty, to a greater maldistribution of resources and to an erosion of the efficiency of the market system," he said.

It would also deter foreign investors, reduce local producer competitiveness and inevitably lead to a lower economic growth rate.

Sacob director-general Raymond Parsons told the conference the independence of the Reserve Bank should be secured in the new constitution because it was important to give the Bank a high degree of autonomy in deciding monetary policy.

"The position of the central bank needs to be institutionalised and clarified in the constitution.

"Inflation tends to be lowest in countries in which the central bank enjoys the greatest degree of independence."

Inflation could only be kept under control if strict monetary policy was underpinned by an equally conservative fiscal policy, he said.

Stayaway just first salvo

Star 12/11/91

49

The fight against VAT is not over. ANC general-secretary Cyril Ramaphosa tells PATRICK LAURENCE.

CYRIL Ramaphosa is a man who weighs his words carefully and assesses the terrain thoroughly before committing himself to a course of action.

Thus he should be taken seriously when he warns that the recent two-day general strike or stayaway against VAT was but the first battle in a long campaign.

He compares the stayaway against VAT to the limited strikes used by the trade unions in their fight to secure amendments to the Labour Relations Act, especially the clause which made trade unions legally accountable if their members engaged in an illegal strike.

Mr Ramaphosa, who was in the forefront of the struggle against the original Labour Relations Act, recalls: "We embarked on limited stayaways but then we settled down to sustained action."

The former general-secretary of the National Union of Mineworkers adds: "Those sustained actions were devastating blows against the regime and caused it to settle down to negotiations with us."

Extrapolating from that campaign to the present one against VAT, Mr Ramaphosa says: "The trade union movement and the ANC are vastly experienced in engaging in long-term campaigns . Those who think the fight against VAT is just a two-day roadshow are making a very big mistake."

Mr Ramaphosa has been quoted as describing himself as a Marxist. The quote, published in the Financial Mail, juxtaposes with his statement that he is not, and has never been, a member of the South African Communist Party.

Struggle

It is, of course, quite possible to be a Marxist without being a card-carrying member of the SACP. The intellectual and philosophical parameters of Marxism are much wider than those of the SACP.

Mr Ramaphosa refuses to confirm or deny that he is Marxist. Instead he describes his formative experiences as a trade union leader. "You can read between the lines," he says.

"Being a trade unionist I have been influenced by the objectives of the workers on the ground I've been influenced by the hardships I've seen workers labouring under .

"I believe the struggle is important to ensure that our people as a whole have their standard of living improved and that the exploitation which our people have been subjected to for all these years should be brought to an end."

Mr Ramaphosa is invited to comment on the perception that the ANC's economic policy is confused and contradictory.

He disagrees, saying that what emerges from seemingly divergent statements by ANC leaders are differences in emphasis, not contradictory statements He refers to an article published in The Star which highlighted the statements on nationalisation made by ANC leaders over the past 21 months or so.

"As you read through it, you found that it was the emphasis that tended to be a bit different ... different emphases rather than contradictions."

The ANC, Mr Ramaphosa says, has not yet finalised its economic policy It will not do so until "early next year" when discussion on draft policy documents will be concluded

The ANC has "just emerged out of banning" and, in the absence of an official economic policy, its leaders have had to express views on economic policy matters; in so doing, their emphasis may have differed from time to time

He feels the ANC has been unfairly pressured to define its economic policy in detail when "many parties, including the National Party, do not have a clear and coherent policy"

He fires a verbal shot at the NP to complete the point "What the National Party has done to the economy of our country is clear testimony of how bad their economic policy has been"

Until the ANC formally adopts a comprehensive economic policy, the Freedom Charter of June 1955 serves as the most important touchstone against which to test economic policy statements

"No question about that," Mr Ramaphosa affirms

"But we also recognise that the Freedom Charter as adopted in 1955 did not anticipate the type of situation we are in today and therefore needs to be revisited. The ANC is going to revisit policy positions that were set up in the Freedom Charter when it determines its economic policy"

The interview turns to a related subject nationalisation, which Mr Ramaphosa refuses to rule out as an option for a future ANC government

"The question of nationalisation should be considered within the framework of government intervention. Government has to intervene to redress imbalances that exist in our country The free-market system, the private sector, is not capable of addressing the imbalances."

But, Mr Ramaphosa emphasises, government can intervene in a variety of ways. through nationalisation, through joint ownership of enterprises, and through monetary and fiscal policies

When or if a future ANC government decided to nationalise portions of the economy, it would do so only after "research and analysis" in which the key criterion would be to see how it could 'benefit the country"

Note would be taken of experience elsewhere, Mr Ramaphosa says Not to so do would be shortsighted

He agrees that the ANC has failed to attract significant white support Its failure to do so is, however, being addressed "right now"

He attributes the marked antipathy of the majority of whites to ignorance and prejudice, dismissing the possibility that it stems from their knowing what the ANC stands for

Appalled

"We are organising . so that we can get into those areas where we are weak and actually begin the process of explaining what the ANC stands for. We have found that more often than not, when people get to know what the ANC is all about, they come to our side.

"You will be surprised to know that quite a number of Afrikaans-speaking white people are coming over to the ANC of their own volition, saying 'I want to be a member of the ANC I want to work for the ANC'

"But, of course, white people have their own fears and these fears have to be addressed"

It is put to Mr Ramaphosa that many whites have heard reports of, and are appalled by, ANC detention camps, allegations that its guerilla commanders and political commissars tortured dissidents, and intolerance and bigotry among its young members

"We have never denied that detentions took place," Mr Ramaphosa replies.

"They took place when the ANC was a beleaguered organisation fighting against a vicious enemy who was sending spies into the camps to kill and to destroy the organisation. When you are dealing with a brutal enemy like the South African Government, these things had to happen. But they belong to our past"

As a demonstration of its bona fides, the ANC has appointed a three-member commission to investigate the question of detention and torture, Mr Ramaphosa says.

He ends with a reassurance to anxious whites: the ANC's commitment is to multiparty democracy and tolerance.

BUSINESS DAY, Tuesday, November 12 1991

Support for economic forum

TIM COHEN

THE ANC favoured an economic forum to negotiate the macro-economic restructuring of the SA economy, separate from the multiparty negotiations forum, ANC department of economic planning head Trevor Manuel said yesterday.

Government has indicated guarded support for the establishment of such a forum, which it feels will probably be discussed at the multiparty conference to be held at the end of the month. B Day 12/11/91

Manuel said the ANC was still in the process of refining its proposals on the economic forum in conjunction with its alliance partners, Cosatu and the SA Communist Party (49)

The alliance's decisions would be made known after a meeting of alliance leaders later this week.

But the forum should be separate from the multiparty conference because the conference would be concentrating on constitutional affairs, he said.

At an alliance meeting last week, the groups involved said they would be taking "immediate steps to ensure that such a forum is convened".

Manpower Minister Eli Louw told a news briefing at the weekend that government had issued invitations to labour groups to discuss the formation of an economic forum.

Manuel said although Cosatu had been invited and had accepted the invitation, as far as he was aware the ANC had not received an invitation.

Meanwhile, the outspoken leader of the ANC Youth League, Peter Mokaba, gave notice yesterday he would be standing for the league's top post at its first congress in 30 years next month

The congress, to be held in Siyabuswa, KwaNdebele, will mark members' first opportunity to elect leaders since the organisation was banned in 1960

A provisional leadership group, headed by Mokaba, was established in October last year at a conference aimed at re-establishing the league.

Mokaba said about 1 500 delegates would attend the congress. Main issues on the agenda would be the multiparty talks, the ANC's proposed interim government, the role of the youth, and violence

Mokaba said yesterday the maximum age limit for youth league members set by the ANC at its August conference was 35.

He would definitely stand for president.

Comment: Page 10

ANC 'is minimising sanctions damage'

B Day 13/11/91

B Day 13/11/91

DAVE LOURENS

ANC president Nelson Mandela said yesterday his organisation was taking "precautions" to minimise the damage sanctions had done to the economy.

Speaking at Jan Smuts Airport, where he met visiting New York mayor David Dinkins, Mandela said he and Dinkins would discuss practical ways for the city of New York to become involved in SA's economic reconstruction. These ties would eventually benefit the whole country.

"Our country's economy is facing serious problems. In spite of this fact it is the decision of the people that there should be pressures against SA, including economic sanctions," said Mandela.

He said that while he was in New York last year he had been able to lay the foundations for a development bank to rehabilitate the economy in a post-apartheid SA, Sapa reports. "That is an expression of our concern to improve our economy."

Dinkins, during his four-day stay, will meet the ANC, businessmen, US ambassador William Swing and possibly Acting President Gerrit Viljoen.

Mandela said Dinkins was visiting SA at an important time as the country was preparing for an all-party congress which would chart the way forward.

New York was the financial capital of the US and the ANC attached great importance to close relations with the city.

Dinkins, accompanied by a 33-member delegation including deputy mayor Bill Lynch, called for the strengthening of "mutually beneficial ties". (49)

He said the members of the delegation were specialists in a "wide variety" of fields which could be useful to SA. New York had access to many things SA needed, including expertise in financial administration, housing, education and health care.

● Picture: Page 2

Govt funding completed

B|Day 13|11|91

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ANDREW GILL

BUDGETED government funding for this financial year has been completed, according to the Reserve Bank, but a wild card still exists in the form of lagging revenue figures.

The Bank released figures to the market yesterday that showed it had borrowed R7,1bn from the local capital market since April, compared to the envisaged R7bn needed.

It had received a R7,5bn commitment from the Public Investment Commissioner and about R600m from its Deutschmark-denominated issue on the European capital market earlier this year.

Budgeted total funding needs were put at R15,1bn, which is covered by the three sources of funds. The Bank said its funding activities for government were complete but it would continue its secondary market operations in government stock.

This would be done in an attempt to further reduce the gap between government and Eskom stock, currently running at about 40 points.

Finance Department deputy director-general Estiaan Calitz said borrowing was completed on the basis of Budget figures. However, it was now dependent on how revenue figures performed in the wake of VAT.

If revenue figures did not perform as hoped the Bank had various options, a source said.

It could roll over a portion of the maturing R3,2bn in government's R120 issue in mid-February, or it could issue short-dated Treasury bills with a maturity date after April next year.

It could also make use of the anticipated ECU-denominated bond issue some time in

□ To Page 2

Govt funding

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□ From Page 1

January or February next year, or issue stock when options on government stock expired in February.

The likely form of the rollover of the R120 issue would be an issue of further stocks in current issues maturing in about 1994.

The relatively short-dated issue is seen as one of the more attractive government issues at the moment because of continued investor emphasis on the short side in the face of an uncertain socio-economic environment.

This has been borne out by the recent turnaround in the fortunes of the R150s maturing in 2005 and the R144s maturing in 1996. The R144's previous trading level, about 10 points above the R150s, has recently been slashed to trade 10 points below.

Kick-start brings problems

CAPE TOWN — Kick-starting the economy through house-building programmes was likely to lead to supply-side bottlenecks and balance of payments restrictions, University of Stellenbosch economics professor Colin McCarthy said yesterday.

In a speech at the NCF seminar, McCarthy said kick-starting measures would have a first-round positive effect on economic growth and job creation, but the second-round effects would put an end to hopes of sustainable growth. BDay 14/11/91

The absence of quick fixes for SA's sick economy created problems, however, as the economic restructuring was taking place during a period of major political change which could best do without the instability caused by growing unemployment and falling standards of living. (49)

McCarthy said export-oriented industrialisation would require a lowering of protection and argued for selective free trade areas which allowed export oriented firms to operate as free trade zones within a protected common customs area.

NCF SEMINAR

'Foreign capital is key to economic recovery'

BDay 14/11/91 (49)

Reports by LINDA ENSOR

CAPE TOWN — The immediate task facing Reserve Bank governor Chris Stals should be to win the support of the IMF, World Bank and other lenders to help make possible an economic recovery in the short-term, UCT academic Brian Kantor said yesterday at the National Clothing Federation (NCF) seminar.

He said foreign loans would also be required to sustain higher levels of imports as the economy recovered.

Kantor believed the high cost of credit and slow money supply growth, not a lack of confidence, were holding back the economy. He believed it would take no more than a 2% reduction in short-term interest rates to lift the economy.

But he endorsed Stals's policies to reduce inflation and hoped he would stand fast in his determination.

"The recession is a boat caught between the rock of unrealistically high inflationary expectations and the hard place of a tough minded central bank governor. The boat can escape the dangers if either the governor yields and allows money supply growth to pick up or the economic actors moderate their price and wage demands.

"The sooner the price and wage setters take Stals seriously, the better for them and us. The new SA stands to benefit greatly from an independent central bank determined to stick to the task of maintaining the value of the currency," Kantor said.

He believed the economy was set to gather momentum now that VAT had been introduced and that low interest rates would follow lower inflation.

But because the downturn had been mild, the upturn was not likely to be rapid. He said the best sign of an imminent recovery was to be found in the strength of the trading account of the balance of payments.

Kantor expected consumer inflation to fall to about 10% by the end of 1993 and the BA rate to edge down with inflation, maintaining a gap of between one and 2% ahead of inflation.

He said inflow of foreign capital would boost the foreign exchange value of the rand, but the maintenance of this value would require that short-term interest rates gradually fall in line with rates prevailing in foreign currencies.

"Any failure to bring rates in line when the foreign exchange value of the rand is judged to be secure would result in mammoth inflows of speculative short-term capital which in turn would put strong downward pressure on domestic interest rates and upward pressure on the money supply."

Kantor said exchange rate stability and a greater availability of imports would enhance competitiveness and lower inflation.

Upswing likely to be sustainable — economist

B/Day 14/11/91 (49)

ANDREW GILL

THE economic upswing expected in 1992 is likely to be more sustainable than the recoveries of the past decade, Old Mutual chief economist Dave Mohr says in the assurer's latest economic monitor.

However, the short-term prospects for consumers as the recovery gets under way are bleak, with little scope for meaningful tax relief or significantly lower interest rates

Mohr says several factors should contribute to a more sustained growth path once the economy starts to recover. Possibly the most important is a less constrained balance of payments (BoP) position. The gradual lifting of sanctions, expected world economic recovery and recent policy measures promoting exports all provide scope for export growth

Mohr says evidence of renewed weakness in the economy in the third quarter and indications that monetary policy is unlikely to be relaxed until 1992 raised speculation that the recovery could be further delayed. High inflation and expansionary fiscal policy are behind the view that monetary policy will remain tight.

Prospects for for an accelerated and sustained expansion of SA's production capacity through new fixed investment have improved.

The likelihood of SA regaining its place in world trade, a less constrained BoP position and a possible greater degree of interest- and exchange-rate stability should boost investment decisions.

Apart from increased spending to expand the economy's goods-producing capital stock, increased capital outlay on housing, education, health services and electrification will raise overall investment.

The social component should also contribute to raising labour productivity in the longer term.

Capital gains tax — a moral lightning conductor

BDay 14/11/91

(49)

DAVID CLEGG

IT IS time to take a pragmatic view of capital gains tax and the future of SA. It may not be popular, but it is realistic.

The realities of transition politics are that we will have something called a capital gains tax — and the challenge is not to resist it, but to define it so that it does the least damage and the most good. If we are not careful, valuable time and effort will be spent in resisting on principle something which is irresistible.

This is an inevitable result of the current political process. The new SA is largely about "redistribution", and the redistribution process must surely involve such a tax. Ideally, of course, redistribution will take place through sharing in growth and not through a Robin Hood-style confiscation. It would be naive to expect the political weight of newly enfranchised citizens not to carry the day for a capital gains tax.

Most Western economies have capital gains taxes either as integrated parts of their income tax system (as in the US) or as separate legislation — as in the case of the UK.

If the homes of capitalism can live with such attacks on "capital" and have done so for many years, a claim that it must be inherently destructive to our economy is hardly likely to be convincing.

Capital gains taxes are not destructive. Throughout the world they have generated more smoke and heat than actual tax, and are widely acknowledged to be not so much effective fiscal measures as moral lightning conductors — one more reason not to resist the inevitable.

Essentially, what I propose is an equivalent fiscal debate to the political debate of talks about talks — talks about taxes, if you like. By that very process, some of the fundamentals are ironed out and bug-bears may become blessings.

The biggest problem with a "capital gains tax" at present is that the phrase means different things to different people Names can be misleading (as in the case of sales tax) and emotive (as in the case of capital gains tax).

What we need to do well in advance is set the framework for debate so that this framework is the essence of the tax itself. The debate can revolve around mechanics and fine tuning and not founder on matters of principle.

What is this framework? Firstly, part of our current SA dilemma is that much growth is inflationary, and not capital growth as such. This needs to be understood and accepted.

To "redistribute" on the basis of the inflated rand is confiscatory, and our paradigm must therefore exclude inflationary growth. Opinion makers, both political and financial, must adopt and promote the view that an index-linked capital gains tax is the only type there is.

Secondly, we must press for acceptance that capital losses can be carried both forwards and back. If our fellow citizens wish to share in our luck, they must also share in our misfortune (and pay in, by way of tax refund on reassessment). There is a conceptual difference between losses for income tax purposes — which traditionally are only carried forward in SA — and losses for capital gains tax.

Thirdly, we must not accept as even a remote possibility that an unrealised gain should be taxable.

Financing the tax on the asset concerned could be destructive to the very fabric of a person's estate or business.

The Margo Commission recommended a form of tax on unrealised gains in the form of a "capital transfer tax" — a name and concept adpoted from UK legislation. However, that was a rather different thing and need not be debated here.

What is clear is that, until realised, gains are no more than paper — they are subject to reversal and should have no fiscal relevance.

Lastly, we need to have it clearly understood how far the tax goes. There should, for example, be no question at all of the tax applying to a person's principal domestic residence. It would be preferable for it to be restricted to certain types of asset. However, this starts to get into detail and — aside from the concept of a man's home being inviolate (but, interestingly, it can be taxed in the US) — I personally have no fixed position on this

So, if all these ideas are in place and we understand the parameters of the debate, some real progress might be made towards consensus on a tax mechanism which can help emotionally to heal divisions in our society without doing irreparable harm to the economy.

☐ **Clegg is a partner at Ernst and Young.**

Economy 'still bumping along the bottom' (49)

From ANDREW GILL CT 15/11/91

JOHANNESBURG. — The economy technically popped out of recession in the third quarter, growing by 0,5% on the back of continued strength from the agricultural sector to end seven consecutive quarters of contraction.

However, economists warn that the real uptick has not appeared yet and the economy is still bumping along the bottom.

According to Central Statistical Service figures released yesterday gross domestic product (GDP) grew at a seasonally adjusted and annualised 0,5% compared to the previous quarter's 0,4% fall.

The agricultural sector continued to support the figures, growing by 6%, but leaving the non-agricultural sector virtually flat with a 0,1% fall.

Manufacturing continued to suffer the worst of all sectors with a 1,4% fall compared to a 2,4% fall in the second quarter and a 5,5% contraction in the first.

Sanlam chief economist Johan Louw said the figures showed the downswing was still very much in force. The fourth quarter could, however, show an improvement with a possible pick-up in the wake of the implementation of VAT.

Nedbank chief economist Edward Osbórn was less optimistic about the possible windfall from increased activity in the wake of VAT. The expected post-VAT resurgence was not showing itself at retailers and finance houses.

First National Bank chief economist Cees Bruggemans said the cyclical upturn was very much under way after the economy bottomed out in the middle of the year. The recovery, he said, was coming on the back of government spending, a relatively strong export performance and the agricultural strength.

Manufacturing is the only sector still in recession.

Trencor rights offer meeting

TRENCOR shareholders will be asked at a special meeting today to approve a rights offer to raise R260,5m for the expansion of its interests.

The money will be raised through the issue of 2 862 680 convertible debentures at R91 each.

Pyramid company Mobile Industries will follow its rights in full. To raise the R127,6m needed for this it will issue 5 672 820 convertible debentures at R22,50 each.

The Trencor and Mobile debentures will bear annual interest of 6%. They will automatically be converted into ordinary shares on a one for one basis from July of the financial year following that in which the total dividend is 546c for Trencor and 135c for Mobile.

Solution Q.521 (continued)

6. User support from software supplier is normally part of the contract.

7. Suppliers also provide user training.

8. User manuals are normally comprehensive showing the capabilities and features of programs.

DISADVANTAGES OF PACKAGED PROGRAMS

1. They might not meet the specific needs of the organisatic

2. They can not be adapted to meet the changing needs of the organisation. Future expansion creates problems here.

3. Due to intensive competition in the industry some package not be fully tested and debugged.

4. Software controls might be lacking e.g. access controls.

5. Sometimes vendor support might be less than satisfactory.

6. Processing speed and adequacy of storage are often a prot

SOWETAN BUSINESS

49

Peace key to development

By JOSHUA RABOROKO

URBAN Foundation chairman Mr Mike Rosholt yesterday said the declining economy and high levels of violence had negative effects on South Africa's development.

Addressing the UF's annual meeting, he said all international signs showed that the chances of success were better if economic growth was high and violence low, preferably non-existent.

However, he was optimistic that "positive features would emerge after it had been realised that agreements had to be negotiated and accepted by many parties if the national challenges were to be met."

He said: "These negotiations are far-reaching, ranging from those between a rural village and an organisation able to assist with providing drinkable water for the first time, to the negotiations about a new constitution."

Indeed, he said, "the idea of a need for voluntary, negotiated accords - such as the National Peace Accord - is moving all our lives."

Rosholt said the basic reality was that people must develop themselves and, through co-operation, develop their own communities.

No-one could, he said, "develop" someone who simply remained passive, waiting to be developed.

"Another reality is that development is necessary in many fields: health, housing, business, education and others. This, in turn, means that people have to acquire the skills and learning that will assist them technically in meeting specific requirements."

He said in South Africa, three types of institutions exist to help people with development: private, Government, and those created specifically to assist in development.

Sowetan 15/11/91.

He was impressed that among developments taking place in South Africa was the formation of a national negotiating forum on housing and the hostels.

"And one hears that talks have begun on the possibility of an education forum too. Hopefully such forums will in due course provide an agreement on how to develop a democratic society and this will be confirmed later by constitutional agreement," he said.

The UF believed that reactionary legislation inhibiting development must be removed and replaced with policies encouraging development. It also believed it necessary to establish and support new institutions motivating skilled people into development.

However, there were people who held other views, he said. Too few politicians devoted anything but lip-service to development.

"Their concentration appears to be entirely focused on political and power issues."

Land issue key to problems - Azapo

Sowetan 15/11/91

(49)

By DON SEOKANE

SOUTH Africa's political problems could be solved only when the land question had been addressed, Azapo general secretary Mr Don Nkadimeng said at a symposium held at the University of the North yesterday.

The seminar, organised by the Department of Agriculture, heard viewpoints from representatives of political organisations such as the ANC, PAC, Democratic Party, Development Bank's Dr Simon Brand and Nafcoc's Mr Sam Motsuenyane.

Notable exclusions were National Party and Inkatha who were initially called to address but had their invitations withdrawn due to pressure on campus.

Differing radically from earlier speakers, Nkadimeng said more than 80 percent of the population of the country do not have access to 87 percent of the land.

"Few white farmers control about 95 percent of agricultural land and an economy, particularly agricultural economy, cannot be built under such circumstances," he said.

Mr Sipho Ngwenya, representing the ANC, said his organisation believed that the land issue was a political problem rooted in ideology and policies of the past governments.

"There should be redistribution of wealth with just compensation because the country cannot afford to have vast sums of unused land while people are suffering.

"Our objective is that agricultural land should be used productively to address the question of poverty," Ngwenya said.

Mr Mark Shinners of the PAC said agriculture and, in particular, the farmer should be the backbone of the economy.

"Economic programmes should be in line with agricultural development so as to stimulate growth," Shinners said.

ECONOMIC POLICY FM 15/11/91

Dead as a dodo 49

Hatching plans while growth languishes

In 1964, psychiatrist Eric Berne wrote a book called *Games People Play*. He described "a recurring set of transactions, often repetitious, superficially plausible, with a concealed motivation."

Berne's games are devices people use to avoid confronting life's challenges. They create an illusion of productivity but accomplish nothing else.

In the context of the SA economy, the name of the game has several forms. One is called *long-term economic strategies*. The exercise started in 1960, when the tragedy at Sharpeville exposed the political fantasy world of Prime Minister Hendrik Verwoerd to economic realities. The negative economic climate prompted him to set up the Economic Advisory Council under Secretary for Finance Hennie Steyn, to advise on economic policy.

Since 1960, nine official economic development programmes have been published and accepted in principle by government.

But, on each occasion, though the philosophy underlying the report influenced official thinking, government has been either unable or unwilling to implement the strategy adequately.

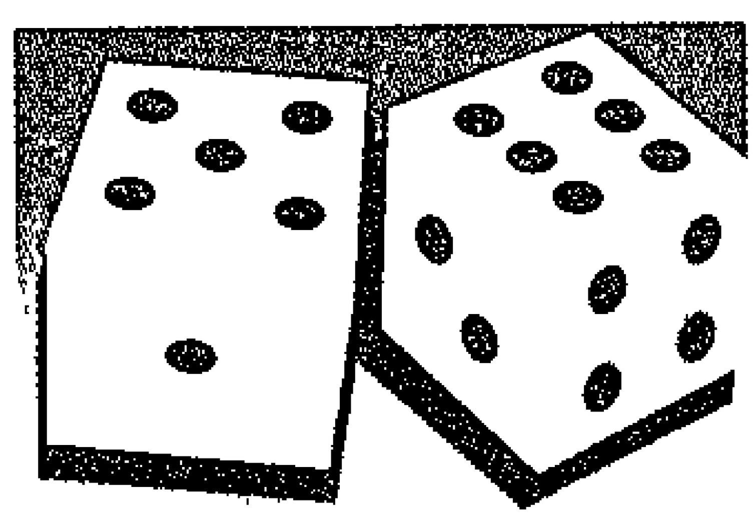
And the underlying structural problems have remained, aborting expansion and destroying potential for growth.

Now the Central Economic Advisory Service (CEAS), attached to the Ministry of Economic Co-ordination & Public Enterprises, is formulating the tenth programme. "It should be ready for discussion with trade and industry and labour organisations early next year," says CEAS chief Jan Dreyer.

Meanwhile, in September, the EAC submitted to the State President a re-drafted version of a revised Long-term Economic Strategy, first published in February this year.

This was in addition to an economic restructuring programme, announced in April by Minister Dawie de Villiers in the Budget Vote of the Department of Economic Co-ordination & Public Enterprises.

Recommendations have come also from the SA Chamber of Business (Sacob) and the government-owned Industrial Development Corporation.



'If the ANC gambles with the country's future growth potential it will pay the price'

So there is a proliferation of proposals under consideration, despite the poor record of turning proposals into reality

One obstacle to implementing a comprehensive strategy is that responsibility falls between too many stools At present, Ministers directly responsible for economic policy are, in order of seniority:

- ☐ De Villiers;
- ☐ Barend du Plessis, Finance;
- ☐ Amie Venter, State Expenditure & Regional Development; and
- ☐ Org Marais, Trade & Industry.

Also involved are:

- ☐ Eli Louw, Manpower;
- ☐ George Bartlett, Mineral & Energy Affairs;
- ☐ Kraal van Niekerk, Agriculture, and
- ☐ Piet Welgemoed, Transport.

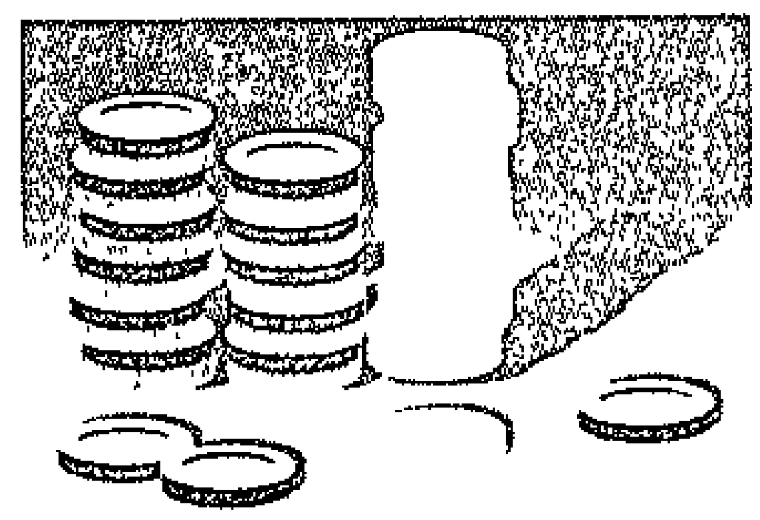
De Villiers is responsible for co-ordinating policy decisions and is, in turn, responsible to Cabinet, which takes collective responsibility, says Dreyer.

The CEAS has operated under the umbrella of a number of departments, including Constitutional Development & Planning, Public Administration & Economic Co-ordination, and Finance.

Yet CEAS has always been an independent unit, falling under these various departments for administrative reasons; since last year it has had its own administration.

Its original brief was to provide quantitative projections, says Dreyer, but later the emphasis shifted to policy formulation. Every two years, the development programme was revised — until 1979, when the last one was published. It was designed to run until 1987

"The problem," says Aubrey Dickman, of Wits Business School, who sat on the EAC until 1985, "was that underlying policies weren't changing fast enough to realise the objectives." In the early years of the EAC, the economy was still chained by restrictive race laws. As race laws began to fall away in the Seventies and Eighties, other obstacles emerged Despite the talk of deregulation and freeing markets, it was clearly difficult for government to rethink the role in played in the economy



'Private sector should count the cost of collusion'

Meanwhile, the private sector had become so accustomed to this role that it worked out its own survival strategy -- a game called *special pleading* and had taken advantage of available protective devices. A number of businesses exist only by courtesy of protection: for instance, in the disastrous textile sector.

The fact is that it has crippled the clothing industry and disadvantaged consumers who would otherwise obtain their clothes cheaper.

To take another example: the local content programme in the motor sector may keep the domestic motor industry going, but it makes a new car as expensive as a house

Mike Sander, MD of AECI, which recently applied to the Board of Trade & Industry to introduce a new tariff on imported PVC "to effectively combat dumping" -- puts his viewpoint "Protection is necessary until such time as the playing fields are levelled."

Industrialists argue that, over its operating life, an SA project pays considerably more tax than a project in a trading partner country And to generate enough pre-tax return to meet this tax bill, the SA project needs a greater cash margin

The fiscal handicap is compounded by high inflation

Capital allowances are claimed in nominal terms and inflation erodes their real value, which increases the total tax paid. Tax is paid on unearned profits, associated with revaluation of stocks, because of its fifo treatment for tax purposes.

That the decline in fixed investment during the Eighties is due, in part, to the relative changes in fiscal environment of SA and competitor countries.

Since 1980, tax rates and inflation rates in countries such as the UK, the US, Germany, Holland and Taiwan have been reduced. But the SA corporate tax rate was increased

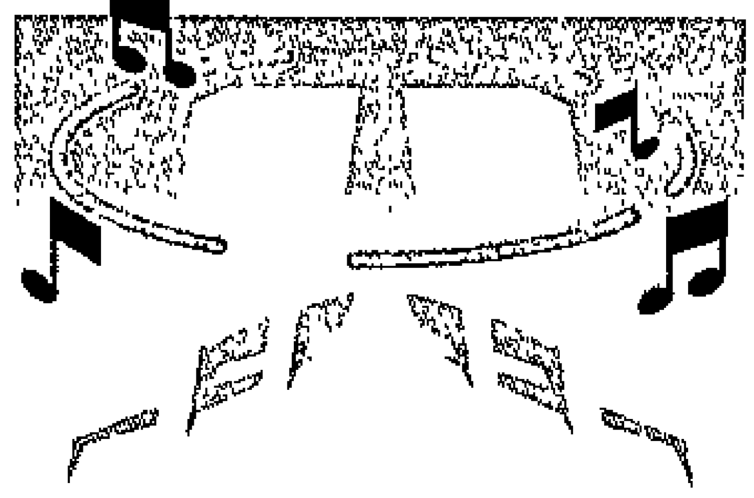
Venter

Marais

from 42% to 50%, before being reduced slightly to 48%. The inflation rate has remained much as it was in 1980, with the investment and wear - and - tear allowance structures being changed in ways that are unhelpful in an inflationary environment

This argument was made by Sacob in a recent policy document It said: "One of the factors exerting the greatest influence on this country's ability to compete is the company tax rate." It pointed out that corporate tax rates in most OECD countries and newly industrialised countries range from 25% to 40% (with a low 10% in Ireland and more than 50% in Sweden and Norway)

In addition of course, expected investor returns are higher in a country with a relatively high risk profile. It argues the combined "effect of all these on the price of funds for a business has to be recovered from the selling price of the output."



'Responsibility for economic policy falls between too many stools'

Sacob, perhaps, was thinking in terms of level playing fields.

But others have put this case to government, with some success on their own terrain Beneficiation projects such as the Columbus stainless steel venture, backed by Anglo American and Gencor, qualify for an accelerated tax write-off on capital expenditure and for transferability of tax losses. Critics point out the project has little potential for creating employment, once the initial construction phase is over.

This benefit is reserved for any project which conforms to certain requirements, and the final decision on whether it qualifies rests with a statutory committee.

Most governments have never been able to resist the temptation to provide incentives for businesses which claim they will bring growth to undeveloped areas or attract foreign exchange earnings.

A local example is the latest regional industrial development scheme, designed to bring foreign investment into those parts of the country which government has decided should be developed.

The overseas marketing of this scheme is the responsibility of the Committee for the Co-ordination of Overseas Recruitment for Inward Investment in Industry. Because the scheme is based on performance incentives, it is regarded as an improvement on its predecessor.

Welgemoed

Bartlett

But the decision to link the benefits to geographical location is not likely to promote efficient allocation of resources

Two costly export incentive schemes have drawn criticism from, among others, the IMF. Over the next four years taxpayers will fork out:

☐ R1,7bn under the old A and B export schemes discontinued two years ago; and

☐ R2,4bn under the General Export Incentive Scheme, due to be phased out by 1995.

There is a wide range of other incentives Whatever their individual merits, the package adds up to a substantial amount. This is money which would otherwise have been allocated through the market to what, by definition, would be more productive areas.

What is needed, says Sander, is a coherent strategy which addresses all these things This brings us back to square one, in an endless game of scrambling up ladders and slithering down snakes.

The futility of the exercise is apparent when one considers that the benefit (whether it is a subsidy, tax break or import tariff) is largely funded by the players who asked for relief (though ultimately, of course, it is the consumer who pays).

The tax bill is met by the corporates, who pay at a nominal rate of 48%; and the individuals running those corporates, who pay a top marginal rate of 43%. And as consumers of intermediate products and employers of labour, businesses are obliged to fund the inflationary effects of the system, while the individuals who run them are final consumers as well.

So the benefits and penalties are moved endlessly like chips around the board

Now other players are entering the game — the ANC and Cosatu. In the aftermath of VAT it will be difficult to persuade them to support a government-led economic initiative

Even before the VAT campaign, Cosatu did not respond to an invitation to join the EAC — considering how long it took government to realise that organised labour is a valid player, that is not surprising. Now Cosatu and the ANC tend to reject on principle any government-led initiative.

As for the longer term, the ANC is addicted to the game called *government intervention.*

The ANC's economic policy is still being formulated but it is clear there is considerable support in its ranks for a formidable regulatory framework, if not participating in the economy even more actively than the present government

Du Plessis

So it is ironic that it was ANC secretary-general Cyril Ramaphosa who told the recent *FM* Investment Conference. "If we can provide the right climate for investment, we do not need fancy incentive schemes that will be harmful to our country and people "

But *fancy incentive schemes* is always the name of the game in a highly regulated society

Where to from here? EAC chairman Warren Clewlow suggests that the economic agenda should be pushed forward, along with the political issues on the negotiating table.

Raymond Parsons, of Sacob, suggests that a start could be made with the formulation of the 1992/1993 Budget, in which Cosatu has already demanded a say

Parsons recommended long ago that the post-Budget hearings held by the Standing Committee on Finance should be brought forward, to enable the Minister to get the benefit of outside input well in advance.

He also advocates greater transparency on a number of issues

He adds: "In the VAT debate you had Cosatu challenging the national accounts. The government should be able to defend its position with numbers."

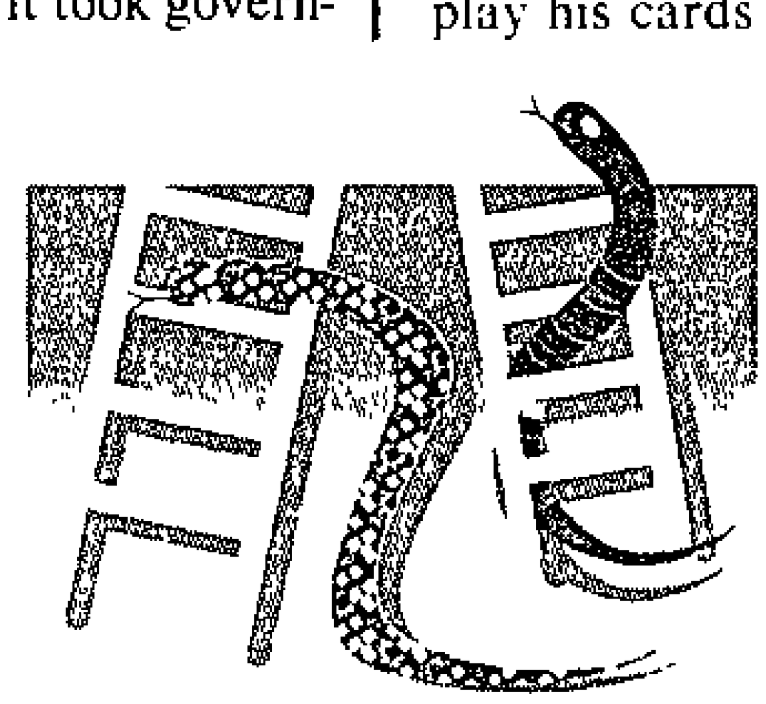
If all players stay locked into a pointless game, the country will be trapped in a low-growth zone.

But we must assume that there are enough people – in government, in the private sector, in ANC-Cosatu — who prefer to confront life's challenges.

There are short-term gains for individuals and organisations pursuing their own objectives but no-one operates in isolation in a modern economy.

Government has wasted many opportunities by moving in circles Now President F W de Klerk, who is ultimately responsible for economic policy, must retrieve the mistakes of his predecessors

He holds the initiative but he will have to play his cards with considerable skill, determination and sensitivity Surely it is not beyond him.



'An endless game of snakes and ladders'

For its part, the private sector should count the cost of collaborating with interventionist policies.

And ANC-Cosatu, of course, must realise they are gambling with the country's growth potential and will pay the price, along with everyone else.

So let's stop running round, going nowhere Let business get on with the job ■

UK pushes for SA access to IMF

Star 15/11/91

49

By Kaizer Nyatsumba
Political Staff

The British Government would continue to press for South Africa's access to the International Monetary Fund and the World Bank, visiting British Trade Minister Timothy Sainsbury said yesterday.

Addressing the South Africa-Britain Trade Association, Mr Sainsbury said it was vital that South Africa dealt with its economic agenda "on a different time scale to the political one"

Mr Sainsbury, the first British Trade Minister to visit South Africa in 21 years, said planning for the future could not wait for a political settlement, and it was therefore important that South Africa gained access to facilities of the IMF and World Bank.

He said it was regrettable that the Commonwealth had decided against the relaxation of trade and financial sanctions against South Africa, saying sanctions were "yesterday's debate".

However, he welcomed the "positive signal" given by the Commonwealth lifting person-to-person sanctions.

Mr Sainsbury told the gathering: "Political stability is a necessary but not sufficient condition for success. The trading conditions must also be the most favourable possible. This means nothing less than a full-blooded commitment to a market economy and the removal of all barriers to trade."

He said South Africa was facing a number of important economic policy choices, one of which was its future relationship with the region.

Mr Sainsbury, who arrived in South Africa yesterday morning on a six-day visit, said the United Kingdom, already South Africa's leading trading partner, was currently experiencing "a further surge of interest" in the South African market. He reported "a sharp increase" in the number of commercial inquiries to both his department in London and its local offices in South Africa.

Financial Mail

FM 15|11|91 RESOURCES 49 (2360)

Grasp the nettle now

There are few people in this country today who would not agree that State spending will in future need to be more equitably spread to benefit all races. Precisely how such allocation will be funded is, however, likely to be politically and economically a matter of substantial controversy.

The naive will argue that the Defence vote can simply be eliminated and the Police vote reduced; that what extra is needed can be raised through taxation: In a country where the breakdown of law and order is sometimes perilously close; where crime is becoming endemic; and where economic growth has been faltering for a decade, those measures would aggravate what they were intended to palliate.

Another remedy is to privatise public enterprises and use the proceeds to pay for education and health for all races and to equalise pensions. But that has stumbled over the intransigence of the ANC and other exponents of collectivism, who believe that public corporations can be used as an instrument of massive affirmative action.

Practical experience in the US has shown that such action will not work and that the economy will simply become less able to support the levels of economic growth needed to lift the masses out of poverty.

Clearly, what needs to be done is to enhance the productive capacity of the economy, so that rising tax revenues will enable spending imbalances between the races to be abolished relatively quickly. One way of doing that would be to cut taxes. Another would be to discontinue the billions that go on subsidies to enterprises that have been created and nurtured by apartheid and to reduce the protective tariffs which merely foster inefficient projects.

It is for that reason that the debate over Sasol's protection is so timely. A similar argument applies to Mossgas. The billions that have been spent on it represent a massive misallocation of resources.

The sensible thing to do with Mossgas now may well be to spend the billions that it would cost to close it down. If Mossgas is sustained by subsidy into an unproductive commissioning, the cost to the taxpayer, and the sacrifice in forgone wages that the unemployed will need to make, will be much higher and will entrench hardship and poverty.

The protection given to certain industries, through the maintenance of administered domestic prices that are kept above world prices, is also an impediment to growth.

Simply put, if the resources and energy wasted in this economy on subsidies and protection were removed, there would most likely be enough money to bring equality to public spending — without raising taxes or placing risks on the orderly conduct of society. ■

FW tells Taiwan he'll hold off marxism

Star 16/11/91

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PIERRE CLAASSEN and ALAN DUNN

TAIPEI — The Government would block any constitution that could not ensure security and stability or which introduced obsolete ideologies, President de Klerk said yesterday.

Addressing his Taiwanese counterpart at a state banquet held in honour of President Lee Teng-hui, he said sound political and economic principles would continue to prevail in South Africa.

Continuing on a theme that has characterised his six-day, back-to-back state visits to Israel and Taiwan, the South African president reassured businessmen and investors that the Government had the situation under control and that investment in South Africa would be rewarding.

"You may rest assured that my Government has taken the necessary steps to combat and curtail the violence and that it has the situation well in hand," he said.

"My Government will not permit the implementation of a new constitution unable to safeguard security and stability.

"Nor will it agree to any new constitution that will permit the introduction in South Africa of obsolete and rejected ideologies that have failed so dramatically elsewhere in the world — not to speak of experiments that have brought nothing but poverty and retrogression under marxist socialism in the Eastern bloc, most of Africa and other parts of the world."

The violence and apparent instability in South Africa were passing phenomena, said Mr de Klerk. They were inevitable in any country undergoing far-reaching change, he said.

"It is a temporary, transitional phase South Africa simply has to weather if it is to succeed in implementing peace, progress and prosperity in a free-enterprise democracy," he said.

South African businessmen were keen to do business with the Republic of China, Mr de Klerk added.

Wonderful opportunities were opening up, in turn, for foreign investors

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De Klerk

● FROM PAGE 1.

in South Africa now that international sanctions, boycotts and disinvestment campaigns were crumbling.

"We believe it is both desirable and necessary for businessmen from the Republic of China to make use of these opportunities and become involved in them."

This involved a concerted effort by Taiwanese businessmen to acquaint themselves with the new opportunities becoming available to them in South Africa: "The time to become involved is now," he said.

Mr de Klerk said he fully understood that many investors and entrepreneurs were uncertain about committing themselves in South Africa right now.

South Africans did not expect charity, he said, only the chance to prove themselves.

Earlier Foreign Ministers Pik Botha and Fredrick Chien formally amended an air link agreement allowing airlines other than the national carriers, SA Airways and China Airlines, to operate between their countries.

They also signed an accord aimed at promoting South African/Taiwanese investments. They agreed to "take all measures possible" to maintain and improve their respective investment climates.

A bilateral working committee will meet, in terms of the agreement, to explore closer co-operation and areas of technology transfer.

A communique signed by Mr de Klerk and Mr Lee said the governments had also agreed to establish projects to promote agricultural and technical co-operation for the benefit of the southern African region.

At an earlier news conference, Mr de Klerk acknowledged that South Africa would be looking to trade with other countries on the Pacific Rim.

"We will not allow those ties to endanger relations with Taiwan," he said.

South Africa would continue to try expanding trade with those countries. "We will trade with whoever we can trade," he said.

"I'm not afraid of any negative effect," he said, when asked how any new trade with "mainland" China would affect relations with Taiwan

Star 16/11/91

Sorry: no boom, no handout

S Times 17/11/91

GUNTHER KARCHER explains how German methods of wealth redistribution worked — and why they cannot be used in South Africa

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GERMAN solutions for the redistribution of wealth have been increasingly referred to in conferences and newspapers.

But can these models work for South Africa ?

To share the devastating burdens of World War 2 in a more just manner, the German government under Chancellor Konrad Adenauer introduced both monetary reform and an Equalisation of Burdens Bill.

The monetary reform reduced the existing quantity of money in a most drastic way, with each person being allowed to change only 60 of the old inflationary Reichsmarks into 60 new Deutschmarks.

This reform largely neutralised the existing financial disparities among post-war Germans. However, the monetary reform favoured the owners of property, an injustice which was neutralised a few years later by means of an Equalisation of Burdens Fund.

Money was raised by a levy on real estate. This was set at 50 percent of the rateable estate value in the year 1936 (a relatively moderate determination of value).

This levy was payable over a period of 20 years in the form of a tax. Through this fund mainly displaced persons were compensated for proven losses of property and savings.

In addition to these compensatory measures, the fund was used for the granting of loans to help settlement, training and integration of displaced Germans.

Consciously and deliberately, the fund did not aim at the redistribution of existing wealth, but was a taxation on the yields of fortunes. This way the measure influenced only the accumulation of new fortunes, although — in retrospect — only to a small extent.

Since the division of Germany as a consequence of World War 2, reunification became the supreme objective of German post-war politics. This highly emotional objective was considered of such importance that it was included in the constitution of the Federal Republic of Germany, the "Basic Law".

When the wall finally crumbled and with it the socialist system of the GDR, it took quite some time until the extent of the backwardness of the East German economy and infrastructure of the East could be soberly assessed.

Then it became evident that billions of marks were needed to make good the political promises and to fulfil the moral obligation related to reunification. A new tax had to be imposed to finance the equalisation of economic standards and the standard of living in the West and East.

For this purpose, every citizen of the "old länder" (the west of Germany) has to pay a surcharge of seven percent on his income tax over a period of 12 months.

In the Federal Republic of Germany, extraordinary circumstances required unusual measures by the state. In this respect, the Republic of South Africa faces a similar situation.

However, there are two significant differences. Firstly, in Germany — after World War 2 and after reunification — it was a clear majority which could be involved in the social upliftment of a minority of people, while South Africa has to remove the historical injustices vis-a-vis a huge majority — a burden which has to be borne by a minority of South Africans.

Secondly, the social and financial upliftment of some groups of the German population occurred during times of a booming economy which could absorb the extra financial strains rather easily. This does not apply to the South African economy.

In the present phase of the economic recession, all measures should be avoided which would hamper or strangle the recovery and viability of the South African economy

There seems no doubt that without enormous economic growth, no post-apartheid South African government will be able to solve the huge task of compensating those citizens who have been deprived of equal chances of developing themselves.

This tremendous task requires a sensible economic policy, which implies a sensitive balance between necessarily high taxation and incentives for investment and growth

● *Dr Gunther Karcher is the South African representative of the Konrad Adenauer Foundation*

Redistribution 'imperative'

JOHANNESBURG. — Redistribution of wealth is imperative for the creation of political stability and a sense of economic justice in South Africa, says the ANC's head of economic planning, Mr Trevor Manuel.

Economic growth was one leg of the ANC's economic policy and redistribution was the other, Mr Manuel said at an ANC Alexandra branch fundraising dinner in Sandton last night.

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Redistribution could be brought about through taxation, but the ANC realised there was no quick fix to the issue The redistribution question remained the ongoing topic of the ANC's economic studies.

This included the redistribution of land — "fundamental in bringing the dispossessed back into the economic fold", Mr Manuel said.

State intervention in the economy was an "unpleasant reality" which could take various forms. — Sapa.

Interventionism is not the soul mate of economic growth

B/Day 19/11/91. **MARTIN WOLF** (49)

NOT VERY long ago, central direction and control of the economy, underpinned by strong central control over the polity, was considered to be the price to be paid for rapid economic development. The collapse of Soviet-style socialism has rendered that belief untenable. Competitive markets, most would now agree, are needed.

Yet that collapse leaves more subtle disputes behind it, disputes important for the future of reforming post-communist countries. Some argue it may take a despotic government to introduce market-oriented reforms. Others assert that it may take an interventionist government to make the market economy work.

The contrast between the relative success of economic reforms in the still totalitarian People's Republic of China (which had an average annual growth rate of 9,7% between 1980 and 1989) and the catastrophic economic failures of glasnost and perestroika supports the first position. The extraordinary success of Japan, Taiwan and South Korea, all interventionists, supports the second.

Chile under General Pinochet was the prime example of the despotic route to the market. The dirigisme of the Pinochet regime was political, not economic. It was a brutal response to the chaos created by the populist socialism of Salvador Allende. Aggregate claims for expenditure had to match aggregate income; individual claims had to match what individuals could earn in the market. But the jump from the destructive political conflict of organised interests to economic struggle within the bounds of competitive markets could not, it was felt, be made peacefully.

Yet the record of authoritarian regimes suggests they are far from a guaranteed route to the market. More often they are the shortest route to kleptocracy. Why, after all, should a government become more powerful, in order to do less? The pre-coup Soviet regime, whose defining characteristic was the intertwining of the centralised bureaucracy with economic activity, would have found it impossible to do so.

Nevertheless, the Chilean experience poses a warning to post-communist reformers. In those countries a huge gulf lies between the way resources are distributed now and the way they might be distributed in a market economy. Many will feel cheated by what lies on the other side. Can democratically elected governments, operating in multiparty enviroments, retain the consent they need to bring in reform? The latest election in Poland suggests the answer may well be no. The risks of a slide into chaos, followed by dictatorship, are not small.

When people recommend the east Asian example, they are thinking of something different from the forced imposition of the market economy. What is thought attractive is the supposed east Asian commitment to an active industrial policy.

The latest World Development Report does not endorse this view. Its recommendation boils down to "markets plus education", with governments providing the underpinnings of the market, as well as much of the spending on education.

"Markets plus education" is, in fact, not a bad thumbnail description of what is shared by Japan, the Republic of Korea, Taiwan, Hong Kong and Singapore, the outstanding economic successes of the second half of the 20th century.

Scholars who look closely at the individual cases of Taiwan or South Korea do, it is true, often stress the interventionism of those two countries. Yet what distinguishes the east Asian successes from flops — Argentina, Brazil, Egypt, India and Pakistan being a few examples — have been the ways in which the former have not intervened. They have not attempted to bias incentives away from exports, they have not relied heavily upon state enterprise, they have not imposed high taxes, and they have not indulged in heavy public spending on welfare. They have instead been fiscally conservative.

Furthermore, the east Asian developing economies do not even share selective industrial policy. Hong Kong has had the least interventionist government in the world, Singapore's has been less interventionist than those of most western European countries. Taiwan's has been somewhat more interventionist than the French in the '50s, while South Korea is an inventionist state on the historic Japanese model.

Despite these differences, all have been hugely successful. Industrial interventionism is, therefore, neither a common characteristic of these four economies, nor does it differentiate them from less successful ones.

Futhermore, even where selective industrial policy has been associated with success, as in the case of South Korea, it has had problematic results. In the '70s and early '80s for example, a relatively capital-intensive pattern of development was promoted, which most observers would now accept was a mistake.

The South Korean combination of financial distortions with targeted protection has also nurtured a dualist economy, dominated by a limited number of favoured conglomerates. Since those enterprises competed in product markets both abroad and at home, they were forced to be efficient. But their access to government-granted privilege was a source of corruption. Furthermore, they came to rely upon — and so become closely associated with — the coercive apparatus of the state.

Most important of all, these east Asian developing economies all had authoritarian governments, in this case, relatively benevolent ones. One reason this may have helped development is, as in Chile, they were better able to resist popular pressures to spend and to intervene too freely. But, for the more interventionist among them, authoritarianism had another benefit. It allowed their governments to act in pursuit of economic efficiency.

From the experience of South Korea and Taiwan one might suggest necessary conditions for successful selective interventionism are: an overriding imperative towards growth; possession of the prestige and the power to impose decisions upon industrial lobbies; a high level of technical expertise; and the ability to see where the economy might go by looking at other economics further down the development path.

The Confucian attitude to bureaucracy, the threat to survival both countries faced, the example of Japan and the absence of democratic political pressures all combine to explain why the governments of South Korea and Taiwan were able to make their selective interventions relatively sensibly.

But these are exceptional conditions. They cannot be the basis for a policy rule. Fortunately, the interventionism of South Korea and Taiwan does not seem to have been necessary for success. If the price of successful interventionism is authoritarianism, it is one that does not have to be paid. The Chilean example is a warning of what might happen to those who cannot eschew infantile populism. Meanwhile, the east Asian model is a snare — fledgling democracies with discredited and incompetent bureaucracies.

Fortunately, even east Asia's experience does not demonstrate that a selective industrial policy is essential for economic success. The market may be imperfect, but it will work. What reforming countries need are democratic constitutions that allow it to do so, not more interventionism. — Financial Times.

☐ Simon Barber is on a visit to SA. His column will resume early next month.

Govt's dearth of income results in huge deficit

BDay 19/11/91 (49)

EDWARD OSBORN

SA's BUDGET deficit for the first six months of the financial year, which coincides exactly with the introduction of VAT, should have been about R4,45bn. The actual outcome has been much worse at R7,2bn — R2,8bn out. This is almost entirely because of sharply reduced revenues (see table), and not because of expenditures running badly beyond authorised budgetary approvals.

Two items of revenue account for the drop in income — income tax and sales tax — both of which can be attributed to the depth and duration of the recession, presumably beyond the expectations of those in the Finance Ministry responsible for the estimates of revenue. On a straight half-yearly basis, income tax revenue should have amounted to R22,4bn, but only brought in R20,6bn. Similarly, sales tax revenue was R9bn as against a budgeted R9,7bn.

Total expenditures exceeded the budgetary allocations — excluding the contingency provision of R1,2bn — by only R262m or 0,6%. A number of departments have drawn significantly more than half of their votes, but this is balanced out by underspending in others, mainly defence, regional development, and education and training.

However, what is not clear is the degree to which overspending has been caused by higher salary costs which are provided for in a separate vote in the budgetary make-up as "improvement of conditions of service". This provides an internal source of funding of the salary increments and makes it difficult to assess the likelihood of the departments meeting their budgets by the end of the year. On the face of it, it seems likely, and possibly well within the contingency backstop. The director-general of Finance has given public assurance of this.

In addition to the actual deficit to date, there has been a major stock redemption outgoing of R2bn in August and miscellaneous small redemption payments, bringing the total financing needs of the State Revenue Account to R9,6bn. This has been more than adequately covered by borrowing of R10,7bn, including a small borrowing abroad of R139m and was almost sufficient to counterbalance the payments on loans abroad in the period.

Overall, there has been the equivalent of a financial surplus of R1 078m, from which a number of disbursements have been made leaving an addition to balances of R500m.

STATE REVENUE ACCOUNT: 1991/92 (Rm)

	Budget	Expected Apr-Sep	Actual Apr-Sep	Difference
Revenue (Budget)	74 866	37 433	34 917	−2 516
Net VAT adjust	−510			
Sale of oil stocks	1 950			
2½% luxury excise	300			
Expenditure				
Votes	83 784	41 892	42 154	262
Contingency	1 200			
Exp from oil sale	1 000			
Deficit	−9 678	−4 459	−7 237	−2 778
Redemptions	−5 416	−2 224	−2 355	−131
Total finance needs	15 094	6 683	9 592	2 909
Financing				
Loans	14 150	7 075	10 529	3 454
Other	265	148	141	−7
Total finance	14 415	7 223	10 670	3 447
Finance surplus	−679	590	1 078	488
Export reinsurance fund			−450	
Other below line transactions			−120	
Change in balances			508	
Exchequer balance: April 1		2 708		
Sep 30			3 216	

Treasury bills have, in net terms, been run down by R368m in the half year, and the expected payment of R450m made to the Export Reinsurance Fund out of the proceeds of last year's financial surplus.

Further massive "below-the-line" disbursements have yet to be made. These are a R1bn payment to the Government Pension Fund and R350m in partial reduction of Maize and Sorghum Board debt. The exchequer balance, however, is adequate to meet these and, in any case, these are likely to be recycled back into the State Revenue Account.

Further major redemptions of stock are expected — of R1,6bn in November and R3,2bn in February. Inasmuch as the Public Investment Commissioners hold R2,2bn, the net amount to be disbursed outside the public sector is likely to be only R2,3bn in total.

Additional new borrowing will be required to meet this (or even less by the amount of the financial surplus of the first half) together with whatever deficit before borrowing arises in the second half. But that seems eminently feasible given the continued flow of pension contribution monies into the state pension funds administered by the PIC, the relatively low borrowing demands of the parastatals, and the highly liquid state of the money markets. The worrying aspect, however, is the rise in the public debt, which stood at 36% of GDP in June.

The size of the deviation of the deficit in the second half is clearly more dependent on revenue than expenditure. Expenditure is on track, but revenue is most uncertain given the tardiness of the economic recovery and the transition into VAT.

☐ **Osborn is chief economist at Nedbank.**

LETTERS

Future farming plans fall on stony ground

Sowetan 20/11/91 (49)

FOCUS

A high-powered conference on agriculture and the Government was held at the University of the North. DON SEOKANE of *Sowetan's* Pietersburg bureau gives us an insight into the discussions.

THE "land question" consolidated itself as the major issue in transforming South Africa when views expressed at a conference on land at the University of the North ranged from outright nationalisation without compensation to controlled redistribution.

Organisations represented at the seminar included the ANC, the Democratic Party, Azapo, the Development Bank of Southern Africa, the PAC and the National African Federated Chamber of Commerce and Industries.

Invitations to the Inkatha Freedom Party and the National Party were withdrawn after pressure from students.

The seminar was titled "Agriculture and Government in the new South Africa" and was organised by the university's department of agriculture..

Nafcoc president Mr Sam Motsuenyane fired the opening salvo in a lively debate when he said: "The present unequal distribution of land will hamper the growth of any aspirant black farmer unless urgent measures to transfer land to blacks are undertaken".

Motsuenyane said the transfer of land to black people was urgent because of the present unequal distribution of land.

Land owned by the old Native Trust should be given to black farmers for commercial farming, he said.

Motsuenyane's talk, based largely on affirmative action, also highlighted the need to give aspirant black farmers loans and agricultural training.

"There is a conspicuous absence of blacks on the agricultural control boards," he said.

Mr Sipho Ngwenya of the ANC said there was a need to reconstruct the dualistic approach in agriculture.

Ngwenya was referring to what Motsuenyane had earlier said was peasant farming by blacks and commercial farming by whites.

According to Ngwenya, the ANC wanted more productive use of agricultural land. Absentee ownership should be discouraged.

The ANC, he said, believed in expropriation of land with just compensation.

"We cannot afford to have vast stretches of empty land used only for speculative purposes while people go hungry.

"The land is a political problem rooted in ideology and policies of the Government".

Mr M Tarr of the Democratic Party concurred with Motsuenyane on the need for agricultural training.

Facilities, he said, particularly relating to acquisition of farming skills, were of vital importance.

"Even if black farmers were to be given land tomorrow, it would not be of significance if they do not know how to farm."

On land claims, Tarr said the title deed was not the only legitimate claim to rightful possession.

Azapo's general secretary, Mr Don Nkadimeng, said his organisation did not believe in expropriation with full compensation or at market related terms or just compensation.

"We believe in nationalisation and not the free market system".

Arguing that most people were denied access to the land, Nkadimeng said more than 80 percent of the population do not have access to 87 percent of the land.

"We cannot let a few white farmers control agricultural economy. The problems of this country can only be solved when the land issue has been taken solved," Nkadimeng said.

He said black farmers have the potential of outproducing their more experienced white counterparts.

"About a 100 years ago there were 2 000 black commercial farmers in the Cape who far outcompeted white farmers. We insist on economic programmes that are self-reliant and self-sufficient. A person in Zebediela cannot be told to produce cotton instead of maize while he does not have access to the cotton markets," he said.

The PAC's Mr Mark Shinners said any future government must Africanise agriculture in regard to restitution of land to make agriculture viable to the people.

"The future emerging African farmer should be the backbone of the economy. Agricultural production, particularly rural agriculture, should be in line with economic programmes".

Turning to property and land rights, Shinners said the PAC accepted the principle of ownership rights only after redistribution.

"We do not wish to argue about land ownership rights, but they have to be effected after the imbalances created by the present Government have been addressed."

However, after an all-day seminar marked by speeches, rhetoric, cliches and criticism, no viable agricultural policy to stimulate or build the economy was evident.

The speakers, particularly from political organisations, gave insights on what their policy positions were, but the nitty gritties of salvaging an agricultural economy still remains lost.

Dr Simon Brand of the Development Bank said Government involvement in agriculture had been highest before World War one with assistance restricted to white farmers.

He said, however, Government involvement in farming was bad business and called for more commercial farming by the private sector.

Political comment in this issue by Aggrey Klaaste and Deon du Plessis. Newsbills by Sydney Matlhaku. Sub-editing and headlines by Ivan Fynn. All of 61 Commando Road, Industria West, Johannesburg.

*Write to the Editor at PO Box 6663, Johannesburg 2000. Nom-de-Plumes can be used, but full names and addresses should be supplied or the letter will not be published.

Star 20/11/91

Don't nationalise, ANC warned

By Shaun Johnson
Political Editor (49)

The ANC will today get a blunt message from the German government on the subject of nationalisation and socialist economic experiments: "Don't do it."

Visiting German Deputy Foreign Minister Helmut Schaefer — who holds talks in Johannesburg with ANC president Nelson Mandela today — told The Star in an exclusive interview last night: "I have to give this message bluntly to the ANC, because we can say it without being seen as ideologists.

"It is from our own experience in eastern Germany. What we find there after 40 years of the socialist system is disastrous. The problems we have inherited are terrific.

"And I ask: which socialist countries are going to assist a radical sort of economic change here? China? Cuba? North Korea? It's not enough.

Helmut Schaefer . . . socialism is disastrous.

"The question to be asked is how fast can we provide the majority with housing, jobs, education? There must be flourishing industry, and more investment locally and internationally."

Mr Schaefer said he would be telling South African leaders across the political spectrum that the prospects for German and European investment in a new South Africa were good, if South Africans created an attractive climate.

"There must be confidence here, and the economy must work. This I will be discussing with the ANC."

At the same time, Mr Schaefer warned: "Whites should not live in a dream-land. They can't expect to control the process totally any more. And they must realise that upliftment of the underprivileged is their responsibility too.

"People outside South Africa won't come in to help unless they see South Africans helping themselves. There are large amounts of money lying around here which no one is daring to invest. This is wrong. You can't expect foreigners to do it under those circumstances."

FW urges regional economic indaba

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Own Correspondent

JOHANNESBURG. — President F W de Klerk has made an urgent appeal for a Southern African regional conference to foster economic growth and security.

Mr De Klerk told the SA Institute of International Affairs this week that he looked forward to a Southern African economic association in which South Africa would play a constructive, but not dominating, role.

CT 21/11/91

Delegations

"I wish to impress upon the countries of Southern African the urgency of joining us in such a project as further delays will do nothing but aggravate the economic plight of the region," he said.

Mr De Klerk said during the first 10 months of this year, South Africa had hosted 65 official delegations from African states outside the Southern African Development Co-ordination Conference (SADCC).

Business must act decisively to help shape the new SA

(49)

LAWRENCE SCHLEMMER B/Day 21/11/91

IN THE apartheid era, business was seldom directly penalised; rather it was constrained, regulated and its operating terrain eroded. Bewildering forms of administrative manipulation, regulation, taxation and political experimentation distorted its internal economics and its markets.

Through the labour movement it became increasingly subject to the stress of resistance politics. It steadily adapted to narrowing opportunity. It was finally subjected to the humiliation of being used for public relations purposes in P W Botha's Carlton conferences.

The present phase is somewhat of a respite. The *stated* policies of government have turned in favour of business and investment. However, even now the practice contradicts the principle. Government expenditure is still growing and few people believe that effective taxation will be meaningfully reduced.

Massive special expenditure on projects aimed at poverty alleviation, while understandable, is planned and implemented apparently without proper consideration of the effects on interest rates, inflation and entrepreneurial opportunity. The Reserve Bank often appears to be the sole bulwark against well-meaning and unplanned profligacy.

Even prominent businessmen, driven by anxiety, or perhaps scenario forecasts, propose massive socio-economic reparation without much evidence of having considered all the unintended economic effects or the effective political return in a society in which the not-so-poor are often more militant than the very poor.

Most businessmen realise their operating conditions could become much worse. The plethora of policy documents emanating from the ANC shows the way the wind is blowing. It is not so much the detailed pronouncements which are of concern. Nationalisation on any meaningful scale is far-fetched, and the detailed prescriptions will change. The real concern is the assumption that the role of government is not merely good housekeeping — it is that of architect, quantity surveyor, contractor and landlord too.

The question is whether business can do something about securing conditions for its own future well-being and simultaneously for renewed investment, growth and employment creation. Its record in SA is not reassuring.

For example, after the 1976 Soweto protests, business leaders realised that the educational system for blacks would be a source of endless woe, economic inefficiency and destabilisation. Since then, business-funded organisations have been continuously agonising over the education issue. Yet, today — 15 years later — there is still no well-founded, coherent and concerted business lobby on educational reform.

Compared with the muscular reactions in other social institutions, business is fragmented and at times limp in its reaction to events. Many of the reasons for this are obvious.

Firstly, business is an activity, not an organisation. Its reason for being is the pursuit of individual or company objectives. Companies must and do compete with each other.

Individual businessmen everywhere tend to be ideologically divided. Businessmen are social democrats, liberals of an American colour, core liberals, conservatives and reactionaries. This is why the SACP's Joe Slovo was able to write with confidence in 1988: "Use all means, including dialogue, to weaken the unity of the ruling class."

Furthermore, business — in a social context — has "no arms and legs". Its executive functions are purely internal. Outside the doors of the factory or head office, a traffic warden or a postal official has more direct public leverage than a captain of industry.

In, for example, the US, Germany, Japan or Taiwan, business has immense social and political influence. In the US the political system is responsive to public opinion, civil society and organised lobbies; in part because all operate within the same value system. In Germany the state, business and labour aspects of civil society are all drawn into a pervasive system of social contracts. In Japan and Taiwan, business leaders, politicians and top bureaucrats are linked in complex corporatist networks. In SA, as in some other parts of the Third World, business does not have this kind of access.

The treaty of Vereeniging secured what is in effect a form of "truce" between corporate capital and the Afrikaner communal political movements, after which business adapted to apartheid, to its eventual cost. Since then, however, business lobbies and financial power have never had much purchase on SA's "blueprint" politics.

For business in general, prospects in the new SA are far from reassuring. The danger is not nationalisation, the dismemberment of conglomerates, the confiscation of property or sudden, dramatic penalisation of wealth. If these steps are taken they will be largely token in nature and the adverse lessons will be very quickly manifest.

The real danger is well-meaning regulation, prescribed assets, creeping rises in taxation, lack of fiscal discipline, rhetoric which frightens off investment, insistence on affirmative action which encourages elaborate tokenism in business practices, unions using twin-track strategies (labour-bargaining combined with leverage through the political system), subsidies which drive up prices, other short-term populist measures which stimulate inflation, and a host of lesser distortions of the market. Because all of it will be well meant, and much of it supported by the media, business will once again begin to adapt to creeping constraints and narrowing opportunity.

What might business consider as a strategy? Many business leaders have been pro-active in establishing channels for organised debate between politicians and businessmen. Some of this has been useful and has produced some convergence of views.

The debate, however, must not delay a more fundamental strategy, one illustration of which has been the uncertain but promising achievements of Saccola in the manpower field. This is the development by organised business of "institutional capacity" in the socio-political and policy sphere.

This institutional "extension" of organised business should:

□ Allow business to respond quickly and firmly, but sympathetically, to a diverse range of relevant policy prescriptions by politicians, in a way that is sufficiently telling and sophisticated to command at least some intellectual respect;

□ Make calculations and assessments of the possible consequences and achievable effects of all the various schemes for "kickstarts", poverty alleviation, political "pacification" and the like; and

□ Most important, however, it should take the much bandied-about phrase, "social contract" or "compact", seriously and develop the skills and the accountability to its business constituency to seek negotiation. It should seek an input in the constitutional negotiations, not at the level of the political parties but certainly in the more specialised forums that will be created. It should seek the right to have proposals referred to it for comment. This, after all, is no more than what Cosatu is attempting to achieve in its proposed economic forum.

All of this will have less than optimal leverage unless business has some independent access to political constituencies. It should, therefore, at least have its own media organs and even consider establishing, with communities, vocational adult education initiatives to improve the skills base of the population. In a very muscular political environment something along these lines is arguably what business requires to develop "arms and legs"

□ This is an edited version of an article in the latest edition of the SA Foundation's newsletter. Schlemmer is director of Wits University's Centre for Policy Studies.

Economists welcome decline in real salaries

BiDay. 21/11/91. (49)

SHARON WOOD

TOUGH economic conditions pushed real wages and salaries in the manufacturing sector down by 0,6% month-on-month in August, figures released by Central Statistical Service show.

Economists said the real decline in manufacturing wages and salaries was promising because it showed a major source of pressure on SA's inflation was being brought under control.

This had positive implications for a reduction in inflation next year, they said.

Average monthly real wages and salaries in the electricity sector fell by 3,2% in August and in the construction industry they edged up by 0,9%

Total wages and salaries were only available to July, when they rose by 4,9%.

Nedbank chief economist Edward Osborn said the decline in real wages was in line with expectations that wage increases had been affected by the state of industry and the economy.

"It shows the inability of companies, because of reduced profits levels, to pass on increases in wages," he added.

Osborn said he had been putting a lot of store in this factor contributing to a decline in inflation, which would probably come down at the beginning of the year

"SA has a cost push situation in the economy and the only hope of bringing down inflation is through the wage and salary bill."

On the negative side, he said, the decline in wages and salaries was a sad reflection of the degree of retrenchments and the poor state of the economy

Standard Bank chief economist Nico Czypionka said the figures were calculated by dividing the total salary bill by the number of people employed in the economy and thus did not show lower salaries but probably reflected the decline in overtime worked.

"It does show the job market is extremely weak," he added

Wage and salary declines were one of the elements required to contain inflation and all indications were that, although this had taken a long time, it was beginning to happen, he said

ANC flexible on economy — Mandela

Star 21/11/91

By Kaizer Nyatsumba
Political Staff

ANC president Nelson Mandela yesterday assured German Deputy Foreign Affairs Minister Helmut Schaefer that the ANC had no "ideological attachment" to the policy of nationalisation and would be prepared to consider other alternatives.

Mr Mandela told a press conference after his meeting with Mr Schaefer in Johannesburg that the ANC was prepared to abandon nationalisation if a viable alternative were given.

Mr Schaefer, on a five-day visit to South Africa, had earlier told The Star he would advise the ANC against nationalisation, which had proved "disastrous" in other countries.

The ANC, Mr Mandela said, advocated a mixed economy and would follow an economic system which would not be much different from SA's present economy — which was far from being a market economy.

The ANC's alliance with the South African Communist Party was also raised, and he assured Mr Schaefer that the only link between the two organisations was that they were fighting against oppression, just as the Allies had joined forces with the Soviet Union against Germany during World War 2.

On the question of sanctions, Mr Mandela said these economic punitive measures had been imposed to press Pretoria into dismantling apartheid, and this had not yet happened.

He said the ANC was worried about South Africa's economy because "it is blacks who are suffering most" from the effects of sanctions. The organisation was therefore keen to have sanctions lifted immediately.

Mr Mandela reiterated his position that once there was mutual trust between the Government and the ANC, it would be possible for the two parties jointly to call for the lifting of sanctions "on a mere declaration of intention to dismantle apartheid".

However, he said, it appeared Pretoria was following a double agenda by talking to the ANC while trying to destabilise it. The Government, he said, had gone as far as using taxpayers' money to fund the ANC's rival organisations.

The ANC was worried about continuing violence in the country. Mr Mandela said the violence was discrediting the peace process. He had given Mr Schaefer "scientific studies" which would show him who was responsible for violence in SA.

Mr Schaefer told the press conference that his government considered the ANC to be one of the main political players in SA.

He welcomed the ANC's rejection of the IFP's proposal that the two organisations and the Government should act as joint conveners of the forthcoming multiparty talks. It was vital, he said, that as many parties as possible were involved in the process.

State urged to spend more on building

Sowetan 21/11/91

(49)

BY JOE MDHLELA

THE Government should spend more money in building schools, houses and police stations, to generate capital and so stimulate the depressed economy.

By so doing jobs would be created and high levels of unemployment would be curbed, the head of Mathison and Hollidge Stock Brokers, Mr John Carr, said at a seminar organised by Old Mutual in Johannesburg yesterday.

He said the sad thing about unemployment was that it was indiscrimanatory and had affected even those with higher education.

Unions would have to make realistic wage demands in keeping with the high level of productivity.

He said VAT had also added to the economic crisis, contributing to the decline in consumer expenditure.

Even politicians like the president of the ANC, Mr Nelson Mandela, the president of Inkatha, Chief Mangosuthu Buthelezi and President FW de Klerk, would be required to find political solution to the country's problems.

"The economic solution will to a large extent depend on the political settlement," Carr said.

He said the violence that was sweeping the country was one single factor that had a negative impact foreign investment.

"We will need this investment to create more jobs," he said.

ANC 'needs help' on economic policy

W/Mail 22/11-28/11/91 (49)

The African National Congress lags behind government and business in economic research and is in need of a macro-economic model, a new study shows. By DREW FORREST

THE African National Congress has no macro-economic model and lacks the research capacity to support its leaders in "formulating coherent and viable perspectives on economic policy", a team of Canadian experts has found.

The findings are contained in a confidential report by the Canadian government-linked International Development Research Centre (IDRC) which has come into the possession of *The Weekly Mail*.

A heavyweight IDRC team visited South Africa in July to probe the ability of the "Mass Democratic Movement" — the ANC and the Congress of South African Trade Unions — to monitor and analyse economic developments and to formulate policy.

It found the MDM's research and policy formulation resources "paltry" when contrasted with those of government and business, pointing out that government was spending R500-million on research.

Its report has a deep bearing on current demands for a macro-economic negotiating forum and Cosatu and ANC involvement in economic restructuring.

Among the other findings are:

- That the ANC's department of economic policy (DEP) is understaffed and has little policy-formulating capacity. "Staff are inundated with day-to-day administrative problems and with visits and inquiries from overseas agencies and donors."
- That the ANC and Cosatu lack organisational structures able to provide the leadership with policy advice.
- That the "progressive economic community" is conducting much research, but "in a largely unco-ordinated fashion."
- That the Economic Trends group, advisers to Cosatu and "the strongest grouping of progressive economists in the country", has expertise in most sectors but is weak in "more technical macro-economic issues and fiscal expenditure restructuring". Cosatu wants a say in drawing up the Budget.

Stressing that as a "government in waiting" the ANC needs to function as if it were in power, the IDRC recommends the movement establish a "shadow" economic committee of cabinet as the economic wing of the National Working Committee. With specific portfolios allocated to each member, this should meet regularly at a fixed time, "as if it were exercising state power".

It also recommends the immediate creation of a Macro-Economic Research Group to stimulate and co-ordinate policy development. This would be the initial phase of an "Institute for Economic Policy Research and Training".

ANC spokesman Saki Macozoma said in reaction that ANC president Nelson Mandela would sign a protocol this Saturday with various universities for the establishment of an economic research institute.

Bates	1991-10-31 R	1991-09-30 R	Verandering R
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 136 274 905,44	1 116 739 387,44	19 535 518,00
Sekuriteite:			
Regering	698 080 960,94	572 161 094,64	125 919 866,30
Ander	1 122 985 044,00	1 122 985 044,00	—
Ander bates	15 231 743 620,89	14 875 415 536,59	356 328 084,30
	R29 119 820 299,51	**27 603 963 217,86**	**1 515 857 081,65**
Rand per fyn ons	915,53	886,82	28,71
Goudbesit in fyn onse	6 431 590	6 070 721	360 869

C. J. SWANEPOEL,
Hoofbestuurder.

Pretoria, 8 November 1991.

NOTICE 1116 OF 1991

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 31st day of October 1991

49

Liabilities	1991-10-31 R	1991-09-30 R	Change R
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	77 831 863,11	77 831 863,11	—
Notes in circulation	10 268 838 197,00	10 306 112 064,00	(37 273 867,00)
Deposits:			
Government	6 600 757 857,20	4 745 672 650,64	1 855 085 206,56
Provincial administrations	561 519 061,00	605 348 026,01	(43 828 965,01)
Deposit-taking institutions	1 016 080 471,88	995 770 400,54	20 310 071,34
Other	94 290 593,31	110 884 774,90	(16 594 181,59)
Other liabilities	10 498 502 256,01	10 760 343 438,66	(261 841 182,65)
	R29 119 820 299,51	**27 603 963 217,86**	**1 515 857 081,65**
Assets			
Gold	5 888 313 431,62	5 383 636 627,00	504 676 804,62
Foreign assets	2 737 872 336,62	2 630 585 528,19	107 286 808,43
Total gold and foreign assets	**8 626 185 768,24**	**8 014 222 155,19**	**611 963 613,05**
Domestic assets:			
Discounted bills	2 304 550 000,00	1 902 440 000,00	402 110 000,00
Loans and advances:			
Government	—	—	—
Other	1 136 274 905,44	1 116 739 387,44	19 535 518,00
Securities:			
Government	698 080 960,94	572 161 094,64	125 919 866,30
Other	1 122 985 044,00	1 122 985 044,00	—
Other assets	15 231 743 620,89	14 875 415 536,59	356 328 084,30
	R29 119 820 299,51	**27 603 963 217,86**	**1 515 857 081,65**
Rand per fine ounce	915,53	886,82	28,71
Gold holdings in fine ounces	6 431 590	6 070 721	360 869

C. J. SWANEPOEL,
General Manager.

Pretoria, 8 November 1991.

(22 November 1991)

The region is warned to lower its expectations, writes **Barney Mthombothi**

Africa needs a lesson in reality

Star 22/11/91

49

AFRICAN countries are so hopeful the new South Africa will come to their rescue that they treat with disbelief and incomprehension any explanation that this country will be too pre-occupied with its own social and economic problems to throw them a lifeline.

So says Erich Leistner, director of the Africa Institute, in the institute's publication Africa Insight.

Dr Leistner says African countries, starved of Western aid, are nursing frantic hopes that South Africa with its supposedly unbounded wealth will step into the breach to help them.

He says visitors to African countries regularly have to contend with these expectations. "Their attempts to explain South Africa's actual position are often met with polite disbelief. The visual impact of South Africa's bustling metropoles with their fleets of late-model cars, their gleaming high-rise buildings, functioning telephones, and luxurious suburban villas is greater than mere statistics on unemployment, housing, education and the like."

Dr Leistner says even "sobering words" from people like the ANC's Thabo Mbeki — who has argued that a future government may pursue policies harmful to its neighbours by reducing foreign workers to ease unemployment — have made no impression.

"If South Africa's rapidly normalising relationship with the rest of sub-Saharan Africa is not to get off on the wrong foot, it is imperative that its partners be familiarised with the country's structural social and economic realities," Dr Leistner says

A conference in Windhoek in September, he says, appears to have begun the "re-education" of Africa on South African realities.

Such interaction between South Africans and opinion formers in neighbouring states will have to take place regularly, and all the participants will inevitably have a great deal to learn.

"South Africans will, for instance, have to appreciate that pursuit of their own national interests demands that they carefully take into consideration the needs of their neighbours too.

"The other countries in turn will have to realise that even under the best conceivable circumstances, the 'new' South Africa will not be able to dispense appreciable financial aid, and that for all practical purposes it will play its role as the region's 'engine of growth' only by way of commercial exchanges in respect of goods, power, water, transport, tourism and research."

Dr Leistner says if South Africa succeeds in revitalising its economy and attracting investment, it will be capable of generating the growth impulses the other economies of Southern Africa need.

Since economic interaction with the region will initially probably be based on bilateral agreements, the negotiation process is bound to give the other countries a deeper understanding of South Africa. — Star Africa Service. □

Gross domestic product increases

(47)

Central Statistical Service reported yesterday that gross domestic product (GDP) for the third quarter of the year was up 16,3 percent on current market prices on a seasonally adjusted basis. Star 22/11/91.

Measured by income factors, the increase for the period was 14,5 percent over the second quarter.

The seasonally adjusted GDP of the non-agricultural sector was 13,7 percent, compared with figures for the second quarter.

The average wage increases during the quarter were about 13 percent, while the gross operating surplus grew by 14,7 percent. — Sapa.

49

CEs told to unite

PORT Elizabeth's Midland Chamber of Industries president Achmat Mohamed called yesterday for the chief executives of major corporations to unite in countering the influence of trade unions.

Addressing the chamber's AGM, he said the time had come for business to tell government, the ANC and trade union federations they could not deliver what their constituents demanded unless business produced wealth.

BDay 22/11/91

Arguments against wealth tax are ill-founded

B Day 22/11/91. (49)

NEVA SEIDMAN MAKGETLA

THE ANC has no firm plans for a wealth tax. Nonetheless, at the mere suggestion, the white-oriented Press had hysterics. In the event, the proposed tax is hardly radical. Its major benefit is that, given massive wealth disparities, it could target those most easily able to pay. Its drawbacks do not include a tendency to impoverish the middle class.

Most whites are not rich. A recent Market Research Africa (MRA) study suggested that only 6% of urban whites had net assets worth more than R500 000 in 1991. Half owned net assets worth less than R100 000 and a fifth less than R10 000. Most whites own little more than a house and a car; since they frequently buy these assets on credit, their net assets remain low.

The great disparities in ownership mean that a wealth tax need not affect most salary earners or small-scale businesses. Yet it could generate significant revenues. A 3% tax assessed on the assets of the top 40 private sector companies would increase government revenues by 20%; MRA data show a similar levy on net personal wealth over R200 000 should increase revenues by almost 7%. Neither tax would affect the vast majority of the population.

A carefully targeted wealth tax could shift the tax burden to profits, permitting some relief for individuals. If we posit, conservatively, a 15% return on capital, a wealth tax of 3% a year would raise the actual tax incidence on capital for liable companies from one seventh at present to around 40%. That figure more or less equals the real rate in the US.

A tax on personal assets need worry only a small percentage of the population. If the first R200 000 were exempted, only about 10% of the population would pay anything at all. At a rate of 3%, only families with more than R240 000 in net assets — about 250 000 households — would pay more than R100 a month.

If there was no punitively high tax rate, moderately productive companies and individuals could pay a wealth tax out of current income.

Some economists would extend the concept of wealth to include education or "human capital". Apartheid put this form of accumulation out of reach for most South Africans. A wealth tax on human capital could help raise revenues as a step towards overcoming these problems.

The obvious problem is that such a tax might discourage the acquisition of skills. This drawback could be overcome by addressing only the historic differences in education provision for whites and blacks. The tax would thus apply only to people who attended schools within the relevant educational administrations. It would transform the excess paid to white families into a grant to be repaid over a period of, say, 30 years. It would phase itself out following the establishment of an integrated school system.

The amount repaid would depend, naturally, on the number of years of school attended, with a premium for more expensive university courses.

Four principal arguments have emerged against a wealth tax: it would reduce capital formation; cause capital flight; discourage capital-intensive projects; and prove difficult or impossible to levy. All but one of these points turns on the impact on investment.

Closer consideration suggests that these fears are ill-founded. They presuppose that companies now invest adequately and efficiently — a supposition which cursory examination proves untenable. A wealth tax could foster more efficient investment in the private sector. A corporate wealth tax levied only on large groups would discourage the centralisation of capital. Conglomerates could reduce their liabilities by breaking up into smaller parts.

Similarly, a tax on personal property would deter investment in non-productive assets. The system could promote productive investment by reducing the tax on desirable investments — for instance, to produce basic goods or exports or create employment.

As for the threat of capital flight, it has become the standard private sector response to any measure designed to restructure the economy. At least from the turn of the century, most of Europe had a wealth tax of between 0,7% and 2,5%. For 30 years, the Germans had an additional surcharge of 1% a year to provide loans to refugees from the Second World War. A similar tax has now been reimposed to assist the eastern provinces.

Neither tax caused noticeable capital flight. Rather, despite much grumbling, the vast majority of wealthy Germans seem to have accepted that, if they want a prosperous and stable society, they must compensate those citizens impoverished through no fault of their own.

In short, given the misuse of investible assets by the rich, most arguments against the tax seem weak at best. The more important question is whether and how the state, or whatever financial institutions it may establish, can do better.

A wealth tax cannot, by itself, bring about the institutional arrangements required for a more democratic economy. The tax may raise needed revenues from appropriate sources, but its long-run success depends on the ability of the state and civil society to redirect investment both directly and by regulating markets.

☐ **The author is an ANC member and teaches economics at Wits University. These are edited excerpts from an article in the latest edition of Work in Progress.**

LETTERS

Nelson Mandela

(49)

Research effort initiated

C/Press 24/11/91

THE ANC had to formulate economic policy to meet the challenges of a democratic South Africa, ANC president Nelson Mandela said yesterday.

Mandela was delivering the opening address at the signing of a statement of intent to set up a national structure for economic research and policy formulation.

He said there was a need to increase the capacity of the ANC and "the entire democratic movement" in the field of economics.

"It is evident that the present hysteria that characterises big business and government responses to the ANC debate on economic policy is an attempt to foreclose discussion on any option that the ANC may choose in attaining its policy objectives.

"Thus nationalisation is presented as an ANC policy objective when it is in fact one among many economic instruments that may be used to achieve growth through redistribution.

"It is imperative that a major task of our research effort will be to examine the degree and form of State intervention necessary to redress the historical socio-economic injustices."

Mandela hits out at monopolies

S Times 24/11/91

By JOCELYN MAKER

ASPIRING black and white entrepreneurs have more to fear from the concentration of economic power in the hands of monopolies than from a future ANC government.

This was said by ANC leader Nelson Mandela yesterday when he signed a "statement of intent" to set up a national capacity for economic research and policy formulation.

"We must reserve the right to use any economic instrument to stimulate growth and effect redistribution to redress historical economic imbalances and adjustments," he said.

It was evident that the present hysteria that characterised big business and government responses to the ANC debate on economic policy was an attempt to foreclose discussion on any option the ANC might choose.

"Nationalisation is presented as an ANC policy objective when it is in fact one among many economic instruments that may be used to achieve growth through redistribution.

"It is quite clear that by politicising the issue of nationalisation, big business and the minority government are trying to instil an element of fear into the small-business community, among professionals, the informal sector and organised labour.

"The truth of the matter is that there cannot be a climate of free enterprise as long as a few conglomerates, with the assistance of the state, maintain control of almost two-thirds of the economy.

"The biggest threat to democracy, socio-economic justice and economic growth in this country is the monopoly control of a few companies over the whole economy.

"For us, state intervention will ensure equal opportunities for disadvantaged communities and groups from all sections of our society."

New York market a key indicator for SA

■ MONEY TALK

A SHARP sell-off on the New York Stock Exchange a week ago has caused ripples in financial markets around the world. Concern is mounting that the US economy will continue to stagnate which, in turn, will cause many economies, including ours, to remain in recession.

South Africa was fortunate in that when New York weakened, the gold price firmed on the news that the Russians had cancelled export licences for international oil contracts and was reviewing licences for precious metals, diamonds and coal.

Ironically, a report in a Russian newspaper that the State bank – Gosbank – had run out of gold reserves and was bankrupt, probably provided the boost for the higher gold price.

It was the realisation of Moscow's declining influence on the gold market that caused prices to firm. This was immediately reflected in the price of South African gold shares, which helped underpin our stock market as a whole, while industrial shares showed declines.

A continued sharp decline on the New York market, followed by Tokyo, which represents the world's second biggest economy, will have serious consequences on world liquidity.

This, in turn, will be reflected in low worldwide economic growth and stagnating prices for virtually all our mineral exports which translates into declining company profits, lower production and fewer jobs.

Another development as a result of the uncertainty over the big industrial economies is that the large international banks are shunning loans which carry relatively high risks.

South Africa as a small, but open, economy – meaning that we depend on world trade for a large proportion of our gross national product – is sensitive as to what happens in the US and the other dominant economies.

The New York stock market is an extremely important indicator as to whether our hopes for a upturn in the new year will be realised. So watch developments in New York and on the Johannesburg Stock Exchange in the next few weeks!

(55)

(49

Govt's revenue well below budget

B/Day 25/11/91 ANDREW GILL (49)

THE recession-battered government revenue account continued running well below budget for the seven months to end-October, as expenditure held within budgeted increases.

Figures released by the CSS on Friday show revenue collected was running at 55,3% (R40,6bn) of the budgeted amount, compared with the necessary 58,3%.

The figures do not reflect VAT income, despite the introduction of the new tax at the beginning of October, because returns have to be provided only by late November, effectively making October a GST month.

Spending, meanwhile, held below budget of 57,8%, weakening arguments that current government spending was "out of control".

But Nedbank chief economist Edward Osborn said yesterday revenue was still lagging well below budget and could lead to a deficit before borrowing of 4% rather than the planned 3%. It was debatable,

☐ To Page 2

Govt revenue

B/Day 25/11/91 (49)

☐ From Page 1

given the current socio-political climate, that government would change revenue policy or measures to make up the shortfall, he said.

Analysts believe government will fund any increased deficit through relatively short term issues on local markets. It could either roll a government bond issue maturing before next March's Budget or issue longer-dated special Treasury Bill's which would mature after the Budget.

Finance deputy director-general Estiaan Calitz said an accurate assessment of revenue could be made only when a more reliable estimate of VAT returns was available.

It was an awkward situation, but it appeared revenue was picking up slowly. VAT's effect on revenue would be the important factor.

'Monopolies a threat to democracy'

Mandela warns cartels

GIANT FLAW ... Mr Nelson Mandela

(49) CT 25/11/91

THE biggest threat to democracy, socio-economic justice and economic growth in South Africa was the monopoly control by a few companies of the whole economy, ANC president Mr Nelson Mandela said at the weekend.

He accused the media of attacking the ANC, particularly about nationalisation, to divert attention "from the alliance between government and big business against labour and the development of small and medium businesses"

Mr Mandela was delivering the opening address at a meeting at which the ANC and Cosatu, demanding a central role in South African economic policy and its implementation, took the first step towards establishing a national economic policy institute to shape a future economy.

The work of the institute, to be known as the National Institute for Economic Policy, will dovetail with ANC efforts to have an impact on present economic affairs through a proposed economic forum which would consist of the government, business and the Cosatu/ANC/SACP alliance

The idea of the forum was first put to the government by Cosatu during negotiations on VAT. The government has not formally responded to the proposal, but the forum is viewed in ANC and Cosatu circles as a potential economic equivalent of all-party constitutional talks

In his address at the weekend, Mr Mandela said the ANC would not allow the government unilaterally to restructure the economy in the transitional phase, even if it required renewed mass action

He stressed the importance of the new economic institute, saying that not only did the ANC have to formulate economic policy to meet the challenges of a democratic South Africa, it also had to address immediate socio-economic problems of the majority of the people

"Without an economic policy framework we cannot contest economic policies and positions adopted by the regime and its supporters," Mr Mandela said

He said that the "brutual socio-political destabilisation and economic positions adopted by the regime sometimes appeared to be a deliberate strategy to discredit and cripple the ANC in the run-up to possible elections for a transition to a non-racial, democratic South Africa

"On the one hand there is a systematic campaign to blame the ANC for the violence and on the other hand the ANC is portrayed in the media at best as being incapable of formulating economic policy and at worst as preparing for a massive nationalisation programme"

He said "monopoly control" of the media by the state and big business made it difficult for the ANC to put across its views without being misrepresented.

It was evident that the present hysteria that characterised big business and government responses to the ANC debate on economic policy was an attempt to foreclose discussion on any option that the ANC might choose in attaining its policy objectives

"Thus nationalisation is presented as an ANC

To page 2

From page 1

policy objective when its is in fact one among many economic instruments that may be used to achieve growth through redistribution" (49)

State intervention must ensure equal opportunities for hitherto disadvantaged communities and, through the provision of incentives, must ensure also redirect small and medium businesses away from the service sector towards manufacturing and the production of input and final consumption goods

CAPE TIMES

Mr Mandela said the ANC's draft resolution on economic policy identified the overall goals which would provide the guidelines from which its economic policy could be formulated 25/11/91

Among other priorities it would have concentrate its efforts on job creation, raising real incomes; correcting racial and gender imbalances, implementing land reform, promoting rural and urban development, providing housing and infrastructural needs and encouraging the growth of small and medium businesses.

"We have to provide the community and industry with adequate means of transport, electricity and fuel requirements so as to ensure infrastructural stability for economic growth. These objectives must be the foundation of our policy framework."

Mr Mandela said that after the installation of a new, democratically elected government and the subsequent lifting of economic sanctions, the issue of markets for goods, services and finance would be brought to the top of the agenda.

Husb rapist

Staff Report

A WOMAN, aged 42, w her husband sodomise attack on a Joostenburg the weekend

According to poll killed one of the spade after the

Police liaiso Laubscher sa at a labou Fondeli 1.30am

Th an

Focus on wealth redistribution

ANC sets up economic policy body

(49)

B/Day 25/11/91

PATRICK BULGER

THE ANC and Cosatu — demanding a central role in SA economic policy and its implementation — at the weekend took the first step towards establishing a national economic policy institute to shape a future economy.

The work of the institute, to be known as the National Institute for Economic Policy, will dovetail with ANC efforts to have an impact on economic affairs through an economic forum consisting of government, business and the Cosatu/ANC/SA Communist Party alliance.

The forum, which is being seen in ANC and Cosatu circles as the economic equivalent of all-party constitutional talks, was discussed at a meeting of ANC and Cosatu leaders last week. The ANC's national executive committee will today hear a report-back on that meeting and will formulate an approach to government.

The idea of the forum was first put to government by Cosatu during negotiations on VAT. Government had not formally responded to Cosatu, but an ANC source said progress towards an interim government invariably would be accompanied by joint decision-making on economic affairs.

The ANC source said the forum could serve as a mechanism to negotiate a new economic dispensation. The ANC wanted the forum to be independent of all-party talks which it did not want to be side-tracked by detailed economic debate.

The ANC, however, did not want to become party to unpopular economic decisions through participating in a forum, ANC economics official Max Sisulu said yesterday.

The ANC would, through the planned institute, attempt to portray itself at the forum as a heavyweight economic player with viable policy options stressing wealth redistribution.

On Saturday ANC president Nelson Mandela, echoing the sentiments of Cosatu general secretary Jay Naidoo, said the ANC would not allow government to unilaterally restructure the economy in the transitional phase.

"Until we have a new constitutional dispensation in this country we will oppose all policies that disadvantage our people and we will fight to gain the maximum benefits within the present context through mass action if the regime ignores our protests," Mandela said.

He was speaking at a meeting of representatives of the ANC, Cosatu, SACP, the universities of the Western Cape, Durban-Westville, the North and Witwatersrand as well as the International Development Research Centre (IDRC). They met to sign a statement of intent to set up an institute backed by foreign donors — in particular the Canadian government. As an interim measure the participants agreed to establish a macro-economic research group to undertake training and to examine economic policy options.

The group would provide technical advice to the alliance, while policy would still be devised by individual organisations.

Mandela said the ANC had been systematically excluded from SA economic policy

☐ To Page 2

ANC plans

B/Day 25/11/91

(49)

☐ From Page 1

formulation and that there was "a need to increase the capacity of the ANC and the entire democratic movement in the field of economics".

The initiative arose from Mandela's meeting last year with Canadian Prime Minister Brian Mulroney, whose government then approached the IDRC to undertake an assessment of the ANC's economics capacity and priority areas for policy research. An IDRC mission visited SA earlier this year.

Mandela said at the weekend that nationalisation had been politicised to "instil an element of fear into the small business community, the professionals, the informal sector and organised labour".

He said there would not be a climate of free enterprise while a few conglomerates, helped by the state, controlled almost two-thirds of the economy.

BOOKS

Coldly assessing SA's risk profile

BDay 25/11/91

(49)

SOUTH AFRICA — THE NEW BEGINNING, edited by Merton Dagut (Euromoney Publications, R355)

AS RELIABLE a signal as any of SA's return to international economic respectability is that the country should be the subject of a Euromoney book.

Euromoney, the self-styled "journal of the world's capital and money markets", is a glossy monthly circulated mainly among the western European investment banking community.

Under headlines such as "Time runs out for low-rated swappers" and "The year of the asset-backed Eurobond", its jet-lagged and slightly florid readership find much to marvel at.

Despite its rather foppish air, the journal carries real influence among traders who, through its columns, admire "Deal of the month" and chortle gleefully at "Dog deal of the month".

A book on SA from the same publishing house is, therefore, something of an event in that it raises the country's profile before a receptive audience.

As the latest subject of a Euromoney book SA has, in many ways, "re-arrived" as a realistic investment option among serious international fund managers.

Much of the book is historical, sketching in background for the foreign reader taking his first serious look at SA. Simultaneously, the emphasis is on identifying the new and different features of the country that have helped end its isolation.

Since the reform process of the present government only began in earnest in February of last year, the book does not have much updating to do to its historical material. Part of its brief, though, in addressing potential foreign investors is coldly to assess SA as an investment destination and to offer an analytical opinion after weighing up the evidence.

Credibility

This the book does, setting out its conclusions on SA in the investment banker's vernacular. It portrays an optimistic scenario for upcoming SA issues of Eurobonds, saying SA has an edge over other borrowers as it re-enters world capital markets. Favourable foreign debt ratios, it avers, place SA in the most acceptable segment of the international risk spectrum.

"Lenders are keen to spread their risk and SA, with its credibility in the marketplace largely intact despite the standstill, may, at the right rate for an agreeable period (say three to five years), be a sought-after borrower."

Noting SA's prevailing foreign debt ratios, the book asserts that the country is an acceptable risk in terms of sovereign risk criteria. A controlled and orderly re-entry into the Euromarkets is expected. The SA Treasury is thought to want to control the timing of international borrowing by public entities to ensure that they do not compete directly with one another in the Euromarkets and to ensure as reasonable a cost as circumstances permit.

"Lenders and investors in the international capital markets ask two primary questions: does the would-be borrower demonstrate a willingness to meet international obligations; and does it have the ability to do so?"

There is no doubt, the book says, that SA's record shows its fiscal and monetary authorities meet the willingness test. It adds a less widely held view that recent statements by the political leaders of those disadvantaged by apartheid suggest that they, too, recognise the rules that hold economics, trade and capital flows together.

SIMON WILLSON

Report identifies ANC economic weaknesses

B/Day 26/11/91. (49)

PATRICK BULGER

A REPORT co-authored by members of the Canadian-based International Development Research Centre (IDRC) and leading figures in the ANC's Department of Economic Policy has identified a glaring inadequacy in the ANC's capacity to develop an economic policy.

The main recommendation in this report directly prompted plans to set up a National Institute of Economic Planning to redress the situation.

The major players in the SA economy — business, government, the ANC and trade union groupings Cosatu and Nactu — are moving towards economic negotiations. These will likely take place in an economic forum in which the major players will jointly have a hand in economic policy during transition.

Looking to the longer term, the ANC, as a pretender to power, has recognised the need to develop a policy suited to an industrialised economy characterised by alarming levels of poverty, unemployment and inequality.

The report says: "Economic policy-making for a post-apartheid SA must take place within some agreed overall macro-economic framework. The democratic movement does not have such a framework ... (which) undermines business confidence in the future prospects of the economy as a whole.

"It is critically important that the SA democratic policy-making community has, and be seen to have, its own macro-economic frame or model and thus its own macro-economic projections."

The report stresses the need for the ANC to develop its framework in tandem with constitutional negotiations. It was drawn up after an IDRC mission met with a wide range of institutions, among them the Human Sciences Research Council, the Black Management Forum, the DBSA and the Reserve Bank.

"In preparing for the transition to democratic government," the report notes, "primary attention should be given to economic policy formulation and capacity building. The democratic movement in SA has not yet demonstrated its grasp of this need."

It recommends that the ANC — and in particular its "shadow minister of finance" — be given full access to government and business economic data and remarks that "some state institutions have offered their full co-operation to analysts in the democratic movement".

"We recommend that there be full and frank responses from government and the private sector to requests from those in the democratic movement, whether formal or informal, for data and information important for public policy analysis, and full co-operation when requested, on meetings, workshops and the like," the report says.

Although it does not go into specific macro-economic policy options, the report outlines areas the ANC will have to take a long and hard look at. It lists these as tax policy, restructuring government expenditure, housing and infrastructure, the financial system, the labour market, trade and industrialisation, balance of payments management, rural development and the role of the state.

In respect of the state, it makes the comment: "Experiences in other developing countries have pointed to managerial stress in the state with the overgrowth of the (public) sector. In others, the public sector has actually become a drain on state resources. There are thus strong merits to an early and careful consideration of how far one uses ownership as a means of control." It notes, however, that "the SA economy is characterised by exceptionally high levels of concentration and centralisation".

It remarks on the close links between SA conglomerates and the finance houses and poses the question: "What antitrust and regulatory mechanisms can be brought to bear upon these structures to ensure compatibility between private and social benefits?"

ANC economic sources say a National Institute for Economic Policy will strengthen the movement's hand when it comes to negotiations on a future economy. There are, however, two schools of thought within the ANC on whether negotiations on the economy are desirable at this stage.

Cosatu, fresh from its VAT strike success, sees joint economic management during the transition period as vital to prevent restructuring that will limit the capacity of a future government to develop a policy attuned to the demands of its constituents. Some in the ANC identify with this view.

On the other hand, there are those in the ANC who do not want the organisation to become party to decisions on the economy that it will have difficulty selling to its followers. However, the logic of negotiations suggests that the ANC will be helping to direct SA's economy sooner rather than later.

SA violence hindering talks – FW

(ANC) (49)

STAR 26/11/91

Unnecessary violence around the country, and the revolutionary and radical rhetoric surrounding it, were hazards snagging the multiparty talks process, President de Klerk said last night.

Speaking at the Sunday Times Top 100 Companies banquet in Johannesburg, he said these factors caused despondency at home and created the gratuitous impression abroad that South Africa was an unstable country.

"Both are to the detriment of all South Africans since they undermine the confidence required to stimulate the foreign and domestic investment we need," he said.

In the next decade the economy would have to absorb an estimated increase of about 2,5 percent a year to its labour force.

It would also have to accommodate the large number of unemployed and raise average standards of living. Economic growth of at least 4 percent a year would be required.

Therefore, the lifting of sanctions on South Africa's access to international money and capital markets alone would not be sufficient.

South Africans would have to take steps themselves if they wished to ensure long-term prosperity and stability.

The improved balance of payments situation, together with reduced inflationary pressures, could lead to some easing of restrictive financial policies.

These could contribute to a modest recovery in the overall economic situation in 1992. — Sapa.

Call for lower interest rates

LINDA ENSOR 49

CAPE TOWN — A reduction in interest rates was long overdue, Pick 'n Pay chairman Raymond Ackerman said yesterday.

"I do not think government realises how tight the economy is and how widespread is unemployment," Ackerman told a function marking the appointment of retired Arthur Andersen MD Colin Hultzer to the main board of Pick 'n Pay Stores. B Day 26/11/91

"Now is the time to stimulate the economy. There is far too little business activity," Ackerman said.

Ackerman said real sales of sugar, bread and mealie meal from January to date were down on the same period last year.

He said that group turnover for September and October was below budget but that there had been a slight improvement in November, lending hope to prospects of a reasonable festive season. Savings in some areas had offset below-budget performance.

He added that the group was quietly confident about results for the second half of the financial year.

New SA demands new view of board accountability

B|Day 26/11/91. **JIM JONES** 49

LAST year, the Anglo group greeted Gencor's unbundling plans stonily. Derek Keys's proposals were, as one Anglo executive put it privately, "an unfriendly move". So when Anglo recently announced it was to sell holdings in Gencor and FNB, the ground in Johannesburg trembled.

Here was the flagship of SA's conglomerates, the most determined of unbundling's opponents and one of the most influential groups, converting major investments into cash.

There were good, publicly expressed reasons for the sale. The investments were not "strategic". The Gencor holding itself was the legacy of a major shift needed about 30 years ago to accommodate Afrikaner investors in a mining industry then dominated by English-speakers. Part of the funds raised by Anglo's Gencor/FNB sales are to help finance the group's participation in the Columbus stainless steel joint venture with Samancor.

Columbus is significant as it is the Anglo group's first major greenfields venture in more than a decade. Nevertheless, behind the public utterances lies a new and significant questioning of SA corporate strategy. It represents a major reconsideration of how business leaders believe this country's private sector should be structured as we move out of the era of white domination.

How does our private sector prepare itself for profitable coexistence with a future government, when that government will be preoccupied with the demands of a black majority excluded for so long by apartheid from the opportunities private enterprise offered whites?

Democratisation of business structures is needed to complement the country's political democratisation. Monolithic ownership structures with boards of directors in reality responsible to few but themselves, not even shareholders, would appear to be inappropriate. Present control structures can block business decisions from being taken easily.

Anglo inadvertently highlighted the dilemma boards face in the new SA when it took the currently conventional line that details of the Gencor/FNB sales were confidential to the house, its merchant bankers and institutions that had bought the shares. It would not, a spokesman said, disclose how much the sales had raised, even to the shareholders who are the legal owners of the company.

The Anglo board's concern for confidentiality was mild compared, say, to the obsessive secrecy endorsed by the government for decades and seized on by other boards. Secrecy has been SA's plague, sanctified as necessary in the "national interest".

Legally, company directors are responsible first and foremost to shareholders — the owners of the company. But times are changing, and attitudes, too, will need to shift if the private sector is to remain in charge of its own destiny.

Over the next few years corporate SA is likely to be faced with rising demands for corporate accountability to a broader constituency than even companies' shareholders. Labour unions are already pushing for workers to be given a greater say in the management of firms, as is common in many other countries. SA's political climate will call for greater attention to social questions by business and industry than now.

No one seriously believes the ANC or any future black-dominated government can keep its hungry constituents happy while the conglomerates and mutuals remain obviously astride the economy. There has been too much rhetoric, too many promises made by opposition leaders, for business to be able to ignore demands for redistribution. There are several ways of skinning a cat, and finding a realistic means of persuading voters that "redistribution" is in progress will be crucial.

☐ KEYS

Fiduciary duties imposed on directors exacerbate the private sector's difficulties. Life assurers, which discharge their responsibilities to policyholders by investing in safe equities, are increasingly criticised for not ploughing funds into greenfields ventures that create jobs or that benefit the community at large. That sort of criticism, no matter how ill-informed or politically motivated, has increasingly to be considered by long-range planners in the mahogany rows of Main Street, Bellville or Pinelands. How does one keep SA as a growing, dynamic, free enterprise economy in the face of popular demands for socialist solutions?

Socialism and nationalisation would be disastrous for this country in the coming decades. So, too, would be insensitive private-sector domination when political expediency calls for overtly populist initiatives. Opposition politicians will find it difficult to ignore the clamour from voters persuaded that nationalisation and confiscation are the simplest means of spreading wealth.

The problem might be illustrated by reference to the mutual life assurers that straddle the SA economy. Executives of the two largest regularly say that, as the assurers are mutuals, managers and boards of directors are responsible and responsive to policyholders. By extension, it is claimed, this makes them responsible and responsive to SA as a whole. After all, policyholders and pension fund members are drawn from all strata of society.

Their claims are specious. In reality, policyholders exercise little or no influence on decisions taken in the two western Cape boardrooms. Without shareholders there is little likelihood of incompetent directors being ousted. That effective security of tenure has freed the boards of some life offices to make investments that strengthen the grip of narrow sectoral interests over the commanding heights of the economy rather than investments that help create new enterprises.

Taking over Sanlam or the Old Mutual should, in theory, be easy. A couple of hundred voting policyholders bused in to the Old Mutual's annual general meeting could oust management at a stroke if the other thousands of policyholders failed, as usual, to turn up to vote. Filibuster at the meeting would help defeat or defer an unfriendly move, but broad policyholder power could be decisive.

It must be obvious to any opposition politician that nationalisation would be unnecessary if the boards of Sanlam or Old Mutual were packed with government appointees.

Could a solution to this problem be to end the assurers' mutual status, and for the mutuals to follow Southern Life's strategy of becoming an equity-based assurer? Old Mutual and Sanlam could easily create shares and distribute them free of charge to policyholders (based, perhaps, on the actuarial valuation of each policy).

Board responsibility would remain to policyholders as, it is claimed, is the case now. But there would be a subtle shift as the assurers' newly created shares were traded. The boards would then have to balance the sometimes conflicting demands of policyholders and shareholders. That, in turn, could provide good grounding in the sensitivities needed in a new SA where legal responsibilities towards employees and society as a whole could be the equal of those now directed towards policyholders or shareholders.

More to the point, the genie of nationalisation need never be released from the bottle.

The ANC, PAC and other parties likely to form part of a broadly based future government need help in devising economic strategies that will help spread wealth and opportunities to all South Africans, and that will not founder because existing economic structures are believed to be obstructions.

We will examine some possibilities in a second article tomorrow

Govt 'made costs rocket'

49

CT 27/11/91

By BARRY STREEK

THE proliferation of government institutions under previous constitutional policy caused administrative costs to sky-rocket, a committee of the National Party-controlled President's Council said yesterday.

This, the council's Committee for Economic Affairs said, was one of 12 "driving forces" behind SA's high inflation rate, which has been consistently higher than 10% since 1974, with an 18,6% high in 1986.

The cumulative effect of the high inflation rate had been that "a typical assortment of consumer goods that could be bought for R10 (£5 at the time) in 1945, would cost no less than R242,76 in 1990".

Despite anti-inflation measures by the government, the inflation rate had mostly been between 13% and 15% since 1974, and between 1985 and 1989 it was 10 percentage points higher than SA's five main overseas trading partners.

The committee's report on "a strategy, goals and policy for obtained active consumer co-operation in action against price exploitation and inflation" was tabled in the council yesterday.

Driving forces behind the high inflation rate included:

● The high gold price of the 1970s led to a strong rand exchange rate which had a negative effect on the country's export capacity, but the declining rand exchange rate since had the effect of increasing the prices of imported goods.

● International pressure on SA in the form of trade embargoes had resulted in the development of strategic industries and this had increased cost structures.

● The excessive tariff protection granted to local industries to compete with imported commodities had increased cost structures and blunted the incentive for industrialists to be cost effective.

● Rising government expenditure was covered by deficit financing through money creation and this contributed further to the decline in the value of the rand.

● The emerging trade union movement conducted a sustained campaign for higher wages for their members without higher productivity.

● Inflationary expectations led to provision being in contracts for cost additions as cover against expected inflation and consumers tried to protect themselves by purchasing goods earlier than needed.

The committee reported that consumers had been exploited because of poor competition in some manufacturing and distribution sectors and there was evidence of excessive prices for goods and services.

It warned that when consumers felt wronged they tended to put the blame on the free market system, especially in times of economic stagnation.

"The available remedies against consumer exploitation should therefore not only be made known but should be made available so widely that every consumer who needs them will have reasonable access to them."

Inflation, bad govt 'hand in hand'

THE root cause of South Africa's poor economic performance was government-created inflation, Democratic Party President's Councillor Mr David Gant said yesterday.

During the President's Council debate on consumer co-operation against inflation, Mr Gant said: "History has shown and the future will show that inflation and bad government go hand in hand."

He said that despite promises to trim the size of government and keep salaries in line, the track record showed that for every R100 of real pay received by public servants in 1980, they received about R115 in 1990 compared with the R108 of the private sector.

"Last year some 21 500 souls joined the central government and 25 000 more added themselves to the ranks of the provincial administrations."

Creative taxes can topple pyramids and spread wealth

B|Day 27|11|91. JIM JONES (49)

PRAGMATISTS among the ANC's leaders are privately eager for business initiatives that can be used to defuse popular calls for nationalisation or increased state intervention in business. They are aware that state intervention could be inimical to economic growth and job-creation in SA. Unlike the Britain observed by Adam Smith during the industrial revolution, SA has little hope of developing economically despite government.

The trend in SA is towards political democratisation. We need the same in business to allow decisions to be taken as low as possible in the management or control chain. SA's pervasive pyramids tend to stifle energies. Managers of productive firms, for example, could be blocked from raising new capital by controlling shareholders several rungs up the pyramid ladder.

It is worrying that nationalisation remains on the agenda and that popularly acceptable options have not been devised by business. This past weekend, Nelson Mandela inveighed against the groups he described as "monopolies", claiming they inhibited the development of small businesses and stood in the way of economic growth.

Presumably his comments were calculated to appeal to a particular constituency. But he made the point that though nationalisation was on the ANC's agenda, it was only one of several economic options.

One option, suggested by some businessmen and strenuously opposed by others last year, was that every quoted company should increase its share capital and donate the newly created shares to an independent trust established to uplift the less privileged and financed by dividend receipts.

The suggestion was modest — share capital should be increased by a mere percentage point, but that would represent an endowment of more than R5bn based on the market capitalisation of shares on the JSE.

Opposition understandably came from people who control firms through pyramids — the effective distribution would in their case have been multiplied by the number of blocks which make up the control pyramid.

It was also argued that donating newly created shares would dilute earnings. It would, briefly. But if it provided a face-saving retreat from nationalisation demands, business confidence would soar and, with it, economic growth. Growth from expansion of the economic base could be expected to outstrip any temporary earnings dilution.

Any future government will be faced with the problem of how to raise money for necessary social and infrastructural spending without levying taxes at rates that stifle initiative or productive investment. The tax system must be designed to encourage not only investment but a greater spread of ownership of the country's resources.

The tax system can be like a rapier — a subtle means of spreading wealth and of encouraging growth and job-creation. For that it has to be used creatively.

Unproductive investment, on the other hand, should be discouraged, particularly if it is seen as a device for protecting economic power as happens with the pyramids — frowned on elsewhere but a common feature of SA's economic landscape.

Dividends and interest represent a reward for capital, and they are essential if investors are to be persuaded to put money into productive ventures. But why should dividends remain tax-exempt as they move unproductively through Byzantine pyramid structures? Revenues generated by productive firms are taxed as they are created. Perhaps dividends should be treated in the same way in the hands of purely investment companies, and taxed.

What, it might be asked, do listed pyramids such as Pickwick, Amgold, C G Smith, Libvest, Bevcon, Avhold, Gencor Beherende or Rembrandt Controlling contribute to the productive wealth of the country? In practice they are simply post boxes for transmitting dividends paid by productive underlying investments. Typically they exist to allow control of extensive underlying assets to be maintained with comparatively small investments.

Collapsing the pyramids, as Derek Keys suggested for Gencor, would destroy no wealth. And it could free managers whose time is taken up with routine jobs in non-productive organisations to provide consultancy services to the productive underlying enterprises. To justify their existence as productive enterprises, the pyramids might consider providing management services for a competitive fee. Consultancy departments in the mining houses do that already.

Government does not need to legislate punitive measures. It would simply need to use the tax system creatively. The aim would not be to tax the incomes of investors who provide clearly productive capital — investors in companies that directly generate operating incomes — but to tax the dividends of firms that do not exist to create wealth.

Used imaginatively, the tax system could help spread wealth rapidly without confiscation. If pyramids were to be collapsed and their underlying investments distributed to their shareholders, the stock market's liquidity (and therefore its ability to raise capital) would be enhanced. Insurance companies and others that mobilise long-term savings would be treated the same as individual investors. It would be clear that partnerships or joint ventures are not the same as pyramids.

Taxing the dividends of non-productive pyramids would raise money for the state, but would not discourage entrepreneurial investment in new businesses. Nor would it discourage mergers that might be necessary to achieve economies of scale. Furthermore, if it succeeded in making investment in expansions or grassroots projects more attractive than non-productive acquisitions, it would help direct long-term contractual savings towards real growth investments.

At present, scrip shortages and exchange controls colour the thinking of investment managers. They are understandably concerned that if they sell an investment, it may be difficult buying it back at a better price later. But if pyramids or conglomerates were to be collapsed and the shares in underlying investments distributed to shareholders, equity markets would in all likelihood become less constrained.

Uncertainty over tax liabilities on investment realisations has been an important constraint on institutional investors. We need clarity on capital gains and a fair system which does not levy tax on the illusory gains which stem from inflation.

Better to sit on an investment that might be performing poorly than sell and incur a capital gains tax liability even if the sale proceeds could be invested more profitably in a growth business. Anglo could sell its Gencor and FNB shares without fear because it had held them for more than 10 years and would not face capital gains penalties. But many firms are probably continuing to sit on unattractive investments because of capital gains tax uncertainties.

The introduction of capital gains tax payable at any stage would help clear the market — investors would no longer be persuaded to hang on to shares until 10 years had passed and no tax liability would be incurred.

Apart from the purely financial benefits unbundling could bring, there are other fundamental ones. At the weekend Mandela took a swipe at the media which, he claimed, was monopolised by the state and big business. He claimed this meant it was difficult for the ANC to put its views across.

He has a case. For years the SABC has been the slavish mouthpiece of a narrowly based NP government, and its old habits die hard. But Mandela's statement was ominous. Did he intend to imply an ANC government would decide what would be printed or broadcast? Heaven help us if he did. We have gradually been moving away from benighted Afrikaner nationalist political hegemony. It would be tragic if it were to be replaced by another hegemony and not a vigorous democracy.

The SABC's reputation for partiality is justly deserved. Sadly, though, a vigorous independent mainstream Press is often portrayed as the tool of its controlling shareholders.

In the '70s some independent parts had to be put out of the sneaky reach of a government intolerant of criticism. Pre-empting a repeat performance could again be necessary.

There have, for example, recently been suggestions that shareholdings in Times Media or Argus should be sold to a foreign media mogul. The idea was foreign ownership would deter politicians threatening nationalisation. More sensible in the new SA might be an arrangement in which ownership of the newspaper companies was spread widely and employees or an employee trust given a voice in their management.

The Press is SA in microcosm and the debate over its future management is a reflection of our larger economic debate. If we are successfully to navigate the next difficult years, we need to devise strategies that will devolve economic and political power. A vigorous economy and democracy are inseparable.

A major issue was submerged by the anti-VAT strike, says **Mike Siluma**

Showdown looms over the economy

STAR 27/11/91. (49)

THE Congress of South African Trade Unions' demand for the formation of an economic forum to deal with economic issues in the transition to a nonracial democracy — a call that tended to be submerged in the furore surrounding this month's anti-VAT strike — has paved the way for a new battle front between Pretoria and the ANC-SACP-Cosatu alliance over control of the economy.

In the strike's aftermath, Cosatu and its anti-VAT allies threatened sustained action over VAT, but debate within the alliance is pointing increasingly towards an even more fundamental showdown with the Government on overall economic policy.

Cosatu has expressed fears that the Government is hastily restructuring the economy to protect whites' interests and ensure that a new government would not be able to meet the economic needs of the underprivileged majority.

Jay Naidoo said: "By restructuring the economy during a period of transition, the Government is trying to ensure that the democratic movement enters political negotiations with one arm tied behind its back."

The roots of the union drive for a macro-economic negotiating forum, or an economic policy forum, lie in last year's watershed agreement between Cosatu, the National Council of Trade Unions, employers and the State on new labour legislation. Parties to the agreement acknowledged the need to "discuss, in an appropriate forum, the impact of labour relations issues on the economy".

In the interim, Cosatu and allied organisations have moved with speed to formulate their proposals for an economic forum, but not before dealing with some prickly tactical questions raised by the concept of such a forum.

Chief among these are:

- How to link the alliance's participation in constitutional talks (which are, in any case, bound to impinge on the economy) with Cosatu's campaign for a separate economic forum.
- Whether Cosatu should attend the multiparty talks as a separate entity or as part of the ANC-SACP alliance, given Cosatu's determination not to be relegated to the spectators' stand in the talks.
- How the forum would relate to existing advisory bodies such as the State President's Economic Advisory Council and the National Manpower Commission.
- Whether, by taking part in a forum including the Government, Cosatu and its allies would make themselves co-responsible, in the eyes of their followers, for the country's economic problems.

The forum — which would include the Government, the main political parties, the unions and organised business — would deal with macro-economic policy, including VAT and the Budget; socio-economic needs, including housing, health and welfare; and labour market policy.

This means the forum cannot get off the ground without the participation of the Government and the employers. But what are their views on the matter?

While the employers and the Government say they are committed to some form of "appropriate forum" to discuss labour and other economic issues, they have not put forward their views on its structure and functions.

Bobby Godsell, the labour spokesman for the employer body the SA Consultative Committee on Labour Affairs, said no agreement had been reached on what would constitute an "appropriate forum". "It's my opinion that most employers acknowledge the need for ways in which key economic stakeholders like the unions and business can make an input in economic matters in an orderly and constructive way. But there is no developed Saccola position on the issue."

The Government seems to believe any forum on the economy should be subordinate to political negotiations. Before moving from his portfolio as Manpower Minister, Eli Louw said the Government's view was "while organised labour and organised employers are important players in the economic debate, they are not the only ones", and there was a need to link economic initiatives with constitutional talks.

He added: "Having parallel talks (on the constitution and the economy) is an option, but there are other options. The Government cannot make any prescriptions." □

Crime brings gloom to business

STAR 27/11/91

By Michael Chester

The dramatic increase in violent crime has plunged businessmen into gloom and raised the risk of a new wave of white emigration, say researchers at a noted economic think-tank.

The Econometrix research unit has warned that business has been pervaded by a sense of gloom without parallel.

Its latest analysis of the economic outlook says the impact of violent crime on business confidence has been even more devastating than earlier bouts of gloom caused by political violence and the sanctions blockade.

The savagery of the crime wave is blamed on unemployment, hunger and "the spirit of anarchy which has arisen out of an atmosphere of mass action on an almost daily scale".

Econometrix director Dr Azar Jammine added: "For the first time since the large-scale emigration of white skills in the mid-1980s, there is widespread talk of leaving the country.

"The risk of a fourth wave of white emigration, together with the loss of vital skills for the economy this would entail, has increased dramatically over the past month."

The first three exoduses were all inspired by prospects of political upheaval — following the Sharpeville drama, the Soweto riots and the Rubicon controversy. New talk of emigration was centred on the fear of more violent crime.

The atmosphere of business gloom had been further exacerbated by the nationwide strike called by Cosatu on November 4 and 5. The indirect psychological harm inflicted on business confidence could turn out to be far more detrimental than the multimillion-rand economic cost of the strike.

"In addition to these factors and in spite of the lifting of many international economic sanctions," said Dr Jammine, "the stand adopted by the ANC from time to time in regard to such matters as nationalisation or reneging on foreign loans issued to the National Party regime has harmed confidence further.

"As each day goes by it is becoming ever more apparent that foreigners will not invest in this country before they feel more certain about the nature of the economic system in a new South Africa and feel more assured that political transition will not blow up into a civil war," he said.

'It's all falling into place' — Stals

CT 28/4/91

Own Correspondent

JOHANNESBURG. — For the first time in his two years in office the various pieces of SA's economy were falling into place, Reserve Bank Governor Chris Stals said yesterday.

He told a media briefing in Pretoria that changes in wages, private spending, producer prices, money supply and bank credit were all in the right direction.

He stressed that the level of interest rates was a derivative of the Reserve Bank's policies.

"We do not begin with interest rates, we begin with the money supply. If we fix money supply targets low enough we will have high interest rates."

SA's present 8%-12% guideline range for the growth in the broad measure of money supply could be seen as too accommodating. Against a background of a real GDP decline of 1% last year, monetary expansion at guideline-range levels was effectively financing inflation.

- Stals last night warned depositors that they could not rely on the Bank to bail them out should their institution be forced into liquidation.

His speech at Futurebank's launch in Johannesburg follows the failure of Fundstrust following close on the heels of Masterbond's collapse.

Govt expenditure 'too high for comfort'

CT 28/11/91 (49)

JOHANNESBURG. — Government expenditure as a percentage of gross domestic product is too high for comfort or success say the Standard Bank in its latest Economic Review released yesterday.

The bank said that the authority's expenditure had increased from 22,5% of GDP in 1981/1982 to an estimated 28,6% in the current financial year.

But, it added that if off balance sheet expenditure of some R1,8bn was included, it increased to 29,2% of GDP.

The review indicated that rolling back the government's role in the economy would be politically difficult. Some 15bn had been spent by the self governing homelands on its 14m inhabitants while a staggering R67bn had been spent on the remaining 22m in SA.

"Addressing just this disparity in a restructured economy and society will increase the pressures on expenditure very substantially," the bank said.

Furthermore tha bank said while government's expenditure had grown, so too had the tax burden. Government revenue had increased from 19,7% of GDP in 1981/1982 to an estimated 25,2% in 1991/1992.

The bank said the higher and ever growing tax burden should not be underestimated — resting heavily on company and personal income taxes. — Sapa

SA economy 'falling into place'

SIMON WILLSON

FOR the first time in his two years in office the various pieces of SA's economy were falling into place, Reserve Bank governor Chris Stals said yesterday.

He told a media briefing in Pretoria that changes in wages, private spending, producer prices, money supply and bank credit were all in the right direction.

He stressed that the level of interest rates was a derivative of the Reserve Bank's policies.

"We do not begin with interest rates, we begin with the money supply. If we fix money supply targets low enough we will have high interest rates."

SA's present 8%-12% guideline range for the growth in the broad measure of money supply could be seen as too accommodating. Against a background of a real GDP decline of 1% last year, monetary expansion at guideline-range levels was effectively financing inflation.

The Reserve Bank could not lower interest rates; the only way to lower interest rates was to create more money. He signalled that this would not be permitted.

ANDREW GILL reports Stals last night warned depositors that they could not rely on the Bank to bail them out should their institution be forced into liquidation.

At Futurebank's launch at a banquet in Johannesburg, he said in a few of the unfortunate experiences of bank failures over the past year the Bank had to step in and provide partial protection to depositors.

However, depositors should always be prepared to carry their own risks and be responsible for where they want to place their deposits.

His speech follows the failure of Fundstrust, which endangered money to the tune of at least R45m, following close on the heels of Masterbond's collapse.

Government, the Reserve Bank or the Registrar of Deposit-Taking Institutions could never take full responsibility for protecting the interests of a bank's clients.

Stals 'more relaxed' about the economy

STAR 28/11/91

49

By Derek Tommey

The Reserve Bank believes that it is at last beginning to exert pressure on the inflation rate said the Governor, Dr Chris Stals, in Pretoria yesterday.

However, the economy now had all the appearances of being in a recession.

People calling on the bank to lower interest rates to get the economy moving, he said, really wanted an increase in the money supply. However,this would be bad for the country.

Dr Stals said that South Africa, out of 14 major industrial countries, had the lowest rate of real interest rates and the highest rate of increase in the money supply and in inflation.

He said that the Reserve Bank did not have a target rate for inflation. A rate of 15 percent was obviously too high; 12 percent would be better and 9 percent better still. But ultimately he would like to see the inflation rate down to zero.

He did not believe there were any structural factors which would prevent this from happening.

Dr Stals . . . Economy has moved into recession.

"We feel much more relaxed about the situation in South Africa. For the first time I see that things are coming into place," he said.

"For the first time we are seeing private sector consumer spending declining. Up to the second quarter this year this was increasing.

"For the first time we see wages and salaries increasing at rates below inflation. So the inflation pressure coming from substantial increases in wages and salaries are also disppearing.

"We also see a much lower rate of increase in the producer price index and we hope this will work through to the consumer price index also.

"We see that the money supply in the eight or nine months since February increased at a seasonally adjusted annual rate of 8 percent; bank credit extended to the private sector rose 14 percent, which is below the rate of inflation.

"We see further substantial increases in our gold and foreign exchange reserves. This month there will probably be another big increase. Last month we had a R600 million increase in the reserves.

"We expect the same type of increase this month, and this will push up the reserves to around R9 billion.

"Limiting the rise in the CPI is not the only objective but is certainly the most important one, and there is not much more we can do from the monetary policy side to change the trend, given our aim at a steady long-term decline in the inflation rate.

Dr Stals said that real economic activity remained depressed. The Reserve Bank's assessment is that despite the increase in the gross domestic product in the third quarter of this year, the economy moved into recession in the fourth quarter.

"We base this on an analysis of the expenditure side of the economy. All major components of expenditure have declined in recent months - private sector current expenditure, government current ependiture, public sector current expenditure, and fixed investment.

"So for the first time all the components have declined together.

'Growth prospects at risk' STAR 29/11/91 (49)

By Sven Lünsche

Standard Bank has proposed a set of entrenched guidelines to ensure that financing the country's growing social needs does not impair the economy's growth prospects.

In its latest Economic Review the bank says that the political dynamics have put enormous pressure on government spending "to the extent that addressing social inequalities may jeopardise fiscal discipline".

For this purpose future government spending should be characterised by a set of entrenched "principles and guidelines". These should include:

- The provision of free social services only to the really poor.
- Offering the same quality of social services to all South Africans, but at an affordable standard level.
- The rationalisation of social services departments to reduce the cost of delivery to international levels and, to ensure that the level of infrastructure is maintained.

Elaborating on these principles, Standard says that in the current fiscal year 42 percent percent of the Budget, or R35 billion, had already been allocated to social services as government strove to achieve social parity.

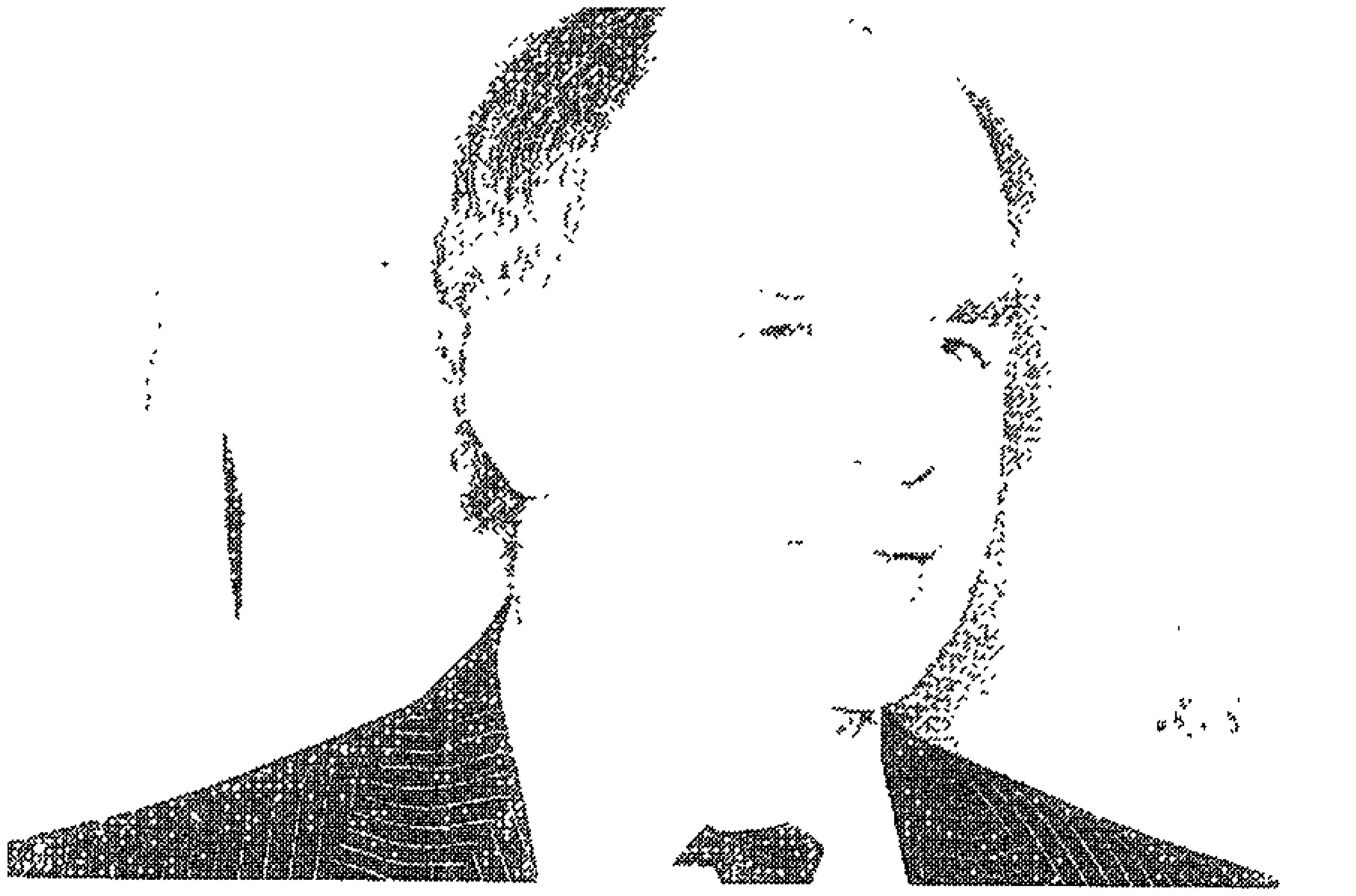
"Yet given that the absolute level of expenditure is already high and burdensome, it is practically impossible to raise the general quality of social services to that currently enjoyed by the first world component of society.

The bank adds that given the constraints on raising sufficient revenue the optimal solution "may be to reduce spending by rationalising administration costs and by targeting spending to a specified rate of return".

Government expenditure as a percentage of GDP was already too high for comfort, rising from 22,5 percent in 1981/2 to an estimated 28,6 percent in the current finacial year.

The bank warned that there was the danger that government could retard economic growth by increasing its share in the economy and crowding out the private sector by purchasing the available stock of capital and skilled labour.

It added that the higher and ever growing tax burden would add to the woes of the private sector as it rested heavily on companies and individuals.



New British ambassador to SA Anthony Reeve addresses the SA Institute of International Affairs in Johannesburg yesterday. Picture CATHERINE ROSS

Reeve calls for new UK investment

B/Day 28/11/91 (49)

DARIUS SANAI

NEWLY appointed British ambassador Anthony Reeve last night urged British and other foreign firms to invest in SA to ensure economic growth and political stability.

Reeve, speaking to the SA Institute of International Affairs, said he believed the reforms of the past two years were irreversible. But a transition to democracy was not enough for SA, he said.

Without economic growth, the number of unemployed and homeless would continue to increase. There would be no solution to the problem of violent crime.

"The urgent need, therefore, is for the economy to grow, to provide jobs and an income for the millions who have neither," he said.

"This is why we in Britain have tried to get away from outdated talk about punishing ordinary South Africans through sanctions, and have instead encouraged our companies to invest in the country's future."

There was no time to lose in planning for a new SA, he said. B/Day

"I have to say that I have been struck by the enormity of the task SA faces." 28/11/91

He was concerned that the ecomonic figures "simply do not add up" for the future.

Implementing a negotiated agreement on the country's future would be far more difficult without economic growth.

ANC, Cosatu plan backed by business

Sowetan 28/11/91

28/11/91

(49)

By JOSHUA RABOROKO

BLACK business organisations have thrown their weight behind the ANC and Cosatu for taking the first step towards establishing a national economic policy institute to shape a future South Africa.

The National African Federated Chamber of Commerce and the Foundation for African Business and Consumer Services have confirmed their support for the groups demanding a central role in the country's economic policy.

Both business organisations have held meetings to discuss several issues, including the country's economic future.

Efforts

The National Institute for Economic Policy was formed to assist efforts to have an impact on economic affairs through a forum consisting of the Government, business and the Cosatu/ANC/South African Communist Party alliance.

The forum is seen by labour and the liberation movements as the economic equivalent of all-party constitutional talks

Sources said the idea of the forum was first put to the Government by Cosatu during negotiations over Value Added Tax.

It is expected that the forum could serve as a mechanism to negotiate a new economy

ANC president Mr Nelson Mandela said in Cape Town at the weekend that they would not allow the Government to restructure the economy during the transitional phase.

He said: "Until we have a new constitutional dispensation we will oppose all policies that disadvantage our people and we will fight to gain the maximum benefits within the present context through mass action if the regime ingores our protest."

Bank condemns govt's misuse of public debt

BDay 28/11/91

SHARON WOOD

(49) (259)

SA's growing public debt was worrying because it was being used to finance current expenditure and a rapidly-growing civil service, Standard Bank said in its Economic Review released yesterday.

"Quite apart from undermining the economy's growth potential, since deficit finance should be appropriately spent on capital projects, future generations will now be paying taxes for past consumption expenditures by government from which they will have derived no benefit," it said.

Interest on public debt had risen from 10,6% of total government expenditure in 1981/82 to 15,2% at present.

This debt would grow further if the TBVC states and self-governing territories rejoined a unitary SA in the context of a new constitution, it said.

In 1989/90 these off-balance-sheet contingent liabilities were R2,6bn and they ultimately would be added to current central government debt.

Government could reduce the debt burden by resuming selective and progressive privatisation, or applying the principle of user charges and charging market prices for some public goods and services.

In addition, Standard Bank suggested, central government should moderate its demand for new staff, which had risen at an annual average rate of 5,4% between 1981 and 1991, by streamlining its functions and procedures.

Government's huge demand for scarce, skilled manpower was particularly worrying because its share of total skilled manpower had risen from 47,2% to 50,2% between 1975 and 1985.

"Downsizing government, by simplifying structures, by establishing stringent expenditure priorities and by abandoning wasteful 'strategic' expenditures would almost certainly deliver a more productive utilisation of scarce human capital," Standard Bank said.

There were enormous pressures on government expenditure which would increase in the near future, but it would be hazardous to the economy's long-term health if government succumbed to a "quick fix" remedy. It should aim rather for a soundly based economic "best fix".

Free economy 'central' to free politics'

CT 29/11/91 (4A)

Political Correspondent

A KEY ingredient of a free political system was a free economic system, Democratic Party President's Councillor Mr James Selfe said yesterday.

"That is why we opposed the bizarre distortions of apartheid, that is why we continue to believe the CP are off their rockers, and that is why we oppose the ANC's plans to nationalise the commanding heights of the economy," he said.

Mr Selfe was speaking during the President's Council debate on its economic committee's report on inflation.

Attack on 'mismanagement'

Labour Reporter ARG 29/11/91

COSATU believes the President's Council report on consumer issues is a "devastating indictment on government mismanagement of the economy".

In a statement the federation said the report this week concurred with Cosatu's view that the majority of South Africans had "absolutely no confidence" in the government's ability to address the economic hardships they faced.

Cosatu said: "If this is the view expressed by a government institution like the President's Council, there can be no doubt that the majority of South Africans support Cosatu's contention that it would be disastrous to allow the government to unilaterally restructure the economy."

The following were cited as problems which the public attributed to government mismanagement:

- Lack of a coherent approach to job creation.
- The failure to address unemployment and inflation.
- Soaring taxation on individuals.
- Continued wasteful expenditure on apartheid institutions.

● See page 25

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PRESIDENT'S COUNCIL FM 29/11/91

Pie in the sky

(49)

Yet another official economic ~~policy~~ document has rolled off the presses. This week, the President's Council's Committee for Economic Affairs tabled a report on *A strategy, goals and policy for obtaining active consumer co-operation in action against price exploitation and inflation.*

It is this committee's sixth report on economic policy issues since the council was instituted in 1981. An indication of the fate of earlier proposals comes in one of its recommendations — the plaintive request that government should give serious attention to the recommendation in its previous report, published in 1989, on a *Strategy and Action Plan to Improve Productivity.*

The main recommendation of the latest report is that a forum should be convened yearly, or half-yearly, at which government policy-makers meet representatives of organised business, labour and consumers.

The forum would set objectives by consensus, measure progress against predetermined objectives and "give consideration to recommendations and points of view of the Economic Advisory Council."

The purpose would be to "create more confidence among the general public in the formulation of government's economic policy" but, inexplicably, its deliberations would be confidential.

A further conference would be held to "create understanding of government policy among the general public . . . to rationalise inflationary expectations . . . moderate salary and wage claims . . . and to persuade the public to limit its use of credit to essentials."

Among other recommendations, it proposes the restructuring of the Co-ordinating Consumer Council "with much greater scope and considerably expanded functions . . . created and maintained by government" to investigate consumer complaints.

On monetary policy issues it suggests: "A comprehensive attempt be made with the aid of communications experts to make the information, in so far as it is relevant to the different groupings of this community, available in terms that are understandable to each one of these groups." (Perhaps the experts could give the compiler of the PC report some hints on intelligible presentation.)

The report was requested in December 1989 and completed this September, following written evidence from 93 individuals and organisations and oral testimony from 49.

It is to be hoped that recommendations involving further State spending will have as little success as those in the 1989 report. If not, the cost of these exercises in futility will

FM 29/11/91 (49)

be added to the cost of maintaining the committee, whose 19 members each earns a total package worth R87 484 a year:

- ☐ A salary of R52 716;
- ☐ An allowance of R17 568; and
- ☐ A R200 a day subsistence allowance to cover hotel expenses. As the committee works 86 days a year, this totals R17 200.

A more useful contribution to the fight against inflation will be the dissolution of the committee when this constitution gives way to a new one. Along with the dismantling of a host of other redundant organisations (and operations) funded by government, this would cut the size of the Budget deficit and thus reduce inflationary pressures ■

MONEY SUPPLY

On course

FM 29/11/91
(49)

Monthly growth in credit extension slowed to less than 1% in September after an increase of 2,8% the previous month.

Reserve Bank statistics show private-sector borrowing rose by 1,8% in the month, to R184bn, while government borrowing fell from R4,3bn in August to R2,5bn.

Over 12 months, claims on the private sector rose 18,82%, while claims including government rose 20% to R186,5bn.

Annualised growth in private sector credit extension since February, when technical factors caused massive re-intermediation, is 14,3%.

FM 29/11/91

Growth in the broad monetary aggregate M3 is also slowing. A seasonally adjusted estimate for October shows monthly growth of only 0,2% to R178,8bn. Without the seasonal adjustment, the increase was 0,7% (to R180bn).

Estimates of various measures of M3 growth to October are:

- 15,96% over 12 months;
- 14,51% from the base of the current target year in November 1990, seasonally adjusted and annualised;
- 7,9% annualised from February.

Revised figures for September are close to the provisional figures published last month:

- 15,68% over 12 months; and
- 15,77% from the base of the target year.

POWER AND RESPONSIBILITY FM 29/11/91 (49)

The prerogative of the harlot

The remark by economist Max Sisulu that the ANC doesn't want to become party to unpopular economic decisions through participating in a forum must not be allowed to pass without comment. For it highlights not only the hypocrisy in the ANC's present position, but also a basic weakness in the administration of the country in this period of transition.

If we are to have renewed growth in economic activity, investment and employment, some decisons will have to be taken that will undoubtedly be "unpopular" in at least some quarters. In a modern, complex society, decisions on technical matters cannot be governed by what will win most voters — even in a democracy.

That is why John Major rejected a referendum on UK relations with Europe; that is why many thinking Swiss are coming to wonder whether their complex system of direct democracy is hindering necessary reform.

It is precisely because they have no responsibility for economic performance that the radicals were able to mount their absurd anti-VAT campaign without any regard for realities — or need to suggest a better tax. The ANC makes great (if fallacious) play with the alleged failure of business to suggest "alternatives" to nationalisation; but what alternative to VAT has it suggested?

Equally, the economic illiterates who still want sanctions maintained can shelter behind their lack of responsibility for economic performance. They are able, at the same time, to make speeches which drive away foreign investors and bewail the fact that the economy is not generating enough new jobs, without having to see the connection.

From the other side of the fence, it is just as senseless for all the talks and negotiations to focus so exclusively on political structures to the exclusion of economic policy — which, many would argue, will, in the long run, have a far greater impact on people's welfare and prosperity. The ANC has not only a right, but a duty, to share in economic decision-making just as much as on the constitutional side.

While the ANC's reluctance to take even a small share of responsibility for economic performance may be understandable, the fact is that an economic forum is fast becoming essential — in part because the economy is too important to be ignored while the politicians squabble and in part because the ANC must be made to share the responsibility for getting the economy moving again — and, consequently, share the blame if it doesn't. ■

Consumer report confirms public scepticism — Cosatu

B Day 29/11/91 (49)

VERA VON LIERES

COSATU yesterday said the President's Council's report on consumer issues was a "devastating indictment on government mismanagement" of the economy.

Cosatu said in a statement the report concurred with statements made by the trade union federation and other organisations that the majority of South Africans had absolutely no confidence in government's ability to address the economic hardships they were facing.

"If this is the view expressed by a government institution such as the President's Council, there can be little doubt that the overwhelming majority of South Africans support Cosatu's contention that it would be disastrous to allow the government to unilaterally restructure the economy."

Some of the problems which the report suggested the public attributed to government mismanagement included the lack of a coherent approach to job creation, failure to address unemployment and inflation, soaring taxation on individuals, and continued wasteful expenditure on apartheid.

While the report was undoubtedly correct in identifying much of the problem, it fell far short in its proposed cure, Cosatu said.

The report proposed that the same government — which it said the public had no confidence in — set up an advisory forum on the economy which would "report to the State President on an annual basis," and its report would be "studied by the Cabinet Committee for Economic Affairs."

The fact that the country was in a process of transition in which the NP had no right to unilaterally determine the process of restructuring the economy seemed to have escaped the President's Council, Cosatu said.

Forum

The labour federation said a macro-economic negotiating forum involving all major players in the economy needed to be set up as a matter of urgency.

"It is high time for the government to expedite the setting up of the economic negotiating forum, so that a range of problems facing our people can be addressed with the full involvement of all parties."

Pyramid companies play central role in wealth creation

B/Day 29/11/91

JOS GERSON

49

JIM JONES's call for "creative taxes (that) can topple the pyramids" (Business Day, November 26 and 27) is motivated by two very different arguments.

The first of these concerns the efficiency of the existing structure of corporate control and ownership in SA "What", he asks, "do listed pyramids such as Pickwick, Amgold, C G Smith, Libvest, Bevcon, Avhold, Gencor, Beherende or Rembrandt Controlling contribute to the productive wealth of the country?"

My colleagues and I have spent two years researching precisely this question. Using data for 288 JSE industrial companies, we obtained results that fly in the face of the conventional wisdom so prevalent in Britain and the US. The pyramids (serving as substitutes for non-voting shares) enable a small number of very large controlling shareholders to play an extremely useful role as the proprietors, monitors and guardians of the country's principal firms.

This is reflected in the 45% premium to be found in the price to earnings ratios of operating companies controlled by the large dominant shareholders. That fact alone suggests the much-trumpeted discount to net asset value of the holding companies may be no discount after all: it is a discount relative to each subsidiary which stands at a premium The premium is explained by the lower risk entailed in investing in such firms and by the much faster growth in earnings per share associated with industrial companies controlled by the dominant groups.

The findings suggest that minority shareholders actually benefit from the existing structure, perhaps, paradoxically, because of their effective disenfranchisement. How so?

The presence of powerful proprietors, be they Oppenheimers, Ruperts or impersonal institutions like Old Mutual, which have succeeded (with allies) in retaining an absolute majority of shareholders' votes, ensures that managers who step out of line can readily be replaced. With a very high percentage of their wealth committed in the form of controlling equity blocks, these large shareholders take their reputations and their tasks seriously If a subsidiary runs into trouble, they very rarely allow it to fail, expenses notwithstanding

Many an entrepreneur may dream of controlling several firms, each with a tiny fraction of its equity and all are free to offer shares in holding companies. But in most cases investors will not bite. Only in the case of exceptional performers (like Anton Rupert and Donald Gordon) will they subscribe at prices that make the whole exercise worthwhile. Since wealth is one of the obvious signals of a controller's reputation, our most significant econometric finding was that the wealthier the controlling shareholder, the smaller was his fraction of the underlying equity in each of his operating companies, his level of voting power being constant at an absolute majority

Is it not true that the entire corporate structure has evolved from acts between consenting adults? The notion of imposing a "shareholder democracy" is absurd: the relationship between shareholders is contractual, not ideological.

SA's system of corporate governance contrasts sharply with those of the UK and the US, where adherence to one-share-one-vote transforms the diffuse distribution of shareholdings in large firms directly into diffuse voting power Each shareholder then has too little say to bother. Punting becomes the name of the game. Doubtful shareholders sell their shares instead of using their votes to put matters right.

☐ RUPERT

Who benefits? Certainly not the minorities, only the incumbent managers and perhaps the stockbrokers In the ensuing power vacuum, managers become a law unto themselves, fearing only the dreaded takeover, which with golden handshakes is scarcely the best solution Jones is quite right to be concerned about the accountability of directors to shareholders (and perhaps even a wider public) but he is wrong to think that dismantling the pyramids is the way to obtain it. The opposite is true.

Our corporate structure has much in common with those of many European countries — Belgium, Switzerland, Denmark, Finland and, above all, Sweden where the Wallenbergs, through pyramids and non-voting shares, are reputed to control about 40% of the Stockholm Bourse. Yet the family did not obstruct Sweden's experiment in social democracy.

These systems also have much in common with those of the Netherlands, Germany and Japan where financial institutions (such as the Deutsche Bank), rather than families, dominate the large industrial companies. The task is to get some large and overarching group other than management to play the role of proprietor, trustee and "investor of last resort". Whether or not pyramids and other specific devices are used to that end is immaterial.

Lest the reader think these arguments are ideologically tainted, the Massachussetts Institute of Technology's Lester Thurow — that prominent advocate of an industrial policy about which US Democrats so often enthuse — shares our views. He and Harvard's Bradford de Long have studied the role of the great investment bankers, like J P Morgan, who between them totally dominated US industry before the First World War Their power was destroyed by legislation in the '30s solely to appease the populists who demanded a scapegoat for the pain of the great depression (Are we about to shoot the pianist to atone for the sins of apartheid?) De Long suggests these investment bankers added about 30% to share values and may have been responsible in part for the US's once fantastic growth rates.

Emasculation of the old investment bankers and other related policies, including the US's antitrust legacy, have been a disaster. Thurow's message is: America has been trying to run capitalism without real capitalists Forget about monopolies. In particular, let's have more proprietors and fewer punters among the shareholders Let's do nothing to inhibit the power of the large financial institutions over industry.

Jones's other distinct argument is that the unbundling of industry may be necessary, if only as a symbolic gesture. The answer to that is symbolic palliatives will be seen for what they are They will fail to impress or to appease. The ANC must be made to understand that collapsing the pyramids will do nothing, in itself, to alter the existing distribution of wealth. It will merely empower the management. One or two companies, like Gencor, may increase in value. The rest will lose out and so will the economy.

Nelson Mandela does not understand these issues. Why should he? There are very few businessmen or academics who do, because research in this area is very new and embryonic. But it is growing rapidy.

We therefore need a moratorium on restructuring to save us from stupid blunders. In the meantime there will be much room for mischief because, unlike the nationalisation issue, calls for the panacea of abolishing pyramids will receive a sympathetic hearing in the UK, US and among elements of the local business community too.

☐ Gerson is a consultant economist to Davis Borkum Hare & Co and Smith New Court Securities. The research project referred to was undertaken in collaboration with professors Brian Kantor and Graham Barr. Financial assistance was received from the Anglo/De Beers Chairman's Fund.

Monetary policy 'to stay'

LINDA ENSOR 44

CAPE TOWN — Strict monetary policy would remain in place for a considerable time to come, advisor to the Reserve Bank governor, Roger Gidlow, told a gathering of businessmen recently.

Speaking at a combined meeting of the economic affairs committees of the Cape Town Chamber of Commerce and Cape Town Chamber of Industries (CTCI), Gidlow discounted any suggestion that a boom would occur in 1992. BDay 27/11/91

Interest rates would remain high and recovery would not be fuelled by a credit boom as private consumption expenditure would remain under pressure

Gidlow said the upturn would come from new investment spending on stocks and inventories on the one hand and fixed plant and machinery on the other.

Learning on the way

49

Trevor Manuel (35) is political head of the ANC's department of economic planning. He spoke to the *FM*'s Amarnath Singh.

***FM*: At what stage are you in formulating economic policy?**

Manuel: Before March we had some feedback on the ANC draft economic statement. Some areas are being reworked and elaborated. We need to know what kind of model will take us closer to our broad objectives. Questions are: how much can you redistribute in relation to growth and how do you cause the economy to grow?

What countries are you in touch with on these matters?

We had a delegation visit Germany last month; Australia, Canada. On specific aspects we've had input from Malaysia, for instance. There's a range of world experience and what we need to do is to try to take in as much of that as possible.

Are you alluding to the failure of socialism?

We take the view that to make this economy grow markets will be important. There is a range of goals and objectives that we've set from a political perspective: how do we reach from where we are, to anything close to what we fundamentally believe this country requires?

What are those goals and objectives?

It's a very wide view that takes account of enhancing our manufacturing capacity, that will require transfer of technology, a radical overhaul of the skills base to be able to attract investment — domestic and foreign. We're also talking of redistribution but there are no short answers at this stage. It's fairly easy to look at expenditure but looking at revenue is going to be a lot harder.

We're fairly convinced that addressing the basic needs of people — housing, electrification — can cause significant growth and, at the same time, be a very effective means of redistribution without all of that coming from the expenditure side of the Budget.

The Malaysian experience of a 20-year plan, from 1972, has put them well ahead of the objectives they set themselves, with growth of 9% a year for the past seven years and inflation at about 3% — in the context of planning.

But Malaysia is a basically free-enterprise economy?

It is. We will have difficulties because it's also a low-wage economy — tax free zones, tax breaks and so on. We would approach that to try to find out how that plan worked because government initiated it and almost took a step back.

You want a plan — and government taking a step back?

Only in the sense that they (Malaysian government) didn't hold on. We're quite committed to the fact that there will be State intervention — not a command economy a la the Eastern bloc, but not unfettered free market. You need to address existing inequities.

The free market is not going to take care of that in SA. But the nature of State intervention is all up for discussion and is the subject of debate.

Would you set about breaking up the bigger concerns?

We've identified that as one of the areas and it is being researched. The ownership patterns have to change in SA in some way. You can't have all of the wealth owned and controlled by little enclaves; it'll be politically suicidal.

What about the need for huge companies to compete internationally?

It's not just huge companies. The conglomerates operate at a very different level. There are strong arguments among conservative economists, even, about the efficiency

of their operations. There are many concerns raised about the contribution from that kind of control to inflation.

All of this is in the melting pot. We have, as a means of State intervention, ideas like enabling legislation.

In terms of kick-backs to foreign direct investors, the SA equivalent of tax holidays has been a political nightmare — conditions in industries put up by the Taiwanese and Israelis in Botshabelo leave much to be desired. It's extremely difficult when you try to create pockets that are free of labour legislation when across the road you have labour laws.

Do you envisage twin-track negotiations, political and economic?

Yes. We're at odds with government because they want to include all of this into the melting pot of the all-party conference. We believe it needs to be separate. In fact, some matters, especially socio-economic issues are already under way, like housing and education. Health could get under way.

But it's not clear what extent there can even be negotiation on fiscal and budgetary policy.

Is the ANC committed to a wealth tax?

It's not ANC policy, there's no commitment to it as yet. The research is much too embryonic to talk in clear terms about it.

Are you going to clamp down on people with more than one house?

Again, there's no short answer. The ANC draft Bill of Rights identifies the right to private property. But when you look at private property in SA, it takes very different forms. De Klerk said in a recent interview with *Der Spiegel* that they would protect all private property. But if you look at alienation and dispossession via the Land Acts, the scrapping of those Acts doesn't alter the ownership pattern.

A land claims court, for instance, will be one mechanism that could be created and, if it determines that people have a justifiable claim to land from which they were dispossessed, you're in fact dealing with a contradiction — because the sanctity of that property in the hands of whoever holds title deed at the moment is then affected. These are the nettles that we have to grasp.

One has the impression that the ANC has moderated its economic policies, on nationalisation, for example?

We are committed to a mixed economy. Our broad policy remains the Freedom Charter until such time as it is amended. The charter was adopted at a time when the world saw nationalisation as the means of economic reconstruction. It's far less the vogue now. We've de-emphasised it because it tends to become a red herring.

If the railways, say, were to be privatised, in circumstances where people who are victims of apartheid live far from their places of employment and face heavy transportation costs, with a system run for profit those people are once again going to be disadvantaged. It would be easy to renationalise something like that.

So the ANC is still committed to a fair degree of nationalisation?

I don't know what gives you that impression. All I'm saying is that we've not abandoned it. If you want to take a decision either way you actually have to look at all the details of a particular case.

When will the ANC call off sanctions?

Interim government becomes an important point of shift of sovereignty; financial sanctions, especially, go at that point. The formulation by the Commonwealth is that the interim government may request the lifting of all or parts of financial sanctions. We find that acceptable.

How long before the interim government is in place?

We'd like to believe that it should be possible by the middle of next year.

Battle scars as firms fight 'worst' recession

(49) ARG 30/11/91

ANN CROTTY
Weekend Argus Correspondent

JOHANNESBURG. — Pick 'n Pay boss Raymond Ackerman's comment this week that current conditions are the worst he can recall in 40 years of trading will have struck a familiar note with many industrialists.

Perhaps 40 is a bit extreme, but certainly the economy is going through one of the most prolonged downturns in recent history. And right now there seems little of substance to justify the view that there will be some sort of pickup next year.

Almost without exception the companies reporting for the six or 12 months to end-September are showing the battle scars that resulted from having to do business in an environment where volume demand was frequently lower and interest rates higher.

Squeezed between these two operating constraints, in many cases the only way in which earnings could be sustained was through tighter asset management. This means that management efforts are increasingly being focused on the reduction of stock holdings and the greater use of creditor finance.

First signs of this trend were seen as long ago as 1988/89 when the prime overdraft rate was heading towards 20 percent. It moved through 20 percent in the last quarter of 1989 and held at 21 percent throughout 1990. It is currently 20,25 percent.

Over the same period employment numbers were on the decline — hit dramatically by cutbacks in mining and manufacturing.

Significantly adding to all of this doom and gloom was the turmoil on the socio-political front. Boycotts, strikes and labour demands created the sort of confrontational situation that ensured management was stretched to its limits if it wanted to produce any profit growth.

The end-September results were released with an air of weariness and most corporate chiefs seemed hard pressed to figure out from where they could pull out the next half-year's earnings.

In many instances expectations for growth are being based on the rather desperate hope that things are now so bad they can only get better.

Most realise that at this stage it will take more than the much-called-for cut in interest rates to get the economy and corporate profits on to a reasonable growth path.

High interest rates are only one of the factors holding back economic activity. It is unlikely that even if there was a significant reduction in prime, companies and individuals would spend much more.

As Mr Ackerman points out, the political and economic situations are now so intertwined that only by advancing simultaneously on both fronts will any real progress be achieved.

With an eye to this weekend's preparatory talks for December's joint party negotiations, Mr Ackerman hopes to see a combined political/economic move from the parties involved.

What the country needs right now, according to Mr Ackerman, is for "the psychological factor of high interest rates to be dealt with and at the same time Mr Mandela persuaded to call on the world to reinvest in South Africa".

Mr Ackerman points out that major overseas players, who see enormous potential in South Africa and southern Africa, are currently holding back on investment.

Stimulants up Stals' sleeve

ET 1/11/91

(49)

Own Correspondent

JOHANNESBURG. — Although economic recovery was imminent it was likely to be relatively mild, and some stimulus to reinforce normal market forces might be required, Reserve Bank Governor Chris Stals said yesterday.

He told the Financial Mail Investment Conference in Johannesburg that short-term prospects for a revival in the economy had improved significantly over recent months. There was an emerging consensus that real GDP should increase by 1%-2% next year.

"Initially, however, the recovery is likely to be relatively mild and some stimulants of the right substance may be required to reinforce normal market forces."

Pressed later to specify what he meant by "stimulants of the right substance", Stals said he was not referring to monetary expansion by the Reserve Bank, which was unsustainable.

"Fiscal measures to stimulate new investment are what I have in mind. I have no objection to incentives such as tax concessions to new industries, but these incentives should be concentrated on smaller businesses in the manufacturing sector."

Kick-start

In his address, Stals acknowledged that government and the Reserve Bank — with its special powers to create money — were being urged to "kick-start" the economy.

Stals signalled a continued tight monetary stance over the short term by restating his view that, taking account of the persistently high rate of inflation, SA interest rates were relatively low.

Stals forecast a current account surplus of R5bn-R6bn for this year and one of R3bn-R4bn for 1992 and envisaged a continued decline in net capital outflows, from last year's R2,9bn to possibly less than R2,5bn this year.

Fixed-maturity foreign loan repayments next year added up to less than $1bn — less than the expected current account surplus.

Industrial Index set for even greater heights

By AUDREY D'ANGELO
Business Editor

THE Industrial Index could still appreciate from its present high levels to between 4600 and 4800, Southern Life MD Jan Calitz told the FM investment conference in Johannesburg yesterday.

He pointed out that, in spite of discouraging factors such as "township violence and destruction of horrifying proportions", the prolonged economic recession and lower earnings by a number of leading companies, the JSE Industrial Index reached an all-time high on Tuesday.

It had appreciated by 53% over the past year.

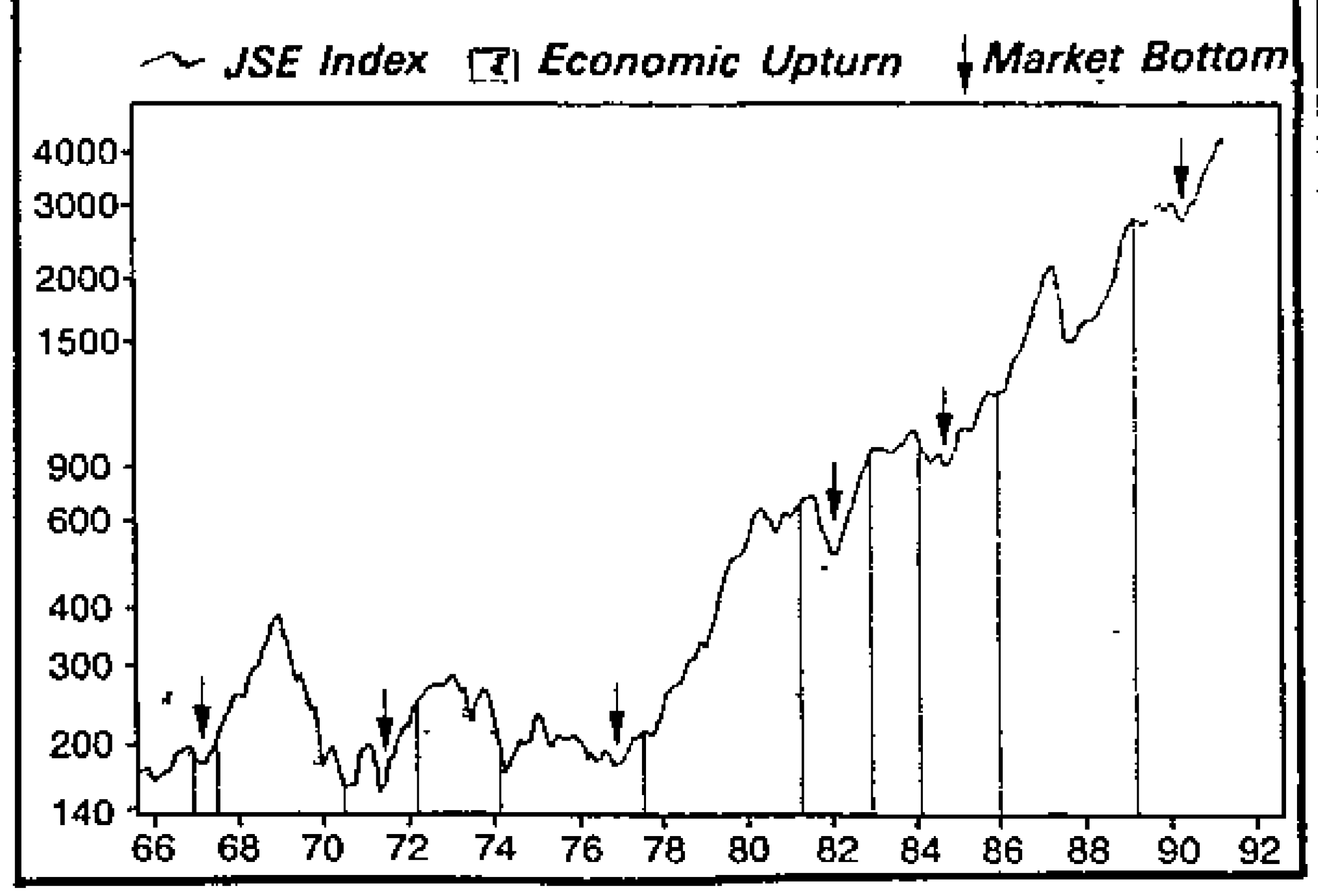
On historic yield criteria the index could not rise much further. The current dividend yield was distinctly low by local market standards. "In fact this yield has been lower on only two previous occasions — in 1969 (1,4%) and in 1987 (2,5), immediately preceding substantial bear markets.

The current price earnings ratio was also in relatively high territory, exceeded only in 1969, 1973 and 1989.

But, Calitz continued, "although relatively high in domestic terms our SA industrial market is not out of line when compared with the London Financial Times industrial index and is substantially below the p/e ratio of the Standard and Poors industrial index which currently exceeds 20."

Pointing out that the US and UK economies were now recovering, Calitz said "the expected higher growth rate in the developed economies of 2,5% and the expected hardening of commodity prices augur well for a more buoyant economy — in fact, a new upturn, in SA next year."

JSE - Industrial Index



Rising net reserves and the sound monetary policies being followed by the Reserve Bank implied "a relatively undramatic weakening of the rand in the year ahead to perhaps R3,15 to the dollar at the end of 1992."

A reasonable growth rate of from 2% to 3% was attainable in 1992, with 3% plus likely for 1993.

Calitz said SA had experienced six independent growth cycles over the past 25 years. And the Industrial Index anticipated the start of an economic upturn every time.

"If this pattern continues there is more than a reasonable expectation of further appreciation from the current level of industrial share prices."

A shortage of scrip, and the growth of contractual savings in the form of life assurance premiums and pension and provident fund contributions, meant that huge institutional cash flows would be assigned to equity investment.

State-administered funds totalling tens of billions of rands would increasingly be invested in equities.

This meant that "industrial share prices have the potential to rise still further over the next 12 months."

Forget about Christmas cheer

CT 1/11/91

(49)

Own Correspondent

PRETORIA. — Record consumer debt levels and widespread and worsening unemployment virtually rule out the possibility of a bumper Christmas season, according to the Information Trust Corporation (ITC).

ITC director Richard Stothert said retailers would be fortunate if they achieved last year's level of Christmas sales in real financial terms.

"As business and consumer confidence is at its lowest level for years a bumper Christmas is a remote possibility indeed".

Asked whether stores would tend to accept the risk of stretching credit limits to boost sales, Stothert said: "This is unlikely in the face of record debt levels, a two-and-a-half-year-long recession, high and rising unemployment inflation levels of 16% and interest charges of between 20% and 29%.

Stothert said ITC's Johannesburg office had been inundated with enquiries recently — indicating merchants were investigating applicants' creditworthiness more closely.

This was a reaction to the record level of civil debt judgments and the steep rise in the number of sequestrations.

"The jolting fact was the record number of civil judgments for consumer debt reached in July — a total of 45 800 judgments, an average of 2 100 every working day."

This was why many South Africans faced the Christmas season burdened with reduced disposable incomes.

Consumer demand for credit therefore was likely to remain low.

The 13th cheque or bonus payment would likely be used to reduce existing debt rather than to purchase more goods on credit, Stothert said.

Absa economist Adam Jacobs agreed it was unlikely total Christmas consumer spending would rise in real terms.

In fact, he said, there could be a slight decline.

During the year unemployment had increased and after tax salary and wages had been viciously eroded by inflation.

Jacobs said there was just not enough money in consumer's pockets to support any significant increase in Christmas spending.

Debt had also piled up during the year at an unprecedented rate. He believed too the stores would be extremely discriminating in granting credit.

Stellenbosch University Bureau for Economic Research head Ockie Stuart expects consumer spending over the Christmas period to be on much the same level as last year in real terms.

An optimistic view, he said, was there could be a slight increase.

MY WAY

With Khulu Sibiya

Awakening of Prague

C/Press 1/12/91.

(49)

City Press editor Khulu Sibiya gives his impressions of a recent conference he attended in Prague, Czechoslovakia, which was organised by the Mont Perlin Society.

THE taxi driver summed it all up for me: "We don't want to hear anything about communism. No sir, not anymore."

The 60-year-old Czech has seen it all in his lifetime under socialist and communist rule in this once beautiful city of Prague.

"Let us talk about the 1989 revolution and what it has done to my country and my people," he insisted.

He was referring to the 10-day bloodless coup of November 1989 when the masses of Prague revolted against the communist rule.

"Today I make more money as a taxi driver than I ever dreamt I would in my lifetime, and you know why? Because there are more people coming and going in Prague today," he said.

He pointed at buildings that were once the showpieces of Prague, before Stalin clamped down hard and snuffed out the country's democratic traditions through repression and intimidation.

"No, my friend, let us not talk about the past, it brings sad memories," he said.

Observed Judy Dempsey of the *Financial Times* while I was in Prague: "The Czechs and Slovaks are shaking off a long and heavy sleep."

That sleep, which was briefly interrupted during the Prague uprising of 1968, was one of the most unpleasant episodes in post-war central and Eastern Europe.

It is now history to talk of Stalin's autocratic rule, a rule that systematically destroyed Eastern Europe. In Prague, it is reported that half a million of the country's economic and intellectual elite were summarily sacked in 1968.

Many fled the country, while others were forced to clean windows and stoke furnaces.

You have to see the country and talk to its people to believe what it was like to live under communist rule. Prague, once one of Europe's most beautiful capitals, is slowly waking up.

Every person you meet in Prague talks gleefully and proudly about the 1989 revolution. They want to forget about the past.

Their desire is to emulate Western Europe. They want economic prosperity and a stable democratic country. Housing and employment are the new priorities.

Big Western corporations, such as Volkswagen of Germany, are setting up plants in Eastern Europe.

The Mont Pelerin Society recently held a conference in Prague on the theme "In search of a transition to a free society". Socialism is clearly on the way out.

However, the pace of the transition differs from one country to another. Addressing the conference, Czechoslovakian Finance Minister Vaclav Klaus said changes had to take place gradually

It was clear to me that the West would look to former communist countries to invest rather than Africa.

One delegate pointed out: "Africa, especially South Africa, is a risk country to invest in at this stage. You people have to solve your political problems first."

Critics also said the ANC's policy of nationalisation could chase away investors.

People like Joe Slovo must still explain to us why they think communism would work here when it failed in these countries.

A little ray of sunshine on the horizon?

(49)

C/Press 1/12/91

MONEY TALK

RESERVE Bank Governor Chris Stals had good news about the economy during the past week.

He said at a media briefing in Pretoria that the various pieces of the South African economy were falling into place for the first time since he took office two years ago.

Producer prices, private spending, wage levels, bank credit and the total money supply were all moving in the "right direction".

To the embattled consumer and businessmen of South Africa this is a breath of fresh air after so many months of depressingly bad news.

Hopefully, the "right direction" means that we shall see real growth in our economy for a change, resulting in an increase in the number of jobs.

Seeing thousands of people, including highly qualified top executives and chartered accountants, literally walking the streets in search of jobs is demoralising to say the least.

What are are our chances of growth?

Most economists believe that, while tough conditions will prevail for a while, one can accept that the economy is set for a cyclical revival that could well produce a real growth rate of two percent in 1992 and three percent in 1993.

Some economists are even more optimistic.

They believe South Africa has the potential for an upswing as strong as that of the 1960s, which could last at least into 1994, with rates as high as five percent.

Political and economic management of a high degree will be required to attain even three percent – so perhaps one should regard this as the limit.

Yet South Africa does have the underlying governmental, political, union and business skills, plus plenty of international goodwill and encouragement, to aim high.

For instance, if one looks below the political hype, it is difficult not to notice that consensus on certain key issues is developing far more rapidly than hoped for even a few months ago.

Where will this growth occur?

There are indications that we are likely to experience, for the firt time in many years, an investment-led recovery which should pave the way for a healthy improvement in the number of jobs.

In turn, this would lead to a rise in the buying power of consumers.

One of the most promising areas for growth is the huge injection of national resources into black housing and education.

This process should gain substantial momentum during the next few years.

Apart from State development programmes for lower income groups there is a growing number of non-governmental schemes providing help in housing, electrification, health services and education.

Another area of growth should develop as a result of rising exports.

These can be expected to make new markets become available due to the lifting of sanctions and an improvement in the international economy.

There are many "ifs" and "buts" in the above scenario. But, as Stals stated, the pieces are falling into place.

So we may just be lucky and enjoy a few prosperous years for a change.

Monopoly claims against Anglo are designed to deceive

BiFcy 1/12/91. MICHAEL O'DOWD (49)

IN THE debates about the SA economy, it is not uncommon to hear the Anglo American Corporation called a "monopoly". What the ordinary reader probably does not know is that the word is used in a Marxian sense and that in Marxian newspeak a monopoly does not mean a monopoly.

A monopoly capitalist is a capitalist that the speaker does not like, that is to say, any capitalist, and it does not mean that the capitalist has, or might have, a monopoly of anything at all.

Whether those who use this terminology are always conscious of the fact or not, the purpose of this peculiar use of language is to deceive. The ordinary person knows what a monopoly is, and knows why monopolies are objectionable. The purpose of calling things monopolies is to make people believe that they really are monopolies, even when (as is usually the case) they are not.

A monopoly is an organisation that controls so large a proportion of the supply of a particular thing (or service) to a particular market that it can fix the price to suit itself, and those who want the thing have no alternative but to deal with it.

It can not only charge excessive prices and make unearned profits; it can treat its customers with contempt (like the Post Office used to do before commercialisation), use unfair methods of debt collection (like the telephone service used to do), arbitrarily cancel people's reservations to make way for its pals (like the airways did when they had no competition), undersupply the market and have people queuing literally (like the shops in Russia) or figuratively (like the telephone service).

In the real world monopolies are quite hard to find, except in the hands of governments, where it is commonly a criminal offence to compete with the state-owned monopolies. In SA, Eskom, the railways, and the post office (in all its branches) are national monopolies, while the municipal light and water supplies are local monopolies.

Monopolies in the private sector are usually the result of government licensing. It is no coincidence that they continually crop up in the liquor industry, which is more strictly hedged around with licensing laws than any other. If you believe liquor should be expensive, this may not be a bad thing.

How much a monopoly matters depends on how easy it is to find a substitute for the thing that is monopolised. The ideal substance for a monopoly is salt, which is absolutely essential, and for which there is no substitute.

SA Breweries has a monopoly of producing beer, but it cannot (and does not) put its prices up unreasonably because for many people beer is in direct competition with wine and spirits. Road transport is in direct competition with the railways, so, for many years, the railways were given the power to suppress road transport through the notorious road transportation boards.

Where a group of independent producers get together and agree to act jointly as a monopoly, that is called a cartel. Opec is a cartel which worked for a while and then broke down, as cartels are inclined to do. De Beers leads a cartel of diamond producers, which includes the Russians. They are able to prevent the price of diamonds from fluctuating the way gold and platinum prices do, but the extent to which they can raise prices is very limited because diamonds are in competition with other gems, with gold and platinum, and, in fact, with all luxury products.

De Beers does lead a diamond cartel but, that apart, is Anglo American a monopoly? Here are the facts.

According to the 1991 annual accounts, 11% of Anglo's revenue came from gold mining. The freedom and volatility of the gold price, which all gold producers have to accept, is surely well known. Twenty per cent came from other mining, chiefly platinum, and the platinum price is only slightly less volatile than the gold price, if, indeed, it is less.

There are also other metals such as vanadium, chrome, copper and manganese. All are exported at world prices over which the SA producers could have no control, even if they acted together, which they do not. If they could control the prices, this would be beneficial to SA as Opec was beneficial to the oil producing states, but they cannot.

Twenty-five per cent of the revenue came from industry and commerce. Anglo's main interests in this field are:

☐ Highveld Steel, which operates in competition with Iscor, which is about nine times larger. Before the founding of Highveld, Iscor was a monopoly;

☐ Mondi Paper, which is one of two paper producing companies. Before Mondi was started, there was only one, which was a monopoly;

☐ AECI, which was once the only producer of explosives and many chemicals in SA but is now in competition with Sentrachem and Sasol;

☐ LTA, which is the second largest civil engineering construction company, in competition with one company larger than itself and numerous smaller ones; and

☐ SA Motor Corporation, which has a market share of less than 20% of the SA market, in competition with, among others, Toyota, Nissan and Volkswagen, not to mention General Motors, which is one of the largest companies in the world.

Twenty-one per cent came from financial services and property. The main companies here are FNB, in competition with three other larger banking groups and Southern Life, which is one of the smaller life assurance companies, in competition with, inter alia, SA Mutual (SA's largest company) and Sanlam.

Five per cent came from coal, where Anglo has a share of 24% of the SA market, in competition with several other groups of comparable size. In the domestic market more than 90% of the coal is sold to Eskom while about a quarter of the output is exported into one of the most fiercely competitive markets in the world, where coal from all over the world is competing with heavy fuel oil.

Finally, 18% came from diamonds, already mentioned.

So, De Beers apart, where is the monopoly? It cannot be too strongly emphasised that monopoly has nothing to do with size. A mom and pop store can be a monopoly in an isolated village, while General Motors, which for decades was the biggest company in the world, never was a monopoly, nor anything near one.

Almost all countries have laws against monopolies (always defined as I have defined them, not in the Marxian sense, or lack of sense) but by far the most rigorous of such laws are the American antitrust laws. Yet, until the past few years when a few Japanese companies joined the league, at any time this century all the world's largest companies were in the US. Quite small companies are sometimes prosecuted under the antitrust laws but the biggest, like General Motors, are not since, in fact, they are not monopolies.

The claim that very big companies will become monopolies because it is impossible to start new enterprises in competition with them is not true. When General Motors was founded, Ford had about 80% of the US car market. A few years later General Motors was larger than Ford.

In SA, Anglo started Highveld in competition with Iscor, and Mondi in competition with Sappi. It helps when a big company can stand behind the new competitor, but it does not have to be like when the United Tobacco Company completely dominated the SA tobacco market.

Liberty Life was founded in competition with the SA Mutual and Sanlam, two of SA's largest companies. Pick 'n Pay was founded in a single shop in Cape Town, with a capital of R400 000, when Checkers and OK Bazaars were established national chains.

For that matter, Anglo was founded, in 1917, when the SA mining economy was completely dominated, and had been for 30 years, by Rand Mines.

☐ **O'Dowd is an executive director of Anglo American.**

LETTERS

Welcome words, but they don't plan to spend more

S Times (Buss) 1/12/91. (49)

By TERRY BETTY

BUSINESSMEN have applauded President De Klerk's call. But none approached by Business Times is ready to invest any more than planned.

Premier Group chairman and chief executive Peter Wrighton says business should invest and create jobs. The transformation to a democratic society will be inhibited unless the economy grows strongly

Mr Wrighton says Premier has shown its commitment by voting capital expenditure of more than R500-million this year, rescuing companies in the group that were in trouble and stepping up its export business.

LESLIE BOYD: Take a leaf from the German book

BEN VAN RENSBURG: Political and economic uncertainty

EUGENE VAN AS: Lower interest rates would do a lot of good

Reasons

The Government must encourage consumer spending through the R220-million poverty relief programme. He recommends reducing interest rates of more than 20% that have applied for the past three years and hurt small business and new project decisions by manufacturers

Anglo American Industrial Corporation (Amic) deputy chairman Leslie Boyd says "neither lack of funds, the level of violence, nor political issues such as nationalisation and the future economic structure of the economy, have impeded the Anglo American group's investment in SA"

But he gives three reasons why it is difficult to identify investment opportunities:

- With the world economy in recession and no clear signs of a significant recovery, it makes no sense to build additional facilities when many plants are operating below capacity.
- The depth of SA's recession is intensified by tight monetary control in an effort to reduce inflation.
- In pure economic terms, the investment environment is poor and does not compete with many other countries.

Hands

The "kick start" in terms of tax is a step in the right direction. However, it applies only to exports and should be extended

For investments in Eastern Europe, the German Government allows for 50% depreciation in the first year, with 20% to 30% of the capital funded in cash by it. The investor retains 100% ownership in the investment, says Mr Boyd.

Murray & Roberts chief executive David Brink says President De Klerk's plea "is a timely and valid challenge".

"South Africans cannot wait for overseas investors. We must take our future in our own hands

"This does not imply that businessmen should gamble by investing where they are unlikely to get sound returns, but rather it is time to have courage."

Mr Brink says M&R is pressing ahead with its capital expenditure programme, but it is small — in hundreds of millions, not billions.

M&R is expanding capacity and has made acquisitions in the cement industry.

"This demonstrates our confidence in SA. While the situation is bleak, we have resources in hand to be key players in implementing the investment decisions of the large corporates"

Pace

Barlow Rand finance director Evert Groeneweg endorses President De Klerk's words, saying. "Anybody sitting on the fence will miss the bus

"In the past 10 years Barlow has invested about R10,3-billion of capital in developing and expanding its business, two-thirds of this being in the past five years.

"Our plans show this pace is likely to continue. In 1992 alone we expect to spend a further R1,7-billion.

"At least 50% of this has been expansion oriented This trend is unlikely to change even though SA's productive utilisation is only about 80%

"Barlow has also spent about R750-million in the past five years on research and development of products. It also invests in people and in the last financial year 74% of the permanent workforce underwent various forms of training."

Mr Groeneweg says all business should play its part. The burden of investing cannot be left to big business alone

South African Chamber of Business chief economist Ben van Rensburg does not believe SA will go the same route as Ghana — a possibility suggested by President De Klerk if business fails to heed his call

PETER WRIGHTON: Premier spending R500-million

"But Sacob and businessmen in general agree that not enough is being invested now when there is a desperate need for job creation and renewed economic activity

Exorbitant

"I place the ball in the Government's court One cannot expect business to invest when there is political and economic uncertainty.

"These factors, coupled with our high taxes and high inflation, mean businessmen require a high investment yield.

"In SA the average share earnings yield of listed companies is about 18% compared with 7% to 10% in many countries and 2% in Japan."

Dr Van Rensburg says businessmen will not invest more unless something is done to change the negative view of the investment environment.

The Government's economic policies are a bigger deterrent to investment than political factors

The Government should reduce taxes, bring down inflation and look at its spending through a microscope. If State spending falls, less tax will be needed and inflationary pressures will be reduced This would facilitate a drop in interest rates

Sappi executive chairman Eugene van As says the world is in a recession Low commodity prices have hurt SA, a major producer.

Market

Mr Van As believes businessmen have to look for growth through exports because SA's economy is stagnant

Sappi has three export-oriented projects on the drawing board

Lower interest rates would boost investment Real interest rates are not too high, but the nominal ones are exorbitant, making it difficult to achieve profits

Mr Van As says the economy is depressed and it is difficult to get excited about investing

Old Mutual chief economist Dave Mohr says businesses will not invest merely because President De Klerk asks them to do so It is difficult to see businessmen investing now when uncertainty about the future is affecting profits

Mr Mohr says businesses will start investing only after the upswing is under way He believes this will probably be from mid-1993, about a year after conditions start improving.

Sanlam senior general manager, investments, Ronnie Masson says businesses will not invest while there is so much surplus capacity. People invest when they need to increase production. But that is not possible when they do not have a market.

INVEST OR DIE

FW's blunt warning to business

S| Times (Buss) 1/12/91

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By CURT VON KEYSERLINGK

PRESIDENT De Klerk has told businessmen and industrialists to invest now to promote economic growth and employment — or risk the loss of their total investment in South Africa.

He told businessmen at the Sunday Times Top 100 Companies banquet in Johannesburg this week

"The total investment which you as entrepreneurs here represent tonight is at stake Not next year's balance sheet, not next year's profit-and-loss account Your total investment

"Unless we succeed in creating dynamic growth in this country we will not be able to live up to the aspirations and expectations of even the moderate and reasonable portion of our population

"Just as in the constitutional field, we have reached a crossroads in the economic field, and vacillation now may prove lethal later. Rational thinking coupled with an exceptional readiness for risk taking is needed now"

President De Klerk said that business and the trade unions should not sit back and wait for the Government. They must assume co-responsibility in achieving sustained economic growth

"The challenges of our time demand of you as entrepreneurs to think creatively, invest courageously and redefine your own particular part to some extent

"The same applies to trade unions Instability in the labour field destroys business confidence

"We cannot wait for the constitutional ship to berth before the economic ship sails As a matter of fact, we need the economic ship to break the waves if we are to succeed constitutionally

"And if ever there was a time when we needed the economy to perform, when we needed SA entrepreneurs to show their confidence in this country, it is now.

"I am not making an emotional appeal I'm making a business appeal And the appeal which I make is: show your faith and your confidence in this country and the country will reward you.

Fate

"Fail to do so and wait like Nkrumah for the political heaven to come first, then you might suffer the same fate as the entrepreneurs of Ghana.

"I am calling on you therefore to realise that in important business decisions we have reached a moment of truth We are at the crossroads Show your confidence This country deserves it"

President De Klerk said there was a view that sanctions, disinvestment and the withdrawal of loan funds from SA were the main causes of the economic dilemma and that removal of these restrictions could restore the potential for economic growth to 5% or 6% a year

People who believed this were making a serious mistake Although it was an important pre-condition for restoring growth, it did not provide any guarantee it would be realised

The inevitable conclusion was that SA and its peoples themselves had to take steps to ensure long-term prosperity and stability

"We have embarked on a tremendous undertaking — an undertaking which in many other countries has failed to realise that which was the goal initially But an undertaking nonetheless If we do not do it, we are sure of doom and failure

"We must do more than what is standard We must do more than merely applying the old trusted principles We are not living in ordinary times

"The goal should be to change rapidly to a new gear of high economic growth and employment creation We need to get a strongly growth-oriented economy going at full force and running on all its cylinders.

"Other countries have succeeded in doing so So can we"

PRESIDENT DE KLERK· Beware of Ghana's economic collapse

Metro fares up

Business Times Report

FARES on SA Rail Commuter Corporation's Metro services will increase by 15% from January 1.

The increase is needed to keep up with inflation and to improve cost coverage, says chairman Bart Grove S| Times (Buss) 1/12/91

Policing

"Fares paid by commuters will still constitute only 27% of the cost of providing the service"

Dr Grove says Metro fares will be cheaper than other forms of transport — up to 50% in some cases

The corporation will spend more than R250-million the period to March 19.. to secure stations for efficient policing

Another R18-million is bei.. spent in the current year on improving passenger facilities on stations and trains

The security programme has been speeded up and all 370 stations where Metro services are provided should be secure by March 1993, says Dr Grove

The Commuter Corporation says passengers can make big savings by buying season tickets

A

OF

The unaudited consolidated results of the G...

Note: The merging of the interests of the A... (formerly UBS Holdings Limited) as the ... those interests acquired from Sage Accordingly the balance sheet at 30 September 1990 cannot ...

Clouds lifting after tough year

(49)

S/Times (Buss)

11/12/91.

IT has been a difficult year for South African business. The recession has proved to be one of the most protracted on record, little apparent progress has been made in the fight against inflation and appalling violence, the "Inkathagate" scandal and the political atmospherics of feuding movements and organisations have further clouded the outlook.

Businessmen have been particularly frustrated by the reappearance of the tired old rhetoric of nationalisation on the part of the ANC-SACP-Cosatu alliance just when it was believed that it was safely buried; by the inability of these and other movements to finally abandon sanctions despite the acknowledged damage they were doing to an already battered economy; and by the VAT-inspired but politically motivated two-day stayaway.

Yet beneath all of these troubling circumstances there are positive developments. These augur well for an environment which will provide greater domestic and foreign business opportunities

In spite of appearances, there is strong political momentum to formal constitutional negotiations. All the obstacles which were said to be preventing progress this time last year have been systematically cleared.

By MICHAEL SPICER, public affairs consultant, Anglo American

The ANC has held its congress, formally re-arranged its hierarchy and generally finds itself sufficiently confident to jettison delaying tactics

The PAC, too, fearful of missing the negotiation boat (let's give the tired train a rest) has hopped on board through the Patriotic Front

Tensions in the Conservative Party and the appearance of the "new right" herald a similar move and it can be confidently expected that when the formal constitutional talks begin, the CP will be there

Although there was a slight hiccup in preparations for the all-party/multi-party conference, a meeting can be expected early this month.

Rhetoric

There is a progressive closing of the gap between the parties on the issues of transitional arrangements and an elected consitutional forum.

But many people, including some observers who should know better, mistake the rhetoric of the political parties and organisations, which in recent weeks has been hotting up as the MPC talks become more imminent and as passions have been fuelled by Inkathagate, continuing violence and the stayaway, for a sign that the political process is in trouble.

No doubt the important ingredient of trust between the parties has been battered during the year.

But struggle as they will for advantage in the power stakes, an inescapable reality is Tina — as Mrs Thatcher would say, There Is No Alternative — in this case to a negotiated outcome

And while that is in process, some form of coalition rule binding the parties together is also inescapable Moralising and handwringing are neither helpful nor useful analytical tools.

On the international front, there has also been rapid progress.

That sanctions are yesterday's debate has been amply shown as country after country has welcomed South Africa back in the international economic community

The European Community, led by Britain, but delayed by Denmark, was first and was followed midyear by the critical scrapping of the CAAA by the Bush Administration

In October, equally importantly, the Japanese ditched sanctions

The result was that the Commonwealth and the South African parties it favoured had to recognise the irreversability of the trend and telescope the process they were proposing for the lifting of sanctions

Indeed, it is evident that the ANC leadership has become increasingly worried about the impact of continued sanctions on SA's weak economy No doubt the leaders' looming co-responsibility for the performance of the economy is a major factor

So it may be confidently predicted that formal economic sanctions will disappear next year — earlier rather than later

The scrapping of the Gramm Amendment, which prevents South African access to International Monetary Fund money, will be an important fillip for confidence.

Confidence, that vital ingredient of economic activity, has also been underpinned by SA's re-entry to the international sporting scene

Naturally, this has wider implications in helping to forge a sense of national unity and common values. Those politicans who have played a vital role in these moves deserve praise, and those sports administrators delaying the process require a kick elsewhere

In the meantime, the psychological boost to businessmen of their return to important markets has been mirrored by a strong export performance

Safto predicts even stronger growth next year as South Africans show that they have the entrepreneurial spirit to meet the challenges and seize new opportunities

Useful

In passing, this is one of the reasons why businessmen do not have to be as gloomy about the state of the economy as the analysis contained in the Nedperm scenarios sometimes suggests

Much useful restructuring and improved performances on several of fronts have been going on since the mid-1980s

As most business observers agree, the economic fundamentals for a recovery next year are still set fair

Indeed, it is in the field of helping the politicians to find a sensible framework of macro-economic policies that businessmen can and should make an important contribution

In my view, there is no need for kick starts or quick fixes — doing the right thing in terms of policy on a firm and sustained basis will allow the Government to pursue affordable poverty alleviation programmes and business to invest and create wealth

In this respect, the imminent advent of an economic forum, whether it is part of the APC-MPC, or a separate but parallel process, is to be welcomed

The forum will provide the opportunity of dealing in a sensible manner with the challenge thrown down by Nelson Mandela to businessmen to provide an alternative to nationalisation

Business' contribution will be to draw the debate away from theoretical or ideological considerations to pragmatic ones of what works and what does not in the real world

The politicians will find that business' essential optimism and preference for action more than words is a great asset in a time of transition when the population at large is looking for reassurance

Assurers full of life as shares rocket

S/Times (Buss)

11/12/91

By DAVID SOUTHEY, investment analyst, Edey, Rogers & Co Inc

LIFE-ASSURANCE shares are seen as good defensive investments when the industrial market is expected to underperform. That is why most brokers retained assurance shares on their buying lists for the first half of 1991.

But the industrial market did not underperform — neither did assurance shares.

The overall insurance index — including short- and long-term insurers — rocketed by no less than 62% from 1 500 at the beginning of this year.

South Africa faces crisis of identity

ST Times (Buss) 1/12/91. (49

BILL JAMIESON of the Sunday Telegraph in London, paints a depressing picture of a land in the torment of change

THROUGH the concrete canyons of Johannesburg came a burst of AK-47 gunfire.

Pools of blood, shattered glass, four corpses and 50 spent cartridges littered the floor of the First National Bank in the central business district.

Another day, another armed robbery: this time the gunmen were caught by helicopter-borne police.

It has become all too frequent an occurrence.

"We are," said First National's Gerry Christy, "now fighting a war."

A few blocks away in Commissioner Street, I was caught up in a demonstration of 10 000 Inkatha supporters with white head-bands and Zulu shields, protesting against township violence with an awesome command of the central streets of Johannesburg

Their average age was about 15 and each carried steel bars, or wooden staves, sharpened to a point A bystander said the staves were waved and carried for ritual purposes only. You could have fooled me

This is a city and this is a country in which the drama for its heart and future has reached a turning point. SA is not facing only great violence. It faces, unless action is taken, economic oblivion.

It is an economy of contrasts. Inflation is at 15%, prime rate is 20,25%, industrial output is down 4,2% and retail sales down 1,8%

The industrial index of the Johannesburg Stock Exchange, a hothouse created by exchange controls and restrictions on buying overseas equities, is soaring, Anglo American in the van

But there is appalling violence at Anglo's President Steyn mine in the Free State. More than 80 miners have been killed in tribal fighting — ostensibly over the introduction of 10% VAT — between the members of the Sotho tribe in the mine hostel and the Xhosa

The details, omitted by the press here, suggest a ferocity that almost defies belief.

Each evening in Johannesburg's central business district brings the sound of police sirens, an event now so commonplace as to barely figure in conversation. Businessmen are advised to leave the area at night — or stay in their hotels.

In the northern suburb of Saxonwold, the dinner party redoubt of South Africa's rich English liberals, the moment of truth dawned.

Famous for rattling their 22-carat diamonds and lifestyles in support of the liberation struggle behind high-voltage security fencing, 400 turned out for an anti-crime rally. It was like Glenda Jackson supporters in Hampstead throwing a benefit for the police.

The Democratic MP for Houghton (the constituency where Harry Oppenheimer lives) demanded that the Government and the African National Congress end "the terror of lawlessness".

He said the whites of northern Jo'burg were "as mad as hell and they're simply not going to sit back and take any more".

I looked across Pretoria from the top floor of the new Reserve Bank.

From here, the view of three economic dilemmas is sharply focused.

The first for Reserve Bank Governor Chris Stals is how to hold inflation in check in the face of vast social spending pressure: about 17,5-million people (47% of the population) live in households below the minimum living level of R695 a month. About R15 billion would be needed to raise these households to the minimum living level

The second dilemma is how, in the absence of rising gold and commodity prices, which have in the past lifted this country out of crisis, to kick-start the economy.

According to Johannesburg Consolidated Investment economist Ronnie Bethlehem, merely to balance off the increase in the economically active population here would require "a highly unlikely" growth in jobs of 4,2% a year and a staggering growth in gross domestic product of 13,1%.

That is a measure of the crisis ahead of constitutional talks this month.

But the real nightmare is that ANC statements about nationalisation and talks of "reviewing" foreign-debt commitments not only put the skids under foreign confidence but render absurd the notion of International Monetary Fund and World Bank millions heading for South Africa.

Given the $100-billion that the World Bank estimates will be needed for Eastern European reconstruction, what chance has Southern Africa?

Economists here are convinced a flood of capital and aid is a pipe dream until a radical economic strategy is devised, one that turns on its head every colonial socialist nostrum that has brought the rest of Africa to its knees.

Leon Louw of the Free Market Foundation believes that, if SA is to be spared oblivion, it has to become a low-tax, investment-attractive and entrepreneurially driven economy.

He believes no money will come until foreign investors can both earn competitive returns and remit them. Not only do exchange controls and tariffs have go to, but the ANC has to abandon "redistributive" taxation.

A corporate tax cut to 15% from 48% and the lifting of most blacks out of the tax net offer the best hope of creating more black employment. This would achieve ANC economic aspirations and turn SA into a powerhouse for the regeneration of sub-Saharan Africa

This is important for the West. SA provides 80% of our platinum, used in cleaning exhaust emissions. It has the largest reserves of gold, chromium, rhodium, vanadium, uranium and, through a joint venture between Gencor and Anglo American, is about to build one of the world's largest stainless-steel plants.

It provides 40% of Africa's industrial production and generates 60% of its electricity. If the lights go out in SA, they will go out across the sub-Saharan continent.

The lives of most Africans depend on SA not muddling through, but being a big success story.

What has fuelled the rise in the market is the privatisation of the Post Office pension funds which are now allowed to buy equities.

These are the funds the ANC would like to take into public ownership

Ironically, more Anglo American stock is now owned by the black National Union of Mineworkers than the Oppenheimer family.

The politicians have put more privatisation on the back burner. But it is impossible to see how anything like the social programme of a new government can be fulfilled without big privatisation receipts.

Above all, what is required is vision: the tribal conflicts that mar Alan Paton's "beloved country" need to give way to a greater sense of citizenship and a sense of the economic power Southern Africa could become.

The trouble with SA is that everybody knows what he wants. What really matters is a grasp of who they wish to be.

Give a people a sense of who they are, and there is no stopping them.

Aids 'no more impact on economy than gold'

Star 2/12/91 (49)

The South African economy would be adversely affected by the Aids epidemic, but the effect would not be disastrous, says Centre for Health Policy director Cedric de Beer. CARINA LE GRANGE reports.

Political violence, the price of gold, and the success of constitutional negotiations were all likely to have as great, or greater, effect on the economic future of South Africa than Aids, says health expert Cedric de Beer.

He was speaking after the publication of a report of the University of the Witwatersrand's Centre for Health Policy last week entitled "The Aids Epidemic: Beyond the Myths".

The report was based on research by the Medical Research Council's Dr Malcolm Steinberg and Metropolitan Life actuary Peter Doyle. It sets out to dispel three myths about Aids, Mr de Beer said.

The myths were about the doubling-time of HIV-infection, the assertion that there was "no limit to the spread of Aids", and the belief that South Africa's population would decline dramatically as a result of Aids.

The doubling time of a disease is the length of time it takes for the number of infected people to double. It had been predicted that from a base of 100 000 HIV-positive people in 1991, the number infected would be 12,8 million by 1995.

"The truth was that as any epidemic progressed, so the doubling-time increased ... by 1995 it will be about 36 months," Mr de Beer said. Slightly less than one million people would be infected by 1995.

From the doubling-time error, other inaccuracies followed. One was that there would be no limit to the spread of Aids.

The centre predicts that the epidemic would reach a plateau by 2010 if there was no change in sexual behaviour.

Mr de Beer said, however, that evidence showed that some change in sexual behaviour occurred once a significant number of people began to die from Aids. Should this happen in South Africa, the plateau would be reached in 2005, with about 18 percent of the population infected.

Worst scenario predictions were that the population would be reduced to a quarter of its present size by 2010, he said.

The evidence was that the population would continue to grow. He said a realistic estimate was that by 2005 the population would be about 53 million.

Mr de Beer said doomsday predictions undermined the recognition of the tragedy of Aids and the need to develop realistic steps to minimise its impact.

Love and Aids . . . Cindy and Jack, two actors in the educational drama group of the Johannesburg Health Department, yesterday entertained visitors to the Zoo Lake with their play on Aids to commemorate World Aids Day. Picture: Karen Fletcher

Critical need for national enterprise strategy

THERE is a desperate need for a national strategy on entrepreneurship and small and medium enterprise development to be formulated in South Africa, says SBDC MD Ben Vosloo.

Small and medium-sized enterprises (SMEs) are a dominant force in the successful economies of the world — their optimism and spirit carrying many far beyond the expectations of more conservative individuals.

They are also flexible and easily adaptable to changing market opportunities.

They require limited capital, can combine simple and advanced technology while being generally labour intensive and hence able to contribute to job creation.

SA is in a situation where it needs both economic growth and employment creation to overcome its economic problems. (41)

SBDC economist Edwin Basson says although there is an interaction between the two processes, the strength and causality of the relationship is uncertain.

In other words, government's strategy that increased exports will promote economic growth is fair, but will not solve SA's high unemployment.

Conversely, the view that growth through redistribution will increase employment, which through consumption expenditure will lead to economic growth, is also not sufficient. B/Day 2/12/91

An approach that will address both problems simultaneously is needed, Basson says. 2/12/91

Over the last 10 years, most of the economic growth in SA emanated from SMEs and 65%-75% of all employment opportunities came from them.

To promote economic growth, SA must choose a trading market in which it has a competitive, rather than comparative, advantage.

Africa is the most obvious target. It needs wool and cotton, pulp and paper, basic chemicals, glass and glass products, basic iron and steel, non-ferrous metals and other manufacturing materials.

These industrial sectors in SA are dominated by SMEs.

Vosloo says it is no exaggeration to say the overall health of the SA economy depends largely on dynamic entrepreneurial activity in the SME sector.

CAPE TIMES 3/12/91

State-run economy 'to uplift blacks'

Own Correspondent 49

LONDON. — The ANC is reported to want to retain virtually unchanged the highly centralised state-controlled economy in South Africa, to uplift blacks.

In a report in the Guardian yesterday, Professor Vella Pillay, a London-based ANC economist, is quoted as saying that the existing system may need "hardly any changing".

According to the report, Prof Pillay "seems to suggest" that the vast civil service infrastructure established under the Nationalist government to uplift the Afrikaner could just as well be used to serve the black cause.

It quotes him: "We cannot understand why objections are raised to an ANC policy which seeks to employ similar instruments of state invervention to make inroads into the problems of poverty and inequality which we inherit from our country's ignoble past."

The Guardian correspondent says, however, that this argument "fails to address ... the fact that many of the problems which the ANC will inherit from the National Party have been caused precisely by the government's wish to uplift its own people — namely a vast and expensive bureaucracy, centralised, inefficient national services and high taxation".

ANC economist Mr Tito Mboweni is quoted as saying that even reducing the number of employed could be costly to a new government, because civil service employees would need redundancy payments and would still be locked into costly pensions structures.

Weekend talks revive hope, says Soal

BILLY PADDOCK

THE weekend's preparatory talks had created a new opportunity for reviving hope in SA's future and they boded well for the economic outlook and a reduction of violence, DP southern Transvaal chairman Peter Soal said last night.

Speaking at the year-end meeting of the regional council, he said the style and positive attitude in which parties had participated in the talks gave a lot of hope for the Convention for a Democratic SA later this month.

"This is what is required to restore confidence in the business sector. It will encourage investors to return and help create jobs and take millions off our streets and put them in employment," Soal said.

He said the hope created and the degree of unanimity achieved at the talks would help "put a spring back into the step of the average citizen".

He did not want to suggest that all the tension was over.

"But political accommodation will lead to economic revival which will reduce the violence. That is reason enough to revive hope that our country will be an attractive place to live," he said.

He said there was reason for hope in the positive way delegates took part in the discussions and sought to influence decisions.

"I'm not suggesting the drama has ended, but there is reason for hope in the way in which delegates participated in the discussions and sought to influence the decisions."

SACP spokesman Mtutumzeli Matshoba at the news conference in Johannesburg yesterday where the party presented its draft manifesto. Picture ROBERT BOTHA

Socialism not on agenda yet — Communist Party

BDay 3/12/91 (49)

TIM COHEN

SOCIALISM is not immediately on the agenda in SA, says the SA Communist Party's draft manifesto to be debated at its 8th congress this week.

The adoption of the manifesto, which is intended to set out the SACP's vision for the future and give the party a new direction following the collapse of socialist countries, will dominate discussions at the congress.

Representatives from communist parties in 16 countries, but none from eastern Europe, have accepted invitations to the four-day congress beginning Thursday.

"Given the present balance of forces nationally and internationally, in the immediate aftermath of transition there will be a mixed economy in which the capitalist sector continues to occupy a significant place," the draft manifesto says.

But it adds that there must be a widening of economic democracy "in which there is growing popular control over economic planning, production and distribution".

"As long as the commanding heights of the economy of our country are monopolised by a small group of powerful capitalists the deepening and defence of democratic gains will be limited and under constant threat."

The draft also criticises the "emerging socialist countries" in eastern Europe, stating that despite their "awesome difficulties", there was no justification for these countries' "criminal violations of social justice".

The draft also criticises countries in the region for intensifying their problems with premature and artificial attempts to collectivise and for "a dogmatic intolerance of religion and ethnic traditions".

But it also slates capitalism, charging it with having failed humanity and calls for democratic socialism.

Economy set for a poor Christmas

B/Day 3/12/91

LINDA ENSOR

CAPE TOWN — Economic conditions, particularly consumer spending, will remain weak for several months and a poor Christmas seems a certainty, says the Board of Executors' (BoE) latest Investment Outlook.

Pronouncements about an imminent upswing were premature.

"Volume growth in such basic items as bread, maize, sugar, beer and tobacco has recently either slowed sharply or even turned negative — a sure sign of really hard times," it said.

"With the level of wage increases now dropping sharply, unemployment still rising, fiscal drag continuing to take its toll, and no significant relief likely in terms of lower interest rates, we anticipate that consumer spending will remain weak well into next year.

"Even the anticipated post-VAT bounce in spending on capital and intermediate goods does not appear to have materialised to any significant degree, presumably influenced by the generally low level of confidence and high level of uncertainty."

However, senior portfolio manager Rob Lee said conditions for a long and healthy economic upswing continued to fall into place.

GDP had started to rise, agricultural conditions had improved, exports had been buoyant, state spending had been high and destocking had fallen off.

Another beneficial result of the continued economic weakness had been that inflationary pressures were being seriously eroded.

"Money supply growth is no longer 'financing' a 15% inflation rate, and it is only a matter of time before consumer price inflation moves to lower levels as well.

"An inflation rate of close to 10% by the end of next year or early 1993 now seems achievable, providing the Reserve Bank does not allow itself to be panicked into a too rapid reduction in interest rates next year," Lee said.

He added that the first significant cracks in the high level of inflation expectations were developing.

Lee said an encouraging sign was private sector plans for a significant increase in capital expenditure in the next two or three years.

"The potential for an economic recovery powered by private sector investment is greater now than it has been for many years."

Regarding the stockmarket, Lee said it was trading at historically high rating levels and a solid rising trend in company earnings was necessary before any further significant rise could be justified.

Since this would take some months to develop, "the market remains vulnerable to weakness in the short term. Barring unforeseen disasters a major downside correction to the market is unlikely to occur", said Lee.

He was cautiously positive about the merits of gold share investments and said a cyclical bull market in long bonds seemed to be under way with well selected property investments remaining attractive on a longer-term view.

A clear upswing in the international economy should be developing by the second half of next year.

Lee predicted an average economic growth rate of about 2,5% for the industrialised countries next year compared with 1% this year.

Pik Botha: Economic health the key

(49) ARG 3/12/91

The Argus Foreign Service

NEW YORK. — The key to future political stability in South Africa was the earliest possible regeneration of the economy and this necessitated the lifting of sanctions, the government has told the United Nations.

A letter addressed to the secretary-general and signed by Mr Pik Botha, Minister of Foreign Affairs, emphasised the inconsistency in the United Nations of members complaining about low economic growth, high unemployment and poverty while simultaneously advocating constraints on the economy.

"Retarding economic growth in South Africa will inevitably have a negative impact on the entire region," Mr Botha said.

The maintenance of UN sanctions and continued isolation of South Africa were "particularly inappropriate in the light of the generally acknowledged real, profound and irreversible changes that have taken place."

Publication of the letter in a UN document coincided with the opening of the annual debate on South Africa and apartheid in the UN General Assembly yesterday.

South African diplomats hope the progress made since last year in implementing reforms in the country will be recognised during the UN discussions and be reflected in the voting on a final resolution.

They said they were encouraged by voting patterns already observed in two assembly committees. Three times as many states as last year opposed a resolution concerning South Africa in the decolonisation committee; a formerly routine allegation that South Africa was a nuclear threat was deleted from a resolution.

The excited atmosphere that marked the start of some past apartheid debates in the assembly was absent yesterday. As proceedings began there was a sea of empty places in the vast hall.

In a written report, Secretary-General Javier Perez de Cuellar again urged members to fine-tune their response to what he termed "the complex and delicate process underway in South Africa."

AHI calls for lower interest rates

The Arikaanse Handelsinstituut said yesterday it hoped the monetary authorities would react to market forces in the money and capital markets without discarding monetary policy, as speedily as possible.

AHI president Mr Attie du Plessis said in a statement it was clear the present sluggish tempo of economic activity, the good balance of payments situation and the improved money supply and inflation was increasingly being reflected in the interest rates on capital and money market rates. STAR 3/12/91

The problem South Africa faced, Mr du Plessis said, was how to rejuvenate the economy and to ensure the up-swing lasted long enough to sustain the neccessary economic growth and job creation — without stimulating inflation. (49)

Mr du Plessis said the business organisation was of the opinion that an important part of the solution to the problem lay in fiscal policy and suggested that a restriction or even a reduction in the authority's current expenditure appeared neccessary.

In this regard the AHI recommended specific action such as the reduction of taxation in favour of increasing expenditure.

While the AHI placed great importance on the IMF's criteria that the fiscal deficit before borrowings should not exceed three percent of GDP — these goals, given the present domestic economic situation should possibly be given a once-off lower priority than normal.— Sapa.

Economic future 'holds promise'

-ARL 3/12/91

By Magnus Heystek, Finance Editor /49

Robbie Williams, chairman of Tiger Oats, has some heartening views on what SA's economy could look like in the future.

Writing in the annual report, released yesterday, he has this to say:

"If we we delve beneath the current rhetoric and political posturing, I believe there are already distinct signals from the authorities, business, organised labour and other political parties that an overall economic strategy is slowly emerging which resembles the approach described by the World Bank as 'market friendly' and which it recommends as the route to sustainable development."

"Surely the failure of East European ideology is sufficient to convince even the most hardened socialist demagogue that nationalisation is pure folly."

According to Mr Williams competition with the minimum of government intervention is a key element in any sensible economic model and this implies deregulation of markets, a process which is already under way.

"These structural adjustments need to be accompanied by a sound and stable macroeconomic sector which in effect restores the confidence of the private sector, thus encouraging it to take new investment decisions which, in turn, create new job opportunities," he says.

Paramount in this process is an unrelenting attack on inflation.

"The authorities have continued to apply tight monetary policies throughout the year with the object of bringing down the domestic inflation rate to a level closer to the inflation rate of our main trading partners.

"Obviously this is required to maintain our export competitiveness and I believe this approach to be correct.

"Consequently, we welcome the detailed and thorough investigation into food price inflation," he says.

Mr Williams, however, warns that the immediate outlook for the economy is not exciting.

"That the economy is far from immune to the process of political adjustment is already evident.

"Nor can we expect any significant assistance over the coming year from what appears likely to be a sluggish world economy.

"Trading conditions therefore are expected to remain sluggish."

He adds: "These are not easy circumstances in which to make a forecast and while I remain catiously optimistic, the timing of the next economic upswing could be beyond 1992."

Govt plots strategy for change

BILLY PADDOCK

A STRATEGY to change the constitution without the need for a referendum is expected to feature high on the Cabinet's agenda at the three-day "bosberaad" starting today.

The meeting, to be attended by the Cabinet, Deputy Ministers and the four administrators at a venue outside Pretoria, will be dominated by planning for the first Codesa meeting on December 20.

The poor performance of the economy, the lack of domestic investment and the battle to restore consumer and business confidence in government's ability to arrest inflation will also be key points of discussion.

This is the final Cabinet meeting for the year and the last opportunity to plan a comprehensive strategy for the negotiations as President F W de Klerk will be away from his office until just before the Codesa meeting.

Government and the ANC had moved away from their hardline positions on the form of an interim government, and through bilateral discussions "a certain degree of convergence has taken place", one source said yesterday.

Apparently both parties want to avoid a referendum which could delay the process and result in heavy Budget costs.

Constitutional Development Minister Gerrit Viljoen has said government is prepared to change the constitution as early as next year if, through negotiation at Codesa, this is required He said if the changes were not fundamental they could be done through Parliament. However, if fundamental changes were needed government would be forced to call a referendum

The ANC has said the form of interim government it envisages will not require major constitutional alterations and it does not see the need for a referendum.

Yesterday sources in government and the ANC said the question of the form,

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Strategy

☐ From Page 1

powers and responsibilities of an interim government would have to be resolved at the first Codesa meeting.

Following the Codesa decision, a team of experts will be appointed to draft the necessary amending legislation, to be ratified by the second Codesa meeting before being put to Parliament. If the new legislation gets the go-ahead from Codesa, which is likely to be representative of all parties in Parliament except the CP, the changes are sure to be passed.

If a referendum becomes necessary, Home Affairs Minister Gene Louw has a draft Referendum Amendment Bill ready to be passed into legislation, giving blacks the vote. The only opposition to the Bill is likely to come from the CP.

In this respect, the bosberaad will also deal with strategy the NP will employ in February's by-election in Potchefstroom. The party will be going all out to win to ensure the CP does not use a victory there to bolster its bid to force government into a whites-only referendum or election.

(49)

Effective antitrust law needed to deal with monopolies

CP(M) 4/12/91

GREG WYNNE

JIM JONES's article "Creative taxes can topple pyramids and spread wealth" (Business Day, November 27) has touched on an extremely sensitive nerve.

His theory of a shareholder trust endowed with 1% of the equity of all listed companies on behalf of the lesser privileged is neither workable nor would it be effective. By his own admission it amounts to pure tokenism. Jones, however, addresses a critical issue of our time. That issue is the method of redistributing power from the small band of monopolists who control the economic resources of this country.

SA has historically been a monopolist's paradise. The economy has been dominated by a handful of individuals who have amassed family fortunes of gargantuan proportions. The power which these individuals wield is undoubtedly immense. One might argue there is nothing wrong with having so much power concentrated in so few hands and even, as does Jos Gerson ("Pyramid companies play central role in wealth creation", Business Day, November 29), that it is healthy.

Undoubtedly the association of a company with an individual of great wealth and power adds value to that company's stock. Monopolies also, however, tend to keep prices high and wages low. However convincingly Gerson may be able to interpret Anglo/De Beers chairman's fund-sponsored statistics, he does not address the real issue. That issue is simple: can we, as an about-to-be-born free market democracy, afford to allow the monopolies to continue pulling our economic strings.

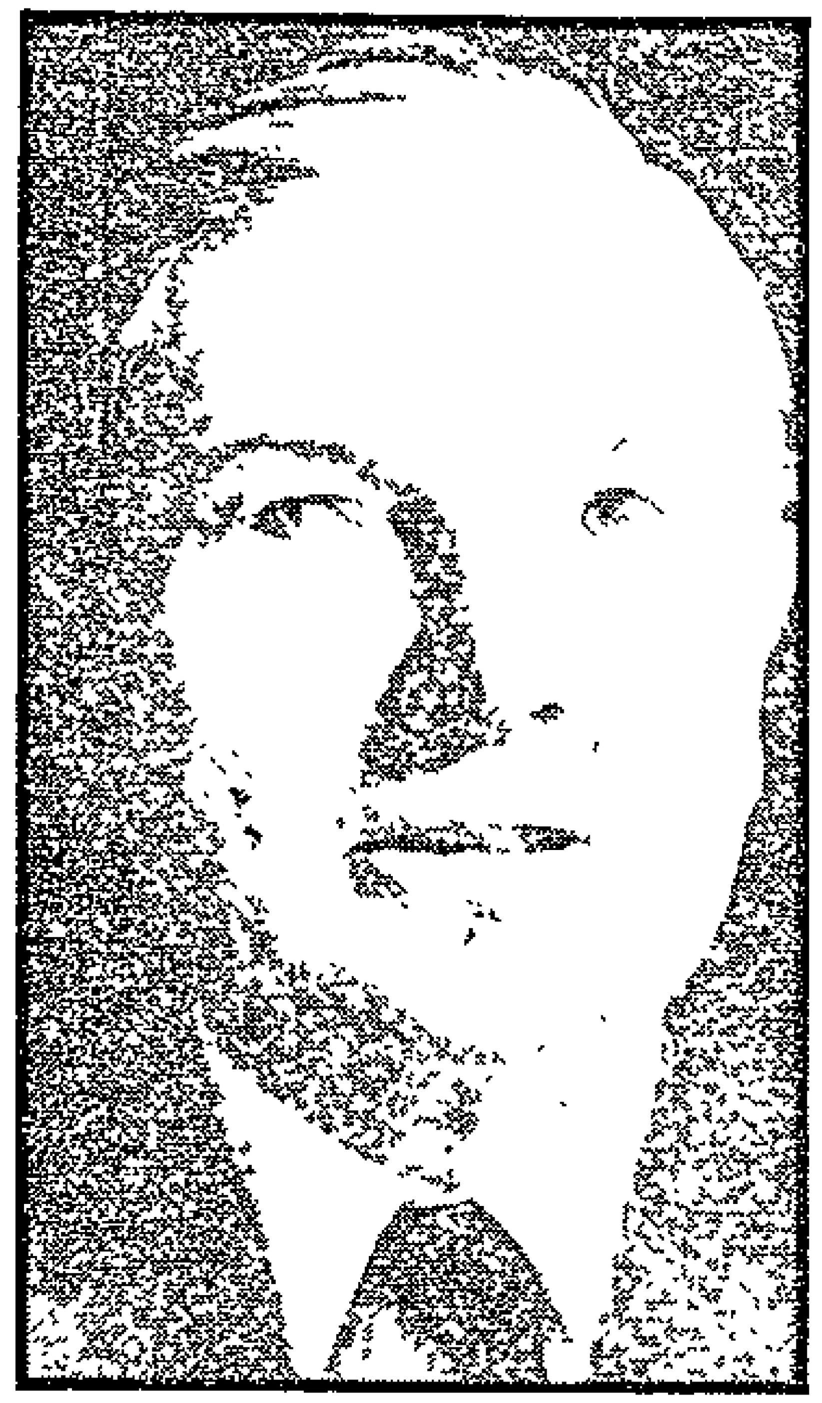
Constitutional systems throughout the democratic world are based on the philosophy of a separation of powers. This entails a split between the legislative, executive and judicial functions of government. Power in the executive is checked by the legislature which is in turn answerable to the people. The legislature (in a country such as the US but not SA), on the other hand, may have its laws declared invalid by the judiciary if those laws are unconstitutional. Judges are appointed by the legislature and may be removed by it.

So exist the checks and balances of democratic constitutions. The French philosopher Montesquieu (L'Esprit de Lois 1748), the Englishman John Locke and the Greek Aristotle were all proponents of power separation. They realised that the concentration of more than one class of function in any one person is a threat to individual liberty. Their ideas are the foundation of modern democracy.

The economy, even more so than politics, is a source of power. The American distrust of all forms of unchecked power led to the enactment of the first antitrust statute as early as 1890 (the Sherman Antitrust Act). The word "trust" here denotes restraint on competition and trade, including monopoly formation, cartels and the like.

In SA legal jargon, it carries an entirely different meaning. In the words of Senator Sherman himself: "If we will not endure a king as a political power, we should not endure a king over the production, transportation and sale of any of the necessaries of life."

The antitrust laws, among other things, give the American courts the power to make companies (or individuals) divest themselves of their interests in any particular industry if



DAVID ROCKEFELLER

the court can be convinced that that company is monopolising that industry. Thus, in 1911, the philanthropic Rockefeller family dynasty's Standard Oil Corporation was forced to divest itself of a large portion of its oil interests in order to break up the oil monopoly.

When ordering the breakup of the American steel monopoly in 1948, Supreme Court Justice Douglas formulated the rationale behind antitrust legislation most eloquently. He said: "In the final analysis, size in steel is the measure of the power of a handful of men over our economy. That power can be used with lightning speed. It can be benign or it can be dangerous. The philosophy of the Sherman Act is that it should not exist. For all power tends to develop into a government in itself. Power that controls the economy . . . should be scattered into many hands so that the fortunes of the people will not be dependent on the whim or caprice, the political prejudices, the emotional stability of a few self-appointed men. The fact that they are not vicious men but respectable and social minded is irrelevant. That is the philosophy and command of the Sherman Act." (US vs Colombia Steel Company.)

Many economists in the US believe that antitrust laws make an important contribution to economic health, and American leadership in the world economy tends to support this view. Gerson's dismissal of the antitrust legacy as a "disaster" is neither substantiated nor true. It would be highly offensive to modern antitrust lawyers.

Antitrust laws are the charter of freedom, the economic constitution, of a free market system. A free market without free competition is an absurd notion and it seems logical therefore that competition should be protected if one is to maintain the free market.

The only disaster in American economic history (the depression of the '30s) was caused by the government's failure to enforce the monopoly-busting policies of antitrust legislation during the '20s. It is widely accepted that the depression resulted from an overconcentration of economic power in too few hands.

The South African Maintenance and Promotion of Competition Act of 1979 has similar divestiture provisions to its US antitrust counterparts. It is unfortunate that the Competition Board (created in terms of that Act) has failed so dismally in its function. It is a papier-mâché Mephistopheles with no teeth.

The ambition of an individual to compete in trade and commerce is accepted as an honourable value in our society. The individual must be allowed selfishly to make a profit. This is a fundamental human right. It is also the source of energy which drives the wheels of industry. If left uncontrolled this highly explosive fuel may degenerate into unfair competition and to the beast destroying the best.

For this reason the industrialist competing in business, like the athlete striving for victory, should be required to play by the rules. The athlete may not take drugs. The industrialist may not monopolise. Monopolisation is against the rules. It is evil and we must put an end to it. There are two alternatives, the first being nationalisation, the other effective antitrust legislation. Gerson may well describe antitrust as disastrous; most reasonable South Africans shudder even to contemplate nationalisation.

Wynne is studying for an LLM in corporate law and is serving his articles at a Johannesburg law firm.

Dreaming of instant wealth

Sowetan 4/12/91.

(44

In many other countries on this continent there is another formula - become a State President.

The stories of legion concerning national leaders who have looted their State's treasuries or indulged in other fiddles and proceeds have been deposited in Swiss banks or invested in valuable property on the French Riveira.

As a variation in Zimbabwe the government has legislated for a reverse "redistribution of wealth".

Retired Presidents will now be entitled to a tax-free bonus of around R225 000 in addition to other lucrative benefits.

Those pushing for socialist-communist policies in South Africa should be reminded regularly thast in the so-called socialist millenium, it is only the ruling elite who acquire new-found affluence. For workers, the reward is only empty promises.

A SUTTON,
Pretoria.

SA business confidence on hold

Business Staff (49) ARG 5/12/91

THE government must guard against further economic decline by ensuring that consumer spending is maintained at least at current levels, says Chamber of Commerce (Sacob) economist, Dr Ben van Rensburg.

Also, the government must make certain in the next Budget that tax rates are adjusted for fiscal drag and that the benefits are passed on as soon as possible, he says.

Sacob's Business Confidence Index (BCI) suggests that businessmen have put their expectations on hold for the time being, though their mood might be slightly more positive than it has been.

The index (1983 equals 100) for November is 87,9 — only fractionally lower than the October figure of 88 and not much different from those for the preceding months of the year.

This lack of movement suggests that businessmen are in a waiting mood, unwilling to spend the money required to give the economy and the index a shove, but still spending enough to stop them from contracting.

However, despite the slight October fall, by straining a little one can detect a slight improvement in the business mood.

The main reason for the drop in the index was the VAT-induced jump in prices.

Dr Van Rensburg says that uncertainty about the future, together with difficult trading conditions, continued to depress the mood in November.

AHI on role of economic forum

BD 3/12/91

LINDA ENSOR

CAPE TOWN — The role of the economic forum should be to formulate fundamental economic principles and it should not be used as an interim instrument of government, Afrikaanse Handelsinstituut (AHI) president Attie du Plessis said at an Afrikaanse Sakekamer function yesterday.

"The AHI believes that an economic forum can only succeed if we can initially formulate a framework of principles which can form the departure point.

"How can we talk of a future growing and welfare-creating economy if an issue such as nationalisation is still being used as a political weapon," he asked.

Du Plessis said the AHI believed the first task facing the economic forum should be to attend to principles on which the economic system would be based in order to remove the uncertainty which might exist for domestic as well as foreign investors.

He said criticisms that the business sector was unprepared for a role in the constitutional process lacked foundation.

The AHI was involved in proper planning, he said, stressing the necessity for it to form part of the constitutional process

"The AHI is in deep discussion with other employer organisations and this includes ... the total spectrum of organised commerce and industry," he said.

"The approach of these organisations is that each should maintain its own identity ... that we ... give such attention to the interests of the business world by means of negotiation within the formal business community so that we can make a meaningful contribution to the multi-party constitutional process."

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Du Plessis said business wanted to form part of the constitutional process to ensure that the product of negotiations made provision for the business sector and was economically feasible.

"To achieve this the business community must ensure that we all know what we want and that all the political parties as well as the government know what our view is," Du Plessis said.

'Update fiscal approach'

ANDREW GILL

RELYING on outdated or ad hoc measures to guide fiscal policy will only lead to a further tightening of an already restrictive monetary policy, says Absa.

In its latest edition of Economic Spotlight, it said the alternatives to more restrictive monetary policy were higher inflation, ineffective investment, higher debt and lower growth.

There was an obvious need for a well-defined approach to fiscal matters in SA, with previous "budgetary norms" being either outdated or inappropriate today.

While it was obvious the authorities had an idea of what their policy targets were, they didn't necessarily know how to go about the business of pursuing them, the publication said.

A deliberate attempt to formalise the ends and means of public policy analytically might yield worthwhile results.

It might be advisable to adopt an explicit budgetary norm or a set of logically consistent fiscal rules.

These should place the "necessary constraint" on government's often politically motivated fiscal decisions and budgetary appropriations.

The authorities, above all, had to pursue fiscal discipline on the clear understanding that unrestrained government spending would increasingly crowd out private enterprise, undermine price stability and erode domestic savings.

Government's 1991 long-term economic strategy did not give examples of what fiscal discipline should entail.

Among others, it said the crowding out of the private sector from economic activity was to be avoided and public sector expenditure should not exceed a specified ratio of GDP.

Spending priorities should be identified and put into force, and the deficit before borrowing should not exceed public sector capital expenditure so as to avoid dissaving by government.

However, said Absa, what detracted from the strategy was its suggested "regular revision" of government's long-term spending policies, which in effect amounted to a constantly changing fiscal norm — "that is, no norm at all".

FOUNDED 1876 ☎ 488 4911 THURSDAY, DECEMBER

Top businessman in FW's new cabinet

49 CT 5/12/91

PRETORIA. — President F W de Klerk last night announced a major cabinet shuffle, bringing executive chairman of Gencor Mr Derek Keys in as Minister of Trade and Industry and of Economic Co-ordination.

Mr De Klerk also dropped the deputy ministership of Manpower and Tourism.

All changes and appointments will take effect on January 20.

He said the appointments were necessitated by the negotiation process and the death of Mr Louis le Grange

"Furthermore, in view of the phase now being entered with the negotiation process and the apparent high demands that will result on members of the government, it has become necessary to make further moderate rearrangements in the responsibilities of ministers," he said.

"The new constitutional dispensation we are working at can only be successful if it is backed up by a healthy and growing economy, which requires planning and co-ordination.

"In this regard, the death of Dr Wim de Villiers left a void and the need has again arisen to appoint a business leader with wide and applicable experience to the cabinet."

Other changes to the cabinet include Minister of Public Enterprises Dr Dawie de Villiers losing his position as leader of the House of Assembly, but retaining his current portfolio.

Mr Kobie Coetsee will no longer be chairman of the Ministers' Council, House of Assembly, but will retain his portfolio as Minister of Justice. The National Intelligence Service has also been added to his ministry.

General Magnus Malan takes over from him as chairman of the Ministers' Council, and Minister of Correctional Services Mr Adriaan Vlok has been appointed Leader of the House of Assembly in place of Dr De Villiers.

Mr De Klerk said he was also appointing Mr Vlok as Minister of Housing and Works in the Ministers' Council. He will no longer be Minister for the Budget in the council.

Dr Org Marais will serve as Minister for Administration and Tourism as well as Minister for the Budget in the Ministers' Council. The National Productivity Institute also falls under his jurisdiction.

Mr Piet Marais will have the Ministry of Manpower added to his portfolio.

To ease the burden on Minister of Finance Mr Barend du Plessis, his deputy, Mr Theo Alant, will serve full-time as Deputy Minister of Finance. He will no longer act as Deputy Minister of the National Intelligence Service.

Deputy Minister of Justice Education and Training Mr Danie Schutte now takes on the post of Deputy Minister of Justice and of the National Intelligence Service.

The posts of Deputy Minister for Manpower and for Tourism fall away, Mr De Klerk announced. — Sapa would have to combine their property interests and mining title.

He said the results from RM Props' gold sales and interest received were likely to fall and lower profits for the property operations were expected

Anglo chief has hopes for economic forum

BDay 5/12/91

MATTHEW CURTIN

THE single most important symbol of progress towards formal constitutional negotiation was the decision to convene last weekend's all party conference, Anglo American chairman Julian Ogilvie Thompson said in his interim review for the six months ended September.

He said Anglo's earnings climbed 21% in the period under review.

Commenting on the economy, Ogilvie Thompson said: "The need for certainty and stability in macro-economic policy has never been more urgent."

The proposed economic forum between government, political parties, labour and business could provide a chance to move way from the confused economic statements of some parties and to consider how best to realise economic growth and affordable poverty relief programmes for all South Africans.

"There will be a need to guard against pressures for populist quick fixes which will undermine long-term growth and stability," he said.

Printing error

A PRINTING error in an advertisement on Clicks' interim report yesterday resulted in borrowings being given as R473m. They were in fact R47,3m.

In a news report on holding company Score-Clicks, Clicks was inadvertently referred to as Checkers. The errors are regretted.

EXECUTIVE SUIT

Battle against communism has been won

Third World knocks on capitalist doors

(49

Sowetan 5/12/91

FOCUS

WASHINGTON - The United States and its rich allies have won the battle against communism.

But now they must show the developing world that capitalism can deliver the goods.

Poor countries are turning their backs on communism and embracing capitalism as they seek to end years of economic stagnation and bring some measure of prosperity to their beleaguered people.

Kemper Financial Services chief economist Mr David Hale says: "We have the potential over the next 10 to 20 years to have a truly global-market economy.

"The big challenge is going to be bringing the Third World into this arena."

This will require sacrifices by recession-hit rich nations, which must buy more from poor countries and slash their own spending in order to give to developing nations.

They must also forgive more of the R3,6-trillion Third World debt.

As countries from Romania to Nicaragua adopt capitalism, about four billion people will enter the global marketplace and compete for goods and capital.

That could lead to a new age of prosperity - or trade wars as nations jealously guard their turf.

European Bank for Reconstruction and Development president Mr Jacques Attali says: "Violent rivalry for territories and resources may well be the paradoxical result (of) . . . the disappearance of competing ideologies and the generalisation of the market economy."

African Development Bank president Mr Babacar N'Diaye says many Africans are already worried that their region will be pushed to one side as rich nations focus their attention, and their money, on helping eastern Europe and the Soviet Union.

He believes the answer is for Africa not to view Eastern Europe as a competitor for the West's scarce resources, but as a potential market for African goods.

Harvard University's Professor Robert Lawrence says: "This revolution is real and their (poorer nations') commitment is great. The issue is to make this change permanent."

The first challenge will be to bring a current round of international trade talks to a successful conclusion.

The talks - the so-called Uruguay Round - have dragged on for five years as the US and the European Community fight bitter battles over agricultural trade.

Many developing countries, seeking to revitalise their moribund economies, have already begun to open up their once tightly closed markets to more imports.

But economists say rich nations will have to respond in kind and knock down trade barriers against Third World goods, including farm products and textiles.

Both the US and the EC have recently signalled they believe an international trade pact could be hammered out before the end of the year.

Some economists, including Kemper's Hale, think it should not end there. Hale sees the need for another round of gruelling trade talks in a year or two.

The second challenge for the United States and its allies will be to try to ensure that demands for cash from fledgling capitalist countries do not trigger a surge in world interest rates, which would stunt global growth.

The International Monetary Fund has estimated that an extra $100 billion a year may be needed to fund economic reforms in eastern Europe and Latin America, plus the rebuilding of the Middle East after the Gulf War.

But that money won't be available unless rich nations like the United States and Italy cut back their big budget deficits and free resources for the developing world.

Washington's poor record for dealing with its burgeoning deficit, despite the exhortations of its allies and the IMF, does not engender much optimism.

Even cash-rich countries such as Japan, which has played a major role in funding Third-World development in conjunction with the World Bank, are starting to emphasise that their resources are not unlimited.

But the developing world is not powerless, economists say.

The West's awareness of environmental dangers posed by industrialisation of the Third World gives developing countries leverage in prying concessions from richer nations.

Concern about a possible flood of economic immigrants is another form of leverage. It is part of the reason why the EC is talking of granting trade concessions to eastern Europe - and the United States is discussing a free-trade zone with Mexico.

In May, rich nations set up a Global Environment Facility with the World Bank to provide money to poorer countries to limit ecological damage due to economic development.

"The next millennium will be terrible or magnificent, depending on our ability to limit our dreams," EBRD's Attali says.

"Not everything is possible, nor should be. We must have the wisdom to curtail our dreams." - *South African Press Association-Reuter.*

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New key to unlock the economic crisis

(49)

W/Mail 6/12 - 12/12/91

REG RUMNEY looks at the new man in the cabinet, Derek Keys

THE appointment of Gencor executive chairman Derek Keys (60) to a cabinet post is aimed at beefing up the economy in the transition from National Party rule to a new dispensation.

State President FW de Klerk said as much in announcing the appointment.

He also intimated Keys would take over the role played by former economic co-ordination minister Wim de Villiers. De Villiers himself was behind the major privatisation and commercialisation drives of recent years. Keys will be minister of trade and industry and of economic co-ordination.

What room he will have to manoeuvre in remains to be seen. The Value-Added Tax strike shows how sensitive the African National Congress and the union movement are to what they see as economic restructuring.

What Keys brings to the cabinet is likely to be substantially different from the contribution made by De Villiers, an autocratic figure from the Afrikaans establishment.

His business experience is wide-ranging and extensive. Starting off in auditing as a chartered accountant, he moved to the Industrial Development Corporation where he spent nine years. He then spent 20 years on his own as a financial and management consultant before being appointed to the top post at Gencor, a conglomerate with net assets of more than R17-billion. Under his leadership Gencor has come to be highly rated by the investment community.

Keys has not only established a reputation as an outstanding businessmen. In five years he has also changed the image of Gencor from that of an authoritarian Afrikaans mining house to that of an enlightened and forward-looking organisation.

KES old boy Keys' management style is characterised by delegation and devolution of authority.

He was once quoted as saying: "I applaud when the right decisions are made, but like a good Jewish momma, I let people know when I disapprove."

An insight into his thinking is his willingness to break up or "unbundle" Gencor into its constituent parts.

His comments on the now burning issue of inflation are also worth repeating. Noting how unsuccessful has been the attack on inflation, and that it has meant a loss of jobs in Gencor, he says: "The need to reverse the situation is urgent and the sacrifices can only be justified and maintained if prices stop rising at their previous rate."

Derek Keys

Controlling government spending, he adds, is an important prerequisite.

He can probably be expected to urge government to exercise some restraint in this area.

UCT sets up think tank on economic policy

(49) (54) ARG 6/12/91

HANS-PETER BAKKER
Education Reporter

A NEW African economic policy think tank has been established at the University of Cape Town

An agreement to set up the Africa Institute for Policy Analysis was signed by UCT vice-chancellor Dr Stuart Saunders and AIPA project director Mr Bax Nomvete.

The institute will be autonomous and have close working relationships with similar bodies at other universities in South Africa as well as elsewhere in Africa and abroad.

The main thrust of the institute, which is expected to start early next year, will be to undertake high-level economic and policy analysis; train policy analysts and researchers; publish authoritative studies and generate public debate on the important issues relating to South Africa's transition to a post-apartheid economy.

Its research agenda will focus on the integration of black people into the economy; South Africa's economic integration into Africa; and the relationship between the global economy and sub-Saharan Africa and South Africa.

It will also look at the economic experiences in Africa, examine successful economic policies elsewhere and make recommendations on economic policies that will best equip South Africa in particular and the rest of Africa in general.

Project director Mr Nomvete was born in Transkei and educated in South Africa and Britain. He spent the past 29 years working on African regional economic co-operation and development through the United Nations Economic Commission for Africa.

Keys 'exceeds anything govt has had'

CT 6/12/91

Political Staff (49)

PRESIDENT F W de Klerk's cabinet reshuffle has drawn mixed responses from political organisations, with most praise being reserved for the appointment of businessman Mr Derek Keys as Minister of Trade and Industry and for Economic Co-operation.

Democratic Party leader Dr Zach de Beer was particularly warm in his response to the decision to bring Mr Keys, Gencor's executive chairman, into the cabinet.

It would amount to a "formidable strengthening of government's responsibility in the finance and economic field".

His "extraordinary success in the as a private sector businessman ... vastly exceeds anything government has had before", said Dr De Beer. "Surely it cannot be long before the bungling Minister of Finance makes way for the expert Keys."

ANC Department of Information and Publicity member Mr Carl Niehaus said he thought Mr Keys was a natural successor to the late Dr Wim de Villiers.

"The main element appears to be preparing certain ministers for the demands of the negotiations."

Business has generally welcomed the move, with Sacob deputy director-general Mr Ron Haywood saying it would bring a "wealth of business experience to the cabinet".

The Conservative Party's manpower spokesman, Mr Frank le Roux, questioned the credentials of new Manpower Minister Mr Piet Marais. As far as he was aware, Mr Marais was not qualified for the portfolio.

Dr De Beer, however, hailed the appointment.

He said President De Klerk's decision to shed responsibility for the National Intelligence Service could, theoretically, have "sinister implications" in some circumstances.

There might be a suggestion that this would enable the Minister of Justice to build a security power base, "but in this case it is very unlikely".

Seifsa CE Mr Brian Angus said he had no doubt Mr Keys's appointment — which he described as an excellent development — would enhance economic and business know-how in government circles.

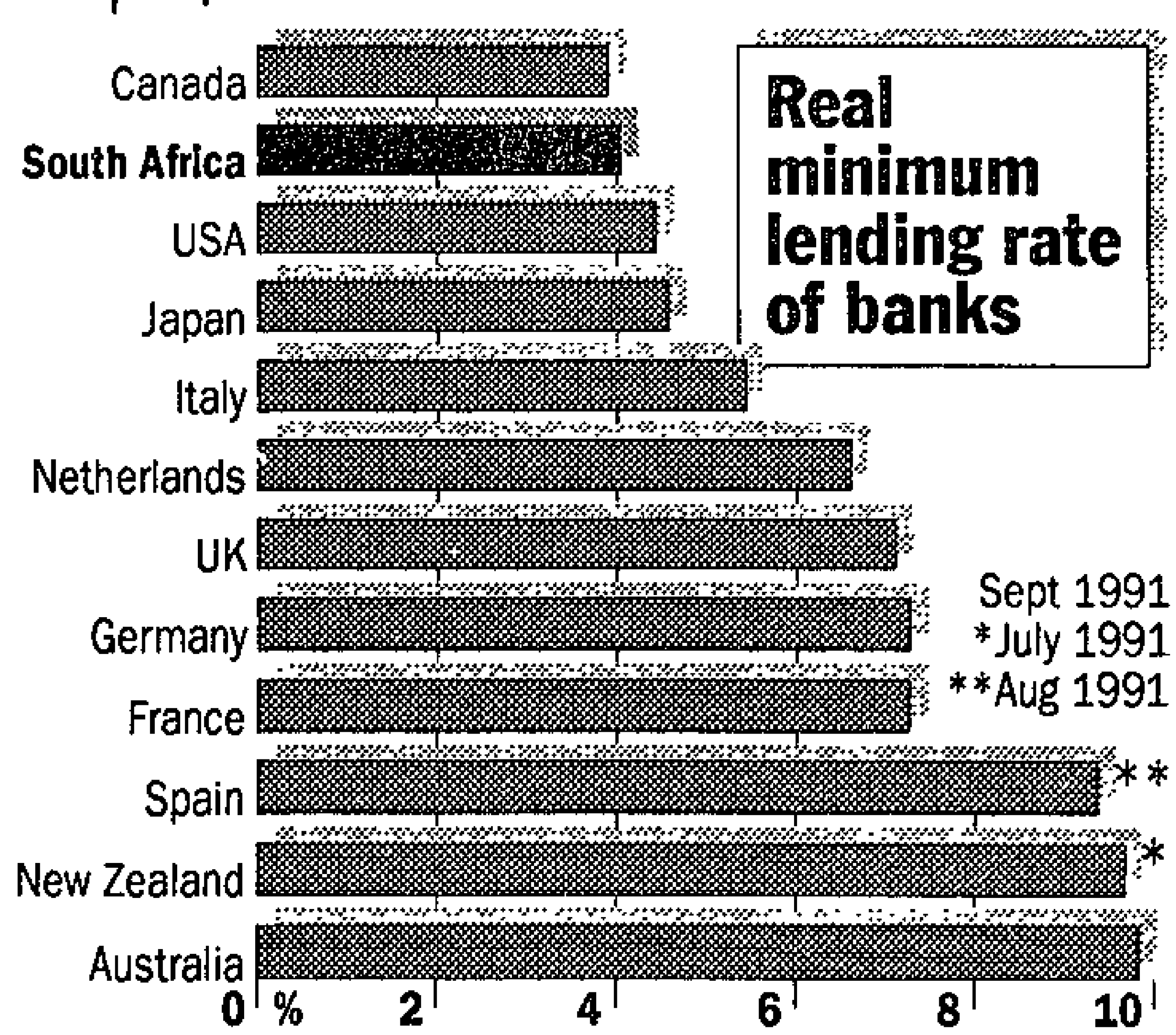
"Keys understands the problems and realities facing business."

IN CABINET ...
Mr Derek Keys

Worst may be over, says Reserve Bank

Star 6/12/91

By Derek Tommey 44



The Reserve Bank sees a slight improvement in business activity next year.

The forecast, which will be welcomed by the business community, appears in the Bank's quarterly bulletin.

Other points made include:

- The downswing in economic activity deepened in the third quarter, but aggregate real output rose marginally;
- There was a surplus on the current account of the balance of payments in the third quarter, equal to R9 billion a year, and there should be a surplus for the whole year of R6 billion,
- The real effective exchange rate of the rand declined 0,6 percent from last December to the end of September;
- The outflow of capital not related to reserves dropped from R2,1 billion in the second quarter to R0,1 billion in the third quarter;

Spending

- Net foreign reserves have risen by R5,9 billion since the start of 1990;
- M3 money supply grew in the eight months to October by only 8 percent annualised;
- South Africans have increased their rate of savings;
- The growth of credit to the private sector has levelled off; and
- Employment has declined more quickly than in previous recessions and there has been a decrease in year-on-year real labour costs.

The Bank says the economic outlook is moderately better than it appeared at the beginning of the year, adding that "a small postive real growth rate in gross domestic product will probably be forthcoming in 1992".

It says the more expansionary fiscal policy should contribute to a revival of the economy, as should the continued good export performance, the substantially improved economic and financial relations with other countries, and the current low level of inventories.

The Bank says monetary policy has remained fairly restrictive, with interest rates at moderately positive levels in real terms.

But fiscal policy in the first half of 1991-92 turned out to be more expansionary than was envisaged in the Budget.

This was caused by moderately higher-than-budgeted expenditure combined with significantly lower-than-budgeted revenue.

As a result, the Government's debt in the first half of the fiscal year amounted to 77 percent of the full year's estimated debt and was equal to 5,3 percent of gross domestic product.

Although the current downswing has been relatively mild, it has had a much severer effect on employment than any downswing of the past 20 years.

The Bank attributes this to

- The duration of the downswing and the fact that it followed a number of years of low growth;
- General uncertainty about political developments;
- Unrest;
- The high level of and still continuing sharp increase in labour costs;
- The "hassle element" associated with labour because of unionisation and politically motivated actions;
- Inefficient utilisation of savings and capital and;
- The rationalisation taking place in some sectors.

However, two results of the decline in employment have been a drop in real wages and an improvement in productivity.

This resulted in a second-quarter decrease in the year-on-year growth rate of real unit labour costs.

Gross domestic savings rose from 18 percent of gross domestic product in the first quarter to 19,5 percent in the third quarter, but still below the average of 23 percent in the 1980s and 25 percent over the past 30 years.

The ratio of personal savings to personal disposable income rose from just above one percent in the third quarter of 1990 to around two percent in the third quarter of this year.

This is encouraging, says the Reserve Bank, but is still very low, compared with the average of nine percent in the 1960s and 1970s.

Consumer spending fell at an annual rate of one percent in the second quarter and by two percent in the third quarter.

This, says the Bank, is the result of more modest salary and wage adjustments, continuing cutbacks in labour and lower profits of unincorporated business enterprises.

Although spending in the third quarter on services (medical, lawyers, travel and education) stayed relatively firm, that on consumer durables (cars, recreational and entertainment goods)) fell by eight percent annualised.

Reserves

Household spending on semi-durable goods (clothing) dropped 6,5 percent annualised and even spending on non-durable goods (mainly foodstuffs) fell by one percent annualised.

Government spending, which had risen sharply in the first half of the year, took a tumble in the third quarter, with an annualised drop of 24 percent.

Nonetheless, total spending was still nine percent higher than a year ago.

New investment tumbled, falling by an annualised 11,5 percent in the third quarter from five percent in the second quarter.

A clear indication that borrowing has declined, says the Reserve Bank, is that loans by financial institutions grew by only 14,1 percent (seasonally adjusted and annualised) in the seven months to September.

Business calls Keys right man for the job

PAUL ASH

BUSINESS leaders have welcomed the appointment of Gencor executive chairman Derek Keys as Minister of Trade and Industry and Economic Co-ordination.

Sacob applauded government strengthening the emphasis on a number of key economic issues. Keys's appointment would bring "a wealth of business experience to the Cabinet, strengthening existing bridges between government and the private sector".

Sacob deputy director Ron Haywood said: "Using people who have specialised knowledge is always an advantage."

Johannesburg Chamber of Commerce and Industry president Mike Kato said the appointment was a tangible recognition that the future of the country depended on both political reconciliation and the recovery of the business sector.

He said in a statement there was a desperate need for direction from government on the restructuring of the economy from one geared to import replacement to an export-development orientation.

The lack of direction and the collapse of business confidence had resulted in a decline of local investment.

"Mr Keys is the ideal person to spearhead the creation of such a direction and could play an important role in providing SA business with an integrated business development policy," Kato said.

Seifsa CE Brian Angus said he had no doubt Keys's appointment — which he described as an excellent development — would enhance economic and business know-how in government circles.

"Keys understands the problems and realities facing business," he said.

The Afrikaanse Handelsinstituut said it had been in favour for some time of greater co-ordination, which would aid economic growth.

B | Day 6/12/91

SA Institute of Chartered Accountants (SAICA) executive director Ken Mockler said yesterday: "It is a refreshing change to see senior decision-makers being chosen for their skills rather than their particular party affiliations."

See Page 14

Govt 'must ensure social investment'

BI Day 6/12/91

LINDA ENSOR

CAPE TOWN — Government would have to guarantee the payment of capital and interest on socially desirable loan investments which did not meet the criteria of security and return, Old Mutual chairman Mike Levett said in a statement yesterday.

"Such loans would in effect be off-balance sheet borrowing by government and could well be considered as an extension to the budget," Levett said, stressing that the assurer's primary responsibility was to its policyholders and pension fund members.

He said assurers did not have the skills or capacity to manage small investments such as home loans or small-scale entrepreneurial developments and that other agencies would have to do that.

Levett called for a lower tax rate which at its current level acted as a disincentive to growth. However, he said reducing the rate would require fiscal discipline and spending restraint as experience had shown that the option of expanding deficit financing lowered standards of living.

"The budget deficit should be dictated by and should not be greater than the level of investment spending by government, he said.

"Spending discipline will require substantial redistribution in favour of the less privileged. Such a restructuring will not be painless, but the benefits achieved should outweigh the negative aspects."

Assets of the society at end-June totalled R62,8bn. Total assets, including those managed on behalf of clients and unit trusts, stood at R72,4bn of which more than R42bn (70%) were invested in shares and property. In Zimbabwe, where Old Mutual claims over 70% of the market, assets were Z$4,7bn.

In the year to end-June total premium income rose 13% to R8bn with Old Mutual's market share rising 1% or 5% over the last five years. Total income amounted to R12,1bn with income from investments at R4bn. Benefits paid out came to R4,5bn.

Levett said during the year several large provident funds were placed with Old Mutual, which had secured the underwriting contract for a group life scheme providing cover for more than 400 000 workers with a premium income of R100m a year. (49)

Referring to the loss of money through embezzlement and fraud by members of Old Mutual's investment team, Levett said controls were being tightened.

He said Old Mutual was the largest life assurer in Africa and was market leader in SA, Zimbabwe, Namibia and Malawi.

To comply with legislative changes in Kenya which required that all insurers be locally incorporated, a Kenyan subsidiary, Old Mutual Insurance Co Ltd was being registered with 60% of the shares held by Old Mutual and 40% by policyholders.

Old Mutual's Kenyan policies, liabilities and assets would be transferred to the new company in 1992.

The Kenyan portfolio was closed to new business in 1975 for tax and other reasons, but there were still 4 000 policies on its books backed by assets of about R78m.

Former president of the Deutsche Bundesbank Karl Otto Pohl seconded the adoption of the annual report with a speech on the implications of German and European unification.

Keys has the vision to help shape a vibrant economy

B| Day 6|12|91

JIM JONES

(49)

HIS ARRIVAL at Gencor was a baptism of fire for Derek Keys. Within a few short weeks of his appointment, the Kinross disaster made the names of the mine and the mining house synonymous with all the perceived wrongs of SA's mining industry.

To his lasting credit, Keys used the public relations difficulties of Kinross to shake up a mining house staggering under management by committee. The previous hard line on dealings with the NUM was jettisoned along with old-style managers. And that was the start of a restructuring and a great deal of original thinking about the role of the mining house in the future SA.

Keys's main contribution was the concept of unbundling. The idea was that mining house pyramids were no longer altogether appropriate or necessary and that wealth could be spread more widely by handing over shares in financially self-sufficient subsidiaries to shareholders in the controlling company.

This unbundling proposal has yet to be fully implemented. Nevertheless it reflected SA's present Zeitgeist — a new confidence and security which did not need to be bolstered by monolithic control of the economy's commanding heights. Keys proposed for the business sector what President F W de Klerk is doing for the political one. Gencor has been restructured into divisions which can stand on their own — Genmin, Engen, Malbak and so on.

Keys has never been overtly political and certainly never overtly pro-government or pro-NP. He has never overtly used his position to appeal for special favours from government — something which must have been a temptation for other businessmen who have been members of the President's Economic Advisory Council (EAC). So his new appointment is, in itself, a restatement of the ruling party's new confidence.

Keys now has the opportunity to make his greatest contribution to the country — to introduce policies which can do at a national level what he managed at the Gencor corporate level. And, perhaps, the fact that Keys (like the late Wim de Villiers) owes no political favours and has no political constituency to keep happy will give him a freedom denied to other Cabinet Ministers who clawed their way up through the party.

Government's privatisation plans have ground to a halt, largely because of political considerations. There is little point in trying to sell state-owned assets to private investors while the ANC and other opposition groups are huffing and puffing about nationalisation or renationalisation. Our economy may be under strain. But we are not yet in the sort of economic shambles that forced the likes of debt-burdened Argentina or Mexico to privatise everything from airlines to telephone services. We may get there if the economy is mismanaged, but for the present we are a long way from the brink.

What our new Trade and Industry and Economic Co-ordination Minister will have to do is devise a means of privatising the "commercialised" state-owned enterprises without offending the government's political opponents. He has to persuade proponents of "redistribution" that privatisation represents the best means of redistribution open to any government. Perhaps privatisation has to

KEYS

be combined with an acceptable means of dismantling the corporate pyramids — the sort of unbundling Keys proposed for Gencor.

Privatisation, it would seem, is central to any economic restructuring programme which reduces the role of state. It is an essential accompaniment to devolution of power, though it is likely to be strenuously opposed by politicians who see control of the state-owned enterprises as a means of distributing patronage.

Keys introduced devolution of responsibility as part of his unbundling proposals. His divisional managers were given autonomy to run their businesses as they saw fit.

The political clout Keys can wield will be important. He has no grassroots support in the NP and relies for his appointment on the President. That implies difficulties if he is charged with curbing deficit spending by government. It is all too clear that the Reserve Bank's monetary policies alone are insufficient to control inflation. Private sector demand has been wrung out of the inflation equation, leaving government's deficit spending as the main driving force behind inflation.

Keys must forge new alliances fast, and they must transcend party-political boundaries. He transformed Gencor's labour relations philosophy. He has to transform his portfolios in a similar way. He has to take them out of the political arena. If that implies power-sharing in an interim government, so be it.

Power-sharing does not mean Keys has to ignore the needs of the business sector or even balance them against populist political demands.

…sent EAC, for example, is weighted in favour of government, business and civil servants. It does not draw, for example, on the experience or inputs of trade unionists. Perhaps that is a development Keys can suggest — which will help us towards consensus economics.

Economic restructuring needs to go way beyond privatisation. Special pleading has to be ignored, but Keys will need to define clearly the difference between industrialists' selfish interests and the need for incentives to make this economy grow. Gencor's own major developments have been export-oriented — Samancor's Columbus stainless steel joint venture with Highveld is a case in point.

But while the late Wim de Villiers espoused incentives such as curbs on rail and electricity tariffs to give SA exporters a competitive edge, Keys should be moving with the times and putting in place incentives for exporters and incentives to attract foreigners to invest in manufacturing here.

Keys will have to separate calls for incentives for businesses which will generate wealth from calls for protection from industries with little hope of ever being competitive. He will need to keep a commitment to healthy competition in mind and ignore calls for protection or subsidies which add to local prices and which inevitably affect our export competitiveness.

Special deals cannot be countenanced — special deals such as profit guarantees to sweeten privatisation terms which favour investors in privatised parastatals at the expense of all other South Africans.

The task is immense and only possible if Keys's contribution is to bring a technocrat's realism to the conflicting demands and extravagances of his Cabinet colleagues. De Klerk has shown a clear knack of putting the right people in the right positions — shunting aside the deadwood or inappropriate, and elevating those he believes can negotiate and structure a vibrant SA capable of offering rising living standards to everyone.

Keys will be pivotal in these plans.

Modest growth will redistribute white income to blacks — report

SHARON WOOD

RACIAL SHARES OF PERSONAL INCOME (%)	Whites	Coloureds	Asians	Blacks
1985	58,8	8,3	3,7	29,2
1990	53,9	9,2	3,9	33,0
1995 (2,5%)	48,5	10,0	4,2	37,3
1995 (4%)	47,8	10,2	4,2	37,8

AN URBAN Foundation report shows that even modest economic growth will redistribute income away from the white population to blacks in the next few years.

A recently developed Urban Foundation income distribution model projects at least a 4,3 percentage point increase in the black population's share of personal income by 1995.

The figure is based on an average growth rate of 2,5% a year until 1995, which lifts blacks' share of personal income to 37,3% from 33% in 1990. A more optimistic growth projection of 4% a year increases their share to 37,8%.

A clear redistribution of incomes away from whites is projected even at the modest growth rates assumed, the report says.

Whites' share of personal income is expected to fall by at least 0,7 percentage points to 48,5% (2,5% growth) or by 6,1 percentage points to 47,8% (4%) from 53,9% in 1990.

The report says the two reasons for the redistribution are the differences between race population growth rates and the changing relationship between per capita personal income by race.

Stripping out the effects of varying race population growth rates, the per capita personal income of blacks is projected to rise 8% to 115,3 (1985=100) if growth is 2,5% from 106,3 in 1990. At a growth rate of 4% the increase doubles to 16,5%.

In contrast, whites' per capita personal income is set to slip by at least 2,2% (2,5% growth) to 93,7 from 95,8 in 1990.

The effect of personal income redistribution will be to reduce the percentage of black households living in poverty.

The poverty gap, the total sum needed to bring all households below the minimum living level, stood at R13,8bn in 1990 and this is projected to rise to at least R14,6bn (2,5% growth) by 1995.

However, the informal sector perhaps can be regarded as removing about R4bn from the aggregate poverty gap, the report says.

The Urban Foundation cautions that other aspects of economic policy, other than growth, will have a direct effect on the outcomes projected for 1995.

'No peace without land deal'

PORT ELIZABETH — Former ANC executive Govan Mbeki warned yesterday that there would be no peace in SA unless the question of the redistribution of land, income and wealth was addressed properly by government.

Mbeki told the Eastern Province Clothing Manufacturers' annual lunch the ANC specifically wanted land taken from blacks in the past 40 years to be given back.

It also wanted government to honour promises made in 1936 for the acquisition of additional land. The division of land made in terms of the Native Land Act of 1930 which favoured whites at the expense of Africans was a cause for conflict.

"At the time it was estimated that the total area of SA was 143-million morgen. The 1,25-million whites took 133-million morgan and left the 4-million Africans 10-million morgen."

In 1936 government promised Africans a further 7-million morgen, but all this land had not yet been bought by the state. Meanwhile the African population had growth to an estimated 30-million.

The ANC would have to take steps to change the whole network of policies which affected the disadvantaged people.

Mbeki said the state should intervene to make education accessible to disadvantaged people. "It is estimated that 60% of the able-bodied workforce is illiterate."

He said the ANC was interested in economic growth because only a growing economy could give employment to the millions of jobless.

The manufacturing sector needed investment on a big scale to provide for exports, but in a situation where the rate of unemployment was high stability could not be expected. Prospective investors would steer clear of unstable areas.

Business should in its own interest force government to provide training. It was not enough for business to wait for ANC policy proposals and then criticise them. Business should also make suggestions on how to address poverty.

He said the intervention of the state in the economy should be aimed at helping to solve the poverty problem. For this reason the ANC opposed the privatisation of public utilities.

ANC 'supports free market principles'

(49)

CT 7/12/91

By ARI JACOBSON

THE ANC took a significant step towards appeasing white business yesterday with a promise of a "minimal" government in a new SA, countering any previous rhetoric supporting nationalisation.

"The economy can only grow within a democratic framework of free market principles — otherwise it will be ruined," said ANC economist Max Sisulu.

Sisulu, head of the ANC's department of economic policy, added that universities around the country had been approached to look into policies based on such an economic approach.

"In addition 50 top international academics have been invited to SA to discuss these issues and supply expert advice on free market economic planning."

Speaking at the Seeff/Cape Times breakfast, held at the Bay Hotel, Sisulu said, however, that fiscal policies (government spending and taxation) would be used to redistribute wealth and development subsidies would be implemented to support a mixed economy.

Suggesting areas where government expenditure would be concentrated, he pointed out the majority of people in SA were landless. Skills training had become imperative and racial economic imbalances needed to be addressed.

But Sisulu conceded that not all the economic ills could be dealt with immediately — "we need to develop a strategy based on priorities".

He said, in an interview afterwards, that monetary and fiscal policies would, generally, be based on free market principles.

And talking of monetary policy, he said that while he could not guarantee Reserve Bank Governor Chris Stals a job in the new SA "it's people like him, with knowledge and technical expertise, that are desperately required".

He said "there is a general agreement, in the party (ANC), that the focus will be on a market economy, driven by a democratic movement".

Further, he said, while foreign capital must be encouraged, it was the new government's first responsibility to ensure the correct economic structures were in place so that funds flowed to areas of need.

"A strategy must be developed that systematically reduces the current economic problems and optimises the use of local resources."

Rand close

JOHANNESBURG. — The rand continued to post gains against the dollar yesterday, but its performance remained unimpressive compared with that of other major currencies against which it lost further ground, dealers said.

The rand closed slightly firmer at R2,7765/80 to the dollar versus Thursday's R2,7840/55 close as the US unit slumped again. But against the British pound the rand weakened to R5,0065/0140.

The financial rand closed weak at R3,11/13 per dollar after an early rally to R3,08/10 from Thursday's R3,10/12 finish.

USA: 2,7765/80
UK: 5,0065/140
Germany: 0,5670/80
Switzerland: 0,5020/30
France: 1,9405/45
Netherlands: 0,6400/10
Japan: 46,18/26
Italy: 427,64/428,06 — Reuter

Once again, we've got things back to front

S Times (429) 8/12/91

THE troublesome question about the appointment of Gencor's Derek Keys to the cabinet is not whether he is the right man for the job — he's brilliant — but whether he has come too late.

The management of the economy has become such an appalling mess that President De Klerk clearly had to do something, or see his political base eroded by the economic grievances which afflict all sections of the population.

Dr Wim de Villiers, before he died, spent many hours explaining to me where it had all gone wrong. In some cases — such as the telephone service — the problems lay far back in history, when the government gave the Post Office a mandate to provide telephone services, essentially regardless of cost.

The result was that, in one small country town, the engineers installed expensive capital equipment sufficient for the next 100 years. Some of the top officials had never heard the term "return on capital".

His reports on the transport services, on Eskom, and on the structural deficiencies of the economy constitute both a terrible indictment of the governments, and — since he was not a destructive man — a blueprint for restructuring. That blueprint was cast aside when he died.

Not that he always succeeded. His first attempt was to wrest chunks of the economy from government control by privatisation. He was forced off course when the ANC, finding in nepotism a shared interest with the civil service, came to the defence of the pork barrels which it hoped to inherit.

So we remain saddled with enterprises like Sasol and Iscor, both still shielded against market forces, like Mossgas and Foskor and Armscor and other economic baronetcies. In large enterprises and in small, government intervention has distorted the market and created strongholds of vested interest that fight off change as fiercely as the AWB does.

A startling example is the demand by local movie-makers for the SABC to buy their rubbish in preference to imported and dubbed material. The arrogance of demanding a trough of public money for private benefit is breathtaking, and so is the scale of it: the SABC cited comparative prices of R7-million for an overseas drama, R18-million for a dubbed programme, and R130-million for a locally made substitute.

Then, too, such a smell comes from the medical industry, whose expensive little habits have been well tolerated by the doctors, that I hope President De Klerk appoints a commission of inquiry to hold public hearings before he thinks of sacking Dr Rina Venter as Minister of Health. Perhaps we'll find out how medical companies became more profitable than gold mines.

Or take the food industry, where the imposition of a tax of 10% has provided a screen for price increases of 25%. The farmers are paid peanuts, the consumers pay through the nose, and the law, in effect, forbids the farmer to bypass the chains of corporate middle-men by opening farmers' markets. In this, as in all these scandals, collusion between government and cartels lies at the heart of the ordinary man's sorrow.

THE cartels can always rely on cosy relationships with the bureaucrats to keep out competing imports, anything from chickens to bricks to oil. The decline in the value of the rand in recent years has, in effect, doubled the protection which South African manufacturers enjoy against imports, but even so, bring in any good product from abroad at a reasonable price and it is driven off by specious cries of "dumping".

I dropped in this week on the Communist Party to hear Joe Slovo deliver a public promise not to steal my swimming pool, and heard him also flaying capitalism. Much of what he said was nonsense — anti-American nonsense at that — but I sympathised with his views on the monopolies that, under the protection of bad law, have come to dominate our lives.

Faced with this array of problems, the government bravely vacillates. Everything it attempts — privatisation, free trade, lower tariffs, VAT — is abandoned, or modified, or compromised as soon as it runs into the vested interests, whether commercial or bureaucratic.

The result is that we have been plunged into a dragging recession which cannot end because the Reserve Bank is pulling one way, holding money tight, and the finance department is pulling the other way, running up debts like a sailor in order to offset the effects of tight money. Those behind cry "forward", those before cry "back!"

MEANWHILE, time is running out. Already the government's ability to conduct economic policy has been severely curtailed by its fear of Cosatu, which taught Finance Minister Barend du Plessis a sharp little lesson with its stayaway. Very soon — in a matter of months — control of policy is likely to be shared in a more formal sense with the ANC, and the ANC is determined, it appears, to sabotage any economic change that brings credit to Mr De Klerk.

Into this morass comes Derek Keys to take up, one hopes, where Wim de Villiers left off. He is a man of extraordinary talent and goodwill, a genius at handling people, and he probably knows what needs to be done, even if he does not yet know how to do it.

Wish him well. The Soviet Union, where political reform was allowed to outrun economic liberalisation, is falling apart; China, where political change has been brutally checked while the economy is liberalised, is leaping ahead, following the path pioneered by South Korea, Chile, Taiwan and others.

It seems clear that if political reform is to succeed, economic change must stay ahead of the game. In South Africa that vital sequence is in danger of being reversed so that, like the luckless people of the Soviet Union, we may end up fighting for a shrinking pie.

The bottom line is this: if economic reform begins to deliver prosperity to the people, free enterprise may survive. If not, Joe Slovo may end up, one day, stealing swimming pools to satisfy the angry masses.

KEN OWEN

The teachings of 'the tigers'

S/Times 8/12/91

(49)

EDOUARD PARKER explores the reasons for Asian economic success

THE four "tigers" of the Pacific — South Korea, Hong Kong, Taiwan and Singapore — have achieved very high growth rates for two main reasons.

Firstly, there was a very strong popular will to achieve fast economic recovery and growth.

Secondly, there was government fully dedicated to achieving high growth performance.

The lessons are simple. The South African government must find its legitimacy, primarily, in responding to the popular will, in filling shelves, wallets and savings accounts. Changes have to be fast enough to create a constituency whose interest in the "high road" — that is, high growth performance — is greater than in favouring the old days.

If economic reforms falter, governments are repeatedly hijacked by minority groups determined to grab for themselves the biggest possible slice of the diminishing economic pie. Then we have the route of the Third World, not the high road.

This, of course, raises the question of whether authoritarian or democratic regimes are best adapted to procure the high road.

We in the rich countries are used to considering that democracy must fulfil essentially political criteria. But in fact nobody would consider as a true democracy a political democracy in which hyper-inflation (to take just one example) has for years eliminated all sense of normal work, saving, investment, and so on.

That kind of situation can be considered only as semi-democratic. The poor finally sell the only thing they own, their votes. We see that now in many countries. We all know that when fundamental economic human rights (to work, to save, to invest, to receive a proper salary, in a currency having a true value) are violated, then dictatorship is not far away.

Progress

In a true democracy, economic rights must be respected as well as political ones. There is a link between the two. If the political liberalisation in Eastern Europe seems brittle, it is because economic progress has not started. The population has not got its true economic human rights.

All this does not mean that one has to permanently trade democratic political improvements against GDP growth; nor that authoritarian regimes would be better placed to achieve high economic growth scenarios than democratic ones.

It means exactly the opposite, that is to say, to obtain a true democracy, progress must be made on both fronts — political democracy as well as economic democracy. In true democracies both conditions are filled.

Poland, Russia and South Africa do not have to trade democracy against fast economic development; nor the reverse. They have to achieve progress in both. And they do not need authoritarian regimes.

To dream that total political democracy could be in place tomorrow morning, without a sound economic situation, can lead only to chaos or dictatorship — or both, just as the dream of instantaneous enrichment has never led anywhere other than to long-lasting poverty. Many Third World countries have been destroyed by this kind of illusion.

What Poland, Russia and South Africa need, firstly and essentially, is the popular will to progress on both fronts as fast as possible and able governments fully dedicated to that goal.

In brief, political democratisation is a delusion if it is not accompanied by economic progress and economic democratisation, and, reciprocally, the economic aspect of the democratisation process is as important as the political one.

It includes the right to produce and sell, to save and to engage in business, to be protected from hyper-inflation, and so on.

Success

In the history of rich countries, it can be seen that it is the "bourgeois enrichment" of the less favoured classes that has given the latter a heavy weight in the democratic debate.

We see that happening now in the four Asian tigers after 30 years of high economic growth. Their success demonstrates the need for parallel democratisation and economic growth.

The key principles in these success stories were continuous improvement in political and economic conditions, and consensus.

● *Edouard Parker is president of a French international analysis company. This is an extract from a speech to a recent seminar in Paris on high growth performance in developing countries.*

Keys brought in to end dithering about economy

S/Times 8/12/91

THE SUNDAY MORNING ASSESSMENT 49

by MIKE ROBERTSON

PRESIDENT FW de Klerk's dramatic decision to appoint Gencor chief executive Derek Keys to his cabinet took place against a backdrop of growing business discontent with the president's top lieutenants' handling of economic matters.

The Sunday Times has learnt that matters reached a head just over a month ago when Mr De Klerk addressed the cabinet and told it frankly that the impression existed that the government had no economic policy and everything was going haywire.

For Mr De Klerk, who has preached sound economic management since assuming the presidency two years ago, the realisation that businessmen regarded his government's economic policies as the biggest deterrent to investment was a bitter pill to swallow.

His decision to look outside the ranks of the National Party for someone to tackle the economic malaise was a frank admission of the lack of talent available in the NP and the failure of his ministers to continue the work of Dr Wim de Villiers, another outsider, after his untimely death earlier this year.

Business discontent has centred on:

- The bungling of the introduction of VAT;
- The lack of an industrial development strategy;
- Inconsistency in applying an export promotion programme;
- Uncertainty over tariff policy;
- Instability brought about by the "chopping and changing" of ministers in key economic portfolios;
- The rapid escalation of off-budget spending by government.

Many of these problems stem from the void created by the death of Dr De Villiers.

In his short tenure as cabinet minister, he was not only responsible for slashing government expenditure but was in the process of putting in place an industrial development strategy which included curbs on railway and electricity tariffs, and a tax holiday to give South African exporters a competitive edge and encourage investment in export industries.

Mr De Klerk is understood to have searched around at the time for a top businessman to replace him. But it was only this week that he found a solution in the form of Mr Keys.

The president explained sweeping changes in key economic portfolios were necessary to free Economic Co-ordination and State Enterprises Minister Dawie de Villiers and Finance Minister Barend du Plessis to concentrate on negotiations.

However, there is a widespread belief in both government and business circles that Dr Dawie de Villiers was simply not up to the job of handling the economic co-ordination portfolio he assumed on Dr Wim de Villiers's death.

Prior to this week's reshuffle, Dr Dawie de Villiers had already been relieved of ministerial responsibility for mineral and energy affairs and posts and telecommunications.

Mr Du Plessis was not relieved of any ministerial responsibilities but his deputy, Dr Theo Alant, was told to concentrate only on financial matters.

It is expected that, like Dr Wim de Villiers, Mr Keys will in effect be in charge of macro-economic policy.

As responsibility for state expenditure has already been shifted to Mr Ami Venter, this will leave Mr Du Plessis with less responsibility than ever before.

The president's explanation also does not explain his decision to relieve Dr Org Marais of the vital trade and industry portfolio after just over six months in the job.

Mr Keys becomes the third trade and industry minister this year.

But trade and industry is by no means the only key economic portfolio to be affected by ministerial reshuffles this year.

- Following Dr De Villiers's death, responsibility for administration has shifted rapidly from Mr Venter to Mr Piet Marais and, this week, to Dr Org Marais. At the same time, there has been no sign of the government making any headway in reducing civil service numbers;
- More than six months after the creation of the Department of State Expenditure, with Mr Venter as minister, officials have still not been transferred to the department from the Department of Finance;
- There have been three ministers responsible for economic co-ordination and two for each of the mineral and energy affairs, transport, manpower, agriculture, and posts and telecommunications portfolios.

The appointment of Mr Keys was widely welcomed this week.

Anglo American chief Julian Ogilvy Thompson said: "This appointment represents a great loss to the mining and business sectors and a great gain at this critical juncture to the effectiveness of government in the sphere of economic policy-making."

Johannesburg Chamber of Commerce and Industry chairman Mike Cato said Mr Keys would provide much-needed direction in the restructuring of the economy.

He said the lack of direction had resulted in a decline in local productive investment.

Nedbank chief economist Edward Osborn said there was general disillusionment among businessmen, who had lost confidence in the manner in which the economy was being run.

Old Mutual chief economist David Mohr said the main problem for industrialists was that there had been no consistent industrial policy.

In just over two years, businessmen had seen industrial policy swinging from one based on export incentives under Mr Danie Steyn, to a more neutral policy under Mr Kent Durr, only to swing back towards tax incentives under Dr Org Marais.

Democratic Party finance spokesman Ken Andrew said he believed President De Klerk had simply lost faith in Mr Du Plessis and Dr Org Marais.

ANC to tackle economics

LINDA ENSOR

CAPE TOWN — The ANC is organising a macro-economic policy workshop in January involving 50 academics, many of them prominent intellectuals from overseas, ANC economist Max Sisulu said at the weekend.

Sisulu said the organisation hoped to hold 10 workshops on macro-economic issues by June next year, one of them on southern African regional development and regional economic integration.

Sisulu said the workshops formed part of a process of creating the capacity within the ANC to formulate economic policy, an admitted weakness caused by decades of exclusion from the organs of government.

The lack of such capacity had been identified by the Canadian government mission sent to investigate the needs of the anti-apartheid movement.

Universities such as Witwatersrand, Durban-Westville and Western Cape were also assisting with formulating policies on issues such as mining and administration, tax and finance and markets.

"There is an urgent need for the ANC, and the democratic movement as a whole, to form viable economic policies which will simultaneously address the needs of the majority of the people on the one hand and foster sustainable economic growth on the other. It is critical that the democratic movement begin to prepare strategies for governing the future economic development of SA," Sisulu said.

"Economic justice is the key area on which the process of transition will either

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succeed or fail. Political and constitutional change will remain meaningless without economic restructuring."

Priorities of the ANC's economic policy would be job creation, raising real incomes, addressing racial and gender inequalities, land reform, poverty, housing and infrastructural needs and the economic growth of small and medium businesses.

Sisulu admitted that maintaining a balance between growth and redistribution would be a "daunting task" and proposed a mixed economy underpinned by political legitimacy and consensus. The need to transform the industrial sector, which had only created 1% more jobs over the last ten years, into an engine of economic growth was stressed.

The restructuring could be funded by reallocating resources previously allocated to apartheid priorities. Taxation would be used to encourage job creation and existing resources of capital would have to be used in a more productive way.

He said the ANC had been invited and had agreed to join the Southern African Developing and Coordinating Conference (SADCC) secretariat and numerous of its standing commissions.

Sapa reports from Cape Town that ANC secretary-general Cyril Ramaphosa said the ANC wanted elections within six months and was fully prepared to "sweep the boards and become the new government of SA".

He also said the ANC remained committed to the demand for an elected constituent assembly and would resist any attempts by government to turn the forthcoming Conference for a Democratic South Africa (Codesa) into a de facto interim government.

Economic growth needed, says SACP

CT 9/12/91

(49)

Own Correspondent

JOHANNESBURG. — Redistribution of wealth without growth would not be enough to raise incomes to a level that would guarantee a decent life for all South Africans.

This was decided at the South African Communist Party congress attended by 400 delegates at Nasrec near Johannesburg at the weekend.

Without economic growth it would be impossible to reverse the present trend of rising unemployment.

The congress agreed that there was an urgent need to overcome the present stagnation and place the economy on a new growth path.

Delegates directed the SACP to involve itself in steps towards an economic growth strategy to ensure that the interests of the working people and the poor were made priorities.

On the strategy to be used, the congress said: "Redistributing production towards meeting the basic needs of the majority of our people will be an essential pillar of a new growth strategy.

"The SACP believes that, in the immediate national democratic phase, we will need an effective state sector.

"Various forms of community and popular ventures should be encouraged. The SACP will promote the formation of public and collective enterprises of various sorts."

The organisation committed itself to building a core of public and collective enterprises that would demonstrate in practice its capacity to meet South Africa's needs more effectively than private capitalist alternatives.

The SACP manifesto said a growth strategy would have to ensure that South Africa's industries became more effective in exports.

SACP's plan on economy

(49) Sowetan 9/12/91

By IKE MOTSAPI

THE South African Communist Party favours a mixed economy in which the capitalist sector will continue to occupy a significant place, according to a document released yesterday at its historic conference.

In the Manifesto of the SACP, released to the Press, the party resolved that the post-apartheid society must not just be a political democracy.

"It must also see a widening of economic democracy in which there is a growing popular control over economic planning, production and distribution."

The party, however, warned that a mixed economy in which the private sector effectively has unrestricted power to determine the way wealth is distributed was a recipe for the continuation of racism and "the worst features of capitalism."

The event, at Nasrec near Soweto, was the SACP's first national congress inside the country in 40 years.

In a joint statement, Mr Chris Hani, new general secretary of the SACP, and chairman Mr Joe Slovo said: "The emerging situation in South Africa is one in which the working people can make a number of important gains.

"These gains could improve their own immediate situation, and they could be of great significance in laying the basis for a future socialist South Africa.

"These gains are, however, not inevitable. "They will only be achieved through successful struggle now in the period of national revolution."

GIVING THE SALUTE . . . Chris Hani at the SACP's national congress.

The statement continued: "A growth strategy to answer the needs of our people will also have to ensure that our industries become more effective in export trade. South Africa needs to become a more significant exporter of manufactured goods, especially as our minerals are a wasting asset.

"A successful export strategy will only be possible if productivity is significantly raised and our industries are able to be more competitive internationally."

Hani and Slovo encouraged workers to participate in this economic restructuring.

Restructuring

"The bosses have failed dismally in the past and they cannot be trusted in leading the restructuring of the economy.

"Workers will need to take more of the initiative in planning and implementing a new growth strategy. They need to do this, not only to defend their own immediate interests, but also to guarantee that the process takes place in the broader national interest."

DP youth plan to sell social market policy

CT 10/12/91 **Political Staff** (49)

THE Democratic Party Youth yesterday launched a three-month campaign to promote the party's "social market" economic policy as the only workable solution to South Africa's recession.

"Without market-driven growth, proverty will be permanent, but without social investment, instability, injustice and frustration will remain endemic," Western Cape DP Youth chairman Mr Brian Berkman said.

He said street tables would be set up and the public invited to sign a slogan: "We've had it up to here: We demand a new deal."

Barlow chief defends profit role in creating wealth

(49) Arct 10/12/91

TOM HOOD, Business Editor

PROFITS is not a dirty word, says Mr Warren Clewlow, chief executive of Barlow Rand, the country' largest industrial group.

The emotive issue of price increases could erode the fundamental support enjoyed by the free market economic system in South Africa, he warns in his annual report.

There is a trend, not exclusive to South Africa, to link rapidly escalating prices to "excessive" profits and the size of companies.

"The mechanisms of a properly operating market are self correcting and competitive forces will quickly curb any excesses," he says.

"The making of reasonable profits is a fundamental requirement for successful wealth creation and profits are vital for the growth of the enterprises and, by extension through retention and investment, the economy as a whole."

The ability to earn and freely deploy profits is crucial to satisfying the need for an inflow of investment capital from abroad.

Adequate profits represented the return on investment for shareholders, they enable increased salaries and wages to be paid with resulting increases in the standards of living for all, and they were the element on which an important portion of the income of the state was based in the form of income tax.

Mr Clewlow warned, however, that profits in themselves were not an adequate measure of value "unless they are accompanied by positive cash generation."

The use of capital merely to remain in business by replacing assets at ever-increasing prices seriously detracted from the value of published earnings.

"A business can only assess its true after-tax profit for distribution to shareholders after these requirements are met from its own resources."

He hopes some tax rate concessions to business to encourage investment and benefit economic growth and the country as a whole will be granted in the next budget in spite of the heavy demands on the treasury.

A resumption in earnings growth is a reasonable prospect for the Barlow Rand group in the current financial year ended September 1992, after two years of falls, said Mr Clewlow.

At the same time and possibly of greater importance, the group had refocused its strategic planning, enabling it to concentrate on its strenghts.

Given the many contradictions and complexities paving the path ahead for South Africa, he was cautious about specific forecasting in the short term, but saw "the likelihood of some growth in our results" in the difficult year ahead.

In the past two financial years, earnings dropped 20,2 percent from 543,8c in 1989 to 430,9c in 1991. Those two years were part of a period in which, said Mr Clewlow, the South African economy had not been able to achieve anywhere near its potential and, in addition, now had to bear the burden of being used as a bargaining counter in the political power struggle.

Added to this, global commodity prices, which were important to the group, showed no improvement in the wake of little or no growth in the world's major economies.

The achievement of a 2 percent increase in total taxed profit in the past year was "a creditable performance". It was also a year of significant restructuring in the mining and benefication division with the sale of Middelburg Steel and Alloys and the Rand Mines' chrome interests for R1 075 million to a consortium of Anglo American, De Beers and Gencor.

"I believe this deal will be very positive for Barlow Rand and for the economic development of South Africa," he added.

It relieved the group of further investment in an operation whose cyclicality and future requirements could distort the group's investment and profits, while the cash inflow would greatly strengthen the balance sheet and offer more flexibility for future investments.

It would also enable the group to "strategically concentrate on its strengths" — the mining and mineral benefication sectors, the food, pharmaceutical, packaging and industrial companies and the group's international operations.

In the mining and mineral beneficiation, the production of coal and cement were the key objectives where the group's scale of size offered cost benefits, plus the export potential for coal.

In the food, pharmaceutical, packaging and industrial sectors, the group would continue to build on well-established brand names and make efforts to enhance market shares, taking the opportunity to strengthen businesses with suitable acquisitions as and when appropriate.

On the international scene: "We will develop by looking for growth from existing operations and for opportunities to expand, particularly into continental Europe," he said.

● **Oceana Fishing Group's** earnings for 1992 are expected to show an improvement on those achieved in 1991, says executive chairman Mr Walter Lewis in the annual report.

He said the industry's rock lobster quota has been reduced by 28,6 percent, about the same as the previous season's landings.

Export markets for lobster products remained buoyant and the lifting of sanctions in the US offered further opportunities for the marketing of frozen lobster tails

Pelagic quotas had not been announced, but the anchovy quota was expected to be increased, while the pilchard quota might remain the same as last season, he said.

"It is my view that government and industry will be obliged to confront the effect on the industry of poaching and abuse of the resources, and the scientific managemnet of our marine environment needs careful re-evaluation," said Mr Lewis.

Earnings from cold storage were also expected to improve following operational rationalisations, but could be affected by the initial start up costs and depreciation of the new Cape Town harbour facility.

A conservative view had been taken in the trading division's performance, where business should improve with an upturn in the economy.

SA's promise and challenge

(49) CT 10/12/91

What South Africa is economically capable of is colossal but it must create wealth to meet its people's aspirations, says **BILL JAMIESON** *in Johannesburg.*

SOUTH AFRICA is presenting its continent and the world with the beginning of a new history

It is no over-statement to say the promise of South Africa, what it is economically capable of, is in every respect colossal. The point is still to be fully grasped by the world.

The country's international status and its longer-term economic potential have been uplifted to a degree unimaginable three years ago.

The scrapping of the last of the apartheid legislation, the steady lifting of international sanctions and the re-admission of SA to world capital markets has created an investment prospect that is only just starting to capture the imagination of financial markets. The trickle of international trade missions arriving at Jan Smuts airport — from London and Tokyo, Bonn and Bucharest — has turned into a flood.

Big industrial and infrastructure projects such as the £1,2bn Lesotho Highlands Water Scheme and the £625m Anglo-Gencor Columbus stainless steel plant are under way. Japanese concern Mazda has just taken a 24% stake in Samcor. Three new plants will be providing the industrialised world with millions of platinum auto catalysts, needed on every car to cut pollution. British hotel groups are looking to build in the Cape.

But it is not just inward investment that is the opportunity. South Africa's leading companies can take their place on the world stage by international capital-raising and diversification.

The process of change has been fraught Waves of tension and violence are testimony to years of denial and frustration. A crushing poverty for millions of blacks characterises the country of gold.

The challenge is how to meet the aspirations of a population of 37 million, 28 million of whom are black, many without jobs, homes and for far too long hope. In a world now intensely capital-competitive, begging-bowl economics is out.

In this, the moral boot of sanctions has swung firmly onto the other foot· Black enablement will flow more surely from a response by the international corporate sector, small companies and large, and overseas invesment institutions, than from looking the other way.

This penny may have been slow to drop in the American Congress, where the Gramm Amendment still blocks SA's re-access to the IMF. But drop it will.

Britain, because of its long historical ties and its closer involvement in Africa, came to an early recognition of this fact. The UK may have been slow to grasp the deeper predicament of Afrikanerdom in a continent awash with bogus economics and failed socialism: Only when the circle of armed Marxism retreated could the process of reform begin. White security was the key to black liberation, just as now, a free economy is the key to black security.

Britain led the way in the dismantling of sanctions. That, as they say, was the easy part. A huge programme of housing, welfare and education is needed to create equality of opportunity for all South Africa. Just to match the rise of new entrants to the labour market requires the economy to grow by more than 4% a year.

Getting the economy right presents the greatest test for all parties within and without South Africa.

From the ANC is coming a recognition of the need for overseas investment and a retreat from ideology. Its general secretary, Cyril Ramaphosa, declared recently· "The most important way to attract foreign investment is by providing a general economic climate that is conducive to investment."

Behind the extremist rhetoric there is growing convergence as the parties feel their way towards a new constitution, a process notably enhanced by the Peace Accord.

Economic progress depends on this process continuing. But the foundations are in place. They comprise·

LOW FOREIGN DEBT: SA has one of the lowest relative foreign debt obligations in the developing world. The ratio of foreign debt to exports has fallen from 128% to 70% and debt to GDP is down from 43% to 19%. The average for developing countries is 230%.

GROWING TRADE SURPLUS: SA has sustained a balance of payments surplus for 27 consecutive quarters, with 1991 set for a surplus of R6bn and a positive trade balance of R18bn after a cracking set of figures for October The underlying trend in non-gold exports is particularly encouraging.

STRONG BASE: In addition to being resource-rich — SA accounts for 35% of world gold production and more than 80% of platinum — it has a first world infrastructure, modern transport and communications, an established financial market and a sophisticated banking and insurance sector.

GROWTH AHEAD:The economy looks set for a widely spread if slow return to 2% growth next year, helped by infrastructure spending, kick-start investment projects such as Columbus and foreign capital flows. The re-opening of international markets provides a further spur.

TOURIST POTENTIAL: Tourism accounts for just 1% of GDP. But the world average is 9,3%. If SA gets to even half that level two million tourist-related jobs will be created. The number of international tourist visits to SA is already rising fast from the current 500 000 level and is forecast to hit two million by the end of the decade.

AN ENGINE FOR AFRICA: SA supplies more than 60% of all the electricity generated on the continent and contributes 20% of its GDP. It is vital to the whole of Africa that it succeeds, for it is uniquely placed to lead and to lift the whole of the sub-Saharan continent.

Of all the positive points for the corporate sector, arguably the greatest is the calibre of its leadership. It has a managerial class of a competence that is internationally respected. The appointment last week of Gencor chairman Derek Keys to the cabinet post of trade and industry minister bears testimony to this.

The challenge is to develop black managerial talent. One of the most encouraging examples is at Engen, where 47% of managerial posts are in black hands.

Above all, what will empower South Africa is an awakening of its people to their potential in the geo-political map. — Sunday Telegraph

Let's get real: there is no magic formula for prosperity in SA

S/Day 10/12/91

SIMON BARBER in Washington

49

IN 1856, a Xhosa prophetess, Nongqawuse, had a dream instructing her to convince her people that they must slaughter their cattle. The Xhosa, sensing their sovereignty and way of life crumbling before the onrush of British colonialism, in a fit of mystical desperation obeyed; then starved to death in their tens of thousands.

In 1991, the crusty prophet of another embattled SA tribe, the white northern suburb liberal, is suggesting to his followers that they perform a similar, if rather less drastic, sacrifice. Let them, he argued in a recent newspaper column, join him in killing their swimming pools. Historical sea changes do strange things to people caught in the middle of them.

Obviously, in terms of their respective life-sustaining properties, a swimming pool is not a cow. All that goes to prove, however, is that Nongqawuse's latter-day counterpart is slightly more rational in his estimate of material consequences.

More interesting is the belief, shared by both, that a prosperous future may be secured only by a totemic purification of the evil spirits which one felt lurked in her constituents' cattle and the other has located in his pool cleaner. In each case, the thing to be cleansed is deemed to inhabit a store and symbol of wealth.

Such urges to destroy property, even if only the luxurious variety, are a sure sign of demoralisation. History does not reward the demoralised. The survivors of Nongqawuse's prophecy were reduced to virtual servitude as a source of cheap labour in the Cape. All SA and much of the rest of its continent besides stand to lose on an even more heroic scale if angst- and guilt-ridden elites throw up their hands and descend to magic now.

Unfortunately, the call for a mass pool-slaying is not an isolated instance. Far too many South Africans are appealing to fifth-dimensional forces to see them through to that millenarial place, the new SA.

President F W de Klerk can only have been relying on such forces when he arose, at the Sunday Times Top 100 Companies banquet last month, to command the SA business community to start investing.

Such was his resort to nautical metaphor that he apparently conceives the deities that inspire investment to be of the aquatic variety. Let us hope they do not live in swimming pools; they might soon be driven away for good.

Like Joe Slovo, genial priest of what has turned out to be an epically self-defeating superstition called socialism, De Klerk appears to have had a vision telling him the reason SA's economy is stagnating is that the country's wealth creators are greedily hoarding large wads of money in their mattresses. Ergo, all will come right if they can somehow be prevailed upon to release the stuff.

The only real difference between Slovo's and De Klerk's dreams is that Slovo has suggested the remedy to be wholesale expropriation; the President's voices have told him that mere incantation may, for the time being at any rate, be sufficient.

In the empirical world, of course, there are no cash-filled mattresses. Much less, to use Slovo's hilarious phrase in the Financial Times a few years back which De Klerk now seems to be echoing, is there any such thing as an investment strike.

The problem, put with childish, but evidently necessary, simplicity, is that try as political and other sorcerers might, capital flows to where it can get the best return in relation to risk. If government wants it to flow towards industrial expansion and job creation, government must use what earthly powers it has to foster the requisite fiscal, monetary and regulatory environment. Prayer and the shaking of bone-filled bags are no substitute.

Nor, for that matter, are any of the other twilight zone options now being bandied about. Thankfully, nationalisation seems headed down the same credibility gulch as a muti which promised to turn bullets into water before its wearers ran into 32 Battalion. Less happily, it is being replaced by the notion, a seeming compromise with the nationalisers, that SA's financial and industrial pyramids must be unbundled

Okay, so we will not actually kill the cattle which feed the country, we will just carve the herd into internationally uncompetitive, capital-starved little pieces, each unable to defend itself in the global marketplace, much less against the political whims of the state. If the urge to jackhammer something is irresistible under present circumstances, swimming pools would seem the saner choice.

For all that, perhaps the most pernicious bit of mysticism currently pervading SA is the cargo cult of foreign aid. Like the ancestors Nongqawuse promised would arise from the dead once her instructions had been carried out, the handouts are not coming; certainly not on a scale to finance "an historic turning point" in SA development, as ANC president Nelson Mandela reportedly remarked in Washington last week.

There seems to be a jolly fantasy that once SA has transited to non-racial democracy, the rest of the world will feel an obligation to nurture it. Wrong. As far as Western politicians responsible for dishing out their taxpayers' money on worthy causes are concerned, SA will have been "done" the moment apartheid is seen to be formally dead.

This is especially true of American congressmen, most of whom thought SA had been sufficiently dealt with the moment President George Bush lifted the sanctions contained in the Comprehensive Anti-Apartheid Act, and whose constituents, black and white, believe strongly that the national treasure would be better spent at home.

The worst of it all, however, is not that the concessional grants and other support will not be pouring in on the currently advertised scale, but that SA's next government may be tempted to behave as though they will be. For if aid, as Lord Bauer has so long argued, has regularly been a crutch for rotten government, the expectation thereof may all too easily be a crutch for rotten governments-in-waiting.

Which is not to argue that the forthcoming regime need necessarily be as foolish, corrupt and inimical to national prosperity as the one it replaces. It is rather to contend that the promise of foreign subsidy will tend to lead it in that direction by seemingly deferring its need to take the tough, politically unpopular decisions essential for the economy's long-term success

If, for example, the ANC thinks that billions of free dollars will be pouring into the country the moment it takes power, it will have little incentive to be honest with its constituents about what it can and cannot achieve for them once in office. It will make all kinds of rash undertakings on the theory that foreigners will somehow make up the deficit between what it has promised and what it is capable of delivering.

When the account comes due, and the external support is not forthcoming, the new government will feel it has little option but to plunder what there is in the storeroom. Start doing that and not even multilateral institutions like the World Bank are going to show much sympathy. They and their major shareholder have seen it all too many times before.

Time, as they say over here, to get real.

Government deficit soaring

By Derek Tommey (49)

Latest Treasury figures show that tax revenue is falling well behind government spending, resulting in the Government deficit reaching a record R8,6 billion for the seven months to October.

The figures reinforce the view that the National Party for the first time in its 43 years of rule is facing a serious financial crisis.

At no time since 1948 has the Government ever had to introduce what can be termed an "austerity Budget".

The economy, even when depressed, has always been strong enough to generate enough tax revenue to enable the Government to spend quite freely.

The tax figures show this is no longer happening.

Revenue is lagging further behind expenditure.

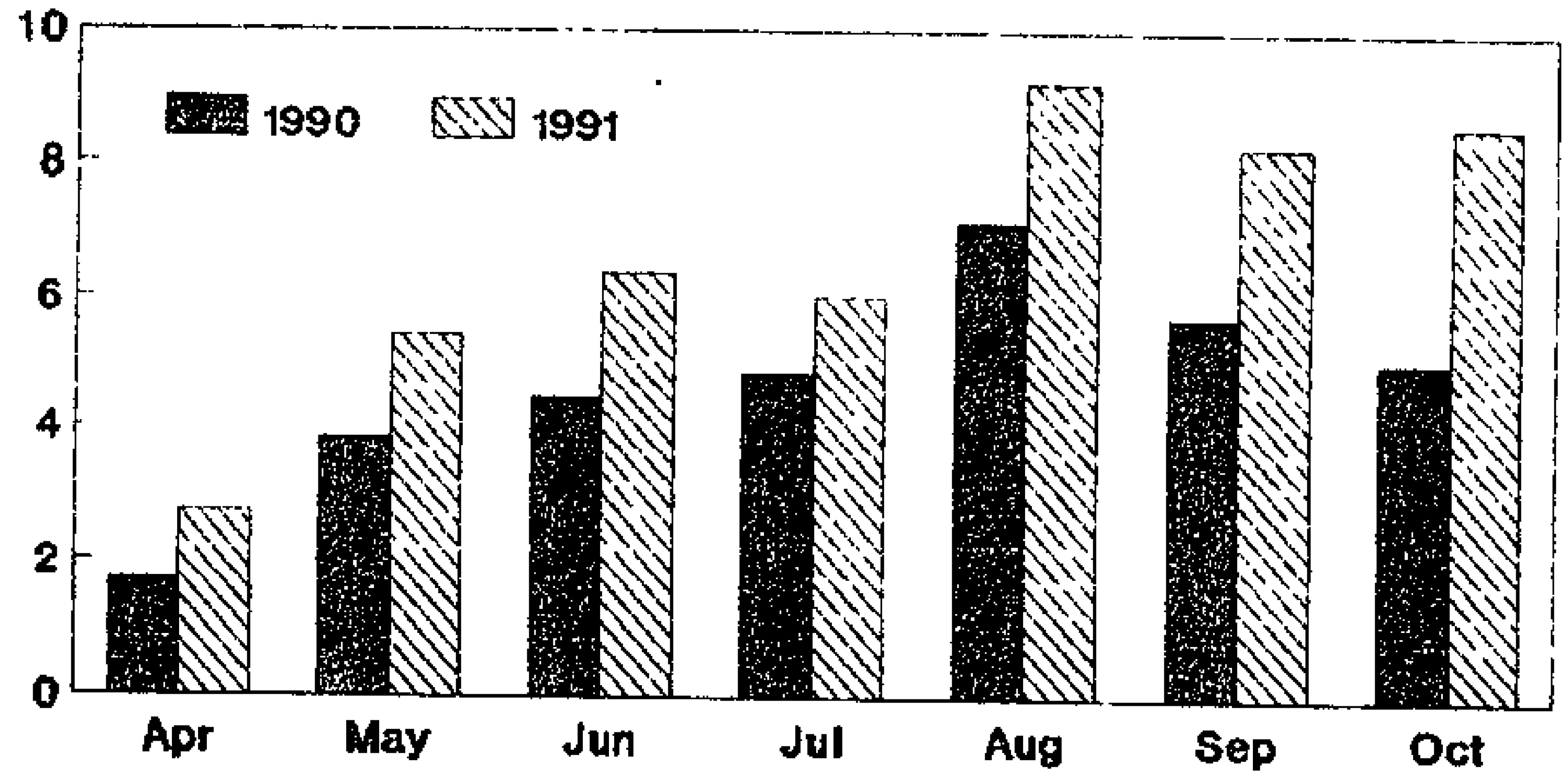
And with the Reserve Bank reporting the recession deepening, "with all components of spending declining simultaneously", there is no sign of any improvement in the Government's finances.

Figures issued by the Central Statistical Service show revenue collection in the first seven months of the Government's fiscal year rose only six percent, compared with the Budget forecast of 11,1 percent.

While revenue has been lagging, the state's expenditure has been soaring.

Expenditure in the same seven months was 17 percent higher than last year.

The result is that expenditure has exceeded



Treasury deficit (cumulative) in R-billions

STAR 11/12/91.

revenue by 18,7 percent, against 7,6 percent in the same period last year.

This has led to a huge increase in the Government deficit. At the end of October it had reached R8,6 billion, against R5,1 billion a year ago, and amounted to 76,7 percent of the deficit voted for the full fiscal year.

At the same time last year the deficit was 35,9 percent of the budgeted figure.

The Government, along with most other sectors of the economy, has been hurt by the worldwide recession, which appears to be intensifying, as well as by the Reserve Bank's tight money policy aimed at providing a foundation for strong long-term growth.

However, the Government has also been hit by a development of its own making: this year's increase in personal income tax, which again helped trim consumer spending.

Although some adjustments were made to tax tables in the March Budget for inflation-induced fiscal drag, these only restricted the increase in income tax rates, but did not lighten them.

This was a serious mistake for it was already evident that the economy was moving deeper into recession, and some tax relief might have helped to stabilise the economy.

One big question is what the Government is going to do about it.

Borrowings

With the recession, which began in the manufacturing and mining sectors, now spreading to the retail trade and services industries, prospects for any major improvement in revenue seem bleak.

It looks as if the Government will have to increase its borrowings if it is to finance its expenditure to the end of the fiscal year on March 30 1992

However, it must be aware that unless the Reserve Bank is willing to give it temporary assistance, such a policy will start exerting upward pressure on interest rates, which it would not like at all.

But the most intriguing question is what the Government will do next year.

As long as South Africa remains in recession, it cannot expect much growth, even in nominal revenue.

Therefore, spending next year must be kept on a tight rein. But this is easier said than done.

The public service is unlikely to accept much less than an inflation-linked pay rise, a fact which could give the Government severe problems.

How the Governmnt tackles this problem is going to make interesting reading

The Director-General of Finance Gerhard Croeser mentioned in Stellenbosch last month the possibility of further tax increases next year.

He said the Government could be looking at an increase in the tax on fuel, an increase in Vat, and some way of increasing company tax without actually increasing the company tax rate.

Economists say such tax increases would be counter-productive if the economy were still in recession

Upswing 'likely to start this quarter'

(44) 5|1)(4) 12|12|91

LINDA ENSOR

CAPE TOWN — This quarter could be the starting point for an economic upswing that would last for about three years, according to Stellenbosch University's Bureau for Economic Research.

In its introduction to its latest building industry survey, it said there were signs that the downswing was bottoming out and that a new upswing could have commenced during the fourth quarter of 1991.

Growth, however, is likely to remain fairly sluggish during the first half of 1992 with evidence of economic expansion appearing only in the second half.

"The main reason for the slow start to the upturn is to be found in a struggling world economy. World trade is unlikely to improve rapidly before well into 1992. SA is basing her hope for a renewed upswing on increased exports," the BER says, adding that substantial export growth is foreseen only in the second half of 1992.

Exports are expected to grow by 2,6% (0,2%) to R48bn next year, consumer spending by 1,2% (0,6%) to R76,7bn and fixed investment to show a 1,6% (-4,9%) decline to R24,3bn (R24,7bn). GDP growth in the first half of 1992 is forecast at 1% increasing to an annual average of 2%.

"A continuation of high real interest rates and high personal taxes will prevent consumer spending from being buoyant for most of 1992. Downward pressure on investment spending is expected to abate somewhat as greater clarity on the political future of SA emerges and interest rates decline."

However, consumer spending would be stimulated in the second half of next year by lower inflation, export growth and government spending

BER expects the real prime rate to remain unchanged at about 5% during 1992 as SA's real prime rate is relatively low compared with its main trading partners. The prime overdraft rate is expected to average at 18,99% next year compared with the 20,27% this year.

Forecasts for inflation, which take into account the impact of VAT, as well as the projected 17c/l increase in the petrol price towards the end of the first quarter of 1992, are an average of 13,7% next year compared with this year's 15,2%. BER expects the inflation rate to be down to 12% by the end of 1992.

Great promise and challenge as SA enters era of hope

B/Day 12/12/91 (49).

An outsider's view: BILL JAMIESON, of the Sunday Telegraph, assesses the country after a recent visit

WHAT SA is economically capable of is colossal but it must create wealth to meet its people's aspirations. SA is presenting its continent and the world with the beginning of a new history. All-party constitutional talks now under way mark the latest milestone in a process of reform. The process is irreversible.

It is no overstatement to say the promise of SA, what it is economically capable of, is in every respect colossal. The point is still to be fully grasped by the world.

The country's international status and its longer-term economic potential have been uplifted to a degree unimaginable three years ago. From Washington to Moscow, the F W de Klerk government reforms and the recently signed peace accord have opened the doors of opportunity.

The scrapping of the last of the apartheid legislation, the steady lifting of international sanctions and the readmission of SA to world capital markets have created an investment prospect that is only just starting to capture the imagination of financial markets The trickle of international trade missions arriving at Jan Smuts Airport — from London and Tokyo, Bonn and Bucharest — has turned into a flood.

Big industrial and infrastructure projects such as the £1,2bn Lesotho Highlands Water Scheme and the £625m Anglo-Gencor Columbus stainless steel plant are under way. The motor industry is booming and Japanese concern Mazda has just taken a 24% stake in Samcor. Three new plants will be providing the industrialised world with millions of platinum auto catalysts, needed on every car to cut pollution. British hotel groups are looking to build in the Cape.

But it is not just inward investment that is providing the opportunity. SA's leading companies can take their place on the world stage by international capital-raising and diversification.

The process of change has been fraught. Tensions between tribal and political groups, township violence and unrest, are testimony to years of denial and frustration. A crushing poverty for millions of blacks characterises the country of gold.

But behind the simplistic flash-bites on world television lies a complexity of tribe and volk, of belief and identity, of resource and empowerment, and a determination to succeed by avoiding the tragic "liberation" errors of so much of sub-Saharan Africa. To learn from history it is not necessary to repeat it.

The challenge is how to meet the aspirations of a population of 37-million, 28-million of whom are black, many without jobs, homes and, for far too long, hope. In a world now intensely capital-competitive, begging-bowl economics is out.

In this, the moral boot of sanctions has swung firmly onto the other foot: black enablement will flow more surely from a response by the international corporate sector, small companies and large, and overseas investment institutions, than from looking the other way.

This penny may have been slow to drop in the US Congress, where the Gramm Amendment still blocks SA's reaccess to the IMF. But drop it will.

Britain, because of its long historical ties and its closer involvement in Africa, came to an early recognition of this fact. The UK may have been slow to grasp the deeper predicament of Afrikanerdom in a continent awash with bogus economics and failed socialism: only when the circle of armed Marxism retreated could the process of reform begin. White security was the key to black liberation, just as now, a free economy is the key to black security.

Britain led the way in the dismantling of sanctions. That, as they say, was the easy part. A huge programme of housing, welfare and education is needed to create equality of opportunity for all in SA. Just to match the rise of new entrants to the labour market requires the economy to grow by more than 4% a year.

☐ DE KLERK

Getting the economy right presents the greatest test for all parties within and without SA.

From the ANC is coming a recognition of the need for overseas investment and a retreat from ideology. Its general secretary, Cyril Ramaphosa, formerly a tough negotiator with the NUM but one the giant mining houses came quickly to respect, declared recently: "The most important way to attract foreign investment is by providing a general economic climate that is conducive to investment."

Behind the extremist rhetoric there is growing convergence as the parties feel their way towards a new constitution, a process notably enhanced by the peace accord.

Economic progress depends on this process continuing. But the foundations of a new SA are in place. And they are rock solid. They comprise:

☐ Low foreign debt: SA has one of the lowest relative foreign debt obligations in the developing world. The ratio of foreign debt to exports has fallen from 128% to 70% and debt to GDP is down from 43% to 19%. The average for developing countries is 230%;

☐ Growing trade surplus: the republic has sustained a balance of payments surplus for 27 consecutive quarters, with 1991 set for a surplus of R6bn and a positive trade balance of R18bn after a cracking set of figures for October. The underlying trend in non-gold exports is particularly encouraging,

☐ Strong base: in addition to being resource-rich — SA accounts for 35% of world gold production and more than 80% of platinum — it has a First World infrastructure, modern transport and communications, an established financial market and a sophisticated banking and insurance sector;

☐ Growth ahead: the economy looks set for a widely spread if slow return to 2% growth next year, helped by infrastructure spending, kick-start investment projects such as Columbus and foreign capital flows The reopening of international markets provides a further spur to growth,

☐ Tourist potential tourism accounts for just 1% of GDP. But the world average is 9,3%. If SA gets to even half that level 2-million tourist-related jobs will be created. The number of international tourist visits to SA is already rising fast from the current 500 000 level and is forecast to hit 2-million by the end of the decade, and

☐ An engine for Africa· SA supplies more than 60% of all the electricity generated on the continent and contributes 20% of its GDP. It is vital to the whole of Africa that it succeeds, for it is uniquely placed to lead and to lift the whole of the sub-Saharan continent.

Of all the positive points for the corporate sector, arguably the greatest is the calibre of its leadership. It has a managerial class of a competence that is internationally respected. The appointment last week of Gencor chairman Derek Keys to the Cabinet post of Trade and Industry Minister bears testimony to this, and will delight the corporate sector. The challenge is to create fast a new elite of black managerial talent. One of the most encouraging examples is at Engen, where 47% of managerial posts are in black hands.

Above all, what will empower SA is an awakening of its people to their potential in the geo-political map. It is supremely to do with identity and where SA wants to look. For it now has to come to terms with the world — and the world with it.

In the gift of this remarkable country is a vision of a higher order citizenship and the economic power that southern Africa is capable of. There has, in short, never been a better time to be a South African.

Don't let old wine in new bottles deceive you

Sowetan 12/12/91 (49

ON A recent Agenda **programme on television the new general secretary of the South African Communist party was interviewed by John Bishop.**

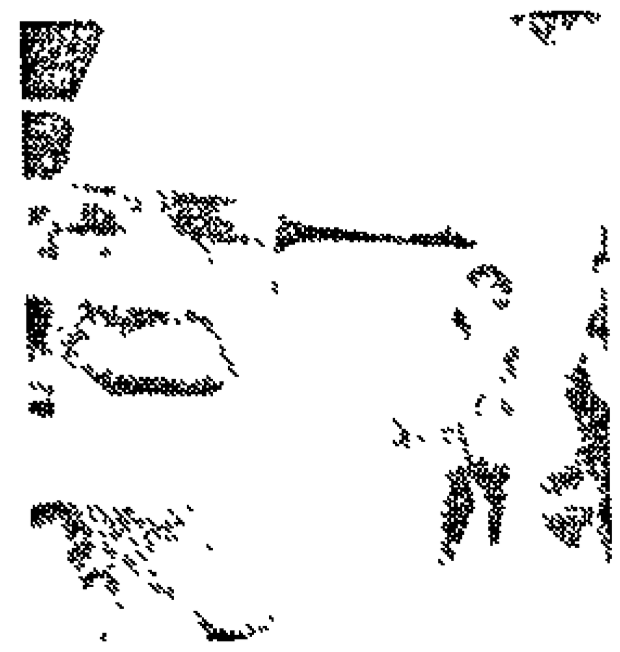
Since Bishop was unable to challenge comrade Chris Hani on any of the essentials of communism, Hani was able to pull off the same kind of revisionist deception about communism as did his predecessor Joe Slovo.

Comrade Hani expressed embarrassment about the outcome of communist rule in Eastern Europe, but indicated that this was because of errors in implementing communism properly

He asserted that communism is essentially democratic and that somehow the State abused its power in Eastern Europe.

South African communism, in contrast, would be

CHRIS HANI



JOE SLOVO

in favour of multiparty democracy and a mixed economy, though capitalism is an evil that relies on the exploitation of labour.

He also condemned capitalism for supporting apartheid, ignoring human rights, generating huge profits and for an inequitable distribution of wealth.

What Mr Hani is advocating is "not" the Marxism-Leninism that he claims; he is advocating the very state capitalism (Fascism) that has existed for decades in South Africa

Marx did not advocate private property but rather state ownership of all production. He was not for multiparty elections but for dictatorship of the proletariat (working people).

What comrade Hani means by "empowerment of the people" is state control by a handful of politicians in the name of a very evil, failed ideology about which he is trying to deceive us.

Mr Hani, like other communists worldwide, has realised that parasitic, repressive communism cannot long exist without the aid of productive capitalism.

He is willing to let some capitalism exist so that the non-productive can use it to survive Capitalists should be content to have the state regulate and redistribute the wealth created by capitalism in the name of "socialism".

Comrade Hani misses the point of basic economics People will take action only when there is an incentive to do so. There must be gain or profit for anyone to expend effort

Communism and to a somewhat lesser extent, facism, robs people of their dreams to excel and attain excellence.

Don't be deceived by old wine in new bottles Comrade Chris Hani wants the destruction of freedom and prosperity for all South Africans.

STEVE WHITE,
Florida Hills.
West Rand.

Economic growth should be targeted on job creation area

Finance Staff STAR 13/12/91

(49)

Economic growth should be aimed at sectors where employment can best be created, says Sanlam in its December Economic Survey.

Chief economist Johan Louw says both the extent and the quality of economic growth over the past six years has been disappointing.

Total real growth averaged about one percent annually — 6,4 percent over the past six and a half years — and was concentrated in a few sectors.

Agriculture made up most of the growth, accounting for some 39 percent, while the public sector accounted for 32,9 percent. Finance contributed 32,1 percent, electricity 18,1 percent and transport 10,5 percent.

On the other side of the coin, commerce reported no growth, while the construction and manufacturing industries had a negative growth rate of 8,1 and 8,7 percent respectively. The worst performer was the mining sector, where growth fell by 22,9 percent.

The most worrying aspect, Sanlam says, was that sectors which should have made important contributions to job creation — commerce, manufacturing, mining and construction — actually retrenched workers.

With soaring unemployment it is essential drastically to increase economic growth and to aim economic expansion specifically at sectors best able to create employment, Mr Louw says.

Although GDP rose by 0,5 percent in the third quarter, initial indications reveal that economic activity in the fourth quarter remained sluggish and may have worsened in several sectors.

In all, Sanlam says a negative real growth rate of 0,5 percent is expected for 1991 and a positive real growth rate of about two percent for 1992.

Regarding inflation, Sanlam expects increases in the CPI to decline slowly from the present high of 16,8 percent to an average increase of about 14 percent in 1992.

As a result of the continued high level of inflation, no drop in interest rates is expected before the first quarter of 1992.

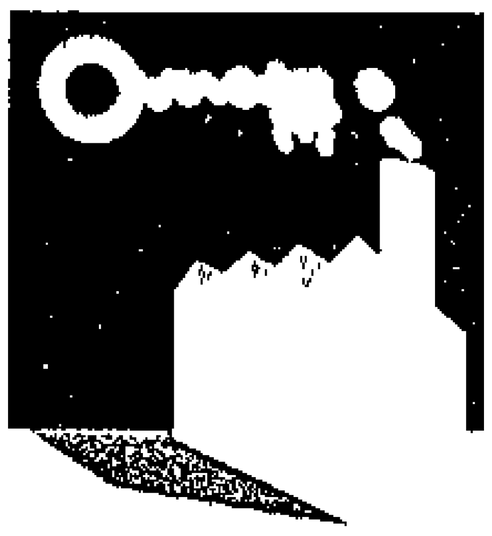
ECONOMIC POLICY

(49)

Enter the rainmaker

FM 13/12/91

Can Derek Keys' magic formula work in government?



When Derek Keys set up a financial consultancy in 1965, his first client was Malcomess, a family-run company that imported and distributed farming equipment.

Its business had been hard hit by drought and Keys advised management how to contain costs to survive the lean years.

Then came the rains — and the company reaped the full benefits of rationalisation. Realising Keys' potential for steering a business through fair weather and foul, the family made him chairman.

Keys' reputation as a rainmaker was made and has flourished ever since. Though he has had his share of luck in the vital process of wealth creation, his achievements are attributed to vision and leadership.

These qualities — not least luck — will be much needed in his new key post of Trade & Industry Minister, where he replaces Org Marais. Even more important, perhaps, is that Keys (now 60) has taken over Economic Co-ordination from Dawie de Villiers.

This position is pivotal to economic policy-making and also confers considerable influence.

All economic policy issues should be routed through his office and presumably all decisions will bear his stamp.

That could in practice make Keys even more important than Finance Minister Barend du Plessis in policy determination, and one of the most powerful members of the Cabinet.

The job entails bringing order to government's incoherent economic policy and creating a consistent framework within which wealth can be generated.

This brings into focus the third dimension of the appointment: Keys is expected to bring entrepreneurial vitality and creativity into the rigid structures of government and the cumbersome process of economic decision-making.

In this role, he succeeds the late Wim de Villiers, who was appointed Minister of Administration & Privatisation in September 1989 and later given the newly created portfolio of Economic Co-ordination.

(This is the second time Keys has followed Wim de Villiers into a job. De Villiers, ousted as Gencor chairman in August 1982, was succeeded by five executives operating under non-executive chairman Ted Pavitt until Keys became group CE in 1986.)

Though credited with a number of achievements, including sweeping rationalisation in public administration and the slashing of the Defence budget when the war in Namibia ended, De Villiers failed to create a new culture within government. He blended in only too well — operating behind a veil of secrecy, inaccessible to the press, out of touch with the private sector and said to be isolated even from his colleagues.

Despite claiming that he favoured market policies, he soon interfered in the allocation of resources. In October 1990, expressing concern about the rate of inflation, he insisted that Eskom should raise the electricity price by only 8%, well below the rate of inflation.

This sabotaged Eskom's attempts to strengthen a weak balance sheet.

As the *FM* pointed out then, sound financing for public corporations and avoidance of hidden subsidies are indispensable to an anti-inflation policy. Moreover, De Villiers' act tacitly admitted that he did not take privatisation seriously.

To his credit, De Villiers strengthened the hand of departmental managers who previously operated within the shadow of the Commission for Administration. Unlike Keys, he was not a complete outsider. He had a close relationship with government before his appointment.

He assisted in the modernisation of Armscor and Atlas Aircraft; he investigated the policies and structure of Sats, the Post Office, healthcare services and Eskom, and was special adviser to Pretoria on privatisation.

Though he had many critics, particularly in the private sector and the press, he had tremendous stature in Cabinet. His authority "derived not only from his official position but from a close relationship with F W de Klerk and a capacity for sheer hard work which always impressed," says ex-Reserve Bank Deputy Governor Jan Lombard.

Org Marais ... *displaced by urgent new priorities*

"He was very persuasive and prepared himself thoroughly when he made a presentation," he adds.

But whatever De Villiers did achieve in terms of cost-cutting and increased efficiency, his style ran totally counter to the need for open government and accountability.

Keys is a very different man.

Apart from nine years early in his career at the State-owned Industrial Development Corp (IDC), he's operated totally outside the ambit of government. He has a special talent — he not only knows what he must do, but refrains from doing what is not needed. "You don't have to re-invent the wheel," he said on his Gencor appointment.

Keys is a gifted communicator. His leadership qualities are translated into an ability to be absolutely supportive. He is known for getting the best out of the people around him. "You form a team and get people to enjoy themselves," he once said.

Speaking of his management style, he described himself as a Jewish momma — "a loving and critical audience. It's my function to criticise but I criticise by presenting options." He can convey what it is he wants done — and having picked the people best able to do it, lets them get on with the job.

At Malbak, formed from a merger of Malcomess and packaging company Bakke Industries, he evolved an effective but low-profile style of leadership, first as deputy chairman and then as chairman. He appointed Grant Thomas as CE. The two proved a winning team that caught the eye of Sankorp's Marinus Daling.

This subsidiary of life office Sanlam held diverse industrial interests. On the strength of Malbak's performance it let that company take over the troubled Protea Group. Keys played an important part in negotiating the deal. When subsequent restructuring immediately produced a strong operating performance, his name went up in lights.

Success brought the post of CE at Gencor, SA's second largest mining house.

Burdened by struggling industrial interests, it was seeking direction when, with some foresight, in April 1985 the *FM* suggested that the appointment of a top-calibre CE would produce a R3 rise in the Gencor share price.

A year later, the announcement that Keys would replace the five-man executive committee sent the price from R39,50 on April 21 to R42,50 the following week.

With no mining background, Keys relied on management skills. He decentralised structures, chopping head office from more than 2 000 to fewer than 50, not by mass retrenchment but by internal reorganisation

Head office staff were largely involved in mining interests. To avoid burdening industrial companies with costs unrelated to their operations, the two divisions were clearly demarcated. Keys created Genmin to embrace the mining interests, while industrial companies were placed in Malbak.

He has, of course, a thorough grounding in corporate finance (he chaired discount house NDH for several years), and perceives the importance of "a super system of financial information and carefully structured authority levels."

Without this, he says, decision-making can't be effectively decentralised

His arrival at Gencor proved a watershed for the troubled conglomerate, which had been managed by committee for more than three years. After several years of underperforming the mining sector, the Gencor share began to gain momentum (see graph) Of the major capital projects now in the pipeline, some of the biggest involve Gencor.

The element of luck has not been lacking in his career — bad as well as good. By 1986, Gencor was already in a recovery phase, largely because of its soaring mining income (though the industrial interests were in trouble, many of them with large forex losses on their books).

Conversely, this year profits dipped for the first time since Keys' arrival — attributable income dropped 5% Keys' chairman's review points out it is the first time in many years that receipts from export sales were not boosted by a depreciating rand and the gold price has trended downward.

Now he faces a new challenge.

He has the advantage of having been hand-picked by President De Klerk as the man for the job. As an outsider, he has no loyalties within Cabinet and can distance himself from interdepartmental rivalries. Consolidation of the two portfolios should eliminate fragmented responsibility.

The Department of Trade & Industry (DTI) is the linchpin of the Structural Adjustment Programme, introduced in 1989 to shift the thrust of policy from import substitution towards export promotion. But implementation is confused (see *Business*). Import tariffs which protect local industry have been lowered but still damage SA's capacity to compete internationally.

Barend du Plessis ... *fading star in key areas of policy*

And the change in orientation brought Gatt-breaking incentives that did not actually liberalise trade. Moreover, the DTI continues to provide special deals for dubious purposes, such as allocating resources to encourage development in certain regions rather than letting them flow to the areas which will prove most productive.

As many of these benefits affect revenue collection, the activities of the DTI and the Department of Finance are often in conflict. Keys recently received a tax concession when the Columbus stainless steel project, partly owned by Gencor, granted accelerated tax write-offs. It is to be hoped that, wearing a new cap, he will push for a simpler incentive system — a lower tax rate and no special deals for powerful lobbies

At all events, a priority must be to persuade Du Plessis to adopt a more consistent approach to revenue collection. There is little point in providing a range of incentives — and a massive disincentive in ad hoc and retroactive changes to the tax dispensation. The IDC has made recommendations on the subject that government is due to comment on in February. Keys, who takes up his post on January 20, has already had the opportunity, as a member of the Economic Advisory Council, to state his views. But they will carry more clout now

Another issue which should be tackled is the unsatisfactory division of responsibility between Finance and State Expenditure under Amie Venter.

In April, De Klerk created an anomaly when he put Venter in charge of State Expenditure, though Du Plessis remains responsible for the Budget

Du Plessis told the *FM* that he'd asked for the change as other responsibilities made it impossible for him to do the job adequately

Whatever the sentiment at ministerial level, the move caused consternation in the department, where the difficulties it would cause were better understood

These problems were compounded by a failure to finalise the division of functions until this month It has now been decided to move Treasury from Finance to State Expenditure That two departments were expected to function effectively for seven months when neither knew its functions says a lot about present economic co-ordination

Political background

Will Keys be able to perform the same magic in the rigid confines of government as in the private sector? Those who have seen him in action insist that he would not have accepted the job unless he was assured that he would be free to implement his ideas.

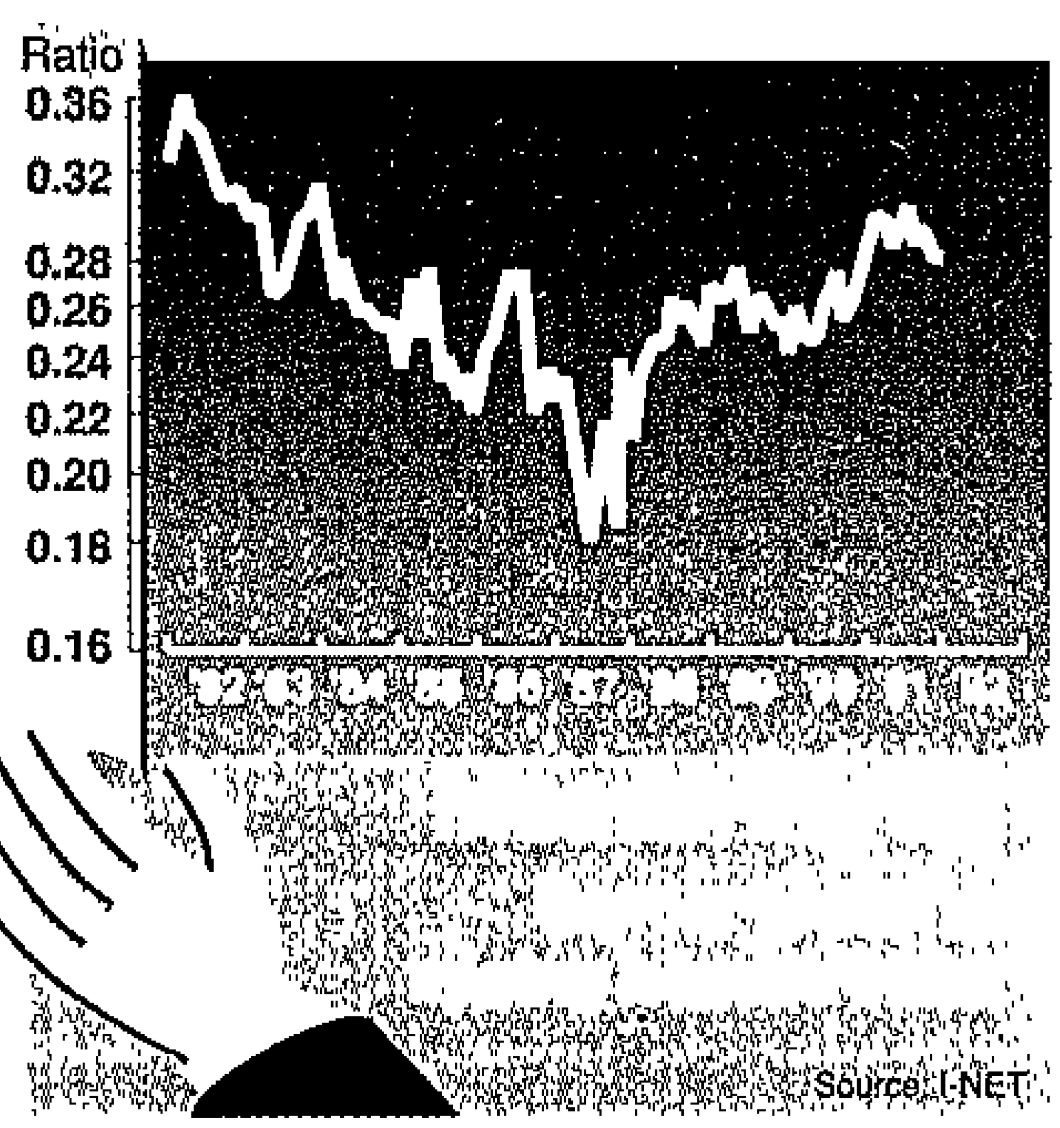
Jan Dreyer, who heads the Central Economic Advisory Service, says there is considerable scope for decentralisation and individual acceptance of responsibility within government He believes the new Minister can make sweeping changes.

On the other hand, Keys has never had to deal with anyone as obdurate as the bureaucrats who helped frustrate Wim de Villiers' policies — notably privatisation.

And lack of a political background, though it confers independence, can also be a weakness when it comes to persuading a caucus to accept necessary but unpopular policy changes — as previous Ministers recruited from extra-parliamentary, non-NP ranks have found.

But if anyone can succeed in breaking the mould in government, Keys can If he accomplishes any worthwhile economic objectives, he may even survive the transition to a broader form of government

Whoever governs the multiparty democracy that lies ahead will need to satisfy the economic aspirations of those who put them in power. They will desperately need the skills of an experienced rainmaker. ■



Dawie de Villiers ... *handing over reins of influence*

Fixed investment upswing forecast

BDay 13/12/91 (49)

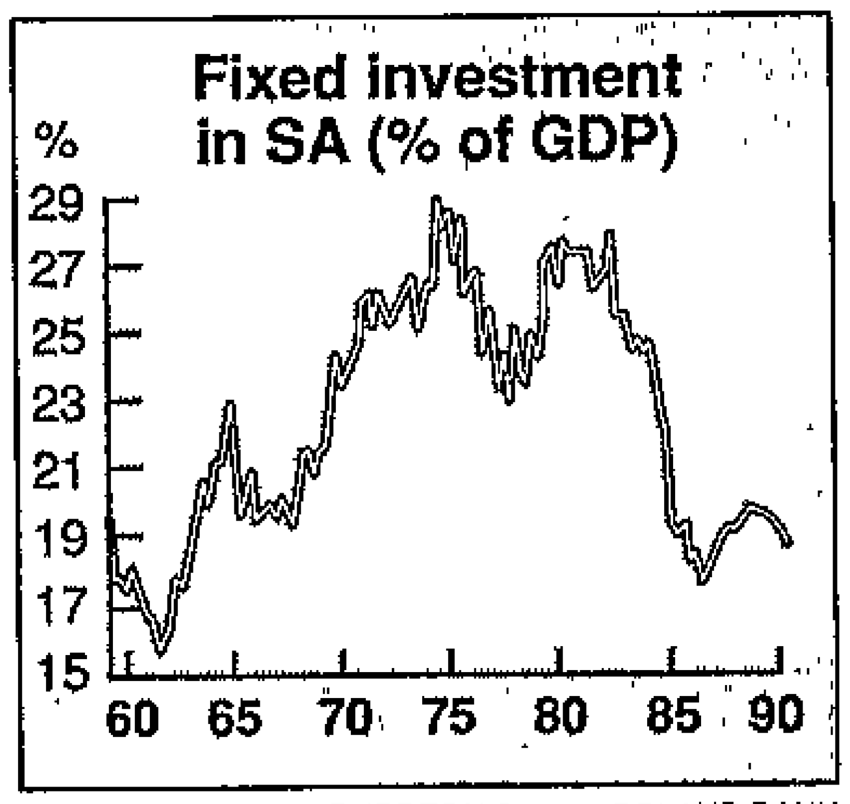
SHARON WOOD

THE stage is set for a steady upswing in fixed investment during the first half of the '90s — reversing the unsound investment pattern of the '80s, Boland Bank says in its latest Economic Review.

Stable and reliable capital prices under the Reserve Bank's current monetary policy approach, which pursued higher real interest rates and a stable exchange rate, will be important ingredients on the road to success.

Sharp cyclical fluctuations in real interest rates in the past decade have disrupted personal savings and discouraged fixed investment.

"Although higher interest rates will initially present great challenges to participants in the economy, and has already done so, a reliable price of capital is at least being established," it says.



Graphic LEE EMERTON Source BOLAND BANK

Above-normal credit-based private consumer spending, one of the main culprits of low savings and investment during the '80s, will also be depressed by the stability of the price of capital.

In addition, Boland Bank says, a stable rand will reduce the price of imported capital goods.

Availability of foreign capital will become a major source of finance as domestic savings remain subject to certain pressure points.

Foreign investment capital and domestic savings are the primary sources of financing a fixed investment programme. Foreign capital will have to supplement a shortage of local savings.

Boland Bank says it is optimistic that the availability of fixed investment loan capital will not be a problem during the first half of the '90s.

During the '80s, fixed investment fell from 29% of GDP in 1981 to below 19% in the second quarter of 1991.

Fixed investment had been pulled down by lower personal and government savings, but company savings and provisions for depreciation had performed with relatively stability.

The slow road to recovery begins

S/Times (Buss) 15/12/91 (49)

IT's official — South Africa will move into a new recovery cycle next year, says Reserve Bank Governor Chris Stals.

The economy will show better growth than that achieved in the past two years, but Dr Stals warns the turnaround will not be spectacular. He says it takes time for the improved conditions to work their way through to the main stream.

By IAN SMITH

"The recovery will be a slow process, just as the downturn took time to turn into recession," he told Business Times in an interview this week.

South Africa moves into the new year with many of the fundamentals for growth, except inflation, in better shape.

"Just about everything else is in line," says Dr Stals.

The growth in money supply has been reduced from 27% to 9% and foreign-currency reserves are healthier than they have been for years.

Capital

Reserve Bank holdings of R9-billion with another R1,5-billion in the banking sector cover SA's imports for eight weeks.

Unused foreign credits of another R4,5-billion mean that imports for nearly three months are covered.

At the same time, says Dr Stals, there is a good chance that SA will end 1992 with a positive capital flow — the first year without a loss since 1984.

After two years of heavy debt repayments — R3-billion in 1990 and about R2,4-billion this year — the load will be lightened next year with about R2,5-billion scheduled for repayment.

SA is rolling over about half of the debt falling due, which means that less than R1,5-billion should leave the country.

Dr Stals does not envisage that the balance of payments will be a serious problem again until SA nears a growth rate of about 4,5%.

Much of the pain felt by the private sector in the current recession has been due to the fact that it coincided with a spell of adjustment for the economy.

Advances have been made, but Dr Stals says there is no room for a significant fall in interest rates until inflation is brought more tightly under control.

"The lower rate of growth in the money supply will have an effect on inflation only next year."

The improvement in the balance of payments means that the supply of money is improved without Reserve Bank intervention, making room for a small fall in interest rates.

Target

"The balance of payments inflow and capital from the rest of the world are beginning to have an effect on market interest rates," says Dr Stals.

Prime overdraft of 20,5% could come down "a little", but this must be in response to market forces.

There is a convention that overdraft rates should be three percentage points above Bank Rate, but commercial banks do not have to follow the tradition rigidly.

Real interest rates — above the rate of inflation — must remain for the foreseeable future. The Reserve Bank rate is only two percentage points above the inflation rate, but commercial interest rates give some room for manoeuvre.

Dr Stals does not set a target for a fall in inflation next year, but he hopes there will be some reduction.

"We will beat inflation. We haven't beaten it in 18 years, but we will."

Interest rates below the inflation rate cannot be sustained.

"That would entice everyone into borrowing again. They would not be able to handle the debt burden when interest rates rose, as they inevitably would."

Dr Stals has no sympathy with anyone who borrows money at current high rates and then complains about the burden of servicing loans.

"But I do have sympathy for the man who borrowed at 15% and now finds that he has to pay 22%."

One of the greatest threats facing the economy is over-spending by the Government.

"There is an expectation that spending will increase substantially in the next few years because of the many legitimate demands on the State.

"But the Minister of Finance and the Cabinet are aware of the dangers of excessive Government spending.

"The Minister of Finance has a difficult task in controlling expenditure at this time. We must warn against too high expectations."

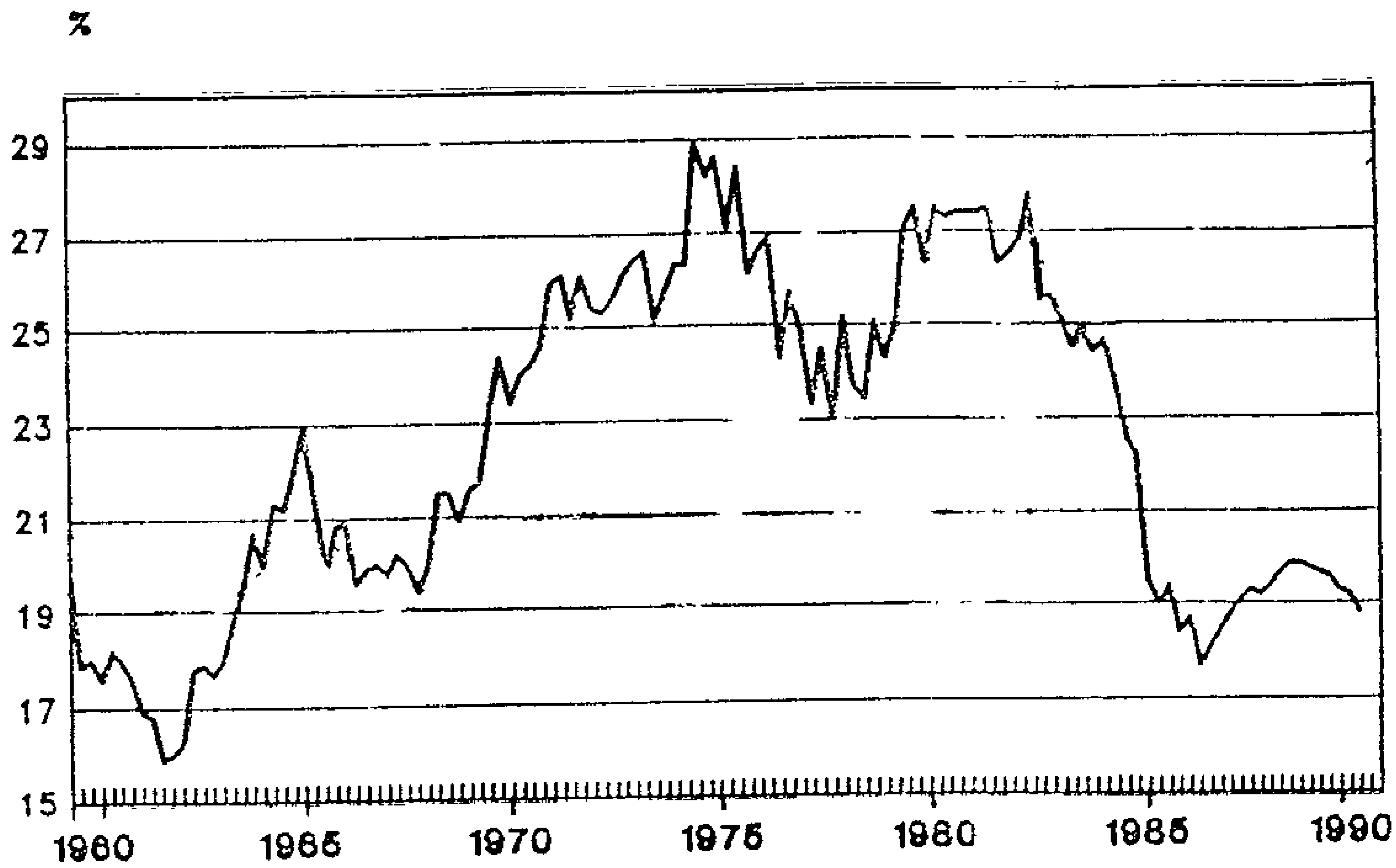
CHRIS STALS: Monetary medicine is working

Foreign capital vital for economic survival

S. STAR 17/12/91

By Sven Lünsche

FIXED INVESTMENT IN SOUTH AFRICA (% OF GDP)



Stable economic and political policies will have to be pursued for SA to attract foreign investment capital, which is becoming crucial to its economic survival.

As much as R20 billion per annum of foreign investment over the next few years is required to boost the economy to an optimal Gross Domestic Product (GDP) growth rate of four percent a year.

These are the crucial findings of two recent economic reports, which highlight investment spending as the major determinant of more stable economic growth rates in the years ahead.

Downswing

In line with the economic downswing over the past decade, fixed investment as a percentage of GDP has declined steadily from 29 percent in 1981 to 19 percent this year.

"To a large extent, SA's future economic success will be determined by its ability to reverse this negative fixed investment pattern," says Boland Bank in its latest Economic Review.

While Boland Bank is generally optimistic that loan capital will be available for the purpose of fixed investment, it stresses that foreign capital is going to be the major source of finance because domestic savings have been eroded steadily over the past few years.

Components

Analysing the three components of domestic savings — personal, government and company savings — the bank says the medium-term prospects for a marked improvement in SA's domestic savings pattern remain relatively limited.

"The rising trend in government spending will bring sustained pressure to bear on the savings effort of the public sector, while it will also take time to increase the individual's willingness and capacity to save.

"The expected revival of the economy and a continuation of the anti-inflationary interest rate policy should nevertheless prevent a further weakening of the domestic savings pattern," Boland Bank says.

Nevertheless, the emphasis will be on foreign capital to promote spending on capital investment, and in this respect recent political changes have resulted in a major structural shift in the availability of foreign loan capital.

Although a net outflow of capital continues to be felt, its annual extent has declined from a high of R8,3 billion in 1985 to R2,9 billion in 1990.

"This limitation of fixed investment should ultimately disappear completely and, in view of SA's favourable foreign debt ratios, should provide valuable support for the country's fixed investment," Boland Bank says.

Fundamental to strong foreign support for SA's capital projects is socio-political stability and an acceptable risk profile.

To achieve this, the present and any future government must pursue policies that create a stable climate for investment.

In its report "Investment in An Evolving SA" stockbroking firm Davis Borkum Hare highlights a number of political and economic options and their impact on foreign investment perceptions.

"While the violence continues, SA remains an unattractive environment for long-term investment funds.

"There is a massive and growing population of ill-educated people to be provided for by a diminishing population of highly skilled people and there is much uncertainty about a future government," Davis Borkum Hare says.

"Only by attracting investment of money, skills and expertise will this be possible.

"Encouraging investment by slow and relatively small proportionate degrees is one way of setting this in motion."

On the economic front, the firm lists low corporate and individual tax rates, limited exchange controls and the repatriation of dividends and profits as essential to encouraging foreign investments.

To achieve an optimum economic growth scenario of four percent per annum, industrial capacity utilisation will have to be boosted by large-scale investment.

At present, full capacity utilisation will be reached with annual GDP growth of 1,7 percent.

"The low level of gross fixed investment over the last six years will restrict GDP growth.

"It will take at least three to four years of foreign investment in the order of R20 billion per annum to reach full capacity under the optimal scenario of four percent GDP growth," Davis Borkum Hare concludes.

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BI

New forum hits out at govt, bank

B\Day 13/12/91

TIM COHEN

THE NATIONAL Development Forum, established at the weekend from organisations aligned to the former Mass Democratic Movement, yesterday criticised government, the Development Bank of Southern Africa and the Independent Development Trust (IDT) for engaging in "politically motivated development".

The forum was set up at a meeting in East London because of a perceived need for the democratic movement to build its own development policies and strategy, the organisation said at a news conference.

The forum comprises representatives of the ANC, Cosatu, the national civic movement, health, welfare, education and rural and urban development groups.

Its formation had become urgent in the light of moves by government and what it called allied organisations, in particular the Development Bank and the IDT, to take major initiatives to address development needs.

"These initiatives in our analysis are politically motivated to build support for the government, to entrench the establishment institutions and their 'top-down' product-focused development approach," it said.

Members of the forum preferred "people-centred development" which emphasised building human and institutional capacity within communities to enable them to exercise greater control over the process, the body said.

The forum's approach was based on a macro policy of growth through redistribution in the restructuring of the economy.

The forum intends developing a policy framework, forming guidelines for engagement and negotiations in the transition period and working on enhancing members' institutional capacity.

Some of the key conclusions of the forum meeting were:

- That members would consider participation in the proposed socio-economic negotiation forum;
- That the Development Bank was an appendage of government and its future should be placed on the agenda of national negotiations;
- That a national task force be established to negotiate the future activities of the IDT;
- That a working group should be established to produce a discussion paper on development finance; and
- That the development research group, established by the ANC, should report to members of the forum by March with development policy options.

Joanne Yarwich and Andrew Boraine, the rural and urban co-ordinators of the newly established National Development Forum, at a news conference in Johannesburg yesterday.

FNB ponders start to overseas operations

(49)

By Derek Tommey

First National Bank's plans for 1992 could include the start of operations in the UK and some other countries.

Plans also include a drive to increase share of the home loan business, the bank says in its annual report.

In an overview of conditions in South Africa, chairman Basil Hersov and chief executive Barry Swart are mildly bullish about the middle- and long-term economic outlook. They say the impending upswing could continue well into the Nineties.

But they warn that business conditions could remain difficult in 1992, especially if South Africa continues to be an exporter of capital.

"To be a net exporter of capital is a catastrophic situation for a developing and fast-growing nation," they say.

They are critical of the political intolerance reflected in continued violence, and say it has serious implications for a democratic future.

They call for a more rapid lifting of trade sanctions "to provide the economic stimulus the country needs now" and contribute to a climate "where the process of transition can take place within a more peaceful framework".

While economic conditions overseas are likely to improve, it is not certain this will rub off onto the SA economy, they say.

The high level of state spending is unlikely to lead to a relaxation of tight money policy.

They say current political posturing is restricting access to foreign loans, which could help ease economic conditions.

"Given that change is the only certainty, too much emphasis on economic or political prognostications would be unproductive," they say.

In this situation, the foundation stone of group planning and action will remain "doing the right things right within the banking context".

Although FNB failed in its efforts to take over Allied and thereby increase its share of the home loan market, it remains a vigorous competitor in a market "where the capital risk coefficients stipulated by the Deposit-Taking Institutions Act are favourable".

Since January it has increased its book (actual plus committed) by more than R1,7 billion — an increase of 42,52 percent.

Mr Hersov and Mr Swart hope that the provision of home finance to certain sectors of the community will soon be depoliticised to the point where it will be possible to apply normal risk criteria.

They say that progress in the political area should eventually encourage a greater inflow of capital.

At the same time, South Africa's re-entry into the international economy heralds the beginning of a switch from primary production to manufacturing and the reduction of dependence on primary exports.

South Africa's strategic position in relation to sub-Saharan Africa, although often exaggerated, should create export opportunities.

Because access to foreign capital and IMF facilities will eliminate the need to truncate the recovery phase of the business cycle, "the impending upswing could be sustained well into the Nineties", they say.

R15-bn scheme for development

Sowetan 19/12/91

A DRIVE to create a R15 billion scheme for development is currently being spearheaded by top ANC officials including Mr Nelson Mandela and Mr Thabo Mbeki, with the project possibly coming into existence next year.

To be called the South African Trust for Equity and Development, it would allocate large amounts of money for housing, education and other socio-economic projects.

Sources said it was designed to level the playing field by allowing the African National Congress similar patronage that is currently available to the National Party through the Government in the run-up to constituent assembly elections.

Mandela said in an interview yesterday that the scheme had in the past fortnight received favourable response from leaders of the G7 group of industrial countries, including US President George Bush, Germany's Helmut Kohl and British Prime Minister John Major.

Full details were still being worked out, Mandela said.

"This trust would operate once we have installed an interim government of national unity. And it will be possible to achieve that (the installation of an interim government) much sooner than many people think.

"Once an interim government of national unity is installed, we wouldn't call for sanctions against ourselves," he added.

"The SA Trust for Equity and Development will not handle the whole problem of socio-economic development in South Africa. There have been distortions of the economy on a wide scale over the past 300 years.

"It would take much more than SATED to rectify these problems," Mandela said.

Head of the local technical committee overseeing the trust fund is University of Transkei rector Professor Wiseman Nkuhlu. - *Sapa.*

Moneylenders now own the temple

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REVIEW OF THE YEAR 1991

W/M ail 19/12/91 - 2/1/92

Whatever happened to the Great Economic Debate? **REG RUMNEY** *argues the results have already been decided by what is happening elsewhere in the world*

AN AIR of unreality pervades economic debate in South Africa. All over Africa and Latin America governments have sold, or are selling off, state enterprises. In South Africa the department charged with privatisation sits on its hands, paralysed by politics.

Even Sweden, long the model for those looking for a third way between communism and capitalism, and never a great nationaliser anyway, has started to sell off stake in private companies.

Last month, the new non-socialist government, moving to deregulate Sweden's economy, proposed to sell state holdings in 35 companies.

All over the world governments have embraced, in some cases zealously, deregulation and liberalisation of markets. In South Africa, a lot of laws have gone but the government would be advised to move cautiously for fear of sparking a firestorm of public opposition.

Zimbabwe Industry and Commerce Minister Kumbirai Kangai announced recently the government was gradually removing subsidies on some basic consumer products, as well decontrolling prices of most basic consumer goods.

Argentina has gone the whole hog, deregulating everything it possibly could.

Now South Africans watch in almost disbelief as their country joins the world again.

As we do, we will find that economic choices are as limited as political policies proved to be.

What is the lesson of the success of the Comprehensive Anti-Apartheid Act and boycotts and sanctions measures, especially the perhaps mis-named "financial sanctions"? Surely that no nation can for any length of time flout the wishes of the world community.

As it is in politics, it is even more so in the world of money.

Never since the Reformation have a set of ideas been so dominant in the world. It may be stretching a metaphor, but the World Bank-International Monetary Fund is the new Catholic Church, and the US president the new Pope.

For some on the Left, the IMF and World Bank are modern twin demons of capitalism. Conservative economists generally think the more IMF involvement the merrier.

It's not that simple, of course. Access to IMF credit represents a stamp of approval which makes it possible for South Africa to borrow abroad. The IMF and World Bank are full of clever people with what seems like good advice.

But should one avail oneself of IMF and World Bank loans?

If you really have to. IMF loans are short-term and for countries having balance of payments problems. World Bank loans are aimed at development, but its poor track record in Africa and the danger that the money may be squandered on prestige projects means we may not want to avail ourselves of them, and if we do we should direct the loans to specific areas with care.

There is some feeling that IMF assistance might be inevitable — if and when South Africa has another boom. A booming economy would mean capital equipment would flow into the country to manufacture goods to supply a new and vigorous demand. Money would flow out to pay for that, and this would eat into the balance of payments.

But forget, for the moment, about the IMF and the World Bank.

Wealthy nations don't need the crutch of bridging finance or long-term aid. And, the common wisdom goes, to create wealth South Africa needs private capital investment and to be able to export.

To export South Africa will have to continue — possibly at better odds — to be a part of the General Agreement on Trade & Tariffs (Gatt). Here again we had better take note of the trend in other countries of cutting protective tariffs, the taxes governments impose to keep imports out and help local industries manufacture replacements.

On foreign investment, South Africa should heed the lesson of two recent big disinvestments. Pilkington of the UK is about to sell its 48,4 percent interest in Glass SA for R525-million to Plate Glass and Shaterprufe Industries. Swiss-based Nueva Holding has announced it will sell its 51,6 percent interest, valued around R52-million, in the Everite Group's holding company, Everite Holdings. This, when disinvestment pressures have dissipated.

Overseas firms are not exactly falling over themselves to put their money into Africa. They will have to be enticed here.

If it doesn't want to put off entirely any potential investors, any new government will have to consider sweeping economic change with care. Nationalisation programmes may have seemed sensible at other times. In South Africa now it will be seen as a mark of the macro-economic populism that wrought disaster in South America and Africa.

This is not to say economic choices are completely absent. Economic direction still has to be moulded by any government, and democratic governments are answerable to their voters. Redistribution is still a burning item.

So there's an outside chance populist pressur may lead to large-scale nationaliation. The pre: sure will be on for more social spending to redres historical imbalances. Protectionism may snea in, cloaked as patriotism.

But these would be political decisions wit economic consequences, not choices made wit the best economic outcome in mind.

In the end economic debate is more likely to b about competition policy than nationalisation; th Budget deficit before borrowing rather than fre housing for all; the level of taxes rather than th direction of the five-year-plan.

In other words, the minds of economic plan ners will be exercised with highly technical deci sions. No one is going to get away with uprootin the entire economic system — unless the worl order undergoes another massive upheaval, and capitalism collapses this time round.

For now a modern Messiah is going to find it difficult to drive the moneylenders out of the temple: they own it.

Soviet experience holds crucial lessons for a changing SA

B/Day 19/12/91.

(49)

VLADIMIR I TIKHOMIROV

RECENT developments in the Soviet Union and SA show that the national, or nationalities, question remains probably the most difficult issue to solve during the process of establishing peace and stability in transitional societies.

Despite all the historical, social and economic differences, one can identify a number of parallels, and even coincidences, both in the way that the situation in these two countries will develop, and in the way their leaders handle it.

Despite the fact that the Soviet Union is inhabited by more than 100 different national and ethnic groups, with striking differences in their historical, cultural, religious, traditional, social and economic backgrounds, the primary reason why it did not experience the problem of the growth of nationalism(s) on a large scale as early as the 1970s, was its relatively stable economy.

While a country has a stable and growing economy that provides funds for social upliftment on a large scale, the problems of nationalism or ethnic/racial relations tend to dissipate — at least in the minds of the majority. On the other hand, economic crisis usually causes deep social problems that immediately lead to the growth of nationalism, separatism, chauvinism and/or racism.

Six years of President Mikhail Gorbachev's experiments with political and economic reform have led the Soviet Union into an even deeper socio-economic crisis. The ever present nationalist threat has become a reality.

By the beginning of the 1990s, almost all the national and ethnic groups within the borders of the Soviet Union were experiencing dramatic rises in mass nationalist feelings. The indecision of Gorbachev's policies at home, due mainly to a lack of clear perspective, eventually brought about that very revolutionary change that Gorbachev had tried so hard to avoid.

The defeat of the attempted August 1991 communist coup has led to the collapse of the centralised communist regime, and to the disintegration of the world's last colonial empire. Non-communist governments of former Soviet republics have taken over power from the all-Union structures and declared their full sovereignty in every field.

Nevertheless, the nationalities' question has still not yet been resolved. Despite all the radical changes, the growth of nationalism has not halted. Moreover, nationalist tendencies are also threatening the integrity of various former Soviet republics. This leads one to focus on the interrelation between economics and national/ethnic developments.

All the former Soviet republics, as well as many of the countries of the former socialist bloc, are experiencing huge economic difficulties and a resultant decline in the standards of living of their people. Unless this decline in economic development is reversed, these states have no real way out of the national/ethnic crisis.

Only a working and growing economy can provide a realistic base for stability, prosperity and national/racial peace in any society — the Soviet Union or SA.

Some of the lessons that can be learned from Soviet history that have relevance for SA include:

□ SA and the former Soviet Union are probably the only countries in the modern world that have such complicated national/ethnic structures. Even a brief overview of the history of national developments in the Soviet Union reveals striking similarities with the SA situation.

Though multi-ethnic societies exist in a number of other countries, the Soviet Union and SA differ distinctly from all of them in a number of respects. The most important of these is that the Soviet and SA "nations" are formed from a large number of smaller nations/ethnic groups, many of which have their own historical areas of settlement and cultural, ethnic and linguistic integrity. In other words, in the ideology of these societies there exists, simultaneously, nationalisms, ethnic outlooks, cultures and religions which create a dangerous potential to destroy these "nations".

□ GORBACHEV

According to the theory and history of state law, there are only two basic forms of state structures: unitary and federal. The history of the Soviet Union demonstrates that attempts to fit a multi-ethnic society into the limits of a unitary state are doomed to fail. This will result only in the growth of ultra-nationalistic tendencies, chauvinism and ethnicism/racism, and will eventually lead to the break-up of the state, with the resultant social upheaval and economic disintegration;

□ Federations of national/ethnic states which have a large amount of political, economic and cultural autonomy invariably prove to be the optimal structure for a complicated multi-ethnic/racial society.

Full political and economic independence is probably even more favourable an option, but this can be reached fully only if the states involved have historically loose economic ties. In the case of the Soviet Union and SA, these countries are economically integrated to such a high degree that complete and violent disintegration could lead only to a total collapse of their economic potential, throwing them decades back in their development;

□ The nationalities, or ethnic, question gains in importance only under conditions of social and economic crisis. As soon as a functioning and growing economy in a democratic power structure is in place, it is improbable that one will have to cope with national/racial problems on a large scale.

The experience of highly developed societies in the EC shows that, at a certain high stage of economic development, the need for the maintenance of political boundaries become less imperative, while the economy constantly increases pressure for the unification of economically integrated societies.

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 economy. Only that is able to provide a realistic basis for unity in the future; and

□ Experiences in the Soviet Union have also proven the argument that centrally planned, or state-owned, economies are incapable of providing the necessary funds for modern socioeconomic development.

The ineffectiveness of nationalised, command and state-run economies can be seen worldwide; no matter how sincere the initial goals of the advocates of nationalisation or centralisation were. At the end of the day, any government needs funds to meet the social demands of its people. One may well have one's own reservations about free market economies, but, clearly, only these have managed to provide the necessary funds in an efficient and, obviously, democratic manner.

Probably the most important lesson that can be learnt from the Soviet experience, however, is that economic development is directly and inseparably related to the national/ethnic/racial processes.

National or ethnic stability in a society is totally dependent on both the state of the economy and the realisation of its potential to expand. The economy's rate of growth, flexibility and openness to new influences are the major factors that create national stability and peace in a multi-ethnic society.

A growing and vibrant economy in SA will be crucial in neutralising chauvinist nationalist tendencies and in ensuring a successful transition to a new political order.

□ Tikhomirov is director of studies at the Institute for African Studies at the Soviety Academy of Sciences. He is visiting SA as the guest of the International Freedom Foundation and the political science department at Potchefstroom University.

Nationalisation a mess, says Chiluba

B/Day 19/12/91

TIM COHEN

NEWLY elected Zambian president Frederick Chiluba has some advice for potential members of a future SA government who advocate nationalisation -- go ahead and do it.

But then expect to end up in the mess Zambia is in, he says in an interview in this month's edition of Leadership magazine.

"Our own experience in Zambia is that this kind of socialist approach is the cause of the mess we are in. So we cannot follow such a course," he says.

But since SA is a different country with different leaders, they might wish to "go the whole hog". They will then have to go through the same problems Zambia has gone through.

"My only answer is that, having gone through this process, and having learned our lessons the hard way, we will be the last to support nationalisation ...."

Eastern Europe and Africa have provided sufficient lessons for all countries to learn from, Chiluba says in the Leadership article.

On relations with SA, Chiluba says there was great hypocrisy in his predecessor's approach, and there had been sustained growth in trade between the two countries.

"It was only the language used in public which sounded as if we were at war."

(49)

The new government did not want double standards but did not intend to abandon the ANC Zambia would continue to support the process towards democratisation in SA, but it also wanted to activate the links between the two countries.

"I realise that apartheid may not have been totally broken, but instead of going there at night, we want to go there during the day," he says.

Cape Times, Friday, December 20 1991 5

SA faces 'two more hard years'

CT 20/12/91

Political Staff (49)

SOUTH AFRICA faced two more hard years economically, the new Minister of Trade, Industry and Economic Co-ordination, Mr Derek Keys, has predicted.

He also said he was "not at all optimistic" that the economy would begin to recover from next year

Mr Keys said in an interview in the latest edition of Leadership there was every sign elsewhere in the world that the pick-up would be extremely slow.

"The booms in Europe and the US during the 1980s were artificially prolonged by building up the credit pyramid, with evident consequences today: Over-building in the real estate area, and all the bank difficulties," he said.

"Because the booms were unduly prolonged, digesting the consequences and getting to the start of the next boom is going to take some time.

"Our manufactured exports are less sensitive to what I have described, but they account for only some 17% of our exports. The rest feel the draught; commodity markets are still very difficult."

Asked when he hoped to see an upturn, Mr Keys replied: "I'm digging in for two more hard years."

The South African economy would need capital when it entered the investment-driven stage.

"What is most needed now are entrepreneurs and confidence. Once South Africa has produced enough of those, foreign investment will be here like a shot," he said.

MICHAEL PROWSE

John Stuart Mill's century

1,9 FM 20|12|91

Michael Prowse is a columnist on the London *Financial Times*

The impact of the collapse of communism in eastern Europe and Soviet Union warrants daily headlines in the Western media. But I wish more was known about its impact on political beliefs in rich capitalist countries. The spectacle of politicians from Prague to Moscow — not to mention Stockholm — singing the praises of markets must influence impressionable young minds.

Over time, it must weaken support for State intervention in countries which were never tempted by the extremes of communism

One intriguing possibility is that recent events will help to bridge an historic divide in political economy. John Stuart Mill and other 19th Century liberals argued for the maximum degree of individual freedom in all aspects of life — economic and personal.

By a strange twist of history, their gospel of freedom was never fully embraced. Instead, as my colleague Samuel Brittan explains in *A Restatement of Economic Liberalism* (MacMillan Press, 1988), a bifurcation occurred: conservatives tended to embrace Mill's economic doctrines, leaving left-of-centre political thinkers to champion personal freedom.

In the US, the bifurcation is reflected in the pejorative use of the term "liberal" to indicate quasi-socialist economic views. US liberals tend to favour higher public spending, intervention in industry, and import restrictions — policies that would have been anathema to Mill.

Yet they are more likely than conservatives to support the rights of minorities, champion other lifestyles and oppose censorship — policies that Mill would have applauded. In Britain, a similar left-right divide on freedom has survived the Eighties.

Brittan's book, first published in the early Seventies under the more revealing title *Capitalism & the Permissive Society*, argued that free markets went naturally with free sex, funny clothes and flower power I doubt many hippies bought the book (or argument) but will the young now prove more receptive? The answer depends on the reasons for the schizophrenia on freedom

Those who believe flaws in education lie at the root of all problems will argue that it reflected plain ignorance Economics was too young a subject to gain inclusion in school core curriculums at the turn of the century.

Most people have thus grown up knowing more about physics than the theory of markets, despite the latter's greater relevance for everyday living. Ignorance has left many people, even intellectuals, unusually dependent on the views of leading opinion formers.

It so happened, at least early this century, that most advocates of personal freedom took a dim view of market economics. Michael Holroyd's biography of George Bernard Shaw illustrates the dichotomy in one public figure. Like Mill, Shaw was a prominent supporter of women's rights.

He also campaigned tirelessly for the liberalisation of stage censorship. Yet, as a mainstay of the Fabian movement, he argued that the State should regulate virtually the whole economy.

The left-right split on freedom does, however, have deeper causes Extending personal freedom tends to make people more equal; extending economic freedom often does the reverse. Shaw was deeply influenced by first-hand experience of gross inequality in Victorian London.

Suppose you were one of 10 people shipwrecked on an uninhabited island What kind of society would you create? You would surely want democracy, freedom of speech, etc, but would you divide up the island into individual chunks and encourage economic competition? Would you countenance a system where one person might end up owning half the island and others work long hours for little pay?

I suspect a socialist system in which everybody co-operated and enjoyed the same living standard would be more popular This suggests the triumph of markets is more a reflection of the need to co-ordinate large numbers of people in complex modern economies than any natural inclination for economic competition.

Given that people's needs are similar, the natural assumption is that people should have roughly equal wealth.

Economic and personal freedoms can clash in other ways One ideal behind personal freedom is that people should not be arbitrarily constrained from realising their full potential

The trouble with economic freedom is its tendency to crowd out other values: competition and the accumulation of material goods easily become ends in themselves, even though people have the technical right to opt out.

US GNP has risen by about 30% in the past decade, yet nobody would claim the average American is 30% happier but, if people are not being made happier by new toys such as video-cassette recorders, what is the point of the system? In the rush to consume, are we really making sensible choices about how to spend our 70-odd years of life?

The 21st Century may become John Stuart Mill's century. Disillusionment with socialism — in both its mild and extreme forms — offers great prospects for politicians who advocate consistently libertarian policies: minimum government intervention in both the economy and the individual's personal life. Such figures are still thin on the ground but Utopian dreams will not disappear. It is too depressing to believe that human ingenuity cannot improve on market capitalism.

NOTICE 1191 OF 1991

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 30th day of November 1991

	1991-11-30	1991-10-31	Change
Liabilities	R	R	R
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	77 831 863,11	77 831 863,11	—
Notes in circulation	10 925 684 356,00	10 268 838 197,00	656 846 159,00
Deposits:			
Government	6 765 135 429,38	6 600 757 857,20	164 377 572,18
Provincial administrations	433 306 335,69	561 519 061,00	(128 212 725,31)
Deposit-taking institutions	847 332 820,42	1 016 080 471,88	(168 747 651,46)
Other	84 180 161,48	94 290 593,31	(10 110 431,83)
Other liabilities	10 180 899 213,93	10 498 502 256,01	(317 603 042,08)
	R29 316 370 180,01	**29 119 820 299,51**	**196 549 880,50**
Assets			
Gold	5 897 504 829,05	5 888 313 431,62	9 191 397,43
Foreign assets	3 173 349 546,66	2 737 872 336,62	435 477 210,04
Total gold and foreign assets	**9 070 854 375,71**	**8 626 185 768,24**	**444 668 607,47**
Domestic assets.			
Discounted bills	1 658 190 000,00	2 304 550 000,00	(646 360 000,00)
Loans and advances:			
Government	—	—	—
Other	1 150 708 959,21	1 136 274 905,44	14 434 053,77
Securities:			
Government	486 684 624,34	698 080 960,94	(211 396 336,60)
Other	1 134 985 045,00	1 122 985 044,00	12 000 001,00
Other assets	15 814 947 175,75	15 231 743 620,89	583 203 554,86
	R29 316 370 180,01	**29 119 820 299,51**	**196 549 880,50**
Rand per fine ounce	923,27	915,53	7,74
Gold holdings in fine ounces	6 387 627	6 431 590	(43 963)

Pretoria, 6 December 1991.

C. J. SWANEPOEL,
General Manager

(20 December 1991)

KENNISGEWING 1192 VAN 1991

SUID-AFRIKAANSE PADRAAD

ERRATA. VERKLARING VAN 'N TOLPAD: PROVINSIE NATAL

Die Suid-Afrikaanse Padraad wysig hierby Goewermentskennisgewing No. 51 van 1990 deur daarin die woord en syfers "84 van 1975" te vervang met die woord en syfers "84 van 1974".

(20 Desember 1991)

NOTICE 1192 OF 1991

SOUTH AFRICAN ROADS BOARD

ERRATA. DECLARATION OF A TOLL ROAD PROVINCE OF NATAL

The South African Roads Board hereby amends Government Notice No. 51 of 1990 by substituting therein the word and figures "84 of 1974" for the word and figures "84 of 1975".

(20 December 1991)

KENNISGEWING 1193 VAN 1991

ADMINISTRASIE: VOLKSRAAD

DEPARTEMENT VAN PLAASLIKE BESTUUR, BEHUISING EN WERKE

VERBETERINGSKENNISGEWING

Kennisgewing No. 810 gepubliseer in *Staatskoerant* 12757 van 28 September 1990 word hierby verbeter deur in die Engelse teks die woorde "Minister of the Budget and Works" deur die woorde "Minister of the Budget and Local Government" te vervang.

(20 Desember 1991)

NOTICE 1193 OF 1991

ADMINISTRATION: HOUSE OF ASSEMBLY

DEPARTMENT OF LOCAL GOVERNMENT, HOUSING AND WORKS

CORRECTION NOTICE

Notice No. 810 published in *Government Gazette* 12757 of 28 September 1990 is hereby corrected by the substitution in the English text for the words "Minister of the Budget and Works" of the words "Minister of the Budget and Local Government"

(20 December 1991)

6 SUNDAY TIMES, Business Times, December 22, 1991

Latin America points way for SA economy

S/Times (BUS) 22/12/91 (49)

DIAGONAL STREET

by Julie Walker

LATIN American equities have become Wall Street's flavour of the month, says the international publication, Bank Credit Analyst (BCA).

This is a sure sign that much of the incentive for investing according to market fundamentals has disappeared.

Latin America's improved market performance has been driven by foreign capital inflows. Only a few years ago there was huge capital flight.

Stock-market rallies in most of the Latin American states have reached manic proportions, particularly in 1991 as shown on the graph.

But, according to the BCA, even though further speculative capital inflows could drive prices higher, fundamental investors would do better to wait.

"Those who have been in these markets for the past few years should diversify into other non-Latin emerging countries."

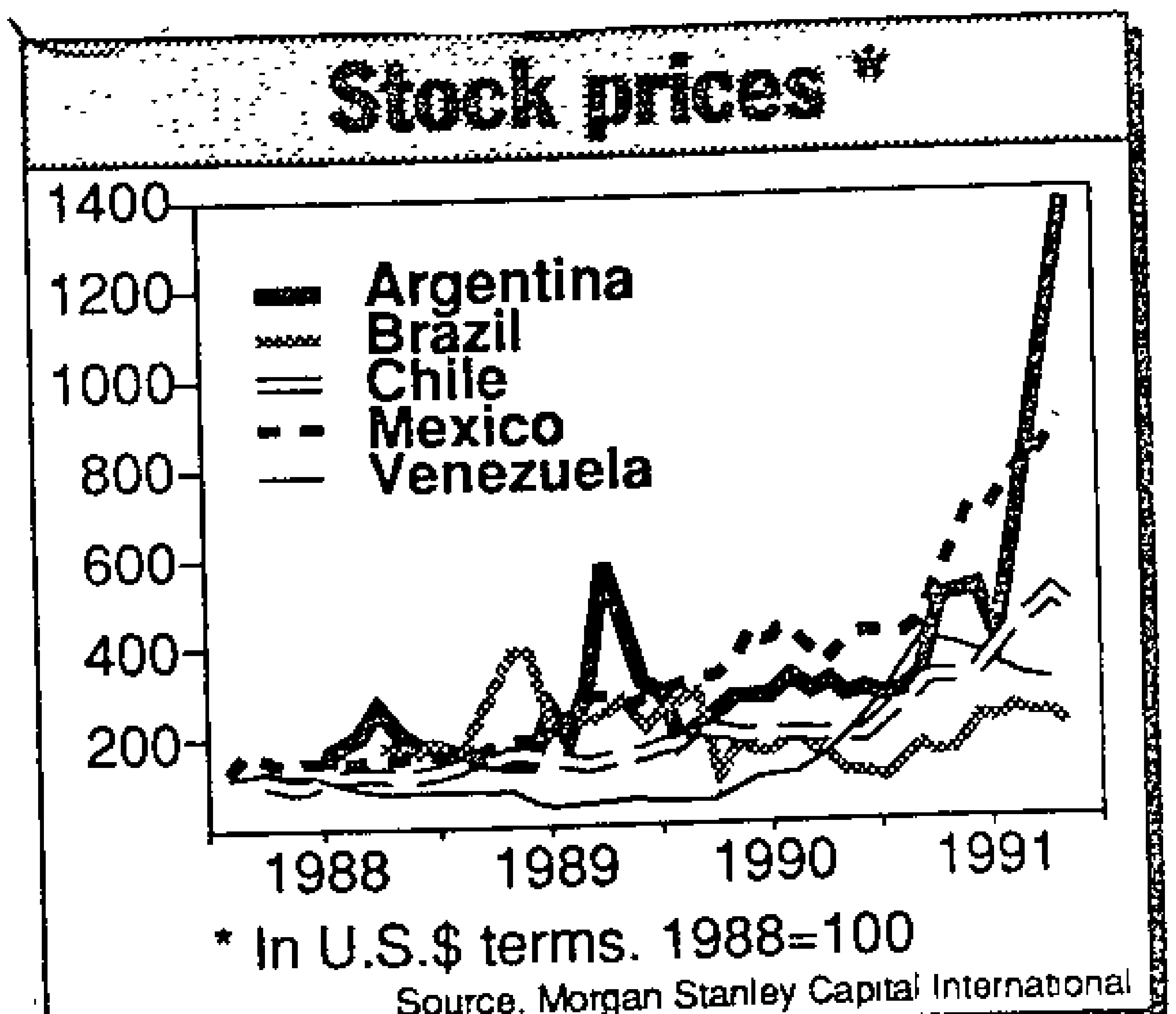
There is an analogy between the factors that pushed Latin America into the limelight and what is happening in South Africa now.

There were fundamental political and economic reforms, a shift from totalitarian governments in favour of democratic and pluralistic systems and supply-side changes aimed at inflation control, privatisation and trade liberalisation.

The result of credible reform, falling inflation and rising growth has been a mania in stock prices. Chile, Mexico, Venezuela and Argentina have all successfully tackled inflation, but everywhere it has reached a band of resistance in the 15% to 20% band.

Sound familiar?

Latin America has emerged from a decade of depression, adopted First-World macro-economic policies in an environment of enhanced democracy which should result in 10 or more years of prosperity.



* In U.S.$ terms. 1988=100

Source. Morgan Stanley Capital International

The key is the sustainability of reform.

"Governments must show their mettle by dealing in an orthodox and conservative fashion with the growing probability of higher inflation. This will be their first test," concludes BCA.

SA faces a similar future, a fact recognised by global investors who base their decisions on best-growth prospects for the inherent risk.

An institutional fund manager believes that 1992 will be the year of SA's mining and resources stocks.

SA finds it tough to export manufactured goods competitively because its input costs, such as labour, are high relative to productivity. Its competitive edge internationally lies in mining. It has a wealth of minerals and mining experience.

The run-up to the American presidential election at the end of 1992 is bound to include stimulation of the economy.

The BCA says the Federal Reserve Bank is aiming for 3% real growth in gross domestic product in 1992 — good news for all metals.

First to take off will be the automobile industry, which can only be good for platinum.

Once such a big industry is back on its feet, others will follow. Users hold low stocks of commodities, preferring to let the supplier carry the cost.

When demand climbs, stocks will be depleted and commodity prices are bound to rise. When prices rise, so do the equity values of producers — often way beyond the potential improvement in profitability.

A question mark hangs over Russia's future as a supplier — at best there will be further disruptions to the usual channels of supply.

Demand for jewellery arising from wealthier consumers and better marketing efforts from the World Gold Council is poised to push the metal's price higher. New gold supply is no longer rising ahead of offtake. Russian gold supply is especially at risk.

When gold adds a few dollars, shares can boom, especially if the mood is right in the new year.

Apart from positive economic fundamentals, SA's political wheels look reasonably round (at the time of going to press). There is hope that good sense will prevail.

Platinum and gold both took a smack this week, making counters even cheaper for those willing to take the risk of buying in a falling market.

Hopes of rise in investment fade

S Times (Bus) 22/12/91 (49)

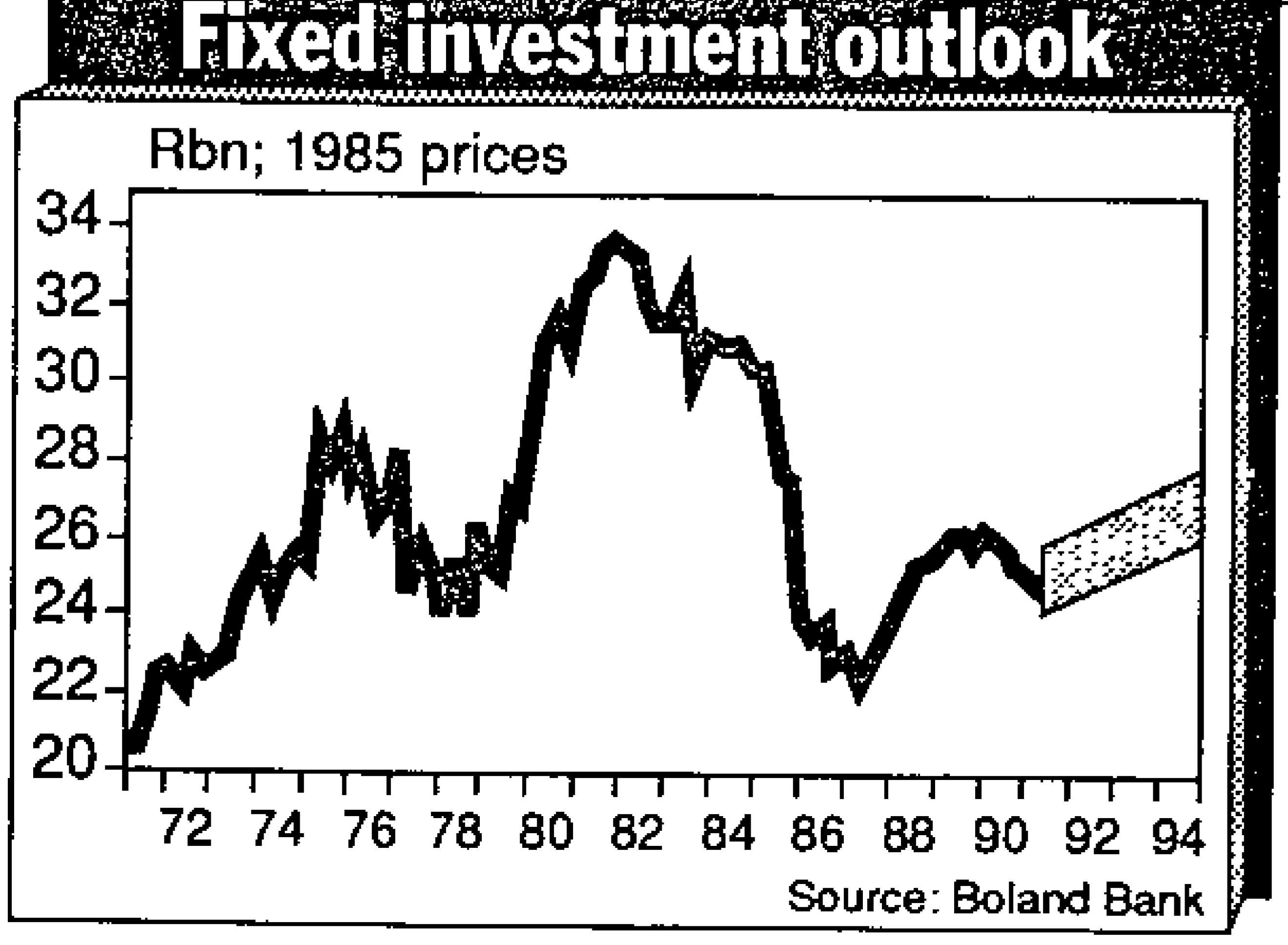
By DIRK TIEMANN

HOPES of a return to positive fixed investment next year are fading.

The introduction of VAT, with a zero rating for capital equipment, and other tax breaks were expected to encourage a turnaround after eight consecutive quarters of declining fixed investment.

Real gross domestic fixed investment (GDFI) in South Africa has dropped every quarter. It fell 12% to R23,7-billion from the previous peak of R26,5-billion in the fourth quarter of 1989, based on seasonally adjusted annualised figures.

GDFI includes public authorities and corporations and private enterprises.



Stream

This year's third-quarter fall in GDFI accelerated to 11,5% from a drop of 5% in the previous three months. Prospects for an improvement in the fourth quarter look poor.

Sanlam forecasts a 1,2% drop in GDFI in 1992, mainly because of an expected 6,6% reduction in public-sector fixed investment. It will be more than offset by the 1,5% increase in private investment.

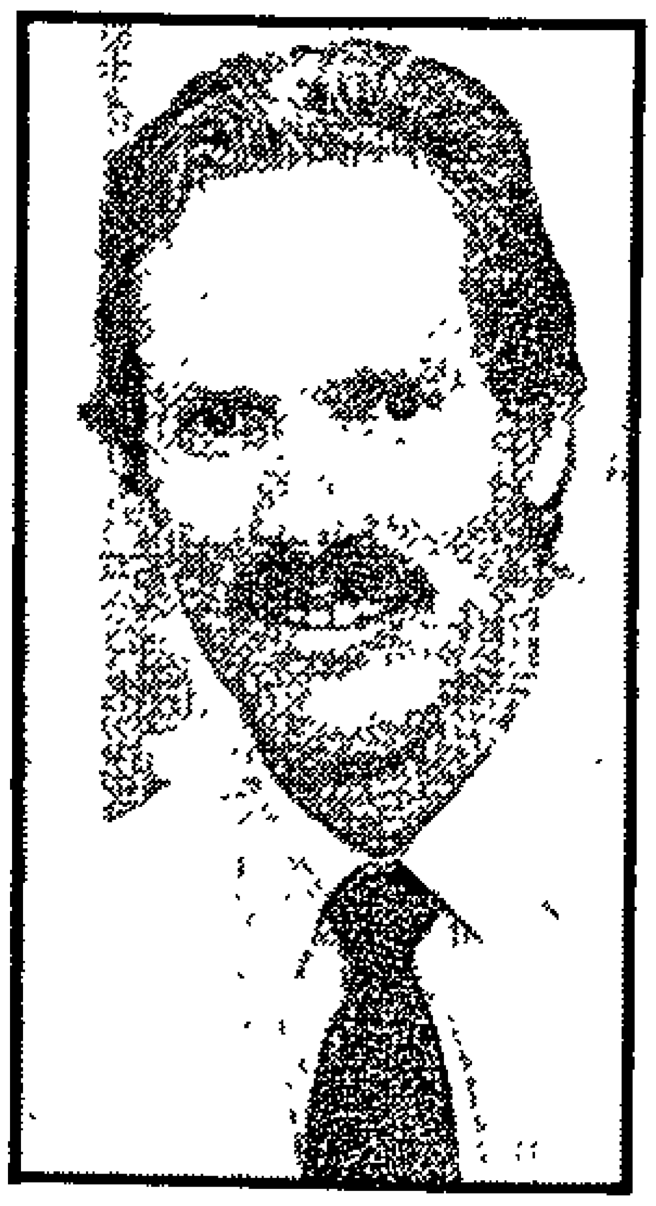
Work is expected to start on several major private capital projects next year.

The Columbus stainless-steel and the Alusaf aluminium refinery plants will be put before the respective boards for approval in April.

Capital spending is expected to start immediately after the projects have been approved.

Sasol has various projects totalling R3-billion under way. It plans to spend another R2-billion.

But Sanlam economist Peter Calitz says real fixed investment by public corporations amounts to almost nothing.



GRAHAM BOYD: Growth projection cut back

Although there may have been a nominal increase in investment, it has been wiped out by inflation, says Mr Calitz.

"We first need to reach previous spending levels before there can be talk of growth in investment."

Simpson McKie economist Graham Boyd says: "I have cut my forecast for fixed investment. After forecasting positive growth I now expect a contraction of between 1% and 1,5%."

Mr Boyd says fixed investment usually lags behind a business upswing. Economic growth is needed to raise low capacity use in most sectors before new plant and equipment are bought.

Budget

In addition, there have been few reports of a significant rise in fixed investment since the introduction of VAT. But investment by some companies exporting manufactured goods has been firm.

"Overall it seems that a meaningful revival of about 4% in fixed investment spending will not occur before 1993."

Standard Bank Investment Corporation chairman Conrad Strauss estimated in October that capital projects totalling R22-billion were in the pipeline.

He expected them to lead to a 1% rise in GDFI in 1992.

Dr Strauss said that although not spectacular, this was better than the previous recovery cycle in 1987 when fixed investment continued to fall by 2,4% in spite of economic growth elsewhere.

Tax breaks, such as Section 37E of the Income Tax Act 1962 which gives mineral beneficiators and exporters accelerated capital write-offs, should also help to lift fixed investment.

There are also expectations of a company tax cut from 48% to about 40% in next year's Budget.

Boland Bank expects a cyclical upswing in fixed investment in 1992. The bank bases its hopes for a turnaround on greater inflows of foreign capital.

It says net capital outflows fell from a high of R8,3-billion in 1985 to R2,9-billion in 1990. Next year could well be marked by a surplus on capital account.

Boland Bank says interest-rate stability engendered by the Reserve Bank has increased the confidence of investors that they will not be subjected to violent fluctuations in real and nominal rates.

The economy OUTLOOK '92

By Rob Lee
senior portfolio manager,
Board of Executors

STAR 23/12/91
49

The economy stands on the brink of potentially the strongest and most sustained recovery since the 1960s.

This view conflicts with the current pessimistic mood, but it is characteristic for the depths of gloom to be reached after the underlying trend has already changed for the better.

However, overall conditions will remain tough for several months, with consumer-spending, in particular, remaining under pressure.

The level of wage increases is falling sharply, unemployment is still rising, fiscal drag continues to take its toll, and interest rates will remain high.

This recovery will therefore not be consumer-led, as recent upswings have been, but based on rising exports and investment.

It will initially be slow to get going, but will be much more sustainable than the boom-bust recoveries of the '70s and '80s.

Export and investment strength will arise from the following:

- 1992 should to be a year of recovery internationally, with average growth of about 2,5 percent for the industialised countries, compared with about 1 percent this year.

Most of this strength will be felt in the second half of the year, with Japan and Germany at present still slowing down and only gradual recoveries emerging initially in the US and UK.

However, with inflation having been well and truly tamed by the world recession, and the growth impetus to come from the reconstruction of the ex-socialist world and from a new technological wave, this recovery is likely to be unusually sustained and buoyant.

- World recovery will be accompanied by rising commodity prices towards the end of next year and more strongly in 1993.

The underlying supply and demand fundamentals in the gold market are slowly turning in favour of gold, and a gradual rising trend in the dollar gold price seems likely to emerge next year.

- The gradual lifting of all trade and capital sanctions should continue next year.

Such sanctions were extremely harmful to SA's economic performance, and the consensus view probably under-estimates how significantly their removal increases our growth potential.

Rob Lee

- There has been a radical, re-orientation of economic policy, with key elements of a classic outward-looking economic strategy now in place.

These include the VAT tax exemption on capital and intermediate goods, the new export incentive scheme, the restructuring of the IDC, a tight monetary policy, restrained increases in rail and electricity tariffs to industry, the gradual removal of import protection, and the promotion of tourism.

This new approach can sharply boost manufacturing development in general and exports in particular.

The appointment of Derek Keys to the Cabinet will promote effective implementation of this strategy.

- Major low-cost house building and township electrification programmes are likely in the next two to three years

These will have significant positive spin-offs for a whole range of domestic industries, in addition to their obvious contribution to stabilising the socio-political situation.

- Firm financial foundations for recovery are being laid by the Reserve Bank's tight monetary policy.

In the first quarter of next year foreign exchange reserves should reach the target of three months' import cover, while money supply growth should be at the lower end of the target range.

There are at least real signs of inflationary pressures abating, and we expect consumer price inflation to have fallen to the 10-12 percent level by year-end.

Short-term interest rates can then be gradually reduced, giving relief to industry and consumers The first one percentage point reduction in the prime rate is likely around March, with another one or two percentage points cut by year-end.

The main risk to this optimistic scenario is a continued failure to reduce the level of violence and crime.

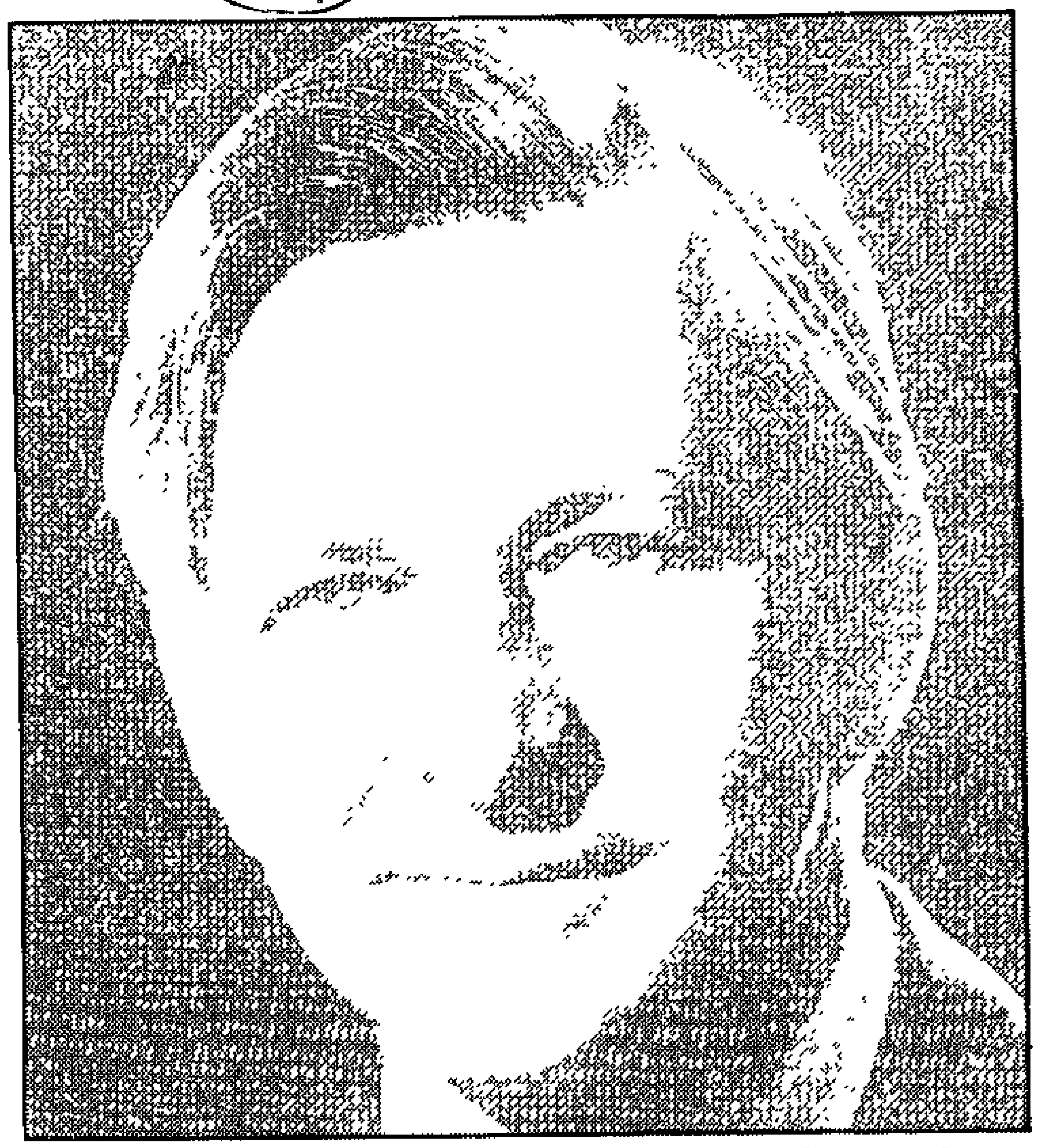
If they continue unabated or increase, the level of domestic and foreign confidence will not be sufficient to sustain a long recovery.

There is a classic "chicken and egg" dilemma here, because a sustained and healthy upswing would itself make a huge contribution to reducing violence.

Key political groupings have shown a heartening capacity to reach consensus in negotiation, giving us hope that the great opportunity that lies ahead will not be squandered.

The Budget OUTLOOK '92

STAR 24/12/'91 (49)



Edward Osborn, Nedbank chief economist, reviewing the daunting economic situation facing Minister of Finance Barend du Plessis, foresees a Budget that can only be unpopular and judged a failure according to various criteria.

Each year the Minister of Finance's task is increasingly unenviable. This time the budgetary circle to be squared is even more problematic.

A larger deficit than expected inherited from the previous year, a likely continuing "dead-in-the-water" economy, a heightened clamour for redistribution and benefits for the under-privileged, and a soaring public debt to be serviced contribute to a most unappetising ragout.

Garnish that with purist prescriptions from various quarters for the budgetary formulation to honour the IMF 3 percent deficit:GDP ratio, the golden rule of limiting the deficit to capital formation and confining expenditure to a maximum specified proportion of GDP, as well as the demands from the progressive left for programmes of anti-poverty and employment creation.

One outcome

There is only one outcome: the Budget will be unpopular and judged a failure according to various criteria.

In this financial year 1991-92, government expenditure has been strictly confined to the budgetary allocations set in the March Budget, despite impressions given to the contrary by the media.

The Budget provided for R83,8 billion expenditure, excluding the R1,2 billion contingency, which on a straight pro-rata basis amounts to R48,9 billion in the first seven months. The actual expenditure in the first seven months was R48,6 billion.

However, matters have gone awry, with revenues, particularly with sales tax and income tax, clearly because of the recession being worse than originally expected by the budget draftsmen.

In the first seven months actual revenues were R40,6 billion and should have been R43,7 billion to be on track, that is a lag of R3,1 billion and, accordingly, an unexpectedly large deficit.

VAT gyrations

The budget deficit for the year, after adjustment for all the VAT gyrations, should have been R9,7 billion, or 3,2 percent of GDP.

At best, and that is assuming a saving of the contingency item, the deficit will turn out to be R11,6 billion, or nearly 4 percent of GDP.

There will be no difficulty in covering this with borrowings because of the surfeit of investible funds in the market, but high borrowings at high rates of interest simply add to future interest payment commitments.

This is a most worrisome aspect of state finances. Interest payment is a statutory first budgetary commitment that seriously reduces the scope of government expenditures.

Over the past five years interest payments have risen from 13,1 percent to 15,5 percent of expenditures, and this trend must continue while the public debt rises faster than GDP.

Interest burden

It is all very well to allocate apparent financial surpluses below the line arising from excess borrowings for monetary control purposes to backlog funds, the stabilisation fund, and to redeem forex losses, etc, but the process is simply exacerbating the interest burden for the future.

The finances are in such a rotten state that there may well have to be a supplementary budget in February introducing increased rates on excise, fuel levies and — almost unthinkable after the recent run-in with organised labour — VAT.

The full-dress Budget in March will be in context of the economy lifting itself uncertainly and ever so slightly from a state of deep recession, poor company profits, straitened household finances and, maybe, slowing down inflation.

None of these things are conducive to the preparation of an expansive and generous Budget.

There has to be some combination of increased taxation and expenditure constraint.

On the taxation side the Minister may be forced to call a moratorium on his supply-side programme of a progressive reduction of company and personal income tax rates.

Actually, the longer-term consideration of movement towards a more populist form of goverment calls for a reversal of the programme.

Bracket creep

For my part, I would prefer to see the abandonment of the progressive personal income tax system for something like the American three-tier system, because of the potent erosion of bracket creep on middle-class incomes and the fundamental contribution that the progressive system makes to the process of inflation.

Ways and means may be found of having a more effective range of revenue from company taxes, say through the reduction of allowances.

If not already implemented in the February supplementary budget, this may be the time for increased VAT, fuel and excise rates and levies

An important long-term consideration is that the Budget must continue to swing even more to indirect taxes, even the Zimbabwe government has found this to be necessary, although it has been able to indulge socialist objectives by having higher differential rates on so-called luxuries

One has to remember that the international standard VAT rate is 15 percent, so there is a lot of scope, however unpalatable.

In addition to the major revenue shifts, there will be usual tinkering and adjustments to existing minor taxes

It is of course imperative that expenditure estimates be restricted. The biggest contribution to this end is potentially civil service salaries

Bearing in mind that private sector salary adjustments will have been below inflation, and that there have also been huge retrenchments, it is not unreasonable to expect the civil service increases to be negative in real terms.

Social welfare

It will be interesting to see what progress has been made with the removal of apartheid structures and the financial benefits, if any, accruing from unified administrations.

Apart from this it is to be expected that there will be increased emphasis on social expenditure, such as health, education and training, and social welfare.

Some reduction in the defence allocation is likely, but this could well be compensated for by increased expenditure on police. In one form or another the maintenance of law and order is an ongoing regrettable necessity.

Finally, it would be a great step forward if Government could set up a department wholly dedicated to the planning, administration and implementation of unskilled work schemes that will make a direct contribution to the problem of providing employment to the growing masses of unemployed and desititute.

Clearly the South African economy, however cleverly engineered, will fail in resolving the unemployment problem through growth.

The employment-creating capacity of the economy and the population dynamics are totally out of kilter.

The time has come to stop talking about the problem ad nauseum and do something about it head-on.

Economic crystal ball clouded . . .

Forecasts way off for 1991

(49) CT 27/12/91

Own Correspondent

JOHANNESBURG. — Forecasting can be a tricky business, and none more so than the proverbial economic crystal ball.

What about inflation at 11,5%, gold at $400 and prime rate at 18%?

All may be forgiven for thinking these forecasts were for end-1992, but they were predictions for the end of this year and are far from reach.

Fundamentals

At the time, of course, the fundamentals made the forecasts plausible. Now they can be put down to experience.

As a recent article in The Economist put it, "predictions now being made about the future will be as wrong as those made in the past".

Most of America's gloom, said the article, derives from an excessive dose of what might be called extrapolationism.

"Trade deficits will grow forever. Japanese domination of the aerospace industry is inevitable. Health care will eat the budget. Productivity will never rise again. Indebtedness will continue to grow."

Three little words — "on present trends" — should sound the warning bell, the article said.

Forecasts of the year in SA included:

- Inflation is expected to average 13% in 1991, while prime rate may be down to 18%, implying a Bank rate of 15% — Sacob; and
- Inflation will be at 11,5% by year-end — Southern Life.

Looking a little further back, Finance Minister Barend du Plessis said in August last year that SA was on the verge of breaking the neck of inflation, with a good chance of being below double digits in the "not too distant future".

Du Plessis could not have predicted the effects of the Gulf war at that stage, and he failed to take into account how VAT's implementation would affect the consumer price index.

And one newspaper headline, just before the Budget, had a major assurer predicting a decline in Budget expenditure.

The experts were canvassed late last year for what they saw ahead for the current account. It would, they said unanimously, be lower than 1990 and possibly in the region of R3bn to R4bn.

A year later it appears that the 1991 current account surplus will be about double that figure.

Forecasts

As always, precious metals are the darlings of analysts' forecasts.

A survey of the top executives in February saw gold at more than $400 an ounce.

Platinum experts Johnson Matthey expected platinum to approach $450 by the end of the year.

Platinum, whose future was supposed to be so bright that analysts had to wear shades, has tumbled to year lows of around $340.

A final word of warning from The Economist: "The pathways of history are littered with the corpses of extrapolators whose projections caught up with them."

Economic crystal-gazers are predictable — they're sure to be wrong

(49) BDay 27/12/91.

ANDREW GILL

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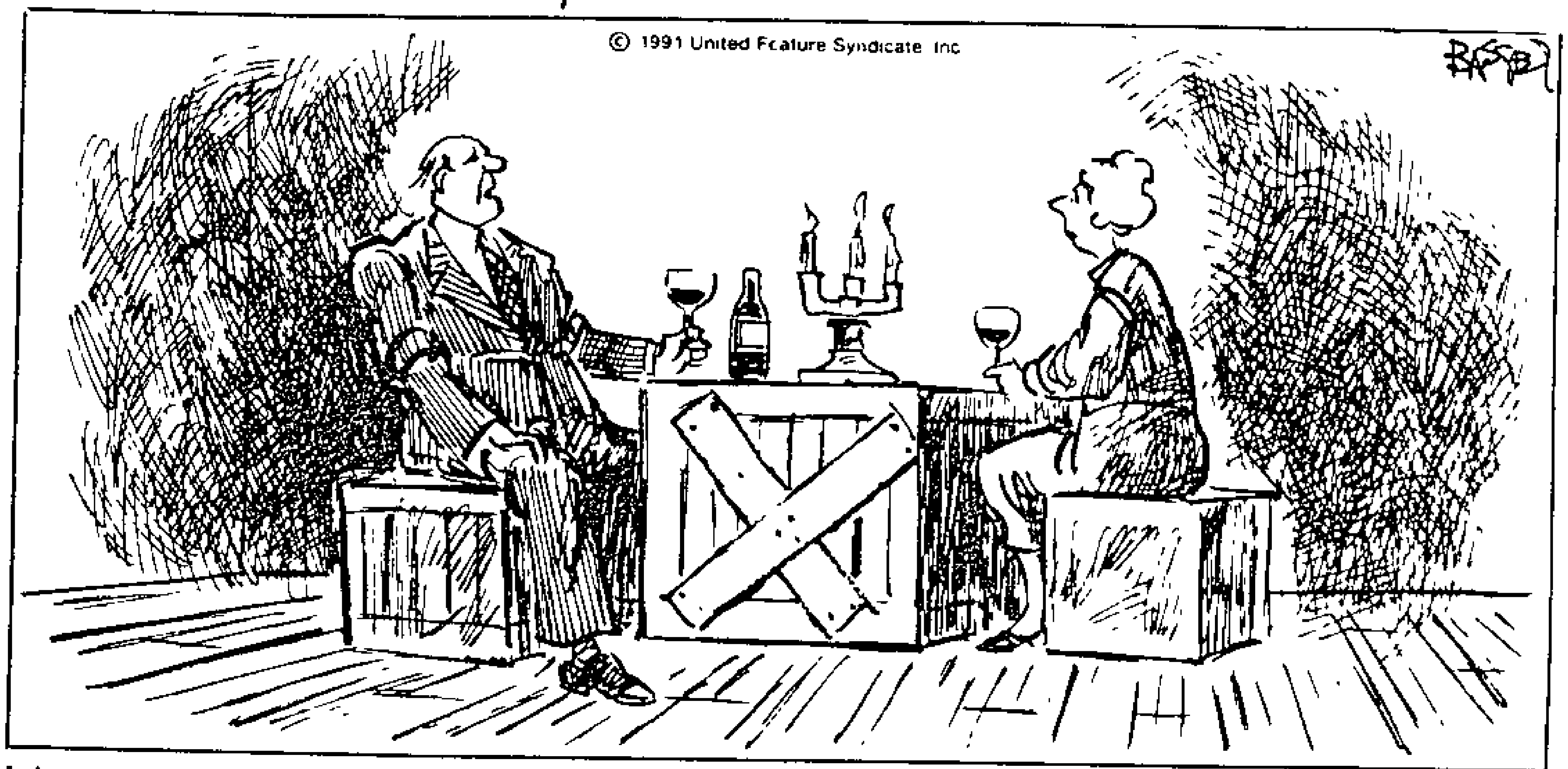
A dismal 1991, a hopeful 1992

(49) STAR 28/12/91.

DEREK TOMMEY



I know, my dear, that our situation may seem dreadful, but console yourself with the thought that there's nothing left for Barend to take from us.

FEW will regret the passing of 1991, which has been a year of considerable hardship for many.

It was a year, says Standard Bank, of "rising retrenchments, evaporating overtime, increasingly conservative wage settlements, combined with diminishing access to finance for many consumers, aggravated by outbreaks of violence in some black residential areas".

On top of this we have had to live with extremely high interest rates, continued high inflation, an increase in the real rate of income tax and the introduction of VAT on many foodstuffs previously tax-free.

However, this is the bad news. The good news is that there now appears to be a light at the end of the tunnel and that by this time next year economic activity and employment should be substantial greater than it is today.

The level of activity next year will depend on the amount of money injected into the economy. And evidence is mounting that this will be significantly more than was the case this year.

This money is expected to come from:

- Increased exports;
- Government deficit-financing;
- New investment; and
- An increase in bank credit.

Figures issued this week show that exports are booming, despite the recession overseas and the sharp fall in prices of many of SA's major foreign exchange-earning commodities.

Exporters sold goods worth R61,4 billion to foreigners in the 11 months to November. This was R5,6 billion more than a year earlier.

Although some of the increase was the result of a drop in the exchange rate of the rand, most of it came from a rise in the physical volume of goods sold.

The increase helped create jobs in the export industries and offset the effect of layoffs elsewhere.

Economists say that next year exports should make an even bigger contribution. For a start, the lifting of sanctions is opening many more markets to exporters.

Then there is the expected upturn in international economies, which was strongly indicated this week by a rise in US share prices to a new peak. These improved conditions overseas should also give SA exports a major boost

Another major stimulus to development in 1992, at least in the early months of the year, is expected to be the huge Government deficit.

Tax receipts so far this year are lagging badly behind budget. By the end of November they showed an increase of only R2 billion, against a projected increase in government spending of R10 billion.

In view of the depressed economy, it seems unlikely that tax revenues will reach anywhere near the Government's target

The result is that the Government is already having to borrow substantial amounts to meet its expenses, and it seems likely it will have to continue doing so for some months to come.

This means it will be putting more money into the economy than it is taking out — which is good for business.

The third source of additional money will be new investment in factories and plant. The lifting of sanctions has provided a huge incentive for exporters to produce goods for overseas.

Work is almost certain to start in 1992 on the R4 billion Columbus stainless steel plant and the R4 billion aluminium smelter plant

Together these should provide a substantial number of jobs and new business opportunities for the engineering and construction industries.

The motor industry is likely to continue its large investment programme, which is partly aimed at supplying foreign markets

Fourthly, banks are likely to play a major role in 1992's business upturn. Stocks of raw materials and of manufactured and partly manufactured goods are low.

Because of the high degree of businss uncertainty, firms have not been replacing the merchandise they have sold.

At the first sign that the economy is moving out of recession, they are likely place orders for all sorts of goods The new orders, which will probably have to be financed by bank credit, should expand factory activity and create many more jobs.

Altogether, it looks like 1992 should be a much better year than 1991

If foreign investors start to think the same way and begin reinvesting, 1992 could ultimately turn out to be a very good year indeed

Better ways to achieve ANC ends

S/Times 29/12/91

(49)

If the ANC would spell out a coherent economic policy it would be unstoppable in elections, says JOHN CHETTLE

MR NELSON MANDELA cannot postpone a decision on economic policy much longer — nothwithstanding negotiations on constitutional solutions.

On his recent visit to the United States he was confronted everywhere by questions about nationalisation and the alliance with the South African Communist Party. His answers were lame at best.

He has almost acknowledged his dilemma. The policy enshrined in the Freedom Charter, the truths that fashionable people believed when he went to jail, are truths no longer.

Moreover, his major ally, the SACP, is apparently as hell-bent on swimming against the tide of history as the late Dr Verwoerd. Verwoerd's apartheid was implemented just after a world war had given appalling proof of the evils of racism.

Now, as communism collapses in infamy all round the world, the SACP omits the word "democratic" from the description of itself as "democratic socialist", and supports Marxism-Leninism, the essence of which is the undemocratic seizure of power by a small vanguard of the proletariat.

So they're not going to be much help. But Mr Mandela knows that the ANC cannot stand for business as usual, and that something needs to be seen to be done to rectify the inequities that exist.

What makes it worse for the ANC is that the South African government already presides over a highly nationalised, inefficient and expensive socialist bureaucracy, which it hastily stopped privatising after the ANC protested.

Inefficient

But there is indeed a policy that the ANC could adopt which would accord with its aims, be good for South Africa and be hugely successful politically. Like most good answers, it is surprisingly simple.

The ANC should shift its focus from the *process* (nationalisation, expropriation, redistribution) to the *result* (more land, more houses, better education and more opportunities for blacks).

Many hitherto socialist countries have already done just this. Last year 25 governments round the world sold R75-billion worth of state-owned enterprises, bringing the total for the past three years to R270-billion, an indication of the general recognition that government ownership is disastrously inefficient.

The lesson is clear: nationalisation *costs* money; privatisation *provides* it.

So the ANC could find money to strengthen black opportunity by selling off nationalised industries. The ANC has nothing to lose, and it had better win power first before thinking about pleasant sinecures for dutiful party members. The money could be used to:

● Buy more land, which should be sold on favourable terms to individual black buyers, with their only obligation being not to resell the land for a short period;

● Sell all state-owned houses throughout South Africa for nominal amounts to those renting them, with no prohibition on resale;

● Make funds available for massive low-cost housing projects, to be sold to blacks. The state should give guarantees to building societies to enable low-income purchasers to buy their own homes. Repayments could fund further land and house purchases and construction;

● Provide new schools and better eduction, another cause which goes right to the heart of the concerns of black parents.

The ANC must also finally call for the lifting of sanctions. Mr Mandela has indicated that he would so do upon the formation of an interim government, and in any event he should do so soon.

Impediments

A final policy announcement would be the boldest of all: an undertaking to *lower* VAT and the tax rate, and not to institute any capital-gains tax. New jobs and investment should pay for the tax cut, but it could also be funded by a drastic cut in defence. The benefits of such action would be enormous.

First, the ANC would have laid to rest the two greatest impediments to investment in South Africa — uncertainty and sanctions. It would show that the old anti-capitalist forces within the ANC had been vanquished, and that the lessons of the success of the Asian economic tigers — South Korea, Taiwan, Hong Kong and Singapore — had been learnt.

Secondly, such action would give rise to massive new investment in the South African economy, not only from abroad but by South African companies themselves.

Thirdly, new investment would begin to make inroads into the tragically large reservoir of unemployed blacks, which is one of the single most serious causes of violence.

Fourthly, there would be great political benefits for the ANC. Its programme would provide real benefits for blacks and reassurance for whites. It would be seen to be responsible for the improvements, and it would lay to rest much of the suspicion which exists about ANC policies. In short, in any election the ANC could be unstoppable.

● *John Chettle is a former director for North and South America of the South Africa Foundation. He is now a partner in a Washington legal firm.*

THE WEEK AHEAD by Simon Willson

Double dip danger looms for embattled world economies

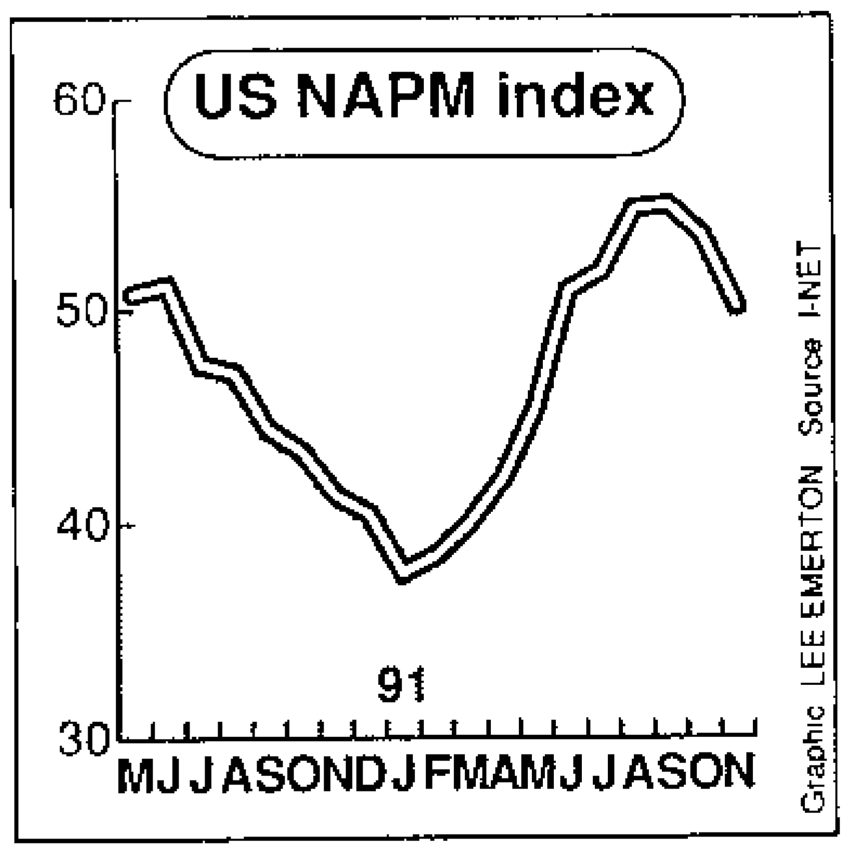
(BDay) 30/12/91 (.47)

CLASSIC signs of the double dip recession phenomenon should be on view in US economic data due out this week. The double dip concept now has local relevance, too, since the SA economy's next badge of international respectability is that it is almost certainly about to have its own double dip recession.

In doing so, SA is set to join the US and UK economies in having shown signs of nascent recovery before a likely slump back into recession. The image of the double dip arises from tracing an economy's quarter-on-quarter annualised change in GDP· a full-blown cyclical recession featuring at least two consecutive quarters of economic contraction, followed by one or more quarters of resumed quarterly expansion, quickly aborted by a resumption of contraction.

This erratic pattern of economic growth and contraction is currently being played out in, most notably, the economies of the US, UK and SA. This week's figures will provide more information on the progress of the double dip in the American economy, although further details on the British and the domestic double dips are due later in the first quarter of 1992.

The sequence of quarterly GDP outturns in each of these economies indicates rather persuasively, however, that double-dipping has suddenly become fashionable in some of the world's English-speaking markets. The US downturn formally became a recession when the economy shrank in both the fourth quarter of 1990 and the first quarter of 1991. Although expansion resumed in the second and third quarters there is now concern — which should be aggravated by this week's US economic data — that the fourth quarter will show fresh contraction.



Similarly, the UK economy seemed to be rallying from three consecutive quarters of contraction when it posted a 0,8% growth rate for the third quarter of this year. But the threat of a double dip now also looms over the UK and over the Major government's re-election prospects. The series of cuts in UK interest rates prompted by the steady fall in British inflation has come to an end due to pressure on sterling and the rise in German interest rates.

In SA the economy grew by 0,5% in the third quarter of this year, thus technically ending the country's longest recession since the Second World War.

The return to GDP expansion came principally, however, from strong growth in the fickle agricultural sector. The dismal performance by the consumer in the run-up to Christmas and relentlessly tight monetary policy point to a renewed downturn in the fourth quarter and a trendy double dip in the local economy.

In slashing the key US discount rate two weeks ago to a 27-year low of 3,5%, even the normally restrained and conservative Federal Reserve showed that it was now convinced that the US economy had suddenly re-engaged reverse gear. Corroboration of this view is likely to arrive most pointedly this week in Thursday's release of the December US purchasing managers' index.

The US's National Association of Purchasing Management (NAPM) produces a monthly index of orders, production and deliveries which forms a fairly reliable guide about activity in the manufacturing sector. At levels above 50, the index is held to herald economic expansion; below 50 signals contraction. This week the NAPM index is poised to dip below 50 for the first time since May, when the US economy seemed to be recovering strongly after the end of the Gulf war.

The NAPM graph is one of the most striking depictions of the double dip phenomenon and, if the index does indeed hit the 49,5 forecast for Thursday, will represent a powerful endorsement of the Fed's urgent rate-cutting. The index of US leading indicators is expected to confirm the double dip danger by putting in its weakest showing since the middle of the US recession proper, when it fell by 0,5% in January. Expectations are for a drop of 0,2% for November.

LOOKING BACK AT 1991

Economy stunned as recession hits home

CT 31/12/91 (49)

shares on the JSE, soaring by 37,4%, buoyed by among other things, prospects of sanctions being lifted and the limited scrip available which had investors clammering for blue chips

Major events and highlights during the year included:

JANUARY

- Gold starts the year at around $393 an ounce before touching $411 mid-month on renewed Gulf war fears before falling back to around $370.
- Cape Investment Bank shares suspended on the JSE following Prima Bank disclosures.
- SA trade surplus falls 92% to R145m.
- Gant's shareholders vote for Duros buyout deal.
- Gold, forex reserves drop back by R468m due to debt repayments and dividend and interest payments.
- Trafalgar Portfolio Managers, backed by Bankorp, makes bid for 30% stake in Saambou.
- Oil prices fluctuate between $18 and $27 a barrel on Gulf war headlines.
- Eskom opens investment office in Frankfurt.
- New car sales plunge 27%.
- Money supply growth slows marginally — the broad M3 monetary aggregate drops to 10,25% year on year.
- PPI shoots up 1,5% bringing year on year increase to 15,5%.
- FNB counters UBS bid for Allied.
- Holdains gets 50% stake in Sunvest.
- CPI year on year for January slows to 14,3% from 14,6% in December 1990.

FEBRUARY

- Gold starts month at around $366, oil around $21.
- Deposit Taking Institution Act becomes law.
- Finrand hits two-year high.
- JSE gold shares hit five-year lows.
- Sacob business confidence sinks to lowest level in four years.
- New car sales plummet 7,1% (January figures).
- Gold Index on JSE recovers from six-year low.
- Sankorp announces plan to unbundle Tradegro.
- Saambou staves off hostile bid by Trafalgar.
- SA's total GDP drops 0,9%.
- Cape fruit exports soar 39%.
- Oil prices slump to a low of $16 a barrel.
- Pepkor buys 47% stake in Smart Centre.
- Gold slips to seven-month low of $360.
- Government sells 50% stake in Sasol 3.
- JSE Industrial Index rises 12%.
- Government shelves withholding tax.
- R36m Allied shares change hands on JSE.
- PPI drops to 15,2% year on year.
- CPI rises to 15% year on year.
- Rise in money supply growth to 14,58%..

MARCH

- Markets react cautiously to ceasefire in Gulf.
- Gold at around $365
- CPI drops to 14,1% year on year, PPI eases 0,6% to 14,5%.
- Farmers' debt escalates to record levels.
- Rainbow Chicken acquires Bonny Bird Farms in R224m deal.
- UBS wins battle for Allied.
- Kahn investigation appointed to probe alleged irregularities in share transactions involving among others, portfolio managers at Old Mutual and JSE.
- Sacob business confidence drops to 1986 levels.
- Bank rate cut to 17%.
- Gold and forex reserves rise 2%.
- New vehicle sales drop further — new car sales down 1,7%.
- Petrol price slashed by 5c a litre but petrol tax increased.
- Company tax rate lowered to 48%.
- Industrial Index at record 3 392, but Gold index slides to 1 003 as bullion touches eight month low of $354.

APRIL

- JSE industrials hit record highs of 3 559, Gold Index up 20 points at 1 089 on stronger gold price.
- New car sales edge up 7%.
- National Sorghum Breweries launches public share issue firmly placing sorghum industry in black hands.
- SATS becomes public company — Transnet.
- Private placing of Transnet's Elfi Bond issue attracts R500m in tranches.
- CPI increases to 14,6% year on year.
- SA gold, forex reserves up R195,8m
- Money supply figures rise 15% year on year.
- Gold sinks to $353,95.
- Saambou fights new takeover bid.
- Premier scoops Score, Metro in R300m deal.
- New car sales down 17,6% on March figures.

MAY

- Gold at between $357 and $365.
- Shareholders approve R8m Saambou deal with Fedsure.
- Industrial Index soars to new record of 3 589, Gold Index at 1 199.
- Money supply figures (M3) up 15,2%.
- Premier purchase of Metro, Score concluded. Metro announces R142m rights issue.
- Liblife gains control of Sbic.
- PPI eases to 13%.
- CPI rises 15,2%.
- New vehicle sales fall 9% to 26 305 units.
- Trade surplus climbs to R1,826bn.
- CIB placed under final liquidation.

JUNE

- Gold above $360.
- New vehicle sales drop 7,5%.
- Malbak set for Abercom buyout.
- Sacob business confidence index at its lowest since December 1990.
- SA trade surplus drops from R1,8bn in May to R1,1bn.
- Money supply growth slows to 14,66%
- PPI rises 14,1%
- Motor industry local content levels raised to 70%.
- Rampaging dollar knocks rand to weakest ever level
- Bidvest acquires Steine in R86m deal.
- Metpol to raise R220m through rights issue.
- Oceana bids for UK retail chain Etam

JULY

- Development Bank aims to raise R100m overseas.
- Masterbond Trust calls off merger with Pretoria Bank, curator appointed to Pretoria Bank.
- Rand slumps further against dollar.
- JSE Overall Index surges to record 3 439, on hope of Japan and US lifting sanctions. Industrials surge to 4 084.
- NBS buys French Bank of Southern Africa in R54m deal.
- Gold shares up on higher gold price of $370.
- Platinum plunges to five and a half year low.
- New car sales down 11%.
- Finrand plunges to R3,44 to the dollar.
- M3 money supply rises 14,37%.
- CPI rises 15,9%.
- Food price push PPI to 12,1%.
- Financial Services Board proposes amendments to Stock Exchange Control Act to produce a competitively neutral playing field.

AUGUST

- Platinum hits low of $345.
- New weighting for CPI figures put inflation at 15,6%.
- Impala Platinum takes over Barplats.
- SA gold and forex reserves reach record levels.
- Gold trades at around $357.
- Markets rocked by news of ousting of Soviet president, gold drops to $347.
- SA unveils first public bond issue to raise DM400m in six years.
- Liberty offshore arm plans £102m UK rights issue.
- SA secures R3bn in foreign debt rollovers.
- Sacob business confidence dips again to 88,2%.
- New vehicle sales plummet by 21%.
- Trade surplus up at R1,9bn.
- Money supply (M3) grows by 14,5%
- PPI up 11,7%
- CPI up 15,6%

SEPTEMBER

- Office vacancies in Cape Town CBD soar to five-year high of 7%
- Plans for turnover tax on banks' gross interest earnings scrapped in favour of tax on capital bases.
- Gold at $346.
- Barlows sheds MS&A in R1,1bn group deal
- Liberty Life's London-based investment vehicle Transatlantic Holdings and French state controlled insurer UAP buy 4,5% stake in SunLife.
- SA government DM400m Eurobond issue a success
- Sappi announces R1bn rights issue.
- Industrial Index down to 3 973, Gold Index at 1 096 and Overall Index at 3 278.
- OM suspends plans for offshore Omsaf fund.
- Pepkor indicates interest in buying controlling interest in Tradehold and a substantial interset in Cashbuild
- New vehicle sales down 8,7%.
- Forex, gold reserve soar 6,6%
- Banks announce shock increase in both prime lending and mortgage rates ahead of VAT
- Government scraps plans for turnover tax.
- Trade surplus dips to R1,47bn.
- PPI down at 11,4%.

OCTOBER

- VAT implemented at a rate of 10%.
- Six companies in the Masterbond Group placed under provisional liquidation, and then provisional curatorship
- Transnet launches Loan 3 — a new capital market issue to raise R300m from local and overseas investors
- PPI down at 11,1%.
- Money market rates drop to lowest levels since early 1989.
- Momentum Life plans bumper rights issue.
- Gold jumps $7 on news that Soviet gold reserves are reported to be only 240 tons.
- Safmarine buys 49% stake in CMB Transport
- Tradegro/Tradehold propose rights offers of R61,3m and R33,9m respectively.
- Industrial Index rockets to 4 139, All Gold at 1 210 and Overall Index at 3 446
- SA forex gold reserves up 6,6%.
- Liberty Life seeks R444m from foreign investors.
- Flitestar takes to air in opposition to SAA.
- Pepkor buys 50% stake in Tradehold for R54,9m.
- SA announces plan for second public Eurobond issue in January 1992.
- Gencor announces R2bn rights issue.
- Hosken Consolidated Investments hive of offshore interests into new company.
- BER forecasts rand will depreciate by 10% in 1992.
- Trencor announces R250m rights issue.

Finding a cure for SA's economic schizophrenia

B/Day 21/12/91

RONNIE BETHLEHEM

49

DURING the transition to a post-apartheid SA, a fundamental change of the economy's focus is needed. The focus has been predominantly on the requirements of the export sector and on the needs of First World consumers. It is going to have to shift towards job creation and mass needs

But how is this to be done? Is it a job that can be left to adjustments of monetary and fiscal policy, or is something more required? Policy changes alone will be insufficient. What is needed is a strategic approach to the economy's restructuring that will provide macroeconomic coherence

However, the economy's openness and its dependence on the global economy will not permit the "luxury" of central planning or command economy techniques. What is done will have to be market related. However, it is no less true that what needs to be done is unlikely to be brought about simply by a scrapping of apartheid and a deregulation of the economy. Left to itself, in such circumstances, the market economy might well make inequality worse, not better, at least in the short run, whatever its greater efficiency Market efficiency is linked to adjustment to new information, and the poor and illiterate are at a competitive disadvantage.

Market forces must be allowed to operate, but the possibilities of market participation have also to be extended on a mass scale if the market economy is to survive. Structural impediments to participation must be removed by a combination of state intervention and affirmative action by the private sector.

A problem exists as to what is meant by economic strategy and state intervention. To old-time social engineers and Marxists they may have a different meaning to libertarians or neo-classical liberals. However, if the point about SA's dependence on the global market economy is accepted, and the failure of socialism in the Soviet Union and other countries because of inherent bureaucratic characteristics is also acknowledged, a way could be found toward reconciliation of the positions of the "liberation struggle", business and government.

This will have to focus on the role of the state not only as regulator and as the determiner of the institutional framework within which markets are left to work, but also as macroeconomic strategist and stabiliser.

SA is a schizophrenic society because its fundamental, long-term requirements conflict. In the export sector, the requirement is for competitiveness in global markets; domestically, the requirement is for job creation. Export competitiveness most frequently means capital intensive technologies while job creation means labour intensive technologies. Both have to be satisfied if SA is to succeed.

Ironically, dealing with this schizophrenia does not have to involve mutually exclusive choices. At the micro level, economic agents must be left to do what works best for them. It is at the macro level that the state must address itself to particular problems. In Keynes's words: "The important thing for government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all."

A balance needs to be struck between the requirements of "haves" and "have nots" in any formal or informal restructuring of the SA economy. If the gap between them is to be narrowed, if a better balance is to be achieved between real GDP growth and employment growth, the tendency towards capital intensification must be checked or modified.

This means dealing with the factors which have caused it in the first place, especially those that have adversely affected the relative costs of capital and labour. Monetary policies which keep interest rates below market-determined levels, or policies which ignore labour productivity in setting wage levels, especially in industries hard pressed because of a decline in output prices, will need to be jettisoned. If nominal wage rates cannot be lowered at or below the poverty datum line, the nominal cost of capital will have to be raised through higher interest rates.

Macroeconomic restructuring must confront the interdependence of national accounts aggregates such as production, expenditure and income — GDP measured in its different ways. There can be no restructuring of production (if this is what is targeted) without at the same time both expenditure and income also being affected. Expenditure, especially state expenditure, might appear relatively easy to restructure.

Income restructuring is likely to prove more controversial because it is linked in part to the ownership of wealth. If income restructuring is going to mean wealth restructuring, owners of wealth are going to see any such suggestions, especially by state functionaries, as a prelude to confiscation.

Is it necessary, however, that wealth restructuring should take a punitive form? The answer to this question must be "No!". Market fluctuations in asset prices continually restructure ownership in capitalist economies.

Takeovers and mergers also play their part in the restructuring of corporate ownership and control. In SA they have sometimes been at the centre of restructuring that has had extra-economic — that is, social and political — implications as well. An example of this was the transfer of control of General Mining from Anglo American to the Sanlam-Federale Group in the 1960s. This gave Afrikaner capital its first major stake in the mining sector.

Future restructuring along such lines could play a part in making strategic changes in SA's corporate control network, across racial lines, possible. Were it to do so, it could greatly reduce the pressure on the ANC and PAC to demand nationalisation of conglomerates

But the most important restructuring is likely to occur because of market adjustment to major exogenous change, of which a politically-motivated restructuring of state expenditures is likely to be a first priority Herein is the wherewithal for kick-starting the economy into a renewed upswing. What strategic planning has to ensure is that the kick-start is sustainable, and sustainability has to address the present constraints on the economy's growth.

Of these the balance of payments constraints is the most critical. SA does not generate a sufficient level of domestic savings to finance the investment needed for sustainable per capita growth

In conclusion, there are three remaining but related matters. Firstly, strategic planning implies macroeconomic coherence and balance. In the real world, pressures for compromise are often intense. In this process, folly is usually the consequence.

Secondly, macroeconomic strategising requires some kind of national consensus at the best of times While SA's political wrangling continues, the economy stagnates; while that happens unemployment rises, feeding back into the political process through the violence it spawns. What is needed is a social accord on the economy If that could be achieved, the political benefits could be considerable

Thirdly, the process of population transfer from the rural to urban sector has superimposed on it a population transfer from neighbouring countries to SA itself. To deal with this, a regional strategy is required. SA cannot plan alone.

Furthermore, the region is having to take its place in a restructuring global economy. The need for regional co-operation is likely to intensify and ultimately could lead to the emergence of a wider economic and political community. That must be the hope for the future.

☐ **This is an edited version of a paper delivered recently by JCI group economic consultant Bethlehem to a conference of the British International Studies Association at Warwick University.**

1992 will be better, say whites in poll

BDay 31/12/91 (49)

NINA SHAND

DESPITE continuing violence, poor economic conditions and mass retrenchments, white South Africans are more optimistic than blacks that 1992 will be better than 1991, a recent Markinor survey has found.

The Gallup Poll, conducted in October as part of an international year-end poll, found that while 40% of whites believe things will get better in 1992, only 33% of blacks have the same opinion.

Last year, this situation was reversed, with 47% of blacks confident that 1991 would be better than 1990, compared with 34% of whites.

Markinor director Peter Scott-Wilson said it was directly attributable to violence and poor economic conditions.

Markinor says that from 1982 to 1985, optimism among South Africans decreased as a result of the state of emergency during this time, and picked up with the outcome of the 1987 general election.

The escalation of township violence in 1988 and 1989 led to an overall drop in optimism, although towards the end of 1989 blacks showed more confidence in the future than whites. This trend continued in 1990 after President F W de Klerk began his reforms and optimism levels among whites dropped dramatically.

The poll, conducted among 2 300 urban adults (1 000 whites and 1 300 blacks), found the higher income group to be more optimistic than the lower income group.

Some 45% of whites earning more than R6 000 a month feel 1992 will be better than 1991, while among those earning less than R2 500, only 36% share this view.

Among blacks this difference is more pronounced, with 42% of those earning above R1 500 and 28% of those earning less than R400 having the same opinion.

"The importance of earning power confirms the importance of economic factors in forming people's attitudes to the future," Scott-Wilson says.

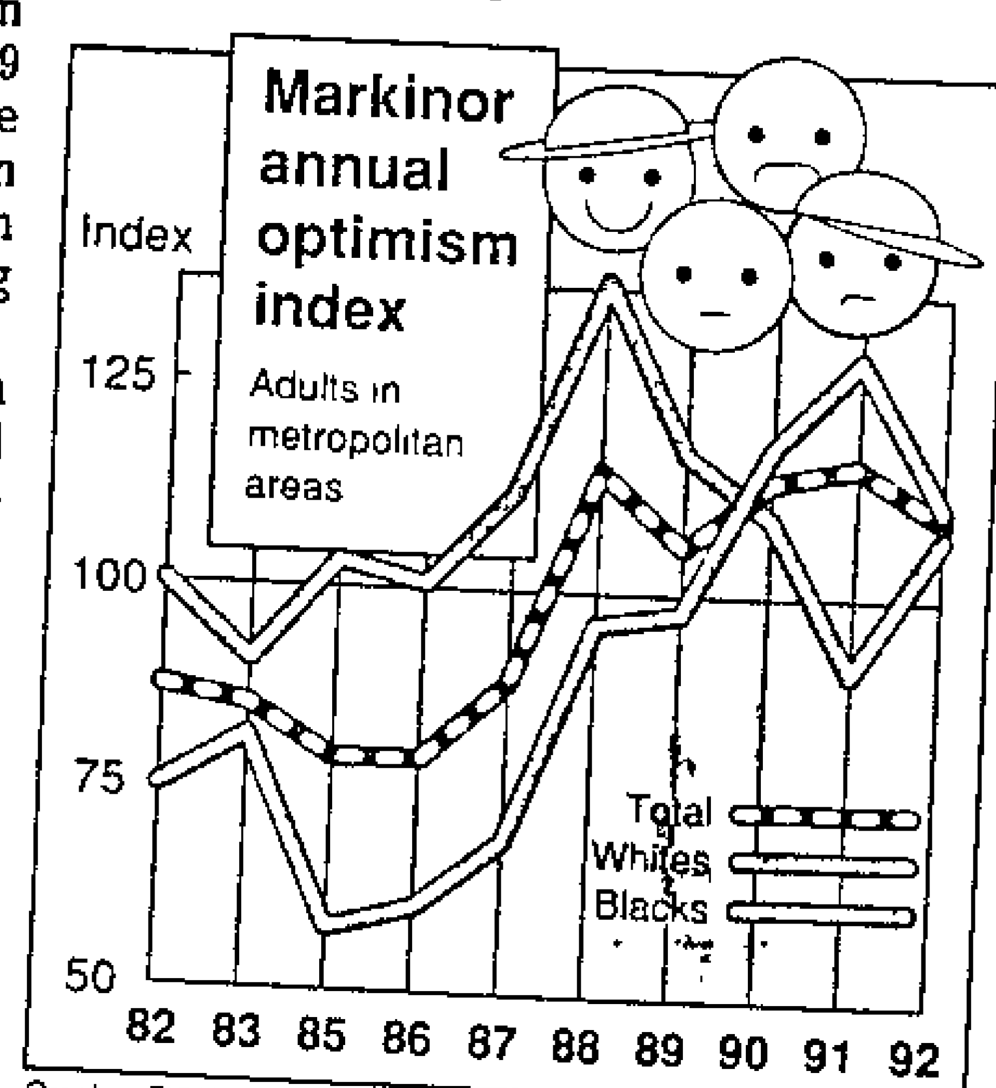
The poll found whites living in Bloemfontein (50%) and in Port Elizabeth/East London (49%) and blacks in Pretoria and Durban (39%) to be the most optimistic about the future.

With regard to strikes, 45% of whites and 30% of blacks, compared with 53% and 21% last year respectively, said they would increase.

English-speaking white South Africans are positive that 1992 will be a peaceful year, with only 26% believing it will be a troubled year with much international upheaval, compared to 43% of Afrikaans speakers believing this.

"Perceptions seem to be easing slightly despite disturbances throughout Eastern Europe," Scott-Wilson says.

Among black South Africans, 28% believe 1992 will be a troubled year and 30% believe it will be peaceful.



Graphic FIONA KRISCH Source MARKINOR