ECONOMY — 1992

MARCH

ANC to meet in city on economic policy

S Times [CM] 1/3/92 (49)

**By NORMAN WEST
Political Reporter**

THE ANC is to hold a national "policy conference" in Cape Town in mid-April, just after the holy month of Ramadaan, to consider afresh its policy on nationalisation

A senior source said yesterday nationalisation had always been for the ANC "a means to an objective".

This "objective", he said, was "eradicating poverty and ensuring wealth is more equitably distributed"

He conceded that the question now being deliberated in ANC executive circles was whether, in the current situation, nationalisation was "the best way of achieving the objective".

If "other players (businesses here and abroad), refuse to co-operate with the ANC" and if nationalisation does not prove to be the best way of achieving the ANC's objective, then "it is time to rethink strategy".

This was "the crossroads" at which the ANC now found itself, the source said.

The ANC had realised "it was not the only player" and that if it reached the stage it could no longer follow nationalisation as a policy, it would have to "look at it again".

The ANC had now reached this stage because of the lack of co-operation of business here and abroad.

The April policy conference in Cape Town will:

- Look anew at its objective of redistribution of wealth; and
- Look at alternatives for achieving this objective.

'No' vote an 'economic crisis'

LINDA ENSOR

CAPE TOWN — The equity market will probably be pushed to new highs by a resounding "yes" vote in the referendum, Board of Executors senior portfolio manager Rob Lee says in the latest Economic Outlook.

Significant support for the negotiation process would remove a major source of uncertainty, boost domestic and foreign investor confidence and enhance the probability of a fast and sustained economic upswing over the next three years or more. Growth rates as high as 4-5% a year were possible. B Day 2/3/92

A "no" vote, bringing with it sanctions and a massive flight of capital and skills, would be economically devastating and would result in a dramatic fall in the equity market. A narrow "yes" vote would have confusing implications for the market.

Lee expected a cut in bank rate within the next few weeks, probably after the referendum and the Budget.

He said the short term economic outlook had deteriorated as a result of the drought, the delayed world economic upswing and inflation.

"Present estimates suggest that the impact of the drought will be to reduce GDP growth by 0,5% or more, increase inflation by 0,5%-1% and reduce the trade surplus by about R2,5bn."

Lee said longer term economic prospects had been strengthened by strong indications that IMF support would be available to SA.

"The remarkable progress being made within the Codesa negotiation process, plus a forthcoming Budget that looks set to cut spending and boost investment are also positive for the longer term outlook," he said.

"This has very positive long-term implications, and makes one more comfortable about the still relatively high fiscal deficit (about 4,5% of GDP) that is likely to eventuate."

Lee expected a generalised world upswing to develop by year-end with equity markets, except the Japanese, being kept bullish for most of the year by falling interest rates and inflation.

We'll take up arms again, says Sisulu

B Day 2/3/92

BONN — The ANC will renew its armed struggle if a government of the extreme right takes power in the event the March 17 referendum seeking support for dismantling apartheid fails, ANC deputy president Walter Sisulu says.

In an interview with the German magazine Der Spiegel, Sisulu said if President F W de Klerk did not get majority support for a negotiated settlement, "then we could have a government of the extreme right which would reintroduce apartheid".

In such a case, he said, "we would fight such a regime just as we have fought the government, just as long as it did not commit itself to ... reform".

Sisulu also evoked the possibility of a coup staged by the extreme right.

"We are living in a crazy country and I can't rule out that some madmen might make such an insane attempt," he said.

On the ANC's rejection of the principle of a referendum, Sisulu said it would never accept a veto, and would follow the road to democracy through peaceful negotiations.

He called on "all reasonable whites" to vote "yes" to stop right-wing extremists from making SA go back.

"Every vote for the right is a vote for chaos and ruin," he said — Sapa-AFP.

‘Conglomerates should be seen to serve people’

Own Correspondent (47)

LONDON. — A future democratic government of SA "is bound" to bring in regulations to ensure that the big mining and business conglomerates "serve the public good", said Vella Pillay, former international banker and now economic adviser to the ANC.

Speaking at the Investing in SA conference to bankers last week, businessmen and investors, Pillay made no mention of nationalisation.

But he spelt out a nationally planned restructuring of the SA economy involving a mandatory social compact between the state, business and trade unions.

"The ANC do not possess any doctrinaire position relating to the control of the conglomerates," he said.

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".

CT 2/3/92

Thus a democratic government was bound to enact "regulatory arrangements — no different to those in force in Germany, France, Japan and South Korea — which commit those conglomerates to a set of social obligations to their workforce 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 wanted to see foreign investment in SA but this would be governed by what the country did to create a viable, growing economy with assured social and political stability.

Nobody was going to invest in SA until the conditions were right and he feared that the country was "confronted by a potential social breakdown of alarming proportions".

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".

This would involve a "social compact" through "mandatory agreements" between business, trade unions and government.

Azapo 'believes in a socialist economy'

B/Day 2/3/92 (49)

TIM COHEN

AZAPO believed in a "strong, socialist and self-reliant economy" where the ownership of the land, sea and airspace were vested in the state, Azapo president Pandelani Nefolovhodwe said yesterday.

Speaking at an Institute for Multi-Party Democracy conference at Wits University, Nefolovhodwe said the control of SA's wealth could not be left in few hands while the majority lived in poverty.

He restated Azapo's refusal to participate in Codesa and suggested it would not take part in a constituent assembly which had prior restrictions placed on the constitution it would draw up.

Nefolovhodwe insisted constitutional negotiations should be at a neutral venue and that the purpose of the negotiations should be to transfer power.

This process should be preceded by a patriotic front meeting which would be limited to liberation movements such as Azapo, the ANC and the PAC.

Azapo envisaged a transitional authority of limited duration with a clearly defined mandate which would ensure that liberation movements were not co-opted as "co-managers of apartheid".

During this stage, the security forces should be disarmed or confined to barracks and the international community should participate in the transitional authority.

Nefolovhodwe said President F W de Klerk's decision to hold a whites-only referendum vindicated Azapo's belief that government was trying to be a player and a referee in the transitional process.

☐ Sapa reports that ANC president Nelson Mandela told the conference on Saturday De Klerk's decision to consult white voters on March 17 was in line with "old style" apartheid consultations.

"The referendum once again postpones the coming to terms with democracy. Democracy demands that the electorate is seen as an indivisible whole, without the racial fragmentation laid down in the infamous Population Registration Act."

ADVERTISEMENT

Meeting Africa's needs — the key to SA economic success

BD ay 2/3/92

Deirdre Blain

49

NO DOUBT the IMF's recent disclosure of a lacklustre 2% aggregate growth in the world's major industrial economies for 1992 — down from its October forecast of 2,9% — will be much on the minds of attendants at an Interexec conference in May on how to exploit profit opportunities in subSaharan Africa.

Despite euphoria over the progressive lifting of sanctions against South Africa, IMF's announcement indicates bifocals, and not rose-tinted spectacles, are what's needed for local businesses looking to new export markets for their products.

"Obviously we can't ignore overseas trading partners, but if South Africa's economy is to get an export-led kickstart to recovery, it seems increasingly likely that it will come from markets closer to home," says general manager Dennis Cox, of Interexec Seminars & Symposia.

"Eastern European economies are largely defunct, the major western markets are sluggish, yet the Nigerian stock market all share index rose by a spectacular 50% at end-December, and we understand Botswana is listed as one of the fastest growing economies in the world."

"Billions of dollars in investment and foreign aid are pouring into Africa annually," he continues.

"This, together with the growing trend towards free market economies, has resulted in many African markets reflecting exponential growth patterns with ensuring lucrative and still untapped business opportunities."

The Interexec conference, scheduled for the 5 and 6, will take a look at subSaharan profit opportunities for local business and more specifically at how to exploit these openings to the full. Speakers will address in detail how to minimise risks and maximise the chances of successful intra-continental trading, in the fastest possible time.

Guest speaker Dr Ophelia Jatta, an internationally renowned expert on African economic and business affairs, having visited more than 38 African countries, will deliver the keynote address entitled 'Meeting Africa's needs: the key to (South Africa's) success'.

The American Harvard graduate holds a BSc in accounting, an MA in international economics and business, and a Juris doctorate in international law.

"Economic co-operation between African states generally, and southern African states specifically, irrespective of political differences, is the vital key to economic upliftment throughout the region," says Jatta.

"The effect of African countries in the past banding together to isolate South Africa from world trade has been to weaken the economies of each and every one of them.

"Just as these countries are now realising the need to bring South Africa back into the Preferential Trade arena, it is in South Africa's own best interests to boost and assist the economies of its neighbours.

"Strengthening ties and not allowing politics to destroy the economic base is more likely to attract foreign investment to the region as a whole, with South Africa the natural economic hub."

A lot of companies burnt their fingers because they did not know how to enter this market properly. They did not fully understand the economics of the region, transport routes and other African peculiarities. They did not go fully prepared, with their eyes open.

The Interexec conference will focus on the practical and tough issues of business marketing into these areas, says Cox.

An impressive line-up of speakers will address subjects of interest to the full spectrum of South Africa's business community, including manufacturing, engineering, building and the commercial sector.

The conference programme will also encourage participation from delegates and a free exchange of ideas and experience.

Says Jatta: "It's going to be a very worthwhile exercise, even for those who already know what's being said. The conference will provide an opportunity for companies to network together and explore joint venture opportunities.

The time has come for South Africa to walk through the front door to the international trade arena and to take a leadership role in world business activity."

For more information on this, contact Interexec Seminars and Symposia at: (011) 803-8467.

OT7222

MONEY MARKETS by Sheridan Connolly

Scramble as market shortage dips

BDay 2/3/92

THE month-end scramble in the local money market got under way towards the end of last week with the market shortage dipping sharply to R843m on Thursday from a previous R1,76bn.

Dealers attributed the sharply lower market shortage to tax payments falling due. They also said there was a lot of money flowing through the system to finance a special rights issue by Gencor.

Meanwhile, the Reserve Bank continued its liquidity-draining operations last week with a series of special Treasury bill (TB) tenders. On Friday the Bank's special three-day TB tender was sharply undersubscribed, with the Bank receiving only R820m at an average rate of 16,39% for its R1bn worth of bills on offer.

Dealers said the bad response to the Bank's special issue could have been due to the relatively high rate of 16,39%. Corporates could get similar rates on call and, at month end, the smaller institutions did not have that kind of money lying around. With hectic month-end activity and general confusion over how cash flows will go, the Bank's offer was not all that attractive.

Hopes of a cut in official interest rates are still running high, but most analysts expect Reserve Bank Governor Chris Stals to hold out until after the reform referendum on March 17 and until he has seen the fiscal thrust of the March 18 Budget.

February's inflation rate is due out about three days after the Budget, so Stals could wait for some signs of success in the inflation war. (49)

Turnover suffered on the capital market as traders were diverted by two contrasting events — the political nervousness in the run-up to the referendum, and the midweek World Cup cricket match in Australia. The screens players were watching tended to feature scores and bowling analyses instead of prices and yields. Confidence that the referendum would result in a "yes" majority kept yields on the benchmark Eskom 168 comfortably below the 16,5% level.

'No' vote an 'economic crisis'

LINDA ENSOR

CAPE TOWN — The equity market will probably be pushed to new highs by a resounding "yes" vote in the referendum, Board of Executors senior portfolio manager Rob Lee says in the latest Economic Outlook.

Significant support for the negotiation process would remove a major source of uncertainty, boost domestic and foreign investor confidence and enhance the probability of a fast and sustained economic upswing over the next three years or more. Growth rates as high as 4-5% a year were possible.

A "no" vote, bringing with it sanctions and a massive flight of capital and skills, would be economically devastating and would result in a dramatic fall in the equity market. A narrow "yes" vote would have confusing implications for the market.

Lee expected a cut in bank rate within the next few weeks, probably after the referendum and the Budget.

He said the short term economic outlook had deteriorated as a result of the drought, the delayed world economic upswing and inflation.

"Present estimates suggest that the impact of the drought will be to reduce GDP growth by 0,5% or more, increase inflation by 0,5%-1% and reduce the trade surplus by about R2,5bn."

Lee said longer term economic prospects had been strengthened by strong indications that IMF support would be available to SA.

"The remarkable progress being made within the Codesa negotiation process, plus a forthcoming Budget that looks set to cut spending and boost investment are also positive for the longer term outlook," he said.

"This has very positive long-term implications, and makes one more comfortable about the still relatively high fiscal deficit (about 4,5% of GDP) that is likely to eventuate."

Lee expected a generalised world upswing to develop by year-end with equity markets, except the Japanese, being kept bullish for most of the year by falling interest rates and inflation.

(49)

B/Day 2/3/92

Mandela calls for more foreign pressure on Govt

STAR 2/3/92

AMSTERDAM — African National Congress leader Nelson Mandela, writing in a Dutch daily newspaper on Saturday, has urged foreign sympathisers to exert pressure on the South African Government to establish an interim government.

He said in an article in De Volkskrant that President de Klerk was mistaken in allowing the March 17 whites-only referendum.

"By calling for this referendum, (President) de Klerk is showing he does not see himself as leader of the entire South African population, but only as leader of the 15 percent who are white."

He said the right wing was strong, full of self-confidence and growing.

"Since the elections, the right wing has gained a greater percentage vote at each by-election. Before the general election in 1989, the governing National Party held 40 parliamentary seats in the Orange Free State. Now, 30 of these are in the hands of the Conservative Party, which has openly indicated it wants to reinstitute apartheid and have me back in jail," Mr Mandela wrote.

Mr Mandela said the ANC agreed that the trade embargo and financial sanctions should be lifted as soon as a representative interim government was installed.

He said the ANC would hold an economic conference next month to review its nationalisation policy.

"Because we know economic advancement is not possible without the business world, we have asked South African businessmen to design an alternative to nationalisation which also would lead to a correction of economic apartheid.

"I wish to emphasise we are open to all suggestions in this regard. Our ideal is a mixed economy in which government interference would be no greater than that in Italy, France or Germany." — Sapa.

STAR 2/3/92

Wealthy Kuwaitis looking to invest in SA

By Des Parker

DURBAN — Wealthy investors in oil-rich Kuwait are keener than ever before to learn about South Africa's prospects, says Sir John Banham, director-general of the Confederation of British Industry (CBI).

Speaking in Durban at a week-long fact-finding mission — the first by a CBI chief — he said that during a visit to Kuwait less than a fortnight ago he had received more inquiries about the potential for investing in SA than he had heard in the previous five years.

"These are very, very wealthy individuals indeed, with their money spread around the world," Sir John said.

"These global investment players keep a very close watch on world affairs and just at the moment, they're very interested in SA."

Sir John stressed he was not here to be prescriptive, although he had a few cogent lessons to share from Britain's experience in dealing with stubborn and persistent inflation.

Excessively high interest rates, kept in place too long because the British government failed to understand the underlying cause of rising inflation, were at the core of the extended recession in the UK, he said.

While rates had dropped considerably over the past year, confidence among the public to spend remained at a low ebb — even though industry was leading business out of the downturn.

"Britain's fundamental economic position is very sound; inflation in manufacturing is two percent and falling, the retail price index is four percent and doing likewise; unit labour costs are about static and the pound is strengthening against other major currencies," said Sir John.

ANC highlights SA's inequalities

DIRK HARTFORD

THE DEBATE around future economic policy was ideological instead of addressing SA's practical problems, ANC economics spokesman Ketso Gordhan said last week. He said the ANC did not have an economic policy.

"The ANC is not responsible for the economic crisis. The ANC has not been running the country or the big conglomerates and we do not have their experience."

Gordhan was speaking at the Innes Brown social accord conference. He suggested "growth through redistribution" to resolve inequalities in SA which included:

☐ Poverty — with 41% of the population unemployed, 63% illiterate and 60% living below the IMF's minimum level;

☐ Inequality — where whites had 54% of the income;

☐ Capital flight — he said $36bn, amounting to 7% of GDP, had left the country between 1970 and 1986; and

☐ Concentration of ownership — where six companies controlled more than 80% of the JSE.

B/Day 3/3/92

Rand Merchant Bank's Rudolf Gouws said he agreed with what Gordhan said about inequalities, but argued that "redistribution through growth" was the more efficient way forward. This meant the state should pursue growth orientated policies like;

(49)

☐ Investment, not consumption;

☐ Boost exports and reintegrate SA into the world economy;

☐ Increase competitiveness; and

☐ Introduce lower and simpler taxes.

Gouws argued for a poverty-orientated employment programme, saying the collapse of savings and investments, and the rise in government spending, were the key economic problems.

'Yes' vote will boost upswing

(49)

CT 3/3/92

By AUDREY D'ANGELO
Business Editor

THE equity market will probably move to new highs if the referendum vote is "Yes", and there will be a greater chance of a fast and sustained economic upswing over the next three years or more, Board of Executors senior portfolio manager Rob Lee says in his latest Investment Outlook.

However, a 'No' vote would have devastating economic consequences and the equity market would fall dramatically.

Lee says the short-term outlook for the SA economy is gloomy, with the drought likely to reduce gross domestic product (GDP) by 0,5% or more, increase inflation by between 0,5% and 1% and cut the trade surplus by R2,5bn.

He expects no improvement for the retail trade "until right before the end of this year or even in 1993."

But the long-term outlook is more positive. And even in the short term he expects bank rate to be cut in the next few weeks.

And "a credibly low government spending increase in the forthcoming budget — of 12% or so — will allow more room for manoeuvre on the tax side than previously thought.

"Our expectation is that the emphasis in the budget will be on promoting investment rather than consumption, both on the tax and expenditure side.

"This has very positive long-term implications and makes one more comfortable about the still relatively high fiscal deficit — (about 4,5% of GDP) — that is likely to eventuate.

"Further positive news for the longer term has been that the US will support a future SA application to the International Monetary Fund for financial assistance and support, irrespective of whether the Gramm Amendment is abolished by then or not.

"The guarantee of an IMF backstop significantly increases the potential sustainability of the next upswing, as much because of its positive influence on foreign investors as the availability of IMF money itself.

"Positive implications for the long term can also be drawn from the remarkable progress apparently being made in Codesa on key political and constitutional issues."

Discussing the outlook for property investment, Lee says he expects earnings to be "subdued" in the short term.

But when the upswing comes "the property and rental cycle will turn with a vengeance, and very acceptable returns would be achievable on well selected property investments on a two to three-year time horizon."

Reserve Bank accountable to all

The governor of the Reserve Bank, Dr Chris Stals, says the accountability of the Reserve Bank is towards the total community and its responsibility is to create a stable financial environment in which maximum economic growth can take place. STAR 3/3/92

Speaking at the official launch of the Pretoria chapter of the Association of Black Accountants of Southern Africa (Abasa), Dr Stals said savers, investors, consumers and traders would only be able to take rational decisions on the management of their finances if they had trust, faith and confidence in the banking institution. (49)

He said accounting institutions such as Abasa had a role to play in this regard.

Referring to financial management risks, Dr Stals said while the bank was not prepared to interfere with informal institutions like stokvels, members of such institutions should bear in mind that the Reserve Bank would not accept any responsibility for the mismanagement of funds.— Sapa.

Govt favours forum to negotiate economic restructuring, says FW

B/Day 4/3/92 (49)

ADRIAN HADLAND

GOVERNMENT favoured an economic forum to negotiate the restructuring of SA's economy, President F W de Klerk told more than 200 Johannesburg businessmen on the second day of his referendum "roadshow" yesterday.

But De Klerk warned that it would be impossible for government to participate in such a forum as this would amount to it giving away its authority.

He was addressing a briefing for businessmen organised by the Johannesburg Chamber of Commerce and Industry and the Johannesburg Afrikaanse Sakekamer.

The concept of an economic forum, including representatives of business, labour and possibly the Reserve Bank, to produce an accord on a national growth and development strategy for SA, has received considerable support from a wide spectrum of interests in the last few months.

Among those who have backed a forum are Finance Minister Barend du Plessis, Reserve Bank Governor Chris Stals and Sacob's economic affairs committee chairman Ronnie Bethlehem. Cosatu has indicated its willingness to explore setting up such a national forum.

De Klerk said: "We need an economic accord in SA." But while government would co-operate with such a forum, it would not permit a form of interim government "to slip in through the back door".

"The government must retain its distance from forums as it is government that must take the final decision," he said.

This has been government policy on several non-Codesa negotiating forums, including the national housing forum and the national peace committee.

De Klerk said government was not seeking a blank cheque from the electorate but a mandate to work towards a new constitution. The constitution would secure certain fundamental values, he said, including the "effective protection of private property and home ownership against arbitrary action from any future government".

On the deteriorating crime situation in the PWV area, he said police ranks had been swollen by more than 17 000 in the past year while funds for the police had trebled over the past two Budgets.

Yesterday, after visiting an old age home in Kempton Park and a Modderfo tein factory, the President addressed st dents at RAU, city councillors at Johann burg's civic centre, businessmen at JCC head office, teachers at Goudstad, firem in Turffontein, police in Booysens a members of the Portuguese and Gre communities at Noordheuwel.

De Klerk will spend today with the Ca net in Cape Town before heading for Na and the next leg of his tour.

Report by A Hadland, TML, 11 Diagonal St, Jhb

● See Pages 2, 5 and 8

Bankorp says recovery is near

(49)

SHERIDAN CONNOLLY

THE economy would gradually recover from about mid-year, Bankorp said in its latest quarterly review. The recovery would be hesitant and patchy at first but towards year's end would become more broad-based and perceptible.

"The Reserve Bank's bank rate and associated prime and other lending rates of commercial banks will probably be cut twice during 1992 and once more in the first half of 1993," Bankorp said.

It forecast the prime rate lower at 18,25% by year-end, dropping to 17,25% by mid-1993. The upswing would gather further momentum next year, supported by recovery in the world economy.

The review expected sharp declines in domestic inflation in the second half of this year and the first half of 1993.

Bankorp warned that short-term growth prospects had been damaged by drought conditions, high food costs and overall inflation which had delayed cuts in interest rates, and the weak growth performance of the world economy.

It forecast a drop in inflation to around 12,3% by the fourth quarter of 1992 and a further decline to about 10,4% by the second quarter of next year.

It predicted 0,8% growth in the third quarter of 1992, rising to 2% by the fourth quarter. B/Day 4/3/92

Commenting on the upcoming Budget, Bankorp said the prospect of continued strong government spending pressures, within the context of a weak economy and high inflation rate, presented a dilemma in the structuring of the budget. The need to curtail a potentially high deficit would make tax relief difficult.

Higher tax rates could perpetuate stagflationary conditions. Strict expenditure discipline had to be applied and specific revenue measures considered in order to return to positive economic growth.

The bank said no increase in direct or indirect tax rates should be contemplated before October.

The effect of VAT on the inflation rate would have subsided by then. Although a higher rate of VAT was inevitable in the medium term, any increase at this stage would be inopportune.

'SA heads for Third World status'

Business Editor

SA is in danger of becoming a Third World country unless the government sets up a five-year plan for infrastructural projects, William Vance — new executive director of the SA Federation of Civil Engineering Contractors (SAFCEC) — warns.

He said in a statement issued yesterday that First World countries were distinguished from the Third World by having an efficient infrastructure, "including a decent road and rail system, power stations, manufacturing capacity and know-how and modern facilities."

Market research had shown that people forced out of the construction industry in the bad times never came back.

This could result in a situation "where our construction industry no longer has the capacity to cope with the work that needs to be done (here), let alone help neighbouring countries with their infrastructural needs.

"What a tragic situation that would be. And what tragic consequences it could have for the whole southern African region."

Vance said it was SA's highly capable construction industry which had enabled it to buck the trend in the rest of Africa "and even in our years of isolation make an indispensable contribution to the needs of neighbouring countries."

But the industry was now in "a tough situation where work is scarce, many companies are retrenching highly trained and experienced people, the labour force has dropped from 100 000 to 65 000 in two years. And there is no national plan for the industry."

(49) C 14/3/92

What was needed, said Vance, was "a proper five-year plan for the industry.

"It would mean setting out infrastructural goals and requirements over a period of years. I suggest five as a suitable period, and committing money for those requirements which cannot be pinched for other projects."

Who will pay for the new democracy?

49

MCG 4/3/92

METROPOLITAN government for Cape Town, desirable as it may be, will be costly.

Ironically, the best models for understanding the probable flow of capital within the metropole are the existing regional services councils — flawed as they may be.

Representation on RSCs is calculated according the amount of services used.

The constituent who spends twice more than his neighbour on services gets, roughly, twice the members and twice the votes.

There is a "safeguard", perhaps of dubious fairness, that no-one may have more than half the votes in the RSC.

The balance of votes exceeding 50 percent is divided among the other members.

If it sounds cockeyed, it is.

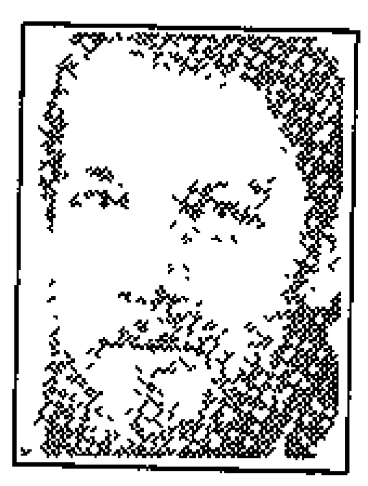
In practice, it prevents domination of an RSC by an individual city council.

Observe our own Western Cape RSC, where Cape Town City Council vigorously carries the can.

The city council has four representatives — who also just happen to chair all four of the significant working committees.

Town councils from the Ty-

CITY HALL



Clive Sawyer

gerberg and Boland, management committees and black local authorities have them surrounded.

The effect of this is that Cape Town foots a lot of the bill and does a lot of the work, and must abide by decisions influenced by councillors whose broad philosophy may not accord entirely with their own.

Gulliver and Lilliput again. For the Lilliputians, however, read Brackenfell, Kraaifontein, Strand and the Temperance Town Management Committee.

Naturally, there are fears that the same principle may apply to the levelling of the civic turf.

It is probable that in a future democratic Cape Town, ward boundaries may be redrawn.

If that happens, there may be a blend of traditionally more affluent ratepayers and poorer ones.

Analysts have said that the wealthier electorate may be able to muster greater resources to run more sophisticated campaigns for their candidates.

However, if the electoral battle was one between a candidate with affluent interests at heart and another for the "less fortunate", the poor could fight back with their only resource — numbers.

The second "however" is that this resource would be neutralised swiftly if there is a property qualification for a municipal franchise.

After years when local government was a crucial focus of resistance, and equally often used by the central government to impose apartheid, a qualified franchise without adequate consultation beforehand could be political dynamite.

It is doubtful that the previously disenfranchised would accept having a parliamentary vote without being able to choose representatives for Ward 18.

All this democratisation is going to be costly because it implies the rapid extension of services to constituents morally entitled to demand them, and at the same time dramatically increased demands on revenues.

Translated: rates rises, unless the money can be found

Elsewhere it could mean central government help... and after that creative thinking in terms of the art of the possible would be needed. Urgently.

Metropolitan government does not necessarily imply municipal unification. It does not necessarily mean that Mr Friedlander will plant the coat of arms boldly in Voortrekker Road and annex Parow to the Cape Town Crown.

Rather like RSCs, metropolitan government must involve shifting large sums of cash about.

It is a sensitive issue. Already ratepayers who have been dutifully meeting their electricity and water accounts fear that they are subsidising those who habitually do not.

There is another dimension: there is a feeling that the relatively affluent suburbs have grown at the expense of the poor.

And coins will have to clatter into the scales to balance them.

Govt urged to sell assets

(49) CT 4/3/92

By AUDREY D'ANGELO
Business Editor

TAX hikes are not the answer to a government deficit before borrowing which is heading for a level above R13bn — or 4,5% of gross domestic product (GDP), Bankorp chief economist Nick Barnardt says in his latest quarterly overview.

Urging the government to reduce fiscal drag "perceptibly" in this month's Budget, Barnardt warns that allowing inflation-based pay increases to draw individuals into higher tax brackets would "smother any hope of a revival in consumer spending and therefore in economic growth".

He also advises against any rise in the petrol price before October, or in politically sensitive VAT this year.

Instead he suggests privatisation of government assets as "the logical source of billions of rands in revenue from which to finance special redistributive programmes such as mass housing and electrification in future.

"This would admittedly be an extremely sensitive political issue at this stage. But it cannot be dropped from the country's economic agenda for the mere sake of political expediency.

"It could be a major instrument for the upliftment of the disadvantaged masses and should be placed on the negotiation agenda of any combined economic forum between labour, business and government in 1992.

"We see it as the primary key to an effective solution of SA's fiscal dilemma in both the short and medium term."

Barnardt points out that the "higher than expected deficit is partly the result of spending on health services, black local government and interest on government debt.

"But it arises mainly from a large revenue shortfall, reflecting the weak economy and weak corporate profits in particular."

He says that "the household sector is already in dire financial straits as a result of lower wage and salary increases, the short-term burden of the switchover to VAT, high inflation, high interest rates and high unemployment".

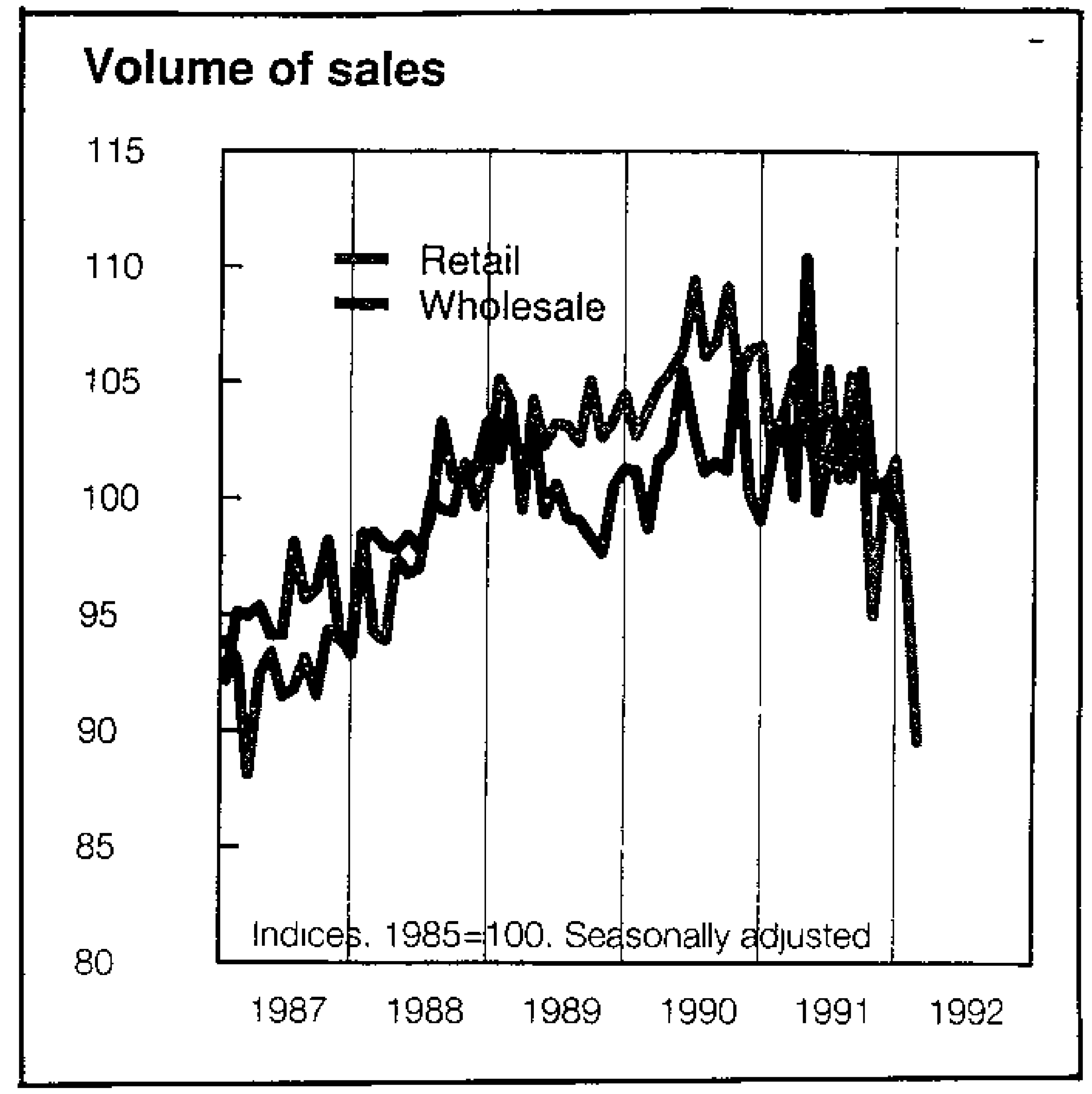
He hopes the government will resist the temptation to drain another R3bn from consumers "by silently increasing the effective rate of personal taxation" through fiscal drag, and will limit any such increase in revenue to R500m at most.

"A hike of 8c per litre in the fuel tax levy from October 1 would raise approximately R250m in the current fiscal year."

Barnardt says that ideally any rise in VAT should be postponed until the 1993 budget.

But a capital gains tax should be accepted as politically and economically inevitable in SA.

"The introduction of a low-rate inflation-adjusted capital gains tax later in 1992 could perhaps raise about R50m in the fiscal year."



This graph from the Reserve Bank's monthly release of selected statistics in February shows the steep drop in retail sales.

Let business play big role

Sowetan 5/3/92 49

Businessmen are always accused of chasing profits and not caring for the public. In this article ROBERT ZIEGNHAGEN says this attribute should be used to develop South Africa.

ANYONE who expects the new South African Government to be an effective and efficient administrator of social change will be sadly disappointed.

History has shown that even governments which manage the political process well are decidedly poorer in creating and managing broad social upliftment.

If we want to see rapid and effective social change in South Africa, we will have to turn to another group - one that has consistently proved itself capable of generating rapid change in an efficient and cost-effective manner: business.

Actually, we will have to let both the Government and business do what each does best: the Government must set the agenda and business must get the agenda accomplished.

Lets face it: Politicians and entrenched bureaucrats have not distinguished themselves around the world as managers - whether it be budgets, airlines, post offices or refineries.

If rapid social change is so important to South Africa, why do we want to leave it to this group?

Wouldn't it be better to rely on the very managers who build skyscrapers and computer networks, manage four-star hotels, find gold mines below the surface of the earth, and keep store shelves filled with outstanding products day in and day out?

They have proved that they can deliver the goods.

I know what you're thinking - how can we get businessmen and women to serve the public good when they too often seem to be focused on their personal welfare?

Simple Business people are the ultimate mercenaries - they are so driven by the profit motive that they will overcome incredible obstacles to achieve their financial goals.

Whatever challenge these managers are given, whatever environment they are thrown into (within reason), they will make a plan, even if they have to dig a mine halfway to China or build a tropical jungle in the midst of the arid veld

If businessmen have chased their own self-interest to the detriment of society, it's only because governments have set the rules so loose as to allow them to do so.

If we want business to rapidly rebuild the social health of South Africa, then the Government merely has to change the rules of the game so that companies can maximise profits by doing social good.

Here's how.

First, we lock businessmen and the new South African Government in a conference room and we don't let them out until they create a South African "Sullivan Code" - a specific code of socially responsible behaviour that business should follow.

It would detail how much money firms should allocate to social ends (a certain percentage of profits, payroll, or an amount per employee).

It would detail how many "sweat equity" hours of volunteer employee service must be contributed by a company (again a certain number of hours a month per employee).

It could give objectives for black, coloured and Asian advancement in terms of training, job titles, promotions and so on.

The code would be highly flexible, with many different ways that different types of companies could achieve their quota without losing competitiveness.

Then the Government dangles the carrot: firms that meet the highest standards of performance get meaningful rebates on their tax bill as well as a public relations coup.

Firms doing so-so jobs, get half this level of rebate.

Firms that don't do anything get no rebate at all.

What would happen?

First, corporate directors would certainly decide that they have a deep concern for social progress in South Africa.

Then, inevitably, many of their employees would probably scream bloody murder that they were being forced to do community service

Pretty quickly, though, thousands of highly paid executives would discover the real truth: that volunteer work can be a lot more fun and rewarding than their regular job.

Then grassroots community groups would find an ample supply of highly skilled accountants, engineers, salesmen, teachers and lawyers to help them manage and train.

Programme effectiveness would soar.

Politicians would find a business community that is much more supportive of the country's social objectives because they have a first-hand understanding of and commitment to what is needed

Corporations would find that, through their large budgets and their armies of involved employees, they would have enormous power to influence community thinking and priorities.

And lastly, the desperate squatter, the destitute student and the unmarried mother would discover that there actually is hope.

That the system is responsive and it is making a difference in their daily lives.

They would re-elect the Government and respect the business community.

True, what's being proposed would be a revolutionary change in the relationship between business and the community. And it would force many people out of their "comfort zones".

But what is the alternative?

Sure, we can go through the motions of waiting for the Government to solve our social problems, but do we really expect history to be kinder to the new South African Government than it was to the dozens of other states which sought rapid social change?

If and when our own Government should fail, there is a good chance the responsible politician and the concerned businessman will be swept away at the same time.

Political changes bring opportunity — and risk

B Day 5/3/92 (49)

MICHEL CAMDESSUS

THE momentous changes in the political and economic framework are bringing new opportunities to developing countries, but these are accompanied by many risks, particularly the risks of instability, marginalisation and, most important, the risks inherent in a period of transition.

First, it is feared by some that the more open and less regulated international markets may in some sense be potentially less stable. This is true in the sense that the greater freedom of capital movements has increased the scope for large and sudden shifts of funds. Related to this, the closer interdependence of countries may increase the scope for the transmission of economic imbalances across borders.

But while it is prudent to be alert to these potential threats, the international economic system has proved to be quite robust and resilient. Policy co-operation, and the convergence by many of the major industrial countries on policies that aim at a gradual lowering of inflation, have contributed to a reduction in the degree of exchange rate instability over the past decade.

On balance, although the risk of financial instability is always with us, the progress achieved in financial co-operation justifies confidence in our ability to deal with it — provided we stay vigilant and keep financial developments and our means of co-operation under review.

The second risk is that of marginalisation. Many in developing countries ask:

☐ Will we be left on the periphery of the rapidly expanding network of trading and financial links?

☐ Will we be shortchanged in the competition for development aid?

☐ Will our interests be accorded sufficient weight in the mechanisms for international co-operation?

In the field of trade, there is no inherent reason why smaller countries should be put at a disadvantage. On the contrary, globalisation should increase their chances of finding suitable outlets for their products, as it has done in practice in many cases.

Where there is a risk, it is in those countries that have not yet embarked on a vigorous growth-oriented strategy, that have not yet taken the basic decision to open their domestic economy to full participation in international trade, or that have not yet moved to create a domestic climate favourable to domestic and foreign investment.

There are also widespread worries stemming from the difficulties that have been encountered in completing the Uruguay Round. In particular, will world trading arrangements deteriorate for some developing countries as a result of increased protectionism or because regional trading arrangements (especially in North America or in Europe) might become more inward looking? The solution, again, depends now entirely on mustering the political will necessary to bring the Uruguay Round to a conclusion in a way that produces meaningful trade liberalisation.

Risks of transition also lie ahead. If the countries that are undertaking structural adjustment, or those that are in transition to a market economy, do not persevere with sound policies, or if the rest of the world fails to extend sufficient assistance, then they will be unable to deliver to their people the progress they are promising them in terms of higher growth and improved living standards. This would entail the danger of losing the benefits of globalisation, undermining democracy, and it may undermine prospects for a more peaceful world order.

The next few years, therefore, will be a time of great risks — risks that "adjustment fatigue" may be matched by "donor fatigue", and risks of all possible kinds of vicious cycles, as failure in one area might contribute to failure in another.

To minimise these, there are four broad areas where stronger action is desirable, by both the industrial and developing countries:

First, better policies should be matched by better financing — an outward orientation with respect to trade, investment and competition; and an emphasis on far-reaching structural reforms to increase the efficiency of market mechanisms, promote savings and investment, and foster long-term gains in the productiveness of the economy. And it is increasingly urgent that the industrial countries send a clear message to the developing countries that good policies will be matched by adequate and timly financing.

Secondly, theres scope for a wide range of worthwhi initiatives in the field of "good govrnance". In particular, the indusrial countries should increase thir provision of technical assistanceto enhance the effectiveness of adustment programmes or systeratic reforms, through institution bilding, training, or in many other ways.

Thirdly, poverty aeviation, including adoption of aprropriate social safety nets, has to become more of an integral elemnt of any growth-oriented structural adjustment programme.

Fourth, military spendig cuts by the industrial countries ar now possible on a very large scalethanks to the end of the Cold War. t will be reasonable to expect thata part of these savings will be dvoted to foreign assistance. But it s equally desirable that developing countries also embark on a serious efort to reassess their military spending.

☐ **These are excerpts from a speech by the IMF MD to the UN Conference on Trade and Devebpment in Colombia last month.**

Japan sees SA as gateway to African trade

SHERIDAN CONNOLLY

THE referendum and the possibility of future nationalisation in SA were factors causing concern among potential Japanese investors, visiting Japanese academic Anatole Goshi said in Johannesburg yesterday.

He said political instability was a serious threat to investment in SA. Japanese investors were perturbed about the potential nationalisation of SA's mines as nationalisation was not seen as a viable solution to SA's economic problems. B/Day 5/3/92

Goshi said Japanese companies had earmarked large sums of money for investments overseas, which included SA. He said Japan had much to offer SA in the way of skills development, trade and manufacturing experience, as well as job creation.

SA was the gateway to trade with the rest of Africa, and Japan therefore hoped to establish regional "headquarters" in the country by the turn of the century, Goshi said.

The Japanese economy had come under pressure from both the US and from recent scandals which rocked investor confidence in Japanese financial and stock-market circles, he said. Japanese authorities were as a result now under pressure to stimulate the domestic economy

Goshi said Japan's prime minister had envisaged a 3,5% growth in GNP for the current year. The Japanese government planned to invest in civic projects. This would provide SA exporters with good opportunities to export goods to Japan.

As a professor of management at Nihon University in Tokyo, Goshi spends about two months each year in SA consulting on ways to approach new business opportunities opening up worldwide

Basic economic rules the key to SA's development

(49)

Sowetan 5/3/92

On February 13, *Sowetan* columnist Thami Mazwai criticised the IMF's proposals for a new South Africa. In this article MPHO SEROBE, who is on a masters programme in economics at the University of the Witwatersrand, tells Mazwai: "You are wrong".

OPINION

THAMI Mazwai claims guidelines suggested by the International Monetary Fund for the economic restructing of South Africa are textbook material because they:

- Neglect differences in needs and priorities;
- Do not consider diverse social, political, cultural and religious factors between countries; and
- Use countries in the West as role models.

The IMF doesn't say individual countries shouldn't follow their "needs" and "priorities"; what they are saying is that some "needs" and "priorities" can wreck while others don't.

The Soviet Union and other Eastern Bloc countries followed different policies according to what they thought were their "needs" and "priorities".

We all know what happened to those economies. There are economic fundamentals which one should follow if one hopes to achieve development, irrespective of "diverse social, political, cultural and religious factors".

The claim that the IMF has used countries in the West as role models is unfounded. To show the advantages of firm economic management, such as avoiding excessive wage increases and excessive government spending, Botswana and Mauritius are given as examples in an IMF survey released on March 18 1991.

Perserving

In a speech in Gaborone on February 25 1991, the managing director of the IMF, Mr Michel Camdessus, referred to 30 African countries who are persevering with growth-oriented adjustment programmes and are already seeing significant results.

These countries include Tanzania and Uganda.

Growth

Studies conducted in Third World countries show that high taxes, excessive government spending and wage increases are to be avoided if growth and development is the objective.

For Mazwai to claim the IMF has used countries in the West as role models shows only his ignorance (I mean no offence).

Mazwai concludes: "The Government will have to spend and overspend".

This is "macro-economic populism" which will result in inflation balance of payment crisis and a debt burden, all at the expense of future generations.

Sustainable

It still has to be proved that redistribution can achieve a sustainable economy in the long term, (Peter Mall 1991).

Also, it doesn't necessarily follow that reducing expenditure on education per white child would lead to a lowering of "standards" because some of the previous expenditure on whites was used on physical capital, for instance buildings which don't disappear when you reduce Government expenditure per white child.

Overspending

In fact it is a known fact that some of those buildings are still to be used.

Overspending, which Mazwai advocates, means living beyond your means or what is called deficit financing.

Mazwai should know the dangers of deficit financing; and what is his source of funds to provide blacks with housing, electricity, health facilities and upgrading education?

Does he have estimates of how much would be involved? It is a known fact (among economists) that the saving that would come out of getting rid of apartheid won't be enough.

The message from the IMF is loud and clear: not all expectations shall be met - given the resources at our disposal. The message I want to send to Mazwai is simple: most expectations won't be met unless we achieve growth.

If the economy is damaged because we want to get rid of "apartheid wages" it shall only worsen the skewed distribution of incomes between population groups

Distribution

We shouldn't only be concerned with the distribution of incomes within the black population taken separately.

Better training and better employment opportunities for nonwhites, as the IMF suggests, would ensure that the Government focuses first on "investment spending" in order to create jobs and not "consumption spending" as suggested by Mazwai.

If people are employed they shall pay for their housing, electricity and health facilities.

Then the provision of these facilities would be the responsibility of both the private and public sectors.

Anglo refutes attack from CP

(49)

B Day 6/3/92

MATTHEW CURTIN

IT IS not often that Anglo American has the chance to kill two critics from opposite ends of the political spectrum with one stone.

But latest comments from the CP suggest it is becoming a little pink in the referendum run-up, and not a million miles away from voicing exactly the same fears about monopoly capitalism that the ANC has had for years.

Anglo is used to arguing against ANC plans for nationalisation and claims that SA profits have been siphoned abroad, to the distraction of chairman Julian Ogilvie Thompson

Nationalisation had failed totally in Eastern Europe and "jolly near destroyed Africa north of SA", he said in a interview last year.

However, with the political parties gearing up for March 17, the CP has now entered the fray of economic debate with a stinging attack on Anglo and former chairman Harry Oppenheimer.

CP spokesman Clive Derby-Lewis said yesterday the call by Oppenheimer and Anglo for a "yes" vote in the referendum smacked of "gross hypocrisy".

Oppenheimer and the corporation had for years drained SA of the profits both had made in SA and invested them abroad, he alleged. "Oppenheimer has disinvested from SA to such an extent that only 4% of his personal empire is still held in SA."

He alleged that Anglo American's offshore arm Minorco — which he suggested was still based in the Bahamas although its head office has been in Luxembourg for some time — and Swiss-based De Beers Centenary were effectively conduits for exporting profits from SA.

The CP believed this showed what little faith big business had in De Klerk's reforms, and many businessmen would "secretly be voting 'no' "

Derby-Lewis said the CP would, of course, ensure there was a stable investment environment in SA, but would not elaborate on how that would be done.

Anglo's response yesterday was swift and to the point.

"What palpable nonsense!" said spokesman Michael Spicer. "Derby-Lewis betrays his ignorance of basic economics and the salient facts "

Spicer said it would be bizarre if international investment was regarded as unpatriotic, because it was an integral part of building a world-class company which was to the benefit of SA. Anglo was first and foremost an SA company, with R12bn in projects under way or in the pipeline in SA.

Spicer said that invariably Anglo invested abroad by reinvesting its profits or borrowing against the corporation's name, rather than taking out money with Reserve Bank permission through Exchange Control

He note that Minorco's fortunes were founded on the nationalisation of the Zambian copper mines Both Minorco and De Beers Centenary — again a company which was not set up with money disinvested from SA — paid large sums of money back to SA by way of dividends.

GDP — 1 FM 6/3/92

Slicing the cake (49)

One way to construct GDP for national accounts is to add operating surplus to remuneration of employees. The former represents return on capital and the latter consists of wages and salaries.

The operating surplus, as a ratio of GDP, has fallen from 49,4% in 1980 to 40% last year. But the decline has not been consistent. Most of it came in the first two years — to 40,6% in 1982. It subsequently rose to 43% in 1988 before resuming its fall.

The recent trend can be tracked more clearly in the quarterly figures (see graph). Though the ratio has not declined consistently on a quarterly basis, the trend remains in place, falling from 43,2% in the first quarter of 1989 to 39,3% in the last quarter of 1991.

This shift has brought the ratio closer to those in most industrialised economies, where gross operating surplus represents only about a third of GDP, says Sankorp chief economist Peet Strydom.

He says there are three reasons why such a shift takes place:

- □ An acceleration in the rate of wage and salary increases;
- □ An increase in capital intensity, which decreases the rate of return; and
- □ A rise in productivity as workers become more skilled.

It is the first two that have been operating in the SA economy.

Andrew Levy & Associates' Pat Stone says: "In the post-Wiehahn decade, there was a strong element of guilt payments, in particular to the lowest-paid, black, unskilled workers. These payments were corrective in their nature and were in no way associated with productivity improvements."

He says those days are over. "While unions successfully negotiated real wage increases in the region of 3% above the cost of

FM 6/3/92

living in 1989 and 1990, this trend declined markedly last year. In the last six months of 1991, the average level of settlement amounted to 15,3%. And this downward trend is continuing."

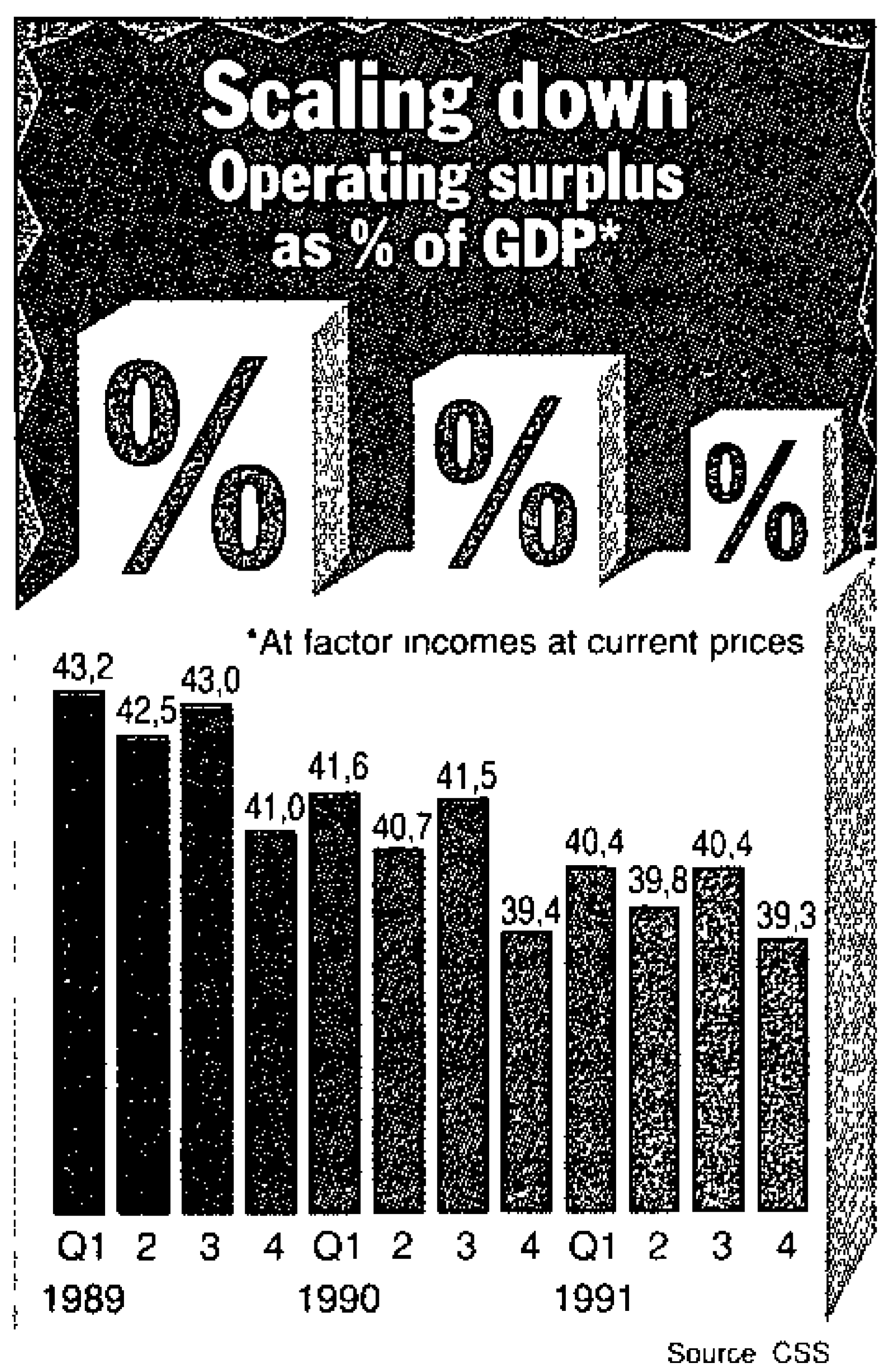
Despite increasing urbanisation since 1986 — when influx control was abolished — the ratio of capital to labour has increased. Figures from the Nedbank Economic Unit show that it rose 5,8% between 1986 and 1990 (the latest year for which figures are available). This is especially the case in manufacturing, where the share of remuneration of employees fell from 59,5% of GDP in 1980 to 54,1% in 1991.

The trend was presumably due to labour unrest in the period, which induced employers to substitute capital for labour where possible. Once a new political dispensation is negotiated and political issues are removed from the arena of industrial relations, there may be a trend back to labour.

On the other hand, a Nedbank economist says: "The manufacturing sector has realised that to compete internationally it is going to have to employ the latest technology, which generally implies a capital-intensive means of production."

But this may bring into play the third factor.

Says Strydom: "When advanced technologies are introduced, labour is upgraded to



make the operation more cost-effective.

He argues that efforts to increase employment by introducing labour-intensive production techniques are often misguided.

"This may be worthwhile in certain limited situations — as in a small village. But, to really address the problem of the unemployed, we must go for capital-intensive projects where the capital can be effectively used with labour."

Wages then increase with the level of skills — and greater productivity within industry creates growth, which generates more jobs.

□ GDP, in current prices, rose 12,5% last year. This is in market prices, which reflect both taxes and subsidies. At factor incomes — with taxes subtracted and subsidies added — growth amounted to 13,1%. ■

GDP — 2 (49)

Special case

A comparison of constant price and current price GDP data for 1991, published by the Central Statistical Service, throws up an apparent anomaly. Percentage growth in each sector, measured at constant 1985 prices and at current prices respectively, is:

- □ Agriculture -1,3% and +1,8%;
- □ Mining -1,5%, +11%;
- □ Secondary industry -2%, +11%; and
- □ Tertiary industry +0,3%, 16,1%.

The difference between the two is described as an implicit inflation deflator. It is implicit because it is not used to deflate the value, expressed in current prices, to arrive at the value in constant prices.

The constant 1985 values for GDP represent an index, with growth in volumes measured against the base year of 1985. The deflator is derived by dividing current price growth by constant price growth.

This exercise produces these deflators:

- □ Agriculture 3,1%;
- □ Mining 12,7%;
- □ Secondary 13,3%; and
- □ Tertiary 15,8%.

The discrepancies between the deflators are partly explained by differences in sectoral inflation rates.

The surprisingly low agricultural deflator last year was influenced by the difference in the rate of increase in the consumer price index and the producer price index.

Producer prices, which rose at a much slower rate, figure more prominently in the calculation of farming income than do consumer prices, while the income of other sectors relates more to consumer prices.

The service's Helene Coetzer explains: "The estimate for agriculture is derived by applying the production approach: value of production less intermediate inputs equals value added. In the other sectors, a cost-income approach is used: salaries and wages plus gross operating surplus."

The reason for the difference in methods is that the relevant data on agriculture is available from the Department of Agriculture but such information on other sectors is not available.

"But there are other reasons why agriculture is a special case," says Coetzer. "One is that prices are fixed on the world markets rather than on domestic markets. And the other is that, internationally, agricultural income is affected by subsidies, deferred payments and imputations for own accounts consumption." ■

SA needs a fair tax system that caters for social needs

BDay 6/3/92.

49

NEIL COLEMAN

A DISTURBING tendency has emerged in the mainstream media to overreact on sensitive issues, particularly economic ones. This has the effect of closing off debates, rather than encouraging a creative interaction of opposing ideas.

The Business Day editorial of February 26 attacks me for "intellectual dishonesty" and "economic naivete" for daring to suggest our taxation system needs restructuring. In case this were not enough, the editorial casts aspersions on my personal background.

In a report the previous day I indicated Cosatu had not discussed the type of wealth tax proposed by the Labour Research Service (a 5% tax on the wealthiest 20 families) but that we were concerned the tax burden had been shifted over time from companies to individuals, and from the rich to the poor.

This is borne out by a comparison of taxation levels in recent years. In 1975, company income tax (including mines) comprised 51% of revenue. By 1990 it had plummeted to 24%. On the other side, sales tax combined with individual income tax had rocketed to 63% of revenue in 1990, from 36% in 1980. Whichever way one interprets these figures, they suggest that the super-rich (whether at the corporate or individual level), have been contributing a declining share to the fiscus, while ordinary South Africans, both poor and middle income, are being taxed to the hilt.

This is not to suggest that a wealth tax is a panacea for all SA's socio-economic inequalities. Far from it. A restructuring of our taxation system can achieve the desired results only if it is accompanied by a reorientation of our economy on to a higher growth path.

Attempts to create an equitable distribution of income and social welfare, purely through the use of fiscal measures, in the face of a shrinking economy and growing population, will ultimately have the result which many businessmen have been warning against — stifling investment and economic development. Taxation used as a blunt redistributive instrument, without being accompanied by the necessary economic growth, would probably vindicate the predictions of the harbingers of doom.

Before Business Day irreparably injures my reputation by offering me a regular column, these remarks need to be put in context. Even if our economy moves on to the "high road", something for which Cosatu is arguing, adjustment of the taxation system will be needed to address massive inequalities with which a new government will be confronted.

Firstly, according to the recent IMF report, SA appears to have virtually the lowest level of property and wealth taxes in the world. Together with social security taxes and royalties, these comprise only 1,4% of GDP in SA, compared with 7,88% in selected middle-income countries, and 13,81% in industrial countries (average for 1980-1988). Therefore, despite the hysteria which has accompanied debate about a wealth tax in SA, such a tax is widely used in other parts of the world as a redistributive mechanism.

However, the form of wealth tax which is used should be consistent with the broader process of economic restructurng. For example, a capital gains tax would, apart from being a source of revenue, also encourage productive investment and job creation instead of speculation in shares and property. Similarly, a tax on dividends would encourage companies to reinvest profits.

Secondly, taxation of workers, black and white, has rocketed in recent years. Labour Research Services calculates, for example, that an African worker (married with two children) earning R1 800 a month in 1991 would pay R147,50 in PAYE, as compared to R61,54 PAYE in 1988 out of basic wage of R1 183. (This calculation is based on a 15% annual wage increase.) In this example, the worker would pay 58% more tax, as a proportion of income, than four years earlier. Bracket creep is hitting growing numbers of low-paid workers.

At the same time, indirect taxes are rapidly rising as a proportion of the fiscus — from 14% of revenue in 1980 to 29% in 1990. The IMF study shows this is at least a third more than that of selected middle-income countries, and double that of African and Asian countries, taken as a percentage of GDP. The situation is now probably even more unfavourable, considering the IMF figures cover only the 1980-1988 period.

Indirect taxation ignores income and ability to pay. It taxes all — super-rich or super-poor — equally. This form of regressive taxation was taken to absurd lengths with the introduction of the undifferentiated 10% VAT rate last year, a rate which we are told will soon be going up. This is in spite of the fact that every other country in the world which uses VAT, with the exception of New Zealand (with its advanced social security network), taxes basic necessities at a low rate and luxury commodities at a high rate. The 16-million South Africans living below the poverty line (according to Development Bank of Southern Africa estimates) with virtually no security net, will not be encouraged by Business Day's claim that VAT is fair because it taxes all equally!

Further, VAT has been implemented in a way which doubly benefits the rich and the corporate sector, at the expense of the poor and unemployed. The immediate and total exemption from VAT on capital goods (again unique in the world) created an estimated R7,5bn windfall for big business.

We were told this would encourage large-scale investment and job creation. Leaving aside the fact that the predicted surge in economic activity has not materialised, it is not difficult to see that structuring VAT in SA is bound to create unemployment rather than jobs. VAT raises labour costs, and cheapens capital by exempting capital goods. This will encourage the replacement of labour by capital.

The implementation of VAT is yet another example of how our taxation system is structured with total disregard for social realities and development priorities.

Thirdly, we should be more cautious before boasting about the redistribution of wealth which is said to have happened in recent years. If any redistribution has indeed taken place, it has been marginal and a drop in the ocean when measured against SA's staggering socio-economic inequalities.

Even the IMF report suggests that despite certain shifts (many of which, incidentally, were the result of bitter struggles by workers and their unions), SA still has possibly the greatest level of socio-economic inequality in the world. This assessment is based on the Gini Co-efficient, a widely used standardised measure of income distribution.

The report estimates that white per capita income was nearly 1 000% that of black per capita incme in 1989. Despite shifts in social spending, per capita social expenditure on whites continues to be several hundred percent that of blacks.

The IMF report also reveals that when economic indicators are compared for SA and relatively poorer neighbours such as Zimbabwe and Botswana, citizens of these countries are as well off, or better off, than black South Africans. Even poverty-stricken Namibia compares favourably in the IMF analysis.

These harsh realities need to be seriously addressed if we are to meet the challenges facing SA in this period of transition. Until we start addressing the critical problems confronting our country, on the basis of real social needs rather than perceived ideological paradigms, we will continue talking past each other.

☐ **Coleman is Cosatu's information officer.**

Foreign trade 'is economy's oxygen'

B/Day 6/3/92 (49)

ABERDEEN — International trade was the oxygen of the economy and if that was cut off, the economy would suffocate, Cape NP leader Dawie de Villiers said yesterday.

SA's policy of apartheid and racism had resulted in the country being internationally rejected and isolated, he said at a public meeting in this central Karoo town.

"The noose was getting tighter and had a visible effect on the economy. No country in the modern world can live in isolation."

De Villiers, leader of the NP's Codesa negotiating team, said it was becoming obvious that the moderates in all parties in SA were winning.

The NP was not an ally of the ANC or SACP.

"We talk to them and try to convince them that our viewpoints are better for SA. And there has been progress. We are not going to throw our principles overboard, that is why we are negotiating.

"Even with a 'yes' vote, it is still going to be tough, but we must not give up. There are still big challenges waiting for us. We want to lift values and norms above racism."

There were about 10 right-wingers in the audience of about 70.

Two of them, one explicitly, commented that since De Villiers had left the ministry, he also appeared to have abandoned the truth.

"I take the strongest exception to that. Before we accept and believe rumours, we must establish the truth.

"My faith, not only when I was in the ministry, tells me not to judge people on the basis of colour. That is what I find in the Bible."

De Villiers' next stop in his two-day whistle-stop tour of the Karoo was Beaufort West.

There he told town councillors and members of the Central Karoo Regional Services Council the building of the new SA was not yet finalised but certain of the foundation stones had already become clear.

"What is becoming clear is that there should be strong autonomous local and regional government structures."

He said local and regional government had an important role as it brought government as close as possible to the people.

The functions of the two types of government would have to be identified and ensconced in the new constitution which would result in a good balance of power in the country. — Sapa

Report by L Braid Press Gallery, House of Assembly, Cape Town

Federal option best for SA problems – Russian expert

STAR 6/3/92

By Thabo Leshilo
Political Staff

49

A federal option — fundamental to the idea of liberalism — had a greater opportunity of solving the social, political and economic ills bedevilling South Africa than any nationalist or communist experiment, visiting Russian academic Dr Vladimir Tikhomirov said in Johannesburg yesterday.

Dr Tikhomirov, director of studies at the Africa Institute and deputy director of the Centre of Southern African Studies in Moscow, was addressing a lunch hosted by the International Freedom Foundation (IFF).

His new book, "States in Transition: Russia and South Africa", was presented to the media.

Dr Tikhomirov said the Soviet unitary constitutional model had no prospects of bringing democracy to a multinational society, while the separatist approach (apartheid) would in the long run be incapable of providing solutions to economic problems.

"Developments in South Africa during this century teach one lesson: separate development, along ethnic lines and within the borders of one country, contradicts the needs of the economy and can only be successfully implemented with great losses," he said.

Dr Tikhomirov said the Soviet and South African experiences also demonstrated the irreconcilability of two ideologies present in the two societies — nationalism and communism.

The struggle between the two ideologies formed the framework for developments in both countries which left little opportunity for the stabilising effect of liberalism.

He said similarities between South Africa and the Soviet Union explained the complexity and inconsistency of their bilateral relations.

On the one hand, both closely co-operated in world markets — striving to generate funds for their costly social experiments at home.

On the other hand, both were seen as ideological mirror-images of each other, with South Africa vigorously fighting the national liberation movements which were backed by the USSR among other countries.

"It now appears that the two states are exchanging places: while the former USSR is reappearing in southern Africa as a major anti-communist force, an increasing number of South African leaders, especially from the black community, are taking socialist arguments seriously."

Dr Tikhomirov has been in the country for six months as a visiting research Fellow at the IFF. He leaves for home next week.

REDISTRIBUTION

How, how much and how fast

(49)

STAR 7/3/92

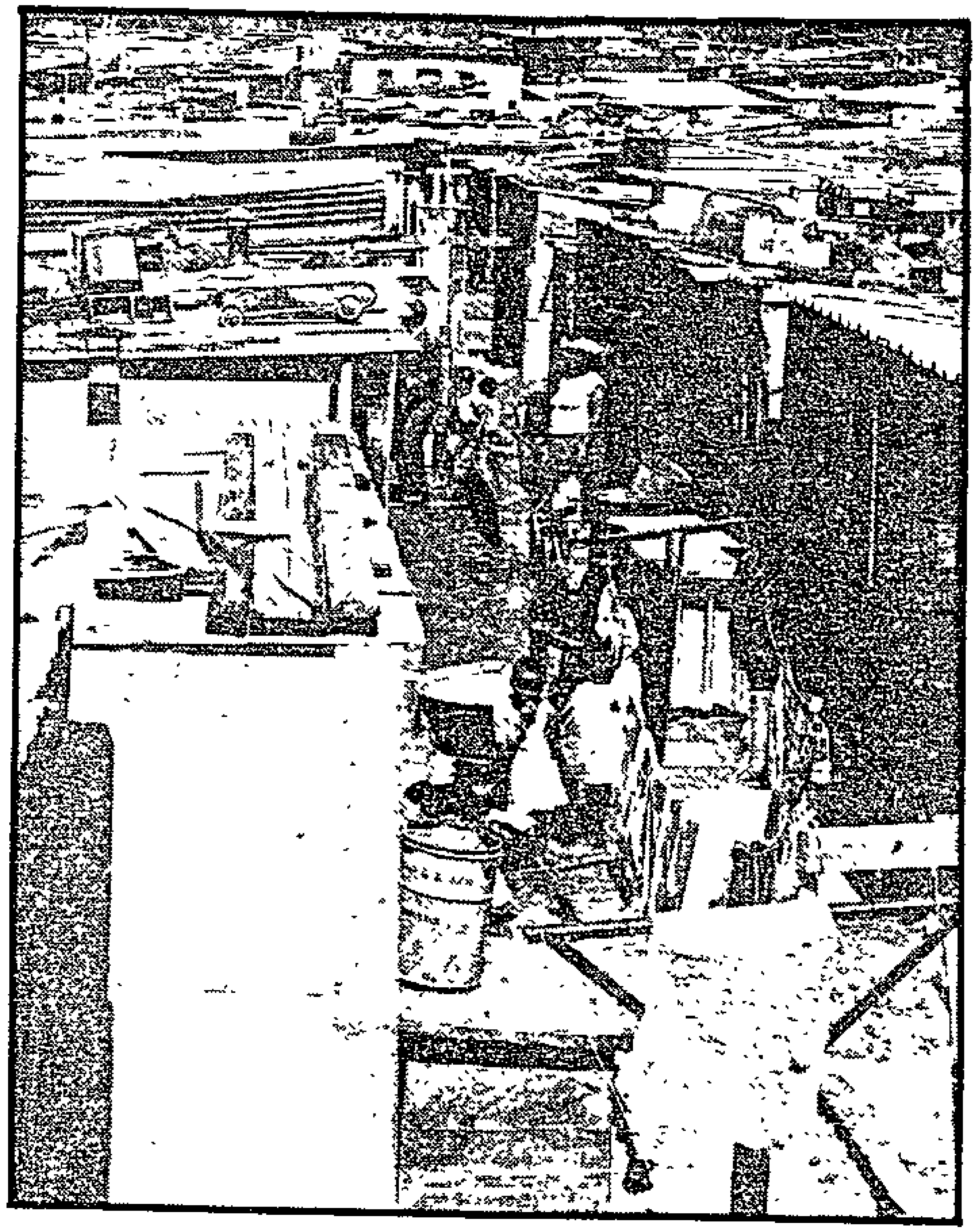
LONDON — Because apartheid was an economic system as well as a political one, South Africa's blacks are not just voteless. They are poor.

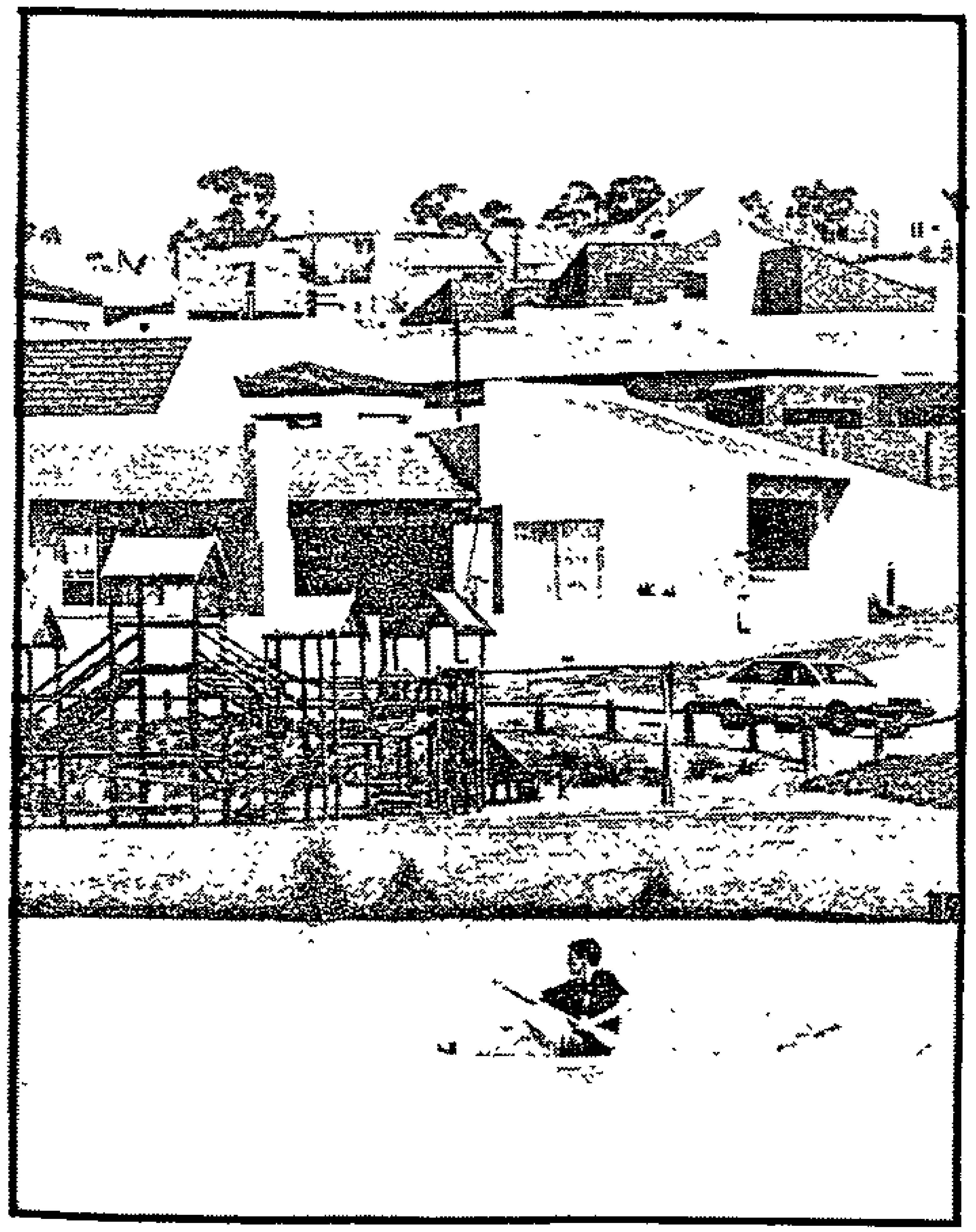
With political equality on the horizon, black economic expectations are high. Many are doomed to disappointment. All will be if South Africa's governments in the next few years mishandle the limited opportunities open to them.

The case for change is undeniable. True, some black politicians have raised hopes to unrealistic levels; and some of their followers imagine economic rights are no different from political ones, as though the right to a job could be enforced by law as easily as the right to a vote.

But by denying blacks equal opportunities, not least at school, apartheid ensured that they got less than their desserts and that whites got more. Some redistribution of national income is plainly in order. The much harder issues are: how, how much and how fast.

South Africa is rich in minerals and agricultural land. It has an advanced economy, at least by the standards of Africa. But income and wealth are concentrated among the few — one study of the period 1945-80 found that 5 percent of the people owned 88 percent of the wealth, as against 44 percent in





More, and more poor

South Africa's population

Start in the schools

Enrolment, % of total, 1990

Primary
Secondary

Total pupils '000s

Literacy among adult blacks, %

Educational spending per head, 1989-90

about its level of income.

The case for spending more on the poorest, particularly on preventive medicine (which currently gets no more than 5 percent of total public-health spending), is overwhelming.

Housing too has a claim for more money. More than 7 million city-dwellers live in shacks, outbuildings, garages.

Then there is land, perhaps the biggest of all the redistribution problems. Apartheid gave 13,7 percent of the land to the blacks. Much of this has predictably become degraded through overgrazing and erosion. White farmers, meanwhile, enjoyed subsidies, in the form of credit and tax breaks. Many have overborrowed.

If more land is to be found for blacks, it will have to be bought from whites.

Unless it is to be confiscated, or paid for with government bonds of questionable value, would it not be cheaper to find other jobs for the landless?

Possibly not. Jobs are at a premium: in terms of formal employment, 44 percent of the population is without work. Of those joining the workforce in the early 1960s, 90 percent could expect to find formal jobs. This year, even if the economy grows by 1,5 percent, as the Government expects, the proportion will be less than 5 percent. Yet 800 000 people will be looking for work.

has an advanced economy, at least by the standards of Africa. But income and wealth are concentrated among the few — one study of the period 1945-80 found that 5 percent of the people owned 88 percent of the wealth, as against 44 percent in America or 34 percent in Germany — and poverty abounds.

One huge obstacle to economic equality is population growth. This is currently 2.35 percent a year. And, as everywhere, it is the poor who are multiplying.

60 million people by the year 2010

It is unrealistic to expect population growth to slow much. A plausible guess is that the present population of 38 million will rise to 48 million by the end of the century and to 60 million 10 years later.

The economy will have to grow fast just to keep pace — and from a poor start: gross domestic product per person has fallen by 1,5 percent a year since 1981.

The poor, encouraged by their political leaders, are not, however, looking primarily to economic growth to deliver their inheritance. Their vocabulary is full of words like "entitlement" and "redistribution".

This is not surprising in a country where 86 percent of the land was reserved for the white minority, where dams were built to serve white farmers while blacks carried their water in buckets, where cables taking electricity to white towns were strung above shacks lit by paraffin. But the scope for redistribution is limited.

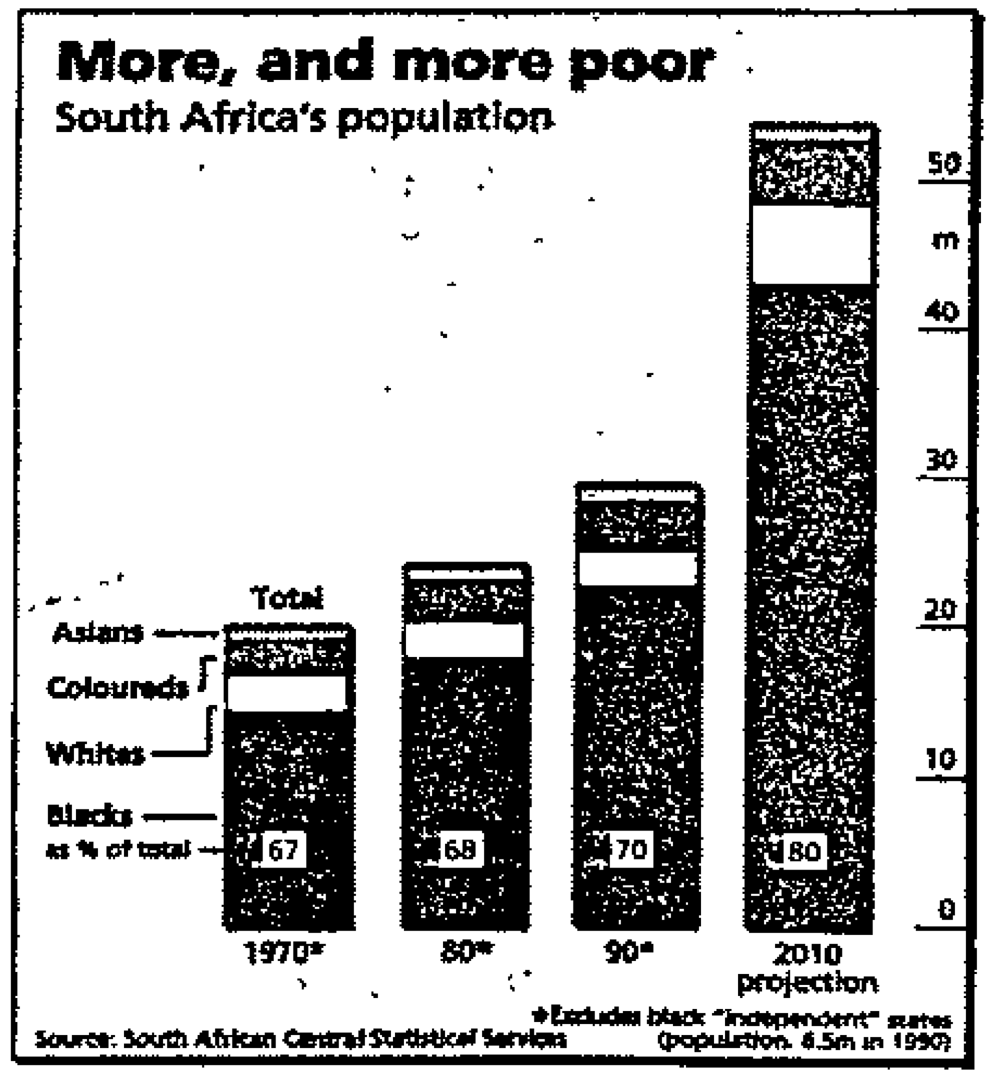
The obvious place to start is with the tax system: squeeze the haves to give to the have-nots. But too much squeezing would reduce growth, and South Africa already taxes its people quite heavily; Government revenue — mostly from taxes — accounted for about 30 percent of GDP in 1990. That leaves no great scope for increasing the total burden.

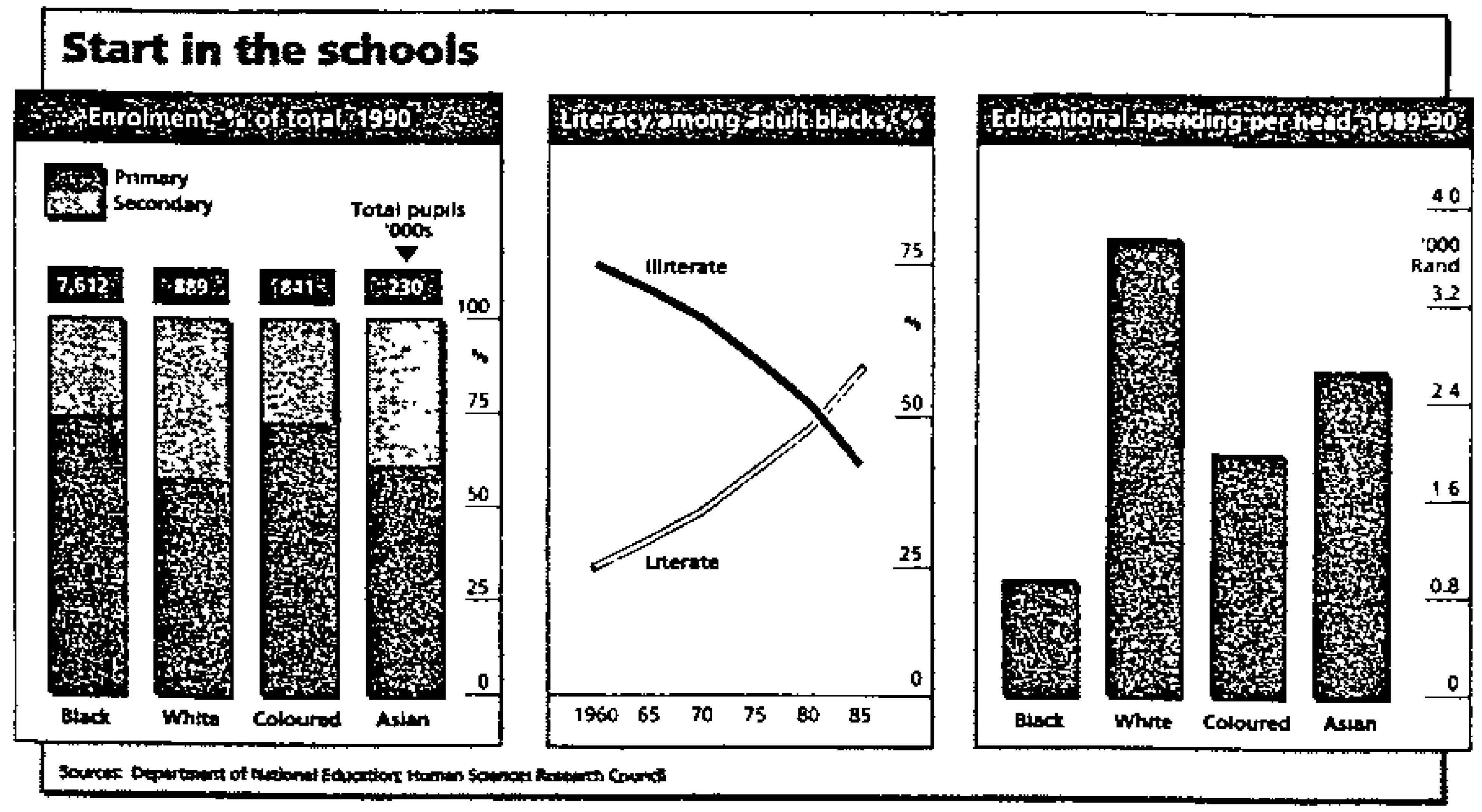
If the rich are to pay more, it would be wiser to make them do so through a capital-gains tax, a tax on luxuries and, perhaps, a land tax. These would do less damage to the economy.

Should companies pay more? A value-added tax introduced at the end of last year has brought many more businesses into the tax net. A little extra revenue could be pulled in by introducing a modest business tax applying to even the smallest traders, or by changing depreciation allowances.

But the basic rate of corporation tax — on its way down to 40 percent — is not low. Rather than raise this, it would be better to eliminate some tax breaks (especially for commercial farmers). Yet businesses will try to pass on any tax increase, often to the very people it is designed to help. And if they cannot, they will have less money to invest.

Privatisation appears to offer the prospect of some extra cash for the Government, even if only once-and-for-all. Afrikaners have never been great believers in the free market, and their taste for State intervention has been strengthened by isolation.





BLACK South Africans' dreams of prosperity in the new South Africa will prove far harder to satisfy than their hopes of political rights. Equality is years away, reports THE ECONOMIST.

Some of these industries could be privatised by giving away their shares. This idea is not popular with Afrikaners or the ANC, who dislike weakening of State power.

The ANC regards even the current modest privatisation programme as an attempt to sell off the family silver before the servants can get their hands on it. Still — apart from its innate economic merits — this could be a way of putting some wealth into black hands.

For how long, though? Many people would probably sell their holdings at once (unless that was banned) and blow the proceeds. A lot of the shares would thus find their way into the hands of the already rich.

It is tempting to think that ending apartheid, a hugely wasteful enterprise, and cutting military spending will release pots of money for better uses. Defence spending is already being cut. But it is implausible to think it will fall from its 1990 figure of 4 percent of GDP to much below 2 percent.

Ending the duplication of bureaucracy that apartheid entailed would not, says Servaas van den Berg, of the University of Stellenbosch, yield much more than 1 percent of GDP. So these savings together could not be expected to add much above 3 percent of GDP to the 4 percent to be gleaned from extra revenues.

With a bonus of only 7 percent of GDP, South Africa's first democratic government will find it hard to spend much more on the mostly black poor unless its spends a lot less on the mostly white rich. The State already spends heavily on welfare, health and education.

Welfare (chiefly pensions) takes 2 percent of GDP; health 2,7 percent; education 6,2 percent, over a fifth of the Budget. In 1986 the average spent on education by the world's upper-middle-income countries was 2,9 percent of GDP.

Yet government spending in South Africa has always been inequitably distributed. If there is to be no discrimination by race, how much will there be for blacks? The Utopian answer could be as much, for each, as is currently spent on whites. But that, calculates Mr van den Berg, using 1986-87 figures, would mean raising the budget for blacks' health, pensions and schooling about five-fold.

Add in equal expenditure on housing too, and the proportion of GDP spent would have to rise from roughly 10 percent to 25 to 31 percent, depending on the assumptions made. Clearly the money would not be available. Nor would the needed doctors, teachers and so on.

In a country about a fifth of whose inhabitants aged over 16 have never been to school, as many are illiterate, and only 1 percent have a university degree, education should be a high priority. But so is health. Infant mortality, nearly 70 per 1 000 live births in 1989, was far higher than in most countries of ... could expect to find formal jobs. This year, even if the economy grows by 1,5 percent, as the Government expects, the proportion will be less than 5 percent. Yet 800 000 people will be looking for work.

Informal sector provides some hope

Fortunately the informal economy (black in every sense) provides work for 15 to 25 percent of the workforce, raising black incomes per head by about half. It is here that the best hopes for job creation lie.

Nationalisation is an even vainer hope. Much of South African industry is concentrated in a few hands. So the temptation to nationalise is strong, especially for the ANC, whose main economic model only two years ago was East Germany.

But, in itself, nationalisation could not create a single real job — probably the reverse. And even if it could be paid for, it would have a chilling effect on private investment, domestic and foreign.

Nationalisation, however, is not a foregone conclusion. The ANC has already shifted its views; it will continue to do so as it evolves from liberation movement to political party (a new statement of economic policy is expected in April).

Above all, it has come to recognise the importance of growth. Parts of it have, that is. Nelson Mandela says the ANC is now opposed to nationalisation. Others disagree.

The dismal reality is that most poor South Africans are not going to get rich, or even less poor, quickly. There are some signs of hope: even in world recession, manufactured exports have started to pick up.

A wise government will use this as the basis of the export surge that is the best hope for growth, and then put in place a redistribution programme that aims to reduce inequalities by spending more on health, education and welfare.

The capitalist crow rings hollow

C|Pren 8/3/92 (49)

Communism is dead, say most political commentators after its fall in eastern Europe. JEREMY CRONIN of the South African Communist Party provides another perspective.

SEVERAL years ago a Chinese scholar was asked what he thought was the historical impact of the French Revolution of 1788. "It's still too soon to say," was his reply.

I don't think we should exercise the same historic patience as the Chinese scholar. But at least his reply serves to remind us history is a long time. The short view can be very deceptive. In the year of 1992 it is all the more necessary to remind ourselves of this.

Today the izimbongi of capitalism are crowing. The rapid collapse of bureaucratic socialist systems in eastern Europe and the Soviet Union, they argue, marks the end of the struggle between capitalism and socialism. Capitalism has won. Socialism lies dead and buried. The Lord be praised – Hallelujah!

So how true is this picture which brings such pleasure to the hearts of the property-owners of Sandton, Houghton and Waterkloof?-

At the end of the First World War up to the first years of the 1920s, and then again a decade later, it was socialists who were confidently proclaiming the death of capitalism. And they seemed to be right.

By the early 1930s socialism in the Soviet Union seemed to be striding from success to success, while all around it the capitalist world lay prostrate and in ruins. In history, the short view can be deceptive.

So where do we stand in 1992? There can be no doubt that international events over the last four years have strengthened imperialist forces, and weakened the struggle for national liberation and socialism.

Suddenly, for the first time since the end of the Second World War, we find ourselves in a world in which there is only one military superpower – the United States, with powerful economic allies in Western Europe and Japan.

For those wanting to carry through the basic tasks of national liberation here in South Africa, for instance, never mind a longer term socialism, the collapse of the Soviet Union is bad news.

To be sure, there were grave shortcomings and, indeed, serious mass-scale, criminal deviations from socialist justice in the Soviet Union, particularly during the Stalin years.

Nevertheless, a world dominated by sheriff George Bush and his posse (the IMF, the World Bank, the multinationals) is a world in which the options available to progressive forces have shrunk drastically.

It is, of course, possible to find some positive elements in all this. In building a democratic and eventually socialist South Africa it will not necessarily be a bad thing to have to rely rather more on our own resources, and especially on the support of the working majority of our people.

One of the great corrupting features of eastern European socialism was the reliance on the Soviet Army. If you lost the support of your own people you could always call in Big Brother. Never again must socialism be built like that!

But can socialism ever be built again? I am sure that it can, and I am optimistic that it will. In order to understand why and how, let's deal with some common myths.

In the first place, one of OUR own myths. Marxism has often been presented as a belief in history as an express railway line – all aboard for feudalism, capitalism, socialism, and the terminus ... communism. With this naive outlook, no wonder there is confusion when the train starts rolling back in eastern Europe somewhere between socialism and capitalism.

The fact is, history is not a straight line with a guaranteed destination. On the other hand, history is also not just an open-ended mess. There are tendencies, there are possible outcomes, there are probabilities whose likelihood can be analysed.

In other words, if you think socialism is going to be served up on a tray by history, you will go on waiting forever. But with hard organisational work, in struggle, with an intelligent use of the possibilities in any situation, socialism can be achieved.

PEOPLE'S CHOICE ... Only socialism can kill apartheid, says Jeremy Cronin.

Ah, but socialism will never work, say the soothsayers of capitalism. Why not? This bring me to some more myths, THEIR myths:

■ Socialism cannot work, we are told, because human nature is basically selfish. This myth is based on a partial truth. In the dog-eats-dog world of the capitalist "free" market, human beings are encouraged to pursue their own narrow self-interest.

But there are plenty of examples to counter this view of some supposed timeless human nature. Without mythologising them in turn, at least let us note that earlier, pre-capitalist societies, which endured for thousands of years, were based on a very different set of assumptions about human nature. "Motho ke motho ka batho ba bang" – says one old, and wise, proverb.

■ Socialism cannot work, we are told, because highly centralised, nationalised economies are ineffecient and lack initiative.

Two points in reply to this. In the first place, centralised state-controlled industries are not always inefficient – some of the most effective capitalist economies have a significant state sector which is critical to the overall economy.

The market can itself be enormously inefficient – encouraging wasteful duplication. The private sector, interested only in making profits – can also very often lack initiative.

Secondly, and more importantly, who says that socialism has to mean a highly centralised, nationalised economy? Socialism is not about state ownership, it is about public ownership and control. When President Mobutu Sese Seko personally seized the property of expatriates in Zaire in the name of "nationalising" resources, he was conducting himself like the early robber capitalists in 15th century Britain. His "Zairisation" of the economy had nothing to do with socialism.

Democratic state ownership, backed up by strong shopfloor worker control, is one possible way in which the working majority might exercise its ownership. This might also take the form of co-operative and collective property of all kinds.

So much for theory. But can socialism really succeed in South Africa?

First, let's be clear on one point. To say that socialism cannot succeed in South Africa is, in fact, to say that we will never really overcome the legacy of apartheid. Yes, it will be possible in an economy that is still non-socialist to make some progress in overcoming the terrible heritate left to us by three-and-half centuries of colonial land grabbing and decades of apartheid oppression. But no democratic government will be able to make much real headway on housing, education, health care and landlessness as long as the commanding heights of our economy are controlled by the wealthy few.

So far, socialism has only ever been tried in backward, massively underdeveloped countries. In the first world, cushioned to some extent by relative privileges from an imperialist world order, the working masses have lacked a powerful, revolutionary motivation to move to socialism. In many third world countries today, the motivation to move to socialism might be there, but the possibilities are not.

In South Africa neither of these two limitations applies. The great majority of our people live in deep poverty and oppression and with few illusions about capitalism. Yet South Africa, although it has a badly skewed economy, is not a totally underdeveloped economy. In South Africa, the working majority have both the motivation and the real possibility of, sooner or later, making the transition to a vibrant, socialist democracy.

The sooner the better.

Business, civic leaders to attend growth talks

S Times (CM) 8/3/92

TOWNSHIP leaders as well as top executives from various major companies are expected to attend the Growing the Cape workshop on April 1 which aims to define strategies for the economic development of the Western Cape for the next five years.

The original date was March 17 but this has been changed to April 1 to avoid clashing with the referendum.

The executive director of Wesgrove and co-convenor of the workshop, Dr David Bridgman, said:

"Knowing the results of the referendum will give delegates to the workshop a clearer view of the political and economic factors which will influence the future of South Africa and our particular region."

He said the venue, the Cape Town Civic Centre, was unchanged.

Dr Bridgman was confident the unemployment problem — a major focus of the workshop — could be overcome if all leaders in the region worked together.

Big business appeals to workers to vote Yes

S/Times (Buss) 8/3/92 (49)

By CURT VON KEYSERLINGK

BIG companies have dropped the tradition of keeping out of politics by appealing directly to their employees to vote Yes in the referendum.

This action is over and above the financial contributions many have made to the Private Sector Referendum Fund and the campaigns conducted by the National and Democratic parties.

Their reasons are summed up by an executive chairman who says: "Never before in our 100 years of existence have we been involved in party politics. But this referendum is a watershed. It is a crucial question at a crucial time."

First National Bank is asking employees to vote Yes.

Toyota managing director Bert Wessels says: "We have been told in no uncertain terms by Japan that a No vote and a reversion to the past will lead to reimposition of the trade restrictions. In spite of our good relations with Toyota Japan, the restrictions would be more stringent than they were

"We are telling this to our staff by way of individual and group communications. At a meeting with our dealers we left them under no illusions about what the situation would be."

BMW says its staff will be told of the implications of a Yes and No vote.

A spokesman says: "Having just returned from Europe, I am in no doubt that even if the Right wing gave cast-iron assurances that apartheid will not be reintroduced, the perception abroad is that a No vote would lead to economic ruin for SA."

Critical

Southern Life says many business leaders believe the importance of every Yes vote should be made known to employees.

BP is spelling out the implications of a Yes and No vote to staff It is explaining its support for the Yes vote, which is "critical to the future of the country."

BP will also ensure that employees are able to vote.

Several companies while apparently hoping for a Yes victory are more circumspect in their approach to staff.

Sasol's attitude is typical of such companies. It says: "We believe it our duty to our employees to give them an objective view of the possible economic implications of the return of sanctions.

"We will convey the opinions of an outside consultant through our internal video newsletter on the possible effects on the SA economy and on Sasol in particular."

Executives at Premier Group have been briefed to visit the group's 500 branches to discuss the matter and to explain what can happen "if the reform process continues and what can be expected in the unlikely event of a No vote"

Barlow Rand chairman and the chairmen of the group's main divisions have written to senior managers summarising the likely economic implications of the referendum result. Its managers have been asked to "do everything possible to encourage employees to vote, irrespective of their persuasion".

Murray & Roberts top management has addressed 500 managers

Other companies approached by Business Times which support the Yes vote in varying degrees are Anglo American, Standard Bank, Caltex and Shell

Gencor says it leaves decisions on political issues to its employees.

Wife

Several companies say they find questions about political matters embarrassing One admits to contributing to the Private Sector Referendum Fund, but asks that this not be made public

Another says it cannot afford to be seen to be supporting either side because its employees and customers "cover the entire political spectrum"

"Its like being asked if you have stopped beating your wife," says one managing director. 'Whatever answer you give you are damned "

Economy needs a 'yes' vote

S Times 8/3/92 (49)

Seven of the country's top economists, members of the Economic Policy Study Group, warn of the economic fall-out in the event of a "no" vote

THE referendum on March 17 will be crucial for South Africa and its economy. The economy is highly dependent on its international trade and investment links, and it cannot grow rapidly without foreign confidence and participation as well as domestic stability.

A "yes" majority would allow a consolidation of the gains made as a result of the lifting of trade and other sanctions; a "no" vote would lead to the re-imposition and strengthening of those sanctions, as well as heightened domestic instability.

Policies

What South Africa most requires is an inflow of capital and technology if it is to remain internationally competitive and grow internally. Modern industry is high-tech driven or it ceases to exist. But for these inflows to occur, South Africa must offer investors high rates of returns and realistic, balancing commercial risk.

Investor confidence and riskiness depend on economic policies and the perception of political and social stability in a country. There is no doubt that a "no" vote would quickly lead to large-scale unrest and violence which not even severe repressive action by the state would be able to contain.

Foreign confidence in South Africa would evaporate, and the country would quickly return to isolation — only this time much more so than in the 80s as the rest of the world would have no truck with a reactionary regime. Those who advocate a "no" vote have no answer to the economic problems which would result.

How, for instance, would they face the country's foreign banking creditors? What would they do about the third interim agreement on debt repayment or about the US Comprehensive Anti-Apartheid Act? How would they handle the re-imposition of trade sanctions?

A "yes" vote, in contrast, would encourage foreign governments to lift whatever sanctions remain against South Africa, and it would also create that domestic goodwill which is so important in the Codesa deliberations. It would allow — although it would not guarantee — the country an opportunity to realise its economic potential — and this is substantial.

A demonstration of the inherent strength of the South African economy is that it has succeeded in generating a consistent surplus on the current account since 1985 — during the height of sanctions and disinvestment.

Out of this surplus it has financed capital outflows (mainly debt repayment) amounting to over R30 000-million even though gold and other metal and mineral prices were severely depressed. But real GDP grew only slightly during this period, and a re-opening of trade and investment links is critical to buoyant real economic growth.

In the 80s only 500 000 new jobs were created in the formal sector as against an increase of over three million in the economically active population. Large-scale unemployment has become an inescapable problem, but a "no" vote will do nothing to tackle the problems of economic stagnation and demographic change.

To talk vaguely about a South African commonwealth of states in Yeltsinian terms (as though 40 years of Bantustan failure had not happened), as those advocating a "no" vote are doing, is to divert attention from reality.

The economy is so advanced down the path of racial integration and interdependence that no reversal is possible without destroying its ability to sustain even present recessionary levels of production.

All South Africans have to come to terms with a troubling but inescapable Catch-22 situation, and that applies especially to the white rightwing. There will be no economic performance here without fundamental political change. But, equally, no such political change is sustainable unless there is economic performance.

Market

Fundamental political change means opening up South African society for the full participation of all its people. A modernising, Western-type industrial country cannot grow on a skills base of less than 15 percent of its population.

A rapidly growing domestic market cannot be brought into being if 85 percent of the population is shut out by discriminatory restrictions. These are the realities that are denied by a "no" vote. All voters owe it to themselves and the country as a whole to vote "yes".

□ *The authors are Ronnie Bethlehem, Jim Buys, Aubrey Dickman, Rudolf Gouws, Gavin Maasdorp, Colin McCarthy and Peet Strydom. The views expressed are their own.*

Debt servicing 'took half additional budget'

(49) CT 9/3/92

From BILLY PADDOCK

JOHANNESBURG. — Servicing of state debt accounted for more than half (R758m) of the government's additional budget requirements of R1,4bn for the current fiscal year.

According to the Finance and State Expenditure departments, which presented the additional appropriation to Parliament last month, the increased state debt resulted from a shortfall in expected revenue, new short-term loans at increased interest rates, new borrowings as well as rollover loans and increased expenditure.

The government had set aside a contingency reserve of R1,2bn for unexpected expenses but needed a further R1,4bn to meet the spending requirements.

The major factor contributing to the R1,4bn overshoot was R750m needed to service borrowings of about R7,5bn over and above requirements, Nedbank chief economist Edward Osborne said.

He said there had been a considerable amount of overborrowing for monetary control purposes. The Reserve Bank had entered the money market and bought up excess money. This went into the exchequer account and caused massive servicing charges.

"It is quite possible that in working out estimates and planning at the beginning of the year the Finance Department is not taking into account this overborrowing," Osborne said.

There had been a very considerable volume of borrowing in excess of requirements. January figures demonstrated that borrowing in excess of requirements by way of redemptions were in the order of about R6bn to which another R1bn nett in treasury bills could be added — resulting in almost R7,5bn funding over and above requirements.

"The Reserve Bank is mopping up money to make monetary policy work because monetary policy is effected through the mechanism of the bank rate. The banking system is awash with money at the moment and the Bank has to mop up that extra liquidity to make the money market short and force the banking system into the Reserve Bank, making the bank rate operative."

In this way it also influenced the whole structure of interest rates.

Osborne said a great deal of money had been soaked up by the exchequer account and this resulted in the public having to bear the cost.

The alternative to the Reserve Bank activity in this way was that it allowed the banking system to have too much liquidity which would result in rampant inflation, Osborne said.

The Finance Department said last week it could not disclose what the extra borrowings were at this stage but that Finance Minister Barend du Plessis would give a full account of the position when he presented the Budget next week.

In January Du Plessis indicated that Parliament would be asked to approve a bigger spending overshoot than could be accommodated by the R1,2bn contingency reserve but there was no indication that the overshoot would more than double the contingency reserve.

Delay in upturn dashes hopes for profit growth

B/Day 9/3/92. (49)

MEREDITH JENSEN

EXPECTATIONS that an economic recovery in 1992 will be delayed have left industrial companies with little hope for any significant profit growth this year.

Current economic indicators post a dismal 16,2% inflation rate as well as a 14,7% growth in the money supply for the year ending January. The SA Reserve Bank reports the level of real output in manufacturing to be 4,5% below its level at the beginning of the economic downturn.

Fergusson Brothers chairman Paul Ferguson, citing the downward trend in the economy, predicts all sectors will be "worse this year than last", with the most visibly hit area being consumer products.

Early 1992 economic indicators reflect the recent problems in the retail sector, and analysts claim the drought currently affecting southern Africa is the most significant factor in the drop in demand for consumer products.

Anglo American divisional manager in the chairman's office, Rupert Pardoe agrees, attributing low growth in industrial companies, particularly those in the retail sector, to the drought. "Farmers have had to leave the land and let people go. Jobs are being lost and disposable income is being cut."

Analysts predict a trend toward overall consolidation this year as smaller companies, struggling against high interest rates, face negligible growth.

However, despite the quip that says "when times are tough, the rich go shopping", the analysts do not expect much movement in terms of mergers and acquisitions this year.

Fergusson Brothers industrial analyst Steve Rubenstein says: "There are not a lot of good assets up for sale, and the SA economy is too small for any major mergers and acquisitions." He adds it will be a while before SA will be able to enter the global mergers and acquisitions market, especially given the high-risk nature of the rand.

Any mergers and acquisitions that do take place will do so out of necessity rather than growth and aggression, according to analysts.

Pardoe predicts rights issues, currently totalling more than R6bn since the beginning of January, could top the R10bn mark as companies look for new ways to raise cash. He adds: "Companies are not getting as much cash in from operations as they used to."

According to Pardoe, Anglo American has raised R1bn for new projects by selling part of its holdings in Gencor and First National Bank.

Current levels on the Johannesburg Stock Exchange, coupled with high interest rates could be an impetus for companies to offer rights issues, analysts believe.

Though cash-raising by companies often indicates expansion into new projects, a source said the Gencor Group's issue of more than R2bn is more a reflection of hardship, where the normal cash flow is simply not enough.

Ferguson expects the market will only "digest these large rights offerings by the end of March", after which it should be quiet for a while.

Rubenstein does not foresee a turnaround in the hard-hit mining and metals industries. Companies such as Highveld Steel Venadium and Iscor, largely dependent on global trends, are expected to remain weak, particularly in the domestic market.

Mining supply company AECI can expect "no good business in 1992", he says.

Nor does the upcoming Budget appear to offer any hope. Analysts expect to see an increase in petrol tax, as well as a rise in tax on luxury goods, but they say the Budget will have a minimal impact on industrial companies.

However, not everything is bleak. Rubenstein expects to see good results in the financial services industry as well as in the food industry. He says banks have done "relatively well in profit terms", having benefited from the high rates.

Although some areas of the food industry have been hard hit by the drought, food companies on the whole tend to do better in times of shortage. Rubenstein explains: "Producers can raise prices. Food manufacturers are probably making a lot of money."

Analysts anticipate movement from industrial giants Anglovaal and Barlow Rand this year, given their large cash reserves.

Anglovaal Industries (AVI) executive director Richard Savage confirmed AVI is "sitting on R150m cash, with no borrowings". He added that Consol, Irving and Johnson and National Brands all have cash surpluses. Savage said the Anglovaal Group is "actively looking" for investments, adding that it will tend to stay within its focused areas.

Barlow Rand is expected to invest more in food-related, branded products, according to analysts.

June deadline for union demands

Cosatu vows to strike over interim govt

(49)

B/Day 9/3/92

SUSAN RUSSELL and BILLY PADDOCK

COSATU yesterday threatened government with mass action on an "unprecedented scale", including a possible general strike if an interim government was not put in place by the end of June.

Its general secretary Jay Naidoo said Cosatu wanted an interim government by the end of June, elections for a constituent assembly by the end of the year and a democratic constitution in place by next year.

Apparently unconcerned about the effect the threat would have on the outcome of the March 17 referendum, Cosatu described the poll as irrelevant.

Naidoo also warned that Cosatu's central executive committee had resolved to start a programme of refusing PAYE deductions if certain demands were not met.

Naidoo was speaking at a Johannesburg news conference called to announce a four-month programme of action centred around a variety of political and economic demands identified by the central executive committee.

The demands include an immediate suspension of unilateral restructuring of the economy and the establishment of a National Economic Negotiating Forum.

Cosatu also wants the National Manpower Commission restructured — something which government has committed itself to prioritising.

Its programme of action includes a "people's referendum" on March 18 — Budget day — when Cosatu plans nationwide marches and pickets as well as a march on Parliament.

Cosatu will also hold an economic policy conference on March 27 to 29, May Day rallies and an alliance summit with the ANC and SACP in mid-April to assess the progress of Codesa working groups and to decide on forms of action if demands are not met by Codesa 2.

The programme will conclude with a workers' summit with other labour groups, including Nactu, at the end of May at which a decision will be taken on national mass action if demands have not been met.

Naidoo said the referendum was irrelevant to the negotiation process.

"We want to warn the present government and the CP that any attempt on their side to delay the democratisation process is going to be met with mass resistance on an unprecedented scale."

Naidoo said there was no difference between President F W de Klerk and CP leader Andries Treurnicht.

"The negotiation process does not depend on the outcome of the referendum. Negotiations were mobilised by mass action on the ground.

"We are warning De Klerk and Treurnicht that our programme towards achieving democracy in this country won't be stopped by either of them."

Naidoo said the political process had to move beyond Codesa to an interim government underpinned by negotiations.

"We are not prepared to wait beyond June," Naidoo said.

Defence Minister and negotiator at Codesa working group 3, Roelf Meyer, said it was unnecessary for Cosatu to make state-

☐ To Page 2

Cosatu

B/Day 9/3/92 (49)

☐ From Page 1

ments like this. He said they were obviously out of touch with what was happening at Codesa at present.

Meyer added that Cosatu's statements yesterday were probably a way of making the point that it was not part of Codesa.

It was clear, he said, that sufficient progress was being made at Codesa. Agreement was reached in working group 3 over proposals for a transitional body which would be the most powerful executive structure in the country.

The ANC's national working committee has already endorsed the plan and government and the NP are expected to do so too.

ANC spokesmen could not be reached yesterday for comment

A spokesman for a group of influential business leaders said all the demands set by Cosatu were already being addressed through Codesa or the Minister concerned Some would also be addressed by the economic forum which was being set up

"Business is very surprised at the fact that these demands are being made and at the unilateral way in which Cosatu has acted," the spokesman said.

"Business will not respond positively with a pistol against its head," he added.

● Picture: Page 3

Half of mini-budget goes to service debt

BDay 9/3/92 (49)

BILLY PADDOCK

SERVICING of state debt accounted for more than half (R758m) of government's additional budget requirements of R1,4bn for the current fiscal year.

According to the Finance and State Expenditure departments, which presented the additional appropriation to Parliament last month, the increased state debt resulted from a shortfall in expected revenue, new short-term loans at increased interest rates, new borrowings as well as rollover loans and increased expenditure.

Government had set aside a contingency reserve of R1,2bn for unexpected expenses, but needed a further R1,4bn to meet spending requirements. The major factor contributing to the R1,4bn overshoot was R750m needed to service borrowings of about R7,5bn over and above requirements, said Nedbank chief economist Edward Osborn.

There had been a considerable amount of over-borrowing for monetary control purposes. The Reserve Bank had entered the money market and bought up excess money. This went into the exchequer account and caused massive servicing charges.

"It is quite possible that in working out estimates and planning at the beginning of the year the Finance Department is not taking into account this over-borrowing," Osborn said.

There had been a very considerable volume of borrowing in excess of requirements. January figures demonstrated that borrowing in excess of requirements by way of redemptions were in the order of about R6bn to which another R1bn net in treasury bills could be added — resulting in almost R7,5bn funding over and above requirements.

"The Reserve Bank is mopping up money to make monetary policy work because monetary policy is effected through the mechanism of the bank rate. The banking system is awash with money at the moment and the Bank has to mop up that extra liquidity to make the money market short and force the banking system into the Reserve Bank, making the bank rate operative."

In this way it also influenced the whole structure of interest rates.

Osborn said a great deal of money had been soaked up by the exchequer account and this resulted in the public having to bear the cost.

The alternative to this sort of Reserve Bank activity was too much liquidity in the banking system, which would result in rampant inflation, Osborn said.

The Finance Department said last week it could not disclose what extra borrowings were at this stage, but that Finance Minister Barend du Plessis would detail the position when he presented the Budget.

In January Du Plessis indicated that Parliament would be asked to approve a bigger spending overshoot than could be accommodated by the R1,2bn contingency reserve, but there was no indication that the overshoot would be more than double the contingency reserve.

Regional development is punted

SHERIDAN CONNOLLY

WITHOUT sufficient job opportunities, price stability and economic co-operation and development in southern Africa, the objectives of regional economic development would not be achieved, Regional and Land Affairs Department chief director Hans Van Rensburg said at the weekend.

He told the SA Chamber of Business Transvaal congress government's regional policy aimed to develop regional economies' potential to the optimum, in co-operation with the private sector, to increase the prosperity of all SA's inhabitants.

Development possibilities and comparative advantages could be optimally exploited only if government formulated strategic guidelines. It was essential that a healthy climate be created for development to enable institutions to advise on development matters at regional level, he said.

Hungover SA cannot afford any more fiscal binges

B|Day 9/3/92 **HANS FALKENA** 49

TRADITIONALLY at this time of the year the spotlight is on the expected Budget proposals of the Finance Minister. The forthcoming referendum makes it different this time. Now the Budget will be served as a small dessert, while the main course will be the referendum result.

History has proven that during periods of major socio-political change, as now being experienced in SA, there is always a tendency to ignore financial discipline: budget deficits are then usually larger than they should be, while the arm of the central bank is often twisted simultaneously to adjust its credit policy in line with the political whims of the day.

As is well known, a central banker has to operate like a "party killer" — at least if he does his job properly — calling the end of the party just at the time when the fun starts. If he does not, the price is bound to be a serious financial hangover.

South Africans know this feeling of a financial hangover only too well. For instance, a previous Finance Minister gave a "party" at the peak of the gold bonanza that resulted in a headache lasting nearly a decade. Another great "party" occurred at the Rubicon River — a binge which roughly halved the economic growth rate (equal to about R40bn in lost production).

To ask the impossible for immediate delivery, and to postpone the date of settlement, is a talent well bestowed among mankind. And it is exactly for these reasons that state finance should be managed in terms of clearly defined norms. Fiscal discipline is not a hollow battle cry used during elections, but a necessary prerequisite for political stability and national prosperity (as reflected in stable price levels and a steady increase in per capita income).

Ever since the fall of the gold/dollar standard in the early 1970s, our finance ministers have been quick to learn the tricks of the trade in how to avoid fiscal discipline. To state a few examples:

- The gold bonanza profits of the mid-1970s were not used to reduce public debt. Instead, wages in the public sector were increased massively. The country is still feeling the consequences;
- In 1977, the current and loan accounts of the Treasury were merged. This opened the way to use loan capital to finance current expenditure. This malpractice was executed during the period 1984 to 1989 and again in 1991;
- From 1979 to 1982 large sums were directly transferred to the Special Defence Account from surpluses of the previous years. This implied that potential budgetary reserves were immediately spent on current expenditure items, rather than put to productive uses like investment in the infrastructure;
- Since 1982 a proliferation of extra-budgetary accounts has emerged in the public sector. This means effectively that the Treasury has pushed certain expenditure items "off-balance sheet" and thus relinquished control over some large public sector organisations; and

DU PLESSIS

- To reduce the seemingly ever increasing budget deficits, investment expenditure rather than government consumption expenditure was cut.

These are just a few examples, and the list can be extended without great difficulty. In fact, from an international perspective, it is hard to find any sleight of hand not tried out locally in respect of fiscal policy.

Be that as it may, all "parties" come to an end sooner or later. By the time our current President took over the reins, the "party" was already running deep into the night — in fact it probably saw the light of the next day. At such stages no further compromises are really possible, simply because there is so little to negotiate about. As the saying goes: "beggars can't be choosers".

In the monetary arena a new tune was set by maintaining real interest rates roughly in line with those of our major foreign trading partners (implying that forward exchange rates are more market related). Hopefully a new sense of direction will also be noticeable in the forthcoming Budget.

To fulfil the requirements of fiscal discipline, the Budget must be delivered within the following general constraints:

- A clear split between current and capital expenditure should be made in the Budget. In line with international norms, expenditure on human capital — education and health — should be treated as current expenditure. Current expenditure will then have to be financed with current income tax at all times;
- The present extra-budgetary accounts should be reincorporated into the Budget. The size of the budget deficit as a percentage of GDP should then not exceed the potential real GDP growth rate;
- Net government savings as a share of total net domestic savings should be equal to the government's share in the economy; and
- Funding of the budget deficit should not interfere with monetary policy. In fact Parliament should grant greater independence to the central bank. For instance, the Reserve Bank should be able to issue its own paper (rather than that of the Treasury) to execute open-market policy (implying that it needs to be better capitalised).

Depending on the socio-political priorities of the nation, a few specific constraints could be added:

- Government expenditure as a percentage of GDP has to be reduced from its present level of 30% to less than 25%. Moreover, to promote sustainable long-term growth — and thus employment opportunities — current expenditure has to be reduced to about 20% of GDP, while investment expenditure should rise to at least 5% of GDP; and
- Government income as a percentage of GDP will have to be reduced from 28% now to less than 27%. In addition, the maximum corporate tax rate — and individual rates — should be in line with those of our major trading partners in order to promote exports.

For practical reasons these budget norms cannot be implemented within one fiscal year, so one should not expect too much in the coming Budget. But there seems to be no obvious reason why these norms cannot be implemented during a period of, say, three to five years.

Falkena is group economist of Absa.

OPINION

It's a question of wounded nationalism, argues **Colin Legum**

Beware the fearful Afrikaner

STAR 9/3/92 49

BARRING the unforeseen, President de Klerk will win a comfortable, if not decisive, majority of white voters in favour of continuing his policy of negotiating a democratic non-racial constitution.

If there is a 70 percent turnout in the referendum, his majority could be at least 56 percent, but the lower the turn-out, the lower his majority is likely to be.

Yet, even at the most optimistic, a 60 percent favourable vote would still mean that 40 percent of white South Africans are unwilling to come to terms with the irreversible reality that the only hope of securing peace and security for the country lies in supporting the President's policy.

Dr Andries Treurnicht, asked what the Conservative Party would do in the event of their losing the referendum, was chillingly frank: "We would", he said, "have lost a battle but not the war for the liberation of the Afrikaner nation". In other words, the political civil war being waged within the white community will continue during the final phase of the negotiations being conducted by Codesa and it will continue even after a new non-racial government has been elected.

Just how far the Right will be willing to go in fighting for an independent Afrikaner state cannot be predicted at this stage.

One reason for caution is that it is still not certain whether the Conservative Party will begin to fragment once the new constitution is unveiled and shows, as it is likely to do, that the white community will not be marginalised in a democratic political system, and that Afrikaners' rights to retain their cultural identity within a non-racial society will be effectively safeguarded.

The core of the problem is the resistance of wounded nationalism — a problem that has lasted for decades, even centuries, in Europe and elsewhere.

Afrikaner nationalism, after centuries of struggle against English hegemony and black resistance, reached its acme during the era of apartheid. The abandonment of apartheid spelt the death of this triumphant nationalism.

The Right is now engaged in a rearguard action to retain as much of the country as it can for the Boerevolk.

The loss of Afrikaner hegemony has inflicted a deep wound in the Afrikaner psyche — a wound compounded by fears about what awaits them in a country where blacks will have a major, if not decisive, say.

It is a serious error to dismiss as unimportant the potential of a wounded nationalism to destabilise a democratic state.

The wounded nationalism of the Irish and of the Basques, to mention just two, are reminders of what might possibly lie in store for South Africa unless, somehow, the essential interests of Afrikaners can be accommodated.

It is not enough, therefore, for Mr de Klerk to win the referendum. He must wring terms from the ANC and its allies that will help to reassure Afrikaners about their place in the new democratic society.

Mr de Klerk has shown, as he has repeatedly done since his epoch-making speech of February 1990, that he is both an astute and courageous politician.

On several occasions now he has engaged in initiatives that have both kept up the momentum for change and wrong-footed his opponents, not just right-wing whites but also the ANC. He did so again last February in his speech to Parliament, which was widely misinterpreted at the time, but which in fact took him a step ahead of the ANC in maintaining the momentum for change by proposing a new method for speeding up the introduction of a multi-party transitional government.

This placed the ANC in a position where it had to react to Mr de Klerk's initiative; this it did by pragmatically shifting its own position closer to his.

Ironically, on the very day that Mr de Klerk announced his decision to seek a new mandate from the white electorate, the national executive of the ANC had adopted a programme that considerably narrowed the gap between themselves and the Government.

The dynamics of the negotiating process are fascinating and, on the whole, encouraging.

It is only natural that the ANC and the other predominantly black parties should have condemned the decision to hold an all-white referendum as racist — as indeed it is.

But — and here is another reality — South Africa is still a racist society. The dream of a non-racial society belongs to the future, once a democratic non-racial constitution is in place.

Even then, it will take time, perhaps decades, for non-racial politics to become a way of life; for instance, the factor of the wounded nationalism of the Afrikaners will persist, and the rightful claims of Africans to retribution for their centuries of injustice will remain a feature of a post-apartheid political system.

The political strand of Black Consciousness will not be weakened simply because of the achievement of majority rule.

So, even though the ANC and its allies publicly condemn the referendum as racist, privately its leaders understand that it is necessary for Mr de Klerk to prove that he remains a credible negotiating partner. This he can do only by slogging it out with his white opponents.

This understanding was shown by the unanimous statement of the 17 parties engaged in Codesa, calling on voters to demonstrate their support for continuing the negotiating process.

With so much blatantly wrong in South Africa — violence, crime, a lethargic economy, seven million black unemployed and a similar number eking out an existence in squatter settlements — what is remarkable and encouraging is the goodwill that continues to be shown in the privacy of the Codesa negotiations.

All this leads to the conclusion that the short-term future looks reasonably promising; it is the long-term outlook, after apartheid has been laid to rest, that gives the greatest cause for concern. □

BUSINESS

Inflation outlook improving

STAR 9/3/92

Jaap Meijer . . . optimistic

By David Canning (BE 49)

The first government in a new South Africa is likely to inherit a significantly lower inflation rate, predicts Dr Jaap Meijer, deputy governor of the Reserve Bank.

Dr Meijer says whatever happens to inflation thereafter, the platform from which the new government starts would be healthier than at present.

He remains relatively optimistic about prospects of a lower inflation rate by year-end, despite setbacks which official efforts have experienced in recent years.

In spite of scepticism in business and labour circles, reflected in high long-term interest rates, he points to some private survey indications that (year-on-year) inflation could be down to 12,5 percent by the year-end

Dr Meijer says there have been some unlucky breaks in the fight against inflation — including the Gulf war, VAT and now the drought

However, there are now some encouraging signs emerging — although he confesses to be mystified by the large differential in the relative levels of the Producer Price Index and Consumer Price Index He says the Bank is awaiting the outcome of the Board of Trade's inquiry into this issue with great interest.

Capital account

There are encouraging trends in the capital and current accounts of the balance of payments. In general, current account surpluses in the last seven years have amounted to R36 billion — obviously, though, at the cost of sacrificed growth.

Since 1990 there has been a better capital account picture as well. That year the deficit was R2,9 billion while the cumulative deficit for the first three quarters of 1991 was only R1,4 billion.

The fourth quarter, by contrast, saw a very hefty outflow — for which figures have not been completed, but look to be in the region of R4,6 billion. This largely flows from an abnormal distorting factor — the change to preferrential rates on forward cover

The improvement in overseas sentiment towards SA is also encouraging This is reflected in the dip in the financial rand discount to seven percent before its sudden widening recently because of the tax scare. The narrowing, he says, indicates that the two-tier currency system is becoming less necessary.

The future of the financial rand is likely to be clarified next year when the debt standstill position come up for review The standstill could be replaced with more formal agreements, although nothing has been decided.

SA's foreign debt declined from more than $30 billion in 1985 to $19,4 billion in 1990, of which $6,6 billion is in the net.

However, Dr Meijer cautions that the new South Africa need not automatically spell an end to existence of the two-tier currency system. "The international community will have to have confidence in local policies for this to happen."

Also interviewed at the Reserve Bank, Dr Ernie van der Merwe, head of its economics department, says SA is probably headed for growth of one percent this year — compared with minus 0,5 percent last year.

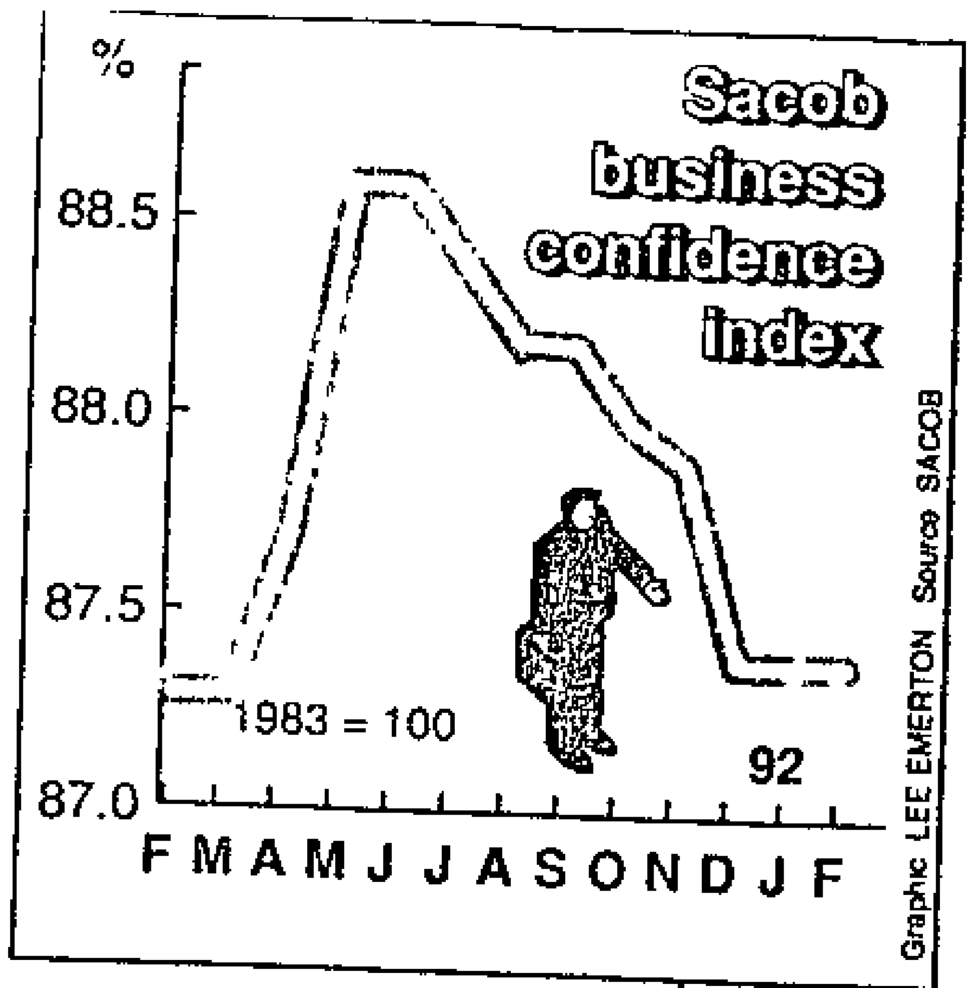
Government borrowing

This year's growth would have been around 1,5 percent had it not been for the drought. He says GDP declined about 0,5 percent last year.

Dr van der Merwe points out that government borrowing levels, as a percentage of GDP, should be determined in relation to a country's prospective growth rates.

"The IMF lays down a guideline of three percent of GDP — but this could be too high or too low for a given country. Excess government spending and lower-than-budgeted revenue took the ratio in SA to beyond this figures in late 1991."

In SA's case, he feels that a growth rate of three percent in the years ahead may be too optimistic.



B/Day 10/3/92

Business mood is static ahead of poll

49

SHARON WOOD

BUSINESS expectations of an economic upturn have been put on hold ahead of the referendum and Budget, as shown by static business confidence levels in February.

The SA Chamber of Business's business confidence index released yesterday showed confidence levels remained at 87,4 in February for the third successive month. The index showed consistent monthly declines between May and December last year.

Political developments had become a focal point following the announcement of the referendum, Sacob chief economist Ben van Rensburg said. The influence of political developments on business sentiment in the previous few months had waned. "Issues which had appeared resolved are now once more open to question and newly forged international relations could once more be in jeopardy," he added.

"However, irrespective of the outcome 1992 will remain a difficult year for the economy in view of the drought and sluggish world growth." Van Rensburg said.

The decline in exports and retail sales and a continued high inflation rate in February suggested the economy had not yet switched into recovery mode, he said.

Report by S Wood TML 11 Diagonal St Jhb

Govt's R150 takes on benchmark stock's role

BDay 10/3/92

49

SHARON WOOD

GOVERNMENT's R150 stock had overtaken the Eskom E168 stock as the benchmark in the domestic capital market, market analysts said yesterday.

Volumes traded in the R150 in February had been higher than in the E168 for the first time. In September last year, E168 volumes had been double government's R150 stock.

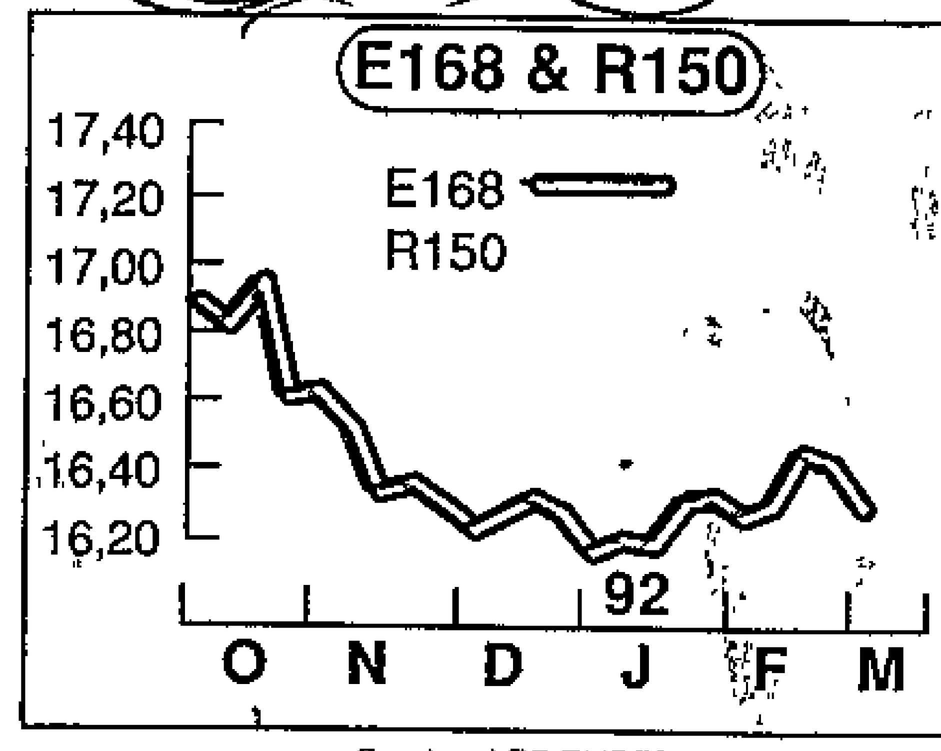
A Reserve Bank spokesman said the R150 had, to a great extent, replaced the E168 as the benchmark stock. This was a result of the Bank's market-making activities in the past few weeks.

Professional traders who had previously traded in E168 were now trading in R150 and volumes had risen considerably, he said.

"The gap between the two stocks has closed and will probably close even more," he said. The interest differential between the R150 and E168 was 32 points yesterday, compared with a differential of between 50 and 55 points during the past few months.

"Big investors are mainly in the R150 and more than half of the E168 issue is held by foreigners, who do not trade actively in the stock but rather buy and hold."

Simpson McKie analyst Marilyn Visser said the differential had narrowed very quickly, but this could be a result of manipulation ahead of the Budget.



Graphic LEE EMERTON Source I-NET

Government's funding requirement for the year, which would be announced in the forthcoming Budget, would give a pointer to the future size of the differential, she said. A large funding requirement could see the differential between the two stocks increase again. Visser did not expect the differential to narrow further.

The Reserve Bank spokesman said a large funding requirement would not be financed by the R150 because the R32bn issue of the stock was already very large. It would issue other government paper and keep the R150 as a market-making stock.

Eskom spokesman Gerhard Ramage said Eskom was not worried about the size of the gap between the two stocks because its only concern was to get funds as cheaply as possible.

Ivor Jones analyst James Greener said the R150 had already become the benchmark because it was the largest trading stock

OPINION

Treurnicht's East European analogy is fallacious, argues **Sara Pienaar**

SA a different kettle of fish

STAR 10/3/92

(49)

OVER the past eighteen months and with increasing frequency during the referendum campaign, the Conservative Party has pointed to the collapse of communism and the eruption of nationalism in the USSR (now the CIS, or Commonwealth of Independent States) and Eastern Europe to support its vision for South Africa. For Dr Treurnicht and his followers, the bloodbaths of Croatia and Nagorno-Karabakh illustrate the evils of communism and the tragic consequences of ignoring nationalist aspirations.

They argue that the reluctance of former Soviet republics to co-operate and their craving for independence show how very natural and deep-seated is the urge for self determination. They warn us that F W de Klerk is not only handing South Africa over to "communists" but is also repeating Belgrade and Moscow's errors by refusing to acknowledge the right of peoples to independence.

The Conservatives have a better idea. It's called partition and it involves the creation of ethnically-based states. They say that the alternative would be a bloodbath of at least Yugoslav proportions. The angry and indomitable Afrikaner, the ferrocious Zulu and perhaps others as well, would take to the warpath in search of independence.

Dr Treurnicht's analysis of events in the former USSR and Eastern Europe is simplistic, though not entirely incorrect, but the conclusions he draws from it are dangerously wrong. Far from *preventing* racial conflict, his proposals would guarantee that it came to pass.

The parallels between developments in the USSR and Eastern Europe and those in South Africa are often drawn. Put very simply, they go like this: In both parts of the world, mixed populations were forced to live under totalitarian governments and subjected to rigid ideologies (communism there, apartheid here) which showed little respect for human rights. The Soviet government's federal structures did permit some of the USSR's 150-odd nations a degree of control over their own affairs and after World War 2, Tito created a federal Yugoslavia with republics for each of the country's six main nations. Because communist governments prohibited any manifestations of nationalism other than those of which they approved, their collapse has provoked an explosion of competing nationalisms which the tottering central authorities cannot contain.

In South Africa, we had the bantustans, which were supposed to satisfy black aspirations while leaving virtually the whole country in white hands. The breakdown of the nationalist government's authoritity has led to much the same kind of chaos here as in the CIS and Yugoslavia. These parallels are all very well but, for three reasons, the conclusions to be drawn from them are very different from Dr Treurnicht's.

First, although most Soviet and Yugoslav republics have opted for independence, virtually all of them are plagued by the demands of dissatisfied national minorities within their borders. When authoritarian central governments were in control, there was little that these minorities could do, but today they are responsible for much of the chaos which has so impressed the CP.

The giant Russian republic may, for example, carry within itself the seeds of its own destruction. Of its 150 million people, at least 27 million are non-Russian and most of them are now demanding independence. Azerbaijan's seven million inhabitants include 180 000 Armenians in the enclave of Nagorno-Karabakh.

In Yugoslavia, it was not so much Croatia's declaration of idependence from Serbian Belgrade which led to the recent war, but the fact that Serbs make up 11 percent of its population. In neighbouring Bosnia-Herzegovina, the population mix is even more complicated. By contrast, Belgrade has reluctantly accepted that the ehtnically-homogenous state of Slovenia will go its own way.

The second point is that the borders of the future states of the CIS and of whatever emerges from the ashes of Yugoslavia will inevitably be a lethal bone of contention, having been drawn long ago and with scant regard for population distribution. Although the CIS wisely agreed last December that however illogical their borders might be, they would not try to change them by force, there are ominous signs that the agreement will not hold. Russia's demands that Ukraine return the Crimea to her are only a foretaste of what may be to come as smaller national units go for independence.

The war in Croatia was not only about the fate of Serbian minorities, but also about the republic's frontiers and territory.

Thirdly, decades of economic interdependence in the CIS and Yugoslavia make complete independence a dangerous mirage and will provide the richer states with the wherewithal to hold the weaker to randsom. There may also be endless and bitter quarrels over valuable resources.

Treurnicht sees the creation of racially-based territorial units as the answer to national self-respect and survival. The truth, however, is that in a country whose complex and linked peoples have all too little cause to love each other, it is a sure recipe for civil war and poverty.

Such states could not be established in South Africa without creating substantial and hostile minorities unless we resorted to forced mass removals, or made the units so tiny as to be totally unviable. Their frontiers would be an endless source of conflict and they could not survive without close economic co-operation, which their hatred of each other would render most unlikely.

For English speakers, as it was for Russians in the former USSR, it is all too easy to ignore the sensitivities of small nations, fearful for the future of their own languages and religions, and cultures. But to create a white homeland anywhere, even in the wastes of the north-western Cape (where whites are in any case still a minority) would be a calamitous mistake.

As with Eastern Europe, and the former USSR, South Africa's main task is to build a stable democracy. If Dr Treurnicht and his party truly have Afrikaner interests at heart, let them come to Codesa to help build a new constitution and to discuss how best minorities can be protected within a democratic civil society. To point to Yugoslavia and the USSR as arguments for partition is at best misconcieved and at worst downright misleading. □

● *Sara Pienaar is Research Associate at the South African Institute of International Affairs.*

Sacob details proposals on rights and economy

BlDay 10/3/92 (49)

PATRICK BULGER

SACOB yesterday detailed the proposals it submitted to Codesa last week.

At a news conference, Sacob director-general Raymond Parsons said Sacob's submission dealt with four areas: economic, social and political rights, an economic system to underpin the new SA, the economic aspects of a new constitution and broadcasting policy.

The first area was covered by Sacob's business charter, in terms of which members undertook to uphold basic social, economic and political rights as well as basic personal and civic responsibilities which were universally accepted.

Sacob told Codesa it would promote the abolishment of all vestiges of racial and sexual discrimination in the workplace.

It said it believed in the need for a market-driven economy.

"To Codesa, Sacob expresses the need for an approach to economic restructuring within the constraints of adequacy and affordability with respect to the basic socio-economic needs which need to be addressed," Sacob said.

"Certain elements fundamental to a market economy and to business confidence need to be safeguarded.

"These include the entrenchment of the law of persons, the guarantee of property rights and control thereof, the law of contract and the provision for the inclusion of a bill of rights in the constitution.

The challenge Codesa faced in its efforts to establish a constitutional framework was "to create the right blend of reform in ways which inspire business confidence".

Sacob repeated the view it expressed to the Viljoen Task Group on Broadcasting, emphasising that an independent communications council should be established, that broadcasting be deregulated and decentralised, that the continuation of a national broadcasting service was essential and that competition be promoted across the full spectrum of broadcasting.

"The private business sector has an important role to play in making SA succesful in both the political and economic fields — these will have to be established simultaneuosly.

"If businessmen and investors are going to take an active and determined interest in the 'rules of the game' in future, they will have to use every available opportunity to make their views known to influence the formation of the economic and political systems in the new SA.

"It was in this spirit that Sacob made its input to Codesa," Sacob said.

ANC calls for local investment gesture

Trevor Manuel

TOM HOOD (49)
Business Editor

ARG 11/3/92

EVERYBODY in business would like to hear a pledge to lower taxes and be offered incentives for development projects, says Mr Trevor Manuel, head of the African National Congress Department of Economic Planning.

"If the economy was running well, generating prosperity for all its citizens, we might consider that type of commitment now," he told a large gathering of business people in Cape Town last night.

"With the current (economic) backslide, most of our people survive below the minimum subsistence levels. In these grim circumstances, we dare not hand out empty pledges," said Mr Manuel, guest speaker at a banquet held by The Argus and Ernst and Young for the Weekend Argus 1991 Business Personalities of the Week.

"The ANC has no desire to take away productive capital as long as it is used productively. If businesses use their resources well, for instance, to create productive employment, establish appropriate training schemes, raise exports or meet popular needs at a reasonable price, they can rest assured we have no wish to tax them out of existence."

"Our appeal to business is to demonstrate the same foresight it is showing in support for the process of political transformation in order to secure permanent peace and certainty.

"The implication of this is that business must now plan for longer horizons. The quick-fix short-term returns must be re-evaluated in the national interest, a step that will only begin to bring South African investors into line with the thinking in all successful countries.

"Interest in South Africa is currently luring literally hundreds of potential foreign investors here.

"They are looking for signals beyond the formal lifting of trade and investment sanctions. Local investors hold the key, only they can provide the all-important signal of confidence in the future of our country.

"Our appeal to South African investors is to unlock the economic potential of our country, to lead with the same gusto as they are doing in the political sphere. They cannot afford to lag behind the foreign investors."

● See page 17

'Expect tough budget'

49

FW: 'Yes' vital to the economy

From BARRY STREEK

KIMBERLEY. — Next week's budget would be tough and "very difficult", President F W de Klerk warned last night.

He also predicted there would be "a huge majority" for the "yes" vote on Tuesday.

He told the more than 800 people who gave him a rousing welcome in the packed city hall that he was not prepared to support a budget irresponsibly, merely to be popular.

"You must accept that it will be a tough and difficult budget," he said.

There was little room to manoeuvre in. The government could spend only what it got in. It could incur debt, but it had to make provision to pay its debts from its income.

The only way the government could increase its income was through taxes

Every budget was a balancing act on what should be spent, as there were many good causes.

SA was facing that problem because the economy was not growing and its tax base was too narrow.

The tax rate on individuals was higher than in the average country in Europe and companies were taxed 40% in Europe but 47% in SA.

"We are therefore overtaxed already," Mr De Klerk said.

To increase taxes would improve the inflation rate, but there was no growth and no new investment. Although restrictions and sanctions had largely been removed, investors lacked confidence.

"That is why we need a good win We must be committed to a new direction, and investment will be the consequence, and this will bring greater income for the state," he said.

Mr De Klerk said that everywhere he had been in SA, he had found enthusiasm and important belief in the cause of those who supported the "yes" vote. CT 11/3/92

"We are going to achieve a huge victory on March 17."

Despite what the ANC's Mr Thabo Mbeki had been reported as saying, the only way the constitution could be changed or an interim government installed was constitutionally. As long as he was in power, this was the only way.

Earlier, Mr De Klerk told Northern Cape businessmen at a cocktail party that SA was near to a breakthrough on the constitution and urged people to vote for a success plan

SA was not going to accept a second prize It would only accept the strongest democratic constitution possible.

The new constitution had to have enough strength to handle the tension and conflict in SA and protect everyone's investments

A "yes" would send a message of hope internally and internationally.

(News by Barry Streek 122 St George's St, Cape Town)

Labour and business 'must lead the way'

BDay 11/3/92

LINDA ENSOR

CAPE TOWN — There seemed to be near unanimity at Codesa on the need for business, labour and government to agree on how to achieve economic growth, President F W de Klerk said yesterday.

"Discussions have begun among several of the parties involved and these are helping to clear the air and crystallise the issues," De Klerk told an international steel and ferro-alloys conference in Cape Town in his 54th speech in five days.

He said he was confident he could win a referendum "tomorrow" held among all South Africans on the need for such an economic consensus.

However, he would not arrange such a referendum as it was preferable for business and labour to reach agreement and for this to be blessed by the state, rather than for the state to play a prescriptive and more active role.

He said there was growing convergence among Codesa parties on the approach to economic growth. Many participants in Codesa subscribed to private enterprise. "The advocates of state control are still active, but wiser counsels now seem to be prevailing among the real decision makers."

(49)

To prospective foreign investors De Klerk gave the assurance that SA was not facing a major discontinuity in economic practice. There was no need to postpone long-term investment decisions.

"There is no reason to fear sudden upheavals, sudden reverals of long-term economic policy. Planners can go ahead and plan in the knowledge that good and stable government will continue."

De Klerk did not believe future growth strategies would depart much from government's present commitment to export-led industrialisation or from its present level of socio-economic expenditure, al-

☐ To Page 2

Business

BDay 11/3/92 (49)

☐ From Page 1

though he said government spending could always be applied more efficiently.

"With our present rather narrow tax base and low level of VAT at 10%, however, the room available for substantially increased spending is limited and direct taxes are already at levels considered rather high by international standards."

De Klerk said government's role in gearing the economy towards value-added production had been to act as facilitator, "without committing itself to any kind of long-term subvention which invariably produces businesses unable to stand on their own feet."

Sapa reports that in Kimberley last night, De Klerk said SA would have a democracy as strong as the world's best.

He said a new constitution would have to meet the demands of the complexity of the country.

"It must have enough constitutional steel built into it to deal with the problems and built-in conflicts of the distant future and ensure that it can manage it and overcome the tensions and threats to security."

Report by L Ensor, TML, 122 St George's St, Cape Town, and P Claassen, Sapa Press Gallery, House of Assembly, Cape Town.

● See Page 7

With spending on track, Barend's task is to raise revenue

BID ay 11/3/92

SIMON WILLSON

49

NEW CREDIBILITY will have been lent to next week's 1992-93 Budget by government's control over state spending in the 1991-92 financial year.

A government faced by the kind of turbulence and volatility in society, economy and climate that has characterised the past 11 months might well have been excused a little leeway in its budgeted expenditure as crisis followed crisis. Midway through the current fiscal year, the revised 1991-92 government expenditure total of R86bn was looking distinctly vulnerable.

But, starting at the halfway stage six months ago, a succession of government statements promised stern and resolute adherence to budgeted state spending totals. As early as last October, the Finance Department was assuring the markets that government remained "determined to maintain strict control over expenditure and thus keep it within Budget guidelines". Three months later, President F W de Klerk told Parliament that "our determination to keep state expenditure within rigorous limits is not a mere fad". He added that "unprecedented discipline" was to be applied to public spending.

Traditionally, such claims and resolutions about state thrift have been viewed sceptically but, when the State Expenditure Minister asked Parliament to approve additional appropriation in last month's mini-Budget, total revised spending for the current year was put at R86,4bn — an overshoot of only 0,5%.

Over the 10 fiscal years to 1989-90, the average margin by which budgeted state spending was overshot was 5,1%. Set against such an average, to miss by 0,5% against a background of long recession, bad drought and escalating crime and violence is quite an achievement.

It also means that, in looking ahead to next week's Budget, it is actually possible to believe the projected figure for state expenditure that the Finance Minister will announce in the 1992-93 estimates. This has seldom been the case over the past decade — budgeted 1984-85 spending increase 11,7%, actual increase 22,9%; budgeted 1985-86 increase 13,9%, actual increase 21,3%. That the expenditure side of the Budget is now credible is a landmark on its own which removes a good deal of the uncertainty about fiscal prospects.

Revenues, however, are a different matter. However disciplined the spending within the Budget's limit, underperforming revenues can supplant overspending as the creator of a ballooning budget deficit.

Revenues have been the big problem in the current fiscal year just ending and, because of the length of the recession, threaten a similar disruption to the 1992-93 Budget. Given the inflexible commitments to spending in social, infrastructural and domestic security areas, expenditure must at least be steady in real terms — that is, level with the inflation rate. Bankorp's sums are typical of many private sector calculations: an expenditure rise of 12% to keep pace with 1992-93 inflation would take spending to R97bn. If this year's effective tax rates are unchanged, revenues next fiscal year would barely reach R81bn.

The budget deficit would then top R15bn, equivalent to 4,5% of GDP at a time when government's general strategy is to conform with the IMF's usual yardstick that deficits should not exceed 3% of GDP if they are not to distort the domestic economy.

To try to kick-start the US economy, however, President George Bush has received some acclaim for proposing to raise the US deficit to about 6% of GDP, and yesterday's UK budget looks set to raise the British ratio to about 5%, so the precedents are there for recession-hit economies to use drastic short-term measures if these are seen to be necessary. A domestic deficit to GDP ratio of 4,5% would, though, be demanding locally at a time when debt servicing costs are forming an ever-increasing proportion of total spending.

To get the deficit to GDP ratio down below 4% on spending of about R97bn in 1992-93 needs about R2bn in extra revenue. How to squeeze this out of an economy already flattened by two years of recession is the primary task of next week's Budget.

Some analysts calculate that a one percentage point rise in the VAT rate to 11% could do the trick at a stroke, but higher VAT is tactically risky at the current stage of political negotiations. In addition, a higher consumption tax might depress consumption further at a time when the authorities are striving for economic recovery.

There have, however, been persistent rumours of a Codesa deal involving a higher VAT rate for luxuries and an extension to the exemption on basic foods. Raising direct taxes (those on individuals and companies) is not on, since it would also further deflate a recessionary economy and set back the government's stated five-year timetable of reducing taxes on earnings and switching to taxes on consumption.

Selling off a large parastatal would also cover the R2bn requirement in one go and with cash to spare, but privatisation is also on unofficial hold for political reasons. Printing the money and devaluing the rand in a dash for growth are also out, as they are inherently inflationary and would cause resignations in the Reserve Bank.

The reintroduction of prescribed asset requirements has been mooted as a temporary revenue-raiser in some quarters, but the public sector will be wrestling for years with underfunded pension funds partially caused by the requirements so recently abolished. A return to directed investment can hardly be entertained by a government bent on deregulation.

This process of elimination leaves relatively few options as the more likely generators of the putative missing R2bn.

Probably top of the list is a hike in the fuel levy. As summer approaches in the northern hemisphere and demand for crude oil starts its seasonal fade, Brent crude is at barely $17,50 a barrel. Large Gulf exporters are not observing the quotas designed to defend the Brent benchmark price of $21, and the oil price looks set to fall to the $12-$14 levels seen in the last oil gluts of 1986 and 1988.

Government could, in all likelihood, take a bigger cut of the pump price without actually raising it, thereby raising revenue without boosting inflation or depressing growth. Slapping at least 10c on the fuel levy would hardly show up at the pumps and could raise more than R500m in 1992-93.

Capital gains tax has been around long enough in Western industrial countries to be a respectable revenue-raiser and, as SA emulates its trading partners in other areas of fiscal policy, there seems little reason to exclude taxing capital gains. It also has the local advantage of being politically correct with the extra-parliamentary opposition. It could also raise R500m in 1992-93.

The usual raising in line with inflation of excise duties on the vices — the "booze and fags" taxes, which could this time include table wines for a change — together with surcharges on some luxuries, could bring in up to half of the outstanding R1bn. The balance could be met by strategic stockpile drawdowns, user charges for public services, further subsidy withdrawals and a little extra borrowing — even if, as has been speculated, it is of the enforced variety in the form of some kind of loan levy.

Ultimately, economic growth is the revenue generator least resisted by the taxpayer. However, progress towards the kind of population-beating growth rate seen as recently as 1988 — 4,2% — has political preconditions this time around.

Analysts expect Stals to maintain tight rein

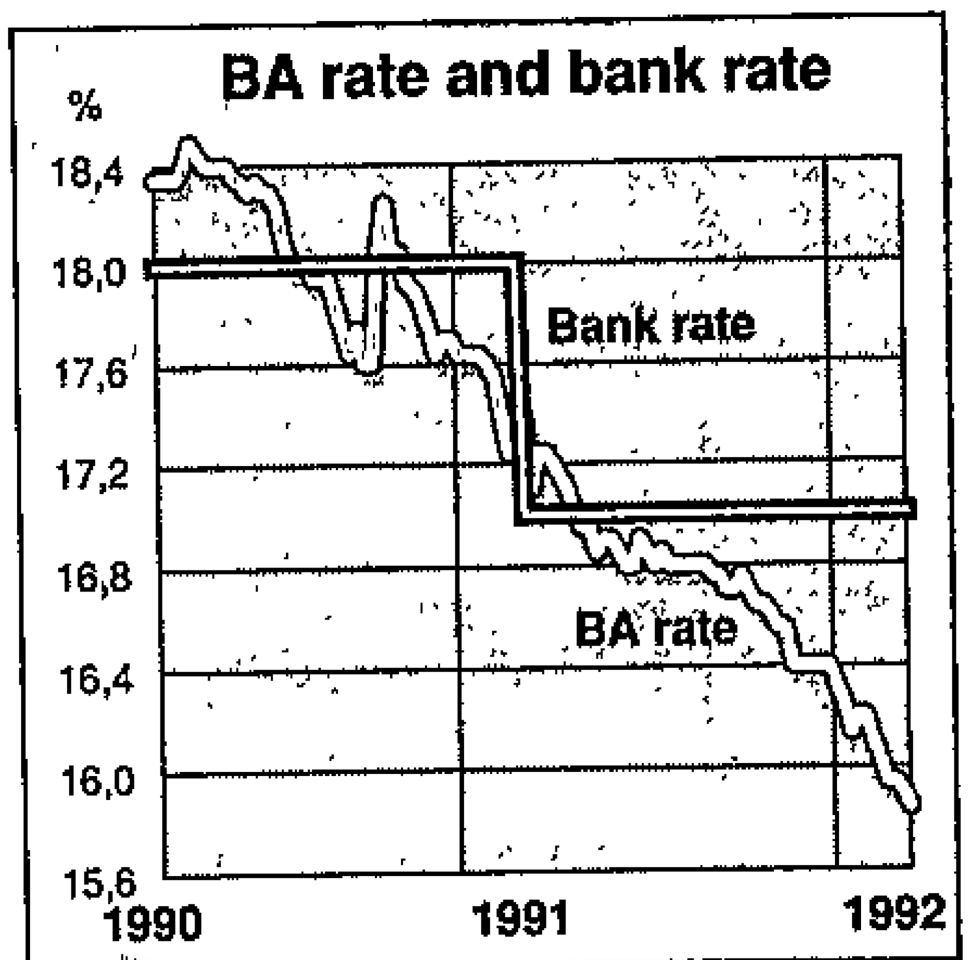
BDay 11/3/92. (49)

SHERIDAN CONNOLLY

DESPITE continued downward pressure forcing the 90-day liquid BA rate to its lowest level in three years, most market analysts do not expect Reserve Bank Governor Chris Stals to relax his tight monetary stance before the Budget.

Analysts said yesterday they expected the Reserve Bank to continue to exercise monetary discipline until there were visible signs the Bank was winning its battle against the obstinate rate of inflation.

They said the disappointing and persistently high rate of consumer inflation was the only factor standing in the way of lower interest rates. The market had been expecting a rate cut for more than a year, and had already discounted for a one percentage point cut in the Bank rate. The Reserve Bank, however, had thus far refused to bow to market pressure.



Graphic FIONA KRISCH Sources I-NET & SA RESERVE BANK

Recently, the one percentage point reduction in mortgage bond rates by all leading banking institutions sparked off speculation that history would repeat itself and see the Reserve Bank drop the key Bank rate one week prior to the Budget speech. A rate cut, however, failed to materialise.

Early in March last year, the Bank sliced Bank rate by a single percentage point to 17% in response to a one percentage point drop in mortgage bond rates initiated by First National Bank.

The liquid BA rate has maintained a sharp downward trend over the past few years and at the beginning of this week dipped to a new three-year low of 15,85% — its lowest level since February 1989.

Dealers said yesterday although there was still room for further easing in the BA rate, a rate lower than 15,75% could not be sustained in the short-term.

Rand Merchant Bank economist Rudolf Gouws said he would be most surprised if Stals cut rates before the Budget speech and the next set of inflation figures due next week. Although a drop in interest rates would not have much of an economic effect, lower interest rates were part of an overall process of getting the economy into a recovery phase.

The three-month Treasury bill rate slipped to 15,63% last week compared with the static Bank rate of 17%.

FW warns of 'tough' Budget

Sowetan 11/3/92 49

SOUTH Africa was facing a "tough and difficult" Budget on March 18, State President Mr FW de Klerk said last night.

"I am not prepared to accept an irresponsible Budget for the sake of popularity," he told a packed hall in Kimberley at the conclusion of his Cape referendum campaign.

His reference to the Budget, which will be delivered on the day the referendum result will be announced, was prompted by a question from the audience about possible increases for civil servants.

"I am not prepared to announce the Budget piecemeal," he said. "But I can say that it is going to be a very difficult Budget.

Little room

"The country's Budget is just like our personal budgets. There is very little room to manoeuvre," he said.

Unlike individuals, however, the Government was unable to work a little extra after hours to increase its earnings. The only way it could do so was to increase taxes.

"But the economy is not growing and the tax base is too narrow and if we increase taxes we will definitely boost inflation.

"Our problem is that we cannot increase taxes and we are not getting enough taxes without growth," De Klerk said.

In real terms, civil servants had not received increases for many years.

"But we are faced with the problem: where do we get the funds?" he asked.

The economy was not growing due to the cuts in investments due to sanctions.

There was now a lack of confidence among investors. That could, however, be put right by a massive "yes" vote, he said.

"You must not underestimate how seriously this internal strife between voters is undermining confidence," he said.

De Klerk reiterated his "bottom line" essentials for a new constitution and said a devolution of power, an absence of domination, protection of private property and a guarantee for the free enterprise system were "absolute musts".

He would not put his signature to any constitution that did not guarantee these, he said.

He refuted claims by the ANC's director of international affairs, Mr Thabo Mbeki, that there was an agreement that an interim government would be installed if the white electorate voted "no" on March 17.

304A

Out of turn

"Mr Mbeki is speaking out of turn. As long as I am in government, all constitutional changes will be brought about in a constitutional manner.

"There will be no changes in this country other than through legal actions and amendments by Parliament as it is constituted at present.

"This Government can be trusted when it says constitutional changes will only be brought about constitutionally," De Klerk said.

(Report by Pierre Claassen, Sapa Press Gallery, Parliament)

Economy awaits outcome of referendum and Budget

Business deals in balance

STAR 11/3/92

Political Staff (49)

Multimillion-rand business deals are on hold pending the referendum outcome — and opinions are split on whether President de Klerk's warning last night of a tough Budget would affect the poll.

Many businessmen are adopting a wait-and-see policy before next Tuesday's referendum, holding back on deals involving many millions of rands and virtually placing large sectors of the economy on hold

A resounding "yes" would help restore badly needed confidence, businessmen say. And there are hopes it would spark a "mini-boom" in the property market, financial investment and some other fields, particularly if next week's Budget is not as tough as feared.

Frozen

But the outlook is bleak if the "no" votes carry the day, they say. A number of big deals would crash.

A multimillion-rand commercial property deal arranged by estate agents J H Isaacs is precariously balanced. A clause in the agreement stipulates that it will fall through in the event of a "no" victory.

Brink Properties' marketing director, Chris Williams, said yesterday a R500 000 property offer had been frozen and was dependent on a "yes" vote

A number of other businesses face similar wariness among potential customers.

Share prices on the Johannesburg Stock Exchange drifted aimlessly yesterday as nervous investors mostly kept to the sidelines Dealers described trading as directionless in jittery conditions ahead of the referendum.

Cehill Pienaar, deputy chairman of the Conservative Party's financial committee, says the prospect of a tough Budget will create a "significant" swing to the "no" vote

However, Democratic Party finance spokesman Ken Andrew said today Mr de Klerk's announcement of a tough Budget would not have a big impact on the "yes" vote. It might even have a marginal positive influence because voters would perceive Mr de Klerk telling the truth.

The president announced in Kimberley last night the country was facing a stringent Budget on Wednesday "I am not prepared to accept an irresponsible Budget for the sake of popularity"

In the tight economic climate most people regarded a tough Budget as "too nebulous" to create alarm, said Mr Andrew

Mr Pienaar, however, said the country could expect an inflationary Budget as the Government had to find taxes or loans to finance the deficit. Consumers would be hardest hit. He also predicted a possible increase in the fuel price and value added tax.

Sapa reports Mr de Klerk said last night: "I am not prepared to announce the Budget piecemeal, but I can say that it is going to be a very difficult Budget

"The country's Budget is just like our personal budget."

Unlike individuals, however, the Government was unable to work a little extra after hours to increase its earnings. The only way it could do so was to increase taxes.

"But the economy is not growing and the tax base is too narrow — and if we increase taxes we will definitely boost inflation. Our problem is that we cannot increase taxes and we are not getting enough taxes without growth"

(Report by E Waugh and A Walker, 47 Sauer Street, Johannesburg)

● More reports - Page 2

Pinnacle of achievement . . . Catherine Destivelle (32) has become the first woman to climb the north face of the Eiger alone. She reached the 3 970 m summit on Monday night after a 17-hour climb. Picture. AFP

Threats dismissed

Cosatu's threats of mass action starting on Budget Day, March 18, would have no effect on the outcome of the referendum or the Budget, NP spokesman Sheila Camerer said on Monday. "Threats of boycotts and strikes of the kind general-secretary Jay Naidoo is talking about are definitely not the answer and not in line with the culture being established at Codesa of attempting to reach consensus and compromise," she said.

(Briefs edited by S Johnson, 47 Sauer St, Jhb)

STAR 11/3/92 (49)

49

SA on course for 'rehabilitation'

PATRICK BULGER

SA's international integration will take time, but as long as the process of change remains on course SA's international rehabilitation will continue, says RAU political studies professor Deon Geldenhuys.

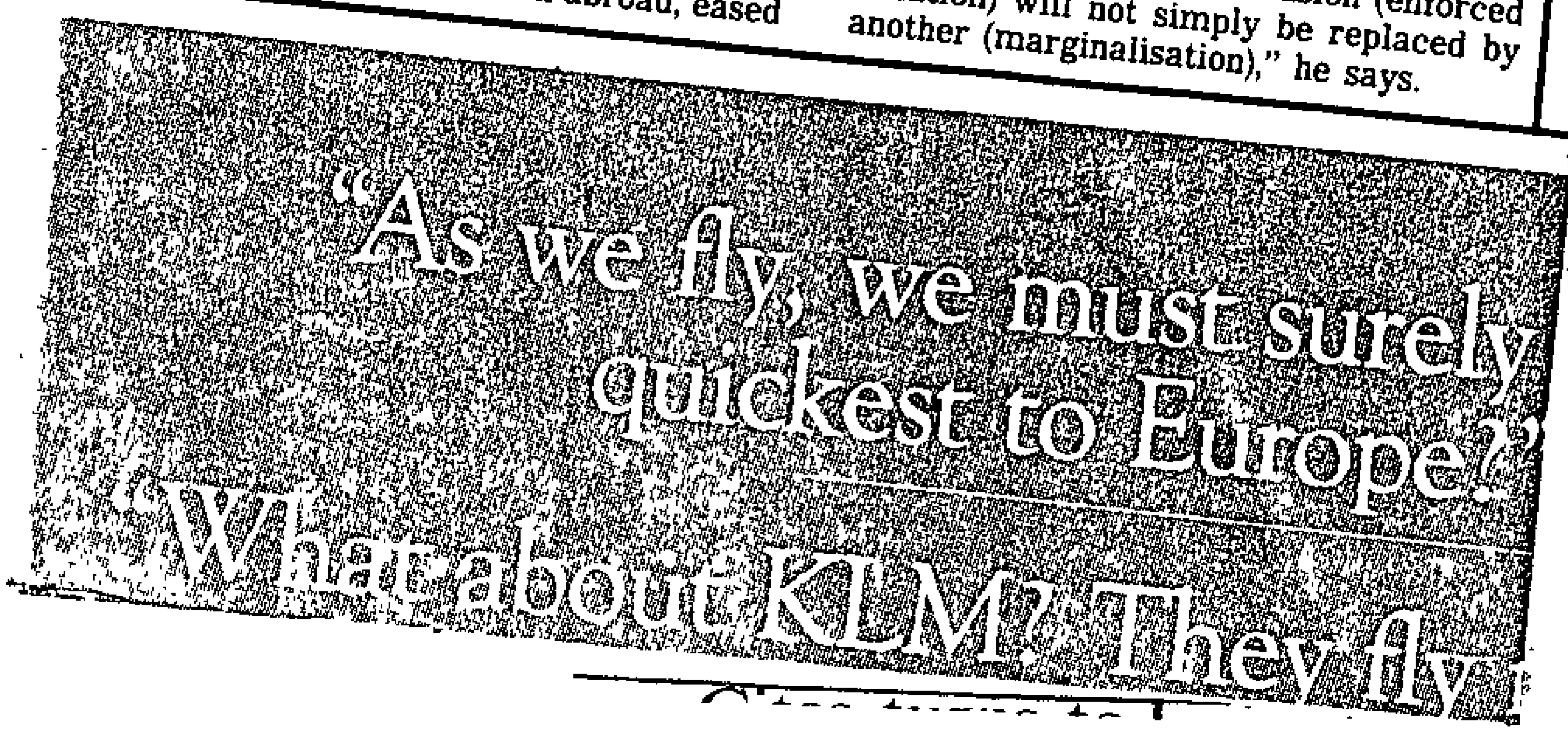
Writing in the International Affairs Bulletin of the SA Institute of International Affairs, he says SA's short-term challenge is to manage this reintegration effectively.

"It is a process that will only be concluded . . once a new domestic political order, enjoying both internal and external legitimacy has been devised. At that point, obviously under a new government, SA will for the first time in decades enjoy sufficient freedom of action to make fundamental choices in its foreign policy," he says.

In an article called "Towards a new SA: The Foreign Policy Dimension", Geldenhuys says SA has developed a new co-operative relationship with its neighbours, expanded its representation abroad, eased relations with world bodies and been given access to world activities like sport.

"The ANC, of course, still insists on the retention of at least economic and military sanctions. The fact that so many states have nonetheless begun resuming or expanding economic ties clearly shows that the ANC's influence over other countries is strictly limited . . . (however) . . . the ANC can indeed still affect the pace of SA's return to international respectability.

"The foreign policy of SA's internal transition has two key elements: promoting co-operative involvement by foreign countries in SA and furthering its return to the international fold. Through these duel initiatives SA could help to ensure that one form of international exclusion (enforced isolation) will not simply be replaced by another (marginalisation)," he says.



POLITICS

Hani denies FW communism claim

THE SA Communist Party upheld the right to personal property but was against a minority controlling 98% of productive property in SA, general secretary Chris Hani said yesterday.

He was commenting on statements by President F W de Klerk where the president defended himself against allegations that he sympathised with communism.

Hani said that what De Klerk stood for had nothing to do with communism.

Having dispossessed millions of South Africans of their property through group areas removals, De Klerk now said the NP stood for protection of private property, Hani said. "We do not want to dispossess people of their homes and personal effects, but we are opposed to exploitative private property."

Hani said the NP had run a massive state sector designed to prop up capitalism and provide sheltered employment to an ethnic minority. BDay 12/3/92

"Mr de Klerk now says that, unlike communists, he is not in favour of nationalisation. The SACP sees nationalisation as a valid option, but only in the context of a democratic, publicly answerable state," Hani said.

He said although the NP had run one of the "most oppressive centralised regimes", De Klerk now claimed he was not in favour of strongly centralised government. (49)

Privatisation was leading to a centralised economy in the hands of a few conglomerates, Hani said. The SACP, on the other hand, stood for real devolution of power to the people and wanted effective multiparty democracy.

Reacting to De Klerk's claim that he upheld Christian values, Hani said the SACP had many Christians and other believers in its ranks.

He said there was more in common between Christianity and the core values of communism than the "dog-eat-dog world of the JSE and IMF that De Klerk upholds". — Sapa.

Report by M Cole, Sapa 141 Commissioner St, Jhb

Alliance mobilises against the Budget

BDay 12/3/92 (49)

LINDA ENSOR

CAPE TOWN — The ANC-SACP-Cosatu alliance has embarked on a national mass action programme including rallies, marches and pickets in a buildup of opposition to Finance Minister Barend du Plessis' Budget speech next Wednesday.

The alliance objects to what it says is a unilateral drawing up of the Budget on the eve of SA's transition. It is determined not to have its opposition hamstrung by concerns about white fears prior to the referendum.

The three organisations threatened a strong response to what is expected to be a tough Budget.

Pickets outside factories in several centres, rallies in Cape Town townships and a signature campaign in Bloemfontein have been planned for early next week. On Budget day, there will be marches in major centres.

The programme will culminate in a "People's Budget" to be announced on Cape Town's Grand Parade, followed by a march to Parliament led by ANC secretary-general Cyril Ramaphosa and other senior members of the alliance.

Workers and students will be called on to participate. The alliance has planned a meeting today with major employer organisations in Cape Town in an attempt to reach agreement on employers' reaction

But Cape Town Chamber of Industries executive director Colin McCarthy said chamber representatives would not attend as it could not bind individual member associations to any course of action. It had recommended that Cosatu approach each association individually

The alliance said it hoped 10 000-20 000 people would participate in the rally and march, which would focus on demands for a negotiated budget, the immediate installation of an interim government and elections for a constituent assembly. Government would asked to enter a national economic negotiating forum.

"The alliance will call for a drastic reduction in defence spending, a halt to secret funding of security forces and Inkatha, and an end to spending on duplicate departments," ANC western Cape regional secretary-general Tony Yengeni said.

He said VAT would be highlighted. Demands included the equalisation of pensions, equal education, a negotiated job creation scheme and an increase in government's involvement in the provision of houses.

Business is on hold until after referendum

Sowetan 12/3/92

(49)

Sowetan Correspondent

MANY jittery businessmen are adopting a wait-and-see policy before next Tuesday's reform referendum.

They are holding back on deals running into many millions of rands and placing large sectors of the economy on hold.

A resounding "yes" majority will help restore badly-needed confidence, according to local business spokesmen. And there are hopes that it will spark off a "mini-boom" in the property market, in financial investment by the public and in some other fields, particularly if next week's Budget is a popular one.

But the outlook is bleak if the "no" votes carry the day, according to the spokesmen. A number of big deals will crash.

Not all businessmen and members of the public are marking time. The overall picture is topsy-turvy - and one Durban financial adviser, Mr David Upfold, said that now was the time to invest and to buy property - before the "mini-boom", which he is confident will materialise.

A multi-million rand commercial property deal arranged by estate agents JH Isaacs is precariously balanced. A clause written into the agreement stipulates that it will fall through in the event of a "no" victory.

Brink Properties' marketing director, Mr Chris Williams, said yesterday that a R500 000 property offer had been frozen and was dependent on a "yes" vote.

He said: "The general trend is that people are looking around at properties but are reluctant to put pen to paper until after the referendum."

Share prices on the Johannesburg Stock Exchange drifted aimlessly yesterday as nervous investors mostly kept to the sidelines. Dealers described trading as directionless in jittery conditions ahead of the referendum

Durban Metropolitan Chamber of Commerce economist Barry Poulsom said: "Everyone is on tenterhooks in business circles."

A Durban travel agent said quite a few nervous people had inquired in the last fortnight about the "cheapest possible one-way ticket to the UK".

A large number of other people, who had immigrated to South Africa years ago, had now made up their minds to quit the country.

The referendum has led to the postponement of Safto export marketing consultants' Southern African Trade and Investment Conference in Johannesburg this month

The conference will now be held on April 28 and 29.

A Safto spokesman said: "We have speakers confirmed from Zimbabwe, Zaire, Kenya, Botswana, Ivory Coast and Angola as well as Europe and America. The referendum has influenced the situation and the speakers understandably don't want to be in South Africa before the results are clear."

New world order or new world disorder?

Sowetan 12/3/92

(49)

LONDON - New world order or new world disorder?

The man who nearly three years ago proclaimed that the collapse of communism had brought "the end of history" and triumph of Western values still insists he was right, though a growing band of critics accuse him of naive delusions.

Mr Francis Fukuyama, American sage and father of "endism", says he never meant that the world's conflicts were over, merely that liberal capitalism had defeated all rival ideologies. He has just brought out a book to prove it.

It was during the Gulf crisis that US President George Bush promised a "new world order".

But Iraqi President Saddam Hussein continues to defy him, and the phrase could come back to haunt him like his broken election pledge of "no new taxes."

The latest salvo against Fukuyama has come from French analyst Mr Pierre Lellouche.

In a newspaper article last week, Lellouche said what the citizens of formerly totalitarian states want is not Western democracy, but Western consumer goods.

He maintains that by the Cold War, the way is cleared for, among other things:

- Ethnic conflicts like Yugoslavia and Nagorno-Karabakh, that were suppressed by former communist rulers;
- The rise of Islamic fundamentalism, especially in former Soviet Asian republics; and
- Nuclear proliferation, aided by leakage of Soviet weaponry and scientists, with about 15 officially non-nuclear countries either possessing or trying to acquire atomic weapons.

Fukuyama, a former State Department planner who is now a consultant for the Rand Corporation think-tank, has rebutted these views as he tours Europe to promote his book.

One observer of the combat between American optimism and French cynicism, Mr Adam Roberts, Professor at Oxford University, says "Lellouche is wrong to think we're reverting to the law of the jungle".

Some analysts also said that while present-day conflicts might be very unpleasant, they paled beside the risk that lay behind the Cold War. - *Supa-Reuter.*

Higher rating for SA on world markets

The Argus Foreign Service

LONDON. — South Africa's risk rating is improving on international markets and is likely to rise even further once an interim non-racial government is formed.

The Japan Bond Research Institute of Tokyo has ranked South Africa "C" grade, the first time it has achieved that level since the debt moratorium in 1985.

The risk rating is calculated by the Japan Bond Research Unit following surveys of 14 groups of specialists in the banking and industrial field. They include bankers, traders and manufacturers.

Each group rates the sovereign risk on political stability and potential for economic growth and rates the country on average scores.

According to The Nikkei Weekly, "A grade no risk" countries with a score of 10 are Canada, Austria, Germany, Singapore, Belgium and Italy.

In the same group, France, Britain, Netherlands, USA, Taiwan, Switzerland, Sweden, Norway and Denmark have scores between 9,6 to 9,7.

"B" grade "little risk" countries must have scores of between 8 and 9 and "C" grade, "some risk" nations such as South Africa, have points from 5 to 6,9.

The average index rating of 100 countries was 5,1.

Ratings of most Latin American countries continued to rise as well because of falling foreign debt and growing economies.

The former Soviet Union posted its sixth consecutive annual decline in investor confidence. Its general rating is 3,4, or "D risky grade", compared with 8,1 in the mid-Eighties.

According to a special survey of four major members of the Commonwealth of Independent States, Russia and Ukraine, were awarded more points than Belorussia and Kazakhstan.

Ongoing peace negotiations and the end to the Gulf war, raised Middle Eastern ratings, particularly Saudi Arabia.

"Worst risk" nations in the "E" category include Zaire, Peru, Bangladesh, Iraq, Nicaragua and North Korea.

Meanwhile, the UK government has markedly lowered export insurance premiums on trade with South Africa. Rates fall to 7 percent from 8,5 percent and compare with 17 percent for countries such as India.

Mr Tim Sainsbury, UK Minister of Trade, said that that in the 20 main markets of UK exporters who most need long tern credit cover, cuts would average 20 percent. Cuts were possible because developing economies were performing better than expected and they were being managed better.

South Africa's rating has improved following the dismantling of apartheid.

Debt repayments have also helped.

Foreign debt is down to $19 billion from $24 billion in 1985 and is only 19 percent of gross domestic product and 70 percent of annual exports, according to the Reserve Bank.

With debt service at 7 percent of annual exports, South African debt ratios are better than Latin American, other developing economies and commodity producers such as Australia.

An open democratic South Africa will also boost its borrowing power and paper, once it is accepted by the International Monetary Fund and World Bank".

On the other hand, a vote against reform in next week's referendum, will push South Africa down to high risk levels again.

ANC to march on Budget day

Sowetan 12/3/92. (49)

THE ANC, the SA Communist Party and Cosatu will march to John Vorster Square in Johannesburg and the Union Buildings in Pretoria on March 18 to protest against the Budget.

Minister of Finance Mr Barend du Plessis will deliver the Budget in Parliament next Wednesday, the day after the referendum.

The march organisers said they were not concerned about their protest possibly encouraging whites to vote "no".

"Our action is not directly linked to the referendum. We are focusing on the Budget and how it will affect us," ANC PWV executive Mr Paul Mashatile said at a news conference yesterday.

"I think we have made it clear that a 'yes' vote is important for the negotiation process to continue."

The organisations' demands include no VAT increase, an immediate end to the unilateral restructuring of the economy, an interim government by June, a constituent assembly by the end of the year and reincorporation of the TBVC states.

The marches will start at 11am. In Johannesburg it will begin at the corner of Wanderers and Plein streets and will end at John Vorster Square In Pretoria protesters will march from Brown Street to the Union Buildings.

ANC PWV leader Mr Ronnie Mamoepa said they had applied for permission to march.

He said all school children would be encouraged to attend classes.

In Cape Town, ANC secretary-general Mr Cyril Ramaphosa will lead a march to Parliament to present an alternative people's budget. - *Sapa*

Cosatu, ANC plan Budget day march

49

STAR 12/3/92

By Thabo Leshilo
Political Staff

Thousands of supporters of the ANC/SACP/Cosatu alliance are to march on the House of Parliament in Cape Town and the Union Buildings in Pretoria on March 18 to protest against the "racist" Budget of Finance Minister Barend du Plessis.

Cosatu said yesterday that the march on Parliament would be led by its president John Gomomo and secretary-general Jay Naidoo as well as ANC general secretary Cyril Ramaphosa.

A Cosatu spokesman announced to the media the marchers would demand that:

- Codesa appoint an interim government by June.
- The Government stop its "unilateral" restructuring of the economy.
- There be no more increases in VAT.
- A constituent assembly be elected by the end of the year.
- The TBVC states be reincorporated into SA.

The organisers denied that the protest action would negatively affect President de Klerk's campaign for a landslide "Yes" vote in the coming referendum.

Invest in the future urges ANC economist

STAR 12/3/92

(49)

By Tom Hood

CAPE TOWN — Everybody in business would like to hear a pledge to lower taxes and be offered incentives for development projects, says Trevor Manuel, head of the African National Congress Department of Economic Planning.

"If the economy was running well, generating prosperity for all its citizens, we might consider that type of commitment now," he told a large gathering of business people in Cape Town last night.

"With the current (economic) backslide, most of our people survive below the minimum subsistence levels. In these grim circumstances, we dare not hand out empty pledges," said Mr Manuel, guest speaker at a banquet held by The Argus and Ernst and Young for the Weekend Argus 1991 Business Personalities of the Week.

"The ANC has no desire to take away capital as long as it is used productively. If businesses use their resources well, for instance, to create productive employment, establish appropriate training schemes, raise exports or meet popular needs at a reasonable price, they can rest assured we have no wish to tax them out of existence.

"Our appeal to business is to demonstrate the same foresight it is showing in support for the process of political transformation in order to secure permanent peace and certainty.

"The implication of this is that business must now plan for longer horizons. The quick-fix short-term returns must be re-evaluated in the national interest, a step that will only begin to bring South African investors into line with the thinking in all successful countries.

"Interest in South Africa is currently luring literally hundreds of potential foreign investors here.

"They are looking for signals beyond the formal lifting of trade and investment sanctions. Local investors hold the key, only they can provide the all-important signal of confidence in the future of our country.

JSE geared for 'yes' vote in referendum

(49) (CT 13/3/92)

By ARI JACOBSON

THE JSE — which rose and fell on a roller-coaster ride yesterday as the gold price weakened — is geared for a "yes" vote in the referendum

The bulls went on a early buying 'spree to maintain the upward momentum seen throughout the week but turned sellers later in the day as profit-taking ensued.

A dealer said "everyone has started discounting a yes vote in the market and this led some to opt to take profits early to out-do the market".

Another dealer confirmed "the market has accepted a yes-vote as the outcome — if anything else should happen there will be mayhem"

He added that trading on the day had been thin "with local investors glued to their television sets (the World Cup) and foreign investors frightened off by the lower gold price".

The Overall Index which was 23 index points higher in early morning trade, ended the day seven points lower at 3 571.

The Industrial Index copied this trend rising 12 index points before registering a 15 point drop on the day at 4 392.

The Gold Index was affected by a weaker gold price which traded up a dollar at $350 before coming off to close in London at $348,10 an ounce.

The index rose 17 points but fell on the back of the weaker yellow metal price — it closed one index point lower on the day at 1 208.

The see-saw market was accentuated by a fluctuating finrand which started off the morning at about R3,83 to the dollar fell to as low as R3,96/$ before returning back to the starting point by late afternoon.

A currency dealer said the investment currency was marking time until the referendum Its acknowledged that the finrand will be the clearest indicator reflecting investor sentiment in the aftermath of the referendum.

London share prices have been falling over the week and this has finally filtered through to the JSE, said the currency dealer.

Among blue chips Barlows lost 75c at R55, mining financial Anglo's ended 75c easier at R122,75 after testing highs of R125,50 and Gencor lost 15c at R11,05 — but De Beers bucked the trend closing 50c higher at R91,25.

Around the market industrial holding giant Malbak fell 20c to R13, in the financial sector Nedcor rose 40c at R18,25, in retailing Pick 'n Pay was unchanged at R21 and electronics share Voltex firmed 3c at 128c

In platinums Impala gained 50c at R44 and Rusplats also moved 50c higher at R73,50.

● Reuter reports that at the ordinary meeting of the JSE general committee held on March 10 it was resolved that the listing of Sub Nigel's ordinary shares of no par value would be transferred from the Mining/Gold — Witwatersrand and Others section to the Mining/Gold — Curtailed Operations section with effect from Monday 16.

Higher wealth taxes would add little to the nation's kitty

BDay 13/3/92

B20 49

MARIUS VAN BLERCK

TAX IS an emotive subject. For this reason, emotive off-the-cuff suggestions on future tax policies sometimes evoke overreaction in the financial Press. The issue of SA's fiscal policy is so important to our economic future and the wellbeing of all our peoples that this form of action and reaction must be avoided.

On the other hand, it is essential that in our emerging democracy there be a healthy, open debate on taxation Indeed, it is a refreshing sign of the times that, after more than a century of political debate dominated by racial issues, politicians, businessmen, unionists and citizens in general are becoming more aware of the need to examine fiscal policy.

For these reasons, it is reassuring that the contacts which the SA Fiscal Think Tank have had with the major players in the political arena (including government, the ANC, Inkatha, the CP and the DP) over the past year have indicated they are all paying careful attention to formulating rational fiscal policies.

On the trade union side, it is also refreshing to note the contribution of Cosatu information officer Neil Coleman to the debate (Business Day, March 6) where he argued that a restructuring of our taxation system can achieve the desired result (of redressing inequalities) only if it is acompanied by a reorientation of our economy on to a higher growth path.

Growth is not simply an important factor, it is the essential factor. My research indicates there is a direct correlation between government's ability to extract revenues from an economy and the state of development of that economy.

For example, in 1987 SA central government revenue as a percentage of GDP was 24,6% — up from 21,4% in 1975. The corresponding figure for industrialised countries in 1987 was ?,4% while that for developing countries in Africa was 21,61%. It is clear that in SA the proportion of revenue which government can extract is substantially higher than in less developed countries but lags behind that yielded by industrialised countries.

In the years that our economy experienced real growth the yield increased relatively painlessly. But since the beginning of the slump in the mid-'80s the yield has slipped. Growth is thus of great importance to the fiscus. These contentions are borne out by the January 1992 IMF report on economic policies for a new SA.

When dealing with the subject of property and wealth taxes, it is necessary to be cautious and to ensure total accuracy since, of all taxes, these tend to generate the most emotive debates. For this reason it is unfortunate that Coleman interpreted IMF comments that "other countries raised substantially more revenue through social security and wealth taxes than did SA" as indicating that, in his words, "SA appears to have virtually the lowest level of property and wealth taxes in the world".

The fact is that SA has an extremely low level of social security taxes, while the property tax level (which includes wealth taxes) falls in between that prevailing in the more highly developed countries and that in the developing countries.

The low level of social security taxes (surely fruitful ground for fiscal research) is sufficient to reduce the sum of these two tax categories to a low level.

As with the overall tax yield, this research indicates that there is definite scope for increasing property and wealth taxes provided we achieve real growth in SA, but such taxes never make a material impact on overall tax collections. Even in the Organisation for Economic Co-operation and Development (OECD), such taxes at central government level yield only about 1,8% as a percentage of GDP.

Three other statements by Coleman deserve comment. Firstly, he correctly points out that there has been a substantial shift in the tax burden from corporate tax to other forms of tax in recent years. This shift has resulted from a number of factors including declining profitability and fiscal drag, among others, but it is interesting to note that SA is far from unique in this respect.

While personal tax in SA generated about 50% more than corporate tax in 1987, in the OECD this multiple was on average about 400%. This tendency seems to have come about through an acceptance that it is simplistic to view either companies or individuals as "bearing" the tax burden. In reality, economic activity bears all taxes, and governments merely seek the most efficient points from which to siphon such taxes, one of which is the individual pay point.

Secondly, he advocates taxation on dividend income. The exception of dividends from tax is no holy cow, and while there are mixed views on the subject, the proposition deserves serious evaluation.

What should be remembered is that it is a worldwide trend to eliminate the economic double taxation of corporate earnings and that, if dividends are to be taxed, it would be wise to implement some form of imputation system to relieve such double taxation.

Thirdly, Coleman raises the possibility of a differentiated VAT rate, taxing basic necessities at a low rate and luxuries at a higher rate. Such systems are common worldwide and informal calculations by me last year indicated that a 5% rate on necessities and a 15% rate on other transactions could yield about 40% more than the current single rate system. Once again, this area offers great scope for research and analysis.

Incidentally, Coleman deduces that VAT raises labour costs and cheapens capital Since labour costs are not subject to VAT, and since capital costs are in effect similarly treated as a result of the input credit system, VAT is neutral between labour and capital.

☐ Besides the areas of taxation identified here as worthy of research, there are dozens of other aspects of fiscal policy which require thorough academic analyses. With this in mind, the SA Fiscal Association launched a competition last year for the best post-graduate tax thesis at an SA university. A prize of R4 000 will be awarded to the 1992 winner, and R2 000 will be awarded to the relevant university.

Details of the 1992 competition will shortly be sent to all SA universities. Universities interested in obtaining details in the interim should fax Danie Erasmus at (011) 333-0104.

As a further measure to contribute to a higher standard of fiscal debate, the SA Fiscal Association last year launched the SA Fiscal Think Tank. The objective of the thinktank is to contribute in an impartial manner to the ongoing development of fiscal policy, and, as noted above, a wide range of political contacts made over the past 12 months has resulted in some progress towards this objective. Those interested in more details on the think tank and its research should fax Ernie Lai King on (011) 783-2180.

☐ Van Blerck is tax consultant to Anglo American, chairman of the SA Fiscal Think Tank and founding editor of the SA Tax Review.

INTEREST RATES (49) FM 13/3/92

Getting the dose right

At this time of year, attention is focused on the relationship between fiscal and monetary policy. Both work best when applied with an even hand; and distortions occur in the markets when they are not. Over recent months, as outflows from the Exchequer Account exceeded inflows by more than the pro rata amount budgeted, the burden of containing inflation has fallen on monetary policy. This has kept interest rates at current levels for longer than would otherwise have been the case.

When Finance Minister Barend du Plessis presents his Budget for 1992/1993 in parliament next Wednesday, he will lay the financial ground rules for government in the fiscal year ahead. The expenditure limits he sets — and general perceptions as to whether they will be adhered to — have implications for monetary policy and financial markets.

Speculation now centres on the timing and the extent of a fall in Bank rate — expected on and off since the middle of last year.

There are two views in the market. One is that Reserve Bank Governor Chris Stals will wait for the next set of inflation figures, due in about two weeks, before making a decision. In the event of some deceleration in the official inflation rate, he will then announce a 1-percentage-point fall from the present level of 17%. A second view is that he will announce a 2-percentage-point fall on Budget day.

Those who argue the first view say:

☐ Inflation is still running at too high a level for anything more than a 1-percentage-point fall;

☐ Stals has a consistent record of conservative monetary management and recent statements have confirmed his intentions to keep a tight rein on money supply; and

☐ Expectations that the budgeted deficit before borrowing will be well over the desirable ratio of 3% of GDP — perhaps as high as 6%.

The opposing arguments are:

☐ The market is already discounting a fall of more than 1 percentage point and Stals would not allow this if he were not prepared to follow with a similar move in the official rate; and

☐ The deficit will not be as high as is generally expected. Developments in the Department of Education confirm that President F W de Klerk is serious about cutting government spending. And there are expectations of drastic cuts in other departments. They quote Du Plessis' comments at a press briefing earlier this year to the effect that it is not enough to shake the tree and dislodge some leaves — the time has come to cut some branches.

In this context, it would be possible for

interest rate policy to be more flexible. Proponents of this view point out that a saving would then be effected in government spending because the cost of servicing State debt will fall.

There is yet a third view of what the next few weeks will bring to change the existing pattern of interest rates. It is that Stals will announce a drop in Bank rate to 16%; but banks will drop their prime rate from its present level of 20,25% to 18,25%. This will reduce the margin between prime and Bank rate to 2,25 percentage points from its present 3,25 percentage points.

Stals floated the idea of breaking the link between the two rates in April 1990. This was at a time when banks were lobbying for an increase in Bank rate from its then level of 18%. Their funding costs were under pressure from huge shortages in the money market — as much as R5,4bn on January 31 1990 — and they wanted a signal from the central bank that would allow them to push prime up from 21%. Stals, unwilling to oblige, suggested they break free of Bank rate.

In the event, none chose this course and, soon afterwards, growing liquidity relieved their funding pressures.

The link between prime and Bank rate is purely strategic — Bank rate is seen as a reflection of monetary policy and an indication of what banks can expect in the way of liquidity. But banks are not bound to retain the link. It is more than 10 years since they were freed from the convention that prime and the rate at which the Bank lends money to the banking sector should be formally linked by a 2,5-3,5-percentage-point margin. At the time, the official Bank rate had fallen into disuse — at 13,5% — and banks were accommodated at a penalty rate 0,5 percentage points above the latest Treasury bill tender rate.

Because of sustained upward pressure on short-term interest rates, the Bank decided in February 1982 that prime should be set free to find its own level — "as a step towards more market-orientated methods of monetary policy." This left each bank to determine its own prime overdraft rate and, when Bank rate was restored to its normal role as the official rediscount rate in December 1983, the margin was only 1,75 percentage points.

If the idea is revived again, will banks take advantage of the suggestion? They have already dropped mortgage bond rates by 1 percentage point, to 19%, with Stals' blessing, an indication that they are prepared to jockey for competitive advantage at a time when demand for credit is low. If Stals maintains existing liquidity levels, they may be able to reduce prime-related rates and fund themselves adequately. They will, of course, then be sacrificing margins, so the choice will be a difficult one. And only a "yes" vote in the referendum will inspire bankers with enough confidence to make this crucial decision.

This situation could help Stals, who may see light at the end of the inflationary tunnel but would prefer to maintain the image of stern central banker until everyone else can see it too.

One thing is certain, whatever one bank decides to make of the circumstances, others will follow. So good news flowing from the referendum and Budget will pay immediate dividends to consumers. ■

Investment in a sub-continent

STAR 13/3/92 (49)

World Bank millions are waiting to be invested in South Africa, writes JOHN CHETTLE (right), a partner and director of international trade law practice of a leading firm of Washington lawyers, which represents several major South African organisations in the United States.

THE decision that will be taken by white voters on Tuesday is not just a referendum on the reform process, it is a referendum on whether South Africa wants to be part of the world. South Africa's huge energy and potential have been restricted, both by itself and by its opponents, for more than a generation. Other countries, with few of South Africa's advantages, have surged ahead.

South Africans need to understand that institutions like the World Bank stand poised to make a massive investment in the South African economy as soon as an interim government comes into office. Sources at the bank make no secret of their belief that, within four years, their programme of loans to — in essence, investment in — the South African economy will be the largest in Africa, at more than R3 billion a year.

Their seriousness is indicated by the fact that, while the bank has not made any loans to South Africa since the 1960s, for the last two years they have had 80 professional staffers engaged in economic and sectoral analyses of South Africa.

It is not far-fetched to conclude that, within a decade, South Africa could well exceed Nigeria as the largest single recipient in Africa of World Bank funds, currently more than R17 billion in that country.

The bank is looking at major water projects to relieve the drought and to secure South Africa's water needs into the next century; at an expansion of the Eskom electricity grid throughout the sub-continent; and at massive investments in housing, hospitals, black education and agriculture.

The current thinking would involve an annual infusion of funds into South Africa amounting to more than 1 percent of the gross national product. It is intended to be a massive kick-start to the SA economy, and World Bank officials are talking about making as big an impact as possible immediately, of cutting red tape, even of piggy-backing on existing projects.

The psychological impact may be even greater. South African companies which have been hesitant to invest will have to move smartly to take advantage of the opportunities. The need for goods and services will percolate into every area of the South African economy. The fears that many whites harbour of receiving a smaller share of a diminishing pie could be replaced by a realisation that there will be greater shares and opportunities for all.

For the first time, South African companies could move into a dominant position in Africa. Already the World Bank has given contracts to major SA companies such as Eskom, Sasol and Barlows. Their opportunities are already proliferating.

In the entrepreneurial arm of the World Bank, the International Finance Corporation (IFC), which is the largest source of project finance in the developing world, distributing some $25 billion (R70 billion) a year, there is also great eagerness to move into South Africa.

The IFC is responsive to approaches from corporations to look at any project which is (a) developmental, and (b) profitable. It is, for example, busy modernising the Polana Hotel in Maputo, building pipelines in Zimbabwe and extending the Wankie colliery, Zimbabwe.

During a recent three-week visit to South Africa, I was struck by the quick appreciation by South African businessmen of the opportunities this offers, and by the great spur to the South African economy that could develop from this source alone.

South Africa is almost tailor-made for such a collaboration with the World Bank. As a result of its previous isolation, it has under-borrowed internationally. It has the infrastructure and skills to use World Bank aid. While its inflation rate would normally be an obstacle, its huge black unemployment, and its potentially dynamic impact on the whole sub-continent argues for the most energetic programme of expansion.

It is one of the most promising indications that South Africa has yet received that the long night of apartheid is now coming to an end and opportunities can now be glimpsed for South Africans of every race and colour. □

(Report by John Chettle, 1050 Connecticut Avenue NW, Washington, DC)

SA 'must not return to isolation'

STAR 13/3/92 (49)

South Africa must not return to isolation, said DR CONRAD STRAUSS, national chairman of the South African Institute of International Affairs in his biennial report this week.

IN THIS world of complex interdependence South Africa cannot afford to be left behind. Fortunately, the international isolation which steadily increased from the early '60s and culminated in the intolerable position of the late '80s, has largely ended.

Since February 1990 there has been a dramatic turnaround, and it is remarkable how quickly the promise of a negotiated political settlement has opened doors around the world for diplomatic and economic intercourse.

Harry Oppenheimer two years ago recognised that South Africa's international position was already much improved. Since then the number of countries in which SA has diplomatic, consular and trade nissions has doubled, from 30 to 60.

Although full normalisation of our diplomatic relations will not be realised until there is agreement at least on interim or transitional arrangements prior to acceptance of a new constitution, there is no doubt that we are far along the road to normalisation.

The same applies in the crucial area of trade relations, even if some economic sanctions have not yet been formally removed. In sporting and cultural links there have also been remarkable steps towards normality.

It is unthinkable that South Africans, of whatever political or racial grouping, would want to turn away from these new opportunities and return to in ternational isolation and economic decline.

Isolation in an increasingly interdependent and harsh world is, in fact, not a viable option.

Yet there are those on the Right and the Left who, for their own sectional interests, seek to disrupt the present negotiating process which has had such a positive effect on our international relations.

On both sides there is an apparent unwillingness to recognise the global trends and particularly the vital element of interdependence.

Political or economic ideologies which ignore these trends can only spell economic and social disaster.

Should they ever prevail, such ideologies will obviate any meaningful participation by this country in the development of the modern world.

For South Africa's international position to continue to improve, and for the country to avoid the threat of marginalisation in the tough conditions of the new world order, there should continue to be positive development in three interrelated areas.

First, it is essential that political and social stability be achieved on the basis of a democratic constitutional settlement acceptable to a clear majority of our people.

A stable and democratic political order is a basic requirement for the creation of confidence and the renewal of the flow of investment capital which is sorely needed.

Second, if we are to become fully part of the modern, interdependent world, we have to have economic policies in tune with the known and generally accepted formulae for success, in order to promote economic growth and social peace.

Third, without neglecting the crucially important markets of the north, we have to become more closely integrated with our own region of southern Africa, with the aim of promoting development and security throughout the region.

Given the great economic imbalances and the actual and potential conflicts within some states, achieving regional peace, stability and economic growth will not be simple.

But it is important for our relations with other regional groupings now emerging throughout the world, that we move as quickly as possible towards closer and more effective cooperation in southern Africa.

Such is the make-up of the South African economy, such are the countervailing forces at work in our society, that I will be surprised, in two years' time, if sound progress has not been recorded on all three fronts. □

(Report By Conrad Strauss, Jan Smuts House, Johannesburg)

Sanctions: Next time they will hurt

W/Mail 13/3-19/3/92

(49)

In rebutting claims that a no vote would be economically disastrous, the Conservative Party says sanctions didn't and won't work. **REG RUMNEY** *says they're half right, but any more sanctions could cripple us*

13/3-19/3/92

THERE is a Conservative Party pamphlet doing the rounds which asks this important question: Did you personally suffer from sanctions?

On the surface, the answer is surprising. No, ...uth Africans didn't have to drink fake Scotch ...go without imported hi-tech machinery. No, ...weren't forced to abandon our motor cars for ...ant of fuel.

There is some argument that the indirect ...fects of sanctions are seen everywhere in ...uth African poverty and soaring crime, but ...apees will put that down to reform and other ...rces.

On the CP premise that sanctions haven't real... caused much hardship is built the specious ...onclusion that South Africa will be able to ...nore any new sanctions.

The CP's case is paradoxically bolstered by ...e government's now abandoned stance that sanctions weren't working *and* by pro-sanctioneers' overemphasis of the effect of sanctions on the South African economy.

After all, if sanctions were "crippling", as was claimed, why didn't we suffer that much? If that's the best the world can do, what have the CP to fear?

Merle Lipton in her seminal study on sanctions, published in September 1990, noted: "...sanctions *per se* have not yet 'crippled' the economy and ... their importance has been exceeded by the effects of other shocks, such as the fluctuations in the terms of trade, the drought, rising interest rates on the growing foreign debt and the less tangible factor of political instability."

So did sanctions "work"? Yes, but not in the way so often claimed.

Writing in *The Weekly Mail* a US journalist observed that the US government *viewed sanctions only as a way to push for certain reforms, not as a method to bring the country to its knees.*

"And in the end, US sanctions (which cost the South African economy an estimated $30- to $40-billion during the 1980s) were never as airtight or comprehensive as those imposed on Iraq."

One cannot therefore blithely assume, along with CP leader Andries Treurnicht, that new sanctions will not be implemented in a more effective manner than they have been.

The CP argument makes no distinction between trade and financial sanctions.

Trade sanctions were designed to cut off the flow of goods and services to and from South Africa, and financial sanctions to cut off the flow of money to South Africa.

Take trade first. On the physical front, South Africa is still vulnerable to a trade embargo in one crucial area, oil.

Chairman of the UN group monitoring the oil embargo, Anthony Nyaki, pointed out at the beginning of this year ... monitoring the embargo ... because the embargo is voluntary.

But extensive and tireless monitoring by the Amsterdam-based Shipping Research Bureau, set up in 1980, shows this: the oil embargo was and is as leaky as an old sieve. The group claims to have identified 84 percent of oil imports in 1989, 61 percent in 1990, and 72 percent in the first half of 1991.

Chief culprit in shipping oil to South Africa are British firms.

It is clear then that participating countries have not had the political will to enforce the oil embargo, and have been satisfied with rhetoric.

So to enforce true comprehensive sanctions against South Africa the UN Security Council could make the oil embargo mandatory.

The UN would have to enforce that embargo, either by putting pressure on individual countries, or through, say, a blockade of oil tankers.

But forget about trade sanctions for a moment.

Examine the financial sanctions South Africa still labours under, since unlike trade sanctions they were mainly spontaneous and not legislated (except for state and local sanctions in the US which discourage US banks from dealing in South Africa).

South Africa has come under pressure because it has had to repay rather than roll over loans frozen in the famous "debt standstill" imposed unilaterally by South Africa in September 1985 in response to foreign banks suddenly calling in their loans.

The standstill has forced South Africa, a developing country, to be an exporter of capital since 1985. "From 1985 to the end of 1988 South Africa's debt payments accounted for over half of the heavy capital outflow of $10-billion (R25-billion). This was equivalent to about four percent of GDP over this period," writes Lipton.

That in turn has meant that it has had to keep the current account of the balance of payments, South Africa's account with the rest of the world, in substantial surplus. And this has meant the authorities have had to rein in the economy's growth to keep it from overheating.

It is somewhat, though not entirely, analogous to a small and growing business being kept small by having to pay back a big bank overdraft rather than using the money to expand.

So financial "sanctions" have cut back economic growth. But, as Lipton notes, it is not clear how much. And whether South Africa needs new investment is a separate issue and one not as clear-cut as the government would like to make out.

What would happen if the US, Canada and Europe had the political will to isolate South Africa financially?

Bans spurred by commercial risk considerations and kept in place by that and anti-apartheid pressure could be replaced by mandatory bans on any loans to South Africa. A demand could have been made for immediate repayment of loans inside the debt standstill, and a bar on trade credits imposed.

South Africa would have to default on the remaining loans in the net.

Foreign countries would retaliate by attaching South African ships in foreign ports and planes in foreign airports and freezing South African assets abroad.

Most drastically, foreign countries could refuse to clear South African foreign exchange transactions.

By this stage South Africa would be approaching war with the rest of the world.

Remember what Joint Chiefs of Staff chairman Colin Powell said after the Gulf war: "Sanctions and war were a seamless process."

Taking the High Road to growth

(49)

HKG 14/3/92

South African stands at a crossroads — it could take the High Road or it could go down the Road to Ruin. EDOUARD PARKER, executive chairman of Société XA-EP (Etudes Prospectives Internationales), a consulting group which specialises in the study of country scenarios and provides companies with advice on international strategies, explains how to achieve the High Road.

THE former Soviet Union is in crisis. Brazil, India and Argentina are disintegrating. Algeria and Tunisia are shaken by grave social disorders. There is unrest in Venezuela and South Africa.

Why? The answer is simple. All are exhibiting the symptoms of poor economic growth.

This fact is so obvious that it tends to be overlooked.

Developed countries are generally satisfied when their growth reaches three percent a year.

But, in a country like Algeria, that is also the annual rate of population growth. The country, therefore, barely maintains its low level of GDP per capita.

The level of poverty is perpetuated as the population doubles in 25 years. Poverty and illiteracy become the order of the day.

In Brazil GDP per capita has been falling for 10 years. When my consultancy group first worked in Brazil there were about 50 million Brazilians in the economic system and 50 million outside it.

Today, there are still 50 million Brazilians in the active part of the economy, but there are 100 million who are economically unproductive.

Brazil is heading for a catastrophe if it does not soon show very strong growth.

In South Africa over the last 10 years, the average annual increase in population has been 2,3 percent a year compared to an annual growth in GDP of only 1,3 percent.

It is this lack of economic growth — in part the result of sanctions — which is the principal cause of the present social crisis, with too much unemployment, too little job creation, not enough house-building, and so on.

This trend is worldwide. The growth in output is little more than the growth in population. The sort of world this is leading to is obvious.

If existing trends are extrapolated, in just 50 years there will be 10 billion people.

Only one billion will be in the developed world, four billion at an average level of poverty and five billion destitute, most of whom will be "decultured" — living in shanty towns in the suburbs of major cities.

It is not difficult to imagine what this world will be like. Sao Paulo, Rio de Janeiro, Mexico City, Bogota and Medellin already provide the image.

There the pauperised urban masses organise themselves into bands, mafias and gangs in order to survive. Khmer Rouges and "Shining Paths" develop.

Conflicts like those between Iran/Iraq, Algeria/Morocco and Iraq/Kuwait, abound. Already we can see the Lebanisation of the Caucasus — that of the Muslim republics of the former USSR may follow. India is foundering in caste conflict.

Extrapolating scenarios of the Liberian type of the scale of five billion people reveals the Third World of tomorrow.

This has been coined the syndrome of global "Colombianisation". The world becomes increasingly what Colombia has become in the last 20 years.

A solution will arise either from hard lessons learned over a period of years, or from an early reaction by citizens of a number of countries committed to prevent such an outcome.

It is now clear there is no way development can be imposed from outside. Each country must determine its own destiny. The scale of misery in the world is already too great to be remedied by international organisations, rich countries or by charities.

Increasingly, it appears the struggle against poverty in each country is the affair of its citizens. It is, after all, part of the tradition of national pride for each group to sort out its own problems.

The recipes for progress — true "development" — are now becoming clear. The growth of GDP must not merely match that of the population, it must exceed it. To know by how much, it is vital to be clear about the objective.

If population grows at three percent a year, and GDP grows at seven percent a year — which everyone proclaims to be a "miracle" — that country is heading for disaster within a decade.

In effect, that half of the population outside the formal economy sees itself stagnating in poverty. The other half enjoys a doubling of its income over 10 years.

Inevitably there follows a breakdown in social consensus, revolution, and a return to the starting point. There has not been true "progress".

To achieve both "development" and social consensus, economic growth must exceed the figures indicated in the example (which are representative of the Brazilian situation) and should rise above seven percent GDP to reach around 10 percent a year.

Only then will the poor half of the population see job opportunities opening up. Only then will parents be motivated to send their children to school. Only then is there true social consensus. Brazil experienced this from 1968 to 1978.

Therefore, only if the rate of economic growth reaches 10 percent, or thereabouts, is development genuine and sustainable.

Each country, however, has its own specific requirements. In South Africa, where population growth is 2,3 percent a year, and where the increase in productivity has been almost zero in recent years, social consensus would begin to emerge as soon as GDP growth reached five to six percent a year.

But, as soon as economic growth resumes in South Africa, productivity will rise very quickly to around three to four percent a year.

It will then be imperative for the rate of growth in GDP to rise progressively to about nine or 10 percent a year if social consensus is to be maintained. The country would otherwise be in danger of falling apart.

GDP growth of 10 percent a year will point us to the "High Road".

Any genuine programme of "democratisation" comprises two aspects — democratisation of political life (which is the sense in which the word is usually understood) and democratisation of economic life. The latter is completely underestimated, often even ignored.

People have the right to be better rewarded if they work hard, the right to save and to see their savings bear fruit.

When one has the right to vote, as in Argentina, but the rate of inflation is running at 3 079 percent a year, as it was in 1989, what remains of "democracy"?

Almost nothing, for there is no longer any incentive to work. There is no longer any respect for work, any right to be rewarded according to one's work, any possibility of saving to pay for the education of one's children, and so on.

These fundamental economic rights are all frustrated. Hyperinflation is, therefore, an attack on human rights.

Similarly, of what use is it to vote "democratically", if impoverishment continues, as in Brazil for the past 12 years, to the extent that only one child in 10 advances beyond primary education? In effect, there is no longer a right to education.

The relative pace of progress offered by politcal democratisation on the one hand, and economic democratisation on the other, can vary from country to country.

The essential point is that there should be progress on both fronts and that, in particular, strong economic growth should be protected because it is the basis for consensus.

Political democratisation has meaning only if the poorest sections of the population benefit from economic progress.

We now know what kind of social organisation best allows high rates of growth with significant numbers being rescued from under-development.

1 An essential condition for success is that there should be a clear popular — as well as government — desire to escape from poverty. Economic growth is the overriding priority. Countries do not become "dragons", like South Korea or Taiwan, without wanting to be, and without having done what was necessary over a long period.

The ideal situation is where a government, which enjoys strong support, has been elected because of its desire for economic prosperity.

At the end of 1990 Poland voted in this way, preferring Walesa to Mazowiecki. The Commonwealth of Independent States (previously the USSR) has not yet voted clearly to this effect.

The government's will must be made clear at the outset through the establishment of a clear constitutional and legal framework. This in turn should explicitly respect the right to do business, the right to save, with a positive investment code to trigger a virtuous cycle of saving and investment.

Appropriate constitutional and legal frameworks are available; they need only to be copied and adapted.

2 It is also necessary to promote integration into the world economy (instead of living in autarky), notably by favouring the export of manufactured goods. This is one of the keys of "development".

The export of manufactured goods gives workers the right to be properly rewarded for their efforts on the "village market" that the world market has become, without obliging them to emigrate. It leaves them free to exercise their skills, in a good trade, at home.

It is beneficial, for instance, that Korean cars and Singaporean microchops can reach the European market. To export cheaply it is necessary to be able to import cheaply. This necessitates the lowering of trade barriers.

All attempts at economic development through import substitution have failed. Exports that are penalised by high local production costs quickly cease to be competitive. Through integration into the world village market this does not happen.

3 Equally, it is necessary to remove minimum wage restrictions, shocking as that may seem. It is the only way to allow the least favoured to regain a place in the economic system.

A low starting wage, which will improve if growth is strong, is worth more than a still lower welfare handout, which in reality quickly disappears in a country on its way to impoverishment.

4 Along with wage flexibility, prices must be freed to play their role in a properly managed (low-inflation) market economy. To free both prices and imports is the only way to make cheap products available to the least well-off sections of the population, which is essential.

This aside, one can say no special talent is required for the High Road. What is needed most is a modicum of sensible management, diligence, work, a willingness to adapt, and the will to succeed.

South Africa could match this sort of performance if both its population and its government had the will to.

Courtesy OPTIMA, published by Anglo American Corporation and De Beers.

Budget Blues for smokers, drinkers, drivers

MONEY MATTERS

(49)

STAR 14/3/92

MAGNUS *Heystek*

PREPARE for the Budget Blues when the Budget is delivered on Wednesday. Especially if you happen to smoke, drink and drive a car.

Already President de Klerk has warned that it is bound to be an austere Budget.

This warning should be taken seriously.

Marginal rate

Although there is still a slim chance that the top marginal rate of 43 percent for individual tax could be reduced to 42 percent, such a move will have to be accompanied by tax increases elsewhere.

Three years ago, Minister of Finance Barend du Plessis pledged a reduction in the top marginal tax rate from 45 percent to 40 percent over a five-year period. So far he has kept his promise.

But the tight economic conditions under which the country is labouring makes it very difficult to reduce income tax even further.

Like President Bush of the United States, he might be forced to renege on this promise — or at best, postpone it for a year or two.

The length and depth of the current recession is seriously effecting Government revenue from most of its traditional sources.

Company taxes have been badly hit by the business slowdown while revenue from private individuals is bound to be seriously affected by widespread retrenchments, unemployment and lagging salary increases.

The depressed state of the gold mining industry, which up to about 10 years ago was a major source of revenue, does not hold out any hope either.

Two choices

The Government basically has two choices.

It can cut back sharply on expenditure (which it has been unable to do for 10 years running) or it can increase revenue by increasing taxes (which it has done for 10 straight years running).

The effect of fiscal drag, together with the increase in fringe benefit taxation, has had a severe impact on the middle to upper income earners.

For example, in 1986 a married taxpayer earning a salary of R60 000 paid over about 19 percent of this salary to the Receiver.

By the end of 1991, assuming the salary had increased in line with inflation, the tax burden would have risen to just under 30 percent.

No wonder so many people are landing up in the debtors' courts.

Without raising the tax brackets, fiscal drag will again push more taxpayers into higher tax brackets.

Under normal political conditions the obvious source would have been an increase in the rate of Value Added Tax (VAT).

But, considering the political opposition to such a move, this is likely to be avoided by the Government for the time being.

That leaves very little choice but to increase taxes on petrol, liquor and cigarettes.

Expect a hue and cry from these industries when the announcement is made, but there is no alternative.

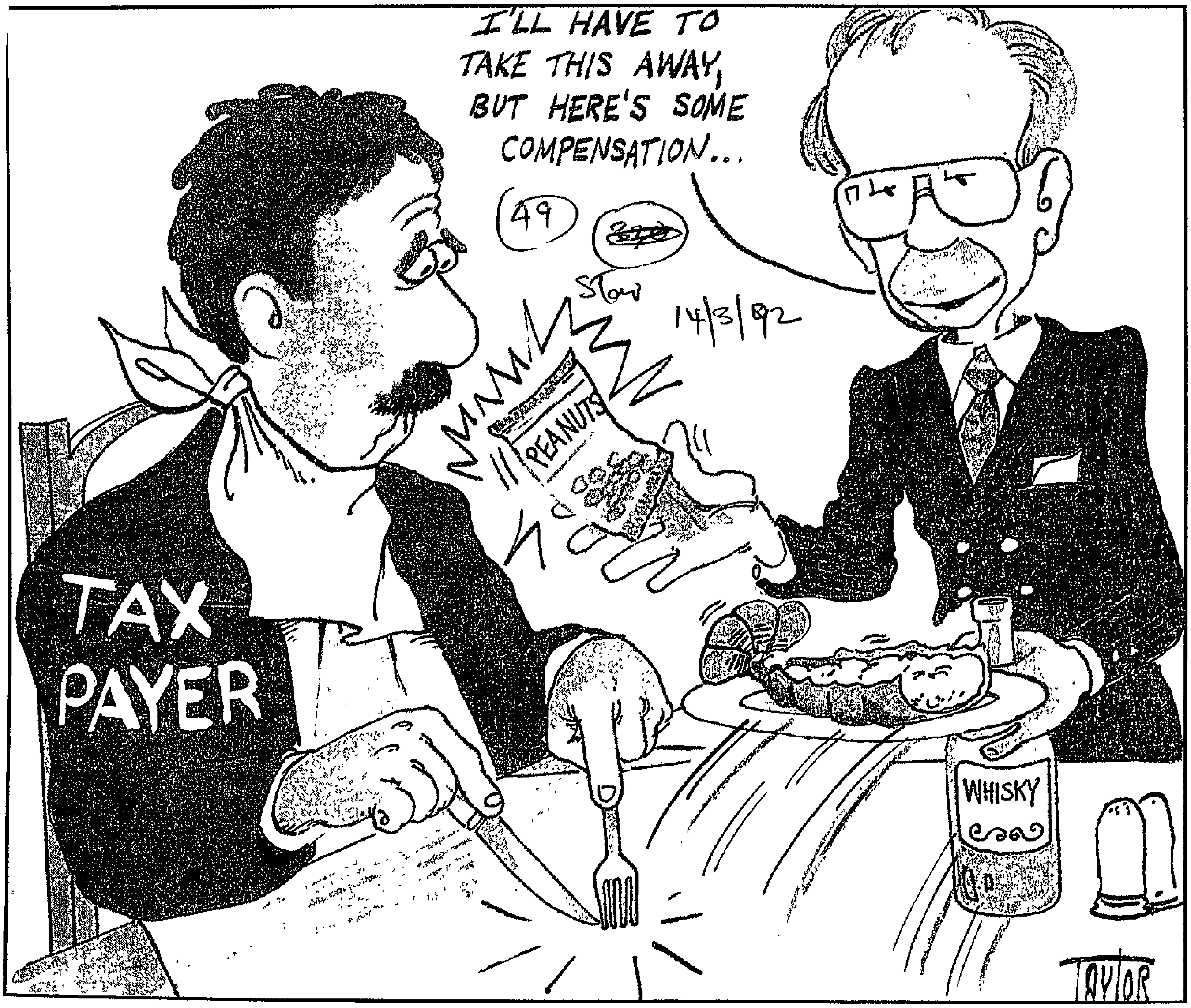
Fuel levy

Petrol has become Barend's du Plessis's favourite source of income tax, very much in line with world trends.

Despite the recent increases in the fuel levy, the tax paid on SA's petrol is still relatively low by world standards.

It is also an almost invisible tax.

Other sources of revenue could include a capital gains tax on property and share dealing transactions, a loan-levy on "wealthy" taxpayers, as well as a minimum tax on companies.


I'LL HAVE TO TAKE THIS AWAY, BUT HERE'S SOME COMPENSATION...
49
14/3/92
PEANUTS
TAX PAYER
WHISKY
TAYLOR

Germans say: Join us in prosperity link-up

STimes 15/3/92

By CHARLENE SMITH

EUROPE'S most powerful country is offering South Africa a dramatic and beneficial "special relationship" — but only if there is a "yes" vote on Tuesday.

A resolution adopted this week by Germany's three governing parties promises South Africa a "fair and active" economic partnership on all levels.

It also proposes the ending of all sanctions, including the oil embargo but not the arms embargo.

The parties want to encourage the emergence of a regional economic centre in Southern Africa and propose a co-operation agreement to help the country during the transition phase to democracy.

Full details of the tantalising plan are not available but Mr Michael Schmunk of the German Embassy in Pretoria confirmed the intention was to develop a full relationship between the European Community and SA as soon as a non-racial government was in place.

"We are considering whether SA should be defined as a Third World country so it can receive aid on that basis. Alternatively, we could assist meantime with cross-border aid projects which would include several projects to neighbouring countries."

Mr Schmunk said his government was looking at direct economic aid and it could become a reality if there was a positive referendum result.

Germany is also keen to re-establish cultural ties with South Africa and as a first step is considering founding a Goethe Institute for the study of German language and culture.

Professor Karl-Heinz Hornhues, deputy chairman of the co-governing Christian Democrat parliamentary caucus, called on the German government

□ To Page 2

'f P'W's last : Page 4

Germany offers SA help

□ From Page 1

and the EC to help the reform process in South Africa "so that the way to a democratic future becomes irreversible".

"The emergence of a regional economic centre in a democratic, socially stable and economically attractive South Africa is also of interest for the European Community and calls for a concrete European co-operation offer, especially in the transitional phase," he said.

In rare agreement, all German parties backed increased aid to SA if there was a "yes" vote on Tuesday.

He said the referendum offered a "great historical chance for the 'guardians of the grail of apartheid' to be finally pushed back and for SA to take a big constitutional jump forward to open the door for a democratic future for all members of the population".

The European Parliament in Strasbourg also made it clear on Thursday that "a positive vote on March 17 will open the possibility for the rapid removal of all further restrictions on normal relations, other than the arms embargo".

On the same day, a special debate in the German Bundestag backed the lifting of the oil embargo against South Africa — again only if the referendum has a positive result.

The total lifting of the 1985 embargo will need the backing of the EC, and indications are strong that this will be given in return for a strong pro-reform vote on Tuesday.

A strong "yes" vote will also give impetus to a scheduled meeting in April in which the EC Industrial Council of Ministers will discuss ways to enhance SA's entry to EC markets.

(News by Charlene Smith, 11 Diagonal Street, Johannesburg)

Essential guide to economy

S/Times (CM) 15/3/92

ESSENTIAL reading for all business people in the Western Cape is the new Wesgro publication titled South Africa's leading edge? — A guide to the Western Cape economy

It takes an in-depth look at the regional economy and its strategic role in the future of the country

The 132-page book draws on the knowledge of more than 300 regional experts and leaders to present an invaluable guide to the current structure and future growth areas of the region.

It covers key issues such as: physical resources, current population structure, regional economy in national perspective, with important sectors in more detail, housing and social services, physical infrastructure, local government and politics, growth prospects and challenges in the 1990s. (49)

The book is well-illustrated with graphs, diagrams, maps and tabulation of vital data.

The publication is a by-product of the Growing the Cape project, launched in November to identify a range of strategies to accelerate the development of the regional economy.

In the first phase of the project, information relating to the Cape economy was gathered to create a baseline of understanding, and this guide is based on the work done then and since updated.

The second phase — now under way with a workshop on April 1 — aims to assess ideal players, individually and in concert, to capitalise on these trends and opportunities.

The book is published in A5 soft cover and will be available at all leading booksellers from March 24 Price and other details from David Bridgman of Wesgro on ☎ (021) 45 3201

NEWS ROUND-UP

ANC rallies youth for Budget action

S/Times 15/3/92 (49)

BLACK school pupils have been urged to be "militant in a disciplined manner" during Wednesday's mass action against the Budget.

ANC Youth League president Peter Mokaba said pupils were expected to report for classes and get involved in protests after school hours.

He said the league had debated the possibility of a stayaway but there had not been enough time for effective organisation.

Mr Mokaba said the league had urged its white members to "do anything within their powers" to ensure that the country did not go back to the days of apartheid — but he refused to used the word vote.

But this did not mean it supported President FW de Klerk's "trick".

He said Mr De Klerk had forced blacks into a corner where they had no choice but to support him.

"We are concerned that FW has put Codesa at risk and interpret the referendum as negotiating in bad faith."

He warned right-wingers that firm action would be taken if a "no" vote won.

Business told of serious implications of 'no' vote

STimes (CM) 15/3/92 (49)

THE Cape Town-based Life Office Association (LOA) and the Cape Town Chamber of Commerce are among prominent local organisations warning that a "No" vote in Tuesday's referendum could have serious repercussions on investment and the inflow of foreign funds.

The LOA warns that the link between investment and insurance policies could be affected.

It says in a statement: "A No vote outcome could have such a seriously negative impact on the investment markets, which influence the underlying values of policies, that the benefits arising from these policies or pension funds could be significantly impaired."

Another warning on investment comes from the South African Chamber of Business (SACOB), which says that as a major employer organisation representing 102 chambers of commerce and industry and 70 national associations it does not get involved in party politics.

However, it points out that because of the decisive role of investment — both foreign and local — in a return to a substantial growth path, South Africa cannot afford to be isolated again from the world economy and its capital resources.

It says this was confirmed by a recent International Monetary Fund report on South Africa which concluded that "if economic growth were to be raised to about 3,5% a year — or to the minimum rate that would be required to reduce the level of unemployment given the rapid prospective growth of the labour force — the investment-to-GDP ratio would have to rise to about 27% from its present level of 19%".

SACOB says that to achieve these economic results requires a high level of confidence both in South Africa and abroad — coupled with a minimum of uncertainty.

The referendum will play a major role when companies assess the political risk of doing business in South Africa, and the result should strengthen and not weaken business confidence so as to enhance investment, job creation and the addressing of urgent social needs.

SACOB adds that the referendum outcome could also have important implications for Southern Africa as a region, as it would have to be attractive to overseas business people in a highly competitive world.

The Cape Town Chamber of Commerce president, Kenneth Marcus, calls on the Cape Town business community to support a "Yes" vote in the referendum.

In a statement following the chamber's executive council meeting, he says the chamber supports SACOB's view that the referendum should strengthen and not weaken business confidence.

"This chamber has consistently advocated the abolition of apartheid and the involvement of all representative leaders in negotiations for a new constitutional dispensation in South Africa.

"The business community cannot afford to stand on the sidelines but, in its own self-interest, has to facilitate the promotion of peaceful political reform in the country

"SACOB and others have warned that South Africa cannot afford to be isolated from the world economy, its capital resources and its markets.

"South Africa will have to compete strongly for its share of international capital, and the decision in the referendum will play a major role when companies assess the political risk of doing business in South Africa."

Mr Marcus says it is "vitally important" for every qualified voter to register his or her vote in the referendum.

He appeals to all business concerns to make it as easy as possible for staff members to vote on Tuesday.

Top businessmen warn of job losses if 'no' vote wins

S Times 15/3/92.

(49)

By BRIAN POTTINGER and CHARLENE SMITH

A SCIENTIFIC poll of top SA businessmen this week shows the overwhelming majority expect plunging profits, retrenchments and isolation as an immediate consequence of a "no" vote.

Many companies indicated that whole areas of business would come to a standstill, because foreign licensing arrangements would end with the imposition of sanctions.

Estimates of unemployment as a direct and immediate consequence of a "no" vote ranged from a modest three percent of staff to 30 percent.

The poll — the most comprehensive survey yet of business sentiment on the referendum — was conducted among 120 companies by Research Surveys of Cape Town.

The questionnaires were answered by chief executive officers or top executives.

Almost all executives feared a "no" vote would cripple foreign trade contacts at a national and company level — particularly in agriculture, manufacturing, travel and tourism.

Drop

Ninety percent believed it would affect their companies. Many believed they would be denied technological exchanges, technological support and licensing contracts.

The overwhelming majority confirmed it would affect their investment decisions and expected a drop in company turnover. Only two percent of those polled said they felt "positive" about a "no" vote

Many adopted a "wait-and-see" attitude on what the effect of a "yes" vote would be

Half of the businessmen were neutral on whether a "yes" vote would improve consumer spending and employment. Many more were confident, however, that it would help social stability

Impact

The poll reflects the deep concern among South African businessmen — particularly the larger corporations — about the effect of a "no" vote on the economy.

In the last two weeks a number of top companies have written to employees advising them of the negative impact of a "no" vote on the company and possible risks to their jobs.

Mr Peter Searl, chairman and MD of Volkswagen, advised white employees that if the world decided to act against South Africa following a "no" vote in the referendum, virtually all export business would be lost overnight, probably resulting in thousands of jobs being lost in the Eastern Cape.

A "no" vote would mean the imposition of penalties, sanctions and punitive action that would make previous measures "look like a picnic", Mr Searle said.

Sasol told workers that if sanctions were reimposed, up to 6 000 people at Sasol One and Sigma could lose their jobs.

Johannesburg Consolidated Investment chairman Pat Retief, in a letter to employees, said: "If we cannot sell our production because of reimposed sanctions both your job and my job will be threatened. Continued reform is important because it is the only way to free the economy so it can grow."

Simpson McKie Inc, major JSE stockbrokers, said that, while they were not in the business of party politics, they knew about local and international financial markets.

Hope

They warned a "no" vote could result in the massive destruction of wealth, whether shares, mutual funds/unit trusts, retirement annuities, pension funds, gilts or property.

"There will also be little hope of a subsequent recovery, and a big increase in suffering by way of even worse unemployment."

Mr Andries Beyers, Conservative Party chief secretary, hit back at employers urging their workers to vote "Yes".

He said it amounted to "intimidation" and warned that a record was being kept of those companies and they should not be surprised if, after this "interference" in the democratic process, steps were taken against them.

(News by Brian Pottinger and Charlene Smith, 11 Diagonal Street, Johannesburg)

Business and labour unite to find solution to economic woes

(49)

By EDYTH BULBRING
Political Reporter

REPRESENTATIVES of organised business and labour have drawn up a proposal for a body which will negotiate economic solutions for the country and are confident the government will agree to participate.

A draft proposal for an economic forum, drawn up by a five-person group representing employers and unions, is to be presented to the government for its consideration before the end of April.

S Times 15/3/92

Approval

Among the participants are the South African Chamber of Business, Seifsa, Saccola, AHI, Cosatu, Nactu and Fedsaw.

At present, the draft is being circulated among business and labour organisations for approval.

The key to the proposal is that all decisions will be reached by consensus. Once an agreement has been reached, all parties will be bound to implement it.

The proposal says that, in recognition of the economic challenges facing the country, business and labour believe the major economic stakeholders need to develop co-operative mechanisms for addressing them.

"Organised labour, organised business and the governing authority have a central role to play in developing strategies geared towards the generation of sustained economic growth, the elimination of distortions in the economy, stability and addressing social needs," the document states.

The draft proposes the body would be operative for the transitional period and it should focus on short-term challenges and the formulation of a long-term economic framework.

Mechanisms would be created to ensure the consensus areas were practically implemented.

Growth

The document states that, while accepting that Codesa was not the appropriate structure to deal with the economy, some co-ordination between political and economic change would be necessary.

Proposals from the business organisations for the agenda of an economic forum are:

- Macro-economic restructuring, focusing on the need for economic growth, development and job creation;
- The development of a balanced industrial strategy aimed at turning SA into an export-orientated economy;
- Monetary, fiscal and other policy stances necessary to bring macro parameters such as inflation, interest rates and the external value of the rand in line with an outward-looking economy, and which will ensure economic stability over time; and
- Pubic sector reform, includng tax and expenditure reform.

On the list of labour's proposed agenda are: economic restructuring, including trade and tariff issues; retrenchments; employment and job creation; VAT and taxation; worker rights; pensions and provident funds; institutionalised collective bargaining and investment.

Political focus on Cape Town

St Times (CM) 15/3/92

By NORMAN WEST
Political Reporter

CAPE TOWN is to be the political focal point this week with events both inside and outside Parliament vying for attention.

Between noon and 1pm on Wednesday chief referendum officer Mr P J Colyn will announce the results of Tuesday's whites-only referendum at an international press briefing in an auditorium of the Verwoerd Building opposite Parliament.

After a lunch break, Mr Barend Du Plessis, Minister of Finance, will deliver his 1992 Budget speech.

Both the referendum results and the contents of the budget will be broadcast on radio and TV and keenly analysed by stock market watchers.

At the same time as Mr Du Plessis' official speech, the ANC will hold its "alternative" budget debate on the Grand Parade.

It will be a symbolic gesture, as was made when the ANC held its "People's Parliament" simultaneously with Mr De Klerk's opening of this year's session of Parliament on January 24.

(49)

The ANC's "People's Budget" — a joint effort by the tripartite alliance of the ANC/SACP/Cosatu on the Parade will be addressed by ANC Secretary-General Mr Cyril Ramaphosa.

Other speakers will be ANC Western Cape regional chairman Dr Allan Boesak, Chief of Staff of Umkhonto We Sizwe, Mr Chris Hani, Welfare Department chief Mrs Winnie Mandela and Cosatu officials Mr Jay Naidoo and Mr John Gomomo.

As happened with the opening of Parliament, the Grand Parade activities will culminate in a march to Parliament.

Organisations and unions particpating in the march will draw up demands in a symbolic "People's Budget" to be "presented" to Parliament as was the "People's Parliament Bill" on January 24.

ANC spells out plan for state spending

(49)

S Times 15/3/92

By EDYTH BULBRING
Political Reporter

EQUAL pensions for all races, a drastic cut in the defence budget and the abolition of all duplicate apartheid structures are some of the proposals the ANC has for a national budget — should it take control of SA's coffers.

ANC economics department head Trevor Manuel spelt out the ANC's priorities for expenditure, cuts in the budget and proposed sources of revenue this week.

He was speaking ahead of Wednesday's budget that will be presented by Minister of Finance Barend du Plessis.

Taking a pragmatic approach to social expenditure, Mr Manuel said equalisation at present white levels in the areas of health, welfare, education and housing was untenable in the short term, but parity at sustainable levels would be the ANC's objective.

He said the ANC would not necessarily introduce an increase in the percentage of the budget allocated to social spending. Rather there would be a redirection of available resources.

Expenditure on health, which the ANC would put at 10 percent to 11 percent of the budget, would be redirected to primary health care with less emphasis on tertiary institutions.

There would be a similar approach to education with a reorientation towards primary and secondary education in addition to redressing the imbalances of apartheid.

While equalisation at present white levels was untenable, substantial resources would have to be redirected to black schools and an integrated strategy was crucial to solving the crisis in education.

Mr Manuel said priorities for immediate expenditure would be an increased allocation for poverty, food and drought relief, job creation and a comprehensive AIDS programme.

Pensions would be equalised on a par with white pensions immediately at a cost of over R2,5-billion, he said.

Abolition

Regarding sources of revenue, the ANC foresaw public expenditure at 35 percent of GDP which is slightly above current levels and put its deficit before borrowing at two percent to five percent of GDP.

A saving of about R3,7-billion a year would be made through abolition of all apartheid duplications, he said.

Defence expenditure would also be reduced from 4,3 percent to two percent of GDP and the ANC would take a serious look at a trimmer public-service wage bill.

It could also raise additional revenue by increasing user charges for certain facilities in appropriate areas at a tertiary level. A capital gains tax was being investigated, but it would be fair and reasonable in order to prevent tax avoidance, Mr Manuel said.

Other areas of revenue were possible taxes on certain luxury goods which would be dedicated to an area of social expenditure.

An increase in the fuel levy in the short term could also be considered — taking into account the effect on inflation.

De Klerk, Swedes discuss regional hopes

(49)

CT 16/3/92

PRESIDENT F W de Klerk said on Friday he could foresee growing Swedish involvement in the South and southern African economy.

He was speaking at Tuynhuys shortly after meeting a high-powered delegation of Swedish industrialists and businessmen.

A good win for the 'yes' vote on March 17 would give fresh impetus to the constitutional process, providing the basis for real development in SA.

De Klerk said he did not ask the Swedes for any specific commitments.

Sweden, as one of the most important industrial countries of the world, would "like to have a reasonable share in the exciting developments" in SA.

The leader of the Swedish group, Harry Faulkner, said the discussions had been open and constructive.

Sweden would first have to lift sanctions before investment could occur.

Sweden would also have to be assured of long-term stability in SA: "We need a clear picture of which economic system you want to adapt in SA. We'd also want to know what kind of economic returns will prevail."

A code of investments would have to be drawn up. — Sapa

Few tax changes seem likely

B/Day 16/3/92 (49)

GILLIAN HAYNE

ALTHOUGH much is needed to boost Revenue's coffers, it is unlikely that any major tax changes will be announced in the Budget on Wednesday, tax experts say.

They believe politics and broad economic issues will dominate Finance Minister Barend du Plessis' speech and that unpalatable tax measures will be left for a less politically volatile mini-budget.

The fact the Budget is not being used by government as a political tool to sway voters' opinions in the referendum is regarded as an indication of how few concessions will be made. President F W de Klerk has already warned it will be "tough and difficult", and that government has little room to manoeuvre.

Ernst and Young tax partner Ian MacKenzie says the often mentioned capital gains tax will probably be discussed but not implemented. He believes draft legislation and an open discussion period will precede a final decision.

Delayed implementation would give taxpayers a date by which to value their assets and arrange their affairs before becoming liable for the tax

KPMG Aiken and Peat tax partner Hennie Coetzee says capital gains is not a lucrative or efficient source of income for the fiscus but makes sense politically, because it would be seen to tax the wealthy

It would have to be implemented as a

☐ To Page 2

Budget

B/Day 16/3/92 (49)

☐ From Page 1

fait accompli if the fiscus is to benefit, says BDO Spencer Steward tax partner Matthew Lester.

Du Plessis has promised that company and personal tax rates will not rise in the current financial year, but are unlikely to fall. Lester said there was a possibility of a tax surcharge being added to tax liability to increase revenue without increasing the tax rate. MacKenzie says market talk that Revenue would introduce a minimum tax on companies is a self-perpetuating rumour "With many incentives gone, there is no need for a minimum tax"

With major changes in direct taxes unlikely, the fiscus is bound to look at indirect taxes to boost its cash flow The tax consultants spoken to unanimously agreed the VAT rate would not be tampered with. But they predicted it would rise by 1% to 2% later in the year, either in a mini budget or when the Income Tax Act is promulgated in June or July

This leaves petrol and luxury items as the likely source of higher levies.

Coetzee says government will also target tax shelters, and tighten up on tax avoidance opportunities

With scope for new taxes thin, and diligent policing already in place, the closing of loopholes in tax legislation seems the only way to boost revenues It is also one of the two remaining areas suggested by the Margo Commission which has not been acted upon

Coetzee says it is likely the current method of calculating the average rate of tax at which lump sum payments are taxed on retirement may be changed At present, with a little tax planning, the average rate can be as low as 15% for a highly paid executive If the calculation is measured over three years, as suggested by Margo, the fiscus will benefit

It is also possible that Revenue will split individual activities into passive and active categories, which cannot be mixed Under this method, an individual would no longer be able to reduce his other remuneration through the loss made on his tax shelter. The use of trusts may also come under the spotlight (another of Margo's suggestions), although how Du Plessis will approach the issue is unclear

Consensus wanted in economic forum

B/Day 16/3/92 49

PROPOSALS for a national economic forum, drafted jointly by organised business and labour, envisage the forum making decisions purely on the basis of consensus — an arrangement which would rule out the unilateral imposition of controversial policies.

The proposals, drawn up by representatives from Sacob, Saccola, the Afrikaanse Handelsinstituut, Cosatu, Nactu and others, are being circulated among organisations for approval. They have yet to be presented to government.

The draft insists that decisions should be taken by consensus, which it specifically says will not be possible on all issues.

In the event of dispute, there would be no resort to arbitration — effectively making it impossible, for example, for unions to force nationalisation on business.

Mechanisms for translating forum decisions into law still have to be found. But it is envisaged that it will be encumbent on government to make changes to legislation, where appropriate, when consensus is reached.

TIM COHEN

The envisaged terms of reference of the forum prescribe that it will focus on national economic structures, their current distortions and socio-economic needs.

The body would also concentrate on economic restructuring, but the proposals include the proviso that any adjustments should have the support of all stakeholders.

The forum would, in the first instance, focus on short-term challenges.

The envisaged principal participants would be representatives of organised business, labour and government. All groups taking part would have equal representation.

The forum would have a permanent secretariat accountable to a steering committee and would be funded by public funds once it was permanently established.

Business and labour attached separate proposals for agendas.

The labour proposal suggests the agenda should cover economic restructuring, in-

To Page 2

Forum

B/Day 16/3/92

49

From Page 1

cluding trade and tariff issues, retrenchments, unemployment and job creation

Labour also proposes the forum cover VAT and taxation, worker rights, pension and provident funds, investment and institutionalised collective bargaining.

The business groups proposed the agenda should include macro-economic restructuring, a balanced industrial strategy and public sector reform

To create a climate conducive to an adequate flow of resources to the most efficient productive areas, business proposed that the forum focus on investment and investor confidence, adequate savings levels, education and training the promotion of small and medium size business and productivity improvement

Business also proposed a focus on appropriate mechanisms to promote economic empowerment of disadvantaged communities

No tax hikes in ANC's budget

BDay 16/3/92 (49)

TIM COHEN

THE ANC was not calling for a significant increase in the overall tax rate, nor for an increase in the corporate tax rate, ANC department of economic planning members said at the weekend.

But they added that it did propose cutting public servants' salaries, halving the defence budget and fundamentally restructuring the scheme of tax incentives for business.

And tertiary education's share of the total education budget should be slashed from 28% to 10%.

The department members said the ANC also believed in food aid schemes, a drought relief scheme, equalisation of pensions, the zero-rating of basic foods and services and an investigation into public works programmes to improve the unemployment situation.

ANC department of economic planning head Trevor Manuel and budget specialist Viv McMenamin set out these proposals in an interview at the weekend in anticipation of the presentation of the Budget on Wednesday.

McMenamin said the ANC was not looking for an overall increase in the size of the health and education budgets, although the way the money was spent within these departments needed to be fundamentally restructured.

Manuel said the one department which needed significant increase in its allocation was housing, suggesting that current spending on housing — which amounts to about 2,6% of GDP — should be increased to about 3,5%.

The ANC was calling for the defence budget to be slashed from 4,3% of GDP to about 2%.

The ANC was critical of the "gross mismanagement" of public funds, and was investigating the establishment of a court of audit, as existed in Germany, to curb corruption.

While it was not possible to raise the overall tax burden significantly, SA's tax structure could and should be rearranged.

The ANC proposed a capital gains tax to be introduced at a "reasonable level", which they said would produce about R500m in revenue.

The overall tax burden should be between 30% and 38% of GDP. With the current tax burden about 28% of GDP and the budget deficit estimated to be at about 4,5%, "we are within a very limited framework," McMenamin said.

"Raising revenues by increasing taxes would not be prudent and would probably be destructive in relation to growth," he said.

The budget deficit should be kept at a reasonable level, within the IMF's proposals of between 2% and 4% of GDP.

The ANC noted an increase in public servants' wages from about 7% of GDP in 1960 to about 12% now, with notable jumps in salaries before elections. McMenamin said President F W de Klerk should be commended for not doing the same thing before the referendum.

The income generated by the elimination of apartheid duplication of departments would amount to about R3,7bn. This saving would not require a decrease in the overall number of public servants.

The food aid campaign should be aimed at pre- and primary school children and mothers with newly born children. The ANC recognised the cost would be substantial.

The ANC was not proposing that more be spent on education, but there should be more emphasis on primary education, with expenditure on primary education being increased from 47% to 60% of the allocation, secondary decreasing from 33% to 30% and tertiary being slashed from 20% to 10%. This rearrangement ought be be coupled with a system of user charges.

Comparative figures with other countries showed that SA was not achieving the standards it should, given the expenditure in the fields of education and health. Consequently, there was a great deal of room for improvement.

Consensus will rule SA economic forum

$(49) CT 16/3/92

From TIM COHEN

JOHANNESBURG. — Proposals for a national economic forum, drafted jointly by organised business and labour, envisage the forum making decisions purely on the basis of consensus — an arrangement which would rule out the unilateral imposition of controversial policies.

The proposals, drawn up by representatives from Sacob, Saccola, the Afrikaanse Handelsinstituut, Cosatu, Nactu and others, are being circulated among organisations for approval. They have yet to be presented to government.

The draft insists that decisions should be taken by consensus, which it specifically says will not be possible on all issues.

In the event of dispute, there would be no resort to arbitration — effectively making it impossible, for example, for unions to force nationalisation on business.

Mechanisms for translating forum decisions into law still have to be found. But it is envisaged that it will be encumbent on government to make changes to legislation, where appropriate, when consensus is reached.

The envisaged terms of reference of the forum prescribe that it will focus on national economic structures, their current distortions and socio-economic needs.

Proposals axe dispute option of arbitration

The body would also concentrate on economic restructuring, but the proposals include the proviso that any adjustments should have the support of all stakeholders.

The forum would, in the first instance, focus on short-term challenges.

The envisaged principal participants would be representatives of organised business, labour and government. All groups taking part would have equal representation.

The forum would have a permanent secretariat accountable to a steering committee and would be funded by public funds once it was permanently established.

Business and labour attached separate proposals for agendas.

The labour proposal suggests the agenda should cover economic restructuring, including trade and tariff issues, retrenchments, unemployment and job creation.

Labour also proposes the forum cover VAT and taxation, worker rights, pension and provident funds, investment and institutionalised collective bargaining.

The business groups proposed the agenda should include macro-economic restructuring, a balanced industrial strategy and public sector reform.

To create a climate conducive to an adequate flow of resources to the most efficient productive areas, business proposed that the forum focus on investment and investor confidence, adequate savings levels, education and training, the promotion of small and medium-size business and productivity improvement.

Business also proposed a focus on appropriate mechanisms to promote economic empowerment of disadvantaged communities.

Business calls for immediate tax cuts

STAR 16/3/92

(49)

By Derek Tommey

Strong pressure is being put on the Government by business to give the economy a kick start by lowering income tax in this week's Budget.

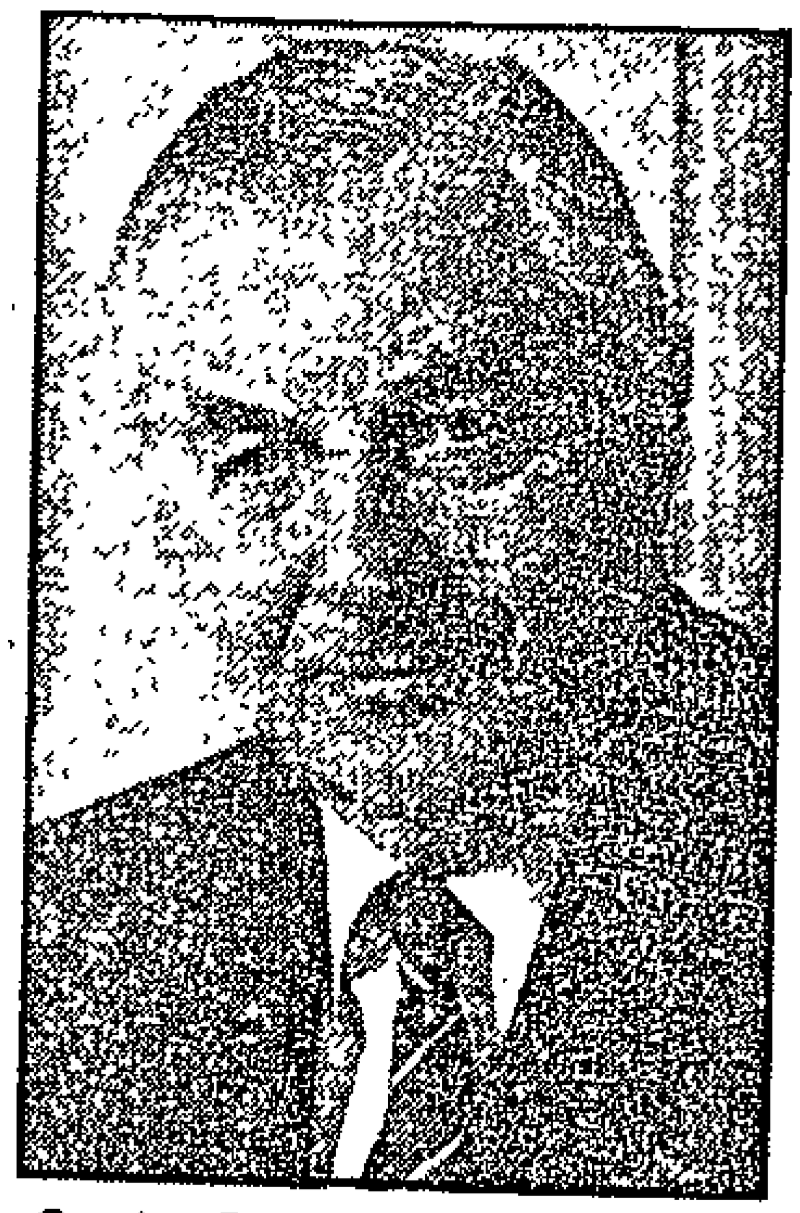
The call made today by Gavin Relly, chairman of AECI, is his annual statement to shareholders for an immediate boost to growth and employment, is representative of the appeals being made to the Government by heads of industry.

Mr Relly does not call directly for a cut in tax, but says the need for an immediate boost to the economy is even more acute now than a year ago because manny of SA's trading partners are mired in recession.

"Progress in implementing major programmes to reduce backlogs in housing, education and electrification has been painfully slow as many of the impediments remain unresolved," he says.

Other businessmen who have been hit by economic sluggishness and especially by the four percent drop in retail sales in real terms last Christmas have been making similar representations and urging a cut in income tax.

The South African Chamber of Business (Sacob) has even



Gavin Relly . . . immediate boost needed

suggested that income tax tables should to be changed right after the Budget (instead of waiting until June, as usually happens) so that the reductions it wants will have an immediate effect.

One reason business is seeking tax cuts is that the Reserve Bank has made it clear it has no intention of cutting interest rates to stimulate the economy.

While a small reduction in rates may be in the offing to help confidence, there is no likelihood of major cuts.

It seems, therefore, that the only way the economy can get an immediate boost is by lowering taxes.

This, in fact, is becoming a matter or urgency because one of the main causes of the recession is the persistent over-taxation of South Africans in recent years.

Every Budget Day the Minister of Finance stands up in Parliament and announces a cut in income tax rates.

But every year taxpayers end up paying more because the tax rates have not been lowered enough to offset the effects of inflation.

Last year this resulted in South Africans paying three to six percent more tax than the previous year.

While a three percent rise in tax payments in real terms may not seem all that much, it mounts up when it happens year after year.

In 1985-86 a person earning R20 000 a year paid 19,2 percent of it in tax.

Last year a person earning the same amount in real terms paid 24,5 percent in tax.

The average rate of tax of someone earning R40 000 in 1985-86 was 28,8 percent. Last year the average tax rate of someone earning the equivalent amount was 32,8 percent.

This highlights the steady transfer of wealth from the ordinary person to the Government in recent years and helps account for much of the sluggishness in the economy

However, there seems a good chance that this wealth transfer is about to be reversed.

President FW de Klerk said at the opening of Parliament in January that the Government would do all it could to reduce tax.

And the drastic cuts that are being made in government spending suggest he is trying to keep his word.

Last week he warned that the Budget could be a tough one.

But these remarks are seen as applying more to the public service and other bodies dependent on state spending.

Another reason why a tax cut seems likely is that with the economy so seriously underperforming, any improvement in activity should lead to enhanced revenues.

So any loss of revenue as a result of tax cuts could soon be recovred.

Finally, as this week's referendum has been showing, the National Party is increasingly dependent upon the support of English-speaking South Africans.

If it wants to woo them further, a cut in income tax would be one of the main ways of doing so.

Threat to the budget

(49)

CT 17/3/92

Political Staff

PRESIDENT F W de Klerk's promise that he and the National Party government would resign should he lose the referendum could result in tomorrow's budget not being presented.

With the referendum result only being known at about noon tomorrow, barely four hours before the budget speech, there could be a crisis.

The long hours of hard work by the Finance Department over the past months to continue planning a reform budget could be in vain should the "no" vote gain a majority today.

Yesterday Department of Finance director-general Mr Gerhard Croeser said the department had not contemplated the problem and had made no contingency arrangements should there be a "no" majority.

At the beginning of the short referendum campaign Mr De Klerk said the budget would go ahead as planned. NP secretary-general Dr Stoffel van der Merwe was adamant that the budget would not be delayed or shelved following a "no" majority.

But CP leader Dr Andries Treurnicht was equally adamant that the government would not be able to present the budget.

DP finance spokesman Mr Ken Andrew said the government would be in an invidious position trying to present a budget when the government had lost its credibility and all parties were involved in fighting a general election.

Mr Croeser said the department had spent "endless hours over months" drawing up the budget and staff worked until 5am every budget day finalising Finance Minister Mr Barend du Plessis's speech.

If the government resigned it would imply that the budget could not be presented. However, his department was "just going ahead as if it will be presented normally", he said.

Budget uncertain if 'no' vote wins

(49)

BILLY PADDOCK

CAPE TOWN — President F W de Klerk's promise that he and his government would resign should he lose the referendum could mean the Budget will not be presented tomorrow. BDay 17/3/92

The result will be known only at about noon tomorrow, just hours before the Budget speech is due to be made.

The months of work by the Finance Department in planning a reformist Budget could be in vain should the "no" vote win. Finance director-general Gerhard Croeser said yesterday the department had made no contingency arrangements.

At the beginning of the referendum campaign, De Klerk said the Budget would go ahead as planned, and NP secretary-general Stoffel van der Merwe is adamant it will not be delayed or shelved.

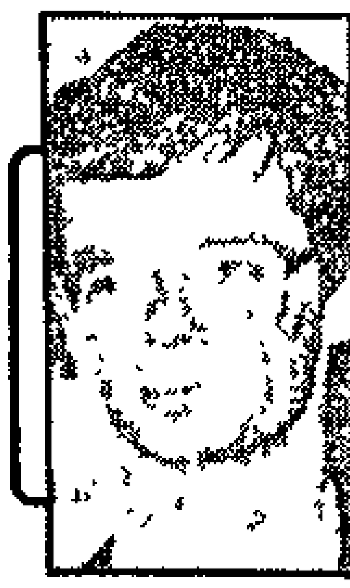
But CP leader Andries Treurnicht is equally adamant that government will not be able to present the Budget. DP finance spokesman Ken Andrew says De Klerk's government would be in an invidious position trying to present a Budget when it had lost its credibility and all parties were fighting a general election.

Croeser said it was not his decision to present the Budget but if government resigned, it would imply the Budget could not be presented as only a Minister could do so.

The mini-Budget had been passed and there was enough [illegible] available for existing services until the end of June. Should the passing of the Budget — which normally takes two months — not be completed by then, a second part appropriation would have to be passed. Croeser said that in previous years when there had been general elections the country had survived on a mini-Budget for nine months.

SA economic forum needed to represent all interests

(49) CT 18/3/92



ANC Viewpoint
by WILLIE HOFMEYR

AMID the sound and fury of the white referendum, Budget Day has lost some of its headline value this year. And yet the state of the economy and the issues surrounding the presentation of yet another unilaterally drawn-up budget is of central importance to the political and economic future of this country.

It is to highlight these problems that the ANC, Cosatu and the SACP have called for a national day of action on March 18. In Cape Town a symbolic People's Budget, consisting of demands from a wide variety of sectors, will be presented on the Parade, followed by a march to Parliament.

Economic crisis

Like the People's Parliament in January, its aim is to draw attention to the illegitimacy of the present tricameral system and to press for speedy progress towards interim government and democractic elections before the end of 1992.

The South African economy is in a state of deepening crisis, a crisis born of decades of misspending and the frivolous pursuit of ideological pipe-dreams. After three years of negative real growth, predictions of economic improvement in 1992 carry the warning that growth will at best be sluggish. Of greater concern is that trade, manufacturing, mining and construction — sectors which should have made the greatest contribution to job creation — have, in fact, seen more dismissals than any other.

Budget race bias

These pressures on an already struggling economy have been compounded by the introduction of VAT. As warned by the ANC and others, VAT has resulted in a sharp rise in inflation while the year on year rise in food prices is the highest in more than a decade, with an increase greater than 28% last year.

Lack of growth and high inflation represent a crisis in any economy. In South Africa, where about 40% of the population lives below the minimum living level, the consequences are appalling. Growing unemployment and rising food prices hit hard and fatally in communities already battling for survival — as shown among blacks, with one of every five deaths now due to malnutrition.

The Budget has always been one of the clearest reflections of the state's racial bias. Over the decades, more has consistently been spent on whites than on blacks and the gap has not been closed in the past two years. The exposure of slush-funding for CCB and Inkathagate has proven beyond doubt this government's misuse of public funds, while at the same time giving rise to some serious questions about the degree to which taxpayers' money is still being used for secret party-political purposes.

Add to this the demonstrably incompetent management of public funds detailed in the recent Auditor-General's report and it becomes clear that there is a need for urgent action on national scale.

And yet despite a serious loss of credibility and public confidence, the Minister of Finance remains ostentatiously reluctant to engage with other parties on economic issues. The high-handed way in which he and his government handled the introduction of VAT is testimony to this. And, despite the national costs of an expensive strike action based on predictions that are already being fulfilled, he shows little sign of having learnt his lesson.

Unilateral

Recently the government pulled out of a number of forums made up of a wide range of representative groups seeking to address crises in spheres such as housing, clothing and textiles on the spurious grounds that these matters must be handled by an interim government.

This position is totally unacceptable. The fact of the matter is, far from waiting for an interim government, the Nationalist government appears to be engaged in a unilateral and ill-thought-out attempt to restructure the economy while it is still in control. This has resulted in knee-jerk reactions which may well have to be reversed by a democratic government at great cost to the country.

The recent plans to cut expenditure and retrench teachers in the white education department is a case in point, as is the acceleration of the sale of State-owned land and forests. These decisions have been taken arbitrarily and without reference to how such changes will fit into a democratic social framework.

Legitimacy needed

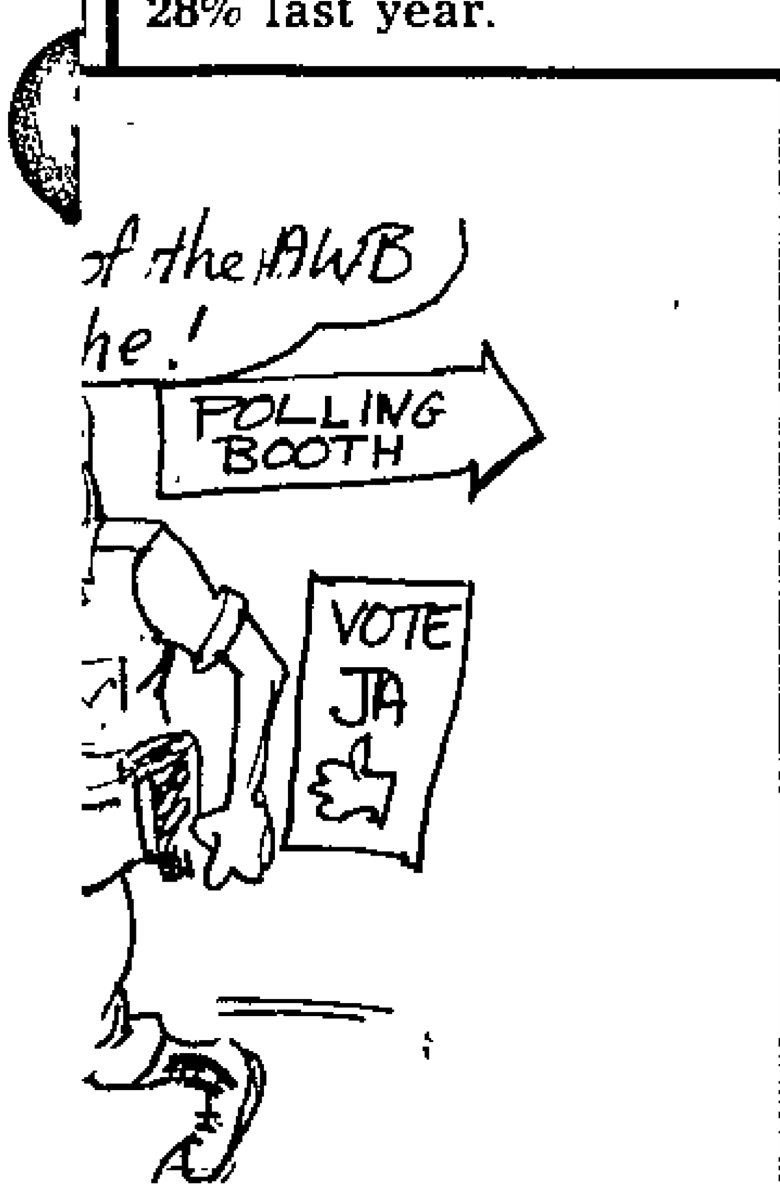
The need for a broad economic forum is evident. For some time now the ANC, Cosatu and other members of the democratic alliance have called for participation of all sectors in economic decision-making and planning. Not only has this government and the Parliament over which it presides demonstrated its total incompetence to manage the South African economy but it continues to act in apparent contempt for the disaster it has created.

Economic restructuring is a task demanding considerable skills and sensitivity — qualities the present government is clearly lacking. But, beyond even this, it is clear that any initiatives to restructure our seriously ailing economy must, to be effective, be seen to be legitimate and representative.

The attempt of a demonstrably illegitimate government to make decisions that will affect the future of people it has never represented are invalid and provocative.

Those who will be most affected have no reason to accept these decisions without protest.

☐ *Willie Hofmeyr is Assistant Secretary of the African National Congress — Western Cape Region.*



Experts will analyse Budget

LINDA ENSOR (49)

CAPE TOWN — Leading public and private sector representatives will analyse the Budget at a forum tomorrow. B/Day 18/3/92

The forum, to be co-chaired by Old Mutual chairman Mike Levett and Nedcor chairman John Maree, will include Finance director-general Gerhard Croeser, deputy director-general Estian Calitz, Inland Revenue commissioner Hannes Hattingh and Reserve Bank vice-president Jaap Meijer.

The ANC will be represented by Tito Mboweni and Inkatha by M Myeni.

SA economic forum needed to represent all interests

(49) CT 18/3/92

AMID the sound and fury of the white referendum, Budget Day has lost some of its headline value this year. And yet the state of the economy and the issues surrounding the presentation of yet another unilaterally drawn-up budget is of central importance to the political and economic future of this country.

It is to highlight these problems that the ANC, Cosatu and the SACP have called for a national day of action on March 18. In Cape Town a symbolic People's Budget, consisting of demands from a wide variety of sectors, will be presented on the Parade, followed by a march to Parliament.

ANC Viewpoint
by WILLIE HOFMEYR

Economic crisis

Like the People's Parliament in January, its aim is to draw attention to the illegitimacy of the present tricameral system and to press for speedy progress towards interim government and democractic elections before the end of 1992.

The South African economy is in a state of deepening crisis, a crisis born of decades of misspending and the frivolous pursuit of ideological pipe-dreams. After three years of negative real growth, predictions of economic improvement in 1992 carry the warning that growth will at best be sluggish. Of greater concern is that trade, manufacturing, mining and construction — sectors which should have made the greatest contribution to job creation — have, in fact, seen more dismissals than any other

Budget race bias

These pressures on an already struggling economy have been compounded by the introduction of VAT. As warned by the ANC and others, VAT has resulted in a sharp rise in inflation while the year on year rise in food prices is the highest in more than a decade, with an increase greater than 28% last year.

Lack of growth and high inflation represent a crisis in any economy In South Africa, where about 40% of the population lives below the minimum living level, the consequences are appalling. Growing unemployment and rising food prices hit hard and fatally in communities already battling for survival — as shown among blacks, with one of every five deaths now due to malnutrition.

The Budget has always been one of the clearest reflections of the state's racial bias. Over the decades, more has consistently been spent on whites than on blacks and the gap has not been closed in the past two years. The exposure of slush-funding for CCB and Inkathagate has proven beyond doubt this government's misuse of public funds, while at the same time giving rise to some serious questions about the degree to which taxpayers' money is still being used for secret party-political purposes.

Add to this the demonstrably incompetent management of public funds detailed in the recent Auditor-General's report and it becomes clear that there is a need for urgent action on national scale.

And yet despite a serious loss of credibility and public confidence, the Minister of Finance remains ostentatiously reluctant to engage with other parties on economic issues. The highhanded way in which he and his government handled the introduction of VAT is testimony to this. And, despite the national costs of an expensive strike action based on predictions that are already being fulfilled, he shows little sign of having learnt his lesson.

Unilateral

Recently the government pulled out of a number of forums made up of a wide range of representative groups seeking to address crises in spheres such as housing, clothing and textiles on the spurious grounds that these matters must be handled by an interim government.

This position is totally unacceptable. The fact of the matter is, far from waiting for an interim government, the Nationalist government appears to be engaged in a unilateral and ill-thought-out attempt to restructure the economy while it is still in control. This has resulted in knee-jerk reactions which may well have to be reversed by a democratic government at great cost to the country.

The recent plans to cut expenditure and retrench teachers in the white education department is a case in point, as is the acceleration of the sale of State-owned land and forests. These decisions have been taken arbitrarily and without reference to how such changes will fit into a democratic social framework.

Legitimacy needed

The need for a broad economic forum is evident. For some time now the ANC, Cosatu and other members of the democratic alliance have called for participation of all sectors in economic decision-making and planning. Not only has this government and the Parliament over which it presides demonstrated its total incompetence to manage the South African economy but it continues to act in apparent contempt for the disaster it has created

Economic restructuring is a task demanding considerable skills and sensitivity — qualities the present government is clearly lacking. But, beyond even this, it is clear that any initiatives to restructure our seriously ailing economy must, to be effective, be seen to be legitimate and representative.

The attempt of a demonstrably illegitimate government to make decisions that will affect the future of people it has never represented are invalid and provocative.

Those who will be most affacted have no reason to accept these decisions without protest.

□ Willie Hofmeyr is Assistant Secretary of the African National Congress — Western Cape Region

What Barend may pull out of the hat

(49) CT 18/3/92

By AUDREY D'ANGELO
Business Editor

THE Minister of Finance, Barend du Plessis, may surprise everyone by "pulling something unique out of the hat" today and reducing direct taxation, forecasts economist Glenn Moore, a director of Personal Trust.

He thinks there is a chance that this could happen "to set things going in the right direction" to compensate for an increasing tendency to charge users for services such as schools and roads.

"The budget will either be very imaginative or very boring."

David Clegg, a partner at the Cape Town office of international accountants Ernst & Young, thinks government revenues from company tax may be higher than expected in the current tax year.

He points out that, although many companies have reported lower profits, the disappearance of some tax shelters means that they will be taxed at a substantially higher rate.

Some companies which made use of tax shelters such as films and plantations — now gone — paid tax at rates of between 20% and 35%. "Now they are coming closer to the real 48%. We could be talking of megabucks."

But most economists and accountants expect today's budget to be a "holding" one, with a reformist tendency but no dramatic changes.

They point out that there will be little room for manoeuvre, with the government under pressure to increase spending on social services, housing and education and with revenues weakened by the recession.

Old Mutual economist Rian Le Roux said the Government deficit before borrowing was already uncomfortably high.

He expected a slight drop in the maximum marginal tax rate for individuals, but with nothing to offset fiscal drag so that in fact people would pay more.

He thought companies might be given relief in the form of higher depreciation allowances, to encourage capital investment, rathar than a tax cut across the board.

"Companies and individuals will probably get something in the budget, but not much."

It was possible that a capital gains tax in some form or other would be introduced. But it was more likely that customs and excise duties and the levy on petrol would be increased.

Danie Fölscher of international accountants Coopers, Theron du Toit, expects "a highly political budget.

"It will be a reformist budget as far as he can possibly go, but he has not a great deal of money to play with."

Fölscher thinks a capital gains tax very likely, "but he will probably aim at introducing it next year. I hope there will be some consultation first."

Glenn Moore said the tendency in coming years would be to make users pay for services. It was likely, for instance, that there would be many more toll roads and that people living in upper and middle income areas would have to pay more for services such as refuse removal.

Looking five years ahead the burden on such people would be very heavy — encouraging those with skills to leave the country — unless it was offset by lower direct taxation.

"The Minister might decide to set things going in the right direction by giving a concession tomorrow."

Ockie Stuart, director of the Stellenbosch Bureau for Economic Research, said Moore's argument was a solid one. But he doubted whether the Minister would take the risk of making "that supply-side gesture."

Taxes must be cut if at all possible. But this would be difficult when the government was faced with high necessary expenditure and revenues were weakened by the recession and the drought.

The deficit before borrowing was likely to be 4% of gross domestic product (GDP). And the economy was unlikely to show much growth this year, mainly because of the drought.

Dividend tax speculation

SPECULATION that a tax on dividends will be reintroduced in today's Budget has led many companies to take defensive action by distributing their general reserves.

Accounting firm KPMG Aiken & Peat tax spokesman Noel de Charmoy said yesterday the firm had advised clients to distribute their general reserves ahead of the Budget because of persistent rumours.

Although the source of the rumours could not be traced, the advice was given to "play it safe", said Charmoy If the tax were reintroduced, government would probably reintroduce undistributed profits tax, he said.

Taxes on dividends were scrapped in the 1990 Budget.

Ernst & Young spokesman Roger Bramwell concurred with this view, but he did not believe the tax would be introduced in today's Budget. Many companies had distributed their general reserves in anticipation of the eventual reintroduction of dividend tax, he said.

Frankel, Max Pollak, Kruger and Vinderine chairman Sidney Frankel said "no way" in response to the speculation.

Budget likely to hold little joy for taxpayer

BILLY PADDOCK

CAPE TOWN — Today's Budget is unlikely to hold much joy for the taxpayer as Finance Minister Barend du Plessis tries to juggle limited resources.

Revenue is extremely tight and the options for increasing the size of the cake are almost nil as government is constrained by political tensions not to increase VAT.

Du Plessis had promised taxpayers he would reduce personal and company tax by five percentage points over five years, but this year — the third — he might not be able to even give that, having backed down in the face of 1991's anti-VAT campaign.

He might choose to raise the threshold level of personal taxation as a hedge against inflation, but do little to contain the effects of fiscal drag.

The only areas left for Du Plessis to squeeze a bit more money from are the fuel levy and excise duties on liquor and tobacco. He is likely to announce increases in these.

Any extra funds from the further sale of strategic stockpiles he might have used to ease the burden and push into social spending, will be absorbed by the drought and the need to import maize and wheat.

The Minister is expected at least to keep social spending level in real terms, as any reduction would wipe out the small effects of the past two years' attempts to close the racial gap. (49)

Business Day will produce a special Budget edition tomorrow, including a supplement containing the full speech by Finance Minister Barend du Plessis. For all the Budget news, and expert analysis and opinion, don't miss Business Day tomorrow.

President F W de Klerk said last week the Budget would be tough and that there was "little room to manoeuvre". He also

□ To Page 2

Budget

BDay 18/3/92 (49)

□ From Page 1

said there was a great need to increase social spending, especially in the area of health and welfare.

It is expected that Du Plessis will announce that funds from own affairs administrations will increasingly be transferred to general affairs, as with education.

Poverty relief is expected to be increased and could be channelled through pensions equalisation.

A further major expense the Finance Minister will have to account for will be for the security forces and the new plan to combat crime.

Overall, he will continue the process of reform started two years ago. The trend will be to go for growth through further stimulus to export-orientated business.

New Economic Co-ordination Minister Derek Keys's influence will be seen in the Budget as it seeks new ways to stimulate the economy "and get a surge of growth we can build on", as one Minister put it.

● Comment: Page 8

Protest marches over Budget

Sowetan 18/3/92

49

Sowetan Reporters

MAJOR protest marches have been planned throughout the country to coincide with the tabling of the Budget in Parliament today.

In Cape Town the ANC, Cosatu and the SA Communist Party are to march on Parliament.

ANC veterans Mr Walter Sisulu, Mr Elias Motsoaledi and Mr Pallo Jordan will lead a similar march to John Vorster Square in Johannesburg.

And in the Northern Transvaal, Cosatu is expecting about 20 000 of their members to take part in a march on the Union Buildings this morning.

Cosatu's regional secretary, Mr Joseph Selau, said the march would start from Brown Street, Pretoria to the Union Buildings at 11am.

Northern Transvaal police spokesman Colonel Frank Alton said yesterday that Pretoria's chief magistrate and the city council had given permission for the march.

Withdrew

The Nactu yesterday withdrew from the ANC/SACP/Cosatu campaign.

Nactu said in a statement yesterday the alliance's unilateral action was based on demands not canvassed with Nactu's Witwatersrand region and that attempts by the region to reach an agreement with the alliance on demands had failed.

However, Nactu said it hoped the working relationship on other issues would continue.

Finance Minister Mr Barend du Plessis is expected to announce an austere Budget within minutes of the announcement of the result of yesterday's referendum.

Early speculation that the Budget would be postponed in the event of a "no" vote in the referendum was squashed this week by Du Plessis' office, which said preparations for the Budget to be tabled today were going ahead "as usual".

Speculation

Speculation was fanned by Conservative Party leader Dr Andries Treurnicht, who said that in terms of President FW de Klerk's promise — that he would resign if the "no" vote won the referendum — the country would go headlong into a general election, and which meant that the tabling of the Budget would have to be delayed.

The ANC-led protest march will nevertheless proceed, according to organisers. The march has been explained as a call for a negotiated Budget and an end to unilateral (Government) financial planning.

'Difficult' Budget confirmed

(49)

STAR 18/3/92

Political and Finance Staff

Finance Minister Barend du Plessis said this morning he would present a difficult Budget to Parliament later today.

"We approached the Budget with extreme care in order to put an instrument on the table that will not disturb either way the delicately poised economic situation we find ourselves in," he said.

Most economists are expecting the Budget to be hard-hitting.

Consumers could be faced with increases in the price of petrol, alcohol and cigarettes, and a loan levy cannot be excluded.

Some economists, including Dr Azar Jammine from Econometrix, believe a limited form of capital gains tax could be introduced.

Such a tax would apply to all profits on share dealing and property transactions, except private dwellings, it is thought.

The Government would be hard-pressed to continue on its stated tax reform path by dropping the top marginal rate by another percentage point, as it has done for the last two years.

But such a move is clearly needed to blow some life into the economy, which has recently sunk to even lower levels as a result of the drought and the uncertainty created by the referendum.

Adding to the gloom is yesterday's drop in the gold price to a six-year low.

The bullion price was fixed in London yesterday afternoon at $339/oz after a morning fix of $343,35.

● Japan sells gold — Page 18

- Page 11

R97-bn Budget likely as deficit hits R15-bn

(49) ARG 18/3/92

Business Staff

JOHANNESBURG. — Finance Minister Mr Barend du Plessis will deliver his eighth Budget speech today.

It will almost certainly be the last compiled by a Minister in a racially-exclusive parliament.

The forecast R97 billion Budget, a 12 percent increase in expenditure, will be presented against the background of a severe recession that began in the last quarter of 1989.

Revenues in 1992/1993 are predicted to be reach barely R81 billion, if current effective tax rates are unchanged.

The means that the budget deficit will reach an astronomical R15 billion, or 4,5 percent of gross domestic product.

But the minister is caught between a rock and a hard place — to limit the deficit to the desired 3 percent (R10,5 billion) would require sharp tax increases which could kill the economy.

In his Budget speech the Minister will likely paint a picture of huge unemployment, severely depressed business conditions and large-scale retrenchments.

Companies reporting in the past month have revealed pre-tax profits which have fallen by almost 50 percent.

Living standards have dropped and personal savings are at an all-time low — 2 percent of disposable income.

The cost of borrowed money remains high.

The drought is casting a deepening shadow over the country's growth potential — it could reduce GDP growth by 0,5 percent, lower the trade surplus by R2,5 billion and increase inflation by up to 1 percent.

The country's battered businessmen have pinned their hopes on tax cuts and a boost for business.

- There will almost certainly be hikes in excise duties on petrol (15c a litre) and luxury goods such as cigarettes, liquor and certain kinds of wine.
- If further concessions on food and medical services are given, the unthinkable could happen and VAT could be increased to 12 percent.
- Tax on dividends may be re-imposed.

Barend unveils 'people's Budget'

(49)

B/Day 19/3/92

BILLY PADDOCK

CAPE TOWN — Finance Minister Barend du Plessis unveiled a steeply progressive R100,676bn social conscience Budget yesterday, committing government to consolidation and fiscal discipline.

Announcing big increases in social spending and giving a commitment to eliminate all disparities in pensions next year, Du Plessis said the "People's Budget" would "be supportive of growth".

There were no tax cuts, with the marginal company and personal tax rates remaining in force. The only relief in tax proposals was in the form of a hedge against fiscal drag, benefiting the poor and lower- to middle-income groups and especially married persons. He said the only tax reform government could manage was to shift the tax brackets (bands) to offset the effects of fiscal drag on the R20 000 to R50 000 bracket.

In a further blow to consumers, he announced the fuel levy would go up by 8c a litre and he increased excise duties on beer, spirits, cigarettes, tobacco, fortified and sparkling wines, unfortified wines and other fermented drinks, sorghum beer and powder, soft drinks and mineral water.

He also raised stamp duties on debits by 50% in respect of credit cards, cheque, transmission and telebank accounts, an increase from 10c to 15c per debit.

Du Plessis said the deficit before borrowing would be 4,5% of GDP, but after taking into account funding from the sale of strategic stockpiles and R1,1bn released from the 1991/92 surplus after borrowing, the estimated deficit before borrowing would be R13,2bn or 3,8%. The real expenditure growth government was aiming at was 2%, with economic growth estimated at 1%.

The only stimulus offered to the economy was in existing areas of the export-oriented manufacturing industry. Further tax incentives would be introduced with immediate effect to promote the beneficiation of imported raw materials and intermediate products for export markets.

He gave the mining industry a tax break by introducing the fourth step in phasing out the surcharge on non-gold mining companies and adjusting downwards the formula rate for gold mines to bring it more in line with the company tax rate.

In a further move to relieve pressure on the poorer section of the population, he has lifted the exemption from transfer duties to R50 000 (previously R30 000) for developed land, and to R20 000 (R12 000) for vacant land. Duties above the R50 000 threshold have been increased.

Du Plessis said he desperately wanted to drop the company marginal tax rate and cut import surcharges, but government was constrained by the limited resources at its disposal.

BUDGET 1992

It was clear that the new SA would demand greater realism from all: on the one hand, from those who in the past had benefited most directly from the Budget, and on the other hand, from those who now in growing measure stood to become significant beneficiaries.

"Sadly there is no quick fix; the gap between wants and means will have to be tackled from both sides, not from one alone. It is gratifying to record that these realities are finding increasing acceptance in our country."

The Budget was a sincere attempt to come to terms with realities and, in a pragmatic way, to do "the best we can for all sections of our society, but with special compassion for those in need. We believe that our Budget mix will contribute to stability and equity in our often volatile society."

Government had for some time been engaged in channelling resources to reduce

☐ To Page 2

Budget

B/Day 19/3/92

(49)

☐ From Page 1

backlogs and strengthen the social security net. This had to be carefully synchronised with tax reform to promote economic growth and job creation, he said.

The education budget went up by 24% to R19,049bn while health increased by 22% to R9,928bn. Housing got a whopping 95% increase to R2,153bn but this was off a low base and was intended to be labour intensive and provide jobs

Spending a limited amount of R165m, Du Plessis has managed to achieve full parity between the various racially based welfare organisations in respect of transfer payments for provisions and services.

Du Plessis raised all pensions by 10%, equalised Indian and coloured pensions (at a lower level than white pensions) and then increased all pensions, except for whites, by a further 40%.

He committed himself to full parity in pensions next year.

Du Plessis again cut defence spending by about 10% in real terms and transferred the saving to the police, which had an increase in its budget of 21,9% for a total of R5,645bn.

Du Plessis said the extent and nature of the cost implications of the drought could not be properly assessed, but that on the basis of early indications, R1,1bn had been set aside as a drought reserve fund.

● See Pages 8, 9 and 12

SA's current account shows seventh consecutive surplus

B/Day 19/3/92 (49)

BILLY PADDOCK

CAPE TOWN — The 1992/93 Budget Review tabled in Parliament yesterday showed a current account surplus of R7,4bn or 2,5% of GDP in 1991 representing the seventh consecutive surplus since the debt standstill in 1985.

The current account rose sharply during the year from R1,5bn in the first quarter to R12,3bn in the fourth quarter. An increase in total merchandise exports more than outbalanced increases in merchandise imports and a small increase in service payments.

Export volumes rose by 3,5%, mainly a result of higher manufactured product exports of vehicles and transport equipment, machinery and electrical equipment and chemical products. Merchandise imports increased by 3,5%, chiefly as a result of hikes in transport equipment and mineral product imports.

The capital account of the balance of payments weakened in 1991 when there was a R6,1bn net outflow The outflow occured mainly in the fourth quarter and was linked to the abolition of the preferential forward cover, which resulted in diminished use of foreign trade finance, the review said.

Despite the capital outflow, net gold and other reserved jumped by R1,4bn during the year, bringing the total increase in net reserves since 1990 to R4,3bn.

The upward trend continued in the first two months of this year. Total gross and other foreign reserves rose by R2,5bn last year to R9,8bn at the end of 1991 or the equivalent of two months import cover.

Reserve Bank gold reserves climbed to 6,5-million oz at the end of last year, compared with 4,1-million in 1991.

Formal sector employment plunged by 2,9% in the nine quarters of the current economic recession ending quarter two 1991. This compared with declines of 0,1% and 0,3% in the 1981-83 and 1984-86 downswings respectively.

Employment had fallen consistently since 1989 and reached the 1980 employment level in the third quarter of last year Nominal wages and salaries rose by 16,1% in quarter three of 1991, slightly higher than the 15,9% increase in the first half of the year. The Review said although the nominal wage per worker rose more slowly in 1990 and 1991, the rate of increase was still above the rise in consumer prices.

The average real wage per worker rose by 2,3% in 1990 and 1,1% in the first half of 1991. Real labour productivity in non-agricultural sectors rose moderately by 1,7% in the second quarter of 1991 compared with the previous year

This improvement was the outcome of a faster fall in the labour force than the decline in production volumes, the Review said. Fewer strikes and work stoppages in the first half of last year also contributed to higher productivity.

Total foreign debt inside the standstill net was $5,5bn at the end of 1991, compared with $13,6bn at the time of the debt standstill.

Total affected debt should be between $4,5bn and $5bn at the end of the Third Interim Debt Agreement on December 31 next year. The Review said before the present debt arrangements lapsed, an attempt would be made to secure final and more permanent arrangements with SA's creditors.

In addition, the Finance Department would try to refinance DM670m (R1,1bn) in public sector loans that matured on German capital markets this year.

Business predicts sanctions will go

B/Day 19/3/92

(49)

REFERENDUM '92

Business Day Reporter

BUSINESS organisations yesterday predicted that concrete economic spinoffs — including the lifting of remaining sanctions — would flow from the referendum result.

Sacob president Hennie Viljoen said the outcome would "undoubtedly have a positive influence on the medium- and long-term performance of the SA economy".

He said the outcome was decisive and strongly supported current constitutional negotiations, and predicted remaining sanctions would be lifted soon.

"Despite the positive contribution which the world community can make, the onus is now on SA to create an environment of stability and growth which will promote investment and job creation."

GERALD REILLY reports Afrikaanse Handelsinstituut president Attie du Plessis agreed that the way was open for an ending of sanctions.

Boycotts, sanctions, economic isolation and the witholding of overseas investment would now be something of the past and SA businessmen could look forward to reaping the benefits, Du Plessis said.

Johannesburg Chamber of Commerce and Industry president Mike Cato urged foreign investors to regard SA as the kingpin for the development of southern Africa.

Sapa reports that he warned, however, that the referendum result was not a panacea for prosperity and that a lot of hard work had to be done.

"Prosperity will not just arrive like Christmas day. We are going to have to work for it, and we are going to have to work together," he said.

The Johannesburg Stock Exchange Committee said the outcome promised an era of growth, job creation and increased productivity.

The Institute of Directors in Southern Africa said the outcome bode well for a market-orientated economy and the future of the sub-continent.

Although new investment on a large scale would take time to materialise, the correct signals had been given and investment would follow as a matter of course.

Executive director of the association for the promotion of the Western Cape's Economic Growth (Wesgro) David Bridgman said the "magnificent" referendum result meant SA now entered a new phase of growth and development.

Fedhasa president Theo Behrens said in a statement the country's hospitality industry was "confident that it will take its rightful place in the world again".

It was no secret that "virtually our whole economy had been put on hold pending the result of the referendum. Now that the result is known, my fervent wish is that those who voted 'no' — with legitimate reasons of their own — will now accept the democratic decision and help us build up our economy and our country".

Fedhasa was set to meet the demands of increased tourism, he added.

Seeff Organisation Holdings chairman Lawrence Seeff said the outcome meant homeowners would sleep peacefully at night "knowing that their major investment would no longer be threatened by the archaic attitude of the right", Seeff said in a statement.

"Any other result would have been a catalyst for financial mayhem in the property market. We are all relieved at the outcome."

Barend's Budget concessions are aimed at the poor

B/Day 19/3/92.

SIMON WILLSON in Cape Town

49

IN KEEPING with the decisively reformist swing in the referendum, Finance Minister Barend du Plessis has tabled a solidly progressive Budget whose benefits are conspicuously aimed at the less well-off. The proposals anticipate white voters' de facto endorsement of ending discrimination by advancing further the trend of previous budgets towards the restitution of inequalities and the unifying of concessions.

Du Plessis' 1992/93 Budget has been drawn up with the apparent twin objectives of supporting the political reform process and emulating the Reaganite/Thatcherite fiscal policies that are now conventional among most of SA's major trading partners.

Alignment of fiscal policy with government's political initiatives is furthered by targeting the lower income groups and the needy for such tax giveaways as could be afforded this year.

This helps to explain the suspension of any attempt to compensate the majority of taxpayers for the effects of fiscal drag over the past financial year.

Du Plessis makes it clear that the measures taken in the past two Budgets to neutralise the effects of inflation on income tax thresholds had slewed benefits towards those in higher income brackets. The Budget's R1,2bn income tax giveaway is, therefore, concentrated on earners in the R20 000 to R50 000 a year band that has been most exposed to fiscal drag.

Furthermore, the Budget aims to keep political repercussions to a minimum by leaving unchanged the one major regressive tax on the statute books — VAT. Keeping the VAT rate at 10% — at least for the moment — at a time when the exchequer is in dire need of extra revenues, is a significant concession to the principle of protecting those least able to pay more tax.

The bias towards indirect taxation — that is, towards taxing more of the spending and less of the income of both companies and individuals — is increased by measures such as the raising of the fuel levy. It is clear that SA consumers will have to get used to paying a greater proportion of their tax payments through their purchases.

Although this makes paying tax a more visible and conscious act than it is through PAYE, it also makes tax-paying more elective. A consumer can choose whether or not to pay an indirect tax by deciding whether or not to consume.

The Budget also continues to align SA's fiscal policy with the trends established in other Western countries. The minimal income tax concessions announced yesterday match those in last week's British budget when, although faced by a general election early next month, the Major government targeted its minimal income tax giveaways at the very bottom of the scale.

The VAT rate was left unchanged not only because it is a regressive tax but also because the government wants to adapt SA's VAT regime to those of most of SA's trading partners. Above all, the idea is to retain the theoretical simplicity of VAT. Further toying with the rate would prompt further pressure for exemptions and differentiations, and the government's desire for a single-rate, no-exemptions VAT remains.

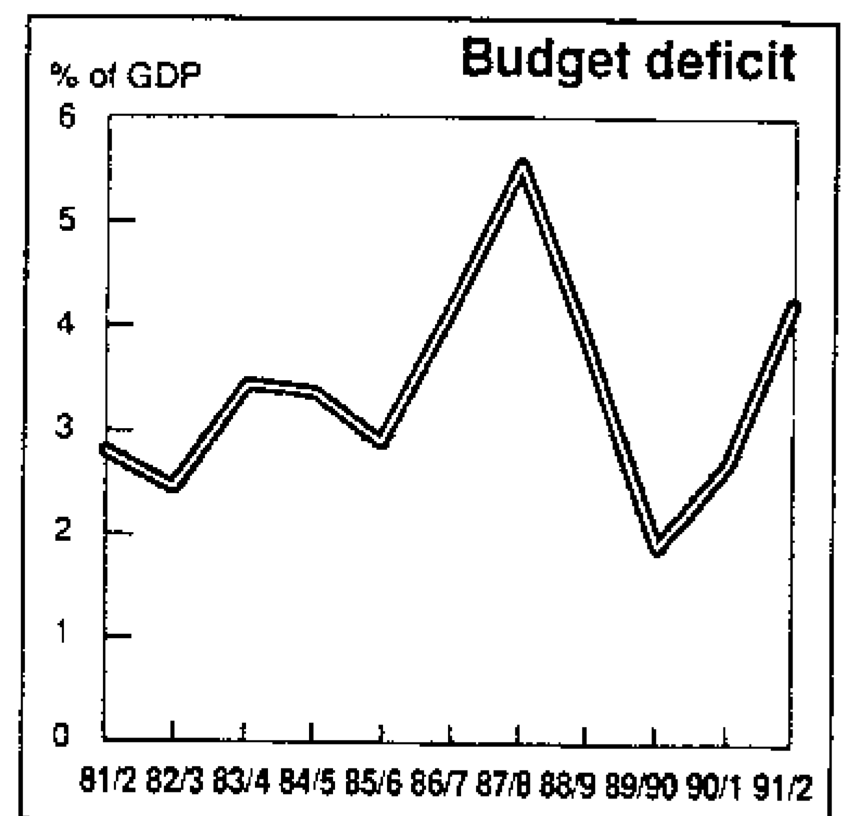
Du Plessis has left open the possibility of raising the basic VAT rate of 10%, but only once an acceptable rate of economic growth has resumed.

Typical VAT rates in European countries straddle 15%, and it can reasonably be expected that the SA rate will be raised to nearer this level once the recession is over.

Ideally, VAT offtakes will rise as consumption recovers, and then the tax's contribution to revenues can be left to grow automatically in parallel with overall economic activity.

Areas where the current straitened state of the fiscus has not allowed greater conformity with international convention include the level of the Budget deficit and the retention of import surcharges.

The Budget deficit, as the accompanying graph shows, is expected to rise to 4,5% of GDP in the coming financial year. This is above the maximum ratio of 3% recommended by the International Monetary Fund (shaded in the chart).



Graphic FIONA KRISCH Source DEPARTMENT OF FINANCE

This however, is seen very much as a one-off event enforced by simultaneous recession, reform and drought. The 3% ratio remains an objective.

Meanwhile, there are perfectly respectable precedents for allowing a recession-combating Budget deficit bulge. Both the US and UK, stricken by recessions in their election years, have proposed temporarily to swell their deficit-to-GDP ratios up to almost 5%.

Two features of the Budget herald the fulfilment of President F W De Klerk's promise of "unprecedented discipline" on public spending in the coming financial year.

The first is the looming presence, detectable in all spending proposals in the package, of the Department of State Expenditure. The management plans that each department has to submit to the State Expenditure Department will have the force of formal contracts which any spendthrift department will, clearly, break only at its peril.

The second is the setting aside of a special reserve fund of R250m for civil service retrenchment payouts.

The retention of import surcharges is a fortunate convenience to an exchequer strapped for revenues. As government found out when the surcharges were first introduced, they have almost no effect on physical import volumes. They quickly developed into revenue-raisers, pure and simple, as consumers decided that they would pay the surcharges in order to buy the imports.

On this score, the surcharges continue to generate revenue without exerting a disproportionately depressive influence on an economy approaching resumed economic growth.

There was considerable pressure on Du Plessis to delay the implementation of higher excise duties until the inflationary ripples of such a measure could be minimised. Several analysts called for higher duties to be effective from October this year, when the introduction of VAT is due to fall out of the CPI and trigger a sharp fall in the headline rate of consumer price inflation.

Du Plessis has declined to accept this point of view, and R300m in extra duties are effective from today. The inflationary implications of this were readily accepted; Du Plessis expects it to add up to two percentage points to CPI inflation this year.

As in previous years, Du Plessis will also have had to bear in mind the verdict of the Reserve Bank. Last year's Budget came in for some plain-speaking and not entirely complimentary reaction from one of the bank's deputy governors, and the Bank remains highly vigilant about the Budget's fiscal thrust.

Deputy Governor Jaap Meijer is due to give the bank's first official reaction to the Budget at a public forum later today. The Bank's independence as the nation's monetary authority is now all but enshrined in the constitution, and its assessment of yesterday's package therefore remains crucial to the setting of monetary policy for the rest of the calendar year.

In terms of the pre-eminence of the Bank's self-proclaimed mission to combat inflation, this may be a Budget whose fiscal stance is loose enough partly to neutralise the tight monetary policy of the past two years. This, combined with the inflationary implications of the excise duty increases, seems to spell another year of reluctant and infrequent reductions in nominal official interest rates.

R1,1bn is carried over (49)

GOVERNMENT has carried over R1,1bn from last year's allocation of R1,95bn for special capital and development projects.

The funds, derived from the sale of assets and strategic oil supplies, are mainly earmarked for spending on infrastructural projects including the building of schools, health clinics and police accommodation. Only R809m of the original sum has been spent. BIDay 19/3/92

SA to seek lasting credit arrangement

Own Correspondent

CAPE TOWN — An attempt would be made to secure final and more permanent arrangements with SA's creditors before the present debt arrangements lapsed, Finance Minister Barend du Plessis said.

He said it was estimated the total debt still within the net at the end of last year amounted to about $5,5bn compared with the total affected debt of $13,6bn at the end of August 1985. B|Day 19/3/92

At the end of the Third Interim Debt Agreement on December 31 1993 the total affected debt at current exchange rates should be between $4,5bn and $5bn.

A moderate international revival with a slight increase in international commodity prices should impact favourably on the real quantum of SA merchandise exports. These exports had performed reasonably well in 1991 despite a decline in international economic growth and poor commodity prices and would be further strengthened by the gradual lifting of trade and financial sanctions.

However, these positive trends would be partly neutralised by the unfavourable prospects for domestic agriculture.

SA's commitments regarding the repayment of foreign loans with a fixed period, and obligations to redeem capital under the Third Interim Debt Arrangements Agreement, amount to less than R3bn.

Employment is down 2,9%, says Du Plessis

Own Correspondent

CAPE TOWN — Employment levels fell 2,9% in the nine quarters of the current downturn, Finance Minister Barend du Plessis said in his Budget preview yesterday.

During the third quarter of last year employment in the private non-agricultural sectors was virtually the same as 11 years earlier.

The inability of the formal sector of the economy to provide sufficient jobs for the growing labour force reflected certain structural problems in the labour market and led to higher unemployment in spite of increasing activty in the informal sector.

The level of saving and its productive use was a critical factor in raising the potential for economic growth and job creation, he said.

Gross domestic saving, which averaged 25,4% in the 1970s before falling to 24,7% in the 1980s, was estimated to have dropped to a low of 18,8% last year.

While cyclical factors had played a role in this regard in the recent past, the trend was largely attributable to the fact that it had not been possible to eliminate the almost consistent dissaving by general government, particularly since the 1985 international debt standstill.

To reach economic growth enabling unemployment to start falling it was necessary that the savings propensity and utilisation of savings be appreciably raised, not least on the part of government.

Remedying this structural problem would have to be a priority.

Initiatives by central government and development institutions financed partly by the Exchequer to help contain unemployment directly or indirectly included:

- Special labour-intensive capital projects totalling R1,6bn, intended to create jobs;

Job creation

- The carrying over of R22m from 1991/2 by the Manpower Department as a continuation of its job creation programme; and
- The transfer of R500m by the Independent Development Corporation (IDC) to the Development Bank of SA this year following the former's restructuring.

Negotiations are under way with the IDC to enable a further transfer to the Small Business Development Corporation (SBDC) this year. The Budget provides for a transfer of R3,8m to the SBDC's development fund for maintenance and expansion of small business development initiatives.

B/Day 19/3/92 (49)

BUDGET IN BRIEF

REVENUE: On the basis of the existing tax rates, tax revenue of R84,82bn for 1992/93 has been estimated, an increase of 15,8% over the revised estimates for 1991/92. The estimated tax revenue, which represents 24,2% (23,9%) of GDP, excludes transfers from the National Supplies Procurement Fund and the Central Energy Fund to finance special projects.

EXPENDITURE: Total expenditure for 1992-93 has been estimated at R96,54bn, an increase of 11,8% over the 1991/92 figure. This excludes supplementary proposals to spend an additional R4,44bn on, among other things, special capital and development projects, drought relief, social pension allowances and nutrition. It also excludes the suspension of one-third of the VAT expenditures on purchases by state departments — an amount of R306m.

FINANCING: After taking into account the funding provided by the sale of strategic stockpiles and the R1,1bn released from the 1991/92 surplus after borrowing, the estimated Budget deficit before borrowing has been estimated at R13,2bn or 3,8% of GDP.

Loan redemptions will amount to about R5,3bn, bringing the gross borrowing requirement to R18,5bn. This will be financed mainly from domestic stock sales of about R18bn.

TAX PROPOSALS: The Income Tax Act is to be retrospectively amended to broaden the scope of tax incentives for beneficiation, by including the beneficiation of imported raw materials and intermediate products.

☐ The tax formula rate for the gold mines is adjusted downwards and the phasing out of the surcharge on non-gold mines is carried further.

☐ Tax scales have been revised to provide relief to the middle income group most exposed to fiscal drag and the tax rate structure has been simplified.

(49)

☐ The tax scale for married women with a taxable income up to and including R40 000 is brought into line with unmarried persons. The top marginal rate for married women is raised to 40% from 38%. The primary rebate is raised to R900 from R800.

B/Day 19/3/92

☐ The rebate for persons above the age of 65 years is raised to R2 500 from R2 100, thereby raising the tax threshholds to R24 881 (R22 174) for married persons, to R21 429 (R19 500) for unmarried persons and to R17 292 (R15 084) for married women.

TRANSFER DUTY: The exemption ceiling for transfer duty payable by low-income home buyers is raised to R50 000 (R30 000) for the purchase of developed land and to R20 000 (R12 000) on undeveloped land. The duty payable on property valued above R50 000 is also raised.

STAMP DUTY: The stamp duty on debit transactions is raised to 15c from 10c as from May 1.

IMPORT SURCHARGE: No change has been made to the import surcharge.

PETROL LEVY: Petrol levy rises by 8c and diesel by 6c per litre with additional increases being announced later by Mineral and Energy Affairs Minister George Bartlett. A 2c increase in diesel rebate for farmers is also proposed.

CUSTOMS AND EXCISE:

☐ The price of a 340ml can of beer (or dumpy) increases by 1,5c (4,8c a litre).

☐ Spirits increase by about 1,5c per tot (about 37,7c per 750ml bottle).

☐ Cigarettes increase by 2c per 10.

☐ Pipe tobacco and cigars increase by 10c a kg.

☐ Fortified wine and sparkling wine increase by 10c per 750ml bottle.

☐ Unfortified wine and other fermented drinks rise by 6c per 750ml bottle.

☐ Cool drinks and mineral water increase by 2c a litre (about 0,7c per 340ml can).

LAST YEAR'S SURPLUS: Government proposes that R2bn of the 1991-92 loan surplus be transferred to government pension funds to be reinvested with the Exchequer to supplement the contribution of the Public Investment Commissioners to the finanancing of the 1992-3 Budget.

The balance of the surplus, about R1,1bn, will be transferred to the 1992/93 financial year as an opening balance.

LINDA ENSOR

BUDGET COMMENT BDay 19/3/92 (49) THE EDITOR

BAREND du Plessis' Budget wallows in immediate political expediency. Its emphasis on social spending is laudable if viewed solely against the country's social needs. But it is also designed to buy support in negotiations, in Codesa.

That short-term strategy, to deflect the criticism levelled by protesters outside Tuynhuys who labelled this a "Bosses' Budget", ignores the longer-term and more important growth needs of the country.

The reality of this "Peoples' Budget" will be to add to the inflationary squeeze on households, further curbing any propensities to save.

There are no incentives for foreign investors and few to stimulate substantive increases in capital spending by local business. The political hope offered by the referendum landslide is counted on to provide proof to the world that South Africa is an attractive investment target. And once the euphoria of that wears off, we will be seen as a country with few incentives not matched elsewhere.

Of course there are some marginal concessions to the hard-pressed gold mines and the significant incentives announced by Derek Keys to exporters of beneficiated minerals. But the unchanged corporate tax rate will leave few industrialists in any doubt about the government's lack of commitment to the supply side economics fundamental to growth required to sustain rising tax revenues.

Job creation has been addressed by the increased allocations for housing. But those jobs will be largely unskilled. Du Plessis has done nothing to stimulate investment in technologically advanced industries which will add to the country's pool of skills.

The world's swing is towards taxes on consumption and reduced taxes on income. Du Plessis has given us the worst of all worlds: inflationary hikes in excise duties on petrol, alcohol and so on; the extension of VAT ,to temporarily zero-rated food items; and no compensatory cuts in income taxes despite the token acknowledgement of the crippling effect of fiscal drag.

The Budget does nothing to create the economic growth needed if the grand plans for higher spending on welfare, education, police and health are not to collapse for want of government funds.

Marshals lose control at Cape Town rally

BDay 19/3/92 (49)

MARSHALS temporarily lost control of thousands of people taking part in an ANC-led march yesterday as the group approached the Roeland Street entrance to Parliament.

Sapa reports that a group of about 150 singing and chanting youths surged ahead of the front ranks and ran past policemen towards the entrance to Parliament, reports Sapa. Some of the group taunted policemen and waved placards in their faces.

Police reinforcements and a riot control vehicle with a water cannon were brought to the scene Policemen with shotguns took up position.

A tense standoff ensued outside the entrance to the H F Verwoerd Building which houses the offices of most government offices and ministers. Chanting and singing supporters demanded to be let in, but were held back by a cordon of policemen. After about 20 minutes marshals shouting "move, move" managed to get the crowd moving and the tail end of the march proceeded slowly back towards the Grand Parade.

SA Communist Party general secretary Chris Hani said the "people's Budget" march to Parliament marked the beginning of "an intensive campaign to force the government to redress the problems of our people".

He told the rally: "We have assembled in our thousands to begin an offensive against this government which represents rich people.

"We will continue coming out in our thousands until all our demands are met."

The principle demands of the peoples' budget include the scrapping of VAT on all food and medical services, decent housing, proper health services, adequate pensions and a drought relief programme.

Cosatu president John Gomomo called on supporters to "eradicate this minority government and replace it with a nonracial, democratic government"

KATHRYN STRACHAN reports that in Johannesburg, an estimated 7 000 people from the ANC, SACP and Cosatu marched to John Vorster Square to show their opposition to the Budget and to call for a stronger police presence to stop the violence sweeping the Reef.

In an open letter to President F W de Klerk and Law and Order Minister Hernus Kriel, handed in at John Vorster Square, the alliance focused on the recent violence. Since the Peace Accord was signed six months ago, it said, the police had done nothing to quell the violence.

A large crowd took part in a march to the Union Buildings in Pretoria to hand over a memorandum protesting against the "arbitrary" Budget, among other things.

In Natal, Cosatu staged three mass pickets in Durban, Kokstad and Matatiele.

Bank outlines economy's deficiencies

B Day 19/3/92

44

SHERIDAN CONNOLLY

THE SA economy was experiencing serious structural deficiencies which needed to be addressed to improve the production potential of the economy without overheating it in the short term, the Reserve Bank said in its latest quarterly bulletin.

The Bank said the economy had now been in recession for almost three years — more than double the average length of 17 months of such cyclical downswings in the post-war period. During the course of 1991, the recession became more widespread and large decreases were recorded in the real value added by manufacturing, construction, commerce and transport.

The downturn in economic activity deepened further in the fourth quarter of 1991 with a 0,5% decline in the annualised rate of real gross domestic product.

The Bank said real non-agricultural domestic product increased at a very modest rate throughout the '80s. This caused real income levels to decline substantially during that decade.

In 1991 the real gross national product per head of the population amounted to R3 275, compared with R3 905 in 1981. The Bank said the main problem of the SA economy was the slow growth in production combined with a rapid increase in population.

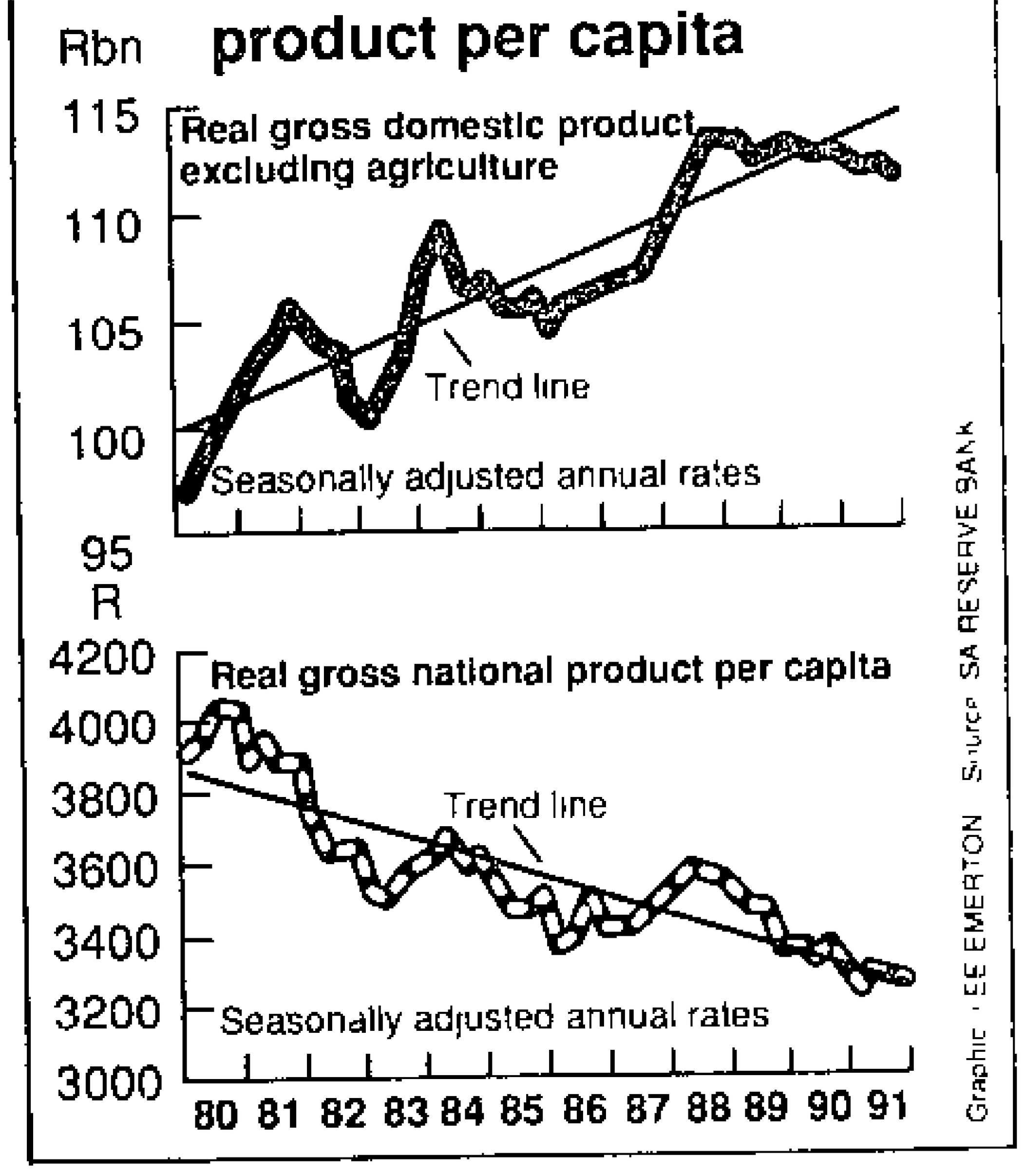
The Bank said the low rate of growth in domestic production coincided with an increased capital intensity. The effect of this was a meagre increase in non-agricultural employment, which grew by 0,2% a year from 1981 to 1991. This meant approximately 2-million people had to find employment outside the formal non-agricultural sector, or become unemployed, the Bank added.

Real gross domestic expenditure decreased by 0,5% in 1991 compared with decreases of 2,5% in 1990 and 0,5% in 1989. The further decrease in domestic expenditure reflected continued sharp declines in expenditure on consumer goods and services and on fixed investment.

The Bank said gross domestic savings as a ratio of GDP rose steadily from a low of 18% in the first quarter of 1991 to almost 20% by the fourth quarter. This increase took place despite a continued net dissaving by the general government throughout the year. Government was a dissaver in each quarter of 1991 — its net dissavings amounted to more than R7bn in 1991 compared with total net savings of R0,9bn in 1990.

The Bank said government dissaving took place because of a lower rate of increase in current income, including direct and indirect taxation. An acceleration of the rate of growth of current expenditure, especially interest payments on public debt, transfers to households and consumption expenditure also contributed to dissaving.

Domestic and national product per capita



Dramatic Budget backdrop

Sowetan 19/3/92

(49)

An extract of the 1992 Budget speech delivered in Parliament yesterday by the Minister of Finance, Barend du Plessis.

THIS Budget has been framed against the backdrop of the dramatic changes taking place in our society and the challenges they pose for policy

No man is an island Today this is increasingly true of a country as well Modern technology has created the global village. That same technology rapidly captures, processes and interprets masses of data that at one time would have taken decades

Taking economic realities into account, a growing consensus from the interpretation of history and experience is emerging, revolving around points of departure such as free markets, social responsibility and financial discipline.

The notion that choices can be made freely from a menu of viable economic philosophies, has now disappeared Likewise, a consensus is fast developing on certain universally proven constitutional principles

In short, free enterprise democracy is impatiently sweeping outworn ideologies aside.

Reassuring

It is reassuring to observe that in both the economic and constitutional debates in South Africa there is a steady and clear movement towards accepting the basic elements of this collective wisdom of mankind.

What is all the more striking is that the emerging consensus straddles parties, groups, organisations and individuals who at one time were at opposite ends of the politico-economic spectrum.

One of the building-blocks of a successful economy and society, certainly, is the bundle of rights fundamental to free enterprise. These rights, such as private ownership and freedom of contract, should be entrenched in a Bill of Rights or even a constitution, so as to be beyond the tyranny of passing incumbents of government

At a wider remove are those things that, while themselves hardly candidates for constitutional entrenchment, determine an economy's growth or stagnation such as human capital formation, a trained labour force, effective means of industrial conflict-resolution that avoid the loss of output and incomes, earnings linked to productivity, a tax structure that attracts international investment, mobility of capital, and by no means least, sound fiscal policy at all levels of government

With these momentous developments as background, then, and with their clear signal in mind, we may now refer to today's Budget in a broad context.

It has been constructed, and must also be interpreted, within the parameters of the universal economic problem of reconciling unlimited wants with finite resources

No society and no government can be exempt from the hard choices involved

The market process generates and apportions wealth In the nature of things this is an ongoing process — a ceaseless reshuffling of the cards as a society changes in the wake of such things as population growth, the emergence or reconstitution of economic classes or groups, perceived deprivation, urbanisation, technological advance, shifting aspirations and a whole host of other factors

In the long term the market process is good at rewarding economic agents according to their input.

But by the same token it initially has little to offer those who can make only a small or no input of their own Moreover, the market does not deliver the so-called collective goods and services, which are an essential part of an economy.

To provide the collective and social services needed, a portion of all new wealth created must thus be channelled to the State in the form of taxation

Finance Minister Barend du Plessis.

The democratic and demographic floodtides mean that resource allocation must be set on a new course that will be to the benefit of all.

Given however the need for a responsible fiscal stance, the Budget cannot turn a blind eye to the limited means available to meet the manifold and growing demands on the State.

It is clear that the new South Africa will demand greater realism from us all: on the one hand, from those who in the past have most directly benefited from our traditional budgets, and on the other, from those who now in growing measure stand to become significant beneficiaries

This will involve on the one hand a different mix of financing for public services, with more emphasis on the recipient's own contribution according to the standard and type of service desired, and on the other the acceptance that demands for public services must comply with affordability criteria

The Book of Proverbs says that where there is no vision the people perish But where there are no means of validating a vision, the vision itself can vanish

Even visions need provisioning they cannot be concretised unless the economic means of achieving them are made available, and are also continually enlarged. To that end, the economy of the new South Africa must grow as fast as possible — but, of course, on a sustainable basis

Taking the long view unique to his species, homo sapiens will see to the optimal deployment of the resources the economy has produced But the production of those resources is best entrusted to homo economicus, who is now the acknowledged world expert when it comes to the creation of income and wealth

Those who still question this, need look no further than Eastern Europe

We were told, 2 000 years ago, that the poor would always be with us — a truth to which even the enlightened Western world of today testifies, what with its intractable problems of unemployment, its underclasses and its poverty

The problems stemming from modernisation — a high rate of population growth, lack of marketable skills, urban pressure, insufficient housing, deficient physical and social infrastructure, inadequate incomes and the like — are not a South African patent

Nor will they be met merely by a change of government or the advent of a new social order

Sadly, there is no quick-fix The gap between wants and means will have to be tackled from both sides, not from one alone

It is gratifying to record that these realities too are finding increasing acceptance in our own country

To say, in the midst of substantial material deprivation in our country, that the gap between wants and means must be tackled from both sides may at first glance appear grossly insensitive

But nothing will be served by blinding ourselves to facts or by proffering ideological solutions whose disarray is fresh in the world's memory

The season of social engineering is over!

Today's Budget is a further chapter in our attempt to come to grips with the stern realities of our economic situation, in a sincere and pragmatic spirit of doing the best we can for all sections of our society, but with special compassion for those in need

"Today's Budget is . . . our attempt . . . (do) the best we can for all sections of our society, but with special compassion for those in need."

We believe that our Budget mix will contribute to stability and equity in our often-volatile society But the Budget must also look to the future, where sustained growth beckons, steering away from fiscally-irresponsible actions that would inevitably place that future itself in jeopardy and it must be geared to increasing the speed of the economic engine, not to slowing it down

This is no easy balance to strike But the interests of our country and our common society make it imperative and urgent that we try

In this process of forging a new society, fiscal policy, and in particular the annual Budget must increasingly reflect the theme enunciated in last year's Budget, namely, "Equity through growth and stability"

Today's Budget should be viewed in this context

Budget Review

Before giving a brief review of the economic conditions and prospects, however, I would mention that this speech covers only the most important issues of the Budget and that, as in past years, a fuller background to the speech and the Budget proposals will be found in this year's Budget Review issued by the Department of Finance

Economic Conditions and Prospects

The stagflation the South African economy is experiencing, and to which financial sanctions in particular are a contributing factor, has proved more intractable than expected

Last year's Budget Speech envisaged a falling rate of inflation and the lower turning point in the economic cycle by the end of 1991 or early 1992

In the previous two Budgets various fiscal incentives were announced, to improve the climate for economic growth and stability

Inasmuch as these measures were aimed at continuing with changes in the structure of the economy so as to raise its longer-term growth and work creation potential, it was accepted that results would not become visible immediately

It is however understandable that the lagging economic upturn should be causing both the public and the authorities a good deal of frustration

Important changes have occurred in the economy in the past few years, which can impart another character to the coming upturn and moreover can ensure that the nature and results of economic activity go in greater measure to human development These include

The development of mechanisms in the public and private sectors alike for large scale development financing, which implies a different investment pattern,

The good export performance of the second half of the 1980s, which may indicate progress in the development of a stronger export sector in its own right,

The rise of the small business sector,

The great improvement in the efficiency of inventory management,

The growing sophistication and adaptability characterising the development of the financial sector,

The fact that sanctions have now practically disappeared, and

The recent resumption and growth of economic relationships with South Africa by a steadily growing number of countries

'Bonus' bid to align all races

(49)

ARG 19/3/92

PENSIONERS are to get a R1-billion "bonus" in an effort to raise old age pensions of all races to white levels.

And a "firm undertaking' of full parity next year was given by the Finance Minister. This could cost about R1,8-billion, according to his department.

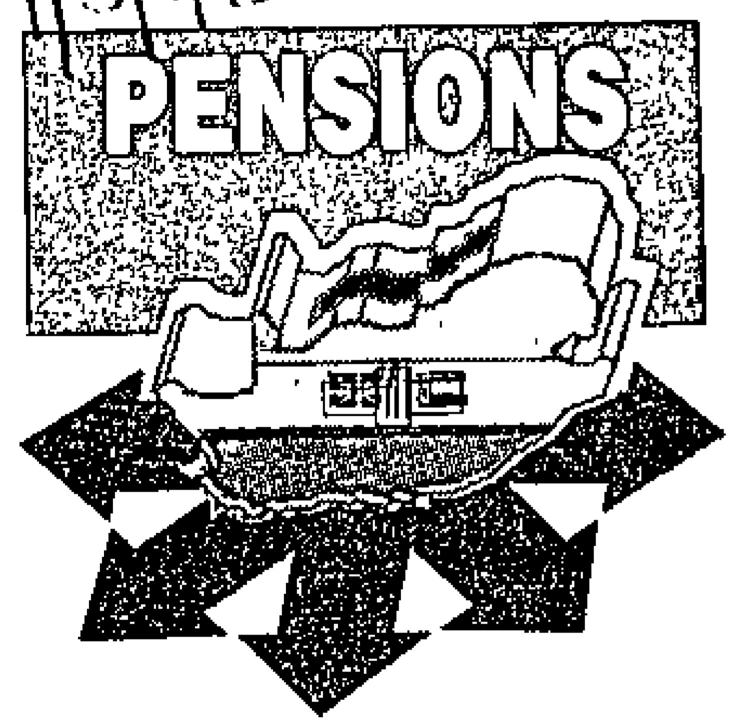
ALL pensioners will receive a 10 percent increase from April 1 and substantial additional amounts will be paid to those classed as coloured, Asian and black old age pensioners.

The Minister said that after the 10 percent increase the gap betweeen race groups would would be narrowed by 40 percent.

New monthly rates of pension are: Whites R345, up R31 (10 percent) coloureds R318, up R45 (16.5 percent) Asians R318, up R45 (16,5 percent) Blacks R293, up R58 (25 percent)

Total to be spent on pensions is R1,732 billion, of which the 10 percent across-the-board increase will take R722-million.

About R1,8-billion would be



needed to bring full equality of pensions, according to a Department of Finance estimate.

"The government can fully sympathise with the manv people who are unable on account of circumstances beyond their control to maintain even a very modest existence," said Mr Du Plessis.

"The government is committed to review its assistance to those citizens periodically and, within the limited capacity of the country, to react to new claims and higher living costs as well as seeking to remove the disparity in spocial assisstance as rapidly as possible."

HEALTH SERVICES will cost more than R9,9-billion , a rise of 22 percent on last year. But this does not include provision for salary improvements.

The steadily rising cost of health services has meant that the structure and nature of health delivery must be urgently reviewed, said Mr Du Plessis.

The provision of all primary health care services will be transferred to local authorities to secure greater community involvement.

Academic teaching hospitals are to operated on "a business basis" and each institution will be run by a business manager.

THE GOVERNMENT is to pump R3,3 billion into housing, including R500-million raised from sales of its strategic oil reserve.

This spending includes infrastructure and housing efforts by the Development Bank, the SA Housing Trust, the Independent Development Trust and self-governing areas.

The extra R500-million will be accessible to these development institutions.

"There are great backlogs in housing for the broad population and these cannot be addressed by the State alone," said the Minister of Finance.

Thousands protest budget

Sowetan 19/3/92

(49)

THOUSANDS of people staged marches in centres throughout the country yesterday to protest against the "apartheid" national Budget.

The protests were organised by the African National Congress, the Congress of South African Trade Unions and the SA Communist Party.

In Cape Town, about 10 000 people gathered on the Grand Parade.

Protesters carried placards with slogans which read: "Stop the Bosses' Budget Now!" and "Bury the Poverty Budget Now!".

Leading the march there were Cosatu leader Mr Jay Naidoo, ANC executives Mr Cyril Ramaphosa and Dr Allan Boesak and SACP chief Mr Chris Hani.

Traffic came to a virtual standstill in Johannesburg as thousands of people marched through the city centre to John Vorster Square police headquarters to present a memorandum.

The Johannesburg march was led by ANC stalwarts Mr Walter Sisulu, Mr Elias Motsoaledi and Mr Pallo Jordan.

In Pretoria thousands of ANC supporters marched on the Union Buildings to register their protest over the Budget. Marchers, comprising mostly members of the ANC-SACP-Cosatu Alliance, left from Brown Street and marched through the city at midday.

He said it was unrepresentative of the majority of people in the country and served to maintain the privileges of a minority at the expense of the majority.

The area around Parliament was almost impassable as the large crowd in the area blocked all entrances and made it impossible for people to enter or leave the building

The Pretoria marchers were led by lawyer Mr Mathole Motshekga, Dr Abe Nkomo, Mr John Nkadimeng and Mr Moses Mayekiso.

Some relief at least

R2-billion more to spend . . . but we're not out of the woods yet

(49) ARG 19/3/92

FINANCE Minister Barend du Plessis offered hard-hit consumers only limited tax relief in a tough Budget presented to Parliament yesterday.

However, in a move aimed at equalising social spending between the races, he announced massive spending increases for education, health and the SA Police, which left little room for substantial tax cuts.

Mr du Plessis delivered the Budget against a background of a weakening economy and escalating demands on stretched revenues.

Total state spending in the 1992/3 fiscal year has been raised to R100-billion, while tax revenue is only budgeted at R84,8-billion.

The Minister also announced a 9c hike in the petrol price with effect from Saturday and slight increases in the cost of tobacco and liquor.

A large part of the burden in providing the state with tax revenue to meet the increasing socio-economic demands has been placed with individual tax payers.

In the year 1992/3 taxpayers will pay R35,6-billion in income taxes — a 27,5 percent increase on payments in 1991/2. They now account for about 43 percent of total tax income compared with 38 percent in the 1991/2 fiscal year.

While the top marginal tax rate on individuals was maintained at 43 percent, Mr Du Plessis announced tax concessions totalling R1,45 billion by widening income tax bands and more relief for married women and pensioners.

The bulk of taxpayers, however, are again being hard hit by the effects of fiscal drag, as pay rises to compensate for inflation push them into higher tax bands.

Mr Du Plessis again emphasised the Government's willingness to address racial anomalies.

In a R1-billion bonus to state pensioners, he announced a further narrowing in the pensions between whites and other races.

All pensioners will receive a 10 percent increase from April 1, while blacks have been awarded an additional 15 percent to narrow the gap to 40 percent.

He also gave a "firm undertaking" of full parity next year, which would cost the Government a further R1-billion.

Civil servants received an unexpected sweetener when the Minister announced an amount of R2,3-billion for "the improvement of conditions of service".

At the same time, however, Mr du Plessis said R250-million had been put aside for retrenchment costs as departments reduce their personnel.

The Budget's expenditure vote showed large increases ranging from 20 to 24 percent for education and health and a large R3,3-billion injection to address the vast backlog in black housing.

Education services will receive R19,5-billion in the current fiscal year of which the bulk has been allocated to black education, while almost R10-billion has been set aside for health services.

As expected the SA Police was granted the bulk of the funds saved by a scaled-down Defence Budget. "The high incidence of crime and violence mean the reductions achieved in Defence have largely had to be reallocated to policing and corrective services," Mr du Plessis said.

The Police Budget was increased by 21,8 percent to R5,65-billion while the Defence allocation at R9,7-billion was a mere 5,6 percent higher than last year.

Announcing increases in excise duties on tobacco, cigarettes, beer, spirits and beverages, he added, though, that they should not result in average prices increases for these products of more than two percent.

MARRIED? WHAT YOU WILL SAVE ON TAX NOW

INCOME	NO CHILDREN			1 CHILD			2 CHILDREN		
	1992	1993	REDUCTION	1992	1993	REDUCTION	1992	1993	REDUCTION
R	R	R	R	R	R	R	R	R	R
11 000	-	-	-	-	-	-	-	-	-
12 000	-	-	-	-	-	-	-	-	-
13 000	170	95	75	70	-	70	-	-	-
14 000	360	285	75	260	185	75	160	85	75
15 000	550	475	75	450	375	75	350	275	75
16 000	760	675	85	660	575	85	560	475	85
17 000	970	875	95	870	775	95	770	675	95
18 000	1 180	1 075	105	1 080	975	105	980	875	105
19 000	1 390	1 275	115	1 290	1 175	115	1 190	1 075	115
20 000	1 600	1 475	125	1 500	1 375	125	1 400	1 275	125
25 000	2 750	2 525	225	2 650	2 425	225	2 550	2 325	225
30 000	4 050	3 575	475	3 950	3 475	475	3 850	3 375	475
35 000	5 500	4 975	525	5 400	4 875	525	5 300	4 775	525
40 000	7 100	6 375	725	7 000	6 275	725	6 900	6 175	725
45 000	8 850	8 175	675	8 750	8 075	675	8 650	7 975	675
50 000	10 750	9 975	775	10 650	9 875	775	10 550	9 775	775
55 000	12 700	12 025	675	12 600	11 925	675	12 500	11 825	675
60 000	14 700	14 075	625	14 600	13 975	625	14 500	13 875	625
65 000	16 750	16 175	575	16 650	16 075	575	16 550	15 975	575
70 000	18 800	18 275	525	18 700	18 175	525	18 600	18 075	525
75 000	20 900	20 375	525	20 800	20 275	525	20 700	20 175	525
80 000	23 000	22 475	525	22 900	22 375	525	22 800	22 275	525
100 000	31 600	31 075	525	31 500	30 975	525	31 400	30 875	525
150 000	53 100	52 575	525	53 000	52 475	525	52 900	52 375	525

Government failing in its task (49) — economists

STAR 19/3/92

By Sven Lunsche

CAPE TOWN — The Government was clearly failing to bring its expenditure under control, economists said yesterday in reaction to the record R100 billion Budget for the 1992/3 fiscal year.

In his proposed Budget, Finance Minister Barend du Plessis said total expenditure would amount to R100,7 billion, against revenue income of only R84,79 billion.

This leaves a deficit before borrowing of almost R16 billion, or 4,5 percent of gross domestic product (GDP), compared with 4,3 percent in 1991/2.

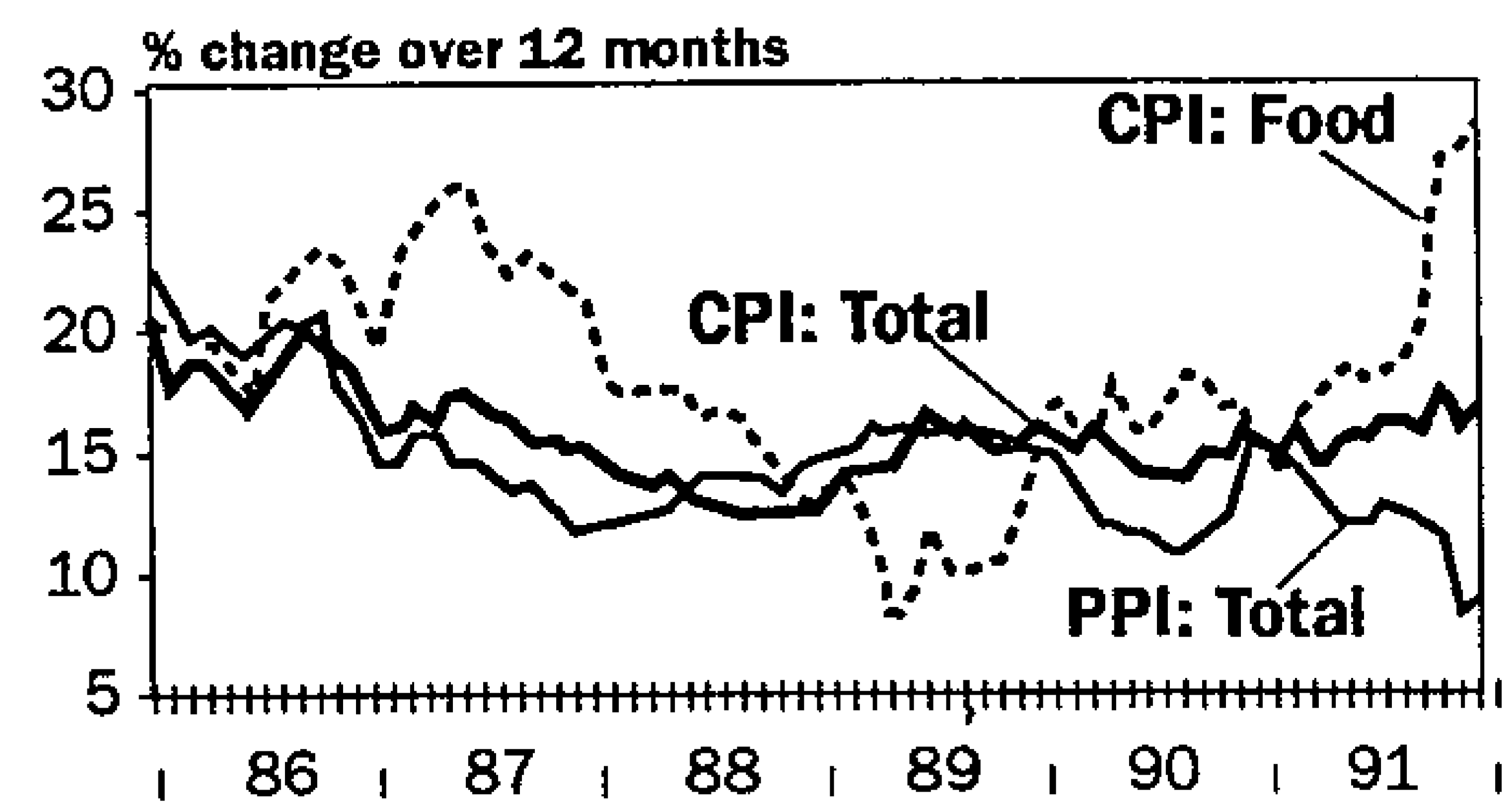
This level is not only well above the international accepted guideline of three percent of GDP, but will inevitably lead to higher borrowings and thus put upward pressure on interest rates.

Oil stockpile

Of the R16 billion deficit, R1,6 billion would be financed from funds released through the reduction of the oil stockpile and just over R1 billion from last year's surplus after borrowings.

The remainder R13,2 billion plus loan redemptions totalling R5,3 billion present the gross borrowings requirements by the Government.

Consumer and production prices



Seasonally adjusted

Source: S A Reserve Bank

Economists fear that the continued pressure on capital and money markets by the Exchequer will put renewed upward pressure on interest rates.

Mr du Plessis said the Government planned to finance the deficit chiefly from domestic sales of about R18 billion, with an additional R500 million coming from foreign loans.

More importantly, the ever-increasing demands on state spending had left little scope for further tax relief, he said.

"The Government would greatly have wished to make further progress with various tax reforms to which it is committed, such as the phasing out of the import surcharge, the further reduction of the top marginal rate of income tax on individuals and of the company tax rate, as well as the further phasing out of stamp duties and marketable securities tax," Mr du Plessis said.

"But tight economic and fiscal conditions mean that these matters must stand over for the time being," he added.

The tough economic conditions had played a major role in the low tax revenues, which fell about R2,5 billion short of budgeted targets.

Mr du Plessis said that non-mining company tax alone was R1 billion short of the budgeted figure.

Individual income tax had thus once again become the major contributor to government coffers.

In 1991/2, individual income tax brought in R28 billion, or 38,2 percent of total tax revenue.

This is set to increase to R35,6 billion, or 40,3 percent of total tax income, in 1992/3 — a burden which many individuals simply cannot afford

In contrast, company tax is only expected to contribute 17,4 percent, compared with 35 percent in the early 1980s.

After initial hitches, VAT was running smoothly, Mr du Plessis said, adding that income from VAT in 1992/3 was estimated at R21 billion, compared with R18,7 billion paid in sales tax and VAT in 1991/2.

State spending

Mr du Plessis gave no indication that the Government had been succesful in addressing the other side of the coin — namely, reducing state spending.

He said, however, that a Central Economics Advisory Service had been formed to advise the Government on a framework for expenditure ceilings.

Twelve key expenditure items were subject to close investigation with a view to the development of multi-year expenditure plans.

Mr du Plessis said expenditure guidelines for all departments and administrations for the following three years would be announced in June.

ANC hails several allocations

STAR 19/3/92

By Duma Gqubule

The ANC has welcomed the increased allocations to health, education and housing in the Budget.

Its Department of Economic Policy (DEP) said yesterday the allocations were broadly appropriate, but expressed doubts the money would be properly spent.

"The central issue is the way these allocations are spent and managed. We have no faith in the ability of the departments responsible to deliver the services in an effective and efficient way."

On social welfare expenditure, the ANC said it was outrageous that pensions were still allocated differentially on racial lines.

"We feel that the additional R2 billion it would have cost to reach parity at existing white levels would make a significant contribution to the alleviation of poverty."

The DEP expressed concern that no attempt was made to exempt basic foodstuffs from VAT.

"We assume that his (Finance Minister Barend du Plessis') earlier announcement that the current exemption on eight basic foodstuffs due to be lifted at the end of March will therefore hold."

The DEP repeated the call made in an earlier 1992/93 Budget preview for an open and democratic budgetary process, proper public expenditure planning within the framework of a national development strategy and effective management of public spending.

"None of these were satisfactorily addressed in this year's budget," the ANC said.

Hand of Keys seen in Barend's tax proposals

STAR 19/3/92

49

By Derek Tommey

A stockbroker last night said yesterday's Budget was like a cheap currant bun. "It has some currants in it — but you had to look hard to find them."

One of the currants was the proposal to reduce from 10 years to five years the period in which mining houses and other investors have to hold shares in order to be exempt from paying tax on the proceeds from the sale of the shares.

A broker said this was a major concession. Its importance was that it would enable the mining houses and any other long-term investor to convert their shareholdings into cash without having to pay a penalty.

It would also result in a larger supply of shares to the stock exchange.

This should lead to a broader market and smaller price fluctuations from minor trades. It should also help reduce some of the upward pressure from institutional money on share prices.

Another currant was the proposal to speed up the rate of depreciation in terms of Section 37 E of the Income Tax Act on specific projects.

Taken together, these proposals suggest that the Government is going out of its way to help those mining houses and other organisations with large share portfolios and major investment programmes.

One company to benefit should be Gencor. It is planning to build a huge stainless steel plant and a large aluminium plant.

It also has major plans for investment in oil. These projects will require large capital outlays.

Consequently, the generation of cash from the sale of shares plus the increased rate of depreciation will make the financing of these projects much easier.

Other mining houses and large institutions such as Anglo American, JCI, AECI and Sentrachem, which are contemplating major projects, also stand to benefit.

But one cannot help seeing in these proposals the hand of Derek Keys, the former chairman of Gencor, and now Minister of Trade and Industry.

Also helping to sweeten the Budget slightly were the reductions in the rate of tax on non-mining companies.

The surcharge is being lowered from five to three percent, which means the effective tax rate on these companies is now 49,44 percent.

Marius van Blerck, tax adviser to Anglo American, said last night these proposals indicated that the Government was doing all it could to protect its tax base and was granting concessions on a highly selective basis.

But he believed these tax concessions, together with the positive result of the referendum, could lead to a significant improvement in the investment climate in coming months.

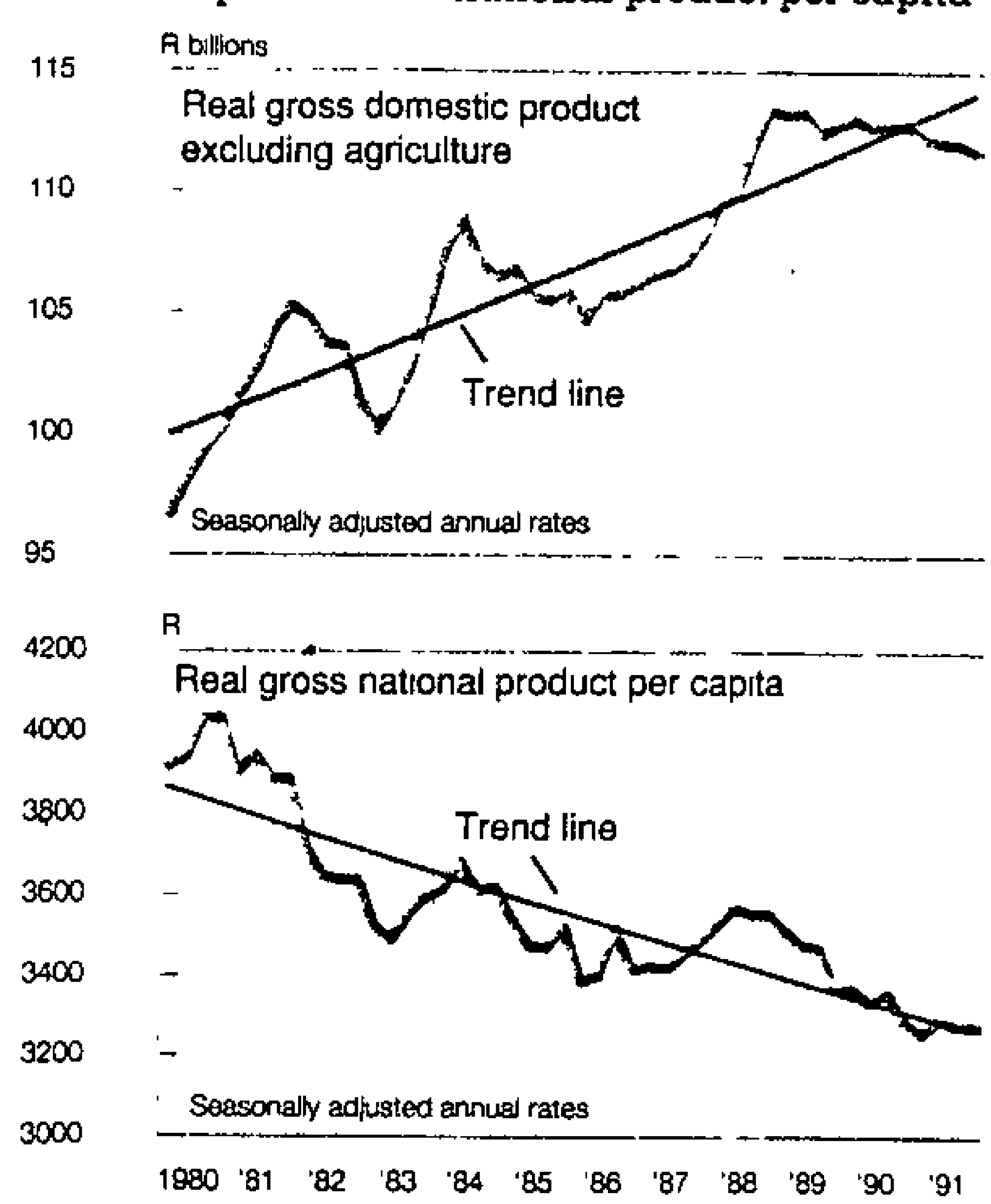
One bright spot on the JSE in the coming months is likely to be the building and construction sector.

The announcement that R3,2 billion could be spent on low-cost housing in the next 12 months was a bull point for the sector, and should also help stimulate the economy.

High labour costs boosting inflation, says Reserve Bank

STAR 19/3/92

Domestic product and national product per capita



Nearly two million people in the past 10 years had to find employment outside the formal non-agricultural sectors, or become unemployed, says the SA Reserve Bank.

In its quarterly bulletin released yesterday, the Bank saw the main problem of the South African economy as a slow growth in production combined with a rapid growth increase in population.

Downturn

The Bank pointed out that in addition to the cyclical downturn that the country was currently experiencing, serious structural deficiencies existed in the economy.

The low rate of growth in domestic production too coincided with an increased capital intensity, with the result that non-agricultural employment grew by only 0,2 percent a year from 1981 to 1991, resulting in some two million job losses.

In the past two years this structural deficiency was aggravated by the cyclical downturn, which led to a decrease in non-agricultural employment.

Entrants

Not only did new entrants to the labour market have to be accommodated outside the formal non-agricultural economic sectors, but employed workers also became redundant.

The Bank noted that despite the rise in the number of unemployed or underemployed persons in the country, nominal salaries and wages continued to rise at high rates which exceeded the inflation rate.

As the reductions in the workforce took place at a more rapid rate than the decline in real output, labour productivity rose moderately from the second half of 1990.

This rise, however, was at first too slow to prevent an increase in real unit labour costs.

The Bank explained that the continued high rate of increase in labour costs was an important factor in keeping the rate of increase in consumer prices at high levels throughout 1991 and in January 1992.

If food prices are excluded, however, the rate of increase in other consumer prices declined from 15,4 percent in July 1991 to 13,9 percent in January 1992.

In contrast to the virtually sideways movement in consumer price inflation, the rates of increase in producer prices edged downwards, the Bank says.

Measured over a period of 12 months, the rate of increase in the production price index fell on balance from 14,6 percent in November 1990 to 8,6 percent in December 1991.

The low level of economic activity was accompanied by a decrease in real gross domestic expenditure. The decline in domestic expenditure in the fourth quarter of 1991 amounted to an annualised rate of 2,5 per cent.

This further decrease in domestic expenditure reflected continued sharp declines in expenditure on consumer goods and services and on fixed investment, the Bank said.

Cutbacks in private consumption expenditure related to reductions in personal debt to avoid the prevailing high interest costs, were responsible for a rise in personal saving since the middle of 1990.

Despite large dissaving by general government, the gross domestic savings ratio rose steadily from a low of 18 per cent in the first quarter of 1991 to 19,5 percent in the fourth quarter, the Bank said.— Sapa.

'All South Africans will pay dearly'

(114)

MICHAEL MORRIS
Political Correspondent

ARG 3?
19/3/92

THE Budget will further squeeze taxpayers and burden future generations with debts because of the "profligacy and inefficient economic mismanagement of this government", the Democratic Party said in sharp reaction to the Budget.

Unshackling itself from its referendum alliance with the National Party, the DP made no bones about what it described as "a bad news" Budget.

Chief DP finance spokesman Ken Andrew declared in a stinging three-page statement: "The government talks glibly about efficient management and fiscal discipline, but proceeds to do exactly the opposite."

There was no immediate reaction to the Budget from the Conservative Party last night as it smarted from its humiliating defeat in the referendum.

But the DP, which helped despatch the right wing alliance at the polls, took at a swing at the government.

Said Mr Andrew: "The government has lost effective control of State expenditure and all South Africans are going to have to pay dearly for the continuing mismanagement of our economy by the government."

The government was "living beyond its means", mortgaging South Africa's future by borrowing R8,9-billion this year to spend on current expenditure.

"The cost of State debt has already more than doubled over the past four years — and this trend is going from bad to worse."

He said individual income tax had risen by 54 percent in two years and that "despite these large tax increases, social old-age pension parity has not been achieved, food relief for starving people remains inadequate and often doesn't reach them, and the price of fuel is to increase once again".

While the government said it wanted the private sector to generate wealth and economic growth, "it continues to appropriate an increasing share of gross domestic product for itself". This share now amounted to about 29,5 percent of Gross Domestic Product — up one percent since last year.

He said that in spite of claims by Mr Du Plessis of progress in eliminating fiscal drag, "income tax on individuals is to rise by R6,5-billion — nearly 50 percent faster than the rate of inflation".

However, Mr Andrew acknowledged positive features in the Budget, including allocations to education, housing and drought relief.

More money for education, health in tough Budget

ARG 19/3/92 (49)

TOM HOOD
Business Editor

ONLY limited tax relief came the way of consumers in a tough Budget presented to parliament yesterday.

To equalise social spending between the races, Minister of Finance Barend du Plessis announced huge spending increases for education, health and police, which left little room for substantial tax cuts.

Mr Du Plessis delivered the Budget against a background of a still weakening economy and escalating demands on stretched revenues.

Budget highlights:

- Record spending of R100 billion.
- R19 billion for education.
- Fuel levy up 8c a litre.
- Higher excise duty on tobacco and liquor.
- VAT unchanged.
- VAT exemptions on selected foods to end on March 31.
- R2 billion for public service pay rises.
- Transfer duty increased.
- Stamp duties on debit transactions up 50 percent.
- R3,3 billion for housing.
- Tax rebates increased.
- R2 billion for export incentives.
- System of self-assessment to start soon.
- State pensioners to get R1 billion more.
- Dividend income remains tax free.
- Married women's marginal tax rates increased.
- No change in maximum marginal tax rates for married and unmarried people.
- Tax threshold for married women raised.
- Tax rates for companies unchanged.
- Trading trusts to be treated as companies for tax purposes.
- Capital transfer tax not implemented.
- Withholding tax on interest not implemented.

● **See pages 18 and 19**

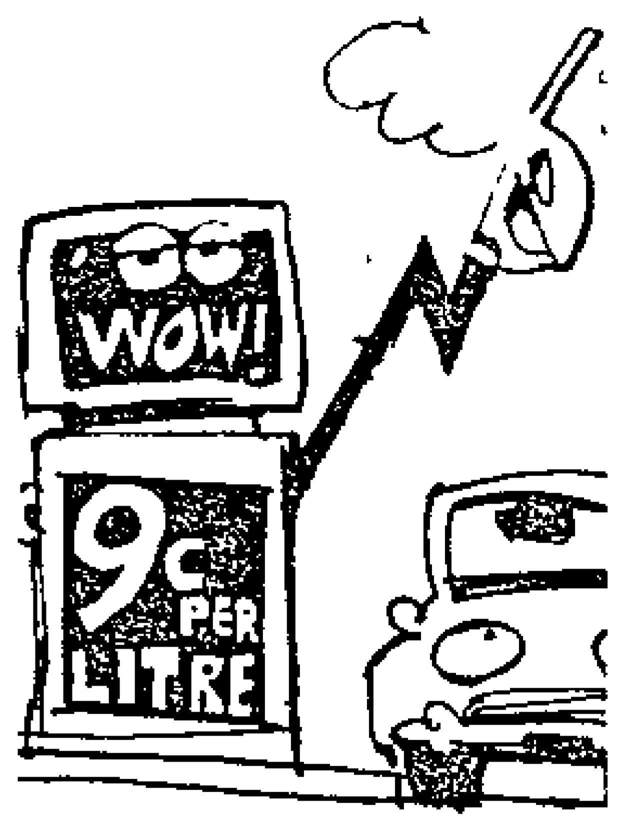
of ecstatic supporters cheered and sang "Happy birthday" to Mr de Klerk.

was very favourable, the Budget elicited a much more subdued response.

The Star

70c PWV (80c OUTSIDE THE PWV) incl   THURSDAY MARCH 19 1992   CITY LATE * *

1992 **BUDGET** 1992
SPECIAL
Full contents of speech by Finance Minister Barend du Plessis
PLUS
Facts, Figures, Analysis
Pages 3, 14, 15, 16, 17 and 25



Slight relief in Barend's tough Budget

STAR 19/3/92

Finance Staff (49)

There was little joy for taxpayers in yesterday's R100 billion Budget presented to Parliament by Minister of Finance Barend du Plessis.

Main points of the Budget were:

- Petrol up 8c a litre, with an additional 1c inland transport levy.
- Slight increases in tax on liquor, cigarettes and beverages
- Significantly higher sums allocated for education, health and housing.
- Increased social pensions and a further move to racial parity.
- R1 bn in drought relief
- Another R1 bn to fight crime.

After the euphoria and joy over the outcome of the referendum, in financial circles the Budget was called a "non-event" which would produce very little spark to economic growth.

The ANC and its allies, including the Congress of SA Trade Unions, threatened a general strike if the Government did not address its demands including the scrapping VAT on food, reduction of food prices and the immediate equalisation of pensions.

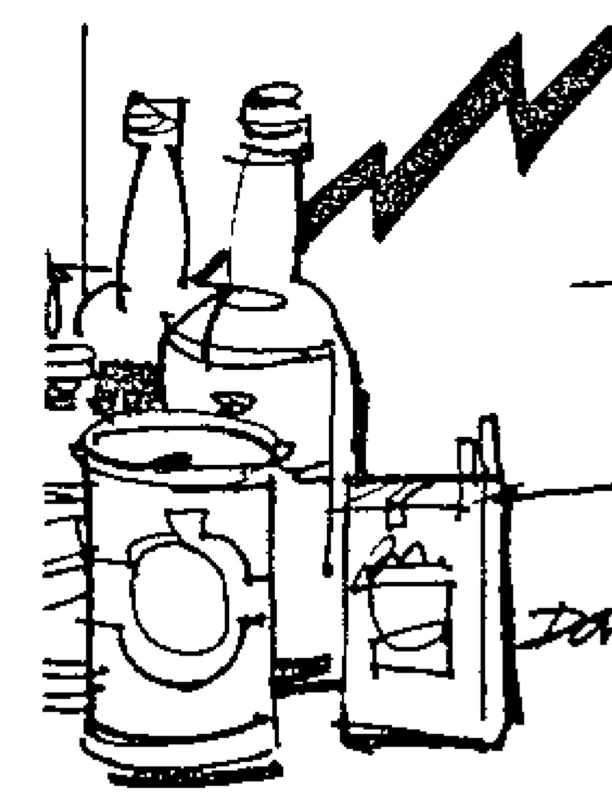
The total tax burden on individual taxpayers is set to increase further this year which, together with the increase in fuel prices, is bound to push inflation even higher.

Mr du Plessis was accused by analysts of having again used "sleight of hand" to disguise the fact that individuals will contribute in excess of 42 percent of Government revenue in the current tax year. This is up from 38 percent last year.

While the top marginal tax rate on individuals was maintained at 43 percent, Mr du Plessis announced tax concessions totalling R1,45 billion.

Dr Azar Jammine, chief economist for economic think-tank Econometrix, expressed his disappointment

● To Page 3



Slight relief from Barend

STAR 19/3/92 (49)

● From Page 1

at the Government's inability to contain its expenditure. This is set to increase in real terms by between 1 and 2 percent.

In a move aimed at equalising social spending on the races, the Minister announced massive spending increases for education, health and the police.

In a R1 billion bonus to State pensioners, the Minister announced a further narrowing in the pensions between whites and other races.

Civil servants received an unexpected sweetener when the Minister announced an amount of R2,3 billion for "the improvement of conditions of service". At the same time, however, Mr du Plessis said R250 million had been put aside for retrenchment costs.

The Budget's expenditure vote showed large increases ranging from 20 to 24 percent for education and health and a large R3,3 billion injection to address the vast backlog in black housing.

As expected, the SA Police was granted the bulk of the funds.

The Police Budget was increased by 21,8 percent to R5,65 billion, while the defence allocation at R9,7 billion was a mere 5,6 percent higher than last year.

Mr du Plessis once again focused on "luxury" goods to finance additional revenues, announcing increases in excise duties on tobacco, cigarettes, beer, spirits and beverages.

JSE gets (44) (62) 'yes' boost

STAR 19/3/92

By Magnus Heystek

Shares on the Johannesburg Stock Exchange surged yesterday as it became clear that President de Klerk had received overwhelming support for his reform plans.

The market started rising almost immediately as the first results started coming in. By the close, the overall market was 43 points higher at 3573 and the industrial index up by 62 points to 4758.

This happened despite a major strengthening of the financial rand from R3,98 in the morning to R3,70.

The Budget speech was delivered too late to affect the JSE, but analysts are confident that the market will rise even higher today.

The "safe-haven-period" for shares has been reduced from 10 years to five.

While the reaction of the business community to the outcome of the referendum was very favourable, the Budget elicited a much more subdued response.

● More reports – Pages 27 to 30

Big business urges action to kickstart the economy

STAR 19/3/92 (49)

By Paula Fray

As business reacted to the resounding "yes" vote, there were immediate calls last night for South Africans to harness the post-referendum optimism to rebuild the flagging economy.

SA Chamber of Business said yesterday the result should give a new thrust to business and investor confidence at home and overseas.

"The outcome of the referendum will undoubtedly have a positive influence on the medium and longer-term performance of the SA economy and should lead to any remaining sanctions being lifted soon," said president Hennie Viljoen.

The onus, he said, was now on South Africa to create an environment of stability and growth which would promote investment and job creation.

This view was echoed by Johannesburg Chamber of Commerce and Industry president Mike Cato who exhorted businesses to put the referendum behind them and focus efforts on growth and development.

National Productivity Institute executive director Dr Jan Visser agreed that people needed to put the referendum behind them and "get on with the job".

The "yes" vote gave South Africa an opportunity to confidently exploit its foreign economic relations in growing exports in order to kick-start the lagging domestic economy and achieve a higher overall economic growth rate, said Safto chief executive Wim Holtes.

Anglo American Corporation described the referendum result as "outstanding".

"White South Africans have unambiguously displayed good sense and humanity and have voted to continue negotiating a common future with their fellow South Africans," the mining corporation stated last night.

From an economic point of view, the biggest advantage of the referendum's conclusion was that insecurity had been removed, said Afrikaanse Handelsinstituut president Attie du Plessis.

The pro-reform result was a triumph of common sense over "yesterday's stereotypal thinking" according to Federated Hospitality Association of South Africa president Theo Behrens.

He said the mandate given to Mr de Klerk was a shot in the arm for the business community: "The hospitality industry, in particular, is confident it will be able to take its rightful place in the world again "

Castrol SA chief executive Derryck Spence said the overwhelming "yes" vote would allow the company to determine its destiny without outside interference as well as focus on attracting investment and expanding its operations

In property, a period of waiting ended yesterday for many sellers who had added in a "yes" vote clause to their sales

Seeff Organisation Holdings chairman Lawrence Seeff said the result was positive news for the property business.

Camdon group MD Scott McRae said the majority "yes" vote would produce a surge in value in the property market, boost the construction sector and attract overseas investors.

ArG 19/3/92

Interest earnings

(49)

THE Government did not propose to introduce a final withholding tax on individuals' interest earnings.

This was in line with a recommendation of the Committee on Promotion of Equal Competition for Funds in Financial Markets.

The Committee had investigated the withholding tax as a method of increasing the attractions of interest-bearing assets for savings.

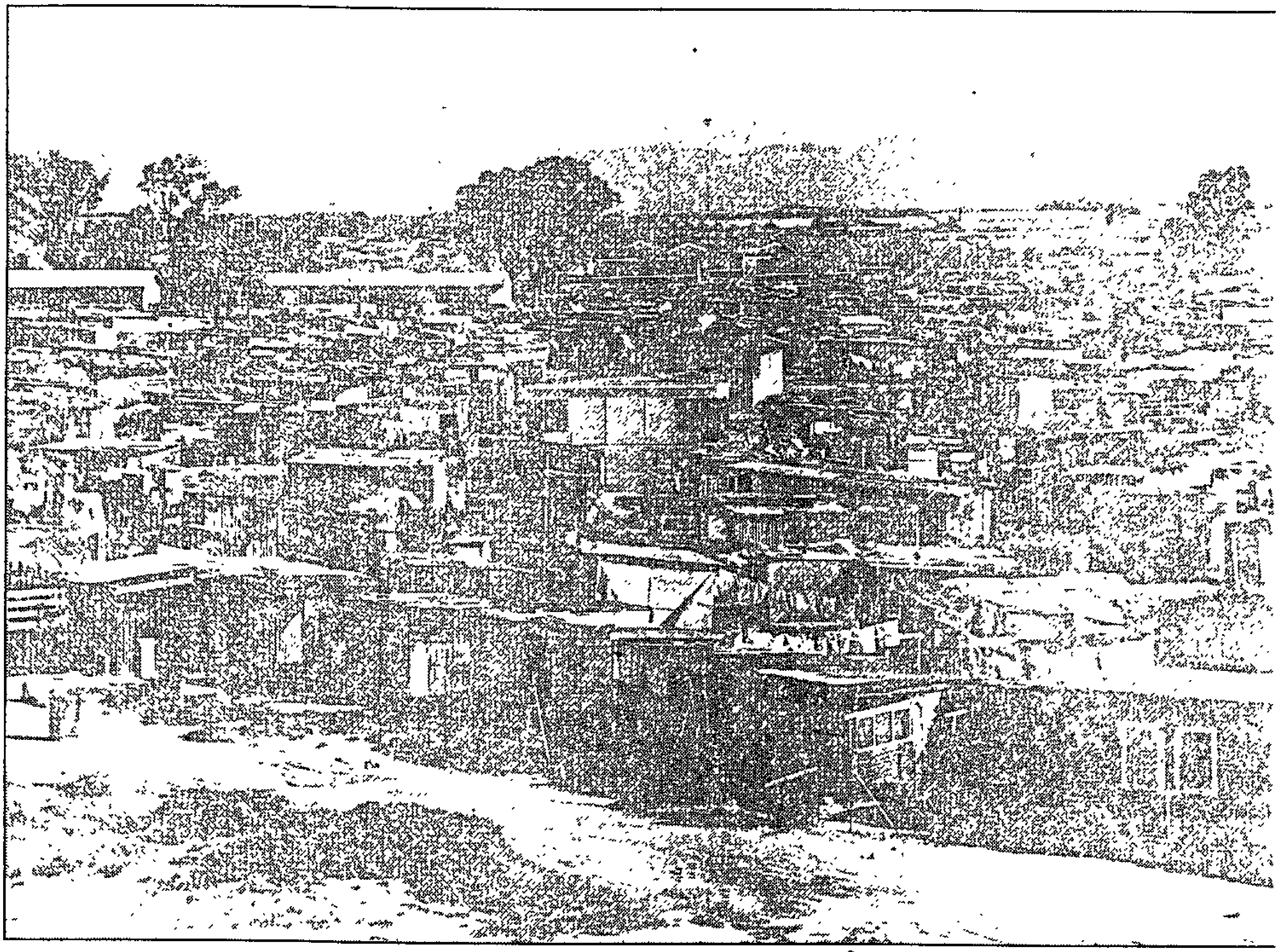
A tax of this sort would mean that existing legislation, under which interest income per taxpayer was exempt from tax up to the amount of R2 000, would have to be repealed.

Another implication was that if interest income were not added to other individual income for tax purposes but taxed separately at a comparatively low rate, these individuals would try to get the largest possible proportion of their income in the form of interest.

Apart from the fact that a tax on interest at a comparatively low final rate could mean average income tax rates of the individuals concerned could drop, the resulting reclassification of income could mean a further loss of revenue for the Exchequer.

A withholding tax could also present considerable administrative problems. — Sapa

Bu



Housing . . . R3,3 billion has been allocated in the budget to address the backlog in mainly black housing.

Private sector 'must contribute'

STAR 19/3/92

By Shirley Woodgate (49)

The R3,3 billion allocated in the budget to address the backlog in mainly black housing was a tremendous gesture which would have to be matched by the private sector, said housing consultant Philip Hamm.

"The current backlog is about 200 000 units per annum for the next 10 years. The cost of serviced stands, infrastructure and houses (is) about R4 billion a year.

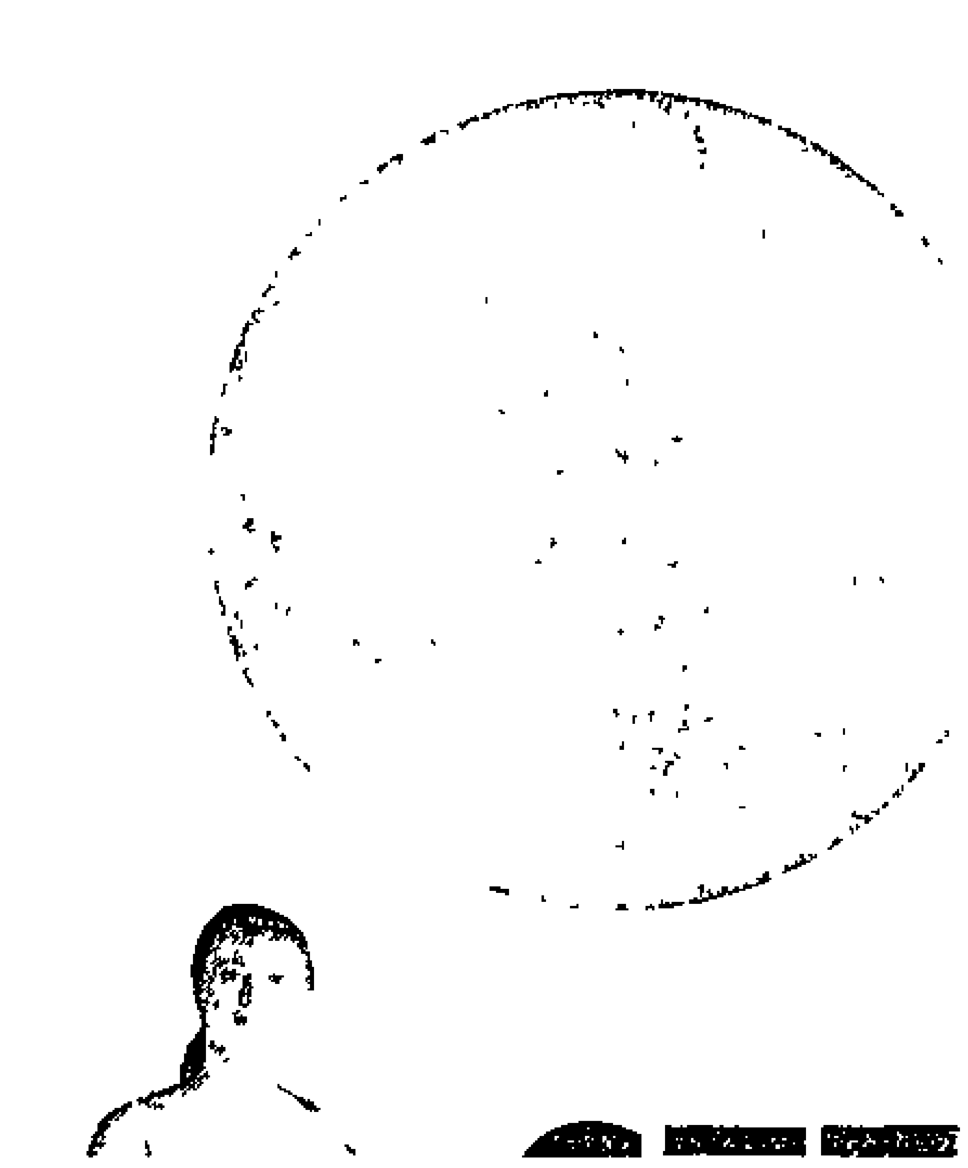
Mr Hamm predicted it could lead to an upsurge in job creation and land development.

"But there is no quick fix solution to our housing problem, which must include social upliftment and political participation which has already been instigated by the Government," he said.

The ANC said: "The Government's total allocations to housing budget appears to be broadly appropriate, but the central issue is the way these allocations are spent and managed.

"We have no faith in the ability of the departments responsible for these areas to deliver the services in an effective and efficient way.

"The absence of clearly defined goals and the maintenance of the apartheid bureaucracy will exacerbate the inefficient spending in these areas."



(47) MM 14/7/76

State spending surge could lead to higher interest rates

THE Government is clearly failing to bring its expenditure under control, economists said yesterday in reaction to the record R100-billion Budget for the 1992/3 fiscal year.

In his proposed Budget, Finance Minister Barend du Plessis said total expenditure in the Budget would amount to R100,7-billion against revenue income of only R84,79-billion.

This leaves a deficit before borrowing of almost R16-billion or 4,5 percent of Gross Domestic Product compared with 4,3 percent in 1991/2.

This level is not only well above the international accepted guideline of three percent of GDP, but will inevitably lead to higher borrowings and thus put upward pressure on interest rates.

Of the R16-billion deficit, R1,6-billion would be financed from funds released through the reduction of the oil stockpile and just over R1-billion from last year's surplus after borrowings.

The rest — R13,2-billion — plus loan redemptions totalling R5,3-billion present the gross borrowing requirements by the Government.

Economists fear the continued pressure on capital and money markets by the Exchequer will put renewed upward pressure on interest rates.

Mr du Plessis said the government planned to finance the deficit chiefly from domestic sales of about R18-billion with an additional R500-million coming from foreign loans.

More importantly, the ever-increasing demands on state spending have left little scope for further tax relief.

"The government would greatly have wished to make further progress with various tax reforms to which it is committed, such as the phasing out of the import surcharge, the further reduction of the top marginal rate of income tax on individuals and of the company tax rate, as well as the further phasing out of stamp duties and marketable securities tax," Mr Du Plessis commented.

"But the tight economic and fiscal conditions mean that these matters must stand over for the time being," he added.

The tough economic conditions played a major role in the low tax revenues, which fell about R2,5-billion short of budgeted targets.

Mr Du Plessis said that non-mining company tax alone was R1-billion short of the budgeted figure.

Individual income tax has thus once again become the major contributor to government coffers.

In 1991/2 individual income tax brought in R28-billion — 38,2 percent of total tax revenue. This is set to increase to R35,6-billion, or 40,3 percent of total tax income, in 1992/3, a burden which many individuals simply cannot afford.

In contrast, taxation from companies is only expected to contribute 17,4 percent compared with 35 percent in the early 1980s.

After initial hitches, VAT was running smoothly, Mr Du Plessis said, adding that income from VAT in 1992/3 was estimated at R21-billion compared with R18,7-billion which was paid in sales tax and VAT in 1991/2.

Mr Du Plessis gave no indications that the government was succesful in addressing the other side of the coin — namely reducing state spending.

He said, however, that a Central Economics Advisory Service had been formed to advise the government on a framework for expenditure ceilings. Twelve key expenditure items were subject to close investigation with a view to the development of multi-year expenditure plans.

Mr du Plessis said expenditure guidelines for all departments and administrations for the following three years would be announced in June.

Petrol, booze up in Budget

49

Sowetan 19/3/92

FINANCE Minister Mr Barend du Plessis yesterday tabled a Budget for 1992/93 that aims to close the discrepancies created by apartheid.

And to cushion the impact of increased social spending, Du Plessis announced, among other things, a 9c a litre increase in the price of petrol (8c at the coast) and 6c for diesel with immediate effect.

Other increases are:

- The price of beer goes up by 1,5c a 340ml dumpy and 4,8c a litre;
- Spirits such as brandy, whiskey and gin increases by about 1,5c a tot or 37,7c a 750ml bottle;
- Sorghum beer goes up by 1c a litre and sorghum powder 5c a kg;
- Cigarettes up by 2c a packet of 10;
- Cigarette tobacco 2c a 50g;
- Fortified wines (sherry and port) 10c a 750ml bottle;
- Ordinary wine 6c; and
- Soft drinks 2c a litre or about 0,7c a 340ml can.

The spin-off of this is that one percent of the total Budget of almost R100 billion has been allocated to close the gap between the pensions of black and white people.

Du Plessis intends reaching his target of absolute parity by the same time next year — a task which, in terms of his own calculations, will need another R1 billion.

Black pensions will be increased from R235 to R293, white pensions from R317 to R345 and coloured and Indian pensions from R314 to R345.

"If an acceptable method can be proposed whereby additional revenue can be found without harming this industry or causing uncertainty on the part of individuals over the value of their retirement provision, it may still be possible to take parity further in the course of this financial year.

"If not, the Government now gives a fixed undertaking that full parity in social assistance allowances will in any event be proposed in the following Budget," Du Plessis said.

Analysts see Budget as stimulatory for economy

STAR 19/3/92

By Duma Gqubule (49)

Economists yesterday described the Budget as a fairly stimulatory one that would give a mild boost to the economy currently in the throes of a deep recession.

Martin & Co economist Carmen Maynard said the budgeted 16,8 percent increase in expenditure was more than most economists had been expecting.

Following President FW de Klerk's warning that the Budget would be tough, many analysts had taken this to mean that the Government would announce deep expenditure cuts resulting in a budgeted spending increase of around 13 percent.

These cuts did not materialise, but Ms Maynard said because the economy was in recession, a slightly higher level of government spending was perhaps appropriate.

"The only things that will be growing in the economy this year are exports and government spending," she said.

There was, however, very little in the Budget for the business sector. Government policy over the past two to three years had given priority to the creation of a more favourable enviroment for private sector investment. R7 billion worth of concessions were granted to the business sector last year.

Because of tight government finances there was none of that this time.

Finance minister Barend du Plesis only announced a decision to "widen the parameters of the special special accelerated deductions under Section 37 of the Income Tax Act as a further incentive for investment and exports."

Mr du Plesis said he believed the fiscal incentives introduced during the past two years — including the VAT input credits, the reduction of import surcharges and the lower corporate tax rate — would begin to bear fruit.

"As far as the stockmarket is concerned the budget was a non event," Ms Maynard said.

"There is nothing in the Budget that will have any major effect on corporate earnings," she said.

Mr du Plesis reduced his growth estimates for 1992 from the 1,5 percent he forecast earlier this year to one percent, presumably because if the effect of the drought.

He said exports would be an important factor in the expected economic upturn. This would improve the already favourable balance of payments position, which was no longer dampening economic growth.

Barend gave — and he took away

STAR 19/3/92

By Paula Fray (49)

Finance Minister Barend du Plessis gave ... and he took away — that's the reaction from retailers to yesterday's long-awaited Budget speech.

"For the first time this week," said OK MD Gordon Hood, "I cannot give an unqualified "yes", as it is something of a curate's egg — some good and some bad."

Mr Hood said he was pleased the minister did not touch VAT. "I am also pleased to note the increases to pensioners and welcome his statement that full parity will be achieved next year.

"I am disappointed that there were no further reductions in surcharges or further reduction of company tax and that no further exemptions on basic foodstuffs were forthcoming.

The budget was "fair" in trying economic situations, said Checkers/Shoprite Group MD Whitey Basson.

He cautioned, however, that consumers would be hard-pressed to accommodate the ripple effect that increased fuel levies would have on prices.

Big slices for SAP, health and education

STAR 19/3/92

By Sven Lunsche
Economics Editor

49

CAPE TOWN — Finance Minister Barend du Plessis yesterday announced huge spending increases for education, health and the SA Police in the 1992/3 financial year.

In a R100 billion Budget presented to Parliament, Mr du Plessis set aside R1 billion each to bridge the pension gap between races and for a drought disaster fund. The large expenditure increases for health, education and the police — ranging from 21 to 24 percent — were achieved against a meagre increase in the expenditure vote for the SA Defence Force.

More reports — Pages 14, 15, 16, 17 and 25

Total expenditure for the fiscal year is budgeted at R96,5 billion against a revised total of R86,4 billion in 1991/2. Apart from the R1 billion set aside for pensions and the drought disaster fund, R850 million has been set aside for civil service pension and retrenchment costs.

The Budget continued the Government's recent policy of channeling more resources in the direction of socio-economic development. "The shift in resources must be carefully synchronised with tax reform so that the combined impact of all fiscal measures promotes economic growth and job creation on the one hand and the meaningful distribution of incomes and opportunities on the other," Mr du Plessis said.

Providing an expenditure breakdown, the Minister said education services would receive R19,05 billion, an increase of 24 percent. This amount does not include salary improvements for teachers or spending on education for the TBVC states.

A sum of R9,93 billion has been set aside for health services, 22 percent more than in the previous year. Mr du Plessis said a large portion of the funds would serve the objective of devolving all primary health care services to local authorities.

The Government also set aside R3,3 billion to address the vast backlog in housing, particularly for the black community.

Mr du Plessis announced a strong shift in the allocation of funds for the protection services. "The high incidence of crime and violence mean that the reductions achieved on the Defence budget in the past two financial years have largely had to be reallocated to policing, the administration of justice and corrective services," he said.

The Police budget was increased by 21,8 percent to R5,65 billion on the back of a 14 percent increase last year.

The R9,7 billion allocated to the SADF represents a relatively small rise of 5,6 percent.

Property leaders delighted over prospects in wake of vote

STAR 49 19/3/92

By Frank Jeans and Meg Wilson

Property leaders are joyous over prospects for all sectors of the market on the back of the resounding yes for President de Klerk's reform initiative.

The overwhelming response by South Africa's three million white voters opens the way for more confident foreign investors to look again at the viable property opportunities awaiting their wealth of funds.

There is consensus in the market place, however, that amid the referendum euphoria it would be wrong to assume a sudden surge in property.

There remains persistent economic sluggishness and the bogey of high interest rates, combined with the ever-widening gap of affordability.

Nevertheless, there is no doubt that the referendum outcome has laid the foundation for a positive movement in property.

Les Weil, chairman of property group, JH Isaacs, says: "The decision by the white electorate will assist us to take-up our rightful place in the world community, where global and regional interaction are vital for our economic development

"Investors, both local and overseas, are now reassured."

Mr Weil believes that, as new investments are made, all sectors of the property market will benefit.

He endorses the view, too, that in relative terms South African property remains cheap, so that the current recessionary conditions provide a sound opportunity for purchasers and tenants to secure or let property on favourable terms.

A further favourable factor resulting from the massive yes is that many property transactions which were conditional on a positive vote will be concluded, thereby helping to get markets moving again.

"With a new constitution showing stability and sensible ecnonomic policies there are a lot of friends abroad who would like to see this country succeed and play a leading role in subcontinent," says Mr Weil.

While he cautions against hopes of an immediate property upturn in view of the struggling economy aggravated by prolonged drought, the JHI chairman has no doubt that "looking back five years from now some very wise property decisions will have been made in 1992"

Gerald Leissner, managing director of Anglo American Property Services, has no doubt that the commercial and residential markets will pick up but he does not envisage a huge rush of new investment and development.

"International investment still depends on politics and on perceived investment potential," he says.

"Certainly, there will be more foreign investors and potential investors coming to look."

Sanlam Properties general manager development, Fanie Lategan, believes major institutions will now definitely be taking another look at projects that had been shelved for some time.

He expects the market will show definite signs of an upturn by the end of the year, and growth in 1994, ending the longest downturn ever

New developments will have a multplier effect on the economy, ultimately putting more money in the pockets of buyers.

However, in line with most other commentators, Sanlam points out that there are other factors which affect the market, such as continuing violence, a persistent lack of confidence among local investors and the need for some economic stimulus, such as a further drop in bond rates.

Sanlam is also concerned at the existing affordability gap, and Danie van der Berg, general manager in charge of specialist projects, including the company's residential developments, says developers entering the market now will have to take special cognisance of this.

Eskel Jawitz, of JH Isaacs-Eskel Jawitz Real Estate, says renewed confidence will now come back into the market.

"Realistically, though, the real hard work now begins because we have to understand that a yes vote will not bring about an overnight miracle."

BUDGET

Government expenditure 'still too high'

(49)

STAR 19/3/92

By Michael Chester

Taxpayers were warned by economists last night to brace themselves for more steep increases in income tax bills in the next 12 months — despite various concessions claiming to ease the load on middle-income breadwinners.

The director of the Econometrix think-tank, Dr Azar Jammine, forecast that individual taxpayers would again be hit by the backlash of soaring Government expenditure.

Revive

Economist Rudi Gouws of Rand Merchant Bank agreed: "There are several favourable elements in the 1992 Budget," he said. "But it is the personal taxpayer who will carry the can for the absence of cut-backs in Government spending and a growing deficit.

"The Budget will provide few stimulants to revive consumer spending," Mr Gouws added. "Because of the impact of fiscal drag on after-tax disposable incomes, household finance will remain under strain in the months ahead.

"I really expected to see more signs of reductions in the expenditure of many Government departments."

Dr Jammine said: "Quite clearly, the Government intends relying on fiscal drag and still bigger revenues from tax-payers to close a deficit that widens every year.

"First calculations show that revenue from individual income tax will climb from R28 billion last year to about R35 billion in the new 1992/93 tax year.

"Taxpayers need to be reminded that in 1980/81 their tax burdens accounted for only 15,6 percent of total Government revenue. Their share rose to 37,5 percent last year — and now it is going to reach perhaps as high as 40 percent."

Meanwhile, Government expenditure was set to grow by 16,5 percent, which, even allowing for a high inflation rate, meant that State spending was rising faster than the economic growth rate.

"We are still on the merry-go-round of higher and higher Government spending and higher and higher tax bills.

"In mitigation, the Minister of Finance had little leeway to ease the burden in view of the changes in the political situation.

"Only as recently as January 24, President de Klerk was promising unprecedented fiscal discipline and raising hopes of cuts in taxation. Now we see the very opposite."

However, the SA Chamber of Business said the Minister of Finance had little option but to follow a conservative approach in drawing up the 1992 Budget against the backdrop of continued tight economic conditions.

Decline

Economic performance still dictated prudence with respect to tax cuts but Sacob believed more positive economic trends should unfold later in the year.

"It seems that total Government expenditure, expressed as a percentage of gross domestic product, will not decline this year. This disappointing performance is largely responsible for the high expected deficit before borrowing."

Unfortunately, the Budget in itself offered no immediate encouragement for the attainment of the higher rate of economic rate that was required.

Sacob regretted that the Minister had to resort to another increase in the fuel tax.

R2-bn for pension fund welcomed

STAR 19/3/92

By Michael Sparks

There was not much in the Budget to keep public servants happy, Public Servants Association head Hans Olivier said last night.

Only two aspects of the Budget directly affect public servants — and only after they had stopped working, he said.

"We really welcome the decision to top up the pension fund by R2 billion since many of our members want the pension fund privatised.

"This will help bring the fund back in line with where it should be," he said, referring to money the Government had taken out of the fund for various projects.

Mr Olivier added he was also pleased by the R30 minimum monthly increase for civil pensioners, with the actual increase depending on years of service.

"There is no provision for support from the fund to increase, so this will provide some welcome relief and we greatly appreciate it.

However, we would obviously like to see some provision made which would take inflation into consideration."

Mr Olivier added that the nearly R2,3 billion announced as an increase in the total wage bill was all but irrelevant as it stood.

"It means nothing. That money will go on promotions, grade increases and possibly the creation of new posts, especially in the police."

Wage negotiations are currently stagnant with the latest offer from Government at 8,82 percent, while the association demands a 15,3 percent increase, including improved housing subsidies and other benefits.

Mr Olivier added it was then up to the association to divide the funds and decide how much would be spent only on wage increases.

Mr Olivier said his organisation's 90 000 members were currently deciding on what, if any, action they should take regarding wage negotiations.

Teachers Federal Council head Allan Powell said the Budget did not contain enough detail about the R2 billion allocated improving service conditions for teachers.

The TFC had advised the Government that improvements in salaries should at least take note of increases in the inflation rate. The Budget did not contain detail on this point, only a lump sum, and negotiations would continue on salary increases, he said.

The TFC supported moves to achieve equity in educational spending between the various departments, he said.

Dr Malcom Verter, President of the South Africa Teachers' Association, said SATA did not welcome teacher retrenchments, but the body had always supported moves toward equity in the provision of education.

University of Cape Town registrar Hugh Amoore said the new Budget maintained existing university subsidy levels. This penalised the institutions as inflation had caught up with their state provisions.

All universities had been hit by this and had had to increase tuition fees. If the allocation to universities did not increase in the next budget further fee increases would follow, he said.

The Government was continuing to shift the burden of paying for university education from the tax payer to the fee payer.

IFP criticises budget proposals as 'not addressing wealth disparities' (49)

STAR 19/3/92

IFP president Chief Mangosuthu Buthelezi criticised Finance Minister Barend du Plessis' budgetary proposals as "not visionary enough" in addressing black/white wealth disparities.

The IFP, however, welcomed the planned additional expenditure on health, education and housing.

He said that although whites were the main contributors to State coffers, they received only 27c in a rand back in terms of social benefits.

To improve black education, housing and health services the Government would have to do more than just cut down on the benefits for white taxpayers.

"Quite clearly, the disparity in black/white wealth needs to be attended to as a matter of great national urgency. However, there could not be a simple redistribution of wealth by taking from the haves and giving to the have-nots," he said.

Chief Buthelezi said Mr du Plessis could not dramatically increase the taxation burden of "the haves". — Political Staff.

R1-bn not enough, says farm union

STAR 19/3/92

Finance Staff (49)

While agriculture is grateful for the R1 billion set aside in the Budget to alleviate the plight of farmers, the Government will have to revise its priorities to enable it to make a greater contribution, says the SA Agricultural Union.

And the increase in the diesel fuel price, which was "very disappointing", would cost agriculture more than R50 million a year.

Dr Koos du Toit, the union's chief economist, said it was still attempting to ascertain how much money would be required to prop up agriculture and put it on the road to recovery.

However, preliminary indications were that it would require much more than the additional R1 billion earmarked in the Budget.

Therefore, it was assumed this was merely a preliminary allocation and further funds would be made available at a later date.

The union welcomed the 21 percent increase in the allocation for the SA Police and trusted this would enable the force to restore law and order on the platteland.

Women, elderly benefit in Budget

STAR 19/3/92

49

A reshuffle of tax brackets will benefit mainly married women and the over-65s. TOM HOOD reports from Cape Town.

ALMOST R1,5 billion will be given away to taxpayers, including married women and the over 65s, as a result of income tax changes in the Budget.

Main benefit involves R1,225 billion given from a reshuffle of tax brackets to compensate for fiscal drag (inflation).

Married women will now pay the same tax as unmarried women on their investment income and save R195 million while the elderly get additional rebates worth R30 million.

Both married and unmarried taxpayers gain from tax bracket changes.

Finance Minister Barend du Plessis said tax relief over the past two years was focused on the neutralisation of fiscal drag and where possible even a real reduction of the direct tax burden on individuals.

The outcome was a lowering of the top marginal rate of tax to the present 43 percent.

Because of the limited funds available this year, it had been decided to target relief on those who had been most exposed to fiscal drag, said Mre Du Plessis.

A move was also being made towards a simpler tax rate structure with fewer and wider income bands. This also required some minor adjustments to the tax rebates.

As an illustration of the proposals, a married person with two children and a taxable annual income of R35 000 whose income rose by 10 percent from 1991-92 to 1993-93 would find the average tax rate under the old scales would have risen from 15,1 to 16,7 percent.

But under the new scale it dropped to 14,9 percent and the tax payable dropped by R655 in 1992-1993.

Mr du Plessis said intention was gradually to bring the tax scales for married women in line with those for unmarried women and this would go ahead this year.

The scale for married women with a taxable income up to and including R40 000 would be brought in line with that for unmarried persons.

In the process, however, the top marginal rate for married women would be raised from 38 to 40 percent to bring it closer to that for unmarried women.

The primary rebate would be raised from R800 to R900 and all married women with a taxable income of R80 500 or less would benefit.

A married woman with a R30 000 taxable income and whose income rose by 10 percent and whose average tax rate under the old scales would have risen from 21,9 to 23 percent, would find her average tax rate falling to 21,3 percent and she would pay R570 less tax this year.

Mr du Plessis said the separate taxation of married women women had considerably improved the tax position of the working married woman.

He said the government was fully aware of the deteriorating income position of many elderly people who with great sacrifice had made their own provision for retirement.

This year it was proposed to increase the additional rebate for the over 65s from R2 100 to R2 500.

As a result of the changes, a married couple above 65, each having a separate taxable income above these thresholds and who enjoyed the maximum interest concession, would in future become liable for tax only when their joint taxable income rose above R46 173, compared with the present R41 258. □

Relief for lower- and middle-income groups

Finance staff STAR 19/3/92

The Budget was not a growth budget, but gave some relief to lower- and middle-income groups, accomplished with higher pensions and wider tax bands, Dr Jan Visser, executive director of the National Productivity Institute, said yesterday.

The move from direct income tax to indirect excise duties should, in principle, benefit productivity, because direct taxes tended to punish performers, while indirect taxes were neutral.

49

The higher expenditure on housing, health and education could in the longer term benefit productivity improvement

It was a difficult Budget, because the Minister had limited room to manoeuvre in that he was restricted by high current expenditure at the expense of more productive capital projects, which could increase employment and productivity.

Govt income from taxes less than expected

STAR 19/3/92

(49)

By Sven Lunsche

CAPE TOWN — Government income from taxes was over R2,1 billion less than expected in last year's Budget, Mr du Plessis said.

However, personal tax continued to contribute an ever greater portion of total tax income, as fiscal drag more than wiped out the one-percent cut in the marginal tax rate in last year's Budget.

Switchover

Mr du Plessis said the switchover from GST to VAT and lower company profits had reduced the budgeted tax revenue level by R2,15 billion to R64,5 billion in 1991/2.

Total revenue for the past year, comprising income from taxes and customs and excise duties, was R73,2 billion, 9,6 percent higher than in 1990/1.

For the year ahead the Government has budgeted for a 15,8 percent increase in tax revenue to R84,8 billion, excluding transfers from the strategic oil fund.

Volumes

In the past fiscal year SA's higher trade volumes with the rest of the word had lifted income from Customs and Excise duties by R500 million above the budgeted estimate to R8,75 billion

Mr du Plessis said the introduction of VAT had gone exceptionally smoothly.

Nevertheless, the combined income from GST/VAT over the year at R18,4 billion was R1 billion below budgeted level, which Mr du Plessis said was due to the reduction in the VAT rate from 12 to 10 percent.

Taxes from non-mining companies were about R1,1 billion lower than budgeted, which Mr du Plessis ascribed to slightly lower company tax and poorer company profits.

Breakdown

Providing a breakdown of tax contributions to total revenue, he said personal income tax last year made up 38,2 percent of tax revenue in 1991/2, compared with 33,1 percent in 1990/1.

The share of the main indirect tax — GST/VAT — in total tax revenue fell from 27 percent in 1990/1 to 25,1 percent in 1991/2.

Alliance threatens huge mass action

STAR 19/3/92

CAPE TOWN — Unprecedented levels of mass action, including a national strike, would be initiated by the ANC/SACP/Cosatu alliance if the Government refused to meet the demands contained in the Peoples' Budget by June or July, Cosatu general secretary Jay Naidoo said yesterday.

Addressing a press conference in response to the, he said the Budget presented by Finance Minister Barend du Plessis had not addressed the demands raised by the three movements.

Mr Naidoo said that, following the landslide "yes" majority in the referendum, the Government should enter into "decisive negotiations with the democratic movement on major socio-economic issues facing our people".

The alliance's key demands include an end to unilateral restructuring of the economy, Government involvement in an Economic Negotiation Forum to debate key economic issues, no VAT on food, electricity, medicines and medical services, the reduction of food prices and the equalisation of pensions.

Tito Mboweni, of the ANC's economic policy department, said the ANC rejected the Government's unilateral adoption of fiscal policy without more representative involvement.

He said social expenditure in key areas such as social welfare and poverty relief, pensions, employment creation, health, education and housing showed "precious little evidence" of the Government's commitment to meet pressing social needs.

The ANC had proposed a Fiscal Commission to examine different tax options. While it had no specific policy in favour of a wealth tax, the movement believed in shifting the tax burden from the individual to "those who can afford it".

Dr Bernie Fanaroff of the Co-ordinating Committee of VAT said the Budget had failed to address major demands such as a zero-VAT rating on food, services, medicines and medical services, properly planned poverty and drought relief schemes and the stablisation of food prices.

He said the committee would seek meetings with the Minister of Finance, control boards and other bodies to pursue its demands. —Sapa.

- The Budget would force trade unions to take a much tougher stance during metal industry pay talks which begin today, secretary of the Confederation of Metal and Building Unions Ben Nicholson said. He said the Budget would have a negative impact on workers' pockets.

Laste	1992-02-29 R	1992-01-31 R	Verandering R
Sekuriteite:			
Regering	316 891 160,83	507 309 153,73	(190 417 992,90)
Ander	1 134 985 045,00	1 134 985 045,00	—
Ander bates	14 478 443 427,94	14 493 849 569,48	(15 406 141,54)
	R27 868 854 043,89	**28 506 211 388,61**	**(637 357 344,72)**
Rand per fyn ons	900,792	898,15	2,64
Goudbesit in fyn onse	6 448 953	6 469 112	(20 159)

Pretoria, 9 Maart 1992.

C. J. SWANEPOEL,
Hoofbestuurder.

NOTICE 245 OF 1992

SOUTH AFRICAN RESERVE BANK (49)

Statement of assets and liabilities on the 29th day of February 1992

Liabilities	1992-02-29 R	1992-01-31 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	10 393 040 717,00	10 589 439 277,00	(196 398 560,00)
Deposits:			
Government	8 555 253 558,91	9 668 460 272,19	(1 113 206 713,28)
Provincial administrations	458 171 012,80	360 795 904,54	97 375 108,26
Deposit-taking institutions	744 603 885,60	491 281 070,99	253 322 814,61
Other	50 950 472,65	86 977 879,63	(36 027 406,98)
Other liabilities	7 587 002 533,82	7 229 425 121,15	357 577 412,67
	R27 868 854 043,89	**28 506 211 388,61**	**(637 357 344,72)**
Assets			
Gold	5 809 152 249,50	5 810 233 058,70	(1 080 809,20)
Foreign assets	3 647 404 479,59	3 553 848 585,87	93 555 893,72
Total gold and foreign assets	**9 456 556 729,09**	**9 364 081 644,57**	**92 475 084,52**
Domestic assets:			
Discounted bills	1 247 866 205,51	1 820 156 205,51	(572 290 000,00)
Loans and advances:			
Government	—	—	—
Other	1 234 111 475,52	1 185 829 770,32	48 281 705,20
Securities:			
Government	316 891 160,83	507 309 153,73	(190 417 992,90)
Other	1 134 985 045,00	1 134 985 045,00	—
Other assets	14 478 443 427,94	14 493 849 569,48	(15 406 141,54)
	R27 868 854 043,89	**28 506 211 388,61**	**(637 357 344,72)**
Rand per fine ounce	900,79	898,15	2,64
Gold holdings in fine ounces	6 448 953	6 469 112	(20 159)

Pretoria, 9 March 1992.

C. J. SWANEPOEL,
General Manager.

(20 Maart 1992)/(20 March 1992)

KENNISGEWING 246 VAN 1992

DEPARTEMENT VAN HANDEL EN NYWERHEID

Hiermee word kennis gegee dat die volgende promesse uitgereik deur die Departement van Handel en Nywerheid aan Mellor Pumps soos hieronder uiteengesit, verlore geraak het:

NOTICE 246 OF 1992

DEPARTMENT OF TRADE AND INDUSTRY

Notice is hereby given that the following promissory not issued by the Department of Trade and Industry to Mellor Pumps as set hereunder, has been mislaid:

THE BUDGET

Could this be Barend's last stand?

IF SO, IT'S A PITY IT WAS SUCH A NON-EVENT

FM 20/3/92 (49)

Coming after white voters' sweeping endorsement of reform, Wednesday's Budget was bound to be an anticlimax. In the event, this was not only because the referendum result was a hard act to follow but because the Budget was little more than a housekeeping operation. Finance Minister Barend du Plessis had already signalled this when he said early on Wednesday that the Budget would not disturb the "delicately poised economic situation."

What the economy needs, of course, is a radical revamp.

However, within the parameters of the negotiations at Codesa and in the face of vociferous opposition from extra-parliamentary organisations to any "unilateral restructuring," Du Plessis presumably felt he had no option but to take a neutral line. He may well see himself as a caretaker, so confined himself to minor adjustments to the Exchequer Account balance sheet.

But if this is in fact Barend's last Budget, he missed the opportunity to present a case for sound economic management. Though he may not have felt free to make radical changes to policy so close to the creation of an interim government, says Wits' Merton Dagut, he could have outlined the steps needed to solve the deep-seated structural problems in the economy and highlighted the dangers of attempting to deal with them through short-term measures.

Du Plessis' handicap of course is the poor economic record of his own party, which has mismanaged fiscal policy for so long and undermined its own credibility; but he could have passed on to his successors the benefit of experience — his eight years in office and a long line of predecessors who experimented with a variety of interventionist measures.

Perhaps, after the referendum campaign, Du Plessis had lost his flair for drama.

What he achieved was a Budget described by economists as mildly stimulatory. The deficit of nearly R16bn, is 4,5% of GDP, considerably higher than last year's budgeted 3,4% and marginally higher than the actual 4,3%. The net borrowing requirement is lower at R13,2bn because R2,7bn is funded from the NSPF and CEF. This amounts to 3,8% of GDP — almost the same as the revised ratio for 1991-1992.

With loan redemptions of about R5,3bn, the gross borrowing requirement will be R18,5bn, "to be financed chiefly from domestic stock sales of about R18bn, including expected new investments of R10bn by the Public Investment Commissioners. Foreign financing is estimated at about R500m."

This should not unduly strain the domestic capital market.

From a macro-economic viewpoint, though the deficit is excessive in relation to the IMF guideline of 3% of GDP, it comes at a time when demand has been low and the recession protracted. So it is not expected to cause a sudden surge in demand.

But several aspects are worrying. One is that R1bn is being brought forward from the surplus (after borrowing) generated in the previous fiscal year. That means money removed from the system in 1991-1992 will be returned to it in the year ahead. Excessive liquidity has bedevilled monetary policy for more than 18 months now and will presumably continue. This will hold interest rates higher than they would otherwise have been.

continue →

FM 20/3/92 (49)

Another R2bn of the loan surplus was transferred to government pension funds to be reinvested with the Exchequer. The full balance of R3,8bn in the Stabilisation Account is to be transferred to the Contingency Account to reduce the shortfall on the forward cover account.

The second area of concern is that the eventual deficit may prove to be even higher.

Expenditure is budgeted to rise 16,5% to R100bn and revenue 15,7% to R84,8bn. Government's record on spending discipline does not inspire confidence — it may overshoot yet again. And revenue estimates may well be optimistic, says Senekal Mouton & Kitshoff economist Louis Geldenhuys.

This fiscal year tax revenue is expected to be R1,6bn less than originally budgeted, bringing the revised estimate to just over R73bn — 9,65% above actual collections in the previous year.

While there is a reasonable chance of economic recovery later this year, the chance that it will improve enough to yield the revenue Du Plessis wants is less than reasonable.

The third problem about a deficit which is excessive by IMF standards is that it may prove self-perpetuating. Government expenditure tends to snowball because each year's projections are based on the previous year, while revenue collection is at the mercy of economic activity.

continue →

Du Plessis argued that what he did achieve in the Budget, was "large scale expenditure which directly or indirectly benefits all the people of this country . . . without raising the tax burden materially. A shift has been made in that burden through an increase in specific indirect taxes such as fuel and non-essential excisable products."

Despite the emphasis on indirect taxes, the Budget contains important elements of redistribution, largely through fiscal drag. The phased reduction in company tax and the top marginal tax rate, designed to counter the impact of fiscal drag, was postponed.

In March 1990, Du Plessis announced a five-year phased reduction of the top marginal rate on individuals from the then 45% at a threshold of R80 000 to 40% at R100 000. That year he went part way, reducing the rate to 44% but retaining the threshold. Last year he dropped the rate to 43%, still retaining the threshold. This year he changed neither.

The planned reduction of corporate taxes met the same fate. After promising to reduce the rate from the 50% applicable in 1989-1990 to 40% within five years, the rate is still 48%, where it will stay for fiscal 1992-1993.

These promises were made at a time when revenues were way over target and the moment seemed right for supply side initiative.

Now that revenues have dwindled, the burden of increasing the tax take in the year ahead will fall heavily on fiscal drag, so the Minister is loath to sacrifice this. Moreover, the main thrust of this burden has been shifted to higher-income earners because the income bands which determine tax rates have been reduced and broadened, for:

- ☐ Married people from 15 bands to 10;
- ☐ Unmarried from 12 to 9; and
- ☐ Married women from 11 to 8.

The effect of this, says Ernst & Young's Sally de Boor, is to create tax benefits among lower-income earners because they remain in the lower rungs for longer. Conversely, higher-income earners reach the top notch sooner.

Also postponed are cuts in the surcharge on imports, in view of the tight fiscal position. The rates have fallen in the past two years and "other important concessions have already been made," says Du Plessis.

As expected, there are to be additional excise duties on a range of luxury items — but these amount to only R295m. Also expected was an increase in the petrol levy, which produces almost R1bn.

The only substantial potential source of additional income would have been an increase in the VAT rate from 10%. But that is politically unacceptable. Only a more broadly based government will have the clout to move in this direction.

By way of diversion, Du Plessis recorded that the introduction of VAT had "gone exceptionally smoothly notwithstanding teething troubles corresponding with the experience in other countries."

On the expenditure side, detail is lacking. "In the course of this debate and the ensuing

WHAT YOU WILL PAY (1)

Married women

1991-92			1992-93 (at proposed rates)		
Taxable income	Tax paid	Average rate %	Taxable income	Tax paid	Average rate %
8 000	520	6,5	8 800	672	7,6
11 00	1 150	10,5	12 100	1 341	11,1
14 000	1 840	13,1	15 400	2 046	13,3
17 000	2 590	15,2	18 700	2 838	15,2
20 000	3 400	17,0	22 000	3 710	16,9
25 000	4 920	19,7	27 500	5 250	19,1
35 000	8 320	23,8	38 500	9 010	23,4
45 000	12 060	26,8	49 500	13 160	26,6
55 000	15 860	28,8	60 500	17 550	29,0
65 000	19 660	30,2	71 500	21 950	30,7
80 000	25 360	31,7	88 000	28 550	32,4
120 000	40 560	33,8	132 000	46 150	35,0

Note: The calculations are based on a 10% growth in taxable income in 1992-93.
Source: Budget

WHAT YOU WILL PAY (2)

Married persons (2 children)

1991/92			1992/93 (at proposed rates)		
Taxable income	Tax paid	Average rate %	Taxable income	Tax paid	Average rate %
17 000	770	4,5	18 700	1 015	5,4
20 000	1 400	7,0	22 000	1 695	7,7
25 000	2 550	10,2	27 500	2 850	10,4
35 000	5 300	15,1	38 500	5 755	14,9
45 000	8 650	19,2	49 500	9 595	19,4
55 000	12 500	22,7	60 500	14 085	23,3
65 000	16 550	25,5	71 500	18 705	26,2
80 000	22 800	28,5	88 000	25 715	29,2
100 000	31 400	31,4	110 000	35 175	32,0
150 000	52 900	35,3	165 000	58 825	35,7

Note: The calculations are based on a 10% growth in taxable income in 1992/93.
Source Budget

WHAT YOU WILL PAY (3)

Unmarried persons

1991-92			1992-93 (at proposed rates)		
Taxable income	Tax paid	Average rate %	Taxable income	Tax paid	Average rate %
11 000	135	1,2	12 100	291	2,4
14 000	765	5,5	15 400	996	6,5
17 000	1 475	8,7	18 700	1 788	9,6
20 000	2 225	11,1	22 000	2 660	12,1
25 000	3 675	14,7	27 500	4 200	15,3
35 000	7 125	20,4	38 500	7 960	20,7
45 000	11 075	24,6	49 500	12 395	25,0
55 000	15 225	27,7	60 500	17 055	28,2
65 000	19 515	30,0	71 500	21 785	30,5
80 000	25 965	32,5	88 000	28 880	32,8

Note: The calculations are based on a 10% growth in taxable income in 1992-93
Source. Budget

Continue →

Review of interest rates on the cards

BDay 20/3/92

LINDA ENSOR and MARCIA KLEIN

CAPE TOWN — The Reserve Bank would have no option but to review Bank rate and interest rates in the light of this week's Budget, Reserve Bank vice-president Jaap Meijer said at the Old Mutual/Nedbank panel discussion on the Budget yesterday.

Meijer would not comment on speculation in the markets yesterday that a drop in Bank rate of up to two percentage points was imminent, but dampened any expectations that might be based on the contents of the Budget alone. "It is my personal view that the Budget has not done anything to allow an easing of monetary policy where an easing of policy was not under consideration before," Meijer said.

(49)

He said Reserve Bank Governor Chris Stals would make an announcement shortly on the monetary guidelines on money supply for 1992, and that this would include a statement on Bank rate.

The Reserve Bank regarded the Budget as mildly stimulatory in the Keynesian sense of taking up extra capacity rather than making a major contribution to growth, Meijer said. It was not a Budget orientated towards the supply side.

He said Finance Minister Barend du Plessis' degree of freedom was extremely limited, as the economy was at a low ebb and government revenue, therefore, was also low. For that reason, it had been difficult to implement the reforms proposed by the late Wim de Villiers.

Meijer added that the Reserve Bank was "thrilled" that education had received so much attention, as this was just about the most constructive thing that could be done to achieve redistribution through growth.

Bankers said yesterday any decision to cut Bank rate by two percentage points would go against Stals's persistent warnings that interest rates would come down only in line with an appreciable declining trend in inflation. A bank economist said a two percentage point decline from 17% would be in complete contrast to what had been done in the past, and it would cast doubt on Stals's sincerity about maintaining a strong monetary policy.

But bank sources said a reduction in the

☐ To Page 2

Interest rates

BDay 20/3/92 (49)

☐ From Page 1

Bank rate was a possibility, and could stem from increasing pressure on the Bank to try to stimulate economic growth.

The economist said with the Bank rate of 17% being only about one percentage point above the inflation rate, it could be argued that it was only a marginally real interest rate. However, he said, the Reserve Bank had to recognise inflation was here to stay.

Positive real interest rates might have curtailed a further rise in inflation, but they had not managed to reduce it, so the Bank was fighting a losing battle, he said.

Continued high interest rates would lead to more liquidations and insolvencies and further pressure on consumers.

He said the Reserve Bank would have to weigh up all the factors, and it could take a decision to reduce interest rates in the light of a further increase in inflation which was sure to follow increased fuel levies and excise duties and the drought.

● See Page 8

Govt acts to boost consumption

Hire purchase restrictions to be relaxed

49

B/Day 20/3/92

BILLY PADDOCK, SIMON WILLSON and LINDA ENSOR

CAPE TOWN — Hire-purchase restrictions will be eased next week, says Finance director-general Gerhard Croeser.

Yesterday, Trade, Industry and Economic Co-ordination Minister Derek Keys also said measures to stimulate consumption in the economy would be announced next week.

Keys declined to detail the measures, but intimated that one would originate in his department. His reluctance to specify any other stimulus left open the possibility that a cut in official interest rates has been agreed with the Reserve Bank.

Croeser, speaking at the Old Mutual/Nedbank Budget forum yesterday, said the new HP conditions would be gazetted next Friday.

Minimum deposits on cars would drop to 10% (15%) and the maximum repayment period would be lengthened to 54 months (42 months). Minimum deposits for furniture would fall to 10% (12%) but the repayment period would remain at 24 months. Minimum deposits on imported white goods would also drop to 10% (12%).

Keys, responding in an interview to criticisms that the Budget did not do enough to stimulate growth in an economy still experiencing its longest post-war recession, said: "By next week it will be apparent the Budget isn't the whole story."

He said government was watching the economy's consumption levels more closely than its investment flows, and that consumption was more important and easier to monitor than investment.

On the Budget being devoid of economic incentives to foreign investment at a time when political obstacles were falling away, he said there was no reason to give foreign investors an advantage over local investors

"I don't think I could ever justify giving the foreign investor a special deal that the SA investor could not get. We are not in a position to compete for the truly mobile international investor who will go to places like Ireland, which is much closer and has no tax."

SA did not want to compete in that league, he said. SA did not want "the marauding investors", such as international textile companies intent on getting out of other countries where they were tied to restrictive agreements. Should they come to SA the same measures would have to apply to prevent their opportunist practices.

Foreign investors would come into the SA market when they wanted to "I am in possession of a great truth when they want to come in, they will come in on their own terms. They will negotiate with us and we will do business."

Foreign companies "would come in their droves" once SA had the conditions where local companies were investing more concertedly.

Keys said there would be no new incentives to stimulate local export industry, beyond that announced on Budget day, because local industry was operating at below capacity and there was no need for

☐ To Page 2

HP restrictions

B/Day 20/3

encouragement and enticements. Taken with the General Export Incentive Scheme, full VAT input credits and GST scrapped on capital, there was nothing more government could do.

The Budget was exactly the sort needed at the bottom of a recession and the large deficit was necessary at this stage. The deficit would not have been allowed had there been any pressure or difficulty in access to capital, he said.

He said the state was at this stage not involved in talks about an economic forum because this would have to come through Codesa. But some business and employed labour were involved with talks.

Once an interim government had been established, a triangular arrangement for talks would get off the ground formally At the interim government stage economic policy would become the number one priority. It would be critical to come to some arrangement about labour, linking wage increases with productivity and generally stabilising increasing wage demands.

Keys said deregulation was proceeding

From Page 1

1/42 (41)

but government could change things only at a primary level As soon as this was done, second- and third-tier authorities jumped in to re-regulate

He said there was a great "head of steam" behind the Industrial Development Corporation report on tariff protection when he arrived in office, "but I called a hold on it" He said SA needed an anti-dumping mechanism in place before tariffs were reduced "If we want to carry deregulation through we have to go for a cultural change deeper than that we have had so far," he said Five years was too short a period, 10 years was a better goal.

With regard to privatisation, Keys said no one would want to buy the Post Office, Telkom or Spoornet at this stage because they were not yet ready to be bought

Privatisation was not seen by government as a source of revenue but as a means to stimulate competition He said the process was going ahead to commercialisation — the halfway stage to privatisation

● See Page 3
● Comment: Page 10

FM 20/3/92

(49)

THE STATE OF THE ECONOMY

Here's how the economy shapes up, starting with government spending figures released in the Budget:

☐ Government expenditure is estimated at R86,4bn for the year ending March 30, or 17% up on the 1990-1991 total but just 1,6% above budget;

☐ Revenue is pegged at R73,2bn, or R1,6bn less than budgeted, the result of lower tax revenues; and

☐ The deficit before borrowing is put at R13,2bn, nearly 80% higher than 1990-1991 and more than 30% higher than the budgeted amount. The deficit is 4,3% of GDP, well over the 3,4% budgeted.

GDP fell by 0,5% last year, the same drop as in 1990. In real terms, GDP per capita fell 2,7% in both years. This was the result of:

☐ Agricultural production falling 1,5%, compared with a fall of 7,5% in 1990;

☐ Mining production falling 1,5% last year, compared with a 1% fall in 1990. But production rose in the second half of the year after declines for three straight quarters caused by lower demand in major industrial countries;

☐ In the secondary sector, economic activity dropped 2,5%, the result of less manufacturing production; and

☐ In the tertiary sector, the real value added rose 0,5%, the same as in 1990.

Total real GDE fell 0,5% last year, compared with a fall of 2,5% in 1990 and 0,5% in 1989. A breakdown shows:

☐ Real private consumption expenditure rose 2%, the same increase as 1990 but less than the 3% in 1989; and

☐ Real consumption expenditure by general government rose 5,5%, compared with 1,5% in 1990. This was caused by an increase of more than 1% in real labour remuneration and by a more than 10% increase in real expenditure on intermediate goods and services.

Real gross domestic fixed investment fell 8,5% last year, after a 1,5% fall in 1990. Investment fell in both the private and public sectors.

The ratio of gross domestic saving to GDP declined to 19%, compared with 21,5% in 1990. The average for the Eighties was 24,5%. The ratio of net personal saving to personal disposable income, however, rose from less than 1% in the third quarter of 1990 to 3% in the fourth quarter of last year.

Average real wages rose by 1,1% in the first half of last year but by 2,3% over the whole of 1990.

The current account of the balance of payments showed a surplus for the year of R7,4bn, up from R5,8bn in 1990. This was largely the result of greater exports.

After slowing from 1988-1990, net capital outflows jumped last year to R6,1bn, up from R2,9bn in 1990. This was mostly the result of the abolition of the preferential rate on forward cover in September, which reduced the amount of foreign trade finance used.

Net gold and foreign reserves rose R1,4bn last year. Gross reserves rose R2,5bn, compared with a R359m rise in 1990.

The real, effective exchange rate of the rand was fairly stable last year, falling only 0,1%.

Growth in the broadly defined money supply (M3) was distorted last year by introduction of the Deposit-Taking Institutions Act in February. This led to the re-intermediation of former off-balance-sheet items, and saw M3 growth go from 10,2% in January 1991 to 15% over the next 10 months, well outside the target of 8%-12%. If the distortions are excluded, however, M3 grew by 9,7% from last March to January at a seasonally adjusted annual rate, well inside the target.

WHAT THE ALLIANCE WANTS

(49)

FM 20/3/92

Budget-day marches organised nationwide by the ANC-Cosatu-SACP alliance culminated in the presentation of the "economic demands of the people" to government on the steps of parliament.

The two-page memorandum to President F W de Klerk and Finance Minister Barend du Plessis was handed to the President's legal adviser by ANC secretary-general Cyril Ramaphosa and ANC western Cape organiser Allan Boesak.

It says the alliance will have no option but to intensify mass action unless its demands are met. Noting among other things that "the white minority regime continues to make unilateral decisions on crucial issues such as the use of our taxes," a list of demands is presented calling for a Budget that:

- ☐ Cuts military spending;
- ☐ Stops giving money to secret projects such as the CCB;
- ☐ Stops funding useless and duplicated apartheid structures;
- ☐ Introduces equal pensions; and
- ☐ Concentrates on solving housing, electricity, health and education problems.

It reiterates the demand for an end to privatisation and unilateral restructuring of the economy. "Instead, government must participate in forums on the economy, education, housing and health to negotiate any major changes and bring immediate relief to the poor."

Cosatu's well-known demands on VAT are also included — adding that, at the very least, the zero-rating of eight foods must be extended beyond the end-March deadline, and that the rate must not rise.

"Special provisions" are called for for small business, though not spelt out, and a properly negotiated poverty relief programme as well as drought relief "aimed at all communities" effected.

Finally, the alliance says the price of food must be brought down. Just like that. "Government must guarantee that prices of basic foods are maintained or reduced until at least March 1993." Failing all this, stepped-up mass action is threatened.

What would be more interesting would be for the ANC to unveil its long-awaited economic policy document giving details of how it plans to restructure the economy and, indeed, bring down food prices.

FM 20/3/92

(49)

THE BUDGET IN A NUTSHELL

Revenue: Expected to increase 15,7% over revised 1991-1992 estimate to R84,75bn. Personal income tax will contribute R35,5bn, up 22,5%; non-mining companies R13,4bn (up 7,3%); gold mines R472m (-15,7%); other mines R855m (-7,2%). VAT will provide R21bn (up 12% on last year's GST/VAT collections) and Customs & Excise R11,2bn (up 28,4%). The balance comprises mining leases, sundries, transfer and stamp duties.

Expenditure: Estimated at R100,7bn, up 16,5% on revised estimate for 1991-1992. This is after accounting for a suspension of certain VAT payments by the State, and supplementary proposals regarding social pensions, contributions to pension funds, retrenchment costs, drought relief and special projects financed from the sale of assets and strategic supplies.

Financing: Deficit before borrowing expected to be R15,9bn or 4,5% of GDP. R1,6bn will be financed by the sale of assets and strategic supplies, and a further R1bn will come from the 1991-1992 surplus. This will reduce the deficit to R13,2bn or 3,8% of GDP. Loan redemptions will be around R5,3bn, bringing the gross financing requirement to R18,5bn. Domestic stock sales of R18bn are expected to finance this, including expected R10bn new investments by the Public Investment Commissioners.

Education: Up 24% to R19bn, or 5,4% of GDP.

Feeding schemes: R440m for nutritional development programmes.

Social assistance: R1,7bn to be provided for social assistance allowances, including increases in pensions to narrow discrepancies in the population groups: whites by 10% to R345 a month; coloureds and Asians by 16% to R318; and blacks by 25% to R293.

Housing: R2,2bn, and a further R1,1bn from development agencies and the self-governing areas.

Health: Up 22% to R9,9bn.

Defence: Up 5,6% to R9,7bn, but down 7,5% in real terms.

Police: Up 13,8% to R5,6bn.

Job creation: Special projects involving R1,6bn. An additional R5bn from the development agencies is expected to flow into new jobs.

Public servants: R2,3bn for improvements in remuneration.

Civil service pension fund: R2bn from surplus after borrowing to be transferred to the funds. A further R578m to be granted to the Temporary Employees Pensions Fund and the Authorities Service Pension Fund.

Civil pensions: Minimum increases of R30 a month, to be financed initially from the Civil Pension Stabilisation Account, so requiring no additional Exchequer contribution.

Military pensions: Up 5%, costing R17m.

Retrenchment costs: Reserve of R250m to be created.

Drought relief: R1bn set aside, to be incorporated in supplementary estimates once allocations are finalised.

VAT: One third, or R306m of government departments' VAT expenditures, is suspended.

Beer: Up 1,5c a can or "dumpy", or 4,8c/l. Expected increase in revenue: R108m.

Spirits: Whisky, brandy and gin will attract an extra 37,7c/750 ml bottle. Expected increase in revenue: R48m.

Cigarettes: Up 2c per 10 cigarettes or 2c per 50 g of cigarette powder. Expected increase in revenue: R93m.

Pipe tobacco and cigars: Up 10c/kg. Increased revenue: R1m.

Cold drinks and mineral water: Up 2c/l or 0,7c/340 ml can. Increase in revenue: R25m.

Fortified and sparkling wines: Up 13,3c/l or 10c/750 ml bottle. Increased revenue: R4m.

Unfortified wines and other fermented drinks: Up 8c/l or 6c/750 ml bottle. Increased revenue: R9m.

Sorghum beer and powder: Up 1c/l or 5c/kg powder. Increased revenue: R7m.

Fuel: Increase of 8c/l for petrol and 6c/l diesel. But farmers' rebate to be increased by 2c/l. Expected increase in revenue: R939m.

Transfer duty: Exemption ceiling raised from R30 000 to R50 000 on property with a dwelling or a flat on a sectional title, and from R12 000 to R20 000 on unimproved land acquired with the object of erecting a dwelling.

Trade duty payable by natural persons to be changed to 1% on first R50 000 and 5% above that, company rate raised from 5% to 7%. Expected increase in revenue: R160m.

Income tax: No change to top marginal rate (43%). But minor adjustments to favour those who have been longest exposed to fiscal drag. Income bands will be made fewer and wider. Scale for married women with taxable income up to R40 000 to be brought in line with that of unmarried persons, but top marginal rate for married women will go from 38% to 40%. Rebates for the elderly are raised. Total tax relief on individuals: R1,4bn.

Stamp duty on debit transactions: Duties on credit card, cheque, transmission and Telebank account transactions will be raised from 10c to 15c from May. Expected increase in revenue: R35m.

Business trusts: Will be treated as companies for tax purposes. Details will emerge in the Income Tax Bill to be submitted later in the year.

Expected increase in revenue: R5m.

Income Tax on mining: Re-adjustment in tax formula for gold mines to bring them in line with corporates. The fourth stage in phasing out the surcharge on non-gold mines. Expected combined forfeiture in revenue: R53m.

STATE PENSIONS (49)

FM 20/3/92

Shortfall transfer

A further R2bn is to be transferred from the 1991-1992 loan surplus to the five State pension funds, which are still heavily in deficit. Last year's Budget provided R1bn to reduce the actuarial shortfall.

Though the consulting actuaries say the shortfall has been reduced substantially, through taxpayers' injections and by freeing the funds to invest in equities, it will, according to the *Budget Review*, take up to 25 years before all the funds are actuarially fully funded.

Finance Minister Barend du Plessis' R2bn handout contains a catch, and the fund administrators may wonder what happened to their new-found investment freedom: "The monies will be reinvested with the Exchequer to supplement the contribution of the Public Investment Commissioners to the financing of the 1992-1993 Budget," he said.

Some would say that the whole exercise is little more than a self-financing left hand pocket to right hand pocket sleight of hand, involving no transfer of real resources, but it may keep the actuaries happy — at least, for the next year or so. ■

Budget 'mean and misleading'

(49) CT 20/6/92

JOHANNESBURG. — The Congress of South African Trade Unions yesterday described the 1992 budget as "mean and misleading".

Cosatu said in a statement on behalf of the ANC/SACP/Cosatu alliance that in his budget speech in Parliament Finance Minister Barend du Plessis had often referred to the need for discussion and consensus, but he had repeatedly refused to discuss any part of his budget or his social programmes with representatives of the people.

"He said that there is growing consensus on how to handle the 'gap between wants and means', but he won't discuss it. He talked about the direction of investment towards newly-urbanised people being determined by the market and by democratic political processes', but he more than any other minister has refused to participate in any democratic process of discussion of socio-economic issues."

Cosatu said Du Plessis had initiated investigations into food prices and into the effects of VAT, but had refused to discuss either of these issues with the Co-ordinating Committee on VAT.

● The budget was a rich man's budget. It was insensitive and it ignored the political process taking place today, ANC president Nelson Mandela said yesterday.

He also called for closer consultation between the government and the ANC over the compilation of the budget.

Mandela told a press conference in Cape Town: "We understand that drawing up a budget is a highly confidential matter which must only be known when it is read by the Minister of Finance.

● The Co-ordinating Committee on Value Added Tax (VCC) yesterday condemned the 1992 budget and called for massive consumer resistance to it.

● Many transportation organisations were undecided on what actions to take in the light of the announcement that the petrol price was to be increased by 9c a litre at midnight tonight.

Spokesmen for Putco and Pretoria United Taxi Association (Puta) said no decision had been taken when they were approached for comment yesterday.

● Despite increased budgetary allocations, the finance ministers of the five of the six self-governing territories are dissatisfied with their amounts for the 1992/93 financial year.

Plan to get SA buying again

CT 20/3/92 (49)

Political Staff

THE government will announce a plan next week that it says will stimulate the economy.

The measures to stimulate consumption will be revealed by Trade, Industry and Economic Co-ordination Minister Mr Derek Keys.

He would not give details but the possibility was left open that a cut in official interest rates had been agreed with the Reserve Bank.

Meanwhile, the Director-General of the Department of Finance, Mr Gerhard Croeser, announced that hire-purchase restrictions were to be eased next week.

PENSION PARITY WILL COST BILLION

See PAGE 9

New conditions would be gazetted next Friday.

Speaking at the Old Mutual/Nedbank budget forum yesterday, he said minimum deposits on cars would drop to 10% (15%) and the maximum repayment period would be lengthened to 54 months (42 months).

Minimum deposits for furniture would fall to 10% (12%) but the repayment period would remain at 24 months. Minimum deposits on imported white goods would also drop to 10% (12%).

Mr Keys, responding yesterday to criticisms that the budget did not do enough to stimulate growth in an economy still in its longest post-war recession, said: "By next week it will be apparent that the budget isn't the whole story."

He said the government was watching consumption levels.

Mandela says Budget insensitive to the poor

Political Staff (49)

CAPE TOWN — The Budget was a rich man's budget and ignored the political process taking place in SA, ANC president Nelson Mandela said yesterday.

"Because the Budget plays such an important role in the redistribution of resources we would expect some consultation, especially with the ANC," Mandela told a news conference.

"It is quite inappropriate in our view that (government) could bring out a Budget which is so insensitive without taking into account the views of the organisation which is responsible for this process.

"Over the years, we have been faced with the question that the Budget has always been looked at from the point of view of the whites, not from the point of view of the poor. The announcement by (Finance Minister) Barend du Plessis that the zero-rating of basic foodstuffs is going to be lifted is something that is extremely insensitive."

THEO RAWANA reports that ANC economics policy spokesman Max Sisulu told a seminar in Johannesburg that a feature of the Budget was its "ethnical allocation" and its lack of "transparency".

The seminar was organised by the Nafcoc economic research unit, the Southern Transvaal African Chamber of Commerce (Soutacoc) and the Soweto Chamber of Commerce and Industry (SCCI).

"The budget was undemocratic in that the people had no part in its planning, it was framed to address apartheid priorities and we have no way of getting a breakdown of allocations and monitoring these," Sisulu said.

B/Day 20/3/92.

Molefe Mafole, of the PAC's economic committee, said: "The Budget comes from corporate and business taxes, our income tax and other sources, but distribution fails to improve the quality of life like social services roads and housing."

Instead of addressing the allocation of land for farming and housing to those from whom land had been taken, government had given R1bn to farmers who had been hit by the drought.

☐ Sapa reports that Cosatu yesterday described the Budget as "mean and misleading".

In a statement on behalf of the ANC/SACP/Cosatu alliance, Cosatu said Du Plessis had often referred in his Budget speech to the need for discussion and consensus, but he had failed to discuss any part of the Budget or his social programmes with representatives of "the people".

Treasury bill tender tests market

B/Day 20/3/92 (49)

HAROLD FRIDJHON

THE weekly Treasury bill tender is to be divided into bills with three maturities from today, three months, six months and nine months.

In aggregate, the bills on offer will remain R200m but the breakdown in today's tender will be R100m in three months' paper, and R50m in both the six months and the nine months periods.

Money market opinion is that with this week's tender, the Reserve Bank is testing the market's response to bills with longer maturities than the customary 90 days and it is assumed that if the demand for 6-month and 9-month paper is strong, the Bank will try to meet part of that demand.

The money market has been hyper-liquid for some months now with insufficient assets for investments

Bankers' acceptances are in short supply and banks have made informal representations to the Reserve Bank to create new instruments.

The stretched-out maturities will give some flexibility both to lenders and to the Treasury. And perhaps Wednesday's Budget will enable the Bank to increase its borrowing in the short-term market.

Government stock turnover trebles to more than R60bn

B/Day 20/3/92

(49)

CAPE TOWN — Turnover in government stock in which the Reserve Bank trades has almost trebled to more than R60bn in the 1991/2 year which ends on March 31, the Finance Ministry said.

This was 10 times higher than in 1989/90, it said in a review of monetary issues and strategy.

During the 1991/2 financial year the Reserve Bank, working closely with the Finance Department, continued to promote a more active two-way market in government stock, to improve its negotiability and keep the cost of new loans by the state as low as possible.

The Reserve Bank also continued to increase its presence in the option markets for government stock.

The average monthly amount of government stock options traded rose from R912m in 1990/1 to R2,3bn in the first nine months of the 1991/2 financial year.

Central government's marketable stock debt continued to play a dominant role on the capital market, the Reserve Bank said.

At the end of 1991, the domestic marketable stock debt amounted to R100,1bn.

Treasury bills are also being used much more than in the past as an instrument of monetary policy and state debt management, it said.

"Stock debt management therefore remains very important as a monetary policy instrument," it added.

It also plays a major role in the co-ordination of monetary and fiscal policy.

It said the magnitude of state debt not only had implications for the exchequer but also influenced the execution of monetary policy.

"In recent years efforts have therefore been made to improve the state's borrowing capacity, to encourage borrowers to invest in state paper, and in particular to enhance the marketability of government stock."

These efforts are reflected in the rising ratio of marketable stock to total debt — from 0,71:1 in 1980 to 0,92:1 in 1991, it said. — Reuter.

Govt 'will easily finance deficit'

(49)

B / Day 20/3/92

LINDA ENSOR

CAPE TOWN -- Government would not have any difficulty financing the 3,8% deficit before borrowing, Finance director-general Gerhard Croeser said yesterday.

The deficit of R13,2bn excluded prefinancing of the total deficit which brought the deficit to 4,5% of GDP.

Speaking at the Old Mutual/Nedbank forum on the Budget, Croeser said R8bn would derive from the Public Investment Commissioner; R2bn from money allocated to civil pension funds and loaned back to government and R2bn from the already presold paper for delivery in the new year.

The remaining R1,2bn which would be raised on foreign markets and from the launch of new products such as zero coupon bonds.

Croeser said the good news was that financing the deficit would not exert any pressure on long-term interest rates.

The deficit was higher than desirable but this was a function of the lower revenues. A 3% deficit was the goal, he added.

Economists and business leaders at the forum expressed concern about the effect of fiscal drag on consumer spending would seriously undermine prospects for a consumer-led economic recovery.

They pointed to the fact that due to fiscal drag, the tax on individuals would go up about 22% in a situation of no growth.

Sacob director-general Raymond Parsons said fiscal drag now represented about 4% of GDP.

Nedbank MD Richard Laubscher said the possibility of a consumer-led recovery did not look good and there was not much to suggest that a major upturn in business conditions was likely and that business should start building up inventories.

However, he was positive on the export front and said business should start to look for opportunities.

Croeser said to completely eliminate fiscal drag, government would have needed R3bn but had only R1,45bn available and structured its tax proposals in such a way as to take care of fiscal drag at the lower levels which were most affected.

If VAT had been left at 12% government would have had an extra R4bn which would probably have been used to reduce direct taxation, Croeser said.

Budget tailored to revive growth in our changing times

BIDay 20/3/92

JAPIE JACOBS

(49)

THE Budget for 1992/93 can be described as expansionary — measured in terms of the increase of 16,5% in total government spending and the deficit before borrowing amounting to 4,5% of GDP

This Budget in many ways resembles the Budget for 1991 92. It unfortunately continues the process of dissaving, which for 1992/93 amounts to 2,8% of GDP This is an aspect that needs to be redressed in future budgets if we want to increase SA's savings ratio which may be as low as 17% for 1992 — compared with only 19% of GDP in 1991.

The Budget is hardly likely to satisfy the monetary and fiscal purists. However, it has to be judged against the background of the prevailing recessionary conditions, the resultant stagnating tax base on the one hand and the demands for socio-economic services for the underprivileged on the other.

The Budget is nonetheless not confined to addressing SA's pressing socio-economic needs, to which more than 40% of government expenditure is allocated, but also to reviving sound long-term economic growth.

There is adequate spare capacity available in the economy to accommodate the increase in domestic spending, and a rise in capacity utilisation may in fact pave the way for an upsurge in fixed investment.

Government continues to subscribe to the policy of restructuring the economy, but the stagnant tax base and pressing socio-economic needs have limited its options to continue with the implementation of its programme of tax reform

Total government expenditure as a percentage of GDP rises to 28,7% (28,1% in 1991/92); indirect taxes continue to contribute 41% to total tax revenue, which is fairly low for a developing country like SA.

Equity considerations, both on the taxation and expenditure side of the Budget, weighed heavily with the authorities in its compilation I reject the accusation that incentives to promote economic growth favour the so-called capitalists and that SA would have been far better off had this revenue been used to redress socio-economic imbalances.

The point is made furthermore that fixed investment, in view of the prevailing uncertainties, is unlikely to respond to these tax incentives and that tax resources are consequently squandered.

Tax incentives, like tax credits for VAT in respect of investments and accelerated depreciation make inroads on tax revenues only if companies perform well. It rewards companies for their performance and it must consequently be clear that if investment does not materialise, the exchequer does not forfeit any revenue.

Tax revenue is estimated to rise during 1992/93 by 15,8%, which may be a surprise to many observers.

Some relief, totalling R1,2bn, to reduce the effects of fiscal drag have been granted to middle income groups, but it has not been possible in this Budget to continue with the process of fiscal reform started two years ago, which forms an integral part of the policy of restructuring the economy. Available resources did not allow enough scope to eliminate fully the effects of fiscal drag on income tax paid by individuals.

It was likewise not possible to continue with the programme of phasing out the surcharge on imports as well as stamp duties and marketable securities tax, and to reduce further the tax rate of companies — which may disappoint the private sector.

Dividends received by the taxable fund of insurers continue to be taxed, and the maximum marginal tax rate which applies on income accruing to these funds remains unchanged.

We are expecting an upturn in the economy in the second half of the year, in which respect the convincing "yes" vote, the progress at Codesa and the prospect of mounting an economic forum should contribute materially. Business confidence will no doubt be boosted by these events and foreign interests in SA are likely to rise.

In judging the estimated rise in tax revenue for 1992/93, cognisance must be taken of the fact that this rise is based on a low base The deficit before borrowing for 1992/93 of R15,9bn is fairly high and in any event involves a substantial amount of dissaving. It would therefore have been imprudent in those circumstances, or daring, as others might describe it, to have considered any meaningful tax concessions.

Gross domestic saving for 1992, after provision for dissaving by the public sector, is estimated at R59bn, which amounts to only 17% of GDP. Net saving (on this basis, that is, after dissaving by the public sector) is estimated at only R8,3bn.

The Public Investment Commissioners will contribute R10bn in the year ahead to the Treasury's net borrowing requirements, a further R1,6bn will be raised by reducing the stockpile of strategic commodities and R1,1bn of the loan surplus of 1991/92 will be transferred to meet the loan requirements for 1992/93.

It leaves an amount of R3,2bn in the form of new funds which need to be raised in the capital market, of which a portion has already been raised by forward sales. The rest of the public sector borrowings is looking towards raising a total of R6bn from the capital markets.

If one takes into account that contractual savings for 1992 are estimated at R52bn, it becomes clear that the public sector will not exert any upward pressure on capital market rates during 1992. Interest rates in general are, in fact, in the process of softening.

Apart from the fact that various employment creating programmes also figure in the Budget, notably in respect of housing, measures to promote sound long-term industrial development of an export-oriented nature have also been announced The corporate sector, through rights issues, has made use of the high equity prices on the JSE to raise new capital estimated at R15bn The private sector is fairly liquid at the moment, and I feel confident we can expect to see some investment action from this front.

Some of the recommendations of the Jacobs committee are reflected in the Budget Review, of which the main elements are

☐ The introduction of a low rate final withholding tax on interest is not feasible.

☐ The free fund approach for long-term insurers is proposed, in which respect the corporate fund is to be taxed at the company rate and the income accruing to the taxable fund (the policyholders' fund) should be taxed at the average marginal rate of policyholders Dividends accruing to this latter fund must be exempted from tax; and

☐ Deposit-taking institutions should be permitted to establish subsidiaries to market products similar to the investment products offered by insurers.

As we were struggling in compiling the Budget, we could not resist the temptation to reflect on what the position could have been but for the conflict which erupted around 1984/85 and gave rise to the subsequent spate of violence, disinvestment, sanctions and the outflow of capital. The growth rate since 1985 has averaged about 1%, but in normal circumstances would have been higher by between 2%-3% a year This is the price we have paid for not resolving the conflict, and it therefore behoves all people to use their energies to move towards a new dispensation.

The unemployed and the people suffering from hunger are paying the price for our past follies. We cannot afford to prolong them any further

☐ Jacobs is special economic adviser to the Finance Minister. This address was delivered to a Budget seminar presented by Frankel, Max Pollak, Vinderine in Johannesburg on Wednesday night.

FM 20|3|92

RBQB: WHO SPENT WHAT

(49)

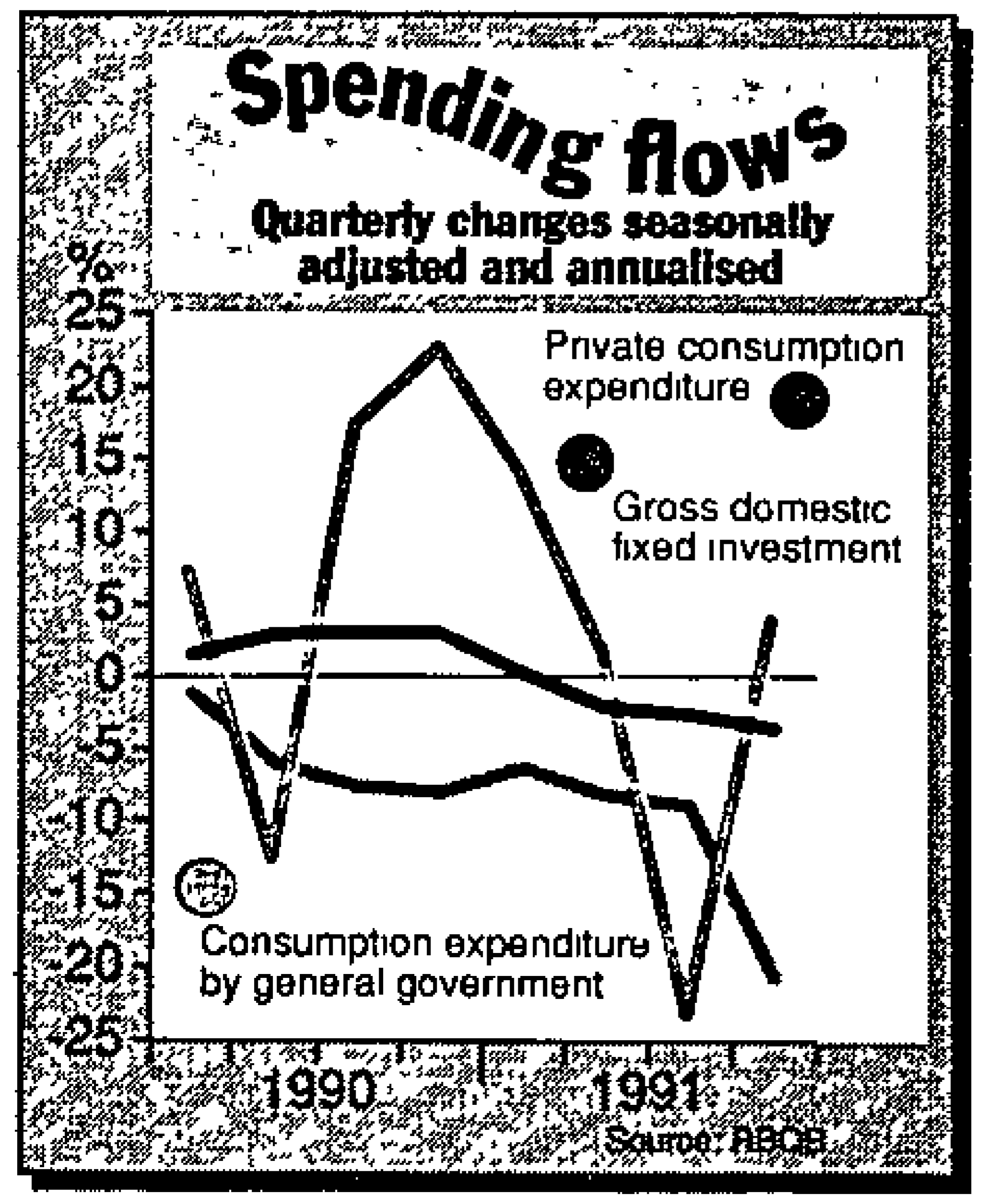
Evidence that the capital expenditure expected in the fourth quarter of 1991 did not materialise came in the *Reserve Bank Quarterly Bulletin* this week. Despite the introduction of VAT — with input credits on capital and intermediate goods — at end-September, gross domestic fixed investment fell 20,7% over the next three months. (This figure is a quarterly change, seasonally adjusted and annualised, as are all other quarterly figures used here.)

This followed declines in quarters one, two and three of 6,4%, 8,2% and 9%. Spending on private consumption also fell more sharply than in previous quarters: 3,7% after a first quarter rise of 0,2%, and declines of 2,2%, 2,7% in the next two quarters. Government spending, however, rose 3,9%, after percentage changes of 14%, 1,7% and -23,2%.

Inventories continued to decline: by R2bn in constant 1985 rands, after falls of R2,7bn, R3,4bn and R2,4bn. The huge negative residual also continued, R2bn, after R3,3bn, R2,8bn and R2,7bn. This is a balancing item between output and expenditure figures. In the fourth quarter, inventories and the residual amounted to more than 3% of GDP of R132,5bn constant 1985 rands.

These five items comprise gross domestic expenditure, and the net effect of the various movements was a decline of 2,7%. This followed a first quarter rise of 17,3%, and declines of 3,2% and 5,6% in the second and third quarters.

In the year, GDP declined 0,6%, private spending rose 0,2%, government consumption rose 5,7% and fixed investment declined 8,4%. The surplus on the current account of the balance of payments was R12,3bn in the fourth quarter and R7,4bn in the year.



The lost left and their uneasy future

(49)

W/Mail 20/3-26/3/92

The trouble with the demoralised South African Left, argues a British Marxist, is a failure of imagination

PORTIA MAURICE

reviews Alex Callinicos' new book, Between Apartheid and Capitalism

HAVE South African socialists forsaken their vision in the wake of the collapse of "communism" in eastern Europe? Answers for the vexing demoralisation of the left are few and far between.

British Marxist and academic Alex Callinicos chatted to seven leading South African socialists post-February 1990. One emerges from these conversations — reproduced in the recently-published *Between Apartheid and Capitalism* — secure, at least, that one does not fumble alone over those bug-bear questions.

What, Callinicos asks, will the post-apartheid transition look like? Is a reformed capitalism the best option for the working class movement in South African conditions? And, can the South African Communist Party be transformed into an authentic socialist workers' party or is it necessary to build an alternative outside the Congress alliance?

These questions, and others, he puts to Mark Swilling, Devan Pillay and Karl von Holdt, Jeremy Cronin, Colin Bundy, Moses Mayekiso and Neville Alexander.

Central are the South African paradoxes: a country where, as Cronin says, "First and Third worlds exist cheek by jowl, and the red flag is beginning to rise up" as it falls elsewhere. And one which doesn't lend itself to international comparison either with decolonised Africa or with advanced Western capitalism. Its exports, says Bundy, are primary products, yet it has attained a "respectable level of self-sustained economic growth".

Another paradox confronting Marxism in South Africa, says Callinicos, is the growth of support for socialism on one hand and, on the other, an intellectual consensus on the left since February 1990 that socialism is not on the agenda.

Alexander maintains it is, but that seizure of power by the working class is unlikely in the next five years or so. His prediction is a bleak one — an anti-apartheid military coup backed by the Broederbond, not to restore the rightwing, but to make it possible to deal with obstacles to liberalising the political economy.

"This will level the playing field and make it possible for them after a few years to hand back power not to the National Party but a non-racial elite ... you circumvent the entire constituent assembly and the revolutionary potential of that process by clamping on military rule. The idea of a linear process towads a negotiated settlement without zigzags, without conflict, without civil strife of a very intense kind, is just nonsense," he says.

Moses Mayekiso

Pillay believes insurrection to be a "very dangerous concept" one which is "loose" and "irresponsible". Judging from the levels of uncontrolled township violence "People want socialism, but they don't understand what it is all about, he says, and the left should "equip ourselves theoretically and move slowly and strategically in various arenas of struggle".

At the crux of the debate is a tendency by some on the left to throw socialism out with the very Stalinism they may have perpetrated, and to argue instead for a more "humane" form of capitalism. The arguments are complex, but all the more accessible through the conversational style of this book.

The editor warns of similarities between "new realism" and the mid-1970s epoch of Euro-communism, which preceded the "steam roller of Thatcherism" for workers' jobs and living standards. With a constitutional settlement the SACP may become like the Spanish communist party, which "was crucial in persuading very militant workers' organisations that they shouldn't press too hard for their economic demands".

Cronin acknowledges that the SACP and African National Congress have a "funny kind of alliance. It's not an alliance of two separate forces, but a kind of divison of labour within a front of struggle almost". And sometimes, he says, party cadres do worry that they will be "dumped" by the national liberation movement. "But," he says confidently, "if we do our work properly as a left force, the unions as well as the party, we can ensure that the kind of ANC that is built is not one that easily turns around and breaks us."

While plagued by dogmatism and sectarianism in the past — "the tendency to be a kind of self-proclaimed and eternal vanguard of the working class" — the SACP, he believes, has shed much of its historical baggage.

Callinicos, at one point indignant in the discussion, retorts: "Speaking frankly, I'm tired of hearing people say that we have to accept the market as a framework, that the collapse of 'really existing socialism' means that we can't think in terms of a planned economy, and so on ... We are suffering from a crisis of ideas, of will or imagination. Socialists find themselves unable to conceive of an alternative to capitalism so they settle for tinkering around with capitalism, for market socialism or an improved 'regime of accumulation'."

The weakness of the left, he concludes, lies less in objective circumstances than in Leon Trotsky's "subjective factor" — in this case the grip on their minds of Stalinism and social democracy. Instead, he proffers a return to the classical Marxist tradition and its vision of "socialism from below".

●Between Apartheid and Capitalism: Conversations with South African Socialists *edited by Alex Callinicos* (Bookmarks, R18)

It's time to save more

w/mail 20/3 - 26/3/92

Weekly Mail reporter

(49)

DISSAVING by government continues.

Finance Minister Barend du Plessis said it was essential to have higher savings to raise economic growth. He admitted the present low level of savings was due to government dissaving, particularly since the debt standstill in 1985.

Gross domestic savings were on average 25,4 percent of gross domestic product, the main measure of the nation's wealth, in the 1970s.

They fell in the 1980s to 24,7 percent, and are estimated to have fallen as low as 18,8 percent in 1991.

He promised this would be addressed — in future.

increased its share of the

REVIEW: The Budget, the country and you

Joe Soap ever more out of pocket

w/mail
2013 - 26/3/92 (49)

The Budget is unlikely to make many people happy — least of all individuals, who are shouldered with several extra burdens. By **REG RUMNEY**

FINANCE Minister Barend du Plessis can't win. In doing little for high earners or investment while keeping government spending high, the Budget announced by the minister on Wednesday won't make business or the free-marketeers particularly happy.

The left will say Du Plessis hasn't gone far enough. They are not disposed to think well of government Budgets anyway. Placards carried outside parliament on Budget day — even before the Budget was known — read: "Stop the Bosses' Budget".

Southern's chief economist Mike Daly probably summed up the business reaction to the Budget by describing it as a Budget for the "new" South Africa.

Daly found surprising the 16,5 percent increase in government spending in the 1992/3 fiscal year. At around R100 676-billion, this is a real increase of around 2,5 percent if you assume inflation of around 15 percent.

Social spending has soared. Education at R19 049-billion is 24 percent higher than 1991/2. Health spending is 22 percent up compared with the 1991/2 fiscal year at R9 928-billion.

Oil sales will release R500-million for extra spending on housing, which in total will receive an allocation of R2 153-billion.

Savings achieved through a decrease — when adjusted for inflation — in defence were diverted to the police and the prisons.

"More money will be available than can be spent," Daly commented.

While there are no tax cuts for the rich or business, by revising the tax tables Du Plessis has rolled back some of the effects of "fiscal drag", which has meant that middle and lower-income taxpayers have shouldered an increasingly heavy tax burden.

He hasn't gone all the way in addressing fiscal drag. Moreover, individual taxpayers still contribute more to tax than companies. (See accompanying table.)

Democratic Party finance spokesman Ken Andrew's contention is that Du Plessis has failed to keep goverment spending under control. Du Plessis should have made a more determined effort to cut the size of the civil service, he said.

Moreover, the money is not being spent on productive capacity, he said. Only R6,5-billion of the total spending is estimated to be capital expenditure, or 1,9 percent of Gross Domestic Product (GDP), the main measure of the nation's output or wealth created.

Andrew said the government is borrowing mainly to finance current spending: "It is mortgaging our future."

The deficit before borrowing has grown from 2,7 percent in 1990/1 to 4,5 percent at R15 927-billion, added Andrew. (R2 693-billion is financed by stockpile or oil sales and by carrying over a surplus from the last financial year.)

In terms of its commitment to allowing the private sector to grow and create jobs, the government has steadily increased its share of the economy until it is now 29,5 percent of GDP, Andrew said.

And the spending is financed primarily by higher personal income taxes. The R35,5-billion budgeted to come from personal income tax is R6,5-billion or 22,5 percent higher than last year, Andrew pointed out.

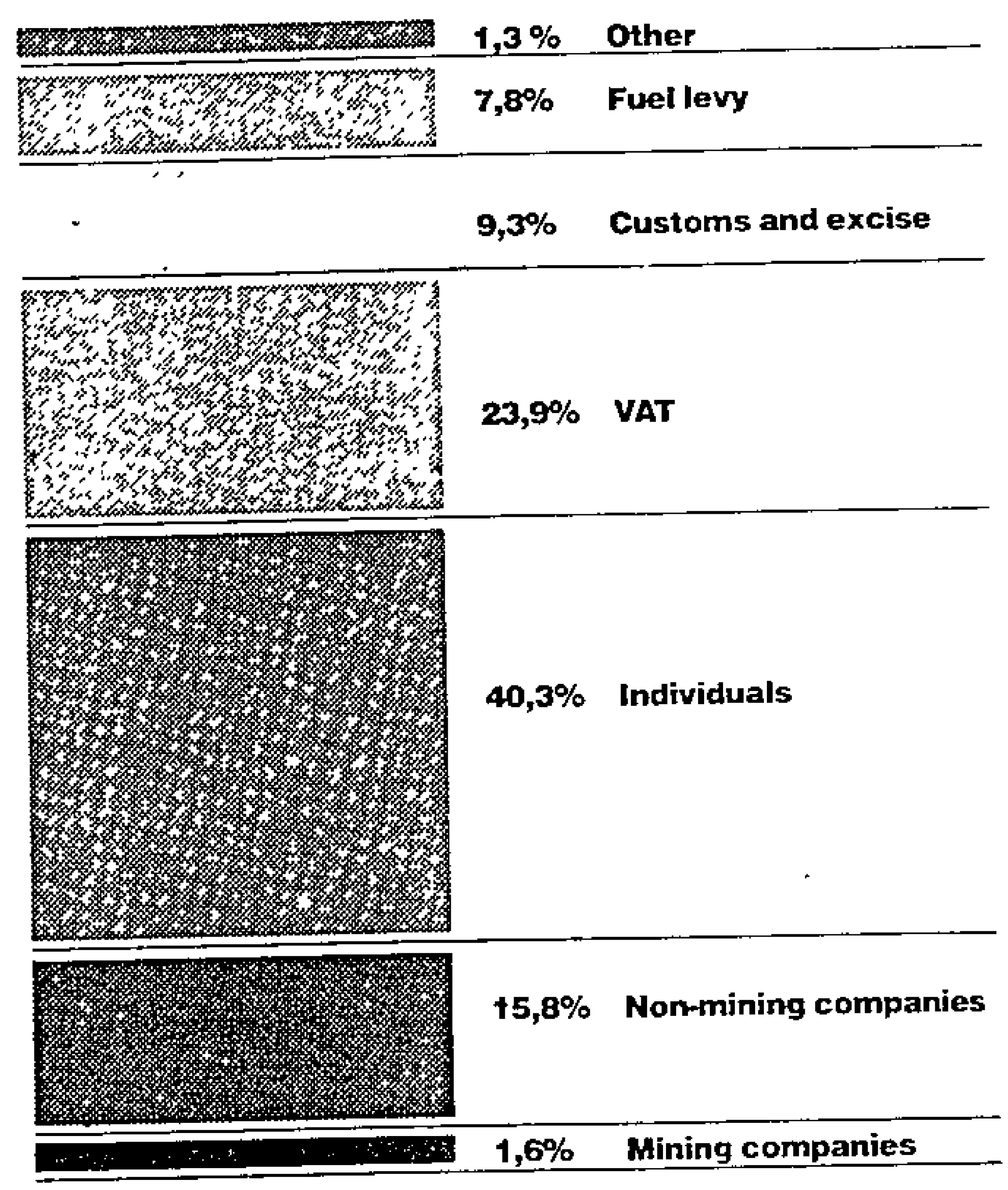
The extra burden comes through not only in income tax. Increased tax on debit entries — for example, cheques and credit-card transactions — from 10c to 15c will be a subtle extra outflow from people's pockets.

Higher taxes on booze and tobacco and an extra 8c on petrol and 6c on diesel will also hurt consumers directly and, by pushing up inflatic indirectly.

Daly believes government reven won't come up to expectations, a budgeted 15,7 percent extr Certainly, it will be difficult for t government to find the money fr hard-pressed companies.

Borrowing is less of a problem. total the capital market will have provide R3-billion in new funds, a Daly reckons it will easily be able do so: "Long-term interest rat should be happy with that."

Who pays Barend's taxes

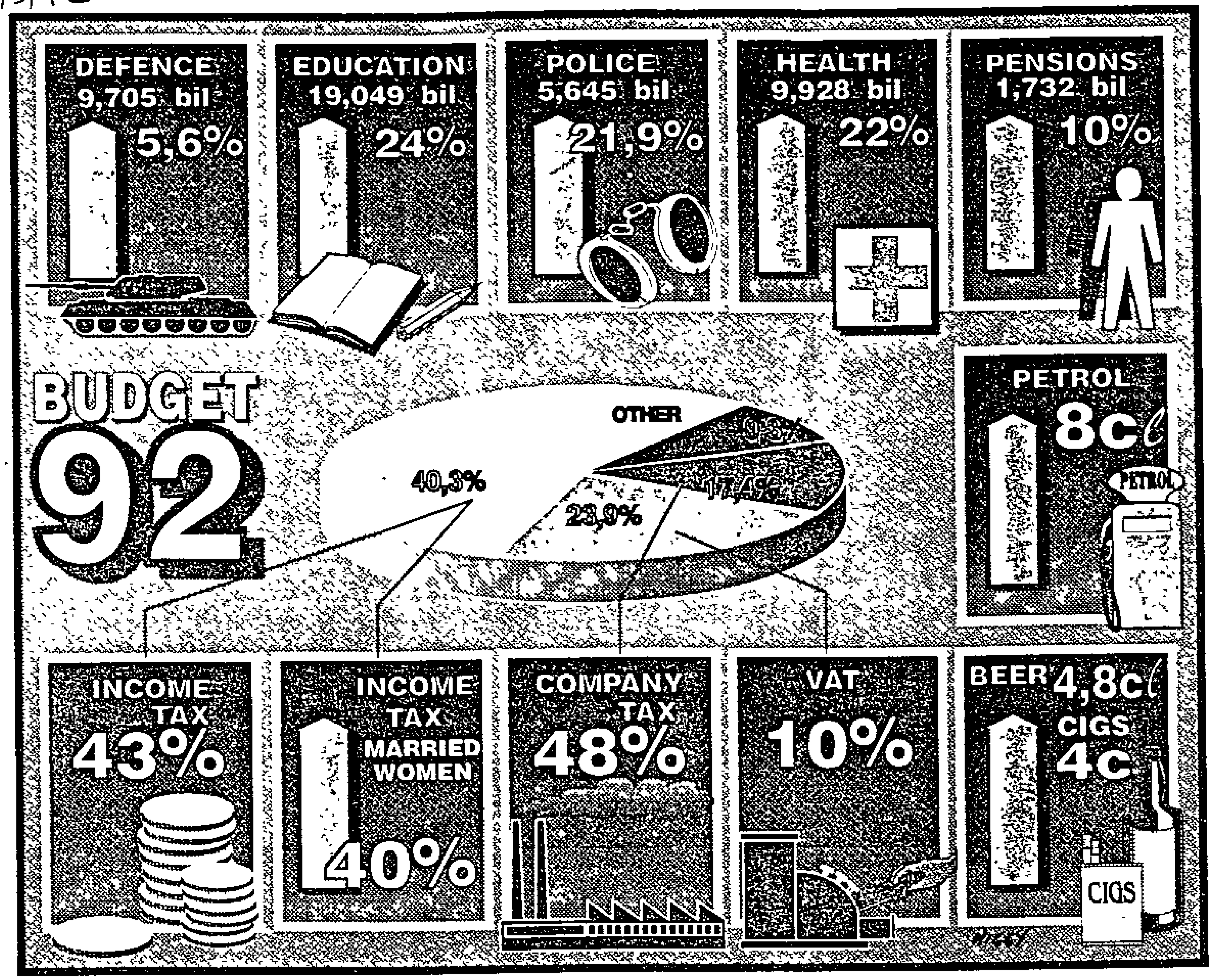


What a drag ... Individual taxpayers still contribute more to tax than companies

What Barend should have done ...

W/Mail 20/3 - 26/3/92

Finance Minister Barend du Plessis did a lot of things in the Budget to make people happy and sad. But here's some things he should have done **REG RUMNEY** *reports* (49)



WHAT Finance Minister Barend du Plessis didn't do (but might have) is as surprising as what he did do.

Let's start with the obvious.

Du Plessis left the rate of Value Added Tax at 10 percent — but announced no zero-rating of food or a continuation of special temporary zero rating of basic foodstuffs.

He seems wedded to the economically correct but politically ham-fisted way of doing things. Keeping the rate at 10 percent while not acceding to demands for zero-rating will not mollify criticism of the handling of the introduction of VAT.

A more subtle way of handling the matter would have been to raise the rate — but make exemptions for basic foods. Now he is stuck with lower revenue from VAT. But he cannot raise the rate for fear of letting loose another union-orchestrated VAT uproar.

The lower revenue from VAT has serious implications for the government's attempt to restructure the economy more in line with world free-market thinking.

Revenue from indirect taxes such as VAT, the thinking goes, should be increasingly more important than direct tax, which decreases incentive and gives people less discretion about where their money goes.

But the ratio of indirect tax to direct tax fell to around 67:1 in the last fiscal year, from 84:1 in 1989/90. It is estimated that in the 1992/93 fiscal year the figure will once again be around 67:1.

So the trend is away from that recommended by the milestone Margo Commission of Inquiry into tax and long-accepted by government.

In Du Plessis' defence, the amount put aside to aid those hardest hit by imposition of VAT on food has been raised. Du Plessis allocated another R440-million to Health Minister Rina Venter's Nutrition Development Programme.

But of the R220-million allocated to this programme last year, only half has been spent so far. The programme attracted criticism when Du Plessis said last it was aimed at mitigating the hurt to the poor from VAT on food. Doubts about the programme's effectiveness in reaching the poor are not allayed by there still being R110-million in the kitty.

R440-million may not be nearly enough and if it does not find its way to those who need the aid, it is a vain exercise.

Du Plessis could have ended the morally indefensible apartheid in **social pensions**, instead of reducing the gap by 40 percent. The gap between white and black pensions was R79, or 33,6 percent. It is still R52, or 17,7 percent, higher than black pensions. It would have been more than a good gesture to equalise pensions immediately.

Social pensions are an established and viable delivery network of aid to the poor, particularly in the rural areas where women and children rely on often irregular remittances from migrant workers in the cities. Money for grannies in black communities quickly finds its way to a wide circle of dependants, including children.

In view of the drought, which will surely keep food prices high, this is something Du Plessis is remiss in not considering.

In the business community Du Plessis surprised observers by neglecting some useful ways of injecting life into the economy. Supply side moves, such as cutting **direct taxes** on corporations and individuals, went by the board.

True, there is some much needed relief for the more poorly paid workers. The tax tables have been revised to neutralise partly the dreaded "bracket creep" or "fiscal drag". This is the phenomenon in which inflation pushes taxpayers into ever higher tax brackets so that they pay more tax even though their wages are just marking time when adjusted for inflation.

But since the "marginal" or top rates of tax have not been changed, fiscal drag will still hit the higher earners.

There were no new moves to encourage **fixed investment**.

Du Plessis had been expected to lift "ring fencing" of mining companies, so allowing them to use tax losses made on one project for another project, or other tax incentives to spur fixed investment. Post-referendum euphoria will have to do the job alone.

However, further widening was announced this week of the the tax breaks for companies engaged in "beneficiation" for export, that is the export of goods made from South Africa's raw material rather than the raw materials themselves, under Section 37 E of the Income Tax Act.

The Budget speech quotes the Bible on the need for vision. Vision is the one thing inconspicuous in the Budget. For instance, there is no mention of the possibility of a **state lottery**. The Democratic Party estimated last year that R500-million could be raised this way for primary health

● To PAGE 3

P.T.O

The Budget & You

Special business supplement to the Weekly Mail, March 20 to 26, 1992

BUDGET 92

Defence budget relieves military

PAGE 3

No relief on the cards for taxpayers

wmail 20/3 - 26/3/92 (49)

Another year of belt-tightening — that's the Budget medicine for individual tax payers, reports

MONDLI MAKHANYA

TAXPAYERS got no relief from this week's Budget ... and neither should they expect any next year.

An ailing economy, severe drought, a plunging gold price and government reluctance to touch the political hot potato of Value Added Tax precluded Finance Minister Barend du Plessis from making any significant moves on income tax. Individuals will therefore be paying more income tax this year.

The only significant move Du Plessis made was to trim tax brackets. As part of the equalisation process the top marginal rate for married women increased from 38 to 40 percent and their primary rebate has been increased from R800 to R900. In effect this means only married woman earning more than R80 500 — the top two percent — will pay more tax.

Middle-income earners, who Du Plessis concedes are the hardest hit by bracket creep, are likely to benefit from the further reduction in the number of tax brackets.

Over 65s had their rebates increased from R2 100 to R2 500. Married people over the age of 65 will now only be taxed if their annual income exceeds R24 000 and unmarried people if it exceeds R21 000.

On the tax reform front, the trend towards shifting the tax burden away from the individual ground to halt this year as the top marginal rate remained at 43 percent instead of dropping one percentage point as it has done over the past few years.

While Du Plessis' tax concessions are projected to cost government R1,225-billion in revenue in respect of the adjusted tax table, the concessions to married women will cost R195-million and those to senior citizens R30-million.

Du Plessis did nothing to address the issue of bracket creep — the process whereby one moves into a higher tax bracket every time one's salary is adjusted keep pace with inflation, thus negating the increase. This process — also known as fiscal drag — often leaves individuals worse off than they were before the increase.

Says Ernst and Young senior partner Charles Mackenzie: "They re just sitting and watching inflation collect the money for them."

In fact, notes South African Chamber of Business chief economist Ben van Rensburg, bracket creep will earn the government up to R6-billion this year.

Neither should the individual seek solace in the future. Tax rates are unlikely to alter much in the coming 12 months since the African National Congress and the Congress of South African Trade Unions will undoubtedly have a say in the next Budget. Their constituency is mainly working class and they are unlikely to have much sympathy for high-earning individuals. The drive towards

● To PAGE 2

Huge aid plan for SA urged

(49) ARG 20/3/92

WASHINGTON. — There have been renewed calls from leading members of Congress for the United States to launch a multi-billion rand international aid programme for South Africa following the overwhelming Yes vote in this week's referendum.

And one of the most influential members of the Sate, Senator Edward Kennedy, who has been a staunch supporter of sanctions, urged President Bush to double this year's aid to South Africa.

"We must now move forward to ensure that additional aid is provided and that the US fully supports the extraordinary process of reform in South Africa."

Meanwhile, several other countries have called for the lifting of sanctions in the wake of the Yes vote.

- Canadian Prime Minister Brian Mulroney told parliament that his country was to take the lead in urging the rest of the Commonwealth to ease some economic sanctions that were still in place.

At the same time, Canadian newspapers clamoured for an end to sanctions and, in Montreal, a group of leading businessmen announced they had established a South African Chamber of Commerce in Quebec, which absorbs 64 percent of all Canadian imports from South Africa.

- Britain has called for the lifting of all sanctions. The Foreign Office said in a statement it "warmly welcomed" the Yes result, which it said would lead to a democratic constitution.

"Now is the time for the international community to give a sign of confidence in President De Klerk at this crucial moment in South Africa's history."

- German Economics Minister Juergen Moellemann has called for economic sanctions against South Africa to be lifted, the Economics Ministry said.

The ministry said in a statement Mr Moellemann would propose lifting sanctions to the German Cabinet next week.

The German minister has already made a similar proposal to the European Community and he expects the EC to lift all sanctions, the ministry added. — The Argus Foreign Service, Sapa-Reuter, AFP.

Government 'wasteful'

Sowetan 20/3/92. 49

Sowetan Reporter

SOWETAN RADIO METRO TALKBACK

CONSIDERABLE spending could be realised if the Government eliminated duplication of services, businessman Mr Mohale Mahanyele told *Sowetan*/Radio Metro listeners last night.

Mahanyele was speaking on the Budget released on Wednesday by the Minister of Finance, Mr Barend du Plessis.

He said it was wasteful of the Government to allocate money to about 13 departments of health.

The solution, he said, would be to create one health system and allocate money to it for the benefit of the whole society.

Improper

Mr Thami Mazwai, senior assistant editor of the *Sowetan*, who was also a studio guest, told host Tim Modise that it was unfair for an "unrepresentative" Government to tax everyone.

He said it was improper for a black child to receive a third of the money that was allocated to a white child.

Mazwai said blacks were entitled to the same standard of living as everybody else.

Mahanyele said privatisation should be used to empower the community as in the case of the National Sorghum Breweries, of which he is a senior executive.

"If done properly, privatisation can benefit the population," he said.

Mazwai said he opposed privatisation in its present form "because it ensured that assets are being transferred from the Government to the white corporate world".

Mahanyele said he subscribed to the view that people who were being taxed should have a say in how their money was used.

THE WEEKLY MAIL, March 20 to 26 1992

LABOUR

Consensus the key to economic restructuring

WMail 20/3-26/3/92

CONSENSUS is pivotal to economic restructuring. This was a key point to emerge in a joint proposal from business and labour on a national economic forum.

The document proposes that decisions will only be taken on the basis of consensus and that any disputes will not be referred to arbitration.

However, if consensus is reached, the government will be obliged to make the necessary legislative amendments to give muscle to the agreement. (49)

The forum would have a permanent secretariat accountable to a steering committee and would be funded by public funds.

The proposal was drawn up by the South African Chamber of Business, the South African Co-ordinating Committee on Labour Affairs, the Afrikaanse Handelsinstituut, the Congress of South African Trade Unions, the National Council of Trade Unions and others. The proposal has yet to be presented to the government.

Budget, the country and you

'Apartheid' Budget condemned

WM and 2013 - 26/3/92 (49)

The 'minority' Budget has been strongly criticised and unprecedented mass action threatened by Cosatu.

By **GAYE DAVIS**

CRITICISM of the new Budget from the tripartite alliance of the Congress of South African Trade Unions, the African National Congress and South African Communist Party focused not so much on specific deficiencies as on the wrongness of the government in continuing to re-shape the economy without consultation.

Tito Mboweni, of the ANC's economic planning department, decried the Budget for being "riddled with inconsistencies and waste", for affording no mechanisms to ensure government accountability in its spending and for even refusing parity to pensioners condemned to live on less because of the colour of their skins.

"This Budget remains an apartheid budget," he said, giving notice that it would also be the last "minority" budget.

Cosatu general secretary Jay Naidoo threatened that if Finance Minister Barend du Plessis continued to refuse to enter into bona fide negotiations on economic issues, a current programme of mass action would be turned up to "unprecedented levels".

Warned Naidoo: "We will begin mobilising for a general strike."

While amounts had been allocated for social services, housing and education, the minister had not specified how the money would be used. "On his past record we believe these allocations will not be spent effectively or in a way which removes discrimination or addresses critical issues. We are afraid that in the absence of negotiations these programmes will only feed the bureaucracy," a joint statement said.

The budget was "mean and misleading" and did nothing to relieve the plight of the "more than two million people who are starving in this country". The decision to remove the zero VAT rating on basic foodstuffs had been taken in the face of "massive opposition". The increase in the petrol price would increase all other prices and aggravate poverty.

"He has done nothing to reduce the cost of medicines and medical services. The completely inadequate amounts for nutrition and poverty relief will do nothing for the 30 percent of our children who suffer from malnutrition or the 16-million people who live below the breadline.

"The absence of an effective drought relief programme means the plight of farm workers and rural people will get worse and worse.

"The minister has not even equalised pensions — a simple but extremely effective measure to relieve poverty and remove racism.

"The demands we have made are still squarely on the agenda. Our programme of mass action will proceed unless our demands are met. By June or July we expect to have had a clear response."

Naidoo said the alliance had demanded that the government "meet us immediately to set up an economics negotiating forum". In the short-term, however, it could start negotiating with the VAT Co-ordinating Committee, chaired by Bernie Fanaroff.

Budget aims to be expansionary

STAR 20/3/92

Dr Japie Jacobs . . . interest rates in the process of softening

By Derek Tommey (49)

The 1992-3 Budget is an expansionary one, says Dr Japie Jacobs, special economic adviser to the Minister of Finance. He played a major role in preparing it.

The expansionary nature of the Budget can be seen in the 16,5 percent increase in total Government spending and the deficit before borrowing, which amounts to 4,5 percent of gross domestic product (GDP).

Dr Jacobs said yesterday the Budget, in many ways, resembled the previous one in that it unfortunately continued the process of dissaving. For 1992-93 this will amount to 2,8 percent of GDP.

"This is an aspect that needs to be redressed in future budgets if we want to increase South Africa's savings ratio.

"This may be as low as 17 percent for 1992, compared with only 19 percent of GDP in 1991."

Dr Jacobs said the Budget had to be judged against the background of recessionary conditions and the resultant stagnating tax base on the one hand, and the demand for socio-economic services for the underprivileged on the other.

But the Budget was not confined to addressing pressing socio-economic needs to which more than 40 percent of government expenditure had been allocated. It was also aimed at long-term economic growth.

He said there was adequate spare capacity to accommodate the increase in domestic spending, while a rise in capacity utilisation would in fact pave the way for an upsurge in fixed investment.

Total government expenditure is set to rise to 28,7 percent from 28,1 percent of GDP last year, while indirect taxes this year will contribute 41 percent to total tax revenue. This is fairly low for a developing country like South Africa.

Dr Jacobs rejected accusations that the incentives to promote economic growth, such as accelerated depreciation allowances, favoured the so-called capitalists and that this revenue should have been used to redress socio-economic imbalances.

He also rejected suggestions that because of the prevailing uncertainties in the economy, investors were unlikely to respond to these incentives and that tax resources would be squandered.

He said tax incentives made inroads on tax revenues only if companies performed. If investment did not materialise, the Exchequer did not forfeit revenue.

Relief amounting to R1,2 billion had been given to reduce the effects of fiscal drag on middle-income groups.

But resources did not allow the full elimination of fiscal drag on income tax paid by individuals.

By the same token it was not possible to continue with the process of fiscal reform started two years ago.

Dr Jacobs said the Government's borrowing requirement should not put upward pressure on interest rates.

The Government would need to raise R3,2 billion in new funds in the capital market, of which a portion had already been raised by forward sales.

The rest of the public sector was looking to raising a total amount of R6 billion from the capital market.

"If one takes into account that contractual savings in 1992 are estimated at R52 billion, it is clear that the public sector will not exert any upward pressure on capital market rates this year.

"Interest rates in general are in fact in the process of softening."

But for the conflict which erupted around 1984-85 and gave rise to the subsequent spate of violence, sanctions and capital outflow, the growth rate in the intervening years would have been two to three percent higher, said Dr Jacobs.

This loss of economic growth "is the price we have had to pay for not resolving the conflict that has been building up.

"Therefore it behoves all people to use their energies to move towards a new dispensation.

"The unemployed and the people suffering from hunger are paying the price for our follies of the past — a situation which we cannot afford to prolong any further."

Nationalism 1 (49)

New Nation [Learning nation)

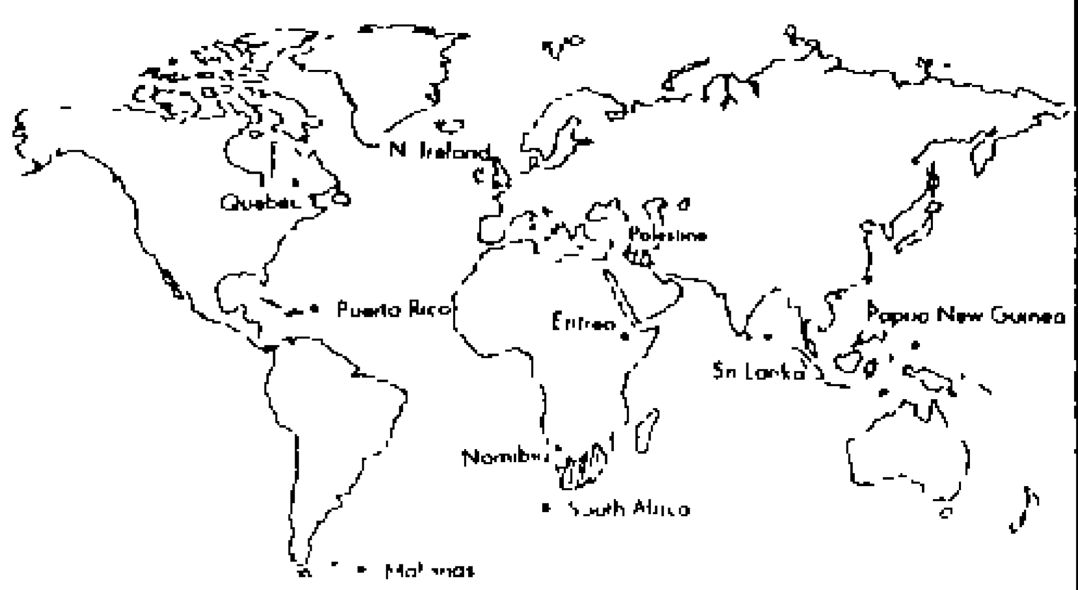
Introduction

20|3 - 27|3|92

With the collapse of the Stalinist regimes of Eastern Europe and the USSR, a range of national movements have emerged. In the Soviet Union, these movements claim to be against Russian domination. In the East European state of Yugoslavia, Croatian, Slovinians and other national groupings struggle against Serbian domination. These events force us to relook at the issue of national liberation and what it means for the working class in its struggle for socialism.

Nationalism is an international issue

The movements for national liberation in the collapsed Soviet regimes are not unique. On almost every continent we can find examples of people struggling for national liberation. Many of these struggles have been going on for decades. After a thirty year war against Ethiopia, the people of Eritrea have finally won the right to self-determination; Namibia finally gained national independence from South African colonial rule in 1990. In North America, the French speaking state of Quebec continues its battle against domination by English speaking Canada. In South America, Puerto Ricans wage an anti-colonial struggle; the people of Panama resist US invasion and Argentina's Malvinas (Falklands) Islands are still under British rule. In Northern Ireland, the Irish people continue to fight British occupation; the people of Palestine fight Zionist (Israeli) occupation of their homeland. On the island of Sri Lanka near India, the Liberation Tigers of Tamil Eelam fight national oppression of the Tamil people; likewise, on the island of Papua New Guinea, near Australia, the Free Papua Movement resists Indonesian occupation and oppression. We in South Africa can sympathise with these national liberation movements. We too have struggled and continue against apartheid-capitalism which denies complete democracy to the majority of our people.



Recent sites of National Liberation struggles

Where does the idea of a "nation" come from?

The idea of a group of people forming themselves into a "nation" arose during the early phases of capitalist development in Europe. The bourgeois class which grew out of feudal society soon found that feudalism hindered the growth of capitalism. Feudal society was made up of many small kingdoms, each with is own king and own set of rules. Feudal society did not allow for freedoms like movement, association or trade. The peasants were tied for life to a landlord who owned the land on which they farmed. The bourgeoisie could not trade freely nor could they easily find labourers to work for them. Each king would demand a tax from the capitalist trader when he wanted to do business in that kingdom or travel across to another kingdom.

The bourgeoisie played the leading role in overthrowing the feudal kings and landlords. **They promoted the idea of the equality of all people irrespective of class in order to smash the belief that the king and the nobility were superior to other people.** The bourgeoisie argued that the new political order would be one of democracy ie. the people will rule over themselves. In this new society, there would be **freedom of movement, free markets for trade, freedom of speech and the freedom of association.**

The peasants and small but militant working class followed the bourgeoisie. They also wanted to enjoy these freedoms. The bourgeoisie, while united in their struggle to overthrow feudalism, were at the same time also in competition with each other for the amount of land they could gain control over. It was through the struggle of how to unite the different small kingdoms into viable political, economic and social units that the idea of a "**nation state**" gained popularity. The competing groups within the bourgeois class each used issues like language, religion, common traditions or culture, as the basis for defining the boundaries of their "nation state". Through the struggle to overthrow feudalism, "nations" were born in which the bourgeois freedoms of movement, speech and association were proclaimed as the right of every citizen of that nation. This is how countries like Britain, France and America became nations.

Pamphlets and newspapers exerted great political influence after the Declaration of the Rights of Man had proclaimed freedom of the press.

Today we see that the bourgeoisie are no longer the champions of the democratic rights they once had to struggle to win. It is established bourgeois nations like the USA and Britain who now play a reactionary role and suppress the aspirations of people in other countries who are seeking to win the very same rights that the established bourgeois nations enjoy.

The growth of a rightwing nationalism

Within the imperialist countries like the USA, Britain, Germany and France, there is growing support for a **rightwing or reactionary version of nationalism**. Unlike

Fascist violence is on the increase

the movements for national liberation which seek to expand democracy, this reactionary version of nationalism begins by wanting to limit democracy. In its most extreme form, democracy is replaced by a fascist dictatorship. This is what Germany experienced in the years before and during World War Two.

In 1991 for example, there were over 2300 reported racially motivated attacks on people in Germany by fascist thugs. This represents a dramatic rise in racist sentiments compared to 1987 when there were almost no such attacks reported. These fascist inspired attacks of violence have also emerged and are growing in countries like Britain, Holland and even Sweden which took pride in the fact that it had a social-democratic regime. In France, fascism has evolved into an **organised tendency** in the form of the National Front led by Jean-Marie Le Pen. In recent months, this fascist party has been winning elections in districts which were previously dominated by the Communist Party. In the USA, David Duke who once held the highest office in the fascist Klu Klux Klan movement is winning growing support from whites in his state of Louisiana. These examples show a general shift to the right in the politics of the capitalist countries. A central feature of this rightward shift is growing support by middle and working class people for policies which promote and secure the interests of their country first, even if it is at the expense of middle and working class people of other countries. This attitude of putting "our nation" above all else is expressed concretely as racial hatred towards other national groupings within the same country or towards other nations.

Rightwing nationalism in South Africa

South Africa is not exempt from this rightwing version of nationalism. The emergence of South Africa as a racial-capitalist nation has meant the denial of bourgeois democratic rights for the majority of its people. From De Klerk's NP through the CP to the HNP and the extreme right organisations like the AWB, each represent increasing degrees of racism or fascism. Aspects of this rightwing nationalism also exist amongst the black population. As a result of the apartheid policy of "divide and rule" the very real fears that people may have about the loss of their cultural values such as traditions, religion, and language are exploited by reactionary leaders. Sections of the black middle and working classes begin to identify with the need to preserve "our national identity" as "Zulus" or "Indians", etc.

As we continue to struggle for national democracy in a unitary South Africa, what attitude do we adopt towards other movements for national liberation? How do we understand and counter the rise of right wing nationalism and fascism? In future articles we will deal with these and other issues on nationalism.

In our next article we will look at the emergence of national movements after the collapse of Stalinism.

Dissatisfaction over Budget allocations

STAR 20/3/92 (49)

CAPE TOWN — All the self-governing territories are unhappy with their budget allocations for 1992/93, according to the Department of Development Aid.

It said in a statement that ministers of finance from the six homelands had met representatives of central government in Cape Town on Thursday to discuss the Budget.

Although the allocations were substantially higher than the last financial year's, all the self-governing territories were dissatisfied. However, the full impact of the Budget on them would be discussed at meetings between central government and the governments of the territories.

One of the matters discussed at the meeting was the basis on which future VAT allocations were to be made to the territories.

The meeting, chaired by the Minister of Regional and Land Affairs, Jacob de Villiers, was attended by representatives of Gazankulu, Lebowa, Qwaqwa, KwaZulu, KwaNdebele and KaNgwane.

Lebowa's Chief Minister Nelson Ramodike yesterday commended the Minister of Finance, Barend du Plessis, for the significant swing in the Budget towards social services.

Mr Ramodike also welcomed a decrease in the security budget in favour of social services and said a substantial amount should be used to step up consolidation of the education system.

He, however, said the Government should provide for a larger increase on housing expenditure. — Sapa.

Barend's failure to extend zero-rating condemned

STAR 20/3/92

(49)

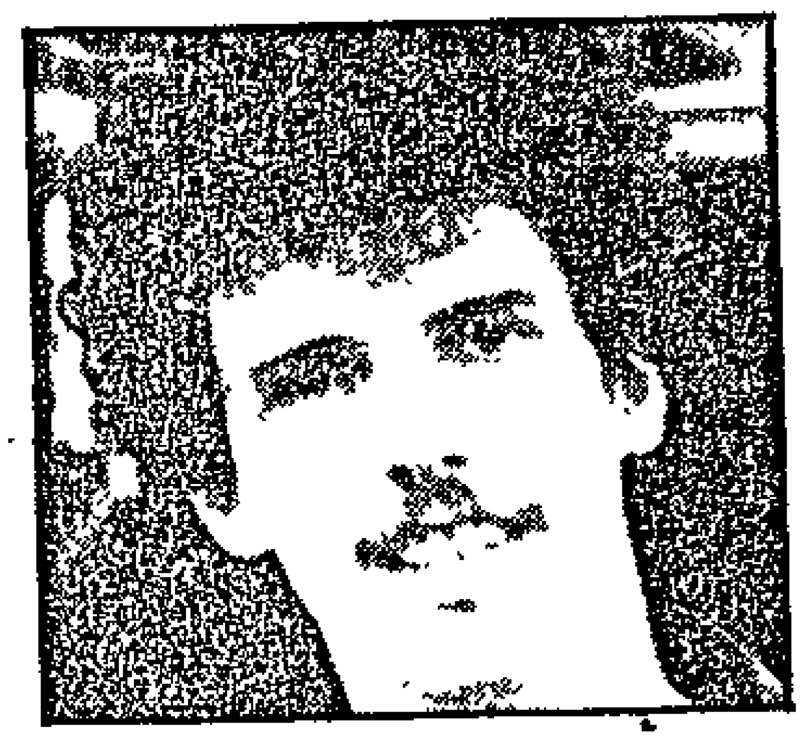
By Paula Fray
Consumer Reporter

Consumer organisations have reacted with alarm to the Government's failure to announce in the Budget the extension of the temporary VAT zero-rating on nine basic foodstuffs.

Finance Minister Barend du Plessis announced on the eve of VAT's introduction on September 30 that certain products — samp, powdered milk, mealie rice, whole mealies, dry beans (including soya beans), lentils, fresh milk, canned pilchards and rice — would be zero-rated until March 1992.

Major consumer bodies, the ANC and the VAT Co-ordinating Committee (VCC) had hoped that the Government would consider extending the temporary zero-rating.

National Black Consumers Union president Nonia Ramphomane yesterday said the union was extremely disappointed that the Minister had not clarified the position of the temporarily zero-rated items.



Neil Coleman . . . "underhand manner".

"Since last year we have repeatedly asked the Government to cushion the effect (of poverty) on the less well-aid and the unemployed. Unfortunately, the Minister has done nothing."

Mrs Ramphomane believed the VCC would now intensify its campaign for an extension of the zero-rating on the nine foodstuffs as well as other items.

Housewives League president Lyn Morris noted that the Government had until March 31 to extend the exemption. "To lose those will not be good for the consumer," she said.

Cosatu spokesman Neil Coleman noted yesterday that the Minister had omitted, in an "underhand" manner, to tell the public that the exemptions would be lifted. While this had been announced last year, it was never confirmed, he said.

"By glossing over this, maybe he believes the public is naive. But people haven't forgotten. We demand immediate negotiations around food prices, the zero-rating of basic foodstuffs, and the question of zero-rating medicines, medical services, electricity and water."

He said there seemed to be no coherent approach to addressing poverty and starvation. While the Government announced a R440 million poverty programme on the one hand, it took away zero-ratings on the other.

Although the SA National Consumer Union welcomed the unchanged VAT rate, it regretted that the temporary zero-rating of the nine basic foodstuffs had been terminated.

Lynn Morris . . . "will not be good".

"Consumers not only hoped that the exemptions would be made permanent, but that they would be extended to include all basic foods, medical services and medicines, water and electricity," said Consumer Union chairman Lillibeth Moolman.

The ANC regretted that plans to exempt basic foods had not been mentioned. Lifting the temporary exemption would have "very detrimental effects on the incomes of the poor".

Minister didn't consult the people, says Cosatu

STAR 20/3/92

(49)

Cosatu described the Budget as "mean and misleading".

It said in a statement on behalf of the ANC/SACP/Cosatu alliance that in his Budget speech, Minister Barend du Plessis had often referred to the need for discussion and consensus, but he had repeatedly refused to discuss any part of his Budget or his social programmes with representatives of the people.

"He said there is growing consensus on how to handle the 'gap between wants and means', but he won't discuss it. He talked about 'the direction of investment towards newly urbanised people being determined by the market and democratic political processes', but he, more than any other Minister, has refused to participate in any democratic process or discussion of socio-economic issues."

Cosatu said Mr du Plessis had initiated investigations into food prices and into the effects of VAT, but had refused to discuss either of these issues with the VAT Co-ordinating Committee.

The Minister had allocated amounts to social services, housing and education, but had not specified how the money would be used.

"On his past record, we believe these allocations will not be spent effectively or in a way that removes discrimination or addresses critical issues. We are afraid that in the absence of negotiations, these programmes will only feed the bureaucracy.

"The Budget is mean and misleading. The allocation to the SADF is as large as the health budget. We call for a drastic cut. Who are we at war with?

"The Budget does nothing to relieve more than 2 million people who are starving in this country. It does not control or lower food prices."

ANC rejects FW's economy demand

(49) CT 21/3/92

JOHANNESBURG. — The ANC has rejected President F W de Klerk's demand that a free market economy be entrenched in a post-apartheid constitution.

In an interview yesterday ANC secretary-general Mr Cyril Ramaphosa also rejected again Mr De Klerk's proposal for a future three or five-person collegial presidency to limit the powers of a future head of state.

Mr Ramaphosa, a former mineworkers' union leader, added: "We have not yet seen a constitution (elsewhere in the world) that entrenches a free market economic system. We have yet to come across one."

The ANC has said the free market has an important role to play in generating wealth but has added it would consider nationalising some major industries and embark on policies of redistributing wealth and land.

Mr De Klerk promised white voters in the referendum that the National Party would demand a free market system be entrenched in a non-racial constitution.

Mr Ramaphosa said the ANC would hold an economic planning conference in May, where it would release a blueprint for the future. — Sapa-Reuter

Riches will be reward on the 'High Road'

South 21/3-26/3/92

(49)

SOUTH AFRICA has the means to become a wealthy nation, if it took the high road to economic growth and reaped the rewards of foreign investment. This is argued by top consultant Edouard Parker, who played a leading role in the creation of the "High Road Forum" whose membership includes a dozen international businesses.

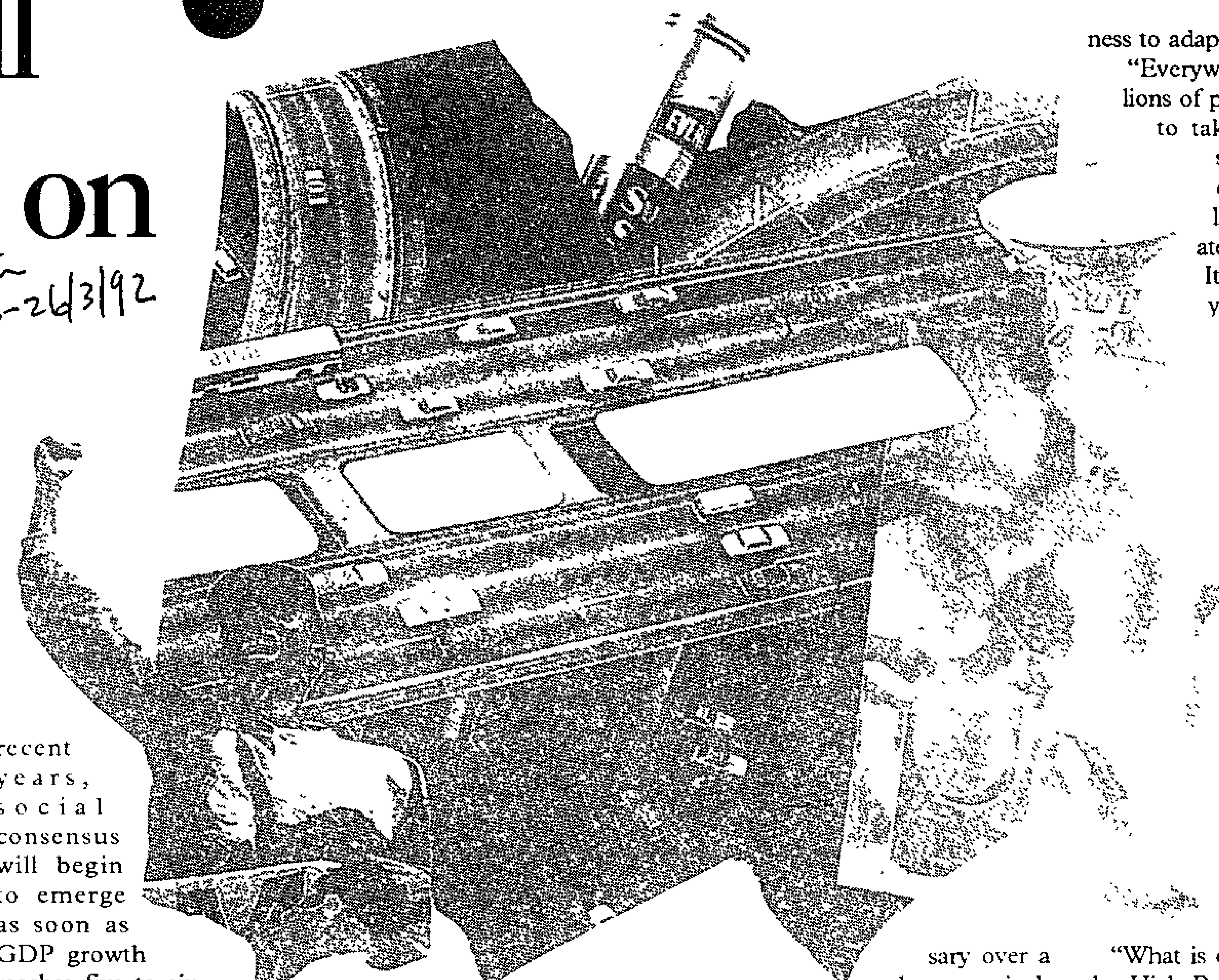
Poor economic growth is the cause of unrest in South Africa and other parts of the world, he writes in "Optima", a journal published by Anglo American and De Beers.

Parker says developed countries are generally satisfied when their growth reaches three percent a year.

In South Africa, over the last 10 years, the average annual increase in population has been 2,3 percent compared to an annual growth in Gross Domestic Product (GDP) of only 1,3 percent.

"It is this lack of economic growth — in part the result of sanctions — which is the principal cause of the present social crisis, with too much unemployment, too little job creation, not enough houses, and so on."

This trend is worldwide — the growth in output is little more than the growth in population.



recent years, social consensus will begin to emerge as soon as GDP growth reaches five to six percent a year. But, as soon as economic growth resumes in South Africa, productivity will rise very quickly to around three to four percent a year, making it imperative for the rate of growth in GDP to rise progressively to about nine to 10 percent a year if social consensus is to be maintained. The country will otherwise be in danger of falling apart.

GDP growth of 10 percent a year will point South Africa to the "High Road".

THE SURPLUS of GDP growth above five to six percent a year provides the true social part of development in any poor country.

sary over a long period.

He says no special talent is required for the High Road. What is needed most is a modicum of sensible management, diligence, work, a willingness to adapt, and the will to succeed.

"Everywhere in the world there are millions of parents who ask only to be allowed to take the High Road of work and success for the good of their children. This reservoir of parental labour and courage must be liberated."

It is in this way that, after many years of relatively mediocre growth, Malaysia managed to achieve increases in GDP of 8,7 percent in 1988, 7,6 in 1989 and 6,5 in 1990.

South Africa could match this sort of performance if its population and its government had the will to do so, and made it a priority on a par with the establishment of political democracy.

Parker says: "The two goals must be pursued with the same urgency, for without strong economic growth there can be no true democratisation, whatever political reforms there might be.

"The High Road is marked out. It has only to be followed. It is essentially a matter of will.

"What is certain is that countries opting for the High Road will be rewarded with foreign investments.

"South Africa too has the means to become rich — provided it follows the High Road," says Parker. — **Thoraya Pandy**

"It is now clear that there is no way development can be imposed from outside. Each country must determine its own destiny.

"The scale of misery in the world is already too great to be remedied by international organisations, rich countries or by charities."

The recipes for progresss — true "development" — are now becoming clear.

First, the growth of GDP must not merely match that of the population, it must exceed it. To know by how much, it is vital to be clear about the objective, says Parker.

In a country which is stagnating economically, productivity often falls. As soon as the economic machine starts to turn again, the rise in productivity can easily reach three to four percent a year — at first benefitting the haves rather than the have-nots.

However, each country has its own requirements. In South Africa, where population growth is 2,3 percent a year and where the increase in productivity has been almost zero in

Parker says not one of the 43 countries in which his consultancy group has worked over the past 20 years lacked the necessary economic potential to achieve economic growth of 10 percent.

"A country is never rich because of aid granted to it, because of its mines, its oil or its so-called 'natural' resources.

"A country is rich only through the work of its people, its technical achievements, its productivity and its improvements in social organisation."

Parker says an essential condition for success is that there should be a clear popular — as well as government — desire to escape from poverty. Predictably, and controversially, he also says it is necessary to remove minimum wage restrictions.

Economic growth is the overriding priority. Countries do not become "dragons", like South Korea or Taiwan, without wanting to be, and without having done what was neces-

5. Refer to the original data. The company is considering eliminating sales commissions entirely in its stores and increasing fixed salaries by R26 000 annually.

a. If this change is made, what will be the new break-even point in rand sales and in unit sales in Store 12? (2 Marks)

b. Would you recommend that the change be made? Explain. (2 Marks)

How the ANC would beat the budget blues

South 21/3 - 26/3/92 (49)

Allocations to health, education and housing in this year's Budget seem broadly appropriate, but the concern remains how the money will be managed and spent, says the ANC.

Thoraya Pandy reports:

FINANCE MINISTER Mr Barend du Plessis' Budget remains an apartheid budget, allocating resources to ethnically-defined departments and implemented with very little efficiency, the ANC said.

In its analysis of the 1992/3 Budget, the ANC department of economic policy said: "The central issue is the way these allocations are spent and managed. We have no faith in the ability of the departments responsible for these areas to be effective and efficient.

"The lack of mechanisms to ensure accountability means that government operations are riddled with inconsistency and waste," said the ANC.

"Much of the waste in the operations of the South African government results from sudden shifts in direction, accompanied by isolated increases or cuts in spending on programmes. In the past year alone, we have had a number of once-off, ad-hoc votes."

Expenditures resulting from last-minute decisions include the set-up fund for the Independent Development Trust, poverty relief to ameliorate the effects of VAT, and the special funding for white children attending Model C schools.

The ANC said the continued existence of secret funds further hindered assessment of the government's efficiency.

"They make a mockery of the budget exercise, since they ensure that the minister does not inform us of how the government plans to use substantial sums of money."

A performance audit of the public sector should take into account the effectiveness of expenditures in achieving stated goals with the automatic and immediate disclosure of reports.

This was best facilitated through an independent auditing authority.

Social welfare expenditure had not been a priority in the past, and there had been almost no planning and vision. Seventeen different welfare budgets have been formulated with no capacity being developed to try and determine regional and local needs.

Welfare spending has also been racist, the ANC said and deplored the manner in which the government had neglected its responsibility with regard to poverty relief. Pensions should be equalised immediately. "An equalisation of pensions at current white levels will cost the government approximately R2-billion," the ANC said.

Food schemes that target children and breast-feeding mothers needed to be introduced, for which approximately R1,5-billion would be needed.

State intervention in unemployment was imperative because without an active employment creation programme, crime and violence could only escalate.

Poor results

"A significant part of the budget is allocated to health and yet we have very poor results in terms of performance indicators.

"The ANC proposes that concrete targets be set in terms of health performance indicators."

The ANC said the crisis in education would not be solved overnight and ad hoc moves by the government to deal with the crisis were "irrational and inefficient". "We believe that in a five-year period with a more efficient use of existing resources we could achieve a substantial improvement in the survival ratios at the primary school level, the pupil-teacher ratio, the pupil-textbook ratio and the matric pass rate.

"We do not support the current government moves to lay off competent teachers in the white education department when there is a desperate shortage of teachers."

The ANC said housing was an area where a sizeable increase in state expenditure would be necessary. At the moment only 2,5 percent of GDP was allocated to housing, compared to the approximately five percent that was allocated in other middle-income countries.

The main thrust of tax policy at present should be to review the overall tax structure in the light of a development strategy.

"For this task the ANC proposes the constitution of a representative Fiscal Commission to bring expert investigation to bear on all the major issues of fiscal policy," the ANC said.

"Another likely area where further financing for expenditure changes can be generated is in the redirection of public expenditure. In particular, a reduction in defence expenditure and an elimination of apartheid duplication and mismanagement will be pursued."

Tax

In the longer term, the introduction of social security taxes would have to receive serious attention.

The ANC said in the medium term, issues which would have to be addressed include the broadening of the company tax base; particularly if the tax rate is to be further reduced; the introduction of an appropriate land or property tax; the treatment of luxury imported goods and the more efficient collection of taxes.

"We are deeply concerned that the minister made no mention in the Budget speech of plans to exempt basic foodstuffs from VAT. We assume then that his earlier pronouncement that the current exemption on eight basic foodstuffs, due to be lifted at the end of March, will therefore hold.

"The ANC rejects the fact that the government is still unilaterally making fiscal policy without more representative involvement in the process."

One percent cut in interest rates

(49)

ARG 21/3/92

DAVID CANNING
Weekend Argus Business Staff

HARD-PRESSED consumers received some relief in the form of a one percent cut in official interest rates last night — hard on the heels of a reduction in hire purchase conditions.

Borrowers with overdrafts, HPs and leases will enjoy lower repayments as a result of the drop — but uncertainty hangs over mortgages where, in expectation, rates already dropped one percentage point from March 1.

Reserve Bank Governor Chris Stals announced he expected financial institutions to follow the lead with similar cuts — but emphasised he was not giving up the fight against inflation through tight monetary policies.

In effect the Reserve Bank is cutting its key discount rate to 16 percent from 17 percent with effect from Monday.

It is also further reducing its target for money supply growth, from last year's 8-to-12 percent to 7-10 percent.

Leading banks are all expected to drop their prime lending rates in the next few days.

The one percent cut — if followed proportionately by banks — will mean a saving of R83 a month on a loan of R100 000, and R41,50 a month on a loan of R50 000.

Not only will consumers using hire purchase for cars, furniture amd certain luxuries benefit from relaxed deposits and repayment terms, but HP interest rates should drop an equivalent one percentage point as well.

The hire purchase concessions are designed in particular to help the motor and furniture industries.

In addition, the government apparently has failed to announce its intention to renew VAT exemptions on basic foodstuffs like rice, samp, mealies and dry beans.

Mr Stals said last night that greater stability in domestic and international financial conditions and a fall in producer price inflation had influenced his decision.

He predicted normalisation of South Africa's international economic relations following a landslide win for reform in the referendum.

"Taking into account the latest available data on the present economic situation, the Reserve Bank is of the opinion that a marginal reduction in interest rates can be justified at this stage," he said.

"There is no doubt that the reduction in the bank rate, taken in conjunction with other recent political and economic developments, could result in a modest economic upturn later this year," said SA Chamber of Business director-general, Mr Raymond Parsons.

"But even then a growth rate of no more than one per cent is expected in 1992 which is well below the real potential of the South African economy."

Mr Parsons was commenting to Sapa on the decision by the South African Reserve Bank to reduce the bank rate.

Sacob believed that, especially in the aftermath of the referendum, South Africa now needed an economic vision to match the political vision which was unfolding, Mr Parsons said.

'No' speech lacked vision and courage

STAR 21/3/92

(49)

WHAT a week it was. A referendum and a Budget on top of each other. On Tuesday, ballot boxes were stuffed with votes in favour of reform. The long-term significance of this is very difficult to calculate, but generally speaking, it's bound to be very positive.

Had it been a "no" vote, the consequences would have been fairly straightforward: a long decline into financial stagnation and poverty.

However, joy over the outcome of the referendum was short-lived.

On Wednesday we had a "no" Budget.

It was a Budget that refused to lower income taxes for individuals and companies.

It said "no" to economic growth, foreign investment, lower inflation and a reduction in the Government's share in the economy.

Several analysts described it as an unimaginative and uncreative Budget, lacking in the courage needed to make the "leap of faith" many businessmen thought was needed.

But, as the old saying goes, it's easy to be wise after the event.

Or, as the Americans are fond of saying, there are a great number of Monday-morning quarterbacks.

What should the Minister have done?

Critics have been quick to hammer the Minister of Finance for a sterile Budget, but few have suggested alternatives.

In his Budget speech the Minister referred to the need for vision.

Sadly, his proposals lacked not only vision but courage and innovation too.

A unique opportunity was lost, amid the euphoria over the outcome of the referendum, to redress one of the biggest injustices inflicted on the poor — VAT on food, medicine, and medical and dental services.

Plight

The galloping rate of inflation in respect of food (28 percent) and the imminent withdrawal of the temporary VAT zero-rating of certain basic food items at the end of this month will cause food prices to rise inexorably.

The plight of the poor will be aggravated.

The Budget called for boldness, not sterility.

Ken Walton, tax partner at Ernst & Young, who was my guest on Financially Speaking on Radio 702 after the Budget, had the following suggestions as to what the Minister might (or should have) done.

He should have:

- Zero-rated all food.
- Zero-rated all medical and dental services.
- Increased the VAT rate to 15 percent.
- Replaced the present cumbersome system of individual tax rates with only two rates: 20 percent and 40 percent.

I find it very hard to disagree with Walton's sentiments.

Many other people to whom I spoke after the Budget expressed similar attitudes.

What was needed was a courageous Budget to kick-start the economy and create more jobs.

There is ample precedent. In 1979, then-prime minister Margaret Thatcher inherited high inflation and unemployment from the Labour government in Britain. Within months the top tax rate was cut from 83 percent (98 percent in the case of investment income) to 60 percent.

VAT, which was charged at 8 percent or 12 percent, was increased to a standard rate of 15 percent on everything except food, books and medicine, which were zero-rated, and charities were exempted.

Much the same happened at about the same time in the United States. President Ronald Reagan reduced personal tax rates to encourage gowth and promote incentives to work harder.

Without growth — which once again looks unlikely this year — no political settlement will be safe.

Mandela threatens VAT action

C PRESS 22/3/92

ANC leader Nelson Mandela has threatened to "destroy the economy" with mass action if necessary to halt a planned tax on basic food.

Mandela, speaking to about 300 mainly black pensioners on Friday, said it was the ANC's duty to protect the poor and it would use unprecedented protests to stop the tax.

He said the protests would be more crushing than the nationwide two-day anti-VAT strike in November that virtually brought the country to a standstill. 49

He condemned Finance Minister Barend du Plessis's decision in his 1992/93 Budget to revoke the temporary exemption of certain basic foods – including maize meal, the staple of many poor blacks – from the 10 percent VAT.

"We cannot accept it. We would like to warn that hard days are coming for SA," he said.

Mandela said increased budget allocations for housing, education and health were appropriate, but not enough to start redressing the imbalances of 40 years of apartheid.

The worst drought in decades had already slashed the poor's buying power, he said.

The new tax applies to more items, including medical services, and critics say it hurts the impoverished black majority.

When government leaders made decisions such as imposing new taxes, they should not only consult the ANC, "they must get our express approval," said Mandela, speaking from the pulpit of Cape Town's Metropolitan Methodist Church.

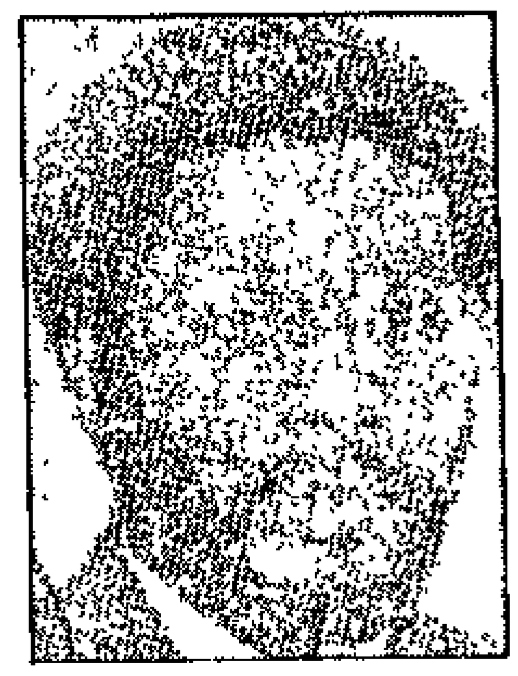
Even though the government was discussing reforms, it remained "insensitive" to the needs of black people, Mandela said. "They are thinking of the interests of whites." – Sapa-AP-Reuter

More pain for the poor as the money squeeze tightens

CITY PRESS 22/3/92.

This week's Budget, which has been described as a social conscience Budget in some financial circles, spells hardships for blacks, says MZAMO NXUMALO, Johannesburg manager of a prominent tax firm.

49



THE bad news in this year's Budget is the increase in the price of petrol and diesel. That means transport costs go up – making it more expensive to get goods on the shelves and more pricey for the shopper.

Food items that were zero-rated from September 1991 will become subject to VAT as from April 1 – another attack on the pocket of the poor.

The petrol price increase is 8 cents a litre on the coast and 9 cents on the Reef. Diesel goes up 6 cents a litre.

Less money

Fares for taxis, buses and trains will also increase. This is a very worrying development if one takes into account the inflation rate of 16,2 percent. Food prices in January 1992 were 26,2 percent higher than they were in January 1991. These percentages were quoted by Finance Minister Barend du Plessis in his Budget Speech this week.

The increase in prices results in the general populace having less money to save. The Minister said in the 1980s savings were 24,7 percent of the Gross Domestic Product – which is the value of goods and services produced each year in the country.

This percentage had fallen to 18,8 percent in 1991. This means more people are dependent on fewer income-earners, who in turn have less net cash because of increasing prices. Poverty is on the rise.

Value Added Tax (VAT) remains at 10 percent. However, basic food items that were zero-rated from September 1991 will become subject to VAT as from April 1.

These food items are: samp, mealie, rice, whole mealies for human consumption, dry beans, lentils, fresh milk, canned pilchards and powdered milk. This will obviously result in an increase in the price of food.

There is also Excise Duty, which one way or the other will affect blacks. This is a tax included in the price of certain products. On beer the increase is 8 percent – 4,8 cents a litre.

On spirits there has also been an 8 percent increase resulting in price rise of 37,7 cents a 750 ml bottle. The duty on cigarettes is now 2 cents more for 10 cigarettes. Pipe tobacco is taxed 10 cents more a kilogram.

Cooldrinks and mineral waters will be taxed at 2 cents more a litre.

On sorghum beer and sorghum beer powder there will be an excise duty increase of one cent a litre and five cents a kilogram respectively.

A few changes have been made to the taxation of individuals. Take, for instance, married women.

The maximum rate of tax for a married woman has been increased from 38 percent to 40 percent at taxable income of R50 000, instead of R40 000 as before. This is effective from March 1 this year.

The new tax rebates are: married persons R2 225; unmarried persons R1 950; married women R900 and persons over 65 years old R2 500.

Tax rates have been changed so persons in the lower tax brackets will save some tax. The levels of income at which various persons start paying tax have been raised.

Tax rates

- Married persons under 63 years pay tax at income above R12 501 a year.
- Persons 63 years to 64 years start paying tax at above R13 132 a year.
- Persons over 65 years pay tax when income exceeds R24 881 a year.
- Unmarried persons under 63 years pay tax at R10 715 a year.
- Between 63 and 64 years they pay tax at R11 286 a year.
- Over 65 years they pay tax income of above R21 429 a year.
- Married women under 65 years pay tax at R5 264 a year.
- Over 65 years they pay tax at income of above R17 292 a year.

Housing is another area which the Budget tried to tackle.

Houses and flats up to R50 000 will not have transfer duty if they are sold between individuals who are not registered vendors for VAT.

The Budget provides for an amount of R2 153-million for housing projects.

No transfer duty will be payable on the purchase of unimproved land for dwelling purposes if the value is not more than R20 000. All the provisions regarding transfer duty apply as from March 19, 1992.

Investment will save our bacon

CPRESS 22/3/92 (49)

MONEY TALK

WITH a massive 'yes' vote for a negotiated future now part of our history, we will hopefully see renewed interest in investmet in SA.

As was made clear in Wednesday's Budget speech, our economy is in a sad state: a real growth rate of only 1 percent for 1992 was predicted by the Minister of Finance. This is considerably below the population growth rate and means unemployment will rise even higher this year.

Investment

The joker in the pack is, however, foreign investment. This can change the entire picture and get growth off the ground.

But the key question is whether or not there is sufficient confidence in the country's future. This means, basically, whether we can look forward to a stable, democratic government prepared to honour the principles of private enterprise.

How profoundly politics affect our economy became clear during the referendum campaign when normal trade transactions were suspended by both local and overseas businessmen until the outcome was known.

Another interesting development was that in an effort to influence the outcome of the election, several leaders of large industrial nations promised assistance.

Confidence

One can, therefore, state that SA can look forward to higher levels of foreign investment and trade provided we are able, politically, to create sufficient confidence among businessmen. As stated before, that confidence is sadly lacking.

The De Klerk government can now negotiate with confidence at Codesa because the taunt that it had no mandate to bind the whites is no longer valid. Let us hope that a return to normal economic processes will be high on the agenda when these negotiations resume.

ANC: Delay deals with neighbours

S|Times [BUSS] 22|3|92 (49)

THE ANC believes there should be a moratorium on the government's attempts to draw neighbouring states into bilateral negotiations with long-term implications for future economic co-operation.

Professor Robert Davies, a researcher working with the ANC's economic policy department, says agreements under discussion should be subject to greater scrutiny by a broader range of forces in SA and by regional organisations.

This is because they could hamper the development of an "equitable, mutually beneficial and non-hegemonic" pattern of regional co-operation after apartheid.

By ZILLA EFRAT

An ANC working group is examining options for SA's future dealings with southern African countries. While its policies are not yet rounded off, the ANC has repeatedly expressed support for closer regional co-operation in southern Africa.

This support comes against the background of increasingly competitive international markets and concern that other regional trade blocs may become more protectionist.

The Southern African Development Co-ordination Conference says it will allow a future democratic SA to become a member. Until then, liberation movements such as the ANC and PAC will represent SA through a joint working committee.

But the ANC expects regional co-operation to begin to take off more openly and systematically once an interim government is in place

Professor Davies, a co-director of the University of the Western Cape's Centre for Southern African Studies, says the ANC believes co-operation must be rooted in ending existing regional disparities.

"We cannot ignore the gap of more than 5:1 between exports and imports to Africa, or the appalling damage and distortions caused by the policies of destabilisation."

He says there is no chance of promoting growth and development in SA while the rest of southern Africa stagnates.

Clandestine migration from crisis-ridden neighbouring countries is already swelling the ranks of SA's unemployed and homeless.

Balanced

Also, it is well known that the smuggling of arms and drugs to SA is among the most lucrative forms of "unrecorded trade" in the region.

Professor Davies says these trends will continue, and may worsen, unless there is balanced growth throughout the region after apartheid.

SA would have to boost the income-earning capacity of its neighbours while improving the productivity and competitiveness of its own industries. And the only way to do this was through closer regional co-operation.

Money supply cools

S/Times (Buss) 22/3/92

By CIARAN RYAN

GROWTH in M3 money supply between February 1991 and January 1992 cooled to 9,7% after three years of economic slowdown, says the SA Reserve Bank quarterly bulletin for March 1992.

But in January, M3 money supply rose to 14,7% from 12,7% in December 1991, well outside the growth guidelines of 8%-12% set by the Reserve Bank. The rate of increase in mortgage advances rose sharply from 14,7% in December 1990 to 18% in December 1991.

"These growth rates in mortgage advances well in excess of the inflation rate were probably in part an indication of slower repayment of capital because of tight financial conditions and an increase in the value of real estate transactions," says the report.

Despite signs of an upturn in GDP in the third quarter of 1991, real GDP declined about 0,5% for the year, matching the decline in 1990. Real government consumption expenditure increased by 5,5% during 1991, despite a decline of 0,5% in real gross domestic expenditure.

"Total real gross domestic fixed investment declined substantially in the fourth quarter of 1991 — the eighth consecutive quarterly decline in this aggregate."

KEYS PLEDGES SUPPORT FOR WORLD DRIVE BY EXPORTERS

S/Times 22/3/92

ANC 49

By MIKE ROBERTSON
Political Correspondent

DEREK KEYS is a happy man . . . "I get to think about the things I am interested in all day long and still get paid for it."

This week's Budget provided a "coming out" opportunity for the former Gencor chief, who has maintained a low profile since taking over as Economic Co-ordination and Trade and Industry Minister at the beginning of the year.

Like his predecessor, Dr Wim de Villiers, he believes that growth will have to be export led. But he readily concedes that inconsistency on the part of the government has made life difficult for potential exporters.

He identifies two things the government will have to do to lower levels of uncertainty.

"We have got to increase our level of predictability and our transparency.

"Second, we have got to make it clear to people that we are going to box their corner in the international sphere to the same extent that other governments do for their national firms. This is something that the South African government hasn't quite got around to doing until now."

Mr Keys has identified his key objective as raising the level of fixed capital investment, which has fallen from 27 percent of gross domestic product (GDP) to 18 percent.

The drop, he says, is both good and bad. The good part is that it shows the government is no longer undertaking projects such as Mossgas which do not give good immediate yields. The bad part is that unless the situation is reversed, the economy will continue to flounder.

"Raising the level is my objective. I intend to push as hard as I can to get fresh investment for export purposes.

"We have got to take advantage of our comparative advantages and to add value to the existing stream of materials. We export an enormous spectrum of raw materials. In almost every case it is possible for us now, with our resources, technology and level of entrepreneurial management, to look seriously at the next step up."

Mr Keys believes, as he did at Gencor, that stainless steel, pulp, aluminium and refined petroleum products offer vast opportunities for exporters.

"I assume that if Gencor can conjure up those four, other people can conjure up 40."

He announced this week, as a first step to boost exports, incentives to promote the beneficiation of imported raw materials and intermediate goods "to make sure we don't miss any desirable big projects".

Internally, he says, the first priority is to raise the level of demand: the manufacturing industry is operating at only 80 percent capacity.

"There is not much point in having tremendous investment incentives for people when they have machines standing idle. That is where the relaxed hire purchase provisions come in."

He candidly agrees that, judged on the basis of the deficit before borrowing and the percentage of total GDP it represents, government spending is too high.

But, he argues, had it not been for the recession, both the deficit and government spending as a percentage of GDP would have been in line with international standards

"What I am saying is that the government decided not to deviate from its course because the economy was in recession It did not make things worse by cutting the levels of government expenditure.

"It has just decided to go on and stand the criticism What proves to me that it is the right thing to do, is that the government borrowed R3-billion more than it needed last year without any strain on the long-term capital market whatsoever."

"There are no indications of strain at the moment. The funds are there, but they are not being demanded by the private sector. As far as I am concerned the state ought to keep its level of spending up and make use of those funds."

He does not believe that by increasing its spending the government is putting too much of the burden of fighting inflation on the monetary authorities — and thereby providing no room for a relaxation of interest rates.

"I think that if (Reserve Bank governor Chris) Stals just keeps going the way we are and if the government is sensitive to when demand picks up in the private sector, inflation will gradually go down."

He predicts a two percent drop in inflation this year.

Although a mere R1 000 has been allocated for privatisation this year, Mr Keys says this does not reflect an abandonment of the concept, but rather that none of the big companies — Transnet, Telkom or the Post Office — are ready to be sold off.

Mr Keys almost welcomes ANC criticism that when it comes to education and health, the government is throwing money at problems and not taking sufficient care to ensure it reaches the most needy.

"This is the ANC's tack. As it becomes acquainted with reality, it is starting to attach much more importance to how the money is spent rather than the quantum. It no longer thinks you can just add extra funds.

DEREK KEYS . . . we must take advantage of our opportunities

"That is a healthy critical slant to put on our activities. We think we are doing the best, but we may be wrong."

Mr Keys believes that only once a transitional authority is in place will conditions be right for the setting up of an economic negotiating forum.

In the meantime, he says, it is right that representatives of organised labour and business continue talking and finding out what they agree on. Once an interim authority is in place a forum could be set up to deal with economic policy.

...ne economy still stagnates despite a 'yes'

SITimes (BUSS) 22/3/92 (49)

By CURT VON KEYSERLINCK and CIARAN RYAN

IN SPITE of the euphoria over the "yes" victory in the referendum, it will do little to pull the economy out of the longest recession SA has experienced since World War 2, say economists.

Investors in the JSE also seem to take the view that the economy is not on the brink of a boom as share prices fell after the JSE index hit a high point immediately after the result was known (see graph)

'The yes' vote should boost business confidence, but I do not see it bringing forward the economic recovery, which is still not likely to start until the second half of the year,"

says Old Mutual chief economist David Mohr.

"We have to be realistic There is still a rocky road ahead for SA and the 'yes' vote has not solved the problems that will have to be addressed in the negotiation process. All it has done is confirm that negotiations will proceed.

"The referendum has raised confidence but there is nothing it or the Budget can do that will have any significant immediate effect on economic activity," says Sanlam chief economist Johan Louw "Recent salary increases have been below inflation, so the man in the street simply has no money in his pocket to spend."

"President De Klerk had the courage to hold the referendum The same sort of courage is needed in drafting a new type of Budget."

Mr Louw says the Budget has not addressed the structural problems in fiscal policy "But it is for political reasons that Barend could not raise Vat, and he could not drop company and income tax," he says.

Mr Mohr says the Minister had little room to manoeuvre because of political constraints and because of the sluggish economy, which is stunting revenue growth. "It is hard to reform tax policy when times are tough Most countries do it when revenues are growing."

Mr Mohr says. "The relaxation of HP conditions is proof that the economy is still slack And I do not believe that businesses will invest in new capacity until after volume sales start picking up."

JCI group economics consultant Ronnie Bethlehem says "The referendum result will not have an immediate effect on the bottom-line GDP but it could boost foreign confidence, which would lead to the extension of more foreign credit.

'This in turn will boost our net foreign reserves, which will make it easier for the government to relax restrictions on HP — as it has done — and improves the likelihood of a drop in interest rates ' Executive director of Seifsa Brian Angus says the steel and engineering industry sees little chance of an upturn this year "The referendum result was better than we expected," he says "But there will be some time before its effects filter through

"Our industry has been severely hit by cuts in public-sector capital spending, particularly by parastatals such as Eskom, Armscor, Transnet and Telkom And with the gold price under $350 we cannot expect much business from the gold mines, which traditionally were big customers

He says business confidence has improved this week but that potential investors are still holding back because of uncertainties as to how the economy will be managed in future.

Barlow Rand group economist Piet Haasbroek says there is no guarantee the Codesa negotiations will end in a peaceful settlement and that investment is unlikely to take off until business "gets a stability signal from Codesa"

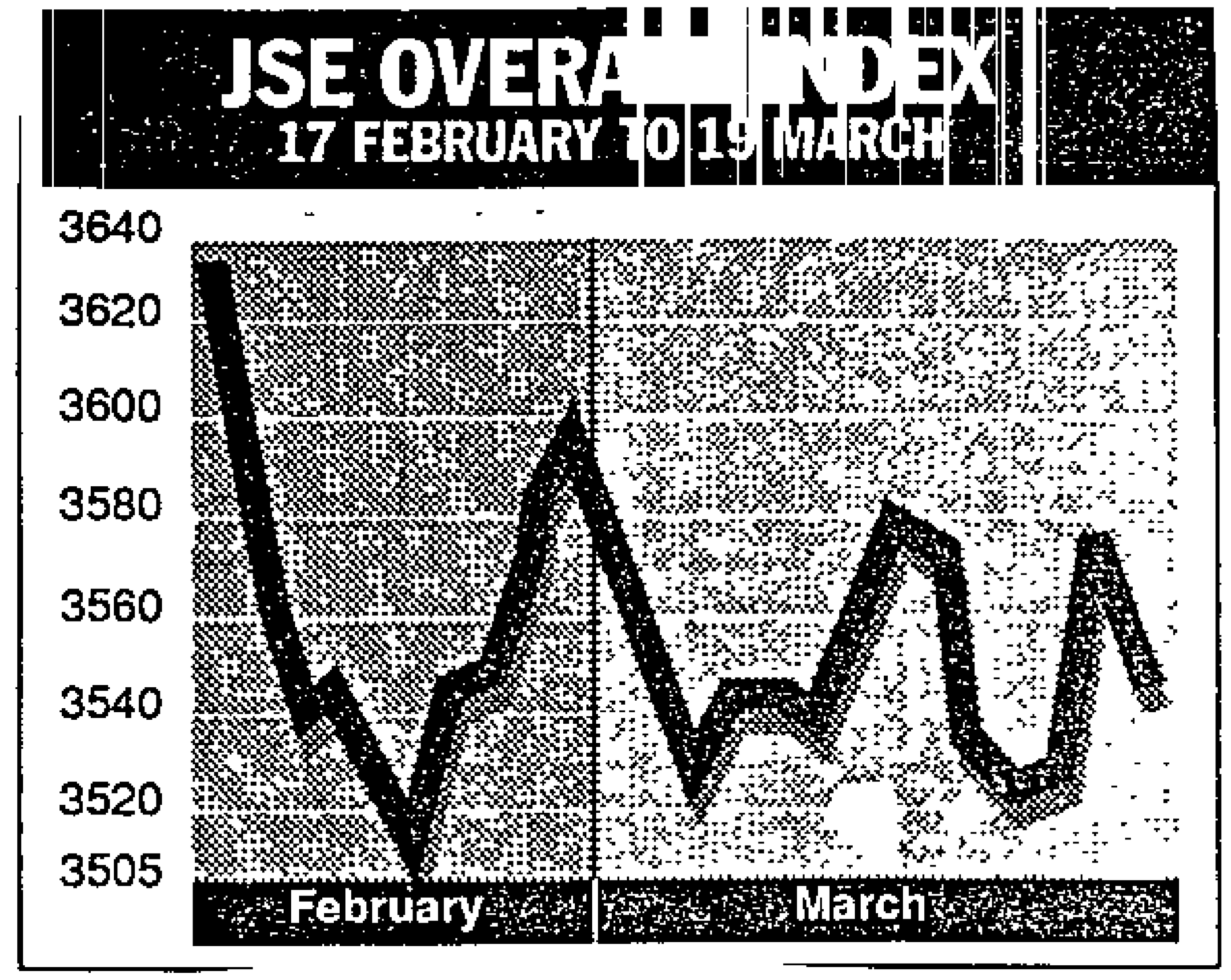
Economists say the Budget will do little to stimulate the economy

Drag

Sacob chief economist Ben van Rensburg says. "We have had a huge 'yes' vote and we needed a positive Budget to match the positive political news What we got was a holding operation. And if the political climate continues to improve this Budget will be inadequate"

Dr Van Rensburg suggests that another "interim budget" be presented later in the year in which income tax is cut to eliminate fiscal drag.

Echoing the views expressed by Sankorp economist Peet Strydom at Sacob's post-Budget seminar he says "We need a new paradigm for fiscal policy Instead of being based on considerations of revenue and expenditure budgets should be based on the need to create a growth-oriented economy



Reserve Bank poised to play finrand role

(49) SIMON WILLSON (844)

FROM the opening of trading this morning the Reserve Bank will for the first time be ready to intervene in the financial rand market. B/Day 23/3/92.

Until now the Bank has confined its foreign exchange market intervention to trading in the commercial rand, leaving the finrand market free to reflect fully any swing in sentiment.

While able to smooth out disruptive volatility in the commercial rand market, the authorities have until today been powerless to prevent wild fluctuations in the finrand which have made trading in the investment unit a particularly hazardous business recently.

Reserve Bank Governor Chris Stals said at the weekend Finance Minister Barend du Plessis had agreed to a Bank proposal that it now intervene in the finrand market in the same way it already does in commercial rand trading.

When the finrand market opens this morning the Bank will be able to buy or sell finrands against US dollars, either through its own dealers or through local banks operating on its behalf.

The Bank's entry into financial rand trading represents a sharp turnaround from its stated position only five months ago. Towards the end of October last year, the financial rand's discount to the commercial rand had slimmed to around 8,5% from more than 25% at the end of 1990, sparking strong rumours that the Bank was dabbling in the market with the objective of unifying the two rates.

But in October last year Stals denied the Bank had intervened to support the finrand, saying it was encouraging that the narrowing in the discount had come about "entirely by market forces" and through improved foreign perceptions of SA.

In the intervening period, however, SA's standing has improved further — especially in view of the decisive pro-reform majority in last week's referendum. Stals said as sanctions were being lifted, "unnecessary exchange control restrictions should also be phased out".

Although the abolition of the finrand is

☐ To Page 2

Reserve Bank

B/Day 23/3/92. (49) (844) ☐ From Page 1

not yet being actively planned, it will be that much easier to accomplish once the Bank is able to influence the price of the investment unit.

Stals said the Bank expected to become a net purchaser of finrands, thus reducing the total supply. The Bank's intervention is also expected to bring about a smaller finrand discount to the commercial rand, although there is to be no preconceived target range for the discount.

Since the Bank's intervention will involve trading finrands for dollars, the extent to which the authorities can move the market will be governed by the level of its foreign exchange reserves. The strong, R1,4bn increase in net gold and foreign exchange reserves last year and the further R1,4bn increase in reserves in the first two months of 1992 alone, could also comprise another reason for the Bank's change of policy.

The Bank's main objective in entering the finrand market is greater stability in the finrand/dollar rate. Stals acknowledged the volatility of the rate in the past had discouraged many foreign players from investing in SA equities.

With an eye on what he feels will be the continuing need to tamper with domestic liquidity levels in the months ahead, Stals also noted a by-product of putting reserves to use in official finrand intervention would be that overall liquidity levels could be regulated.

Another facet of the Bank's entry into the finrand market is that it widens the scope foreign creditors already have to withdraw debt frozen in the standstill net. Previously creditors had to convert the debt to finrands and then look for a decent foreign-currency price for their finrands from another non-resident buyer. From today, creditors also have the option of selling finrands to the Reserve Bank for foreign currency — for the right price.

A local finrand dealer said the Bank's entry into the market may make it more liquid, but would not necessarily make it less volatile.

"Now that the Bank has told the finrand market that it aims to be a net purchaser, as soon as he calls we'll tend to think that he's on the bid. This is going to make a lot of players very jumpy about what's going on and we could initially see more volatility rather than less," the dealer said.

He said Reserve Bank would also find it harder in the relatively thin financial rand market to disguise its intervention in the way it does in the larger commercial rand market.

"If I got asked for a price by certain banks in the market, I'd be pretty sure they were acting for the Bank, because they hardly ever deal for their own book."

MONEY MARKETS by Sheridan Connolly

Market in a buzz over expected bank rate cut

BIDay 23/3/92

(49)

RENEWED expectations ahead of Friday night's cut in the bank rate had the market in a buzz at the end of last week.

Reserve Bank Governor Chris Stals announced on Friday night a one-percentage-point cut in the Bank rate to 16% from 17%. Market analysts, however, had been expecting at least two percentage points off the Bank rate — arguing that anything less would not have a significant impact on the economy.

Stals also announced the Bank's new money supply growth guidelines for M3, which proved to be in line with market expectations. The new guideline range is 7% to 10% from the fourth quarter of 1991 to the fourth quarter of 1992 — the lowest guideline range since the Bank first introduced growth targets in 1986.

The Bank has managed to curb money supply growth through its restrictive monetary policy in recent years. M3 money supply growth slowed to 10,8% in 1991 compared with 12% in 1990 and 22% in 1989.

Stals had, in recent months, held his ground, saying high interest rates should be maintained until the stubborn rate of consumer inflation showed some signs of relenting. So far, inflation has remained disappointingly steady with persistently high food prices taking the blame, but Stals had no doubt come under pressure from government and the market which were desperate for some form of relief.

Speaking on TV on Friday night, Stals warned that lower interest rates could only be justified on the assumption that inflation would decline during the course of 1992. If inflation remained a problem, higher interest rates could be considered.

Strong liquidity in the money market kept short-term rates at their recent lows and also kept the Bank busy with mopping up operations. The Bank issued three special Treasury bill tenders last week in an attempt to drain excess liquidity from the market.

The money market shortage was back at the R1,5bn level for most of the week after dropping to about R400m the previous week. The shortage was higher at R1,39bn on Thursday from R1,04bn on Wednesday.

The BA rate drifted down a further five points from its recent two-year low of 16,85% to a new low of 16,80%, although some trade was done at levels as low as 16,70%. A reduction in interest rates should not have any great effect on the BA rate because it has already discounted a 2% cut in the prime rate.

The Bank altered the format of its weekly R200m Treasury Bill tender on Friday with the introduction of three separate maturity dates. It divided its issue into a three-month, six-month, and nine-month bills.

Applications for the three-month tender worth R100m amounted to R788m at an average rate of 15,48%, the six-month R50m tender received R493m at an average rate of 14,88% while the Bank received R420m for its nine-month R50m tender at an average rate of 14,33%.

Towards the end of the week, the benchmark Eskom 168 was higher at 16,11% from a previous 16,07% while government RSA 150 long bond was also up to 16,32% from 16,27%.

Govt borrowing 'will be easier'

B/Day 23/3/92

(49)

SHERIDAN CONNOLLY

GOVERNMENT's borrowing requirements for the current financial year would be more easily funded because of SA's return to the international capital market, analysts said at the weekend.

A review of last week's Budget showed government raised roughly R13bn on the domestic capital market in the 1991/92 financial year in addition to the R1,5bn that was raised through foreign loans. The "yes" majority in the reform referendum was welcomed by foreign governments and the positive outcome had boosted chances for renewed access to foreign loans, they added.

In comparison to the R13bn raised last year, "the net amount demanded of the local gilt market (excluding rollovers of redemptions) in the 1992/93 Budget is a mere R2,73bn", said Simpson McKie research team head Peter Trengove Jones.

This assumed minimal utilisation of foreign loans, but a fairly large requirement of R8bn from the Public Investment Commissioners (PIC), Trengove Jones said. "The ownership distribution of government stock is becoming more and more heavily weighted towards the PIC and the proportion of funding reliant on this source is somewhat alarming considering the stated intention of reducing the PIC's exposure to gilt investment," he said.

Trengove Jones said it was likely the funding of the deficit would occur at the shorter end of the yield curve, particularly if money market rates continued to fall. He said the capital market should continue its bullish run and rates should fall a further 10 to 20 points in the short term.

Although it was difficult to isolate the effect of the referendum the market's immediate reaction to the Budget had been positive, Trengove Jones said. Any significant amount of foreign buying would obviously reinforce a downward movement in capital market rates, he added.

Commenting on the Budget, Simpson McKie economist Graham Boyd said the budgeted figures needed to be evaluated in the context of the forecast inflation rate of 14,5%, which was higher than many private sector estimates.

The Treasury had budgeted for a real increase of 2,0% in government expenditure, which was greater than the forecast real economic growth rate of 1,0%, Boyd said. "Unless expenditure by each department is contained exactly within budget, the Budget figure of total expenditure will be exceeded," Boyd said.

Spending leaves no room for recovery

THEO RAWANA

49

GOVERNMENT should realise it could not restructure and plan the economy independently, Nafcoc economist Vincent Phaahla said last week.

The Budget had showed President F W de Klerk's arrogance in thinking he could only negotiate at the political level while keeping the economy in white hands, he said.

B|Day 23|3|92

"The Budget does not provide for a programme of economic recovery — which includes the majority of the dispossessed people of the country.

"Where the Budget provides for increases — such as in social spending — it is only as handouts, instead of programmes for development," Phaahla said.

The Budget provided for white privilege in three respects:

☐ The R1bn to help farmers who are devastated by drought;

☐ In social assistance, pensions for whites were R345 a month, coloureds and Indians R318 and blacks R293; and

☐ The tax breaks given to the mines.

Futurebank chairman Jabu Mabuza welcomed the Budget as "relatively fair" although he saw it as inflationary.

"From an income of R84,7bn, an expenditure of R100,7bn will leave a deficit of R16bn," Mabuza said.

The two figures were an increase of 16% and that made it inflationary, he added.

Mabuza said it was encouraging that there were no tax increases and that 40% of the Budget was to be spent on social services.

Also encouraging was the fact that the deficit translated to 4,5% of the GDP.

"(Finance Minister) Barend du Plessis says he will fund the 4,5% by R1,6bn from the oil reserves fund and from R1,9bn in other reserves, which means that he has to borrow R13,2bn — an equivalent of 3,8% of GDP.

Budget 'treads water'

MICK ELLINGHAM

49

THE 1992 Budget had justifiably been dubbed as unimaginative, treading water, or a "people's budget", Dr Azar Jammine told the annual Econometrix Investec budget seminar on Friday.

Jammine, chief economist at Econometrix, said Barend du Plessis could be forgiven for his reluctance to tamper with the tax system in a way which might have raised the ire of organisations with whom he was trying to negotiate.

"Du Plessis can also be forgiven for budgeting for yet another increase in government expenditure which exceeds the country's dismal projected growth rate," he said.

B|Day 23|3|92

Econometrix director Tony Twine said the 1992 Budget left discretionary spending power as a proportion of pre-tax income virtually unchanged versus the previous year.

"Discretionary spending power is as much under threat from high levels of inflation pervading non-discretionary goods as it is from any other element of the Budget", he said.

Other speakers at the seminar were Econometrix directors Prof Chris Torr, Michiel Bester and Mark Addleson.

'Recession will remain'

B/Day 23/3/92

LINDA ENSOR

CAPE TOWN — A drop in interest rates would not do anything to lift the economy out of recession, First National Bank chief economist Cees Bruggemans said at the weekend.

Speaking at a Deloitte Pim Goldby discussion on the Budget, Bruggemans said economic conditions and the containment in the growth of money supply justified a drop in interest rates by 1% even though the inflation rate was still high.

But he nevertheless anticipated a further deterioration in economic conditions in the short term with the promise of medium-term recovery for mainly political reasons.

He believed that 1992 would be the third year of recession in a row but felt that the referendum result had broken a logjam which would lead to a better performance in the medium term as external constraints were lifted.

Bruggemans said he would not be surprised by another cut in interest rates in September when Reserve Bank Governor Chris Stals presented his statement and when the inflation rate would have improved. However, any such an increase was also unlikely to have much impact on the recession. (49)

Bruggemans said it was likely the range for the money supply target would be lowered when Stals released the money supply guidelines for 1992 shortly. He believed a range of between either 6% and 10% or between 7% and 11% was likely, down from last year's target of between 8% to 12%.

Finance Minister Barend du Plessis came under attack for seeming to have little grasp of the economic realities confronting the private sector and his forecast of an economic upturn in the second half of the year was described by Bruggemans as so much "hot air".

He said the growth rate forecast for the economy this year and the expectation of economic conditions stabilising before an upturn later in the year were nothing more than "a national statement of hope" which revealed a complete misreading of the state of the economy.

"I feel the Budget overstated the case for optimism. I would place more emphasis on the announcements which seem to be coming after the Budget — I must say this is a remarkable way of conducting policy — and these seem to be coming from the Minister of Trade and Industry and Economic Co-ordination."

Big companies were still looking at cost cutting and further rationalisation and there were signs that fixed investment might still be decelerating.

The Budget had failed to address the conditions of the recession which had over the last two years seen the number of formal sector jobs being cut by 8% or by about 400 000 people. This cut in disposable income and the pressure brought to bear on wages and salaries from mid-1991 onwards had had severe effects on the economy.

The Budget hit the consumer hard with an approximate 22% increase in personal tax, a 28% increase in the fuel levy and a 22% increase in excise duties.

When markets alone are not enough

BlDay 23/3/92 (49)

ANDREW ADONIS in London

WHAT should inspire post-Thatcher Conservatives — and their allies abroad?

Autonomy, free markets, and an enabling welfare state, argues John Gray, an Oxford political theorist in a powerful tract, The Moral Foundations of Market Institutions (Institute of Economic Affairs). He combines all three to map out a plausible middle ground for political debate in the 1990s. With most of today's politicians — left, right and centre — desperately searching for such terrain, he is playing to a packed audience.

Gray is that rare bird; the polemical moderate. The "ruinous failure" of state socialism, the "mirage" of egalitarianism, the "blind alley" of market socialism, the "illusions" of libertarianism — successive chapters shatter each in turn.

Gray's political sympathies lie unambiguously with the right, but his strictures on the limits of markets and the importance of welfare will cause many an IEA patron to blanch.

The promotion of human autonomy is, for Gray, the end of politics. But autonomy is more than freedom — the "negative liberty" of classical liberals and conservatives. To be valuable, autonomy requires both capacity for choice on the part of the individual and a range of worthwhile options in his or her cultural environment. "In the absence of this autonomy wanes, and the lives of individuals become the poorer, however many choices they make," he says.

Accordingly, free markets are ethically justified as enabling devices for the protection and enhancement of autonomy — since without them the ability of individuals to act upon their own goals, values and knowledge is diminished. But markets alone are not enough. If worthwhile choices are to be available to all, the state has to provide public goods for all. The state also has to satisfy the "basic needs" of individuals through an active welfare and cultural policy — where markets, families, charities and other non-state institutions fail to do so.

What are these "basic needs"? They are needs whose satisfaction is essential to the possibility of a worthwhile life. For the most part, they are also capable of complete satisfaction. The latter feature is critical: for most basic needs, writes Gray, "once they are met, the content of the welfare claim which guarantees their satisfaction is exhausted". So needs, not rights or justice, justify an individual's claims on the state.

Hence the welfare state. But Gray's Leviathan is small and tame. It will supplement, not replace, private provision. It will consume only about a quarter of the national product, and not be a racket for the middle classes.

It will deliver as far as possible through market mechanisms, using vouchers and the like. And its structure will conform to the principle of subsidiarity, "with functions being devolved to the lowest feasible and desirable level of government".

None of this cuts much ice with the remnants of the Thatcherite right. In accompanying commentaries, Chandran Kukathas, of the University of New South Wales, and Patrick Minford, the monetarist economist, defend negative liberty — freedom from coercion — as a goal in its own right, and dismiss "basic needs" as hard to define, and where defined, ruinously expensive to meet.

Gray's response is persuasive. Freedom, he argues, has little value on its own. Its chief value is the contribution it makes to autonomy — an autonomy which involves far more than the mere absence of coercion by others. As for basic needs, they necessarily vary across cultures and societies — to lead a worthwhile life, the Kalahari bushman and the urban professional require different things. Yet allowing for that, and the impossibility of precise mathematical objectivity in such matters, a "reasoned public discourse" ought to generate consensus on the content of such needs.

Gray may place too much faith on the power of "reasoned discourse"; propose reducing state spending to a quarter of the national product, and the ensuing debate will be anything but reasoned. Beyond lauding subsidiarity — a difficult principle to apply, as the EC is painfully discovering — he also has little to say about the organisation of his limited government. Yet the issue affects his argument at every turn, with constitutional reform moving up the agenda of Britain's political class through concern for just that autonomy which he is seeking to promote.

A related caveat is entered by Raymond Plant, coming from the left in the third of the commentaries. It may indeed be possible to reach broad consensus on basic needs, but it is far from evident that such needs, taken together, can be met completely within available resources. Gray himself concedes the expense of many basic health needs — particularly those relating to ageing, and that is even before aggregating them with entitlements to education, training, housing, defence and so on.

Yet if basic needs cannot be met completely, then a debate about distribution and fairness takes over — and the rules for conducting it become crucial. As Plant notes, governments all too often fall victim to interest group pressures in relation to the provision of basic services because of their unwillingness to face the fact of scarcity, and the consequent imperative to gauge "a reasonable degree of entitlement given limited resources".

Politics evidently still has a controversial life ahead of it. — Financial Times.

Wesgro study deals with future economics

Sowetan 24/3/92

(49)

THE first publication of its kind in South Africa that deals comprehensively with a regional economy and its strategic role in the future of South Africa was launched in Cape Town on Monday.

The Association for the promotion of the Western Cape's Economic Growth (Wesgro) publication: South Africa's Leading Edge? — A guide to the Western Cape Economy, draws on the study and ideas of over 300 regional experts and leaders and presents information on the current structure and future growth areas in the Western Cape regional economy.

Wesgro executive director Dr David Bridgman said in a statement the book could be regarded as essential "for those who wish or need to gain a clearer perspective of the regional economy".

The book covers key strategic issues, growth prospects and challenges for the 1990s. - *Sapa*.

Reserve Bank confirms finrand intervention

BDay 24/3/92 (49)

SHERIDAN CONNOLLY

THE finrand firmed yesterday following last week's referendum result and confirmation from the Reserve Bank that it had intervened in the finrand market.

The unit finished at R3,54 to the dollar, off its opening level of R3,51 but stronger than its previous close of R3,58.

Reserve Bank governor Chris Stals confirmed last night that the Bank had intervened in the market yesterday, but "only in small amounts". The Bank would continue to intervene on a regular basis, Stals said.

Some dealers felt the Bank's intervention would stabilise the unit and boost investor confidence, but others said sporadic intervention by the Bank would destabilise the currency and it would no longer be a true indicator of foreign sentiment.

Players were unsure of how and when the Bank would intervene, dealers said.

Finrand dealers said there had been good two-way trade yesterday, with some squaring off by investors. The finrand strengthened to an intraday high of R3,49 before slipping to its closing level.

One dealer said the announcement had come at a bad time. The market had just recovered from anxiety about non-resident tax liability, which had affected investor confidence in the finrand.

The stronger finrand put mining financials and gold shares under pressure as there was confusion over the Bank's impact on finrand trading, dealers said.

Capital market dealers said rates edged up in response to the cut in the Bank rate to 16% from 17%. There was some profit-taking as well as strong overseas buying in the government RSA long stock.

Capital market rates eased last week in response to the overwhelming "yes" vote in the referendum but, because the market had discounted more than a one-point cut in the bank rate, there had been a slight upward correction in market rates yesterday, dealers said.

The benchmark Eskom 168 hardened to 16,14% at the close of trade yesterday compared with its previous close of 16,04%. The government RSA 150 was higher at 16,35% from a previous 16,20%.

In the money market the drop in the bank rate apeared fully discounted as most institutions left their 90-day liquid BA rates unchanged at 15,80%.

Economist forecasts mild recovery

BDay 24/3/92 (49)

LINDA ENSOR

CAPE TOWN — The mildly stimulatory Budget, the relaxation of hire purchase restrictions and the lower Bank rate will all contribute to a mild economic recovery in the second half of the year, says Sanlam economist Johan Louw in the latest Economic Survey.

However, while a 1% annual growth rate was expected, 1992 would still be a difficult year for consumers and businessmen and no immediate improvement in economic conditions could be expected. Greater consumer and business confidence was likely, but the more favourable international climate would probably not give a strong injection into the economy this year.

Louw said the economy was still struggling to break out of the recession, with a turnaround held back by worsening unemployment, high inflation, continuing violence and uncertainty over SA's constitutional future. General economic activity appeared to have declined further during the first couple of months this year, being especially noticeable in commerce and industry.

Furthermore, the economy was suffering from the drought and it was likely "the decline in agricultural production will seriously hamper the expected positive growth in the non-agricultural sectors this year. It could also have a marked negative effect on inflation and our foreign trade," Louw added.

Louw said the Budget's fiscal injection into the economy was the correct strategy, but several factors were contributing to a rise in inflation. The higher fuel price and excise duties were inflationary and could increase the inflation rate immediately by 0,25%. Telkom's 14,2% tariff increase might result in a further 0,25% hike.

However, these inflationary factors would be counteracted by the lowering of unit costs brought about by economic growth, the exemption of capital and intermediary goods from VAT and lower interest rates. Louw predicted an inflation rate of about 12%-13% by December with the average for the year estimated at 14,5%, compared with 15,3% in 1991.

Critical time ahead as famine looms

(49)

Sowetan 24/3/92

By JOSHUA RABOROKO

THE financial position of consumers is critical, according to the chairman of the South African Consumer Union, Mrs Lillibeth Moolman.

Unemployment, inflation and rapidly increasing food prices create great problems and many consumers actually face famine. The belt can no longer be tightened because, for many consumers, the belt is already at its tightest.

The fact that the VAT rate has remained unchanged is to be welcomed, she says. It is, however, regrettable the the temporary relief on certain basic foods has been terminated.

She said that consumers had not only hoped that the exemptions would be made permanent, but that they would be extended to include all basic foods, medical services and medicine, water and electricity.

It was a pity that the Minister of Finance, Mr Barend du Plessis, did not see his way clear to do this.

The fact that the Budget tried to help the agricultural sector in an effort to minimise the effects of the drought is of the utmost importance for consumers in order to prevent food shortages.

Increase

The increase of 8c a litre in the fuel levy is regrettable. It will provide the ideal peg to justify increased prices. The escalating effect of the higher fuel price will hit consumers very hard.

The increased amount available for the nutrition development programme is to be welcomed. It is hoped that a system will be devised as soon as possible in order to ensure that the aid reaches the people who are really in need of it.

According to Moolman, the highest priority now should be to stimulate the economy in order to create jobs and at the same time to control the money supply in order to fight inflation. It did not appear as if the Budget would meet these requirements to the required extent

Economic growth vital for SA, Pik tells Japan

(49)

ARG 24/3/92

TOKYO. — South Africa wants to forge diplomatic links with major Asian countries as soon as possible, Foreign Minister Mr Pik Botha said today.

He arrived here yesterday for the first high-level talks since Tokyo and Pretoria established full diplomatic relations in January.

"We want to be a junior partner in trade with this giant (Asia)," Mr Botha said.

"We want to establish representative missions in all the important countries in Asia."

Mr Botha said that economic growth was needed to underpin a new constitution.

"What we need above all is economic growth. Without economic growth under the new constitution, it won't matter much who governs the country," Mr Botha told reporters.

South Africa's extensive railway network and its modern ports could serve as a major hub for distributing Japanese products throughout southern Africa, he noted.

South Africa has diplomatic relations only with Japan and Taiwan in the East, but would like to expand these to include Thailand, Malaysia, South Korea and Singapore, an embassy spokesman said.

Japan reopened diplomatic relations with South Africa on January 13 and lifted economic sanctions last October in response to progress toward dismantling apartheid.

The only bans remaining are those on exports of weapons and computers to South African government agencies that implement apartheid.

● Mr Botha arrived in South Korea today for an unofficial visit and is scheduled to meet Foreign Minister Mr Lee Sang-Ock tomorrow to promote friendly relations, a foreign ministry official said.

— Sapa-Reuter-AP-AFP.

Fiscal injection the 'right medicine'

Business Staff (49) ARGT 24/3/92

THE fiscal injection South Africa's economy gained from the Budget is the right medicine, says Sanlam's chief economist but an immediate significant improvement in general economic activity is not expected.

In his economic survey for March, Johan Louw said the country was still struggling to break out of the recession.

"A recovery is held back by worsening unemployment, high inflation, continuing violence, and uncertainty over a newconstitutional future," he said.

In addition he said the economy was suffering from the drought disaster.

The Minister of Finance also had to consider economic restructuring and the reform process, the large tax burden, low investment levels and the drastic drop in personal savings.

Against this background, a mild stimulation of the economy was necessary. So the weekend's announcement on a lower bank rate and easier hire-purchase conditions is to be welcomed.

These developments should lead to an improvement in consumer and business confidence, which could in turn contribute to a mild economic recovery in the second half of 1992.

In all, Sanlam expects the economic growth rate to be about 1 percent for 1992 — as against the negative growth of 0,6 percent in 1991.

Regarding inflation Mr Louw said the higher fuel price and excise duties would have a negative influence.

He indicated the inflation rate could increase immediately by 0,25 percent as a result of these increases and coupled to Telkom's tariff increase of 14,2 percent may result in a further hike of 0,25 percent.

And the drought may push food prices even higher, although meat prices could come down initially as farmers are forced to send animals to the abattoirs.

On the other hand, he argues, that faster economic growth should bring inflation down, by means of lower unit costs.

"Taking into account a number of other factors, such as lower interest rates and continued financial discipline, the inflation rate should be around 12 to 13 percent by December." he states.

■ South Africa's future depends on the role played by the free market in its economy, says Pierre Steyn, Sanlam's deputy chairman and chief executive.

At a Sanlam Unit Trust Gathering held this weekend he said that, with South Africa now on the threshold of a new economic and political dispensation, unit trusts can play a major role in enabling everyone to taste the benefits and prosperity offered by the free-market system.

"An investment in a unit trust helps the investor understand the free market, about which there is a great deal of ignorance."

'Time to relax monetary policy'

By AUDREY D'ANGELO
Business Editor

SA IS coming to the end of "an old-fashioned recession" caused by tight monetary policy and not political factors, University of Cape Town (UCT) economics professor Brian Kantor said yesterday.

He told members of the UCT Graduate School of Business Association, at a lunch in a city hotel, that the fall of the producer price index (PPI) to below 8% meant that the Reserve Bank had won its fight against inflation and should now relax its monetary policy.

The consumer price index (CPI) would remain high because there was no way that it could fall until the effect of introducing VAT and higher food and petrol prices had worked their way through the system.

But SA was now ready for a period of growth. The availability of foreign funds meant that the stranglehold of the balance of payments (BoP) had been removed.

"There is nothing to stand in our way unless the Reserve Bank, unwisely, pushes down too hard on the money supply."

Urging the Bank to "accept that its policies have been working", Kantor said that there was now plenty of room for the economy to improve without jeopardising the value of the rand.

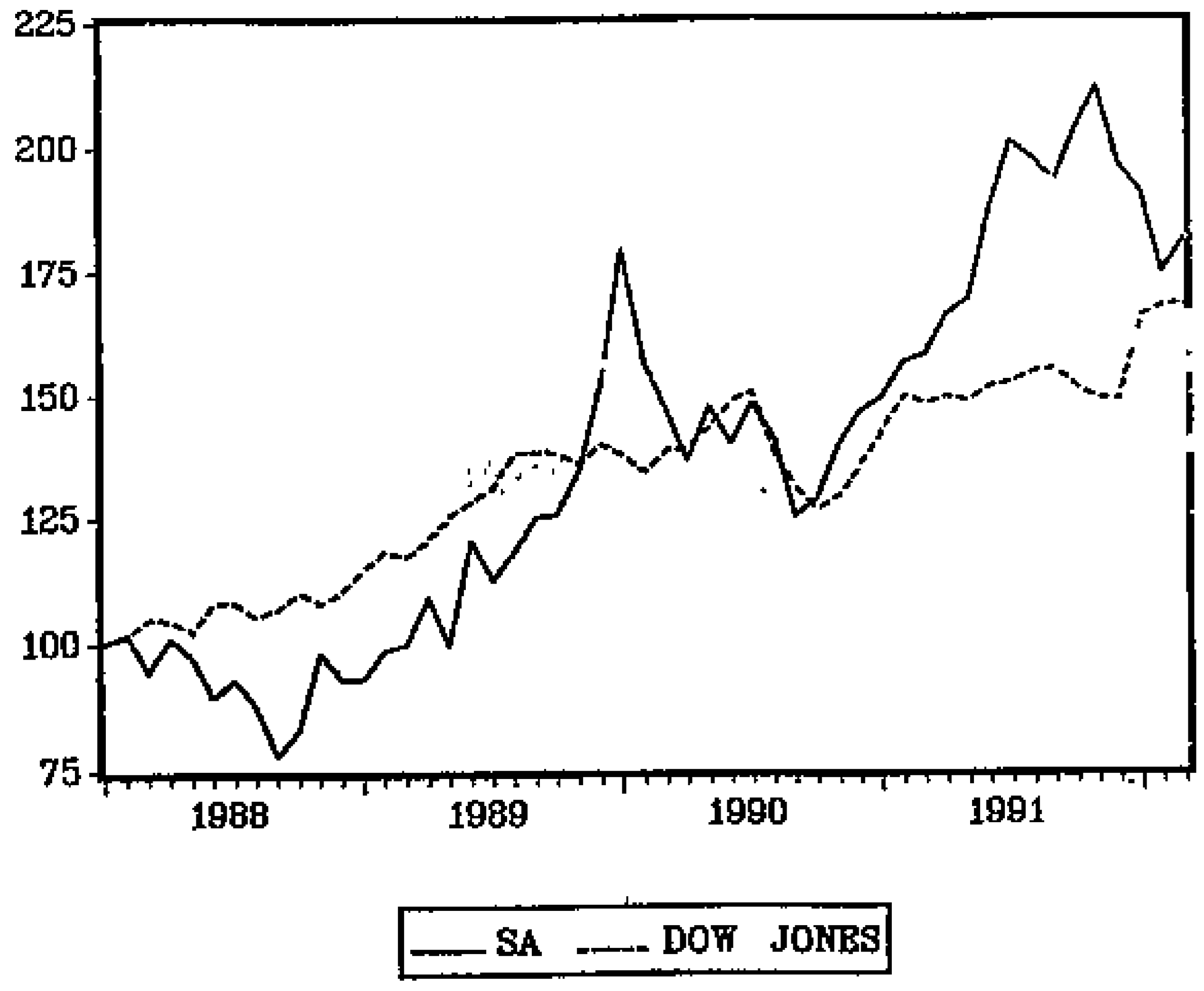
Political developments had been helpful rather than harmful.

SA shares had outperformed the Dow Jones in New York — apart from a dip caused by fears that the CP would defeat De Klerk — showing that overseas investors did not believe there would be a confrontation that would turn this country into another Beirut and destroy its infrastructure.

Discussing the Budget, Kantor said a row brewing over the ending of VAT zero-rating for certain basic foods was "silly" in view of the fact that the higher petrol price would also affect the cost of food.

VAT was a better type of tax than the levy on fuel. But it really made little difference how goods were taxed "because taxes — even income tax — always find their way into prices.

"Some future government is going to be grateful for the fact that the VAT system is up and running."



This graph, prepared by Kantor, shows that overseas investor confidence in SA has been high — with SA shares outperforming the Dow Jones in New York — since the reform process began in February, 1990.

STAR 24/3/92

Pik urges Japan to invest

TOKYO — Foreign Minister Pik Botha appealed to Japan today for investment to support the transition to a society free of apartheid.

In an earlier meeting with his Japanese counterpart, Michio Watanabe, Mr Botha said the overwhelming victory in the referendum should quell doubts about determination to end institutionalised racism.

"What we need is economic growth. Without economic growth under the new constitution, it wouldn't matter who governs the country," Mr Botha said. — Sapa-AP.

STAR 24/3/92

Pik urges Japan to invest

(49)

TOKYO — Foreign Minister Pik Botha appealed to Japan today for investment to support the transition to a society free of apartheid.

In an earlier meeting with his Japanese counterpart, Michio Watanabe, Mr Botha said the overwhelming victory in the referendum should quell doubts about determination to end institutionalised racism.

"What we need is economic growth. Without economic growth under the new constitution, it wouldn't matter who governs the country," Mr Botha said. — Sapa-AP.

Barend's Budget was 'the right medicine'

(49)

STAR 24/3/92

The fiscal injection the economy gained from the Budget is the right medicine, says Sanlam's chief economist but an immediate significant improvement in general economic activity however is not expected.

In his economic survey for March, Johan Louw said the country is still struggling to break out of the recession.

"A recovery is held back by worsening unemployment, high inflation, continuing violence, and uncertainty over a new constitutional future." he said.

In addition he said the economy was suffering from the drought disaster.

The Minister of Finance also had to consider economic restructuring and the reform process, the large tax burden, low investment levels and the drastic drop in personal savings.

Against this background, a mild stimulation of the economy was necessary. "So the weekend's announcement on a lower bank rate and easier hire-purchase conditions is to be welcomed".

These developments should lead to an improvement in consumer and business confidence, which could in turn contribute to a mild economic recovery in the second half of 1992.

Economic growth

In all, Sanlam expects the economic growth rate to be about one percent for 1992 — as against the negative growth of 0,6 percent in 1991.

Regarding inflation Mr Louw said the higher fuel price and excise duties would have a negative influence.

He indicated the inflation rate could increase immediately by 0,25 percent as a result of these increases and coupled to Telkom's tariff increase of 14,2 percent may result in a further hike of 0,25 percent.

And the drought may push food prices even higher, although meat prices could come down initially as farmers are forced to send animals to the abattoirs.

On the other hand, he argues, that faster economic growth should bring inflation down, by means of lower unit costs.

"Taking into account a number of other factors, such as lower interest rates and continued financial discipline, the inflation rate should be around 12 to 13 percent by December." he states.

Other matters discussed in the survey include:

- Although the international situation for South Africa has improved, this is not expected to make a major contribution to economic activities in the next year.
- A further drop in the bank rate and prime interest rate can be expected later in the year. By the end of 1992, the prime rate should be about 17,5 percent.
- Foreign reserves should remain steady, with a positive influence on the external value of the rand. — Sapa.

Lloyd's cleaning up its image

Sandilands stressed the ... market was

Sandilands is confident in the success of a recruiting drive.

... an opportune

Cosatu slams Budget offer

Staff Reporter (49)

A day after Finance Minister Barend du Plessis presented the 1992/3 Budget, Cosatu was invited to submit its proposals to a Joint Committee on Finance, the union federation said yesterday. STAR 25/3/92

Cosatu rejected the invitation, which was "an insult to our intelligence" and a "whitewashing exercise".

Cosatu warned that if the Government continued this "high-handed and arrogant approach" it was set for a major collision course.

To ask for Cosatu's views after the Budget had been presented was not only "insulting to our 1,5 million members" but vindicated its view that the Government was engaged in unilateral decision-making.

"If anyone ever had any doubt that this Government was refusing to commit itself to genuine consultation and negotiation in the socio-economic arena, this absurd invitation should lay this to rest.

"What is Cosatu expected to say to such a committee, when the very concerns and issues which have been raised by our members over the last year were blatantly ignored in the Budget?

"Does the Government really expect us to believe that they didn't know the views of Cosatu on a range of economic issues, after presentation of numerous memoranda, holding of marches, sit-ins, placard demonstrations, and the general strike last year?" asked Cosatu.

"Yet our submissions on VAT, food prices, funding of covert projects, apartheid expenditure, pensions and many other issues appeared to have no place in Barend du Plessis' calculations.

Apostle of the free market Friedrich von Hayek dies

B/Day. 25/3/92 (49)

BONN — Friedrich August von Hayek, an apostle of free market capitalism and a mentor of former British prime minister Margaret Thatcher, died on Monday in Freiburg, his widow Helene said in Stuttgart.

Hayek, awarded the 1974 Nobel prize for Economics jointly with Gunnar Myrdal, was 92.

Austrian-born and a naturalised British citizen since 1938, Hayek was one of the few to predict the 1929 world economic crash.

A lifetime critic of the social welfare state, he blamed its economic tenets for the worldwide spread of inflation.

Inflation, he said, was a self-feeding cancer that could only be cured by a fundamental "back to basics" brand of free-market capitalism.

His views — long rejected by mainstream economists in favour of demand-led Keynesian theory — won Hayek many admirers late in life.

He published more than 25 books and 250 papers, held professorships in three of the world's most prestigious universities and re-

□ VON HAYEK

ceived numerous honours and prizes, among them the Companion of Honour from Queen Elizabeth in 1984.

Born in Vienna on May 8, 1899, he studied law and psychology, then economics, at the University of Vienna. He held positions at the Austrian Institute of Economic Science, then moved to London in 1931, first to the University of London and then later to the London School of Economics.

He went to the University of Chicago, before returning to then West Germany in 1972 to accept a lifetime chair at the University of Freiburg.

In his first job, at the University of Vienna, he saw his salary go from 5 000 kronen to 8-million kronen a month in the great Austrian inflation, an experience he never forgot.

By his 30s, he had become one of the world's best-known economists.

He was forced into obscurity, largely by widespread adherence to the teachings of British economist John Maynard Keynes who advocated cheap money and public investment in a recession to maintain full employment.

There was also strong public reaction to his book "The Road to Serfdom", a 1944 best-seller in 12 languages.

In it he argued that movements toward socialism, toward centralised planning, involved the loss of personal freedom and eventual totalitarianism. The arguments, primarily directed at the socialist roots of Nazism in Germany, were in effect a broadside at Keynesian economic thought and went against the grain of conventional attitudes then.

"The degree to which I was attacked is difficult to believe today," Hayek said in an interview. "After Keynes died (in 1946), he was raised to sainthood, and I became a satan.

"Now, they've discovered that Keynes was wrong," he said.

Unlike fellow monetarist Milton Friedman, Hayek did not believe governments should control the money supply

He believed governments should stop printing money. Instead, money should be "denationalised" and "privatised". Private money, Hayek said, would be issued by different banks based on the value of a basket of commodities.

Hayek married twice, and had a son and a daughter. — Sapa-Reuter.

Call made to business to form negotiating body

SHARON WOOD (49)

BUSINESS should establish a formally constituted negotiating body to become more closely involved in negotiations concerning a new political and economic dispensation, Standard Bank Investment Corporation chairman Henri de Villiers said in the group's 1991 annual report released yesterday.

The negotiating body, on which leaders of SA's major corporates would be personally represented, should be funded by the private sector, he added.

"Given such a broader platform the business community would be in a position to promote policies favourable to business and the creation of wealth."

It was imperative that business acted as a main participant in the negotiating process and not as a facilitator, he said.

The establishment of Codesa had been the first time that a national process of political consultation had been open to the population as a whole.

Nevertheless, levels of conflict remained unacceptably high and businessmen would have to take into account the evident potential for further serious social disruption and the implied constraints on economic growth, he said. B/Day 25/3/92

De Villiers said political and social issues would be the main determinants of the business climate in 1992.

He did not expect liquidity conditions to deteriorate and thus the group was budgeting for an increase in earnings in 1992 in spite of a continuing lack of satisfactory lending opportunities.

Opportunities in southern Africa for SA business, including the financial services sector, could be expected to grow because there were clear indications that many African governments were becoming aware of the need to establish a positive business climate.

Whites in black jobs — study

THEO RAWANA

MORE and more whites are taking menial jobs once reserved for blacks, while an increasing number of blacks are employing domestic servants, the latest Race Relations Survey says.

"Whites are working as window washers, petrol-pump attendants and aircraft cleaners. Whites employed as cleaners are paid the same as blacks."

The survey, published this week by the SA Institute of Race Relations, quotes the SA Domestic Workers' Union as saying a third of Soweto families employ domestic servants. Many such servants, called "helpers", are recruited from the homelands and paid as little as R90 a month.

"A survey by the Human Sciences Research Council found that 64% of domestic servants were employed by whites and 16% by blacks," says the instiute.

"A researcher at the University of Transkei said that a survey .. found that black 'madams' treated their servants no better than white ones."

Referring to the change in the racial composition of the labour market, the survey quotes a Unisa finding that the labour corps ammounted to almost 10 blacks to one white between 1985 and 1990. By 2000 to 2005 the ratio was expected to be about 50 to one. B/Day 25/3/92

"As whites and Asians were responsible for 97% of job creation in the formal sector, the sharp rise in the ratio of black workers would make it increasingly difficult to provide work for new entrants to the formal sector," it added.

(49)

Cosatu spurns Budget invite

CAPE TOWN — Cosatu has rejected an invitation to give its views on the Budget to the parliamentary joint committee on finance.

It said the invitation indicated that government refused to commit itself to genuine negotiations in the socio-economic arena.

It asked what it was expected to say to the committee when its submissions on VAT, food prices and other issues appeared to have had no place in Finance Minister Barend du Plessis' calculations. — Sapa. B/Day 25/3/92

Achieving the SA dream

BDay 25/3/92 (49)

KURT VON SCHIRNDING

NOW THAT SA's long-awaited negotiation process has finally got off the ground, the prospects of political stability and economic recovery are finally in sight.

It is increasingly obvious that it is the state of our economy that has become the critical factor for us. No transition to democracy can succeed without a growing economy. And, in the late 20th century, no economy, let alone one as dependent on exports as ours is, can grow without foreign investment. We will not reach the growth levels we have to without foreign investment, foreign trade, and access to foreign capital.

The SA Foundation's core function is to sustain and expand foreign investor and financier confidence in SA. The Foundation has, therefore, a more critical role to play now than at any time in its history. We have the experience, the international network of contacts, the proven track record, and the credibility as a non-party political, private sector voice.

We are uniquely placed to present an objective picture of the developing situation in this country, to balance the negative perceptions developing about SA and its future. Increasingly, we are encouraging foreign bankers, industrialists and businessmen to take the long view about the real potential in SA.

The potential is there. Unlike, for example, eastern Europe, in SA we have a functioning market economy. We have an outstanding physical and financial infrastructure, a proven business community, a skilled labour force, a working industrial relations system, and many areas of real potential for foreign investment. But this will remain "potential" if the international economic community does not have access to a credible, balanced, and informed private sector voice abroad. This, in a nutshell, is the role of the SA Foundation.

For the SA Foundation, as the voice of the private sector abroad, 1991 proved to be a particularly successful year. Some highlights included the visit of the president of the Austrian parliament and the arrival of the Keidanren Japanese business and financiers mission, assisted with their programme by the Foundation. In both cases the visits contributed to the subsequent lifting of sanctions by the countries concerned.

The Foundation, assisted by the 300 volunteers of our 22 national committees (recently expanded to include Polish, Czechoslovakian and Hungarian committees), briefed several hundred foreign visitors and missions. Our Washington office presented evidence to the US Congress hearings prior to the lifting of the Comprehensive Anti-Apartheid Act, and concluded a series of meetings with the editorial boards of 70 of the largest circulation newspapers across the US, with the focus on damaging city and state level sanctions.

The London and Bonn offices played active roles in assisting investment and business conferences. In the case of the former, expanding our information network within the City and among fund managers, and in the case of the latter, consolidating our contacts in the former East bloc with the visit of a Foundation delegation to the Russian Federation and the Ukraine, hosted by the governments of those countries. And our Paris office, among other things, was particularly active in expanding our Francophone African contacts.

SA is in a period of protracted uncertainty and instability. For the year ahead our focus will be on sustaining international business confidence and interest in SA, assisting with the reintegration of this economy into the world economy, and dismantling the remaining sanctions. In SA the Foundation will continue to reach out to leaders across the political spectrum to convey the realities of world economy.

With the end of apartheid there is a great danger that SA will be forgotten. We cannot afford this. We need the finance and technology of the outside world to grow fast enough to meet the needs of all our people. We need the international community to assist us in attaining and maintaining a multiparty democracy where the rights of all are respected.

The next few years will determine the future of SA. We at the SA Foundation, with the support of our council, comprising the 38 CEs of every major corporation in this country (a unique forum), our 400 trustees drawn from the top echelons of every sector and region of SA, the 300 volunteers on our foreign national committees, and our 3 000 personal and corporate members, believe we have a unique track record and a vital future.

Drawing our funds and personal involvement wholly from the SA private sector, and with a very small staff (34 people worldwide), we are a critical resource for SA. We can and will rise to the challenge of creating a dynamic new country, generating wealth for all: it is no exaggeration to claim that what the SA Foundation has to contribute is of importance, not just for the business sector but for the welfare of our society as a whole, now and in the future.

☐ **Von Schirnding is director-general of the SA Foundation, which holds its AGM today.**

Bulls running for a stronger economy

CT 25/3/92

(49)

By AUDREY D'ANGELO
Business Editor

SA's trade surplus rose in February, the inflation rate slipped marginally and the producer price index (PPI) fell 1,9% year on year in January to reach 6,7% — the lowest figure since 1975.

The inflation rate as measured by the consumer price index (CPI) fell to 15,8% year on year from 16,2% in January.

The Central Statistical Services report that food prices were the sector making the largest contribution to the month on month rise of 0,9%. They went up by 0,2%.

The trade surplus, which fell in January to R700,9m from R1,2bn in December, rose to R1,9bn. This is above the R1,7bn in February last year.

Exports were R5,5bn compared with R4,8bn in January and R4,6bn in February 1991. Imports were R3,6bn compared with R4,1bn in January and R2,9bn in February 1991.

This means that the trade surplus for the first two months of this year was R2,6bn compared with R1,9bn at the same time last year. Exports were higher at R10,4bn (R9,7bn) and imports unchanged at R7,8bn.

Old Mutual chief economist David Mohr commented: "The combination of these figures is certainly positive. The PPI and CPI figures give more confidence that the inflation rate is on a downward trend.

"We can't expect another cut in the bank rate immediately because the Reserve Bank cannot give a signal that it is abandoning its conservative monetary policy, but I think there will be one later in the year."

Mohr pointed out that the higher petrol price and excise duties announced in the budget were well below the inflation rate and should not push up the CPI.

He said he was particularly encouraged by the fact that the domestic component of the PPI had fallen below 10% year on year. "That should feed back into the CPI before long."

Southern Life chief economist Mike Daly said the PPI figure was very encouraging. "It has not been as low as this since 1975."

And this was the first time the CPI had risen by less than 1% month on month since July last year.

But the correlation between the PPI and the CPI — which used to follow it with a three month time lag — seemed to have been broken, mainly because of continually rising food prices. He thought inflation would not fall below 15% until August or September. But he expected it to be down to 13% by the end of this year.

Daly said he shared the view of some other economists that bank rate should have been cut earlier and that monetary policy should be relaxed to allow the economy to grow. But the Reserve Bank had nailed its colours to the CPI "and for a central bank credibility is everything".

Boland Bank chief economist Louis Fourie pointed out that the CPI was "still relatively high and will take some time to come down."

But the underlying trend was definitely for inflation to come down. The impact of the PPI could not be ignored. Fourie thought the fact that the CPI had not followed it down to the same extent was due to lack of competition in the SA economy.

Derek Keys to head overseas trade crusade

STAR 25/3/92

(49)

Political Staff

CAPE TOWN — Minister of Trade and Industry and Economic Co-ordination Derek Keys is to lead a trade crusade this year to boost South Africa's business interests in Japan, Germany, Britain, China and Taiwan.

India and Thailand are also being targeted in the drive for business expansion abroad, it emerged in an interview with The Star yesterday.

The former Gencor chief intends promoting South African business interests and products on his wide-ranging trips abroad.

It is understood the ventures have been timed to make the most of the confidence boost South Africa's trade relations received from the referendum result.

The trip to Britain, Germany and other parts of Europe is the result of an invitation by the German government.

The visit to Japan and China is being arranged by his department. He will be accompanied top South African industrialists on this leg.

Mr Keys launches his drive for international trade with the conviction that exports are the key to economic growth and that the Government has a critical role in creating opportunities for businesses and supporting their ventures in foreign markets.

He said: "We are marshalable by South African enterprises. I want people to know that I am open for that."

The initial visits would concentrate on "the groundwork".

But Mr Keys added: "It is important that where South African business starts to get involved in fresh fields, like world exports, they have to have the feeling that they are supported by the Government, to improve their prospects and create opportunities for them."

Citing trade missions by US President George Bush and former British prime minister Margaret Thatcher, he said "most South Africans do not realise the extent to which politicians of other countries (actively promote) their companies".

Confessing that he had "no plan" for the economy, Mr Keys rejected the view that the Government ran the economy.

"It is better for us to attempt to behave according to that truth, than to give the impression that we do run it."

Ideally, the Government's job was to "hold the ring" for the private sector and make it possible to have an economy that offered the "greatest degree of choice".

The Government could help by being "predictable and transparent", banishing uncertainty (and boosting investment) by applying a consistent economic policy and being "transparent in your motives .. so that the private sector can plan in the knowledge that the Government will behave in a certain way".

The Government was keen to make exporting as attractive as possible as a means of attracting investment.

Mr Keys cautioned that achieving a growth rate in the order of 5 percent would require a "remarkable national consensus" between business, labour and the State.

at the scene.

Leave to appeal against the sentence was granted.

Pik pushes for stronger ties with Asia

Star Foreign Service STAR 25/3/92

TOKYO — Japan is "highly interested" in the future of South Africa and "appreciates" the efforts made by the Pretoria Government to end apartheid.

Japanese Foreign Minister Michio Watanabe made these remarks in a meeting with Foreign Minister Pik Botha in Tokyo on Monday night.

"With apartheid gone, you can see there is no limitation on the expansion of South Africa's representation in Asia," said Mr Botha.

He said South Africa hoped to become the "engine of economic development" in southern Africa and urged Japan to play a greater role in promoting the region's growth.

49

The ministers agreed that President de Klerk should visit Japan soon

Mr Botha also invited Mr Watanabe to visit South Africa

At the meeting, Mr Watanabe informed Mr Botha that the Japan Federation of Economic Organisations would soon send a delegation to South Africa and three other southern African countries to promote economic co-operation.

Mr Botha, addressing a press conference in Tokyo yesterday, said Pretoria hoped to establish diplomatic missions with all major Asian nations as soon as possible.

● **Derek Keys to head overseas trade crusade — Page 15**

Former Anglo American chairman Gavin Relly listens as Barlows chairman Warren Clewlow addresses the SA Foundation yesterday. Picture. ROBERT BOTHA

Govt, business must launch economic war — Clewlow

B Day 26/3/92

DARIUS SANAI

BUSINESS and government needed to go hand-in-hand onto an "economic war footing" to reverse the decline of the SA economy, Barlows chairman Warren Clewlow said yesterday.

Speaking at the SA Foundation's general meeting in Johannesburg, Clewlow said SA needed a commitment by everyone with any interest in the economy to make growth and economic success a top priority.

"And of course, it will involve sacrifice," he said. The privileged would have to get used to less privilege and comfort, and those who wanted privilege and comfort would have to wait a little longer for it.

Clewlow said the bad communication between business and government during the apartheid era was harmful.

"Already there are signs that government, business and other players are getting together to focus their efforts in the right direction. This trend must be encouraged," he said.

He said a dual strategy was required for SA to advance. Firms had to learn to compete internationally, but a domestic programme of job creation of unprecedented scale needed to be undertaken.

Speaking at the meeting, SA Foundation director-general Kurt von Schirnding said foreign investment was urgently required for SA society to develop.

He said the SA Foundation had been able to make "significant breakthroughs" in encouraging foreign investment, notably by hosting the Japanese Keidanren trade mission which preceded the lifting of Japanese sanctions last year.

Sapa reports the foundation's Washington director, Michael Christie, said foreign aid was an important input, but was a fraction of what growth could have generated.

"I do not wish, in any way, to detract from the importance of foreign investment and other foreign inputs into our economy.

"But I do wish to emphasise the even greater importance of the influence, advice, pressure and commitment of countries such as the US, via their own agencies and agencies such as the IMF and the World Bank, toward ensuring any future government does not repeat the costly mistakes we have made in the past."

His London counterpart said confidence levels in SA were still low.

Paris director Desmond Colborne said SA's dependency on world markets as well as other facts of international economic life were ignored by too many politicians — on all sides.

He said 40% of every rand earned in SA was directly or indirectly dependent on foreign trade.

Cosatu's economic policy

49

DIRK HARTFORD

NATIONALISATION — used strategically and not recklessly as the tool of a strong state — is part of Cosatu's economic strategy to create jobs and redistribute wealth, says Cosatu general secretary Jay Naidoo.

Naidoo and Cosatu assistant general secretary Sam Shilowa were speaking on the eve of Cosatu's economic policy conference, where proposals to be put to the ANC alliance for a future election platform will be thrashed out.

Naidoo said Cosatu was opposed to Codesa discussing economic policy and it would meet President F W de Klerk soon to discuss government involvement in the national economic forum. Cosatu envisaged a tripartite arrangement between employers, unions and a democratic government for all labour market institutions.

Shilowa said Cosatu could not leave everything to the free market "which only concentrates wealth and control in the hands of a few white males".

He said when Cosatu spoke of nationalisation there was mass hysteria, but there was not the same reaction when industries were nationalised by the NP government.

Cosatu would consider any options business offered as it did not believe nationalisation was the only economic strategy.

Naidoo attacked government on its "reckless" VAT policy. He said in addition to a planned general strike in July, the federation would stop employers deducting PAYE if government did not meet its demands.

Sanctions, which had not made poverty

□ To Page 2

B/Day 26/3/92

Cosatu

B/Day 26/3/92 .

49

□ From Page 1

worse, were being used by government as a "red herring". Cosatu would consider dropping sanctions when its objectives had been met — not while government continued with unilateral economic restructuring and political domination.

Unilateral restructuring was under way on everything from tariffs and trade, land and industrial policy to forests, health, housing, education, local government and social welfare. "Even sections of Armscor are being sold to foreign buyers." Cosatu felt this was "illegal" as the government was illegitimate. It would take a position on what a democratic government should do about already privatised industries.

Other issues Cosatu's conference will address include: a new growth path through redistribution; an investment code, job creation; and tariff policies and regional negotiations.

Cosatu to seek new economic line

Sowetan 26/3/92

49

THE Congress of SA Trade Unions economic policy conference which begins in Johannesburg tomorrow - the first since the federation was formed seven years ago - is important in two ways.

It marks the first stage in an attempt by the union and its allies (the African National Congress and the South African Communist Party) to formulate a coherent economic policy which will serve as an alternative to present Government policy.

On the other, it reflects a growing conviction within Cosatu that constituent assembly elections which will end the Government's monopoly of political power will take place sooner rather than later, and that the alliance must start now to build a solid platform from which to fight such elections.

Issues

Among the issues set to come under intense discussion are:

The formation of an economic negotiation forum which would include the unions, business and Government;

Value Added Tax and food prices;

Issues relating to workers' rights such as the extension of the Labour Relations Act to farmworkers and Cosatu's participation in the National Manpower Commission;

Economic restructuring including the Government's privatisation programme;

Nationalisation, an investment policy and code; and

Job creation.

Discussing the implications of the conference on the unfolding political process, Cosatu campaigns committee head Miss Lisa Seftel said: "The conference will debate and suggest economic policies we would want a new democratic government to adopt.

"At the same time, it will discuss the economic demands which we will put forward to the alliance (with the ANC and SACP) as part of an election platform for forthcoming constituent assembly elections.

"There is pressure on all liberation movements in South Africa, including Cosatu and its allies, to come up with economic policies for a new political dispensation. We can no longer just oppose (Government or business policies). We have to begin to be pro-active."

Cosatu has already demanded constituent assembly election by the end of the year.

Delegates to the conference will look with some satisfaction at progress made on the question of the economic negotiation forum, which was one of the demands of the anti-VAT national strike last year.

After having reached consensus with business on the need for the establishment of the forum, the parties are set to approach the Government during the course of next month to try to persuade it to join.

So far the Government has refused to be party to the forum, arguing that participation in the forum should be confined to those with a stake in the economy, capital and labour.

Seftel said the conference would seek to finalise plans for a new growth path for the South African economy, focusing on economic restructuring with union participation.

Unemployment

To fight unemployment, delegates to the conference would examine proposals including the promotion of labour intensive methods in Government projects, the establishment of a public works programme "as a matter of urgency" and a special programme for unemployed youth.

After months of debate, the conference would also have to make a decision on an envisaged investment code, and will look at aspects such as channelling new investment towards the creation of sustainable jobs, equality of opportunity, job security, education and training corporate social responsibility.

Seftel said Cosatu was not wedded to nationalisation, but saw it as "one of the tools to restructure the economy".

Alliance

However, there are some within the alliance, irked by the Government's decision to push ahead with its privatisation programme despite the alliance's objections, who are asking whether it would be justifiable for a future government to re-nationalise "national assets" such as transport and the forests.

At the end of two days' deliberations the 300 delegates will also have to decide on a programme of action, based on proposals from the federation's central executive committee earlier this month, which includes calling a national strike in July if Cosatu's economic and political demands are not met by the Government.

Decisions from the conference are expected to feed into another important economic conference at the beginning of May, that of the ANC.

Commenting on the significance of the Cosatu conference, labour consultant and former University of the Witwatersrand industrial sociologist Dr Duncan Innes said:

"The conference is an indication that Cosatu is taking the whole question of the future of the economy very seriously and that it has no intention to allow the Government and business to direct the structure and form of a future economy. This applies as much to the present Government as to the ANC (should it come to power)."

Minister praises Budget direction

BDay 26/3/92 (49)

BILLY PADDOCK

CAPE TOWN — The Budget had correctly eschewed playing to the gallery by sternly resisting grubbing after additional sources of revenue such as a capital gains tax or a minimum company tax, Trade and Industry and Economic Co-Ordination Minister Derek Keys said yesterday.

Speaking in the Budget debate in Parliament, he said last year income had increased by less than 10% and this year SA was expecting no more than 15,7%, which was nearly 1% less than the percentage growth in expenditure.

"It just does not help complaining that our income ability does not keep pace with expenditure. The weak world economy and the ensuing low prices that we have to accept for our exports, including gold, has a direct impact on our revenue," he said.

Fifteen years ago tax income from gold mines accounted for 5% of total revenue while this year it amounted to only 0,6% — a difference of R4bn.

Taken with a further R5bn lost through the underperformance of the economy, the R16bn deficit shrank to about 2% of GDP or equal to the capital spending of the Budget, he said.

SA's economic success had always been determined largely by the prices its products could command on international markets. A fall of only $40/oz in the gold price was more than sufficient to eliminate the net benefit of many export-directed projects.

The spending decisions of the Budget were in every case aimed at enhancing or preserving freedom of choice for the individual.

It was a Budget of affirmation that said "yes" to parity, housing, better health care, education and growth.

Germany had a budget deficit of 6% of GDP but everyone hastened to explain that this was unusual and due to the rebuilding of that portion of its economy which was ruined by a false ideology.

In SA's Budget there was ample evidence of the debts of the past that were now being addressed — and redressed.

The decision to increase the spending level was taken in the light of the depressed condition of the economy and it would have been counterproductive to cut back on this at this stage, he said.

'No reason for dragging of heels'

Sowetan 26/3/92

(49)

By JAY NAIDOO
general secretary of Cosatu

FOCUS

THE overwhelming mandate given by the white electorate to the negotiations process taking place in Codesa, despite the racist character of the referendum, lays the basis for a rapid advance in the transition to democracy.

President FW de Klerk has correctly admitted that the "yes" vote was not a vote for himself or the NP, but rather a vote for the negotiations process.

With this unambiguous mandate from the white electorate, there is now no excuse for the Government to drag its heels, inside or outside Codesa.

From Cosatu's perspective this means two things: firstly, we will intensify our campaign that by June a sovereign interim government should be set up, and the parties should have agreed to the holding of democratic Constituent Assembly elections by the end of 1992.

Secondly, we expect the Government to abandon its refusal to negotiate socio-economic issues, and to enter into forums with the major players in areas such as housing, development, education and health.

In particular, we demand that they agree to participate in the National Economic Negotiating Forum; and enter into discussions with the Co-ordinating Committee on VAT on food prices, the VAT structure, and poverty relief.

The Cosatu Central Executive Committee has stated that we will embark on a protracted general strike if there has been no progress in meeting these demands by June this year.

This decision on national action was the result of sober reflection on the obstacles the regime has been placing in the way of meaningful negotiations. If anything: the referendum decisively indicates that the Government can no longer use the white electorate as an excuse to delay progress; and the Budget demonstrates that enormous pressure is going to be necessary to force the Government to relinquish exclusive control over political and economic power.

If the referendum result was a step forward for negotiations, then the 1992/93 Budget was a major step back.

Concern

Cosatu has identified three broad areas which are of particular concern:

1. It is a rich man's Budget. despite predictions in the media that a capital gains tax and a tax on dividends would be introduced in this year's Budget, and support among some economists for this, the Budget was totally silent on this question.

These taxes, in addition to being redistributive measures, have the advantage of encouraging productive investment, job creation, and reinvestment of profits.

On the other hand, workers and the poor were totally ignored in a number of respects.

The 16 million people estimated by the Development Bank of South Africa to be living below the poverty line don't appear to have featured in Mr Barend Du Plessis's Budget calculations:

Du Plessis rejected the demand to exempt all basic foodstuffs from VAT and removed the existing zero rating on eight foods;

Our demands for the exemption of medicines, electricity, and water from VAT were ignored by the Government;

No measures were adopted to lower food prices, despite the fact that food inflation is running at nearly 30 percent;

The poverty relief measures which were announced will fail to reach the poor, as did last year's, because the Government refused to negotiate an approach with welfare organisations;

The drought relief which the Budget provides for, is aimed at farmers, who already receive state subsidies, and not farm workers and rural poor, who are struggling to keep alive;

The petrol price rise comes on top of the petrol increase a few months ago, and can only worsen the spiralling inflation which is hitting the poor the hardest;

The lowering of bus subsidies will raise transport costs and lead to a further collapse of the passenger transport industry;

The money allocated to job creation will not significantly address the plight of the unemployed, since the Government has no coherent strategy to tackle the unemployment problem, to restructure training, and to ensure productive investment in our crisis-ridden industries.

It continues to refuse to negotiate these issues with trade unions and business.

2. The Budget is cast in the old apartheid mould: the Budget remains apartheid and racist in character. Wasteful spending on duplicate Government departments and redundant apartheid structures is retained.

It is unconvincing, to say the least, for De Klerk to say that the "apartheid book has been closed", when black old age pensioners continue to receive 18 percent less than white old age pensioners.

Discrimination

Racial discrimination in expenditure is even worse in areas such as health, education, and housing.

Further, in this period when we should be reorienting expenditure to social reconstruction, Cosatu believes that there should have been drastic cuts in defence expenditure.

It is obscene to spend nearly R10 billion on the SADF, when our people are deprived of basic necessities.

In addition to the R10 billion for SADF, R4,7 billion has been allocated to "secret services", plus unknown amounts for slush funds and covert projects similar to the CCB.

3. The unilateral and unnegotiated character of the Budget. This applies both to the sources allocation of the revenue. Cosatu in on record that our taxation system needs restructuring.

On the expenditure side, there was no consultation with organisations representing the majority as to where money should be allocated, and how it should be spent.

This applies particularly to social expenditure: increased allocations to health, housing, and education are not taking place in the context of a negotiated framework.

Mr Jay Naidoo and Sam Shilowa at yesterday Press on Cosatu's economic policy.

Pic: MBUZENI ZULU.

Cosatu keen on nationalisation

Sowetan 26/3/92

(49)

By JOE MDHLELA

A FUTURE democratic government would nationalise all essential industries, including Eskom, general secretary of the Congress of South African Trade Unions Mr Jay Naidoo, said yesterday.

Naidoo said this during a Press conference in Johannesburg to announce Cosatu's Economic Policy Conference which starts at Nasrec tomorrow.

In reply to a question about Cosatu's standpoint on nationalisation, Naidoo said the democratic government needed "a strong central economy". This would enable the State to deal with the basic requirements of black people who had suffered deprivation brought about by apartheid.

"A future democratic state will intervene in a future economy including the use of the tool of nationalisation.

"We cannot leave everything to the market forces. There will be a need for state intervention," he said.

He said Cosatu would oppose privatisation, especially of parastatals.

The conference will focus on growth through redistribution, the formulation of an investment code, job creation, privatisation and nationalisation.

Naidoo said the conference would discuss the proposed general strike in July if their demands were not met.

The demands include the zero-rating from Value Added Tax of all basic foodstuffs and the installation of an interim government by June.

(49) ARG 26/3/92

Increased spending necessary — Keys

PETER FABRICIUS
Political Staff

THE government has defended its increased spending in this year's Budget as being necessary to repay the debts of apartheid and to compensate for a drop in private sector spending during the recession.

Mr Derek Keys, Minister of Trade and Industry and Economic Co-ordination, offered this defence yesterday at the start of the parliamentary debate on the main Budget.

Opposition parties used the debate to probe apparent inconsistencies in the government's approach to spending discipline.

In his first address to parliament since his maiden speech, Mr Keys said that during a temporary slump in income, the government would not depart from its basic search for justice and parity.

And during a time of recession in private-sector demand, the government had avoided making it worse by lowering the level of State spending.

Democratic Party finance spokesman Mr Ken Andrew attacked the rise in the Budget deficit to 4,5 percent of GDP this year.

Worse still was that

Mr Derek Keys

Mr Ken Andrew

R8,9 billion was to be borrowed to finance current spending.

"The minister is simply mortgaging our future to pay public servants salaries and other current expenditure."

He said President De Klerk had opened parliament this year by promising that a "tight rein is being kept on all allocations for 1992-93" and that "our determination to keep State expenditure within rigorous limits is not a mere fad".

Finance Minister Barend du Plessis had supported this approach.

Mr Keys said his attitude towards the increased level of State spending could be seen as opportunistic, which it was not.

He said that two months before the Budget was finalised, the level of spending had been substantially lower than the final figure.

The government had deliberately chosen to increase spending to maintain the level of economic activity. It would have been counter-productive for the government to cut back spending and cause the level of general demand to fall further.

Mr Keys said the German budget deficit would probably be about six percent of GDP this year, rising to seven percent over the decade.

"Everyone hastens to explain that this of course is highly unusual, and the consequence of the fact that Germany has to rebuild that portion of its economy which has been ruined by a false ideology.

"Is that not true for us?.

SA in the same economic league as Hungary, Algeria

STAR 26/3/92

(49)

South Africa's economic strength is limited, and its high unemployment rate has worsened through the lack of economic growth, says the 1991/92 Race Relations Survey, the annual socio-economic audit issued by the South African Institute of Race Relations in Johannesburg this week.

The survey quotes a study by Professor Servaas van der Berg and Mr Krige Siebrits of the University of Stellenbosch which found that South Africa was a fairly typical middle-income country in the same league as Algeria and Hungary.

"It is indicative of this country's limited economic strength that the output of the whole South African economy is smaller than that of most cities in industrial countries with populations of five million or more", the authors of the study say.

They note that South Africa's resources to solve social problems are limited, and that the means available for addressing poverty are not as great as often thought. South Africa already spends a relatively large proportion of its income on social services such as education and health.

Professor van der Berg and Mr Siebrits add: "The problem lies not in the unduly low priority of education and health expenditure, but in a misplaced emphasis on the needs of the affluent rather than the poor".

The Stellenbosch study illustrated that South Africa's per capita income of $2290 a year "just scraped it into the bottom layer of upper middle-income countries".

Regarding unemployment, the Survey quotes Reserve Bank Govenor Dr Chris Stals as saying the origin of rising unemployment was to be found in increasing labour costs. Unit labour costs rose by 17,2 percent in 1989 and 16,3 percent in 1990.

Unemployment was aggravated by the fact that the economy had shown virtually no growth during the year.

Private sector analysts foresaw unionised workers' obtaining wage settlements of between 15 percent and 15,5 per cent during 1992.

The Reserve Bank did note, however, that the economy had shrunk by only 5,5 percent in the present downswing, compared with 20 percent in the two previous downswings (1984 to 1986 and 1981 to 1983).

The survey notes government estimates that there are 2,5 million people without jobs.—Sapa.

(iv) not applicable

Administration House of Delegates

(a) 1991/92 financial year: R32 946 000 and

(b) (i) to (iv) according to the Administration's distribution, this information is not available

Administration House of Representatives

(a) 1991/92 financial year R156 652 000 and

(b) (i) R98 720 000,

(ii) R45 832 000,

(iii) R12 100 000 and

(iv) none

KwaZulu

(a) 1991/92 financial year: R508 000 000 and

(b) (i) R116 000 000,

(ii) R306 000 000,

(iii) none and

(iv) R86 000 000 for,

Administration etc

KaNgwane

(a) 1991/92 financial year: R82 191 699 and

(b) (i) to (iv) according to the KaNgwane Government's distribution, this information is not available

KwaNdebele

(a) 1991/92 financial year. R13 577 000 and

(b) (i) not available,

(ii) not available,

(iii) not available and

(iv) not available

GaZankulu

(a) 1991/92 financial year: R137 662 568 and

(b) (i) to (iv) according to the GaZankulu Government's distribution, this information is not available

Lebowa

(a) 1991/92 financial year. R233 683 000 and

(b) (i) R2 505 000,

(ii) R231 177 000,

(iii) none and

(iv) not available.

QwaQwa

(a) 1991/92 financial year: R60 865 000 and

(b) (i) R10 580 000,

(ii) R39 860 000,

(iii) R4 090 000 and

(iv) R6 335 000

HOUSE OF ASSEMBLY

QUESTIONS

† Indicates translated version

For written reply

General Affairs

Gross domestic product: deficit/expenditure

51 Mr K M ANDREW asked the Minister of Finance

What was the (a) deficit before borrowing, (b) total actual expenditure, and (c) deficit before borrowing as a percentage of the gross domestic product, in each of the past five financial years? (49)

B106E

The MINISTER OF FINANCE:

	Deficit R million	Actual expenditure R million	Deficit as % of GDP
1987/88	9 557,3	47 449,8	5,6%
1988/89	7 855,0	55 926,4	3,8%
1989/90	4 358,0	65 459,3	1,8%
1990/91	7 145,2	73 947,3	2,6%
1991/92*	13 160,8	86 387,8	4,3%

*Estimated

Deductibility of moneys paid for educational purposes

124. Mr R M BURROWS asked the Minister of Finance:

(1) Whether, with reference to his reply to Question No 74 on 27 February 1991, he or his Department has initiated further investigations into the deductibility of moneys paid by individual taxpayers for educational purposes at school or college level, if not, why not, if so, (a) what matters are being investigated and (b) by what body;

(2) what is the current tax policy regarding individuals and/or companies making donations to (a) tertiary institutions, (b) pre-primary schools, (c) primary schools and (d) secondary schools,

(3) whether there have been any changes in the above policy during the past five years, if not, why not, if so, what changes?

B318E

The MINISTER OF FINANCE.

(1) and (2) Yes An interdepartmental committee, consisting of representatives from the Department of Finance, the Department of National Education together with other interested parties, have conducted extensive discussions regarding the extension of the deductibility of donations to, especially, primary schools As a result of practical problems that are being experienced, not only with the extension, but also with the current deductions, no solution has as yet been found In the light of this, the committee has considered various alternative suggestions for State assistance in respect of education costs and proposals in this regard will be submitted to the Government shortly.

(3) Yes, notwithstanding various technical amendments, the only substantial amendment which has been made to section 18A of the Income Tax Act over the past five years, is the introduction of provisions allowing donations made by companies to certain special funds which are to be utilized for educational or training purposes for the advancement of primary and secondary education, to also be deductible for income tax purposes.

Consolidation: purchase of land/cost

160. Mr P G SOAL asked the Minister of Regional and Land Affairs.

(a) What was the cost of purchasing land for the purpose of consolidation in respect of each (i) self-governing territory and (ii) independent Black state as at 31 December 1991 or the latest specified date for which figures are available and (b) how much land was added in each case?

B390E

'Economic growth will secure peace'

STAR 26/3/92

By Michael Sparks (49)

The importance of economic growth to secure a peaceful transition to democracy was emphasised by directors of the South African Foundation at their annual general meeting in Sandton yesterday.

Michael Christie, who heads the foundation's offices in Washington, told delegates that relations between the United States and South Africa were currently more co-operative than since the Korean War 40 years ago.

"For the first time ever, we are now committed to creating a society based on the core values enshrined in the US constitution," he said.

Mr Christie also said the US had "made it clear that economic growth is an essential prerequisite to any successful transition to democracy in this country".

He added that one of the biggest problems facing the country was that unemployment stood at 40 percent.

Mr Christie said economic growth in the first half of the 1980s in South Africa was 1 percent, yet it could have reached 3 percent.

The difference would have meant an additional R60 billion a year in the economy, far more significant than the $80 million (about R220 million) in US aid to this country after sanctions were lifted.

The foundation's London director, John Montgomery, said the referendum result in favour of reform had raised the level of "cautious optimism" in the international community.

Once a government of greater legitimacy was in place, South Africa's position in the world would change, said Dr Rudolph Gruber, director of the Bonn office.

● Business a friend of democracy — Page 21

Budget falls short of needs – DP

STAR 26/3/92

(49)

The Budget did not address the economic or socio-political challenges facing South Africans satisfactorily, the Democratic Party's chief spokesman on finance, Ken Andrew, said in Parliament yesterday.

Speaking in the Budget debate, he said Government appropriation of the gross domestic product now stood at 29,5 percent — up 1 percent on last year — and had increased by more than a quarter in the past decade.

Comparison between last year's Budget and this year's showed a nominal increase of 18,5 percent and a real growth of 4 percent compared with a claimed real growth of 2 percent.

"The Government is living beyond its means and is sinking deeper and deeper into debt," Mr Andrew said.

Individual income tax had increased by more than 90 percent in the past three years whereas average real incomes had dropped.

"It is unbelievably shortsighted, stubborn and stupid not to extend VAT zero-ratings on foodstuffs," he added.

Pensions were one of the most effective mechanisms of poverty relief and pension parity should be introduced immediately.

The Budget provided no specific targets and time-scales to eliminate education, health and housing backlogs, Mr Andrew said.

Also speaking in the debate, John Douw (LP Nom) said that, in its 1989 election manifesto, the National Party had promised a single-figure inflation rate that was now set to go through the 17 percent barrier.

A lower rate of inflation would promote overseas investment and hasten overseas debt repayments.

The stayaway proposed by ANC-aligned organisations would cost the country R6 billion a day — which was a "luxury the South African economy could ill afford".

NP spokesman on finance in the House of Representatives Glen Rooskrans said Cosatu would use its energies more constructively by investigating inflated prices on basic foods in shops in black areas than by launching unnecessary strikes.

Prices of VAT-exempt goods were much higher there than in supermarkets in other areas.

"Cosatu must use its influence to eliminate this evil. It's there that the problem lies and that John Citizen is cheated."

Chief Conservative Party spokesman on finance Casper Uys said SA should provide now for the cost of importing food.

He asked what hope SA had of attracting foreign investment while the issue of nationalisation was in the air.

Growth prospects for the economy were weak and a continuing decline in all South Africans' living standards was on the cards, Mr Uys said.

It would appear that the balance of payments was healthy for the present, he said. — Sapa.

Cosatu faces weighty issues at its conference and will be mapping its path into the future, writes **Mike Siluma**

In search of an alternative economic policy for SA

STAR 26/3/92

(49)

THE Congress of South African Trade Unions' economic policy conference which begins in Johannesburg tomorrow — the first of its kind since the federation was formed seven years ago — is important in two ways.

It marks, on the one hand, the first stage in an attempt by the union body and its allies (the ANC and South African Communist Party) to formulate a coherent economic policy which will serve as an alternative to present Government policy.

On the other, it reflects a growing conviction within Cosatu that constituent assembly elections which will end the National Party Government's monopoly of political power will take place sooner rather than later, and that the alliance must start now to build a solid platform from which to fight such elections.

Among the issues set to come under intense discussion are:

- The formation of an economic negotiation forum, which would include the unions, business and the Government.
- VAT and food prices.
- Issues relating to workers' rights, such as the extension of the Labour Relations Act to farmworkers and Cosatu's participation in the National Manpower Commission.
- Economic restructuring, including the Government's privatisation programme.
- Nationalisation, an investment policy and code.
- Job creation.

Discussing the implications of the conference on the unfolding political process, Cosatu campaigns committee head Lisa Seftel said: "The conference will debate and suggest economic policies we would want a new democratic government to adopt.

"At the same time, it will discuss the economic demands which will be put forward to the alliance (with the ANC and SACP) as part of an election platform for forthcoming constituent assembly elections. There is pressure on all liberation movements in South Africa, including Cosatu and its allies, to come up with economic policies for a new political dispensation.

"We can no longer just oppose (Government or business policies). We have to begin to be pro-active."

Cosatu has already demanded constituent assembly elections by the end of the year.

Delegates to the conference will look with some satisfaction at progress made on the question of the economic negotiation forum, which was one of the demands of the anti-VAT national strike last year. After having reached consensus with business on the need to establish the forum, the parties are set to approach the Government next month to try to persuade it to join.

So far the Government has refused to be party to the forum, arguing that participation should be confined to those with a direct stake in the economy, capital and labour.

Ms Seftel said the conference would seek to finalise plans for a new growth path for the South African economy, focusing on economic restructuring with union participation.

To fight unemployment, delegates to the conference would examine proposals including the promotion of labour-intensive methods in Government projects, the establishment of a public works programme "as a matter of urgency" and a special programme for unemployed youth.

After months of debate, the conference would also have to make a decision on an envisaged investment code, and will look at aspects such as channeling new investment towards the creation of sustainable jobs, equality of opportunity, job security, education and training and corporate social responsibility.

Ms Seftel said Cosatu was not wedded to nationalisation, but saw it as one of the tools to restructure the economy.

However, there are some within the alliance, irked by the Government's decision to push ahead with its privatisation programme despite the alliance's objections, who are asking whether it would not be justifiable for a future government to re-nationalise "national assets" such as transport and the forests.

At the end of two days' deliberations the 300 delegates will also have to decide on a programme of action, based on proposals from the federation's central executive committee earlier this month, which includes calling a national strike in July if Cosatu's economic and political demands are not met by the Government.

Decisions from the conference are expected to feed into another important economic conference at the beginning of May: that of the ANC.

Commenting on the significance of the Cosatu conference, labour consultant and former University of the Witwatersrand industrial sociologist Dr Duncan Innes said: "The conference is an indication that Cosatu is taking the whole question of the future of the economy very seriously, and that it has no intention to allow the Government and business to direct the structure and form of a future economy. This applies as much to the present Government as to the ANC (should it come to power).

"It is clear that the role that Cosatu sees for itself has changed over the last few years. A few years ago the emphasis was on political issues and now it's saying it is not going to confine itself to industrial relations and will get involved in the restructuring and co-determination of the economy." □

(49)

Cosatu seeks a coherent economic policy

ARG 27/3/92

Argus Correspondent MIKE SILUMA previews the economic policy conference of the Congress of South African Trade Unions which starts in Johannesburg today.

THE Congress of South African Trade Unions economic policy conference — the first of its kind since the federation was formed seven years ago — is important in two ways.

It marks on the one hand the first stage in an attempt by the union body and its allies (the ANC and the Communist Party) to formulate a coherent economic policy which will serve as an alternative to present government policy.

On the other, it reflects a growing conviction within Cosatu that constituent assembly elections, which will end the Nationalist government's monopoly of political power, will take place sooner rather than later, and that the alliance must start now to build a solid platform from which to fight such elections.

Among the issues set to come under intense discussion are:

- The formation of an economic negotiation forum, which would include the unions, business and Government.
- VAT and food prices.
- Issues relating to workers' rights, such as the extension of the Labour Relations Act to farmworkers and Cosatu's participation in the National Manpower Commission.
- Economic restructuring including the government's privatisation programme.
- Nationalisation, an investment policy and code.
- Job creation.

Discussing the implications of the conference on the unfolding political process, Cosatu campaigns committee head Lisa Seftel said: "The conference will debate and suggest economic policies we would want a new democratic government to adopt.

"At the same time, it will discuss the economic demands which will be put forward to the alliance (with the ANC and SACP) as part of an election platform for forthcoming constituent assembly elections. There is pressure on all liberation movements in South Africa, including Cosatu and its allies, to come up with economic policies for a new political dispensation. We can no longer just oppose (government or business policies). We have to begin to be pro-active."

Cosatu has already demanded a constituent assembly election by the end of the year.

Delegates to the conference will look with some satisfaction at progress made on the question of the economic negotiation forum, which was one of the demands of the anti-VAT national strike last year. After having reached consensus with business on the need for the establishment of the forum, the parties are set to approach government during the next month to try to persuade it to join.

So far the government has refused to be party to the forum, arguing that participation in the forum should be confined to those with a direct stake in the economy, capital and labour.

Ms Seftel said the conference would seek to finalise plans for a new growth path for the South African economy, focusing on economic restructuring with union participation.

To fight unemployment, delegates to the conference would examine proposals including the promotion of labour intensive methods in government projects, the establishment of a public works programme "as a matter of urgency" and a special programme for unemployed youth.

After months of debate, the conference would also have to make a decision on an envisaged investment code, and will look at aspects such as channeling new investment towards the creation of sustainable jobs, equality of opportunity, job security, education and training and corporate social responsibility.

Ms Seftel said Cosatu was not wedded to nationalisation, but saw it as "one of the tools to restructure the economy".

However, there are some within the alliance, irked by the government's decision to push ahead with its privatisation programme despite the alliance's objections, who are asking whether it would be justifiable for a future government to re-nationalise "national assets" such as transport and the forests.

At the end of two days of deliberations the 300 delegates will also have to decide on a programme of action, based on proposals from the federation's central executive committee earlier this month, which includes calling a national strike in July if Cosatu's economic and political demands are not met by government.

Decisions from the conference are expected to feed into another important economic conference at the beginning of May, that of the ANC.

Commenting on the significance of the Cosatu conference, labour consultant and former University of the Witwatersrand industrial sociologist Dr Duncan Innes said: "The conference is an indication that Cosatu is taking the whole question of the future of the economy very seriously and that it has no intention of allowing the government and business to direct the structure and form of a future economy. This applies as much to the present government as to the ANC (should it come to power)."

MONEY SUPPLY (49)

Catching its tail

FM 27/3/92

Year-on-year money supply figures, which for so long masked a deceleration in the growth rate, are now hiding a sudden upturn. This can be seen by comparing growth in the broad monetary aggregate M3 from February to February — 10,83% — with growth from the mid-November base of the current target year to February — a seasonally adjusted annualised 16,34%. The annualised figure exaggerates the increase, of course, but it is an indication of the pace of change.

Revisions of seasonally adjusted annualised M3 growth for previous months have been published. This is because, from now, calculations will be based on mid-November 1991, where previous calculations related to mid-November 1990. They show growth to the end of:

- November of 39,74%;
- December 1,57%;
- January 12,09%; and
- February 16,34%.

The M3 figure for February is provisional. The full balance sheet of the banking sector will be reflected only in the revised estimate to be published next month.

In the past, discrepancies between the preliminary and final estimates of M3 have related largely to changes in the status of holdings of certificates of deposits. Those held by nonbanks are part of money supply while those held by banks are not. Changes of ownership are contained in the revisions.

Revised estimates for January show M3 grew 14,42% (down from 14,73%) to R183,9bn. Of the other aggregates:

- M2 grew 16,78% to nearly R155bn;
- M1 16,31% to R58,1bn; and
- M1A 16,83% to nearly R33bn. ■

FM 27/3/92 POST-REFERENDUM ECONOMIC POLICY (49)

In the palace of the Mamelukes

President F W de Klerk has wasted no time. The Monday after his resounding victory at the polls he had interim government proposals to table. Indeed, the speed with which he has removed racist laws and begun creating a broader and more equitable democracy has been phenomenal.

In consequence, he has confounded his critics and dismayed opponents. His leadership has been heroic and visionary. He knows what needs to be done to turn this benighted country into a green and happy land.

The problem is, however, that there will be no New Jerusalem until some equally perspicacious visionary can provide the economic inspiration that will move the country towards a period of sustained economic growth.

Finance Minister Barend du Plessis left no doubt in his Budget last week — the third holding Budget in a row — that he is not capable of meeting even the modestly inspired objectives announced a few years ago.

These were to stimulate growth by stabilising prices, reducing taxes and reforming the tax system; applying fiscal discipline and financing public spending sensibly; and improving returns from limited resources by reducing government and promoting privatisation.

Last Wednesday's Budget did not move at all towards those objectives. And until that happens, large increases in welfare spending will ultimately not be sustainable and are, therefore, inappropriate. For economic growth will remain substantially constrained.

In future, the Finance Ministry can be counted upon to balance the books without understanding the economic imperative behind the numbers with which it fiddles.

The Minister who has said he is prepared to become "obsessed" with growth is Derek Keys, one of the few already house-trained incumbents to enter the Trade & Industry & Economic Co-ordination Ministry. And, indeed, after the mixed bag of the past, it should be an advantage to have one who understands Mammon.

Keys provided the inspiration that regenerated Gencor and he survived the Byzantine politics of the sunset Sanlam empire. Similarly, he stands in the Cabinet a businessman among the Mamelukes.

He is obsessed with growth but believes enough incentive is in place to achieve it. He has no new plan other than the existing incentives, some of which are aimed at enhancing the value of exports and thus avoiding the need for imported materials. He will keep policy on a "steady course" and has gone soft on the removal of protection.

He reflects on the social and political folly of trying to remove protection without the safety net of a more buoyant economy, especially a booming export sector. Whatever tariff reductions there might be, will be hand in hand with those concerned. Discretion to deal individually with protected undertakings is what he will seek.

Revenue from tariffs is insignificant. He makes plain that those industries reserved for local production will largely remain as they are, apart from some careful tariff adjustments to boost competition.

Privatisation is not a priority. He sees no sense in switching public-sector monopolies to the private sector and, contrary to those privatising successfully elsewhere, places substantial importance on the selling price.

Of course, what Keys calls the fiscal unimportance of tariffs is quite beside the point. What matters is the economic consequence of protection. Modest though it may be in relative terms, that does not make it benign.

The import replacement policies that protection has spawned inevitably bring ever-diminishing returns and encourage the manufacture of what increasingly becomes inappropriate to this country's needs. The extent, therefore, to which this type of investment creates new wealth is constantly decreasing. If we stick to the old policies, the quality of investment in this country will constantly be on the decline.

No-one would suggest that protection be removed instantly. But a visionary policy that enhances economic growth by reducing taxes and providing some supply-side encouragement will quickly create a social cushion to a progressive removal of protection, which will hone competition.

The real cost of apartheid is not in duplicated facilities and homeland support but in grotesque policies of self-sufficiency that are no longer remotely appropriate, if they ever were, yet are perpetuated by protectionism in one form or another. It is not the cost of the local product that is important. It is the extent to which resources are misused or squandered in its production.

That is the essence of the economic vision, the absence of which is so manifest when seen against De Klerk's creative political thrusts — and why the fear persists that at Codesa free enterprise will be passed by default.

Last Wednesday, Finance Minister Barend du Plessis said: "The Book of Proverbs says that where there is no vision, the people will perish."

It's worth pondering, Ministers. ■

SA poised for breakthrough

BT 27/3/92 (49)

By ANTHONY JOHNSON
Political Correspondent

Landmark visit by African financiers

SOUTH AFRICA stands poised for a breakthrough in its relations with Africa and world financial institutions — including the Organisation of African Unity (OAU), the African Development Bank (AfDB), the IMF and the World Bank.

The landmark 11-day visit to South Africa starting this weekend by the African financiers led by the president of the AfDB, Mr Babacar Ndiaye, is expected to serve as a major spur to the normalisation process.

The visit forms part of a flurry of post-referendum diplomatic, trade and banking contacts with Africa which could pave the way for South Africa's inclusion in the OAU and Southern African Development Co-ordination Conference (SADCC).

And it is understood that President F W de Klerk and Foreign Minister Mr Pik Botha will soon resume their drive to normalise relations with key African states and promote a co-ordinated regional economic development strategy for the continent.

Speaking from Abidjan in Senegal last night about his upcoming mission, Mr Ndiaye said that if the Codesa negotiations were successful South Africa could become a member of the AfDB within the next two years.

"We are taking steps now to be immediately of assistance to South Africa when it joins the AfDB, since it can take up to 18 months for sound development projects to be properly evaluated and financed," he said.

Mr Babacar, who has been president of the AfDB since 1985, said his visit to South Africa came at "a very auspicious time" since Africa had been heartened by "the very overwhelming vote of the white electorate in support of negotiations."

Banking sources said last night that acceptance by the AfDB Group, Africa's larg

institution with assets of over R92 billion, would go a long way to normalising economic and political relations with other major world players.

The visit could lead not only to a massive cash-and-aid injection for the sub-continent but also much-needed development expertise, they said.

Significantly, the watershed visit — which is at the invitation of the late executive chairman of the Development Bank of Southern Africa (DBSA) Dr Simon Brand — has the blessing of both the ANC and the government.

DBSA communications manager Mr Frans van Rensburg said last night that the visit by Africa's foremost spokesperson on financial and economic development matters was "a breakthrough" as it could assist in normalising South Africa's relations with the world financial and aid community.

"This visit bodes well for much-needed development aid and technical assistance for the whole Southern Africa," he said.

Mr Ndiaye has been working closely with the heads of the OAU and the UN's Economic Commission on Africa (ECA) to promote an integrated African economy capable of playing a more dynamic role in an increasingly com-

Govt plans zero-coupon bond issue

(49) SIMON WILLSON

CAPE TOWN — The Finance Department is to issue a series of two zero-coupon bonds with fixed redemption dates in the current financial year, financial market sources say. B/Day 27/3/92

It is understood the Reserve Bank will soon announce the availability of the instruments on its dedicated trading screens. Investors and brokers will be invited to tender for available volumes. The bonds will probably carry maturities of between five and 10 years.

The department will use the Reserve Bank to market the bonds. The department may subsequently issue zero-coupon bonds with a tenure shorter than one year.

Zero-coupon bonds are instruments which bear no interest rate but are, instead, issued at a substantial discount to their face value. As the bond's redemption date approaches the price typically rises towards its nominal face value, assuring the holder of a profit.

The bonds generally offer the most attractive returns against a background of volatile interest rate movements because the holder can calculate the effective yield at the time of purchase. The investor can be at a disadvantage in a rising interest rate environment because the bond value will most likely fall as the holder is committed to a fixed, lower rate of return.

An official announcement is on hold pending formal approval of the scheme by the parliamentary committee on public accounts, which would have to vet the proposal because existing accounting procedures would have to change to accommodate a zero-coupon bond issue.

Sources say there is unlikely to be an immediate cost advantage to the Finance Department from issuing the new debt instruments. The objective is thought to be improved government debt marketability. Tours of European financial capitals to promote SA Eurobond issues have apparently found that zero-coupon bonds are popular among foreign investors.

Conditions of issue are likely to include restricting the bonds to denominations in multiples of R1m. They will be endorsed as being non-liquid assets.

Fiscal strategy 'disturbing'

B/Day 27/3/92

(49)

LINDA ENSOR

CAPE TOWN — The longer-term implications of government's current fiscal strategy were disturbing, as the high deficit would probably push up interest rates when the economy recovered strongly in 1993 and private sector demands for capital rose markedly.

This would also cause upward pressure on inflation if the deficit was financed by money creation, Board of Executors senior portfolio manager Rob Lee said in the latest Investment Outlook.

While the deficit was justifiable in the short term as a stimulatory measure, in the long term it was a cause for concern as it seemed doubtful that an interim government would have the will to impose discipline on government spending to bring down the deficit.

The high increase in government spending and in the deficit, and the recently announced M3 money supply target range would not give much room for further interest cuts.

"A higher priority given to stimulating the supply side of the economy, and specifically to promoting investment, would have been preferable from the point of view of achieving sustained high economic growth," Lee said.

He felt that if long-term rates moved significantly below 16%, this would probably represent a good selling opportunity.

Lee was confident that the end of the recession was very close and that the upswing would probably start in the second quarter.

"The very positive referendum result, plus an expansionary Budget and a Bank rate cut, make us feel confident that the long awaited economic upswing is now around the corner. This upswing, however, will be gradual initially, but relatively high economic growth is likely in 1993."

The stock market had failed to react meaningfully to recent positive news and given the current high rating levels it would probably require convincing evidence of a turnaround in the economy and in company earnings before it moved higher.

Lee said the recent strengthening of the financial rand and a weaker gold price to below $340 had also played a role in the lack of a market response.

"The market was also disappointed that the Budget did not contain more tax cutting measures or increased investment incentives, while the subsequent announcement of a 1% cut in Bank rate had already been discounted. If anything there was disappointment that speculation of a 2% reduction proved unfounded."

Regarding the international economy, Lee said a generalised world economic upswing towards the year end was probable, provided the present sharp slowdown in the Japanese economy turned around in the second half of the year and Germany cut its interest rates by year-end. He said there were clear signs of an upswing in the US.

RAU forecast 'optimistic but cautious' on economy

BD cy 27/3/92 (49)

SHERIDAN CONNOLLY

HIGH unemployment, high inflation and low growth would be the main economic problems during the next two years, Rand Afrikaans University's economics department said in its latest econometric forecast.

Their forecast expressed an optimistic but cautious view of the future of the SA economy with a moderate upswing expected. A more stimulatory fiscal policy, the removal of sanctions, improved business confidence and a lower Bank rate were conditions that favoured economic growth, the department said.

It said its model was unique in that "it is the first of its kind in SA to incorporate in its equations the latest Budget figures". The econometric model had been consistently accurate at forecasting over the past decade and had correctly forecast the growth rate and inflation rate for 1991, it said.

The department said it did not view monetary stringency as a damper on the economy in 1992 and 1993. The monetary authorities would, however, still hold a tight reign on monetary policy, although less severe than in previous years.

In terms of the model, the technically lower turning point in the business cycle would be reached in the first half of 1992. High levels of domestic political violence would, however, continue to affect local and foreign investment decisions, as would the effects of the severe drought.

The model forecast a decrease in the annual rate of increase in the consumer price index to 14,5% in 1992 and to 12,3% next year. This was envisaged because of the temporary elimination of excess demand, lower import prices and a stable growth rate in broad money supply, M3.

Both imports and exports would increase over the next two years. Exports of goods and non-factor services was expected to increase in real terms by 2,2% om 1992 and by a further 1,7% in 1993. The department said lower growth rates were attributable to the expectations of lower growth rates in the economies of SA's major trading partners.

An improvement in domestic spending conditions would increase imports by 3,1% in real terms in 1992.

Socio-economic ills justify increase in govt spending

B/Day 27/3/92

DERLK KEYS

(49)

ALTHOUGH a Budget should naturally be judged in its national perspective, it is also important to see it in the light of international events.

The world economy is simply not in great shape. The huge accumulation of public and private debt that the US community was prepared to tolerate and digest under the charming leadership of Ronald Reagan has turned out to be an insupportable burden under his perhaps less charismatic successor.

Efforts to get the American economy moving again have been singularly unsuccessful, and we have the rare phenomenon of the world's lowest interest rate economy displaying fundamental disinterest in contributing to economic growth — either its own or anyone else's. They would simply like to get out from under, and they would rather somebody else took up the gauntlet of being the world's economic locomotive.

Unfortunately, there is no one else making a claim to this function. As the stories of financial irregularities in Japan unfold, stock exchange values fall, and this has a negative effect on investment decisions and other growth determinants.

The basic economy will be able to deal with these shocks in the financial sector, but there is still a worry of the possibility of a basic discontinuity. The whole system could suffer damage that leads to an untimely decline in world trade.

Europe is also not a star performer at the moment. Most EC members have increasing unemployment and related social problems.

Of course, we all assume that these highly developed countries will find a way out of their difficulties, will resume growth and will, in the process, drag us up to some higher level of national income. This would be to our benefit, but we should not fool ourselves into thinking that it would settle all scores.

Due to the extent to which bloc formation — and, in particular, the aggregation of bargaining power represented by the EC — has taken place, the terms which supplying countries like SA have been able to obtain for their goods have become steadily less advantageous.

This should not surprise us. The European market has, over the past 20 years, systematically increased its power of negotiation. When its member countries can boast low inflation rates, we can reflect that a considerable part of that was due to their ability to reduce our selling prices in real terms. In the same way, part of our higher inflation rate was due to the ever increasing prices paid by us for EC products.

SA's economic success has always been largely determined by the prices which its products could command on international markets. In this respect, particularly, we are looking at a bleak landscape. Prices of precious metals have been falling steadily. A fall of $40 an ounce in the gold price — and we have suffered more than this — is more than sufficient to eliminate the net benefit of many export-directed projects of the kind we are encouraging.

This is not meant to be discouraging, nor to suggest a radical solution. Any economy experiences such times. We cannot simply wish for a better position. We return now to the old values: if we are not prepared to plough in the cold times we also will not be able to enjoy the harvest.

If we approach the Budget given this background we will notice, firstly, that government did not allow a temporary income decrease to sidetrack it from its basic search for justice and parity.

□ KEYS

Secondly, government avoided decreasing real state expenditure — this would have made the private sector recession worse. It deliberately increased spending levels.

Others may describe this attitude towards government spending levels as opportunistic. I cannot agree.

It was not because we were unaware of the advantages of a stable monetary unit, or of the acceptable rules of a proper public finance policy. This is simply a time when it would have been counterproductive for government to cut back, and therefore allow a further decrease in the level of general demand.

The result of this approach is the deficit of 4% of GDP, and we will hear a lot about this in this debate. I wish to say a few friendly words to critics of this policy.

When I was being briefed for my meeting with German Federal Economic Minister Jürgen Möllemann I was informed that the German budget deficit would probably be about 6% of GDP, rising to 7% later this decade. Everyone explains that this is highly unusual, and due to the fact that Germany has to rebuild that portion of its economy ruined by a false ideology.

Is that not true for us?

In my maiden speech I pleaded the cause of a government that could make its policy clear, that could aim at the highest possible targets and could then pursue them in a rational and consistent manner.

Policy-making should be predictable, consistent and reliable, so that private sector entrepreneurs, having to make their important decisions about the future, would have a greater degree of certainty about how this aspect of the environment, at least, would behave.

The budgeted level of expenditure displays these qualities. They go further. In important respects — for instance the desire to reach parity in social pensions — they give outright undertakings on future spending.

But is the eventual result not perhaps counterproductive if one takes into account the macro-economic effect? Will interest rates not have to remain unnecessarily high as a result of government's dissaving?

It would have been difficult to answer that question without the good news on Friday of the Reserve Bank's lowering of rates. The highest monetary authority in the country, and one on which government exercises absolutely no pressure, came to the conclusion that there is room for a 1% lowering of rates.

Given that we acted responsibly by *not* cutting expenditure, can we defend the use of the funds as justified? This is not a simple question and it has no simple answer.

The NP's economic philosphy has, as its ultimate justification, the creation of maximum freedom of choice for the participants. Total absence of effective choice is the most notable characteristic of those who live in the greatest poverty.

If you look in this light at the spending choices made in the Budget, you will find that in every case the spending decisions have had the intention and the effect of either enhancing or preserving freedom of choice for the individual.

There are signs that the tide is turning in the local economy. The dead hand of the past — calling for continued sanctions — is fast losing its power to inhibit the flow of trade and the flow of trade-related finance that accompanies it. There are grounds for cautious optimism that the improvement in our relative international position will compensate us for other negative factors.

The climate in SA's business world is also improving. The referendum victory gave hope once again to the positively inclined. The "yes" vote was not approval of surrender, but an emphasis of the basic faith that creative individuals can make our world a good place to live in.

□ This is an edited version of Trade and Industry and Economic Co-ordination Minister Keys's address to Parliament on Wednesday.

We, too, have bottom lines

BD CY 27/3/92. ~~[illegible]~~ ~~[illegible]~~ 49

JOE SLOVO

I DO NOT go along with those who claim President F W de Klerk has a double agenda. His agenda is clear. It was once again spelt out in his "bottom lines" in the run-up to the referendum. In general, we can expect his regime to fight tooth and nail to retain the maximum amount of racially accumulated privileges for the white constituency in a new dispensation.

How do they do this in the new era? They know they cannot win a majority in a truly democratic election. Since they cannot win politically they have to look elsewhere.

They use the principle of majoritarianism as a swear word. Everything must be cut and dried before the disenfranchised enter Parliament so that their repesentatives are constitutionally paralysed from implementing their will.

The main areas targeted to achieve these objectives are: enforced political coalitions; a second chamber with veto powers dominated by minorities; the prevention of affirmative action; and preventing a future Parliament from adopting economic measures in the interests of the overwhelming majority.

Negotiations cannot take place without a degree of give and take. But we, too, have bottom lines.

We stand for a unitary state whose constitution will not permit any form of seccession by regional entities. Every square metre of SA territory must be fully reincorporated. We reject federalism and any of its variants which would derogate from the ultimate sovereignty of the central legislature. Subject to those qualifications, we support the constitutional entrenchment of defined powers for regional and local entities which should be delimited according to demographic, geographic and economic factors — and not determined by ethnicity. Nor must regional power become the camouflage for minority vetoes.

Apart from the short period of transition, we totally reject the constitutional entrenchment of enforced political coalitions as a permanent feature of the political system. Such a provision would, at best, undermine multiparty democracy by a tendency to suffocate one of its essential ingredients — a political opposition. At worst, enforced coalitions are designed to bring in by stealth the discredited notion of group vetoes. This would paralyse a future executive from acting in accordance with a popular mandate.

The system of voluntary coalitions has many precedents and in our divided society a future government might well consider it advisable to include all or some elected political minorities in the executive in voluntary coaltions and under mutally agreed conditions. But there is no single example in the world of a constitution which makes power-sharing compulsory.

In saying all this we do not advocate a system of simple majoritarianism, nor are we impervious to the need for the protection of the rights of political minorities. But we draw the line at the suspect device of enforced coalitions in the executive.

The rights of political minorities will find protection in a system of proportional representation, a justiciable bill of rights, special majorities for adopting or amending the constitution, and in an entrenched multiparty democracy which will enshrine the right of a political minority to become a majority through a democratic electoral process.

There can be no end to racism unless the future legislature is empowered to begin redressing the racial imbalance in every sphere of social and economic life. Without affirmative action this is impossible.

We are told that all we need is the entrenchment of equal opportunities and equality before the law for racism to begin to evaporate. Such provisions are obviously necessary for democracy. But on their own, without affirmative action, they become mere platitudes for the majority.

Of the 2 885 top income positions in the central state departments and provinces, only 14 are black. Without affirmative action the state administration will remain in the same hands for generations to come. There are endless examples.

Our sick society spawns a sick logic. The air is thick with cries of allaying the fears of the privileged minority. We hear few appeals for the dominant race group to recognise their accumulated privileges were obtained at the expense of black deprivation. It is surely they that must allay the fears of blacks that this state of affairs will continue.

The future of the economy is another vital area which the regime does not want to entrust to a future majority. Again, the reason is clear — 98% of productive property and 85% of personal income are held by the white minority. And they want to maintain this status quo.

They insist the bill of rights should entrench a so-called free market economy, and everything should be left to business with virtually no economic role for the state.

From the early 1920s, massive state intervention in the form of affirmative action made it possible for white Afrikaners to climb the economic ladder. For this purpose they nationalised industries, created parastatals, redistributed land and took many other initiatives. Now that all this has served its purpose they want to prevent an elected Parliament from having democratic control over the country's economy.

We will contest every attempt to undermine the economic neutrality of the constitution. We stand for a mixed economy in a true multiparty democracy. We support the constitutional entrenchment of those economic rights which are universally accepted as part of basic human rights. But the balance between private and public interest is the business of people's representatives, and not just the business of business.

☐ **This is an edited version of a talk delivered by ANC and SACP leader Slovo on Wednesday at the M L Sultan Technikon in Durban.**

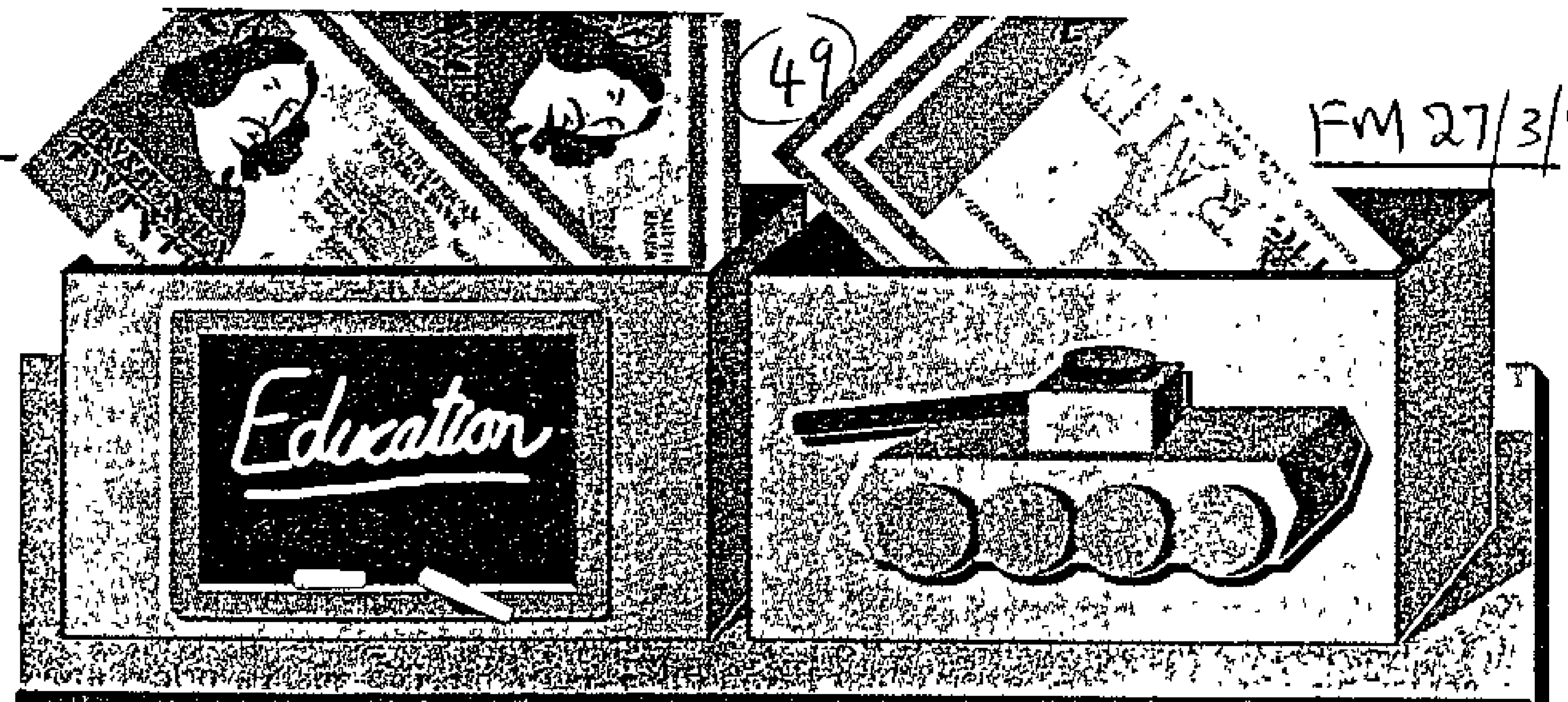
LETTERS

24,5%), positively linked to a fall in the index. Transnet will issue equal quantities of either tranche and expect fairly even demand for subscription in the two tranches, unlike Elfi III, where the bear proved to be more popular. But Kögl believes that the bear will be more popular given current market sentiment.

The instruments have been a successful means of funding for Transnet, says Jordaan, who predicts that Elfi IV will bring in more than the R886m raised by Elfi III. "We are hoping for R1bn." ■

(49)

FM 27/3/92



BUDGET ALLOCATIONS

FM 27/3/92 (49)

Reslicing the cake

It is traditional in many countries for the opposition to attack government's allocation of State resources. This is why it's understandable that the ANC should call Finance Minister Barend du Plessis' fiscal blueprint for 1992/1993 a rich man's Budget.

The description is justifiable because State revenue is allocated through existing apartheid structures, which maintain white privilege, but last week's Budget reduces these privileges. It is redistributive: not only because the reduction in the number of tax bands shifts the burden of taxation from lower- to upper-income earners (*Leading Articles* March 20), but because there have been shifts in departmental allocations.

The changes are significant in percentage terms and highlight the huge expenditure disparities, for instance in education, between race groups. The percentage increases given below "are based on actual expenditure in the full 1991/1992 financial year," says DP education spokesman Roger Burrows This is as opposed to the increases shown in the adjoining table, which are Budget-to-Budget.

The sum to be spent on black education, in the vote for the Department of Education & Training, rose 18,5% to R4,6bn. The amount to be spent on education in self-governing territories rose 25% to nearly R4bn. This is included in the vote for Regional & Land Affairs. Spending on Asian education rose 6% to R1,1bn — included in Administration, House of Delegates; and on coloured education 4,5% to R2,7bn in Administration, House of Representatives.

The combined total for these groups is R12,4bn.

By comparison, the vote for Administration, House of Assembly (largely white education) will receive R6,7bn — a rise of barely 3%. So, despite the reallocation of resources, whites who represent only 17% of the population, according to the 1991 census, still receive nearly 35% of education expenditure. (This ratio is essentially correct, though the total for the vote is inflated by the inclusion of a small expenditure on other race groups.)

A comparison of Budget-to-Budget figures shows a number of other redistributive shifts in departmental allocations, including increases of:

☐ 84,3% in the vote for National Health & Population Development, to R1,2bn;

☐ 33,7% in Local Government & National Housing to R979,5m; and

☐ 33,4% in Transport to nearly R2bn. Of this, R160m is to cover operating losses on the rail commuter service.

The amount allocated for Improvement of Conditions of Service declined 31,5% — probably because no agreement has been reached on salary increases for civil servants.

A big rise in the allocation to Constitutional Development Service — 177% to R41m — is designed to cover the cost of negotiations and "constitutional development support." Spending on Justice rose 36% to R777,8m, mainly due to salary increases and the "peace initiative," including the costs of the peace secretriat

A large increase came in Trade & Industry — nearly 60% to R3,1 bn. Of this, R2bn will go towards redeeming promissory notes issued under export incentive schemes — R872m on the A and B schemes, which were halted in March 1990, and the rest issued under the General Export Incentive Scheme, which replaced them.

Defence spending is budgeted to rise only 5,6% to R9,7bn — a fall in real terms. This is a welcome spin-off from the cessation of hostilities both inside and outside the borders. A large decline came in the vote for Mineral & Energy Affairs, 23% to R687m — of which most can be ascribed to a R130m drop in expenditure on nuclear energy.

Possibly another peace dividend. ■

ALLOCATIONS FOR STATE DEPARTMENTS

(Including Statutory amounts)

Department	1991-1992 Rm	Budget 1992-1993 Rm	Budget increase % Rm
State President	16,1	21,3	31,6
Parliament	71,2	86,5	21,4
Foreign Affairs	5 023,0	5 797,0	13,3
National Education	299,6	283,8	−5,0
Administration: House of Assembly	8 430,9	9 067,5	7,5
Education and Training	3 368,2	4 555,9	35,2
Defence	9 187,0	9 704,5	5,6
Manpower	302,0	294,8	−2,3
Public Works	1 781,0	1 909,7	7,1
Commission for Administration	46,5	53,5	15,2
Improvement of Conditions of Service	3 330,0	2 278,0	−31,5
Justice	571,6	777,8	36,0
Correctional Services	1 275,8	1 484,0	16,3
Agriculture	306,3	452,5	47,7
Trade and Industry	1 914,9	3 059,9	59,8
Mineral and Energy Affairs	896,0	687,1	−23,2
Finance	15 845,9	20 306,0	28,1
Audit	0,5	2,4	382,0
Home Affairs	281,4	288,7	2,5
Transport	1 496,4	1 998,2	33,4
Administration: House of Representatives	3 750,7	4 709,6	25,5
Administration: House of Delegates	1 378,9	1 635,7	18,5
National Health and Population Development	634,2	1 169,2	84,3
Police	4 635,9	5 645,1	21,7
Environment Affairs	168,9	207,0	22,6
Water Affairs and Forestry	373,0	374,0	0,5
SA Communications Service	41,5	51,6	19,6
Constitutional Development Service	14,8	41,2	177,7
Local Government and National Housing	732,4	979,5	33,7
Regional and Land Affairs	17 510,5	20 985,2	19,8
State Expenditure	552,6	603,8	9,2
Central Economic Advisory Service	4,6	4,3	−6,2

(In some cases the allocations for 1991-1992 do not match the allocations as originally printed in the Budget estimates. This is due to a shift in functions and a reclassification of expenditure.)

FM 27/3/92 (49)

FINANCIAL RAND (49)

Package deal

FM 27/3/92

Reserve Bank Governor Chris Stals has equipped himself with a versatile new policy instrument. With one stroke he has found a way to reduce:

- ☐ Liquidity in the money market;
- ☐ The financial rand's discount against the commercial currency;
- ☐ Debt held in the standstill net; and
- ☐ Losses incurred on the Bank's forward cover operation.

For the first time since the financial rand was introduced in 1961, the Bank will intervene in that market. By using dollars to buy financial rands, it will offset inflows of foreign funds to the money market. Though determined "at the discretion" of the Bank, the exchange rate of the financial rand will be linked to the level of official reserves.

At the same time, the Bank will shrink the pool of financial rands which will increase the value of the unit. Stals implies in his statement that this is a first step towards abolishing exchange control. "As sanctions are now being lifted, unnecessary exchange control restrictions should also be phased out."

For some time, he has complained that exchange control has distorted SA's financial markets, creating liquidity which would not be there if market forces prevailed. This has the unfortunate effect of stimulating credit creation and driving inflation. Now he has found a way to tackle that problem.

He points out that foreign creditors with claims against the debt standstill net (now worth less than $6bn) can convert these into financial rand. They can then sell them, indirectly, through authorised dealers in foreign exchange, to the Bank. But, clearly the Bank could not absorb huge sums overnight, so transactions will be limited by availability of reserves.

As long as there is a discount, the Bank's finrand interventions will generate profits. At prevailing rates $100 will eliminate R350 in financial rands, at a cost to the Bank of only R290. These profits will be transferred to the Forward Contracts Contingency Reserve Account of the Treasury, held by the Bank, which had accumulated debits of R10,4bn by March 1991 — the latest available figure. Allocations from the Budget in certain years reduced the amount.

The immediate effect of the operation will

Continued

FM 27/3/92 (49)

be to increase net foreign reserves because the reduction in the finrand deposits — which are treated as a short-term liability of the banking sector — will exceed the reduction in gross foreign reserves. But at the same time, the amount owed to the Bank by the Treasury on its forward account will fall, reducing its net other assets.

This will neutralise the impact on net reserves and money supply. ■

Reps to attend PAC seminar

Sowetan 27/3/92. (49)

MINING, business and banking representatives will attend the Pan Africanist Congress economic seminar in Durban next week to discuss an appropriate economic strategy in the new political dispensation.

Discussions at the seminar, which will be opened by PAC vice-president Mr Dikgang Moseneke, will concentrate on economic development strategies which can be achieved without the further marginalisation of the economically disadvantaged African majority, a statement said yesterday.

Representatives of the Chamber of Mines, SA Chamber of Business and the Development Bank of Southern Africa have been invited to attend the seminarwhich will focus on people as creators of wealth. - *Sapa*.

Too much of Budget going into pockets of bureaucrats – Vosloo

STAR 27/3/92

By Shirley Woodgate (49)

Pretoria's "bloated bureaucracy" boasted one of the highest per capita incomes in the country, yet more than 51 percent of the 1992/93 Budget would be spent on general administration (salaries of politicians and public servants), Dr Ben Vosloo said last night.

Addressing the Benoni Chamber of Commerce and Industry, the managing director of the Small Business Development Corporation said that at the same time, the Budget ignored the needs of the small and medium-enterprise sector which provided the bulk of the country's tax revenue.

"To describe the Budget as growth-oriented, or even neutral, is inaccurate," Dr Vosloo said.

He claimed the Government was attempting to redistribute income and wealth through large increases in expenditure on education, health, housing and pensions.

While not discounting the need for these services, he said this spending was being financed by a small tax base of individuals and companies who contributed 42 and 16 percent respectively to Government revenue.

The remuneration of workers lagged behind the increase in the tax burden on individuals since 1989/90, he said.

Considerable savings could be made through cuts in the bureaucracy and reviews of its spending allocations. The savings should either be left in taxpayers' pockets or diverted to more productive resources.

"We must now start to redistribute opportunities rather than trying to redistribute our existing and currently diminishing stock of wealth.

"Sustainable economic growth can only be achieved through increased output: wealth distribution by wealth creation."

The more the Government invested in small businesses and individual entrepreneurship, the greater the return in productivity, employment, income and, ultimately, tax receipts for social needs from a broader base, Dr Vosloo said.

Cosatu expects rapid reform, writes general-secretary **Jay Naidoo**

No excuse for Government now

STAR 27/3/92

(49)

THE OVERWHELMING mandate given by the white electorate to the negotiations process taking place in Codesa, despite the racist character of the referendum, lays the basis for a rapid advance to democracy.

With this unambiguous mandate from the white electorate, there is now no excuse for the Government to drag its heels. From Cosatu's perspective this means two things:

Firstly, we will intensify our campaign that by June a sovereign interim government should be set up, and the parties should have agreed to the holding of democratic constituent-assembly elections by the end of this year.

Secondly, we expect the Government to abandon its refusal to negotiate socio-economic issues, and to enter into forums with the major players in areas such as housing, development, education and health. In particular, we demand that they agree to participate in the National Economic Negotiating Forum and enter into discussions with the Co-ordinating Committee on VAT.

The Cosatu central executive committee has stated that we will embark on a protracted general strike if there has been no progress in meeting these demands by June.

Recent developments around the referendum and the Budget do not detract from this decision.

If the referendum result was a step forward for negotiations, then the 1992/93 Budget was a major step back. Without analysing the problems in detail, Cosatu has identified three broad areas of particular concern:

1. The Budget is a rich man's Budget: despite predictions in the media that a capital gains tax and a tax on dividends would be introduced, and support among some economists for this, the Budget was totally silent on this question. These taxes, in addition to being redistributive measures, have the advantage of encouraging productive investment, job creation and investment of profits.

The 16 million people estimated by the Development Bank to be living below the poverty line don't appear to have featured in Barend du Plessis' Budget calculations.

2. The Budget is cast in the old apartheid mould: wasteful spending on duplicate Government departments and redundant apartheid structures is retained.

3. The Budget was unilateral and unnegotiated. This applies both to the source of revenue and its allocation. Cosatu is on record that our taxation system needs restructuring. But the trend of greater burdens being placed on the individual and the poor through indirect (consumption) tax, and income tax, is entrenched.

The negotiations process is not yet irreversible.

The book of apartheid will be closed when the Government enters into bona fide socio-economic negotiations with the major players, and when an agreement is reached to hold democratic elections for a constituent assembly, and a sovereign interim government is established.

The general strike in November last year should leave no one in any doubt about our preparedness to take action if these reasonable demands are not met. Negotiations are not endless. Nor is the patience of our people. □

Nationalisation is an option, not an ideology

South 28/3 - 2/4/92

(49)

There are lessons about the relationship between the state and the economy in the German experience reports Noel Bruyns:

NATIONALISATION is not a communist ideology. Even Germany — a leading democracy with a free market system — has nationalisation as an option in its constitution.

Whether one makes use of this instrument is not a question of ideology but necessity.

So says Dr Jürgen Schmude, German Social Democratic Party (SPD) Member of Parliament and former Federal Minister of Justice, presently synod chairperson of the German Protestant Church.

Schmude will be the guest speaker at a "Structures of Government" conference held by the Community Law Centre at UWC this weekend.

"We have not made use of nationalisation in Germany because all the political parties are convinced of its unsuitability," he says.

ANC president Mr Nelson Mandela at a function sponsored by SOUTH last week also said his organisation was not wedded to the idea of nationalisation, but called for viable alternatives. Could Schmude suggest any?

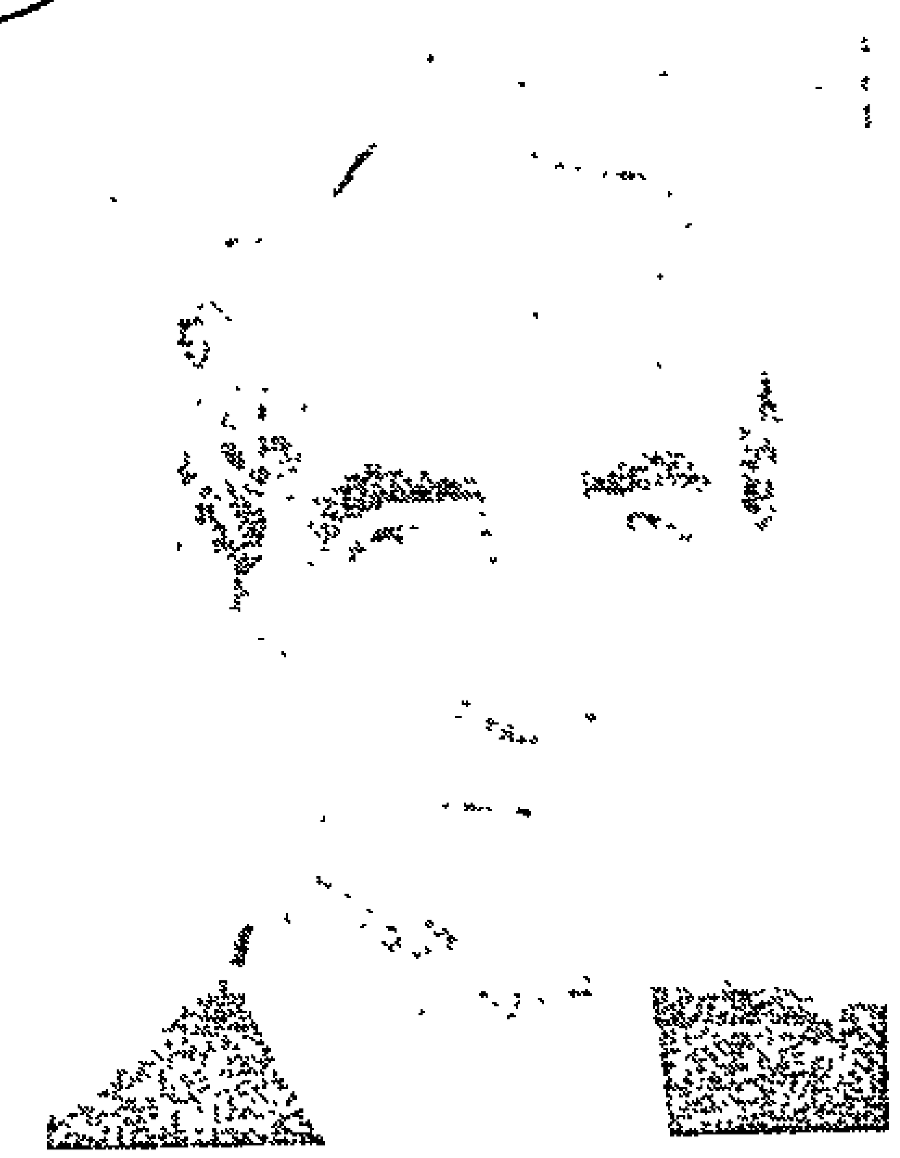
"Our alternative was to set a clear framework for business so that they cannot practise capitalism just as they like. They are obliged not to use economic power as political power, to protect the environment and to act socially — for instance, respect the rights of workers concerning minimum wage and work conditions, recognise trade unions, and sack employees only in exceptional cases," he says.

Mandela also said due to imbalances in wealth through apartheid there would be no industrial peace and justice if growth in the South African economy was not linked to the process of redistribution.

How was Germany tackling the question of achieving economic equality between the rich former West Germany and the relatively poor former East Germany since reunification?

"We have not yet found an ideal method to organise help for the former East Germany with its poor economic situation," Schmude concedes.

"But we have developed some useful ways, for instance by increased taxation and redistribution of the state's resources. It could be argued justice demands that wealth be redistributed from the rich to the poor, but the consideration of suitability is against this, as it would lead to economic collapse, which would hurt the whole population.



Dr Jürgen Schmude

"Therefore redistribution through taxation and of state expenditure is a more long-term but a safer way," says Schmude.

In Germany there is a tax on wealth and various forms of indirect taxation, but also direct taxing of income. However, this is organised so that the rich pay a high percentage and those with little income no tax.

Germany also has the VAT system, in which there is less than the general 15 percent on some items, however. Schmude nevertheless describes VAT as "always an unjust tax", because the poor must pay the same as the rich on items bought.

Schmude insists South Africans must be allowed to decide on their own structures of government in a future democratic South Africa instead of outsiders imposing their ideas. However, he is willing to share some experiences in Germany after World War II.

After 1945 a constitution was drawn up in Germany which would prevent democracy from being weakened and sliding into a dictatorship again, as had happened during the Nazi era.

"For this three points are important: basic rights for all citizens, an independent judiciary and federalism in order to prevent power being concentrated at a central point," Schmude explains.

The constitution gives every citizen basic rights which cannot be changed, not even by a two-thirds majority in parliament.

"There is also a truly independent judiciary with a supreme constitutional court as a control. Any citizen can make a case in the constitutional court if he or she feels his or her constitutional rights are violated by a law, by administrative measures or a court judgement. In many instances the state has lost in cases brought against it and had to abide by court decisions."

In Germany, judges are appointed by a two-thirds majority of a committee made up of representatives of all political parties both in the central government and federal states. No appointment can be made without the countenance of the official opposition. Judges may serve only one 12-year term.

Reacting to allegations that some judges in South Africa are "political appointments", Schmude says it is "quite inconceivable" in Germany that the government alone appoints judges.

Explaining the federal system in Germany, Schmude says the government is held in check not only by parliament and the constitutional court. Power is shared between the central government and the 16 federal states making up Germany. The central government is strong and empowered to act in several areas, but in many the federal states have autonomy.

In South Africa there are proponents of a unitary state and proponents of a federal system. What would Schmude chose?

"South Africans must decide on their own structure, but a federal system is possible, with one still having a strong central state which is able to act.

"It is also good that not all issues concerning the lives of the population are decided centrally. Decentralised decisions are closer to actual life, correlate more closely to the lives of people and are more easily accepted than decisions made by a central power far away."

Referring to the conflicts in Yugoslavia and the former Soviet republics, Schmude believes there is a third alternative to central state power and break-aways. "This is a federal system of co-operation with relative autonomy," he says.

Too much cash and no results?

(49)

South 28/3 - 2/4/92

On one issue, many economists and businessmen struck a common theme at a budget forum last week: how well is public money spent?

ANC economist Mr Tito Mboweni criticised the budget for lacking a strategy to ensure that the allocated money finds its way into improved education and health.

"How much will end up in the hands of bureaucrats?" he asked. "It seems the government is just throwing money at the problem."

Prof Brian Kantor of UCT stressed that there was a need to address the poor performance in housing, education and policing.

"We are finding the money for these, but are not getting the results," he said.

Finance department's Dr E Calitz said: "The portion of GDP spent on education and health is high compared to international experience — but increasingly the question is being asked whether the funds are being spent in the best possible way."

Differences arose over how this could be achieved.

Mboweni said education spending needed to be part of a specific educational strategy which in turn linked up with an overall development strategy.

Similarly, he said, there should be consultation and the setting up of legitimate structures through which social welfare funds could be spent.

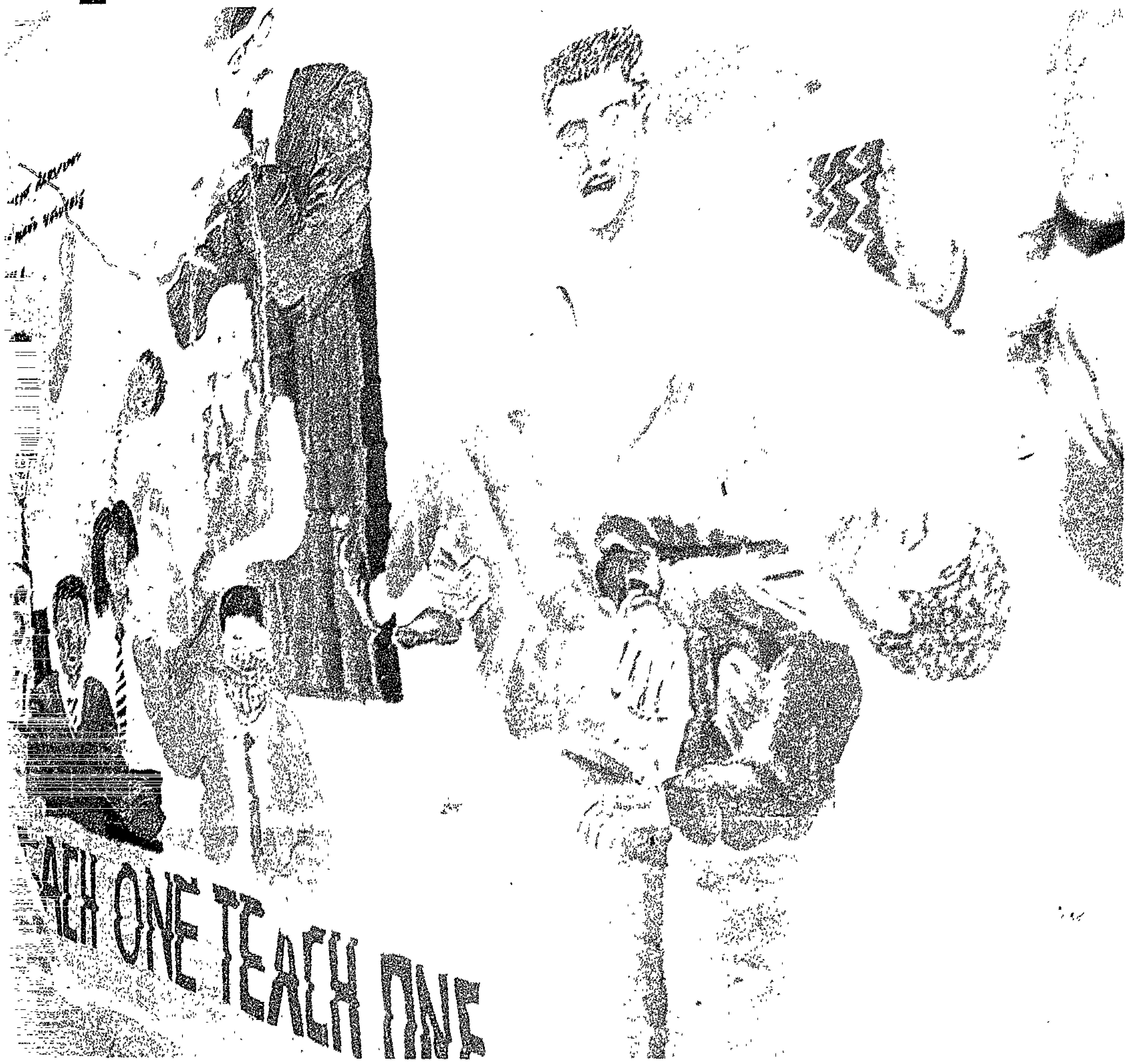
Inkatha representative Mr Musa Myeni strongly opposed this perspective: "We must avoid the hype and enthusiasm about community involvement.

"These very community organisations are looking for power. Their game is how to get access to public resources and use these to show how good they are and to buy future votes.

"Some of these organisations are not as clean as some people might think," Myeni said.

epend on economics

(49)



ector Petersen mural at Alexander Sinton Senior Secondary School

South 28/3 – 2/4/92 (49)

Photos: Yunus Mohamed

refuse just to talk about the growth rate in our economy, not linked to the process of redistribution.

But of course I must be realistic: nationalisation is a very unpopular strategy. We have had numerous discussions with top businessmen inside and outside South Africa.

Early in 1990 we had a very successful business meeting which brought together about 400 top businessmen in the country.

Of course, the assault on the part of the business community was on nationalisation and sanctions. But it was quite clear that the business community in this country has not started to address an alternative to nationalisation. And we invited them.

It was quite clear that they didn't have one, and I'm sure even now you don't have one.

Nevertheless, we are well aware of opposition to nationalisation. We are also aware that as long as nationalisation remains our official policy, it is not going to be easy for us to get the co-operation of our own businessmen as well as of foreign investors.

You are all aware that big companies in this country are busy exporting, selling out their wealth, their assets, their money, because they are afraid that a democratic government will nationalise their property and their wealth. That is not the position, because we have specifically said we intend nationalising the mines, the financial institutions and the monopolies. The rest of the economy is based on private enterprise. We accept operation of market forces and we have limited nationalisation only to these three sectors.

In spite of the fact that this is our policy — and we're convinced that it is correct — nevertheless, we have to be realistic, because we want the support of business, locally and abroad. We want the people to invest in our country without fear of losing their investments. We want them to have the freedom of repatriating their profits. It is the only way in which we can repair our economy.

South 28/3 – 2/4/92

ON THE ROLE OF BUSINESS:
Naturally of course, we are not going to depend only on foreign investment. It must form a small fraction of our resources. Our resources must be generated from internal savings, and that is what we should concentrate upon, and that is why we are alarmed at the extent to which our own local businesspersons are now exporting their capital from our country. We would like that capital to remain in the country because it is necessary to develop our economy. Have no fears about a future democratic government because we have taken a responsible initiative.

ON INTERIM GOVERNMENT:
The demand for the immediate installation of an interim government has dynamic opportunities for this country, because it is going to lead not only to the lifting of all sanctions except the arms and oil embargo. It means that South Africa will put an end to its status as the polecat of the world. If it is taken, we will immediately recommend that South Africa should be readmitted to the United Nations and other world bodies — just as we are doing in sports.

It's not the government that is normalising sports today, it is the African National Congress. And our teams, our cricket team, is taking part in international tournaments. If the athletes are able to resolve their problems, insofar as the African National Congress is concerned, they are now free to participate in the Olympic Games.

We are taking those initiatives. They are responsible initiatives. Now we are saying that the next important step in this country which deserves the support of business as well as diplomats is to ensure that that interim government is installed immediately. In our view, it does not need even six months to install that government, because our own scenario which was presented to the working

TURN TO PAGE 18

ANC SALUTE: A section of the crowd which gathered in Khayelitsha to hear Mandela speak

MANDEL
South 28/3-

CONTINU

groups is th
ment will n
appointed I
involve all th
Codesa.
We are d
become nece
nism to su
from an ap
society. It is
free and fa
stituent ass
the organ t
task of dra
tion for the

ON VIO
Either the
regime ha
security
forces are
National P
them to, b
capacity to
lence. Th
well-equip
police, th
service.
Now th
ships is v
and milit
National
much inv
I theref
falls bey
lence. It i
ernment
black vio
somewhe
and usir
organisat
ers as a
divert a
authors c
the install
ment that
When
tax-payer
organisat
deeply i
then you
clusions
death of
I ha
And wh
pointed
comfort
and U
field of
yours,
day. Y
an end
not doi
this co
cheap,
ed you
put an

ON \
I think

H
ro
co
du
sp
su
..O
Pleas
Quar
....
....
Nam
Addr
....
Tel: .

Mandela: Solutions

South 28/3-2/4/92 (49)

Nelson Mandela visited Cape Town last week, meeting a spectrum of Peninsula residents ranging from devout Muslims to hard-nosed industrialists. One of the high points of his visit was the inaugural address to some 200 businesspeople, professionals and diplomats at the inaugural function of the Independent Business Forum, sponsored by SOUTH, M Brey and Associates and Commlife Insurance Brokers. The following are extracts from his speech, which give major insight into the ANC president's thinking on politics and economics:

ON THE REFERENDUM:

In spite of our condemnation of an ethnic, racist poll, we welcome and have been greatly encouraged by the overwhelming "yes" vote given in this referendum.

It frees the National Party from all the political dilemmas which have tended to restrict it, and helps it move this (negotiation) process forward as quickly as possible.

Mr De Klerk has played a very important role indeed, because even though we regard the regime as illegitimate and discredited, nevertheless the reality is that he is the head of state, head of government in this country.

We cannot succeed in normalising the political process without his participation. Indeed, he has played some very significant moves, brought about some changes, some of which have been fundamental, and we fully acknowledge his role. And he is still going to play a very important role indeed.

We now have turned the National Party around from the policy of apartheid which they had announced as the formula to solve the problems of this country. We've turned them around to accept our policy of non-racialism. Mr De Klerk now says openly he is in favour of one person one vote on a common voters' roll.

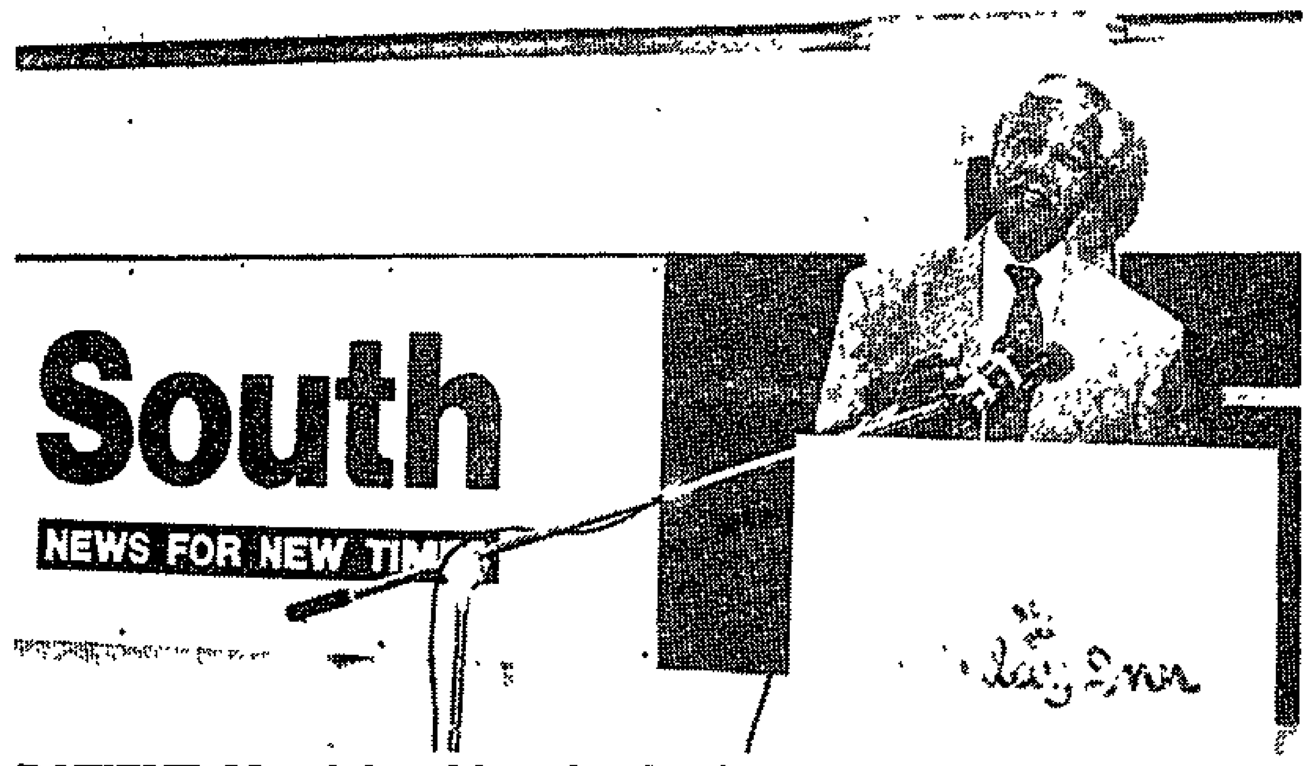
Although we totally disagree with the fact that any particular group should have the responsibility of deciding the future of this country, we can understand why he took this step.

And he has proved himself to be a very good strategist because, after Potchefstroom, the Conservative Party would have gone on the rampage. By announcing the referendum the day after the results in the Potchefstroom by-elections, he took the initiative completely from Treurnicht.

ON CODESA:

There are now 19 political parties involved in Codesa. Again, without boasting, this is an achievement of the African National Congress because, when we were preparing for the preparatory conference, we had a very serious argument with the National Party and Inkatha. Both organisations argued that there should be only three political parties which are going to set out the political agenda for the country — the National Party, Inkatha and the African National Congress.

We rejected that, and said no three political parties — whatever their strength — could ever abrogate to themselves the task of determining the future of South Africa, that this is a task for all political parties which have some measure of support.



PATIENT: Mandela addressing businessmen and diplomats at the inaugral function sponsored by SOUTH Photo: Sally Shorkend

ON ECONOMIC POLICY:

Unless we are able to repair our damaged economy, it is not going to be possible for us to have a lasting political solution. If our economy remains as it is, is unable to grow to ensure maximum productivity to be able to generate wealth and opportunities for employment, if there is no industrial peace in this country, then we will be unable to make progress on the political level.

So one of our concerns is to ensure that business is going to work together with politicians in order to normalise our situation, because without the co-operation of business it's going to be very difficult for us to address the serious economic issues facing us.

Nationalisation, ladies and gentlemen, is the policy of the African National Congress. We declared this policy way back in 1955. And we did so, as I have talked about before, because every country in the world which has gone through a traumatic experience, like a war, has not been able to avoid some measure of nationalisation as part of its strategy to address economic problems.

This has happened in the west. It has happened in the United States of America (as Ambassador Swing will witness), in Britain, in France (Mrs Buber, the French Ambassador, will witness it), in Italy, in Germany (Dr Stabreit is my witness), in Japan, in South Korea. After the last World War, they had to take these measures.

We are going through a similar traumatic experience — apartheid in which the entire resources of t country are owned by a whi minority of less than 15 percent.

Let me repeat these figures, just support my argument: we ha established that no less than 75 p cent of the shares quoted in t Johannesburg Stock Exchange owned by four conglomerates, wi conglomerates, owned and co trolled by them.

More than 90 percent of t industrial property of this country owned and controlled by whites, 87 percent of the country's land owned by this minority of less th 15 percent.

No mere reformers or freedo fighters could ever tolerate that situ tion. There can be no industr peace if we allow that situation continue. And budgetary measu are not sufficient to rectify the imbalances, and a certain measure state intervention is absolutely nece sary.

And those who think that t mere growth in our economy will sufficient to rectify this division m look at the position between 19 and 1970, when the growth rate this country was about 16 perce And yet the gap between black a white, between the rich and t poor, widened because this grow rate was not linked to the process redistribution. And we therefo

WRITING ON THE WALL: Mr Nelson Mandela signs

ANYTHING YOU CAN DO: Mandela indulged in his share of baby hugging on his visit

South 28/3-2/4/92

CONTINUED FROM PAGE 17

groups is that this interim government will not be elected; it will be appointed by Codesa and it will involve all the 19 political parties in Codesa.

We are doing so because it has become necessary to have a mechanism to supervise the transition from an apartheid to a democratic society. It is also there to supervise free and fair elections to a constituent assembly, because that is the organ that will then be given the task of drawing up a new constitution for the country. (49)

ON VIOLENCE:

Either the National Party and its regime have lost control over the security forces, or the security forces are doing exactly what the National Party and the regime want them to, because they have got the capacity to put an end to the violence. They have a very strong, well-equipped security service in the police, the army, the intelligence service.

Now the perception in the townships is very strong that the police and military intelligence and the National Intelligence Service are much involved in this violence.

I therefore agree that this violence falls beyond black-on-black violence. It is just a strategy of the government to say this is black-on-black violence. It is not. Somebody somewhere is fuelling this violence and using certain black political organisations and certain black leaders as a smokescreen to be able to divert attention from the real authors of this violence. It is only the installation of an interim government that can address that question.

When the head of state allows tax-payers' money to be given to an organisation which is believed to be deeply implicated in this violence, then you can make your own conclusions as to his complicity in the death of innocent people.

I had to criticise him openly. And when he raised this point, I pointed out to him: "You live in the comfort and security of Tuynhuys and Union Building,far from the field of conflict. It is my people, not yours, who are being killed every day. You have the capacity to put an end to this slaughter. You are not doing so because, to whites in this country, the lives of blacks are cheap, and that is what has restricted you from using your capacity to put an end to this violence."

ON VAT:

I think you should advise Barend du Plessis, because he is one of the most insensitive Finance Ministers of this country.

He thinks in terms of whites, even today, he is not thinking in terms of the people of South Africa as a whole.

It is inconceivable that a Minister of Finance should actually impose a tax on basic foodstuffs when there is so much poverty, when there is so much unemployment.

To tax basic foodstuffs like bread, like mielie meal, is a degree of insensitivity which is beyond words.

He has threatened now to reimpose the tax on these basic foodstuffs. He is asking for trouble.

ON MILITARY STRUGGLE:

We have actually gone out of our way to suspend armed struggle

We have rejected the demand we should dissolve MK. We can never do that in this particular situation. That we will not do.

But our method is one of peace, and peace in this country lies through Codesa and an interim government, and this should be the demand of those who want a new South Africa.

SHAKE: Mandela greets well-wishers at Langa High School

Photos: Yunus Mohamed

South 28/3-2/4/92

The lighter side of Mandela

As you know, I was a "resident" of Cape Town for 27 years. But a while ago I was at a game reserve in the Transvaal. Three ladies came up to me and said they had been watching me and were happy to meet and shake hands. They said many things pleasing for a man to hear from ladies. Then they asked: "By the way, who are you ..."

● It is sometimes difficult to understand how whites think. There's a political party inside Parliament which has been advocating non-racialism all these years. But white voters in this country have sidelined the Democratic Party — even when the National Party now embraces the same policy.

● No less than R250 000 was given to Inkatha to promote violence. When the press went to Mr De Klerk, he explained what it was meant for, but not even he believed what he was saying!

● If you want to ask any questions, you are free to do so. But if you feel this old man has been talking nonsense, then you can keep quiet!

PUTTING DOWN ROOTS: Watched by teachers at Alexander Sinton Senior Secondary School, Mandela plants a tree during the inauguration of the ecology project at the school

IBF kicks off with Mandela breakfast

South 28/3-2/4/92 (49)

AN INDEPENDENT Business Forum (IBF), geared to meet the needs of disenfranchised business people, kicked off last Friday with a slap up breakfast with ANC President Mr Nelson Mandela.

The forum is sponsored by SOUTH newspaper, Commlife Insurance Brokers and M Brey and Associates, Chartered Accountants.

According to its mission statement, the initiative, which is open to all, is "aimed at enabling businesspeople from disadvantaged communities to take their place alongside established mainstream businesses." In his address, Mandela warned economic growth alone would not necessarily address massive economic imbalances.

"Those who think that mere growth in our economy will be sufficient to rectify this division must look at the position between 1960 and 1970, when the growth rate in this country was about 16 percent. And yet the gap between black and white, between the rich and the poor, widened because this growth rate was not linked to the process of redistribution." he said.

He claimed every country in the world who had gone through a traumatic experience, like a war, had not been able to avoid a measure of nationalisation as part of its strategy to address economic problems.

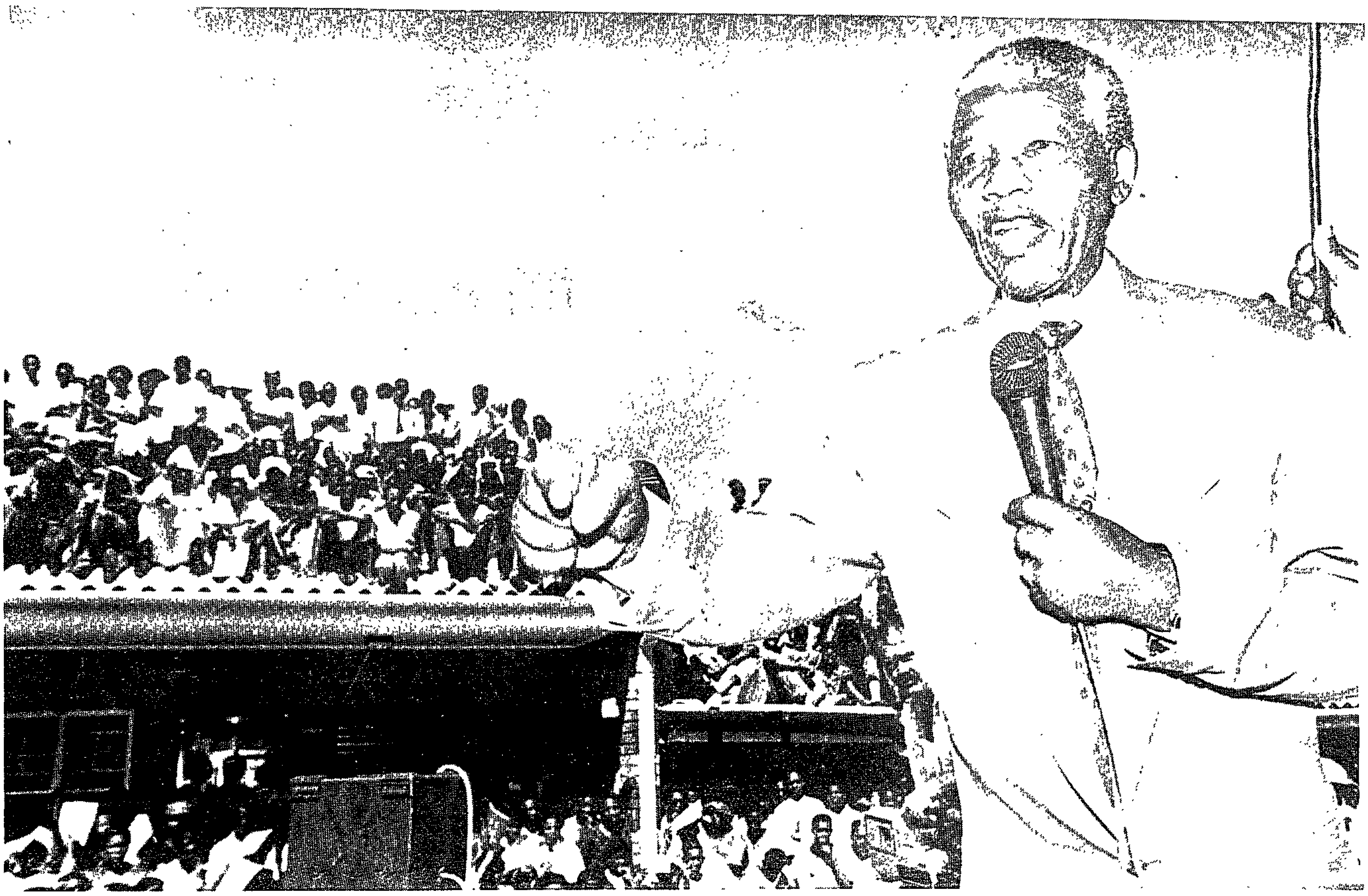
"This has happened in the West. It has happened in the United States of America, in Britain, in France, in Italy, in Germany, in Japan, in South Korea. After the last World War, they had to take these measures.

"In the present constitution of Germany, nationalisation appears as one of the strategies of the government. We are going through a similar traumatic experience — apartheid is that traumatic experience — in which the entire resources of the country are owned by a white minority of less than 15 percent," he said.

Through a series of breakfast meetings and seminars every four to six weeks, IBF pledges itself in its mission statement to:

- Enhance contact and communication between businesses previously excluded from the mainstream of trade and economic activity.
- Exchange ideas about future business practice and evironment.
- Create more effective structures for disenfranchised businesspeople.
- Develop contact nationally and internationally when trade sanctions are lifted. **Quentin Wilson**

Mandela mania rocks Cape Town



HEAR THIS: Addressing over 2000 students, teachers and parents at Langa High School *Photo Yunus Mohamed*

Cape townships celebrated the visit by Mr Nelson Mandela in spectacular style this week. The ANC president was praised in song, showered with gifts and confirmed in his popularity as a leader, notably in coloured areas. **Mbuyiselo Mtsheketshe** gives a personal view of the visit

South 28|3 - 2|4|92

WITH HORNS blaring, busloads of folk riding around Khayelitsha, Langa, Nyanga and Athlone with ANC flags and clenched fists protruding through windows, shouting "Viva Mandela" and "Viva ANC", Cape Town was paying homage to a man who will go down in history as one of South Africa's greatest sons.

Not even the peace declaration after World War II could compare to the excitement generated by the announcement of ANC president Mr Nelson Mandela's visit to the Western Cape.

If the election for a new government were held in the Western Cape this week, the ANC would get a landslide victory. Crowds of people of all races mobbed Mandela wherever he went and jostled to shake his hand.

During his extensive tour Mandela briefed religious groups, including members of the Muslim community, about the real prospects for a political settlement in South Africa.

In the Bo-Kaap Mandela impressed the Muslim community when he joined of Muslim leaders in the Schotsche Kloof Civic Centre for traditional Muslim prayers. He won smiles of admiration throughout his speech and a standing ovation.

When he told the story of the long relationship between the ANC and the Muslim community and the military and financial assistance the ANC had received from Muslim countries, he received deafening applause.

Mandela said the ANC would not break its ties with the Palestinian Liberation Organisation leader Mr Yasser Arafat and Libyan leader Colonel Muammar Gaddafi.

"When the ANC took up the armed struggle, Arafat and Gaddafi were prepared to help the organisation," he said.

As he left, the hall was almost emptied as everyone rushed to shake Mandela's hand and hug him before he got into his car. Young children opened their hands to the shake of a loving grandfather.

The broadly-smiling, humble statesman took his time and waved to the Muslim community standing on the balconies and verandahs of their homes to catch a glimpse of this long-awaited celebrity before he was whisked off by his motorcade.

They wanted this jocular grey-haired former Johannesburg attorney to stay with them longer.

As he approached Alexander Sinton High School in Athlone, domestic workers defied their employers and hawkers left their fruit and vegetable stands, forgetting they were leaving their goods open to thieves, to catch a glimpse. Students swarmed around him as he drove by. The majority had never seen him before, except on television.

Judging from his reception there is no doubt Mandela enjoys enormous support in the coloured areas.

There was much handshaking and even baby cuddling on his visit to the school.

He was showered with gifts which reaffirmed his status as a popular leader.

He encouraged students to prepare and arm themselves with knowledge as they are "future parliamentarians and even presidents" of this country.

"He deserves to be given the Nobel Peace Prize," a student said.

By the time his car pulled out of the schoolgrounds again, the chant that had greeted him had become the hit tune of the town.

At Langa High School aged, wrinkled men and women braved the scorching sun to hear their contemporary deliver a message of hope.

The student roar of "Viva Mandela" when he arrived encompassed the rousing reception.

His speech was frequently interrupted by prolonged applause and standing ovations.

As teachers queued to shake Mandela's hand, one of them remarked: "It's a blessing, I expect sweet dreams tonight."

Mandela went on to address an anti-VAT meeting at the Methodist Church in Cape Town, mainly attended by black pensioners and religious people. He said it was inconceivable that a minister of finance should impose a tax on basic foodstuff when there is much poverty and unemployment.

"To tax basic foodstuffs like bread and mielie meal is a degree of insensitivity which is beyond words," he said.

Mandela said it was the ANC's duty to protect the poor and the organisation would use any action to stop the implementation of the tax "even if we have to destroy the economy".

After his speech Mandela left for Saldanha where he addressed a capacity crowd of 3 000. He was introduced to the rally by the Western Cape ANC chairperson, Dr Allan Boesak.

Boesak had the audience roaring with laughter when he said he had brought Mandela for them to see so they would recognise him when he sat in Tuynhuys as their state president.

In Khayelitsha later in the visit the crowd ran wild as Mandela, with his disarming smile, tall and dignified with a clenched fist, walked towards the stage.

He stood out as a pragmatic and moderate leader who, despite a life of immeasurable suffering under apartheid, was willing to put the past behind him and work with the government to fulfil the dream for which he spent 27 years in jail.

"We don't want you, De Klerk, we want Madiba" was sung loudly and often by the thousands of people who welcomed Mandela at the stadium.

When Mrs Winnie Mandela and her entourage arrived at the rally, the singing became louder, the slogans became stronger and the excitement reached fever-pitch.

The marshalls had trouble controlling the frenzied crowd, all trying to push forward to get closer to see their leader.

In a short but rousing address Mrs Mandela had the audience roaring when she said CP leader Dr Andries Treurnicht and Mr Eugene Terre'Blanche "should not dare interfere with the peace process, as they are making threats of war. They should know that we have long waited for them".

Mr Mandela said there was fear among whites that if the ANC came to power, they would be thrown into the streets and lose their jobs. He assured them there was no such intention as the movement would handle all problems in a responsible, humane manner.

Mandela said the ANC would create the civil service which is going to defend the democratic gains which "we intend to introduce".

"It will be foolhardy for any democratic government to leave the present civil service to continue as it is, so reforms must be introduced," he said.

Mandela said the ANC had started training people to be civil servants with the help of England and other countries.

He said one of the reasons for the Sharpeville violence was that the police and SADF had been taught to regard demonstrations against the government as a declaration of war on white supremacy.

"We cannot allow the present security forces to continue with their duties to defend democracy, because they don't know anything about democracy," he said.

Mandela left the Western Cape after the biggest ever political rally in Paarl, but the memory of his visit is still fresh in the minds of many.

IBF kicks off with Mandela breakfast

South 28/3-2/4/92.

49

AN INDEPENDENT Business Forum (IBF), geared to meet the needs of disenfranchised business people, kicked off last Friday with a slap up breakfast with ANC President Mr Nelson Mandela.

The forum is sponsored by SOUTH newspaper, Commlife Insurance Brokers and M Brey and Associates, Chartered Accountants.

According to its mission statement, the initiative, which is open to all, is "aimed at enabling businesspeople from disadvantaged communities to take their place alongside established mainstream businesses." In his address, Mandela warned economic growth alone would not necessarily address massive economic imbalances.

"Those who think that mere growth in our economy will be sufficient to rectify this division must look at the position between 1960 and 1970, when the growth rate in this country was about 16 percent. And yet the gap between black and white, between the rich and the poor, widened because this growth rate was not linked to the process of redistribution." he said.

He claimed every country in the world who had gone through a traumatic experience, like a war, had not been able to avoid a measure of nationalisation as part of its strategy to address economic problems.

"This has happened in the West. It has happened in the United States of America, in Britain, in France, in Italy, in Germany, in Japan, in South Korea. After the last World War, they had to take these measures.

"In the present constitution of Germany, nationalisation appears as one of the strategies of the government. We are going through a similar traumatic experience — apartheid is that traumatic experience — in which the entire resources of the country are owned by a white minority of less than 15 percent," he said.

Through a series of breakfast meetings and seminars every four to six weeks, IBF pledges itself in its mission statement to:

- Enhance contact and communication between businesses previously excluded from the mainstream of trade and economic activity.
- Exchange ideas about future business practice and evironment.
- Create more effective structures for disenfranchised businesspeople.
- Develop contact nationally and internationally when trade sanctions are lifted. **Quentin Wilson**

Codesa has generated political accord, but South Africans are still a long way off from reaching agreement on the economy. SOUTH editor **GUY BERGER** sizes up the differences:

BATTLE OVER THE BUDGET: Leaders of the ANC, SACP and Cosatu at the protest rally last Wednesday Pic: Yunus Mohamed

Political accord, but no economic vision

South 28/3-2/4/92

South 28/3-2/4/92

(49)

How appropriate is this year's budget when measured against the requirements of South Africa? The answer depends on who replies to the question — and on what "requirements" are identified.

Judging by the speakers at an Old Mutual-Nedbank budget forum conference in Cape Town last week, there are vastly different views on these key issues, and the debate is not simply a political one.

In fact, the consensus – barring Inkatha – on the need for speed on political issues after the referendum contrasted directly with the lack of common economic vision.

- For Mr Gerhard Croeser, director-general of state finance, the emphasis is on creating jobs through growth, and this in turn requires stability.
- For ANC economist Mr Tito Mboweni, South Africa's requirements are not only growth, but also redistribution.

Said Mboweni: "The two are interdependent — you can't get growth without redistribution, and you can't get redistribution without growth." Underpinning the two, he argued, was the deeper requirement for an overall development framework for the country.

A budget needed to be drawn up within a wider strategy to stimulate investment, and one which situated an industrial strategy in the global economy and the need for regional stimulation inside the country.

Dr E Calitz, deputy director-general in the Department of Finance, shed little light on whether there is an overall development strategy, but did confirm that the government has shifted some of its strategic priorities in spending. There was significant re-ordering of resources within social spending.

There was significant re-ordering of resources within social spending.

Calitz said more funds were being allocated to primary health care and education. People would have to pay privately if they wanted higher standards in health and education than the state could afford at parity spending for all races, he said.

The 12 prominent government and business personalities seemed to agree on the need for a mutually-accepted broad economic strategy.

But the differences resurfaced when the panellists discussed how appropriately the budget addressed the diverse needs of South Africa.

Mboweni could find "no reason why in 1992, there are still separate pensions for blacks and whites". He criticised the budget for intending to scrap the VAT zero-rating on basic foodstuffs and questioned the way the budget is drawn up.

"To what extent should the drawing up of the budget continue to be secret, when so many want to make an input?" he asked.

"For example, the result may have been that instead of a separate allocation for poverty relief, the VAT zero-rating of basic foods could have been continued."

Croeser and Calitz responded by saying the money was not available to equalise pensions, although the Minister of Finance had confirmed that parity would be achieved next year at the latest.

But Croeser did remark that there might have been extra money in the budget, had VAT not been reduced from the planned 12 percent to the present 10 percent.

"There would have been R4-bn extra this year," he noted. But instead of suggesting that it could have been used for pension parity, he said the amount could have been used to reduce direct taxes.

The chasm between Croeser and Mboweni widened when Croeser confirmed that the six-month zero-rating on basic foods would lapse at the end of the month, stating this had been a "sunset clause".

It was clear that redistribution as a means to foster growth was not part of the state's development strategy. But several private-sector panelists did consider the possibility of increased consumer-spending as a means to growth.

Chief of the South African Chamber of Business, Mr Raymond Parsons, said the low consumer spending had produced "the sting in the tail of the recession".

He blamed low spending on "fiscal drag" — the experience of individuals who win wage increases to keep up with inflation, but then move into higher tax brackets and so end off worse than before.

Similar sentiment that growth would not be consumer-led came from Nedbank MD Mr RC Laubscher. He argued that consumers would be contributing 22 percent more through taxes in the current budget, while "wage settlements are well below the inflation rate".

Looking to an alternative source for growth, he acknowledged that export-led growth was difficult given the slow growth in the world economy, and the tough price and product competitiveness overseas.

However, Laubscher expressed optimism for exports in the medium term, arguing that the onus was on business to look for export opportunities in the post-sanctions period.

Parsons was less upbeat: As with South African sport, business is going to be welcomed as a player in the international arena — but the matches won't be given away, he said. In his view, tax levels were high by global standards, and as taxes were usually passed on in prices, they affected the country's international competitiveness.

As several panellists pointed out, dire predictions of economic doom in the event of a "no" vote accompanied the referendum campaign.

The question now, they said, was whether South African business is going to put its money where its mouth is, and where the referendum vote went.

Call for independent audit on wasteful public spending

More control needed on state expenditure

(49) ARG 28/3/92

DUMA GQUBULE
Weekend Argus Correspondent

THE time has come for government to consider the introduction of an independent performance audit to assess the efficiency of public spending and ensure that government expenditure achieves its objectives.

This is the view of Investec economist Hendrik du Toit expressed after finance minister Barend du Plesis announced significantly higher allocations to education, health and housing in his budget speech last week.

Mr du Toit said it was clear that social welfare spending was close to its upper limit.

"Public spending on education and health is now well above the average for upper middle income countries which means that more attention must be focussed on improving the efficiency of public spending.

"The 1980s tell a story of rapidly rising educational expenditure without commensurate results.

"In health South Africa spends more than comparable countries whilst our infant mortality rates remain disturbingly high."

He says an independent performance audit, as used in Germany and other countries, has been identified as one of the critical ingredients of successful fiscal management.

"In contrast the World Bank says inadequate fiscal management is a significant cause of Africa's failure."

Whereas the auditor-general looks at the legality of public expenditure, an independent public performance audit would look at issues like whether moneys allocated to a department had been applied, whether the returns were adequate.

"If an extra R1 billion is allocated to education, the audit would try to find out if the children received the money and if the money was properly spent."

Econometrix director Mark Addelson agrees on the need for some kind of audit function within government departments.

"In all areas of social spending there is concern that there are vast ammounts of money being allocatd. Yet one sees little happening on the ground.

"In housing, for example, nobody knows where all the money is ending up. There seems to be a bottleneck somewhere and until the problems in the bureaucracy are addressed, throwing more money at the problem will not achieve much."

Mr Addleson says there is a need to distinguish between productive and allocative efficiency.

"The former is concerned with how well we transform our inputs into outputs — without waste, at low cost, in order to get the best results from the inputs. The budget addressed allocative efficiency — producing the right sort of goods.

"Many of our social and economic problems stem from produstive inefficiencies, and until these are addressed spending more money does not mean we are going to achieve much.

"We have to put in place the structures which ensure that spending is more productive. This the budget does not do."

University of Stellenbosch economist Servaas van den Bergh says present levels of social welfare spending are becoming unsustainable.

"Merely throwing money at a black education system that is not functioning will not help."

Professor van den Bergh says the problems in black education relate to funds, structures and political legitimacy.

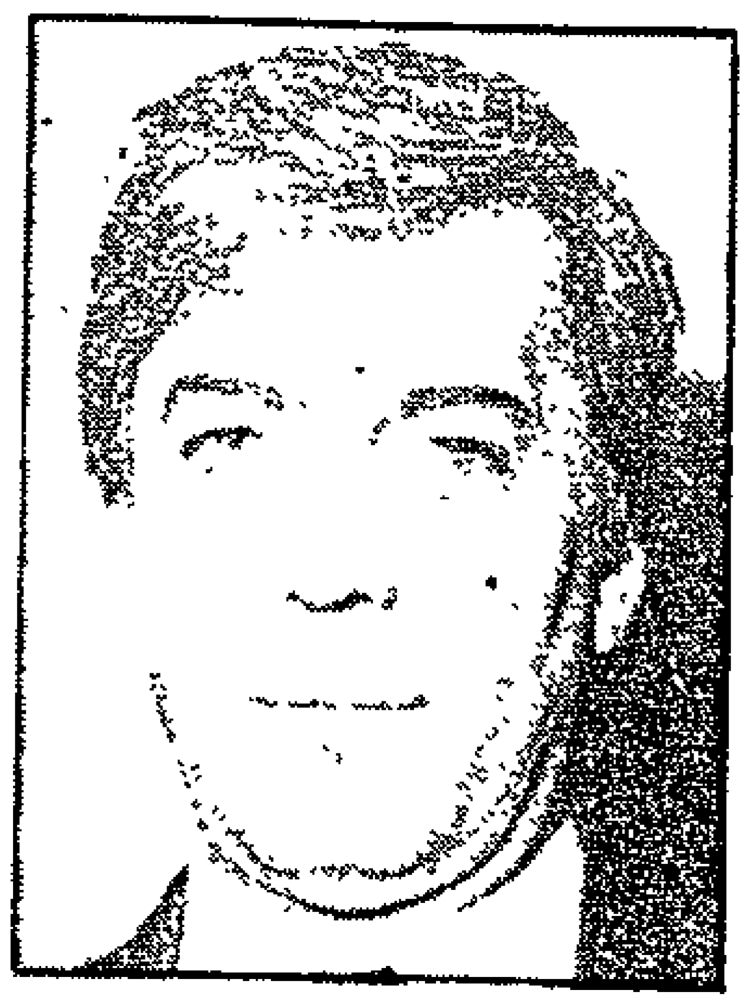
"The last two can only be addressed in the medium to longer term. In the short term it would have been better to allocate expenditure to other social programmes like pensions and housing."

CAPITALISM: *The system that has made possible the greatest progress in collective welfare and individual liberty that history has ever seen*

Uphill to democracy

STAR 28/3/92

(49)



THE AUTHOR: Peruvian novelist and essayist Mario Vargas Llosa has written many renowned works of fiction, including "Conversation in the Cathedral", "The War of the End of the World", "Aunt Julia and the Scriptwriter", "The Storyteller" and, most recently, "In Praise of the Stepmother". In 1990 he was a candidate for the presidency of Peru. This is a shortened version of his article "The Culture of Liberty" which was originally published in the Journal of Democracy of the Johns Hopkins University in Baltimore, US, and is published by kind permission. It was based on a speech that he presented in Managua, Nicaragua, in March 1991 at a Democracy Commission organised by the Washington-based Puebla Institute.

THE fashionable curse during the Chinese Cultural Revolution was "may you live in interesting times". Our times would doubtless qualify.

During the past few years almost every day has brought fresh surprises, leaving us to gape at each new breakthrough for freedom.

We are witnessing the abandoning of all the myths, stereotypes, arguments and methods that gave birth to communism, put a third of the human race under its yoke of servitude and terror, and finally led to its self-destruction.

We are right to be thrilled by trends such as the current resurgence of the individual vis-à-vis the State; of economic freedom versus central planning; of private property and enterprise versus collectivism and statism; of liberal democracy versus dictatorship and mercantilism. These victories were hard-won by the stubborn resistance of totalitarianism's victims, sometimes aided by the desperation of communist oligarchs.

The latter, brought face-to-face with the need for drastic change by communism's inability to solve pressing economic and social problems, found themselves haunted by the unmitigated national catastro-

efficiency and creates the most wealth of any economic system, but it is also cold and merciless towards inefficiency.

Freedom, which is always necessary for progress and justice, exacts a price which people must pay daily if they wish to remain free. No country is exempt from this danger.

This means, in social and economic terms, the will to modernise, to clean up, and to cut the State down to the proper size for ensuring order, justice and liberty. It means fostering the right to create wealth in an open system, based on merit.

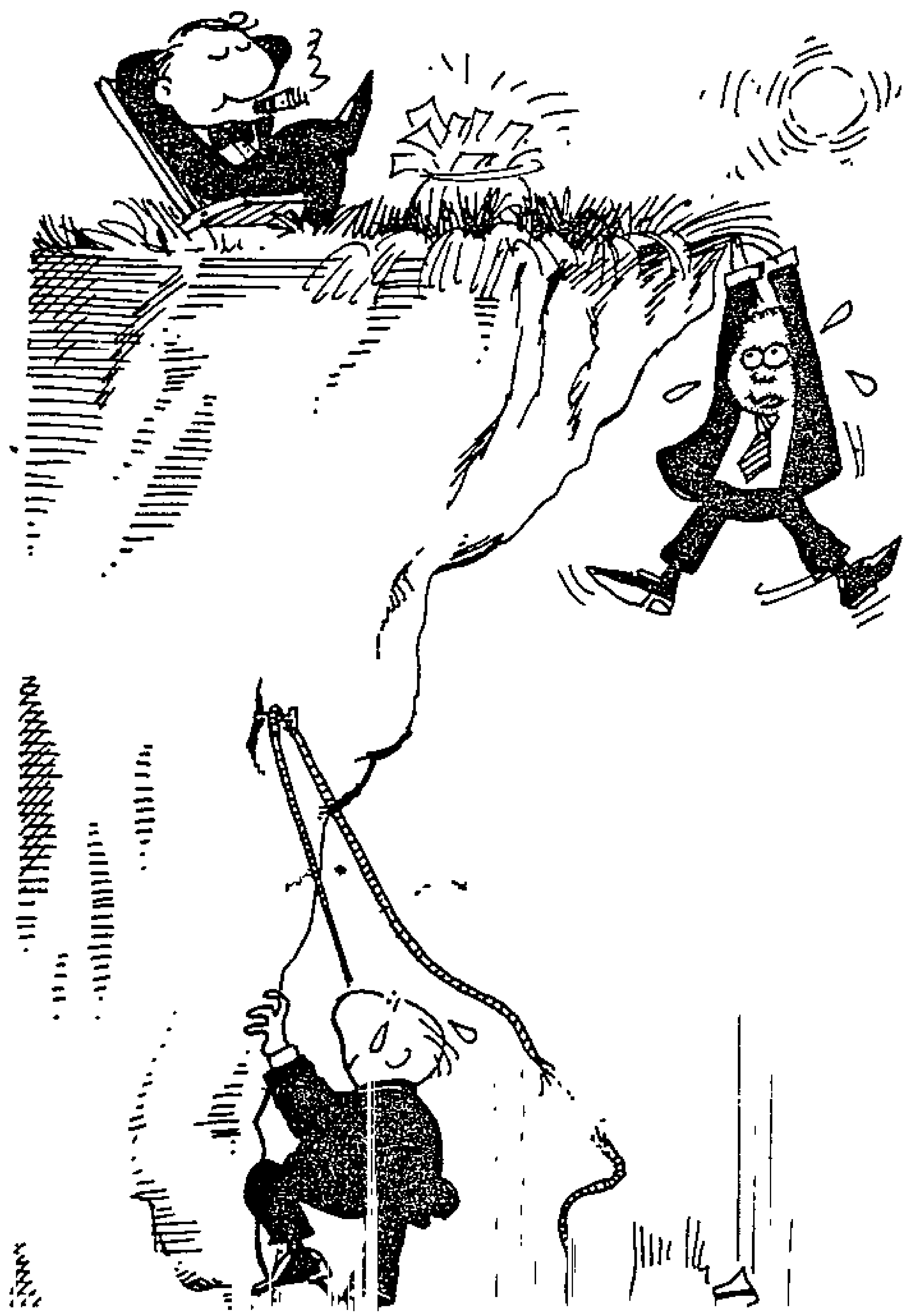
As a necessary first step, we must reject statism, collectivism and populist demagogy.

Cosy agreements between political authorities and influential business groups aimed at giving the latter monopoly privileges and exemptions from competition have been inexhaustible sources of inefficiency and corruption in our economies. Corruption is inevitable when the success of an enterprise depends not on the market but on some bureaucrat signing a decree.

Such a system warps both business and the businessman,

tives, invest resources, and promote action and participation by everyone. Making cultural benefits accessible to all and stimulating curiosity, interest and pleasure in what the human imagination is capable of inventing to counteract life's shortcomings promote that permanent dissatisfaction without which there can be no social renewal.

Intense cultural activity is one way in which the liberal State can exorcise a danger that seems to be a congenital affliction of capitalist society: a certain dehumanisation of life,



the desperation of communist oligarchs.

The latter, brought face-to-face with the need for drastic change by communism's inability to solve pressing economic and social problems, found themselves haunted by the unmitigated national catastrophes that failure to reform would surely bring about.

The victory of freedom over totalitarianism has been overwhelming, but is far from fully secured. Indeed, the toughest part of the struggle lies ahead. The dismantling of statism and dispersal of economic and political power expropriated by a despotic bureaucracy are exceedingly complex tasks.

They demand enormous sacrifices from the peoples who still labour under the illusion that political democracy and economic liberty provide instant solutions to all problems.

These peoples need to overcome collectivism's legacy of supefaction and ridigity. They must restore their sense of individual responsibility. They must put to rest the alienating assumption, fostered by communism, that all problems must be referred first to the State for solution, and only as a last resort to themselves.

Bringing about such a profound and widespread change of ingrained attitudes is a far more daunting challenge than ousting petty tyrants ever was.

It requires citizens who know that without economic freedom, there can be no political liberty, much less progress. They must also learn that a market economy needs discipline, firm rules, risk-taking, initiative and above all, plenty of hard work and sacrifice. The culture of success — that extraordinary wellspring of prosperity that sustains all advanced societies — also demands that entrepreneurs accept the risk of failure without expecting the State to cushion their falls.

Accepting this new-found liberty means standing ready to pay the piper for inefficiency or miscalculation. The competitive market generates the most exempt from this danger.

This means, in social and economic terms, the will to modernise, to clean up, and to cut the State down to the proper size for ensuring order, justice and liberty. It means fostering the right to create wealth in an open system, based on merit, without bureaucratic privilege or interference. It also means that the State must assume responsibility for ensuring that each generation will enjoy that which, with liberty, is the basis of all democratic societies — equality of opportunity.

A government "redistributes" more intelligently by offering outstanding public education than by smothering private enterprise with oppressive taxes, and by making sure that private property is accessible to the largest number rather than by harassing those who have property already.

Economic nationalism — which with cultural nationalism is one of the most tenacious aberrations in our history — is beginning to show signs of receding at last.

Nationalism has bloodied and divided us. In its name we have wasted enormous resources in order to arm ourselves against one another. These resources would have been much better spent fighting the real enemies: hunger and ignorance.

Capitalism, despite its flaws, has made possible the greatest progress in collective welfare, social security, human rights and individual liberty history has ever seen.

This does not necessarily mean that because of capitalism, human happiness has been measurably increased. Those who try to achieve it for everyone — "holistic" governments like those of Fidel Castro, the Shi'ite ayatollahs of Iran, or the superstitious antediluvians of the People's Republic of China — tend to turn their societies into a hell.

It must be recognised that the quickest way out of poverty is a clear and resolute decision for the market, private enterprise and individual initiative.

inexhaustible sources of inefficiency and corruption in our economies. Corruption is inevitable when the success of an enterprise depends not on the market but on some bureaucrat signing a decree.

Such a system warps both business and the businessman, who must focus his ingenuity and efforts not on serving the consumer but on obtaining State privileges. Mercantilism has made legality a privilege accessible only to those with "pull", condemning the poor to seeking opportunities for work and profit in the so-called informal economy. Such an existence is precarious, but free.

Denying the State the right to intervene as a producer in order to allow it more efficiently to fulfil its role as arbitrator and promoter of economic life does not mean exempting it from its essential responsibilities. Among these, for example, is continual improvement of the system of justice, since without a fair, strong, and universal judicial system that all citizens can rely on to defend their rights, there can be no functioning market economy.

FINALLY and most especially, ownership of property must be promoted among those who have none.

Private property is not theft, as Proudhon held, but rather the sign and sustenance of liberty.

A liberal State is inconceivable without a policy of support for the disabled and the infirm, the people who will be crushed if subjected to the strict laws of the market.

Liberal democracies have the best record in the world when it comes to protecting the aged and children, as well as insuring against unemployment, industrial accidents and illness.

Above all, the cultural order obliges the State to take initia... permanent dissatisfaction without which there can be no social renewal.

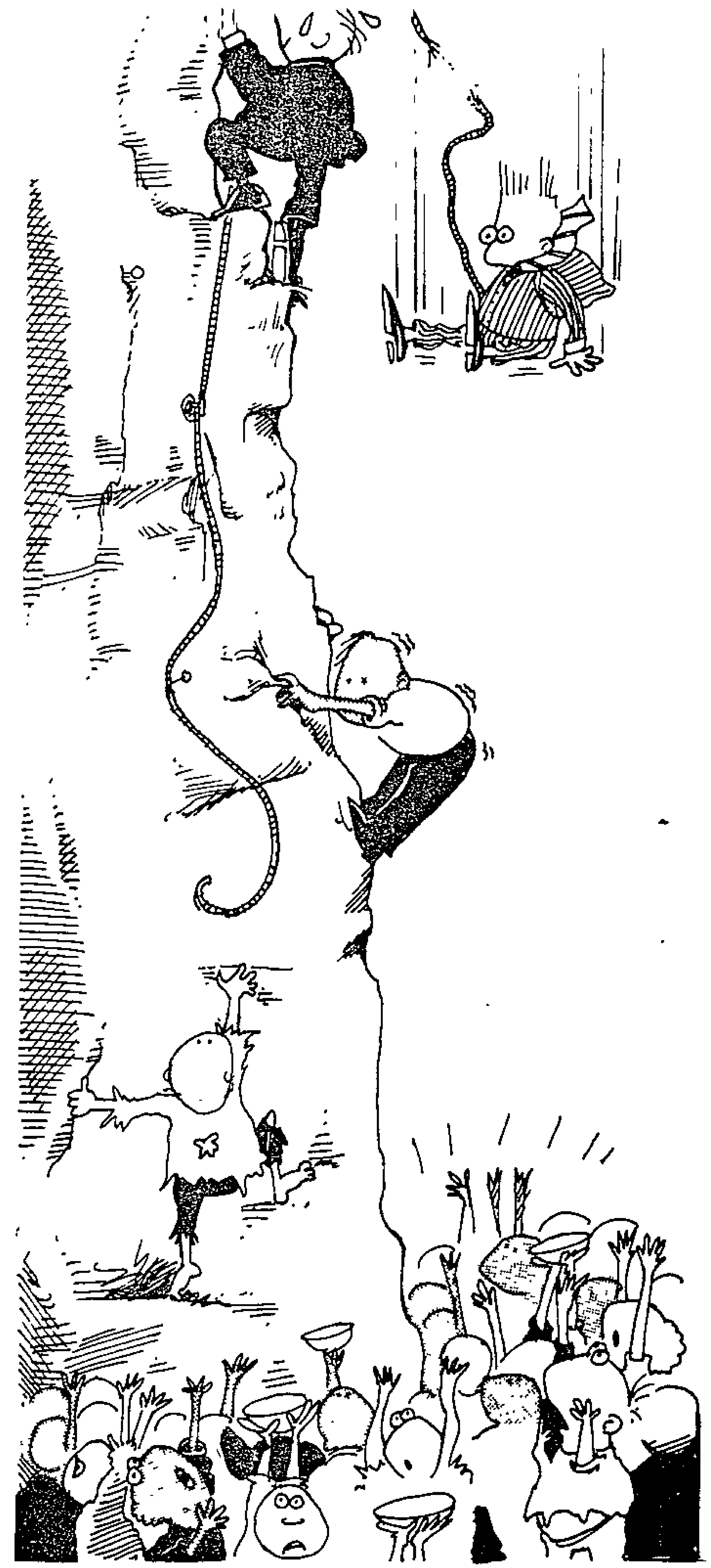
Intense cultural activity is one way in which the liberal State can exorcise a danger that seems to be a congenital affliction of capitalist society: a certain dehumanisation of life, a materialism that isolates the individual, destroys the family, and fosters selfishness, loneliness, scepticism, snobbishness, cynicism and other forms of spiritual emptiness.

No modern industrial society has been capable of meeting this challenge effectively; in all of them, high standards of living and large-scale material progress have weakened the sense of social solidarity that tends to be very strong in primitive communities.

Whatever our personal religious convictions, we must inspire the development of a deeply spiritual life, since, for most, religion seems to be the most effective vehicle in our tradition for curbing the death-wish, expressing solidarity, advancing respect for ethical codes and promoting co-existence and order.

In my youth, as an avid reader of the French existentialists, I came to believe that man determined his own destiny by constantly choosing from among the possibilities his changing circumstances presented. Having passed through many perils, I tell myself somewhat sadly that individual destinies are perhaps influenced as much by circumstance and luck as by the freely choosing will.

Yet the "history" of an individual is not "written" in advance any more than is the "history" of a whole society. We must "write" our lines, day by day, without abdicating our right to choose, but knowing that our choices might occasionally do nothing more than confirm that which has already been chosen for us. This is cause neither for mourning nor celebration; this is life as we must live it, cherishing the whole experience of this terrible and inspiring adventure.



ON THE BRIGHT SIDE: *Hopes may be premature, but they persist*

Economy shows signs of life

STAR 28/3/92

MAGNUS HEYSTEK (49.)

FAINT hopes are beginning to stir that the economy has started waking from of its three-year slumber and that a higher economic growth rate could be achieved this year.

These hopes might be desperately premature and could be dashed at any time by a number of factors, but business indicators are pointing at higher growth later this year.

The latest trade figures, in particular, reveal that local businessmen are beginning to regain confidence and have started restocking imported goods in expectation of better times.

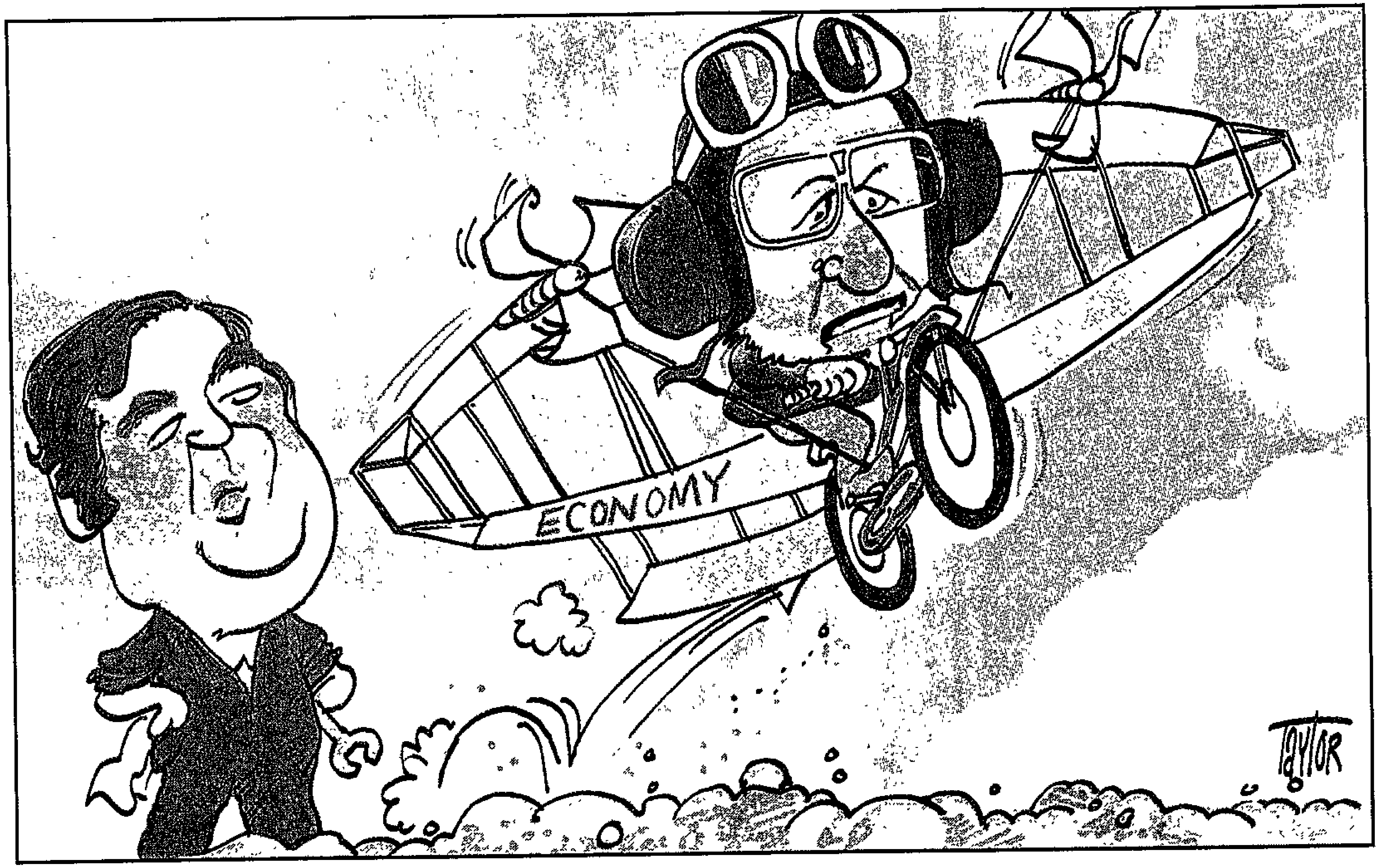
In addition and more importantly, exports — the only key to sustainable growth in the long term — are rising very sharply in the wake of the lifting of sanctions and the opening of new markets.

Exports in the first two months of this year rose by seven percent to R9,727 billion (compared with the same period last year).

This is particularly noteworthy as this increase was achieved despite a slump in the prices of precious metals and minerals, normally SA's export mainstay.

The trade balance in favour of SA continued to soar, rising to R2,6 billion compared with R1,9 billion in the comparable period last year.

The increase in trade exports were foreshadowed by the remarkable R1,4 billion increase in the country's net foreign exchange reserves to over R11 billion — the highest level in nearly eight years.



This increase in the net forex reserves partly explains the decision by Reserve Bank governor Dr Chris Stals to reduce the official bank rate.

As a result of this decision the major banks will be dropping all interest rates linked to prime from this week onwards.

The downside to this development, of course, is that retail deposit rates have also started dropping, making it more difficult for savers to achieve inflation-beating returns on savings and investments.

Other positive factors revealed this week include the drop in the Consumer Price Index (CPI) from 16,2 percent to 15,8 percent (annualised increase) as well as the sharp decline in the Producer Price Index (PPI) which is now only rising by 6,2 percent.

While the differential between the CPI and the PPI still remains a focus of controversy, economists are starting to feel relaxed that the CPI-inflation could edge downward to around 12 percent by the end of the year.

The referendum result has also boosted confidence among local businesmen and investors.

The uncertainty created during the referendum run-up had a major impact on business and investment decisions, many of which were put on hold.

This week the first of a promised flood of investment announcements were made. The Bank of Taiwan announced that it will open its doors on April 2 with capital assets of R50 million to finance trade between South Africa and the Far East.

Richard Branson, the high-flying British entrepreneur, was also in South Africa to investigate the possibility of investing here.

The return to a higher growth curve for the South African economy is vital to any political sentiment. Several studies released this week revealed the deterioration of the economy over the past decade.

Of note was the drop in the employment-creation ability of the economy. In 1980 about 31 percent of all school-leavers were accommodated in the formal economy. By end-1990 this had dropped to only 7 percent.

A further relaxation of sanctions against South Africa is bound to have further positive effects, but the slowdown in world growth is putting a dampener on exports in several areas of the world, especially Britain, North America and certain countries in Europe.

Uncertainties of a new SA

ARG 28/3/92 (49)

The urgent need for a suitable economic climate to get a South African peace plan off the ground has been stressed from all sides. An analysis of this crucial issue is given here in an edited version of an address by KURT VON SCHIRNDING, director-general of the SA Foundation.

NO democracy can succeed without a growing economy, and this, for South ica, means foreign investm. and trade.

...ere are many imponderables to be ...ved before the confidence of over... investors in this country can be ...ed.

...e is uncertainty whether a post-apart... government will honour its international obligations. There is uncertainty as to type of economic policy will be adopted ...her discredited Marxist/Leninist ideolo...e to form the foundation for our econom...ing.

...e is also uncertainty as to whether land ...operty will be seized without adequate ...ation.

...: there is uncertainty whether South , the new South Africa, will provide the ...ves and security to encourage the large-foreign investment we so urgently need.

...e are the questions that are being asked international investment community, by bankers, financial institutions, industri...and businessmen.

... nobody can give a categoric assurance ... of these concerns, the SA Foundation ...ly placed to present an objective pic... the developing situation in this country, ... the negative impact of these percep... ith a realistic assessment of the long-...otential of our country and to re-estab...easure of confidence in the future.

... all, all is not gloom and doom. We have ... business community, which in spite of ...tional sanctions increased non-gold ex... a steady 10 percent a year every year ...983.

... Eastern Europe and the former Soviet we don't have to re-invent the market. ...ady have a market, and we have a good ' and financial infra-structure.

... have a functioning industrial rela...tem: recently we saw the first agree...tween a union and a company linking ...ses to profitability and productivity

...eat tourism potential remains hardly tapped. We have a large potential regional market. Africa imports goods worth $70 billion (R200 billion) each year, mostly from the West and the Far East. Given our advantages of proximity, with the end of sanctions we should be able to benefit from that.

Increasingly too, a triangular relationship is developing whereby Western aid and development funds, South African managerial and technical expertise, and African basic needs are joined together for the benefit of all.

We are in a critical period of transformation, and transformations are always dangerous and unpredictable. We have high expectations to deal with, and the only growing communist party in the world.

Even so, I believe if you look at the fundamentals in our society, political and economic, if you look past the rhetoric and the violence, then what you see is grounds for optimism, as our economy starts to grow again, and as our society reshapes itself to a more just and legitimate form.

There are no overwhelming objective reasons why South Africa cannot succeed. With foreign involvement and investment, and with the resumption of domestic investment as confidence returns, South Africa could become a remarkable, and a profitable place to be in ...

We must not lose sight of the fact that against the background of emerging investment

opportunities in Eastern Europe and the Pacific rim and given the growing disillusionment with the rest of Africa, the Foundation has an ongoing task to sustain the interests of Western economies in South Africa.

Without their input, the South African economy will fail to meet the needs of its people, and the prospects for success of a socially responsive market-based economy and of a representative multiparty democracy will recede and possibly disappear.

With the end of apartheid, there is a great danger that the world will lose interest in South Africa. We cannot afford this.

We need the finance and technology of the outside world for our economy to grow fast enough to meet the needs of all our people. We need the international community to support us in maintaining a multiparty democracy where the rights of all are respected.

Race is on for a slice of SA

☐ MONEY TALK ... (49)

ANC Deputy President Walter Sisulu seems to have an uncanny ability to put into words certain important thoughts and ideas shared by many who are unable to define in simple terms what they think. C Press

"If we allow sanctions to die by themselves, we (the ANC) are the losers," he said last week, according to press reports. 29/3/92

Commitments made by several important industrial and trading nations, even before the referendum, made it clear that old-style sanctions have become yesterday's politics Since the result of the voting became known, a virtual scramble seems to be developing to ditch sanctions and secure a slice of available business in SA.

An important conference that could influence ANC economic policy is to be held next month and one can expect that the new reality voiced by Sisulu will receive considerable attention.

One should bear in mind that sanctions were used as part of a wider strategy to fight apartheid and even though the latter has not been fully eradicated, the marketplace is anticipating this.

There is no doubt that to succeed the "new" SA will have to strive for economic justice.

But, surely, the first priority should be to get the faltering economy to stop shrinking by encouraging growth rather than playing around in public with the "high politics"

SA must heed IMF – banking group

By ZB MOLEFE

(49)

CPRESS 29/3/92

THE recent International Monetary Fund (IMF) report identifies and indeed supports some scope for State-directed redistribution of wealth in a future SA, points out one of the country's biggest banking groups.

The review also points out that for South African groups to invoke the IMF report as a vindication for their own viewpoints would "risk rendering the report an ideological football, as has happened in many other developing countries".

Rather, the IMF report seeks "to add to the economic debate, especially in that area where it is highly experienced".

The IMF report identifies the single greatest challenge facing policy makers (in a future SA) to be the improvement of both living standards and distribution of income and broadly-defined wealth.

The review points out that this can only be achieved through sustained growth over the next decade, which would rely on a baseline scenario resting on four pillars.

These are: that apartheid be fully dismantled; that structural policies are pursued to render the economy more competitive; that a tight monetary policy remains an integral part of the battle against inflation, and that SA secures renewed access to international finance and technology.

It goes on: "Like many analyses of SA, the (IMF) report places poverty in the context of the dual nature of the economy, characterised by distinct rural/urban disparity in socio-economic well-being."

While this is a feature shared by all developing economies worldwide "apartheid laws, notably influx control and the homelands, have exacerbated the general level of poverty".

The review's interpretation of the IMF report also says: "Moreover, the lack of State assistance has worsened general poverty, since per capita expenditure on blacks in all respects has been less than that spent on whites, although some redress has begun to occur since the late 1980s."

Interestingly, says the review, SA outperforms its neighbours in terms of adult literacy, and is similar in per capita calorie intake but "Botswana and Zimbabwe both offer better national health insurance, which has increased life expectancy of their populations and the survival rate of infants in their first two years".

Cosatu warns of strikes

ST Times 29/3/92

By CHARLENE SMITH

A TOP-LEVEL Cosatu economic conference is to issue an investment code and demand the urgent implementation of a public-works programme to ease unemployment.

And Cosatu is furious that the government has pulled out of policy forums on socio-economic issues, including education, the economy, housing and health. It has warned of massive strikes and protest action if such forums "are not established and already negotiating issues by July".

(49)

A major worker summit is being planned for May — which will include Cosatu, Nactu and other unions — to discuss strategies, "including a major strike", if these demands are not met.

Succeed

(62)

Cosatu general secretary Jay Naidoo said the conference, held this weekend, disputed that foreign investors were flooding to South Africa.

"That would require an investment climate. The 'yes' vote merely contributed to confidence that negotiations can succeed. All there is, is agreement to reach agreement," he said.

The conference considered how to include job creation, equal opportunities, education and training, health and safety, worker rights and corporate social responsibility in an investment code.

index of leading indicators bruary will be markets' first or a second opinion on the

chasing Management (NAPM) could easily complete an optimistic 1-2-3 for the US economy. The NAPM survey showed its

tural recruitment to complete what should be a favourable week for the US economy the dollar, and the White House

MONEY MARKETS by Sheridan Connolly

Expected Bank rate cut had little effect

BDay 30/3/92

THE Bank rate cut had little effect on the local money market last week as the market had already discounted for a cut in excess of the 1% drop announced by Reserve Bank Governor Chris Stals.

Meanwhile, strong liquidity continued to exert downward pressure on rates and the three-month BA rate dropped a further 30 points last week to 15,50% compared with 15,80% at the beginning of the week. This is the lowest level since February 1989.

The Reserve Bank's weekly Treasury Bill (TB) tender continued to reflect good demand for quality assets. The Bank again issued a triplicate tender with the R200m issue spread over three, six, and nine months.

All three issues were well subscribed — the Bank received R917,6m for its R100m three-month Bills on offer at an average rate of 15,0% while the six- and nine-month tenders received R454m and R350m at an average rate of 14,7% and 14,2% respectively. (49)

Last week's six- and nine-month tenders were not as well subscribed as they were the previous week when players were still expecting a Bank rate cut. With the 1% drop in Bank rate to 16% from 17%, players should stay short until expectations for a further dip in Bank rate develop.

Solid demand for the three-month TB last week and weaker demand for the other two maturities reflected the hunt for short-term paper. The three-month TB rate also continued its downward slide to 15% at the end of last week from a previous 15,48%.

Capital market rates took a breather last week to recover from the effects of the referendum, the Budget and the Bank rate cut which boosted the market sharply. Rate moved sideways in a lethargic market. The post-referendum increase in foreign buying did not hold last week and lower foreign interest capped bullish sentiment.

Capital market rates largely ignored the spate of economic indicators released last week. Consumer inflation, producer inflation, money supply and trade figures all showed positive developments and boosted hopes for a sooner-than-expected upturn in the business cycle. But capital market rates were not much affected by the bullish sentiment.

At the end of the week, the benchmark Eskom 168 had hardened to levels around 16,12% from a previous 16,10%. The government long-stock RSA 150 was also higher at 16,35% from 16,30%.

The Reserve Bank continued with its battle against strong liquidity levels and issued two special TB tenders in an effort to drain the market. At the end of the week the money market shortage was higher at R1,09bn from a previous R843m.

SINESS

Investors warned of risks in futures

BI Day. 30/3/92.

MATTHEW CURTIN

PRIVATE investors risk financial suicide if they dabble in SA's futures market through a third party, says Investor's Guide publisher Taco Kuiper.

Kuiper says that is the only conclusion he can draw after entrusting a R100 000 investment to the now defunct Greenwich Futures and Options. He claims in mid-1991, his discretionary account was poorly and improperly managed by the firm.

However, the SA Futures Exchange (Safex) has investigated Kuiper's allegations and has found that unless Kuiper can submit more information to substantiate his claims, there are no grounds for finding Greenwich acted improperly.

And futures market sources said at the weekend discretionary accounts were a rarity in SA. Futures were traded on principal basis — where clients are consulted on every deal — or as part of a wider investment portfolio.

In the latest edition of the guide, Kuiper said. "A watertight agreement existed between Greenwich and the Investors Guide. Managing the account was in terms of a discretionary mandate, therefore, trading was to be done on an agency basis."

He said between May 24 and July 20 not only was his R100 000 investment whittled down to R34 000, but Greenwhich earned R12 600 on commission on 42 deals in managing the account, plus "thousands more" by doing deals on a principal basis as well.

Kuiper said he discovered this after his position was closed and asked Safex to investigate the matter.

But Safex assistant MD Patrick Birley said yesterday the exchanges complaints and surveillance committee had investigated the matter in December last year and found "in terms of the documents submitted by Kuiper and Greenwich, the company had not acted improperly with regard to exchange regulations".

"Clients who lose money are often upset, but Greenwich acted in good faith and within the rules of the exchange. What is clear is that the company made some bad trading decisions apparently with Kuiper's assent," he said.

Birley said the committee found no evidence to support Kuiper's allegations that Greenwich had accepted a discretionary mandate, and the company had sought Kuiper's permission on every deal it had made on his account. Kuiper had so far refused an offer of arbitration and failed to submit more information to support his claims.

"That is where the matter now rests," Birley said.

Former MD and founder of Greenwich Bryan Coyne, who sold his 49% stake in the company last month and left to join Investec's futures division, said the Safex investigation had vindicated Greenwich's position. Greenwich had never accepted discretionary mandate from Kuiper.

Kuiper was unavailable for comment on Friday.

Tax burden shifts to individuals

GILLIAN HAYNE

BD 30/3/92 (49)

IN the past 15 years SA's tax burden has shifted squarely onto the shoulders of individual taxpayers.

In the 1992 tax year they funded more than 70% of the country's revenue, compared with 25,5% in the 1977 tax year.

Speaking at a Budget and Tax Review, BDO Spencer Steward tax partner Matthew Lester said the recession and rising unemployment would soon make it impossible for individuals to meet government's demands.

In terms of the latest Budget, taxpayers would have to pay personal tax of R35,511bn and VAT of R21,020bn to finance the bulk of the country's expenses.

Within the same 15-year period, companies and mines saw their tax contribution fall from 28,8% to 17% of the total Budget.

Seen in this light the concessions given to reduce the effects of fiscal drag for lower to middle income earners were meagre indeed.

Lester said although the effects of fiscal drag were not felt in the short term, over a 10-year period they were substantial.

For example, the pre-tax earnings of a man on a salary of R30 000 a year in 1983 (assuming annual increases of 15% and a constant inflation factor of 15%) could be 304% up in 1993, while his tax liability would have increased by 457%. Taxpayers were getting poorer, Lester said.

He said if taxpayers were unable to meet the tax commitments of the economy SA might have to approach the IMF for significant financial assistance.

The current year's Budget exceeded R100bn for the first time, an increase of 8,9% on 1992. Lester said a frightening aspect was that taxes would be raised by R12bn or 16,4% while the Budget itself only increased by R8,7bn or 8,9%.

Education 'not always' economic growth key

Bipay 30/3/92

KATHRYN STRACHAN

IT WAS not the case that education always promoted economic growth, Rhodes University economics lecturer Andrew Donaldson told an SA Institute for Race Relations Education for Growth conference at the weekend.

Ineffective and costly education systems could retard economic growth, he said. System deficiencies resulted in wasted time, money and skills.

When schooling brought with it limited advances in skills and learning capacity, but substantially increased aspirations and more expensive labour, employers would find no advantage in employing the schooled, Donaldson said.

Spending money on schools was wasted if more could be achieved through other activities such as industry-managed adult education and training.

What was needed was not necessarily more funding, but careful planning and a more effective use of resources.

The challenge was to provide better value for money — improved quality and greater flexibility with more incentives for both students and teachers.

Donaldson said a number of interesting results had followed studies examining the efficiency of schooling through studying the contributions of particular education inputs to measured performance of students in the labour market.

It had been found that class size, or the pupil-teacher ratio, was not a strong indication of children's performance up to class sizes of 35 to 50.

It had also been found that the number of years of formal pre-service teacher education was comparatively unimportant as a determinant of school quality. Conversely, school-readiness of children, the availablity and quality of books and teaching materials, the administrative skills of school principals and effective in-service teacher education and support services, were important elements in effective schooling.

These findings were interesting because the provision of books and materials and in-service teacher training was far less costly than putting teachers through four years of higher education to become "qualified".

The reduction in state subsidisation of white schooling and the transfer of funds from white to black education — which was already in progress in the conversion of white schools to Model C — was one requirement of a more efficient and equitable education system, said Donaldson. The shift to greater autonomy of well-managed schools and a greater share of costs borne by parents was undoubtedly sound.

SA ready for upswing 'now'

CT 30/6/92 (49)

By AUDREY D'ANGELO
Business Editor

THE long-awaited upswing is "just around the corner" and will probably start in the quarter just beginning, says Rob Lee, senior portfolio manager at the Board of Executors.

It will start so gradually that it "will not be particularly apparent to the man in the street for a while. But by year end the business and consumer mood should be much improved.

"Relatively high economic growth is likely in 1993."

Lee says in his Investment Outlook for April that the expansionary budget followed by a relaxation of hire purchase restrictions and a reduction in the bank rate indicate a concerted effort by the authorities to begin turning the economy around.

"Until now we have cautioned against premature optimism about the beginning of an upswing. However we now feel confident that the end of the recession is very close and that the second quarter will in all probability prove to be the point at which the economic upswing is deemed (retrospectively by statisticians) to have begun."

Lee points out that, in addition to policy relaxations and the positive mood following the referendum, "the massive destocking of inventories that has taken place over the last two years should be close to an end while the upswing in the world economy should help our already impressive recent export performance.

"Also critical will be a fall in the inflation rate to relieve the pressure on consumers and support a further relaxation of monetary policy.

"We remain confident that the consumer price inflation rate will have fallen to about the 12%-level by year end."

Looking further ahead, Lee says a high budget deficit is justifiable at this stage in the economic cycle and should not prove difficult to finance in this fiscal year.

"However," he warns, "should the economy recover strongly in 1993 as we expect, private sector demands for capital will rise markedly.

"At that stage continued high deficits will put upward pressure on interest rates and on inflation if financed by money creation."

By then an interim government will probably be in place and is unlikely to discipline its spending sufficiently to allow the deficit to fall again.

"Therefore although the budget's emphasis on short-term stimulation of the economy and the priority given to social upliftment expenditure are entirely understandable from a socio-political point of view, the long-term economic implications are worrying.

"A higher priority given to stimulating the supply side of the economy, and specifically to promoting investment, would have been preferable from the point of view of achieving sustained high economic growth."

Discussing the property market Lee says the current tough conditions may continue for several months.

Cosatu spells out new economic

(49) CT 31/3/92

Own Correspondent

JOHANNESBURG. — Cosatu has adopted a range of new positions and demands on political and economic issues that underline the resolve of the 1,5-million-member federation "to strive for a democratic, socialist society".

The policies, which aim to promote the working class as the dominant political and economic power, were decided at an economic policy conference at the weekend and spelt out at a news conference here yesterday.

The federation said it was committed to a policy of growth through redistribution. This should be achieved by state intervention through nationalisation, anti-trust legislation and legislative interventions like price control.

Although social-public ownership was most desirable, the federation said not all industries should be nationalised. But the nationalisation of industries providing basic goods and services was not negotiable. These included Eskom, Iscor, the Post Office and Telkom, and those entities providing public transport, water, education, roads, public transport and health services, as well as state forests, Cosatu said.

Other industries, like the mining and financial sectors, might have to be "strategically" nationalised to stimulate economic growth, strengthen workers' economic control and enlarge resources available to a democratic state.

But this would happen only after a process of consultation and negotiation. Compensation for nationalised industries would be subject to negotiation.

Cosatu argued that large conglomerates had to be broken up to promote economic efficiency and growth.

Redistribution would involve reducing the importance of luxury goods production through differential taxation; increasing the production of basic ne-

ls for

I CAMERON

organisations are d and technologies th ıt top efficiency.

ontinuing Educati 1986, has assisted ma the Western Cape work more efficient

Cosatu sticks to state control

DIRK HARTFORD

COSATU has adopted a range of new positions and demands on political and economic issues which underline the resolve of the 1,5-million-member federation "to strive for a democratic, socialist society".

The policies, which aim to promote the working class as the dominant political and economic power, were decided at an economic policy conference at the weekend and spelt out at a news conference in Johannesburg yesterday. The federation said it was committed to a policy of growth through redistribution. This should be achieved by state intervention through nationalisation, antitrust legislation and legislative interventions like price control.

Although social-public ownership was most desirable, the federation said not all industries should be nationalised. But the nationalisation of industries providing basic goods and services was not negotiable. These included Eskom, Iscor, the Post Office and Telkom, and those entities providing public transport, water, education, roads, public transport and health services, as well as state forests.

Other industries, like the mining and financial sectors, might have to be "strategically" nationalised to stimulate economic growth, strengthen workers' economic control and enlarge resources available to a democratic state, Cosatu said. (49)

But this would happen only after a process of consultation and negotiation. Compensation for nationalised industries would be subject to negotiation.

Cosatu argued that large conglomerates had to be broken up where necessary to promote economic efficiency and growth.

Redistribution would involve reducing the importance of luxury goods production through differential taxation; increasing the production of basic necessities; ensuring state control over providers of basic necessities, through renationalisation if necessary; tax policies like wealth, land

☐ To Page 2

Cosatu

BDay 31/3/92 (49)

☐ From Page 1

and increased corporate taxes and increasing personal and institutional savings.

The beneficiation of mineral resources was a key element of higher growth.

Cosatu decided the responsibilities of industry should include creating jobs and achieving full employment, paying living wages, producing high quality goods and services at affordable prices, developing human resources, creating environmentally sustainable policies and ensuring that trade contributed to full employment and fair labour standards in all countries.

This would necessitate labour intensive production, stopping capital outflow, beneficiation of natural resources and ensuring sustainable growth.

Cosatu wanted to address unemployment through public works schemes, including a special programme for the unemployed youth. These would have to be negotiated with Cosatu and funded through the state and a special tax on business.

On trade and tariffs, Cosatu said it was opposed to SA signing any GATT agreement without it being consulted. Trade and tariff policy should be negotiated with the trade union movement.

In addition, it outlined a detailed code of conduct for multinationals investing in SA, which included conditions that companies abide by all ILO conventions on minimum standards and disclosure of information.

The federation was preparing for a general strike in July if these and other demands were not met, leaders said.

● Comment: Page 14

Flaw in demand-oriented economic strategy

BDay 31/3/92 (49)

MIKE DALY

IN 1981 an investment analyst, observing that the ratio of gross domestic fixed investment (GDFI) to GDP had risen to a record level of more than 27%, might justifiably have argued that GDFI would be the engine of the economy over the coming decade, and oriented his investment portfolio towards those companies most likely to benefit from that environment. He would have been dead wrong.

In 1991 the same analyst would have observed that private consumption expenditure (PCE), the actual mainstay of the 1980s, having reached a record 57,5% of GDP — up from some 51% in 1981 — would remain the area to invest in in the New SA of the 1990s. He would probably make an acquaintance with the other end of the whipsaw.

The graph illustrates the surge of 35% and 40% in the level of real per capita PCE and personal disposable income (PDI) respectively from 1965 to 1975. During this period, real economic growth was 4,4% at a compound annual rate, while inflation averaged about 7% a year. After 1975 the lines are trendless, merely following the ups and downs of the business cycle. Over this period, real economic growth averaged a mere 1,9% per annum while inflation more than doubled

Both indicators will decline over the next two years, leaving them at or below their levels of 20 years ago.

Until 1980, they tracked each other quite closely with the per capita income line above per capita expenditure, and the propensity to consume out of PDI quite stable at around 90%. But a break occurred thereafter.

Disposable income came under pressure as a result of the rising direct tax burden on individuals, which jumped from 20% of government revenue in fiscal year 1982 to almost 40% in fiscal 1992. Consumers, unwilling to compromise on their standard of living, made increasing use of bank credit to keep real PCE in absolute terms on an upward trend. Naturally, the propensity to consume rose sharply, to about 98%.

While, as a result, the personal savings ratio dropped sharply from 1981, consumer "net worth" remained in excellent shape due to the strongly rising value of tangible assets — homes and shares in companies listed on the JSE — in an inflationary environment.

However, in cash flow terms, the ability to service debt out of current disposable income is limited, especially during periods of sharply rising interest.

The heavily borrowed consumer can become financially vulnerable, having to cut back spending sharply during high interest rate/recessionary phases, as in 1985/86 and most recently

However, regarding the latter, a breakdown of total real PCE into its major components shows that the proportions are essentially unchanged over time (see table) Each of the four periods covers an economic upswing and downswing phase to avoid cyclical bias. It is possible that blacks, along with their increased purchasing power, are spending their money evenly across the categories, contrary to the view that non-durables and perhaps semi-durables would benefit most.

The same breakdown in current rand terms — allowing for price shifts — yields essentially the same result. Blacks' use of stokvels and other group credit arrangements may allow them more access to durable goods than commonly supposed, given the generally low level of per capita black incomes.

Consequently, it may also not be self evident that a greater black share of total disposable income will boost demand for more labour intensive and less import intensive goods than that of the higher income groups.

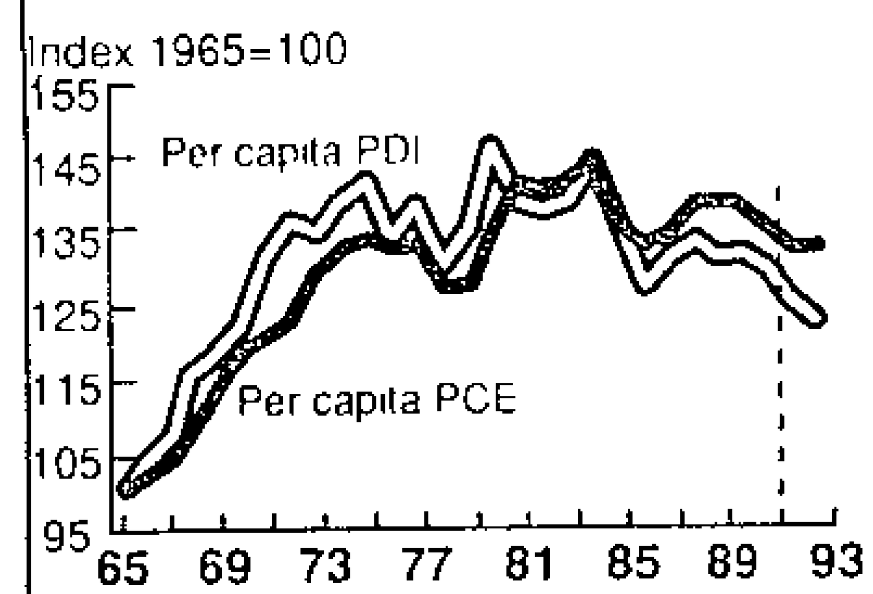
In general, blacks are buying goods across the board that may use any combination of labour and capital in production, and a demand-restructuring economic growth strategy, based upon labour intensive production for so-called "low income goods", may be flawed

☐ **Daly is chief economist at Southern Life.**

Proportion of total private consumption (%)

	1965-69	1972-75	1978-82	1988-91
Durables	10,6	12,3	11,8	10,1
Semi-durables	18,6	19,3	17,0	16,7
Non-durables	43,2	41,4	45,8	47,4
Services	27,6	27,0	25,4	25,8

Trends in disposable income and consumption expenditure



Graphic LEE EMERTON Source SOUTHERN LIFE

LETTERS

Big chunks of US aid to SA are stuck in the pipeline

B/Day 31/3/92 (49)

SIMON BARBER in Washington

IN THE current fiscal year, which ends on September 30, and in the one that follows, the US taxpayer will theoretically vouchsafe more bilateral assistance to "disadvantaged" South Africans than to any single African country, according to the US Agency for International Development's (USAID) latest budget presentation to Congress.

SA's annual allotment stands at $80m, fully 10% of USAID's principal account for the entire continent, the Development Fund for Africa. Only Ethiopia ($74,4m) and Mozambique ($68,5m) come close, and in both cases a substantial share of their quotas is made up of emergency famine relief and other food aid.

It must be stressed, however, that these are largely notional numbers. When a US official asserts "we have doubled our aid to SA to $80m this year", he is making a political statement that has little relation to real cash flows.

The $80m figure appears in the budget presentation at the bottom of columns entitled Estimated fiscal year 1992 obligations and Proposed fiscal year 1993 obligations.

The reason it is there is that President George Bush thought it would be a useful bipartisan gesture when he was lifting the Comprehensive Anti-Apartheid Act's sanctions last year.

The word "obligation" needs some clarifying. USAID defines it as a "legal commitment of funds through such mechanisms as signed agreements between the US government and host governments, contracts and grants to organisations, and purchase orders". This is not to be confused with the term "expenditures", which, at least when they are "actual", represent "funds paid from the US Treasury".

Between 1980 and 1990, USAID "obligated" about $101,9m to a variety of SA projects (more, if you take into consideration projects funded from other non-SA-specific accounts). Of this, $32,6m was "spent". Likewise, $48,4m was obligated in 1991 while just $19,8m left the Treasury. For the current year, the agency thinks it may be able to enter into obligations worth $80m, but expects to write cheques for $49,6m.

Where is the rest of the money? Well, says USAID, some has been "de-obligated" but the bulk is in the "pipeline", awaiting the day when contracts, agreements and purchase orders are fulfilled, and the cash may finally be disbursed. Fair enough, so long as the would-be beneficiaries have it explained to them that it may be some time before they feel the benefit of the sums so blithely bandied about by American politicians and diplomats.

Of course, it might be easier for USAID to get the money out the door if both it and its political masters had a coherent idea of what they were trying to achieve.

The decision to double SA's annual allocation preceded any serious thought about how the extra funds might be used. This is painfully evident from this year's estimated budget and next year's proposed one. The obligation figures are mostly very round and appear to have been dictated less by conscious policy than the requirement that they add up to $80m.

For the record, here is how the magic number was concocted for the present fiscal year. Remember, all the figures are "estimated obligations", so their significance in terms of hard cash is at best questionable.

First, there are four new projects. Shelter and Urban Development Support, made possible by the repeal of the Group Areas Act, gets $9,2m "to provide funding for innovative financing schemes, technical assistance, training and research aimed at developing housing programmes which do not perpetuate the forced living patterns imposed under apartheid" Only $500 000 is expected to be spent, no doubt on a study.

SA Basic Education Reconstruction is pencilled in for $6m "targeted on ... high school scholarships, teacher training, curriculum development, adult literacy and special training in English" Estimated real outlay, $500 000.

Two further projects have been launched to help confront AIDS at $1,5m apiece. USAID thinks it can spend it all this year

Of the existing programmes, Black Private Enterprise Development gets another $4m to go with the $10,2m it has received thus far, of which about $2,6m has been spent. The money might be moving a little quicker, but for a dispute between two Washington consulting firms over who should get the contract to set up a venture capital fund for black businesses.

Labour union training, chiefly handled through the AFL-CIO's African-American Labour Centre (AALC), is allotted $3,5m, bringing to $12m the total USAID has nominally committed to spending on black unions since 1983. Of this, $4,85m has thus far oozed from the pipeline (and then mostly into the coffers of the AALC).

Community Outreach and Leadership Development (Cold) — initiated in 1986 to counter Pretoria's attempts "to crush community power" — is down for $10,7m — more than double last year's figure. This brings Cold's total obligation to date to just under $30m. Actual outlays have been $10,5m.

The Training for Disadvantaged South Africans and SA Bursaries projects, which provide scholarships to universities in the US and SA respectively, are now operating on money still in the pipeline — about $44,3m by my calculation — and receive no new allocations. However, more scholarships to the US are being provided by the Tertiary Education project whose pot this year has been increased by $31,6m for a total of $52,1m since the account was opened in 1990. As of last September, actual outlays were $1,2m

The Educational Support and Training project, through which the US government underwrites "non-governmental initiatives in teacher training, alternative education, pre-schools, curriculum development and literacy", is slated to be topped up to the tune of $4,5m this year, bringing the sum sloshing about in its pipeline to about $10m

Self Help Support and Human Rights Support — relatively fast disbursing conduits from which the embassy and USAID mission dole out small grants to worthy causes — are allocated an additional $500 000 and $5m respectively.

The $10m Transition to Democracy Project is not counted in this year's $80m. The money was obligated in 1991, and who knows, now that the ANC has accepted that it cannot use its share to pay salaries to its nomenklatura, the US-SA Leadership Exchange Programme, which USAID has retained to do the honours, may actually get to dispense the moolah.

Next year two additional projects come on stream.

Tertiary Education Linkages will attempt to "improve the efficiency and quality of the tertiary education system in SA" by giving grants to US universities (proposed initial obligation, $10m).

Training for Employment will try to "reduce constraints to economic growth caused by an inadequately trained labour force". To find out how, USAID will have to commission some studies. To prime the pipeline, it is asking Congress for $3m.

Editor fears for life after inquiry into grants

(49) ARG 31/3/92

The Argus Correspondent

JOHANNESBURG. — The editor of an industrial newspaper fears his life is in danger because of a campaign he launched to have the names disclosed of recipients of non-repayable government grants worth R41,6 million.

Mr Martin Creamer, editor of Engineering News, launched the campaign in a front page editorial of his newspaper after two years of inquiries proved fruitless.

Mr Creamer

Taxpayers money, he said, was being given to private businesses as non-repayable grants, but the recipients were not being identified even after projects financed were completed.

He called on Trade and Industry Minister Mr Derek Keys to make public full details of all 84 non-repayable grants. Only R2 million was now being publicly acknowledged, he said.

"Taxpayers rights are being violated. Our objections centre on the government's refusal to allow a free flow of information relating to State expenditure, the fact that the grants are non-repayable, the fact that the recipients' identity is only disclosed when the 'final milestone payment' is made and the fact that if recipients fail to claim that final payment their identities may never be known," he said.

Mr Creamer alleged that several large and profitable firms had received far larger amounts than the amounts revealed by the State.

The Department of Trade and Industry said last week the release of the names of all companies which had received a subsidy under its R40 million a year electronics innovation support programme (who were previously assured of blanket secrecy) was imminent.

But Mr Creamer made a sworn affidavit to Bedfordview police after receiving what he interpreted as a death threat over the telephone.

Cosatu spells out economic policies

Sowetan 31/3/92 (44)

THE redistribution of resources and power, a society based on production for need rather than profit and a commitment to social ownership, were some of the economic principles adopted by the Congress of South African Trade Unions at the weekend.

Outlining their economic growth path, as adopted by the Economic Policy Conference, the labour movement said yesterday it would "continue to strive for a democratic, socialist society as the means of truly meeting the aspirations of our people".

The beneficiation of the country's mineral resources was also a key element to achieve an overall growth path, Cosatu stated.

The redistribution would also need a political economy that would lead to a decisive and strong State based on majority support.

However, not all industries should be nationalised.

It said particular attention should be paid to labour intensive production, maximising the potential for the beneficiation of natural resources, ensuring sustainable growth and stopping the outflow of capital.

Legislation should also be passed to break up conglomerates and monopolies, where necessary, in order to ensure economic efficiency and growth and to reduce their economic power.

Steps should also be taken to increase worker power and participation in all political and economic life.- *South African Press Association.*

Cosatu committed to socialism

STAR 31/3/92

49

By Mike Siluma

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.

ECONOMY — 1992

APRIL — ~~June~~ May

Exchange controls must remain, maintains Reserve Bank adviser

B/Day 1/4/92

SHERIDAN CONNOLLY

EXCHANGE controls would be retained until SA earned enough foreign exchange to pay for the bulk of the country's imports at high growth levels, and attracted sufficient investment to finance the remaining current account deficit, Reserve Bank adviser Desmond Krogh said at a conference yesterday.

Krogh said one of the first steps of exchange control relaxation would be in respect of non-resident transactions. The abolition of the financial rand could, however, not be expected as long as the terms of the present debt rescheduling agreement were in force, he warned.

"Very few, if any, constraints remain on SA's accessibility to overseas financial markets other than that imposed by its own exchange control regulations," Krogh said.

He said the only disappointment was the slow progress made in reducing the size and deficit of the government's budget which was, however, closely linked to the unstable transitional socio-political conditions.

Krogh said although good progress had been made in regaining control over money supply growth and in the strengthening of SA's financial system, all the basic conditions which justified the retention of exchange controls over residents, and in the form of the financial rand system as far as non-residents were concerned, still applied.

Over the last 30 years, exchange controls had been applied in southern African countries with varying intensity, either because of structural economic or political reasons, or both, he said.

He said for SA to be the anchor economy of the southern African region, it would at least require a relatively stable new political dispensation and a dynamic economy. These conditions were "still at the programming stage after a decade of social upheaval and economic stagnation," he added.

Krogh highlighted the successful financial experience of "diverse but dynamic" Asian economies such as Korea and Taiwan to illustrate that there was ample scope, even with exchange controls, to develop a whole range of sophisticated financial services in a regional as well as a global context.

He said it was only after these two countries had reached the stage of becoming sizeable capital exporting countries that they could begin to relax their exchange controls simultaneously for residents and non-residents, and actively embark on achieving greater international financial intermediation.

Christ was early communist - Slovo

Sowetan 1/4/92

(44)

Sowetan Correspondent

JESUS Christ was one of the early communists, SA Communist Party national chairman Mr Joe Slovo told church leaders in Durban yesterday.

Slovo was speaking at a Daikonia breakfast briefing on his party's views on South Africa's future.

He confessed to being an atheist but said that the Marxist theory that religion was the opium of the people had been an over-simplification of the role of religion.

He did, however, urge people not to forget that many crimes had been committed in the name of religion and that religion could force people into fanaticism as evidenced in the Middle East.

"We must not make light of dismissing the potential of organised religion. That has been one of the faults of religion," he said.

In brief answers to questions on the future of socialism, his party's commitment to a socialist economy and the failure of communism in certain parts of the world, Slovo said he was convinced that humanity would "take to socialism" in the future.

He added that there were only two types of people that were trustworthy - "a good communist and a good Christian".

"It is the adjective that is sometimes in question," he said.

Slovo said the SACP was not ashamed to state its unequivocal support for a socialist system, for nationalisation and the redistribution of land and wealth but the SACP was "acting in the real world and not some university laboratory".

He said that the SACP's commitment to a mixed economy meant that the party had to take into consideration the rights of private property ownership.

Soft line taken on nationalisation

13/Bday 1/4/92

SHARON WOOD 49

THE ANC yesterday repeated its softer stance on nationalisation at a meeting with African Development Bank president Babacar N'diaye.

The meeting concluded talks on the role the bank could play in the economic development of a post-apartheid, democratic SA.

Issues discussed were the Bank's operational policies and experience in other African countries, the circumstances under which a new SA government could become a member, and the kind of future programme the bank would implement, a statement said.

ANC officials made it clear at the meeting that nationalisation was not a matter of ideology or doctrine. "We have no hitlist of industries or sectors to be nationalised," ANC economics head Trevor Manuel said.

Nationalisation was merely one of the many economic instruments that could be considered to correct economic imbalances and distortions.

The ANC expressed strong concern at the spate of unilateral privatisations sponsored by government.

It said the selection of industries to be privatised should be left to a future government.

N'diaye is leading a nine-member bank delegation on a private working visit through the country to meet with leading SA opinion leaders.

☐ Sapa-Reuter reports that the bank yesterday said a Sudanese economist had become its first woman vice-president.

Unpredictable mutant in forex market

B/Day 1/4/92 (49)

SIMON WILLSON

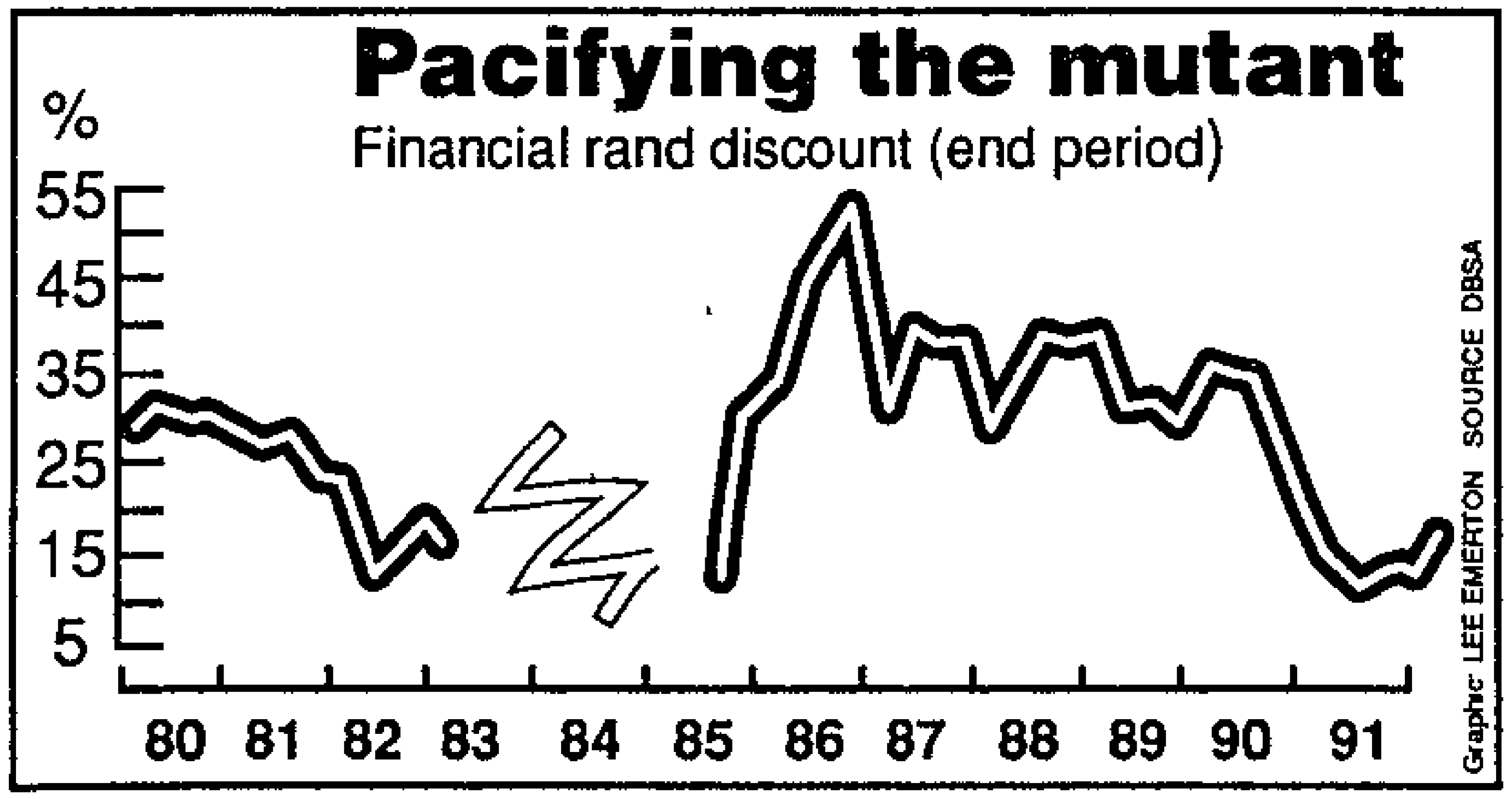
OLD horror films generally had satisfying dénouements in which freakish laboratory organisms rounded on their creators. A particularly unpredictable mutant is currently stumbling around the local foreign exchange market as its creator tries to pacify it.

After allowing the financial rand freely to reflect market conditions since its unwelcome resurrection in 1985, the Reserve Bank has decided that it is time to restrain the creature. The Bank ultimately intends to strap the thing back on the slab and give it a lethal injection, but cannot say as much within its earshot.

So, for now, the begetter of the finrand has to talk tamely in terms of intervention — shackling the mutant until it is sufficiently docile to be finished off, suddenly and quickly. Since the beginning of last week the Bank has, for the first time, been free to intervene in the finrand market and has, by its own admission, already done so.

In theory there is a case for managing the finrand level in the same way that the commercial rand's value is massaged by official intervention. The Bank's primary goal is greater finrand stability, on the premise that the volatility of the unit has discouraged foreign investors from using it to buy SA equities.

Greater stability, the Bank's reasoning goes, will prompt greater willingness to transact in finrands, which will narrow the discount. The unspoken part of the Bank's scenario is that the unit can then be unified with the commercial rate about 18 months hence with hardly a jolt in the market.



As the chart shows, the finrand discount has moved into the abolition zone that triggered the unit's temporary demise in February 1983. The third interim foreign debt arrangement expires at the end of next year and discussions around this time next year on its replacement are sure to include the finrand's future. In 18 months' time the unit could be looking highly disposable.

In announcing that it will intervene the Bank has, however, announced to the market that it is a buyer. One way to narrow the finrand discount is to reduce the total supply of the unit in the market, and the Bank can only contribute to such a trend by being a net purchaser.

This means, in dealing parlance, that the market knows that "Sarb's on the bid". The Bank can be relied on to perform a dog-style retrieval of cheap finrands whenever these become available in a weak market. This has led to some predatory pricing by the commercial banks when the Reserve Bank has come into the market during the past 10 days There is already wry amusement at the Bank at how other players are automatically reading it as a buyer and quoting prices several points outside the market.

Some traders feel the finrand has already passed its first test as a central bank-managed currency by remaining firm yesterday in spite of a Cosatu statement promoting investor-unfriendly concepts such as a general strike, nationalisation, price control and wealth tax.

The aberrant finrand market is tiny as international currency markets go. There are only 10 serious players — those who will make a two-way price — and they are based only in Johannesburg and London. Unlike conventional currency trading, which has the volumes and the players to conceal official intervention, official dabbling will be eminently detectable in the fraternal and latently incestuous finrand market.

The market's established players are gleefully awaiting Reserve Bank attempts to disguise intervention in thin volumes among so few traders.

SACP wants 'selective' nationalisation

B/Day 1/4/92

DURBAN — The SACP does not believe in across-the-board nationalisation in a post-apartheid society, but SA's transformation will require some degree of state intervention, says national chairman Joe Slovo.

Speaking in Durban at a Diakonia briefing yesterday, Slovo said state intervention could take several forms, including joint state/private sector programmes, and not simply state ownership.

The public sector would play an important role in the state's economic intervention, however this sector had to submit to some free market discipline.

The task facing SA involved economic restructuring and it was a "pipe dream" to believe the process of redistribution and redressing racial imbalances could be left to the private sector, Slovo said.

The private sector, left to itself, was only interested in profit. (49)

The processes of nationalisation and redistribution had to begin now. However, this did not entail taking the "existing economic cake and slicing it up".

He emphasised that redistribution had to be accompanied by economic growth. — Sapa.

Bank has duty to avert crises, says Stals

B Day 1/4/92

SHARON WOOD

THE Reserve Bank would play an important role in containing a crisis threatening the domestic financial system, Governor Chris Stals said yesterday.

Speaking at an international symposium on the outlook for SA financial markets in Johannesburg yesterday, he said the default of one or more large financial organisations would lead to further defaults and this would extend to the core of the banking system.

"The possibility of such an event is of obvious concern to a central bank." The Reserve Bank had a vested interest in the soundness of the financial system and would participate in and promote efficient payments.

"Containment of a crisis may in many circumstances depend more on the actions of the monetary authorities than on those of market or institutional regulators," he added.

49

The Governor's address came soon after the controversy surrounding reported Bank loans to Bankorp of R1bn and to Absa of R2bn. The Bank response at the time was that it was a lender of last resort, and that extending facilities to financial institutions was not unusual.

Stals said: "If they (the monetary authorities) decide to give direct financial support to intermediaries in difficulty they may, for example, be forced to act against their objective of controlling money supply."

However, the argument that in the case of default the central bank would always bail out depositors was not true, he said. Expectations that the Bank would intervene in case of emergency could encourage intermediaries to take excessive risks

These considerations gave the monetary authorities a powerful interest in the development of market structures and regulatory arrangements which would minimise the need for intervention on their part.

Thus monetary policies steadily directed towards price stability made financial crises less likely but, conversely, an inflationary environment increased financial fragility.

● See Page 6

IFP proposals for rebuilding economy

Sowetan 2/4/92

(49)

By IKE MOTSAPI

AS South Africa prepares to enter into a new democratic era the big question that is on the lips of everyone is "How are we going to rebuild the economy?"

This topic has been a focal point for debate by politicians, trade unions, intellectuals, the Government and interested parties.

Recently, the Congress of South African Trade Unions has been up in arms against the Government, accusing it of negotiating a new dispensation for a nonracial democratic South Africa in bad faith.

Cosatu alleges that the Government is going it alone in trying to rebuild the country's economy without consulting its negotiating partners.

The federation's gripe against the Government is also based on the fact that a delegation from the International Monetary Fund has been here to advise the Cabinet on matters relating to how best to restructure the economy with a view of achieving optimum growth.

The economy of every country is crucial for the survival of its people.

While the debate and anger among opposition groups simmers, various people have presented different views on the subject.

A long-time opponent of sanctions, the Chief Minister of KwaZulu and president of Inkatha Freedom Party, Chief Mangosuthu Buthelezi recently told the Vereeniging Afrikaanse Sakekamer he believes that South Africa must establish a multiparty democracy based firmly on the foundations of an "enterprise-driven" economy.

He said the development of democracy and economic development must be "two legs striding one with the other, taking South Africa into the future".

FOCUS

"The free enterprise system is the finest system that mankind has devised to turn the dirt of the soil, as I always put it, into wealth," Buthelezi told the audience.

"This is now global knowledge and we must apply it here.

"We believe that we must never again allow any South African government to develop the monolithic powers that successive National Party governments accumulated around themselves. The reliance on power by a state is the surest index of its political poverty."

Influence

Buthelezi said the new government should make sure that economic policies are always evaluated against the strengths and weaknesses of the economy it wishes to influence.

"We want a massive devolution of power down to regional governments whose constitutions and whose independent tax bases should be protected by entrenched clauses in the constitution.

"This division of power, these entrenched clauses in the constitution, a truly independent judiciary, the rule of law and all-pervading spirit of contract in the new South Africa, will provide the circumstances in which the captains of commerce, mining, banking and industry will be able to do justice to the vision of entrepreneurs and investors.

"As a result of unequal development in the past, South Africa comprises both first and third world sectors. The first world component consists of a well developed economic base, a comprehensive communications and infrastructure and a sophisticated financial system.

"The third world component is confined to the poorer black majority and is indicated by high infant mortality, poor health, welfare services, housing, educational facilities and infrastructure."

Buthelezi listed the following factors as the major areas of concern:

- High unemployment rate;
- Unacceptable levels of poverty;
- Unequal distribution of wealth;
- The state's skewed allocation of resources is also on a racial basis;
- Urbanisation pressures;
- Negative growth of the economy;
- Inconsistent monetary policy;
- Lax fiscal policy;
- Stubborn inflation;
- Over-intervention by the state in the economy;
- High cost of protection; and
- Uncompetitiveness of the South African economy.

What can be done to correct those wrongs?

In answer to this question Buthelezi said the IFP advocates a modern, market-driven industrial economy in order to meet the requirement of eliminating poverty and providing the growth necessary for wealth creation and to ensure a decent standard of living for all.

He said in order to rebuild the economy that would produce desired results, the following economic principles should be adopted:

- Private ownership of property and the means of production;
- Allowing market forces freedom in the economy;
- Minimum intervention in the economy by the state;
- State's role in the economy to be facilitative and regulatory;
- The promotion of competition in the economy;
- Pragmatism in dealing with inequalities and imbalances;
- The elimination of race and gender discrimination in the economy;
- The development of human potential of all South Africans;
- Recognition of inter-dependence in all decision making;
- Equal opportunities for all participants in the economy;
- Just distribution of income and wealth;
- Wealth creation and distribution; and
- Economic growth and living standards.

"A vastly expanded economic base which is the prerequisite for economic growth and wealth creation is the primary immediate goal of the IFP economic policy.

Markets

"Every step will have to be taken to develop South Africa's competitive advantage to increase its share in both the domestic and foreign markets."

Buthelezi said it was acknowledged that the most rewarding growth in terms of wealth creation "will be of an export-led type and that this will require a multisectoral policy approach.

He said: "To this end international economic links will be strengthened and regional co-operation further developed.

"The Government will also have to play a role in redistributing wealth and income where it can in areas such as social welfare, education and training and limited term affirmative action."

Buthelezi concluded by saying that an economic planning body should be established which will develop strategies to be adopted and put into action.

Parties meet Keys on economic forum

B/Day 2/4/92 (49)

ALAN FINE

REPRESENTATIVES of organised labour and business yesterday presented Economic Co-ordination Minister Derek Keys with their joint proposals for an economic forum to consider any form of economic restructuring.

The proposals for "a consensus-geared co-operative body to deal with economic and related socio-economic issues" were finalised on Tuesday at a meeting in Johannesburg of the business/labour working group established in January.

Participants in the forum, the proposal suggests, should be representatives of organised business and labour "and the governing body of the day".

A joint working group statement said the talks with Keys were "positive and frank and represent the first formal step in dialogue with government towards the establishment of an economic forum".

Keys declined to comment after the meeting. But he told Business Day two weeks ago the work of such a forum would become a "No 1 priority" as soon as an interim government was in place.

Keys was accompanied by Deputy Trade and Industry Minister David Graaff and Deputy Finance Minister Theo Alant. Cosatu national negotiator Jayendra Naidoo and SA Clothing and Textile Workers' Union assistant general secretary Ebrahim Patel represented labour. Representing business were Bobby Godsell (Saccola); Jabu Mabuza (Fabcos) and Ben van Rensburg (Sacob).

According to the proposal, the forum would "in the first instance be a body operative for the transitional period.... The forum should achieve a balance between a focus on short-term challenges... and the formulation of a long-term economic framework".

Reflecting an often repeated Cosatu concern, it states that any economic restructuring undertaken, particularly during the period of transition, should have the sup-

☐ To Page 2

Economic forum

B/Day 2/4/92 (49)

☐ From Page 1

port of all economic stakeholders and the forum should therefore deliberate on any proposed restructuring

The proposal suggests a structure of plenary forums and working groups with a permanent secretariat Expenses would be covered by public funds Initial secretarial services would be provided by the Consultative Business Movement

It states that Codesa is not an appropriate structure to deal with the economy, but accepts the need for "some co-ordination between political and economic change"

Cosatu general secretary Jay Naidoo said yesterday afternoon he did not yet believe government had accepted, even in principle, participation in an economic forum. The meeting with Keys was the beginning of discussions with government on the issue

He said even if it had acepted the idea in principle, Cosatu would not be satisfied until an agreement was signed and sealed Earlier in principle agreements had taken — and still were taking — a long time to be put into practice

Asked whether the transitional council on finance, proposed by the NP as part of a transitional arrangement, would be an acceptable economic negotiating forum for Cosatu, Naidoo said he would have no objection provided it was compatible with the working group proposal

This required participation by business, labour, government and other major political parties It would be inappropriate for such a forum to be swamped by large numbers of small parties as could happen if the forum was attached to Codesa

Meijer warns of small GDP rise

B/Day 2/4/92

(49)

SHERIDAN CONNOLLY

THE rise in real gross domestic product (GDP) may not reach 1% in 1992, although the second half of this year should see some improvement in growth levels, Reserve Bank Deputy Governor Jaap Meijer said yesterday.

Speaking at a capital market conference in Johannesburg, Meijer warned that real private consumption may not show much, if any, positive growth while real gross private fixed investment may well contract further.

In spite of this, a "comfortable" surplus of about R4bn could still be recorded on the current account of the balance of payments, he added.

Meijer said the need for cereal imports as a result of the drought would have a significant impact on the current account surplus.

The drought would act as a major drag on agricultural output and would also affect output, incomes and expenditure in the remainder of the economy, he added.

No "superlative growth performance" of the economy was expected over the medium term period covering the adoption of a new constitution and the installation of a newly-elected government, Meijer said.

Over the longer term the country's wealth of natural resources, the advanced character of its physical and social infrastructure and its fortunate position as the gateway to Africa had the potential to produce real economic growth.

Meijer said the Bank had attained some significant results in bringing down "underlying" inflation rates and in strengthening the Reserve Bank's image of consistency and resolve. "To maintain this consistency, monetary policy should be allowed to operate largely independently of whatever government happens to be in power, and of its social and political objectives," he said.

The financial rand would have to be kept at least as long as the debt standstill was still in force, he said. But the termination of the debt standstill would not necessarily spell the end of the financial rand.

"As regards the standstill itself, little has changed in a fundamental way, despite our changing political situation. It still remains fair to consider the possibility that, at the time of renegotiating our agreement with creditor banks somewhere in the course of 1993, conditions may permit a new set of arrangements that will effectively spell termination of the standstill as a rescheduling exercise," Meijer said.

US wants to bolster SA economy immediately

Sowetan 2/4/92

(49)

WASHINGTON - The United States plans to move swiftly to help revitalise the South African economy and brace it for the challenges of full democracy.

This was said by the Assistant Secretary of State for Africa, Mr Herman Cohen, at the Africa sub-committee of the House of Representatives yesterday.

He was commenting on proposals for a South Africa Democracy Aid Initiative, a multi-billion rand international aid programme for the country which members of the sub-committee asked President George Bush to initiate last year, and added: "We believe that action cannot wait.

"The economic underpinnings that will be essential to the success of democracy must be built now and we and other international parties, public and private, must be involved," Cohen said.

He repeatedly expressed his concerns about the South African economy and the need to begin strengthening it without delay but also delivered some blunt comments on other developments in the country.

"We don't think the international community should wait until there is a new constitution and a majority new government.

"We feel that as soon as there is a multiracial interim government the international community should weigh in and help to revitalise the economy because the whole process could fall apart if there are not enough jobs, if there is no start made on creating jobs and achieving greater economic growth," he said. - *Sowetan Foreign News Service.*

Don't laugh off Cosatu's economics

(49) wlmail 3/4-9/4/92

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."

lighting.

Picture BRIAN HENDEL

Banking system unable to take up Treasury bill tender

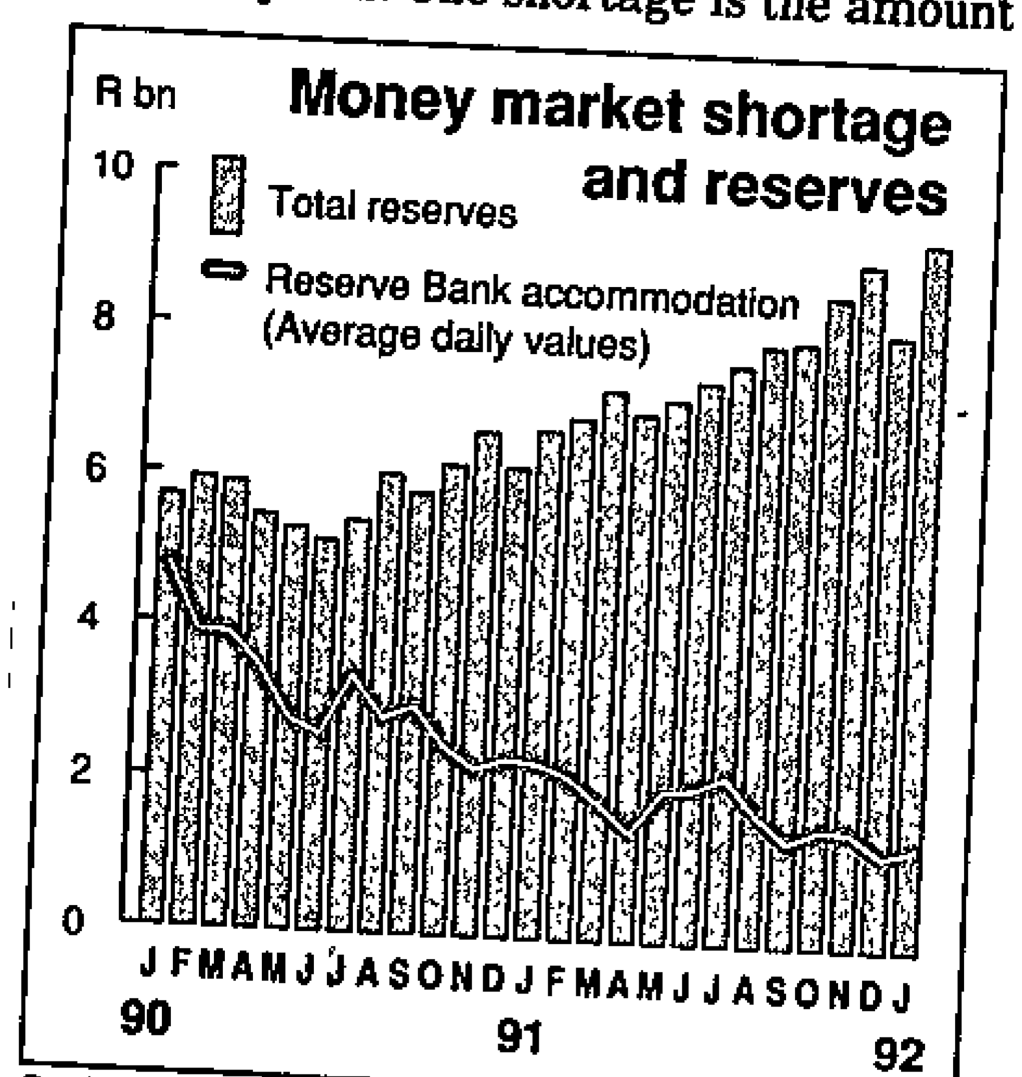
B/Day 3/4/92 (49)

SHERIDAN CONNOLLY

DESPITE a fall in the money market's debt to the Reserve Bank to a three-year low of R365m on Wednesday, the banking system was yesterday unable to take up in full a R500m special five-day Treasury bill tender.

High government spending at the end of the financial year took the local money market by surprise and pushed Wednesday's market shortage down to only R356m from Tuesday's level of R1,39bn.

Market sources said this was the lowest in three years. The shortage is the amount of accommodation extended by the Reserve Bank to the market in the form of refinancing at its discount window.



Graphic: FIONA KRISCH Source SA RESERVE BANK

In an effort to counteract the dip in the shortage, the Bank issued a special five-day Treasury bill (TB) tender which was, however, undersubscribed. The Bank received only R450m for its R500m bills on offer despite an average rate of 15,14%.

Analysts said the sharp dip in the shortage caught the market off guard. Players had expected the sale of government stocks to offset the high level of government payments due both at the end of the quarter and also at fiscal year-end.

"The sale of government stock of about R2bn shows the extent of state spending that went through the banking system," one analyst said. The Treasury outflow went towards financing payments to the self-governing homelands and to members of the Southern African Customs Union.

Analysts said the lower shortage reflected the high liquidity in the system.

The three-month liquid BA rate continued its decline yesterday and was quoted in a range between 15,40% and 15,70%. Discount House lowered its liquid BA rate to 15,40% yesterday from a previous level of 15,45% due to demand well outstripping supply. The officially quoted BA rate was last at this level in February 1989.

Cosatu refuses to be bullied into a new deal for SA

Bday 3/4/92 (49)

Cosatu general secretary Jay Naidoo talks to ALAN FINE about the organisation's recently published economic policy document.

THE economic policy document prepared over the weekend positions Cosatu some way to the left of its ally, the ANC, in economic terms. Why?

Cosatu is an independent organisation We have an alliance with the ANC and SACP, but that does not mean that our policies have to be the same We are reflecting the interests of a particular constituency — the most dispossessed. There will therefore be different points of emphasis between ourselves and our allies At its core, though, we do not see any substantive differences between ourselves and our allies on the need for economic growth to be generated in a way that it begins to meet the basic needs of the majority of people While winning the vote is an important political goal, we argue that unless we deliver some of those basic needs like jobs, housing, education and employment there is not going to be stability in SA

While accepting these concerns as real, are your policy prescriptions serious ones? Or are they merely slogans and wishful thinking, or perhaps just your opening bargaining position for an economic forum — one which in the hard light of day is going to have to be reconsidered quite substantially?

If there are slogans, they indicate the depth of anger and frustration among workers We are certainly not going to sweep our members' views under the carpet. We see the document as a series of propositions about the way we think economic growth can be stimulated so that it benefits the majority

Cosatu could easily enter negotiations with employers that deliver those needs to our members only But looking after only the interests of the employed is not the road to stability Our propositions are aimed at resolving these problems, and we will take them into negotiations If employers have alternatives, they have the right to put them to us Let us negotiate about the type of vehicle needed to reach the common goals we have identified

YOUR document talks about the state increasing production of basic necessities of life like electricity, housing and so on. Can the state realistically be expected to provide all of these things in, presumably, a short period?

There is no suggestion that we can achieve these things overnight What is important is that we develop coherent strategies which are accepted by all the major players. We need to talk about a process, so that, if the squatter in Phola Park is not going to get his house tomorrow, then he understands that his representative is at least there and negotiating about the problem

There is an apparent contradiction between your proposal that there be a "slim state" but also one which would be highly interventionist and control a wide range of productive industries and services.

We need a slim state which has been rid of bureaucracy but designed to deliver effectively and efficiently housing, education and health facilities. We are talking about an economy that is essentially driven on market principles, not a bureaucratised one as was the case in eastern Europe.

The section on industrial policy talks of a policy that would encourage labour intensive production, ensure a living wage for all, and simultaneously ensure that SA industry is internationally competitive. Successful export economies elsewhere have relied either on low wage labour intensive industry, or on high-tech capital intensive production. Cosatu seems to want the impossible.

We are not suggesting that all activities in the economy have to be labour intensive. But we need some mechanism that begins to give people jobs We are even prepared to back public works programmes where working conditions are less favourable, for a time, than in the formal sector

NAIDOO

Obviously there are certain sectors of the economy that have to function on the notion of export orientation, on a high-tech basis We want to achieve a balance between a labour intensive and a high-tech sector

We have set certain goals We need to talk about how our strategies fit into meeting these objectives But we are not prepared to accept investment of the type that abuses trade union and human rights, or the fly by night investors who come in on a concessionary basis and invest nothing in research and provide no technology transfers.

You talk about the need for "appropriate tariffs". Does Cosatu accept that protectionism is one of the biggest obstacles to international competitiveness? And, if so, does Cosatu have the guts, and its membership the will, to accept its removal even if this means job losses in the short term?

We accept in principle the need to remove tariff protection The issue is how to phase it out. No government anywhere has phased out tariffs overnight. We need to examine what steps should be taken to prepare our industries for greater competition Nowhere have we proposed increased subsidies for industry. We want our industry to be efficient and competitive. There is no dispute about that. But we oppose government's incoherent and ad hoc approach. And we have to prevent dumping, and imports which are the consequence of the oppression of union rights elsewhere in the world

On the question of nationalisation, is Cosatu serious, in this day and age, when it says that public ownership is the most desirable form of ownership?

Those sectors of the economy relating to the provision of basic goods and services must be under state control There is no country in the world where a public sector does not exist Further if we find in strategic sectors that monopolisation or price-fixing is obstructing the delivery of needs to the majority, something would need to be done

In the pharmaceutical industry, for example, medicine prices have risen substantially, and we are convinced this is because of price fixing A government would have to intervene in such a situation, either to set up a competing firm, or to nationalise or to put in place regulations which eliminate price fixing

Why do you talk of nationalising institutions and sectors like Eskom, or education, which are already in state hands?

Because we do not trust this government not to go ahead and try to privatise some of these sectors, even in the next few months It has "commercialised" some for this very purpose

Is Iscor on your list of targets for nationalisation simply because you are still peeved that it was privatised without your consent?

Yes that is one reason But the more important reason is that it produces a basic commodity for the manufacturing sector And this is one of the key sectors for growth

MANY people in business, who see your policies as way beyond the scope of conventional economic thinking, ask whether there is any point in attempting to negotiate these issues with Cosatu.

I think Cosatu is doing the country a service We are not concealing the real feelings of our people. We say these are our propositions Enter into negotiations with us. We will not enter into agreements in boardrooms without referring back to our constituency Any such agreement would have no legitimacy and would be a disaster

When we talk about changes, we also need to talk about what changes industry is prepared to make — industry which has benefited from apartheid What commitments are they prepared to make in relation to the goals we have espoused. Then we will be able to enter negotiations.

We will not accept being told that our views are irrelevant We will not be bullied from the outside into relinquishing our views It will be through negotiations where we reach some agreement on an economic strategy for the future We are hard negotiators But we are not hardliners It is important that we have a public debate about all these issues

He used the Budget to buy social peace and it was necessary to go even further in certain areas. Even the ANC now accepts that we cannot close the welfare and education gap overnight, but he should have found a bit of the R1,5bn to close the pension gap. That is the really inexcusable part of this Budget.

***Parsons*: A very important distorting factor in the Budget was his need to accommodate the drought. How would you evaluate that?**

Dickman: We know there is a net loss on current account of about R2bn. With changed international perceptions and the ending of sanctions, that may not affect net reserves so much that we'll have to slow down the economy. But you can't ignore the costs and loss of national production.

Gerson: It's equivalent to about a 1,4% loss of GDP growth. The current account is very healthy; if the capital account is a bit supportive, it's all right.

***Parsons*: But he had to allocate R1bn that could have gone elsewhere to drought relief.**

Gerson: Yes, the ANC has picked that up. It resents help to farmers because the farmers are not part of its constituency and do not seem to be the poorest people in SA.

Gouws: But a recent ANC speech mentioned drought relief as one area where money should be spent.

Gerson: We still have liberation movement-type behaviour in that the ANC is still loth officially to give government any credit for the good things it does. On the one hand, there is drought relief; on the other hand, the ANC moans about the problems of farm workers. Only when the ANC is really brought into some sort of interim arrangement will responsibility be there.

For that reason, perhaps it is not a bad tactic to defer to Codesa and the ANC. Government must stick to its key principles on fiscal and monetary policy, but on everything else it must be accommodating.

***Parsons*: We get persistent repetition of excuses for fairly big increases in State spending. Is some other mechanism needed to control State spending? Or is it just that we have not had enough political will?**

Gerson: I am very pessimistic about State spending. After 10 years of lip-service to free market ideals and getting the State smaller, we have not succeeded. There was a time when we succeeded for a few years and then it went back up again. Now we are moving into a situation where the ANC philosophy is not that of a really small State.

We'll have big social programmes. Will the ANC or any future government run a big Budget deficit, above prudent levels, and, in that case, how will it handle it - high interest rates or printing money? Any future government will have to learn by hard knocks that there are limits to State spending if one wants to run an efficient economy.

"I'm particularly glad about the easing of HP regulations, because this is something government shouldn't tamper with"

GOUWS

Gouws: In the year just ended there was only a marginal overshoot and I think Barend Du Plessis will stick to that with the new systems. My problem is the revenue side. Given that the economy is still in recession and wage and salary growth is slowing down, will he reach the 22,5% increase in personal tax revenue? If not, the deficit will be bigger, which means that dis-saving will be that much bigger and we are already looking at dis-saving equal to 2,6% of GNP.

Looking at total spending, I don't think there is one area where you can say, okay, we won't spend money on that anymore; but we need an absolute line-by-line approach.

Gerson: The most obvious area to attack is politically the most impossible: the size of the bureaucracy. You have to protect incumbent whites and the ANC will want to put its own guys into the bureaucracy. So the bureaucracy is the political dynamite area.

***Parsons:* Turning to monetary policy, were the recent Bank rate cut and relaxation in HP conditions appropriate?**

Dickman: Certainly, but we must not go too far. A lot of people have pointed to the fact that real money supply growth has been very low. But it is not as low as it was in 1986 and real interest rate differentials are not that great by international standards.

***Parsons*: Do you think it will have a positive impact on the motor and furniture industries?**

Gerson: The motor and furniture trades are very sensitive to HP requirements. But we are constrained by short-term movements on the capital account, which have been amazingly volatile in the past two years. The bottom line is how much depreciation of the rand do we tolerate? Without slowing down the depreciation, there is no way to get the underlying rate of inflation down.

Gouws: I'm particularly glad about the easing of HP regulations, not just because it signals an easing of policy but, more fundamentally, because this is something government shouldn't tamper with.

***Parsons:* Do you see any implications in the Budget for how monetary policy can be conducted in the medium and longer terms and our ability to bring down the inflation rate?**

Gouws: We will have more of the same. In Germany, Helmut Kohl has been told by the central bank that if he is going to run that sort of deficit, he mustn't expect the Bundesbank to lower interest rates This is the price we too pay for this kind of Budget deficit and using savings to fund current expenditure.

Dickman: Chris Stals has been absolutely consistent since the Reserve Bank reformulated its mission to make a stable currency its prime objective. In several speeches this year about the real economy, the problems of growth, unemployment, capital-output ratios and so on, he has made the point that these are not things the Bank can change. Given whatever fiscal policy there is, the Bank must respond by resisting pressure on it and being unpopular if necessary, to maintain an environment of financial stability.

There may be some difference of opinion between the Bank and the IMF in the longer term, because the IMF favours exchange rate depreciation as a potent force, coupled with strong fiscal dicipline.

***Parsons*: How do you evaluate the decision by the Reserve Bank to intervene in the financial rand market? What signal is Stals giving us?**

Gerson: Last April Stals stated that the intention was eventually to abolish the two-tier system and that possibly as much as US$5bn could be available from the IMF for this One reason the discount then narrowed so dramatically was that many people believed that the finrand would be abolished. From about November the discount started opening up again and I wonder whether there may have been a leak that government's attitude had changed.

Now the finrand seems to be here for the foreseeable future. The IMF attaches fairly low priority to getting rid of the finrand.

There is a respectable argument that if the aim is purely to stabilise a thin market to iron out fluctuations and, therefore, reduce risk, you can narrow the discount by providing a stabiliser. But it seems from the Reserve Bank document that the aim is to actually purchase foreign assets.

So, on the one hand, we moan that we don't have enough foreign investment; on the other, we're going to use precious foreign exchange reserves to buy out foreign investors What is this whole game about? It seems to be incredibly ill-thought-out.

"The Budget was caught up in a set of socio-economic circumstances which prevented it perhaps from doing what is really necessary"

DICKMAN

Dickman: Is there not a possible signal here that we have built up net reserves to a positive position? The Bank is obviously still worried about deficits and longer-term budget spending. But if it is indeed going to stabilise the rate, it will be buying — which will take liquidity out of the market.

Gouws: One problem is that while abolition of ex-

continued

FM 3/4/92

ECONOMIC POLICY

(49)

Playing a wild card

In recent months, as the ANC moves closer to power, it has realised there is a penalty to be paid for retaining the image of a liberation movement. Since the annual meeting of the World Economic Forum in Switzerland in February, when ANC president Nelson Mandela presented a new face to the international community, revising the text of his prepared speech to accommodate the perceptions of potential investors, there has been a shift in policy.

A talk by ANC economist Tito Mboweni, to a group of businessmen at a seminar in Johannesburg on Monday, held out hope that the organisation has moved closer to the principles governing the economies of the major industrialised countries.

As yet, the organisation's economic policy has not been finalised; this is scheduled for an ANC meeting in May. Two discussion documents have been published and a number of statements made. But these raised more questions than they answered. They reflected the fact that policy was still in its formative stages and that there was a wide range of views within the organisation.

Like the first report of the State President's Economic Advisory Council, published in 1986, the discussion documents were crammed with motherhood and apple pie; they set out unrealistic objectives and contained internal contradictions.

A document published after two workshops in Harare in April-May and September 1990 spoke of the need to "co-ordinate the contribution of all sectors and interest groups," but added "that commandist methods will be avoided." It again raised the old NP's cherished aim of reducing SA's dependence on imported inputs and included suggestions as bizarre as the formation of a cartel to "stabilise" mineral prices. It also suggested forming a State Minerals Marketing Authority to enter into marketing agreements with other countries.

A second document, published after a national workshop in May 1991, was briefer and omitted that suggestion, along with a number of other unrealistic proposals. But it retained important internal contradictions.

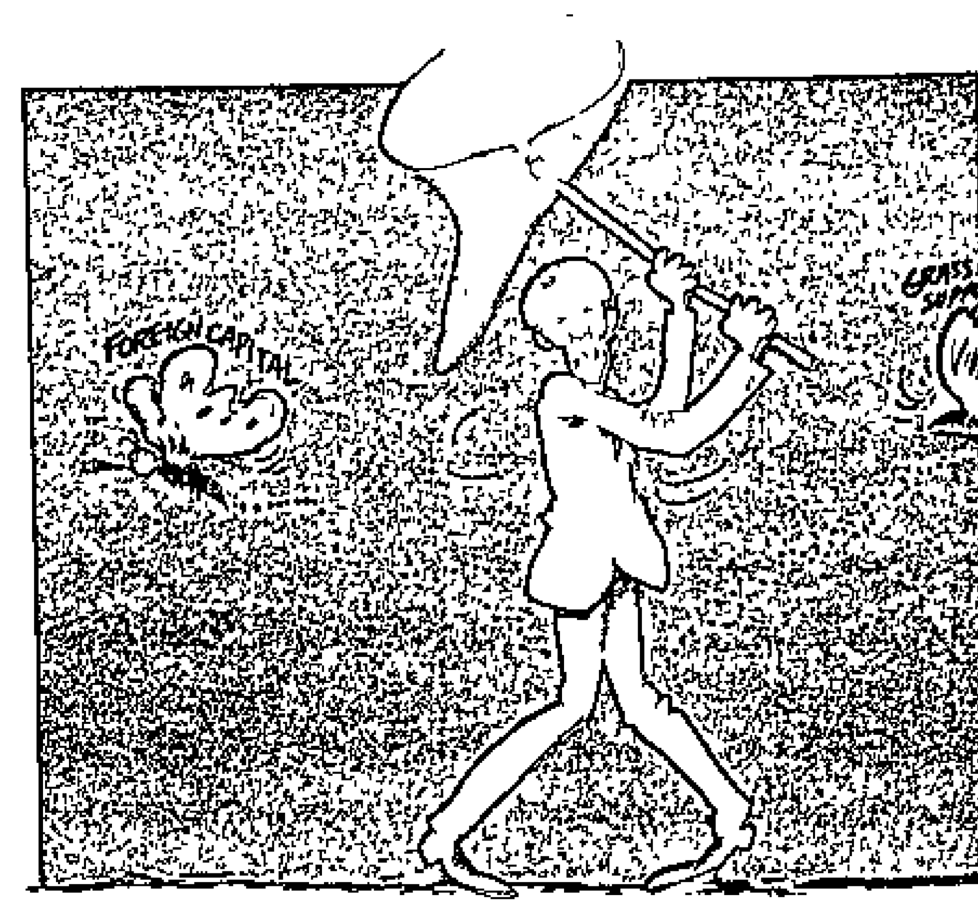
The ANC, it said, would not only keep public corporations operating in such areas as transport, housing, electricity, water and telecommunication, but it would target "strategic enterprises" in other sectors as well. On the other hand, it said: "The ANC's policies will encourage and support a more dynamic and efficient private sector."

The extent of policy shift will not be known until a policy document is published in May. There is no doubt that the market component of the economy will be reduced. ANC secretary-general Cyril Ramaphosa, who spoke at the Monday meeting before Mboweni, indicated that a number of areas would fall to — or remain in — State hands. Nevertheless, Mboweni says the earlier documents are out of date and the new document will contain important changes. It will focus on, among other things, the need to:

- ☐ Reduce cost structures in manufacturing;
- ☐ Encourage high levels of investment; and
- ☐ Endorse the general international movement towards trade liberalisation.

He advocated fiscal orthodoxy — "there will be no running of ever-increasing budget deficits" — and suggested a fiscal commission of inquiry to which business could make inputs. He referred to the creation of an environment that is "inviting to investment" because "it is clear that foreign investment will play an important role in a post-apartheid SA. The best guarantee you can give a foreign investor (relates to) the tax regime, macro-economic balance, and the repatriation of dividends."

On anti-trust legislation and anti-monopolies and mergers policy, he said: "There is a



tendency to confuse conglomerates with big monopolies and the two are not the same. Or to confuse a conglomerate with a big firm. Our policy should be aimed primarily at monopoly (or oligopoly) situations."

And he expressed an important reservation: "What I wonder is once a monopolies and mergers policy is applied, whether you will then get an unbundling of conglomerates. And whether you will not then end up with smaller companies that will not be able to realise the economies of scale that are needed to compete internationally So we must debate this question."

This is encouraging.

But will these sentiments be acceptable to the leadership and the grass-roots support? The ANC represents the aspirations of the underprivileged who have long been led to believe that a magic wand called redistribution will provide for them. Will the ANC now be able to explain the reality that there will not be enough wealth to redistribute unless growth can take place?

The question was put from the audience. Mboweni was confident that the political leadership of the ANC understands the issues at stake. As to the grass roots, he explained, these matters are discussed at branch level and attempts are made to educate members on economic policy issues.

But, with all this said, ANC politicians continue to speak with different voices. The image they project at mass rallies is not the same as the acceptable face presented to foreign investors. Whatever a future ANC government does, it will disappoint someone. This is a common phenomenon in politics — as those US voters who heard George Bush tell them to read his lips will know.

Which is why it is unfortunate that eco-

PTO

FM 3/4/92 (49)

FM BOARD OF ECONOMISTS

Edging towards the new South Africa

Regulars Aubrey Dickman (an honorary professor at Wits Graduate School of Business) and Rudolf Gouws (Rand Merchant Bank) are joined by guest Jos Gerson (of stockbroker Davis Borkum) in a post-Budget and post-referendum assessment. As always, Sacob's Raymond Parsons leads the debate.

***Parsons:* Has the referendum had a positive impact on economic perceptions about SA internally and abroad?**

Gouws: I have no doubt that it has. Even in the days immediately afterwards, there were already signs of new interest. There was less doubt about a positive result abroad than at home, but the size of the "yes" vote has had a major positive impact at home and abroad.

Dickman: One must agree with that. But now everyone will look further down the road to see how this is translated into progress, politically and economically. Continuing confrontation over VAT and other matters may negate that to some extent.

Gerson: One thing that came up clearly when the Old Mutual tried to set up a country fund in Europe was that certain obstacles seriously inhibit investment here. One is exchange control, not only in terms of the financial rand but in the restrictions on local institutions. Money kept in drives money out, because there's no room for foreigners.

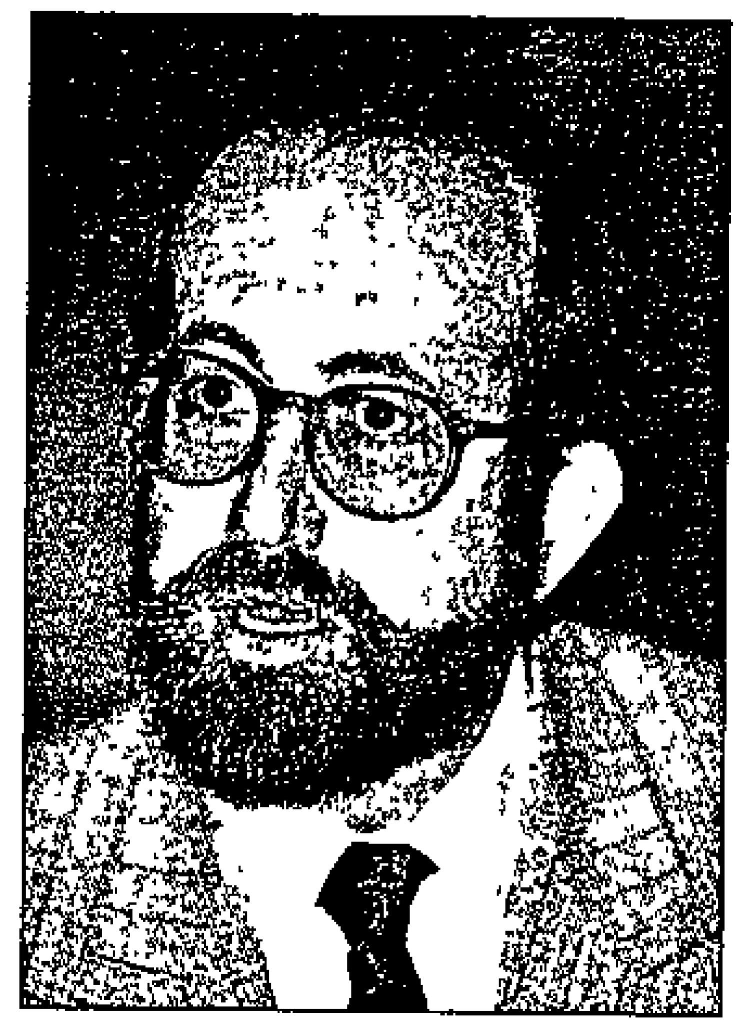
Dickman: We may recently have seen foreign buying of equities, but last year there was disinvestment from equities and gilts. Foreigners were still taking a short-term view. The interest is there, but it is still a wait-and-see attitude.

Gouws: Specific instances of foreign direct investment were simply waiting for a "yes" vote. We have already had confirmation of one such major deal.

***Parsons:* Are prospects for the world economy looking better from SA's point of view?**

Dickman: Not really; world recovery has been delayed. At a certain threshold, the slowdown has a severe effect on both volumes and prices of SA exports destined for the steel and other industries, because of their investment nature. The ingredients of world growth are there in relatively low oil and commodity prices and the stimulus being given to some economies, but in the short term these are negative things for us.

That embodies a great challenge for SA to penetrate markets in manufactured goods — which we have done to a large extent — and restructure our economy.



"The Reserve Bank's proposal to intervene in the finrand market seems to be incredibly ill-thought-out"

GERSON

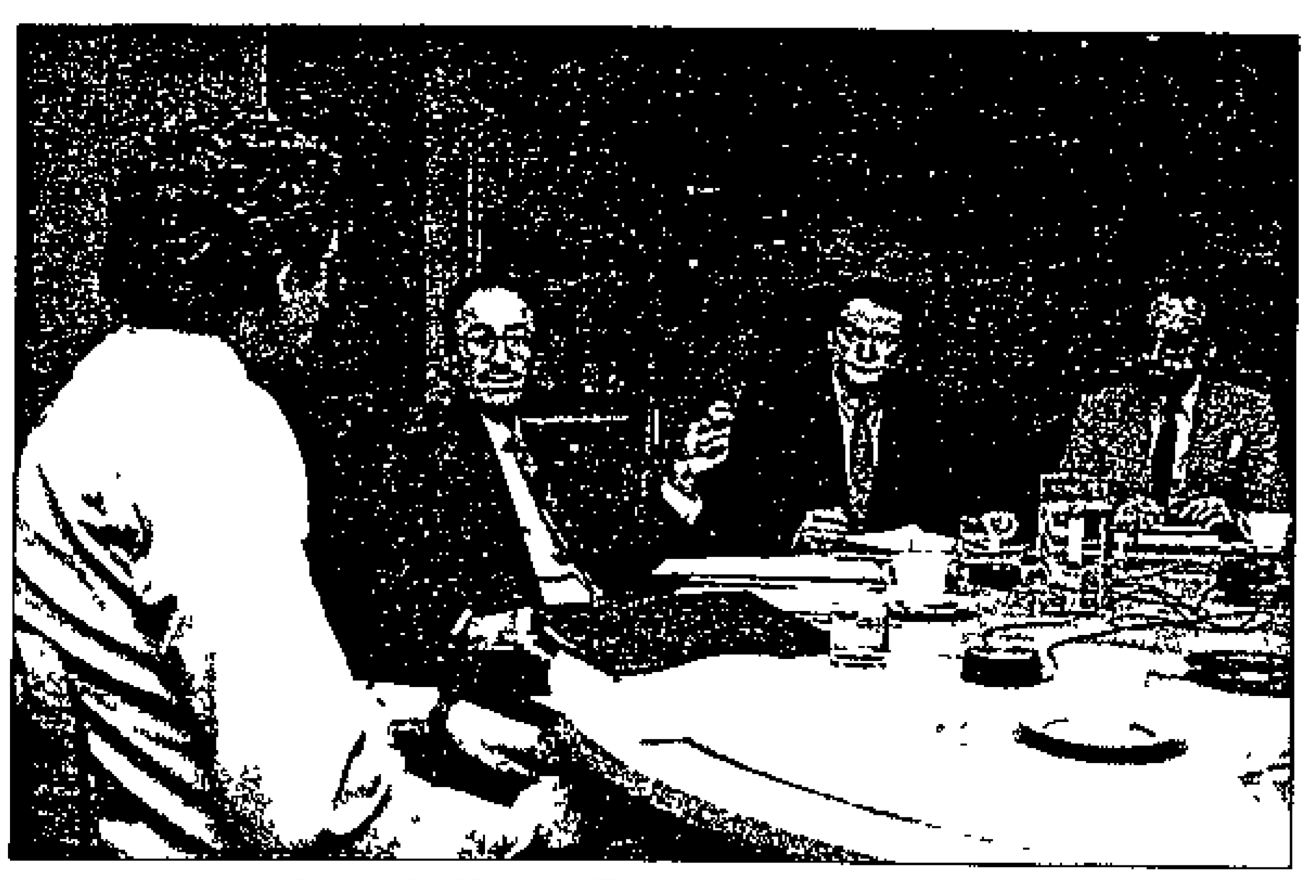
Gouws: Several key US indicators have turned up this year, but Europe (apart from the UK) is going the other way. Real interest rates in Germany and Japan are very high and developments in Europe and Japan will be bad for our export prices and volumes.

Gerson: We don't know whether the recovery that is starting to build momentum in the US will be anything more than a quick fix for the November elections. Structural problems there have not been addressed.

Dickman: Some people have pointed to the steepening of the yield curve in the US as a sign that people are anticipating further inflation and take comfort from this in terms of a possible resurgence of the gold price, but I don't think we can rely on that.

***Parsons:* At what point are we in the SA business cycle? Is recession coming to an end?**

Gouws: I don't see any sign that we have struck bottom. In a few instances, inventories have been very low and with companies finding that demand has picked up there has been some improvement in manufacturing output — but consumer spending is not just flat, it is declining.



The Board (L to R): *Gouws, Dickman, Parsons, Gerson*

Dickman: The momentum is still clearly down. The fourth quarter of last year was a disaster. True, some leading indicators have turned up, there are some positive signs; but what's more interesting is not so much where we are, but what are the ingredients for an upturn. Does it come through stimulus or does it come through lower inflation on disposable incomes? Does it come through the real effective exchange rate?

***Parsons:* How would you characterise the Budget and its impact?**

Dickman: It is a holding operation, a bit like the curate's egg In parts it continues on a supply-side tack, which is good, but it is not that great because the momentum has slowed down. The total dish is not particularly palatable It is of course redistributive in many ways, which may be appropriate. But it was also caught up in a set of socio-economic circumstances which prevented it doing perhaps what is really necessary.

Gouws: I would have liked the Budget to continue more strongly on the path the Minister set upon three years ago There was no further easing in corporate taxes and no effective cut in personal tax. In fact the personal tax burden will rise substantially this year. There is no encouragement to invest or save. That is disappointing.

Gerson: The Minister was hemmed in by political factors. Clearly, direct taxes were not lowered because there was no political room for it and the indirect ad valorem taxes and petrol taxes were just the easy way out. The one piece of good news was funnily enough not even in the Budget speech the reduction from 10 to five years in the period you have to hold quoted shares before you are exempt from capital tax.

***Parsons:* Was the mix between direct and indirect taxes and between government spending and tax cuts the right one? Do you read between the lines that the new SA has abandoned supply-side economics?**

Dickman: I would have liked something very different, something really bold on State spending, which would have created the conditions for tax cuts across the board But I would like to think that we have not abandoned supply-side economics, though maybe we have gone a little Keynesian when we should not have.

Gouws: I think the Minister took a calculated risk that while this Budget does not give the supply-side impetus fiscal conservatives would like, he hoped that the positive impact of the referendum, the abolition of sanctions, renewed access to the world economy and a new mood domestically and internationally would bring growth.

COMMENT

Economic forum

BDay 3/4/92 (44)

WEDNESDAY'S meeting between representatives of organised business and labour and Economic Co-ordination Minister Derek Keys and his associates brings closer the establishment of a forum which could be as important in shaping South Africa's future as a fully representative Parliament.

Remarkably, employers and unions have not taken long to develop a consensus on the structure, powers and functions of an economic forum. In addition, their proposals do not seem incompatible with the transitional council concept advanced by government as part of its proposed arrangements for interim rule.

It is fortunate that the Cabinet has a person of Keys' stature to represent it in this endeavour. His practical experience in the private sector will ensure that he has the necessary finesse to usher the proposed forum into existence. Regrettably, this is a task for which the next most obvious candidate, Finance Minister Barend du Plessis, is demonstrably inadequate. In his handling of the VAT fiasco; only the latest example, Du Plessis has shown that he lacks the sensitivity and grasp of negotiation processes required for success.

An economic forum brings with it much promise of more stable and certain economic and fiscal planning, and new hope for growth. But it also embodies serious dangers, of which participants will need continual reminders.

The forum could help build less adversarial relationships between labour and management and the state, and produce a government more responsive to the needs of the real economy. And, while the proposed forum is designed primarily to operate during the transitional period, it could be an invaluable tool later on to ensure that economic policy is debated by a broad range of interests.

Co-operation between the economy's major stakeholders has been a feature of most of the world's most prosperous nations. Here, our history of racial division has helped make South Africa one of the last bastions of Marxist thought, and this has left a gulf in economic thinking between labour on the one hand, and business on the other. It may be, though, as Cosatu's Jay Naidoo suggests elsewhere on this page, that an intensive interaction of ideas could narrow that gulf considerably.

One of the greatest dangers, though, is that big business, labour and a future government develop too cosy a relationship, striking deals protecting their narrow and short-term industrial interests. This would halt any trend towards greater international competitiveness, and leave the unrepresented — the unemployed and those in the informal sector — on the margins of society with ever less hope of entering the formal economy.

Economic forum takes shape (49)

IN THE first concrete step towards an economic forum, a joint labour and business delegation on Wednesday met Trade and Industry Minister Derek Keys to discuss the nature and work of the proposed forum. In terms of proposals the labour and business delegation presented to Keys the forum will operate during the transition period. It would try to "achieve a balance between a focus on short-term challenges and the formulation of a long-term economic framework". It would also ensure all interest groups have a say in economic restructuring during the transition.

W/Mail 3/4-9/4/92

FM 3/4/92

Champion of liberty and law

Many would say that, if Margaret Thatcher is a conviction politician, the convictions are those of Friedrich von Hayek, who died last week at the age of 92. Yet the conclusion would be unfair to both. Though the former UK PM was a great admirer of the late economic philosopher, Hayek mainly provided articulation and confirmation of convictions Thatcher would have reached anyway. The admiration was reciprocated, yet there was much in his writings that some would see to be at variance with Thatcherite practice.

Friedrich August von Hayek was born in Vienna in 1899. After holding academic posts in Vienna, he went to the London School of Economics in 1931, where he remained as Tooke Professor until 1950. Though his later career took him first to Chicago and then back to Austria and Germany (his last years were spent in Freiburg im Breisgau), he retained his British nationality (acquired in 1938) and remained a close observer of the British scene. He was a joint winner of the Nobel prize for economics in 1974.

Hayek's fortunes teach us a great deal about intellectual fashions. During the thirties he was mainly known for technical economic studies, which were at the time overshadowed by the new Keynesian theories on unemployment and economic policy. One conclusion from that period, recently disinterred, is that market institutions could not just be grafted to State socialism.

Hayek's greatest intellectual regret for those years is that he never wrote a full-scale critique of Keynes' *General Theory of Employment, Interest and Money*. He had previously written a long review of the first volume of Keynes' earlier *Treatise on Money* — only to be told by Keynes that the latter had changed his views. This experience led Hayek to suppose that the *General Theory* was just another "tract for the times."

In the forties Hayek became a hate figure to those on the political Left because of his onslaught on centralised economic planning and insistence on links between political and economic freedom in his best-selling *Road to Serfdom*. It is not well known that Keynes sent Hayek a letter expressing his deeply felt agreement with at least some of the argument.

Decades of neglect

Hayek's brief post-war notoriety was followed by decades of neglect, during which his most important constructive works on the foundations of a free society were written.

After his Nobel prize in 1974, he emerged as a cult figure of the radical Right — which did neither side too much good. For there was far more to Hayek than the demolition of socialism and the standard case for free markets. In presenting him as a revered thinker with a complete system, his followers have made his work neater, simpler and less interesting than it really was.

Hayek's defence of the market system was subtly different from that of many economists. Whereas mainstream economists have been preoccupied with the optimal allocation of resources in given conditions, Hayek was concerned with the effect of the market system on the evolution and stability of society. He was interested in markets as examples of human institutions, like language or law, which have evolved "as a result of human action, but not of human intention."

He insisted that wants, techniques and resources were not given but constantly changing — in part because of the activities of entrepreneurs who open up possibilities that people did not know existed.

According to Hayek, a market system is a

Von Hayek .. *laws rather than men*

discovery technique. No computer can predict the emergence of new knowledge, original ideas, or innovations — and people's reactions to them. He insisted that the most important kind of knowledge was not of propositions or theories but of practical skills and dispositions governed by rules which we may imperfectly discover afterwards, but not formulate in advance

For Hayek the cardinal sin was "constructivism." This was akin to "rationalism," the error of believing that any order we find in society has been put there by a designing mind — and can be, accordingly, redesigned from scratch.

Hayek was far from believing the conventional bourgeois pieties. He never imagined that there was anything just in market rewards. These depended on an unpredictable mixture of effort, ability and luck.

Apart from the adverse economic consequences, it was not desirable even to try to reward merit through public policy, which would involve some authority deciding how much pain and effort a task had cost and how much of a person's achievement was due to outside circumstances.

But, characteristically, Hayek spoilt a splendid and heretical contribution by insisting that any public policy towards the distribution of income and property (beyond the provision of a very basic social-security minimum) involved political assessment of merit and was thus incompatible with a free society and the rule of law.

However, he did not provide any easily recognisable criteria for identifying State interventions of the harmful type. The free-market arguments in *The Road to Serfdom* were based on the incompatiblity of central planning with personal liberty. In subsequent years Hayek approached the issue indirectly. He argued, especially in *The Constitution of Liberty*, that the main condition for a free society was what he called "the rule of law." By that he meant a presumption in favour of general rules and against discretionary power. He attempted to derive from this conception not only the fundamental political and legal basis, but also the economic policies, of a free society.

Hayek's concern was to restore a government of laws rather than men. He warned of the degeneration of democracy into a struggle for spoils among competing groups. He saw the source of interest-group domination in what he called "majoritarian" or unlimited democracy. This is the belief that a government elected by a majority of voters (usually a plurality) should be able to enact what it likes without any checks

Unlike most classical liberals, Hayek's espousal of liberty turned out to be based neither on ultimate judgments nor any consideration of welfare, utility or happiness. He did not even accept the methodological individualism of most mainstream economists. For him, the key to institutions was natural selection.

This evolutionary approach landed Hayek with problems. For it made it difficult to criticise any social order (for example Stalinist Russia) that was not visibly dying out.

Hayek's writings have asserted the case for general rules over discretionary authority. They have exposed the misleading identification of a liberal democracy with the divine right of temporary majorities. They have demonstrated the connection between economic and personal freedoms. They have shown that the domination of both the political and economic marketplace by interest group struggles is a source of evil; and they have explained why pecuniary rewards neither can nor should reflect merit. In all these matters Hayek — like Keynes, Milton Friedman, American philosopher John Rawls or other such seminal figures — is better treated as an intellectual *agent provocateur* rather than a pundit with all the answers

ANC 'ignoring alternatives to nationalisation'

49

FACED with threats of nationalisation, SA business executives say they have bombarded the ANC with other methods of redistributing the country's wealth. BIDay 3/4/92

Alternatives suggested include donating a percentage of company shares to a public trust, privatising state-owned companies and giving every citizen a share, imposing strict anti-trust legislation and affirmative action programmes.

But ANC president Nelson Mandela continues to say unless the business community is able to come up with a viable alternative, he will have no option but to move some industries under government control.

The ANC still does not have a detailed economic policy.

ANC leaders "keep saying the same thing over and over" about a lack of alternatives "and it's just not true", says SA Free Market Foundation president Leon Louw.

With an interim government likely in months, executives are finding it difficult to make future plans.

But rather than wait for a full ANC policy, some executives say the only way to reduce the threat of nationalisation is to introduce redistribution programmes now.

"The SA business community will have to put its social investment money where its mouth is," says the director for the Centre for Promotion of Foreign Investment, Wayne Mitchell.

Anglo American's Clem Sunter says the best way to start closing the gap between rich and poor is to increase black share ownership in corporations.

Sunter suggests the creation of a trust into which large companies donate or sell very cheaply a certain percentage of their shares. The public would be shareholders in the trust.

Louw favours a scheme where government-owned companies are broken up into smaller entities which would be owned by the public.

He has also suggested to the ANC what he calls the Eastern European method of privatisation.

Citizens are given privatisation vouchers which they can use to purchase shares in newly privatised companies. The former state-owned companies' stock prices would be denominated in vouchers.

But not all business executives are presenting the ANC with alternatives to nationalisation.

"They're going to have to work like we had to work," Liberty Life Association of Africa chairman Donald Gordon says.

"If you want to go out and play cricket with the boys, you have to play up to their level. They won't give you any handicaps." — AP-DJ.

Economic Codesa awaits nod from government

(49)

South 4/4-9/4/92

AN ECONOMIC Codesa may be in the making, following a meeting this week between organised labour, business and the government.

Presented to Minister of Trade and Industry Mr Derek Keys at the meeting on Wednesday was a proposal that government join a proposed tri-partite Economic Forum to negotiate economic policy. The envisaged forum would have equal representation for the parties, would work by consensus and have a state-funded secretariat.

All significant labour and business groupings backed the proposal and it remains to be seen if government ends hostility to putting economic policy up for negotiation.

Trade union movement sources are optimistic the cabinet will opt to join, although it may fall to an interim government to participate.

A statement by the key labour and business bodies said: "The major economic stakeholders need to develop co-operative mechanisms for addressing South Africa's economic challenges".

"Organised labour, organised business and the governing authority must work towards strategies for sustained economic growth, elimination of distortions, stability and addressing of social needs."

The key players said they accept Codesa is not an appropriate structure to deal with the economy, but that co-ordination between the forum and Codesa is necessary.

Business and labour sides stress different agendas for the forum.

Business emphasises taxation, state spending, investment confidence and productivity, while trade unions want to negotiate VAT, collective bargaining, worker rights, unemployment and job creation.

Enoch Godongwana, Numsa Regional Secretary (Border)

South 4/4 - 9/4/92

Both the Swedish social democratic model and the Cuban Marxist model are in crisis – for a variety of reasons. It is not to them that we in South Africa should be looking for modesl for a new society in our country.

In South Africa today it is widely envisaged that industrial restructuring will be a product of negotiations between the government, business and trade unions.

This implies that the process will produce various agreements that could together constitute a national accord or social contract.

This is an agreement by those with a major stake in the society — notably organised labour, capital and the state — to give content to common objectives of economic growth, job creation and better living standards for the whole population.

What are the implications of this for a socialist transformation?

Because social contracts have been concerned with reforming capitalism, they are simply rejected and anyone who argues that they should be explored is immediately labelled a social democrat.

It is important for those socialists who reject social contracts not to resort to Marxist rhetoric and dogmatism, but to provide answers to questions facing the working class today.

What do we tell the 9 000 workers in the tyre manufacturing industry when tariffs are removed and their jobs are at stake. Do we tell them to wait for a socialist revolution?

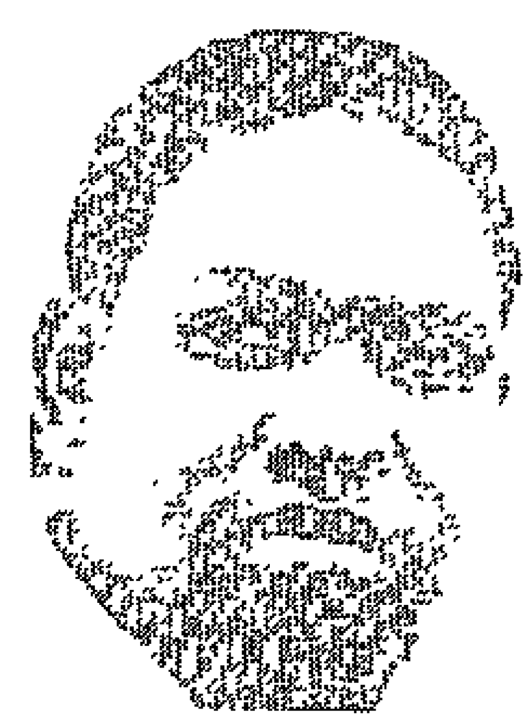
When workers' jobs are threatened, when bosses increase their prices, thereby attacking the living standards of workers, we should respond by putting demands to capital and, if need be, to the state. If these demands are not met we must take mass action.

These issues are important for mobilisation and building strong organisation — keys to the success of any revolution. Such organisation is not built around abstract demands and the same should be said of socialism.

Clearly, the social contract is not intended to make any fundamental transformation of society but to reform capitalism.

But that is not reason enough for its rejection. If the working class had seized power and instituted class rule, talk about social contracts would not be necessary.

'The social contract may be intended to reform capitalism, but that is not reason enough for its rejection'



49

The issue should be approached in the context of the unfolding political situation in our country.

The present negotiations will lead to an ANC-dominated government (assuming the right wing doesn't disturb the process) There is also no doubt in my mind that an ANC government will make fundamental changes beneficial to the poor. But the immediate post-apartheid society will not be a socialist one.

Both now and during the post-apartheid period, we need to engage both capital and state to defend ourselves against attacks on the living standards and job security of the workers.

Our defence will take different forms which may include mass action and, at times, negotiations. It is clear that capital will not negotiate itself out of existence

Any agreement reached will be characterised by trade-offs between the contending forces. The nature of such trade-offs and the final product that emerges in the form of a social contract or accord will reflect the balance of forces.

Assuming that the above characteristics of the post-apartheid society are correct, then the need arises to address tactical and strategic questions facing the working class. I argue not for abstentionism but for engagement, which of course may lead to a social contract. Critical to me is how that engagement takes place. It must be informed by a socialist perspective

This means that a social contract reached should be seen not as an end in itself, but as a building block for advance. Its contents should not therefore preclude mass action on our part

The negotiations should be characterised by mandates and report-backs The demands negotiated must be clear to workers.

Social accords have been achieved in certain social democratic countries within the framework of capitalism

Social democracy in some countries, such as Sweden, did improve conditions for the working class. It provided better living standards and better living conditions and a social environment for the working class.

These improvements cannot be ignored. But socialism must not only provide the above, it must also deliver what social democracy cannot do. It must genuinely empower the producers so that they have control over what they have produced.

Socialism needs to transcend social democracy. We need to approach the debate on social contracts creatively, guided by a socialist perspective and working class democratic practices such as accountability of leadership, mandates, reports and mass action if demands are not met.

The socialist vision means a society where the means of production are to a large extent controlled by the producers, or workers, and where social wealth is used for the benefit of society as a whole.

I say "to a large extent" because I assume the continued presence of private property since socialism is a transition between capitalism and communism and contains ingredients of both.

In short, I argue for restructuring informed by a socialist perspective and characterised by working-class politics, democratic practice and accountability of leadership.

All approaches must be debated and hopefully some common ground will be reached. **— SA Labour Bulletin**

Bursary tribute

(49)

SANLAM has named a R30 000 bursary for economic research after the late Dr Fred du Plessis, former chairman of the company.

The bursary will be awarded every second year for economic research of national interest. ST times

The closing date for the first award is June 30.

Individuals and teams may apply and the study can be undertaken full or part time. (Cape Metro)

The bursary is intended not only to commemorate Dr Du Plessis but also to serve the science in which he made his mark. 5/4/92

Application forms are available at the economic departments and business schools of all universities and the Economic Society of South Africa.

COSATU 'PUSSYCAT' ROARS APPROVAL FOR SOCIALISM

(49)

S Times 5/4/92

By MIKE ROBERTSON
Political Correspondent

THERE is a steely determination about Cosatu general secretary Jay Naidoo — even when he is behaving like a pussycat.

Last weekend his union movement unveiled its economic proposals which included calls for: a highly interventionist state; restrictions on luxury imports, and a new tariff policy; the introduction of land and wealth taxes; the re-nationalisation of Iscor.

It's rough sounding stuff and Mr Naidoo is unrepentant about it.

Cosatu, he says, is a socialist organisation and it should therefore surprise no one that it looks to socialist devices to rectify what it sees as the real problems confronting the country. These problems are "poverty, homelessness and a lack of jobs".

"We are not going to sweep them under the counter in an act of political expedience."

However, he accepts that business, the government and other political parties have different ideas on how to tackle the economic ills of the country.

That's why Cosatu insists on an economic forum where parties can develop a consensus on key issues to be addressed and the manner in which this should be done. The economic forum is Cosatu's bottom line, he says.

□ □ □

In essence the union movement is demanding that the government relinquish the sole right to make decisions on economic policy. To enforce its demand, it has so far called one national strike and threatens another.

Economic Co-ordination Minister Derek Keys has argued that the time is not yet right for an economic forum. The government, he said, was not representative of the entire community. Cosatu and Nactu, while powerful, represented only a small section of South Africa's potential workforce and business organisations like Sacob had mandate problems.

Mr Keys has said business and the labour movements should meet now to discover areas of agreement and points of conflict. When a transitional government was in place the forum could be set up.

Mr Naidoo would be prepared to go along with Mr Keys's argument, but for the fact that the government was at present "engaged in unilaterally restructuring the economy".

That restructuring, he argues, is aimed at restricting a future democratic government's ability to address economic backlogs and, worse still, benefiting the National Party's public service support base.

Mr Naidoo bases his argument on:

- The government's shifting of an increasing share of the tax burden to individuals;
- The negotiating of tariff agreement with GATT which would bind a future government;
- The privatisation of state forests which he believes will result in an increase in building costs;

□ □ □

- The government's arranging of foreign loans at high interest rates and then ploughing R2-billion of surplus borrowing into the public service pension fund.

Mr Naidoo says Cosatu's objection to the manner in which VAT was introduced should be seen in this light.

He rejects the government argument that a uniform VAT rate makes for a better tax system as an excuse for laziness on the part of the Finance Department. Quoting Germany — a favourite point of comparison — as an example, he points out that in this European economic superpower, the government felt it necessary to have a low VAT rate for foodstuffs and a higher rate for everything else.

Mr Naidoo sees an economic forum setting broad guidelines for future taxation, fiscal, monetary and industrial policies.

He accepts that, should such a forum be set up, Cosatu would also have to deliver. He says Cosatu is quite prepared to have issues like productivity and labour stability feature high on the agenda of the envisaged forum.

"Negotiations bring rights as well as responsibilities," he says.

"Productivity is important in the context of us becoming internationally competitive, but what we need to do is invest in human resources."

Mr Naidoo says the plan to call a general strike this month has been postponed while the union movement assesses progress at Codesa 2 and whether Mr Keys has any success in getting his cabinet colleagues to agree to an economic forum.

□ □ □

Cosatu, he says, won't rush into mass action but retains the right to use it if the government refuses to negotiate.

The same would apply to any future government even if it were dominated by its alliance partner, the ANC.

"Obviously we have tried to seek consensus around common objectives. One of them is building a non-racial South Africa. In that context the alliance with the ANC is very strong. But once the ANC becomes the government, that is another story.

"Cosatu enters into alliances because they materially and politically advance our members' interests. When they don't, then we won't be in an alliance."

Workers put screws on ANC

CIP rev 5/4/92

(49)

Cosatu's recent economic conference asserted that vital worker support in any general election comes with an ANC guarantee on socialism. The ANC has a compelling problem, writes City Press assistant editor SEKOLA SELLO.

THREE major themes emerged from Cosatu's economic policy conference: the country's largest trade union federation favours more state intervention in the economy by a future government, is firmly committed to socialism and wants a dominant political and economic position for workers.

The majority of these policies, if implemented, would place workers in a strong position in government and society. It would also make Cosatu more than a union federation and take it closer to becoming a truly workers' movement.

If this came about, Cosatu would find itself having a lot more in common with the SACP than the ANC, the most senior member of the tripartite alliance.

However, whether these policies stand a chance of being implemented is another matter altogether. Big business is likely to put up a solid fight.

Cosatu, in charting its economic growth path, says it will strive to promote the working class as a dominant political and economic power.

It also envisages giving workers the right to decide on production processes, distribution of surplus and allocation of investment according to social needs.

These principles, including nationalising the key economic sectors (thus-far unidentified) and breaking up monopolies and conglomerates (also unspecified) will be rejected by big business.

Would-be Western investors are also vehemently opposed to such practices. Free marketeers claim these practices smack of the failed policies of the Eastern bloc.

However, while Cosatu is undecided on which industries and conglomerates it wants nationalised, the conference listed Eskom, public transport, the Post Office and Telkom, state forests, municipal services, water, education, Iscor, roads and health services.

In the wake of these assertions, many will be looking out for an ANC response.

It is interesting to note that Cosatu unveiled its economic policy before it's ally, the ANC, held its conference on a similar topic.

Given the symbiotic relationship which marks the alliance, observers are keen to see how the multi-class components of the ANC respond.

Will the ANC back Cosatu? If not, is this Cosatu's way of warning the ANC about a potential conflict of interests?

Some of those who drafted Cosatu's economic policy are likely to play an important role in the coming ANC conference. They will obviously defend the Cosatu position.

Cosatu has promised to earnestly campaign – on a "scale unseen before" – to ensure a landslide victory in the elections (which they hope will be this year). Naturally, they will in turn expect the ANC to safeguard their interests.

This places the ANC in a corner: It definitely needs Cosatu's support in any elections, but, at the same time, ANC president Nelson Mandela is aware that Cosatu's policy demands will exact a high price from a future government.

During his recent visit to Europe, Mandela was made painfully aware of the West's opposition to nationalisation – let alone socialism.

He came back saying a future ANC government would have to take into account this opposition by the major owners of capital.

Cosatu assistant general secretary, the tall and baldheaded Sam Shilowa, is quick to deny that Cosatu is pursuing failed Eastern bloc policies.

He says Cosatu will not act in a unilateral, commandist or any other undemocratic manner and that key players – workers, unions, businessmen and government – will be involved.

He says decisions will only be made after exhaustive discussions aimed at maximum benefit for all.

Cosatu proposes creating forums drawing together all affected economic players to chart meaningful channels of communication and make joint decisions. This is seen as a way of democratising the economy.

Shilowa said Cosatu realised its goals were futuristic and probably difficult to realise, but the federation believed this to be the way to make inroads into pressing problems of poverty and starvation in the rural and urban areas.

They also proposed that retrenchments similar to those likely to be announced by Eskom and similar bodies be halted.

"At the moment 70 percent of black areas were without electricity. If these areas were electrified, there would not be a need by Eskom to retrench workers or close down mothballed stations.

"Instead, more workers would be employed, more support industries would benefit and others would be created."

Shilowa made the pertinent observation that any government which pandered to the whims of the investors while ignoring the inequalities and poverty, is likely to fall.

It is an observation Mandela and several ANC leaders are acutely aware of.

How can a future government address these pressing problems without antagonising big business? That is the thorny question.

New book exposes nonsense of Verwoerd's dreams, writes **Graham Linscott**

How the 'O'Dowd thesis' came true

STAR 6/4/92

(49)

IN 1964 Michael O'Dowd, of Anglo-American, advanced the "O'Dowd Thesis", in terms of which apartheid would be destroyed by economic development.

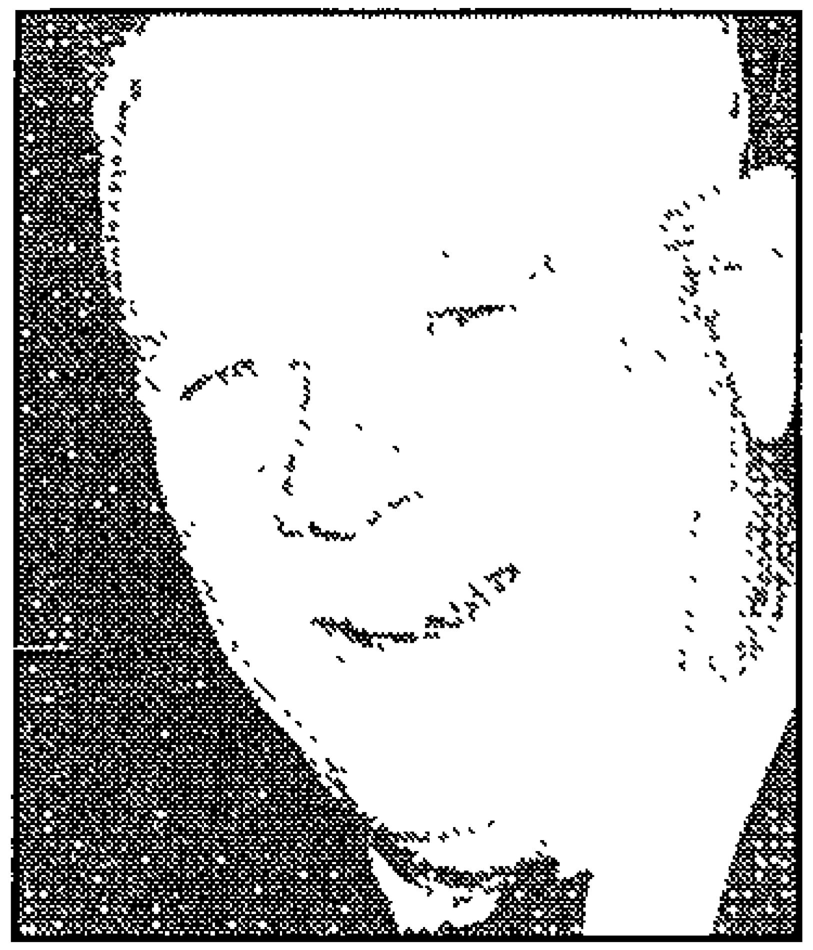
That was at a time when Verwoerd was at the height of his power and seemingly going out of his way to defy — without apparent setback — every economic canon there was.

To describe the edifice as something soon to crumble required cool nerve.

Yet crumble it has, though not quite as fast as O'Dowd predicted.

All that held up the destruction of apartheid at the pace he envisaged, he says, was the slowing down of economic development which began with the Gulf oil crisis of 1974.

His arguments are pulled together, restated and refined in a new book (South Africa: The Growth Imperative, Jonathan Ball) which must surely represent one of the most consummate skewerings yet of what the Nationalists stood for over 40-odd years and what the ANC and others of socialist inclination stand for.



Dr Verwoerd . . . defied every economic canon there was.

The pretensions of socialism, statism, racism and social engineering are pricked like so many balloons, the motivation of socialist intellectuals coming in for particularly sharp dissection.

Africa failed, he says, because the intellectuals of Europe, who supported their struggle for independence, felt compelled to graft socialism on to the African states.

To have urged otherwise would have been to concede success to their non-intellectual, free enterprise political opponents at home.

The decline of countries such as Britain is directly related to domestic acceptance of the ideas of the same socialist intellectuals.

The book has a wide world sweep. South Africans, only now emerging from decades of ostracism and isolation, will be particularly intrigued by a chapter on the motivation of the international anti-apartheid lobby, which he analyses as being on a level with witch-hunting and witch-burning.

Not surprisingly, O'Dowd argues for free enterprise and economic growth, within realistic Third World parameters.

He advances reasons why the world will not shower us with funds and argues that there is no substitute for intelligent economic policies such as low taxation and non-protectionism.

South Africans have to emulate the Japanese, who "earn their living in the world".

Lucid, closely argued and superbly written, the book is a tour de force for the liberal position.

● **South Africa: The Growth Imperative by Michael O'Dowd (Jonathan Ball R56,05)** □

Decline of effective rand slows to 0,7%

Bday 7/4/92 (38) (79) (49)

SIMON WILLSON

THE decline of the effective rand — the rand's value against a basket of trading partners' currencies — slowed to 0,7% in the first quarter from a 1% fall in the fourth quarter of 1991, Reserve Bank figures show.

The rand's quarterly effective depreciation in the three months to March was the smallest since the 0,6% fall in the third quarter of 1990.

The effective, or trade-weighted, rand is expressed as an index against the currencies of SA's six major trading partners. The rand's effective index gives a broader assessment of its value than a bilateral exchange rate.

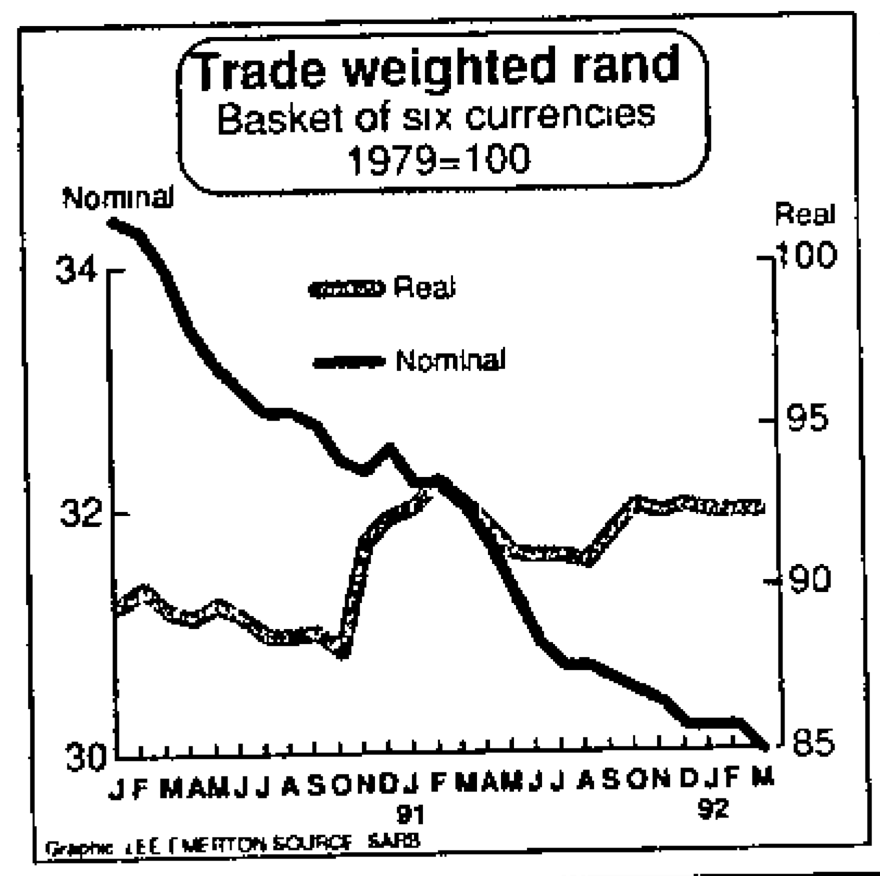
The rand's effective index, based on 100 in January 1979, stood at 30,0 at the end of March. The six trading-partner currencies against which the effective rand's value is measured are the US dollar, sterling, Deutschmark, yen, guilder and the lira.

Although 30,0 is a record low in nominal terms, if the effective rand is adjusted for inflation it is steadily strengthening. The effective rand should be depreciating in line with SA's inflation differential with major trading partners, currently about 10 percentage points at consumer level, but less at producer level.

Instead, reflecting the Reserve Bank's domestic credit policies and exchange-rate management, the effective rand declined only 6,2% last year. Because the nominal effective rand is not weakening in line with the inflation differential, the real effective rand is strengthening.

The strong real trade-weighted rand is currently contributing to the relatively low rate of producer price inflation by restraining import costs. Import prices actually fell 2% in January producer price data, thanks to the strong effective rand and to the unwinding of the effect of a rise in the oil price a year earlier.

The continued resilience of the nominal trade-weighted rand and the extended strength of the real effective rand herald further disinflationary influences from imports during the rest of the year.



Cash inflow holds rates down

BDay 7/4/92 (49)

STRONG liquidity inflows into the local money market last week continued to exert downward pressure on rates and saw the three-month liquid BA rate in a lower range of between 15,40% and 15,70% towards the end of the week.

The market saw a substantial influx of cash, arising from month-end squaring and seasonal trends associated with the quarter-end and the new fiscal year.

The sale of government stock of about R2bn was not enough to offset a tremendous amount of government spending which went towards the financing of quarterly payments to the self-governing homelands and to members of the Southern African Customs Union. The result was a three year low in the money market shortage down to R365m after month-end.

The Reserve Bank was active in the market in an attempt to mop up liquidity and to restore the shortage to comfortable levels of around R1bn. The Bank issued a five-day special Treasury bill (TB) tender, but applications were undersubscribed and the Bank received only R450m for the R500m of bills on offer — despite a relatively attractive rate of 15,14%.

Earlier in the week, the Bank raised eyebrows when it failed to issue special bills when the shortage slipped to R700m

Liquidity conditions in the market are expected to be maintained in light of the moribund state of credit demand growth, and thus rates should continue gradually to ease. The BA rate continued its downward trend last week with one major institution quoting the rate at 15,40% — despite the market having over-discounted the recent one-point cut in Bank rate.

The BA rate was last at levels of around 15,40% three years ago, in February 1989 According to market sources, dealing last week on the three-month paper was taking place at levels as low as 15,30% although some of the larger institutions quoted official rates around levels of 15,70%.

The capital market was subdued last week following players' recent activity in reaction to last month's reform referendum. With no major economic indicators released last week, the market lacked direction and rates can be expected to drift aimlessly for another a week with no fresh fundamental news expected for some time.

Towards the end of the week, the benchmark Eskom 168 was at levels of around 16,08% from 16,10% previously, while the longer-term government RSA 150 stock was at 16,31% from a previous 16,38%.

Interest in SA on the wane in US Congress

B/Day 7/4/92

SIMON BARBER in Washington 49

ASSISTANT Secretary of State for Africa Herman Cohen appeared before the House Africa subcommittee last week to discuss US policy towards SA in the wake of the referendum. It was a curiously perfunctory session. No theatre, no posturing and plenty of empty seats in the gallery. Time was such events would be packed and contentious. No longer.

The panel's genial chairman, Congressman Mervyn Dymally, devoted much of his time to eulogising his absent predecessor, Howard Wolpe, who had just announced he would not be seeking re-election. As for his cross-examination of Cohen, he merely read from a list of questions prepared by his staff and which he was evidently seeing for the first time. He showed little interest in the answers. He too is leaving Congress.

Then it was the turn of Congressman Steve Solarz, the only other member of any substance to put in an appearance. Solarz might have been expected to plug his SA Democracy Aid Initiative — the "multi-billion-dollar" package of aid and trade benefits he has been pushing for the past year.

He didn't even mention it. His mind, perhaps, was elsewhere. The House ethics committee had just named him one of the 22 worst "abusers" of the House bank and he had $594 646 worth of kited cheques to explain to his constituents.

The proceeding's listlessness was not solely attributable to the members' preoccupation with their personal futures. Political interest in SA has been waning for some time. Sanctions are no longer an issue for any but the most desperate bittereinders. It is difficult to maintain a crusade against a racist white minority, 70% of whom have just voted for a non-racial future.

As for the violence, it is too inchoate and complex to be a rallying point for anything more than the occasional prayer vigil. Gay MacDougall of the US Lawyers' Committee for Civil Rights Under Law, who acts as a legal adviser to the ANC, contended that "the convincing evidence of government involvement" in the killing meant that the sanctions-lifting conditions of the Comprehensive Anti-Apartheid Act had not been met. The subcommittee greeted the assertion with a collective yawn.

In sum, as far as the American political establishment is concerned, SA has now been "done". With the demise of apartheid, the constituencies that obliged Congress and the administration to pay the place special heed are focusing their attention elsewhere. Reducing interest further are the implications of the logical next question: what do we do now? Imposing sanctions was cheap. So too was lifting them. Helping a new democracy emerge from the ashes conjures up the taboo of the 1992 election season, foreign aid.

As already noted, Solarz did not raise his initiative. The principal reason is that it is going nowhere. Cohen thought the topic might come up, so he sought to deal with it in his opening remarks. He spoke windily of "ongoing consultations within the administration and with Congress regarding how we can best be supportive of both the transition process and the nonracial democracy we are convinced will emerge from it".

"Let me state for the record" — a phrase often used to disguise vapour — "that we share your concern that the international community support SA in this crucial period. We believe that action cannot wait. The economic underpinnings that will be essential to the success of democracy must be built now, and we and other international parties, public and private, must be involved."

□ COHEN

Nice sentiments, but vacuous. What action did Cohen have in mind? How were these "underpinnings" to be built? What specific form might the outside involvement take? No one on the committee, not even Solarz, was sufficiently interested to pursue such questions, even when what Cohen had to say next made them seem even more pressing.

All the "promising developments" in South and southern Africa, he observed, were being threatened by the "calamitous" drought. The region as a whole would need to import more than 9-million tons of grain. SA, usually an exporter, would have to import about half that amount at a cost of more that $1bn.

Cohen went on: "While SA will be able to fund these imports on a commercial basis, they will come at the expense of stimulating economic growth and addressing the backlog of black socio-economic needs. Costs for food imports elsewhere in the region will hit even harder and the problem of getting food assistance to where it is needed through an overworked transport system will be considerable."

Yes, indeed. So what did the administration propose to do about it? How could Congress help? One waited in vain for an answer, an announcement, perhaps, that the administration intended to seek emergency relief funds. Instead, one heard poetry: "It is unfortunate that . . . nature appears intent on undercutting so many promising trends."

Now Cohen is not to be blamed for this. The simple fact is that with the US government running a $400bn deficit this year, and with politicians terrified of losing their jobs if they are caught spending another cent on foreigners, the money isn't there. Or, to be more exact, it is only there if everyone with a say in how it is spent can agree — as they have in the case of aid to the former Soviet Union — that long-term US prosperity and security are at stake. It is difficult to make such a case for Africa.

This means that to help deal with the drought, the State Department and the Agency for International Development will be scrounging through existing accounts looking for spare change. As for "action" on SA, lifted sanctions, a few modest trade and investment incentives (Opic, Export-Import bank loans etc) and the current, if nominal, $80m a year "aid for the disadvantaged" programme look to be about it.

Which is not to say SA will go unassisted. To make up for what it cannot offer unilaterally, the US will undoubtedly encourage its partners in the Group of Seven industrialised nations, not to mention the multilateral lending and development organisations, to do their bit.

Cohen predicted that: "Under World Bank leadership, donors will be able to rally together and coordinate their assisatnce to have maximum impact."

Therein, perhaps, lies the moral of last week's hearing. When they think about the US, SA policymakers would do well to focus more on the institutions headquartered here — the World Bank, IMF, UN and their subsidiary organisations — than on Congress and the administration, both of whom have lost interest. For them, SA is an issue that has been dealt with. For the bank and the IMF it is a new frontier. They will do far more to determine political and economic outcomes in SA than the US government can, even if it wished.

Labour makes a bid for economic clout

STAR 7/4/92

(49)

Cosatu is not directly involved in political negotiations — and has tended recently to be overshadowed by Codesa. Last week the giant labour federation published its economic proposals. Political Editor SHAUN JOHNSON asked general secretary Jay Naidoo to expand on them, and give his vision of the crucial months of transition which lie ahead.

COSATU has just held what you describe as the most representative conference on economic policy in its history. Many of your proposals have been greeted with horror by, among others, the business community. Are these hard-line proposals Cosatu's final word?

This is part of a long process and it is not static. Those views will be refined. We are saying these are our proposals and we are prepared to enter into negotiations around these issues — but the point is we are not going to accept attempts from anyone to impose an economic policy in which we are not involved. That goes for the ANC as well.

Are you sending a shot across the bows of the ANC, warning the organisation not to soften its line on nationalisation at its economic meeting in May?

Within the (ANC SACP Cosatu) alliance we are developing common propositions on the economy. Our view is that no single party can dictate to the others what their policy should be. So obviously there are going to be differences of emphasis, and there is an agreement within the alliance that we need to manage that.

But are you not sending a distinct message to the ANC?

We seek, of necessity, to influence and lobby all the political organisations we can. The most important is the ANC. So we make no bones that we wish to influence the ANC — and in reverse, they seek to influence us.

But the key proposition within the alliance — and that is where there is consensus — is that basic social services must remain in public hands. The consensus is that a democratic state — not acting on its own or in a dictatorial manner — is perfectly entitled, where it sees large sections of the population being disadvantaged by monopolistic practices, to intervene. Either by setting up competing institutions, or by nationalising.

The ANC will agree with many issues in our proposals, and there are those they will obviously disagree with. We are not demanding that they agree with us on everything.

Has Cosatu considered, because of the sensitivity of the issue, changing its emphasis on the question of nationalisation?

What we are doing is raising the issue of the orientation of ordinary people or workers. Yes, they are hard positions. Their orientation is that we should nationalise the commanding heights of the economy because these represent the white monopoly stranglehold over our development. That is the orientation of people and whites must understand that there is intense anger about the way in which the economy has been manipulated to the disadvantage of the very people who are having to shape policy for the future. You can't just sweep that under the carpet. You can't say we're one big happy family because we're not. We want to get there, but we're not there yet.

This is the type of debate you've got to have in this country — and you've got to engage it, because if you squash it, you're going to turn that anger and ferment into a type of hostility that you eventually won't be able to talk to.

We want to promote the economic debate, not stifle it.

Cosatu is accused, in its continuing adherence to socialism, of being hopelessly out of step with world events.

Okay, there's criticism of our orientation. But we cannot, as trade unionists, adopt an orientation that is pro-capitalist. That is the nature of our existence. Even employers recognise that there is a conflict of interests between trade unions and them. We are going to try to drive the economy into meeting basic needs, but at the same time we are not saying that there is no basis for returns on investment, for profits.

It is very easy for those who criticise us — and they have a right to do that — to reduce our arguments to commandist-type bureaucratic socialism of eastern Europe. But our policy has got nothing at all to do with that. If you look at the concrete propositions we are making, look at the role that civil society will play, the role that trade unions will play in decision-making, the fact that the state must not be dictatorial, multi-partyism. Everything we are saying is the opposite of what eastern Europe was.

Are you able to sell your position internationally?

Obviously I haven't had the same extent of exposure to international business as Nelson Mandela has, but in every country I've been in I've met with business, with governments, and they have all expressed reservations.

But we argue our positions out consistently. I haven't found a single person who has said there is no role for the state in a democratic country. I've not had any opposition to the proposition that economic success can only be underpinned by a relationship between this democratic state, labour and business that is on an equal basis. The most successful countries have understood that labour is not a commodity, it is a resource, and you've got to invest in that resource.

Naidoo . . . not going to accept attempts from anyone to impose an economic policy.

Do you foresee the potential for successful negotiations on the economy — negotiations that will avert actions such as a national strike?

Cosatu is a militant organisation, undoubtedly. But if you enter into negotiations with Cosatu, you have agreements that stick — if you negotiate in good faith. So we can take hard-line positions, but we're not hard liners as such. We will put really strong positions on the table as we represent very explicitly and directly the interests of the majority of people in this country. We make no bones about that.

Might Cosatu accept the principle of power-sharing?

Those are issues that the constituent assembly must decide. But we're not opposed to power-sharing in principle, if it is done in the context of agreements on the basis of common policy platforms. What we are opposed to is forced coalitions. We're not even opposed in principle to the notion of "sunset clauses" — but we say this must be debated in the constituent assembly. There is no political party that has been through democratic, nonracial elections because we've never had one in this country. How do we know who the leaders are going to be?

The controversial notion of a wealth tax is mentioned in your proposals.

The wealth tax is included as an option, but there was no debate around it. It's not an issue that is unknown in world history — just look at Germany after World War 2. But it's certainly not a policy centrepiece, although you must understand it is an attractive concept given that we represent people who have been deprived. We're not going to hide these things, they're being talked about in the townships.

In countries like Zimbabwe and Namibia, it seems that what were before independence powerful, independent trade union movements, have been severely curtailed or co-opted after independence. Do you fear this might happen here in South Africa?

There's a difference in our case, if you look at the history of the union movements, and the degree to which they have delivered the goods. We are in daily contact with more than 30 000 shop stewards. Leaders are addressing the daily needs. We have established our role, our culture in society. The ANC accepts Cosatu as a very important player.

We are not prepared as trade unionists to go the same way as those under Kaunda and Mugabe. We want our key rights in legislation, in the constitution. We are not interested in blind good faith.

Do you think, given all the difficulties and competing interests, that a future South Africa can have a thriving economy?

The big question facing this country is what agreements are arrived at between government, unions and the private sector on the form the growth path will take. South Africa has enormous potential, but a lot will depend on the stability that is achieved as a result of agreements. We need to enter into a major programme of reconstruction.

The goal of Codesa is to create jobs, build competitiveness, create wealth. Around this there is consensus. The question is the path you take to that — and it cannot be unilaterally decided □

Incentive strategy misplaced

BIDay 8/4/92 49

BEN VOSLOO

SA IS at a critical juncture in its economic, political and social history.

The negotiations at Codesa and euphoria over the "yes" victory in the referendum will not do enough to pull the economy out of the longest recession experienced by SA since the 1930s. What is needed are comprehensive strategies to promote economic growth and employment creation to meet rising political and economic expectations.

The SA economy is faced with a widening development gap in that the rate of population growth outstrips economic growth by an increasing margin. The disconcerting outcome of this gap is increased unemployment, which has led to growing poverty at all levels of the society and eventual social unrest.

We at the Small Business Development Corporation have always known that entrepreneurial activity is the essential source of economic growth and social development and have emphasised this, because the key role of this production factor is generally underestimated.

No production is possible without the four essential resources: raw materials, labour, capital and entrepreneurship. Each has an important role to play in the production of goods and services. However, the entrepreneur plays the key role in that the other three production factors are not self mobilising. It is the entrepreneur who mobilises the production factors, who gets the economic production machine running.

The natural home of the entrepreneur is the small and medium enterprise (SME) sector which has in recent times assumed a position of almost universal orthodoxy. In all the successful economies of the world it figures as a dominant force.

The impressive economic performance of certain Southeast Asian and Western countries has focused the attention of business leaders, policy makers and academic analysts on the prominent role played by SMEs. It is common knowledge that the SMEs can make a meaningful contribution to economic growth, employment generation and social progress. They are the most cost-effective job creators.

Of the approximately 810 000 formal business entities in SA, an estimated 91% — or 720 000 business entities — can be classified as SMEs. Their estimated share in terms of GDP stands at about 50% and they employ about 2,4-million people — 30% of all formal employment.

These figures exclude the informal small business sector which probably involves an additional 4,4-million persons accounting for another 15% of the GDP. This brings the total SME contribution to the GDP to 57%, as well as accounting for the employment of about 6,2-million people.

Unfortunately, the SME sector's political influence and impact on public policy making in SA is not even remotely commensurate with the importance of its contribution to society.

In the Budget for the 1991/92 fiscal year, R1,411bn was allocated to export trade promotion. This amount is distributed to about 2 500 beneficiaries, most of which are large companies, under the General Export Incentive Scheme (GEIS). In the same Budget, only R75m was earmarked for SME development through the SBDC.

In this year's Budget the situation has deteriorated even further. More than R2bn has been allocated to the GEIS, but only R3,8m has been set aside for small business development.

This stems from the fact that big business has a large influence on the formation of public policy, and thus gains much more from government subsidies and incentives. Similarly, indications are that large corporations pay taxes at a much lower average rate than SMEs.

Given the central role of SMEs in wealth and job creation, it is essential that government abandon its bias in favour of large businesses.

In other countries, governments have sought to encourage the development of SMEs with both indirect and direct assistance measures, such as tax incentive schemes. Britain, for example, operates a "business expansion scheme", which provides a tax incentive to investors who invest in unlisted enterprises.

Further, they have introduced a graduated corporate income tax rate which enables smaller companies to pay proportionally less tax than larger concerns. This recognises that smaller enterprises need more retained income to finance growth.

While SMEs in SA pay tax at a marginal rate of 48%, similar enterprises in Britain are paying 25% on profits of up to R1,25m. So in SA, a developing country, we have the absurd situation of our SMEs paying tax at more than double the level of their counterparts in a developed country.

Clearly, we need to redress the imbalances that exist between policies aimed at supporting the activities of big business and policies aimed at the SME sector. You cannot build a more prosperous SA by focusing supportive initiatives almost exclusively on the big business sector.

Considerable savings could be made through cuts in the bureaucracy and reviews of its spending allocations. These savings should either be left in the pocket of individual taxpayers who are already burdened with a 42% contribution to the total revenue, or diverted to more productive resources. Sustainable economic growth can only be achieved through increased output — wealth creation rather than wealth distribution.

Let us take a longer-term view. Let us cut the bureaucracy and invest in productive resources. If a person has a job, he can buy products and services and also pay taxes. We must now start to redistribute opportunities rather than attempt to redistribute existing wealth.

□ **Vosloo is MD of the Small Business Development Corporation.**

Wealth tax can contribute little to sound fiscal policy

BDay 8/4/92

MARIUS VAN BLERCK

49

ANC economist Neva Seidman Makgetla has argued in Work in Progress (December) and Business Day (November 22) that the reaction of the "mainstream" Press to suggestions of a wealth tax was unjustifiably hysterical. Cosatu's Neil Coleman expressed similar sentiments in Business Day (March 6).

To the extent that some Press reaction to the suggestion of such a tax was overdone, these authors are quite correct. In a climate of political and economic change, it is essential that fiscal issues be examined rationally and objectively rather than emotively. The issue of wealth tax is no exception to this maxim.

The first step is to define the subject. "Wealth tax" generally includes annual net wealth tax, and capital transfer taxes in the form of gift and death taxes. A point immediately apparent is that SA already has the latter two taxes.

The next step is to define the ideal objective of fiscal policy. Such an objective could be "the creation of a system of taxation which operates efficiently — one which extracts as much revenue as is necessary for the state without adversely affecting economic growth". Such a system does not favour high or low taxation per se. It requires the system to be designed in a way which will yield revenues efficiently, taking heed of its effect on economic growth.

Where does wealth tax fit in the taxation armoury? As already stated, we have two forms of wealth tax in SA, and such taxes are not uncommon in successful economies throughout the world. However, evidence indicates that there has, in the past few decades, been a trend away from taxes which are not cost-efficient, and that wealth taxes are deemed to fall into this category.

For example, in 1965 property tax (which also includes wealth tax and taxes on property transfers) at a general government level (including provincial and local levels) in OECD countries averaged 2% of GDP. It had dropped to 1,8% by 1985.

In SA, a similar trend is evident. In 1975 property taxes at a general government level amounted to 1,6% of GDP and by 1985 this had dropped to 1,3%. By 1987 property taxes were again edging up to a little over 1,32% as a consequence of an increase at central government level. An inspection of the makeup of central government property taxes indicates this has come about because of an increase in tax on capital and financial transactions from 0,25% of GDP in 1985 to 0,39% in 1987.

A further indication of the decline in the importance of wealth tax is that, in the OECD, this category of tax has declined as a percent of GDP from 0,41% in 1965 to 0,26% in 1985. In SA, gift and death taxes have also declined in importance, from 0,14% of GDP in 1975 to 0,11% in 1985, and still further to 0,08% in 1987.

It is clear that SA is following the OECD trend of reducing reliance on property taxes (including wealth taxes) but it is equally clear that, at a general government level, SA levies less property tax than the OECD average — 1,3% of GDP versus 1,8% of GDP for 1985 respectively. It is thus apparent that as SA's economy continues to develop, there will be some capacity to increase the contribution of property taxes.

To supplement the comparison with OECD countries it is essential to compare our position with non-OECD countries, as the OECD is composed exclusively of developed economies, while the SA economy is better classified as a developing economy, and has much in common with the average non-OECD country.

At a central government level, the SA property tax burden is somewhat higher than that in non-OECD countries. Non-OECD countries experienced a burden of 0,36% of GDP in 1975, declining to 0,33% in 1987; SA experienced an increase from 0,40% to 0,47% in the same period.

At a general government level the picture is different. Less than one-third of the non-OECD countries surveyed for central government statistics provided comprehensive statistics at general government level. It may be safely assumed that most countries not providing such statistics collect minimal taxes at non-central government level.

For the countries providing the necessary statistics, property tax averaged 0,71% of GDP in 1975, declining to 0,61% in 1987. Given the assumptions above, statistics embracing the remaining two-thirds of the sample would reduce these averages significantly. By contrast, SA property tax at a general government level is more than twice as much as that in the non-OECD countries surveyed, even though it has declined from 1,61% of GDP in 1975 to 1,32% in 1987.

Higher taxation in SA is largely the result of the impact of local authority property taxation which, in 1985, was almost three times as high as the non-OECD average.

Does the decline in the importance of property taxes and the trend towards tax efficiency mean wealth taxes should be totally abandoned? The answer is no because, with regard to our existing wealth taxes, an infrastructure to collect the tax already exists for reasons other than tax, namely, the administration of estates, the registration of property transfers and so on. These taxes are therefore reasonably efficient by definition, as there is little extra collection cost, and it would be a mistake to abolish them.

The same does not necessarily hold true of new wealth taxes, particularly annual net wealth taxes. These have been found to be tax inefficient, in that they absorb far too much administrative effort and cost, and generate disproportionately negative perceptions in relation to the revenues they generate.

In a South African economy which is facing severe skills shortages, this is a critical point. This point is illustrated in a macro sense by the fact that, as has been mentioned, combined revenues from individual net wealth taxes and capital transfer taxes shrunk from 0,41% of GDP in the OECD in 1965 to 0,26% in 1985, and in a micro sense by the French experience which saw France introduce net wealth tax in 1982 and abandon this tax five years later.

One thing is clear from the statistics. While property taxes are declining in importance, it is the more highly developed economies which are most successful in using these taxes as a revenue source. SA, with an economy positioned between the OECD countries and the average non-OECD country, is not as successful in utilising these taxes as the former and much more successful in this endeavour than the latter.

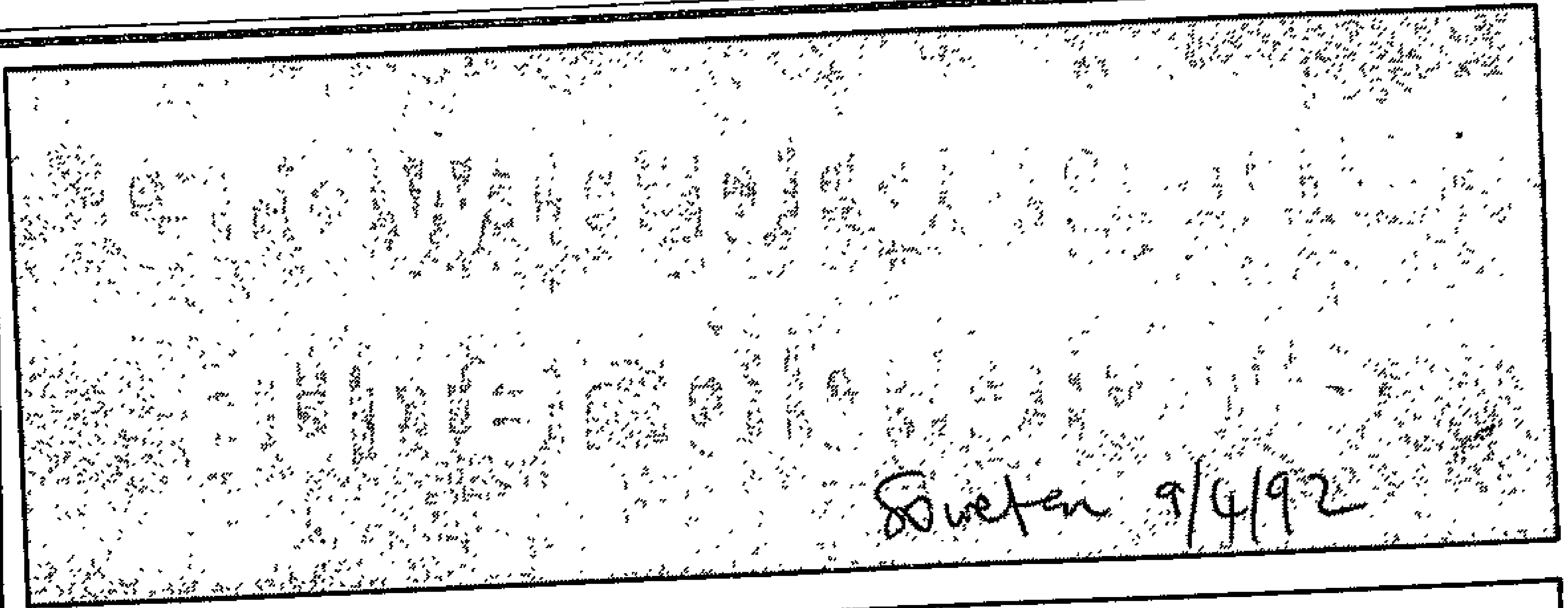
As a consequence, as our economy becomes more developed, we will be in a better position to extract property taxes from it. This proposition holds true for all taxes.

Returning to the fiscal policy objective defined above, wealth taxes will clearly have a role to play in future fiscal policy, and while there is some scope to increase these taxes, their role will remain a small one.

Of far more importance is that we should not allow less important issues such a wealth taxes to generate unnecessarily heated emotional debate and absorb a disproportionate amount of time: we should rather direct urgent attention to the major fiscal factors influencing successful economies — simpler tax systems with lower tax rates.

Empirical evidence indicates that, because such systems generate economic growth and discourage tax avoidance and evasion, they tend to generate increased government revenues. Reform of this nature has been embraced by most industrialised economies and an increasing number of developing economies, of which Tanzania is a significant recent addition.

☐ **Van Blerck is chief tax consultant at Anglo American and chairman of the SA Fiscal Think Tank.**



Sowetan 9/4/92

By JOSHUA RABOROKO

(49)

Drought, inflation take toll

ADVERSE international and local developments like the widespread drought, the slow recovery of the economy and the persistently high South African inflation rate, had a negative impact on the short-term growth prospects of the country's economy.

A growth rate of less than one percent is therefore forecast with almost all the growth occurring during the latter part of the year.

This is according to a survey by the Stellenbosch University Bureau of Economic Research, which says these unfavourable economic conditions are expected to put further downward pressure on the still struggling building industry.

According to the survey results, business conditions in the building industry deteriorated further during this first quarter and will continue to do so during the second quarter, although at a slower rate.

Downward pressure on personal disposable income together with problems experienced in the low-cost housing market will be the prime causes of continued slack business conditions in the residential sector.

However, these problems, according to the survey, are expected to become less evident towards the end of the year when some revival of activities can be expected in this sector.

A sustained recovery will, however, only be experienced from the second quarter of 1993, according to the survey.

The current low levels of capacity used in the non-residential sector, will prevent an upturn in building activities in this sector.

The only investment expected to realise over the short term will be Government-related. A recovery in this sector is expected to occur only in the latter part of 1993.

Building costs as measured by the research increased by only 12 percent during 1991 due to the unsatisfactory business conditions in the building industry and the accompanying keen tendering competition.

Given the prospects for the building industry in 1992, an increase of less than 10 percent in building costs is expected for 1992.

The survey says the outlook for the construction industry remains rather bleak over the short term. Some revival in the activity is, however, expected towards the end of 1992 when construction work will start on several projects.

A more favourable political climate, an improved economic situation and increased Government spending on infrastructure related issues are expected to give activity in this sector a considerable boost during 1993.

The performance of the property market will also be determined by general economic circumstances, the survey adds.

The outlook for this market therefore remains depressed during 1992 while some revival can be expected during 1993.

Consenus on economic policy is as vital as political agreement, warns **Colin Legum**

Let all sides bury their dogma

STAR 9/4/92

(49)

NOW that the political debate about an interim government with limited powers is nearing the point of agreement at Codesa, the urgent need is to move towards achieving a similar consensus over an interim national economic policy.

Unless this can be agreed upon soon, the movement towards political democracy will be derailed because it can be sustained only if economic growth can fairly quickly be restored to its earlier 6 percent to 8 percent rate which is required to ensure the very minimum of new resources to meet the country's unemployment, education, housing and health needs.

In order to lift the economy out of its present trough requires generating investor confidence (local and international), the final ending of economic sanctions, and a jump-start of the domestic economy through a massive housing and electricity programme taking a leaf out of Franklin Roosevelt's New Deal policy.

But for this to happen requires broad agreement between business, the trade unions and the ANC. If they were to agree, the Government would almost certainly fall in line.

The other day I was listening to Nelson Mandela telling a businessmen's breakfast meeting in Cape Town that he personally was not enamoured with nationalisation, but that his repeated challenge to the business community to provide a satisfactory alternative had met with no response. Yet, the day before, a senior Anglo-American executive showed me an alternative plan that had been drafted in response to Mr Mandela's challenge.

It is a case of both parties telling the truth, but failing to communicate because what the businssmen were offering was a liberal free market system. This does not satisfy the ANC which insists that a free market and free enterprise cannot by themselves achieve both more rational growth and a more equitable distribution of wealth.

Can the industrialists and politicians be brought together to achieve a broad consensus over the essential requirement of a transitional economy?

This is the key question that will be debated at the proposed meeting of businessmen and political leaders at Codesa 2 — an economic summit parallel to the current political summit.

There is hope for a reasoned discourse because both sides are equally convinced of the importance of economic growth and have shown a greater willingness to reach some compromise. But such a discourse is being obstructed by the use and misuse of terminology calculated to entrench the mindset on both sides.

It would be of immense help if the discourse could begin with a clarification and rephrasing of currently sloganised dogmatisms.

The need is for a new political-economic glossary, of which the following four examples are most important.

- Instead of talking about "redistribution of wealth", the appropriate term should be "redistribution of resources".

In three months of interviewing a wide range of South African opinion-makers. I found nobody who disagreed that redistrubution of resources was basic to achieving justice and stability in a post-apartheid society, whereas the idea of redistribution of wealth causes a rush of blood to the minds of the privilged section of the community.

The real question is how available resources are to be redistributed to make up for the centuries of discrimination against the black majority. The exact manner in which resources are to be redistributed will, if necessary, have to be left to an elected transitional government.

- Instead of talking about "nationalisaton", it would be helpful to speak of "public ownership of public utilities".

The base line of the ANC and its allies is that the essential services — transport, water, communications, electricity and gas — should be publicly controlled as was the case in pre-Thatcherite Britain and is the case in most industrial nations.

Few South Africans I found disagreed with the need to retain public ownership of essential public utilities. The question of whether any key industries should be brought under public ownership is something that can, and should, be deferred until after an elected government is in place.

This has, in fact, been proposed by the ANC in its set of so-called "sunset clauses".

- Instead of going on talking about "a free market system" being essential to democracy, it is necessary to qualify this by acknowledging the need for "State in-tervention" where necessary, to remedy defects in an uncontrolled free market system.

State intervention is, in fact, practised by the governments of all industrialised societies. Only their methods vary.

- Finally, instead of the business establishment's insistence that "economic growth" is a prerequisite for the redistribution of resources, there is a need to recognise that the two must proceed simultaneously.

While it is patently true that economic growth is essential to produce the greater resources needed to fulfil the expectations of the black majority, it is a fundamental error to suggest that economic growth and redistribution of resources cannot be pursued at the same time.

In fact, it is essential that they should be seen as complementary because to achieve economic growth it is necessary, first and foremost, to achieve political stability; and there can be no possibility of achieving political stability unless a post-apartheid democratic government can begin to satisfy the minimum expectations of the black majority.

Its first task, if it is to retain confidence, is to begin a momentum for change that will instill in that majority the hope that their living conditions will begin to improve. Failure to do so would assuredly see a drift away of support from the ANC and other parties in the transitional government towards the radical movements on their left — the PAC, for example.

Political stability and economic growth are inextricably bound together. For business people and economists in South Africa to fail to grasp this simple equation is to court disaster.

Only if the above-mentioned controversial differences between the business community, the ANC and the trade unions are clarified and reconciled, is it possible to achieve a general consensus that will provide the democratic process with the economic muscle needed for its success. □

LEARNING Nation

ACKNOWLEDGEMENT:
LEARNING NATION is published by NEW NATION and developed and edited by the SACHED TRUST. SACHED generates the material through networking with service organisations, lobby groups and freelance writers. NEW NATION produces and distributes the supplement.

Nationalism 3

New Nation [Learning Nation] 3/4 - 9/4/92

49

Nationalist Movements in the Soviet Union

Last week we began to look at the nationalist movements in the Soviet Union. We asked if these movements could be numbered among the progressive national liberation movements that exist world wide. We also asked why there was no mass scale support for socialism. We looked at how Czarism, Leninism and Stalinism responded to the aspirations of the national groups in the Soviet Union. This week we look at what is progressive about these movements and possible reasons for the lack of mass support for socialism.

The Impact of Stalinism on the Bolshevik Party

The Stalinist policy of oppressing minority nationalities was just one expression of a much deeper change that had taken place in the Soviet Union. The victory of Stalinism in the Soviet Union was in effect a counter-revolution to the October revolution of 1917. The counter-revolution was carried out in the interests of a bureaucratic layer which emerged after the October revolution.

During and after the Civil War of 1918-1922, the dependency of the workers' state on the bureaucracy grew. Many bureaucrats, intellectuals and rich peasants joined the Bolsheviks in order to further their own interests and not those of the socialist revolution. Stalin, in wanting to secure his rise to power, relied on the bureaucracy for support. In this way the Bolshevik Party was transformed from a revolutionary vanguard party of the working class into a party serving the interests of the bureaucracy.

Gorbachev and the Crisis in the Soviet Union

The bureaucracy approached the nationalised economy of the Soviet Union not from the interests of workers, but from its own narrow interests. Very often the bureaucracy abused or wasted resources. There was no incentive for the bureaucracy to promote technological or other advancements in industry. For, as long as factory managers and economic planners achieved the targets set, they received their bonuses. The quality or usefulness of products did not matter. By the 1970's this abuse and waste of resources led to a crisis in the economy.

As a result of this crisis, the living standards of the working class in the Soviet Union began to drop rapidly. Middle class people such as the small shopkeepers, as well as sections within the bureaucracy, were also affected by the crisis. In 1985, Gorbachev took over the leadership of the USSR and Communist Party. His plan was to reform the political and economic system of the USSR. He wanted to use "perestroika" (economic restructuring) and "glasnost" (political openness) to make the necessary changes in the Soviet Union without the bureaucracy losing its power. The minority nationalities, who for decades were severely oppressed and now also experiencing economic problems, took "perestroika" and "glasnost" seriously. This was the opportunity for these national groups to break free from Russia's domination and to find solutions to their economic problems.

Are the Nationalist movements of the Soviet Union Progressive?

The nationalist movements are all multi-class organisations. Workers, middle class people and capitalists within the oppressed national groups all had a common goal in wanting to be free of Russian domination. The leadership came mainly from the middle classes and in some cases even from the Stalinist bureaucracy. The programmes put forward by these nationalist movements all had as central points the need for democracy and respect for all national groups. Workers also hoped to achieve a better standard of living after overthrowing Stalinism. The capitalists wanted to establish a capitalist economy.

In their struggle for democracy and freedom from Russian domination, the nationalist movements share similar goals with many of the other national liberation movements that exist world wide. In this regard they deserve the support of all democrats. However, there is another side to the nationalist movements of the Soviet Union which is of vital concern to the working class. This is to do with the ability of the present leadership of these movements to guarantee democracy and to meet workers basic needs. Already within some of these nationalist movements, there are incidents which show that the middle class or pro-capitalist leadership is not capable of being consistent in applying democracy. For example, Georgia broke away from the Soviet Union with 99% support of the population. Shortly thereafter, divisions between national groups within Georgia arose. As a result, the leadership of the nationalist movement in Georgia threatened to deny citizenship to some of the national groups within Georgia. Other undemocratic actions included clamping down on the freedom of the press and jailing political opponents on fake charges. These undemocratic acts led to civil war in Georgia. In Lithuania, Lithuanians who had worked with the Nazi during World War II, were pardoned. This immediately began to raise anti-Semitic fears amongst Lithuanian Jews who had supported the struggle for independence. On the economic front, the move to capitalist economies in many of these newly independent states has resulted in sharp rises in food prices and other basic necessities. Services such as health, education and welfare are being privatised. Workers will now have to pay dearly for these services.

The Attitude of the Imperialists the Nationalist Movements

The imperialists have also shown their inconsistency towards the struggles waged by the nationalist movements in the Soviet Union. While they were quick to support the "anti-communist" nature of these movements, they were reluctant to recognise their right to be independent. For the imperialists, the break up of the Soviet Union would lead to a collapse of economic infrastructure. Capitalist investment becomes less attractive since a part of profits will have to go into in building economic infrastructure such as transport networks and factories.

For the working classes supporting the nationalist movements, the issues of democracy as well as economic progress remain largely unresolved. **The inability of the nationalist movements to be consistently democratic and to end the economic problems of the working class shows up the limitations of these nationalist movements.**

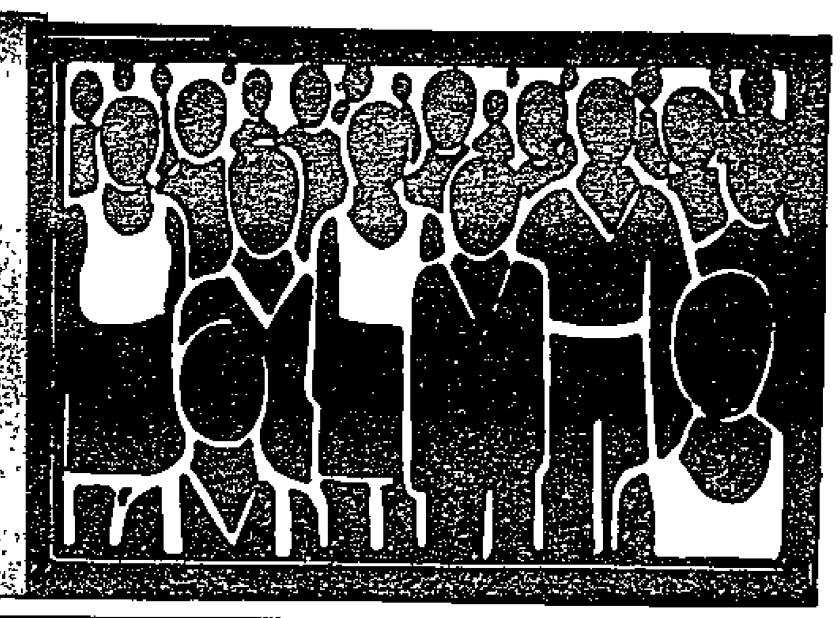
Why has there been no mass movement struggling for socialism?

One possible reason for this is the experience of Stalinism which is still very fresh in the memories of workers. Stalinism had always claimed to be based on Leninism and Marxism. Thus for many workers of the Soviet Union, Stalinism and socialism are one and the same thing. The Bolshevik Party which could have been the weapon to use to struggle against Stalinism instead served Stalinism. The strict censorship laws under Stalinism have also denied the working class the opportunity to learn about and debate different views on socialism. Perhaps when the working class of the Soviet Union is once again free to exchange ideas and debate issues this attitude will change.

Readers enjoying the freedom of the press after the collapse of Stalinism.

Another possible reason for the lack of mass scale support for socialism is to do with the way in which socialists respond to the national aspirations of workers. There is much debate amongst socialists on this issues. In our next article will look at some of these different views.

MATRIC HISTORY



HISTORY FOR TOMORROW'S CLASSROOMS 5:
Language and Bias in History Books

New Nation [Learning Nation] 3/4-9/4/92 WHAT IS HISTORY?

In our previous two articles we learnt that historians use written, pictorial, material, oral, primary and secondary sources to find out about the past.

Last week we read that history books are secondary sources of information. We learnt that when we read any history book, one of the questions we should ask is: **Is it biased?** In other words, can we trust what it says?

In our next few articles we will learn how to criticise sources of information. We will look at the question of bias - with particular reference to our matric school history textbooks.

What is bias?

Bias simply means one-sidedness. When a book is biased it means that it favours one side. It gives one particular view of a person or an event. Bias can be found in most history books. But some history books are more biased than others.

Governments and biased textbooks

Most of the history textbooks used in South African schools are very biased indeed. They support a particular point of view. The government has used the history we learn at school to try to make us believe in its policy of apartheid.

South African school textbooks are not the only ones that are biased. Governments all over the world use school history to get students to believe in their policies.

How do we notice bias in a history book?

There are a number of things we should look at in order to decide to what extent a history book is biased. One way of noticing bias is to look at the language used by the historian.

The use of certain words can often tell us what the historian's bias is.

Exercise

Read this example of a biased piece of information taken from an old ***Russian high school history textbook****. It was written at the time that Stalin was in power. Stalin was a dictator. He did not like anyone to criticise him. Trotsky, Rykov and Bukharin were against Stalin's rule. Stalin had the school textbooks re-written to show that he was a great leader and that people like Trotsky were traitors.*

The contemptible enemy of the people, the fascist agent Trotsky, and his contemptible friends Rykov and Bukharin, organised in the USSR gangs of murderers, wreckers and spies ... The fascist scoundrels, the Trotskyites and Rykovites, caused train collisions in the USSR, blew up and set fire to mines and factories and wrecked machines, poisoned workers, and did all the damage they possibly could. These enemies of the people had a definite programme, which was to restore the yoke of the capitalists and landlords in the USSR, to destroy the collective farms, to surrender the Ukraine to the Germans and the Far East to the Japanese, and to promote the defeat of the USSR in the event of war. These brigands were caught and punished as they deserved.

- A.V. Shestakov (1938) **A short history of the USSR**.

A NEW APPROACH TO HISTORY FOR STUDENTS, WORKERS AND COMMUNITIES

Let's look at the language used in the above extract. The author has used certain words which tell us that he does not support Trotsky. Underline some of the words he uses which tell us that he is biased against Trotsky. (Use a dictionary to look up any of the words which you do not understand).

We've looked at how the language used can help us to notice bias. Next week we will look at other ways of finding bias in a history textbook.

Reference

1. Hinton, C. (1990) **What is evidence?** John Murray, London.

Big demand for government bond

B/Day 9/4/92 (49)

SIMON WILLSON

INVESTORS more than two times oversubscribed yesterday's tender for a re-issue of five-year government stock, heralding a firm price for the topped-up bond when it goes into its first full day's trading today.

Tenders totalling R530m were received for the R200m allotted to the 14% R119 1997. The average rate for the tender was 15,88%, but in late trading after the closure of the tender the rate eased to 15,86% as the disappointed tenderers bid for the bond in the secondary market.

The re-issue of a five-year bond fills a gap in the gilts market's maturity structure. A vacuum had developed around 1997, and five-year stock is proving popular with capital market investors.

Although R200m is a relatively modest sum to raise from a tender of this type, market players expect the authorities to capitalise on the popularity of five-year instruments by topping up the amount raised through the R119. One dealer said yesterday the issue could grow to R2bn over the next 12 months.

A useful by-product for the Bank is that the issue will help to absorb some of the liquidity in the local market, which the Bank has been trying to drain at the short end by means of special treasury bills. In addition, around the 15,80%-plus yield the R119 is expected to be attractive to foreigners investing through the financial rand mechanism.

The re-issue of the R119 represents potentially lower borrowing costs for the government.

Long-dated government stock, such as the RSA 2005, bears a yield of 16,35% — almost half a point higher than the 15,88% yield expected for the R119 in the market today.

Unusual

It is unusual for the Bank to issue an open tender for government stock. Issues are usually tapped quietly into the market for unfavoured players to discover a month later in the Government Gazette.

Some dealers said the authorities only put the R119 re-issue out to tender because it was not a traded stock. Others said they detected a move by the authorities away from tapping and back to tendering, following allegations of favouritism and secrecy in the tapping system.

Canada pledges R2,5m

CAPE TOWN — Canadian External Affairs Minister Barbara McDougall yesterday announced a R2,5m grant to an ANC-aligned economic think tank.

On the last day of her four-day visit to SA, McDougall visited Crossroads outside Cape Town.

At a media luncheon in Cape Town later, McDougall announced the contribution to the Macro-economic Research Group. The organisation mainly assists the ANC in developing economic policy.

McDougall said on Tuesday Canada would maintain trade sanctions against SA until an interim government was in place, and yesterday urged rapid progress towards this.

But she warned that unless political violence ended, SA's return to international acceptance would be difficult. (49)

Sapa reports that McDougall told the Cape Town Press Club the lifting of sanctions would not in itself restore business confidence in SA.

Confidence would come once SA's leaders were committed to economic and political freedom, and violence ceased.

She said there was no question in her mind that sanctions had quickened the pace of change, "but now the time has come to turn the page". — AP-DJ

BOOKS

Instant capitalism — just add water?

wlmail 10/4-15/4/92 (49)

THIS vigorous polemic sweeps across a range of issues that confront a South Africa in transition: the policy-makers no more than the ordinary people of the subtitle. In a style that is eminently readable — indeed, racy — Don Caldwell preaches the gospel of the free market, taking spirited swipes at many ideas embraced by the "hard left", by which he usually means the African National Congress and its allies.

"*No More Martyrs Now,*" he says in his introduction, "is written from an unashamedly liberal-democratic perspective. It's in favour of capitalism and sceptical of politicians."

He enters the argument via a description of the way Romania's despot Nicolae Ceausescu tried to destroy civil society, bringing all areas of private pursuit under the control of the state. To this kind of social engineering, which he properly deplores, Caldwell links apartheid as well as the ANC's mobilisation of civic organisations — bypassing the fact that civil society in South Africa was politicised by repression.

This will later feed into his accusations of ANC authoritarianism, supported by yet another recitation of the "pervasive influence"/"hidden agenda" case against the South African Communist Party. South Africa, he hints heavily, will become another Romania if there is an ANC government.

The nub of Caldwell's argument is that apartheid *was* socialism. "Everything about apartheid smacked of socialism — from the spirit behind it to the laws passed to carry it out." Apartheid, as we all can see, has failed. Why, then, should we pay any heed to the socialists, who are actually contradicting themselves?

"Apartheid's bankrupt economic policies led to a litany of disasters, from uncompetitive industry to a gravy train for bureaucrats," Caldwell states. "But the ANC doesn't promise to get rid of these policies. Rather, it looks to them for inspiration."

Apartheid was certainly indebted to socialist ideas (ironically, brought on board by Nazi-sympathisers — and remember the workers who united for a white South Africa in 1922). But it was in alliance with big business and on the foundation of colonialism (something Caldwell ignores completely) that it achieved almost complete hegemony. The construct of race turned all whites into an ersatz bourgeoisie and relegated all blacks to the working class.

In fact, one might repudiate Caldwell's simplistic claim in something like his own language: socialism is intended to benefit the working class; apartheid didn't benefit the working class, so it wasn't socialism.

But despite some faulty premisses, Caldwell's lively arguments often have reason in them.

His *bête noire* is the meddling state that fetters capitalist growth. Taxes are a particularly wicked manifestation of the state's greed, though they are sometimes disguised as social upliftment.

He attacks the notion of strong central planning with all the wit at his command and very convincingly advocates the devolution of power to regions. In many ways, this mirrors what some people on the left mean by "grassroots democracy", as opposed to statism.

The idea of the recall is also pleasing. Politicians should be made to be as accountable as possible, and the fear of being booted out of office could help to keep them from acting against the interests of their constituents — or from putting their hands in the till.

One must also agree with his insistence that free speech be really free — that there be no censorship of any kind. The principle of tolerance in a post-apartheid South Africa must be large and strong enough not to have to try and gag even the frothing rightists. It would saddening to see an ANC government "preserving racial harmony" by silencing, say, the Afrikaner Weerstandsbeweging. (Or getting all Calvinist over sex.)

He is right, too, when he says that "group rights" are meaningless in the context of a liberal-democratic Bill of Rights. He argues lucidly: "Take the so-called group right to language or culture. In fact, this is just an individual right exercised by more than one individual at the same time."

Caldwell is extravagantly scathing when it comes to affirmative action: "But whether it's called preferential policies or compensatory preferences or positive discrimination or reverse discrimination or just plain discrimination, affirmative action — in practice — boils down to government-mandated preferences for government-defined groups."

Going on to look in some depth at the ANC's concepts of human rights, as articulated in Albie Sachs' book *Protecting Human Rights in a New South Africa,* the ANC's constitutional guidelines and draft Bill of Rights, Caldwell is passionate. Most of the rights dem[illegible]ded, he asserts, are really wishes — and, besides, who is going to pay for it all? The ordinary person would have to foot the bill, through taxes, and that will not help lift anyone from poverty.

There is an amount of cautionary wisdom in this, but one is let down when it comes to Caldwell's solution. It is a kind of happy-clappy capitalism, the belief in a magic freedom that will automatically provide rights and a modicum of wealth to all. In the style of Cold War rhetoric, democracy and capitalism are regarded as inseparable, perhaps synonymous. But Caldwell nowhere explains exactly what his free market entails — or whether monopolies and major industries will be severely restricted in their power to control the lives of workers as mercilessly as any state.

One may disagree with Caldwell, and laugh at some of his grandiloquence, but the debate should be as vigorous and accessible as *No More Martyrs Now.*

Shaun de Waal

NO MORE MARTYRS NOW: CAPITALISM, DEMOCRACY, AND ORDINARY PEOPLE
by Don Caldwell (Conrad Business Books, R40)

National Liberation and Socialism

New Nation [Learning Nation] 10/4 - 15/4/92 (49)

Introduction

In our last article we noted that no mass movement for socialism emerged in the Soviet Union when Stalinism collapsed. We ended by saying that one possible reason for this could do with the way socialists responded to the nationalist movements which enjoy the mass support of working people. National liberation and socialism are struggles which confront workers. This is true for South Africa as well. Apartheid denies democracy to the majority of people in South Africa. At the same time a large section of the working class look to socialism as the way to put an end to capitalist exploitation.

This week, we look at the views of some socialists on the national question and the struggle for socialism.

Marx and Engels on the National Question

Marx and Engels did not do any detailed study of the national question. In some of their writings however, they did try to analyse some of the national liberation struggles happening in the countries around them. In the Communist Manifesto, they spoke of workers having no country. Some socialists took this to mean that workers have no interest in national liberation struggles. Other socialists took this to mean that for as long as a nation is under the rule of the bourgeois class, workers will not enjoy the full rights of nationhood.

In response to England's oppression of Ireland, Marx developed the following:

☆ only national liberation will end national conflicts and allow workers of both nations to unite against their common enemy, the capitalists.
☆ the bourgeoisie of the oppressor nation uses ideology, for example racism, to maintain and strengthen its hold over its own working class.
☆ the liberation of an oppressed nation weakens the economic, political, military and ideological strength of the ruling class and this advances the revolutionary struggle for socialism within the oppressor nation.

Lenin on the National Question and Socialism

Lenin drew on the basic ideas advanced by Marx and developed them. Lenin believed in the international unity of the working class and he saw the national question and its solution as a political issue. It was an issue of democracy. Lenin argued that oppressed nations must have the right to self-determination. For Lenin, any argument which denied an oppressed nation the right to self-determination failed to be consistent in applying democracy. Lenin also saw the link between national liberation and socialism. This link is democracy. Lenin realised that in the oppressed nation only the working class would be consistent fighters for democracy. Only the working class has an interest in upholding democracy in the struggle for national liberation and in the struggle for socialism. For this reason, Lenin argued that the working class in the oppressed nation must lead the other classes in the struggle for national liberation.

> In Russia, the Bolsheviks were willing to recognise bourgeois led struggles for self-determination as struggles for democracy. At the same time however, they also encouraged the working class within these movements to assume the leading role. Thus the Bolsheviks had no difficulty in supporting the setting-up of soviets and soviet democracy even in those nations which had just gained independence under bourgeois leadership. For the Bolsheviks, soviet democracy* was of a higher order than bourgeois democracy. Soviet power also meant that the international unity of the working class could become a reality.

Rosa Luxemburg on the National Question

On the national question, Luxemburg's views differed from Lenin's. Luxemburg argued that the right to self-determination was an unrealistic demand. She believed that to support self-determination was to support bourgeois nationalism instead of workers' struggle for socialism. Luxemburg realised that the desire for democracy by the bourgeois class of an oppressed nation was not the same as that of the working class. Luxemburg called for workers to struggle for socialism as a counter to the bourgeois-led struggle for national liberation. The other main argument put forward by Luxemburg against self-determination was an economic one. She argued that there could be no real independence for a nation which remained economically tied to its oppressor. Self-determination could not work for as long as imperialism existed.

Stalin and the National Question

It was Lenin in 1913 who suggested that Stalin write an article on Marxism and the national question. However, Stalin's views on the national question were often in direct conflict with Lenin's views. Stalin based his understanding of a nation on factors like psychology; a common language and a common economic life. He went further to make a fixed definition of nationhood based on these factors. Stalin also denied the possibility that oppressed national groups scattered across countries could still see themselves as part of a nation. Stalin did not see any difference between the nationalism of oppressor nations and the nationalism of oppressed nations.

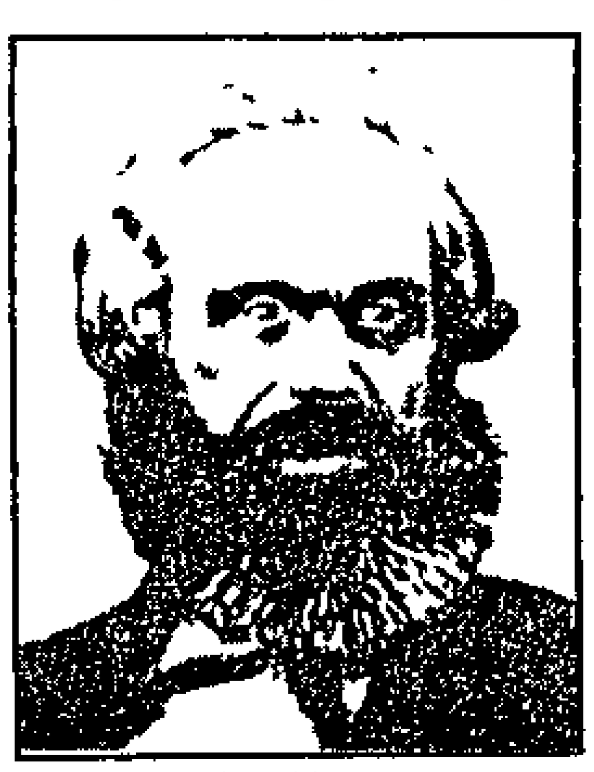
Stalin's attempt to draw on psychology to understand the national question was in conflict with the historical materialist method used by Marxists. Stalin's un-Marxist method was also shown up by his inflexible definition of nationhood. In opposition to Stalin's position, Lenin defended the right to freedom of association for national groups scattered across different countries.

Putting Theory into Practice

Of the theories we have looked at, Lenin's views on the national question and struggle for socialism have proved their revolutionary value. The Bolsheviks advanced the socialist revolution by granting the right to self-determination to the oppressed nations in Russia.

On the other hand, Luxemburg's call for the working class in an oppressed nation to struggle for socialism against national liberation was not supported by workers. Luxemburg failed to see that the working class in an oppressed nation also had strong national aspirations. In 1922, while Stalin was Commissar of Nationalities in Lenin's government, he clashed with Bolsheviks from his home state of Georgia over their support for self-determination for Georgia. When Lenin discovered this, he gave his full support to the Georgian Bolsheviks and fought with Stalin about his approach to the national question in the Soviet Union. After Lenin's death, Stalinism in the Soviet Union suppressed all struggles of national liberation saying that these struggles were bourgeois struggles. Stalin also imposed "soviet democracy" on some nations that had been granted independence by the Bolsheviks.

> **The theories presented in this article should be discussed and debated if we are to advance our understanding of the liberation struggle in South Africa.**


Karl Marx


Lenin


Stalin


Rosa Luxemburg

Independent govt auditor mooted

B/Day 10/4/92

(49)

SHARON WOOD

AN INDEPENDENT performance auditor should be appointed to monitor government expenditure and ensure it was efficiently channelled and spent, Investec economic consultant Andre Roux said yesterday.

At the release of the bank's quarterly Economic Focus yesterday, Roux said the auditor should be an independent professional with access to all government departments and their expenditure figures.

"This should be done before a new government comes into power because now we have a real chance."

If it was not done before a new government was in place there was a risk that government would fall into the trap of buying votes to retain power, pushing up expenditure. SA's present education and health expenditure was well above world averages but not yielding visible results, suggesting it was inefficiently spent.

Germany had a performance auditor who monitored government expenditure to ensure that individual departments' goals were realised.

Government's debt burden had increased during the '80s because of growing interest costs and slowing real economic growth.

"This means that the prospect of an explosion in the public debt has become a real possibility," Roux said.

Government's debt burden, measured by the debt to GDP ratio, was expected to reach 38% by the end of this fiscal year. "This is low by world standards, although ... the trend in the debt to GDP ratio is pointing in an upward direction."

He predicted that if growth remained stagnant, real interest rates were about 2% and the primary deficit (convential deficit minus interest payments) was about 1% of GDP, the debt burden could be 70% of GDP by 2010. This would not be sustainable, and the sensible course of action would be to gradually reduce the convential deficit to about 3,5% of GDP. The deficit is expected to be 4,5% in the 1992/93 fiscal year.

It was not necessary to take drastic steps to reduce the deficit, as SA's public debt, although on an unsustainable path, was not out of control. Immediate spending cuts might disrupt government programmes.

COMPANIES

Japan can determine SA recovery

LINDA ENSOR

CAPE TOWN — The start of SA's economic recovery depended to a large extent on the Japanese economy remaining relatively isolated from the plunging fortunes of the Japanese stock market, fund managers said yesterday. B/Day 10/4/92

A deepening of the Japanese recession would have serious spinoffs for SA, as Japan is a major trading partner.

"The danger is that if the Japanese market continues to fall and business confidence gets knocked, its effects might spread to the real economy. In this event the recovery of the SA economy would be delayed," Board of Executors senior portfolio manager Rob Lee said.

Lee felt that the sharp slowdown in the Japanese economy would continue but should turn by the end of the year and certainly by 1993. Interest rates had dropped, fiscal policy had eased and inflation was falling so there should be real growth in personal disposable incomes.

He said the next major support on the charts for the Nikkei index was 12 000. Typically one could expect the market at this stage to bounce back to about 20 000 before falling again. (49)

Lee believed the SA market was due for a correction as the ratings of the shares were still historically high.

Sanlam investment GM Ronald Masson said a lot would depend on the response of the Dow Jones to the collapse of the Japanese market as the SA market was more influenced by the US.

"The international market is very nervous and if the Japanese investors start pulling out of the US, this will pull the bottom out of the SA market. It does not look promising. The SA market could drop another 5% and then stabilise," he said.

Southern Life investment GM Carel de Ridder expressed optimism about the SA stock market which he felt should recover pretty quickly from the recent fall and prices should be higher by mid-year than they were at present.

Of greater concern, De Ridder said, was the impact of US President George Bush losing the US election which would depress the US and consequently the SA markets.

Mbeki expects major US investment soon

B Day 10/4/92

(49)

HAMBURG — ANC negotiator and foreign relations chief Thabo Mbeki said yesterday he expected several major US corporations to announce large investments in SA within the next month, Reuter reports.

He said a major soft drink manufacturer, a big engineering and construction group and a large food group would make their investment plans public soon. He declined to name the companies.

Mbeki said Washington was likely to lead an investment drive into SA following a huge referendum "yes" vote.

"US companies will be leading new investment. They are very interested in coming back," Mbeki said after a seminar in Hamburg on the future of his country's economy.

Most US corporations divested their SA holdings in the '80s.

Mbeki said the ANC was confident the Codesa talks would succeed in creating an interim government council by June.

This would pave the way for democratic elections by the end of the year, he told the seminar. A new constitution could then be put in place by mid-1993.

Mbeki stressed the ANC's beliefs in the the market economy and said it had no ideological commitment to nationalisation.

"The issue of investor confidence is important You can't threaten to nationalise property and expect people to invest."

Mbeki said a new SA government would need to carefully review economic policies with the aim of redistributing wealth.

A blend of policies, including privatisation, creation of new public agencies and in isolated cases nationalisation, would probably be needed to reshape the economy.

Meanwhile economic affairs deputy director Tito Mboweni said in an interview with Enterprise magazine that the ANC would review its nationalisation policy this year and will soon also publish its draft investment policy, reports Sapa.

The ANC envisaged transforming government departments, pushing up corporate tax, promoting the informal sector and giving priority to victims of forced removals in its land redistribution programme.

"We will need to set priorities and make realistic choices," he told Enterprise.

"Longer term developmental objectives should have priority over short-term sectional interests. We are convinced that we need a developmental state to lead, coordinate, plan and dynamise a national economic strategy."

Mboweni said a review of the nationalisation policy did not mean the ANC would backtrack from policies to democratise the economy.

ANC seeks future anti-trust laws

(49)

B Day 10/4/92

TIM COHEN

AN ANC government would definitely introduce anti-trust or anti-monopoly legislation, ANC economic planning head Trevor Manuel said yesterday. He said this would encourage foreign investment.

Manuel said foreign investors had told the ANC it would have to free the economy as SA wealth was too tightly held.

The three central objectives of ANC economic policy were to address the imbalances and poverty in SA, build a viable economy and broaden wealth ownership.

ANC economic policy did not favour either inward industrialisation or export oriented growth, but favoured a mixture of both, Manuel said. He criticised current unilateral management of the economy, saying everything privatised from now on would be renationalised.

A new management style was needed to encourage South Africans to get involved in economic planning. The ANC was not averse to the idea of a social compact.

Manuel described the State's role as a "development agent" which should create the right economic environment.

He said the nationalisation issue was a "red herring" The ANC did not have a company hitlist and nationalisation would only be used as a last resort.

Neither control of the economy's commanding heights nor the unfettered free market would adress SA's deeply rooted problems, Manuel said.

LIFE OFFICES/ANC FM 10/4/92 (49)

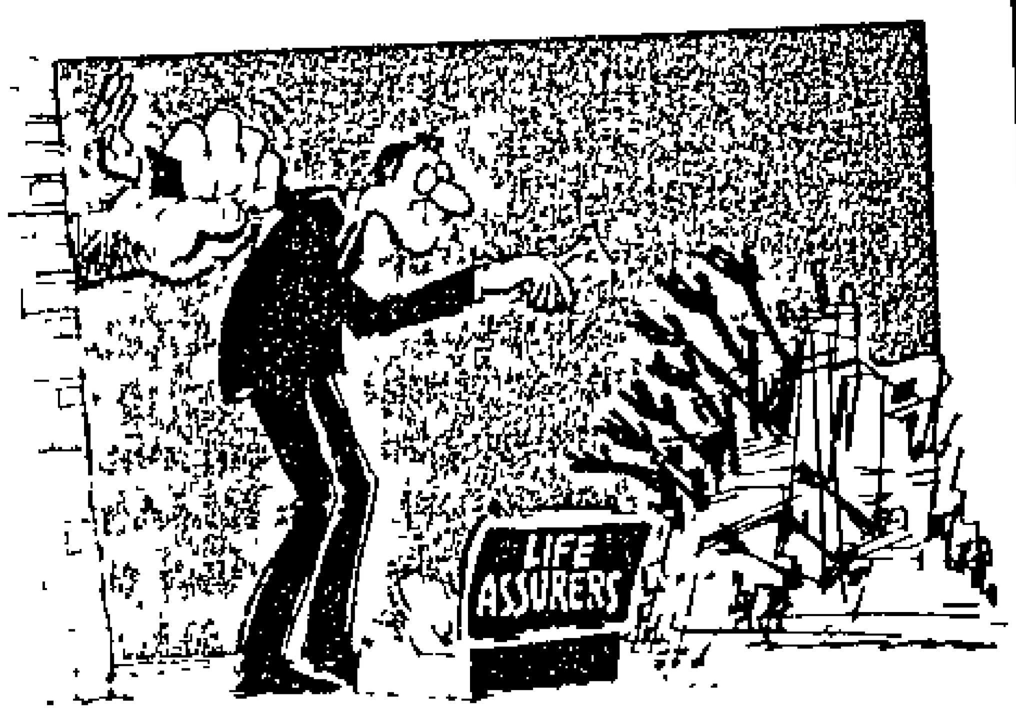
A premium on harmony

Life assurers are close to striking a deal to put about R5bn a year into "socially desirable" projects such as low-cost housing and education. The mechanics are still being discussed. The Life Offices Association (LOA) has informally discussed an arrangement with the ANC, the PAC and Inkatha Freedom Party. It now wants to involve trade unions.

The LOA's disposition to invest socially has been frustrated so far by the lack of a suitable agency considered legitimate by all parties. A totally new agency, possibly with banking status, is being considered.

The ANC and LOA confirm the talks took place and that a tentative proposal was tabled. Neither will comment on the record but the ANC's reaction to the LOA will probably form part of its broad economic strategy. The sensitivities are obvious: while every effort will be made to soften the impact on policyholders and holders of pension rights (many of them ANC supporters), it will appear that the life offices have acted now to pre-empt arbitrary action by a future government.

An ANC source says the proposal would be debated in its economic working committee. He indicates that the ANC is considering a social levy of 10%-15% on total income



from premiums and investment. The LOA is willing to accommodate social development as long as this does not mean a return to prescribed assets.

Dorian Wharton-Hood, a member of the association's executive, made an off-the-cuff comment to the media last week that the industry could "live with 15%." He is adamant that prescription should be avoided and the industry must come up with innovative ways to invest its cash flow so that policyholders and pension fund members are not prejudiced.

The LOA stresses that "no such proposal (the diversion of 15% of cash flow) has been put forward by any political party, as far as the LOA is aware. The LOA is opposed to any form of prescribed asset requirement. It amounts to a form of indirect taxation on pension fund members and policyholders."

The LOA adds that it "recognises the need to assist in socio-economic development . . . this does not mean that policyholders' and pension fund members' savings will be exposed to sub-economic investments; it simply means that everyone will have to be more imaginative about meeting sound investment goals while, at the same time, investing in such a manner that society's development needs are served."

The association adds that a major initiative, to confirm the industry's willingness to invest in this type of project, will be announced soon.

The LOA's dilemma — and its need for caution in talking about projects before the costs have been established — is obvious. Opposed to prescription, it appears to have initiated voluntary prescription in another guise. It is propelled by the trustee principle, which compels a life assurer to maximise savings in a manner consistent with safety, yet it is now proffering funds for developments where market-related returns appear unlikely. Wharton-Hood is emphatic that any funds diverted to social projects will be government guaranteed and capable of producing market returns.

If that is to be achieved, government's obligation would, presumably, also include subsidising the rate of interest paid to the life offices, in cases where investments cannot produce market-related yields. That, an ANC official tacitly confirms, will remove part of the dilemma. The subsidy burden would be spread among all taxpayers, "not just those who have contributed to the nation's savings."

The life industry already observes "prudential" investment guidelines, in place of the old prescribed assets. If a new investment outlet is added to that — a virtual LOA Merchant Bank to research and tackle projects that ensure savers get financial returns but resources are allocated for social upliftment — the industry will have succeeded in fending off direct intervention. The ANC indicates that the LOA initiative is likely to find favour.

Bryan Deans

METAL PRICES FM 10/4/92

Signs of life

Firming world prices, mainly anticipating US recovery, could still help Samancor to get stainless steel mills to accept the 5,8% price rise for ferrochrome it wants for the second quarter of 1992. This is after a 6,1% hike in the first three months.

Led by aluminium, the bellwether at both ends of the economic cycle, the *Economist*

How to galvanise new SA

S Times 12/4/92

PETER SEARLE says South African policymakers should look to Singapore for lessons on how to run a successful economy

(49)

IN seeking a negotiated future constitution for South Africa much good work has been done at Codesa, but on the economic policy front there is still much uncertainty and several worrying contradictions.

We have an economy of unrealised potential and unfulfilled expectations.

Regrettably the government of the past 40 or more years has preached one thing but often practised quite another.

Too often political expediency has overridden economic necessity.

The key to a prosperous new and greater South Africa lies in convincing our future government and our many disadvantaged people that simply redistributing the present wealth will not create lasting benefit.

Economic growth and the development of our people must be the objective. This is a most formidable task and there is no easy solution.

There is a nation, however, that has succeeded off a base not dissimilar to ours. The nation is Singapore.

In 1965, when Singapore was expelled from the Malaysia Federation, unemployment, illiteracy, infant mortality rates and homelessness were all high. In addition, Singapore had serious problems of violence, communism and racial tension.

But prime minister Lee Kuan Yew was a visionary who appreciated that good government is all about people; encouraging the human spirit to new heights of endeavour and bonding people into one nation.

He first focused on education and technical training programmes in order to prepare Singaporeans for the demands of a market economy.

He put paid to fears of nationalisation when he said: "In an underdeveloped situation, where you have little managerial or technological expertise, state ownership of industries simply does not make sense."

Export oriented growth was emphasised. Singapore embraced multinational corporations.

The government believed that capital and skills could best be built up by private entrepreneurs. But it was prepared to provide capital where private investors were hesitant.

Singapore recognised that a high savings level was crucial to economic development. Employers and employees were compelled to make contributions to a Central Provident Fund.

The government also recognised that a stable and hard-working labour force was crucial if investment was to be attracted. New legislation aimed at curbing labour disputes and promoting productivity was introduced.

Throughout its first 27 years, the independent Singapore has grown by an average of nearly 10 percent a year.

Singapore has solved its unemployment problem and by 1990 the country had achieved 90 percent literacy levels and an infant mortality rate as low as 0,65 percent. There is, today, relative harmony between the different racial groups.

I am not suggesting that a future South African government become authoritarian like the Singapore government, but I do believe there are many lessons that can be learned from that country.

- The first lesson can be learned from their leaders. Prime Minister Lee pursued a vision of the future which his government implemented with consistent tenacity. The government is squeaky clean.
- The government has planned and supervised economic development but, at the same time, promoted the free enterprise system.
- By promoting multiculturalism and adopting four official languages, many tensions were defused.
- Perhaps the most useful lesson that can be learned from Singapore is that of the importance of unifying values. The government's continual emphasis on discipline, hard work, competition, self-reliance, the pursuit of excellence and respect for material gain, accompanied by a determination to stamp out crime and corruption, has clearly galvanised this diverse nation.

- *Peter Searle is the chairman of Volkswagen South Africa. This is extracted from an address he delivered at Rhodes University's graduation ceremony yesterday.*

Like Topsy, it just grows and grows

S Times 12/4/92.

CONSIDER a paradox: the immense labours of apartheid have been abandoned and most of the tasks laid on the public service by Verwoerdian theology have been abolished, but government grows and grows like Topsy.

The list of abandoned tasks is awesome: the pass laws have gone and with them the work of issuing passes, checking them, trucking people to the commissioners' courts, collecting fines, enforcing prison sentences and transporting people back to the rural areas.

But as the work shrinks the cost of government grows. It is now running at about R50-billion a year.

The group areas boards have gone, and nobody need buy up land for reallocation to different races. Also gone are the inspectors who used to chase workers around building sites because they were doing work reserved for other people. Nobody need spy on lovers, nor enforce miscegenation laws. Workers move where they will and there is no need for labour bureaux.

The securocrats, as we called the stifling network of committees that blanketed the country, with an army officer on every committee, are superfluous. There is no need for sanctions-busters, for oil buyers, for strategic stockpiles of aspirin and eyewash or for the army of bureaucrats who defended our industrial secrets. The censors have nothing much to do, and nobody chases hawkers from the sidewalks.

Nevertheless, the cost of government goes up.

The whole mad business of centralised planning, and all that went with it, has fallen into disrepute. No bureaucrat is called upon these days to discover the best site, ideologically speaking, for a Taiwanese factory, nor to administer the rotten system of subsidies that went with it. The attempt to turn Bronkhorstspruit into an industrial hub has fizzled away.

Chris Heunis has gone, and his rickety structure of constitutional devices has collapsed into nothing more than Codesa, which costs not a fraction of the old Department of Constitutional Development and Planning. That alone should have saved us billions, but it hasn't.

Iscor is a private company and so is Sasol. Armscor, SA Airways, the railway network and other enterprises which were once included, as government departments, among the burdens of the taxpayer are now supposed to pay their own way, and they put up their fees and charges ruthlessly. To go to hospital is to risk starving to death, and school fees drive mothers out to work.

The war in Angola has ended, and the administration of Namibia has been reduced to running a port. Nobody is building huge bases in Owamboland nor case-hardened highways for the army along the borders. Thousands of military flights across the sub-continent have been terminated.

Despite all this, however, the government does not shrink. It grows. As this newspaper pointed out last week, the abolition of the entire Department of Development Aid — the biggest apartheid bureaucracy of all — has saved not a single job. On the contrary, it has caused the public service to grow.

Not only has the government found make-work jobs — at the old salaries, of course — for 4 071 redundant public servants; it has also absorbed 5 224 people who used to work for the defunct SA Development Trust. Heaven knows what they all do, but they still draw their salaries, drive around in their Mercs, occupy their offices and spend our money on each other.

WHEN government departments do, on rare occasions, shrink, the results are hardly more comforting. In 1986 Chris Heunis's department employed 1 348 people to make constitutions that didn't work. Of these, 15 were in the top bracket, earning at least R55 100 a year (not to speak of their Mercedes-Benzes, their subsidised housing loans, their crooked pension scheme, their first-class air tickets and jaunts abroad, *ensovoorts, ensovoorts)*.

Today that department has been cut down to a mere 189 people whose task includes such things as liaison with media, research and "stabilising" the pension fund (whatever that may mean). That's progress, you might say — except that the number of officials in the top pay bracket has increased from 15 to 19, and that they now earn R101 500 or more.

To ask why it takes 19 highly paid mandarins to supervise 189 people when 15 used to supervise 1 348 people is naïve. Public servants protect each other by promoting each other — that is why our army is reputed to have more generals per soldier than any army since Napoleon III. Indeed, the military officers have more or less promoted each other out of fighting, a task which tends to be left to conscripts, or to Angolan refugees.

ANOTHER bureaucratic trick which we are seeing now is to ensure that budget cuts fall most heavily on the public — the hospital patients are dumped on to the floor and the roads are left to break up, but no senior fellow ever loses his job. The ensuing public outcry soon persuades the politicians to restore what they have cut from the Budget. The officials smile quietly.

To say that this is the worst government we have ever had is perhaps true, but petulant; to say that the ANC couldn't do worse than Mr Barend du Plessis in controlling government spending is also petulant, and perhaps untrue. What is true, however, is that the Nats will soon be handing over to the ANC a wondrous machine, an immense vacuum cleaner that sucks up money from people who work for a living, and dispenses it to those whose work is simply to dispense money.

Things can only get worse, people say gloomily as they survey the deprived masses clamouring for jobs, welfare, education, health and happiness from the nanny state that is about to be created. Perhaps so, but there will be one difference: the ANC proposes to confiscate from the rich and give to the poor; the Nationalists confiscate from the poor to give to the rich.

And that's a much more wicked way for a government to ruin a country.

KEN OWEN

Thrashing out the future SA

(49)

C/Press 12/4/92

Redistribution and Affirmative Action: Working on South Africa's Political Economy edited by Pierre Hugo (Southern) – R39.99 (incl VAT).

FROM the minute the reader's appetite is whetted by five choice quotes, Hugo has mapped out the route this thought-provoking book will take.

He achieves what he has set out to do admirably. The book's 14 chapters, with contributions by some of SA's finest minds, make this another milestone in the debate about two critical policies that will haunt a post-apartheid SA.

The message contributors bring across is that redistribution of wealth and affirmative action will not be easy. Forget what the politicians are telling us. Instead read, think and examine the implications redistribution and affirmative action pose for a new SA.

Vincent Maphai of the University of the Western Cape looks at the civil service and affirmative action. He warns that discussion on these two topics tends to centre on how to incorporate blacks into this "gravy train" in a post-apartheid SA.

Marshalling his facts and argument in an ordered fashion, Maphai warns of the pitfalls that lie ahead. We are cautioned against too many expectations.

Albie Sachs, ANC Constitutional Committee member and honorary professor at the Universities of Cape Town and Western Cape, is sobering when he examines "affirmative action and good government".

Some of the other writers include eloquent voices like Lawrence Schlemmer, Charles Simkins, Christopher Torr, Robin Friedland and Wolfgang Thomas.

New links will boost economy

CT 13/4/92

Own Correspondent

JOHANNESBURG. — The South African economy is set to receive a substantial boost from its new links with Nigeria and Denmark.

Trade with Nigeria could rocket to R3 billion from the present R12 million following President F W de Klerk's historic visit to the West African nation

And a high-level trade delegation from Denmark arrived in South Africa yesterday.

Denmark was ready to donate $100m (about R280m) in development aid to South Africa once an interim government was formed, Danish Foreign Minister Mr Uffe Ellemann-Jensen said after meeting Mr Pik Botha in Pretoria yesterday.

Mr Ellemann-Jensen said he believed South Africa still had a long way to go towards realising full democracy, but his government was impressed by the courage the South African government had shown in calling last month's referendum.

Reuter reports that Danish business leaders believe the country could export up to $240m (about R672m) of goods a year to South Africa. On the import side Danish electricity producers are checking the current price and quality of coal from South Africa, previously their biggest single supplier.

Barry Streek reports that the importance of trade in the negotiations with Nigeria was underlined by the inclusion in the South African party of Afrikaanse Handelsinstituut president Mr Attie du Plessis, SA Chamber of Commerce president Mr Hennie Viljoen and SA Foreign Trade Organisation head Mr Wim Holtes.

At the start of the visit Mr Botha said Nigeria had a gross domestic product of $32bn (about R89,6bn), compared to South Africa's $20bn (about R56bn) and in 1991 its exports, mostly oil, totalled $10,6bn (about R29,6bn)

Upswing 'delayed by six months' (49)

B/Day 13/4/92

Business Day Reporter

CAPE TOWN — Drought and political uncertainty had delayed the expected economic upswing by six months, Syfrets economist Elmien de Kock said in the latest Syfrets Quarterly Economic Review.

De Kock said exports would outperform the rest of the economy, but restocking would give industrial output a boost.

"If SA wants to move away from the vicious circle of rising exports, increased domestic demand and surging imports followed by higher interest rates, the production capacity of the economy will have to be enlarged," De Kock said.

Regarding the international economy, De Kock said over the next six to 12 months Germany and Japan would underperform other Organisation for Economic Co-operation and Development (OECD) countries with overall OECD growth being strengthened by the recovery of the US economy followed by Canada and the UK.

"The Japanese authorities are in a predicament, needing to lower interest rates to stem the decline in economic activity, but lower interest rates may weaken the yen and widen the trade surplus with the US," De Kock said.

The German economy was entering a period of slower growth. Combined with this were high interest rates and relatively high inflation of about 4%.

"There are two other major problems facing Germany. The sluggish recovery in the US economy will limit growth in German exports.

"Secondly, the economic recovery in the East has led to a widening gap between domestic demand and products that are produced locally."

Syfrets considered Wall Street ratings — the Dow Jones is currently trading at a price-earnings ratio in excess of 50 times — to be extremely stretched.

"We expect that the Dow will move sideways for the next six to nine months supported by electioneering and low short rates.

"However, a potential 10%-15% crack after the election cannot be excluded.

"This will probably be precipitated by a turn in the interest rate cycle as economic growth picks up," the review said.

To lure investors, SA must rise above Africa's poor image

B/Day 14/4/92

SIMON BARBER in Washington

(49)

THE Africanisation of SA's ruling class evidently proceeds apace. Nigeria's foreign minister acknowledges that Afrikaners are just another African tribe. His SA counterpart Pik Botha disports himself to the media on the flight home from Abuja in a dashiki. SA ambassador to Washington Harry Schwarz is now, like most of his African colleagues here, devoting his energies to drumming up investment.

Schwarz's main task is no longer to fight sanctions. Although they remain in place at state and local levels, the issue is increasingly moot. The ANC's Thabo Mbeki made it clear in Hamburg last week that his organisation has been actively canvassing US firms to invest. A formal renunciation of selective purchasing and other such ordinances by ANC president Nelson Mandela himself can surely not be long in coming.

The ambassador is up against what is perhaps an altogether tougher obstacle: Afro-pessimism. To be part of Africa is to be part of a continent which between 1980 and 1987 offered a net return on investment of just 2,5%, rather lower than the US prime rate after adjustment for inflation. Southeast Asia, by contrast, provided an average return of 22,4% over the same period.

In a report to be released on Thursday, the World Bank projects that Africa's annual per capita growth rate between now and the end of the decade will be a pathetic 0,3% compared with 3,6% for all developing countries. Commodity prices, the bank predicts, will remain flat for several years.

That means the developing world must focus on manufacturing and pray for global trade liberalisation. Unfortunately, the wherewithal for retooling is likely to be limited, especially for Africa: "Concessional external finance will become even more scarce, with access to private capital markets restricted to countries with strong creditworthiness."

Not a rosy picture for the club into which Nigeria's Gen Ibrahim Babangida symbolically welcomed President F W de Klerk last week — but clearly part of the reason why Babangida and others are so anxious to embrace SA even before the ANC has given the official go-ahead. As Roger Riddell and Lawrence Cockcroft of the Overseas Development Institute wrote in a recent paper for the World Bank, SA can "provide the catalyst for investors to take an 'upbeat' look at the continent".

For his part, Schwarz is determined that US capital takes an upbeat view of SA. Last week he took his case to a group who control a sizeable chunk of that capital — the managers of the country's major pension funds whose combined assets easily top $1,5-trillion, more than a third of which is invested in US corporate equities.

In speeches to the National Conference of Public Employee Retirement Systems and the Council of Institutional Investors, the ambassador offered four reasons the institutions should use their clout to channel investment towards SA rather than away from it.

First, he said, SA was a safe bet. Forget the political rhetoric and media coverage that tended to highlight the ongoing violence. "Doomsday scenarios are not real." Talk of punitive taxation was nothing more than a "scare tactic", the dangers of nationalisation were "minimal". "Those in power and those aspiring to power know that foreign investment is needed and that the level of taxation is relevant to its attraction ... guarantees have been offered by the ANC against nationalisation without fair compensation."

SCHWARZ

Second, there was plenty of money to be made. "SA presents probably one of the finest investment opportunities in the world." Great infrastructure, both financial and physical. Oceans of pent-up demand. and, in some sectors, not a lot of competition. "In some of our industries, machinery and equipment is not the most modern, which means there is not only a market for capital exports but opportunity to set up more competitive, efficent operations."

Third, investment in SA meant jobs in the US, because in the medium to long term it would help the US balance of payments. Hanging back could cost jobs, because others were already rushing in to take up the opportunities and could beat the US to the punch.

"Make a simple judgment as to whether it's good for American companies to make profits in my country, to create jobs for Americans here, and not to leave those markets to other people ... the US used to be our major trading partner. Then it became Japan. Now it is Germany and Japan is second. That's how the cookie's crumbling in southern Africa."

Lastly, for those in the audience who believed (as some fund managers still do) that their fiduciary reponsibilities extend to safeguarding the immortal souls as well as the assets of contributors, investing in SA was socially responsible. After all, how could it not be if the ANC's own Thabo Mbeki was not only calling for it but happily predicting that three major US corporations would shortly be taking the plunge?

Besides, Schwarz stressed, "don't make the mistake that we are saying to the world, you must give us money to put right the wrongs of apartheid ... I'm talking to you as people who manage other people's money. I don't expect you to come to SA to right my social wrongs. That's my obligation."

Will the pitch sell?

A lot depends, says Witney Schneidman, a World Bank consultant who has been studying the question, on whether, having reintegrated with its continent, SA can avoid being burdened with the continent's stereotypical reputation for corruption, ethnic strife, famine and fiscal irresponsibility.

What investors are looking for above all, Schneidman argues, is "predictability" — a sense that the rules of the game, once set, will not be subject to radical upheaval. "Even the advent of a socialist system would not turn companies off, as long as it is stable and the operating conditions are predictable and conducive to the generation and repatriation of profits."

The rules have yet to be set, and while the violence worries some that they may never be, many other questions need to be answered as well.

In redistributing wealth, will a new government place ideology over efficiency? What will be the costs of affirmative action? Will companies be forced to advance unqualified blacks? What is the likelihood of continued wage escalation and frequent strikes as unions seek to flex their political muscle — a problem aggravated by per capita output levels a quarter to a sixth those of SA's major trading partners.

The sooner such questions are answered, Schniedman contends, the better. He suggests SA may have only two years to "acquire a reputation of stability that contrasts positively with the stereotypical view of black Africa" before investors lose their current interest and decide to allocate resources elsewhere.

SA 'must take part in the African economy'

Sowetan 14/4/92 (49)

By JOSHUA RABOROKO

A majority-ruled South Africa could become a member of the African Development Bank (ADB) and be integrated into the economic development of the African continent.

FOCUS

The bank sees Africa shaped geographically as a tree, with its roots in Southern Africa, its branches in Northern Africa, and its trunk in the Central, Eastern and Western Africa.

For this tree to survive, for the African vision to be realised, its roots must become an integral part of Africa.

These remarks were made by the ADB's president, Mr Ababacar Ndiaye, after his action-packed 11-day fact-finding mission to South Africa.

Ndiaye and an eight-member delegation of the bank arrived in South Africa on March 29 following earlier invitations from the Government, the ANC and the Development Bank of Southern Africa (DBSA).

During his visit, he met with a variety of political leaders in South Africa, including the State President, Mr FW de Klerk, the ANC president, Mr Nelson Mandela, the PAC president, Mr Clarence Makwetu and the IFP president, Chief Mangosuthu Buthelezi.

He was accompanied by his wife Marlyanton, who is a deputy-director (treasurer) of the bank in the Ivory Coast.

She said: "After learning of the special needs of South African women, the bank has pledged to make every effort to mobilise assistance from other institutions — since South Africa is not a member of the ADB — for programmes of women's leagues."

In an interview with *Sowetan*, Ndiaye talked on nationalisation, privatisation, distribution of wealth, the role of women, violence and private sector development.

He suggested 10-point principles for investor confidence and economic growth in a democratic South Africa.

They are:

- the need for an early political settlement;
- promoting the democratic process;
- the need for an economic Codesa;
- privatisation of public enterprises;
- nationalisation and wealth redistribution;
- the need for increased productivity and investment;
- financial sector reform;
- South Africa in an integrated Southern Africa region;
- South Africa and international finance; and
- The role of the African Development Bank.

Pressure groups

He said: "The leaders of the major political parties and pressure groups should make every effort to speak the language of peace, restrain their followers, and support initiatives that will end the violence in the trains and the townships

"In this respect, he added, "the role of private community initiatives or even international assistance should not be ignored.

"Social peace is a fundamental prerequisite for promoting foreign investor confidence, for attracting much-needed capital inflows, and for reducing capital flight."

Ndiaye said during discussions they encouraged all parties to open their doors fully to all races so that political campaigns could be organised around value systems and programmes rather than ethnicity.

"Given the complexity of South Africa's economy and its heterogeneous society, there will inevitably be friction and difficulties in the transition from an aparthied society to a non-racial democracy."

He said there was a need for a forum in which the various interest groups could discuss their economic programmes and resolve mutual suspicions in an environment of trust.

"We are heartened by the compatibility in economic development principles espoused by many of the various parties with whom we met."

He said while privatisation of public enterprises was often needed for reasons of efficiency and to reduce Government deficits, they believed that the need for an early political settlement would argue for caution in that area.

"We think that privatisation is more likely to be sustained if it is undertaken after a democratically elected government has had an opportunity to review the full range of economic options," he said.

Economic growth for South Africa was likely to be enhanced through nationalisation. Fairer distribution of wealth would be achieved by growth-oriented policies that helped the alleviation of poverty, the provision of education and of vocational and skills training to provide economic empowerment to the underprivileged

"Better and fairer distribution of new opportunities also means improved access to entrepreneurial capital for low income groups for micro enterprises, and better housing and social services."

Ndiaye said an economic forum, as suggested by business and labour, could help in addressing any mutual concerns and avoid industrial unrest which would undermine both domestic and foreign investment inflows and encourage capital flight, putting further pressure on the rand.

A more harmonious tripartite relationship should lead to the early promulgation of new and transparent investment policies to encourage growth-generating new investment, both foreign and domestic, especially in export-oriented industries.

Prosperity

The current role of existing development finance institutions such as the DBSA, the Independent Development Corporation (IDC) and the Small Business Development Corporation (SBDC) needed to be re-examined and redefined to enable them to build on their past records and serve the majority population even more directly

"Our discussions have convinced us more than ever before that the future prosperity of South Africa lies in its integration into the rest of Southern Africa for the mutual benefit of the entire subregion.

"We are pleased to note that our desire for an economically integrated sub-region is shared by all the business groups which we met," he said, adding, "this dynamic engine of growth can have a spill."

As a result of sanctions and a freeze in new capital since the mid-eighties to South Africa, the country was now significantly underborrowed.

He said South Africa needed financial assistance to improve education, health and to create employment for a large segment of its population

No quick fix for world economy

STAR 14/4/92

(49)

PARIS — Policy-making officials from 10 leading industrial countries have agreed that the industrial world is headed for economic recovery within the next few months but saw "no real room" for an early general easing of monetary policies.

They concluded that government policies would broadly have to "stay the course", a senior European official said.

Meeting in a high-level committee of the Organisation for Economic Co-operation and Development (OECD), the officials said they felt there was "now a well founded hope of a world-wide recovery" although it might not be "a very buoyant one", the panel's chairman, Hans Tietmeyer of Germany, told reporters.

"A lot of people would like to see lower interest rates, but the question is whether this would be appropriate in the current situation", he said.

He stressed that in Germany, there was at present no room for a relaxation of monetary policy, and no changes were in the pipeline.

Interest rates

US Treasury Secretary Nicholas Brady said here earlier he was looking for an easing of interest rates to stimulate growth in the industrial world.

"I have been saying that for over a year," he told reporters after talks with his former French colleague, Pierre Beregovoy, who became premier last week. French officials said they had agreed on the need to accelerate world recovery.

Commenting on the conclusions reached in two-day talks in OECD's exclusive working party number 3 (WP3), Mr Tietmeyer, a senior director of the German Bundesbank, said the group had discussed briefly what could be done to reduce Japan's trade surplus but had not specifically called for a stronger yen.

Questioned on the recent stock market turbulence, he said the impact of market developments would be discussed by the officials at their next meeting.

The focus this time was on growth prospects, and the group noted some signs of recovery in the United States, and improving prospects in Japan and Germany.

The latest US signs were mixed, but on the whole more positive, he said. "One has to be cautious," he added, stressing that "no one can predict precisely what the outcome will be".

Japan

In Japan, he said, there will be a recovery from the second quarter with a further pick-up in the second half following the recent adoption of a fiscal package, after a first quarter that was not positive.

For Germany the expectation was one of positive growth from the first quarter, accelerating throughout the year. Bonn foresaw an average growth rate of two percent this year for Germany as a whole, with the former east Germany growing by 10 percent and the western part by 1,5 percent.

The group welcomed an improved growth performance by developing countries overall as a positive element for the world economy, noting they were expected to grow by four percent this year and next, double this year's projected OECD rate.

The officials agreed that former East bloc countries were still facing a very difficult situation, but Mr Tietmeyer did not elaborate.

He said the panel, comprising deputy ministers and central bank officials of the Group of Seven (G7) countries — Britain, Canada, France, Germany, Italy, Japan and the United States — plus the Netherlands, Sweden and Switzerland, agreed there were "no quick fixes".

The officials saw budgetary consolidation — cutting deficits and reining in on public spending — as probably the best contribution to sustainable growth in the industrial world.

He cited a general understanding that there was no real room for a more stimulative monetary policy, and that structural policies, including cutbacks in subsidies and privatisation, should play a bigger role.

Integration

The group also recognized that continued growth in developing countries and the integration of Eastern Europe into the world economy required access to Western markets, and a successful conclusion of the Uruguay Round trade negotiations.

Questioned by reporters, he said he had heard no criticism, but a lot of praise in the WP3 for the Bundesbank's firm stance against inflation triggered by German unification. This had forced other European countries to maintain higher interest rates than warranted by domestic factors.

But he said the group felt Germany needed to improve the mix between its fiscal and monetary policies, and had welcome Bonn's intention to cut its budget deficit.— Sapa-AFP.

Stals to pursue 'neutral policy'

STAR 14/4/92

By Roy Cokayne 49

Reserve Bank governor Dr Chris Stals said at the weekend that the bank would persevere with a policy "that is neutral and only exerts gradual downward pressure on the level of the inflation rate."

He said at a Council for the Care of the Aged function in Pretoria that any over-hasty relaxation in monetary policy at this stage could only make the fight against inflation more difficult.

Disappointed

The bank was disappointed the inflation rate had been so sluggish in reacting to the restrictive monetary policy.

But it accepted that it was extremely difficult to bring the inflation rate down after it had been above 10 percent for almost 20 years.

There were many built-in practices and habits and psychological expectations opposing moves to lower the rate.

However, "there are already many encouraging signs that the total inflationary pressure is in the process of gradually dropping.

"The most important evidence of this is that the inflation rate as measured by the course of production prices has dropped considerably over the past year.

"But there lies a long and difficult path ahead in bringing South Africa's inflation rate down to the average level of that of the country's most important trading partners."

Chris Stals . . . Difficult path ahead.

Howe warns of command economy

(49) CT 15/4/92

JOHANNESBURG. — A successful economy needs to be market driven and firmly founded on the liberal principles of the free market, says former British Deputy Prime Minister Sir Geoffrey Howe.

Speaking at an Institute of Directors conference here yesterday, Sir Geoffrey pointed to the destruction brought about by command economies in eastern Europe and Africa.

He said peace, prosperity, social harmony and economic growth were the natural objectives of every community, but these objectives were often difficult to achieve within the framework of democratic politics and free-market economics.

"All too often the outcome falls short of popular aspirations..."

Such disappointment was all the harder to bear if people felt they had had no chance to influence their own destiny.

This, he said, was further amplified when the hardships of failure, or the privileges of limited success, was felt to be unfairly distributed, especially where these were perceived to be as a result of class or party, nation or race.

In Africa, Sir Geoffrey said, some of the changes taking place, similar to those in eastern Europe and Russia, had been prompted by a significant shift in emphasis on the part of Western donors.

"British Foreign Secretary Douglas Hurd firmly underlined the link between good government and development and made it clear that aid programmes must take account of countries' record on government."

He said while this policy had initially been accepted with reservation and hostility, it had now become part of "international common ground".

'Economy needs to be reconstructed'

(49) B/Day 15/4/92

LINDA ENSOR

CAPE TOWN — There was a need for a fundamental reconstruction of the economy to get the relative prices of scarcities back into shape, the Development Bank of Southern Africa's Prof Jan Lombard said at an Aiesec conference yesterday.

He said a structural adjustment programme to open up the economy to foreign competition, introduce fiscal discipline and reach an accord with labour over inflation was also necessary. A fundamental shift in the pattern of production towards greater labour intensity was needed.

Lombard said trade unions would have to realise their responsibilities towards the entire population and not only to their employed members. The productivity of capital and labour was not growing, he added.

ANC to consider anti-trust laws

81.9 15/4/92 (49)

LINDA ENSOR

CAPE TOWN — The ANC would have to investigate the possibility of introducing anti-trust legislation to unbundle conglomerates, ANC ecomomic policy unit's Patrick Ncube said yesterday.

He said most ANC economists had abandoned the proposal to nationalise industry except for utilities, such as Eskom and Telkom.

Ncube, a member of UCT's economic research unit, was addressing an Aiesec-organised conference on business in the new SA.

Ncube said the ANC was not opposed to "bigness" as such and recognised that large companies were necessary to achieve international competitiveness and for their research and development capabilities. However, anti-trust laws were necessary to democratise the economy.

Another measure of income redistribution would be to decentralise industry away from the PWV, Durban and Cape Town areas. Ncube said the ANC's proposed decentralisation drive would differ from past policies in that it would be focused on small business and the informal sector.

He foresaw an expanded role and increased funding for the Small Business Development Corporation.

Tax incentives would be given for labour intensive production but no incentives or tax holidays would be implemented to attract foreign investment. He said this would come naturally if the economy and prices were stable, the balance of payments favourable and there were no foreign exchange or price controls.

Economic policy would be aimed at price stability achieved through a minimum of deficit financing and money creation to keep inflation low. Incentives would be given for export orientated industries to maintain a healthy balance of payments. Ncube stressed that the ANC did not want to take from the rich to give to the poor, but would rely on economic growth to redistribute wealth.

Annual budgets would be formulated in terms of a three-year plan.

Ncube said the ANC envisaged a mixed economy where labour and capital would negotiate conditions of employment with the state intervening only when talks broke down. The need for strong trade unions and employer bodies was emphasised.

He said an ANC government would attempt to create a degree of security of employment not in outlawing retrenchment, but through the creation of a training fund, funded by the state, employers and unions.

An investment court to guide investors was also under discussion, Ncube said.

Ncube warned of the danger of macro-populism if government power was shared between the NPand the ANC, both keen to satisfy their constituencies. Overspending, high inflation, price, import and foreign exchange controls, balance of payments problems and a lack of investment would be the inevitable result of a coalition.

Pepkor chairman Christo Wiese speaks at the Institute of Directors conference yesterday. Picture ANDREW BANNISTER

Creation of wealth 'hinges on exports'

BDay 15/4/92

MARCIA KLEIN

THE creation of wealth in SA depended on exports and increased involvement in the southern African region, not on the redistribution of assets, Pepkor chairman Christo Wiese said yesterday.

He vigorously opposed any approach which said that "Peter should be robbed to pay Paul", because wealth could be created only through sustainable growth.

The SA economy was currently not capable of meeting the needs or the aspirations of its 37-million people. But he was optimistic SA had the potential "to provide, over time, an acceptable standard of living for all its inhabitants" through a free market economy.

SA should beneficiate or process them before export It also had a good climate, and crop cultivation could generate substantial foreign exchange through exports.

A growing consumer population meant manufacturers could achieve the economies of scale necessary to compete in export markets

Wiese said SA also had vast tourist potential which was largely untapped.

He added that SA's future economic planning must include all of southern Africa A major factor in its favour was that sanctions were disappearing

(49)

'Free market inadequate'

TIM COHEN 49

TRICKLE-down economics had no place in Cosatu's book, general secretary Jay Naidoo said yesterday.

Governments had intervened in SA's economy for the past 300 years to protect the interests of the white minority, he said.

There was no way that the "forces of the free market" would be able to correct this. S/Day 15/4/92

Cosatu was in favour of a strong but slim state able to intervene to develop economic policies.

"There is no trust that those who have dominated economic and political power in the past will in a future democratic SA automatically have at heart the interest of the majority who have been excluded."

For trade unionists, the bottom line was signed agreements that commit parties to negotiation.

Naidoo said government was pursuing a conscious policy to devalue the rights of citizens who did not have the vote.

The government and its allies in business and the media were trying to ensure the hands of a future state were tied, he said.

ANC trade policy to be released soon

B/Day 15/4/92

THE ANC would release a trade policy in the next few months, possibly as early as May, ANC economic affairs deputy director Tito Mboweni said yesterday.

He described the level of import tariffs as a critical issue. He said he was committed to the principles of trade liberalisation in accordance with GATT, but there had to be a way to protect consumers and producers.

Mboweni said recently the ANC would publish a draft economic policy statement soon.

The trade policy, which he said could come as early as May, would be a separate section of the overall economic policy.

Mboweni also said yesterday the ANC would take steps to redistribute land to the estimated 3,5-million people removed from their land by apartheid. At the same time the ANC would be careful not to destroy agricultural production.

An ANC government was unlikely to remove foreign exchange controls immediately, but would like to lift them gradually.

On nationalisation, Mboweni said the ANC was considering economic policies that redistributed personal and corporate wealth "within the context of macro-economic policies".

Restructuring the tax system and enacting anti-trust legislation were alternatives to nationalistion for redistributing wealth. However, the business community had to understand the ANC was under political pressure from blacks to use the word nationalisation.

"If you went to the townships and rural areas ... you'd be struck by the way people are dismayed if the words redistribution and nationalisation aren't mentioned." — AP-DJ.

'Drought will cost 80 000 jobs, R1,5-bn'

STAR 15/4/92

49

By Michael Chester

More than 80 000 jobs were likely to be wiped out in the current drought disaster and economic losses threatened to reach as high as R1,5 billion, according to surveys by the Congress of South African Trade Unions.

The estimates were revealed by Cosatu general secretary Jay Naidoo when he addressed the annual conference of the Institute of Directors in Johannesburg yesterday.

No fewer than 3 million children in the rural areas were suffering from malnutrition. The drought disaster, he said, added to a growing list of economic problems that confronted South Africa.

"Unless we can (soon) come to agreement on ways of effectively dealing with the problems of the drought, along with shortages of food, housing and other basic needs, our country will go backwards rather than forwards despite progress at a political level," he said.

"Clearly what a future South Africa needs to confront now is how to generate economic growth in a manner that can underpin and stabilise the transition to political democracy."

There was no way that the "forces of the free market" would be able to correct the imbalances between white and black society that had developed in 300 years of government intervention to ensure the protection of white minority interests. It was crucial to debate the role of the state

"Cosatu has argued very strongly that we require a strong state which is able to intervene decisively in pursuing economic policies that promote growth," he said.

Cosatu would pledge full support to a massive rationalisation of the monolithic apartheid bureaucracy so that public funds could be redirected into job creation and building houses, schools and hospitals.

"The present Government and its allies in business and the media are trying to ensure that the socio-economic hands of a future state are firmly tied by decisions taken and implemented now," Mr Naidoo said.

"Clearly the political repercussions of this are not lost· a weak economy means a weak government.

"Cosatu will resist any attempts to impose an economic or political solution on South Africa, particularly in this tran sition phase when even this present Government recognises its illegitimacy and lack of representivity.

"It is for this reason that we have called on the present Government to cease its arbitrary and unilateral restructuring of the economy and enter into bona fide negotiations with the organised trade union movement and organised business to ensure that economic restructuring has a legitimate basis of support," he said.

● More reports — Page 9

Cosatu will resist, says Naidoo

49

The Congress of SA Trade Unions will continue to resist any attempts by the government to impose an economic or political solution on the country, Cosatu general-secretary Mr Jay Naidoo said yesterday.

ST 15/4/92

ANC'S PLAN FOR ACTION IF TALKS FAIL

See PAGE 12

Speaking at the Institute of Directors conference here, Mr Naidoo accused the government of pursuing a conscious policy of "government by stealth" in all socio-economic areas.

It was for this reason that Cosatu had called on the government to stop restructuring the economy and to enter into bona fide negotiations with the organised trade union movement and organised business.

"We believe that the establishment of a national economic negotiation forum will ensure that we shift from the ad hoc economic government of the present to developing a coherent economic programme in which we can unleash the creative energies of all sectors of society."

Mr Naidoo said the real issue was whether the key players were prepared to have a public and democratic debate on how to resolve the problems apartheid had created. — Sapa

NE

SA faces 3 simultaneous revolutions, warns Howe

(49) STAR 15/4/92

By Michael Chester

All sanctions should be removed as soon as possible to allow South Africa to join neighbour states to launch a continent-wide drive for economic expansion, former British foreign minister Sir Geoffrey Howe said in Johannesburg yesterday.

"What better way of generating employment opportunities — north as well as south of the Zambesi?" he asked.

In a keynote address at the annual conference of the Institute of Directors, Sir Geoffrey also recommended the removal of the high degree of government regulation and intervention that had intensified inside South Africa in its prolonged economic isolation.

South Africa faced the task of handling three simultaneous revolutions: from strictly limited to universal democracy, from seriously restricted to open economic opportunity, and from national isolation to integration in the world economy.

Many high expectations would be dashed. The establishment and expansion of all the dynamos and engines of a market-driven economy was a process that extended over generations.

Redistribution

"Yet it is equally desirable to achieve as soon as possible at least some redistribution of resources in favour of those who have for so long been relatively dispossessed by economic apartheid — most urgently of all, perhaps, in better educational opportunities," he said.

Fortunately, South Africa had solid foundations on which to build a lasting democracy: an independent and respected judiciary, equally independent and academically respected universities, a free press and well-established institutions in a strong free-market economy.

More and more countries around the world had now seen the strength of the case for the privatisation of State-controlled enterprises.

It not only freed each business from damaging political interference, enhanced the competitive efficiency of the economy and extended consumer choice and private share ownership, it also relieved the State of the huge and growing burden of financing and investment needs and operating deficits of public corporations.

There was another prescription to commend in South Africa — the encouragement of more investment from overseas. By making inward investment more attractive, Britain in recent years had turned several weak industries into winners on world export markets, and in the process created hundreds of thousands new jobs.

"I have been most encouraged to learn of the ANC's latest willingness to prepare a code that will encourage such investment," said Sir Geoffrey.

Liberal economic policies were desirable for more than just economic reasons. The key benefit of a free-market system was the framework it provided society for absorbing and responding to change without stifling it.

Energise

"The challenge for the leadership of your country, in commerce and industry as well as in politics," he said, "is to manage democratic institutions so as to energise the dynamo of economic change — without arousing expectations so high that they are bound to be disappointed.

"There will be dark moments and discouragement from time to time. But there is in your country great talent, great hope and great courage as well. Your many friends in the rest of the world have confidence in your prospects of success."

SA warned not to fall behind rest of world

STAR 15/4/92 (49)

By Michael Chester

South Africa was advised yesterday to beware of pressures to seek temporary solutions to the recession with kick-starts that could prove premature and soon peter out.

Instead, economic planning should concentrate on firm routes towards longer-term goals.

The caution was delivered by JSE president-designate Roy Andersen, who told the annual conference of the Institute of Directors in Johannesburg yesterday: "It is essential that the strategies we choose ensure long-term growth and are not merely a short-term expedient."

He added: "We face important economic crossroads where we must choose between conflicting priorities.

"On the one hand, the economic injustices of the past clearly need to be rectified as soon as possible.

Wealth creation

"There is, however, a risk that if we concentrate only on internal issues such as housing and job creation we will fall behind the rest of the world and will not be competitive.

"We need not only to redistribute opportunities but also focus single-mindedly on exports. We must create wealth for everyone so that we can meet the expectations of the entire population.

"This means remaining part of the First World and competing internationally. We must become a winning nation.

"The temptation to grasp at short-term solutions to stimulate the economy will be great. We must not, however, be short-sighted and should focus on long-term solutions."

The first and most important step was to secure a sense of confidence, which was the key to new investment flows from abroad. Agreement was urgent on clear strategies that could be implemented with the full commitment of politicians and businessmen alike.

Roy Andersen . . . High tax rates a disincentive to foreign investment.

The timing of any stimulation of the economy and any material decline in the cost of capital must be carefully planned to synchronise with an upswing in the world economy and an end to the drought.

Any premature or false stimulation could peter out and result in further unwanted inflation along with negative interest rates.

The most effective long-term method of generating wealth for all South Africans was to increase exports, especially coupled with the beneficiation of mineral resources.

Productivity needed to be addressed if South Africa hoped to be competitive on world markets.

Over the past 15 years, productivity in SA increased by only 18 percent while wages rocketed by 525 percent. In Taiwan, productivity jumped 112 percent and wages by only 110 percent.

High tax rates were still among the disincentives to foreign investment. Though the social demands on the fiscus were great, it should be possible to reduce tax rates by bold cuts in government spending and cuts in the defence budget.

Also essential was the ultimate elimination of the financial rand, plus all foreign exchange control regulations, if South Africa aspired to a fair share of international investment.

"Full and true international participation in a world offering many competing investments, easily accessible via computer terminals, is just not possible where the flow of funds is impeded by exchange controls."

Sub-Saharan Africa had the potential to double the size of South Africa's market share.

"Though our neighbours to the north have limited foreign exchange, we must begin now to break down the barriers to regional trade," said Mr Andersen.

SA had the capacity to increase trade flows by replacing the European Economic Community as the main suppliers engaged in projects authorised by the World Bank.

The future of South Africa depended on sound and efficient markets. The truism that a healthy economy went hand-in-hand with a healthy stock exchange would once again be tested

The role of the JSE would become even more relevant over the next decade.

Issues now being addressed by the JSE management included:

- Improving the liquidity of the market to attract more overseas investors.
- Providing a vehicle for efficiently unbundling certain of the concentrations of power that had inevitably built up in years of isolation.
- Creating opportunities for more small businessmen to raise capital.
- Continuing to provide an efficient market for government and semi-government bonds.
- Playing a role in demonstrating to the majority of South Africans the benefits of a free market system and an opportunity to obtain "a share in the nation."

Wealth 'has to be created'

Wealth creation, distribution and redistribution may dominate the current negotiation process in South Africa, says Pepkor chairman Christo Wiese. STAR 15/4/92

Speaking at the Institute of Directors conference Mr Wiese strongly opposed any redistribution saying it was only through sustainable growth that the neccessary wealth could be created to raise the quality of life.

He said the wealth South Africa needed to meet the reasonable aspirations of the majority of its people "simply does not exist — it will have to be created".

15/4/92

Mr Wiese questioned South Africa's potential to provide, over time, an acceptable standard of living for all and whether a market-led economy was the best method of unlocking this potential — given the escalating level of violence borne out of poverty and social disintegration along with vast homelessness, unemployment and the lack of hope.

Despite South Africa's natural resource wealth, Mr Wiese said there was no correlation between a country's richness in natural resources and its successful economic development. (49)

He said the economic miracles the world has witnessed since World War 2 have, with the exception of the US been characterised by a relative absence of natural resources.

However Mr Wiese said it was wrong to accept that the mere presence of natural resources contituted a negative.

"These resources do represent an enormous advantage — as they did for America — if they are correctly utilised in the overall planning and development of the economy." — Sapa.

Howe spells out success formula

(49)

B|Day 15/4/92

KATHRYN STRACHAN

A SUCCESSFUL economy needed to be market-driven and firmly founded on the liberal principles of the free-market, former British deputy prime minister Sir Geoffrey Howe said yesterday.

He said the key benefits which a free market brought to any society were not simply economic, but political as well. The alternative command economy had been "tested to destruction worldwide", he said, and pointed to examples in eastern Europe and Africa.

Howe said the failure of the command economy was made all the more certain by the inevitability that "the political commanders would be tempted to introduce massive distortions, in the hope of buying off certain interest groups".

Social harmony and economic growth were most likely to be attained on the basis of democratic politics and free-market economics. However, the market economy was not only manageable in the context of a perfectly democratic society, as market methods had been the main dynamo of success in a number of newer countries where "democracy has been as deficient as the economic vitality itself".

Howe said: "The most politically harmonious societies are not those that stagnate, but those that develop and grow."

SA had a lot to learn from other countries throughout the world that were stunted by over-regulation, as SA was characterised by a high degree of government regulation and intervention, intensified by prolonged economic isolation from much of the world.

Nationalism 5

New Nation (Learning Nation) 16/4-23/4/92

(49)

Right-wing Nationalism

Fascists selling their paper in Britain.

In our introductory article to this series we noted that alongside the many national liberation movements that exist worldwide, there is also a growing right-wing nationalist current. This article will focus on the rise of this form of nationalism and some of its implications.

International Capitalism: Recession and Uncertainty

A striking feature of many of the leading imperialist countries over the last few years is their economic recession The USA, Britain and France are amongst the worst hit countries On the other hand, countries like Germany and Japan have shown a growth in their economies, but there is uncertainty as to how long this trend can continue.

A recession means that instead of the economy growing and the capitalists making bigger profits, the economy declines and profit making becomes increasingly difficult.

Under these conditions, the capitalists resort to all kinds of measures in an attempt to secure their profits. In trying to beat the recession, capitalists cut production rates or even shut down factories. Sometimes they shut down a factory in one country and move the plant to another country to get cheaper labour or better tax benefits. Capitalists also argue for a wage freeze despite a rise in the cost of living. All these different tactics lead to workers facing a drop in their standard of living or unemployment.

Responses to the Economic Crisis - The Capitalists

Capitalism is a economic system based on competition between capitalists. This competition happens between capitalists within a country as well as between capitalists of different countries. For example, American and Japanese capitalists compete with each other for the sale of their products. Over the last few years, the USA has bought more from Japan than Japan has bought from the USA By the beginning of 1991, the USA owed Japan about $46 billion. This trend is most clearly shown up through the collapsing motor car industry in the USA More and more Americans prefer Japanese cars to US models resulting in a severe drop in sales of American made cars The capitalists who invested in the motor car industry face huge losses

American capitalists accuse the Japanese capitalists and the Japanese state of blocking the entry of American products into Japan. Often these accusations are made in such a way that the Japanese capitalists and their state **are not attacked for being capitalistic, but for being Japanese.** This amounts to promoting racism where the Japanese nation is made to be a nation that is selfish or greedy. These prejudices can get easily re-enforced in conditions of an economic recession.

Capitalists also stir up racist prejudices between nations, out of fear that their country will be dominated economically and politically by another. In particular, countries like France and Britain with their weak economies, fear German domination. This fear continues to grow given that by the end of 1992, countries like Germany, Britain and France together with our European countries are meant to merge into a single European Economic Community (the EEC) In America, there is a rising tide of anti-Japanese feeling. A campaign to "Buy America" and to put "America First" is gaining in popularity as Americans are encouraged to buy American products despite the higher prices as a sign of their patriotism.

Past experiences have shown that under worsening economic conditions, the capitalist class of one country is willing to go to war with another country The Gulf War is a recent example. Iraq's invasion of Kuwait was a threat to America's oil supply and political influence in the Middle East Imperialist invasions of another nation have little to do with advancing democracy Instead, democracy is often sacrificed to secure the political and economic interests of the imperialist country

Responses to the Economic Crisis - The Middle and Working Class

The most immediate impact of the economic recession for the middle and working classes in the imperialist countries is a drop in the standard of living, bankruptcy and unemployment As a result of the dominating influence of capitalist ideology, middle and working class people largely believe that the economic crisis is a fault of some other country For example, many ordinary American people believe that Japan is the cause of their economic problems The capitalist system itself is not questioned as a possible cause for the failing economy Thus fertile ground exists within the middle and working classes for racist sentiments to grow

In Germany, although the economy is not in a recession, there is growing fear amongst Germans about job security and a drop in living standards. This fear comes after the recent reunification with East Germany where unemployment is as high as 50% Germans also feel threatened by immigrants or workers from countries like Poland and other East European countries who are looking for jobs, often for low wages Similar fears about loss of job opportunities and social benefits exist amongst middle and working class people in countries like Britain and France.

The competition between workers for jobs or for social benefits not only divides worker against worker, but also turns workers of one nation or national group within the same country against another This division within the working class is promoted by the capitalists who are out to pay the lowest wage possible. This is already being clearly demonstrated in countries such as Britain, Germany and France In recent months, there has been growing support for right-wing and fascist political parties Among the key issues promoted by these right-wing and fascist parties are demands for stricter immigration laws, deliberate discrimination against immigrants when it comes to jobs, housing and social security and the maintaining of "cultural values and standards" **It is this desire to limit democratic rights to a chosen national group at the expense of others that makes this form of nationalism reactionary**

Presently, the fascist organisations do not enjoy popular support However there is growing support for some elements of the right-wing programme especially for the tighter control of immigration. However, if the recession continues to cut more deeply into the living standards of working people and the fate of capitalism is in danger, then fascist solutions become real options

Japan Strikes Back!

Japan is no longer willing to take the racist bashing it gets from the USA in silence. Japanese capitalists have found a way in which to make a profit from all the racial abuse Japanese get from Americans.

A Japanese computer company has produced a video game called Japan Bashing. In the game, players must use their "skill" to convince the Japanese government to allow US building companies into Japan. Another situation involves the player trying to understand a Japanese speak "broken" English.

The makers of the video game argue that the game is meant to improve Japanese-American relations. This is questionable however for when the "Americans" are offended in the game, a cowboy with his six-shooter guns shoots the "Japanese". When the "Japanese" are offended in the game, a Samurai warrior uses his sword to kill the "Americans".

Rather than improve relations, this game seems more likely to sharpen the growing racism between America and Japan.

In our last article in Nationalism next week we will focus our attention on South Africa. We have the complex situation in which the majority of people are still struggling to win their democratic rights denied them under apartheid. Under the same conditions, there exist right-wing nationalist and even fascist movements.

SA will pay a heavy price for policy decisions taken 'by stealth', argues Cosatu's **Jay Naidoo**

Next govt being shorn of its economic weapons

STAR 16/4/92 (49)

THE economic document published after the Cosatu economic policy conference has elicited much comment. From the business community and the commercial media the general tenor of this comment has ranged from critical to hysterical. This is not only understandable but healthy.

If the business community and the commercial media — firmly embedded in the giant conglomerates — were to readily agree with Cosatu's proposals there would be something drastically wrong with business or Cosatu or both. In any society organised labour and organised business disagree — they represent different constituencies.

In South Africa, deeply divided in terms of virtually all indicators and yet to experience democratic government, this disagreement is a hard political, social and economic fact of life. Instead of trying to wish it away or stigmatise it into oblivion, let's accept the reality. The real issue is whether anything is negotiable.

Cosatu is only too happy to explain, defend and elaborate its position in an open public debate. But we must also do more than this — we must scrutinise existing Government policy.

The Government is pursuing a conscious policy of government by stealth in all socio-economic areas. As we should know only too well from our own experience and that of the Eastern Europe, any economic government by stealth can do lasting damage to the economy, society and environment.

In South Africa such a policy is dangerous and inward for two fundamental reasons. Firstly, each and every citizen can be affected by decisions taken that have not been open to full public scrutiny and debate.

Secondly, those citizens who hope to enjoy the right to vote soon are having that right systematically devalued. The Government and its allies in business and media are trying to ensure that the socio-economic hands of a future state are firmly tied by decisions taken and implemented now.

Let us do a brief survey of the areas of change carried out sometimes under the convenient free market philosophy and sometimes without even any pretence at justification.

● In the crucial areas of health, education and housing, Government is proceeding with radical restructuring while simultaneously withdrawing from housing, health and education forums where such moves could be negotiated.

● Plans are afoot to commercialise and then privatise State forests — again without any consultation with affected parties.

If, as is estimated, prices for timber rise by 35 percent with commercialisation, a future goverment will be severely handicapped in its ability to provide the cheap low cost housing which is so desperately needed. Latest estimates are that 1,2 million homes need to be built to make up the backlog.

● Tariff arrangements, including the quota system in the textile industry for example, have been changed in a ad hoc, arbitary way leading to the near destruction of the textile industry. Almost 20 000 textile jobs were lost last year.

● Legislation is being passed preventing homeland pensioners from drawing benefits from central government once these regions are reincorporated. The pensionable age has also been raised from 60 to 65. Why should future governments inherit this political minefield?

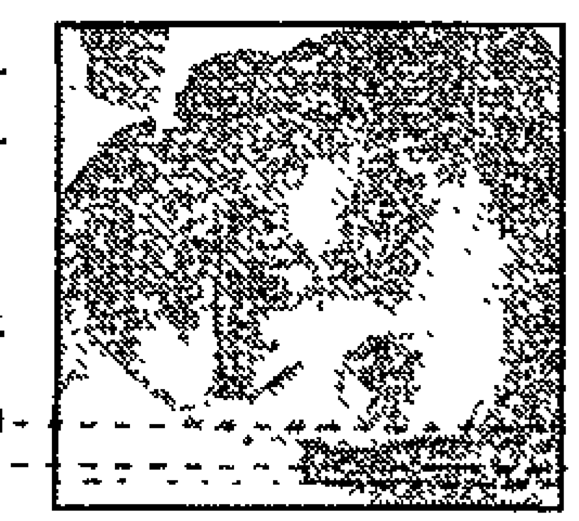
● Private and State pension funds, life assurers and financial institutions were required to invest large percentages of their assets in all sorts of Government stock. But in the past few years these have been significantly relaxed — if not entirely removed — which means Government can no longer rely on relatively cheap money to finance its deficit;

● Major privatisation programmes are being implemented in parastatals such as Escom, Spoornet, Transnet, Armscor, Sasol, Posts and Telecommunications without negotiations.

● The introduction of VAT was said by the Government to be part of a major programme of economic restructuring. Why should we accept this major shift of the tax burden from companies to individuals without any negotiations and when it is having such a devastating impact on the poor?

● The Government is raising major foreign loans to advance an economic agenda that has not being negotiated.

The agenda will always be resisted because we are in a transition phase in which even the Government accepts it is unrepresentative of the majority. Any moves to restructure the economy will have to be negotiated by major players, and that includes Cosatu.



Can one then blame organisation like Cosatu, who with the majority who have been excluded from the economy, have concluding that the present Government is:

● Putting more money in its own hands in the run-up to elections while increasing the debt burden of a new government (through increasing domestic and foreign debt) while

● Actively disengaging the State from all areas of the economy so a new government will be economically emasculated (through deregulation, privatisation, commercialisation and the like) and politically paralysed in relation to meeting its social service needs (the money and tools to do this are being removed). □

Give monetary policy its due

(49) FM 17/4/92

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

It would be wrong to blame politics for the recession. The world's marketplaces that deal in SA assets have given political change here a big vote of confidence.

Marketmakers are an unsentimental lot; they didn't hesitate to dump SA assets in 1985. But, as seen in Figure 1, the US dollar value of a representative sample of SA industrials traded in New York has improved by much more than the Dow Jones industrial average, itself no sluggard, over the recent period of dramatic political change.

The interruptions in the strengthening of the national balance sheet, caused by the adverse reaction to ANC president Nelson Mandela's call for nationalisation on his release in February 1990, and the threat of a conservative resistance to reform early this year, are clearly shown in Figure 1.

Investment and other spending in SA have declined this year despite the fundamentally improved investor sentiment. It has done so for an old-fashioned reason: monetary policy has been devastatingly severe, as seen in Figure 2. The decline in the supply of money in real terms was sharper last year than it had been in 1976, 1982 or 1984-1985, previous periods of tight money.

The cycle of monetary growth has always led the cycle of economic activity and followed the state of the balance of trade. Predictably, the monetary authorities relaxed their policies when the balance of trade provided them with a comfortable cushion of foreign exchange reserves. They tightened up when the health of the balance of payments was threatened by excessive spending.

Thus booms were brought to an end with higher interest rates and recessions with cuts in interest rates. The economy danced to the rhythm of the balance of trade, until last year when the beat of another drum sounded. The different beat was that of the Reserve Bank and its new mission to defend the rand's internal and external value.

Politicians left it to the task. Government did not interfere with an independent central bank defending the currency and setting an example to the new SA. Populist opposition to government, which would be expected to complain about monetarist policies, seemed to ignore the Reserve Bank while it fired away at Finance Minister Barend du Plessis.

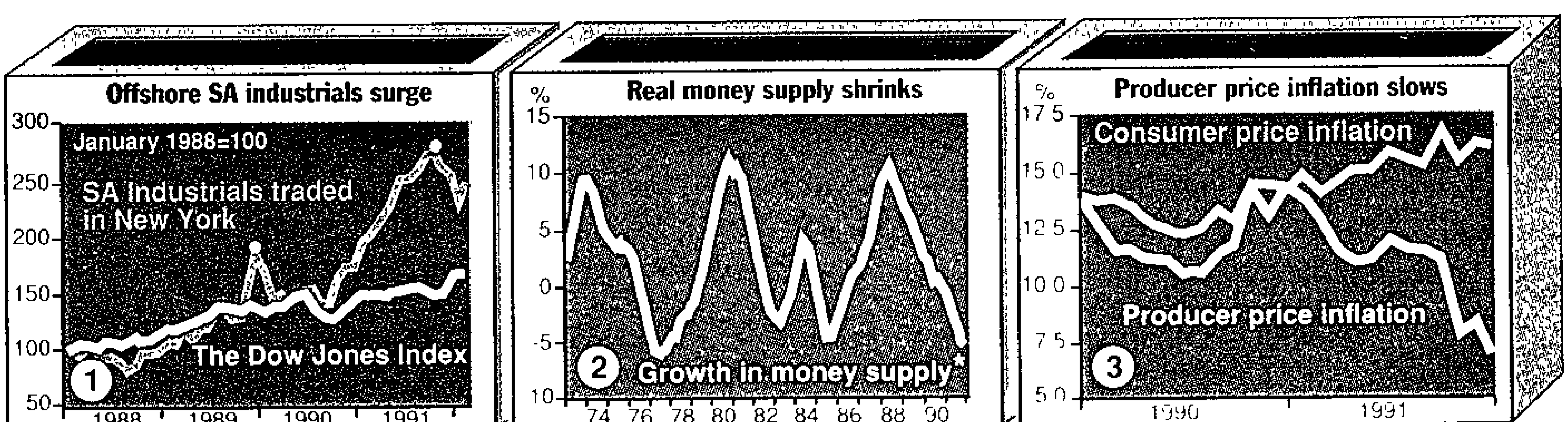
So monetary policy has remained highly deflationary for far longer than normal — despite a marked and continuous improvement in the trade and capital accounts of the balance of payments. Unfortunately, the deflation of expenditure has been far more real than the deflation of prices, at least the prices consumers pay at the stores.

But the prices producers are able to charge have been responding dramatically and predictably. As seen in Figure 3, monetary policy is working in a classically effective way on producer prices.

The large gap that has opened between consumer and producer price inflation is unprecedented and has nothing to do with the demand side of the price equation, which is the side that monetary policy operates on. But by the end of the year, the tax and food supply-side shocks that have kept producer and consumer price trends apart, will fall away and consumer price trends will fall in line with the fundamentals.

The Reserve Bank now needs to lift its gaze beyond the short-term consumer price trends and recognise the success it has had with prices and will continue to have, provided it maintains the rand's external value. Recent political developments make the capital account of the balance of payments a source of support for the currency.

So growth and still-lower inflation are likely over the next 24 months, if only the Bank would be guided by its success with producer prices and therefore loosen its grip on the economy.



Mandela calls for nationalisation
Worries over the right wing grow
Source: Brian Kantor

* In real terms

Laying the foundation for growth

FM 17/4/92 LESSONS FROM BRITAIN 49

Never forgetting socialism

The African National Congress and those other faint hearts with recidivistic tendencies towards collectivism should take no heart from John Major's reduced majority in the House of Commons. On the contrary, considering the victory that the polls were almost constantly giving to Labour's Neil Kinnock during the campaign, the return of the Tory government is a resounding victory for the freedom implicit in democratic capitalism.

The Tory government has been re-elected in the midst of a recession brought about in large measure by its own lapse from economic orthodoxy — one consequence of which is rising unemployment. And it was humiliated by a proposed poll tax, the political implications of which were not carefully weighed.

In former years that would have been enough to ensure a Labour victory. The fact that the opposite has happened indicates the extent to which people in Britain are suspicious of those who actively want to return to what the bishops of the Anglican Church would like to characterise as a more caring society.

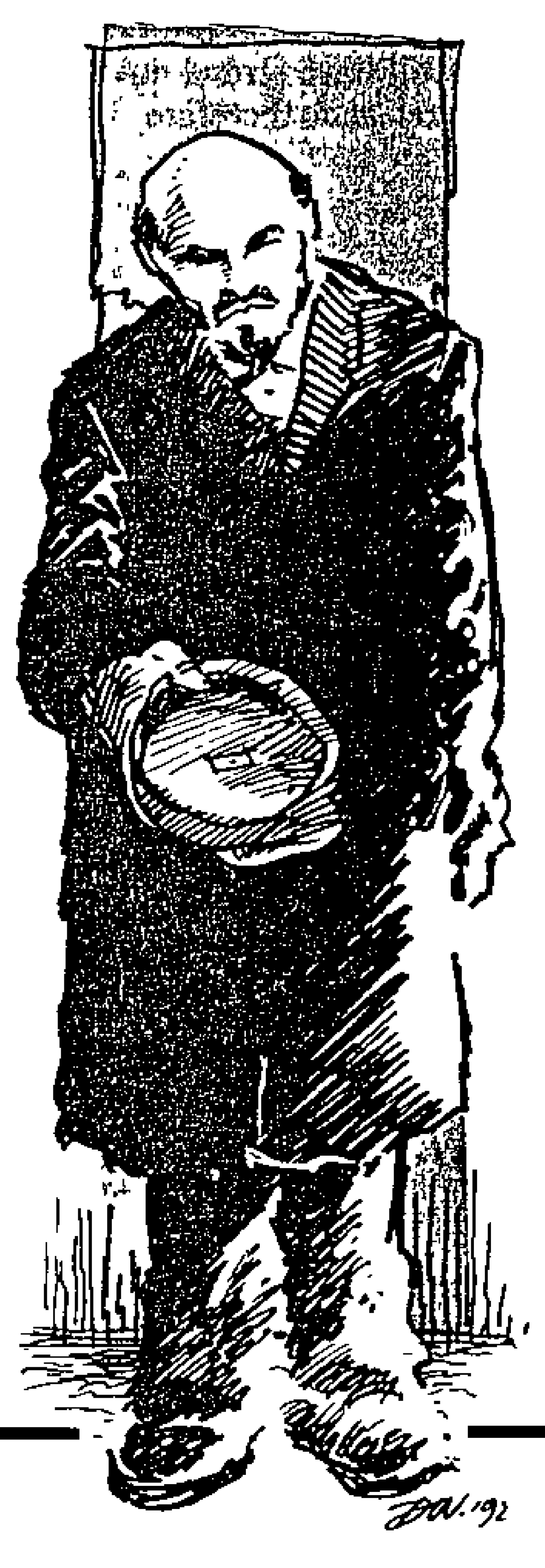
Of course, what they really mean is a society of increasing enfeeblement as the State took to itself the care of its citizens from the cradle to the grave and then found it had not the resources to do so. The social ramifications of that have been harsh — and sometimes cruel.

It deprived ordinary people of the responsibility for their own welfare in a world that is hard and unforgiving; it created a society that made it easy for the individual to escape responsibility for those less fortunate than himself. The State would take care.

It is quintessentially caring when each one of us has to put his hand into his own pocket and fork out for those more in need. That is the gesture that counts. Not the pensions, cheap medicine and free health care which even those societies that believed they were the most prosperous and beneficent now find they can scarcely afford.

There is another lesson for the ANC in Major's victory. An electorate will not take easily to economic half-measures or the cloaking of socialism in terms thought to be more acceptable to those who are concerned at the reintroduction of policies the failure of which has been manifest elsewhere.

A mixed economy is a case in point. It is not a convenient compromise between socialism and capitalism. If the reason for some undertakings being in private hands is because they will be more efficiently run than in public ones, then by what logical reasoning should any business undertaking or utility be in public hands?



Modern economics has shown that government ownership does not mean that ordinary people have a greater share in productive resources. It means that government and the bureaucracy will run those resources to their benefit — not necessarily for the public good or for ordinary folk.

If there is market failure, the way to correct it is not through government intervention in the marketplace, but through the clear legal definition of ownership and the zero cost of transactions. If that happens, buyers and sellers will bargain their way to efficiency.

That is the proposition that last year won Ronald Coase the Nobel Economics Prize. In expounding the Coase Theorem, he has given convincing reasons why privately owned businesses are better at reducing the cost of doing business than publicly owned ones. And he has demolished the case for government intervention.

The Labour Party's ambivalence over collective ownership could not be cloaked in this election. Nor will the ANC's here in the future.

During the course of the election campaign, Major himself grasped the need for firm leadership and an unequivocal exposition of policy. That appears to have had a strong influence in determining the eventual outcome.

There is no doubt that in both policy formation and in its communication to its members, the ANC leadership has been less than decisive. Policy that is left to what is popularly known as the "grass roots" will never be decisive and will most likely be contradictory.

The test to which Boris Yeltsin is being put over economic policy in Russia this week is essentially one of decisive leadership. He has not waited for some obscure process of osmosis to raise often ill-formed notions from the grass roots. He has come forward with bold proposals and is staking his reputation on their being appropriate, logical and consistent.

Most important, however, is that by electing Major, British voters have rejected higher taxes as a means of distributing largesse and assisting the unemployed. There was never any economic sense in that course of action anyway. The ANC which evidently wants similarly to soak the rich to help the poor will find that if it is ever able to do that it will only be done once.

The Tory fall from economic orthodoxy in the latter Thatcher years has exacted a heavy price.

Now that the Tory majority in the Commons, contrary to expectations, is substantial enough for decisive government, the chances are that another lapse by an injudicious Chancellor will not be lightly countenanced. ■

Growth of 1% is 'too optimistic'

B/Day 21/4/92 (49)

LINDA ENSOR

CAPE TOWN — Sanlam does not expect any marked economic recovery until late this year, and forecasts that real economic growth for 1992 will be less than 1%.

The predictions, by Sanlam chief economist Johan Louw, are contained in the organisation's latest Economic Survey.

"We think that the prediction of a real economic growth rate of 1% for this year may possibly prove to have been too optimistic. Hopefully, a considerably higher rate of expansion of between 3% and 4% will be attained in 1993," Louw said.

There were no factors at present which would lead to a noticeable recovery soon. In fact a number of negative forces were at work: the economic growth of SA's major trading partners was still sluggish; consumer spending was under continued pressure; fixed investment would continue to perform poorly because of a "wait-and-see" attitude, and the drought would push up food prices and adversely affect the balance of payments.

A domestic recovery would depend largely on an acceleration of growth in the economies of SA's major trading partners, a further decline in interest rates, the level of the inflation rate and the rate of actual spending on social projects.

However, Louw said economic conditions of the seven most important industrialised countries would improve to such an extent that they would achieve a growth rate of about 2% compared with 1% in 1991.

The recent weakening of SA's balance of payments should continue for most of 1992 as the value of its merchandise exports would not improve significantly and prospects of an improved gold price were bleak. The import of maize and maize products due to the drought would result in a foreign exchange loss of up to R3bn

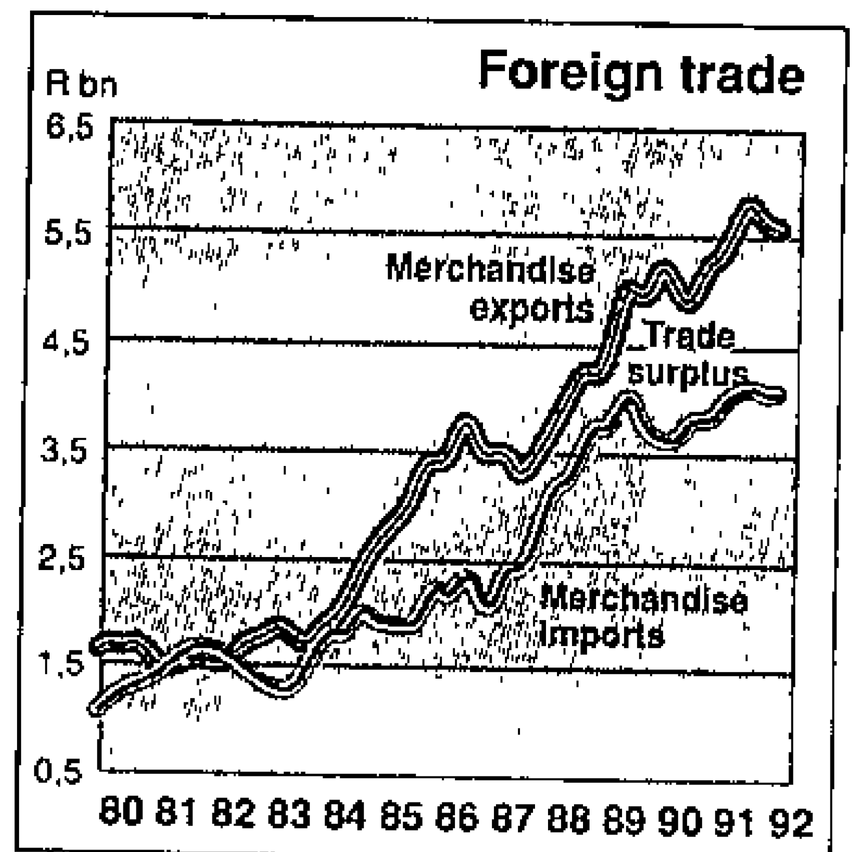
A current account surplus of about R4bn (1991. R7,4bn) was forecast for this year, being offset by a more favourable capital account and an improvement in foreign reserves.

A further downward adjustment in Bank rate could be expected in the third quarter with the prime overdraft rate likely to be between 17,5% and 18% by the end of the year.

Capital market conditions would remain relatively tight and a downward trend in long-term interest rates was expected in the coming months and for the rest of 1992 However, the decline would be limited, and would drop to lower levels only on heightened foreign investor interest in SA stocks.

Louw estimated an inflation rate of between 12% and 13% by the end of 1992 and an average rate of about 14,5% compared with 15,3% for 1991

The survey expected a weakening of the rand against the dollar for the rest of the year but a maintenance of its value against the European and Japanese currencies



Graphic FIONA KRISCH Source CUSTOMS & EXCISE

Revenue collection slightly off target

(49)

SHERIDAN CONNOLLY

REVENUE collected during the 1991/92 financial year was just less than target, with 99,4% of the voted amount collected.

According to the Central Statistical Service, total collections in the year to March disclosed that 9,8% more revenue was collected than in the previous financial year, when the Exchequer raked in 104,4% of the amount voted. B| Day 2|4|92.

Inland Revenue receipts increased by 10,6% while customs and excise duties yielded 4,5% more than the previous year. During the past financial year the Exchequer's deficit before borrowing and debt repayment amounted to 99,7% of the deficit voted for the year compared with 91,7% for the previous financial year.

State spending during the 1991/92 financial year rose 12,5%. Expenditure was 99,5% of the budgeted amount for the year as against 103% year before. Spending exceeded revenue by 13,6% compared with an overshoot of 10,8% in 1990/91.

Old Mutual chief economist Dave Mohr said the figures looked "reasonably encouraging and contained no nasty surprises". The final figures for the last month of the fiscal year seemed to be better than Finance Minister Barend du Plessis had expected when he gave his Budget address.

Dawie de Villiers fills in for Barend

CAPE TOWN — President F W de Klerk yesterday appointed Public Enterprises Minister Dawie de Villiers acting Finance Minister. B/Day 22/4/92.

Finance Minister Barend du Plessis was admitted to hospital 12 days ago suffering from extreme exhaustion, and he was expected to be back at work by yesterday.

But a spokesman for his office said Du Plessis' doctor had refused to allow him to return and had recommended rest for a further "week to two weeks at the most". The spokesman added: "The strain with Codesa, the referendum and then the Budget was extreme and it is amazing he did not collapse earlier."

Parliament had been in recess and only now was it considered practical to appoint an acting Minister.

BILLY PADDOCK

(49)

It is practice in SA for a full Minister, not a deputy, to stand in for an absent colleague. Trade and Industry Minister Derek Keys, the most likely choice, was due to travel abroad this week and was thus not available.

De Villiers, one of the most senior members of the Cabinet, has been closely involved in economic planning portfolios for the past few years.

The Finance spokesman said there was no cause for concern that Du Plessis' condition had deteriorated. "He just needs rest and will be back in office within two weeks," he said.

Firms divided on market prospects

8/24 22/4/92 (49)

WHILE opinions differ about the effect on the industrial market of economic and political factors, Logaro CE Gary Perlman says activity has come to a grinding halt.

"We are getting no inquiries for our own or other industrial space in Strijdom Park in Randburg, or Eastgate. Even the offer of lower rentals is not persuading people to take space," he says.

The reasons were a lack of confidence that the economy would show real growth, given the poor conditions, and high interest rates.

In addition, consumer and industrial activity is static to lower at best, with the latest retail figures 4% down, reflecting that consumers are not spending and industrialists not expanding, Perlman says.

The economy needed a "kick start", on the lines suggested in the Nedcor/Old Mutual scenario.

"Also, the Reserve Bank policy of maintaining high interest rates has gone beyond effective management of the economy. This is now having a destructive effect, and has failed to control spiralling inflation."

But Taljaard Carter director Justus van der Hoven feels Strijdom Park is showing "its true potential" as the best positioned industrial area in the country.

"This view is based on the R100m, 60 000m² industrial park we designed for Abland. The development is now 80% complete and has exceeded all expectations in both demand and rental rates, with gross rentals of R14/m² being asked."

Interest in the area was prompted by its easy access from Johannesburg's northern suburbs and the N1 freeway, as well as its good security.

H Lewis Trafalgar group MD Neville Schaefer says the demand for industrial units is "not too bad", and the sector seems to have weathered the economic storm.

The industrial market was not as sensitive to economic factors as the office space market.

H Lewis Trafalgar administers property worth about R500m.

Seeff Organisation Holdings chairman Lawrence Seeff says institutions are channelling money into the industrial market as this will reflect the first uptake of space when the economy improves.

The economy will grow if there is peace

Sowetan 22/4/92

(49)

FOCUS

SOUTH African Chamber of Business director-general Mr RAYMOND PARSONS last week called for the end to violence so that the economy can grow. This is an edited version of his address to the National African Federated Taxi Organisation conference last week.

THE continuing political violence in the country is a threat to the economy.

It has caused hardship, disruption and loss of life and property.

It jeopardises the process of peaceful political transformation and threatens to leave a legacy of insurmountable division and deep bitterness.

To give a perspective to the problem of violence and its potential for destruction, it should be noted that, while 60 people were killed in the notorious Sharpeville massacre in 1960, several thousands have been killed in political violence over the past two years.

Even if we accept a degree of uncertainty and upheaval as necessary when rapid change is taking place, it does not mean complacency about the current level of violence.

Implications

Although the violence is confined to certain areas, it has national and international implications.

The endemic violence, from whatever quarter it comes, is undermining confidence in the prospects of peaceful change. It can eventually lead South Africa on a downward path to poverty and despair, unless it is reversed soon.

The potential for further conflict is high and the State President, Mr FW de Klerk, has warned that the country could slip into civil war.

We want to minimise the human costs of change in South Africa. The violence is simply unacceptably high in terms of human costs, as well as having a damaging impact on investors' confidence - both here and abroad.

South Africa needs peace and political stability more than ever before if economic growth and job creation are to be achieved on a large scale.

Continued violence is destroying productivity, discouraging investment by both small and large business, and causing despair among all population groups.

Business is being forced to relocate or close. And it does not stop there - the trauma of violence is also brought into the workplace.

What South Africa must guard against is to replace external sanctions with an internal sanction - violence. This would equally place a ceiling on our economic performance in the years ahead.

Negotiate

It was deep concern about violence that led business and church leaders last year to act as facilitators to encourage the political leadership to negotiate a National Peace Accord.

In fact, as you know, the major political players in the form of the National Party, the ANC and the Inkatha Freedom Party eventually came together to sign the Accord.

The aim was to signify their common purpose in bringing an end to political violence and also to set out codes of conduct, procedures and mechanisms to achieve this goal.

An important arm of the Peace Accord is the National Peace Secretariat, which was established to deal effectively with intimidation and violence at grassroots level.

Its function is to establish and co-ordinate dispute resolution committees at both regional and local level. These committees gain their legitimacy by representing the people and communities they are designed to serve.

They are made up of representatives from relevant political organisations, churches, trade unions, business, local and tribal authorities, the police and defence force.

Poverty and unemployment must be seen as one of the main contributory factors - among several others - to the repeated cycles of violence in South Africa.

If we look back over the past forty years the evidence suggests a close correlation between economic conditions and political unrest. Violence is also bound up with the rapid process of urbanisation and demographic transformation which South Africa has experienced in recent years.

The role of the sub-committees is therefore seen as identifying areas at community level where they could begin to facilitate the co-ordination of issues as:

- Reconstruction of damaged property;
- Reintegration of displaced persons into the community;
- Expansion of infrastructure to assist in consolidating the peace process; and
- Community involvement in the maintenance and improvement of existing community facilities and the environment.

In addressing these issues, as well as giving assistance in situations where infrastructure is itself a cause of violence, for example, water, electricity, transportation and schools.

Apart from its other merits, the emphasis on socio-economic development also gives local communities something constructive to focus their minds and energies on as an alternative.

What is the overall economic environment needed to achieve prosperity and peace, and what do the International Monetary Fund and other world bodies expect in economic development?

If economic growth in South Africa is to be raised to 3,5 percent a year - or to the minimum rate required to reduce the level of unemployment given the rapid prospective growth of labour - investment will have to be substantially increased.

Unemployment

There is no other way to soak up unemployment and raise standards of living. It will not be possible to achieve much higher growth rates without significant foreign investment.

To achieve the levels of domestic and overseas investment which South Africa requires for economic growth, needs business confidence.

If economic growth and development are to be achieved in South Africa, we will have to win the confidence of the international business community.

The Peace Accord is one of the confidence-building routes to peace and prosperity in the "new South Africa".

We must not, and cannot, give up on the National Peace Accord. Let us urge the major political leaders to renew their commitment to the provisions and implementation of the accord.

Let us be united against violence.

Living standards 'set to drop again'

B Day 22/4/92 49

SHARON WOOD

THE poor growth expected this year would cause a further decline in living standards and a considerable increase in unemployment, Absa said in its latest Economic Monitor released yesterday.

The prolonged downward trend in the business cycle was unlikely to bottom out before mid-year because of a worse than expected international situation, persistently high domestic inflation, a continued reduction in inventories, poor prospects for fixed investment and a bad agricultural season.

The Budget might benefit economic growth marginally in the short term but did nothing to address and rectify the long-term structural problems in the economy.

A 4,5% deficit before borrowing made the Budget "demand expansionary" and "dangerous" as it did not comply with sound fiscal norms.

Absa cautioned that while production under-utilisation should preclude serious problems in the short term, there was a strong possibility that the budget deficit would be exceeded. This would change the situation considerably.

Two years of negative economic growth had resulted in a 5% drop in per capita living standards during the period. In addition, 150 000 more job opportunities were lost last year and unemployment rose by about 500 000, it said.

"Prospects for the year ahead do not appear more promising."

While the quality of life for most South Africans would continue to be eroded by inflation and an increasing tax burden, an increase in real fixed investment appeared unlikely because of surplus capacity in the economy and the high degree of social instability and political uncertainty, the Monitor said.

Jabu Mabuza . . . "Only in the '80s did black taxi owners start going to the banks to seek finance."

Economic reform needed – Mabuza

STAR 23/4/92

49

The political settlement being worked out at Codesa will remain meaningless until it is underpinned by a sound and stable economy in which all population groups will take part.

This is the view of Future Bank chairman Jabu Mabuza who also observes that white South Africans are somewhat reluctant to talk about black economic empowerment although many are beginning to accept the inevitability of a dilution of their political power.

Mr Mabuza notes that black empowerment has three legs – political, social and economic.

"It is disappointing to see that the process to empower blacks politically is being overataken by the efforts towards economic empowerment."

When talking about black economic empowerment, Mr Mabuza stresses that he is not just talking hot-dog vendors and spaza shops: "We want to enter into the mainstream of the economy.

"We also want to create our own economic giants, our own Sanlams and Old Mutuals," he says.

"To do this we need help from white South African corporations in the same way that First National helped us to set up our bank."

"More joint ventures like this one will be needed to underpin any political settlement."

Mr Mabuza says black communities need such role models. "Until this happens, the majority to whom a future government will be answerable, may not support leaders who advocate free-market economics."

"While we appreciate charity by the way of hospitals schools and so on, the business sector must make more investments in developing black businesses."

Forum plan under way

BDay 23/4/92 (49

SHERIDAN CONNOLLY and SHARON WOOD

GOVERNMENT was in the preliminary stages of setting up an economic forum to begin discussions on a future economic strategy, Deputy Trade and Industry Minister David Graaff said yesterday.

Graaff said the forum would run parallel with Codesa and would involve labour, business and government. When asked whether the forum would address the proposed ANC economic strategy, he said government wanted as many participants as possible.

A Trade and Industry Department spokesman said yesterday Economic Co-ordination Minister Derek Keys recently met representatives of organised business and labour who presented him with proposals for an economic forum. Keys had submitted proposals to Cabinet for approval, the spokesman said.

It had been generally agreed there was a need for co-ordination between political and economic change.

A joint working group between business and labour was established in January to deal with economic and socio-economic issues. The proposals submitted to the Minister recommended that the forum achieve a balance between short-term challenges and the setting out of a long-term economic framework.

(49)

Emphasis must be on reality and the economy

STAR 23/4/92.

PMA president Hugo Snyckers called for a lowering of taxation, inflation, interest rates and a reduction in the level of unrest and crime in order to create economic growth.

Speaking at the PMA's seminar on options for health last November, Dr Snyckers said it was useless to isolate a health-care delivery system from the country's economy.

He said businessmen needed reassurance that they would in future be operating in an economy based on private enterprise. This would increase local investment and attract investment from overseas.

"Unless there is economic growth, there will not be sufficient profits or income to tax for State-supplied health care or contribute to medical aid for health care provided within the private sector.

"And let me please remind everybody that out of profit, tax is paid on income and nothing could function unless there is profit," he said.

"It would indeed be wonderful if we could provide free or almost free and limitless, high quality health care to all, but this of course is totally unrealistic and even wealthy countries that have tried to move in that direction have failed."

Speaking about constitutional negotiations he said: "When negotiations begin, the emphasis should be on the requirements of sound economic and political systems for the future South Africa. We should take what is best from constitutional and economic models around the world and adapt those to our circumstances.

"However, one must recognise that expectations have escalated against the background of what remains a relatively poor economic performance.

"The immense challenge of the mobilisation of resources and the delicate matching of priorities and available inputs can only be achieved successfully in a predictable political framework.

"If we allow the constitutional negotiations to be bedeviled by redistribution issues, the risk of failure is likely to be very high. It is better to address the questions of socio-economic upliftment in their own right.

"What I am trying to say is that when we talk about a future cost-effective and obviously equitable and durable health care system, we should not be blinded by the immediate need to do something about current inequities.

"We should first agree on an economically sound system, which must fit into the overall economic scene, and then, separately from that, negotiate on how to overcome the worst inequities in the shorter term.

"If we opt for the alternative we can only be talking of a National Health Scheme, and if we do that we would seem to want to defy international experience stretching over more than 40 years and undergo what at best could be described as a bad experience."

Dr Snyckers said that in some countries, particularly the East Bloc countries, as well as in developing countries, including Africa, the nationalised health care delivery systems had lowered the standard of such services to an unacceptable, indeed an appalling standard.

Top economists set out models for SA

W/Mail 24/4-29/4/92 (49)

Only three journalists pitched up to hear the views of the African National Congress foreign advisers on macro-economic policy. **REG RUMNEY** *was one of them*

SEATED in a conference room at the Downtown Holiday Inn in Johannesburg's very own redlight district, the experts outnumbered the journalists five to three.

This should have been intimidating: the first thing that strikes one about the foreign advisers to the Africa National Congress' Macro-Economic Research Group (Merg) is their economic eminence.

It would be tedious to list the academic achievements of Dr Benno Ndulu of Tanzania, Professor John Loxely of Canada, Dr Ben Fine, and Bill Gibson.

Undisputed leader of the group is Lance Taylor, professor of economics at the Massachusetts Institute for Technology, and one of the world's leading macro-economists.

The second thing is the difference in their collective thinking from the economists in the South African business community.

How different? Well, they were scornful of the Nedbank-Old Mutual scenario, with a suggestion that a more sophisticated approach was needed. And they dismissed the recent International Monetary Fund (IMF) report on South Africa.

University of London economics professor Ben Fine said the IMF report was written as if the economy was in a state of full employment. "That leads them to believe there is little scope for redistribution." The report's analytical basis was unsatisfactory, he said.

The group believes there will be a boom as foreign investment flows into the country, and that this will provide a stimulus for the economy. They don't believe anything as simple as tax cuts, for example, will alone lead to the use of the spare capacity in the country.

The "mission" as it was dubbed, sees the Merg's role as ensuring that redistribution does not foul up the economy when it comes to such things as the Balance of Payments (BoP) or the Budget deficit.

About the moral claims of the majority for redistribution, there was little doubt in the minds of the group assembled at the Downtown Inn.

Vermont University economics professor Bill Gibson put it bluntly: "Given extreme inequality there will have to be redistribution whether there is growth or not."

But, Fine pointed out the redistribution debate has been dealt with too simplistically. It has been argued redistribution will lead to macro-economic imbalances, he said. But in fact some redistribution would stimulate the taking up of excess capacity in the economy.

The group was at pains to stress that its role was to suggest a responsible macro-economic policy within the framework of redistribution, and that they were not ignoring obstacles.

"It is important to recognise that attempts at redistribution can easily run into macro-economic problems," said Taylor. He mentioned BoP difficulties and inflation. "It's not difficult to upset the applecart."

He said the democratic movement was making a serious effort to think through redistribution.

He said in some ways the initial conditions for redistribution were not unfavourable: a not very high fiscal deficit of four to five percent, a trade surplus and a stable inflation rate.

There was room for manoeuvre in, among other things; revamping of wage and tax structures.

Taylor said he was impressed by the seriousness, "indeed, the dedication" of the democratic movement. "It is taking the question seriously, and in a level-headed fashion." He was optimistic about the policies which would emerge.

Among the often-discussed policy options are nationalisation and anti-monopoly law.

Fine said South African conglomerates had failed to make real investments and that the economic structure had led to capital flight and speculative investment.

He said a future government would have to look at anti-trust policy as a weapon to make corporations do various things, including diversification. But he noted the evidence suggested anti-trust law was not terribly effective and it was not the only policy to encourage real investment.

Fine seemed surprised at the animosity towards nationalisation. He remarked that any statement by the ANC was scoured to see level of ownership and government spending.

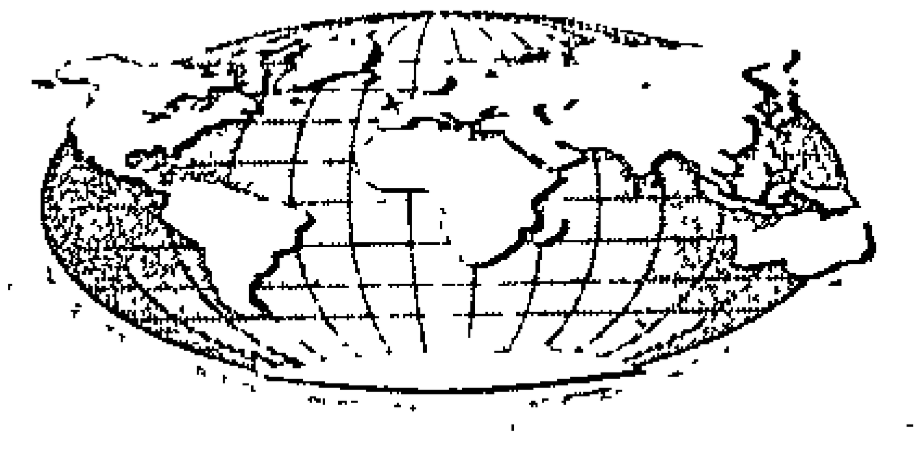
He said public ownership was a well-used instrument of government policy, but that he believed the ANC would adopt a "case-by-case" approach.

Nor does the group have the same view of growth through redistribution held by some South African economists. Loxley observed: "If you pay people decent wages, this is a powerful motor of growth."

Conservative or not, their ideas should set debate alight.

However, as was stressed more than once, the group members are only advisers. Whatever influence they have will be reflected in the ANC's own forthcoming and long-delayed economic conference, scheduled for the end of May.

INTERNATIONAL ISSUES



Nationalism 6

New Nation [Learning Nation] 24/4-30/4/92

(49)

The National Question in South Africa

> **This is the last article in our series on nationalism. In our previous articles, we addressed issues such as:**
>
> - **national liberation as a current and international issue**
> - **the concept of "nation" and its origin**
> - **nationalist movements in East Europe and the collapsed USSR**
> - **theories on national liberation and socialism**
> - **the rise of right-wing nationalism**
>
> **South Africa stands in a position in which nearly all of these issues are of importance in our struggle against apartheid.**

The Struggle for Democracy in South Africa

In South Africa, a social system of apartheid-capitalism exists. It is a system in which the ruling capitalist class uses racism to exclude the vast majority of the black population from the South African "nation". Under apartheid-capitalism black people are denied democracy. On the other hand, the white minority in South Africa have found that their access to democracy is not complete and it is not applied consistently. For example, apartheid laws have also denied white people the right to freedom of association, freedom of the press and so on.

In opposition to the system of apartheid-capitalism, the liberations movements such as the ANC, PAC and AZAPO struggle for a new South African nation that is democratic, non-sexist and non-racist. It is this struggle to liberate South Africa from its undemocratic, apartheid version of nationhood, that puts us in solidarity with the many other national liberation struggles taking place across the world.

National Liberation and Socialism in South Africa

The working class of South Africa has a long history of commitment to a socialist future. Presently in South Africa, the organised working class is still strongly committed to socialism despite the problems and bad name socialism has received because of Stalinism. This support for socialism can be seen from COSATU's most recent Economic Policy Conference which reaffirmed COSATU's support for a socialist future.

On the one hand we struggle for national liberation and on the other hand we are committed to a socialist future. What is the link between national liberation and socialist struggle?

In our first article of this series we saw that historically, it was the bourgeoisie who as a class led the struggle against feudalism for political power. In our fourth article we saw that debate within the socialist movement on the question of national liberation and socialism became a burning issue at the beginning of the 1900's. Today, in South Africa, we find on the one hand debates on whether we must engage in a struggle for national liberation OR a struggle for socialism. On the other hand, amongst those socialists who support the struggle for national liberation, we find further debates. **One of the key issues in these debates is the question of class leadership in the national liberation struggle.**

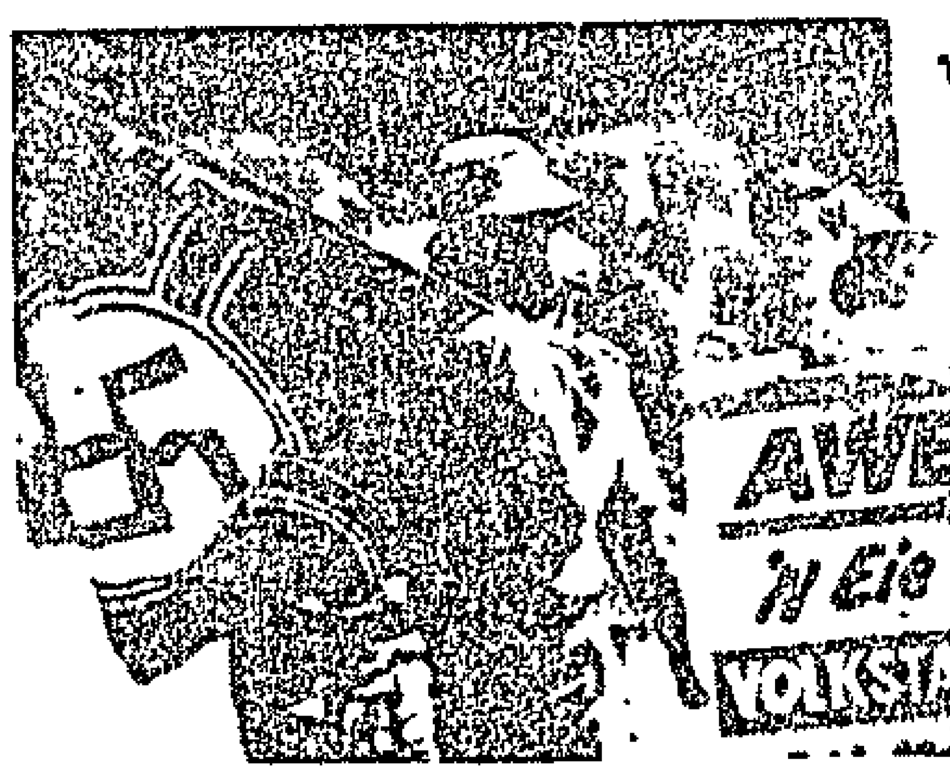
Bourgeois or Working Class Leadership?

One view argues that national liberation belongs to the phase of bourgeois revolution. This view says that the programme for national liberation must limit itself to demands that the bourgeois class, as the ruling class, can grant. This view argues that national liberation must bring about a democratic, non-racial and non-sexist but capitalist South Africa. Only after this has been achieved will the working class put forward a socialist programme and lead the struggle to achieve this goal. This argument is often referred to as a "two-stage" theory of socialist revolution.

Another view exists which opposes the "two-stage" approach to national liberation and socialism. This view argues that capitalism in South Africa survives because apartheid gives it cheap labour. This view says that apartheid therefore cannot be destroyed and democracy cannot be guaranteed under capitalism. This view argues that the working class which desires national liberation and socialism will remain the most consistent fighters of apartheid and upholders of democracy. For this reason, this view argues for working class leadership of the national liberation struggle. The holders of this position point to situations in which bourgeois leadership of the national liberation struggles, turn against their commitment to democracy. Our article on the nationalist movements in the Soviet Union showed examples of how the bourgeois leadership in some of these movements are already acting in undemocratic ways.

The view which argues for working class leadership in the national liberation struggle was strongly argued for by Trotsky in the 1920's in his fight against the rise of Stalinism. The debate over which class should lead in the national liberation struggle in South Africa will continue to inform and impact on our day-to-day struggle for liberation.

Right-wing nationalism in South Africa



Last week we looked at the rise of right-wing nationalist tendencies in some of the leading capitalist countries across the world. We saw the link between a deepening economic crisis and the growing support for fascist policies.

The South African capitalist economy has also been hit with a severe recession. The working class experiences this daily through retrenchments, the rising cost of living and decreased social services offered by the state as it continues the campaign to privatise these services. An added feature in South Africa is the uncertainty in the current political situation. For the white working and middle classes, the certainty of minority (apartheid) rule with the privileges it offers them is no longer there. The white minority faces a possible situation of (black) majority rule. The same is true for the leaders and supporters of the bantustans and the tricameral system.

The combined effect of worsening economic crisis and possible loss of minority political power leads to growing support for the entrenchment of "minority rights". The whites-only referendum of 17 March 1992 gave majority white support to De Klerk's negotiations option to preserve apartheid in some new form rather than the more right-wing options offered by the CP and the AWB. However the danger does exist that worsening unemployment and poverty together with the growing political uncertainty can create conditions in which the racist divisions between blacks and whites as well as between blacks can widen. Fears that majority rule will mean the oppressive imposition of a single cultural tradition onto people could also lead to growing support for organisations like the AWB and the bantustan leaders.

> ## Conclusion
>
> The broad liberation movement must show that its policies on winning and securing democracy and solving the economic crisis as well as its policies on the cultural diversity found in South Africa is not in conflict with the building of a unitary and democratic nation. These are some of the concrete issues that need to be taken up in our struggle for national liberation today.

Govt spending defeats Bank's efforts

BD 24/4/92 (49)

SHERIDAN CONNOLLY

HIGH levels of government spending continued to promote market liquidity despite a gallant effort by the Reserve Bank to drain the market through its continuing issues of special Treasury bills.

The Bank has been active with cash-siphoning operations this week in an attempt to tap excess cash from the system. Market analysts said yesterday the usual cash-outflow towards month-end had not yet materialised and, instead, there had not been any significant outflow of funds.

Analysts attributed excess liquidity to the substantial amounts channelled into the market through government spending since the beginning of the new fiscal year. "Custom union payments and spending on new state projects such as housing developments and poverty relief are the main reason behind the market not turning," a senior analyst said.

The Bank followed up two earlier special Treasury bill tenders this week with a five-day tender of R500m yesterday. Dealers said the tender was well received with subscriptions totalling R1,13bn at an average rate of 15,48%.

The Reserve Bank yesterday quoted the money market shortage — the market's debt to the Bank — lower at R1,05bn on Wednesday from R1,09bn on Tuesday.

HOUSE OF DELEGATES

QUESTIONS

†Indicates translated version

For written reply:

General Affairs:

Percentage of budget spent on salaries

16. Mr M RAJAB asked the Minister of Finance:

What percentage of the budget was spent on salaries and salary-related expenditure in each of the latest specified three years for which figures are available?

D67E

(49) The MINISTER OF FINANCE:

The relevant percentages are contained in table 5 1 on page 5.3 of the Budget Review which was tabled by the Department of Finance on 20 March 1991. The hon member is kindly referred to it for full particulars.

As far as 1992/93 is concerned, provisional figures indicate that such expenditure will amount to approximately 32%.

INTERPELLATIONS UNDER NAME OF MEMBER

ALGEMENE KENNISGEWINGS • GENERAL NOTICES

KENNISGEWING 361 VAN 1992

SUID-AFRIKAANSE RESERWEBANK

Staat van bates en laste op die 31ste dag van Maart 1992

	1992-03-31	1992-02-29	Verandering
Laste	R	R	R
Aandelekapitaal	2 000 000,00	2 000 000,00	—
Reserwefonds	77 831 863,11	77 831 863,11	—
Note in omloop	10 790 818 382,00	10 393 040 717,00	397 777 665,00
Deposito's:			
Regering	6 009 802 947,03	8 555 253 558,91	(2 545 450 611,88)
Provinsiale administrasies	479 276 035,48	458 171 012,80	21 105 022,68
Depositonemende instellings	998 436 611,00	744 603 885,60	253 832 725,40
Ander	262 298 982,15	50 950 472,65	211 348 509,50
Ander laste	8 401 013 240,93	7 587 002 533,82	814 010 707,11
	R27 021 478 061,70	**27 868 854 043,89**	**(847 375 982,19)**
Bates			
Goud	5 912 937 773,32	5 809 152 249,50	103 785 523,82
Buitelandse bates	3 049 320 723,45	3 647 404 479,59	(598 083 756,14)
Totaal aan goud en buitelandse bates	**8 962 258 496,77**	**9 456 556 729,09**	**(494 298 232,32)**
Binnelandse bates:			
Gediskonteerde wissels	1 374 850 000,00	1 247 866 205,51	126 983 794,49
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 262 092 054,21	1 234 111 475,52	27 980 578,69
Sekuriteite:			
Regering	433 345 416,13	316 891 160,83	116 454 255,30
Ander	134 985 045,00	1 134 985 045,00	(1 000 000 000,00)
Ander bates	14 853 947 049,59	14 478 443 427,94	375 503 621,65
	R27 021 478 061,70	**27 868 854 043,89**	**(847 375 982,19)**
Rand per fyn ons	883,16	900,79	(17,63)
Goudbesit in fyn onse	6 695 206	6 448 953	246 253

Pretoria, 8 April 1992.

C. J. SWANEPOEL,
Hoofbestuurder.

NOTICE 361 OF 1992

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 31st day of March 1992 (49)

	1992-03-31	1992-02-29	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	10 790 818 382,00	10 393 040 717,00	397 777 665,00
Deposits:			
Government	6 009 802 947,03	8 555 253 558,91	(2 545 450 611,88)
Provincial administrations	479 276 035,48	458 171 012,80	21 105 022,68
Deposit-taking institutions	998 436 611,00	744 603 885,60	253 832 725,40
Other	262 298 982,15	50 950 472,65	211 348 509,50
Other liabilities	8 401 013 240,93	7 587 002 533,82	814 010 707,11
	R27 021 478 061,70	**27 868 854 043,89**	**(847 375 982,19)**

49

Assets	1992-03-31 R	1992-02-29 R	Change R
Gold	5 912 937 773,32	5 809 152 249,50	103 785 523,82
Foreign assets	3 049 320 723,45	3 647 404 479,59	(598 083 756,14)
Total gold and foreign assets	**8 962 258 496,77**	**9 456 556 729,09**	**(494 298 232,32)**
Domestic assets:			
Discounted bills	1 374 850 000,00	1 247 866 205,51	126 983 794,49
Loans and advances:			
Government	—	—	—
Other	1 262 092 054,21	1 234 111 475,52	27 980 578,69
Securities:			
Government	433 345 416,13	316 891 160,83	116 454 255,30
Other	134 985 045,00	1 134 985 045,00	(1 000 000 000,00)
Other assets	14 853 947 049,59	14 478 443 427,94	375 503 621,65
	R27 021 478 061,70	**27 868 854 043,89**	**(847 375 982,19)**
Rand per fine ounce	883,16	900,79	(17,63)
Gold holdings in fine ounces	6 695 206	6 448 953	246 253

Pretoria, 8 April 1992.

(24 April 1992)

C. J. SWANEPOEL,
General Manager.

KENNISGEWING 362 VAN 1992
DEPARTEMENT VAN MANNEKRAG

WET OP ARBEIDSVERHOUDINGE, 1956

INTREKKING VAN REGISTRASIE VAN 'N VAKVERENIGING

Ek, Gerhardus Coenraad Papenfus, Assistent-nywerheidsregistrateur, maak hiermee kragtens artikel 14 (2) van die Wet op Arbeidsverhoudinge, 1956, bekend dat ek die registrasie van die S.A. Metal Engineering Employees Union met ingang van 10 April 1992 ingetrek het.

G. C. PAPENFUS,

Assistent-nywerheidsregistrateur.

(24 April 1992)

NOTICE 362 OF 1992
DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

CANCELLATION OF REGISTRATION OF A TRADE UNION

I, Gerhardus Coenraad Papenfus, Assistant Industrial Registrar, hereby notify, in terms of section 14 (2) of the Labour Relations Act, 1956, that I have cancelled the registration of the S.A. Metal Engineering Employees Union, with effect from 10 April 1992.

G. C. PAPENFUS,

Assistant Industrial Registrar.

(24 April 1992)

KENNISGEWING 363 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 Reef Storekeeping Trade Employers' Association 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 April 1992)

NOTICE 363 OF 1992
DEPARTMENT OF MANPOWER

LABOUR RELATIONS ACT, 1956

CANCELLATION OF REGISTRATION OF AN EMPLOYERS' ORGANISATION

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 Reef Storekeeping Trade Employers' Association is not functioning as an employers' organisation, 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 April 1992)

Pure capitalism 'no solution'

South 25/4-30/4/92

Wholesale privatisation and the free market cannot be relied on to release Africa's 650 million people from the prison of poverty — so says the United Nations Economic Commission on Africa. **Quentin Wilson** reports:

IMPOSING A free-market model on Africa's economy and privatising everything in sight will not be the solution to Africa's economic problems. UN researchers argue this approach would ignore the situation of most countries on the continent.

In their report, a number of conditions would have to be met before a free market could be considered appropriate.

Until then, "the pursuit of the free-market system will remain a mirage".

If the mirage is to become a workable reality,

- all people must know where the goods are;
- the goods and services should move freely from one part of the country to another;
- investments should move quickly from low-profit sectors to high-profit ones;
- there should be no bottle-necks in production to induce frequent and sharp shortages of goods;
- goods must freely compete with no producer having the lion's share in the production of a given commodity; and
- there must be no hoarding.

The UN Economic Commission declared that in Africa "these situations are almost unknown" and therefore hardly provide the right conditions for pure capitalism.

Free-market economy

The report said that "installing a strict free-market economy" would not be a return to normality, but a leap into the unknown.

"The principles of free-market capitalism were written by Adam Smith in 1776, but these principles have never existed in pure form in the real world. Modern capitalism was protected in Europe by mercantilist manipulation of market prices and filled by wealth extracted from colonial empires.

"Also, it is a well-known fact that the startling growth of the economies of Japan and the Pacific Rim (South Korea, Taiwan, Singapore and Indonesia) in more recent times was accomplished through trade protectionism and active intervention of governments in industrial development," it said.

"To expect African countries, already weakened by international financial shocks, to rely on pure free-market policies for development requires more reliance on faith or miracles than on reason or precedents."

"Double-edged sword"

The report argues that the role played by the World Bank and the International Monetary Fund (IMF) in Africa's development has been "a double-edged sword".

Although they have given from their piggy banks, the terms of the arrangements have been crippling.

Among other terms, these two giants demanded that African prices be determined by the market and that government enterprises be privatised.

As a result, debt payments have far outstripped incoming loans — the net outflow in 1989 was $657 million (about R1 971 million).

African countries are now just borrowing so they can pay out — a situation that is obviously unsustainable.

Although the commission agreed that non-functioning government enterprises should be privatised, "wholesale privatisation of everything that is government-owned cannot be justified".

It put forward a range of issues that should first be considered:

- the shortage of local businesspeople to take over government enterprises;
- the shortage of local private capital to pay for and run such privatised enterprises;
- the greater importance of the service to the people of some enterprises as compared to their merely being profitable;
- the danger that privatised businesses can and do fall into the hands of foreign big businesses;
- the size or strategic importance of certain enterprises that cannot and should not be left in the hands of businesspeople who just look for the highest profit; and
- the impact of privatisation on the employment situation.

The UN reported that both the IMF and the World Bank are slowly realising the problems of their approach and are becoming "as frustrated as the countries themselves".

These institutions have made a re-examination of the policy bungles they prescribe and have, in a few cases, been more understanding of the realities of the African economic structures.

The evolution of these "human face" programmes has, however, been "slow and evasive" with the core of their policies remaining intact.

(49) ARG 25/4/92

Additional state spending forecast

MARC HASENFUSS
Business Staff

ADDITIONAL state expenditure, in excess of that set aside in the 1992 Budget, could top R2-billion this year, Department of Finance Director-General Gerhard Croeser said at the University of Stellenbosch Business School's seminar on "Economic Prospects 1992/93".

He said this represented about two percent of the R100,6-billion Budget and meant that government expenditure would increase four percent in real terms.

He noted that the R1-billion set aside for drought relief was not adequate for farmers' needs this year and that the government would have to accrue additional expenditure to fund aid to the agricultural sector.

"Although there will be some additional expenditures, government is still committed to curbing fiscal spending."

He pointed out that the state had already withstood fierce pressure from civil servants as regards wage increases this year.

As regards state revenue, Mr Croeser does not not expect a significant pick-up in 1992.

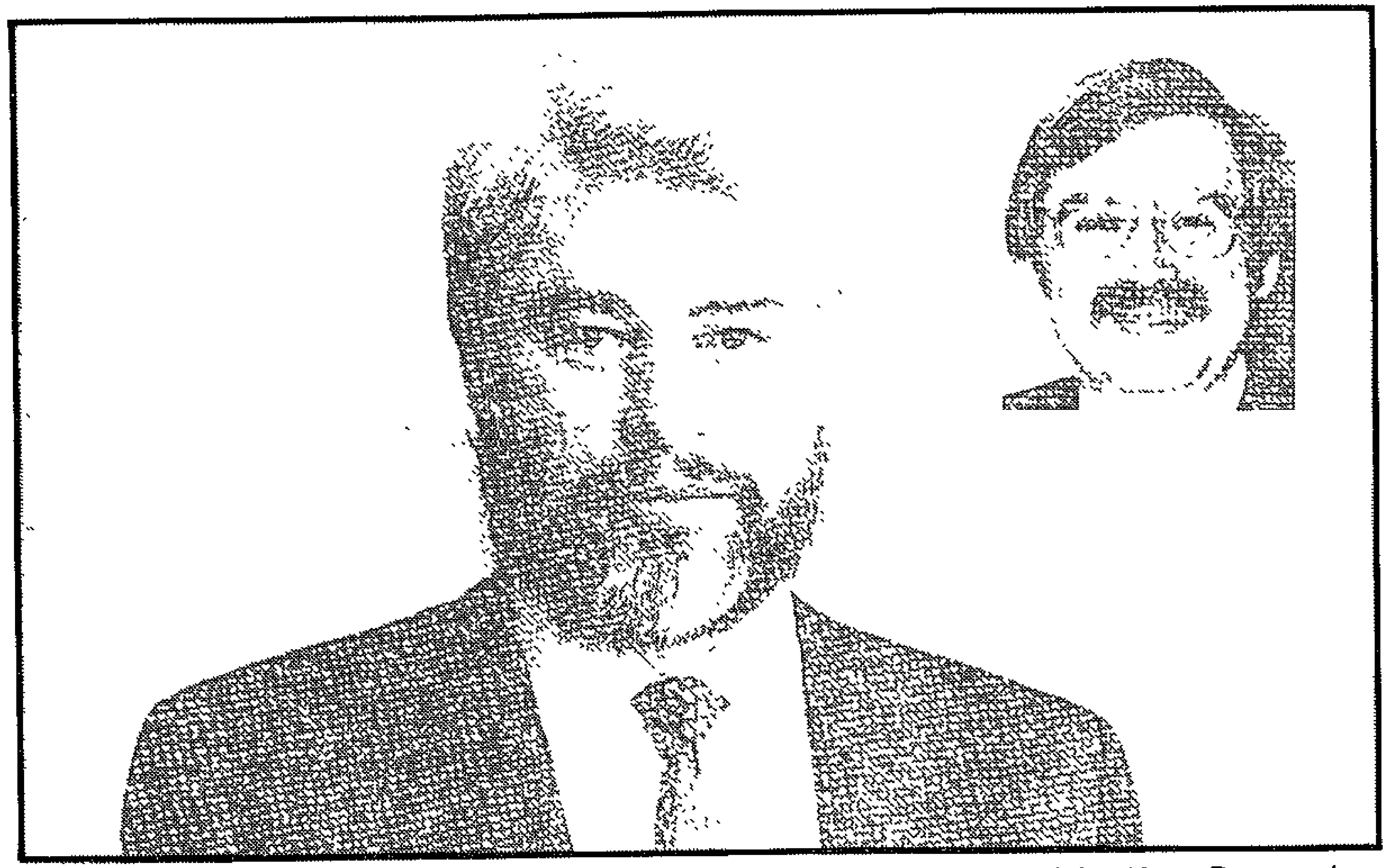
He said government's capitulation into dropping the VAT rate to 10 percent government coffers resulted in a loss of an additional R4-billion that would have been realised under the initial 12 percent rate.

"The additional revenue could have resulted in a significant reduction in borrowing and government could have also met individual's tax demands or even reduced the company tax rate from 48 to 40 percent."

Mr Croeser said although this year's Budget was "not wildly stimulatory" it would provide some scope for economic growth in the year ahead.

South Africa faced a growth rate of at least one percent in 1992, he said.

However, he conceded that a large import bill affecting the balance of payments and the prolonged drought could stunt the growth.



CONCERNED: Executive director of the Institute of Race Relations Mr John Kane-Berman is concerned about discrimination in state spending on rural black people.
INSET: Gerard Croeser, deputy-general director of Finance.

Beware centralised political system — race institute chief

SOUTH Africans need to be wary of replacing the tricameral parliament with a new urban-biased, union-biased, highly centralised political system, executive director of the Institute of Race Relations John Kane-Berman has warned.

Speaking at the University of Stellenbosch Business School's "Economic Prospects 1992/93" seminar, Mr Kane-Berman said such a system would practice redistribution in favour of urbanised, unionised people at the expense of the rural poor.

"In this context it is necessary to sound a note of caution about the economic forum that is to be established between organised business and organised labour, apparently with government also as a participant."

He said the economic forum, if intending to serve the nation rather than the interests of organised labour, needed to be very much broader than presently envisaged.

"There is every reason why business and labour should routinely discuss matters of common interest but society needs to be on guard against a corporatist state in which powerful lobbies reach compromises between themselves and the interests of the less powerful are ignored."

The cost of eliminating discriminatory state spending will be costly and difficult for the South African government, Mr Kane-Berman said.

He said the dismantling of apartheid would probably yield a huge dividend in the long term but stressed that the associated short term costs would be enormous.

He said there was a spatial as well as a racial dimension. The state spends much more on white people than on black but less well-known is that it spends more on urban black people than on rural black people.

Mr Kane-Berman said that only R15 billion had been spent on homeland blacks compared to the almost R67 billion on urban blacks.

Good times lie (far) ahead

THE ECONOMY: *Some signs are encouraging, but nothing is around the corner*

Fear, drought and gold price delay recovery

STAR 25/4/92

FINANCE STAFF (49)

THINGS are starting to look up for economically stricken South Africans. While most will have to tighten their belts for a little longer, the good news is that there is definitive signs of better times ahead.

Figures released this week clearly indicate that the economy is on the mend.

Most encouraging is SA's solid export performance which rose to new record levels in the first quarter of this year. The trade surplus (the difference between exports and imports) rose by 38 percent to R4,4 billion which augurs well for the balance of payments for the rest of the year.

The other sign that economic activity is picking up comes from the retail trade which reveals that retail sales in February rose by 16,9 percent. This could be one of the first signs that confidence is starting to flow back into the economy.

And yesterday rumours were floating around in economic circles that the Reserve Bank is set to announce another cut in interest rates soon, possibly even on Monday, when the latest inflation figures are released.

The major factors keeping back economic recovery at this stage are the lack of investment confidence, the drought and the low gold price. The gold price is threatening several marginal mines and many thousands more miners could lose their jobs if it doesn't recover soon.

But non-gold exports are soaring and are set to increase even more in the months ahead as more markets become accessible to South African products.

Living standards have declined dramatically while unemployment has soared, leaving bewildered politicians to contemplate the enormous social ramifications of the slump.

But any upswing is set to be mild, as two prominent economists warned earlier this week. The cosmetic 1 percent drop in interest rates last month has done little to change their forecasts.

Lower interest rates usually provide corporations and individuals with cheaper access to finance to boost their spending, but the one percent drop in key interest rates has done little to change the bearish sentiment.

Both Sanlam and Absa, which released their monthly economic reports this week, say the economic recovery is set to be mild.

Delays

Following growth of barely one percent annually during the 1980s, the economy shrank by 0,5 percent in each of the past two years. Initial hopes for a 1 percent recovery this year have been scaled back to a mere 0,5 percent.

Both institutions list numerous factors which are delaying recovery from what is now undoubtedly the worst recession since World War 2.

Top of the list is the severe drought, which is having such a serious impact that higher food prices seem inevitable and South Africa will be forced to import billions of rands of food items.

Furthermore, a worse than expected economic performance by South Africa's major trading partners has affected demand for our minerals and other export goods.

The business community, which was seeing a chance to exploit the lifting of economic and trade sanctions, has seen investment prospects undermined by social and political uncertainty.

Given this trend, Absa chief economist Dr Hans Falkena says all evidence points to another poor growth year in 1992.

"The real buying power of individuals will decline still further as a result of the lower employment figures, slower increases in wages and salaries, the fact that the inflation rate undermines buying power and an increased income tax burden," he says.

Decline

Summarising the outlook Dr Falkena says: "There will thus be a further decline in the standard of living, and with less jobs on offer there is bound to be a considerable increase in unemployment figures."

Echoing this sentiment, Sanlam's chief economist Johan Louw says: "There are no factors at present which will lead to a noticeable recovery in the next few months.

"The opposite is in fact true and a marked economic recovery does not appear likely before late in 1992."

NEW BOY PIERRE CRONJE JOINED THE ANC FOR 'ITS REAL VALUES'

STimes 26/4/92

By MIKE ROBERTSON· Political Correspondent

PIERRE CRONJE, MP for Greytown, who this week became the first member of the African National Congress to address Parliament, says he is interested in liberation, not in liberalism

A civil engineer by training, Mr Cronje is not much given to discussing principles or even policy What interests him is what he calls "the process".

"Of course I believe in the main tenets of liberal democracy — freedom, equality, justice, the rule of law," he said in an interview this week.

"But what I am more interested in is how you relate them to the people on the ground"

This reason, more than any other, is why Mr Cronje says be linked up with the ANC. He joined the organisation on Monday, Nelson Mandela having signed his membership card.

"These values are very real in the ANC," be said. "They are not something you sit on the toilet and contemplate, they are things that have to be struggled for."

Mr Cronje said he did not have any difficulty in reconciling his belief in liberal democratic values with being a member of a party in which his regional leader, Mr Harry Gwala, is a hard-line communist.

"Harry Gwala and I have a fantastic working relationship He is a human being first, many other things besides, then only a communist

"There are very creative people in the communist fold," he added.

Mr Cronje, who reluctantly describes himself as a social democrat — "if you have to; I hate labels" — has for years advocated a closer working relationship with the ANC

In the late 80s he left the then Progressive Federal Party to link up with Wynand Malan in the National Democratic Movement for the same reason, only to rejoin his former colleagues when the PFP, the NDM and Denis Worrall's Independents merged to form the DP

Mr Cronje would not be drawn on what policies he as an ANC member would advocate to address apartheid inequalities.

"I don't want to talk policy on any specific issue at this stage other than to say a healthy process involving people on the ground is taking place within the ANC." This would culminate in a major policy conference on May 28

However, pressed to outline his views on economic policy, Mr Cronje was clearly more comfortable with the interventionist policies favoured by the ANC than with the free market policies advocated by former colleagues such as Tony Leon (DP Houghton).

"Even in the DP it was Harry Schwarz and I mainly who started pushing the party to get off its easy, easy privatisation kick towards a social market economy

"It's always a question of where you draw the line. In South Africa you cannot privatise things like roads and the Post Office. To change government monopolies into private-sector monopolies makes no sense."

Mr Cronje said he agreed with the ANC that some nationalisation might be necessary, but had not applied his mind to the question of the extent to which the state should involve itself in the economy

But he provided an indication of his thinking on the matter when he said: "Take iron ore. If left to the private sector, they will take ore out of ground, export it and we will end up importing stainless-steel forks from Taiwan. If the private sector cannot deal with it — business has a one-year outlook — if they don't make the right decisions, then maybe the state should intervene."

Mr Cronje said the right of individuals to own property should be protected. But he also believed that the debate on land matters had focused too narrowly on the question of ownership rather than the proper utilisation of land

"If you merely talk of changing one black owner for one white owner, have you achieved anything for the eight million people who work that land? A lot more needs to be made of the right of occupation."

On the security forces, Mr Cronje said the ANC was correct to demand that they be subjected to multi-party control as soon as possible. He also favoured a role for an international monitoring body

Asked what his response would be if questioned in Parliament about the conduct of Mrs Winnie Mandela, he responded: "Nobody says when PTC du Plessis (former Minister of Manpower) is in trouble that the NP told him to do what he did. It is outside the organisation."

On the question of sanctions, Mr Cronje said be believed the ANC was right in insisting that they only be lifted in a phased manner in return for political change inside South Africa.

"This was definitely an issue where I had to toe the line in the DP. I think sanctions assisted in bringing us to where we are."

Mr Cronje did not foresee he and his new ANC colleagues in Parliament having a greater role to play in the organisation than any other "good activist" The ANC, he said, did not need Parliament to make its views known.

PIERRE CRONJE: 'Values are real'

NE

Jacl
ove

MICHAEL
it for writ
using par
recording.

Represe
suit again
tainment

The gro
satory dan
in punitiv

Accord
than 14-m

The Cl
alleges th
ute and s
Beethove
that part
at the beg

It is al
Jackson

Schools tax shocker

STimes 26/4/92

BY EDYTH BULBRING Political Reporter

A TOP government think-tank has recommended that town and city councils take over state schools and help pay for them through special taxes levied on residents.

The proposals by the Co-ordinating Council for Local Government represent a major shift from the existing system where state authorities control the schools and help pay the teachers The schools, in turn, are responsible for maintaining premises and facilities

Under the new system, each local authority would manage the schools in their area through an Educational Directorate and would raise money from residents and ratepayers to pay for them.

These funds could then be allocated to various schools by the local authority The school's budget could also form part of the local authority's budget The central government, meanwhile, would continue helping to pay teachers.

The plan says only schools' curricula should be dealt with at the national level by a single education department.

A special committee of the co-ordinating council will meet tomorrow to review the plan

Other proposals deal with the use of scarce facilities.

One proposal is that schools which are usually used for only five to six hours a day could be used for two sessions a day and that teaching devices like computers and audiovisual equipment could be shared between schools.

The document also hints that the days of each school having its own sports fields might be over It suggests instead that regional recreational facilities should be established

Schools could then concentrate on education and leave sports to clubs and other institutions, similar to community sports clubs in America.

"Parents will just not be able to maintain the luxury of own sporting facilities," the document states

The document also moots "speciality schools", implying that children would make a choice of profession at a young age.

Speciality schools could include economics and business subjects, state and legal sciences, and technical subjects

"Schools will then be more practical and job orientated, which will equip the matriculant entering the job market directly, better for his task."

The proposals by the Co-ordinating Council on Local Government come at a time of increasing concern about the cost of Model C schools

Fees to rocket for Model C parents

STimes 26/4/92

By CHARLENE SMITH

MODEL C schools have a shock in store for parents — fees will go up by as much as 700 percent this year, and could double again next year.

More than 90 percent of schools under white education departments nationwide have opted for Model C, which allows parents to run the school through a governing body

A survey of schools by the Sunday Times this week showed widespread confusion among staff and parents about the implications of the system.

Model C proposes greater autonomy for schools in the hiring and firing of staff but requires parents to pay for the costs of premises and facilities. The government is responsible for the salaries of only a certain number of staff

Mr Alan Berkowitz, chairman of the management council for Emmarentia Primary School in Johannesburg, said his school's fees would go from R560 to R800 this year (one of the lowest fee increases recorded by the Sunday Times) and will rise to around R1 300 per child next year, as the full impact of the change takes effect

"There is still no certainty about what the school will pay for and when the state will stop paying," Mr Berkowitz said

Some schools are pinning their hopes on municipalities cutting their rates. But a spokesman for the Johannesburg municipality management committee said this was not yet likely and said their investigations were hamped by a lack of information from government.

Nonetheless, some small municipalities have waived rates and taxes on schools.

The deadline for the introduction of the system for the Cape is May 1, August 1 in Natal and Transvaal, and July 1 in the Free State

A Transvaal Education Department spokesman said they would pay rates until the end of this year, but would stop paying all other bills on August 1

The government has proposed a bursary scheme to help subsidise children from lower-income families. But the Sunday Times found that this too is the subject of confusion among parents and teachers.

Teacher terror

By CHARLENE SMITH

TEACHERS are suffering intimidation from pupils and militant unionists, says a new Institute of Race Relations survey

Former institute research manager Monica Bot says part of the problem is that teacher associations place unionism above professionalism.

She says during 1990 "many schooldays were lost due to teacher strikes".

This coincided with the birth of new "progressive teacher unions" like the SA Democratic Teachers Union STimes 26/4/92

Teachers were also often victims of violent pupil militancy.

Sadtu had also said it wanted principals to choose whether they were "employees or employers. If they choose the latter, Sadtu is going to start treating them like bosses — and is prepared to make life impossible for them"

Things look bleak for battered region

49

c/Press 26/4/92

CP Correspondent

MONEY TALK

SOUTHERN Africa's economic plight was highlighted during the past week's meeting between SA, Botswana, Malawi, Mozambique, Zambia and Zimbabwe to work out a co-ordinated mechanism for the distribution of food relief throughout the region.

Millions of tons of maize will have to be distributed within a short period to ward off starvation in many areas.

Food will help in the short term, but the main problem remains the pathetic state of the region's total economy. There is little doubt that growth in SA, the economic engine of the region, is going to be far less than expected even a few months ago as a result of the drought.

The estimated cost of importing food on an annual basis ranges between two and three billion.

However, the real impact is far greater because SA as a net exporter of maize used to earn money on world markets. This revenue will now be lost.

While city dwellers will probably feel the effects of the drought mainly through higher prices for maize products, the real crisis is in the rural areas. Thousands of farmers are insolvent and unable to pay their workers, many of whom will probably land up in the overcrowded cities.

Job opportunities will remain scarce and could decline further as firms which have been battling to make ends meet could go under in coming months.

East Europeans pour on the scorn at flirtations with socialism in SA

S/Times 26/4/92

Sunday Times reporter Charlene Smith visits Eastern Europe and finds it struggling to throw off the legacy of socialism.

(49)

HITLER'S bunker, a nondescript hump of land on the old divide between East and West Berlin, is soon to disappear under new office developments for a Japanese and a German multinational.

A short walk away, gypsy vendors sell tourists Soviet army uniforms and small plastic boxed chips of the Berlin Wall.

Nearby was the no-man's land that split East and West Berlin, testimony to two ideologies that repressed and killed millions of people.

This part of Europe "has produced more history than it can bear", says Martin Butora, assistant to President Vaclav Havel of Czechoslovakia.

East Europeans are frankly amazed that South Africans should still be toying with socialism as a potential economic solution. Government ministers in Prague and Budapest warned a delegation from the Institute for Democratic Alternatives for SA that socialism was an unmitigated disaster.

Czechoslovakia's Foreign Minister and Deputy Prime Minister Jiri Dienstbier, who recently visited SA, said he hoped the country would "overcome the dangers of radicalisation and the conflict we see in some parts of the former Soviet Union".

But he said: "The transformation of minds is probably the most important thing to do."

A socialist economist on the trip asked a question couched in socialist jargon of Gunther Rexrodt, an official of the Treuhandanstalt — which is trying to regenerate East Germany's devastated economy. He was taken aback when Mr Rexrodt, a Senator in the Bundestag, lost his temper and turned on him: "Are you a socialist? Don't you know that the state is bad, bad, bad. It must be kept out of economies?"

Hungarian Foreign Minister Geza Jeszenszky, who will visit South Africa in late May, said Hungary was encouraged by what was happening in SA. He said the country's Department of Ethnic Minorities was studying with interest SA moves to remove discrimination.

"We know what discrimination is — we were discriminated against by the Soviets, and within our country we have a number of ethnic minorities who are discriminated against."

Forces

Mr Butora, who also said he was studying SA with interest, suggested this country could face some of the problems Czechoslovakia and other Eastern European countries were facing: the pressures of creating a free market economy with "rising unemployment and diminished buying power" leading to "an authoritarian nostalgia, where people believe the previous era was better".

Removing that authoritarianism, they have found, releases many negative forces previously repressed — nationalism, racism, fascism.

A week after German government officials assured the Idasa group that the right-wing threat in Germany was overrated, a far right political group under the leadership of a former SS officer gained 12 percent of the vote in German regional elections.

Skinheads in a Budapest park spat and swore at black members of the Idasa group.

Mr Vladimir Benacek, of the Centre for Economic Research and Graduate Education at Charles University in Prague, said: "Capitalism cannot be copied according to some blueprint outlined in America, Japan, Sweden or Germany.

"It must be reborn and reinstalled subject to a wide consensus."

He suggested that economies such as SA and Eastern Europe may have to devise their own economic solutions based on free market principles.

He and most economists throughout East Germany, Czechoslovakia and Hungary believe "full scale privatisation" and clarity about "property rights" have to be pursued vigorously.

At present, Hungary, which has nearly 40 political parties, and Czechoslovakia, with 121 political parties, have a democratic babel preparing for elections this year.

Dr Peter Gadow, an East German and Free Democratic Party MP, said: "I think we start from the wrong premise: socialism was not just ill, it was the wrong system."

What about nationalisation, one South African asked? Mr Istvan Major, Under Secretary of State in the Ministry of International Economic Relations, smiled wryly: "We say that it is very easy to make fish soup from a living aquarium, but it is not easy to make a living aquarium from fish soup."

Barend: Keys the strongest prospect

ARG 27/4/92

(49)

TOS WENTZEL and PETER FABRICIUS, Political Staff

MR Barend du Plessis's successor as Minister of Finance is expected to be announced by President De Klerk this week

He is likely to consult National Party provincial leaders and the announcement could come after the Cabinet meeting on Wednesday

Mr Du Plessis's shock resignation takes effect on May 1

He announced at the weekend that that he was resigning from all political posts, including the Transvaal leadership of the National Party and his Florida seat, because of exhaustion

NP and other political sources said there was nothing sinister about the move and no suggestion that Mr Du Plessis had been forced out

A wide range of candidates has been tipped for Mr Du Plessis's key Cabinet portfolio with Minister of Trade and Economic Coordination Mr Derek Keys as the strongest contender

Mr Keys is in Japan at present

Dr Dawie de Villiers, Minister for Public Enterprises, is acting Minister of Finance and he is being mentioned in political circles as one of the possible successors.

Other possible contenders are Standard Bank chairman Mr Conrad Strauss, Reserve Bank governor Dr Chris Stals and Mr Harry Schwarz, former Democratic Party finance spokesman and now ambassador to the United States

Some Nationalist and official sources believe Mr Keys would do better in trade and industry, which is more suited to his experience Expanding exports is one of his main targets

Mr De Klerk may therefore bring into his Cabinet another expert from outside politics Inside the National Party one other possible candidate is Mr Amie Venter, Minister of State Expenditure

Mr Strauss has worked closely with the government abroad and is widely respected in government and business circles

Dr De Villiers, as Cape leader of the party, has the strongest political claim to the post, but he does not have a sound financial background

During South Africa's transitional period it is thought wiser to have a politically neutral Minister of Finance

Some observers think Dr Stals would be ideal because he would be seen as a technocrat outside the party political arena

Successors are also being sought for Mr Du Plessis's political posts

The Transvaal head committee of the party will meet on Saturday to choose a successor Dr Gerrit Viljoen, senior NP vice-chairman in the province, is acting leader Other vice-chairmen are Mr Pik Botha and General Magnus Malan

Some of the younger ministers, Mr Roelf Meyer, Minister of Defence, and Mr Leon Wessels, Minister of Local Government, are being mentioned as possible candidates

Mr Du Plessis was clearing up his office in the H F Verwoerd Building in Cape Town today

He said there were no personal or political differences between him and the party.

Referring to the by-election that will result from his resignation as MP for Florida, he said there would still have to be discussions on whether he would take part in the campaign

By George!

"Just a thought, Harry — have you had enough of Washington..?

Schwarz silent on succession rumours

The Argus Foreign Service

WASHINGTON. — South Africa's ambassador to the United States, Mr Harry Schwarz, said today he was "surprised and shocked" by the resignation of the Minister of Finance, Mr Barend du Plessis, but declined to comment on speculation that he might succeed Mr Du Plessis.

Speaking from Sacramento, California, where he is holding a series of meetings with political leaders, businessmen and newspaper editors, Mr Schwarz said "The news of his resignation came as a complete surprise to me and I was very sorry to hear of it

"I realised he was shouldering a very heavy burden, serving in the cabinet and in Codesa, but his resignation from the cabinet as well as from all his political posts was a shock to me and I would like very much to wish him well and hope that he recovers soon"

Asked about speculation that he might succeed Mr Du Plessis, Mr Schwarz said "I have read about the various names being mentioned with great interest" But he declined to discuss the possibility that he might give up diplomacy to take over from Mr Du Plessis "I've got nothing to say about that, I'm afraid, nothing at all"

Ever since Mr Du Plessis was admitted to hospital earlier this month suffering from exhaustion, there has been speculation in Washington that Mr

Schwarz might be one of those considered as possible replacement

Picture JOHAN SCHRÖNEN, The Argus.

...ects some of the damage after fire ...er Street in Bothasig yesterday. The ...ke and water damaged several oth... ...ted in a food outlet.

...shores to be today

(56) ARG 27/4/92

...e a ...m- ...e

The order was given to abandon ship

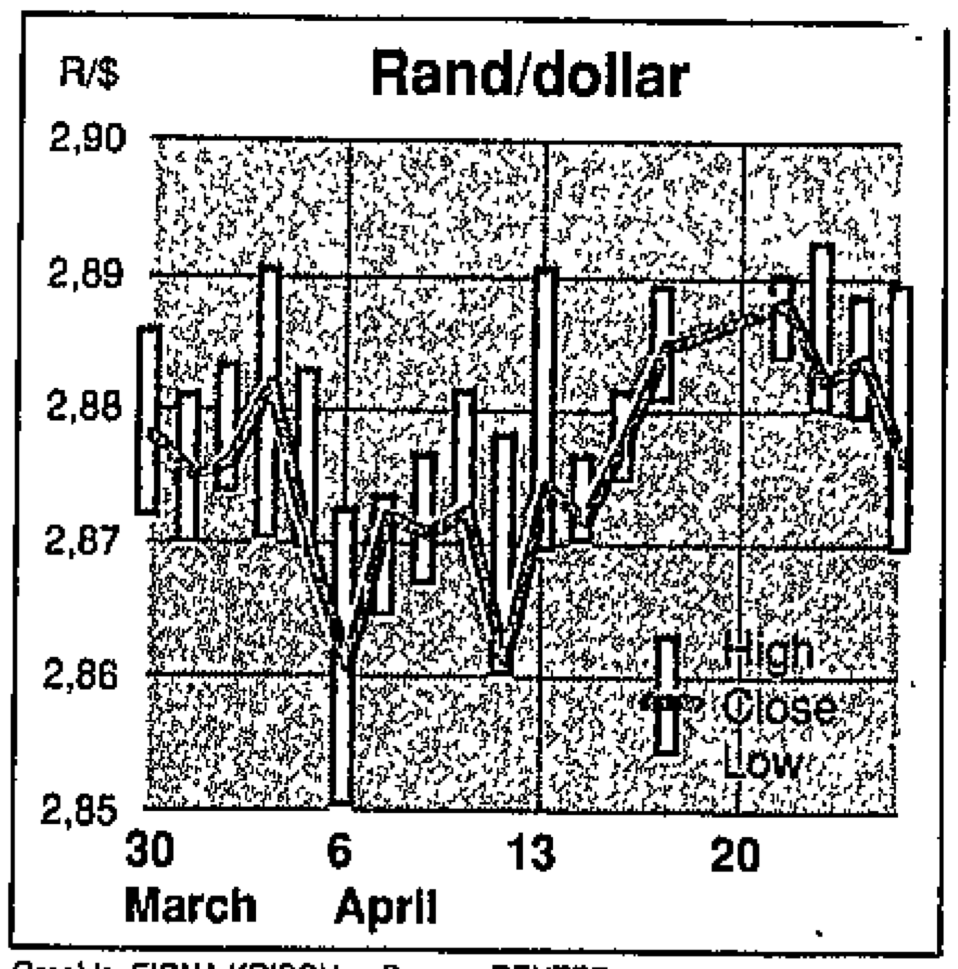
Two divers stayed on board to burn off the towline with acetylene torches while the rest left in a lifeboat and a supply boat

"Everybody watched from a fair distance, but when they saw it was not going down immediately they went back to ...ecover some salvage equipment"

'They watched the ship sink ...he middle first, the funnel ...st touching the foremast ...nt down in one piece, but ...t doubled

...sappeared from view at The ship went very at the end, like a

...ham said it was not ...ow much salvage



Graphic FIONA KRISCH Source REUTER

A sharp increase in the rate of German broad money supply growth in March helped drive the dollar lower at the end of last week and enabled the commercial rand to reclaim some of the previous week's dollar losses. The rand reflected the lower dollar by closing at R2,8758, more than a cent stronger than its closing low for the week of R2,8893 set last Tuesday.

Stals wants task force on economy

SHERIDAN CONNOLLY (49)

RESERVE Bank Governor Chris ~~Stals has~~ proposed a long-term structural adjustment programme for SA, to be implemented by a special team of experts.

"We desperately need a comprehensive effort now to reverse the relentless trend towards stagflation, or we shall be forced to accept a permanent situation of no growth with high inflation and persistent balance of payments pressures," Stals said in Johannesburg at the weekend.

Addressing the 25th annual dinner of the Pharmaceutical Manufacturers' Association of SA, Stals said an analysis of the present economic structure and the economy's performance in the past decade indicated a need for a structural adjustment programme. BDay 27/4/92

He warned that functions in the economy had to be adjusted through deliberate action.

Stals proposed assembling an economic policy team charged with drawing up a reform programme covering taxation, monetary management, labour policies and trade policies.

"The team of experts will obviously have to play a major part in the implementation of the programme — hence they must be able to steer and manage the

☐ To Page 2

Stals BDay 27/4/92

(49) ☐ From Page 1

economy from various positions of responsibility."

Other countries implementing structural adjustment programmes used teams led by a senior government executive, Stals said.

Drastic economic adjustments of this nature had to be instigated by a determined and well-orchestrated macroeconomic policy programme.

"The typical structural adjustment programme stretches over a period of five to 10 years before real benefits can be reaped," he said.

There were unavoidable costs involved in getting an economy back on the high road again, he said, adding that countries normally introduced structural adjustments "once they find themselves destitute and desperate".

Doubt had been expressed about the readiness, and the willingness, of SA to embark on a serious programme of structural economic change. However, "a country that has the courage to create a new nation, to drastically change its entire political and social environment in the way we are doing now in SA, should also be bold enough to embark on an economic structural adjustment programme".

Stals said it would be extremely difficult to find the necessary consensus in the present transitional period, and to co-ordinate a macroeconomic programme that needed the unconditional support of government, private sector businesses, labour unions, consumers and the rest of the world at the same time.

He said there were enough examples of successful programmes worldwide to provide elements of an appropriate programme for SA

Such a programme would be aimed at raising the economic growth rate, not necessarily by additional capital investment, but initially, at least, by raising the efficiency and productivity of the economy.

New Minister named within days

Keys tipped to take over from Barend

B/Day 27/4/92. (49)

BILLY PADDOCK

CAPE TOWN — President F W de Klerk will announce a successor to Finance Minister Barend du Plessis this week and speculation among politicians yesterday favoured Trade and Industry Minister Derek Keys.

While most politicians said Keys was the best candidate within the Cabinet, they expressed concern about who would take over his portfolio, which they said was vitally important for business confidence and deregulation.

Du Plessis announced on Saturday that he was leaving politics. He has resigned as Finance Minister, Transvaal leader of the NP and as MP for Florida. Two weeks ago Du Plessis complained of exhaustion but informed sources said yesterday they believed he had suffered a nervous breakdown.

Before Du Plessis' resignation, Standard Bank Investment Corporation chairman Conrad Strauss had been mooted as a strong candidate, but MPs noted yesterday that if he was to be brought in De Klerk would have two non-elected Cabinet members. Non-elected Cabinet Ministers have to stand for election within a year of taking office or be given one of the NP's nominated seats.

Committee for Public Accounts chairman Francois Jacobsz, DP leader Zach de Beer and informed sources within the State Expenditure Department suggested that Keys was capable of handling both the Economic Co-ordination Ministry and the Finance portfolio.

De Beer said Keys's private sector background and his negotiating skills meant he was well suited for the job.

Most observers said Public Enterprises Minister Dawie de Villiers, who is acting Finance Minister, lacked the relevant experience.

They also pointed out that as Cape leader of the NP he had a huge workload in masterminding the NP's drive into the coloured community. He was also the leader of the NP's Codesa delegation and would not have the time to run the country's finances.

De Beer ruled out the possibility that Ambassador to the US Harry Schwarz, 68 next month, could fill the post, citing his age as the major reason.

Most observers agreed that progress with economic restructuring pursued under Du Plessis' leadership in the last three years would take the political heat off his successor.

De Beer said the economy was in a bad way but the new Finance Minister would find that "the only way is up".

He said a reasonable base had been built over the past few years and despite the fact that the country was going through a transition period, the basic trends should be maintained.

Jacobsz, who is also the NP finance chairman, said that, while SA was in a transitional phase, it was clear economic developments over the past three years were "working to a specific plan to stabilise the economy in preparation for a long-term upswing".

Despite the changes, it would be difficult for any successor to deviate from the "stable base that has been developed in the past three Budgets".

Du Plessis' announcement means the NP

☐ To Page 2

Barend

B/Day 27/4/92 (49)

☐ From Page 1

will have to find a new Transvaal provincial leader and fight a difficult parliamentary by-election in the Florida constituency.

However, his resignation from the Finance portfolio did not come as a surprise as he had indicated that this year's Budget could be his last.

The surprise was that he had retired from politics altogether, despite being one of the most powerful politicians within his party.

The exhaustion from which he suffered became evident two months ago, but most observers believe the humiliation he suffered when he had to back down on VAT last year did the greatest damage.

He was also taking severe strain at Codesa, where just about every suggestion he made was countered, many times purely because it came from him.

Sapa reports that the Transvaal executive of the NP will hold a special meeting of its head committee on Saturday to elect a new provincial leader.

Transvaal senior deputy chairman Gerrit Viljoen would be acting chairman in the meantime, the NP said yesterday

● Page 6

Stals calls for economic task force

(49)

27/4/92

JOHANNESBURG. — Reserve Bank Governor Chris Stals has proposed a long-term structural adjustment programme for SA, to be implemented by a special team of experts.

"We desperately need a comprehensive effort now to reverse the relentless trend towards stagflation, or we shall be forced to accept a permanent situation of no growth with high inflation and persistent balance of payments pressures," Stals said in Johannesburg at the weekend.

Addressing the 25th annual dinner of the Pharmaceutical Manufacturers' Association of SA, Stals said an analysis of the present economic structure and the economy's performance in the past decade indicated a need for a structural adjustment programme.

He warned that functions in the economy had to be adjusted through deliberate action.

Stals proposed assembling an economic policy team charged with drawing up a reform programme covering taxation, monetary management, labour policies and trade policies.

"The team of experts will obviously have to play a major part in the implementation of the programme — hence they must be able to steer and manage the economy from various positions of responsibility."

Other countries implementing structural adjustment programmes used teams led by a senior government executive, Stals said.

"The typical structural adjustment programme stretches over a period of five to 10 years before real benefits can be reaped," he said.

There were unavoidable costs involved in getting an economy back on the high road again, he said.

He said there were enough examples of successful programmes worldwide to provide elements of an appropriate programme for SA.

Such a programme would be aimed at raising the economic growth rate, not necessarily by additional capital investment, but initially, at least, by raising the efficiency and productivity of the economy.

JOHANNESBURG. — Successful constitutional reform would be to no avail unless it could be underpinned by economic growth, State President F W de Klerk said on Saturday.

Speaking at the official opening of FNB's Bank City in Johannesburg's CBD, De Klerk said a bridge had to be built between the constitutional process of reform and the economic challenges SA faced if the tremendous potential of the country was to be unlocked.

De Klerk said the financial system of the country would have to be protected and developed to ensure a healthy and stable sytem which would generate real economic growth.

The role of the government and the Central Bank should be a limited one.

Economic growth 'unlikely to exceed 1%'

LINDA ENSOR

CAPE TOWN — It would be unreasonable to expect a sharp upturn in the gross domestic product this year as the drought would prevent the economic growth rate exceeding 1%, Finance Minister Barend du Plessis said in a speech read on his behalf by Reserve Bank Deputy Governor Jaap Meijer at the weekend.

The paper was delivered at a conference hosted by Stellenbosch University's Business School.

However, in the absence of external shocks to the economy, a growth rate of 3% or more was possible in 1993 as fixed investment, business confidence and agricultural conditions improved, said Du Plessis.

"The normalisation of relationships with the international financial community, including the multinational lending organisations, will ensure that the contraction of the surplus on the current account of the balance of payments will not place a quick dampener on the upturn."

Du Plessis said government's deficit before borrowing had to be held within manageable limits. While the deficit in the 1992/93 year was high in relation to the expected GDP, it was justified in the present circumstances.

He stressed the need for disciplined government expenditure when the economic growth rate accelerated and government revenues improved. Otherwise there was the danger that macro-economic stability would be undermined and inflation would rise.

Meijer said it was encouraging that black leaders appeared to value the maintenance of the independence of the Reserve Bank, but did not regard high interest rates as a priority.

Rand Merchant Bank group economist Rudolph Gouws said he did not expect the economy to pick up this year. Export volumes would suffer due to the slowdown in world economies and the current account surplus would also be affected adversely by the drought and the need to import maize.

Inflation should drop to about 12,5% by year-end with lower wage settlements and a lower rate of increases in food prices having a beneficial effect. Two cuts in the Bank rate could be expected this year, Gouws said.

BDay 27/4/92

(49)

Barend bows out after a long career

Sowetan 27/4/92

(49)

MR BAREND Jacobus du Plessis, Minister of Finance for eight years, has retired after a meteoric political career.

His career literally burnt out in the rarefied political ether where only the toughest live long enough to go on pension.

By his own admission, Du Plessis ultimately could not take the bruising pace that others like him - and the State President he came so close to becoming - endure for a living

Circumstances of a radically changing South Africa also caught Du Plessis in a particularly nasty crossfire at the very moment that he would otherwise have secured for himself the historic honour of introducing Value Added Tax to South Africa

Instead, by a combination of Du Plessis's own inflexibility and the tenacious onslaught of new extra-parliamentary foes such as the African National Congress and the Congress of South African Trade Unions, VAT became a major nightmare and a certain force in his final undoing.

Du Plessis himself points out that putting together a Budget in 1992, under the unprecedented pressures of a South Africa in transition and in a crimson economic nosedive, took too heavy a toll.

The Budget debate had scarcely ended before he was admitted to hospital for an as yet undisclosed malady, which was so serious as to end a political career at a relatively young age of 52.

Born the eldest of three children, the young Du Plessis was immediately exposed to politics by his railway worker father Hendrik, active in the National Party at branch level.

He grew up in Boksburg and went to Potchefstroom University

FOCUS

for his BSc degree which he obtained in 1960.

Then followed a colourful and wonderboy career which built enough momentum to catapult him, ultimately, to within a whisker of succeeding Mr PW Botha, his mentor and political patron, as State President.

He turned teacher first, passing through the teacher training college as chairman of the SRC and travelling abroad to meet other student leaders.

His first post was mathematics teacher at Helpmekaar Boys' High School and then at the Johannesburg Technical College.

His next career move was into the SABC in the chief engineer's department, where he helped to pioneer the data-processing department before being promoted to the director-general's office as administrative secretary.

Computer skills

Du Plessis' newly acquired computer skills led to his next career switch, to IBM, where he expanded his interests into banking and attended the IBM Graduate School of Banking in Princeton, USA.

In 1966 he had formally joined the National Party and he now moved into public life by winning a seat on the Roodepoort City Council in 1972. The next year he was deputy mayor and a year later mayor.

The mayoral spell was shortlived, however, as he took the Florida seat from the Opposition United Party in the general election of that same year.

Once in Parliament, Du Plessis employed his by now substantial experience and flair for monetary matters by serving in the Select Committee for Public Accounts and serving as secretary of the National Party group on finance.

In 1982 he chaired a committee investigating his former employers' affairs at the SABC and the media, and in the same year became Deputy Minister of Foreign Affairs and Information. In the meantime he had accumulated the directorships of 12 companies.

NP hierarchy

Du Plessis had a sparkling and refreshingly candid public style, which won him much favour with the media, which soon had him tagged as the most upwardly mobile young politician in the dour ranks of the NP hierarchy.

These attributes had been put to good use as NP information officer from 1977-81. He was now destined to try them out on a more difficult clientele.

On November 23, 1983, he was appointed to the Cabinet with the difficult portfolio of (black) Education and Training. He immediately applied his personal style to the problem of school boycotts, meeting student leaders and the SA Council of Churches' Secretary-General, Bishop Desmond Tutu.

The problem was however too deeply seated in the country's apartheid past to arrive at quick-fix solutions and six schools were closed at Atteridgeville and Saulsville.

Undaunted, Du Plessis tried to overhaul the system of black education within the constraints of government policy, trying to get the black community more closely involved in their schools and cutting red tape obstructing access to his office He also lifted the colour bar to appointment and promotion within his department.

When Mr Owen Horwood retired as Minister of Finance, Mr Du Plessis was promoted over the heads of senior Cabinet men who would traditionally have felt entitled to this most senior of posts.

Du Plessis was, however, the favourite of the leader, PW Botha, who was known to have picked Du Plessis as his successor.

Du Plessis persevered bravely and was suddenly faced with the prospect of awesome power and responsibility when an ill President Botha sprang his surprise resignation on the party caucus. Du Plessis came to within eight votes of winning against FW de Klerk in the final round of the contest for part leader.

In the end, Du Plessis proved not to be quite the liberal he gave himself credit for.

In the view of those who repeatedly faced him across the negotiating table at the Union Buildings and the HF Verwoerd administration HQ, Du Plessis was described as intolerant of their viewpoint, paternalistic and ignorant of the basic facts about blacks and their needs.

In Parliament, Du Plessis on occasion displayed some anger which, to a lesser degree, approximated that of his departed mentor.

It is perhaps this aspect of Du Plessis's make-up, the tension and the tendency toward highly animated debate, argument and action which may in the end have pulled him up short both mentally and physically.

Whatever career Du Plessis is to follow next, the record seems to show that he will likely end up at, or very near, the top again.

He and his wife Antoinette (born Van der Berg) have four children, Jean, Vanessa, Charl and Berno. - *Sowetan Correspondent.*

5 tipped for Du Plessis portfolio

Sowetan 27/4/92

49

By ISMAIL LAGARDIEN, Political Correspondent

SOUTH Africa 's ambassador to the United States, Mr Harry Schwarz, is among at least five persons singled out as the likely successor of Mr Barend du Plessis, who is to retire as Minister of Finance this week.

Speculation of a likely replacement for the portfolio vacated by Du Plessis in a surprise resignation over the weekend includes: the present Minister of Tourism and Industry, Mr Derek Keys; the Governor of the Reserve Bank, Dr Chris Stals, Mr Conrad Strauss, the Standard Bank chief; and the Minister of Public Enterprises, Dr Dawie de Villiers.

Du Plessis resigned at the weekend citing "exhaustion" as the main reason behind his decision to step down.

His resignation could force President De Klerk to look beyond the National Party, existing Government officials and even Parliament for a replacement, senior sources yesterday said. Schwarz has been identified by political observers and persons in and around Government as the person who could be "sensitive to the economic and political expectations of the majority of South Africans" one MP said yesterday. He also said that Schwarz is known to be a conservative social democrat and an outstanding economist and would therefore be "a perfect Finance Minister for an interim government". "He would swing the Budget around to more of a people's Budget, as it is still very much an exclusively white Budget," the MP said. But following in the pattern established by De Klerk himself earlier this year - with the appointment of former Gencor boss Derek Keys - he might indeed replace Du Plessis with a person from the private sector.

Dr Dawie de Villiers has been dismissed by knowledgeable sources as a replacement as "he is too ambitious politically". On the other hand, Standard Bank chief Strauss and Reserve Bank governor Stals are among the private-sector persons around whom speculation centred yesterday.

The DP's spokesman on finance, Mr Ken Andrew, also believes that it would be wise for the President to "broaden the base of his Cabinet" beyond the NP and Government for a replacement for the vacant portfolio.

A spokesman from the President's office yesterday said that an announcement could be made sometime this week, but that it remained De Klerk's prerogative.

Barend's legacy may be obscured by VAT morass

SIMON WILLSON

BDay 27/4/92

(49)

AS his eight-year tenure at the Ministry of Finance draws to a close this week, it is possible that Barend du Plessis' entanglements with VAT over the past year may obscure his earlier achievements. This would be unfortunate.

Considered over its entirety, Du Plessis' period as Finance Minister can be characterised as reformist, and one in which several policies were embarked on and have yet to be accomplished. Few of Du Plessis' policy initiatives, however badly their introductions were managed, will be reversed.

Du Plessis shares with Foreign Minister Pik Botha the rare attainment of having held one of the principal Cabinet portfolios in the administrations of both P W Botha and F W de Klerk. Given that the political reforms of the Botha era are about to be cancelled out and superceded, while its economic reforms will probably be seen as a foundation to be built upon, Du Plessis' contribution to SA's economic development will be more enduring than that of any of his predecessors.

For it may be forgotten, as the new team at Finance gets to grips with the escalating budget deficit, the underperforming revenues and the overburdened tax base, that Du Plessis was at the helm when some decisive fiscal policy decisions were taken. The deregulation that has so transformed many areas of the economy, and will yet transform many more, only gained impetus with his sponsorship. Privatisation, even though it has yet to proceed at full steam as a means of raising revenue for the state and of streamlining major utilities, also only saw the light of day as a practical concept once he had promoted it.

Other fiscal reform goals that Du Plessis set himself earlier in his period of office have had less success. Fiscal discipline was always high on the agenda and, as the charts show, he succeeded quite significantly in curbing the monotonously regular and substantial government overspending in the early '80s. However, this was achieved at a time when overall economic growth was slowing dramatically and so, both in absolute terms and as a ratio to GDP, total state debt continued to rise during his tenure. Even so the budget deficit-to-GDP ratio has, as the chart indicates, recently reached and briefly bettered the International Monetary Fund's recommended level of 3% before rising again.

And although reform of the tax system was another top-priority goal Du Plessis set himself, progress has not been appreciable. Proposals for tax reform submitted by the government's own commission have not been fully acted upon, and the measures taken have been half-baked and piecemeal. As the chart shows, the hard-pressed individual has continued to shoulder the bulk of the burden of contributing to the state's coffers. This may partly have been the result of the steep decline in the contributions from the gold mining sector which, in better times for world primary commodity prices, chipped in a much bigger share.

But the individual was, in the end, an easier and less complaining milch cow for the grasping state and his share of the tax take has risen right up to the moment of Du Plessis' departure. At the same time, a start has been made to the more radical adjustment that Du Plessis pioneered in his programme of fiscal reform: that of shifting the burden of taxation from direct levies such as PAYE and company tax to indirect sources such as consumption tax and (eventually) capital gains tax.

Although Du Plessis will not be able to see through this conversion, he did at least preside over the major step in implementing it — the introduction of VAT.

VAT may, less than a year from its introduction, appear a major problem area both for the government sponsoring it and the exchequer accounts that need its revenue. But the point was made endlessly in implementing the tax that its benefits would take time to show through. The lead time to the fiscal payoff from adopting VAT may seem lengthy, but the experience of foreign economies that have gone through the difficult introduction process that SA still faces has been that the tax does ultimately live up to its extravagant billing.

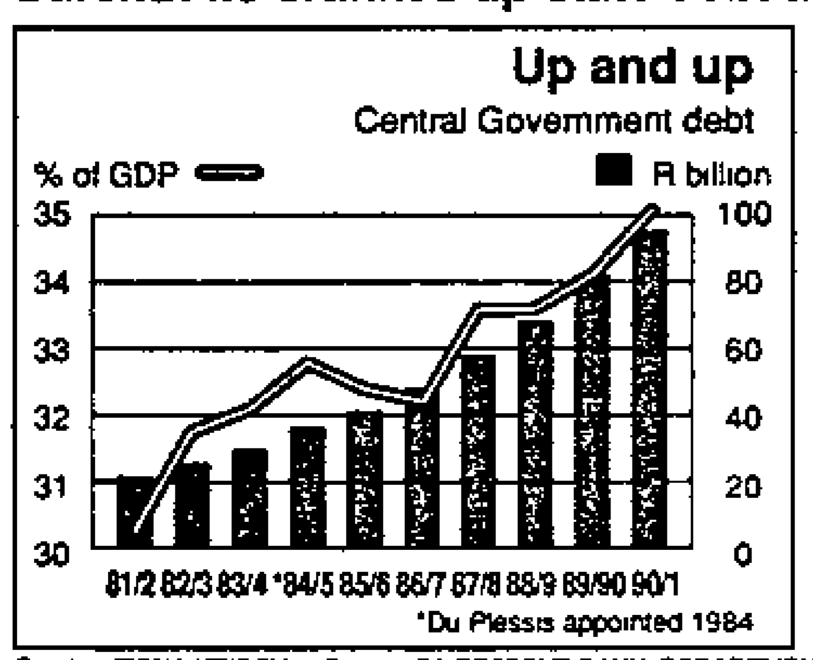
More could have been done on the public relations side of much that the Finance Department has been attempting over the past few years, not only with VAT but with the other reforms on its agenda.

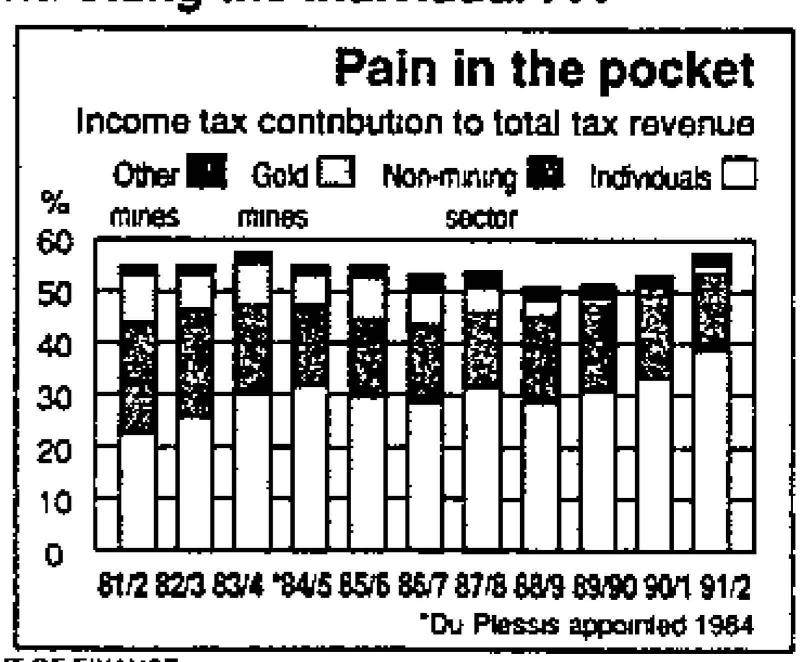
But account should surely be taken in Du Plessis' case of the other responsibilities he had in the latter part of his ministry. His US counterpart, the Treasury Secretary, has no elections to fight and no party duties to fulfil. The US president presents the Budget, the Office of Management and Budget runs fiscal policy and the Federal Reserve Board takes care of monetary policy.

The SA Finance Minister has all the drawbacks of the Westminster system — MP's duties, party responsibilities, constitutional imbroglios — with none of the perks. The main perk of the British chancellor of the exchequer is that he has total control of fiscal and monetary policy. He presents the budget and can change interest rates by lifting the telephone to his central bank governor.

Du Plessis has been the first Finance Minister in SA's history without the power to do that. Perversely, the effective independence of the Reserve Bank is another of his achievements — possibly the one for which SA country may in future have cause to be the most thankful.

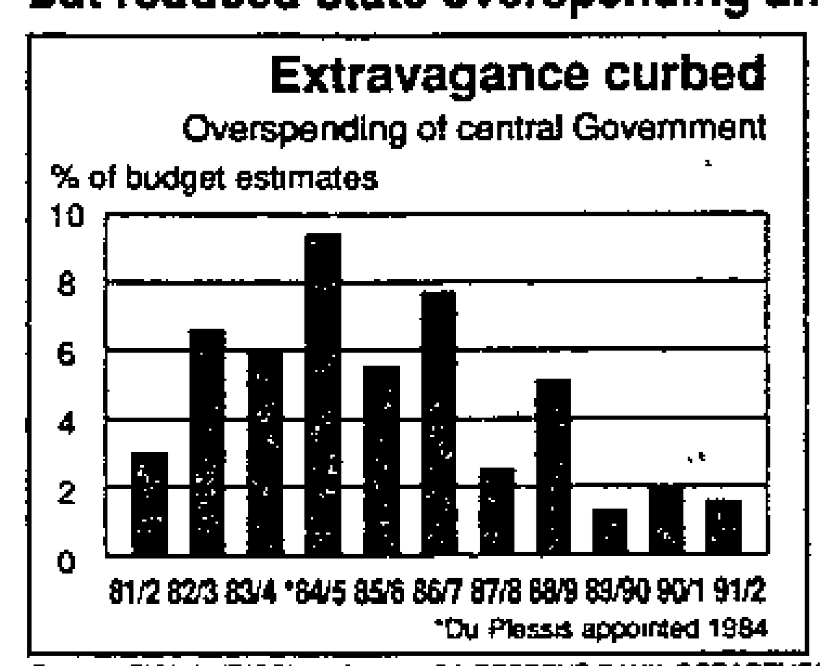
Barend: he cranked up state debt and stung the individual . . .

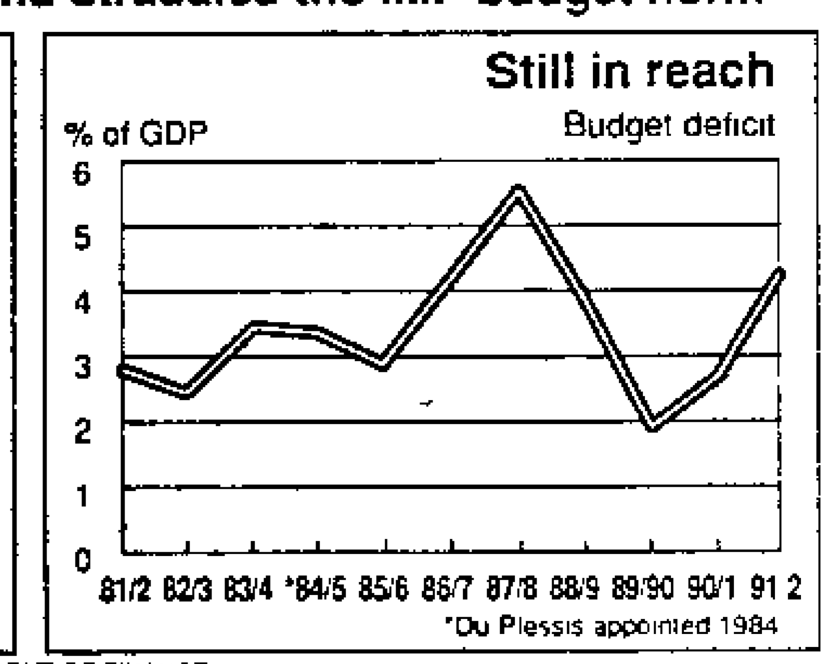




Graphic: FIONA KRISCH Source: SA RESERVE BANK, DEPARTMENT OF FINANCE

but reduced state overspending and straddled the IMF budget norm





Graphic: FIONA KRISCH Source: SA RESERVE BANK, DEPARTMENT OF FINANCE

MONEY MARKETS by Sheridan Connolly

High liquidity persists despite draining bid

B Day 27/4/92. (49)

PERSISTENT draining operations by the Reserve Bank last week were the key features in a fairly quiet but easy money market with the Bank issuing four consecutive special Treasury bill (TB) tenders in the four-day week.

Despite the Bank's valiant and continuing attempts, high liquidity conditions prevailed, allowing more scope for rates to move downwards. The key 90-day liquid BA rate drifted down to a 15,30%-15,45% range last week from the previous week's 15,35%-15,55% range, and the market seems to be comfortable with the rate at this level.

The usual outflow of cash from the system, common towards month-end, failed to materialise because of the large amounts channelled into the market through quarterly government spending which got under way in April. Treasury spending earmarked for payments to the self-governing homelands and to members of the Southern African Customs Union swamped the market with cash and could not be siphoned off, regardless of the Bank's draining efforts via the numerous special TBs.

In the weekly TB tender, rates continued falling in all three issues. Since their introduction in March, the rate on the six-month tender has fallen steadily from 14,88% to 14,46% last week. The rate on the nine-month tender has also dropped — from an initial 14,33% to last week's level of 14,05%.

Good investor interest in short-term paper was reflected in applications for the three-month TB tender which saw the Bank receive R6,05bn in subscriptions for the R100m tender on offer at an average rate of 14,98% — sharply down from the previous week's 15,19%. The Bank received R258,8m and R300m respectively for the R100m six- and nine-month tenders.

The market shortage, which reflects the amount of accommodation extended by the Bank to the market, dipped towards the end of the week, largely ignoring the Bank's attempts to tap the market. The Bank quoted the shortage lower at R828m from a previous R1,05bn.

The capital market recovered from its recent lethargy with renewed bullish sentiment giving rates some much-needed direction in the second half of the week. Bullish investor expectations for a downward move in the consumer inflation index, due out early this week, seemed to lift the market and saw rates ease sharply, with the benchmark Eskom 168 down to a 10-month low of 16% late on Friday.

With some of the more important economic indicators coming up this week, sentiment in the market is expected to pick up after the last few weeks' apathy. The options close-out on May 7 encouraged players to start squaring up and this has also helped rates escape their recent sideways range.

The 16% level reached by the E168 on Friday was the lowest recorded since June last year. Late on Friday, government's RSA 150 bond eased to 16,20% from previous levels of around 16,33%.

The first of nine rounds of peace talks between Renamo and the government began in Rome in July 1990. Another is expected in May. — Sapa-AP

Warning of a new divide

LINDA ENSOR

CAPE TOWN — There was a danger the new political system would entrench a new divide between urban whites and unionised, urban blacks on the one hand and the unemployed urban and rural underclass on the other, SA Institute of Race Relations director John Kane-Berman warned at the weekend. B|Day 27|4|92

"We need to beware of replacing the tricameral Parliament with a new urban-biased, union-biased, highly centralised political system, Kane-Berman told a University of Stellenbosch Business School conference. Such a system would practise redistribution in favour of urbanised, unionised people.

He said redistribution had been too narrowly spread across the black population because of low growth and rising unemployment.

Kane-Berman said rural black people had been the victims of a double discrimination — because they were black, and again because they lived in the homelands. Drawing on a recent Standard Bank study, he said government spent nearly three times more on the 22-million urban blacks (R67bn) in the 1990-91 fiscal year than on the 14-million inhabitants of the 10 homelands (R15bn).

STAR 27/4/92 (49)

Saddled with the Rubicon rand, falling gold price and white elephants like Mossgas

Early promise of glory turns to dashed hopes

The premature retirement from politics of Finance Minister Barend du Plessis could be ascribed to seemingly insurmountable obstacles plus his own nature working against him. By PETER FABRICIUS.

FINANCE Minister Barend du Plessis, who retired from politics at the weekend, aged 52 was a victim both of political frustrations beyond his control and of his own personality

His career, full of early promise was caught up and eventually submerged in the turbulent and often ironic tides of a unique transitional era

But the effects of fate were exacerbated by his own passionate and often rather volatile personality

He was saddled with one of the hardest jobs in the Government at the hardest of times

It would perhaps have been too much for anyone But it proved certainly too much for someone of his temperament

His mercurial nature was both a blessing and a curse It lent passion to his courageous early crusades against racial injustice when he led the verligte campaign from the National Party backbenches to oust the verkramptes under Dr Andries Treurnicht That passion also made him an effective political orator for the NP in one election campaign after another, especially against the Conservative Party

And it brought him to within a tantalising eight votes of winning the leadership of the National Party when P W Botha resigned in February 1989

But, ironically it did not equip him well for the inevitable age of compromise that was the ultimate consequence of his own enlightened views

When the time came to sit down and haggle with opponents about tough issues such as VAT and transitional government, Mr du Plessis's passion began to sour into something like ill-temper and intolerance

His job was doubly frustrating From his appointment as Minister of Finance in 1984 he struggled in vain to execute economic policy within the crushing political restraints of sanctions on the one side and President Botha's pork-barrel expediency on the other

Saddled with the Rubicon rand, a falling gold price an immense net outflow of capital, and the obligation to spend the little that remained on white elephants such as Mossgas, probably no one could have succeeded at the task

Mr Botha's blatant manipulation of the public purse for political ends did not help

One of the low points was when Mr du Plessis apparently heard from journalists in his hotel in West Germany during 1988 that Mr Botha had decided to overturn his policy decision to freeze public-service salaries to help win the 1988 general municipal elections

He later listed this as one of the principal frustrations of working under President Botha

And then just as he began to escape from the clutches of Mr Botha's residual national socialism he ran into the anachronistic socialism of Cosatu's Jay Naidoo

It was probably Mr Naidoo, and his campaign against VAT, who did more than any other individual to precipitate the physical and nervous collapse which forced Mr du Plessis to resign

VAT was something of a pet project which he had nurtured for years, the result of immense research by fiscal experts

This was to be one economic project which would be executed in something like pure form

But it ran into one political obstacle after another and he had to suffer the accumulative frustration of watching the pure conception whittled away like his plans of the P W Botha era

At this point, Mr du Plessis's idealism began to harden into rigidity

His frustrations over VAT seemed to sour him and rubbed off in Codesa where he was the Government's representative in the key working group on transitional government

According to other Codesa delegates, Mr du Plessis became increasingly intolerant and intemperate about opposition to Government proposals

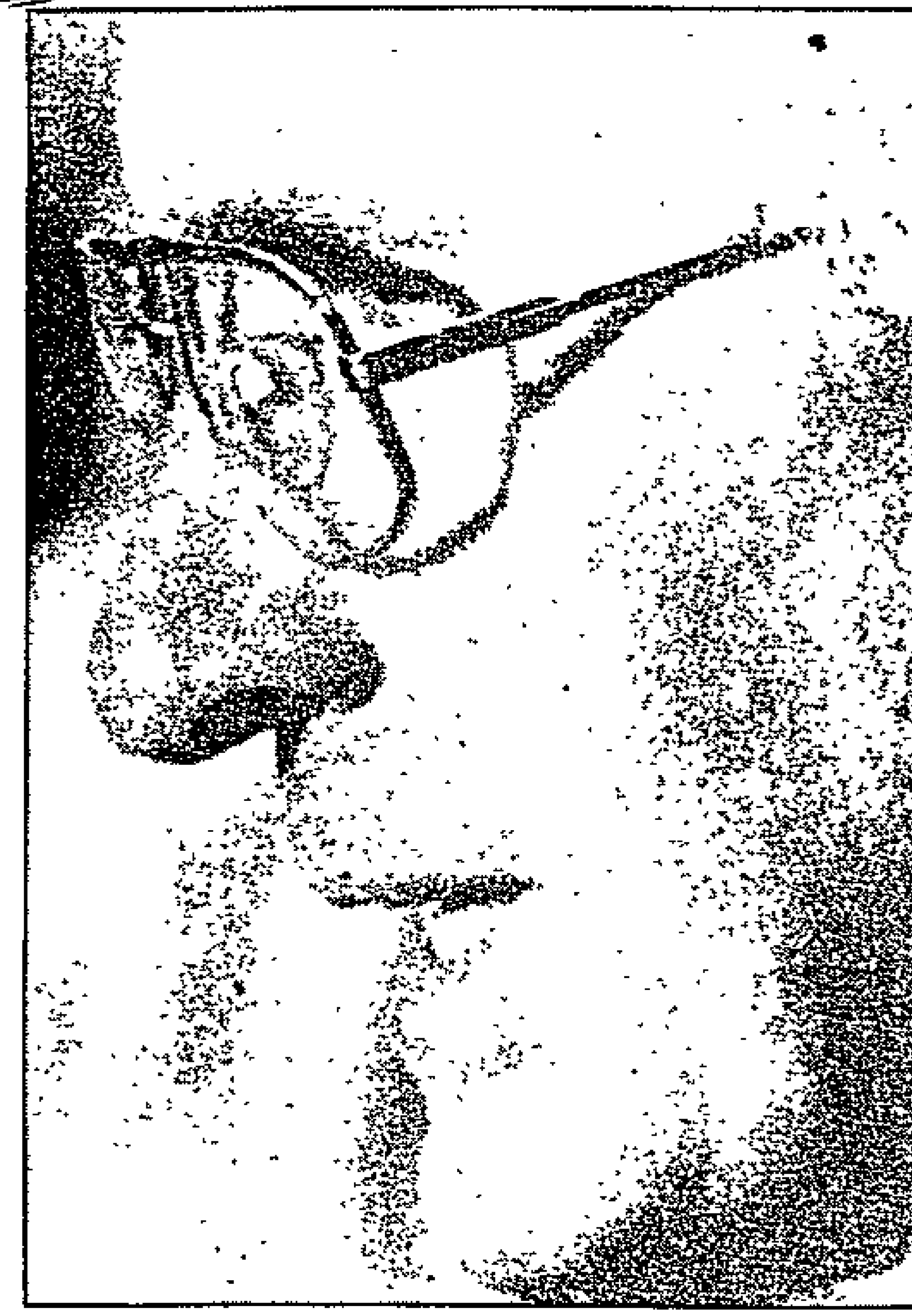
Politically his career was fraught with frustration and painful irony

When he stood for the leadership of the NP and the state presidency in 1989, he was considered the verligte candidate against the conservative Mr de Klerk Yet he was also, rather incongruously, rumoured to be the choice of the recalcitrant President Botha

But he then had to watch Mr de Klerk pick up the standard and run with it, perhaps further than he would have Deprived of his political niche by a man of his own generation, the wunderkind's rise was thwarted and from then it was only a matter of time before he got out

● Mr du Plessis was elected MP for Florida in 1974 In 1982 he was Deputy Minister of Foreign Affairs, in 1983 Minister of Education and Training and in August 1984 Minister of Finance

After Mr de Klerk became NP leader and State President, Mr du Plessis was elected leader of the Transvaal NP □



Du Plessis . . . blessed and cursed with a mercurial nature

Raymond Parsons warns that endemic violence can lead us all to poverty and despair

In search of a win-win solution

STAR 27/4/92

49

MANY of us appear to have accepted that the developments of the past couple of years in South Africa, including the high level of violence in certain parts of the country, are all a part of the process of discovering a "new South Africa"

It has an understandably visionary ring about it — and is indeed a worthy focus of our efforts

But I would like to suggest that over the past two years or so we have also been discovering the *real* South Africa The "new South Africa" is still to be negotiated once we have truly grasped the realities of this country

The current prevalence of political violence has already caused untold hardship, disruption and loss of life and property It jeopardises the process of peaceful political transformation and threatens to leave a legacy of insurmountable division and deep bitterness. It poses a threat to the economy

To give a perspective to the problem of violence and its potential for destruction, it should be noted that while 60 people were killed in the notorious Sharpeville massacre in 1960, several thousands have been killed in political violence over the past two years

The endemic violence, from whatever quarter it comes, is undermining confidence in the prospects for peaceful change It can eventually lead us all on a downward path to poverty and despair, unless reversed soon

Continued violence is destroying productivity, discouraging investment by both small and large business, and causing despair among *all* population groups. Business is being forced to relocate or close. And it does not stop there — the trauma of violence is also brought into the workplace.

What South Africa must guard against is replacing external sanctions with an internal sanction — violence. This would equally place a ceiling on our economic performance in the years ahead.

Poverty and unemployment must be seen as one of the main contributory factors — among several others — to the repeated cycles of violence

If we look back over the past 40 years we see a close correlation between economic conditions and political unrest Violence is also bound up with the rapid process of urbanisation experienced in recent years Hence the Peace Accord has included the vital question of socio-economic development in its objectives

Apart from its other merits, the emphasis on socio-economic development also gives local communities affected by violence something constructive to focus their minds and energies on as an alternative.

And what about the overall economic environment needed to achieve peace and prosperity? What do the IMF and other world bodies' experts in economic development tell us?

It is a converging economic message If economic growth in South Africa were to be raised to 3,5 percent a year — or to the minimum rate required to reduce the level of unemployment given the rapid prospective growth of the labour force — investment must substantially increase

There is no other way to soak up unemployment and raise standards of living And it will not be possible to achieve much higher growth rates without significant foreign investment.

Without an inflow of long-term capital the ceiling on South Africa's economic growth rate on the most favourable assumptions is likely to be about 2 percent — far too low to meet the needs of our total population.

To achieve the levels of domestic and overseas investment that South Africa requires for economic growth needs business confidence Unless there is a congenial and stable environment for foreign investors they will simply not commit themselves on a large scale to this country

And by a "congenial" environment for investors in South Africa we are talking about:

- Political and social stability.
- A return on capital invested
- A commitment to the basics of a market economy.

This means we must reconcile what is needed to redress past inequalities with the reality of ensuring sustained economic growth Most businessmen, and this is certainly the Sacob view, accept that the removal of historical imbalances should be an explicit goal within the context of sound growth.

We want a win-win solution.

So what I am saying is that, if we want economic growth and development in South Africa, we will have to win the confidence of the international business community This is the global reality

There is enormous goodwill internationally for South Africa, but there will be no blank cheques or miracles for us in a highly competitive world. Investor-friendly policies must be the order of the day. We must act on the premise that we need the world more than the world needs us.

This bring me back to the wider implications of the National Peace Accord We must give the peace accord — fragile and imperfect though it may be — every support at national and local levels

In all its ramifications — both short term and beyond — it stands between us and complete anarchy and despair When we survey the seemingly intractable nature of violence in South Africa we must remember, as students of history, that others have also faced their moment of despair

Let businessmen be united with other community leaders for peace. Let us urge the major political leaders to renew their commitment to the provisions and implementation of the National Peace Accord as soon as possible

Let us be united against violence. We must understand clearly violence won't destroy us — only the failure to unite against it can do that. □

● *This is a shortened version of an address by Raymond Parsons on "The Peace Accord and Economic Development" at a recent Nafto conference. Mr Parsons is director-general of the South African Chamber of Business.*

Cape Times
Jobfinder Inside
A TIMES MEDIA PUBLICATION
FOUNDED 1876 ☎ 488 4911 MONDAY, APRIL 27 1992 80c (Country 90c) Prices include VAT

49

Barend quits: Keys front-runner

CT 27/4/92

Political Staff

FINANCE MINISTER Mr Barend du Plessis' sudden resignation has given rise to massive speculation on who his successor will be, with Trade and Industry and Economic Co-ordination Minister Mr Derek Keys emerging as a clear favourite.

It has also presented the National Party with a tricky political test — fighting a by-election in Mr Du Plessis' Florida constituency.

Mr Keys certainly has the economic acumen to take up the reins vacated by Mr Du Plessis, but there have been reservations over whether he could tackle the Trade and Industry portfolio as well.

At the weekend the leading NP-supporting newspaper Rapport said Mr Du Plessis' "thankless task" would "in all likelihood" go to Mr Keys, appointed to the cabinet last year after a brilliant business career.

Mr Du Plessis' resignation — presented to the State President on Friday and made public the next day — will take effect on Friday and President F W de Klerk will announce a successor this week.

Another leading candidate is Public Enterprises Minister Dr Dawie de Villiers — called in to act as finance minister when Mr Du Plessis succumbed to exhaustion and was hospitalised two weeks ago.

However, the former Springbok rugby captain is thought to be short on specific experience for the job and already has a massive workload as he tries to boost support for the NP in the Cape.

Also mentioned has been the ambassador to the United States and former Democratic Party finance spokesman Mr Harry Schwarz.

Although Mr Schwarz — who has a fearsome reputation for not tolerating incompetence or corruption — has some credentials for the job, it is generally thought that he may be a little old to take it on now.

In past weeks there has also been speculation that Standard Bank Investment Corporation chairman Mr Conrad Strauss may be called in to replace Mr Du Plessis, who had signalled that this year's budget would be his last.

To page 2

TODAY

Cloudy and mild

— PAGE 2

Winnie quizzed on TV

Mrs Winnie Mandela refused last night to discuss a videoed statement in 1986 in which she appeared to come out in support of necklacing, saying she personally never had resorted to the practice

— PAGE 2

...it quake area

...aftershocks rumbled ...ern California early ...ching off a blaze and ... nerves of residents

CP

Du Plessis

49 CT 27/4/92

get would be his last.

However, Mr De Klerk will probably be reluctant to bring in a second non-elected cabinet minister to join Mr Keys.

Mr Du Plessis' resignation followed a period in which he had taken on a massive workload as he prepared the budget and led the NP's Transvaal referendum campaign.

He had also been under pressure on VAT and at Codesa, where he often clashed with the NP's political opponents.

His resignation as finance minister had been expected some time this year but he was not thought to be planning to quit his Transvaal NP leadership and MP post as well.

However, at the weekend he said: "If I can be of service to our land in any other way or terrain, I will definitely be available."

There has been speculation that Mr Du Plessis, 52, had suffered something close to a nervous breakdown when he was admitted to hospital two weeks ago. A cabinet colleague said that shortly before his admission to hospital the finance minister had said he felt "like a bottle that is full right up to the top".

Mr Du Plessis served as finance minister for eight years after a phenomenal rise through the NP ranks. In 1989 he came within eight votes of succeeding Mr P W Botha at the helm of the country.

At the weekend the man who beat him in the race for that job, Mr De Klerk, said it was a great pity that circumstances had brought the outstanding political career of Mr Du Plessis to an end.

Most observers felt that the economic restructuring pursued under Mr Du Plessis in the past few years would take the political heat off his successor.

Democratic Party leader Dr Zach de Beer said the economy was in a bad way but the new finance minister would find that "the only way is up".

A "reasonable" base had been built over the past few years and the basic trends could be maintained in spite of the political transition.

27 APR 1992

Cape Times

A TIMES MEDIA PUBLICATION

FOUNDED 1876 ☎ 488 4911 MONDAY, APRIL 27 1992 80c (Country 90c) Prices include VAT

Barend quits: Keys front-runner

49 CT 27/4/92

Political Staff

FINANCE MINISTER Mr Barend du Plessis' sudden resignation has given rise to massive speculation on who his successor will be, with Trade and Industry and Economic Co-ordination Minister Mr Derek Keys emerging as a clear favourite.

It has also presented the National Party with a tricky political test — fighting a by-election in Mr Du Plessis' Florida constituency.

Mr Keys certainly has the economic acumen to take up the reins vacated by Mr Du Plessis, but there have been reservations over whether he could tackle the Trade and Industry portfolio as well.

At the weekend the leading NP-supporting newspaper Rapport said Mr Du Plessis' "thankless task" would "in all likelihood" go to Mr Keys, appointed to the cabinet last year after a brilliant business career.

Mr Du Plessis' resignation — presented to the State President on Friday and made public the next day — will take effect on Friday and President F W de Klerk will announce a successor this week.

Another leading candidate is Public Enterprises Minister Dr Dawie de Villiers — called in to act as finance minister when Mr Du Plessis succumbed to exhaustion and was hospitalised two weeks ago

However, the former Springbok rugby captain is thought to be short on specific experience for the job and already has a massive workload as he tries to boost support for the NP in the Cape

Also mentioned has been the ambassador to the United States and former Democratic Party finance spokesman Mr Harry Schwarz

Although Mr Schwarz — who has a fearsome reputation for not tolerating incompetence or corruption — has some credentials for the job, it is generally thought that he may be a little old to take it on now

In past weeks there has also been speculation that Standard Bank Investment Corporation chairman Mr Conrad Strauss may be called in to replace Mr Du Plessis, who had signalled that this year's bud-

To page 2

Du Plessis

49 CT 27/4/92

get would be his last.

However, Mr De Klerk will probably be reluctant to bring in a second non-elected cabinet minister to join Mr Keys.

Mr Du Plessis' resignation followed a period in which he had taken on a massive workload as he prepared the budget and led the NP's Transvaal referendum campaign.

He had also been under pressure on VAT and at Codesa, where he often clashed with the NP's political opponents.

His resignation as finance minister had been expected some time this year but he was not thought to be planning to quit his Transvaal NP leadership and MP post as well.

However, at the weekend he said: "If I can be of service to our land in any other way or terrain, I will definitely be available."

There has been speculation that Mr Du Plessis, 52, had suffered something close to a nervous breakdown when he was admitted to hospital two weeks ago. A cabinet colleague said that shortly before his admission to hospital the finance minister had said he felt "like a bottle that is full right up to the top".

Mr Du Plessis served as finance minister for eight years after a phenomenal rise through the NP ranks. In 1989 he came within eight votes of succeeding Mr P W Botha at the helm of the country.

At the weekend the man who beat him in the race for that job, Mr De Klerk, said it was a great pity that circumstances had brought the outstanding political career of Mr Du Plessis to an end.

Most observers felt that the economic restructuring pursued under Mr Du Plessis in the past few years would take the political heat off his successor.

Democratic Party leader Dr Zach de Beer said the economy was in a bad way but the new finance minister would find that "the only way is up".

A "reasonable" base had been built over the past few years and the basic trends could be maintained in spite of t... ...ion.

TODAY

Cloudy and mild

— PAGE 2

Winnie quizzed on TV

Mrs Winnie Mandela refused last night to discuss a videoed statement in 1986 in which she appeared to come out in support of necklacing, saying she personally never had resorted to the practice

— PAGE 2

...it quake area

...aftershocks rumbled ...ern California early ...ching off a blaze and ... nerves of residents

CP

State expenditure could exceed budget by R2-bn

STAR 27/4/92

By Marc Hasenfuss 49

CAPE TOWN — Additional state expenditure, in excess of that set aside in the 1992 Budget, could top R2 billion this year, Department of Finance Director-General Gerhard Croeser said at a University of Stellenbosch's seminar on "Economic Prospects 1992/93.".

He said this represented about two percent of the R100,6 billion Budget and meant that government expenditure would increase four percent in real terms.

He noted that the R1 billion set aside for drought relief was not adequate for farmers' needs this year and that the government would have to accrue additional expenditure to fund aid to the agricultural sector.

"Although there will be some additional expenditures, government is still committed to curbing fiscal spending."

He pointed out that the state had already withstood fierce pressure from civil servants as regards wage increases this year.

He said government's capitulation into dropping the VAT rate to 10 percent government coffers resulted in a loss of an additional R4 billion that would have been realised under the initial 12 percent rate.

"The additional revenue could have resulted in a significant reduction in borrowing and government could have also met individual's tax demands or even reduced the company tax rate from 48 to 40 percent."

Stals gives his 'blue-print' for restructuring economy

STAR 27/4/92 (49)

The social and political reforms taking place in South Africa now make economic reform extremely difficult, says Reserve Bank Governor Dr Chris Stals.

But, at the same time these reforms can hardly succeed without the support of a bouyant economy.

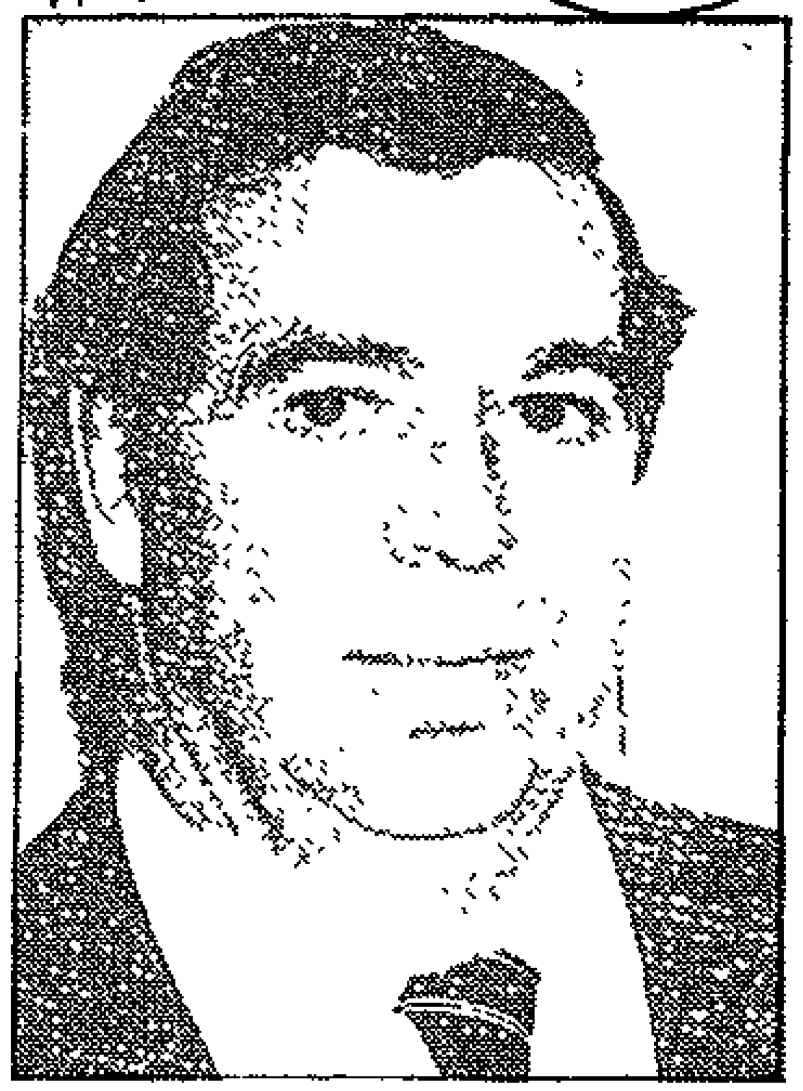
In a speech prepared for delivery at the annual Pharmaceutical Manufacturers Association banquet in Johannesburg, Dr Stals said the challenge facing the South African economy was not only to revive the business cycle and to revitalise the economy but also to face the dilema of a "seemingly inescapable poverty trap".

The central banker pointed to the fact that given the present structure of the economy a revival may bring about some growth but would fail in generating enough growth to match the growth rate in the total labour force — giving rise to further poverty and unemployment.

He said many other countries were in the same position and seeking a solution to the crisis.

"South Africa is now in a more favourable situation than in many years to take the bull by the horns and to plan, not only for a cyclical or short-term re-stimulation of the economy, but also to introduce a medium- or longer-term programme for a permanent restructuring of the economy."

Dr Stals said the country would have to draft its own "blue-print" for restructuring the economy — shifting economic potential again on a path of high growth.



Chris Stals . . . Governor of the Reserve Bank.

"The ultimate objective of all economic policy is to create better living conditions for all the people of the country."

This, Dr Stals said, was normally achieved through a higher rate of economic growth, increasing production of goods and services and through generating real income — shared by all the people of the country.

Stagflation

With regard to restructuring the economy Dr Stals said an analysis of the performance of the economy over the past decade "clearly indicates a need for a structural adjustment programme.

"We desperately need a comprehensive effort now to reverse the relentless trend towards stagflation, or we shall be forced to accept a permanent situation of no growth with high inflation and persistent balance of payments pressures."

He said the existing functions in the economy had to be adjusted such as the overall capital output, labour output, savings/income ratio, imports/domestic expenditure ratios and the public sector/private sector ratios.

But Dr Stals said international experts on structural adjustment programmes doubted whether South Africa was ready for this type of change.

He added these experts indicated the country should perhaps first be forced to experience the dire consequences of inconsistent economic policies and bad management, such as had taken place in other African and South American countries, before embarking on any such programme.

"South Africa must first be chastised by the harsh and inescapable macro-economic laws of the market economy."

But Dr Stals did not share the comments of the international experts — whom he did not name — saying that a country which had the courage to make social and political reforms, as South Africa was, should be bold enough to embark on an economic adjustment programme "that should indeed be regarded as an essential ingredient of the overall programme of reform".

"Following this political initiative, it is necessary to bring together a coherent team of policy-makers working together on a programme of economic reform that will lead the country through three distinct phases of economic adjustment."

These phases Dr Stals said were stabilisation, liberalisation and stimulation.

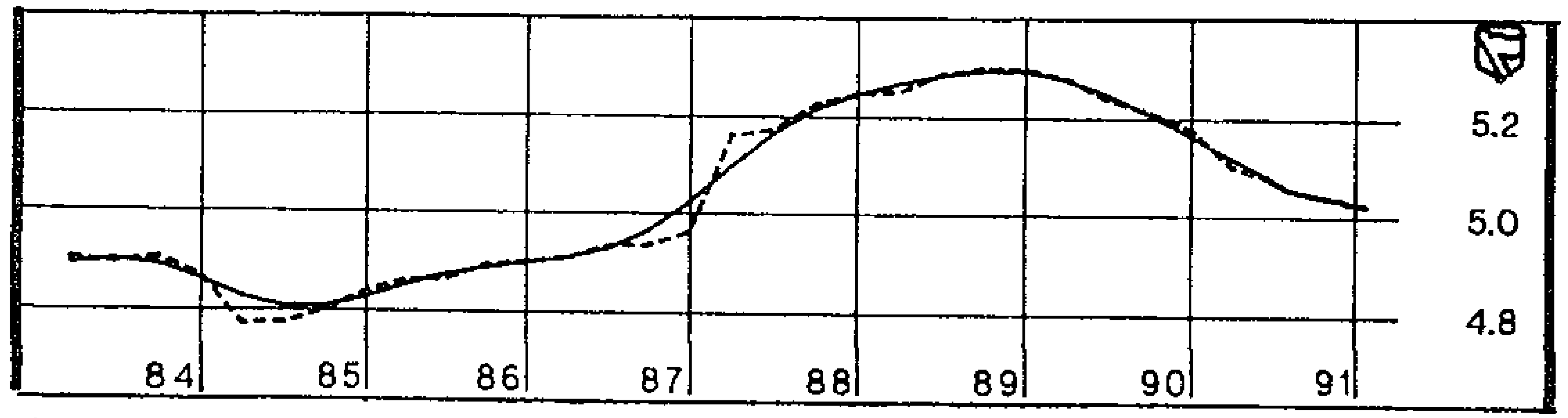
He added that initially the programme should, in particular, address tax, the budget, public finance, monetary management, labour and trade policies.

Dr Stals concluded that if the country was serious about returning to rapid growth it would have to introduce a comprehensive overall plan for economic restructuring as soon as possible.

While the economic debate was heating up Dr Stals pleaded for a policy that would stabilise and liberalise the economy, and stimulate growth in a free and competitive market-orientated system.— Sapa.

Any restructuring programme should initially address:

- Tax
- The Budget
- Public finance
- Monetary management
- Labour
- Trade policies



Employment figures for all races hit a downward trend in 1989, emphasising the poverty trap described by Dr Stals.

The post-Barend challenge

(49)

After eight years holding the purse strings, Barend du Plessis is leaving the Treasury. His successor faces a host of problems, but could also reap the benefits of some Du Plessis policies. Political Correspondent MICHAEL MORRIS reports.

ARG 28/4/92 (49)

28/4/92

THE layman is inclined to regard VAT as a mistake, but usually without realising this is largely a political rather than an economic judgment.

And it is not surprising that VAT, widely acknowledged by economists as a vast improvement on GST, is seen as the main reason for Barend du Plessis's downfall. Because, as an illustration, it aptly conveys the inseparable, and often conflicting, duality of politics and economics in the role of the Minister of Finance.

It is also naturally part and parcel of judging Barend du Plessis's legacy.

The political view is that his successor faces serious and difficult challenges. The economic view — or *an* economic view — is that his successor inherits a sound foundation on which to build, and that Mr Du Plessis deserves much credit.

Economist Rob Lee, senior portfolio manager for the Board of Executors sums up the economic view: "On balance, Mr Du Plessis has some significant achievements to his credit and economic policy is generally conducted much more sensibly than a few years ago. There is more of a long-term rather than a short-term view.

"In the circumstances, he was able to impose a reasonable discipline on government spending; he started a shift in economic policy away from being inward-looking, closed and protectionist to being outward-looking, promoting exports; he introduced significant tax reforms of which VAT was the most important (a much better tax than GST, and one with long-term benefits); and he respected the independence of the Reserve Bank and did not interfere in its decisions.

"This," Mr Lee says, "is what his successor will be building on.

Purse-string pretenders

Pen pictures of the main contenders for the key cabinet post of Finance Minister after Mr Barend du Plessis's shock resignation.

Minister of Trade and Industry and Economic Co-ordination DEREK KEYS, 60:

BORN in Johannesburg and educated at Wits University. A chartered accountant, he was elected executive chairman of Gencor in 1986 before which he was self-employed. Also occupied positions as board member or chairman of such companies as Malbak, National Discount House, Price Forbes, Sappi and Samancor.
Married with a son and a daughter.

Standard Bank Group chairman CONRAD STRAUSS, 56:

BORN in Upington and educated at Paarl Boys High. A PhD from Rhodes University followed by spells at Cornell and Harvard Universities in the United States led to his appointment as senior lecturer in economics at Rhodes in the early 1960s.

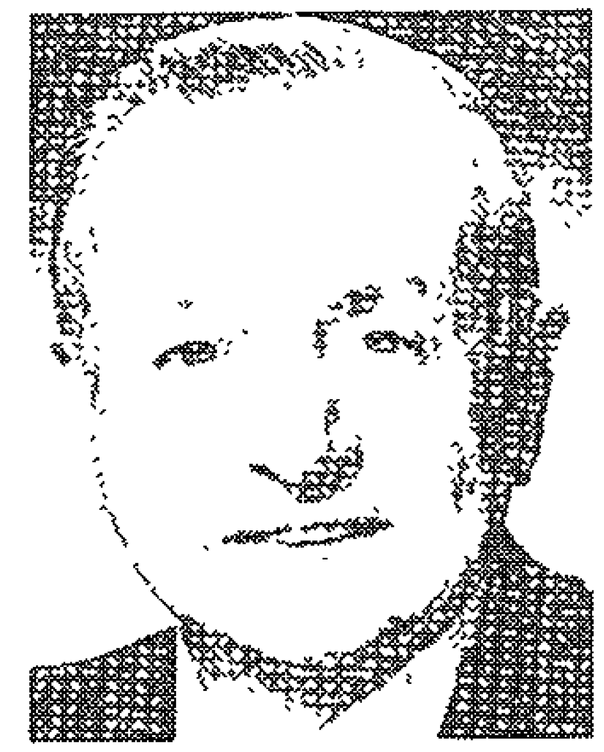
Dr Strauss, who is married with three daughters, won the Marketing Man of the Year in 1989 and has been vice-president of the Institute of Bankers in South Africa since 1990.

Public Enterprises Minister DAWIE DE VILLIERS, 51:

BORN in Burgersdorp and educated at Bellville High School. A PhD from Stellenbosch University, he has been leader of the Cape National Party since 1989 and has a number of ministerial portfolios to his credit. He was ambassador to London in 1979-80 and in 1971 was voted South Africa's Outstanding Young Man of the Year. Dr De Villiers was the Springbok rugby captain from 1965-70 and South African Sportsman of the Year in 1968. He is married with a son and three daughters.

Reserve Bank Governor CHRIS STALS, 57:

BORN in Germiston and educated at Germiston Afrikaans High and Pretoria University. Dr Stals was senior deputy governor of the South African reserve bank from 1976-85. Before that he was Reserve Bank general manager from 1975-6 and assistant to the governor of the Reserve Bank from 1967-75. He became Reserve Bank Governor in 1989. In 1985 Dr Stals was made honorary professor at Unisa's School for Business Leadership.
Married with three sons and a daughter.



Ambassador in Washington HARRY SCHWARZ, 67:

BORN in Cologne, West Germany. Educated at Jeppe Boys and a BA LLB cum laude at Wits University. An air force navigator in World War 2. A member of the Johannesburg City Council from 1951-7, and member of the Transvaal Provincial Council from 1958-74. Practised as an attorney and advocate, and is a member of the National Executive of the Jewish Board of Deputies. DP MP for Yeoville and finance spokesman until his Washington appointment.

"He will hopefully maintain discipline on government spending, and continue with long-term policy, rather than short-term expediency.

"The new Minister must maintain the thrust towards exports and continue tax reforms more aggressively. VAT was important, but there are others which need to take place. He must also maintain the independence of the Reserve Bank — under a new constitution we will need to guarantee the protection of the value of our currency."

Mr Lee acknowledges that Barend du Plessis made political misjudgments, and notes that, ironically, he is retiring "at a moment when the economy is just about to embark on an upswing".

"We have had a long recession — unfortunately extended by the drought — and, coupled with that, a lot of long-term decisions which have contributed to short-term problems.

"But this will pay off in the next three to four years. We think the upswing will start in the next few months and through 1993 and 1994 we could achieve a growth rate of between four and five per cent. Much credit for this lies with Barend du Plessis."

Democratic Party finance spokesman Mr Ken Andrew's assessment takes in the broader socio-political spectrum.

He concedes that "some things" Mr Du Plessis has done are benefitting the economy, but adds: "It is important to recognise that in all government actions — and particularly in the case of the Minister of Finance — there are political, economic and social consequences.

"The great challenge of being a Minister of Finance is to be not only successful financially, but also in trying to weigh up the political and social aspects."

A graphic illustration of this, he says, is VAT.

"In terms of an economically purist view, Barend's attitude could be justified (and I think he was very heavily influenced by the IMF), but it simply did not take South Africa's political and social realities into account."

Furthermore, Mr Andrew says, on the narrowly defined front of the economy, with the exception of the balance of payments and money supply (more the responsibility of the Reserve Bank), "most of the other macro-economic balances are in a very poor shape".

"I think the new Minister of Finance will have to move quickly to get these balances under control — controlling government expenditure, reducing inflation and generating growth. These are the three immediate challenges.

"On the broader front, the government's problem is that it can no longer unilaterally do what it might want to do.

"In view of this, it is important to get an Economic Forum functioning so that there are regular opportunities for consultation and negotiation, and so that correct actions do not end up simply as another arena of controversy and struggle."

Such a forum, he advises, should be widely inclusive.

"It should involve political organisations, business and labour, but also other interest groups such as consumers and the unemployed. Without the last two, there's a great danger of the *haves* — business and labour — making deals which exclude consumers, the unemployed and the really poor."

Mr Andrew believes President De Klerk has something of a dilemma in choosing a new Minister.

"Barend's successor must have "clout" in the Cabinet, to stand up to other Ministers and preserve policy discipline.

"But, beyond that, it is not simply a question of finding the smartest economic brain around. You need somebody who has good antennae for the politics and sociology too."

Keys the favourite, say govt sources

BILLY PADDOCK

CAPE TOWN — President F W de Klerk, confronted with a political or economic choice for a successor to Finance Minister Barend du Plessis, was consulting his Cabinet colleagues before making his decision.

Most sources yesterday were leaning in favour of Trade and Industry Minister Derek Keys, at present in Japan. It is understood De Klerk had a lengthy telephone conversation with him at the weekend after Du Plessis' announcement.

The possible alternative was Public Enterprises Minister Dawie de Villiers.

One very senior government source said the most logical option, which had already been discussed, was that Keys would take over the job as he had already been earmarked for it. He said the plan had been that Du Plessis resign the Finance portfolio at the end of the year. When Keys came into the Cabinet, it had been discussed that he would take over the task. (49)

Another source said that it would be unwise to rule out De Villiers because he was an extremely senior Minister and a close friend of De Klerk's. Should he insist on getting the job, he would in all likelihood be given it.

Du Plessis has refused to be drawn on the question of his successor, saying it was the President's preserve.

□ To Page 2

Keys

B/Day 28/4/92 (49)

□ From Page 1

"He has several options open to him and he will choose a person that will best fill the role as he sees it," he said.

He said he could think of several people in the Cabinet who would be admirably suited to fill the position. "It has to be remembered that the task is not purely a technical one but a key political post, even in line function matters."

It is understood that Standard Bank Investment Corp chairman Conrad Strauss was in Cape Town yesterday but this was on business unconnected to the Cabinet post. Speculation in certain quarters has it that he could be considered to take over the Trade and Industry portfolio. It is understood that tentative discussions had been held with Strauss previously.

□ SIMON BARBER reports from Washington that ambassador Harry Schwarz yesterday testily rejected DP leader Zach De Beer's assertion that he was too old to be Finance Minister, but hastened to add that he had never expressed any interest in the job.

He said Du Plessis' resignation had come "as a bit of a shock — I hope he's not seriously ill".

Schwarz, who will be 68 next month, referred to his busy schedule and said that "some people" were old when they were 50

Investment think-tank to be set up

(49) (60)

B/Day 28/4/92

DIRK HARTFORD

MAJOR political and business organisations have agreed to set up a joint policy think-tank on foreign investment as a step towards an independent institution, which they will control, to encourage local and foreign investors.

This emerged at a weekend conference attended by the ANC, SACP, NP, DP and PAC, as well as Sacob, the Afrikaner Handelsinstituut, Nafcoc and the Black Management Forum.

The conference was organised by a steering committee of the participating parties under the chairmanship of Prof Wiseman Nkhulu from the Independent Development Trust.

Among issues discussed were:

- Whether there should be incentives for foreign investors and how these should apply to local investors; and
- The benefits of foreign investment, global and domestic restraints on investment and the need to balance investors' demands with the needs of SA's people.

A number of local and international investment codes were looked at.

While all parties agreed the economy could not grow without foreign investment, and incentives for foreign and local investors should be the same, there were differences over how rigid an investment code should be.

The meeting agreed discussions should continue and that research on pertinent issues was needed.

Schwarz doesn't want Barend's job

(49)

CT 28/4/92

Own Correspondent

WASHINGTON. — South Africa's ambassador to the United States Mr Harry Schwarz, who is regarded as one of the candidates to become the new minister of finance, doesn't want the job.

Mr Schwarz was asked to comment after his name, along with the names of Trade Minister Mr Derek Keys and the Standard Bank's Mr Conrad Strauss, was put forward as a possible successor to Mr Barend du Plessis, who is retiring because of ill health.

Mr Schwarz yesterday said he had never expressed any interest in the job.

Meanwhile, President F W de Klerk was involved in consulting cabinet colleagues prior to making his decision on Mr Du Plessis' successor.

Most of the sources spoken to tended to lean in favour of Mr Keys, presently in Japan, getting the job. It is understood that Mr De Klerk had a lengthy telephone conversation with him at the weekend.

The possible political alternative for the job seemed to tilt towards Public Enterprises Minister Dr Dawie de Villiers, who was appointed acting finance minister when Mr Du Plessis was ill.

Transvaal leadership

Another candidate for the job, Standard Bank Investment Corporation chairman Mr Strauss, was in Cape Town yesterday but this was on business unconnected to the cabinet post. He could be considered to take over the Trade and Industry portfolio.

Local Government Minister Mr Leon Wessels and Defence Minister Mr Roelf Meyer have emerged as leading candidates to take over the Transvaal leadership of the party. Mr Du Plessis has left the post vacant after resigning as an MP as well.

Money supply hits target

49 (58)

SIMON WILLSON

GROWTH in the broad money supply dropped into its 1992 target range for the first time in March, according to figures released yesterday by the Reserve Bank.

The data show that M3, the broad monetary aggregate which consists of cash in circulation and all deposits with banks, grew by a preliminary 10,5% in the year to March. The growth rate in the 12 months to February was 10,6% — a downward revision to the preliminary February growth rate of 10,8%.

The growth measurement of M3 that entered the Bank's new growth guidelines for the current calendar year was the rolling increase based on the fourth quarter of 1991. This dropped steeply to 9,8% in March from February's 15,5%, and thus fell into the 7%-10% guideline for monetary growth from the end-1991 base set by the Bank when it cut discount rate last month. B/Day 28/4/92

Absa senior economist Nick Barnardt said the March money supply data were the first in the past 12 months that were reliable, because they were free of the distortions of the February 1991 introduction of the Deposit-Taking Institutions Act. The Act temporarily boosted the monetary aggregates by bringing on to bank balance sheets facilities that had previously been off-balance sheet.

"Now that it is free from the DTI effect,

☐ To Page 2

Money supply B/Day 28/4/92

(58) 49

☐ From Page 1

the annualised growth in March from the guideline base represents the true, underlying trend of M3 growth. We expect the year-on-year M3 growth rate also to fall to single digits over the next few months as demand for credit is still very low."

Barnardt added that the decline in the growth rate of the broad monetary aggregates also heralded a period of relatively subdued inflation over the next two years.

"With consumer inflation running at 15,7% and broad money growth at just over 10%, it means the money supply is contracting in real terms by about 5%. This is positive for inflation because, given a time lag of 18 months between money supply expansion and inflation, we could see restrained inflation going into 1994."

raised in the Joint Parliamentary Committee on Public Accounts.

ferred to other bodie

Economic reform plans

B10 2 28/4/92 (49)

PATRICK BULGER

BOPHUTHATSWANA President Lucas Mangope will open the homeland's parliament today by announcing an economic reform programme that will scale down capital projects in favour of job creation and drought relief.

Sources close to Mangope said he would remind the ANC of an undertaking given by its president Nelson Mandela, when the two leaders met in February this year. At the meeting Mandela said that while it had been ANC strategy to make the homeland ungovernable, the ANC would not use violent methods to unseat Mangope, whose government opposes incorporation into SA.

Mangope's economic reform programme is intended to steer the homeland through the current recession

Mangope is expected to repeat the homeland's stance on incorporation, the sources said. Bophuthatswana wants to see a federal form of government emerging from Codesa negotiations.

He has said he favours testing the wishes of the people of Bophuthatswana in a referendum.

Own Affairs:

Housing development schemes

21. Mr K CHETTY asked the Minister of Housing

(1) Whether any housing development schemes were undertaken by his Department during the latest specified period of 12 months for which information is available; if not, why not; if so, (a) (i) how many and (ii) where, (b) how many houses or housing units does each such scheme comprise and (c) what is the total actual or estimated cost to his Department of each of these schemes;

(2) whether he will make a statement on the matter?

D100E

The MINISTER OF HOUSING AND AGRICULTURE:

(1) Yes, during the period 1 March 1991 to 29 February 1992.

(a) (i) 10.

(ii) *Area*	(b) *No. of housing units*	(c) *Total actual or estimated cost*
Pretoria, Lotus Gardens	893	R45 700 000
Cato Manor, Bonella	1 433	R91 000 000
Brits, Primindia	51	R 1 365 700
Cape Town, Pelikan Park	257	R 5 950 000
Johannesburg, Lenasia South Extension 4	850	R22 000 000
Boksburg, Villa Liza	600	R14 226 025
Richards Bay, Brackenham	277	R22 800 000
Mooi River, Riversdale	92	R 5 378 220
Pietermaritzburg, Copesville	400	R 3 044 744
Pietermaritzburg, Copesville Phase I	343	R 9 162 000
Isipingo, Sub 7	137	R 5 292 405

(2) No.

HOUSE OF ASSEMBLY

INTERPELLATIONS

The sign * indicates a translation. The sign †, used subsequently in the same interpellation, indicates the original language.

(49)

General Affairs:

Structural reduction of deficit

*1. Dr W J BOTHA asked the Minister of Finance:

(1) Whether the Government is giving attention to the structural reduction of the deficit before borrowing; if not, why not; if so, what progress has been made in this regard;

(2) whether he will make a statement on the matter?

B555E.INT

*The DEPUTY MINISTER OF FINANCE (Dr T G Alant): Mr Speaker, the answer is "yes". The Government is giving attention within a wider macro-economic context to the structural reduction in the deficit before borrowing. Budget deficits amount to the difference between expenditure and current revenue, with the result that any action in fact has a bearing on the trend in the State's revenue and expenditure.

The structural deficit before borrowing is addressed in the first instance by macro-economic policy measures aimed at a sustainable increase in the growth potential of the economy. As we succeed in structurally increasing the growth potential of the economy, the tax base will increase, presenting the opportunity of meeting the realistic expectations in regard to socio-economic development expenditure without the deficit reaching excessive levels.

The progress made over the past three years includes in the first instance various tax reforms, and secondly, relief of the squeeze on the balance of payments as a result of political and economic initiatives which brought about the lifting of trade and financial sanctions.

An important prerequisite for sustained economic growth is the promotion of macro-economic stability Steps to ensure this include attaining effective control of the money supply and accomplishing sound co-ordination between monetary and fiscal policy, especially with regard to the active management of state debt

Curbing the deficit is promoted in the second instance by a re-allocation of resources to bring about their more effective application and to relieve the pressure on greater state expenditure. In this respect I want to mention four points. Firstly, certain far-reaching policy decisions have already been made to re-allocate more state funds in favour of socio-economic development. Approximately 40% of the Budget goes to social services. Secondly, progress with political reform will create further opportunities for rationalisation of government functions and the more effective provision of social services. Thirdly, various steps, such as those in respect of education and health, are being taken to transfer funds within the ambit of certain government functions to other high priority areas, and, fourthly, departments have already submitted management plans which will soon be considered by the Cabinet to ensure discipline in expenditure this year

A structural reduction of the budget deficit cannot be accomplished overnight, especially not in a low economic cycle in which the budget deficit usually tends to become bigger.

Structural adjustments in the expenditure budget necessitate non-recurring additional expenditure this year. Added to this are the drought-related costs State revenue which has increased by only 9% during the past financial year, is still under pressure as a result of the low economic cycle. On account of these non-recurring and recession-related factors it is understandable that the actual budget deficit this year will be substantially higher than the structural deficit.

As regards the second point, the matter has already been fully discussed in this year's Budget Speech and the Budget review At this stage the issuing of a statement is not deemed necessary.

*Dr W J BOTHA Mr Speaker, the hon the Deputy Minister thinks he is making progress. In the same way the hon the Minister of Finance, who retires tomorrow, in the past also thought he was making progress. On 12 April 1989 (Han-

cont ->

sard, 12 April 1989, col 5230) the hon the Minister of Finance proudly and with much bravado stated that we were achieving a structural reduction in the deficit before borrowing He did not say that they were still going to reduce the deficit before borrowing; he said positively that they were doing that (49)

The facts tell us that the deficit for 1989-90 was just under 2% after it had been almost 6% and then 4% during the preceding two years. To have spoken at that stage of a structural reduction was indeed premature, even though the deficit was 2,6% in 1990-91, which was within the Government's limit of 3%. The very next year it was 4,3% and now they are budgeting for 4,5%. I can tell hon members right now that it will prove to be an underestimate.

Perhaps the claim by the hon the Minister of Finance on 12 April 1989 and the fact that the former State President was to be dethroned in a palace revolution and that the Government could then push ahead in a "new leader, new drive" euphoria, gave the rebels a sense of having the economy under control and they started to implement their new economic policy of greater social emphasis Propped up by false promises of foreign investments, false expectations of peace and quiet and moderate Black government partners, they in their mind's eye had already entered the Promised Land. Today, three years later, the harsh reality against which the CP warned has caught up with the Government.

The second most powerful man, on paper of course, says he is tired of carrying on. He is tired of handling this interpellation. He is tired, do hon members know why? He is tired of not having his plans succeed and of his colleagues not heeding his words [Interjections.] The hon the Minister of Finance, at a stage when the economic ship of the country is sinking, is the first to jump overboard. Others say he was pushed overboard. He leaves the other wretched sailors on the ship, and says that he wishes his successor well in taking over the financial reins at the start of a new, as he puts it, more promising period. [Interjections.] I can only say to the hon the Minister's colleagues: Put on your life-jackets and lower the lifeboats. [Interjections.]

The Government could not bring its expenditure under control, and its shares in the economy have automatically increased. The budget deficit, as a percentage of the GDP, is higher than the real growth. [Interjections.] The State's claim on domestic private saving is increasing and the private sector is being pushed aside. [Interjections] If fiscal discipline cannot be exercised, it promotes inflationary pressure, not so? [Time expired]

Mr K M ANDREW: Mr Speaker, the whole issue of fiscal policy is complex, but that does not mean to say that there are not simple truths that apply as well. I suggest that, in this respect, there are two which are being neglected by the Government—these apply to everybody in their private lives and in small and big businesses, and should apply to the Government too—namely living within one's means and making sure that one is doing financial planning. [Interjections.] The Government is doing neither of these.

As far as living within one's means is concerned, the issue is not only that of the deficit before borrowing, although that is unacceptably high, but also the proportion that is being directed at current as opposed to capital expenditure. This is totally unsatisfactory. All it means is that we are mortgaging the future, and future generations are going to have to pay for salaries and other current expenditure of the Government today. The second element of living within one's means, even if one were only earmarking the money for capital expenditure, is the ability to service one's loans. If one borrowed so much that out of one's future current income had to pay back loans to the extent that one could not afford it, one would again be living beyond one's means.

The second issue is that of the lack of financial planning. What targets do the Government set?

The hon the Minister said that macrorestructuring was taking place with a view to bringing down the deficit before borrowing. However, it has gone up during the past few years, not down. He then said that when the economy started growing the deficit before borrowing could be reduced However, the fact of the matter is that because of a lack of financial planning last year when VAT was introduced and despite warnings, the Government gave full input credits for capital and intermediary goods. That meant that this year it cost them R5 billion more in tax loss than it would have if they had phased the credits in over five years.

If VAT input credits, for example, had simply been used to reduce the deficit before borrowing, it would have been under 3% [Time expired.] (49)

*The DEPUTY MINISTER OF FINANCE (Dr T G Alant): Mr Speaker, the whole issue of the deficit before borrowing is a very sensitive and vulnerable matter, especially at this stage of the country's development. Both hon members conveniently overlook certain facts. We are faced with a situation in which the people out there have high expectations, we are faced with low economic growth and we are faced with a high population growth rate of 2%.

Over the past seven years the economy has grown by an average of 1%, with the result that the economy is now approximately 7% greater than seven years ago. If the economy had grown at 3% per annum, it would have been 23% greater. That is a difference of 16%. If the economy had been 16% greater . . . [Interjections.]

*Mr SPEAKER: Order! Hon members must listen.

*The DEPUTY MINISTER: If that had been the case, it would not have been necessary for us to borrow this year, and then this deficit before borrowing would not have been a matter for debate.

As far as this matter is concerned, it is well known worldwide that one cannot work wonders and do the restructuring overnight. It is a great problem in all developing countries. Only developed, rich countries have surpluses and do not need to borrow.

This is also a key factor in the economic restructuring of the country.

The hon member for Cape Town Gardens referred to the input credits before VAT. We had various options in that budget: a further lowering in the company tax rate, a further reduction of, for example, the surcharge or the full input credits for VAT We debated that. Our advice is that the VAT system would have been unmanageable and impossible to administer had we done it otherwise. [Time expired.]

*Mr J CHIOLÉ: Mr Speaker, this Government's promises in regard to an improvement in the deficit before borrowing are worthless, and they are once again busy with blatant deception

This Government, with its sickly obsession with affirmative action, deliberately and ruthlessly destroyed the entire economic order which has been built up in South Africa over the years, so that it could force enforced racial equality upon the Whites and at the cost of the Whites, which inevitably will result, *inter alia*, in the compulsory dismissal of thousands of public servants in the medium term.

State expenditure has now, in only 10 years, increased from 22,5% to 29,9% of the GDP, an increase of 29,8. It is totally out of control. In the same period the total gross domestic fixed investment, which is a key indicator of and requirement for sound economic growth through production, has fallen as a percentage of the GDP from 27,4% to 17,8%. Ten years ago it was therefore, as a percentage of the GDP, 53,9% better than now, and that means that our production capacity in South Africa is grinding to a halt.

How does this Government want to direct the galloping state expenditure and increase South Africa's fixed investment and production capacity? According to *Rapport* of 26 January 1992 the hon the outgoing Minister says:

> Die fokus van staatsbesteding word nou meer as ooit op die opheffing van die agtergeblewenes gerig.

This means that the hole in the bottomless pit is being enlarged and widened. It verges on economic madness.

The CP maintains that it is of vital importance for South Africa that a total change in economic priorities to growth-related projects must be brought about, based essentially on our strategic mineral wealth. This creates job opportunities and thus disposable capital.

South Africa has tremendous potential if only we would effectively exploit our 20 most strategic minerals, which to a large extent are exported unprocessed. [Time expired.]

*Dr W J BOTHA Mr Speaker, with approximately three quarters of the Budget going to the servicing and obtaining of loans, with which, *inter alia*, to finance current expenditure, social expenditure and the forces, what remains? What room to manoeuvre does the hon the Minister of Finance have with a view to reducing expenditure? In addition to that he has defrayed certain expenditure from the proceeds of the sale of

Cont →

strategic national stocks. When those stocks are depleted, with what will he in future finance the services he provides which he is now financing from the proceeds of these sales? It would seem that a deficit before borrowing of more than 3% has been structurally established and is on the way to looking like the deficit of a Third World country It is a pity that this is the monument which the hon the Minister of Finance bequeaths to us (49)

Dr Stals said that we would run into problems with this kind of deficit. Other economists say that we shall have to live with it If the hon the Minister of Finance finds a new job, I hope that they will not put him in charge of the Sahara Desert, because then within three years there will be a shortage of sand. [Time expired.]

*The DEPUTY MINISTER OF FINANCE (Dr T G Alant) Mr Speaker, the hon member for Rustenburg has not yet said what his norm is for a deficit before borrowing. There is no norm. It depends on the circumstances and the times in the country concerned.

What we lack in the whole Budget debate are proposals from the hon member for Rustenburg and his colleagues. They must bring their list of proposals in regard to reductions and ask us to spend less on health, education, defence, law and order, and so forth They must bring their list of proposals in regard to increased state revenue. [Interjections] The proposals thus far have not been worth the paper they are written on.

The hon member for Pretoria West speaks of large-scale mineral beneficiation. Last year we piloted section 37E of the Income Tax Act through Parliament. The hon member did not even understand it [Interjections.]

The expected economic growth for this year is 1%, and that is due to restructuring. Many economists come forward with different figures, and today we read in the newspaper that an economist from Sanlam forecasts a growth rate of 4% for next year Then the hon member will probably be sorry and whine about it. [Interjections.]

Hon members referred to the dismissal of staff We regret that, but the economy is in a phase of restructuring. [Interjections.] It is no different from the state of the British economy in 1946, after the war, when times were hard The economy must be restructured with a view to sustained long-term growth. Basically we are doing the right things (49)

Debate concluded

SA Rail Commuter Corporation: investment

2. Mr R V CARLISLE asked the Minister of Transport: (261)

> Whether any investigation has been carried out into the investment of certain amounts by the South African Rail Commuter Corporation Limited with a certain bank, the name of which has been furnished to the Minister's Department for the purpose of his reply; if not, why not; if so, (a) what did the investigation reveal and (b) what action has been taken as a result?

B566E.INT

The MINISTER OF TRANSPORT: Mr Speaker, I want to start off by informing the hon member for Wynberg that in April 1991 I ordered an independent investigation by Messrs Faure and Mouton, experts in the financial and banking field, into the overall financial management and other strategic decision-making actions of the SA Rail Commuter Corporation Limited. I also asked for an evaluation in terms of the guidelines and stipulations laid down by law as well as by both the Minister of Transport and the Minister of Finance. This was done after I had assumed office and after information had come through from the corporation about its financial needs and requirements, as well as rumours of possible overexposure to certain banking institutions.

From this investigation, as well as the one requested by the Auditor-General which followed afterwards, a few important facts came to light, the first being that the top management of the corporation attached a somewhat wider interpretation to the authority provided to them by law to secure bridging finance for the purpose of financing the cash-flow requirements of a rather heavy loss-making concern. This mainly led to a heavier involvement by the corporation in money and capital market activities than would otherwise have been expected.

From this one may deduce that such a magnitude of financial activities would require at least a minimum level of expertise in proper financial management systems and control. Unfortunately

this was lacking, which led to the unfortunate incident when an investment was made without proper pre-evaluation of the risk and a confirmation of securities, which ultimately resulted in an expected substantial loss to the corporation (289)

This was also confirmed by the Auditor-General in his report, which was tabled recently. The size of the investment in the CIB was disproportionate to the size of the bank. The amount involved was approximately R270 million. It is not yet clear what part of this money will eventually be recovered.

I want to give the assurance to the House that no stone has been left unturned to prevent a recurrence of such an incident in future As the hon member will remember, in a recent amendment to the Legal Succession to the South African Transport Services Act, Act 9 of 1989, the overall control of the financial and other activities of the corporation was brought much closer to the Minister of Transport and his department

It will now be expected from the corporation, amongst others, to present a proper business plan anually which must contain a clear financial plan and strategy, including, of course, its intention to make use of money and capital market instruments to finance its cash-flow shortfalls.

Furthermore, with the help of private sector advisers and the Policy Unit for Public Enterprises and Privatisation the investigation . . . [Time expired.]

Mr R V CARLISLE: Mr Speaker, the amount in question is somewhere between R249 million and R270 million. It is taxpayers' money and an amount still to be decided has been lost to the Rail Commuter Corporation.

The chairman of the corporation, Dr Bart Grové, and the managing director, Dr Kobus Nel, have both been demoted and effectively sidelined as a result of the inquiry to which the hon the Minister referred Mr Grové was also the subject of an inquiry into a loss of R3,2 billion in forex deals some years ago.

Problem number one is that when the money was deposited with the Cape Investment Bank, the quantum of the deposits and their authorisation were in conflict with Cabinet instructions. The CIB, whose chief executive was then Jan Pickard Junior, was acquired by Prima Bank, whose directors included J A Bellingan, Clive Ferreira and Prof W Mouton.

Problem number two is that the Deposit-taking Institutions Act provides that no single deposit with a bank may exceed 10% of total deposits without Reserve Bank permission. The RCC's deposits exceeded 80% of the total deposits of the CIB

The third problem is that the CIB was placed in provisional liquidation on 11 April 1991. Previous to this the Reserve Bank had advised the Commuter Corporation not to withdraw their deposits, even though the Reserve Bank itself had removed its deposits from the CIB.

On 13 September 1991 the *Financial Mail* reported:

> . . this underlines the tension which has resulted between Finance Minister Du Plessis and Welgemoed.

Those are their words. I would have said "Minister Welgemoed":

> Rabie's findings may also have an important political influence on some careers.

Within four weeks of the release of the report to the Cabinet, the hon the Minister of Finance resigned as Minister of Finance and as member of Parliament.

All transactions were classified secret in terms of section 33 of the Reserve Bank Act. However, the following emerges, and I quote again from the *Financial Mail*, 5 July 1991:

> Allegations have been made of collusion between the CIB Board, controlled by Prima Bank, and the central bank. Further this has been linked to accusations that CIB assets were stripped by Prima, before it was placed in provisional liquidation, an act which caused it's insolvency.

Whilst there is more, time does not permit me to deal with that However, there are concerns that the Reserve Bank may also have pumped money into other banks in ways that need investigation.

One has to ask who the villains are, and there are very serious villains here. I do not know who the villains are, but we need to find out. What is clear is that suspect activity has occurred, and it is probable that criminal activity has occurred in certain areas.

Cont – D

ANC draws closer to free market

(49)
CT 29/4/92

JOHANNESBURG — The ANC yesterday released draft guidelines for a post-apartheid economy which surprisingly backs off from wholesale nationalisation and instead maps out a strategy for a mixed economy that seems to favour private enterprise

The draft was released at the organisation's headquarters by its economic specialist, Mr Tito Mboweni, who was at pains to point out that the document still had to be approved at an ANC national policy conference to be held here on May 28.

Noting that its main aim was to create a strong economy, the document says the ANC measures should comprise two components — the opening up of the economy to break economic barriers created by apartheid and restructuring the economy for newpolicies for growth.

"We envisage a dynamic private sector, employing the skills and acumen of all South Africans," says the document.

The draft continues that everyone should be protected against arbitrary and lawless interference with their property rights. If it was in the public interest to take away property it should be done under the law and with just compensation.

The state would have primary responsibility for health care, education and basic social security In addition, it should also be responsible for the country's infrastructure such as roads, telecommunications and power stations.

On the question of the immense economic concentration in few hands, the ANC said it was not against large firms as such "However, we will investigate the possibility of introducing anti-monopoly and mergers policies"

The document continues that an ANC-dominated government would approach the national economy guided by the balance of evidence rather than according to any rigid ideological framework.

On the question of the redistribution of wealth, the draft said this would be financed largely through a broadly based and progressive tax structure.

Turning to mineral rights, the ANC said its mining policy should comprise the introduction of a new system of taxation, financing and leasing, with public ownership and joint ventures being considered where appropriate.

On the fishing industry, the ANC favoured a restructuring away from large fishing companies to smaller, community-based fisheries. — Sapa

ANC's policy guide leaves nationalisation issue wide open

(49)

ARG 29/4/92

SHAUN JOHNSON of The Argus Political Staff reports on the ANC's latest policy document in the run-up to its National Policy Conference next month.

THE ANC is leaving its proposals for the economy — including the burning issue of nationalisation — wide open in the run up to its vital National Policy Conference scheduled for the end of next month.

In a draft policy document released to the media in Johannesburg yesterday — dealing with 14 central policy issues — the section on the future economy highlights the role of private sector and market, and says possible nationalisation is not an "ideological" matter but will rather be considered on a case-by-case basis according to "the balance of evidence".

Any economic policy proposals must be viewed in the context of four overarching aims, according to the document. They are:

- The elimination of poverty and extreme inequalities generated by apartheid;
- The achievement of high employment and participation;
- Steady growth in goods and services;
- The development of a prosperous regional economy.

The document foresees a primary role for the State in providing for the basic needs of the population — "as in most parts of the world" — and a "dynamic private sector".

The State should "respond to the needs of the national economy in a flexible way ... rather than acting according to any rigid ideological framework when deciding for or against various economic policy measures."

In this context nationalisation is cited as one of several options available on a flexible case-by-case basis. Others include the buying of shares in companies through the market, the establishment of new public corporations or joint ventures, and the reduction of the role of the State through privatisation.

The document commits the ANC to a disciplined and well-co-ordinated "fiscal, monetary and exchange rate policy package" and says "redistributive expenditures will be financed largely though a broadly based and progressive tax structure which will also reflect the need to create incentives for investment and expansion".

Foreign investment "will be promoted" and appropriate guarantees will be given to potential investors.

On "anti-trust, anti-monopoly and mergers policy", the document argues that while the ANC is "not opposed to large firms as such ... the concentration of economic power in the hands of a few conglomerates has been detrimental to balanced economic development in South Africa ...

"We will investigate the possibility of introducing anti-monopoly and mergers policies in accordance with international norms ..."

Yesterday's briefing at ANC headquarters, addressed by secretary-general Cyril Ramaphosa, Information head Dr Pallo Jordan and senior economists Tito Mboweni and Khetso Gordon, inevitably drew the most probing questions on the controversial issue of nationalisation.

Mr Mboweni emphasised that the 46-page document, of which only four dealt with economic policy, was not a rigid blueprint but the product of widespread consultation with ANC members around the country which would serve as a "draft set of guidelines among members as they prepare for the conference".

Hundreds of workshops had been held in all of the ANC's 14 regions. Mr Mboweni conceded that the economy was a "hot issue" among the ANC rank and file: "Rest assured that the debates have been very, very heated. Some people say why allow our national resources to be privatised? Others say nationalisation will destroy the economy. Consensus will have to be achieved at the conference"

Mr Mboweni said the draft document — which deals with, among other issues, a constitution, land, local government, health, welfare, education, science and technology and the environment, "still needs a lot of work in terms of form and content.

"We have taken into consideration the comments resulting from earlier policy documents, and further comments will be included in a second draft (to be produced before the conference)."

Pressed on whether the section on the economy represented a more flexible approach from the ANC in the face of widespread international hostility towards nationalisation and socialist economics, Mr Mboweni said the document had "been worked on to make it more presentable".

He said the theme running "throughout the document is that we must make South Africa a more prosperous place".

But, he warned, "whether the ANC regions will think this (the economic policy section) is the best way, (and approve of) the phraseology, depends on the conference itself".

The draft guidelines represented an "integrated, interlinked" approach, he said, and he appealed to commentators not to "just dash off to the economic section" in isolation.

From May 28 to 31, about 770 ANC delegates will gather in Johannesburg finally to formalise ANC policy positions, held over since last July's national conference in Durban.

The decisions flowing from the meeting will be binding on ANC members, according to Mr Ramaphosa, "and conference will have to decide how these (positions) impact on the Freedom Charter".

'State spending only boost for SA economy'

(49) ARG 29/4/92

Business Staff

THE continued rise in government spending will be virtually the only stimulant to economic growth this year, says Southern Life economist Mike Daly.

As a result the deficit before borrowing looks set to rise above five percent of GDP in the 1992-93 fiscal year, ahead of the budgeted level of 4,5 percent and well above the internationally accepted guideline of three percent.

"The Budget certainly was stimulatory with expenditure projected to be up by some three percent in real terms and not even allowing for the inevitable excess spending to the Budget," Mr Daly says in Southern Life's latest Economic Comment.

In conjunction with higher spending, he forecasts that slower economic growth will once again put pressure on government revenues, as was the case in the 1991-92 fiscal year.

Mr Daly expects economic growth to total less than one percent this year although there could be a slight upturn in the second half of the year.

"Export volume growth this year will be at its strongest in the second half, coinciding with the accelerating economic growth rate overseas, and could achieve some three percent for the year as a whole.

"Enhancing the trade outlook is the expected rise in world trade growth in 1992 to some five percent from three percent last year, according to OECD forecasts."

He adds, however, that consumer spending power is likely to remain under strain "under the twin assaults of high real interest rates as well as a further rising direct tax burden via fiscal drag".

On a more positive note he suggests that a further cut in interest rates could be on the cards over the next few months.

"Assuming that the Reserve Bank wishes to maintain a real gap of five percentage points between inflation and the prime rate, our forecast of an inflation rate of 13,3 percent suggests than one more cut of one percent in the Bank rate can be expected this year, with perhaps another early in 1993."

Monetarists may be fading away, but targeting goes on

B Day 29/4/92 **SIMON WILLSON** (49)

ACROSS the globe, money supply targets are growing in influence over their host economies. Even as Reaganomics and Thatcherism are diluted by successor administrations in the US and UK, even in the year of the death of that economics guru of the radical right, Friederich von Hayek, monetary target ranges still hold sway over most of the Western world's financial activity.

As the SA economy buckles down to another year of broad money growth guidelines — this time at a lower and narrower range than ever before — it is merely joining a swelling mainstream of trading-partner economies that fine tune their financial sectors by means of monetary targeting.

Where SA parts company with the other major Western economies that practise monetary targeting is in the results as set out in the various national inflation rates. That, after all, is the ultimate objective of every economy that adopts targets for its monetary growth: price restraint. Adherents to the targeting doctrine are converts to — or have long been covert believers in — the theory of monetarism: that money determines prices.

Inflation in most economies which have adopted monetary targeting has slowed dramatically.

Targeting was instituted in earnest in the major devotee economies only in the early '80s, following closely on the election to office of the monetarist administrations of Margaret Thatcher and Ronald Reagan in 1979 and 1980.

SA jumped onto the targeting bandwagon quite late in its trundle through the major Western economies. By the mid '80s the US and most of Europe were rigid adherents of targeting; the Reserve Bank instituted its first money supply target in 1986 at what now seems the stratospheric range of 16%-20%.

That may help to account for SA's appreciable lag behind the other targeteers when it comes to the supposed low-inflation payoff for all the pain and self-restraint of targeting. Last year, the sixth in which the SA economy has tried to observe a money supply target range, SA prices inflated at an average of 15,3%. Since SA prices rose by an average of 16,3% in the last year before targeting was adopted the technique has, locally, been rather less than a howling success in terms of inflation alone.

That targeting has contributed to reducing inflation in other economies is difficult to contest. In each of the major seven economies in the Organisation for Economic Co-operation and Development (OECD) which tried targeting money supply in the early '80s, inflation at least halved by the end of the decade. There were, though, other disinflationary influences at the time, such as the unwinding of the second oil-price shock at the end of the '70s.

Perhaps more persuasive is the achievement that can be linked more directly to monetarist techniques such as money supply targeting: that inflation, having come down, stayed down. Sustained low inflation is more closely attributable to monetary targeting than slowing inflation because of the impact targeting has — and was always designed to have — on inflationary expectations.

Relative success in the unending drive to contain inflation is partly why so many major economies have stuck with targeting some measure of their money supply growth. It also helps to explain why the pursuit of target ranges is accorded such high priority in economic policy.

On the sound principle that every serious economic technique needs a decent acronym, the examination of contemporary monetary targeting may be dubbed Monetary Aggregate Range Incidence Analysis — or Maria. International attempts to corral monetary aggregates inside pre-set ranges are now so systematic that they affect not only inflation but interest rates, exchange rates, consumer demand and merchandise trade flows. The Maria of each participating major economy is, therefore, a large neon signpost as to its financial orientation.

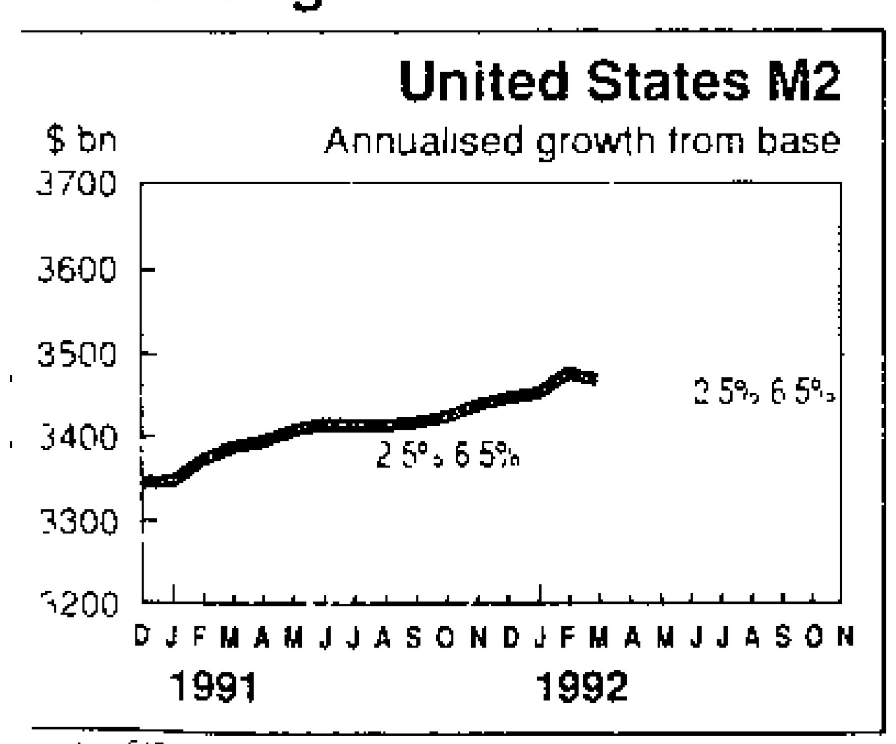
As the charts show, the German Maria is a real turn-on for Deutschmark yields — at least for now. German broad money growth was running at 9,7% from its range base in March. This is so far outside the 3,5%-5,5% target range for this year (target ranges are shaded on the charts) that the Bundesbank cannot yet contemplate lower nominal interest rates.

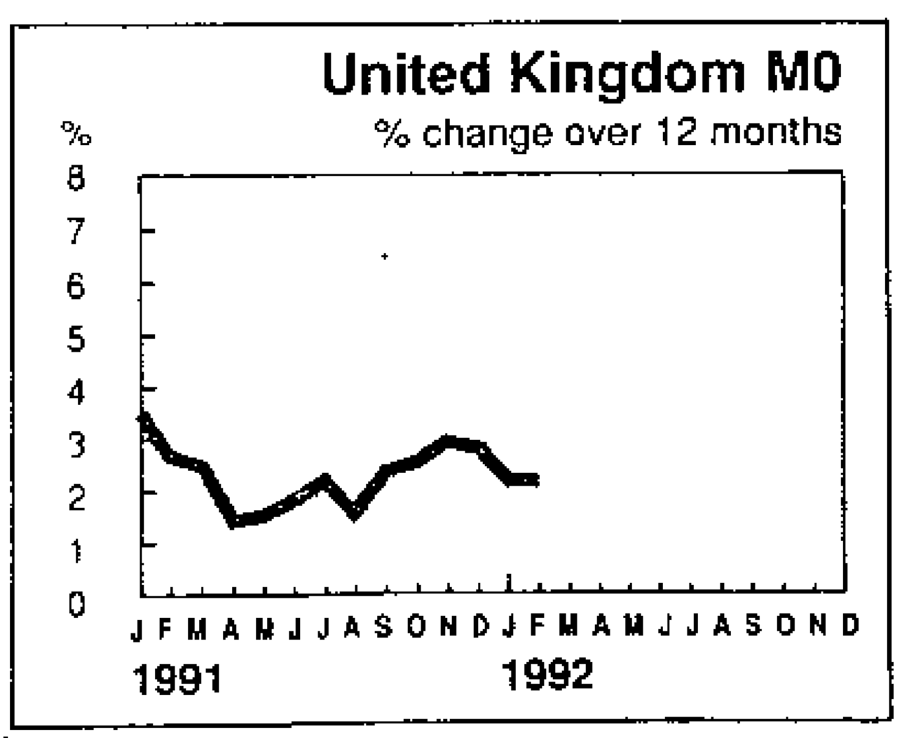
The German Maria effectively determines, through the European monetary system (EMS), interest rates in the rest of Europe. The Deutschmark has never been devalued within the EMS, and no EMS member has nominal interest rates lower than Germany's. Britain, accordingly, does not even publish its broad-money M3 aggregates and targets, instead, its narrow M0 cash base.

The US Maria shows how monetary targeting is used to fire up an economy as well as to cool it down. The sluggish performance of the targeted US variable, M2, near the bottom of its range prompted the US authorities to cut interest rates again at the beginning of the month in an attempt to generate economic recovery momentum.

SA's Maria shows, like Germany's, why the authorities will be slow to relax credit conditions. The 7%-10% range for 1992 is the lowest the Reserve Bank has thus far set and may be the most difficult to attain. But Germany's inflation rate of 4,8%, the UK's 4% and the US's 3,2% are, in themselves, probably reason enough to try.

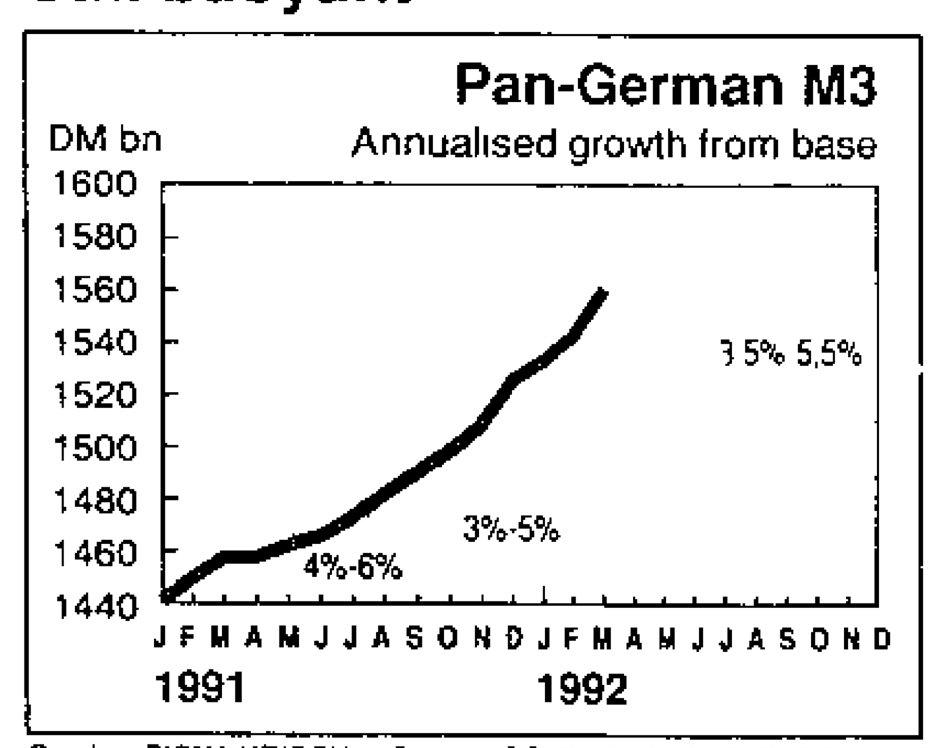
In the range

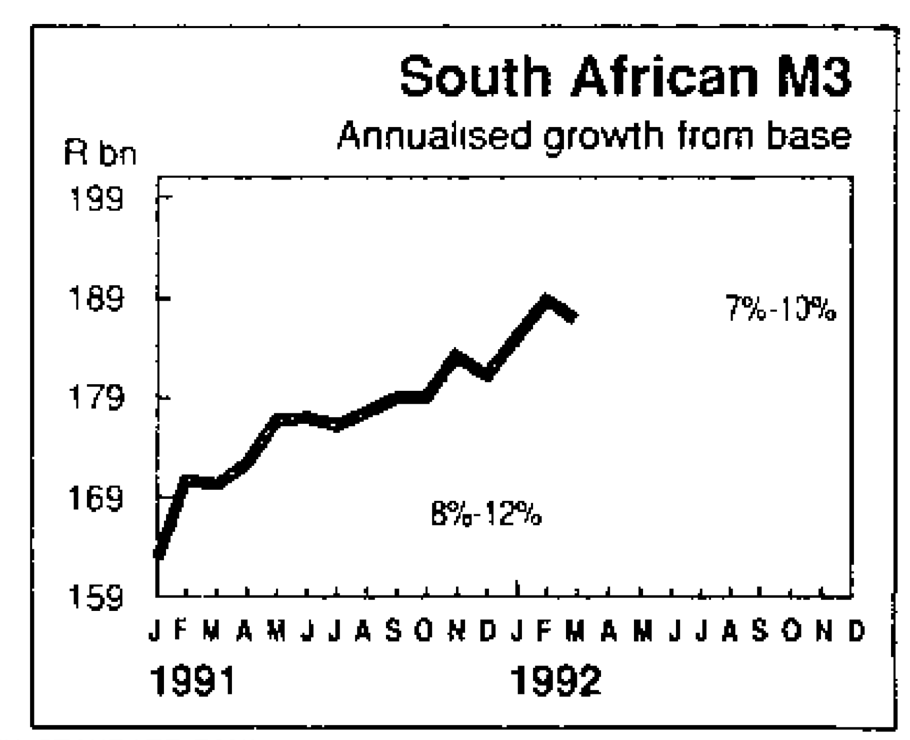




Graphic FIONA KRISCH Source GOLDMAN SACHS BARCLAYS BANK

Still buoyant





Graphic FIONA KRISCH Source GOLDMAN SACHS BARCLAYS BANK, STANDARD BANK

LETTERS

Mixed views on an end to recession

BDay 29/4/92 (49)

LINDA ENSOR

CAPE TOWN — The economy was in the early stages of a modest "go-for-growth" phase, Southern Life chief economist Mike Daly said in the life assurer's latest Economic Comment.

Adopting a relatively bullish stance, Daly said the economy should be on a renewed growth path by the second half of the year.

But Board of Executors senior portfolio manager Rob Lee was a bit more restrained.

Writing in the latest Investment Outlook, he said while the early stages of an economic upswing would appear in the second half, there were no signs as yet that the recession was over.

Daly said export volume growth was expected to be stronger in the second half, coinciding with the accelerating economic growth rate overseas, and could reach about 3% for the year.

However, pessimism was sounded on the possibility of private consumption expenditure (PCE).

"Consumers' inability and unwillingness to spend must continue to have an adverse impact on PCE," Daly said.

He forecast an inflation rate of 13,3% by year-end, to give an average of 15,1% (15,3%), with the drought adding an approximate 0,5%.

Lee expected the inflation rate would be 12% or lower by year-end, and said there was good evidence that the underlying inflation rate was 12% or less.

Daly expected a further percentage point drop in Bank rate this year with perhaps another early in 1993, while Lee forecast two cuts of about a percentage point each this year — one in July/August and another towards the end of the year.

Modest growth starts up for SA

CT 29/4/92 (49)

By AUDREY D'ANGELO
Business Editor

A MODEST "go for growth" phase has begun, Southern Life chief economist Mike Daly and economist Sandra Gordon say in their quarterly commentary

But they expect the recovery to be export led They think personal consumption expenditure (PCE) in this country will grow by less than 1% this year

Growth in export volumes, however, will pick up in the second half of the year as overseas economies recover "and could achieve some 3% for the year as a whole

"Enhancing the trade outlook for SA is the expected rise in world trade growth in 1992 to some 5% from 3% last year, according to OECD forecasts

"A decisive turnaround in the international commodity price cycle should commence by the middle of the year as restocking takes place among the developed countries first to emerge from recession — that is, the US and UK — followed by Japan and Germany late in the year "

But until then, Daly and Gordon say, "SA's export foundation will have to be built on further penetration of overseas markets for selected goods, taking advantage of the continued elimination of the few remaining trade sanctions "

Meanwhile, at home, they expect consumer spending to remain under pressure

"Given the alarming rate of redundancies still occurring across many sectors of the economy, particularly manufacturing, construction and the retail industry, and an increasing prevalence of shortened work weeks, consumers' inability and unwillingness to spend must continue to have an adverse impact on personal consumption expenditure (PCE) for the rest of the year

"The budget went some small way to offsetting the effect of fiscal drag on after tax personal income growth But inflation will still propel earners to higher tax rates so that an overall increase of some 23% in direct individual tax is expected this year

"The contribution to total government revenue from this source is expected to reach 40%, double the contribution of 10 years ago "

Daly and Gordon say it is the higher income group, with previous easy access to credit, who have had to adjust their spending patterns most dramatically

They think this group will have to "finally shift its realistic desired consumption level downwards in the next few years under the twin assaults of high real interest rates over the course of the business cycle as well as a further rising direct tax burden by way of fiscal drag "

Even if the VAT rate is raised to spread the tax burden "political reality suggests that it may be a differentiated rate with a higher rate on a wide range of non-necessities as well as services

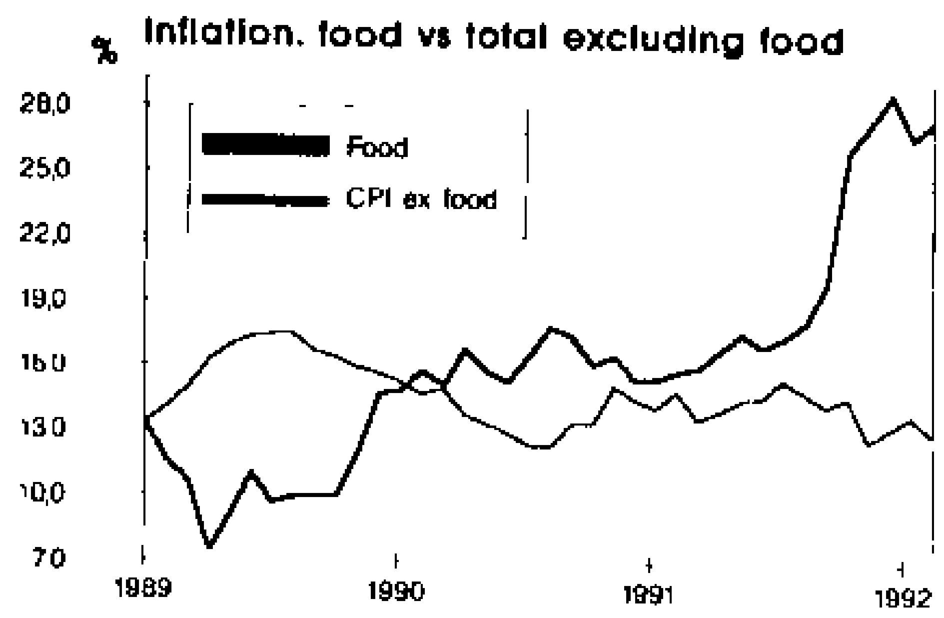
"Either way, the pressure is on The 1980's strongly rising trend of PCE as a ratio of gross domestic product (GDP) is likely to be broken "

They point out that the devastating drought could not have come at a worse time

But, they say, "amid this gloomy picture there are some forces shaping up that should see the economy on a renewed growth path in the second half of the year "

Among these they list

- The lower bank rate, "providing modest relief to companies struggling with interest servicing costs in a period of falling turnovers "
- The relaxation of hire purchase restrictions on durable goods, particularly cars
- The stimulatory nature of the budget, "with expenditure expected to be up by some 3% in real terms and not even allowing for the inevitable excess spending relative to the budget "
- Wider ranging tax incentives to invest in export orientated production capacity



This graph shows how soaring food prices have boosted inflation Southern Life economists Mike Daly and Sandra Gordon (above left and right) think inflation will not fall below 13,3% this year, giving an average of 15,1% compared with 15,3% last year

Hefty costs of rural jobs plan revealed

CT 29/4/92

By BARRY STREEK
Political Staff

THE government's controversial decentralisation policies had resulted in the creation of 153 805 jobs at a cost of R3 213,6m, the Department of Regional and Land Affairs reported yesterday

This means that the average job in decentralised areas was created at a cost of R20 894 capital investment — considerably higher than would have been the case if the jobs had been created in the urban areas

It disclosed that 7 511 jobs had been created at Atlantis at a capital cost of R362,9m

The 160 projects at Atlantis, a deconcentration point, were created at an average capital cost of R48 320

The decentralisation incentives were suspended after widespread criticism and inquiry by a committee of experts — which rejected the programme — and were replaced by an incentive scheme based on production

The department, whose report was tabled in Parliament yesterday, said the Regional Development Advisory Councils were currently compiling a development strategy for each of the nine development regions

The report said the area where most decentralised jobs were created was at Ishithebe in KwaZulu where 24 799 jobs were created at a capital cost of R635,1m

A further 20 158 jobs were created at Phuthaditjhaba in QwaQwa at a cost of R200,7m and 19 754 jobs were created at Botshabelo in the OFS at a cost of R311,1m

Counter-bid on Midland

HONG KONG — The Hongkong and Shanghai Bank may be forced to back out of the battle for Midland Bank after Lloyds Bank announced it was considering a higher than expected £3,7bn counter-bid, analysts said yesterday

They said the offer was pitched so high that any matching offer from HSBC would almost inevitably be turned down by HSBC shareholders already lukewarm about the proposed buyout

A spokesman for HSBC said "We have noted the announcement by Lloyds and we are considering our position "

HSBC currently holds a 14 7% stake in Midland — Sapa-Reuter

ANC guidelines for a new economy

49

CT 29/4/92

JOHANNESBURG. — The ANC yesterday unveiled draft guidelines for a post-apartheid economy which backs off from wholesale nationalisation and maps out a strategy that seems to favour private enterprise.

An ANC spokesman said the document still had to be approved at a national policy conference on May 28.

One of the recommendations is that everyone should be protected against arbitrary interference with their property rights. If it was in the public interest to take away property, it should be done in terms of the law and with just compensation.

● **Full report — Page 5**

In my view . . .

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

There's no word for 'maybe' in Taiwan

STAR 29/4/92

By Mike Chester

49

There was a mixture of awe and envy in the mood of businessmen at an export conference run by the SA/Republic of China Chamber of Economic Relations last week when Taiwan trotted out the details of its new six-year development plan.

The awe was caused by the ambitiousness and massive dimensions of the plan, which Taiwan estimates will cost a phenomenal R900 billion.

The envy was stirred by the utter confidence of the high-powered government and private sector experts from Taiwan about the new economic miracles they intend to weave.

No blurred edges. No trace of room for possible amendments to the timetable. No talk of objectives that *may* be met. The various experts spelled out specific targets that *will* be met.

The aim of the exercise was to explain the vast array of opportunities for a dramatic increase in two-way trade and joint business ventures between South Africa and Taiwan as the development plan bounded ahead.

As explained by Chao-Yih Chen, director-general of science and technology at the Ministry of Economic Affairs, the incredible cash reserves amassed by Taiwan in its global export successes made it quite reasonable to fix the development budget as high as $321 billion

Taiwan had made a formidable mark on the international economic map. Now it planned to move into the next phase — with schemes not only to strengthen its industrial base still more but also launch scores of new projects to allow everyone to enjoy the fruits of their labour.

The economic growth rate would run at 7 percent every year. Average per capita gross national product would reach at least R40 000 a year by 1996. Low inflation would hold down annual consumer price increases below 3,5 percent.

Annual merchandise exports would — not might — be running at R280 billion in 1996 and imports at R270 billion.

The South African businessmen at the conference, taking note of the export opportunities they intended to explore, gulped at the sheer magnitude of the targets.

When it was over, they were left to wring their hands in frustration.

It made them realise that while they had counterparts overseas able to drive ahead at full speed on economic motorways fitted out with all the signposts they needed, they themselves at the moment have to stumble along blindfold.

Where the heck was even the outline of an economic plan for South Africa?

The headlines have been packed with reports about the political goings on at Codesa. From the new Economic Forum that was supposed to be working in a parallel exercise — total silence.

"We're at an absolute standstill," one Economic Forum insider tells me. "We had high ambitions when organised business and organised labour agreed to put the heads together — the SA Chamber of Business, the Afrikaanse Handelsinstituut, Seifsa; and the big trade union bodies like Cosatu.

"But it's all ground to a halt, simply because the vital third voice is missing — the government

"Business and labour have taken their seats. But the government refuses to sit down with us, just as they have refused to sit down on the Housing Forum, on the excuse they might become trapped in some sort of political hi-jack.

"Common sense dictates there must be three sides to an Economic Forum conference table — business, labour and the government. It's impossible to press ahead when one side is vacant"

The government may be making a dreadful mistake in leaving the forum in limbo and assuming that the politicians alone can put South Africa on a new route

The new Minister of Finance taking over the reins from Dr Barend du Plessis would do well to underline the Economic Forum when he sorts out the priorities on the portfolio agenda.

The Star Wednesday April 29 1992

Nationalisation only one option ⁴⁹ ANC

STAR 29/4/92

By Shaun Johnson
Political Editor

The ANC is leaving its proposals for the economy — including the burning issue of nationalisation — wide open in the run-up to its vital national policy conference scheduled for the end of next month.

In a draft policy document released to the media in Johannesburg yesterday — dealing with 14 central policy issues — the section on the future economy highlights the role of private sector and market, and says possible nationalisation is not an "ideological" matter but will rather be considered on a case-by-case basis according to "the balance of evidence".

Any economic policy proposals must be viewed in the context of four overarching aims, according to the document. They are the elimination of poverty and extreme inequalities generated by apartheid; the achievement of high employment and participation; steady growth in goods and services; and the development of a prosperous regional economy.

The document foresees a primary role for the State in providing for the basic needs of the population — "as in most parts of the world" — and a "dynamic private sector".

The State should "respond to the needs of the economy in a flexible way rather than acting according to any rigid ideological framework when deciding for or against various economic policy measures".

In this context nationalisation is cited as one of several options available on a flexible case-by-case basis. Others include the purchasing of shares in companies via the market, the establishment of new public corporations or joint ventures, and the reduction of the role of the State through privatisation.

Commits

The document commits the ANC to a disciplined and well-co-ordinated "fiscal, monetary and exchange-rate policy package" and says "redistributive expenditures will be financed largely though a broadly based and progressive tax structure which will also reflect the need to create incentives for investment and expansion".

Foreign investment would be promoted and appropriate guarantees be given to potential investors.

Regarding "anti-trust, anti-monopoly and mergers policy", the document argues that while the ANC is "not opposed to large firms as such, the concentration of economic power in the hands of a few conglomerates has been detrimental to balanced economic development in South Africa".

Yesterday's briefing at ANC headquarters, addressed by secretary-general Cyril Ramaphosa, information head Dr Pallo Jordan and senior economists Tito Mboweni and Khetso Gordon, inevitably drew the most probing questions on the controversial issue of nationalisation.

Mr Mboweni stressed that the 46-page document, of which only four dealt with economic policy, was in no way a rigid blueprint, but rather the product of widespread consultation with ANC members around the country which would serve as a "draft set of guidelines among members as they prepare for the conference".

Pressed on whether the section on the economy represented a more flexible approach from the ANC in the face of widespread international hostility towards nationalisation and socialist economics, Mr Mboweni said the document had "been worked on"

The draft guidelines represented an "integrated, interlinked" approach, he said, and he appealed to commentators not to "just dash off to the economic section" in isolation.

From May 28 to 31, some 770 ANC delegates will gather in Johannesburg to finally formalise ANC policy positions, held over since last July's national conference in Durban.

The decisions flowing from the meeting will be binding on ANC members, according to Mr Ramaphosa, "and conference will have to decide how these positions impact on the Freedom Charter".

Govt spending only boost for economy

STAR 29/4/92

By Sven Lünsche

49

The continued rise in government spending will be virtually the only stimulant to economic growth this year, says Southern Life economist Mike Daly.

As a result the deficit before borrowing looks set to rise above five percent of GDP in the 1992-93 fiscal year, ahead of the budgeted level of 4,5 percent and well above the internationally accepted guideline of three percent.

"The Budget certainly was stimulatory with expenditure projected to be up by some three percent in real terms and not even allowing for the inevitable excess spending to the Budget," Mr Daly says in Southern Life's latest Economic Comment.

In conjunction with higher spending, he forecasts that slower economic growth will once again put pressure on government revenues, as was the case in the 1991-92 fiscal year.

"Export volume growth this year will be at its strongest in the second half, coinciding with the accelerating economic growth rate overseas, and could achieve some three percent for the year as a whole.

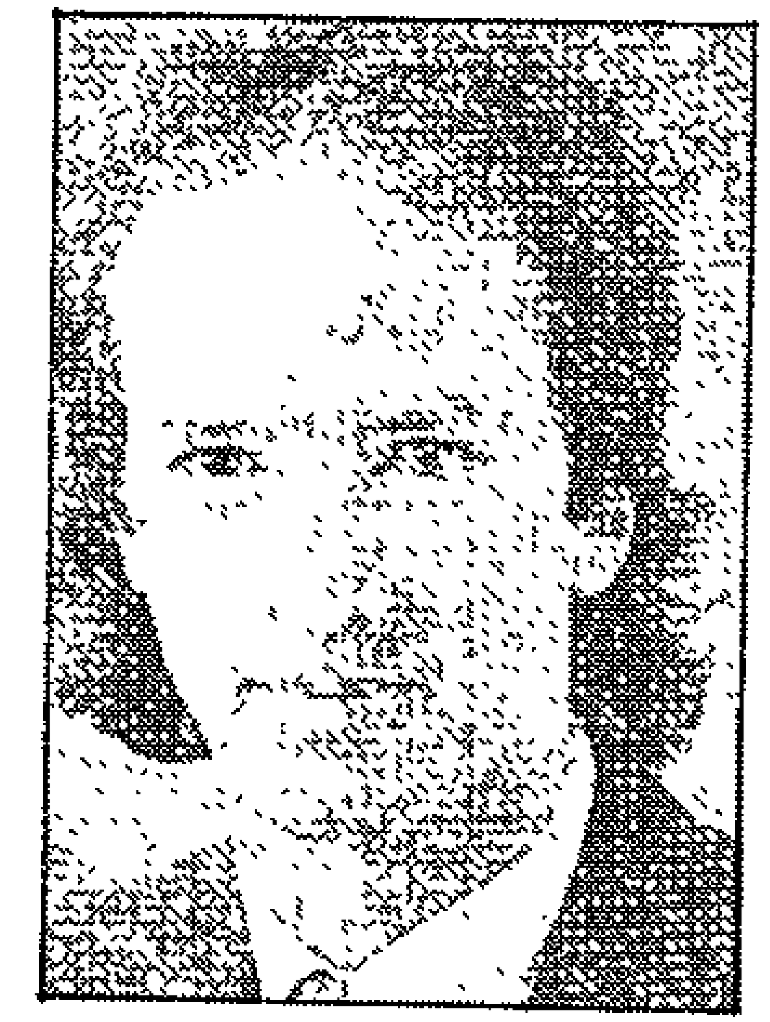
"Enhancing the trade outlook is the expected rise in world trade growth in 1992 to some five percent from three percent last year, according to OECD forecasts."

He adds, however, that consumer spending power is likely to remain under strain "under the twin assaults of high real interest rates as well as a further rising direct tax burden via fiscal drag."

The drought will add to the burden on the economy.

On a more positive note he suggests that a further cut in interest rates could be on the cards over the next few months.

"Assuming that the Reserve Bank wishes to maintain a real gap of five percentage points between inflation and the prime rate, our forecast of an inflation rate of 13,3 percent suggests than one more cut of one percent in the Bank rate can be expected this year, with perhaps another early in 1993."



Mike Daly . . . Consumer spending power under strain.

Relief at ANC policy paper

BDay 30/4/92 (62) (60) 49

DARIUS SANAI and ADRIAN HADLAND

FOREIGN business groups and economists reacted with cautious optimism yesterday to the proposals contained in the ANC's new economics policy document.

But there were some dissenters, and SA-Britain Trade Association executive director Alan Tew said some of the ANC's proposals would be a "serious disincentive" for foreign investors.

SA-German Chamber of Commerce president Klaus Schuurman noted "with satisfaction and relief" the industrial and foreign investment policy proposals. It was encouraging to see the ANC saying it sought to promote foreign investment and envisaged guarantees to protect investors.

The document proposes that guarantees be given by the state on, "among other things", the repatriation of after-tax profits, the purchase of inputs, the sale of domestic assets, the maintenance of macroeconomic balance by the state, and a climate of peace and stability.

A US government official, speaking on condition of anonymity, said the document contributed to the dialogue between the ANC and US firms planning to invest in SA.

Tew said he was concerned about a sentence in the section on foreign investment policy which stated that "foreign firms will not be nationalised without adequate and fair compensation".

The US official said the ANC's attitude towards foreign investment was becoming more and more positive. "A single clumsily worded sentence talking about compensation for the nationalisation of foreign firms is relatively unimportant in the overall context," he said.

Safto GM Ann Moore welcomed the "apparent importance" the document attached to exports.

A Sacob spokesman said the document contributed to the economic debate in SA.

● See Page 3

Judge presents case for 'second tier' rights

(49) TIM COHEN

SA LAW Commission vice-chairman Judge P J J Olivier last week expressed support for justiciable "second generation" rights — such as the rights to food, housing and medical services — despite the costs involved.

"There is not much point in telling the poor, jobless or the illiterate that they have freedom of speech if they are starving or dying of exposure or a treatable disease," the judge told a seminar on human rights at the Goudstad College of Education.

First generation rights, such as the rights to life, liberty and a vote, evolved in Western countries during periods when their acquisition enabled citizens to prosper by using their initiative and talents.

But in the Third World, the idea of human rights evolved under circumstances of enormous population pressure, poverty, unemployment and underdevelopment.

Those countries had developed the view that fundamental rights also included state provision of food, housing, employment and medical care, he said.

Some Western lawyers argued that these rights were not enforceable by the courts and were, therefore, not "rights". According to this argument, they belonged in the programmes of political parties, or in a set of non-enforceable guidelines.

BiDay 30/4/92

"The response to this is that the argument is formalistic. If there is a need for a right to be recognised, the law should find a procedure for its realisation, even if this means reforming the existing procedure."

It was also contended that the recognition of second generation rights was socialistic and would demand great economic sacrifices of the state and of those citizens who were self-supporting.

"The answer to this is that if we are earnest about human rights and justice these sacrifices are called for and that the stereotyped view of the state is outdated. If we have respect for human rights, then we cannot only have respect for those rights that suit our pockets."

Olivier said that there was a great need for human rights education among politicians and ordinary people confronted by violence and those who had benefited from circumstances of the past.

He said in the past whites opposed the idea of a Bill of Rights when it suited them, now they were seizing on it as a means of protecting themselves against the demands of the previously oppressed majority

The challenge that binds the nation

BDay 30/4/92 (49)

At a time of widespread violence and hostility, SA's leaders could find a unifying cause in the battle against poverty and homelessness. Independent Development Trust chairman JAN STEYN sets out the task.

IT IS perhaps a bitter irony that, at the precise stage in our country's history when we have most need for an expansion of human opportunity, there are so many factors impeding the exercise of our capacity for development.

SA is going through a difficult transition to democracy. Democracy is indeed a necessary condition for progress. However, it is clearly not a sufficient condition. What about the socioeconomic milieu in which this fragile democracy will have to be launched and take root?

Last year our rate of absorption of new labour dropped to well under 10%, at least in the formal sector. The recession, which deepened in the latter part of 1991, has caused an unprecedented surge in urbanisation. The drought will add to the push towards urban areas. There may be well over 7-million people living in informal accommodation in and around our cities.

In urbanising SA, there is not only competition for jobs but also for living space, and there is great pressure on all urban facilities. The result is a climate in which violence flourishes.

The economy, while sluggish, is not without promise. The favourable export performance is one indication of strength. The so-called informal sector seems to be expanding, even though earnings per entrepreneur have dropped. We have some 25% spare capacity in manufacturing. Although the flow of capital from abroad is constrained, raising funds through bond issues and commercial loans abroad is becoming more and more real and necessary.

We need to unlock this potential as far as our internal industrial plant and markets are concerned. This is where housing provision and the construction industry in general have such an important role to play.

Proposals have been made for using housing delivery as a "kickstart" to inject vitality and a higher growth potential into our economy. I am fully aware of the criticism of these proposals. I accept that attempts to use specific growth stimulus like housing and electrification cannot be at the expense of other established sectors of wealth creation, like our basic industries, our export earnings, our diversified corporate enterprises with their immense capacity to invest. Obviously we should not look for "quick fixes" from single elements in a complex economic mix.

Nevertheless, site provision and housing delivery are some among other important bases of renewed economic activity. There are multipliers of up to a factor of two or even three associated with the development of accommodation. Like our other growth potentials, this strategy cannot be ignored.

We must also consider that we have the instruments for such development in place. The capital subsidy scheme for first-time site owners, administered by the IDT, has already started to produce substantial numbers of new property owners:

- Work has started on a total of 45 000 sites (greenfields 25 000, in situ upgrade 20 000);
- More than 3 000 sites had been transferred by April 1. This will build up to 20 000 by the third quarter this year;
- By the end of May, construction will be completed on the following projects: Zwelihle-Hermanus 460 stands; Thabong-Welkom 1 898 stands; Manyatseng-Ladybrand 234 stands; Zizamele-Butterworth 568 stands; Moleleki-Katlehong (E Rand) 1 500 stands; and
- The present rate of transfer is 650 a week. We are paying out a total of R5m a week in implementation.

The cost of implementation has been at 1,5% of the amount administered, and the project is managed by a total of five IDT staff members.

Now that the most recent Budget has continued to allocate special funds for low-cost housing, R500m having been provided for housing and related infrastructure, we in the IDT could well be positioned to maintain and increase the impact of this exciting initiative. Indeed, it is imperative that we should be empowered to do so.

We do hope, however, that once the De Loor working group's recommendations have been translated into an acceptable national housing policy and a single housing department is established, a wider range of subsidies will be available to ensure a more balanced and rounded financial framework.

We believe the IDT is poised to make its role in socioeconomic development more effective and more attuned to the complex pattern of needs and requirements. We are determined to work with influential political, economic stakeholders and relevant negotiation initiatives in achieving a policy which will be jointly "owned" and broadly supported within the political communities.

Clearly, however, the sociopolitical environment is presently not conducive to this kind of broadly based development thrust. The rent and service boycotts, which wax and wane, do not inspire investor confidence; nor do the politically inspired, unsatisfactory levels of bond repayments in some areas. Political constraints on the repossession of houses even after elaborate procedures to correct arrears, constitute a further problem. Crime, consisting of vandalism on construction sites and payroll robberies, adds to the constraints.

The quality of leadership in our politics has time and again salvaged the political negotiation process. This same quality of leadership should also actively pursue the facilitation of the socioeconomic development processes so necessary to accompany the political changes being negotiated. This does not stop at public statements; it requires active encouragement on the ground for constructive involvement in development initiatives.

All societies aside from competitive politics and unavoidable conflicts of interest need some kind of underlying collective commitment to a common cause. Some societies are fortunate in that they have a common nationalism or a generally respected monarchy, flag, constitution or set of national symbols. We do not yet have these binding elements. However, we do have common and shared challenges, and a realisation that we have to address these challenges as a unified society.

Development has to become our binding force and the basis for the underlying cohesion that all societies need. My plea is: let us make the battle against poverty a national priority binding us together, committing ourselves to seek its ultimate eradication. It is an achievable goal.

□ This is an edited extract from a speech Steyn delivered yesterday on the opening of the Kaalfontein facility of Blue Circle Cement.

"The Book of Proverbs says that where there is) vision the people perish." — **Barend du ressis' Budget speech March 18 1992.**

The man who

wlmail 30/4 - 7/5/92

(49)

It's not specifically Barend du Plessis' fault but he leaves a decidedly shaky economy. **REG RUMNEY** *reports*

AD Finance Minister Barend du Plessis not resigned this week he would have been haunted by that phrase.

Granted, he was never as inept as some private sector critics initially feared. He did a difficult job reasonably well.

But as the country moved into transition it became clear that he — or his party — lacked precisely the broad political vision needed for change.

The conflict over the implementation of Value Added Tax was a case in point. A VAT without exemptions and with a single rate is desirable. What should have been the implementation of a model tax system was indisputably bungled.

As intense popular resistance to the tax emerged unexpectedly and late, Du Plessis, used only to a tame white electorate, had to fight to keep the tax pure economically.

Here his economics were almost faultless, but he underestimated the tenacity of his opponents, particularly those in the Congress of South African Trade Unions.

Why did he stick so devoutly to economic purity, when the wiser political, though not economic, path would have been to give in and defuse at least some consumer resistance? When he was forced to make minor concessions, he lost the respect of conservative supporters. Attacked by Cosatu on the one hand, and the *Financial Mail* on the other, he must have felt he could not win.

Du Plessis was clearly not willing to abandon the Westminister-style democratic system where ministers act on mandates rather than after extensive negotiation. South Africa in transition calls for a kind of political elasticity which Du Plessis, aloof and with a tendency to irascibility better suited to the era of PW Botha (who appointed him), did not or was not allowed to have.

The VAT mess was only one example, argues Democratic Party MP Ken Andrew, of the government's "tunnel vision" on economics.

It was not good enough to take an International Monetary Fund blueprint and

Climbing a slippery slope to prosperity

wlmail 30/4 - 7/5/92

What could a new finance minister do to get us out of the morass?

REG RUMNEY *reports*

(49)

MANAGING an economy has been compared to climbing a mountain. Anyone taking the path Barend du Plessis has left (or fallen off) should do so with trepidation.

Aside from the usual pitfalls and crevasses there is a lot of dangerous ice around.

A South African finance minister has to be able to negotiate the political landscape of the new South Africa as well as having a grasp of economics.

To change metaphors, economics in South Africa has become a site of struggle.

The African National Congress and the Congress of South African Trade Unions have shifted their sights from Value Added Tax to "unilateral economic restructuring" which has been construed as ranging from VAT to commercialisation.

Until an interim government is in place, it is likely that the finance minister will find it impossible to introduce any sweeping changes without incurring conflict or negotiating any changes with the ANC and Cosatu.

Let's assume that whomever is appointed has the requisite negotiating skills for the job. Let's assume he is acceptable to all parties and stays on in an interim government. Let's further assume the government backs him.

And finally, let's assume he will leave the major restructuring of the economy along the lines proposed by the ANC to a future democratic government. What could he do to put things right within that brief?

Remember that the economy is now only expected to pick up markedly next year (sounds familiar, doesn't it?) so the finance minister has little more room to manoeuvre than Barend du Plessis had. The only advantage he will have is that he will be less constrained by the balance of payments, as financial sanctions wane, more debts are rolled over and do not need to be repaid immediately and new capital flows into the country.

Firstly, there is a dire need to achieve a stable fiscal policy, in other words to balance income and spending and not borrow too much.

GOVERNMENT SPENDING. Clearly both the composition and level of this needs to be looked at. The Reserve Bank is understood to be unhappy with the level of spending unveiled in the Budget this year. Deficit financing is also inflationary, and prevents the Reserve Bank from softening its tight monetary policy.

The finance minister will have to enforce spending discipline. Since the demands for redistributive spending on housing, infrastructure, education, health and social welfare will be great, he will have to cleverly balance the demands of the various departments.

The roundly condemned trend towards financing current spending through borrowing needs to be reversed. (320) (49)

Here the finance minister needs the strong backing of the rest of the government in streamlining government, particularly by moving to rid South Africa of needless tricameral and homeland replication and in trimming the civil service.

Privatisation, to aid efficiency, take more employees off the state payroll and to garner income must be ruled out for the moment.

TAX. Du Plessis failed to reform the tax system along the lines suggested by the Margo report, and that opportunity is now lost. A capital gains tax and a capital transfer tax, or both, are already on the cards. The ANC would probably introduce land and wealth taxes.

The ANC has suggested a fiscal commission, to examine how redistributive spending can be financed through a broadly based and progressive tax structure. More rather than less tax seems the aim. How much tax should come from progressive, direct taxes and how much from indirect tax could be an area of conflict. So the minister would have to leave the VAT rate alone for the moment.

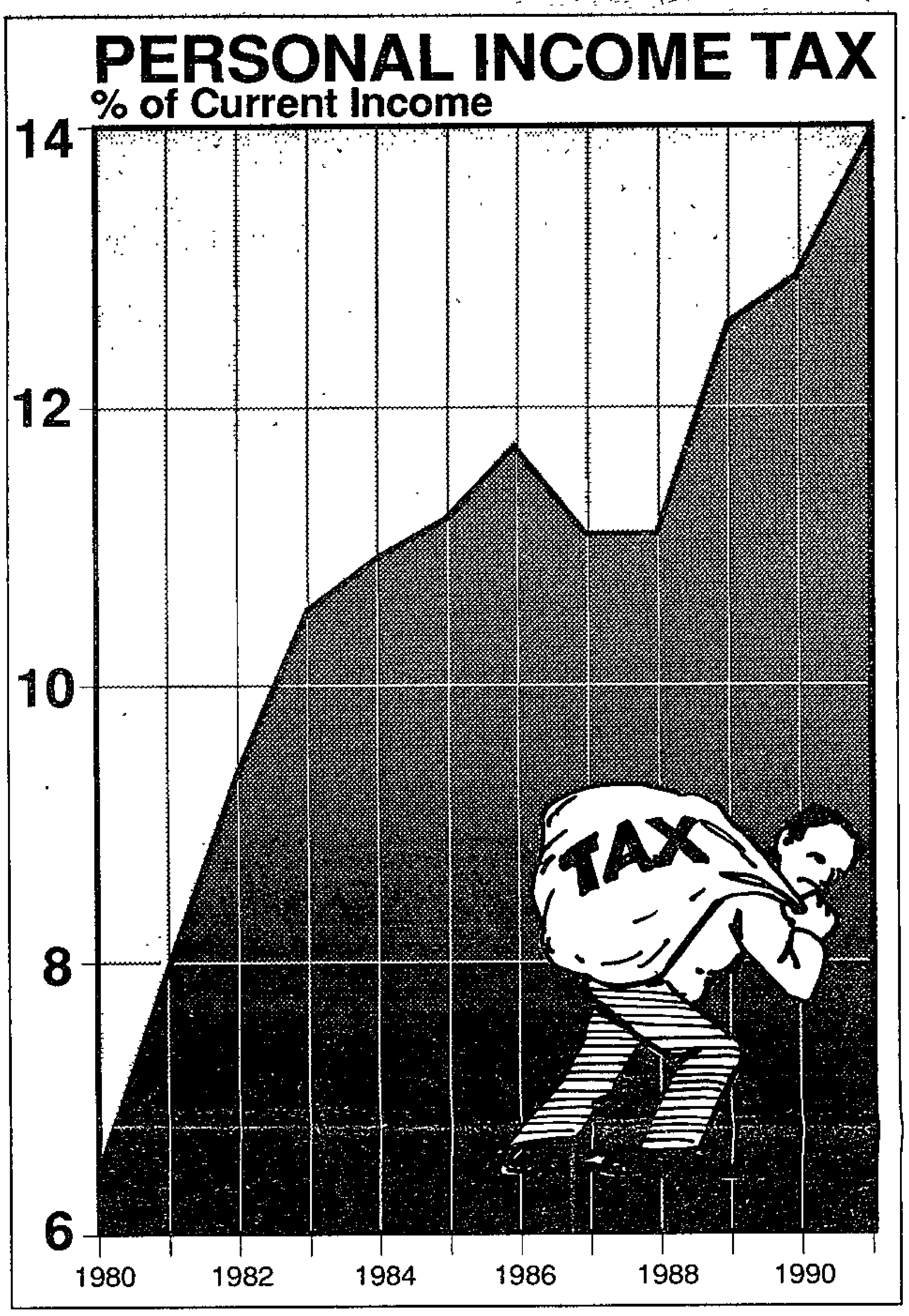
In the meantime the finance minister, if he presents the next Budget, could redo the tax tables to eliminate fiscal drag next year. Du Plessis only reduced fiscal drag this year.

VAT. The minister could not simply raise the VAT rate. But he could raise more revenue through VAT by sullying it with differential rates. So basic foods could, for example, be zero rated and all other items be subject to 15 percent.

SOCIAL PENSIONS. As a gesture to the "new" South Africa, the minister would have to remove all racial disparities in state pensions. He could also increase pensions, partly as a way of delivering aid to rural areas.

A STATE LOTTERY. Introducing this would formalise the various pseudo-lotteries that have sprung up in aid of charities, but could be an important source of government revenue.

MEDICAL AID SUBSIDIES. The Centre for Health Policy Studies has estimated the gov-



Where the tax burden has increasingly fallen — on our individual shoulders

couldn't win

W/Mail 30/4 - 7/5/92. (49)

apply it without regard to South Africa's political complexities.

Andrew accuses Du Plessis of having no overall understanding and vision of the path ahead. "There has been an enormous amount of inconsistency and ad hoc-ery."

It is not hard to understand why. It was often argued that it was never possible to have a good apartheid minister of finance.

While Du Plessis himself can't be blamed for all the country's economic woes, South Africa has suffered from the policies pursued for so many years by his party. The chickens came home to roost in the 1980s. Sanctions, boycotts and disinvestment brought South Africa ever closer to a siege economy and economic misjudgments like the Mossgas fuel-from-gas project and ambitious local manufacturing programmes by armaments-maker Armscor. Du Plessis had to find money to fund these as well as an expensive and byzantine tricameral parliament and homeland structures.

Political instability led to major foreign banks calling in their loans, precipiting financial isolation and a steady outflow of capital after the unilateral debt standstill in August 1985.

This, as Du Plessis has mentioned, not only inhibited economic growth but also restricted the financial authority's policy options.

Savings, crucial for growth and job creation, fell steadily in the 1980s and are estimated to have fallen to 18,8 percent of GDP in 1991. Du Plessis admitted this year the trend was attributable to the almost constant dissaving by government itself since the 1985 debt standstill.

Du Plessis has said that since the debt standstill South Africa has had some years of reasonable growth and one good year, 1988, of 4,2 percent growth.

But on average growth in those years, which coincide with Du Plessis' tenure, has been poor — particularly when population growth is taken into account. Look at the measure of wealth per person, adjusted for inflation: the real gross domestic product (GDP) per capita. Real GDP per capita for 1991 at R3 487 is R256 short of the figure for 1971. In other words, over 20 years South Africans on average have become poorer. Growth was slow on average in the 1970s, but the rot set in in the 1980s. Since 1979, GDP per capita has fallen by around eight percent.

Opportunities for growth have been lost while disparities in spending on black and white continued and backlogs of housing, schools, and medical facilities mounted.

Just as growth opportunites were lost, money leaked away forever through the complicated hard-to-control apartheid bureaucracies and by blatant buying off of the white electorate. The tricameral parliament can be scrapped, but the savings will be a one-off and small compared to what has already vanished.

The country now has an estimated unemployment figure of more than 40 percent. Double digit inflation has persisted for two decades, while food prices have soared out of control.

These problems can now only approach being solved by a major reshaping of the economy, and that is the job of Derek Keys in his role as economic co-ordination minister rather than that of a finance minister.

Where does Du Plesses come in? The job of a finance minister, Andrew has pointed out, is a political rather than a technocratic one. Among the government's self-appointed tasks is to rein in government spending and cut income taxes.

Du Plessis could be excused his failure to curb spending under the autocratic PW Botha, who once sprung a 10 percent civil service pay increase on Du Plessis while Du Plessis was at an IMF meeting in Berlin.

Government spending, as a percentage of GDP, rose steadily during the 1980s, an anathema to those who believe the private sector should be the driving force of the economy.

Spending in this Budget year is budgeted to rise by two percent in real terms, but could be higher. Only one month after the Budget, the Finance Department is reportedly looking at a "worst-case" scenario of another R2-billion being spent above that budgeted.

True, increased spending in this year's Budget was aimed at reducing backlogs built up under apartheid. But the government has been accused of throwing money at the problem rather than ensuring the efficient use of money spent.

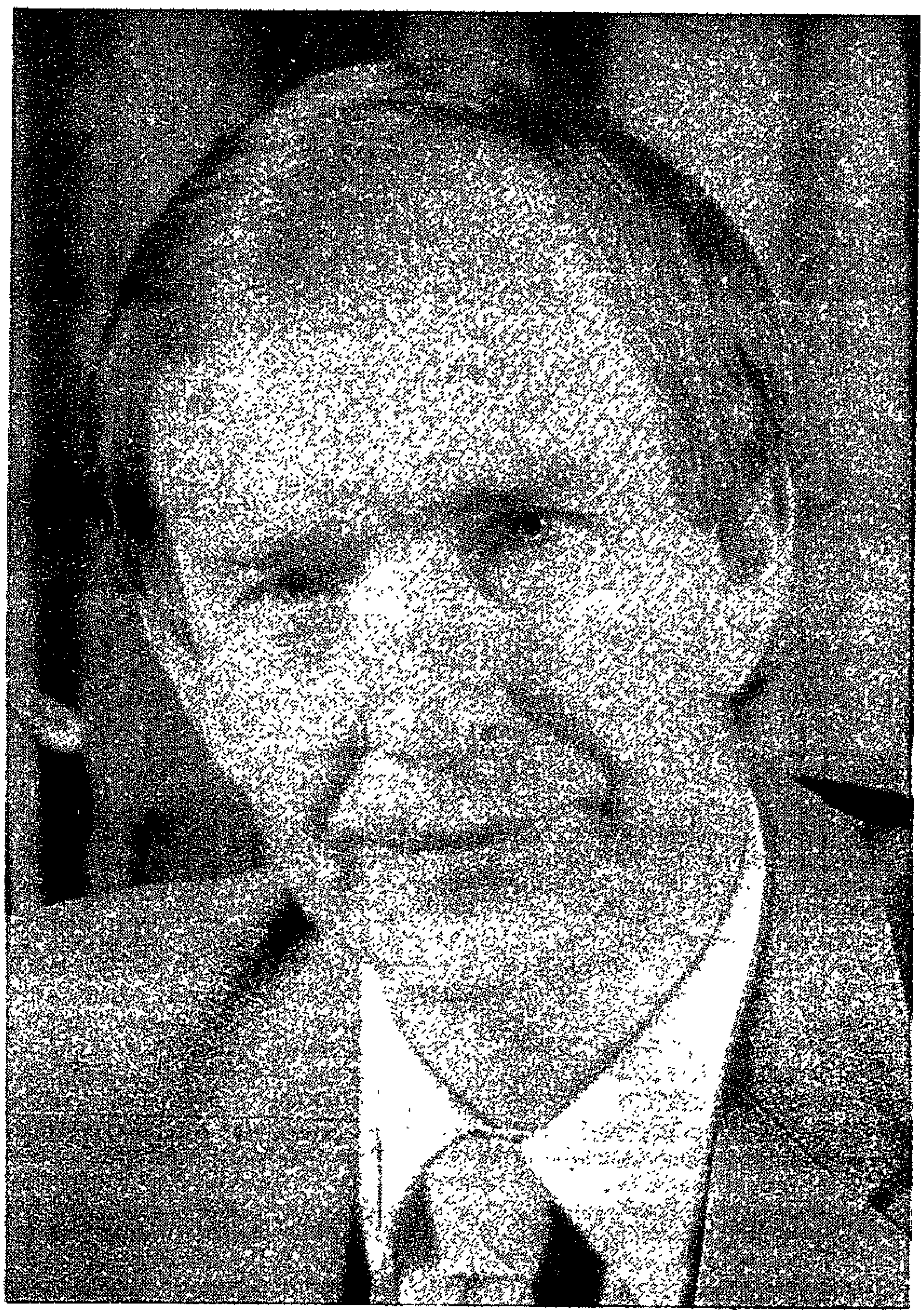
A finance minister's job is indisputably to ensure macro-economic balance. Had the African National Congress proposed a deficit before borrowing of 4,5 percent it would have been rounded upon by conservative economists. But that is the figure reached in this year's Budget.

More disturbing is R8,9-billion to be borrowed which will finance current spending. This, Boland Bank points out, is a continuation of a risky financial practice established in the early 1980s. It has meant that interest on public debt has risen to 16,2 percent of government spending in this Budget year. Using debt to finance current spending has been likened to buying food on hire purchase.

And in the end the government has not stuck to its own promise to reduce income tax. Though the top rates have come down, "fiscal drag" — the phenomenon whereby inflation pushes people into ever higher tax brackets without real increases in income — has ensured that the government has squeezed ever more out of individuals. While tax loopholes have been progressively closed, company tax rates are arguably still relatively high.

In part, Du Plessis had no room to manoeuvre on reducing direct tax. He could not increase the VAT rate and the temporary basic food exemptions he introduced meant less tax revenue. So the money had to come directly from the taxpayer.

In any case, the VAT debacle shows what drastic moves at this stage to restructure the tax system could have led to. And it sketches the considerable limits to the powers of any new NP-appointed finance minister.



Barend du Plessis ... Underestimated his opponents W/Mail 30/4-7/5/92

ernment loses R1,1-billion to R1,7-billion through tax rebates on medical aid payments by employers. Scrapping these could be unpopular, and might have to wait for a complete restructuring of the health-care sector.

SAVINGS. Raising interest rates is not necessarily an effective way to encourage savings. Excessively high interest rates harm smaller businesses and curb economic growth. Tax incentives, on the other hand, distort the tax sytem. Some tax incentives to encourage savings could be introduced. A withholding tax taxes all savings income at source at a low rate. It has been weighed up and dismissed. Perhaps the idea could be dusted off again.

But government has a crucial role to play by ending its own dissaving, which has been a consistent trend since 1985.

Inflationary expectations will have to be brought under control, and the rand's foreign exchange value kept steady, a job for the Reserve Bank rather than the minister alone. The minister, arguably, can help the Bank by curbing spending. However, in the drawn-out present recession it has been argued the government's stimulatory policy has mitigated the effects of recession.

The worrying persistence of outrageously high food price inflation is something that government, not the minister himself, must obviously address. How is not exactly clear yet. (49)

FIXED INVESTMENT. Some way has to be found to encourage fixed investment. The ratio of gross domestic fixed investment to GPP fell to a low of 19,4 percent in 1990. The International Monetary Fund believes it should rise to around 27 percent by the end of the 1990s. Again, tax incentives, unfashionable as they are these days, should be investigated. More important will be a stable political environment with the prospects of good profits for both domestic and foreign investors. That is not immediately in the hands of the finance minister.

Importantly, now that a Minister can be appointed who does not have to split his time between a demanding political role and the Ministry of Finance, there is no further reason to have a separate Ministry for State Spending.

...but money supply growth curbed

THE Reserve Bank revealed money

W/Mail 30/4-7/5/92 (49)(13)

AROMETER (49)(13)

W/mail 30/4-7/5/92

supply growth as measured by M3 — the amount of money in circulation and in deposits in banks — fell to 10,5 percent, which is within the Bank's 1992 target range. This bodes well for the Reserve Bank's fight against inflation since curbing the growth in money supply is one of the Bank's ways of preventing the erosion of the rand's buying power. Observers predicted the depressed demand for credit would push year-on-year M3 growth to single digits in the next few months.

Relief at ANC policy paper

B/Day 30/4/92

49

DARIUS SANAI and
ADRIAN HADLAND

FOREIGN business groups and economists reacted with cautious optimism yesterday to the proposals contained in the ANC's new economics policy document.

But there were some dissenters, and SA-Britain Trade Association executive director Alan Tew said some of the ANC's proposals would be a "serious disincentive" for foreign investors.

SA-German Chamber of Commerce president Klaus Schuurman noted "with satisfaction and relief" the industrial and foreign investment policy proposals. It was encouraging to see the ANC saying it sought to promote foreign investment and envisaged guarantees to protect investors.

The document proposes that guarantees be given by the state on, "among other things", the repatriation of after-tax profits, the purchase of inputs, the sale of domestic assets, the maintenance of macroeconomic balance by the state, and a climate of peace and stability.

A US government official, speaking on condition of anonymity, said the document contributed to the dialogue between the ANC and US firms planning to invest in SA.

Tew said he was concerned about a sentence in the section on foreign investment policy which stated that "foreign firms will not be nationalised without adequate and fair compensation".

The US official said the ANC's attitude towards foreign investment was becoming more and more positive. "A single clumsily worded sentence talking about compensation for the nationalisation of foreign firms is relatively unimportant in the overall context," he said.

Safto GM Ann Moore welcomed the "apparent importance" the document attached to exports.

A Sacob spokesman said the document contributed to the economic debate in SA.

● See Page 3

DP raises query over Du Plessis

B/Day 30/4/92 Political Staff

CAPE TOWN — The DP yesterday demanded to know whether Barend du Plessis had resigned as Finance Minister because of the issues arising from the collapse of the Cape Investment Bank.

Robin Carlisle (DP Wynberg) said during an interpellation in Parliament the Rail Commuter Corporation had lost between R249m and R270m.

Rail Commuter chairman Bart Grove and MD Kobus Nel had been demoted in the wake of the losses.

Carlisle said the amount of the deposits and their authorisation was "in conflict with Cabinet instructions".

The affair had the potential to be "the most serious financial scandal in SA's history" and the DP was demanding a full public inquiry, Carlisle said.

It was also learnt yesterday government was likely to announce a public inquiry into the collapse of the Masterbond group of companies next week. Among the issues that could be raised are whether government, and the Finance Department in particular, could have acted sooner and whether the relevant financial control measures were applied adequately.

As the political head of the department, Du Plessis may have felt responsible for government's role in the débâcles.

Carlisle said Cape Investment Bank had been placed in provisional liquidation on April 11 last year. Before this the Reserve Bank had advised the Rail Commuter not to remove its deposits with the bank, although the bank itself had done so. He said within four weeks of the release of a report to the Cabinet into the affair Du Plessis had resigned.

Further, he said, while all transactions

☐ To Page 2

Du Plessis

B/Day 30/4/92

☐ From Page 1

were classified secret in terms of the Reserve Bank Act, there had been allegations of "collusion" between the bank and the Rail Commuter's board controlled by Prima Bank, which had since acquired Cape Investment Bank. This had been linked to accusations that the bank's "assets had been stripped by Prima before it was placed in provisional liquidation — an act which caused its insolvency".

Carlisle said there were concerns that the Bank may have "pumped millions into other banks in similar questionable deals

"What is clear, is that suspect, if not criminal, activity has occurred and that the government owed the public answers to all of the questions raised."

Carlisle said this applied particularly to the question "Did Mr Barend du Plessis resign as Minister of Finance as a result of these matters?"

Transport Minister Piet Welgemoed said the transactions had nothing to do with Du Plessis in his official capacity and his official relationship to the bank

OECD expresses faith in South Africa's future

(49) ARCT 30/4/92

SVEN LÜNSCHE

JOHANNESBURG. — The powerful Organisation for Economic Co-operation and Development (OECD), an umbrella body for the world's 24 leading industrial nations, has urged Africa to speed up its dialogue with South Africa.

"South Africa can be the driving force for development in sub-Saharan Africa by carrying the neighbouring countries in its economic wake," the director of the OECD's Development Centre, Dr Jean Bonvin, said yesterday.

Addressing delegates at Safto's conference on Investment in Africa, Dr Bonvin said South Africa could play a major role in regional economic groupings, such as SADCC and the PTA.

He reiterated that industrialised countries had confidence in South Africa's future despite the volatile situation here, "as the poorest countries in the region can tie their economies to South Africa's".

Dr Bonvin warned that Africa was slipping deeper into poverty at a time when most other regions in the developing world were prospering and taking their place in the emerging global economy.

More than two-thirds of sub-Saharan Africa is classified by the World Bank as low-income — or having a per capita income of below 500 a year.

The continent's indebtedness was adding to its plight: In 1990 African long-term external debt amounted to $234 billion, equal to Africa's gross domestic product.

"Whatever adjustment arrangements the 32 low-income sub-Saharan countries have made, they have become highly dependent on foreign aid," Dr Bonvin said adding that half these countries had two-thirds of their imports financed by aid.

He said the results of aid had been less than satisfactory in Africa than elsewhere.

"In order to develop the productive capacity of African countries, aid has to be well targeted and used in such a way as to break down the barriers to private investment and encourage entrepreneurial initiative."

Dr Bonvin stressed a complete overhaul of public finance in Africa was essential for any revival of the economy on the continent.

He said there was the danger that Africa would become the forgotten continent since capital was being pumped into the restructuring of Eastern Europe and the Middle East.

"The fundamental problem is that Africa desperately needs to change its image so that the investor sees it as a politically stable region, safe for his capital."

If this was achieved, Dr Bonvin gave the assurance that investment capital would flow — under the same yield conditions as in Asia — reversing the flight of capital estimated at some $40 billion during the period 1977 to 1987.

■ BRITAIN has proposed that the IMF and World Bank be prepared to support South Africa once a planned interim government was in place, The Argus Foreign Service reports from London.

UK Chancellor Norman Lamont told the development committee of the IMF and World Bank that he hoped the groups would consider positively future requests for help from South Africa in view of the pace of reform there.

South Africa will not need IMF assistance as it has a balance of payments surplus. However the UK wants the World Bank to react swiftly to any requests or loans.

Mr Lamont also made several proposals to help the poorest nations. He urged the IMF to adopt a flexible approach when providing aid on concessional terms to developing countries in southern Africa as they struggle against the drought.

ECONOMIC OUTLOOK

A long, long tail

FM 1/5/92 (49)

SA's growth prospects are closely linked to events in a capital more than 13 000 km away. The dip in Tokyo's Nikkei index below 17 000 in April, to a three-and-a-half-year low, sent tremors through the world's financial markets. If the market cannot recover a measure of equilibrium, the loss will not be simply in confidence. The subsequent shortage of capital will fundamentally affect the world's ability to generate growth.

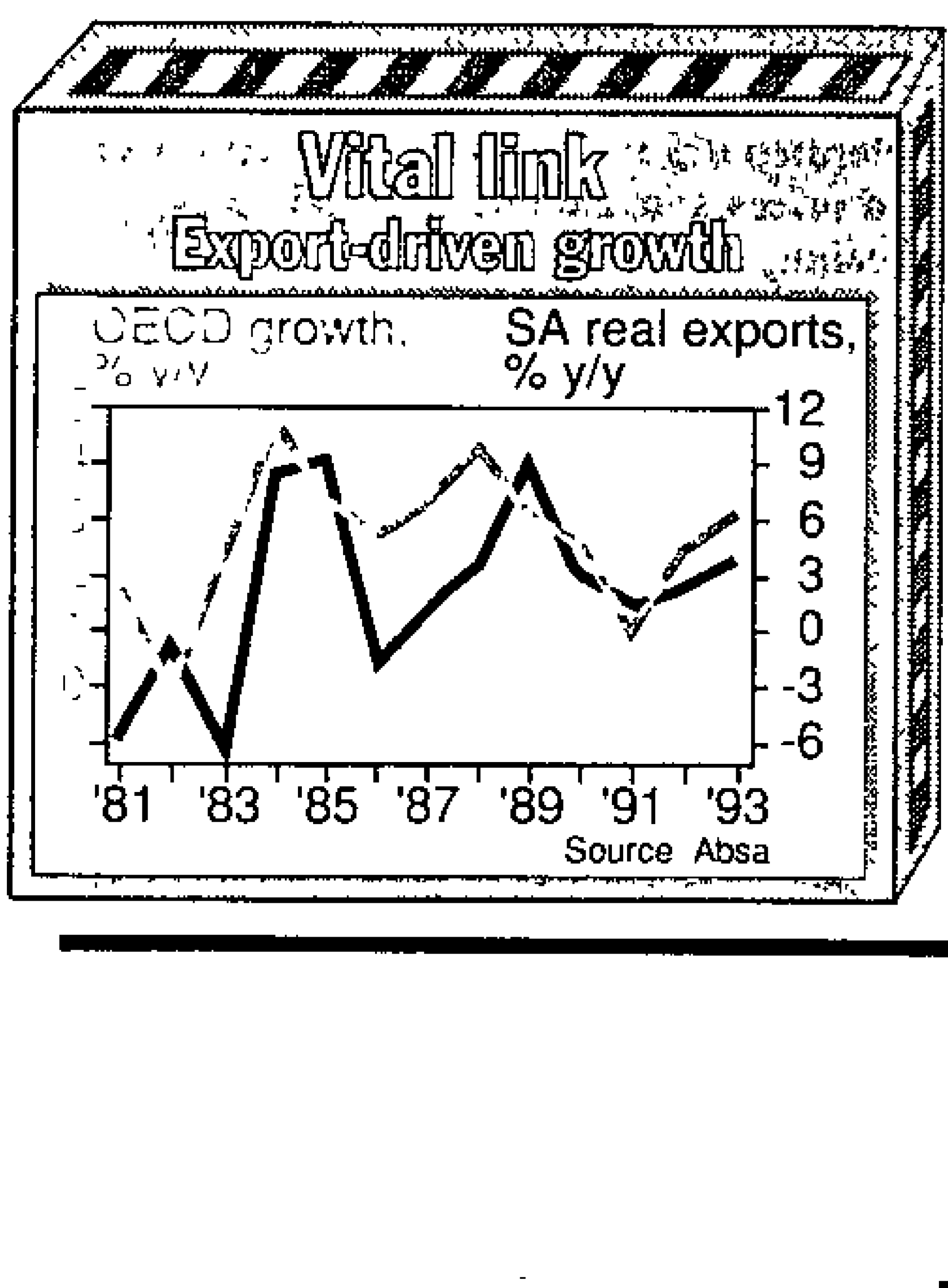
There are two implications for SA.

One is the threat this poses to demand for SA exports. The economy has been trapped in a trough since the second quarter of 1989. And an upturn depends largely on a recovery in the world's major economies, where levels of activity remained low, despite interest rate cuts of three to four percentage points last year.

Just as early signs of revival appear in the West, this new threat emerges in the East. There has always been the danger that the economies of Japan and Germany would slow down more sharply than the rate at which the economies of the US and the UK would grow (see page 30). That possibility is now stronger.

The other implication is that international capital will be in shorter supply in the Nineties than in the Eighties, when the West had more than eight years of economic growth.

The sharp decline in equity prices has left many Japanese banks short of international capital adequacy standards, which come into full force next year. IBCA, the London-based credit rating agency that specialises in the banking sector, says the fall below 17 000 left almost all Japanese banks below the 8% capital-to-assets ratio demanded by the Basle Accord on international capital adequacy. And it notes that a fall in the Nikkei to around the 15 000 level would wipe out the hidden reserves of some banks, including the Bank of Tokyo, forcing them to take valuation losses by writing down equity investments.



"If the authorities were to insist rigidly on maintaining capital ratios, the Japanese banks would have to reduce lending dramatically," the report says.

A recent issue of *The Wall Street Journal* suggests that about 40% of the assets of Japan's biggest commercial banks are overseas loans. The importance of these to the world's capital markets can be measured by the ranking of Japanese banks. In terms of assets, nine of the world's top 10 banks are Japanese, says the *Journal*, and six are among the top 10 in terms of capital, as ranked by *The Banker*.

"A measure of the concern shown in the US," says Ben van Rensburg, chief economist of the SA Chamber of Business, "is that Federal Reserve chairman Alan Greenspan was called to testify before a Senate banking committee." Greenspan, who is obliged to show optimism, told the committee the impact in the US was likely to be limited. It is hoped he will be proven correct.

On the positive side, Japan's retreat from lending started in 1990, when the Nikkei began to slide from its December 1989 peak of over 35 000. *The Economist* reports that Japanese banks' share of international loans outstanding fell from 38% in 1989 to 33% in 1991. And new foreign direct investment by Japanese firms in America fell from an average $17,3bn a year in 1988-1990 to $4,3bn in 1991. Therefore, much of the impact has been absorbed.

Meanwhile, confidence has gradually been returning in the US. *Business Week* reported recently that a "flurry of upbeat data contained hopeful signs that faster growth lies ahead. It shows that consumers are not acting as depressed as they say they feel, housing is responding to lower financing costs, car sales are a little stronger, and the industrial sector appears to be regaining some of the momentum it had lost." Even more encouraging is that February "payroll employment" was the strongest since May 1990, before the recession began.

The Economist reported: "The early signs of economic recovery (in the US) are there for all to see — private housing starts 31% higher than a year ago, consumer spending up by 0,6% in real terms in February, employers starting to hire again."

But the recovery is fragile and the developments in Tokyo are cause for concern. Says Van Rensburg: "These trends will make international investors even more wary and also serve to emphasise the existing imbalances in our own macro-environment. Time is of the essence for putting in place the right fiscal and monetary policies in SA."

The new Finance Minister will play a crucial part in achieving this. An incisive mind and a determination to succeed will be needed to fill the eight-year vacuum left by Barend du Plessis ■

CPI — 1 FM 1/5/92

Apples and pears

The war of words between a giant food retailing chain and official statisticians intensified this week. With the latest CPI figures came 13 pages of explanatory notes from Treurnicht du Toit, head of the Central Statistical Service (CSS), defending its methodology.

Though Pick 'n Pay is not mentioned in the release, the notes are clearly a response to criticism from its executives (*Leading*

Articles April 10). Chairman Raymond Ackerman and financial director Chris Hurst have questioned:

☐ The 33% weighting that CSS gives to meat in the food index. Hurst says his figures show that customers spend an average of only 8% of their food bill on meat, poultry and processed meat, and

☐ The relative importance in the sample of convenience stores that charge higher prices than food chains.

Hurst says that in the 12 months to February, when official food inflation rose to 27%, Pick 'n Pay's food prices rose only 14%. This figure is based on average unit prices — the total value of sales or turnover divided by the number of items sold.

Du Toit argues that:

☐ The weighting given to meat is consistent with the findings of its retail sales survey, previous weighting patterns and "other sources"; and

☐ Inflation measures movements in price and not average levels, therefore the fact that small outlets charge higher prices is not relevant. "It is also untrue that small stores dominate the sample."

He says average unit price movements are not a valid measure of inflation unless the

cont --

BAREND DU PLESSIS

FM 1/5/92 (49)

The flight of the lame duck

The *FM* was not always erstwhile Finance Minister Barend du Plessis' greatest admirer during his political career, and it would be hypocritical to let his premature retirement — however much of a personal tragedy it may be — cloud one's judgment. The feeling was apparently mutual, as for long periods Du Plessis refused to speak to the *FM*. But in all honesty, we do not believe posterity will rate his tenure as Finance Minister highly.

A man of some personal charm — if not the dynamic extrovert one might associate with a career in the hurly-burly of politics — he seemed capable of diagnosing problems and how they should be cured, but incapable of forcing unpalatable medicine down the throats of vested interests.

We had the espousal of privatisation and deregulation, virtually abandoned in the face of opposition from both right and left; the nominal acceptance of the Margo recommendations on tax reform, followed by a half-hearted implementation that prevented most of the potential benefits from accruing; repeated promises to cut State spending and the size of the bureaucracy, while he continued to preside over an inexorable growth in both; most recently, the bungled introduction of VAT, over which he again succeeded in alienating both its supporters and detractors, and a do-nothing Budget which simply ignored the fundamental economic issues.

Those are just the major failures of nerve. Space does not permit a listing of the numerous, half-baked economic policies of the past decade that have either had to be abandoned or are still in place, costing us all millions.

True, no previous Finance Minister was confronted with problems as enormous as those that emerged during Du Plessis' eight years in office. Nor could he be held responsible for them. SA's increasing political isolation, P W Botha's disastrous abandonment of reform and the debt crisis of 1985 were all conceived, if not yet out of the womb, before he was in a position to stop them. Nor, of course, can he be held responsible for the unfavourable international economic climate, or the fundamental adverse shift in the gold market.

But what has the Treasury done under Du Plessis to keep the economy healthy and thereby smooth the way to the new SA? It must surely have done *something*; but it's difficult to think what.

It may be Du Plessis' misfortune rather than his fault to have presided over SA's worst (at least, longest) recession; but it's a pity he couldn't have done more to soften it.

It's ironic that in many ways the apotheosis of Du Plessis' career was his failure, by a mere eight votes, to succeed P W Botha as State President. That failure was possibly his biggest contribution to SA history. It's inconceivable that a Du Plessis presidency could have moved so far and so fast as that of F W de Klerk in both domestic reform and restoring SA as an accepted member of the community of nations.

And Du Plessis was seen as the "reform" candidate!

But as he sinks into the comfortable obscurity that the pension and perks of an ex-Cabinet Minister will easily support, he can at least console himself that, unlike the teenage scribblers who so often criticised him, for the best part of a decade, which has been the most momentous in SA's entire history, he was at the centre of affairs.

This is the worst possible time for a change of jockey. The *FM* has repeatedly lamented the shelving of economic reform during the process of political negotiation; however more dynamic his replacement may wish to be, it will take him months to come to grips with the issues. Meanwhile, the Codesa caravan will move on, and the last window of opportunity for sound economic restructuring may be shut.

Moreover, so much a fixture did Du Plessis seem that no obvious replacement is waiting impatiently in the wings. The only members of the present Cabinet who might be suitable are Dawie de Villiers and Derek Keys. The former seems to be sliding in the NP hierarchy while the latter, as well as being a political neophyte, has done nothing in his present office to fill one with confidence.

Outside the Cabinet? Chris Stals? Harry Schwarz? Both will have their advocates. The DP's Ken Andrew would be a daring choice that could be justified on merit, as well as broadening the base of the administration.

But the hot money is increasingly on the Standard Bank's Conrad Strauss, who not only knows the business world but started out as a highly respected economist.

Whether any of them will particularly want the job at this lame-duck stage is another question — the new Minister may not even get to prepare a Budget. But it's difficult to resist such a position, on any terms. ■

A long, hard road ahead

(49) FM 1/5/92.

There is little to shout about in the IMF 1992 forecasts for the world economy Like other macro-economic soothsayers, such as the OECD, IMF forecasters have had a chastening 12 months. While there are marginal differences between the OECD and IMF (for example 0,2% of US GNP, about US$11bn), both organisations have had to do the same thing: take the pruning fork to previous projections. The recession's bite was worse and recovery will be slower and later than expected

The IMF's *World Economic Outlook* posits an even drearier picture than that presented by the OECD only four months earlier. It also highlights the reason behind the increase in US pressure on the other leading economies of the Group of Seven (G7) to do more to foster growth when they met in Washington at the weekend.

US Treasury Secretary Nicholas Brady earlier told British Chancellor Norman Lamont that "an inordinate preoccupation" with inflation would hold growth below satisfactory levels. Japan has already been asked to bring forward more State investment in addition to the recent stimulatory package announced when its discount rate was cut to 3,75%. This attitude, however, is at odds with the IMF's main concern over the high level of fiscal deficits in Germany, the US, Britain and Italy in particular, which threaten to underpin long-term interest rates.

The IMF looks at the world. This gives it a different perspective to the OECD which covers 24 industrialised nations accounting for more than 74% of global GDP. The most interesting differences concern the developing countries and transitional economies of the former communist bloc (see table).

It shows how the near collapse of the old centralised economies and negative growth performance of two G7 countries, the US and UK, reduced world GDP by 0,3%. No material improvement is on the cards in what was the USSR but the other ex-members of the Warsaw Pact are showing a swift turnround and nearly 4% growth is projected for next year.

The lesson for the 15 members of the Commonwealth of Independent States is that they should emulate the "bold and comprehensive reforms" implemented by the Poles, Czechs, Hungarians and other erstwhile Soviet satellites, says the IMF.

The developing world, however, did much better than was foreseen last year by avoiding the worst effects of the industrialised nations' slowdown and weak commodity prices with real GDP up by 3,3%. While the 1992 growth figure of 6,7% is distorted — the Middle East's rebound to 15% reflects the return of Kuwait as an oil producer, plus, possibly, its old enemy Iraq — the IMF is optimistic.

Africa's growth rate should almost double in spite of drought in the subcontinent. Asia is shown as maintaining a fast clip or 5,5% and more Central and South America are expected to produce a surge of 4,2% in 1993.

The IMF notes that, while the developing economies remain heavily dependent on activity in the OECD's 24, it has become clear in the past few years that much of their fate lies in their own hands It cites the obvious examples of the tiger economies of the Pacific Rim but also commends those which are following suit with free-market and prudent monetary policies: Ghana, Mauritius, Morocco and Tunisia in Africa plus Mexico and Chile in Latin America.

Much, of course, is due to the horrors of the debt crisis of the 1980s, the consequent net outflow of capital and destruction wreaked by hyperinflation — now, and hopefully only temporarily, the preserve of ex-communists. By next year Third-World inflation should more than halve to SA levels.

"The developing world would appear to be at a critical juncture," says the IMF. "If reforms take hold and the external environment is favourable, the rest of the decade could see sustainable growth in per capita GDP."

But any backsliding from reform will mean "growth is likely to remain elusive."

The IMF's forecast is liable to prove no more accurate than most others. There are imponderables which can wreck even its modest projections. Chief among these is the erosion of the capacity of Japan's banks to lend (see Page 25). There is also the course of German inflation over the next few months — though the IMF is looking for a sharp decline from the present 4,7% — and hence the Bundesbank's monetary policy which threatens growth in the rest of Europe

START UP

World economic outlook highlights

	1991	1992	1993
Output (Real GDP)*			
World	−0,3	1,4	3,6
Industrial countries	0,8	1,8	3,3
US	−0,7	1,6	3,5
Japan	4,5	2,2	3,9
Germany	1,2	2,0	3,0
EC	0,8	1,8	2,8
UK	−2,2	0,8	3,1
Developing countries†	3,3	6,7	5,4
Africa	1,4	2,7	3,0
Asia	5,8	5,5	5,7
Middle East	0,4	15,0	7,3
W Hemisphere	2,8	2,7	4,2
E Europe	−16,6	−1,0	3,9
Former USSR	−17,0	−17,5	n/a
Consumer prices*			
Industrial countries	4,4	3,3	3,2
US	4,2	3,1	3,1
Japan	3,3	2,2	2,4
Germany	3,5	3,8	3,7
UK	5,9	3,7	3,1
Developing countries†	41,4	37,6	16,1
E Europe	134,7	95,0	44,0
Former USSR	86,0	1 000,0	n/a
Unemployment rates (%)			
Industrial countries	7,0	7,3	7,0
US	6,8	6,7	6,2
Japan	2,1	2,1	2,2
Germany	6,5	7,6	7,6
EC	9,1	9,7	9,6
UK	8,1	9,7	9,7
Current account ($bn)			
Industrial countries	−24,0	−49,0	−68,0
US	−9,0	−53,0	−69,0
Japan	73,0	93,0	88,0
Germany	−21,0	−14,0	−9,0
UK	−8,0	−15,0	−16,0
Developing countries†	−85,0	−71,0	−72,0
E Europe	−7,07	−7,0	−6,0
Former USSR	−2,0	n/a	n/a
World trade volume*	**3,3**	**5,0**	**6,3**

* Annual percentage change. † Excluding eastern Europe and former Soviet Union.
Source IMF World Economic Outlook, April 1992.

THE CABINET

Office of diminishing returns

FM 1/5/92 (49)

Finance Minister Barend du Plessis' shock resignation announcement reflects growing unease among Nationalist MPs, including Cabinet Ministers, about their future in politics Most will not survive the transition to democracy and some apparently feel it's pointless to go on.

Du Plessis, in particular, was under considerable strain. As Transvaal Nat leader he faced an unprecedented onslaught from the CP in the March referendum campaign. At the same time he was closely involved in the preparation of a difficult Budget and embroiled in another VAT battle, which he lost in the face of political and private-sector pressure.

He was hospitalised last month for what his office described as exhaustion. The collapse plus family pressure prompted his decision to quit parliament. It seems he was persuaded that there was little point in continuing to serve as Finance Minister and risk further damage to his health when he didn't intend to continue in politics under a new government.

In an interview this week he said his wife, Antoinette, in particular, was pleased with their "new circumstances" and that he looked forward to spending more leisure time with his family

Du Plessis was elected to parliament as MP for Florida on the West Rand in 1974. In 1982 he was appointed Deputy Minister of Information and the following year was made (black) Education & Training Minister — a job he was starting to do well when he was surprisingly appointed Finance Minister in 1984 to succeed Owen Horwood

He was at one stage a serious contender for the party leadership, losing to F W de Klerk by only eight votes in 1989 in the caucus election to replace P W Botha. Up until early last year he apparently still believed he had a good chance of taking over as NP leader if De Klerk were ousted.

His star has since waned in the wake of: a massive rise in support for De Klerk; continuous economic mismanagement for which he shouldered the political blame; and the continuing erosion of NP support by the CP in the Transvaal.

It is reliably understood that Du Plessis had decided to retire at the end of this year, and that De Klerk planned to replace him with Derek Keys, the new Trade & Industry and Economic Co-ordination Minister

As the *FM* went to press, De Klerk was considering his options An announcement was expected on Wednesday. Keys was most widely tipped but senior government sources said Cape Nat leader and Public Enterprises Minister Dawie de Villiers could not be ruled out as a short-term replacement.

Barend du Plessis ... *ambitions capped by the new order*

De Villiers heads the NP's most powerful province, is the fourth most senior Cabinet Minister and is said to be close to De Klerk. Sources said that if he told De Klerk he wanted the post he would get it.

Another candidate was Standard Bank chairman Conrad Strauss, whose name had been mentioned before as a possible successor to Du Plessis — or alternatively to Keys, if he were to move to Finance.

The feeling in parliamentary circles this week was that if De Klerk wanted to continue laying the groundwork for fundamental economic restructuring, and at the same time appoint a Finance Minister who would be generally acceptable to the next government and probably kept in his post, it would be essential to bring in another technocrat like Keys.

The new Finance Minister might be in a strange predicament. With politics in such flux, and an interim government on the horizon, the post could be a lame-duck one. Caucus members who might normally have coveted the job would now be understandably reluctant to take on a thankless caretaker task. At this stage it is arguably no longer one of the high offices of State.

Du Plessis' resignation is an undeniable blow to Nat morale, particularly in the Transvaal where the party remains under pressure from the CP in spite of widespread NP success in the referendum. His decision to give up his Florida seat at this stage, rather than just his portfolio and provincial leadership, is puzzling; it could indicate tension in his relationship with De Klerk.

Though the NP is expected to retain Florida comfortably against the CP, some senior Nats feel a by-election at this stage will further complicate constitutional talks and put additional pressure on jittery MPs. (The DP is not expected to fight the seat, in terms of an unwritten agreement between the DP and the NP whereby each will not contest seats held by the other in by-elections.)

In reaction to the resignation, De Klerk said he had discussed the matter with Du Plessis and understood and respected his decision.

Du Plessis' successor as Transvaal leader could be an important pointer to how the party sees its future. Constitutional Affairs Minister Gerrit Viljoen has been appointed acting leader and the post will be filled at a special meeting of the provincial executive in Pretoria on Saturday.

The obvious candidates are the three deputy leaders — Viljoen, Foreign Minister Pik Botha and Water Affairs & Forestry Minister Magnus Malan But a strong challenge could come from Defence Minister Roelf Meyer, who is widely regarded as the NP's fastest rising young star and a future national leader Meyer could also play an important role in stabilising the party and preventing further resignations. ■

INTERIM GOVERNMENT

FM 1/5/92

A rose is a thorn

President F W de Klerk's proposal for a multiparty executive council to help govern SA during an interim transitional phase is an effort to stabilise the country Once that is done, progress can be made towards a more acceptable democratic system

A senior Cabinet source says a number of world leaders have indicated that this step is essential if SA wants to be taken seriously by the industrialised countries and attract substantial foreign investment.

In parliament last week, De Klerk proposed a directly elected executive council of three to five leaders, who would alternate as president while constitutional negotiations carried on Government believes the proposals offer the chance to determine degrees of support for different parties, which could marginalise minor parties and ease current logjams in constitutional talks.

The council — which would appoint subcouncils responsible for government departments — would effectively constitute a government of national unity. According to the Cabinet source, this is first prize for many Western governments and would engender considerable confidence in foreign investors.

Though it seems that the current Cabinet would retain supreme *de jure* authority, the

cont -->

Ban on foreign funding to go

STAR 7/5/92

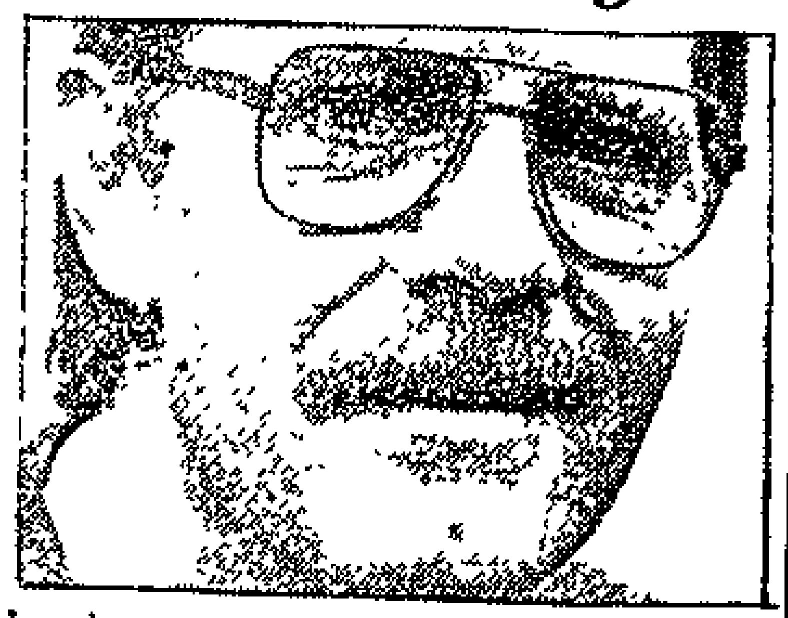
CAPE TOWN — In an effort to level the political playing field before a general election, restrictions on foreign funds for political parties would be lifted, Minister of Justice Kobie Coetsee said yesterday. (49)

Replying to the debate on his budget vote, he said provisions of the Ban on Foreign Financing of Political Parties Act would be lifted until six months after the general election that would be held under the rules of the new constitution. — Sapa.

Education finds itself at the bottom of the class

49

By David Cumming



The first nip in the autumn air this week was accompanied by a chilling warning for the South African economy from the Minister of National Education, Louis Pienaar.

He told Parliament that by the year 2000, the State would be able to pay only for the first seven years of a child's education.

STAR 1/5/92

The shortfall, he suggested, would have to be made up by greater involvement in education of the private sector and by greater contributions by parents.

Even the most optimistic of economic pundits will tell you that the eight short years over which the minister's "doomsday" scenario is to run will be insufficient for domestic growth to remove the gap between today's haves and have-nots, even if the new South Africa resorts to the fiercest of redistribution policies.

And the inevitable conclusion is that black parents will simply not be in a position to afford adequate education for their children.

If those fiercely redistributive policies are adopted, there is also every possibility that white parents, already having to find room in strained family budgets to accommodate the switch to model C schooling, will find themselves in the same boat.

Therefore, if we analyse the minister's statement, it is clear that the only other source of funding for what is the nation's future human capital is the business community.

It will be required to pay up, even if it does so reluctantly. The only alternative is a future bereft of the skills it requires simply to tick over, let alone grow.

While it is well known that many businesses already make handsome contributions to this cause through bursary funding and subsidies to employees, this does little to aid the countless thousands who do not qualify for aid, either through a lack of academic excellence or because of our well-documented level of unemployment.

Perhaps now is the time for organised commerce and industry to begin dismantling the time bomb that is ticking noisily under its future structure by adopting a strategy to ensure that there will be sufficient money available to ensure that *every* child is allowed to progress to his or her full potential in education.

The very future of the free enterprise system could depend on it.

Let's hope we get a man who won't cry 'uncle'

(49)

S Times 3/5/92

HOPE springs eternal! Just as I was reconciling myself to the prospect that South Africa would continue to stagnate for the rest of my natural life, Mr Barend du Plessis resigned as Finance Minister.

I thought he looked sad and wistful on television — he no longer speaks to me face to face — as he explained to the nation that not he, but the cabinet, was responsible for a persistent inability to lop off the arms of the bureaucratic monster that consumes our wealth, and keeps us poor.

That, of course, was the accusation which Mr Du Plessis's critics always flung at him — that he knew what to do, but that he was too weak to do it. Former President Botha kicked him around mercilessly.

If there was ever a perfect moment for Mr Du Plessis to resign it was when, in Berlin, he heard that President Botha had shattered his Budget to give salary increases to civil servants, presumably because Mrs Botha or Rozanne thought it would be a nice thing to do.

That was when the jokes began to circulate — that the Finance Minister called his cabinet colleagues "oom", and so forth. Not since the age of kings has any finance minister been so humiliated. But Mr Du Plessis swallowed his pain and soldiered on, bravely insisting on the need for restraints on government spending, for privatisation, for deregulation, and (in private) for the need to lop off the arms of the bureaucratic monster.

He was wholly ineffectual. The bureaucracy simply grew as its tasks shrank, privatisation was quickly killed off (and that department's budget for privatisation was reduced to R1 000 for the year), spending rose faster than GDP, and the government actually resorted to borrowing to pay the running costs of the civil service, a practice Mr Du Plessis called "horrible".

The result of all this, predictable and often predicted, was stagflation — the Reserve Bank crushing the economy to check inflation, and the Treasury spending like a drunken sailor to keep the civil service and the cabinet happy.

The reason, Mr Du Plessis told us this week, was that the cabinet ignored his remonstrations, no matter whether he called them "oom" or something else.

As this state of affairs stretched from month to month, and year to year, hope began to die — the hope that, between the period of social engineering conducted by the prophets of apartheid, and the period of social engineering to be imposed by the ANC's socialists, there might be a brief interregnum in which capitalism could thrive and show to the nation its limitless potential for good.

Every time Mr Du Plessis talked of privatisation, or of reducing the government, or of sound financing, visions arose of a new growth cycle, unencumbered by Mossgas or Sasol, freed of subsidies and protectionist taxes, stimulated by tax cuts and an expanding labour force ... And every time the figures were published, it transpired that Mr Du Plessis had failed again.

Time has slipped away from us now. Inflation persists at devastating levels, and refuses to decline because food prices are sustained at a high level by bureaucratic interference in the markets, and by a refusal to allow imports to flow freely into the country. Bureaucrats cling to their privileges, even if they must starve a nation to do so.

And, while inflation persists, the Reserve Bank must keep interest rates at crushing levels, and we are denied the wondrous economic power that would be unleashed by cheaper money, lower taxes, wider markets and more employment — the cycle of prosperity that free enterprise capitalism opens to those who follow its rules.

THE power of economic growth was demonstrated after the Second World War when Ludwig Erhardt simply abolished the plethora of restrictions and controls that kept a prostrate West Germany on its knees, and laid the basis for what became known as the *wirtschaftswunder*, the German miracle. In Britain, as we all now know, the rise of the Labour Party had the opposite effect.

However, the effects of British folly took time to manifest themselves, and meanwhile a generation of African leaders, enchanted by the prospect of spending their way to prosperity, absorbed from Britain's socialists the ideas that were to destroy their continent. Some of those leaders, their 30-year-old prejudices still intact, are working now in Codesa for a chance to put into effect the grand plans of Harold Wilson and Kwame Nkrumah, of Julius Nyerere and Nye Bevan.

Their hand is visible in the ANC economic policy unveiled this week, which struggles quaintly to reconcile the imperatives of economic growth with the notion of "redistributive expenditure on housing, infrastructure, education, health, and social welfare". By exquisite irony, the policies which the ANC proposes are those, exactly, which the Nationalists have followed: lip service to growth, and power to the social engineers.

THOSE policies have already given us both the monstrous townships and the housing shortage; Mossgas and a crumbling road system; the education bureaucracy and an ineducable populace; space-age medical research and overcrowded hospitals; an army of social workers, and a greater army of hungry people.

Here, as in Labour's Britain and Kaunda's Zambia, growth faltered under the weight of good intentions and the bureaucracy killed off prosperity.

Barend du Plessis, to his credit, saw all this quite clearly, and spoke of it often, but the effort to change the ways of the government broke him, body and spirit. He could not wrest control from the cabinet, and so was impotent.

In his place, let us pray, comes a stronger man, who will lop off the arms that Mr Du Plessis could not, and say "no" instead of "oom", and who will unleash the power of economic growth while there is still time. Only if we can open the eyes of the ANC to the power of free markets can we hope to avoid repeating, under Mr Mandela's financial managers, the suffering we have endured under Mr Du Plessis.

KEN OWEN

If I were Barend's successor

(44)

STimes (Buss) 3/5/92

By ZILLA EFRAT

SOUTH Africa's next finance minister will inherit a job few envy.

His immediate tasks include tackling the Government's high spending, VAT, the fiscal deficit, attracting foreign capital and breathing new life into business.

His major challenge will be walking a tightrope between promoting long-term economic growth and dealing with heightened expectations and social backlogs in the short term.

Business Times spoke to economists this week to see how they would tackle the job.

They said the new minister would need vision, creativity and strong negotiating skills to deal with many political parties and pressure groups.

Econometrix director Azard Jammine's starting point would be to impose strict discipline to limit growth of the public service.

Tax

He would eliminate unnecessary jobs in the public service and offer incentives to attract good people. Government spending on capital infrastructure would be increased.

Dr Jammine would set about restructuring the tax system to stimulate economic growth.

He would cut personal and corporate taxes. Certain wealth taxes would be introduced to make up for the revenue shortfall and to encourage people to place money in productive assets.

VAT would go and Dr Jammine would aim for flat tax rates in general.

He would promote further privatisation to distribute ownership and to allow for his tax cuts.

A major aim would be to unbundle the concentration of economic power by fostering entrepreneurs and small business.

One method of achieving this would be to improve small businesses' access to funds through more creative financing and incentives.

ANC economist Tito Mboweni would not accept a job from a government that was not fully representative of the people.

But if he were the next finance minister, Mr Mboweni would sort out the VAT "mess" as a matter of urgency. He would open negotiations with the VAT Co-ordinating Committee and other interested parties.

His major priorities would include resolving inconsistencies in monetary and fiscal policies and the serious pension deficit of State and parastatal institutions.

He would also tackle the national debt so that the new government did not inherit this problem.

He was reluctant to discuss his strategy because he was "not going to give it to the NP".

Absa senior economist Nick Barnardt says his first move would be to strengthen his position with more specialised advisers and deputy ministers.

Stress

This would help to avoid the stress faced by retiring Finance Minister Barend du Plessis.

He would then take steps to ensure effective and optimal co-ordination of all strands of economic policy.

Standard Bank economist Nico Czypionka says the new finance minister must be given greater powers and a wider role than before. He must also have the full backing of the state president and room to manoeuvre so that he can "inspire" the economy out of the current rut.

Old Mutual chief economist David Mohr says that in addition to having good economic sense, the new finance minister must be acceptable to all political parties because of the need for stability through the transition period.

The new minister will take on one of the most important cabinet posts, but some economists question if he will have time to make his mark before an interim government comes into place.

FW has already chosen Barend's successor

B/Day 4/5/92

(49)

BILLY PADDOCK

CAPE TOWN — The new Finance Minister is expected to be named this week, with speculation still concentrated on Economic Co-ordination and Trade and Industry Minister Derek Keys.

Keys returned from Japan yesterday.

Standard Bank chairman Conrad Strauss remains a possible contender for the post vacated by Barend du Plessis.

It is understood President F W de Klerk has made his choice, but wanted to discuss the implications with Keys and other Ministers. These discussions could involve who would take over the Econonic Co-ordination portfolio should Keys get Finance, or how Keys would work with the new Finance Minister.

Because of this delay in naming Du Plessis' successor, the appointment of Public Enterprises Minister Dawie de Villiers as acting Finance Minister has been extended. De Villiers is regarded as an outside choice for the Finance portfolio.

De Klerk telephoned Keys in Japan, and is expected to hold further discussions with him before the announcement is made.

Speculation has centred on Keys as he was originally brought into the Cabinet with the intention that he would succeed Du Plessis at the end of the year.

However, other sources said it would be better to leave Keys in the Trade and Industry portfolio, as he was a businessman who could get domestic and foreign investment going again. They believed that, if Strauss was Finance Minister, he and Keys would form a formidable team that could revive the economy and discipline their colleagues in the Cabinet over state spending.

Finance naming this week?

CT 4/5/92 (49)

Political Staff

THE new finance minister is expected to be named this week, with speculation still concentrated on Economic Co-ordination and Trade and Industry Minister Mr Derek Keys, who returned from Japan yesterday.

Standard Bank chairman Mr Conrad Strauss remains a possible contender for the post vacated by Mr Barend du Plessis.

It is understood President F W de Klerk has made his choice, but wanted to discuss the implications with Mr Keys and other ministers These discussions could involve who would take over the Economic Co-ordination portfolio should Mr Keys get finance, or how Mr Keys would work with the new finance minister.

Because of this delay in naming Mr Du Plessis' successor, the appointment of Public Enterprises Minister Dr Dawie de Villiers as acting finance minister has been extended.

Mr De Klerk telephoned Mr Keys in Japan and is expected to hold further discussions with him before the announcement is made.

Meanwhile, veteran Foreign Minister Mr Pik Botha was unanimously chosen to replace Mr Du Plessis as Transvaal leader of the National Party in a move clearly aimed at boosting the party's support from all race groups in that province.

Mr Botha, highly popular among the public, was unopposed in the provincial leadership elections on Saturday after Defence Minister Mr Roelf Meyer pulled out at the last moment. Mr Meyer was elected deputy leader.

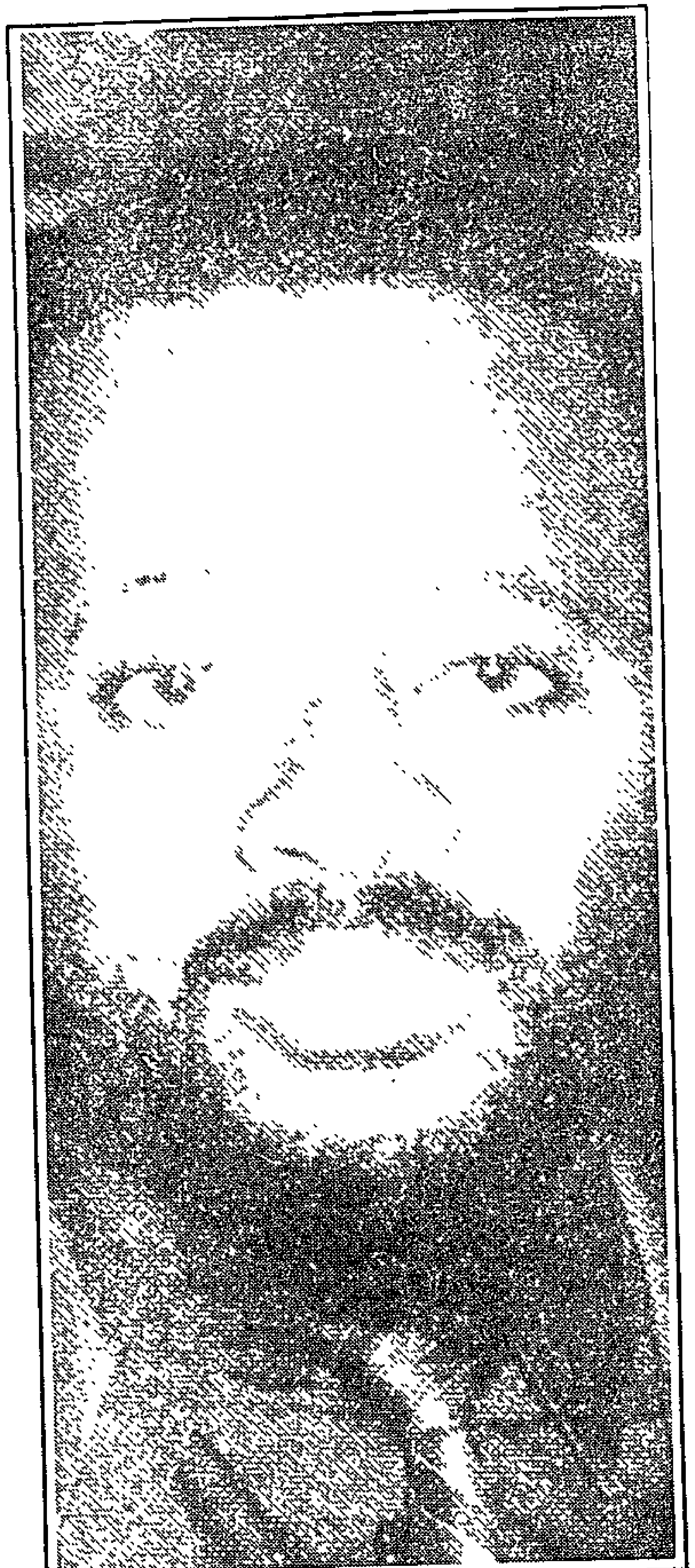
The long-serving foreign minister's selection is a clear indication that the NP regards itself as being on an election footing — Mr Botha is seldom as effective as when he is campaigning in front of a crowd.

At the weekend he said the NP could become the majority party in South Africa only if it attracted significant black support.

Socialists discuss post-apartheid SA

Sowetan 4/5/92

(49)



PALLO JORDAN... his contribution would have made the book more valuable.

WHILE the ANC tinkers with economic models, a lively debate within the working-class movement explores the economic shape of a post-apartheid South Africa.

Title: Between Apartheid and Capitalism. (Conversations with South African Socialists)
Author: Alex Callinicos
Publisher: Bookmarks, 265 Seven Sisters Road, London.
Price: R18,00
Reviewer: MZIMASI NGUDLE

Apartheid is on the way out. What is to go in its place? The regime wants to defend capitalism and white privilege. Is the social contract a viable alternative?

The Iron Curtain has been torn to shreds. Is the struggle for socialism on the agenda in South Africa?

More precisely, what does the two-stages theory of the Communist Party entail for the working class? The likelihood is that the ANC-led majority government will be hamstrung and thus unable to deliver.

Growth through redistribution, the ANC's recent economic trump card, has little, if anything, to commend it if the history of reform capitalism is anything to go by.

Alex Calinicos, a leading member of the Socialist Workers' Party in Britain, professor of politics at the University of York and author of numerous books, debates these and other pertinent issues with leading South African socialists.

Between Apartheid and Capitalism, published in January this year, is a brief resumé of the leading views on topical socio-economic issues.

In this book, Callinicos argues against the social contract and reform capitalism with Mark Swilling, Devan Pillay, Karl von Holdt, Jeremy Cronin, Colin Bundy, Moses Mayekiso and Neville Alexander.

He draws inferences from the European experience and concludes that any attempt at reform capitalism, which the social contract inevitably entails, will destroy the working class movement.

He argues that working class alliance with a post-apartheid government will only produce a succession of variants of capitalism.

He warns South African socialists that the expectation of a much more sympathetic ANC government is both premature and illusory.

Furthermore, he says, the danger of a labour aristocracy in South Africa is real. "A group of workers whose wage levels and position within the division of labour give them interests antagonistic to the mass of low-paid workers and unemployed, and directs them towards an alliance with capital."

To those who defend the social contract as the sole alternative, Callinicos offers the classical Marxist perspective, which, not only repudiates alliances with big business but also demonstrates the pragmatic viability of the "socialism from below".

Firstly he argues for "militant abstentionism", colloquially known as militant boycottism, the combining of the development of strong workplace organisation with a refusal to take any responsibility for the management of South African capitalism.

Secondly he notes the enormous expansion of the world working class as a development that indicates an internationalist strategy - a strategy which sees victory in any one country as merely a staging post in a global revolutionary process.

"The Solidarity in Poland, the Workers' Party in Brazil, Cosatu and Nactu are examples of explosive growths of new workers' movements.

"Also the two great miners' strikes in the USSR in 1989 marked, he says, the return of the Soviet working class to the historical stage for the first time since October 1917."

Finally, Callinicos argues, the weakness of the left in South Africa as elsewhere does not lie in objective circumstances, but in what Trotsky called their subjective factor.

"We are suffering from a crisis of ideas, of will, of imagination. Socialists find themselves unable to conceive of an alternative to capitalism so they settle for tinkering around with capitalism, for market socialism or an improved regime of accumulation.

"It is far better to return to the classical Marxist tradition and its vision of socialism from below. It is there that is to be found the resolution of the ideological crisis gripping the left, not just in South Africa but across the world."

With detailed cross-references on almost every subject mentioned in this book, it offers a healthy and invaluable point of departure for any debate of future socio-economic dispensation.

The Afterword, titled "Social Contract or Socialism: The Agenda of the South African Left", offers a critical analysis of these debates, and proffers an attractive framework for any future economic debate.

The best way of reading the book will be to start with the Afterword, and then proceed to the Introduction, the rest and perhaps read the Afterword again.

What I found totally disconcerting is the absence of any contribution by Pallo Jordan, a renowned and eminent socialist. Surely his contribution would have made the book more than just an invaluable handbook for the South African socialists.

A brilliant explanation of process of change

BOOK OF THE WEEK

The End of History and the Last Man by Francis Fukuyama (The Free Press, New York)
Reviewed by HUGH ROBERTON

STAR 4/5/92

(49)

THERE is a degree of intellectual daring, perhaps even arrogance, in the notion that history has reached its ultimate state of perfection in the form of modern capitalist democracies, that this is the point towards which all human development inevitably has led and beyond which it will not, and cannot, improve.

Yet in presenting this proposition, Francis Fukuyama argues his case with humility and a dazzling persuasiveness. Of all that has been written about the turbulence and change of recent years, and the collapse of the monolithic Soviet empire, nothing quite so brilliantly explains the process of change or more lucidly extracts from it the threads which link it to the past and the future.

Francis Fukuyama, a former deputy director of the United States State Department's policy planning staff, has written a book which is at once breathtaking in its scope and concept, and compelling in its logical argument. A magnificent summation of history, and of the central philosophical ideas of the 20th century, leads to a conclusion which become relentlessly irresistible.

His central argument is that capitalist liberal democracies, with their essential commitment to Judeo-Christian morality, are not ethnocentric phenomena, but represent the inescapable end point of a human journey through war, terror, privation and experimentation, a universal point of truth which all societies ultimately must reach.

Authoritarian regimes of both the left and the right, he argues, have within them the seeds of their own destruction and have fallen in recent times not because of revolutionary violence but through their inherent contradictions and their inability to accommodate the vigour and freedom of the human spirit.

The collapse of apartheid in South Africa, as much as the disintegration of the Soviet Union and the failure of military dictatorships in South America, have been a part of the same natural historical process.

To Fukuyama, the Judeo-Christian tradition and its concept of the equality and moral autonomy of the individual is the fulcrum upon which liberal democracies rest, the philosophy behind what he foresees as an unavoidable evolution of a global system.

South Africans will find an ironic significance in his contempt for the United Nations — not because of the hypocrisy and absurdity of many of its decisions, but because of a fundamental flaw in the UN Charter which accords sovereign equality to democratic and undemocratic states alike. The UN, he suggests, cannot be a force for good in the world without recognising the superiority of free and democratic societies.

But whether or not the UN does so, he reasons, such societies logically are the destiny of all people everywhere, a course predestined by the very nature of man. He dismisses the belief that national characteristics, such as the totalitarian passivity of the Russians, the traditionalism of the Poles, the regimentation of the Germans, are unchanging realities.

Likewise, he rejects as "parochial and untrue" the idea that nationalism is a deeply rooted part of the human condition. As countries find common ground in democratic institutions and values, he argues, the transitory sentiments of nationalism and ethnicity will wither, and as capitalism expands and trade grows so, too, will war become increasingly improbable.

In more than 200 years, he points out, no liberal democratic state has ever attacked another. War is an unnatural and obsolete part of history, an aberration which has plagued the course of human history to its ultimate point.

Fukuyama's political and historical analysis rests upon his philosophical conclusions about the real nature of man, and of the "first men" of Locke and Hobbs, Nietzsche and Hegel, which lead to his definition of "the last man", the ultimate human at the final point in historical development.

In large measure he rescues Nietzsche from the corrupting aura given him by the Nazis, and places Nietzsche's concept of the "first man" above the Lockean concept of man as a creature driven by self-preservation and comfort. Nietzsche's "first man" distinguishes himself by overcoming the forces of nature to become the master of nature rather than its victim. By doing so, Nietzsche's "first man" proves the capacity of man to mould history.

It is the idea of Nietzsche and Hegel, that man is the driving force of history, which Fukuyama believes is the driving force behind modern liberal democracies. But it is the Judeo-Christian tradition of the equal worth of each individual before God which he believes is at the heart of the end of history.

Through an equal vote, an equal right to power, an equal right to create and to express views, the "last man" satisfies his Nietzschean hunger for recognition and esteem. Competition and creativity, likewise, are part of a natural order which seeks recognition and esteem and which are in harmony with capitalist democracy. There cannot be creativity without freedom; there cannot be recognition and esteem without competition.

To Fukuyama, the triumph of capitalism is gain since it satisfies the human need for esteem and any system which penalises capital gains penalises free competition and suppresses recognition and esteem. Inevitably, any system which does so must fail, and through such failure, and the contrary success of free market democracies, he believes, the Third World, too, will evolve towards "the end of history." □

● *This book is not yet available in South Africa. It can be ordered through any good bookshop from the publisher, The Free Press, ICM, 40 West 57th Street, New York, NY 10019, USA. Fax (091) 212-556-5665* bandoned, many African "Once we're established there when the relentless civil vio- num.

Compromise the key to progress in building a prosperous SA

CT 4/5/92

By JAN STEYN
Chairman of the Independent Development Trust

THE progress we have made leading up to and during Codesa has been due to gifted leadership and a strong sense of both realism and direction among the leaders of major parties.

Our leaders have realised just how great the capacity of their organisations is to inflict mutual damage on each other and on South Africa's interests. Despite rhetoric, position play and very tough tactics, the recognition of the inevitability of compromise and of the absence of real alternatives to such compromise has ultimately kept negotiations on track.

I remain fairly confident that — however imperceptibly to outsiders — shifts are going to be made which will allow reluctant compromises. Although I cannot predict when, it seems probable that we will soon move into a phase of shared interim administration and into an electoral process culminating in a new constitution.

Surge in urbanisation

Democracy is indeed a necessary condition for progress. However, it is clearly not a sufficient condition. What about the socio-economic milieu in which this fragile democracy will have to be launched and take root?

The recession, which deepened in the latter part of 1991, has caused an unprecedented surge in urbanisation. The drought will add to the push towards urban areas There may be well over seven million people living in informal accommodation in and around our cities.

In urbanising South Africa there is not only competition for jobs but also for living space and there is great pressure on all urban facilities.

A climate in which violence flourishes is the result. High rates of crime are another manifestation. While the law enforcement agencies have curbed the rise in crime in certain important respects, the widespread violence and its intensity and brutality give evidence of a degree of embitterment, hostility and desperation which is hugely disturbing.

Great pressures

This is the climate in which our political leaders will begin competing in electoral politics. There will be intense pressures on them to be either immoderate in their demands or reactive in their defensiveness and fears.

This is why socio-economic development is so essential to underpin the early processes of democracy.

Political leaders seem to realise the dangers. Despite great pressures, the leaders of mass-based parties have recommitted themselves to supporting development initiatives, more especially those of the Independent Development Trust.

In the recent budget there is also clear recognition of socio-economic needs, to the extent of necessitating a fairly large deficit and high taxation.

DEVELOPMENT ESSENTIAL ... Mr Jan Steyn

The economy, while sluggish, is not without promise. The very favourable export performance is one indication of strength. The so-called informal sector seems to be expanding, even though earnings per entrepreneur have dropped. We have 25% spare capacity in manufacturing. Although the flow of capital from abroad is constrained, raising funds through bond issues and commercial loans abroad is becoming more and more real and necessary.

We need to unlock this potential as far as our internal industrial plant and markets are concerned. This is where housing provision and the construction industry in general have such an important role to play.

Special funds

Site provision and housing are among other important bases of renewed economic activity.

We must also consider that we have the instruments for such development in place. The capital subsidy scheme for first-time site owners, administered by the IDT, has already started to produce substantial numbers of new property owners.

We are paying out R5 m a week.

Perhaps it is important to note that the cost of implementation has been 1,5% of the amount administered and that the project is managed by five IDT staff members.

Now that the budget has continued to allocate special funds for low-cost housing — R500 m having been provided for housing and related infrastructure — we in the IDT could well be positioned to maintain and increase the impact of this exciting initiative. Indeed, it is imperative that we should be empowered to do so.

We hope, however, that once the De Loor working group's recommendations have been translated into an acceptable national housing policy and a single housing department is established, a wider range of subsidies will be available to ensure a more balanced and rounded financial framework.

Active encouragement

Clearly, however, the socio-political environment is not conducive to this kind of broadly-based thrust of development. The rent and service boycotts, which wax and wane, do not inspire investor confidence, neither do the politically-inspired unsatisfactory levels of bond repayments in some areas.

Political contraints on the repossession of houses even after elaborate procedures to collect arrears constitute a further problem Crime, including vandalism on construction sites and payroll robberies, add to the constraints.

The quality of leadership in our politics has time and again salvaged the political negotiation process This same quality of leadership should also actively pursue the facilitation of socio-economic development so necessary to accompany the political changes. This does not stop at public statements; it requires active encouragement in the form of constructive involvement in development initiatives.

☐ *Extracts from an address at Kaalfontein last week.*

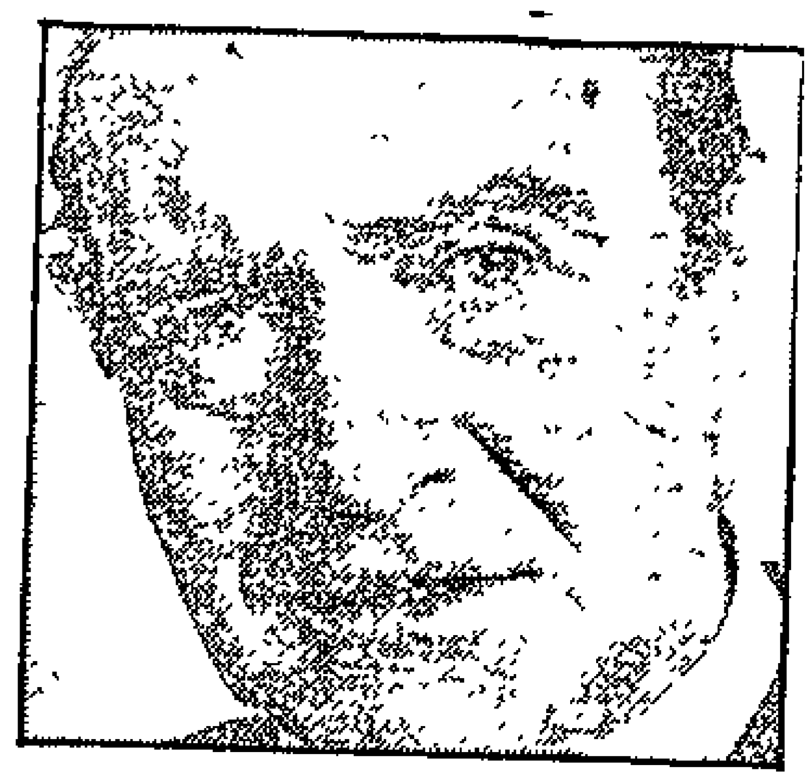
LETTERS Box 11 CAPE TOWN 8000

Waiting for realistic economic manifesto

(47)

STAR 4/5/92

By Michael Chester



How long will South Africa sit back and assume that new investment funds are bound to start flowing now that we have donned sackcloth and ashes in repentance for apartheid?

In an eager rush to stake allegiance to democratic reform, most of us seem to have grasped hold of an odd notion that somehow the outside world owes us massive rewards for political reform.

Why no gush of new investments or loans from the World Bank? Or the International Monetary Fund?

Or all the big private-sector financial institutions and multinational corporations that made a fast exit when anti-apartheid storms broke out in the mid-1980s — with hints they would return when South Africa mended its ways?

True, potential investors have started to put South Africa back on the world atlas of possible new business opportunities, especially with all of its chances to become a gateway into the much larger arena of the sub-continent market as a whole.

But as pointed out by a number of seasoned observers, most of them are carrying notebooks rather than chequebooks.

The hesitation is understandable. Professor Lawrence Schlemmer, a general manager of the Human Sciences Research Council and vice-president of the SA Institute of Race Relations, put a finger on a few of the reasons last week.

He had got hold of results of surveys that showed that as many as nine out of 10 investment fund managers in Britain, as an example, favoured deals with South Africa now that apartheid problems had been buried.

Yet six in every 10 of them still placed SA in the medium- to high-risk category as far as international investments were concerned, largely because of chronic violence and political instability.

Equally fascinating, though, were revelations in the surveys about the ignorance of overseas fund managers about the economic and political realities in the new South African scenario

At first there may be hoots of derision, even among sophisticated SA observers here at home, about the naivety of anyone suggesting there were any clear-cut guidelines.

Professor Schlemmer sounded ready to agree. But he had delved deeper than most into a more dispassionate and unbiased analysis of the scenario that may well unfold.

Of course, there was allowance for the risk of the canvas being torn into shreds. However, he also made a lot of sense about the blunt realities about how far the political extremists can influence the ultimate outcome.

Refusing to be deafened by political rhetoric, he found that calm research indicated that no single one of the main parties had the muscle to win the sort of majority vote it needed to be dictactorial.

If elections were held at the moment, he forecast, the ANC/SACP alliance would harvest 45 percent of all the votes; the NP and DP would muster 32 percent; Inkatha 12 percent; the Conservative Party no more than 5 percent — leaving around 6 percent of the vote to be shared out between the also-rans.

So? In all probability, he said, the government in power in 1995 would be a coalition — which was precisely what the rank-and-file supporters of all the main parties wanted, whatever the bluster of party leaders shouting from public platforms

An Alice in Wonderland scenario? Perhaps not, if one turns down the volume of rhetoric.

It may be premature to place bets on the outcome. All it needs is for each of the main political parties to offer an economic manifesto that shows at least tentative offers of compromise away from hard-and-fast dogma.

Interest rates 'not likely to drop soon'

SHARON WOOD (49)

INTEREST rates would not come down in the next month or two because inflation was still high and government spending was adding liquidity to the markets, Reserve Bank Governor Chris Stals said yesterday. B/Day 4/5/92

"There is not much chance of interest rates coming down in the next few months but the position could change further into the year," he said.

It was impossible to predict the outlook for interest rates during the year because this depended on a number of factors. The Bank would watch developments in the markets and take account of not only inflation but also the money supply, bank credit extensions, gold and forex reserves and exchange rates.

"The Bank is happy with the present rates of change in these economic variables and would like to keep them at these levels. But inflation should still come down further, which we hope it will do."

Government deposits with the Bank were declining, adding liquidity to the system, but this could change as the fiscal year progressed.

Stals told a Sunday newspaper that the Bank was not prepared to lower interest rates artificially.

Bureaucracy needs post-modernism to survive

B/Day 5/5/94 (49)

MICHAEL PROWSE
in Washington

"IF WE want to continue to be number one, we need to transcend the legacy of modernism — modern thought and modern institutions, including bureaucracy. You know how different American society is today compared to 1960 or even 1970. We're different; we're post-modern. Yet the government has not kept up. People sense it intuitively: modern government is trying to run a post-modern society, and it is failing."

I quote from a speech by James Pinkerton, a policy adviser at the White House. Pinkerton, a conservative, is in the vanguard of a cross-party movement urging a wholesale reform of the US public sector. The closest thing to a bible for the movement is a new book, Reinventing Government, by David Osborne and Ted Gaebler (Addison Wesley, $22,95). Prominent figures praising the book include leading Democratic presidential contender Bill Clinton, who has described it as a "blueprint" for the revitalisation of government.

The first powerful critique of modern bureaucracy dates from the '60s when US economists James Buchanan and Gordon Tullock invented a doctrine known as "public choice". This highlighted an apparent inconsistency in market economics. Traditional theory assumes that individuals seek to maximise their personal well-being, consumers maximise utility or satisfaction while businessmen maximise profits. Strangely, however, economists assume that when individuals became bureaucrats, they would work for the broader public interest.

Public choice says this is a naive assumption. Bureaucrats are as self-serving as anybody else. They are typically interested in retaining their jobs, gaining promotion and expanding their sphere of influence. In tightly run organisations, they will mainly seek to please their immediate superiors. But often, if they cannot be fired, they will please themselves. The last thing we should assume is that civil servants are motivated only by the goals of their distant political masters.

Such arguments helped justify the Reagan/Thatcher assault on big government. The post-modernist critique of government is less harsh. Rather than directly impugning the motives of civil servants, it claims they are trapped in organisational structures and no longer function.

What is meant by post-modern? Pinkerton offers a few colourful examples. "Network TV is modern — you watch what they put on. Cable is post-modern — you have a choice. The postal service is modern. Faxing and E-mailing are post-modern." Modernism, which dates from the late 19th century, is thus associated with mass production, uniformity and predictability; post-modernism with flexibility, choice and personal responsibility.

"Our thesis is simple," write Osborne and Gaebler, "the kind of governments that developed during the industrial era, with their sluggish, centralised bureaucracies, their preoccupation with rules and regulations, and their hierarchical chains of command no longer work very well." They regard modern bureaucracies as a hangover from the days of Henry Ford, who pioneered assembly-lines and other techniques of mass production. In industry, post-modernists' battle cry is "flexible specialisation": small companies with highly qualified, adaptable workforces are seen as more likely to cope with competitive threats and rapid technological change than Fordist dinosaurs.

But what would post-modernist policies mean for the public sector? Osborne and Gaebler try to dissolve apprehension by stressing their deep faith in government and admiration for individual bureaucrats. They set out 10 principles for reform, most of which have a familiar ring for those who lived through the Thatcher years: for example, treat people as customers, encourage competition between service providers, decentralise decisions and focus on outcomes rather than inputs, that government "should steer, not row".

The UK education and health care reforms of the '80s were a bigger challenge to the status quo than anything attempted in America. In the US the litmus test will be education. The high school system — set up at the turn of the century to prepare students for big business — is modern. In most areas, children are allocated to large schools run on rigid, bureaucratic principles by school boards. Post-modernists favour the introduction of a voucher system giving parents freedom to choose schools and principals much greater autonomy. If the high schools are eventually overhauled along such lines, the US will have rejected the existing public sector paradigm.

There is a kernel of truth in the public choice and post-modernist critiques, which share a distrust of current arrangements. But the former is too cynical — there *is* such a thing as a public service ethic — while the latter probably exaggerates the pace at which society is changing. In the long run, however, as more people get wealthier, the demand for customised products and services will grow, forcing a less monolithic approach in the bits of the public sector that survive. — Financial Times.

Investors wait for interim rule

49

Sowetan 5/5/92

MAJOR decisions on foreign investment in South Africa were being delayed until an interim government was in place, a member of a top-level Belgian government and business delegation said yesterday.

Textile industrialist Mr Philip Verbeke said it was critical that Codesa did not lose its momentum.

"The closer we get to a solution, the more people are adopting a wait-and-see attitude. People say 'wait for an interim government'."

Speaking at a Press conference in Cape Town hosted by Belgian Minister of Foreign Trade and European Affairs Mr Robert Urbain, Verbeke said it was hoped that the African National Congress would embrace foreign investment.

South Africa already had an export base to the rest of Africa and the world was looking for its next cheap labour base.

Verbeke said if stability were achieved South Africa's growth-rate could move close to double-digit figures.

Urbain, who heads the Belgian economic mission to this country, said their presence in the country served to encourage the Government that "the process here is clearly understood abroad".

The mission was looking for means to achieve a more balanced trade figure, which currently favoured South Africa, and methods to improve bilateral trade between the countries.

Belgium's international exports totalled R250 billion in 1991. It exported goods worth R1 billion to South Africa and imported R2 billion. - *Sapa.*

PROFILE

(49) ARG 5/5/92

Economic 'glasnost' the key . . .

Derek Keys, who has just taken over the Finance portfolio in President De Klerk's Cabinet, can be expected to aspire to transparent predictability. But not because he lacks flair. Political Correspondent MICHAEL MORRIS reports.

SWIFT, innovative policy shifts in economic planning might display boldness, imagination, keenness.

But to Derek Keys, imported into the Cabinet from Gencor to run Trade and Industry and now heading the Finance Ministry after last night's shuffle, nothing beats predictability in engendering economic certainty among businessmen.

"We are living in uncertain times," he said in a recent interview, "and one of the things that does is to stop people investing. Without investment, there is no growth, so the question to be asked is: what can we do about it?"

Mr Keys prescribes policy-making that is transparent in motive and predictable in direction.

"Policy-making has got to be an open affair so that people know what you are trying to do. Then you must stick to it. You can't keep surprising people. It is far better to go on in a stick-in-the-mud way, than to come up with bold new plans, so that the private sector can plan in the knowledge that the government will behave in a certain way."

The strength of Derek Keys's argument is emboldened by the fact that he is not a professional policitian merely espousing a platitude for its popularity.

President De Klerk was widely praised for appointing Mr Keys to the Cabinet, filling, in part, the gap left by the death of Dr Wim de Villiers.

Born in Johannesburg, Mr Keys studied business at Wits University and became a chartered accountant.

After a solo business career, he was elected executive chairman of Gencor in 1986. He has also served as a member of the board, or chairman, of various companies, including Malbak, National Discount House, Price Forbes, Sappi and Samancor.

Derek Keys ... the private sector must be able to plan in the knowledge the government will behave in a certain way.

THE NEW CABINET

THE new Cabinet as announced by the State President De Klerk is (in order of protocol):

Minister of Foreign Affairs, Mr Pik Botha
Minister of State Affairs, Dr Gerrit Viljoen
Minister of Water Affairs and Forestry, General Magnus Malan
Minister of Public Enterprises, Dr Dawie de Villiers
Minister of Justice and National Intelligence Services, Mr Kobie Coetsee
Minister of State Expenditure, Mr Amie Venter
Minister of Correctional Services, Mr Adriaan Vlok
Minister of Defence and Public Works, Mr Gene Louw
Minister of Education and Training, Mr Sam de Beer
Minister of Mineral and Energy Affairs, Mr George Bartlett
Minister of Agriculture, Dr Kraai van Niekerk
Minister of National Health, Dr Rina Venter
Minister of Law and Order, Mr Hernus Kriel
Minister of Regional and Land Affairs, Mr Jacob de Villiers
Minister of Home Affairs and Environment, Mr Louis Pienaar
Minister of Administration and Tourism, Dr Org Marais
Minister of Transport and Posts and Telecommunications, Dr Piet Welgemoed
Minister of Constitutional Development and Communication, Mr Roelf Meyer
Minister of Manpower, Local Government and National Housing, Mr Leon Wessels
Minister of National Education, Mr Piet Marais
Minister of Finance, Trade and Industry and Economic Co-Ordination, Mr Derek Keys. — Sapa.

Derek Keys is new Minister Finance

Sowetan 5/5/92

(49)

MINISTER of Trade and Industry and for Economic Co-ordination Mr Derek Keys has been appointed Minister of Finance.

Keys will, however, retain his existing portfolios.

State President FW de Klerk also announced six other Cabinet changes.

The Minister of Constitutional Affairs, Dr Gerrit Viljoen, will become Minister for State Affairs from June 1

The Minister of Defence, Mr Roelf Meyer, reliquishes his portfolio to take over Constitutional Affairs immediately while Mr Gene Louw, Minister of Home Affairs, will become Minister of Defence from June 1.

The Minister of National Education, Mr Louis Pienaar, will take over from Louw while Minister of Manpower Mr Piet Marais takes over the National Education portfolio.

Mr Leon Wessels will take over the Manpower mantle.- *Sapa.*

Call to fund social upliftment

Bday 5/5/92

CAPE TOWN — The private sector could not rely on economic growth to achieve a redistribution of wealth in SA and would have to become strategically involved at the highest level in social upliftment projects, Independent Development Trust chairman Jan Steyn said yesterday.

He told the congress that to substantially reduce unemployment, the economy would have to grow at levels which were probably unattainable in the short term.

Political parties would be faced with a pressure of expectations from the discontented.

"We cannot expect the emergent political parties in SA to ignore these pressures," he said, adding political survival would oblige them to be seen to address these needs and to do so dramatically.

Steyn said it was essential that the private sector address the danger of excessive state intervention and high taxation not by simply pointing to the benefits of economic growth, but by prioritising appropriate initiatives.

(49)

He urged the corporate sector to give substantial support to post-matric and post-graduate management development programmes.

The private sector could also support technical and vocational training to create self-sufficiency in small-scale production to counteract the overemphasis on retailing activity in the informal sector.

The private sector could also support low cost housing initiatives.

Shell International Western hemisphere and African regional coordinator Maarten van den Bergh said a clarification of the future economic environment for investment in SA was urgently required.

"By addressing this issue and by sending strong, consistent signals of good politics and good economics, the new SA could improve the climate for foreign and local investors."

He said raising taxes, especially corporate taxes, could be a disincentive to investors.

Wits chamber to meet over demands

ADRIAN HADLAND

THE Central Witwatersrand Metropolitan Chamber will meet next week in spite of negotiations to overcome the conflict which has threatened to scuttle the forum.

Following the collapse last month of the Greater Soweto Principal Parties (GSPP) group, formed to sort out the rates and tariffs crisis in Soweto, all activities of the metropolitan chamber were suspended.

The Soweto Civic Association (SCA), whose withdrawal from the GSPP precipitated the local government crisis, demanded the resignation of all black councillors, greater involvement of the Johannesburg city council in the administration of Soweto's affairs and an end to township violence and the worker hostel system.

Chamber CEO Vic Milne said yesterday the forum would be meeting next week.

The Soweto rent boycott called for by the SCA, meanwhile, was gaining ground, TPA officials said.

TPA figures indicate that only 31,3% of Soweto residents paid rent in March this year — compared to 60% in December last year.

Bday 5/5/92

Prepare teams for Europe, firms told

BiDay 5/5/92

BiDay 5/5/92

Reports by
LINDA ENSOR

CAPE TOWN — SA companies wishing to expand into Europe would have to alter and educate their management teams, Investec executive chairman Bas Kardol said at the SA Institute of Chartered Accountants' annual congress yesterday.

European nationals should be recruited extensively and domestic executives exposed to the issues and subtleties of Europe, Kardol said.

"In the case of Europe 1992, it will be in our interest to secure as much access as possible to the largest single market on earth. The onus is upon us as SA business people to familiarise ourselves with the rules of the European game."

Kardol said SA companies needed to develop lobbying ability or face the possibility of European rules which might hurt their ventures. They should position themselves to raise international capital and form joint ventures with visiting bankers and industrialists.

SA could not realistically expect too much "soft money" and would have to compete for European investment on hard commercial grounds

"As the new Europe tries to organise itself more efficiently, it is becoming more inward looking Intra-European trade is receiving more encouragement than trade with non-Europeans. Intra-European assistance, necessary to narrow the income gap between the rich north and the less affluent south, may crowd out the appetite for involvement in development regions like southern Africa," Kardol said.

About 57% of SA's classified exports to the industrialised world went to the EC while 59% of its imports came from the community. Between 1984 and 1990 the annual compound rate of growth of exports to Europe in constant dollar terms was 10,7%, substantially exceeding the 5,6% annual compound growth rate of total exports to the industrialised world.

Kardol said during sanctions a trend of export switching to Europe was evident and, except in the case of exports to Italy, very limited real gains had been achieved since 1987.

He said it was important to ensure that SA products met international standards.

"A sad legacy of the sanctions period is that South Africans have become used to trading through the back door. Many of our companies will have to develop knowledge of rules and standards set for products traded via normal channels."

Platform for change 'shaky'

BiDay, 5/5/92

(49)

CAPE TOWN — The economic platform for the transformation of SA society was very shaky, and the success of the change was not guaranteed, Old Mutual chairman Mike Levett said yesterday.

The weak performance of the economy was shown by the fact that per capita GDP had been declining for more than a decade, investment had dropped to unsatisfactory levels, unemployment was rising rapidly and the distribution of income was unequal.

It was unrealistic to expect an average annual GDP growth rate of more than 3% over the next four years and even at this "optimistic" level, living standards would remain stagnant. The real incomes of whites would continue to decline as wealth was redistributed to blacks.

Even the optimistic projections of SA's future economic growth were inconsistent with a successful transition which was rendered more improbable by the prevailing social violence, Levett said.

Education to enhance the capabilities of the population to earn higher incomes was a vital prerequisite for a successful transition, Levett stressed.

The other ingredient was a switch in economic policy to one which was outward-looking and manufacturing orientated to ensure a higher rate of economic growth.

Business, consumer groups approve

STAR 5/5/92

(49)

By Shirley Woodgate

Business and consumer organisations have welcomed the appointment of Derek Keys as Minister of Finance, saying he would impose much-needed control on runaway Government spending.

Econometrix director and chief economist Dr Azar Jammine said he was delighted with the appointment.

Barend du Plessis resigned last month.

"The move will instil confidence among South African businessmen and could prove to be the turning point in our economy which has been in decline for so many years under previous poor management," Dr Jammine said.

"As chief executive of Gencor, Mr Keys has proved himself capable of handling the stresses and challenges of a demanding job and his restructuring of the major conglomerate was very effective.

"I am also encouraged by his previous references to unbundling of the large conglomerates which indicates he has a creative mind which can be applied to the problems of the South African economy.

"As a non-politician, he will have greater ability to apply fiscal discipline over Government spending."

Consumer Union chairman Lillibeth Moolman strongly approved the combining of the Trade and Industries and Finance portfolios under a single chief.

Housewives League president Lyn Morris was equally enthusiastic about the new appointment. "He is undoubtedly the best man for the job."

Pick 'n Pay chief Raymond Ackerman said he was delighted with Mr Keys's appointment, quipping: "We served on the same nursery school committee in 1964/5 and that experience will do him the world of good."

The SA Chamber of Business welcomed the appointment and approved of the decision to combine the two portfolios. Sacob said it hoped the two portfolios would not prove to be an excessive burden.

New Cabinet

The Cabinet (in order of protocol):

- Foreign Affairs, Pik Botha
- State Affairs, Gerrit Viljoen
- Water Affairs and Forestry, Magnus Malan
- Public Enterprises, Dawie de Villiers
- Justice and National Intelligence Services, Kobie Coetsee
- State Expenditure, Amie Venter
- Correctional Services, Adriaan Vlok
- Defence and Public Works, Gene Louw
- Education and Training, Sam de Beer
- Mineral and Energy Affairs, George Bartlett
- Agriculture, Kraai van Niekerk
- National Health, Rina Venter
- Law and Order, Hernus Kriel
- Regional and Land Affairs, Jacob de Villiers
- Home Affairs and Environment, Louis Pienaar
- Administration and Tourism, Org Marais
- Transport and Posts and Telecommunications, Piet Welgemoed
- Constitutional Development and Communication, Roelf Meyer
- Manpower, Local Government and National Housing, Leon Wessels
- National Education, Piet Marais
- Finance, Trade and Industry and Economic Co-Ordination, Derek Keys

New politics 'may damage economy'

(49) CT 5/5/92

By AUDREY D'ANGELO
Business Editor

SA's emergent political parties will be forced to take dramatic action to meet the expectations of their supporters — permanently damaging the economy — unless business does more to speed up the redistribution of wealth, Jan Steyn, chairman of the Independent Development Trust, said yesterday.

He told the annual conference of the SA Institute of Chartered Accountants (SAICA) at the Cape Sun that it was easily demonstrated that the private sector, if allowed freedom to pursue its own business interests, could create wealth and provide more jobs and prosperity.

"I have no doubt that when our economy comes out of its current recessionary phase we will see considerable progress in the upward mobility of black employees.

"Attitudes in industry are now such as to ensure that progress will be more rapid than in the past."

But, Steyn said, the "majority based" parties and political movements were under pressure from:

- School leavers unlikely to find jobs in the formal sector.
- Employed people earning less than R700 a month who found it impossible to acquire accommodation other than in backyard or shack structures.
- Marginal populations in rural areas living on the edge of survival.
- Young adults with paper qualifications that did not enable them to make progress in formal employment.

These comprised large political constituencies. Some were also the seed beds of much of the violence and crime currently destabilising the economy and the country.

Political organisations could not ignore these pressures. "Political survival will oblige them to be seen to address these needs and to do it dramatically.

"The greatest danger, as we all know, is that the response — once power is secured or even shared in executive government in the transitional phase — will be such as to damage the growth potential in our economy."

It was therefore essential for the private sector to prioritise initiatives to deal with these challenges.

Steyn suggested the corporate sector should give substantial support to a wide range of activities from pre-school education through literacy and teacher up-grading programmes to academic support and outreach programmes.

"Although the task is enormous we can tilt the balance of our society away from frustration and violence towards progress and stability."

There was an over-emphasis on retailing in the informal sector, leading to over-trading and a low turnover. The private sector could encourage and support training for small scale production and repair work.

There was also a need for employer bodies to take part in collective housing development in co-operation with the IDT, the IDT Finance Corporation, the SA Housing Trust and the regional development corporations

But, Steyn said: "Perhaps the major problem is how to address marginal populations in deep poverty, far away from sources of employment with a low skills base."

Such populations had been a critical factor in creating a climate of violence. Companies could provide work, in co-operation with development agencies, through out-placement production centres.

Economic platform for transition 'very shaky'

STAR 5/5/92

(49)

CAPE TOWN — The net number of jobs in South Africa's formal sector has hardly increased in nearly 12 years, says Old Mutual chairman Mike Levett.

Giving the keynote address on socio-economic challenges facing business in SA at the ninth national congress of chartered accountants in Cape Town, Mr Levett said the potential labour force was growing at about 2,5 percent a year.

This resulted in an estimated 5,4 million unemployed people in 1989, of which a large proportion fell into the "lost generation" and could be considered virtually unemployable due to lack of skills and poor attitudes towards society.

"South Africa is urbanising at an extremely fast rate.

"For example, the United States' urbanisation rate was 100 000 people a year during the strife-torn 1960s. Our rate is 300 000 people a year in a far smaller and poorer country.

"Furthermore, most of these have no fall-back option to subsistence farming, consequently there is a strong tendency to form gangs surviving on a life of crime."

Economic refugees

While the informal sector absorbed some of these people, many were economic refugees eking out a living, rather than people productively employed generating significant new wealth.

The economic platform for the transition to democratic rule was "a very shaky one".

The per capita GDP had been declining for more than a decade, investment had declined to unsatisfactory levels, unemployment had been rising rapidly to reach very high levels and South Africa had an extremely unequal distribution of income.

Mike Levett . . . continuing decline inreal income of whites.

"Furthermore projected economic performance remains very weak.

"Even assuming the most optimistic conditions under the present set of economic policies, it will not be able to meet minimum black expectations, while there will be continued decline in the real income of whites.

"In addition there will be hundreds of thousands more unemployed blacks in the urban areas as a potential addition to the social problems already occurring in the black communities.

"Minimal provision for additional services in the townships is likely unless vigorous and bold action is taken immediately to address the economic problems."

Mr Levett warned that weak economic performance would threaten the success of political negotiations and could well derail them.

Success was possible but two things were needed.

"Firstly, we need to enhance the capabilities of all our people, both individually and collectively.

"Economic resources available to the communities will have to increase in ways which enhance their opportunities over time to earn higher incomes, enjoy a wider range of opportunities and, in the end, to receive a larger share of the fruits of the economy.

"We need to invest in educational systems that teach skills and attitudes which will permit workers to achieve increased productivity and thus increased incomes over time."

The second change needed was a new economic strategy which was outward-looking and manufacturing orientated, said Mr Levett. — Sapa.

(49) 5/5/92

Immediate action as new Finance Minister briefs top officials

Keys takes charge

MICHAEL MORRIS, Political Correspondent

NEWLY appointed Finance Minister Mr Derek Keys met top officials from his new department today as he assumed control of all three of the government's critically important economic portfolios.

As most politicians and business organisations reacted favourably to his appointment — and the decision to combine the finance, economic co-ordination and trade and industry ministries under him — Mr Keys called the government's senior finance staff together to exchange views on the way ahead.

While senior government sources indicated that President De Klerk had deliberately not appointed new people to top posts pending a transitional government, the ANC perceived the reshuffle as an "implication that the government is proceeding with policies unilaterally".

The movement said in a statement that while replacements had to be found for Mr Du Plessis and Dr Viljoen, "the impression created is that it is 'business as usual', in spite of the negotiations in progress".

Concern was also expressed that President De Klerk's frequent and extensive Cabinet reshuffles had denied ministers in key posts the opportunity to get to know their jobs.

One of the dangers, warned Democratic Party national chairman and finance spokesman Mr Ken Andrew, was the possibility that important decisions were being left to officials.

There is also concern that Mr Keys might be over burdened with the three important portfolios of finance, economic co-ordination and trade and industry.

But the consolidation of economic planning within one ministry is seen as an important development by politicians and the business community.

A South African Chamber of Business (Sacob) spokesman said: "Mr Keys is well known and respected in the South African business community.

"In view of the important changes taking place, Sacob believes the Minister of Finance has a significant role to play in ensuring economic fundamentals are not overlooked in the political negotiating process.

"Sacob also supports the decision to combine the portfolios of finance and economic co-ordination, but hopes Mr Keys's retention of the portfolio of trade and industry will not prove to be an excessive burden."

Mr Andrew said the reshuffle revealed the "dearth of economic expertise" in the National Party caucus. Mr Keys was the only man equipped for the job.

He also supported the combining of the "critically important" economics portfolios.

Mr Andrew added: "While he is very capable, it is extraordinary that he has been saddled with the whole lot." There was concern that the workload might be too much for Mr Keys.

Reacting to other appointments, Mr Andrew said he believed Mr Piet Marais would be a better Minister of National Education than Mr Louis Pienaar and Mr Roelf Meyer was "appropriate" as a successor to Dr Gerrit Viljoen.

Newly appointed Minister of Constitutional Development Mr Roelf Meyer reacted: "I am disappointed to leave Defence. I've enjoyed the eight months there. It was really something new and it took some time to work myself into it. I now feel comfortable making decisions."

ARG 5/5/92 (49)

Sweeping changes to the Cabinet

Keys to take on Barend's workload too

BIDay 5/5/92

(49)

BILLY PADDOCK

CAPE TOWN — Trade and Industry Minister Derek Keys would take on the extra load of the Finance portfolio, making him the man charged with overall responsibility for spearheading SA's economic recovery, President F W de Klerk said last night.

Announcing sweeping changes to the Cabinet, De Klerk said Keys would retain reponsibility for Economic Co-ordination, although it would no longer feature in his title.

Keys's appointment is with immediate effect.

In a statement, De Klerk said: "This combined responsibility brings about an increased workload. However, it is regarded as essential, given the obvious need for even better co-ordinated and encompassing financial and economic planning."

He signalled that this arrangement would be reviewed as soon as the co-ordination and planning responsibility tasks had been adequately accomplished.

The surprise element in the reshuffle is Defence Minister Roelf Meyer being shifted to Constitutional Development Minister. He served as Deputy Minister until eight months ago. Meyer, who retains the Communications portfolio, replaces Gerrit Viljoen, who has taken ill as the result of stress.

De Klerk said the continuously changing scene of the negotiation process had necessitated the changes. This was an indication that Meyer, who was intimately involved with negotiations at the start, was considered more valuable in constitutional planning and developing government strategies than focusing on "demilitarising" the SADF.

Viljoen now takes up the newly created portfolio of State Affairs. He will be assisted by the President's staff, effectively lightening his line-function responsibilities and gearing him for the position of adviser and strategist for negotiations.

De Klerk said Viljoen's appointment was "in order to ease my own workload and to assure me of the necessary assistance in the negotiation process". He confirmed Viljoen was ill and would be off work until the end of May.

Meyer takes up his new post at the end of May and he is replaced as Defence Minister by the strong and able administrator Home Affairs Minister Gene Louw. This signals the fact that De Klerk and government no longer regard the portfolio as strategic.

Louw takes on the extra portfolio of Public Works, indicating that the transitional work of transforming the SADF from a fightin- to a peacetime force, with the consequent change of political emphasis, has been completed.

The other significant change in the Cabinet is the virtual scrapping of white own affairs education. It has been collapsed into National Education, with Education and Culture Minister Piet Marais now assuming overall responsibility for the joint portfolios. Black education under Sam de Beer continues unchanged as the work required there is seen as crucial in improv-

☐ To Page 2

Cabinet

BIDay 5/5/92

(49)

☐ From Page 1

ing standards and redressing apartheid

Current National Education Minister Louis Pienaar has been appointed Home Affairs Minister, and retains the Environment portfolio.

Local Government and Housing Minister Leon Wessels sheds the Public Works portfolio and takes on the Manpower portfolio from Piet Marais

The only change in the functions of Deputy Ministers is that Deputy Defence Minister Wynand Breytenbach takes on the job of Deputy Environment Minister as well

Apart from Keys's appointment, all the others take effect on June 1 De Klerk said this was to give ample time for "the orderly transfer of responsibilities, thorough preparation by the incoming office bearers and the elimination of parliamentary disruption

□ MARCIA KLEIN reports that Sacob director general Raymond Parsons last night welcomed Keys's appointment, saying he was well known and respected in the business community

Sacob also supports the decision to combine the portfolios of Finance and Economic Co-ordination, but hopes that Keys's retention of the portfolio of Trade and Industry will not prove to be an excessive burden,' he said

In view of the important changes that were taking place in SA, the Trade and Industry Minister had an important role to play "in ensuring that economic fundamentals were not overlooked in the political negotiation process"

● Comment Page 10

Trade group contributed to ANC policy — Mandela

49

STEPHANE BOTHMA

TALKS between the ANC and a Japanese trade delegation visiting SA provided valuable information for the formulation of an economic policy by the organisation, ANC president Nelson Mandela said yesterday.

Mandela, however, urged the group of businessmen to join the demand for an interim government before making new investments in SA.

Mandela met the trade delegation, led by Itoh Koya Mica, MD of Sito and Co — one of Japan's largest trading houses — yesterday afternoon shortly after his return from a week-long visit to several African states.

Speaking at a Johannesburg news conference, Mandela said he regarded Japan as one of the most economically successful countries in the world. Japan was also an inspiration to SA.

BDay 6/5/92

Mandela said the talks, which took place at the ANC's head office in Johannesburg, made a valuable contribution to the ANC's search for an economic policy and provided ways to draw foreign investors to SA.

He added that the ANC was seeking to break government's monopoly on political power. He expected all business groups to join the demand.

Mica, who also addressed the news conference, said SA would offer great economic prospects if stability could be achieved by people like Mandela.

SA had a strong infrastructure and good people, Mica said.

His company was interested in investing in SA, but stability in the country was a prerequisite.

Mica said the delegation was visiting SA to explore the investment opportunities for Sito and Co and to ensure the transfer of technology through licensing.

This would create independent industries capable of producing high quality products.

Barend hacked away undergrowth for Keys

BDay 6/5/92. (49)

SIMON WILLSON

MUCH of the pathfinding for Derek Keys's tenure at the Finance Ministry — however long it may be — has already been done by his immediate predecessor. Whatever Barend du Plessis' faults may have been in policy execution, he left his successor little to do in the way of policy innovation and formulation.

That does not make Keys's task any easier; conceptualising the direction of economic policy is all very well but the difficult part, as Du Plessis found, is to give practical substance to mere ideas.

This, then, forms the bulk of the Keys agenda: to take Du Plessis' policy initiatives and find a way to implement them within the formidable budgetary and consultative constraints the real world now imposes on SA's Finance Minister.

Du Plessis, after all, made cautious and tentative inroads into this agenda: privatisation started with the Iscor flotation; deregulation began to take effect in the areas of transportation, financial services and administered prices; the Reserve Bank was given effective independence of government; a five-year plan was laid down encompassing the reduction of direct taxation of companies and individuals, and a Budget-conscious regime of spending restraint was entrenched in the public service.

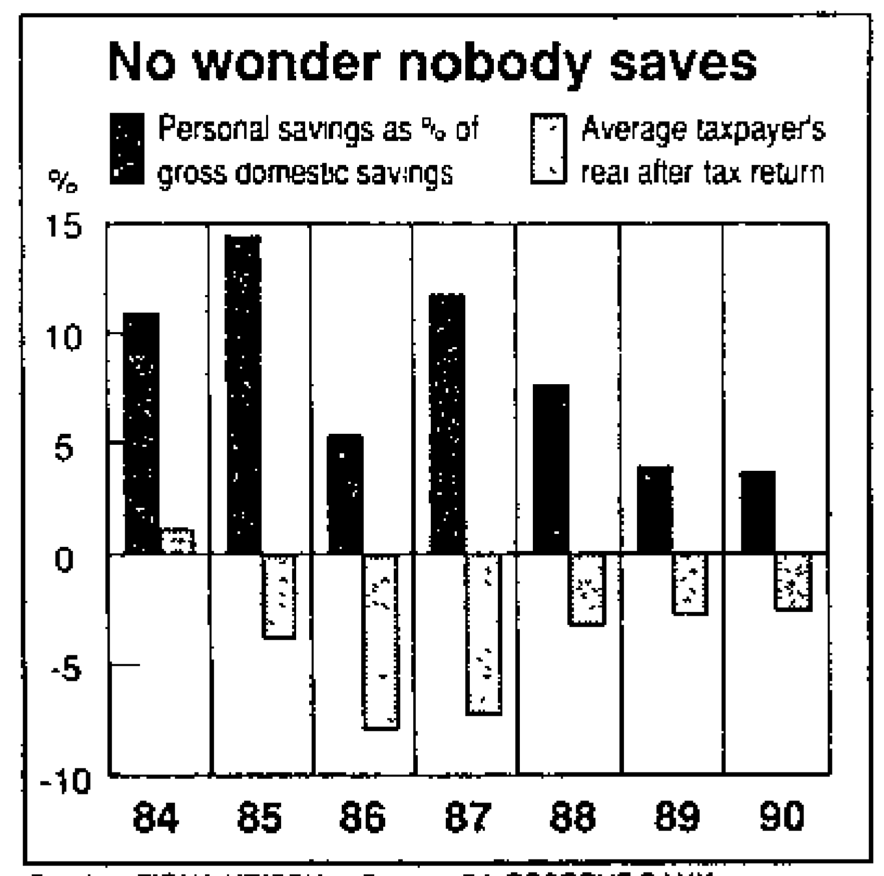
These were the beginnings of appreciable reforms, chiselled out of a slab-sided and monolithic state bureaucracy unaccustomed to such market-based, supply-side intrusions. But beginnings are all they were, and all they were ever likely to be while Du Plessis was sidetracked by the diversions of constitutional negotiations and the erosion of his party powerbase by Codesa-sourced backtalk. Keys's appointment comes just in time to break the logjam.

Ironically, a major factor in the stalling of Du Plessis' programme of restructuring was the political reform process itself which, as a leading Cabinet verligte under P W Botha, Du Plessis had played a large part in promoting. It was the political reform process that obliged the government to suspend privatisation and to slow up on deregulation, as the extra-parliamentary opposition demanded consultation. It was the restoration of the right to peaceful demonstration that made tax reform such a nightmare for Du Plessis as the anti-VAT movement's protests impeded the switch from direct to indirect taxation; it was the Reserve Bank's very independence in maintaining a tight monetary policy that made Du Plessis extra enemies, and it was the public service's indignation at its pay and conditions restraints that ate away at his personal political popularity.

Keys, a new and more widely acceptable figure heading the Finance Ministry, is now empowered as yesterday's man Du Plessis never was to break through these obstacles to his predecessor's agenda.

He starts with the advantage of a clean sheet in his relations with organised labour, and with VAT now a fixed part of the fiscal landscape. He should have the ANC's latest position paper in his in-tray, because it actually embraces privatisation as a policy option. He starts with the Reserve Bank a powerful and influential ally in the drive for economic restructuring since the Governor's strident call last month for an urgent restructuring programme.

But there are other areas demanding Keys's attention that have been neglected for much longer: the savings shortfall, for example. A low savings ratio — individuals spending almost all their disposable income — is recognised everywhere as an economic danger signal. It means there is too little of the country's wealth being ploughed back into its capital stock, which is a drag on domestic fixed investment. It also means too much of any given increase in personal wealth is siphoned off directly into consumption and, in the case of SA and its historically high import propensity, into imports.



Graphic FIONA KRISCH Source SA RESERVE BANK

As the chart shows, years of negative real interest rates succeeded by laughably low limits on tax-free interest income have left SA's savings pattern a disaster area — a problem crying out for rectification.

Similarly, the web of special-interest pleading and preferential deals on protection demand that a stiff broom sweep away the padding and expose SA business to the breeze of international competition, to the price benefit of downstream industry and the end-consumer.

Another area where Keys will have to strike out on his own is in launching the concept of the social accord which has, to date, been mentioned only in outline. The concept of the "golden triangle" of business, labour and the state sitting down and agreeing on wage increases, higher production and the need for any state intervention is one that is working in several comparable economies — most notably in Australia.

Keys embarks on his stint with the Finance portfolio enviably assured of the one asset that Du Plessis ran out of a long time before his resignation: goodwill from all sides. With that intoxicating ingredient, even the bitterest economic mixture can be made palatable.

SPOT DESK

Bank stresses need for IMF facility

B/Day 6/5/92 (49)

SHARON WOOD

SA should urgently negotiate an IMF "precautionary stand-by facility", Standard Bank urges in its latest Economic Review released yesterday.

The current account of the balance of payments still needs to be nursed, it says.

An IMF facility would provide SA with a firm fall-back position to manage the external constraints on economic growth more easily.

"The sluggishness of global recovery, coupled with SA becoming a net importer of food this year, conspire to pressurise the current account.

"Since SA remains a net exporter of capital, the balance of payments will remain fragile under these conditions."

Standard Bank believes SA has a good case for the extension of an IMF stand-by facility.

The two pre-conditions for a successful application are structural imbalances in the economy and an inability to pursue active development policies because of a weak balance of payments position.

"There is ample precedent for the extension of the facility, even on a precautionary basis," it says.

Evidence of this is the 100 agreements since 1956 which have been negotiated with the IMF and under which no drawings were made, because in each case a serious current account deficit did not materialise.

Standard Bank says the current economic recession is only marginally short of becoming the longest downturn in the post war years and also nearly matches the most severe post-war recession in 1985/86.

Expectations of a stabilisation in the economy have not materialised, it says.

The reasons for the prolonged recession are a sluggish world economy, a poor gold price and an uncomprising anti-inflationary stance by the monetary authorities.

The extreme severity of the drought is stunting the potential for the growth rate to pick up and will also initially impact on the current account. Maize imports this year would cost about R1,8bn.

End to worst post-war recession seen for 1993

Business Staff (49) ARG 7/5/92

THE economy is set to emerge with a bang next year from its worst post-war recession.

Growth could be close to four percent in real terms in 1993, according to projections by the Bureau for Economic Research at Stellenbosch University (BER) released today.

However, the BER warns that the economy is not expected to begin emerging from its slump until the fourth quarter of this year.

In line with most economists, the BER predicts a meagre growth rate of only 0,5 percent this year.

Growth in 1993 will be generated by two major factors — a recovery in consumer spending and a continued strong performance by exporters.

But consumer spending, which constitutes more than half of gross domestic product (GDP), is unlikely to increase by much this year, which the bureau blames on depressed wage and salary increases, high unemployment and high inflation.

For 1992 private consumption expenditure is expected to rise by only 0,3 percent in real terms.

But a two percent growth rate is predicted for 1993, based on a 2,5 percent increase in real disposable income during the year.

Spending on durable goods is forecast to decline in each quarter of 1992, but at progressively reduced rates, to post an average drop of 8,4 percent for the year.

From the beginning of next year the determinants of consumer spending on durables suggest that a substantial recovery will materialise.

Fixed investment has been one of the major contributors to the recent poor economic performance, slumping by 8,4 percent last year. The BER expects investment to remain depressed this year against a background of high interest rates, shrinking profits and political uncertainties.

Led by a 17,5 percent drop in fixed investment spending by public corporations, total fixed investment this year could fall by as much as 6,3 percent. From this low base, however, the BER forecasts 4,5 percent growth in 1993.

Both fixed investment and consumer expenditure will be aided by a progressive decline in interest rates from the second half of this year onwards as the inflation rate drops steadily from its current high level.

Bank backs privatisation

BDay 7/5/92

LINDA ENSOR

CAPE TOWN — World Bank vice-president and secretary Timothy Thahane came out strongly against nationalisation yesterday, saying experience in sub-Saharan Africa showed cumulative losses by state-owned enterprises reached 5% of GDP between 1989 and 1991.

He noted, however, that privatisation raised a country's economic efficiency.

Thahane told the SA Institute of Chartered Accountants annual congress: "State enterprises, far from fulfilling the expectations invested in them, have been inefficient, overstaffed and poorly controlled financially."

He said there had been a worldwide trend towards privatisation to raise efficiency and stop the financial haemorrhage from loss-making public enterprises which lacked entrepreneurship, management and marketing expertise.

49

"Many countries, not just developing countries, cannot afford the losses incurred by their state-owned enterprises. In 1989, transfers and subsidies to Poland's state enterprises cost 9% of GDP."

Thahane said state-owned enterprises were inefficient because governments found it hard to resist meddling with them through granting financial subsidies, controlling product or service prices for political reasons and rewarding their friends with positions.

He said privatisation was a crucial element in striking a balance between the state and the market.

However, Thahane said the World Bank

☐ To Page 2

Privatisation

BDay 7/5/92

49

☐ From Page 1

was not dogmatic in making its loans conditional on an absence of a policy of nationalisation. This was a question for a sovereign government to decide.

World Bank involvement in SA would depend on the achievement of consensus about the governance of the country, Thahane said, as lenders and investors needed certainty. It would also be necessary to discuss World Bank policies and their implementation with the new government.

Responding to criticism that the World Bank had been tardy in lending to SA, Thahane said bank procedure was to undertake a full analysis of the economy and its problems before getting involved and devising a package. This normally took 18 months ~~to~~ two years to complete.

As the bank had not been involved with SA since the early '60s, there was a need to build up knowledge about the country and its economy. World Bank missions had visited the country and spoken to government and non-government people, the ANC and universities.

"A picture is emerging of an economy which has not grown as it should have. The economy is facing large-scale unemployment, has an income distribution which is very skewed, and a backlog of education," Thahane said. He added that the public service was very large and there was a multiplicity of educational authorities.

Improved growth predicted for Africa

B/Day 7/5/92

49

LINDEN BIRNS

US-based aircraft manufacturer McDonnell Douglas predicts Africa's economic growth will outstrip that of the rest of the world in the short term and that air traffic with Europe will grow by more than 7% over the next eight years

According to the company's recently published World Economic and Traffic Outlook, Africa could be expected to experience at least 3,1% growth a year over the next eight years.

The rest of the world was forecast to experience only 1% annual growth

The company attributed the improving African economic growth rate to the change in foreign loan policies, political changes and the reduced influence of former east bloc countries on the continent.

The report also predicted SA would experience growth of about 0,4% this year, compared with -0,3% last year and -1,6% in 1990.

A result of economic growth would be increased air traffic

McDonnell Douglas predicted a 6,2% increase in domestic air travel for Africa this year, with a predicted growth rate of 7% a year for the rest of the decade.

Europe-Africa air traffic the largest volume of which was between Johannesburg and Europe, was expected to grow 7,8% this year, and

Increase

7,5% a year until the year 2000

This was about 2,4% lower than the forecast world average for 1992 and about 0,4% higher than the forecast global average until 2000.

The company predicted Europe-Africa air freight would increase by about 10% this year, and by 8,1% a year over the next eight years

This was in line with predicted growth for the rest of the world

McDonnell Douglas recently embarked on a campaign to raise its market profile in Africa, after having achieved only a few minor airliner sales in Africa during the past three decades

US and other banks flexibility in foreign loan repayments and even write-offs was likely to encourage growth in less developed African countries

Many of these would have learnt from experience in the 1970s and 1980s, to make better economic use of loans to build more solid foundations the outlook added

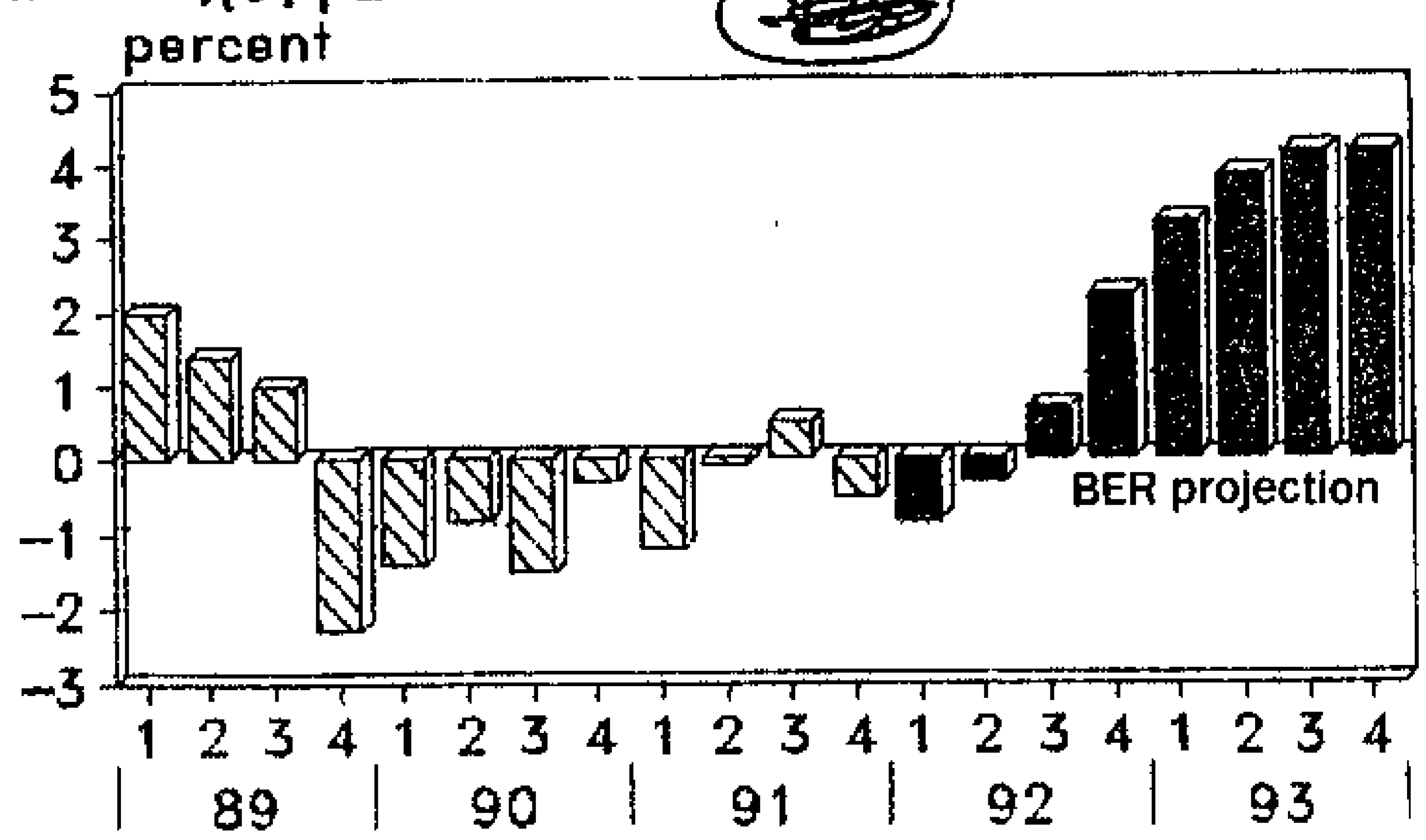
The forecast warned that Africa would have to rely on its own resources to a larger extent than before, and that substantial economic, social and political changes would be needed.

A greater free-market economy would have to be developed together with a more responsible political system

Economy primed to take off next year

STAR 7/5/92

By Sven Lünsche (49)



Quarterly GDP growth (1985 prices)

The economy is set to emerge with a bang next year from its worst post-war recession.

According to projections by the Bureau for Economic Research at Stellenbosch University (BER), released today, growth could be close to four percent in real terms in 1993.

However, the BER warns that the economy is not expected to emerge from its slump until the fourth quarter of this year.

"The upturn is expected to be slow and hesitant in the early stages as it will be based mainly on higher government spending, increases in export earnings and a slowdown in the depletion of inventories."

In line with most other economists, the BER predicts a meagre growth rate of only 0,5 percent this year.

Growth in 1993 will be generated by two major factors — a recovery in consumer spending and a continued strong performance by exporters.

Consumer spending

But consumer spending, which constitutes more than half of Gross Domestic Product (GDP), is unlikely to increase by much this year, which the bureau blames on depressed wage and salary increases, high unemployment and high inflation.

For 1992 private consumption expenditure is expected to rise by only 0,3 percent in real terms.

But a two percent growth rate is predicted for 1993, based on a 2,5 percent increase in real disposable income during the year.

This pattern of spending is likely to be repeated in all three categories of consumption expenditure.

Spending on durable goods is forecast to decline in each quarter of 1992, but at progressively reduced rates, to post an average drop of 8,4 percent for the year.

From the beginning of next year the determinants of consumer spending on durables suggest that a substantial recovery will materialise.

"Sales of motor vehicles, furniture and household appliances are likely to fall in most of 1992, but should show a recovery of six percent in 1993," the BER predicts.

Growth in spending on semi-durables (mainly clothing and textiles) and non-durables (mainly food) is likely to be less dramatic.

Expenditure on semi-durables is forecast to rise by 0,5 percent this year and one percent in 1993, while durable spending should rise by 1,2 and 1,7 percent respectively.

Fixed investment has been one of the major contributors to the recent poor economic performance, slumping by 8,4 percent last year.

The BER expects investment to remain depressed this year against a background of high interest rates, shrinking profits and political uncertainties.

Led by a 17,5 percent drop in fixed-investment spending by public corporations, total fixed investment this year could fall by as much as 6,3 percent.

From this low base, however, the BER forecasts a 4,5 percent growth in 1993.

Both fixed investment and consumer expenditure will be aided by a progressive decline in interest rates from the second half of this year onwards as the inflation rate drops steadily from its current high level.

"For technical reasons (VAT) the inflation rate could drop to 12 percent by the end of this year, giving an average of 14 percent for 1992."

The average will fall further to 12,5 percent next year, although the rise in spending will edge the rate upwards towards the end of next year.

"If the Reserve Bank is looking for a real prime rate of five percent, prime should average about 19 percent in 1992 and 17,5 percent in 1993.

"Interest rates are unlikely to be reduced before the third quarter this year, but will then be followed by cuts in each of the successive three quarters," the BER predicts.

Exports, in particular merchandise exports, are expected to remain a positive contributor to growth.

Merchandise exports are expected to improve by 8,8 percent this year, but sluggish world growth will depress income from commodity exports

In 1993, however, a rise of 22 percent in merchandise exports and a recovery among SA's trading partners will leave overall export earnings about 12,3 percent higher, the BER projects.

While the pick-up in investment and consumer spending will also see imports rise markedly, the resultant drop in the surplus on the current account to about R4,5 billion for both 1992 and 1993 should be partially offset by renewed capital inflows into SA.

Judge to report on missing billion

(49)

Political Staff

WIDESPREAD irregularities in the now defunct Development Aid Department — including more than R1 billion going missing — will be unveiled today when the Pickard report is released.

Mr Justice B Pickard was appointed to look into the affairs of the department after the Van der Heever investigation recommended its closure.

Regional and Land Affairs Minister Mr Jacob de Villiers, who headed the department, hailed its closure last month.

However, it is understood the real reason for shutting down the department was the widespread corruption and mismanagement taking place.

It is known Mr De Villiers and his staff were nervous yesterday about the report's release. It is understood they plan to deal with it by saying the corruption was committed in the past.

The period in question apparently covers the stage when former Constitutional Development Minister Dr Gerrit Viljoen was in charge of the department.

CT 7/5/92

caller and car-phone owner are charged the car-phone rate, making those calls 42 times more expensive than a regular call ■

AFRICAN ROUND TABLE

FM 8/5/92

Some lessons for SA

@(49)

Members of the influential market-orientated African Business Round Table stopped in SA last week to assess the possibility of holding their next annual meeting in Johannesburg later this year

cont →

 FM 8/5/92

@(49)(@)

But members did far more than shop around for a suitable venue. Acting on the recommendations of African Development Bank chairman Babacar Ndiaye, who visited SA last month, the group is determined to convince local policymakers that a thriving, deregulated private sector offers the best means of achieving sustainable development and redistributing income.

The Ivory Coast-based group is a sort of roving African ambassador for the free market and SA is its latest mission.

Secretary-general Esom Alintah says: "Our aims are to attract foreign investment to Africa, promote intra-African trade and investment and strengthen Africa's private sector"

Alintah, a director of the Nigerian subsidiary of the US-based Ashland Exploration Co, says SA needs to privatise rapidly to help restore economic prosperity. "Government shouldn't worry about ANC opposition to privatisation — it's the right thing to do. Government has no choice. The sooner it privatises, the better for the country economically." He points out that more than 300 State-run enterprises in Nigeria have been privatised in recent years, in spite of stiff opposition from bureaucrats.

He says: "Privatising these organisations has increased efficiency. Government is not as broke as it used to be, goods are now delivered on time, and prices are competitive. Employees now receive their salaries monthly instead of every few months."

Alintah ... *bringing the market to Africa*

Alintah says nationalisation is simply not a viable choice for SA, adding that many South Africans appear to be confusing redistributing wealth through economic growth with the discredited option of redistributing wealth by "robbing Peter to pay Paul."

Alintah met ANC officials and invited the organisation to outline its economic policies to an international audience in Dakar on May 11.

The Nigerian has some advice on what the ANC should say. He stresses that the ANC needs a deregulated economy with free and fair competition "Government need only provide the infrastructure In short, government needs to pursue a policy of free enterprise."

He points out that most African countries are competing with one another to produce alluring investment codes to attract foreign investment. His group, he says, publicises this and other economic reforms. "Our message is that the business environment in Africa is improving dramatically as economic and democratic reforms are implemented throughout the continent."

The group would welcome widespread participation from SA, which is the only African country that is not represented. Says Alintah: "SA has the ability to produce and supply, cheaply, many of the products bought from Europe and the East."

Referring to the Nigerian market, Alintah says SA can export technology and services — financial, agricultural and engineering. "SA can especially export finished products in the petro-chemical area, while Nigeria can supply SA with the raw materials for these products."

Formed in 1987 as an informal advisory body to the African Development Bank, the business round table became an independent, nonprofit association in 1990 and has raised US$250m for private-sector development projects. ■

Recovery: if not now, then when?

FM 8/5/92
(49)

Graham Boyd is chief economist at stockbroker Simpson McKie

At the end of the previous long boom to 1989, some writers began to wonder whether business cycle contractions had been virtually eliminated. In the Eighties business cycle theorists argued that business cycle movements moderated after World War 2.

Some might now feel that recent events have turned that comforting perception on its head. As the IMF and OECD forecasts of a meaningful recovery were extended from 1992 to 1993, people started to talk of depression and some writers suggested that sinister forces, which conventional forecasting models capture poorly, were undermining the usual business cycle dynamics.

The debate in the US over when the country's economy will begin to recover illustrates how data generated by the economy is open to different interpretations, resulting in different forecasts.

For all the talk of double dips and triple dips, it is by no means impossible that the National Bureau of Economic Research, the arbiter of business cycle turning points in the US, will announce that the US had a shallow three-quarter recession. If so, a slow recovery has been under way since April last year.

The economy has been performing tolerably well. The problem facing President George Bush is the large gap between how well the public thinks the economy should be doing and how well it is capable of doing. Even this raises questions. Until now, in each recovery after World War 2, a strong initial rebound saw the economy expand at real annualised rates of more than 5% in the first six months. Why has there been no similar bounce this time?

The problem is eliminated if you time the business cycle according to the coinciding indicators rather than on GDP growth rates alone. The behaviour of industrial production, personal disposable income, employment and retail sales are key indicators and often follow the same path as GDP. But not always. For instance, the index of US coinciding indicators rose between April and August last year before resuming its descent to December, in the process falling about 1% below the low previously recorded in March.

In harmony

This movement has been more in harmony than GDP's motions have been with the anxious mood of the American public. If the index of coinciding indicators tells the true story, the implications for the future are paradoxically cheerful. The traditional burst of growth, during the first six months of recovery, could still arrive, since recovery probably started only during the first quarter of 1992. By contrast, the interpretation based on the GDP numbers promises at best an unrelentingly slow crawl.

Examining the record of business cycles over the 20th Century, the average time taken to complete a cycle has remained constant but the proportion of the cycle during which the economy has contracted declined substantially during the post-World War 2 period. A major study in 1986 found that between 1945 and 1982 the economy contracted 20% of the time, whereas, between 1912 and 1945, it contracted 36% of the time.

The comparison is even more striking if the war years are excluded. Two subperiods can be identified after World War 2, the high growth 1948-1969 era and the more turbulent 1969-1981 phase. In the earlier period the economy contracted a mere 15% of the time and in the next phase contractions lasted 24% of the time.

Recent experience has done nothing to change the view that recessions are no longer so long. The recovery from the trough of the 1981-1982 recession endured 91 months and even if one classifies the period from August 1990 to December 1991 as a contraction, it will have lasted only 17 months — long by post-war standards but much shorter than the typical pre-war downturn.

The latest IMF-OECD projections would therefore seem to have history and the odds on their side.

There are fears that household debt, which by 1989 had risen to its highest level as a ratio of household income since just before the Great Depression, will produce a cycle more like the pre-war experience. But the debt level is, in part, a reflection of the increased ability of individuals to service debt because of more stable income streams flowing from the milder recessions. The 1990-1991 recession seems set to conform to the post-World War 2 pattern.

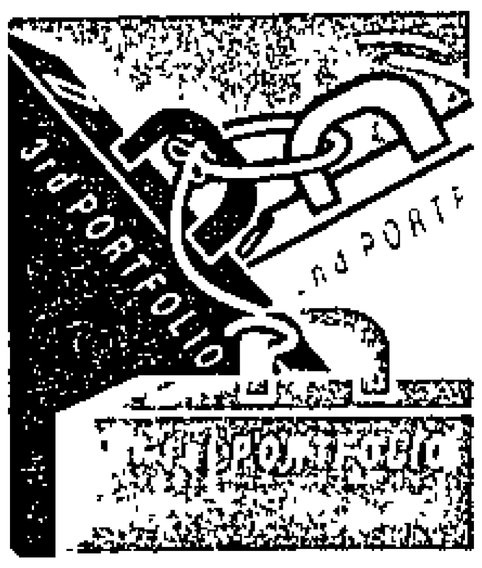
One thing seems certain. Before World War 2 prices fell during recessions. Since then the inflation rate has merely slowed down. In this respect the present cycle will be typical of the post-war experience.

DEREK KEYS AT FINANCE

The man within

FM 8/5/92 (49)

Keys could do no better than to return to economic fundamentals



It is manifestly unfair to new Finance Minister Derek Keys to say that he is the cleverest member of the Cabinet and the one best intellectually equipped to handle the three financial portfolios — he retains Trade & Industry as well as Economic Co-ordination.

It would probably be fairer to say that his qualifications outstrip any previous Finance Minister's. Or, better still, to quote Wits accountancy professor Tommy Cairns, who said that of all the students who passed through his hands, "only three stood out as being of really exceptional ability." These were Donald Gordon, Mark Weinberg and Derek Keys.

Each has already made a contribution to SA's wellbeing (though Weinberg's was predominantly abroad) that outstrips anything from any other Cabinet member, with the major exception of President F W de Klerk himself.

The interesting thing about Keys is that his subtle mind, mild manner and easy sense of humour are qualities in sharp contrast to his most important two predecessors, Wim de Villiers at both Gencor and Economic Co-ordination, and Barend du Plessis at Finance. The former brought to bear on every task an imperious vigour and the latter deathly sterility. Neither gathered around him those who could advise with authority or to whom they could delegate with confidence.

Keys delegates to chosen lieutenants with ease. And that, together with the portfolios under his umbrella, should achieve a much greater degree of economic policy co-ordination than has hitherto been possible.

But an important portfolio that could become critical remains outside his sphere of direct influence. It controls government spending and falls under Amie Venter, who is also Regional Development Minister. In effect, the Finance Minister is responsible for revenue, the financing of the Budget and macro-economic policy. Venter has responsibility for spending and planning.

This arrangement was held out as a means of reducing Du Plessis' workload (which it clearly didn't achieve). As each Minister derived his authority from the Exchequer Act, co-ordination problems occurred that have not yet been resolved. For instance, the Accountant-General is functionally under Venter but is also involved in financing the deficit, which falls under Finance.

Venter also administers the Auditor-General Act, which monitors expenditure, and the Secret Services Account Act, the expenditures under which he knows the purpose of disbursements only in general outline.

Venter has proved to be no sheet anchor. Figures presented in the March Budget show that last fiscal year spending increased 17% and overshot the budgeted amount by 1,6%. Government consumption spending has thus risen from 14% of GDP in the Sixties to 20% by the start of the Nineties. It is not clear that, should Keys wish to begin reversing that trend, he will have an ally in Venter.

But, of course, he may be sanguine. For Keys made it clear to me in an interview in Cape Town shortly after the Budget that he had no intention of rocking any boats. He said: "In my assessment, while I know the level of spending in the Budget produces a bigger than 3% deficit and (consumes) a larger percentage of GDP than last year, I regard that as government holding course on the expenditure side at a time when income is falling away."

Finance Minister Keys .. *'I'm not running the country'*

His influence on this Budget was limited. By the time he joined the Cabinet, the target for spending was fixed and the various departments had adjusted their spending to fit the target. But he added: "That, of course, has never stopped them spending."

He did participate in all Budget decisions taken in 1992 — and he was certainly sanguine about them. He claims he never once said that "the deficit was going to be too high." The reason is his view that government needs to keep a steady course. "I don't want to act pro-cyclically and risk the possibility of making things worse. Business confidence is important. I wish to move gradually. What is the alternative?"

He takes the same view over the levels of protection that efforts at self-sufficiency — often vain ones — have entrenched, despite the substantial misallocation of scarce resources that is the outcome. He admits that there are in the economy what he calls a "couple of sacred cows" such as the motor and fuel industries, but in his view the important point is that SA is not a high tariff country compared with some others.

"The motor industry has certainly given us the most expensive cars in the world," he says. "But on the telecommunication side, there has been tremendous benefit. We have the same problems that all other textile producers face." Proof comes in the Blue Book, which shows that customs duty is a negligible percentage of the Budget. Whether that is a telling measure of protection is another matter — but clearly Keys believes it is.

"Some industries cost us a great deal of money," he admits. "But generally the right way to tackle the problem is not to take off protective tariffs — though I'm happy to move in a lower tariff direction."

Nor does he go along entirely with the tariff reduction plans of the Industrial Development Corp. "I don't agree with across-the-board tariff reductions in accordance with an exchange rate that can change. The IDC plan provides a valuable strategic overview and I'm happy to go along with the lowering route provided it is done hand in hand with those affected."

He points out that every country that has lowered tariffs has done so over an extended period — five to 10 years — and those that have done so successfully did so into a booming export sector, which enabled workers who lost jobs to be retrained and relocated.

He says he is certainly not abandoning the IDC plan. But he won't have a Big Bang and asks: what industry in this country would export more if we were to cut tariffs and open the market? The answer, he says, is not one. There would be the same level of exports but increasing imports. "What happens next? The reserves go down, the value of the rand sags, and prices go up."

cont -->

P.T.O.

NEWS IN BRIEF

Help for AIDS victims

THE Cabinet had decided to contribute R100 000 to an AIDS victims' fund and to match, rand for rand, subsequent contributions to the fund, Minister of National Health Rina Venter said in Cape Town yesterday.

She said the idea of financial assistance to people who had contracted AIDS after receiving infected blood, before the introduction of tests, was strongly supported. BDay 8/5/92

Her department had therefore set up a fund which would be administered by the SA Haemophilia Foundation and other parties.

Violence a barrier

THERE was room for increased bilateral economic relations between France and SA, Christian Graeff, leader of a 30-member Confederation of French Industries and Services delegation, said in Johannesburg yesterday. But violence discouraged investment.

Visit by Quayle's wife

THE wife of US Vice-President Dan Quayle is expected to pay a humanitarian visit to drought-stricken areas of SA before the end of the month. Foreign Affairs will be talking to the US government about the visit today.

Shorter air route

LUFTHANSA has cut its flying time between Johannesburg and Frankfurt by up to 30 minutes. The airline obtained permission to overfly Chad, giving its aircraft a more direct route between Germany and SA.

REPORTS Sapa, Business Day Reporter

Better business mood last month

BDay 8/5/92

(49)

SHARON WOOD

TENTATIVE signs of better economic conditions were reflected in a slightly higher level of business confidence in April.

Sacob's monthly Business Confidence Index (BCI) released yesterday showed an increase in the index for the second consecutive month to 88 in April from 87,7 the previous month.

But Sacob economist Ben van Rensburg cautioned against expecting an economic recovery too soon. "The improvement in the BCI probably reflected the hope of better things to come, rather than current economic realities," he said.

Clearer signs of an economic revival would probably emerge in the fourth quarter this year and the upswing would only take place in 1993, when Sacob forecast 3% growth.

During April a stronger finrand, higher imports, retail sales and manufacturing production and a marginally slower rise in consumer inflation contributed towards the slight increase in the index.

Negative influences on the index were the gold price, commercial rand, share prices, insolvencies and business plans passed.

Van Rensburg said a measure of the present vulnerability and fragility of business sentiment was that the index responded to volatile factors.

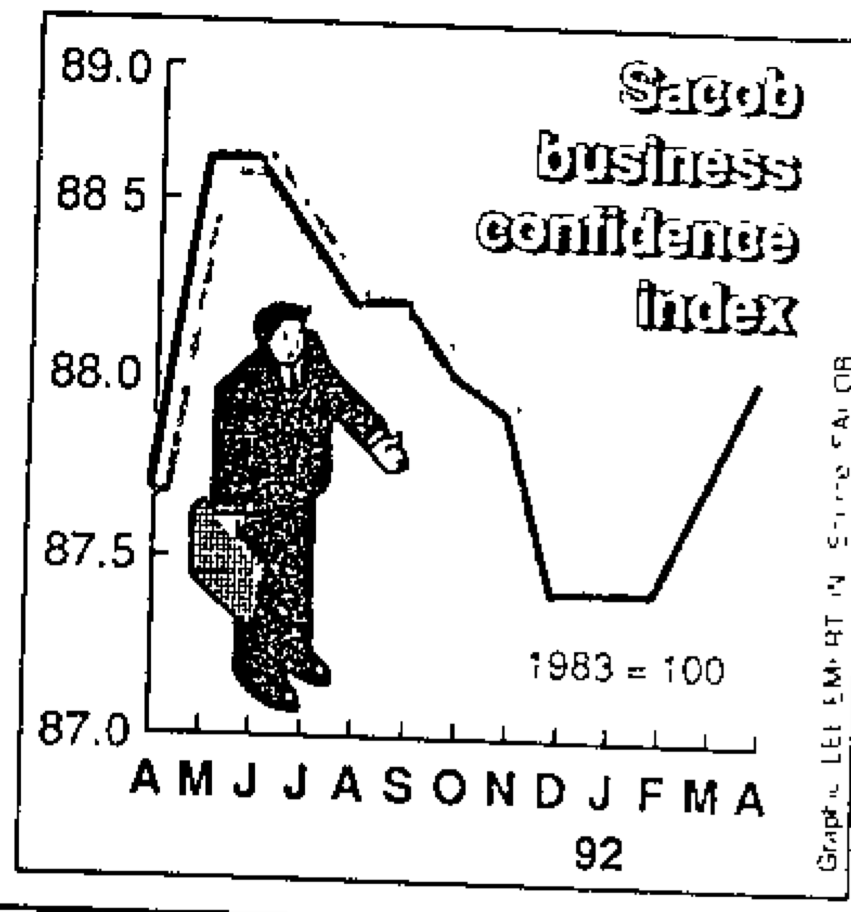
He said that if positive elements that recently helped bolster the business mood were sustained, the foundations for a more sustained recovery in business confidence and the next economic upswing would have been laid.

The timing and extent of the recovery would hinge on the impact of the drought, increased activity in major industrial economies, the ability of the political process to underpin business confidence and the impact this had on investment plans.

Sacob urged the Board of Trade and Industry to release its food price survey as soon as possible for debate, because delays would erode confidence in economic management.

Consumer inflation would probably follow the direction of producer price inflation fairly rapidly in the second half of the year. "If this happens, interest rates may decline by another two percentage points by the end of the year," van Rensburg said.

The divergence between producer and consumer inflation was a world-wide phenomenon, but SA's differential was much larger then the rest of the world's. This could be a result of higher inflation, he said.



No settling-in period for Keys

W/Mail 8/5-14/5/92

By REG RUMNEY

THE Congress of South African Trade Unions has wasted no time in challenging new Finance Minister Derek Keys.

Keys now has to handle the Cosatu-led VAT Co-ordination Committee's continued demand that Value Added Tax be reviewed.

In a statement on the cabinet changes this week Cosatu urged Keys meet the VAT Co-ordinating Committee "to address the fundamental problems which a range of organisations have with the way in which VAT has been implemented (VAT on basic foods, medicine, water and electricity; the issue of poverty relief; and negotiation of measures for small business) and the problem of rocketing food prices".

Cosatu added: "Similarly, we will be looking to Keys to expedite the process of setting up a National Economic Negotiations Forum, an area in which progress is urgently needed, particularly on the issue of unilateral economic restructuring."

Keys' predecessor Barend du Plessis defused the VAT bomb temporarily by extending interim zero-rating.

But in a recent interview Deputy Finance Minister Theo Alant reiterated the government view that it was intended to lift the temporary zero-ratings soon.

VAT, he said, has to be a broad consumer tax, with few or no exceptions to be effective.

At the time of going to press Keys had not responded to the Cosatu

Keys... to the economic kingdom?

challenge.

While there is still the chance the Finance Ministry may be prove as politically problematic for Keys as it was with his predecessor, there is some logic behind adding to his load as the new finance minister the responsibility of trade and industry and economic co-ordination.

South Africa's transition period should mean major structural changes. If Keys can pull it off politically, he will now be able to co-ordinate the financial and economic planning necessary to make those changes.

On the other hand there is a stop-gap feeling to the appointment, with State President FW de Klerk spreading available cabinet talent thinly.

The extra load means that the State Spending Ministry cannot be reabsorbed into the Finance Ministry.

(49)

Though, as Boland Bank economist Francois Jansen points out, it is too early to assess what kind of a job State Spending Minister Ami Venter has done, it has been criticised as an unnecessary duplication. Moreover, it clearly has not been able to rein in state spending so far, which one month into the new financial year is already showing signs of exceeding the Budget.

Keys is least likely to cause offence to the two constituencies whom he now has to please. There is no doubt that he is the private sector choice for the job.

As a successful businessman in his own right he can be surer of having the confidence of the business sector than his predecessor — who was initially sneered at as a ex-IBM salesman.

On the other hand, Keys' recent announcement on protection for the textile industry show he is not about to embrace sweeping free-market reforms overnight.

Keys also has the reputation as a facilitator, gained during his time at head of Gencor.

The fear is that three posts may load too much on to one man.

Moreover, Keys admits to still learning the ropes at parliament. He has still to find his way around the political system — though coming from a company the size of Gencor, which has its own bureaucracy, must help.

Recovery just keeps slipping away (49)

A RECOVERY in the economy now looks like coming only next year — though the Stellenbosch Bureau for Economic Research thinks it will be robust when it does arrive. It forecasts an average growth rate of around 0,5 percent this year, adjusted for inflation, and a growth close to 4 percent next year. Growth next year will come from a recovery in consumer spending and a continued strong export performance.

W/mail 8/5 - 14/5/92

SOWETAN, Friday, May 8, 1992

Reform, revolution and economies

Title: Understanding the South African Macro-Economy.
Author; Nick Barnardt and Jacques du Toit
Publisher: JL van Schaik (Pty) Ltd. Sowetan
Reviewer: Joshua Raboroko. 8/5/92
(49)

UNDERSTANDING economics is often said to be like raising children: few people are really experts on the subject.

However, everyone regards his or her theories and perspectives as omnipotent.

As a result well-trained economists are sometimes shocked - and the laymen in the streets confused - by the wide diversion of components which are pronounced on any specific economic issues.

At many conferences too much jargon is used to explain how a wide range of macro-economic variables influence each other and link up in an overall framework of dynamic interaction.

As a point of departure this book explains the respective roles of the major macro-economic sectors, the mutual interrelationships between a range of financial variables such as exchange rate, inflation, interest rates and the money supply, the functioning of the real economy in which production, consumption, saving and investment interact.

Analyses

It also analyses the connections between the financial and real variables; and how all this is influenced by economic policy. The book contains all the basic elements which anyone wishing to understand, interpret and forecast the South African economy and the business cycle should have a through understanding.

The performance of macro-economic indicators from day to day can be confusing and sometimes appear chaotic. This book attempts to illustrate that they are all interwoven in an overarching framework of macro-economic interaction, with many systematic interrelationships.

Four groups

It starts with the basics of supply and demand. It sketches the economic system as an integrated network of sectors and transactions, briefly explains the meaning of macro-economic variables and divides them into four main groups.

It dissects these four components and the interactions between them.

The emphasis consistently falls on the interactions in the macro-economy, and little attention is paid to definitions.

Economics is largely a subjective science. Opinions and interactions play a vital role in any economist's analysis and projections - hence the expression: "If you have two economists, you have three opinions."

FM 8/5/92 (49)

MONEY SUPPLY (49)

Slow March

FM 8/5/92

In March, growth in the broad monetary aggregate M3 decelerated sharply to 1,17%, from February's 2,06%. This brought M3 growth, as measured from the base of the current target year (mid-November) to March, within the target range of 7%-10%.

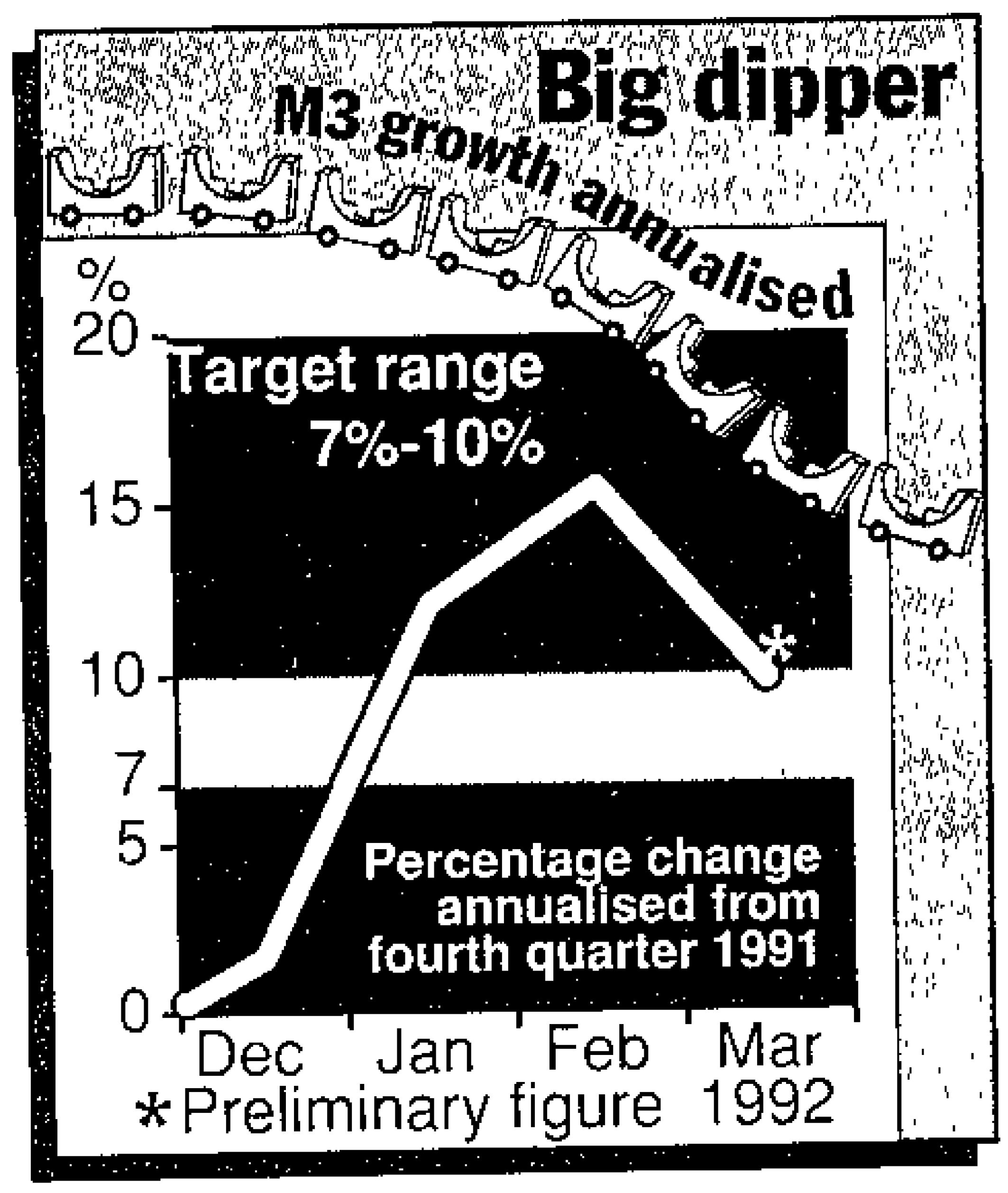
It grew an annualised 9,79% to a seasonally adjusted R187bn — a deceleration from February's rate of 15,46%.

In the 12 months to March, it rose 10,45% to R189,9bn, down from February's revised 10,59%. But February growth was unusually high, considering the trend which has been in place since December. M3 declined 0,3% in December and grew 0,72% in January

A Reserve Bank spokesman says· "Money supply growth can fluctuate for a number of reasons.

For instance, tax remittances paid at month-end by large firms are sometimes only deposited by the Receiver of Revenue early the next month. Private-sector deposits at month-end, which form a major part of M3, then stay at an artificially high level over that month."

February figures for M3 have been revised as follows:



- □ Over 12 months, 10,59% (from 10,83%) to R187,7bn; and
- □ Annualised from mid-November, 15,46% (from 16,34%) to a seasonally adjusted R188,3bn

In the 12 months to February·

- □ M2 grew 11,42% to R157,8bn;
- □ M1 8,79% to R61,6bn;
- □ M1A 16,4% to R33,8bn; and
- □ M0 fell 4,52% to R12bn.

The drop in M0 is largely technical The cash reserve, held by the Reserve Bank against the liabilities of deposit-taking institutions, forms part of M0. In February 1991, this requirement was reduced, from 5% of short-term liabilities and 2% of medium-term liabilities, to 4% of short-term liabilities only. As the provision was phased in over four months, the effect will be eliminated only in May.

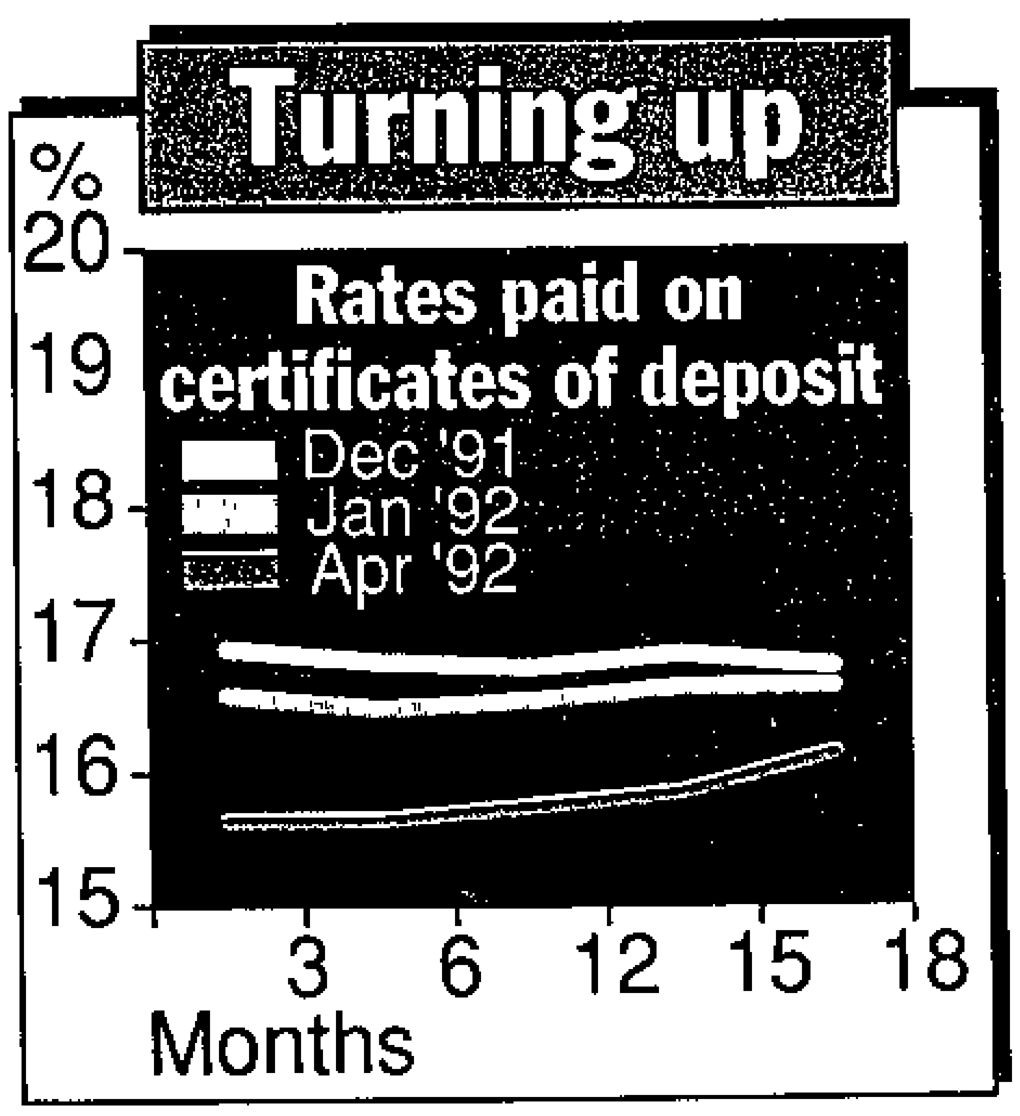
Credit extended to the private sector, in the 12 months to February, rose 10,89% to R195,4bn; and total credit extended rose 9,56% to R196,3bn. These are well down on January's 15,62% and 14,14% respectively. This is because February's 12-month data is free from the distortions caused by the introduction of the Deposit-Taking Institutions Act in February 1991. ■

INTEREST RATES

No great expectations

FM 8/5/92 (49)

How much further will interest rates fall? The market is betting: not very far. In January the yield curve for certificates of deposit began to tip at the long end, for the first time since June 1989. By April it was clearly regaining its conventionally positive slope, as long rates fell slower than short rates.



This indicates that short-term money is more freely available and that the market has already largely discounted the expected two-percentage-point fall in the pattern of interest rates. Confirmation comes from the liquid BA, which was trading in the market on Tuesday at 15,20%, while the rate at which it can be discounted at the Reserve Bank is 17%.

In other words, rates are not generally expected to fall further

Theoretically, a yield curve simply reflects the time value of money. Investors can expect to be compensated when they forgo liquidity So the longer the term of an investment, the higher the returns. But this positive yield curve is vulnerable to a number of other factors — and these have been operating in SA's financial markets for some time.

A more stringent stance on monetary policy adopted in 1989 created shortages in the money market, driving up short rates At the same time, expectations of a fall in interest rates further along the line made borrowers reluctant to lock themselves into long-term borrowing. Driven by the same expectations, investors preferred long-term opportunities. This increased the supply of and reduced demand for longer-term money, thereby pushing down rates.

Now money market shortages have subsided. Accommodation at the discount window fell from an average daily level of R2,3bn in January 1991 to R1bn in April and, on Monday, dropped to R407m as Customs Union payments and other government spending pumped money into the system.

Though the Reserve Bank has not retreated from its open-market operations, the level of funds moving out of the State Exchequer Account has kept the money market liquid since the start of the year. This has made short-term money cheaper.

Meanwhile, perceptions about future rates have changed.

The market may well reassess the situation. For instance, should inflationary expectations subside, the market would again expect interest rate cuts and the yield curve would flatten or even turn negative. On the other hand, should inflationary expectations become more acute, the curve would assume a steeply positive slope. This was the case in 1986-1987 when interest rates were kept artificially low in an attempt to stimulate economic activity.

But, at this point, expectations about interest rates are neutral and the curve has been free to find a gently positive position. In the process, it has floated down across the spectrum ■

ANC ECONOMIC POLICY

Between the lines

FM 8\5\92 (49)

A discussion paper released by the ANC last week is a summary of proposals made at a series of workshops held since 1990. The introduction notes that the document is not a rigid blueprint but "a set of basic guidelines " It is intended as a point of departure for delegates meeting at the end of the month to formulate policy, and ideas are to be developed "through consultation with the broadest spectrum of SA public opinion."

It contains few of the rhetorical frills of previous documents.

A clue to economic policy direction comes from the proposal that the State "should respond to the needs of the national economy in a flexible way and be guided by the balance of evidence rather than act according to any rigid ideological framework . . . The primary question is not the legal form that State involvement in economic activity might take but whether such actions will strengthen the ability of the economy to respond to the massive inequalities in the country and relieve the material hardship of the majority of people."

Given the failure of government's role in the economies of eastern Europe and most of Africa, this implies that nationalisation will not play a large role in industrial policy. The document describes provision of public utilities — water, electricity and waste disposal — as responsibilities of the State, but these are already largely provided by a public-sector corporation and local authorities.

Though differently labelled, nationalisation is mooted in mining and agriculture. On mining policy: "Public ownership and joint ventures (are) being considered where appropriate." On agricultural policy, land redistribution is presented as inevitable — but the need to "maintain food supplies" is stressed.

The document points out that the dispossession of large numbers of blacks over many decades has to be redressed and argues that market forces are inadequate in this context: "The very discrimination which forced the people off the land has deprived them of the capacity to buy the land back. The market could even aggravate present inequalities "

Therefore: "The State will have to play a key role in the acquisition and allocation of land and must have the power to acquire land in a variety of ways, including expropriation." However: "If the public interest requires the taking of any property, then such taking shall be done in a manner prescribed

Cont →

by law and subject to the payment of just compensation."

A special Land Fund is proposed to finance compensation as it is seen as unjust for the whole burden of the costs of transformation to fall either on "the shoulders of the present generation of titleholders or on the new generation of owners . . The concept of burden equalisation, through the introduction of special taxation measures has been applied successfully elsewhere."

An indication of what form the measures will take comes in the proposal that redistributive expenditures should be financed through "a broadly based and progressive tax structure which will reflect the need to create incentives for investment and expansion." Details will be the subject of a fiscal commission that "the ANC will institute."

On fiscal and monetary policy: "The ANC will avoid unsustainable increases in public debt" and "inflationary deficit financing will be avoided by financing the deficit through borrowing on the capital market rather than through money creation."

On foreign investment policy, foreign investors will be guaranteed·

- ☐ Repatriation of after-tax profits;
- ☐ Purchase of inputs,
- ☐ Sale of domestic assets;
- ☐ Maintenance of macro-economic balance;
- ☐ Transparency and consistency; and
- ☐ A climate of peace and stability

Though for the most part the document is carefully constructed, inconsistencies emerge. On some aspects of industrial policy the ANC is proving as adept at doublespeak as the government "Trade barriers will be adjusted to prevent the destruction of domestic producers, jobs, and the exploitation of SA consumers." These are mutually exclusive goals; as long as producers and jobs are protected consumers will be ripped off.

In one statement that is perhaps not contradictory but certainly ambiguous, the document says the ANC, though not opposed to "large firms as such," will investigate the possibility of introducing anti-monopoly and mergers policies.

However, the tone of the document continues in the more moderate direction taken by ANC president Nelson Mandela at the World Economic Forum in Switzerland in February. This reflects the growing awareness within the ANC of the impact on investor confidence of ill-considered statements.

Because consistency alone is a big plus, it can be seen as a step in the right direction. ■

Business confidence edges up in shaky conditions

(49) CT 8/5/92

By AUDREY D'ANGELO
Business Editor

BUSINESS confidence edged up slightly last month, according to the SA Chamber of Business (Sacob) monthly index, which shows a rise to 88% from 87,7% in March.

Sacob chief economist Ben van Rensburg — who says 3% growth is possible next year — expects signs of an upturn to become clearer in the fourth quarter.

But he thinks it will begin slowly and unevenly. "Sacob therefore believes that for all practical purposes an economic upswing will take place only in 1993."

Warning that business confidence is still fragile and vulnerable, he says everything possible must be done to bolster it to create a favourable climate for investment.

"We must use the rest of 1992 to lay the foundations for the next upswing."

Van Rensburg says "the apparent lack of attention and importance being given to economic issues by Codesa" is one reason for the present reluctance to invest.

"Although the ANC's latest economic policy proposals show some narrowing of the gap between business and that organisation there are still many areas that have limited detail.

"As a result business will continue to be faced with uncertainty over the kind of economic system it will be required to operate in. Against this backdrop a significant increase in investment is unlikely."

Van Rensburg says the continuing debate over the accuracy of official inflation figures, as measured by the consumer price index (CPI) — and the high rate of increase in food prices in particular — is of great concern to the business community.

He points out that the CPI is used to determine a host of price increases, including wage and salary adjustments. This makes it especially important for the index to be accurate

"This is further emphasised by the fact that monetary policy decisions affecting interest rates and other aspects of economic policy are being based to some extent on inflationary trends which emerge from the performance of the CPI.

"It is therefore essential that faith be restored in the index as a barometer of broad inflationary patterns as soon as possible."

Calling for the Board of Trade and Industry report on food prices to be published as soon as possible Van Rensburg warns:"Delays will serve to erode confidence in economic management."

He says another reason for delaying fixed investment is that there is a great deal of unused capacity at present.

"However, since much of the existing capacity is technologically outdated, many businesses would increase their investment if they were confident of reasonable growth in demand for their products within a fairly short time".

Increased competition from foreign companies coming into the market could spur SA companies on to update their plant and equipment.

Trying to pull the wool over the sheep's eyes

BDay 8/5/92

(49)

RED ALERT

JOE SLOVO

THE Olivier commission is only partially right when it says "we are striving for a system of equality before the law, and therefore justice for all". Equality before the law is obviously a necessary condition for justice and nonracial democracy. But is it a *sufficient* condition to underwrite justice in our reality? Let me illustrate my point with Krylov's old fable.

A Codesa-type structure was set up in the animal kingdom to address the unending massacre of sheep by wolves. After haggling, the wolves' representatives tabled their bottom-line proposal. They offered the creation of an impartial and independent tribunal. Any sheep about to be attacked would have the legal right to grab the wolf by the throat and drag it to the tribunal to face trial.

The mere absence of legal restraint without the presence of opportunity makes equality a meaningless abstraction. For example, with the repeal of the infamous Land Acts, blacks now have the legal right to buy up every square metre of the 87% of land owned by whites. But without affirmative action to empower blacks to regain some of their racially deprived land rights, equality before the law does not even begin to translate into justice. The 3- to 4-million who suffered forced removals from 20 so-called black spots in the past 30 years are, in practice, no better off than Krylov's poor sheep. They won't take kindly to the Olivier commission's warning against the "mistrust of affirmative action in an attempt to justify . . . redistribution of land".

□□□□

CHUTZPAH is one of those untranslatable Yiddish words which have been received by American English. Roughly speaking, it means the height of cheek. The word came to mind when I listened to Pik Botha speaking under the heady influence of his accession to the NP's Transvaal leadership. Among other things, he said: "The election is on and I'm going to extend party support to every black community. We can only become the majority party in SA if we attract significant black support — and we are going to get it."

Now, I am not suggesting Nuremberg Trials for the perpetrators of what the world has unanimously condemned as crimes against humanity. But it's the height of chutzpah for the party responsible for these crimes to seek and seriously expect support from the surviving victims. The NP's practices cannot be easily forgotten or forgiven by the tens of millions who experienced the nightmare. What, however, compounds Botha's chutzpah is that his party has still not had the courage and honesty to follow its church in confessing to the unmitigated sin of apartheid; nor has it ended its alliance with the evil genius behind it — the Broederbond.

□□□□

I EXPECT to be accused of radical ranting when I say that, if you leave it only to business to ensure a fair distribution of the social surplus, you court a social disaster.

The norms guiding unfettered business were frankly spelt out by Business Day. In discussing VAT it editorialised (November 11 1991) that "Business is in the business of making profits. Its responsibilities should not include helping to contain inflation or getting governments out of embarrassing corners. There is no duty, legal or moral, to forsake an opportunity or to lower prices when the tax system changes."

Quite so! Capital, if it is true to itself, gives as little to the social fund as it can ~~get away~~ with. ~~This is~~ its legal and "moral" right in current ethics. But if making a quick buck is the beginning and end of morality and social obligation, you'll pardon us for trying to find another way in search of social justice.

□□□□

DID you know that 20 SA families between them held shares on the JSE in 1991 worth R10,7bn. And this is not all. Add their wealth abroad, assets in cash, fixed interest securities, unlisted companies, fixed property, a yacht or two, and so on. At a guess, I would put the grand total at well over R20bn.

If this type of wealth concentration is described as a just reward for labour then words have lost all meaning. It is a plain obscenity.

If the idea of wealth tax horrifies you, give thought to the following comparative statistics. In this year's Budget a total of R13,2bn was set aside for the health, housing and pensions of our whole nation of 40-million souls. Between them, the Oppenheimer and Rupert families must own at least twice the amount budgeted for housing and pensions.

Imagine the impact of all this on the 84% of our population whose "just" reward for labour netted, according to Operation Hunger, less than R600 a month. The cost of feeding a family a balanced and palatable diet in Soweto (excluding red meat) amounts to R565,87 a month.

Hold it, I am not suggesting an across-the-board wealth grab. But a trickle down of a mere billion or three for social welfare would help a little without driving those 20 families to take vows of poverty.

□□□□

THE NPP's affable Mr Rajbansi is an extremely audible presence at Codesa. He rushes in prolifically with interventions where most angels fear to tread, and is always ready to fill any moment of silence. A wag at Codesa has concluded that we can now expect this to end. He calculated that Rajbansi has now exhausted his quota of making at least one intervention on behalf of each of the small coterie of voters who sent him to Parliament and Codesa.

□□□□

STREET philosophers often come up with profound aphorisms in composing their graffiti. One example which should commend itself to therapists appeared on the wall opposite my daughter Gillian's house in London. It read: "If you've got your back against the wall, the only thing to do is to turn around and write on it."

□ **Slovo's Red Alert column will appear monthly in Business Day.**

LETTERS

But members did far more than shop around for a suitable venue. Acting on the recommendations of African Development Bank chairman Babacar Ndiaye, who visited SA last month, the group is determined to convince local policymakers that a thriving, deregulated private sector offers the best means of achieving sustainable development and redistributing income.

The Ivory Coast-based group is a sort of roving African ambassador for the free market and SA is its latest mission.

Secretary-general Esom Alintah says: "Our aims are to attract foreign investment to Africa, promote intra-African trade and investment and strengthen Africa's private sector."

Alintah, a director of the Nigerian subsidiary of the US-based Ashland Exploration Co, says SA needs to privatise rapidly to help restore economic prosperity. "Government shouldn't worry about ANC opposition to privatisation — it's the right thing to do. Government has no choice. The sooner it privatises, the better for the country economically." He points out that more than 300 State-run enterprises in Nigeria have been privatised in recent years, in spite of stiff opposition from bureaucrats.

He says: "Privatising these organisations has increased efficiency. Government is not as broke as it used to be, goods are now delivered on time, and prices are competitive. Employees now receive their salaries monthly instead of every few months."

Alintah ... *bringing the market to Africa*

Alintah says nationalisation is simply not a viable choice for SA, adding that many South Africans appear to be confusing redistributing wealth through economic growth with the discredited option of redistributing wealth by "robbing Peter to pay Paul."

Alintah met ANC officials and invited the organisation to outline its economic policies to an international audience in Dakar on May 11.

The Nigerian has some advice on what the ANC should say. He stresses that the ANC needs a deregulated economy with free and fair competition. "Government need only provide the infrastructure. In short, government needs to pursue a policy of free enterprise."

He points out that most African countries are competing with one another to produce alluring investment codes to attract foreign investment. His group, he says, publicises this and other economic reforms. "Our message is that the business environment in Africa is improving dramatically as economic and democratic reforms are implemented throughout the continent."

The group would welcome widespread participation from SA, which is the only African country that is not represented. Says Alintah: "SA has the ability to produce and supply, cheaply, many of the products bought from Europe and the East."

Referring to the Nigerian market, Alintah says SA can export technology and services — financial, agricultural and engineering. "SA can especially export finished products in the petro-chemical area, while Nigeria can supply SA with the raw materials for these products."

Formed in 1987 as an informal advisory body to the African Development Bank, the business round table became an independent, nonprofit association in 1990 and has raised US$250m for private-sector development projects ■

Ramaphosa urges change from profits to economic growth

South 9/5-14/5/92

49

A congress of chartered accountants was told to look beyond tables of figures and to focus on the need to restructure the economy **Quentin Wilson** reports

EMPLOYERS should "change their attitudes" from short-term profits to long-term economic growth, ANC secretary-general Mr Cyril Ramaphosa said at a city congress of chartered accountants this week

Ramaphosa said employers and accountants have to review their practice of regulating businesses only by financial ratios and short-term targets

"Chartered accountants need to look beyond their tables of figures to the need for a planned restructuring of the economy

"They have to understand the potential that exists for union participation to promote the effective re-structuring of our economy towards economic growth and development," he said

Ramaphosa predicted that collective bargaining "will be one of the cornerstones of a new South Africa", even though "it is a very new process" as far as most African workers are concerned

Defining collective bargaining as a process for resolving disputes and agreeing on solutions, he said the concept implies that people often have different interests, that conflict is a part of daily life, but that it provides an avenue to resolve these differences by agreeing on rules and procedures "

He warned it would not guarantee an automatic solution to every problem or an end to militancy Strike action, picketing, boycotts and lock-outs could be included in the bargaining process.

Ramaphosa said collective bargaining will include more people and deal with more issues

"Mass participation will allow issues that most closely touch ordinary people to be the subject of debate and discussion in preparation for framing bargaining positions

"There will also need to be a new emphasis on report-backs during the negotiations so that people feel involved in the process and become committed to what is finally agreed on," he said.

For more people and issues to be involved, Ramaphosa outlined a few changes that must occur, like worker education, which was considered vital.

FINGER ON THE FIGURES: ANC secretary-general Cyril Ramaphosa at a congress of chartered accountants

'A key principle is the need for a comprehensive education and training system for adults rather than the piecemeal training of individuals'

"A key principle is the need for a comprehensive education and training system for adults rather than the piecemeal training of individuals. This system would have to be agreed upon at a national level and included in government policy, but negotiations will settle such issues as payment for educational leave and the provision of training courses and re-training programmes," he said.

All factories would need to provide these facilities for basic adult education and plan paths for the acquisition of new skills, he said

Ramaphosa said employers should share all the information at their disposal with workers, which would enable effective worker participation in all company planning.

"The disclosure of information will become important in collective bargaining This cannot consist of just referring unions to published accounts — usually the published accounts cover far more than the bargaining units and are too aggregated to be useful.

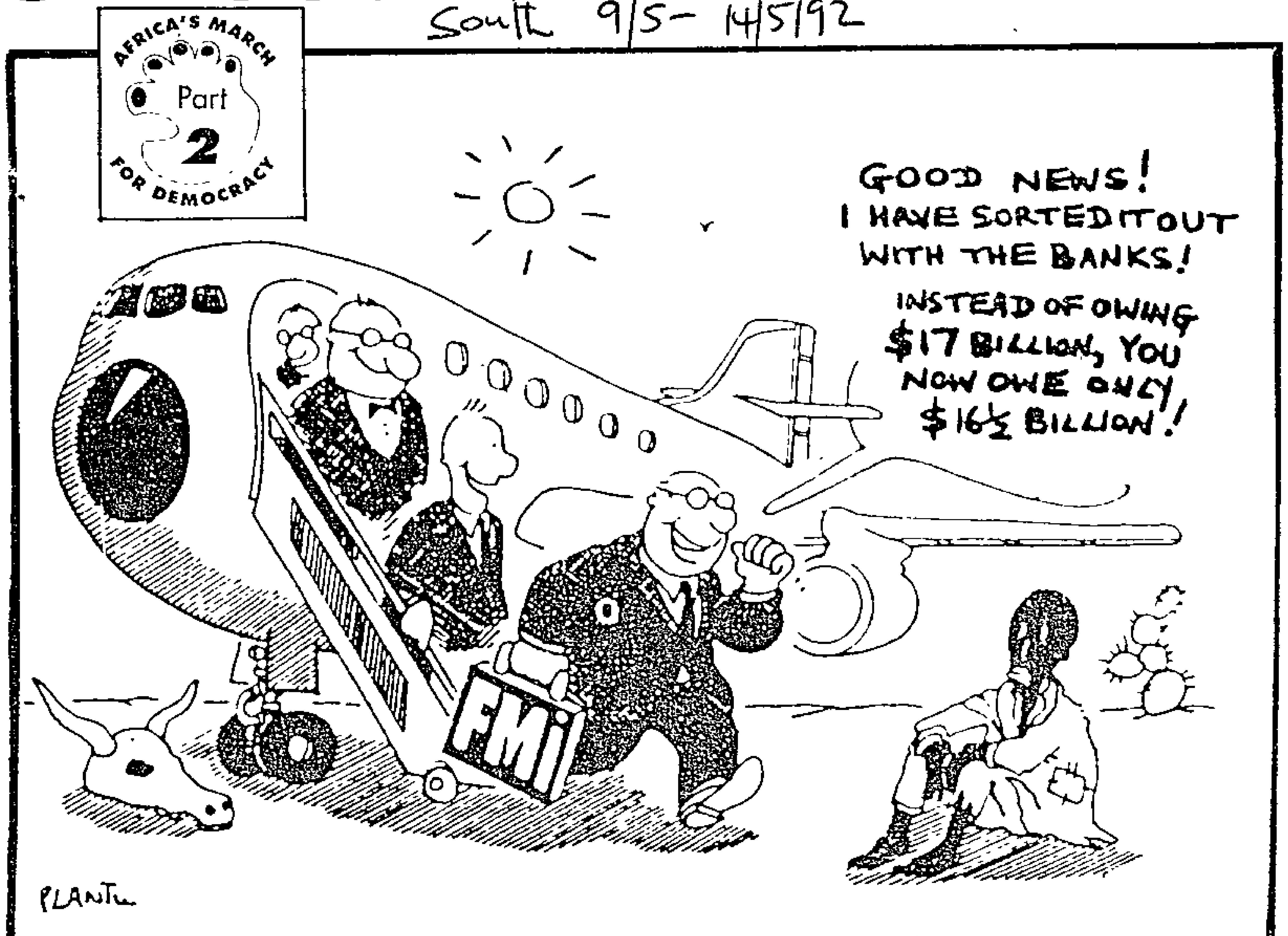
"Union negotiating teams need to be put in a position in which they can understand the information or expert reports on it," he said

Africa's freedom on a shoestring

South 9/5- 14/5/92

49

As Africa's debts mount and living standards decline, democratic gains may soon be hanging by a thread Santorri Chamley looks at the future in this second article of a four-part series:



THE ROAD to democracy in Africa appears to have been paved, but warnings are being sounded that the fallout from the continent's economic nightmares may threaten new-found freedoms

As observer Mr Francis Laloupo says "The margins of economic manoeuvre in countries which opted for democracy in the face of bankruptcy are slight

"Given the extent to which natural resources have been pillaged, and the dependence of Africa on the vagaries of the external market, how will Africa's fledgling democracies be financed?"

In the face of so much adversity, what are the chances of survival for African democracy?

According to the Report of the United Nations Programme of Action for African Economic Recovery and Development, by 1990 Africa's debt had almost doubled its1980 figure.

It now stands at $280 billion (about R784 billion) and is rising rapidly. This includes $150 billion (about R420 billion) for sub-Saharan Africa, over 112 percent of Gross Domestic Product.

Servicing the mounting debt has become the main burden confronting the continent

Each year sub-Saharan African countries pay US$12 billion (about R33,6 billion). This is only one third of the interest due and about 30 percent of export earnings.

Debt is costing Africa more than the continent is spending on the welfare of its people, including health and education.

Arrears on long-term debt rose from $221 million (about R618,8 million) in 1980 to $7,2 billion (about R20,1 billion) in 1989.

During the sixties and seventies, the GDP of most African countries increased by six percent annually. By 1988, the debt crisis had slashed the GDP to around three percent.

By 1990, increasing debt and balance of payment difficulties had forced 33 countries to implement stringent Structural Adjustment Programmes and Economic Recovery Programmes.

The price of former regimes' mismanagement of economies, together with rampant corruption and declining commodity prices, is being paid. Those feeling the crunch of a sharp decline in living standards are the millions of Africans least able to bear its burden — the urban and rural poor, women and children.

The number of African families unable to meet their basic needs has doubled within a decade Over 30 million people out of a population of 552 to 570 million are unemployed; average incomes have fallen by as much as 30 to 80 percent in the more beleaguered countries

The impossibility of earning a living has driven at least 60 000 skilled workers from the continent.

This year alone, drought threatens 27 million people in 14 countries, and around 40 million people have been displaced by environmental disasters and war.

Structural adjustment has social and political implications

There have been widespread disturbances linked to economic programmes.

Such programmes were initially designed to be implemented over a short period to stabilise and balance national economies. After a decade, most countries are still "adjusting"

Nigerian economics professor Dr Bade Onimode asks "How long are our countries supposed to adjust?"

"Almost without exception, the effect of structural adjustment has been to undermine the fragile structures of democracy in our societies, in the sense that they usually require authoritarian regimes to implement them successfully.

"This is why in many of our countries, structural adjustment has tended to coincide with, if not provoke, the militarisation of politics and growing authoritarianism "

After three decades of suppression, and a system that enriched a few on the backs of the masses, the one-party, military-ruled state has clearly lost credibility

The economic crisis and current political ferment emphasise the need for alternative forms of government.

But unless Africans begin to see some tangible results from the sacrifices they have made, the recent reforms and moves to democracy will be threatened

Can the incoming leaders reverse years of economic freefall and create viable, successful economies?

Will multi-party systems bring democracy and alleviate poverty?

And as Zimbabwean writer Mr Chenjerai Hove asks Will the incoming leaders resist the lure of power and its capacity to destroy people's participation in determining their own destiny?

— Index on Censorship, London

Can Derek find key to solve our economic ills?

THE appointment of Derek Keys as Minister of Trade and Industry, as well as Economic Co-ordination, in December was greeted with enthusiasm — not only by the business community.

An innovative reformer was urgently required to rescue the economy from its political strait-jacket.

Derek Keys (60), who in five years as Gencor's executive chairman turned the sleepy and conservative mining giant into a progressive and diversified organisation, looked the perfect man for the job.

STAR 9/5/92.

THE new Finance Minister has the skills, but is widely seen as a 'stop-gap' appointment, writes SVEN LUNSCHE

49

Five months later, his appointment to head the Ministry of Finance is again generally welcomed, but the reception this time around is more guarded, less hopeful and at times even sceptical.

"The Department of Finance is a political hot potato. Keys doesn't have the stomach for the job" is an often-heard quote.

The little that has emerged about his five months as head of Trade and Industry has given rise to one overriding perception of Keys the politician: he will make waves, but certainly won't rock the boat.

Much of this perception has to do with the nature of his new position.

In charge of three of the four key portfolios that determine economic policy — trade, industry and fiscal policy (the realm of monetary policy is jealously guarded by the Reserve Bank) — Keys seems to have virtually exclusive say over South Africa's economic future.

But the reality — and one Keys is only too aware of — is that in the current state of political flux his appointment must be seen as a stop-gap measure.

It is not that his political career will end with the emergence of a new nonracial government; Keys, thanks to his perceived political independence, is mentioned by many of the Government's opponents as one of the few Cabinet members who could command a key posting in a nonracial government.

But it is rather unlikely that the National Party Government will undertake large-scale political changes at a time when a new political dispensation is round the corner.

DEREK KEYS: I see my job as persuading the private sector to start leading the economy, regardless of what the political parties think they're doing.

For Keys, this means he will not — at least not yet — have to tackle key problems which his job would have entailed under more normal circumstances.

Topping that list is the need to curtail exorbitant Government spending against the ever-rising demands on the State's coffers to finance the enormous socio-political backlog.

Neither will he have to become involved in the long-overdue overhaul of the State bureaucracy.

In a way this is a pity Keys' success during his 35-year business career — the majority of those years were spent in the boardrooms of companies in the Sanlam stable — was based on his ability to motivate the people he worked with.

The ease with which he attracted capable lieutenants would have been a major bonus in a department short of skilful managers and technocrats.

Keys' original two portfolios — trade and industry — are politically less contentious, but even in these two key areas he has been reluctant to apply the drastic medicine needed to revitalise South Africa's industrial sector and provide the platform for export growth in the post-sanctions era.

Those looking for a package of stimulatory measures to cut South Africa's protective tariff barriers, which have been cushioning many local industries from international competition, have so far been disappointed.

In his maiden speech to Parliament, Keys declared an obsession with raising the level of investment to boost growth and thus stimulate job creation.

In one of his few interviews since taking office — with the London Financial Times, which he professes to read every afternoon — he said the economy was basically sound but needed private investors to realise this latent potential.

"I see my job as simply persuading the private sector to start putting one foot in front of the other to start leading the economy, regardless of what the political parties think they're doing."

As the minister charged with facilitating the economics of transition he has not yet persuaded the bulk of South Africa's businessmen to take that first step.

Keys will do his cause no harm by increasing his public appearances and interviews with the media — since taking office earlier this week he has yet to give a detailed insight into his agenda.

This is in stark contrast with his open-door policy when at the helm of Gencor, which suited his easy-going and humorous style of interaction with journalists.

Keys boasts a track record that not only makes most other senior businessmen green with envy but, unusually, one that seemingly transcended the language barrier that proved, until fairly recently, such a stumbling block to English-speaking managers in the Sanlam business empire.

A King Edward School old boy, Keys enrolled at Wits to study for a B Comm and had no problem in walking off with 16 out of a possible 18 distinctions.

After 10 years at the Industrial Development Corporation, the desire to fulfil an entrepreneurial spirit led him into his own consultancy business in 1965.

This career was, however, short-lived as his first client, Malcomess Farm Machinery, eventually led him to develop the group which formed the basis of what is today Malbak, Gencor's giant industrial arm.

He had a meteoric rise within Gencor and even in his move to the public sector succeeded a former Gencor chairman, Wim de Villiers.

Whether he can make a political mark at this crucial stage of South Africa's history will depend on the powers he is given to reform the Ministry of Finance, but more importantly on his willingness to move beyond the established norms of Government economic policy.

Judging from his business track-record he certainly has the skill and the manner to achieve just that.

ed the htmare

South
9/5-14/5/92

'During therapy, the psychiatrist asked me what it felt like to kill others. My reply was that, in a perverse sort of way, it became quite pleasurable.'

the defeated Fapla forces who couldn't understand why they were being mowed down after complying with our terms.

"In the heat of the moment we would join in and do exactly the same as Unita — shoot the surrendering soldiers."

In another incident involving the Fapla forces, the 21st Brigade (Kapp's division) came across four Fapla soldiers towards late evening. They were clearly shell-shocked and totally disorientated.

"We began to interrogate them, but they were unable to answer. They were told they were to be handed over to the Unita forces for transportation to their headquarters in Jamba.

"Then a Unita soldier killed one of the captured men. This added to the state of bewilderment among the Fapla captives who, after seeing one of their comrades shot, didn't even know whether they would see the next day.

"I often wonder what happened to the prisoners of war handed over to Unita."

Bertus says he was traumatised by the grim and gruesome side of the war.

After completing his military duty, Bertus could not adapt to civilian life and had psychiatric treatment.

HE FOUND his value system had changed drastically: "Killing others became just another job. I had become insensitive to the value of life around me, including my own.

"During therapy, the psychiatrist asked me what it felt like to kill others. My reply to him was that, in a perverse sort of way, it became quite pleasurable."

Bertus says that because of the frustrations of fighting a bush war, "killing became a release of this frustration".

"At the time we were so anxious to obliterate our opposition that we couldn't do it fast enough. We may have been overcome by a temporary psychopathic state — at the time the killing became addictive

"When I began my training, I was a naive 18-year-old. Later I began to grow cynical when I realised I was risking my life every day but that it was worth no more than a few miserable rands to the state."

For a long time after his bush war experiences he was afraid to form close relationships in case the person died

"I just did not know if I could deal with that" Only well into his second year as a student did he manage to form a stable relationship. But there are still times he struggles to communicate with his peers

Bertus entered a war without a free choice, without any historical perspective or an ideological direction at the time In concluding the interview, he comments: "Fighting to maintain a bogus colony which we no longer possess — what did we achieve? Nothing. We cannot even regard ourselves as war heroes I was awarded a medal but where shall I wear it?

"They also awarded me a certificate stating that I had fought against terrorism.

"In 10 or 20 years time, will I be telling my children I was a war hero who fought against terrorism? Maybe they will ask ... but I doubt it."

THE GRIM AND GRUESOME SIDE OF WAR

"We came under artillery fire from the side of the Fapla (Angolan) forces. One of our men was climbing into the driver's compartment of the tank when a 150mm projectile hit him.

"His whole upper body was shattered, his inner organs dangling sideways from the torso. Part of his arm was lying in a different place. We picked up pieces of teeth but part of the jawbone was nowhere to be found.

"Lots were drawn to determine who would clean up the grizzly remains and transport the body back to Rundu.

"The lot fell on me and my buddy. By then I was a seasoned trooper and able to handle these experiences. But my buddy was gagging and retching while we used pieces of cardboard and a hand broom to sweep up tiny sections of flesh scattered all over the scene."

Collecting bits of human hair, skin and bone felt like an endless task. "That day we must have used up litres and litres of anti-septic cleaning fluids in an attempt to quell that nauseating smell of death, blood and rotting flesh.

"Towards evening we took the corpse back to Rundu but were reluctant to touch anything inside the tank as the blast had showered the soldier's remains over the driver and passenger areas.

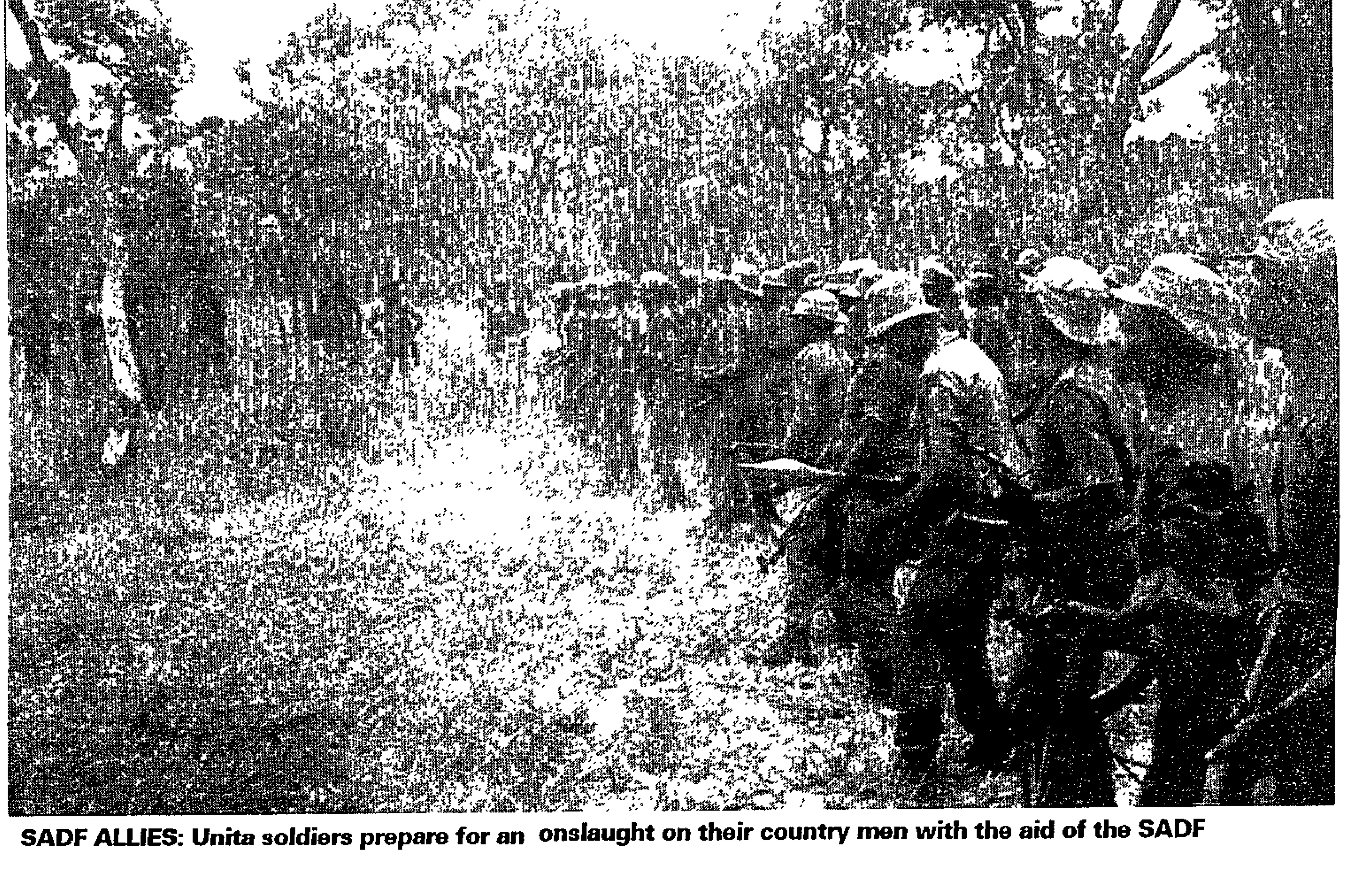
"There were still minute bits of hair and skin cleaving to the steering wheel and gears ... even the radio was smeared.

"It's difficult to understand how I managed to retain any semblance of sanity under those circumstances.

"The tank driver survived this direct RPG rocket strike. But when the medic with him was killed the driver was spattered with flesh and blood.

"After this he was subject to violent outbursts, despite a lengthy spell of psychiatric treatment.

"He has never been quite the same person since that incident."



SADF ALLIES: ***Unita soldiers prepare for an onslaught on their country men with the aid of the SADF***

NATION
A mirror
econom

South 9/5-14/5/92

(49)

Linda Loxton, financial journalist

Although recent ANC economic guidelines deal with nationalisation pragmatically, many of its members still strongly believe in its justness. Whether they are in the majority remains to be seen:

'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.'

Mr Nelson Mandela, in a statement from prison just before his release in 1990.

'The ANC has no ideological commitment to nationalisation. This provision appears in policy documents of the ANC adopted more than 35 years ago, at a time when the word privatisation was not in anybody's vocabulary. The matter was raised to address the obscene imbalances in the distribution of wealth . . . This issue is now under discussion and is being approached in a pragmatic manner which takes into account the experiences of other peoples since the 1950s and the present-day realities of South Africa.'

Mr Nelson Mandela, in an address at the University of Pittsburgh, Pennsylvania, 1991.

Key policies to be thrashed out at ANC conference

AS NEGOTIATIONS rumble on at Codesa, the ANC is to meet at the end of May to thrash out its policies on a wide range of issues.

These will include the military, defence, social services such as education and health, foreign policy, bill of rights, land, local government, housing, the environment and, of course, that most vital building block of all — the economy.

For, without sound and workable economic policies, none of the other issues can or will be adequately addressed, and many people are eagerly awaiting the outcome of the policy conference to see how the ANC plans to go to the nation on economic policies.

Because of the importance of economic policies, SOUTH today starts a four-part series on the various options open to the ANC — or any future democratic government. The new authorities will need to run an economy that will meet the needs and aspirations of the largest group of people and in a sustainable way to ensure future growth and not just a short-term boost.

THE apparent about-turn on the key economic policy issue of nationalisation implied in the above quotes reflects not so much confusion on the part of the ANC on economic policy as the plain and simple fact that espousing certain populist policies either in exile or underground is quite a different thing from actually being in, or on the verge of, power.

It also reflects the rapid changes that have taken place over the last few years, changes that no political organisation can afford to ignore.

The crumbling of the former socialist or command economies ripped away one of the most steadfast bastions of the liberation movements in South Africa — and left them like their former comrades in "the East", fumbling for new visions and policies. Obviously, it wasn't easy and many debates still lie ahead before coherent final policies are agreed on.

One should also not underestimate the immense pressure that the ANC and others have experienced from various agencies at home and abroad to ensure that a new South Africa adopts free-market principles, minimises government intervention — and forgets about socialism of any kind whatsoever.

The recently released ANC economic policy guidelines are pragmatic on the issue of nationalisation but, as ANC economist Mr Tito Mbeweni confessed, many members still strongly believe in the justness of nationalisation and will bitterly contest any apparent attempt at backtracking. Whether they will be in the majority remains to be seen.

According to the guidelines, the ANC believes the "state should respond to the needs of the economy in a flexible way, and be guided by the balance of evidence, rather than acting according to any rigid ideological framework when deciding on various economic policy measures. Such flexibility means assessing the balance of evidence when deciding the merit of:

- increasing public sector economic activity through, for example, nationalisation (subject to compensation) or by means of purchasing a shareholding in companies through the market process; or,
- establishing new public corporations or joint ventures between the state and the private sector; or
- reducing the role of the public sector through privatisation.

"The primary question in this regard is not the legal form that state involvement in economic activity might take at any point, but whether such actions will strengthen the ability of the economy to respond to the massive inequalities in the country and relieve the material hardship of the majority of people."

The guidelines also indicate that property rights will be covered in a proposed bill of rights, and say that "everyone should be protected against arbitrary and lawless interference with their property rights. If the public interest requires the taking of any property, then such taking shall be done in a manner prescribed by law and subject to the payment of just compensation.

"Such compensation shall be calculated by means of an equitable balance between the interests of those affected and the public interest, and its final determination will be in the hands of the courts."

The ANC also believes that the ownership of property "implies obligations."

"The bill of rights should be framed in such a way as to authorise legislation affecting property which is clearly in the public interest, such as:

- to promote conservation and environmental protection
- to prevent the formation of monopolies or cartels which restrict free competition
- to impose taxes
- to regulate the use of property."

Those who support free-market forces and untrammelled private enterprise are, as in the past, not likely to be completely satisfied with this carefully-worded bit of tightrope walking.

They want guarantees of no government interference at all, never mind the fact that nowhere in the world are governments totally neutral.

They do not seem to understand the ANC has a historical baggage to unpack, but wants to do this in the most democratic way possible. As ANC economic adviser and University of Cape Town lecturer Mr Alan Hirsch says: "It is a political process to reach agreement on this (nationalisation), but with the private sector and the press hammering away at it all the time, it makes it more difficult."

The issue of nationalisation arises out of a deep-felt need to redress the economic imbalances and ensure that the people at large — the "masses" — get a better deal.

At one stage, before history destroyed many people's hopes and illusions, that better deal was thought to be best achieved through socialism. Many people now, after more than years of Nationalist rule, equate apartheid with capitalism, and still believe in systems like nationalisation.

But their leaders, who also used to be — and, at heart, possibly still — fervent socialists, have spent the last two years on a hard-and-fast learning curve. Of late, they have modified their language, their demands, their rhetoric.

They are not "selling out", but coming to grips with the fact that they want to run the country and want help from the rest of the world to do so, and do so as effectively as possible, they had better forget about some of the more fanciful, and discredited, policies that were milk and bread to them only a short while ago.

Whether their followers will accept this still has to be tested, and, given the sometimes unrealistic expectations that have been built up, that could be tough going.

However, it is clear there should be as wide as possible a debate about the options open to the new government as it tries to rebuild the economy and redress past wrongs.

Such a debate requires open minds or, as economist M Peter Moll puts it in his book "The Great Economic Debate" "more research and less propaganda, more frank discussion and less dogmatic assertion; more information and less sloganeering ..."

The question, of course, is whether South Africans, having been force-fed dogma of one kind or another for years, are up to that kind of debate.

Hirsch on the nationalisation issue says the ANC will be guided by the experience of other countries. Many of its members had lived through nationalisation elsewhere and, and at the middle to upper levels, there was a good understanding of the advantages and disadvantages.

Old Mutual chief economist M David Mohr is blunt on the issue:

ALISATION: of changing c policy

South 9/5-14/5/92 (49)

Illustration Andrew Putter

'more research and less propaganda; more frank discussion and less dogmatic assertion; more information and less sloganeering ...'

economist Mr Peter Moll

'To nationalise without compensation would be a disaster; but to buy private industries will be a waste of money — economics is about trade-offs.'

Old Mutual chief economist Mr David Mohr

'The debate on which one should come first is dying down because both are wrong — you can't have one without the other. The challenge is to find the right balance of policies to enable both redistribution and growth'

Professor Lieb Loots of the University of the Western Cape and ANC adviser on fiscal policy

"To nationalise without compensation would be a disaster; but to buy private industries will be a waste of money — economics is about trade-offs."

But he agreed nationalisation was something of a "has-been" now.

"There has been a tremendous shift in economic thinking on both sides of the equation over the last few years," he said.

"Previously, nobody said anything about redistribution. Now it is part of the lingua franca, and there was a lot more of it in the last budget. We have also seen some of the more radical ideas move to the middle ground — the politicians will decide where it will stop."

Another red herring has been the whole argument about whether there should be growth through or with distribution — or both. Hirsch says that in a previous ANC discussion document, the talk was of growth through redistribution, which became a major slogan.

"The latest discussion document did not include this because it implies that redistribution equals wealth or suggests the path to growth is through redistribution. The ANC attitude now is to not make one dependent on the other."

Professor Lieb Loots of the University of the Western Cape and ANC adviser on fiscal policy, says it is realised there is no trade-off between growth and redistribution.

"The debate on which one should come first is dying down because both are wrong — you can't have one without the other. The challenge is to find the right balance of policies to enable both redistribution and growth," he said.

But why all the fuss in the first place? Hirsch said it is probably because the "ANC is under much closer scrutiny than, for example, the government, which itself makes contradictory statements, but no one is watching that. I am not attacking the media. I am just saying that the ANC has to learn how best to deal with it."

Not that the ANC would claim to have all the answers to South Africa's economic problems. Its members include a large number of experienced academics or people who have worked in governments elsewhere, but they admit that they have not been thinking concretely about the situation in South Africa. They are now re-tooling their skills to help build a strong economy, and some are not all that well-prepared.

"It has been a rapid education process — but the government itself often does not have any better ideas than the ANC on what is the best course for South Africa." said Hirsch.

'Improve productivity through better working conditions, wages'

(49)

Economist Mr Peter Moll has summed up the major "rational" — not free-market — arguments against nationalisation, based on experiences elsewhere.

Nationalisation, he says, is not a guarantee of economic equality, nor has it generally improved the working conditions and wages of workers. It is much better, argues Moll, to deliberately set out to improve working conditions and wages by improving access to education and day-care facilities etc, and thereby improve productivity.

Nationalisation also does not redistribute income because wages are already higher in "nationalisable" firms than in smaller ones — and those workers are not the worst off in society. They are, however, most likely to be in favour of nationalisation because they want to decrease their relative, not abject, level of poverty.

So, says Moll, government should ignore demands for nationalisation and redistribute income in another way — inheritance tax on the very wealthy, for example, and target the poor through programmes to upgrade rural areas, land reform, job creation and spending on education

Nationalisation also does not automatically lead to worker participation in management and the bureaucrats running nationalised firms are just as likely as private sector management to want to retain their power

He admits that while nationalisation does tend to scare away investment, not all nationalisation will do so — much depends on the perceived stability of the property rights structure.

Nationalisation is, after all, not something alien to western countries but it has been carefully targeted and has taken place in an environment where property rights are fully guaranteed.

Nationalisation is therefore not a question of a "glamorous conquest of the commanding heights". Rather, it is "a lot of messy and complicated legislative tasks" and it would perhaps be better to concentrate on beefing up anti-monopoly legislation to avoid interlocking directorships etc.

Softly, softly on land issue

TITO MBOWENI ... "There are people alive whose land was expropriated by government."

By SEKOLA SELLO (49)

THE ANC, only three weeks away before holding an important policy conference, does not seem anywhere near resolving one of the major problems facing it, the question of the land.

A draft document of the ANC which is currently being discussed by the membership before the policy conference at the end of this month, clearly shows the dilemma facing the organisation.

Citizen 10/5/92

Objectives

The introduction to the document says two of the three basic objectives of the ANC policy are:

- First, to overcome the legacy of inequality and injustice created by colonialism and apartheid.
- Second, to develop an economy and state infrastructure that will progressively improve the quality of life of all South Africans.

These objectives go to the heart of the South African problem. The legacy of State-created inequality is largely responsible for a situation where 87 percent of the land is owned by whites who constitue only 13 percent of the total population of the country.

The other side of the dilemma is how to redress the inequalities without creating serious economic disruptions. The ANC is aware of the trials and tribulations faced by Zimbabwe President Robert Mugabe who has been trying to solve a similar problem for the past 12 years.

The ANC's draft document on land and agricultural policy clearly reflect this dilemma. The document notes that "dispossession and denial of rights to land have resulted in the present unequal division of land and landlessness, which will require legislative intervention far beyond the mere repeal of apartheid land laws".

Aware of the opposition land redistribution policies will definitely elicit among whites and most likely also taking international opinion into account, the document calls for a very cautious approach on this issue.

The document calls for a comprehensive land reform programme which will include the following:

- Redressing the injustices caused by apartheid's policy of dispossession;
- Addressing demands and grievances concerning land restoration and ownership by the creation of a special land court through which competing claims to land can be resolved;

Diversity of tenure

- Creating institutions to which the homeless and landless will have access in order to obtain land, shelter and necessary services;
- The recognition and protection of the diversity of tenure forms in our country;
- The promotion of a policy of affirmative action within a viable economic development programme to ensure, among other things, access to land with secure rights for residential settlement, as well as access to good agricultural land, which will create new opportunities in this sector.

The ANC envisages a land claims tribunal which will hear cases of people competing over any piece of land. According to the document, priority will be given to victims of forced removals, "who had their lands taken by the apartheid state".

ANC economist Tito Mboweni recently explained on SATV that there are cases "in living memory" of people whose lands were expropriated by government. These people, he said, had a strong case to demand their land back.

Allay fears

In order to allay the fears of those who may be affected by these land reform measures, the document proposes that "compensation will have a big role to play in dealing with competing claims".

However, the document is less clear on how an ANC-led government will recognise and protect tenure under which most whites own the land – and their expected resistance to giving it up – while at the same time being legislatively able to acquire land for the dispossessed.

Twelve years after independence, Mugabe is still trying to resolve an almost identical problem.

Can the ANC succeed in reconciling the needs of the dispossessed and the dispossessors? The ANC document on land policy – it must be emphasised this is still in a draft form – does not seem nearer solving this vexing problem.

Up to 5% growth possible, —Toyota chief

St Times (Buss)

By DON ROBERTSON

St Times (Buss) 10/5/92

POLITICAL stability could be achieved in SA in the next five years and a growth rate of between 3% and 5% is possible. 10/5/92

But it will depend on the foreign investment and SA's access to international borrowing, says Toyota SA Marketing managing director Brand Pretorius.

Accepting an honorary professorship of business economics at the University of the Free State this week, Mr Pretorius said businessmen should be aware of the social, political and economic changes taking place.

They should not adopt a wait-and-see attitude. This, he said, often translated into "corporate paralysis".

49

AIDS

A mixed economy was likely to develop and government intervention would take place on a wide front with the aim of achieving a more even distribution of wealth.

The government of tomorrow would be aware, however, that the key to long-term stability lay in sustained economic growth.

Mr Pretorius said urbanisation was expected to increase. By the end of the century 10-million South Africans would depend on informal housing. By the same year, 370 000 people would suffer from AIDS and the population would be 45-million.

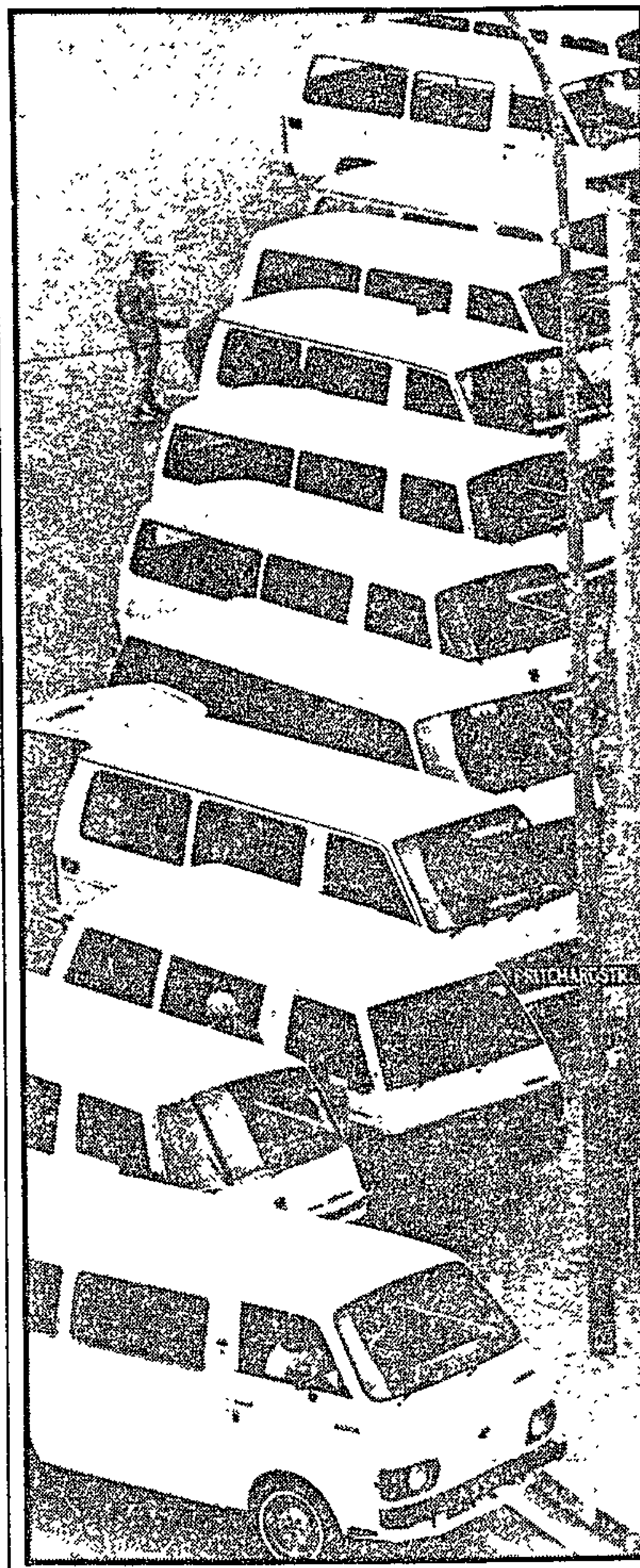
Blacks would make up 10% of the A income group and 45% of total disposable income would be in their hands. The shortage of white management skills would increase.

Blacks would make up 84% of secondary school pupils.

Taxi sales slump as bad debt rises

St Times (Buss) 10/5/92

By DON ROBERTSON



OLDER AND OLDER: The taxi fleet ages and minibus costs soar

GROWTH in the black taxi industry has come to a virtual standstill because of high finance costs and an increasing incidence of bad debt.

In the past 18 months to two years, minibuses were snapped up at a rate of about 600 a month for use as taxis. Sales virtually dried up in January and February this year.

Members of taxi associations and the finance houses are not confident about the future.

Size

A spate of payment defaults has forced some institutions to demand much higher deposits than before and reduce repayment periods. This makes it extremely expensive for aspirant taxi owners to enter the business. A 16-seater minibus costs about R65 000.

The Southern African Black Taxi Association (Sabta) and the Federation of African Business and Consumer Services (Fabcos) operate the Sabta Foundation, a stokvel group to which members contribute. Traditionally, taxi operators pay about 30% of the value of the vehicles into a fund which is used to cover bad debts by members.

Philip Van den Heever, marketing director of Futurebank which administers the foundation, will not disclose the size of the fund. But sources say it has been whittled away from R60-million to about R17-milion.

Futurebank, which took over the taxi financing book of Wesbank towards the end of March, says business is dead. Most minibus purchases are now mostly for replacement.

Wesbank was by far the largest financier in the taxi market.

Sabta marketing director Cyprian Lebese says he is not confident about the future.

Because of the foundation's past success, Sabta members are able to buy minibuses with a deposit of between 15% and 20%. Non-members put down between 40% and 50%.

The decline in minibus sales has been a severe blow to motor manufacturers.

Mr Lebese says that in previous years, minibus sales to members totalled about 400 a month. This represents about two-thirds of the taxi business, he says.

Steadily

"Since January last year, purchases have fallen steadily. They dropped to about 80 in the first two months of this year."

He blames high interest rates, the cost of finance and a general decline in the economy.

Futurebank, owned 49% by First National Bank and 44% by Fabcos, has about 4 500 taxis on its books.

Although Mr Van den Heever is reluctant to appear too confident, he says sales have picked up since his organisation took over financing from Wesbank. Purchases in April rose by about 60%.

Nestle sells dairy arm

St Times (Buss) 10/5/92

NESTLE is selling its refrigerated dairy division Chambourcy.

This follows the disposal of its Lecol beverage interests to Royal Beechnut. Nestle corporate affairs manager David Upshon says the group is focusing on market areas which offer the best growth potential — confectionery, instant drinks, milk powders and condensed milk.

"Nestle has been operating in SA for 76 years and it is our intention to continue expanding our operations and seek other areas of opportunity to fit in with our overall strategy,' says Mr Upshon.

APE METRO, 10 May 1992

NESS

EDITED B

SA businessmen told to become world players

S Times [Cape metro] 10/5/92

(49)

SOUTH AFRICA needs to throw off its inward-looking attitudes and become a world player if it wants to build a strong economy, expand opportunities and help the democratisation process, speakers emphasised at the national congress of the South African Institute of Chartered Accountants in Cape Town this week.

Mike Levett, chairman of Old Mutual, who gave the keynote address, said a "democracy of results" in terms of incomes and opportunities should be striven for in the same way that democracy of political rights was being accomplished, while Bas Kardol, executive chairman of Investec, urged South Africans to become more outward looking after "trading through the back door" for years.

"The past economic strategy was consumption-oriented as well as inward looking, with borrowing financing the rising consumption, by households as well as by government, and not rising investment," said Mr Levett

"We need to switch economic policy from its traditional inward-looking, resource and commodity oriented focus to one which is outward-looking and manufacturing oriented."

South Africans had to become world players — which in the long term would have a "decisive impact on the rate of economic growth which is sustainable and thus the total size of the pie which South Africans will have available to divide."

However, Mr Levett warned that at present even the most optimistic "business as usual" scenario yielded an economic performance which, according to international experience, was inconsistent with a successful transition.

"Furthermore, the continued deterioration of the social fabric in some communities, including the escalation of violence implicit in 'mass mobilisation', can also derail the process.

"Hence the economic and social analysis suggests there are no scenarios in the present framework which have a high probability of a successful outcome.

"South Africa desperately needs much higher growth which must, at the same time, be consistent with more visible redistribution of opportunities and incomes.

"Success is possible, but it should not be taken for granted. It will have to be achieved.

"We need to enhance the capabilities of all our people both individually and collectively.

"We need to invest in educational systems that teach skills and attitudes which will permit workers to achieve increased productivity and thus increased incomes over time."

Jan Steyn, chairman of the Independent Development Trust, also stressed the importance of education.

He told congress delegates that the corporate sector should consider giving substantial support to post-matric and post-graduate initiatives for management development.

"These should be linked to existing tertiary initiatives, especially to technical colleges or technikons, in which courses in administration, finance, other business subjects, certain technical subjects and computing courses and thorough orientation courses on the nature and functioning of business organisations, can be offered

"For those employees who cannot attend the high level courses at university, such 'finishing' initiatives might make a substantial difference to the adaptation of new employees in our organisations," said Mr Steyn.

Mr Kardol urged South African business people to be concerned with the impact of Europe 1992 on evolving trade patterns.

"Intra-European assistance, necessary to narrow the gap between the rich north and the less affluent south, may 'crowd out' the appetite for involvement in developing regions like Southern Africa."

Also, Europe would be helping its eastern neighbours, struggling with the burden of their communist past

South Africa could not therefore expect too much "soft money"

"We shall have to compete for European investment on hard commercial grounds," said Mr Kardol

"A sad legacy of the sanctions period is that South Africans have become accustomed to trading through the back door.

"Many of our companies will have to develop knowledge of rules and standards set for products traded via normal channels."

South African companies knew "surprisingly little" about European product quality, packaging, conditions of manufacture, legislation, and the methods of decision-making in the corridors of Brussels and the debating chambers of Strasbourg.

"South African companies who desire to expand into Europe should internationalise their management teams as fast as possible."

Keys plans his strategy to unlock the economy

S/Times 10/5/92 (49)

DEREK KEYS does not plan to cut taxes.

Nor is he prepared to hold out hope of an early end to South Africa's longest recession.

Mr Keys, who was appointed Minister of Finance this week to replace Mr Barend du Plessis, is no politician.

He remains the top businessman he was six months ago when President FW de Klerk approached him to become Minister of Trade, Industry and Economic Co-ordination. His attitude is that of a man who knows he has a tough job to do but intends doing it.

Let the rest of his Cabinet colleagues offer palliatives to the punters; all he promises is to identify what he believes to be the root cause of the country's economic woes and do his damnedest to set it right.

Mr Keys readily admits he lacks the political clout needed by a person holding a portfolio as important as his.

HELPFUL

"I am just relying on the SP (the State President). I don't say I am not a factor. I have to give evidence of technical competence, but I have no political base whatsoever. What I propose will go through if the SP backs it. If he doesn't, it won't."

How did he get the job?

Well, he was in China when Mr De Klerk phoned to ask "whether I thought doing the two jobs together for a period would be helpful in terms of producing a co-ordinated winning strategy".

He replied that he did, but when he replaced the receiver thought to himself: "Oh bother" (or words to that effect).

Special report: MIKE ROBERTSON Political Correspondent

The reason he said yes was "simply because the heads of two busy portfolios (Finance and Economic Co-ordination) have to find each other, get on the same wavelength, be present at all the crucial meetings. It is quite complicated logistically. Trying to do it with someone involved in Codesa was virtually impossible."

Mr Keys identifies the lack of investment as the key economic problem confronting South Africa and is almost single-minded in his determination to set this right.

"We have to get the level of investment up before we can get to a decent growth rate. If we want to get the level of investment up, we have to cut the level of consumption. That is where it has to come from. That means everybody, the public sector and the private sector."

In terms of public-sector spending, this would entail cutting government expenditure on items such as public servants' salaries and administrative costs, which constitute half of this year's R100-billion budget, and diverting it towards capital projects such as new industries and housing.

To do so Mr Keys will have to display a political will his predecessor lacked, but he is confident of Mr De Klerk's support.

Unlike Mr Du Plessis, Mr Keys does not believe South Africans are overtaxed.

Asked about the National Party's promise to cut top personal marginal tax rates by five percent during this term of office, he responded: "Yes, well, that's somebody's trouble. I am not sure it's my trouble."

Mr Keys says he looks forward to developing a close working relationship with Reserve Bank governor Dr Chris Stals and will respect his desire to pursue a tight monetary policy.

"I totally respect his independence. As a matter of fact, it makes it much easier to formulate national policy with somebody who is consistent and reliable and has a firm policy."

When it comes to the low level of savings in South Africa, which many analysts believe to be the root cause of South Africa's economic woes, Mr Keys says:

"The government has been dissaving (borrowing money to spend on consumption), so once you get the relationship between income and consumption back in line you have made a huge contribution ... I would really like to tackle the investment problem first and then savings, if we find we are not generating enough.

TACKLE

At the moment it's rather the other way around. We have a low level of investment, so low that the natural level of savings is higher than that."

One of the major tasks confronting Mr Keys is renegotiating the debt standstill next year.

He does not foresee any problems and predicts that "coming out of standstill should be a pleasant experience".

Whereas Mr Du Plessis locked horns with Cosatu on the subject of setting up a forum to thrash out future economic policy, Mr Keys says he is was already talking to the union.

"We are at the stage that I am going to make some proposals to them. It's an area in which I expect a favourable development."

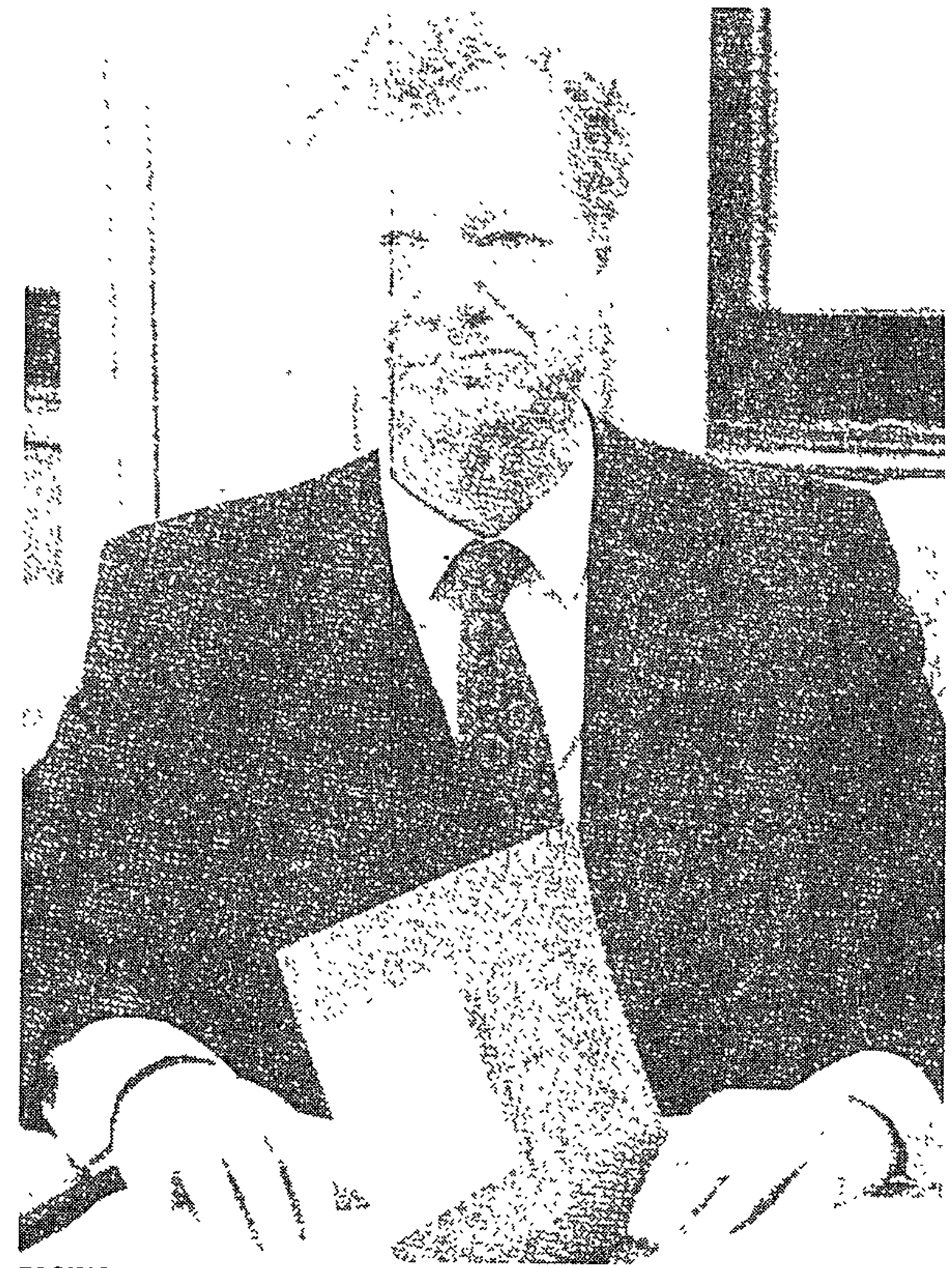
Asked about the possibility of an upturn in the economy, Mr Keys said that the generally depressed state of the world economy and the drought precluded it this year.

He said he would turn his attention to the continuing high inflation rate.

It was unacceptable that the producer price index was at a reasonable level while the consumer price index remained high, he said.

High food prices were a serious problem but he believed they could be addressed only by coming back to the fundamentals:

"Unless we have competition in all areas we are not going to get prices at the level we want."



FACING NEW CHALLENGE: Derek Keys, in his new hot seat this week after taking over the finance portfolio
Picture: TERRY SHEAN

Govt debt 'may be big problem'

B/Day 11/5/92 (49)

SHERIDAN CONNOLLY

GOVERNMENT debt could become a major problem in the next few months, Absa warns in its latest Economic Spotlight.

The bank's analysis of government expenditure and revenue for the current fiscal year predicts the public debt/GDP ratio could deteriorate to 42,5%. In the past fiscal year, the ratio increased to an estimated 38,5% from 35,1%.

"If GDP growth should be as low as 0,5% compared with the 1% envisaged in the Budget, the debt-to-GDP ratio could increase to about 44%. Although not inordinately high in an international context, substantial rises in the ratio will cause rises in public debt servicing costs, given SA's high nominal interest rates," the report said.

Absa said the increase in the debt-to-GDP ratio was caused by larger lending in the capital market than had been anticipated.

A portion of these funds had generated a surplus at the end of the 91/92 year which was partly appropriated for transfers to the civil service pension funds.

"These transfers have become very costly, as they are the indirect cause of the deteriorating debt position. This is reflected in the fact that state debt costs have increased marginally to below 20% of expenditure — including the discounts on RSA stock issues."

Absa said the official and projected expenditure and revenue proposals were inflationary. While they could be regarded as expansionary, it was doubtful whether they would do much to stimulate the economy in the light of repressive taxation and an absence of any supply-side stimulus.

With fiscal discipline having been discarded in the 92/93 Budget, there would be even more pressure on monetary policy to hold the line in the struggle against inflation. Monetary policy would do little in the coming fiscal year to counterbalance the impact of envisaged fiscal expansion, the magazine said.

Absa said government "apparently chose to ignore anti-inflation strategy in the 1992 Budget — an attitude which is regretable in the light of the inevitable negative impact that could be brought to bear on long-term economic growth."

The Budget would not contribute much to the enhancemnet of growth, stability and equity, the Spotlight said. The Budget could be perceived as avoiding virtually all structural questions, addressing only the problems of the day.

No magic cure for economy — Keys

(49)

EAST LONDON — New Finance and Economic Co-ordination Minister Derek Keys said at the weekend he would move "carefully and cautiously" in restructuring SA's economy, a process he described as lengthy, requiring patience and application. B/Day 11/5/92

Speaking at a banquet at the J C Brink Hall at Fort Glamorgan, Keys told local businessmen there was no magic or quick fix to curing the depressed economy.

He said he had been asked by many people why SA could not repeat the "economic miracle" achieved in Korea.

That country had a homogenous, educated population and received capital, technological and market assistance from Japan.

"Nobody is going to do that for us. We're going to have to do it on our own. Foreign capital will wait and watch us tackle our problems before they decide to join in the process," he said.

"There is nothing to be done to restructure this economy in a hurry. We need to get back to the basics, like education, and sort these out first."

He believed the biggest obstacle inhibiting economic growth was uncertainty.

The process of restructuring would have to look at introducing more competition, carefully lowering protective tariffs and improving productivity.

"We also need to lower our propensity for imports. Every time the economy has reached a higher rate of growth, imports have increased." — Sapa.

Economic forum talks soon

BILLY PADDOCK

CAPE TOWN — Top level discussions between government, labour and business to set up an economic forum are expected to start before the end of the month as Finance and Economic Co-ordination Minister Derek Keys starts moving in his new job. B/Day 11/5/92

On April 22, Cabinet decided at the request of Keys that a senior group of government economics Ministers and Deputy Ministers should meet business and organised labour to get the ball rolling on an economic forum.

Cosatu negotiations co-ordinator Jayendra Naidoo confirmed this yesterday.

He said he would today finalise a date for the start of discussions with Keys.

Naidoo said a delegation of business and labour met Keys on April 1 to hand him an agreement thrashed out between them on what an economic forum should be based on, and the scope of its tasks.

The agreement between business and labour was reached on March 31. (49)

"We briefed Mr Keys on the document and he then took this to Cabinet on April 22. The next day he contacted me to inform me that Cabinet had decided to appoint senior ministers to discuss an economic forum," Naidoo said.

He said he had held further discussions with Keys on Thursday to organise a meeting "which will take place some time after Codesa 2 on May 15 and 16".

It is understood from a government source that the meeting is definitely going to take place before the end of the month.

Naidoo said business and labour expected the meeting to focus on their proposals to get the forum off the ground soon.

It would also deal with the broader eco-

□ To Page 2

Forum B/Day 11/5/92.

(49) □ From Page 1

nomy.

At the weekend, Keys said he had been talking to the unions and had some proposals he was due to put to unions and business on an economic forum.

Naidoo said he did not know what these might be but imagined they would be more about the process that should be followed, rather than the main ideas and issues.

He said Cosatu was hoping an economic forum would be established soon, and government's formal entry into the process would give the process an added impetus.

There had been a lull for the past month after the speedy progress made between business and labour

Government was a necessay and vital partner if the forum was to be effective, Naidoo said

Keys gears up for forum talks

CT 11/5/92 (49)

Political Staff

TOP LEVEL discussions between government, labour and business to set up an economic forum will "definitely start before the end of the month" as Finance and Economic Co-ordination Minister Derek Keys gears for action in his new job.

On April 22, Cabinet decided at the request of Keys that a senior group of government economic ministers and deputy ministers should meet business and organised labour to get the ball rolling on an economic forum.

Cosatu negotiations co-ordinator Jayendra Naidoo confirmed this yesterday and said he would be finalising a date for the start of the discussions with Keys today.

He said a delegation of business and labour met Keys on April 1 to hand to him an agreement thrashed out between business and labour on what an economic forum should be based and the scope of its tasks. The agreement was reached on March 31.

"We briefed Keys on the document and he then took this to Cabinet on the April 22. The next day he contacted me to inform me that Cabinet had decided to appoint senior ministers to discuss an economic forum," he said.

He said he held further discussions with Keys on Thursday to organise a meeting "which will take place some time after Codesa 2 on May 15 and 16".

It is understood from a government source that the meeting is definitely going to take place before the end of the month.

Naidoo said business and labour expected the meeting to focus on their proposals to get the forum off the ground soon plus further developments for the broader economy.

At the weekend Keys acknowledged he had been talking to the unions and said that he had some proposals that he was due to put to unions and business on an economic forum.

Naidoo said he did not know what these might be but imagined these would be more about the process that should be followed rather than the main ideas and issues.

He said Cosatu was hoping that an economic forum would get going and government's entry into the process formally would give the process an added impetus as there has been a lull for the past month after the speedy progress that was made between business and labour. Government was a necessary and vital partner if the forum was to be effective.

THE WEEK AHEAD by Simon Willson

SA recession has not yet run its course

BDay 11/5/92 (49)

THE return to strong economic growth next year that has been so confidently predicted recently is likely to appear a hazy and distant prospect later this week when the latest quarterly economic growth rate is published.

Release of the data showing the change in inflation-adjusted GDP for the first quarter of 1992 is due in the next few days. The figures will probably be a reminder that the economy's longest — but, as the chart shows, not its deepest — post-war recession still has some way to run.

Eight of the last nine calendar quarters posted a contraction in the economy, hauling down the country's national income per head by about 5% over the past two years. Few pundits expect the rigorous shake-out of the economy that this represents to be over until the second half of this year.

Forecasts

Real, quarter-on-quarter annualised GDP shrank again by 0,6% in the fourth quarter of last year, after peeping above the parapet and registering the first positive outturn for two years at 0,5% in the third quarter.

Succeeding data look set to reinforce the perception of that third-quarter positive readout as a false dawn.

Various forecasts published last week estimated that first quarter GDP would fall by between 0,5% and 1%, temporarily deepening the recession again.

A contraction within such a range would be the biggest slowdown in economic activity since the 1,5% posted in the first quarter of 1991, and an abrupt reversal of the tentative bottoming-out in the recession in the latter part of last year.

Personal spending has collapsed in real terms, finally giving way to the pressure of the rising individual tax burden, freezes or cuts in real earnings and short-time and retrenchments in industry.

Real investment has also slumped, reflecting high real interest rates and a general lack of confidence.

The sluggish performances of these key areas of the economy, together with other constraints such as the slow pick up of demand in recession-hit trading partners and the effects of the drought, seem to signal futher successive quarterly declines in the GDP in the first half of this year, to be succeeded by positive outturns in the second half.

Internationally, the level of US interest rates is likely to be the main topic of interest in the markets this week. The Bundesbank, Germany's central bank, left its official rates unchanged at last week's meeting of its policy-making council; this week it is the turn of the US central bank, the Federal Reserve, to think about its credit stance.

Tomorrow the Federal Open Market Committee meets, ahead of a clutch of US figures detailing activity in industry and among consumers.

After a disappointing money supply figure last week, this week's US indicators will need to show strength if another cut in US rates is to be forestalled.

On Wednesday, US retail sales for April are released. The figure showed a surprise monthly drop in March — the first decline since last October — although the weakness was concentrated in non-durables. Because the dip was patchy and not across the board, and was partly a retracement of a first-quarter surge based on post-Christmas discounting, the uptrend could be resumed in Wednesday's figure.

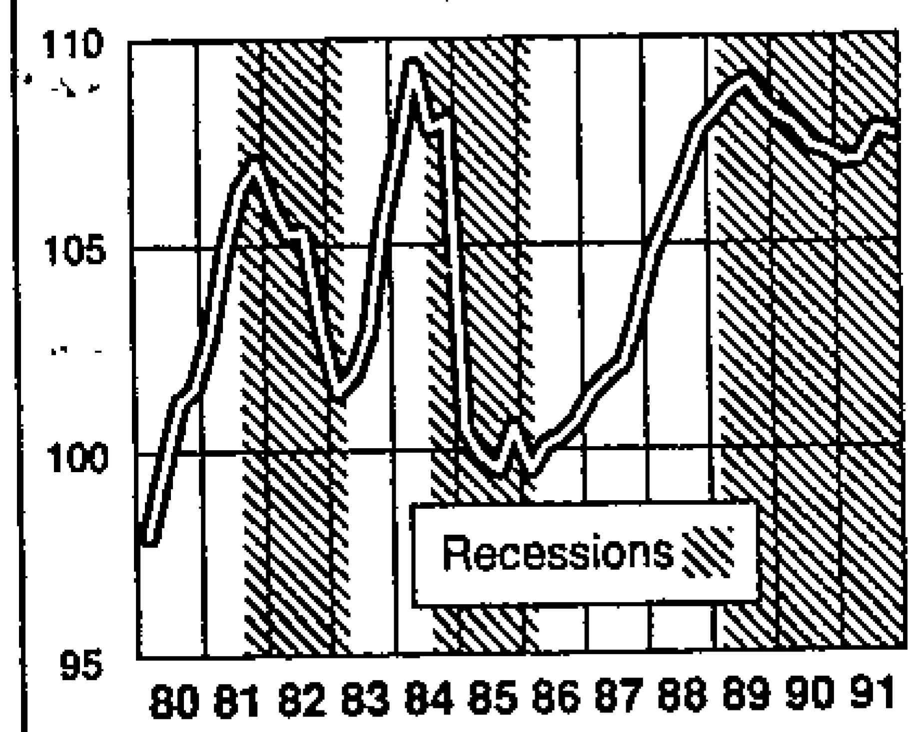
US industrial production and capacity utilisation data for April are due for release on Friday, and should extend a series of solidly positive recent outturns.

The 0,2% rise in industrial production in March, following the 0,5% February increase, comprised the first pair of successive monthly increases in this indicator since June and July last year. Capacity use, meanwhile, edged up to 78,1% in March from February's 78%, and should advance further in sympathy with the strength of the purchasing managers' index, which often leads capacity take-up.

Two key inflation figures are due for publication this week.

The annual rise in US consumer prices for April is scheduled for release on Wednesday and is unlikely to vary much from the 3,2% posted for March. As the economy hesitates on its recovery path, this relatively low inflation rate is the last thing US economic policymakers have to worry about.

The recession: long, not deep



Graphic FIONA KRISCH Source SA RESERVE BANK

Buffer

Friday sees the emergence of the UK's April inflation rate, which is expected to tick up from its March level of 4%, but for largely technical reasons. The general confidence of the British authorities about the outlook for UK inflation was evident in last week's half-point base rate cut, and an inflation rate of up to 4,4% on Friday would hardly rock the boat.

With German inflation at 4,7% and last week's inflationary pay settlement in the German public sector still to filter through to the price index, sterling has a buffer against the Deutschmark — unless and until the Bundesbank hits back at the pay deals by raising rates.

'US recovery slow, halting'

HOT SPRINGS — Economists from top US corporations expected a slow and uneven economic recovery, according to a report released by a leading business group.

The characterisation of the economy and outlook continued to be "relatively sluggish growth", the economists said in the business council report. B/Day 11/5/92

The economists believed the economy would expand at a 3% rate between now and the end of next year. In addition, they said the expansion might not be fully enjoyed by all US industries or in all regions.

"The 3% rate is about half of the normal growth level coming out of recession, but it is far better than the meagre growth rate of the past year," the report said.

Many economists felt more upbeat than they did in a report to executives last October.

"Recent signs of increased activity may finally be sufficient to convince sceptics that a general economic recovery is truly under way," the report said.

But economists also expected overall growth would remain relatively slow and halting, with substantial variation among industries and regions of the country, the report said.

"The signs of recovery are still only fragmentary, with many industries still depressed," it said.

But lower interest rates had brightened the outlook. — Reuter.

MONEY MARKETS by Sheridan Connolly

Bank issues special Treasury bill tenders to drain liquidity

(49)

B/Day 11/5/92

STRONG liquidity levels in the money market, boosted by some early government spending going through the system, saw downward pressure on rates maintained and the range for the 90-day liquid BA rate narrowed by 10 points to trade between 15,20% and 15,30%.

The Bank was kept busy with its battle against the ongoing high liquidity levels and issued a series of special Treasury bill tenders in an effort to drain the market.

The money market shortage dipped to as low as R393m last week but, by the end of the week was back up at R1,03bn — where the Bank is thought to prefer it.

Positive sentiment in a strong money market followed the recent bullish resurgence in the capital market. By the end of last week, the capital market had recovered from Thursday's options close-out lethargy and players were far less reluctant to assume new positions.

Capital market rates were easier after the close-out and there seems still more scope for lower rates.

At the end of last week, the benchmark Eskom 168 eased to a new six-month low of 15,94% from 15,98% the previous week.

The government RSA 150 bond was down at 16,10% from a previous 16,14%.

The average rate on the three-month Treasury bill continued falling last week and dipped to 14,76% in the Bank's weekly tender compared with 14,90% the previous week.

The Bank received R524m in bids for the R100m on offer. Applications for the R100m six-month tender totalled R452m while the nine-month R100m tender attracted bids worth R450m.

Stals

Downward pressure on the rate of both the six- and nine-month Treasury bill tenders continued with ~~the~~ six-month tender lower at 14,35% from 14,44%. The rate on the nine-month bills shed 10 points falling to 13,92% against 14,02% the previous week.

During the week Reserve Bank Governor Chris Stals quelled expectations of a further interest rate cut in the short term by saying the Bank was happy with rates at their current levels in light of the prevailing inflation climate.

Stals said a lower level of government deposits with the Bank coupled with government spending was adding liquidity to the monetary system.

Detail obscures a tribute to Keynes

B1Day 11/5/92

(49)

IDEAS INTO ACTIONS; Maynard Keynes, an Economist's Biography, by D E Moggridge (Routledge, £35)

JOHN Maynard Keynes was one of the decisive thinkers and shapers of the century. He pointed out that, in a market system, economies could stumble along indefinitely in deep depression without any certainty that they would necessarily correct themselves. A company could improve its position by sacking workers and cutting investment, but not a whole economy.

Keynes had nothing but contempt for those who could not, or would not, see beyond the operations of finance to the realities of jobs, incomes and human needs.

The idea that Britain could have plentiful unemployed labour, and materials and machinery lying idle, but could not "afford" to build new houses or roads or other public works was a "delirium of mental confusion".

Economics was, for Keynes, not a search for timeless truths, let alone a set of inexorable laws by which we were obliged to live, providing wealth for some and misery for others.

Economics was a method of analysis, essentially historical and empirical, a modest and hesitant attempt to apply reason to current problems in order to alleviate them.

Because of his unique personal access to the centres of British life, Keynes was able to mount persistent and ultimately successful campaigns to persuade governments to adopt new approaches.

From his experience as a treasury official during the First World War, when he was given huge responsibilities for the overseas financing of the allied war effort, he understood the minds and aspirations of politicians, civil servants, bankers and businessmen.

He mastered the complex processes of inquiry, debate, pressures and bargains by which policy was actually made. Since he was clever, rich, self-assured, well-connected, witty, arty, homosexual and usually right, he made many enemies. But his life was a wonderful example of how ideas could make their way into political action.

If, in the West, the second half of the century has largely escaped the prolonged mass unemployment, damaging trade wars and associated political extremism which marked the inter-war years, much of the credit belongs to Keynes.

In his new book, Prof D E Moggeridge attempts a comprehensive account. As Keynes himself notes in his vivid biographical sketches of economists, men and ideas cannot be separated. Even the most innovative thinkers share the spirit of their age.

Moggeridge was one of the editors of the excellent 30-volume edition of Keynes's economic writings published between 1971 and 1989 by the Royal Economic Society and Macmillan. He has also explored the huge archive of personal papers (equivalent to another 100 volumes, he estimates) and other public and private records.

He sticks closely to the documents and is more an editor than a biographer. In a misjudged attempt to be comprehensive, he includes a great deal that obscures and slows his narrative. When Keynes joins a committee we are given the names and date of the other members, and sometimes their subsequent careers even if they never cross his path again.

During the years when Keynes was associated with the Bloomsbury group, he could scarcely have tea without our having to be told whether Ottoline or Vanessa or Duncan or Bunnie were there too.

The chapters on the economic controversies include slabs of summaries from Keynes's writings. However, Moggeridge offers little explanation of the issues and the choices to which they relate, or of the comparative magnitudes. Figures in, say, 1925 pounds are meaningless without some indication of whether they are big or small or catastrophic in the circumstances of the day. The book tells us what happened but seldom helps us to understand why.

Did Keynes ever admit to himself that the book on which his reputation was built, The Economic Consequences of the Peace, was seriously deficient? Why is his most famous work, the General Theory, so tortuously obscure? When Keynes wrote to persuade, his style was bold and colourful, full of vivid and amusing metaphors, memorable images and striking phrases. Did Keynes make this book inaccessible to keep out policymakers?

Did Keynes's intense feelings for Karl Melchior, whom he met at the post-Armistice negotiations, influence his subsequent attitude to Germany, which was sometimes too sympathetic? Many such questions remain largely unaddressed.

The best part of the book is the account of Keynes's successful efforts, along with the American, Harry Dexter White, to devise a new postwar regime for international trade and payments. The IMF and Gatt, which even former communist countries are now eager to join, are among the most visible reminders of the scale of his achievement. — Financial Times.

WILLIAM ST CLAIR

THE WEEK AHEAD by Simon Willson

SA recession has not yet run its course

BDay 11/5/92 (49)

THE return to strong economic growth next year that has been so confidently predicted recently is likely to appear a hazy and distant prospect later this week when the latest quarterly economic growth rate is published.

Release of the data showing the change in inflation-adjusted GDP for the first quarter of 1992 is due in the next few days. The figures will probably be a reminder that the economy's longest — but, as the chart shows, not its deepest — post-war recession still has some way to run.

Eight of the last nine calendar quarters posted a contraction in the economy, hauling down the country's national income per head by about 5% over the past two years. Few pundits expect the rigorous shake-out of the economy that this represents to be over until the second half of this year.

Forecasts

Real, quarter-on-quarter annualised GDP shrank again by 0,6% in the fourth quarter of last year, after peeping above the parapet and registering the first positive outturn for two years at 0,5% in the third quarter.

Succeeding data look set to reinforce the perception of that third-quarter positive readout as a false dawn.

Various forecasts published last week estimated that first quarter GDP would fall by between 0,5% and 1%, temporarily deepening the recession again.

A contraction within such a range would be the biggest slowdown in economic activity since the 1,5% posted in the first quarter of 1991, and an abrupt reversal of the tentative bottoming-out in the recession in the latter part of last year.

Personal spending has collapsed in real terms, finally giving way to the pressure of the rising individual tax burden, freezes or cuts in real earnings and short-time and retrenchments in industry.

Real investment has also slumped, reflecting high real interest rates and a general lack of confidence.

The sluggish performances of these key areas of the economy, together with other constraints such as the slow pick up of demand in recession-hit trading partners and the effects of the drought, seem to signal futher successive quarterly declines in the GDP in the first half of this year, to be succeeded by positive outturns in the second half.

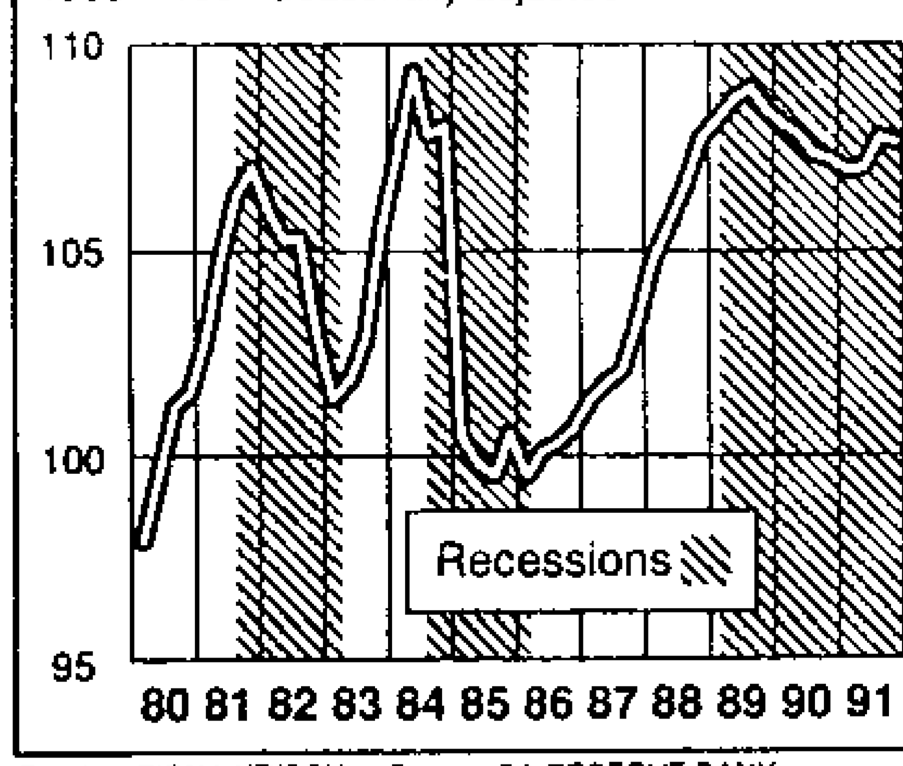
Internationally, the level of US interest rates is likely to be the main topic of interest in the markets this week. The Bundesbank, Germany's central bank, left its official rates unchanged at last week's meeting of its policy-making council; this week it is the turn of the US central bank, the Federal Reserve, to think about its credit stance.

Tomorrow the Federal Open Market Committee meets, ahead of a clutch of US figures detailing activity in industry and among consumers.

The recession: long, not deep

Real GDP

1985 = 100 Seasonally adjusted



Graphic FIONA KRISCH Source SA RESERVE BANK

After a disappointing money supply figure last week, this week's US indicators will need to show strength if another cut in US rates is to be forestalled.

On Wednesday, US retail sales for April are released. The figure showed a surprise monthly drop in March — the first decline since last October — although the weakness was concentrated in non-durables. Because the dip was patchy and not across the board, and was partly a retracement of a first-quarter surge based on post-Christmas discounting, the uptrend could be resumed in Wednesday's figure.

US industrial production and capacity utilisation data for April are due for release on Friday, and should extend a series of solidly positive recent outturns.

The 0,2% rise in industrial production in March, following the 0,5% February increase, comprised the first pair of successive monthly increases in this indicator since June and July last year. Capacity use, meanwhile, edged up to 78,1% in March from February's 78%, and should advance further in sympathy with the strength of the purchasing managers' index, which often leads capacity take-up.

Two key inflation figures are due for publication this week.

The annual rise in US consumer prices for April is scheduled for release on Wednesday and is unlikely to vary much from the 3,2% posted for March. As the economy hesitates on its recovery path, this relatively low inflation rate is the last thing US economic policymakers have to worry about.

Buffer

Friday sees the emergence of the UK's April inflation rate, which is expected to tick up from its March level of 4%, but for largely technical reasons. The general confidence of the British authorities about the outlook for UK inflation was evident in last week's half-point base rate cut, and an inflation rate of up to 4,4% on Friday would hardly rock the boat.

With German inflation at 4,7% and last week's inflationary pay settlement in the German public sector still to filter through to the price index, sterling has a buffer against the Deutschmark — unless and until the Bundesbank hits back at the pay deals by raising rates.

Faint first signs of a turnaround

STAR 12/5/92 (49)

THE aggregate gross domestic product (GDP) of developing countries is expected to grow by 4,9 percent annually up to the end of the 1990s, according to cautious estimates made in the latest projection by the World Bank.

This would be 1,7 percent higher than in the last decade. However, growth is likely to vary significantly between different regions, especially in the republics of the former Soviet Union.

The World Bank expresses most optimism about growth in East Asia. Though it is less likely to grow at the rate of the last decade, per capita incomes could rise at a significant annual rate of 5 percent. The Bank is least optimistic about growth in sub-Saharan Africa, where the projection is for an average rise in per capita of only 0,3 percent annually in the 1990s. Small as this is, it is still better than the negative growth of the 1980s.

Latin America's economic performance is also predicted to improve considerbly — up to 2,2 percent a year (minus 0,5 percent annually in the 1980s). South Asia's economies are set to achieve an aggregate GDP per capita growth of around 3 percent a year, close to what the region achieved in the previous decade.

Edward Jaycox, vice-president of the World Bank's Africa region has announced a new strategy for the continent based on extensive consultations within Africa and in the wider international community. The aim of this new strategy, he said, was to meet the challenge of significantly reducing poverty.

While this objective was laudable, he cautioned that meeting a higher target would not come about easily, adding: "Nonetheless, it is imperative if Africa is to regain its rightful place in the world economy, and if African children are to have a better future, as they deserve to, every effort should be made to ensure the success of the new strategy."

The broad elements of this strategy recognise that:

- People are both the means and the ends of the process.
- There is no alternative to continuous economic reform and adjustment in this dynamic and increasingly competitive world.
- Economic growth is necessary but not sufficient in itself to bring about improvements in human well-being. Aggressive anti-poverty policies must go hand in hand with pro-growth policies.
- Increased agricultural productivity and food security are essential, as are diversification and competitiveness of exports.
- An enabling environment — political and legal — for individual initiative and private enterprise is fundamental.
- The most efficient use possible of scarce resources is imperative, including a review and reduction of military expenditures.
- The empowerment of people through good governance and accountability, adequate population policies, a larger role for women, and immediate action on environmental issues.
- Regional economic co-operation.
- Adequate external financing with imaginative treatment of outstanding debt.

Mr Jaycox conceded that the implementation of such a broad-based consensus strategy "could yield growth rates in the rest of this decade if only around 4 to 5 percent per annum or 1 percent per capita.

But, he added, with appropriate policies this could be translated into 2 percent per annum per capita for the poorest sections of the population. Such a result — minimally acceptable as it may be — nevertheless requires major efforts by both the African nations and their international partners. □

Why capitalism is a precondition for democracy

B/Day 13/5/92 **PETER BERGER** (49)

DOES political democracy depend upon a market economy? The evidence suggests three simple, but far-reaching propositions.

First, there has been no case of political democracy that has not been a market economy — in other words, there has been no case of democratic socialism. Second, there have been numerous non-democratic market economies. Third, when market economies are successful over a period of time, democratising pressures are generated.

One must be clear about terms. Someone will propose Sweden as a case of democratic socialism, but it is not. Capitalism and socialism must be understood as two alternative modern systems of production — as the Marxists have always done — the one based on market forces and private ownership of at least the "commanding heights" of the economy, the other based on political control mechanisms and on public ownership of the "commanding heights". There is no "third way"; there are only different versions and modifications of the two models.

Does political democracy require private property? If so, how much of it? Answer to the first question: Almost certainly yes. Answer to the second: No one knows for sure.

We do know the extremes. Socialism, the maximal role of the state in the economy, makes democracy impossible and ruins the economy. At the other pole, at least under modern conditions, a minimalist, *laissez-faire* state is empirically impossible. Some will certainly mention Hong Kong. It is no such thing, but rather a very efficient, if thoroughly undemocratic, conspiracy of Chinese businessmen and British civil servants.

In between there seems to be a good deal of leeway — say, between the US, a relatively modest case of state intervention, and much more statist cases like Japan or even France — all market economies, all democracies. The libertarian view that each step in the direction of public ownership is a step towards despotism is not borne out by the evidence.

Probably, it is important to ask about not so much the degree of state intervention as the nature of the intervention. Does state intervention move with market forces or against them? Arguably, the Japanese state intervenes in the economy without undermining market dynamics; by contrast, some argue that the evolving EC bureaucracy will damage the market economy.

Capitalism is a necessary but not sufficient precondition for democracy. But democracy is not a precondition for capitalism. The East Asian economic success stories show a vigorous capitalist dynamic. The "four little dragons" of South Korea, Taiwan, Hong Kong and Singapore unfolded under non-democratic regimes. Indeed, one might ask how many Western societies could be called democracies in our sense at the time they took off into modern capitalism.

In view of this, an intelligent argument has even been made that democracy is not suitable for the period when capitalism is first established, though it is likely to emerge after a time of successful capitalist development. These considerations are uncomfortable and uncertain; how they are eventually concluded has far-reaching policy implications.

More certainly, however, there is no great mystery as to why capitalism is necessary for democracy. It provides the social space within which individuals, groups and entire institutional complexes can develop independent of state control. Conversely, the correlation between socialism and dictatorship can be explained, precisely, by the absence of such space in a socialist system.

If one understands these basic structural facts about a modern society, the talk of a "third way" between capitalism and socialism makes no sense at all. If one prefers to speak of a "mixed economy", every economy is "mixed" in the sense that there is some combination of market forces and state interventions. If one keeps in mind the notion of the "commanding heights", it is not difficult to decide whether one is looking at a modification of the capitalist or the socialist "way".

In current political parlance, "third way" rhetoric is typically the language of redistributionist populism. And, typically, it occurs in countries that can ill afford a lot of redistribution because the rich are few and don't have all that much to take away from, so that redistribution means the destruction of the very middle class upon which economic growth depends.

Socialism's enormous intellectual and political defeat has fuelled a mood of triumphalism among those who believe in democracy and capitalism. But a squirt of cold water on this happy mood might be in order.

In terms of an empirically oriented, rational mind the conclusions are compelling. Democratic capitalism appears to be the only way to go. But this argument hinges on one highly questionable presupposition — that the course of history is determined by rational minds.

It is not hard to imagine scenarios that would make democratic capitalism very vulnerable. This is most clearly the case in the societies that once comprised the Soviet empire now engaged in the transition from socialism to capitalism.

Not only will this transition involve massive dislocation and suffering at least in the short run, but we do not yet fully understand all the components of this transition and there is no sure policy prescription for managing it. It would be foolhardy to bet on democracy's survival.

It is also far from certain that the transition will occur in all these societies, no matter whether under democratic or non-democratic auspices. Capitalism may quickly come to be associated with soaring inflation and unemployment, severe material hardships, collapse of public order and political chaos. Arguments about the prospects of capitalism in the longer run will be of little comfort and some form of "emergency socialism" could be reimposed.

Similar scenarios are equally possible in many less developed countries now moving toward a market economy. The costs of economic take-off cannot be avoided. In such situations, rational arguments do not have much weight and few people are going to be interested in pondering the "lessons of history".

Further, while socialism is highly irrational in terms of society's well-being, it can be very rational in terms of an elite in charge of society. To use quasi-Marxist language, a command economy immiserates the masses but it can very efficiently enrich the commanders.

Finally it would even be premature to lay pessimism to rest in the advanced capitalist societies of Europe and North America. There continues to exist a bureaucracy seeking to stifle enterprise.

New utopias are springing up. Thus there is a feminist path to socialism, and an environmentalist one. Both would create a maze of entitlements and regulations that would mean state control over the dynamics of the market and finally the latter's stagnation.

We do not know at what point state intervention in a market economy tilts the latter into a spiral of decline; we do know there must be such a point; the moment when we discover it may well be the moment when it is too late to do anything about it.

☐ **Berger is director of the Institute for the Study of Economic Culture at Boston University. These are edited excerpts from a public lecture delivered last night under the auspices of the Urban Foundation.**

‘The only way to go’

Currently in SA under the auspices of the Urban Foundation, PROFESSOR PETER BERGER, director of the Institute for the Study of Economic Culture, Boston University, gave a speech last night in Johannesburg in which he argued that democratic capitalism was the route to go. The following is an edited version of his speech.

STAR 13/5/92.

(49)

DOES political democracy require or depend upon a market economy? Here is possibly one question where caution is not called for.

The answer is "yes". The evidence overwhelmingly suggests it.

That evidence makes possible three simple but far-reaching propositions.

One: There has been no case of political democracy that has not been a market economy. Or, if one prefers a sharper formulation, there has been no case of democratic socialism.

Two: There have been numerous cases of non-democratic market economies.

Three: When market economies are successful over a period of time, democraticising pressures are generated.

Later, I will look at some possible explanations of these empirical findings but, clearly, one cannot discuss any of this unless one is clear about the terms one is using. Thus, someone will propose Sweden as a case of democratic socialism. It is no such thing.

It seems to me that one most usefully discusses capitalism and socialism if one understands them quite narrowly as two alternative modern systems of production (as, indeed, the Marxists have always done) — the one based on market forces and private ownership of at least the "commanding heights" of the economy; the other based on political control mechanisms and on public ownership of the "commanding heights".

By these definitions, Sweden (even in the heyday of Social Democratic governance) cannot be called socialist. The confusion here is between production ad distribution.

Sweden, like most of the other northern European democracies, developed generous welfare states — that is, very elaborate systems of distribution and redistribution.

But the welfare state, even in its Scandinavian apotheosis, continued to rest on a capitalist system of production and, indeed, only the affluence created by the latter made this welfare state possible.

Sweden was not, as its proponents kept saying, a "third way"; rather, it was a particular version of the "first way". Actually, under modern conditions, there *is* no "third way"; there are only different versions and modifications of the two alternative models.

Does political democracy require private property, and if so, how much of it?

The answer to the first question is almost certainly "yes". The answer to the second question: no one knows for sure.

The question here is whether there could be a market economy without private property; the question of whether political democracy requires a market economy having already been answered positively.

Put differently, the question is whether there could be such a thing as "market socialism" — the important enterprises remaining in public ownership but competing with each other under market forces.

Theoretically, such a system can be imagined.

Two societies that ran experiments with "market socialism" for 30 years were Yugoslavia and Hungary. Both failed.

Can one explain the failure? Probably.

The entrepreneurial risk-taking and the financial controls over these risks (say, the businessman who starts an enterprise and the banker who loans him the start-up capital) depend on the motives of private owners — not so much because of the joys of ownership as such, but because of the control that ownership bestows when it is legally secure.

Improbable

The manager of a socialist enterprise who is told by the economic command centres — which own his firm and which in a real sense own him (since, outside the command structure, there are no worthwhile jobs) — to go out and act as an entrepreneur is in fact told to do the impossible or at least the highly improbable: to stimulate capitalist entrepreneurship.

In practice, it seems, this simply doesn't work. What does work, up to a point, is releasing sectors of a socialist economy to private enterprise.

This occurred in both Yugoslavia and Hungary, and it has been happening quite successfully in China.

What also happens in such cases, though, is that the capitalist sector develops a dynamism that will increasingly threaten the much less productive socialist sector — the development that keeps the Beijing gerontocracy awake at night.

Political democracy requires a market economy, and a market economy requires private property. But how much of it? In other words, what segments of the economy may be held in public ownership before the basis of democracy is threatened?

It stands to reason that there must be a threshold somewhere which, if crossed, threatens democracy.

But it seems to me that present knowledge does not permit us to mark the spot.

Comparison between existing capitalist democracies (say, between countries like Austria and Switzerland, with quite different levels of public ownership) suggests that there is a good deal of leeway.

The libertarian view that each step in the direction of public ownership is a step towards despotism is not borne out by the evidence.

On the other hand, given the empirical linkage between democracy and capitalism, policymakers would be well-advised to be cautious if moved to expand public ownership.

This leads logically to the more general question, about the limitations on the State and its role in the economy required by democracy.

On a basic level, the notion of democracy depends on a limitation of State power.

The commonsensical definition of democracy defines democracy in terms of two institutions — regular (and real) elections, and a body of (real) civil rights and liberties.

Both institutions serve to limit State power.

Put in elegant philosophical language, the first institution makes sure that periodically the bastards can be thrown out of office, and the other makes sure that there are some things the bastards cannot do while they are in office.

However, when it comes to the question of limiting the role of the State in the economy, we are back to the insight that there must be a threshold somewhere, but that we are not sure just where it is.

We do know the extremes. Socialism, the maximal role of the State in the economy, makes democracy impossible and ruins the economy.

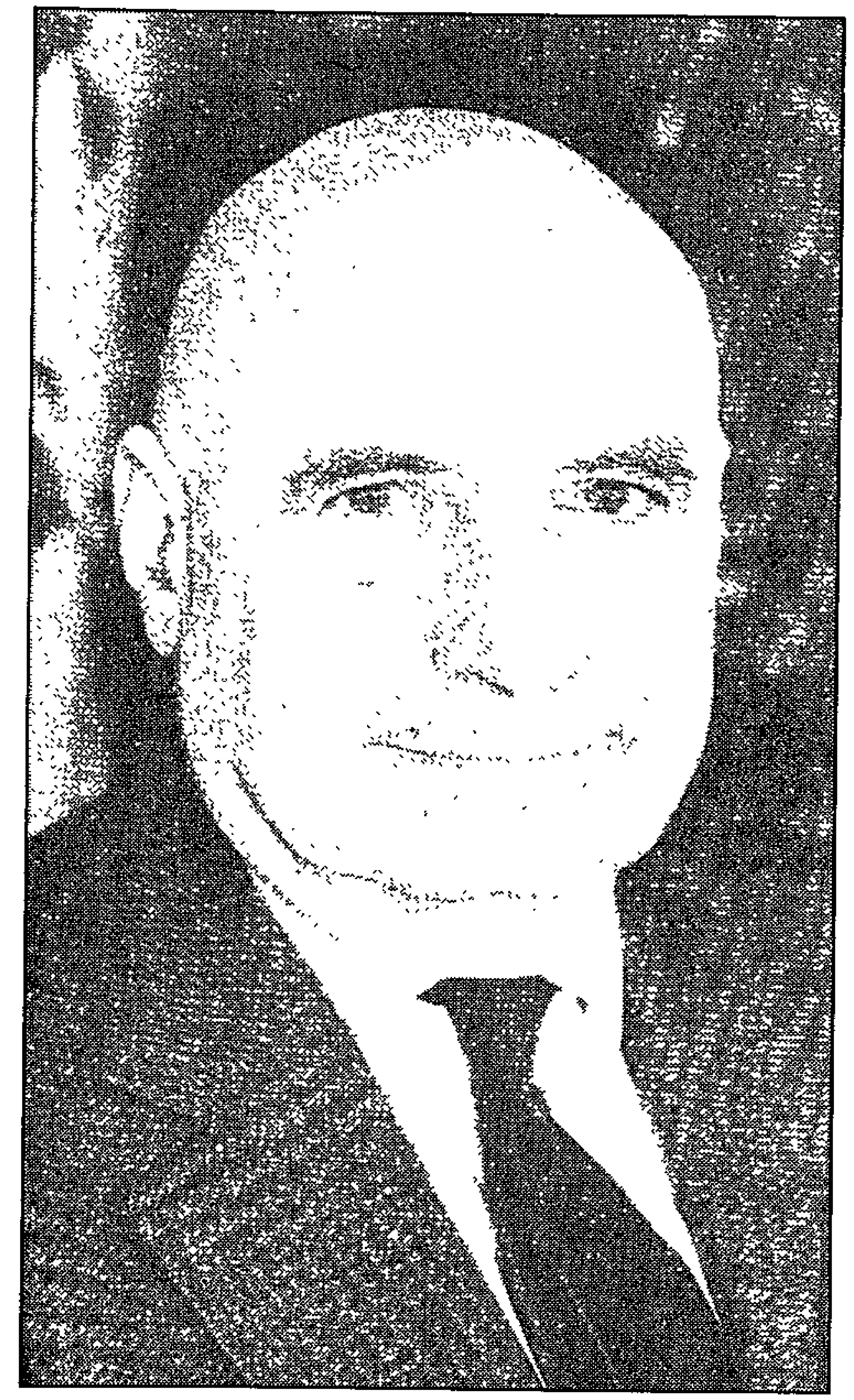
At the other pole, at least under modern conditions, a minimalist, *laissez-faire* role of the State is empirically impossible, and there is no such case.

Someone will certainly mention Hong Kong. It is no such thing, but rather an efficient, if thoroughly undemocratic conspiracy of Chinese businessmen and British civil servants.

In between, once more, there seems to be a good deal of leeway — say, between the United States, a relatively modest case of State intervention, and much more statist cases like Japan or even France — all market economies, all democracies.

Probably it is important to ask about, not so much the degree of State intervention, as the nature of it. More specifically: does State intervention in the economy move with market forces or against them?

Thus, arguably, the Japanese State intervenes in the economy without undermining the dynamics of the market; by contrast, the argument has been made that the evolving bureaucracy of the European Community (the "Brussels syndrome") will damage the workings of the market economy.



Professor Peter Berger . . . socialism — the maximal role of the State in the economy — makes democracy impossible and ruins the economy.

One way to describe the relation between democracy and capitalism is to say that is asymmetrical.

I regret this; I would much prefer a symmetrical relation, where the two institutional arrangements could be seen as the two sides of the same coin of liberty. Alas, they are not.

The major contemporary falsification of the symmetrical view (the classical libertarian one) is constituted by the east Asian economic success stories.

Here we have a vigorous capitalist dynamic, still far from its apex, in some ways more successful than the Western case.

Every one of the post-World-War 2 success stories — notably, the "four little dragons" of South Korea, Taiwan, Hong Kong and Singapore — unfolded under non-democratic regimes.

As to Japan, it has been a democracy since World War 2, but the period when it first established a successful capitalism, the Meiji period, was anything but democratic in its political system.

One might ask how many of the Western societies could be called democracies in our sense at the time they took off into modern capitalism — hardly England in the 18th century, the country where it all started.

The United States, in this as in many other matters, may be exceptional.

In view of this evidence, an intelligent argument has even been made to the effect that democracy is not the regime best suited for the period when capitalism is first established, though it is the regime most likely to emerge after a time of successful capitalist development.

There is no great mystery as to why capitalism is necessary for democracy.

It provides the social space within which individuals, groups and entire institutional complexes can develop independently of State control.

Conversely, the empirical correlation between socialism and dictatorship can be explained, precisely, by the absence of such social space in a socialist system.

The anti-democratic effect of socialism is structural in origin, and not just the result of some variety of totalitarian ideology (such as Marxism-Leninism).

Inspire

To be sure, totalitarian ideas, such as that of society as an all-embracing fraternity or of the party as the infallible embodiment of the force of history, have served to legitimate socialist dictatorships and to inspire their cadres.

But socialism would make democracy highly unlikely even in the absence of such ideas.

The explanation for this is simple: While there have been socialist Utopias envisaging the control of the economy by independent association of producers (such was the syndicalist vision), these have remained just that — Utopias, empirically unrealisable, except perhaps in small communities (such as the kibbutz or the "intentional communities" of American sectarianism) or over short periods of time (as in the Soviets right after the Bolshevik revolution).

Under modern conditions, given the complexity of a modern or even a modernising economy, socialism invariably means control of the economy by the State.

Even the most restrained, democratic State today has more power at its disposal than the most efficient despotisms of pre-modern times.

Imagine Caligula with an empire-wide computer network, or Genghis Khan with helicopters, or for that matter Ivan the Terrible with a functioning Internal Revenue Service.

To add to this armoury of power control over the economy — that is, control of the livelihood of all or even the great majority of the population — is to bring about a quantum leap in power.

Such power is difficult if not impossible to reconcile with democracy.

Socialism can only be established by a titanic act of expropriation

But, given the condition of human life in society, property will inevitably spring up again.

The socialist expropriation, therefore, cannot be a one-time-only event.

Socialism requires eternal vigilance. Such permanent expropriation, however, cannot be democratically administered Those who are to be expropriated will organise and resist.

Dictatorship is the only political solution to this problem.

If one understands these basic structural facts about a modern society, the talk of a "third way" between capitalism and socialism makes no sense at all.

There is no "third way".

There are, to be sure, modifications of the first and the second "ways". There are variants of capitalism, as there have been variants of socialism.

If one prefers to speak of a "mixed economy", every empirically existent economy is "mixed" in the sense that there is some combination of market forces and State interventions.

Capitalism has shown an enduring capacity to produce historically unprecedented wealth and to allow huge masses of people to benefit from this.

Socialism has shown itself to be an unmitigated economic and political disaster.

As democracy requires a capitalist foundation, this foundation appears secure for the foreseeable future.

Democratic capitalism thus appears to be the only way to go.

The last few years have indeed been a triumph for democratic capitalism, and its prospects today are much brighter than they have been for a long time.

Given my understanding of the economic features of modernity, I regard it as unlikely that "new kinds of economic systems" will emerge in the foreseeable future.

Either capitalism will survive, or socialism will return in one form or another.

If the latter eventuality occurs, the prospects for democracy are gloomy indeed.

If capitalism will, after all, become the prevailing system in most if not all the world, then the prospects for democracy are quite bright. □

Rand losing ground to £

STAR 13/5/92

CAROLE on CURRENCIES

By Carole Mason, international economist, Standard Bank

The mundane realities of a dollar still trapped in a range characterised initial rand activity last week.

Ahead of last Thursday's scheduled Bundesbank meeting and Friday's release of key US employment data, it was not generally anticipated that the domestic dealing community would be afforded much scope for establishing new dollar/rand positions and the domestic unit was expected to remain confined to narrow trading ranges.

This in fact proved to be the case and although dollar activity had a weakish undertone, rand appreciation against the dollar was restricted to a fleeting burst above R2,86.

By week's end, the rand had given up those gains, with a stronger dollar leaving many domestic analysts pondering the possibility of an early break out of recent trading ranges.

Having safely hurdled the two obstacles represented by last week's Bundesbank meeting and April's US employment data, a renewed problem of the dollar's upside is now possible.

However in an environment where market participants everywhere have chosen to focus on international central bank policies rather than on the underlying economic background, the dollar remains vulnerable to nagging doubts that US interest rates have not yet bottomed.

Losses

As a consequence, any near-term rand weakness against the dollar should be confined to a move towards the upper end of the rand's recent R2,85-R2,88 trading range against the dollar.

The prospect of a modestly stronger dollar in the days ahead has additional indirect implications for the rand in that dollar strength against the third currencies usually implies rand strength against the third currencies also (but to a lesser degree).

Any evidence of a stronger dollar in the days ahead should therefore enable the rand to claw back some of last week's losses against the other major currencies. These were most obvious against a surging pound which, despite a cut in UK interest rates, strengthened towards R5,16.

However, with the pound an obvious beneficiary of a lack of clear trends in both the dollar and the DM last week, any evidence of modest strength in the US currency should take some of the gloss off the pound, enabling the rand to advance.

As such, near-term performance in the rand (although occasionally disquieting in terms of rand performance against individual currencies) should not give undue cause for concern in terms of the SA Reserve Bank's chosen objective, the rand's trade-weighted value.

Retail sales looking up

STAR 13/5/92

By Sven Lünsche

Retail sales look set to emerge from their two-year slump.

Projected figures released by Central Statistical Services (CSS) this week show that sales in April are expected to reach R7,28 billion — an increase of 18,6 percent on the comparative figure in April last year.

After taking inflation into account, this indicates a real year-on-year increase of 2,6 percent.

A broader indicator also suggests an upturn in spending on retail goods.

According to CSS, projected sales for the three months to April increased by 4,8 percent, compared with the preceding three months — a real rise of 0,8 percent.

This contrasts sharply with the latest actual retail sales figures available, those for February this year.

In February sales rose by a nominal 15,6 percent to R6,35 billion, compared with February 1991, which represents a decline of two percent in real terms.

New SA 'giving Africa hope'

STAR 13/5/92

(49)

DAKAR — The African Development Bank is meeting here this week buoyed by hopes that a post-apartheid South Africa will strengthen the continent's economy, but worried that it could take a decade to reverse falls in living standards since 1980.

The Bank is expected at its three-day annual meeting to savour a modest improvement in fortunes in 1991, when economic growth for the continent, excluding South Africa, edged up to 2,5 percent from 2,1 per cent in 1990.

But with a population of 600 million people growing faster than anywhere in the world at 3,1 percent annually, individual incomes fell again.

These shrank by 15 per cent in the 1980s alone, said the Bank in a briefing paper.

"People are, on average, worse off today than they were three decades earlier, with poverty and deprivation threatening to expand," it said.

The Bank estimated it would take seven to 10 years of sustained, real economic growth at four percent annually to recover per capita income losses suffered in the 1980s.

Weak world prices for Africa's mineral and farm output, mounting foreign debt, slack investment, widespread drought and civil strife contributed to the current crisis.

Most of these constraints persist, although total foreign debt eased to $271 billion last year from $286 billion in 1990 thanks to write-offs.

Yet, debt service payments still account on av erage for three-tenths of export earnings. And, according to United Nations estimates quoted by the Bank, poor commodity prices cost Africa about $50 billion in lost export earnings in the second half of the 1980s.

Bank president Babacar Ndiaye said on Momday a post-apartheid South Africa could play a key role as an engine of growth in Africa, once it shakes off its own recession and gets to grips with daunting housing, education and other socio-economic challenges.— Sapa-Reuter.

African Development Bank pins hopes on SA

DAKAR — The African Development Bank opened its three-day annual meeting yesterday in the Senegalese capital buoyed by hopes that a post-apartheid SA would strengthen the continent's economy, but worried it would take a decade to reverse falls in living standards since 1980.

The bank is expected to savour a modest improvement in fortunes in 1991 when economic growth for the continent, excluding SA, edged up to 3% from 2.1% in 1990.

But with a population of 600-million people growing faster than anywhere in the world at 3.1% annually, individual incomes fell again.

The bank, in a briefing paper, estimated it would take seven to 10 years of sustained, real economic growth at 4% annually to recover per capita income losses suffered in the '80s.

The bank's Babacar Ndiaye told a pre-conference seminar SA had a key role to play as an engine of economic recovery, but Pretoria would not immediately start channelling investments to African nations. Once SA revived its economy, it had a role to play.

BDay 13/5/92

He would welcome SA membership of the bank. According to bank statutes, however, SA must first become part of the OAU.

SA officials, who took part informally in last year's meeting of the bank, will attend officially this week for the first time as observers. The ANC will also take part.

(49)

Philippe Lietard, director of African investment for the World Bank's International Finance Corporation, which funds private sector ventures, said the size and range of SA's economy, which accounted for 40% of sub-Saharan Africa's economy, would be attractive to foreign financiers. Its creditworthiness could help it win funding from international lenders such as the African Development Bank and World Bank.

Derek Auret, deputy director-general in SA's Foreign Ministry, said regional integration of economies was vital as regional blocs were being formed in North America, Europe and the Far East. — Sapa-Reuter.

Leaving the Third World behind

STAR 13/5/92

49

ONE aspect of Cosatu's economic policy that has not received much attention is how we should harness our natural resources to develop our economy. We need to re-orient the economy away from its current "Third-World" cycle of exporting raw materials and importing capital goods and technology.

Beneficiation is an important component of Cosatu's growth strategy to meet the needs of our people, and lay the basis for a vibrant and expanding manufacturing sector. Beneficiation is the process of **adding value** to raw materials as they move along in the production process (for example processing gold into jewellery, steel into machinery etc).

Apartheid and the migrant labour system have provided the historical basis for the economy's dependence on minerals.

This dependence continues, as illustrated by the profile of exports: while the contribution of gold to exports has fallen to the current 31 percent, non-gold raw minerals (18 percent) and processed minerals (5 percent) raise the contribution of raw and processed minerals to 54 percent of all exports.

The rising share of the manufacturing sector as a proportion of exports and GDP in the 1980s has been misleading, for the bulk of these increases have been in the sub-sectors involving processed minerals: steel, ferro-alloys, aluminium, platinum, manganese and chemicals from coal.

Beneficiation has at least two objectives. Firstly it can lead to increased export revenues, which will partly offset the current account deficit that will occur as the economy expands. Secondly, domestically available beneficiated products can provide the inputs to develop downstream manufacturing industries and create jobs.

The primary stages of beneficiation are capital intensive, producing bulk commodities.

Secondary stages of beneficiation are labour intensive. For example, jewellery, stainless steel industrial equipment, shipbuilding, components etc. A one-sided approach thus has the potential to conflict with our objective of labour creation.

Conglomerates and Government have already embarked on a programme to beneficiate minerals. However, there are differences between their approach and the approach Cosatu would take.

First, the programme has been implemented without any consultation. Second, it has been accompanied by major restructuring and rationalisation. Thousands of jobs have been lost in the steel industry alone. The proposed multibillion rand export-oriented Columbus stainless steel project will be achieved with very little employment creation. Instead, personnel will be transferred from Middleburg Steel, swallowed up in 1991 in a takeover.

While current policies act to favour a capital intensive growth plan, future beneficiation strategies would take account of the impact of existing pricing mechanisms of intermediate goods.

The potential to create a world class mining and mineral processing capital goods industry will be supported by the predominance of mining and by the resource integrity within the southern African region. Unlike the narrow approach to beneficiation as is currently practised, future strategies will have to take account of the emergence of protected global trading blocs. □

Blacks 'want unions to wield political clout'

BDay 13/5/92

49

BILLY PADDOCK

CAPE TOWN — Political parties would have to cater to and woo trade unions if they desired significant showings in elections under a new constitution, political analyst Lawrence Schlemmer said yesterday.

Speaking at the release of the results of the Human Sciences Research Council's latest survey, he said there was overwhelming enough support among blacks for trade unions to have a strong influence on government.

Results in the latest edition of Information Update also demonstrated that among blacks there was a very strong demand for positive regulated affirmative action.

The surprising result was that SACP and ANC-supporting respondents in the house-to-house direct interview survey rejected nationalisation. Only 38% of ANC supporters said it was good while all the SACP supporters rejected it.

However, 91% of SACP supporters said they wanted trade unions to have control of companies.

The results showed that across the board, including Inkatha supporters (49%) there was overwhelming support for trade unions to influence governments.

Schlemmer, who analysed the survey, concluded that most whites, Asians and coloureds viewed an interim government with trepidation. Whites, especially, viewed the future negatively and believed that things would become worse in a new SA, while blacks were most optimistic.

However, Schlemmer points out that expectations among blacks have been largely tempered over the past year and "the rose garden mentality" has all but disappeared from all groups.

There was strong support for devolution of power to towns, cities and regions.

He said "supporters of what might be the largest future party, the ANC, are most inclined to favour exclusive government by a majority party, but even they would see the need for curbs on power and protection of minority interests".

He said the tolerance reflected among the rank and file extended to surprising sentiments where there was a high degree of acceptance of direct ethnic representation in government by traditional leaders.

Investment in housing will bring jobs and aid growth

BIDay 14/5/92

BILLY PADDOCK in Cape Town

49

SOUTH Africa could satisfy two pressing needs if government and the private sector changed their views on housing and investment, and acted swiftly.

This would alleviate the desperate housing shortage and the blossoming of squatter camps caused by rapid urbanisation; and it would also give a substantial injection to economic growth.

This is one of the main findings of the De Loor task group's investigation into housing whose report was published yesterday.

Government's White Paper on Land Reform earlier acknowledged that widespread and increased urbanisation was inevitable. The task group report states that about 198 000 housing units a year have to be built in the next 10 years to deal with this.

Under the chairmanship of former auditor-general Joop de Loor, the task group of experts says it is generally accepted that a properly functioning housing sector would contribute substantially to alleviating some of SA's economic problems.

"Housing can play an important role in generating income and employment opportunities, and it can encourage people to save. Furthermore, investment in housing need not be inflationary."

Thus far the housing sector has not functioned optimally and, especially in the low-income segment, housing has often not been regarded as an economic commodity. This perception has led to a negative impact on the entire housing market and on the savings and consumption patterns of individuals, the report argues.

State expenditure and commitment to housing is also very low, which helps perpetuate this perception. Budget appropriations for housing and housing-related matters in 1990/91 totalled a mere R1,6bn or 2,1% of expenditure. In spite of rapid population growth and a high urbanisation rate the contribution of housing to the economy had remained almost constant during the '80s.

Over the entire period, investment in housing as a percentage of GDP was far lower than in other countries at the same stage of development — running at below 3% and some years as low as 2,6%, according to the World Bank — indicating there was ample scope for increased investment in this sector.

"It is consequently essential that investment, especially in low-income housing, should be substantially increased and that total investment should be normalised around 5% of GDP," the task group says. There is also a need to increase its portion of the Budget, and to make more productive use of the existing budgetary amounts.

It opposes classical development theory which assumes that industrial development leads to urbanisation, and that the market would provide for additional housing requirements.

The report says all serious students of housing accept that sustainable provision of acceptable housing creates large measures of social stability, while at the same time providing important income and employment opportunities.

"As stated by the World Bank, it is generally agreed that for the economy and for cities to function well the housing sector must function well."

Apart from the direct effect on income and job creation, construction has strong indirect effects through backward and forward linkages.

Backwards, it is linked to building material industries, to products such as stone, cement, bricks, glass, steel and processed wood. The forward linkages are less obvious, but home-owners are strongly motivated to purchase furniture, equipment and other fixtures which may have a strong effect on many industries.

The World Bank had estimated that the income multiplier for housing construction is about two. In Korea, about 14 additional jobs were created for every $10 000 invested. Similar figures prevailed in Pakistan, India and Mexico, the report states.

☐ DE LOOR

There are other, less tangible, employment benefits. Investment in housing is particularly well suited to absorbing labour resources.

Newly arrived migrants often work in construction, where a large majority of workers are unskilled, and they use this as a launching pad to other opportunities in the cities.

The task group found that the labour-absorptive capacity of SA's economy had assumed daunting proportions.

In the period 1965 to 1970, the capacity was 73,6%, from 1970 to 1975 it dropped to 62,7% and thereafter it dropped drastically to 12,5% in the period 1985 to 1989.

The construction of low-income housing on a stage-by-stage basis allows labour to be used incrementally. Countries adopting a wide range of self-help, mutual-help and hired-labour methods had benefited from the flexibility enabling houses to be built at nights and over weekends.

Another advantage of investing in low-income housing is that most of the industries it is linked to require minimal imports during the first phase and this provides potential for contibuting to development and growth that would otherwise not be possible, it states.

De Loor argues that every R1 invested in the housing sector through deficit financing would lead to an increase of about R2.70 in the GDP, whereas the increase would be 28c if it was done through increased taxation.

Using the work of the World Bank reconnaissance mission, the task group says there is a reasonably well-functioning housing market in the higher income brackets in the white segment, but not in the lower income segments. This has led to persistent housing shortages, poor quality housing, overcrowding, high home prices, a general unwillingness to spend or invest in housing and undercutting of the revenue-generating potential of residential property in those areas.

The commission concludes that, for housing to make this substantial contribution, a change in the composition of government expenditure in favour of housing is required. This would lead to a redistribution of income and changes in demand patterns which bode well for economic growth and job creation.

To succeed in this venture, the housing sector should be integrated into the market economy and a more balanced approach adopted.

"However, housing expenditures alone could not lead to permanent long-term growth. Attention should also be given to programmes such as the promotion of small business development and the provision of education and training," the report states.

Deregulation, commercialisation and the employment of sound policies which strengthen market forces and provide access to opportunities are all strategies needing strong promotion and high priority.

In spite of the sound proposals contained in the report and the laudatory comments from politicians across the board on the report, government has not accepted it and has said it will not result in a White Paper or direct implementation.

Local Government and Housing Minister Leon Wessels yesterday said that, because the report was not a result of widespread consultation with extra-parliamentary political groups and the 'main players', it will be used as input for discussion possibly going to Codesa. It will be buried along with the other 33 inquiries into housing since 1970.

Call for attitude change

B/Day 14/5/92

JONO WATERS

(49)

ECONOMIC uncertainty in SA has increased as a result of heightened social turmoil coupled with the transitional process, says Johannesburg Chamber of Commerce and Industry (JCCI) outgoing president Mike Cato.

"Economic responsibility of the country's leaders is vital and will come about if groups change their attitudes and realise the national good is the overriding priority."

Cato, speaking at the JCCI's AGM yesterday, said the country needed to improve productivity if it wished to compete internationally in manufactured goods. This could come about only if the attitudes of management and labour changed.

Labour should adopt the work ethic as "a driving force" but at the same time management should learn to encourage, recognise and reward the output of that work ethic.

He warned that passive acceptance of sustained inflation resulted in it affecting pricing policies, business planning and labour demands.

Cato believed Finance, Trade and Industry Minister Derek Keys would accomplish a great deal in changing attitudes towards creating a working tripartite alliance between business, organised labour and government.

SA's economic future under Sapoa spotlight

(49) CT 14/5/92

Property Editor

THE economic future of South Africa is to come under the spotlight at the silver jubilee convention of the South African Property Owners Association (Sapoa) to be held at Sun City in June.

JHI group chairman Les Weil will chair a panel discussion between Richard Grant of the Free Market Foundation, Mike Brown of stockbrokers Frankel Max Pollack Vinderine Inc and PAC secretary general Benny Alexander.

This will be followed by a discussion by Hermann Gilomee, professor of political studies at the University of Cape Town who will look at new regional structures which will affect property development and urbanisation while Pierre du Toit, a partner at Andersen and Co, will address tax structures in a changed South Africa.

Brian Kirchmann, executive director of Sapoa, said more than 500 delegates were expected to attend the confernce to be held from June 9 to 11.

Sapoa, through its Council of Shopping Centres, has also planned the first-ever African shopping centre conference to be held at Sun City from August 23-25.

Conference chairman Pat Flanagan of RMS Syfrets said they intended to bring together shopping centre owners and developers from the entire African continent.

"We are all part of Africa and it is important that we meet our colleagues in countries north of us. We have expertise we are able to impart and they have things to teach us about shopping centres in an African context."

The two-day conference, he said, would focus on among other things what was happening to the South African shopping centre market from hawkers to spaza shops to most upmarket developments Current development would be compared with what needed to be done in the new South Africa.

Shopping centre development in the rest of Africa would also be highlighted by foreign developers and owners. The role South African developers could play in investing in those countries and conversely, whether there are opportunities for foreign investors to stake their claim in South Africa will be reviewed.

Flanagan said ultimately they would like to see the formation of an African Council of Shopping Centres.

A vision of the road ahead

BDay 14/5/92.

(49)

ZACH DE BEER

MANY years ago, when apartheid was a flourishing policy, I heard Harry Oppenheimer tell an international gathering: "The question is not whether South Africans will live together or separately. The question is whether, living together as they must, they will quarrel or co-operate."

Those words came back to me as I sat at Codesa. The various delegates are not there because they are ideologically close: they are not. Nor are they there because they like each other, though quite often they do.

They are there because they cannot wish each other away, because apartheid has been dumped on the scrap heap of historical failures, because a new nation must be built, and because we all have to eat. These facts add up to a very powerful incentive to co-operate.

But politics is never so simple. There is one force which can cut across all good sense and good intentions. It is the lure of power. No politician was ever entirely immune to its attractions.

But some are more strongly tempted than others, because power lies nearer to their grasp.

So it is at Codesa. The Nats rate their chances high of cobbling together some sort of coalition which can run the country, and which they can run. The ANC are confident of their ability to put together a majority of voters, if not a comprehensible policy. And Inkatha, too, has a feeling for authority. So these three organisations have the scent of power in their nostrils, while the rest of us are capable of more objectivity — not because we are better people, but just because we are not players in the power stakes.

No one can be sure of what is going to happen; but I would hope that the Nats and the ANC are going to wear each other down until things threaten to grind to a complete halt, at which point a reasonably balanced compromise will be put forward and adopted as everyone's second best choice.

Ideally, it should provide a constitutional framework that will prevent domination by any single group and bring about government by co-operation between all moderates.

Now, as we peer forward through the mists of time, how much can be seen of the new SA?

Some of it is already visible. Cricket in Barbados, athletics in Dakar, diplomatic relationships with Hungary, Russia, the Côte d'Ivoire, SA wine being quaffed enthusiastically in Denmark. Sadly, there is more good news from outside our borders than from within them.

But all is not gloomy here at home either. The referendum was good news. While recognising that there are still nearly a million white bitter-enders, it is legitimate now to say that white, brown and black have agreed to recognise the universality of human rights and dignity.

Race discrimination will have no place in the new SA. But that is not to say that ethnic loyalties are not going to play a part in its politics. The Group Areas Act has been dead for nearly a year now: but how many people have actually moved to live outside the racial ghettos it created? Job reservation was abolished nearly 20 years ago, yet it remains true that most jobs can still be regarded as "black" or "white".

Schools are no longer strictly segregated, but the formerly white ones are still several times better in quality than the black ones.

It is great news that we are accepting one another as equals; but there is still a yawning gap in the quality of life between blacks and whites. There is a terrifyingly great scope for the politics of selfishness and of envy.

However successful our negotiations may be, the potential for ethnic strife will be real for generations to come. We have to find the mutual goodwill to keep us focused on each other's needs. We whites must realise that, to make a safe future for our own descendants, we must first make a fair one for the descendants of our compatriots. And black South Africans have to rise above a perfectly natural resentment of the privileges enjoyed by whites, to accept that all of us are needed for the task of making a better life for all.

The new SA will be an exciting, challenging place. The fabric of its society will be fragile for a long time to come. It will make enormous demands upon all its citizens.

Finally, I come to the economy. There is good news and bad. Our infrastructure remains remarkably effective. And, of course, the end of our political war with the rest of the world opens new opportunities for trade.

And yet, and yet. Little or no growth in our economy these last 15 years, while our population increases by a frightening 2,5% a year. Inflation marching along at 15% a year. The gold price lower in real terms than it has been for many years. A work force which substantially lacks the education necessary to compete for export sales in the modern world. A trade union movement heavily politicised because of past folly and injustice. And the insistent and perfectly natural demand for the equalisation of living standards in one of the world's least equal societies.

SA needs a Rechtstaat, freedom under law. It needs to set up and sustain a social market economy, where high and efficient production is achieved by individual enterprise and free markets, so that the weak can be helped by the state even while the incomes of those not needing assistance rise also. It needs to generate savings and to attract foreign investment, so that technological advances can enable us to achieve and maintain the ability to compete. It needs to narrow the prosperity gap through the creation of vast new wealth, not simply through counter-productive attempts to redistribute what exists already.

We may be fortunate: export prices may rise in our favour. But we must also restructure, away from our old, protectionist, import-replacement systems towards an open approach aimed at lowering manufacturing costs. We must seek niches in world markets, and achieve co-operation between business, labour and the state to exploit them. Above all, we must tackle the vast task of education and training geared to a modern production system.

And then, soon, we must meet the real needs of our people. Education we have mentioned — housing and the attendant services — health. Certainly we shall not keep peace, or build prosperity in the new SA without these goods and services.

The problems are great, the tasks formidable. The mission may be impossible. But at least we are negotiating.

☐ **This is an edited version of an address delivered yesterday to the Institute of Directors.**

GDP decline reflects severity of recession

(49) CT 15/5/92

Own Correspondent

JOHANNESBURG. — SA remains firmly in the grip of recession, with latest figures showing one of the largest quarterly declines in national output in more than two years of steady economic contraction.

A considerable fall in agricultural production was the main force behind the decline in the March quarter, preliminary GDP estimates released yesterday showed.

Central Statistical Service (CSS) figures showed national output, as measured by the inflation-adjusted change in GDP, declined by 1,9% in the three months to March in seasonally adjusted terms from a decline of 0,6% in the fourth quarter of 1991, and growth of 0,5% in the third quarter.

The CSS said the fall in GDP in the first quarter of this year was the largest quarterly decline recorded since the three-month period to December 1989 when GDP fell by 2,0%.

The negative growth rate in the first quarter was attributed to a 15,8% drop in agricultural production, which had increased by 4,9% in the previous quarter.

Real GDP declined for the fifth successive quarter decreasing at a seasonally adjusted rate of 0,9% in the latest quarter. Negative real growth rates were recorded due to decreases in the seasonally adjusted production levels of manufacturing, construction and trade.

In real terms, manufacturing production declined by 3,2%, construction was 8,2% lower, and trade dropped by 3,2%. Mining production showed a 1,9% increase.

Except for the positive growth rate of 0,5% recorded in the third quarter of last year, the economy has been contracting for the past nine quarters in nominal terms. The generally accepted formal definition of recession is two consecutive quarters of economic contraction.

Nedbank chief economist Edward Osborn said growth prospects had been dominated by the negative effects of agricultural production. The poor performance by the sector reflected the severity of the drought and also the collapse of maize production in the country.

A return to a "normal" agricultural harvest would make some positive contribution to economic growth but would not leave much chance for improvement in the overall rate of growth in the economy, Osborn said.

World Bank waiting to move into SA — and aid may total $1bn

BDay 15/5/92. (49).

ALAN FINE

THE World Bank was ready to move into SA, probably with more than $1bn in funding, to begin full-scale operations as soon as it received an invitation from an interim government which had created a stable framework in which it could operate.

Bank vice-president Timothy Thahane, interviewed in Johannesburg yesterday, was unwilling to state the amount of annual funding the bank was likely to earmark for SA, but indicated indirectly it was likely to be upward of $1bn.

Thahane said SA was a large country and entitled to a "good" lending programme — which was normally based on a country's size and creditworthiness.

By way of comparison, the current World Bank annual budget allocates $900m to Kenya (population 25-million), about $1,3bn to Argentina (33-million) and $1,8bn to Mexico (85-million).

He said that while World Bank programmes normally took 18 to 24 months to implement, this could be achieved in SA in as little as six months because of the studies conducted since 1990.

Of the four areas under investigation, studies on macro-economic issues, education and urbanisation were far advanced. Studies on the rural economy were still some way from completion.

Thahane said the mechanics of SA's transition were a local matter. All the bank was concerned about was that there be a predictable and stable environment, with state authorities in place in relevant fields (finance and economics, education and housing) with which it could deal.

Asked about the relationship between the World Bank and the ANC — some of whose left-wing elements are hostile to bank involvement in SA — Thahane said important contacts had occurred over Easter. An ANC delegation, headed by foreign affairs chief Thabo Mbeki, the economic policy department's Trevor Manuel and education head John Samuel, had visited bank headquarters in Washington.

"They came to study our operations. We opened our books to them and let them examine our record. We gave frank answers to their substantive questions. It is for them to say whether they were satisfied with our record," Thahane said.

He said proposed bank operations in SA would be in line with its general objectives, which were to combat poverty rather than merely achieve economic growth.

"We seek to assist countries achieve sustainable economic growth. But our experience shows it is possible to achieve high growth rates without tackling poverty — the trickle-down effect can be ineffective. Our programmes are designed to target the poor, increase their productive capacity through education and better health facilities and living conditions. This increases their employment opportunities."

Democracy depends on market economy

(49) CT 15/5/92

By PETER BERGER
Director, Institute for the Study of Economic Culture, Boston University

DOES political democracy require or depend upon a market economy? The answer is *yes*. The reason for the answer is strictly empirical: the evidence overwhelmingly suggests it.

There has been no case of political democracy that has *not* been a market economy. (Or, if one prefers a sharper formulation, there has been no case of democratic socialism.)

There have been numerous cases of *non*-democratic market economies. When market economies are successful over a period, democratising pressures are generated.

As surely as night follows day, someone will propose Sweden as a case of democratic socialism. It is, I would contend, no such thing. It seems to me that one most usefully discusses capitalism and socialism if one understands them quite narrowly as alternative modern systems of production (as, indeed, the Marxists have always done) — one based on market forces and private ownership of at least the "commanding heights" of the economy, the other based on political control mechanisms and public ownership of the "commanding heights".

By these definitions, Sweden (even in the heyday of Social Democratic governance) cannot be called socialist. The confusion here is between production and distribution. Sweden, like most of the other Northern European democracies, developed very generous welfare states — that is, very elaborate systems of distribution and redistribution.

Question

But the welfare state, even in its Scandinavian apotheosis, continued to rest on a capitalist system of production and indeed only the affluence created by the latter made this welfare state possible.

Does political democracy require private property? If so, how much of it? Answer to the first question: almost certainly *yes*. Answer to the second question: no one knows for sure.

The question here really is whether there could be a market economy without private property — the question of whether political democracy requires a market economy having already been answered positively. Put differently, the question is whether there could be such a thing as "market socialism" — the important enterprises remaining in public ownership but in competition with each other under market forces. Theoretically, such a system can be imagined.

The Polish economist, Oscar Lange, already formulated such a theoretical model in the '30s and other models followed in more recent times. Two societies that ran experiments with "market socialism" for about 30 years each were Yugoslavia and Hungary. Both, it can now safely be said, failed.

Each step

Political democracy requires a market economy and a market economy requires private property. But how much of it? In other words, what segments of the economy may be held in public ownership before the basis of democracy is threatened? It stands to reason that there must be a threshold somewhere which, if crossed, threatens democracy. But, it seems to me, that present knowledge does not permit us to mark the spot.

Comparison between capitalist democracies (say, between countries like Austria and Switzerland, with quite different levels of public ownership) suggests that there is a good deal of leeway.

The libertarian view that each step in the direction of public ownership is a step towards despotism, is not borne out by the evidence.

On the other hand, given the empirical linkage between democracy and capitalism, policy-makers would be well-advised to be cautious if moved to expand public ownership.

□ *(Extract from a lecture given in Johannesburg this week under the auspices of the Urban Foundation.)*

Renewed pledge to rescue shaky African economies

DAKAR — Industrialised countries have renewed their commitment to financing a rescue of Africa's floundering economies, allaying fears aroused by aid demands from eastern Europe and the former Soviet bloc.

They told the annual meeting of the African Development Bank on Wednesday this should go hand in hand with reforms by African countries themselves. These ranged from efforts to develop market economies, attract investors, alleviate poverty, protect the environment and curb Africa's 3,1% annual growth in population.

"We will continue to be an active partner in collaboration in extending assistance to (African) countries ... making adequate self-help efforts," said Japan's International Finance Bureau deputy head Sugisaki Shigemitsu.

He echoed sentiments expressed by delegates from the US, Britain, Canada and the Netherlands.

The meeting was told Africa's economy slowed for the third successive year in 1991, recording growth of 2,4% compared with 3,5% in 1990. Living standards fell again, to their lowest levels in 30 years.

Growth of 4% a year throughout the 1990s was needed just to maintain existing living standards, said UK delegate Peter Freeman.

Conditions beyond Africa's borders were unlikely to help it much and modest gains at best were forecast for commodity prices.

Freeman said the budgets of developed countries were also constrained. This made it unrealistic for Africa to expect any substantial increase in overall aid in the next few years.

Wethington outlined US economic policy towards Africa — helping to meet social and other needs while stressing the merits of democracy and free markets. — Sapa-Reuter.

Output fall keeps SA in recession

B/Day 15/5/92 (49)

SHERIDAN CONNOLLY

SA remains firmly in the grip of recession, with latest figures showing one of the largest quarterly declines in national output in more than two years of steady economic contraction.

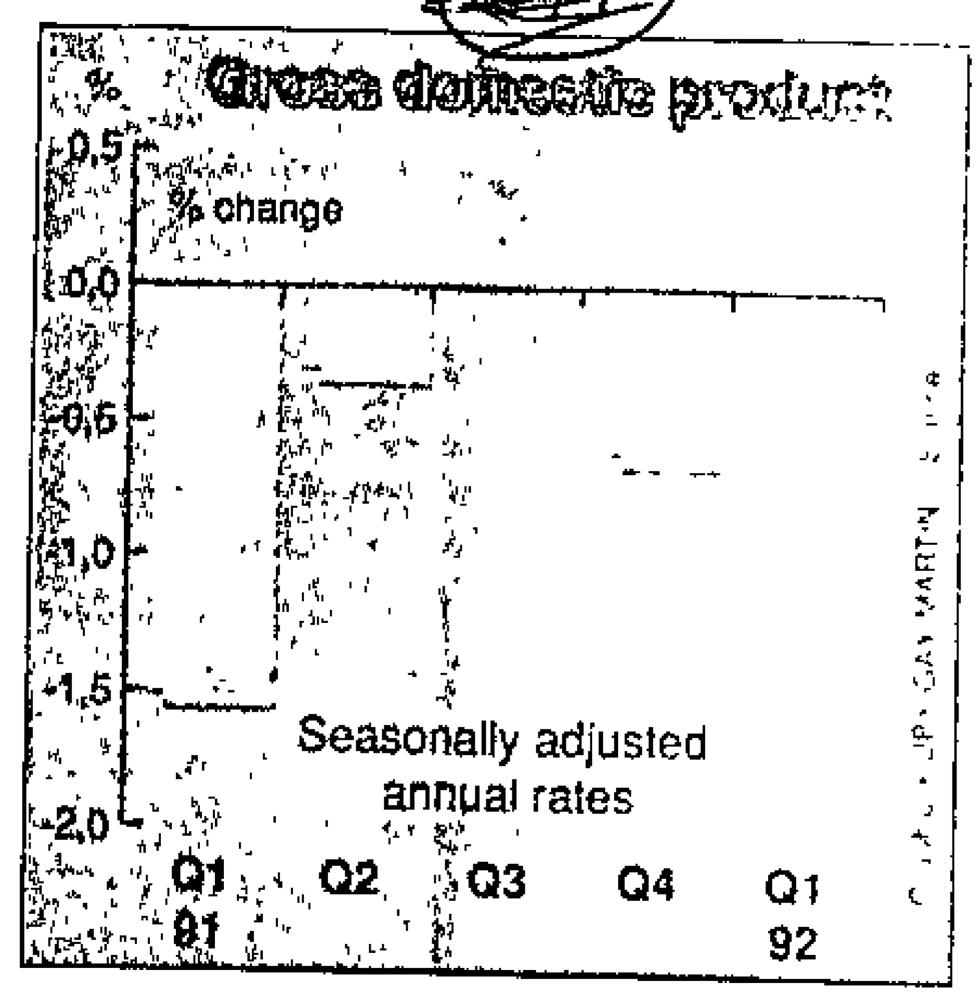
A considerable fall in agricultural production was the main force behind the March quarter decline, preliminary GDP estimates released yesterday showed.

Central Statistical Service (CSS) figures showed national output, as measured by the inflation-adjusted change in GDP, declined 1.9% in the three months to March in seasonally adjusted terms from a decline of 0.6% in the fourth quarter of 1991, and growth of 0,5% in the third quarter.

The CSS said the fall in GDP in the first quarter of this year was the largest quarterly decline recorded since the three-month period to December 1989 when GDP fell 2.0%.

The negative growth rate in the first quarter was attributed to a 15,8% drop in agricultural production, which had increased 4,9% in the previous quarter.

Real GDP declined for the fifth successive quarter, decreasing at a seasonally adjusted rate of 0,9% in the latest quarter. Negative real growth rates were recorded due to decreases in the seasonally adjusted production levels of manufacturing, construction and trade.



In real terms, manufacturing production declined 3,2%, construction was 3,2% lower, and trade dropped 3,2%. Mining production showed a 1,9% increase.

☐ To Page 2

Output drop

B/Day 15/5/92 (49)

From Page 1

Except for the positive growth rate of 0,5% recorded in the third quarter of last year, the economy has been contracting for the past nine quarters in nominal terms. The generally accepted formal definition of recession is two consecutive quarters of economic contraction.

Nedbank chief economist Edward Osborn said growth prospects had been dominated by the negative effects of agricultural production. The sector's poor performance reflected the severity of the drought and also the collapse of maize production.

The maize harvest had declined substantially and prospects for a good wheat crop were bleak. Some agricultural sectors, such as deciduous fruit production, had, however, recorded relatively good production levels.

Osborn said lower growth in most sectors of the economy showed the recession was "still very much with us". A small degree of recovery with regard to the volume of gold production had contributed to some growth in the mining sector.

The positive rate of economic growth recorded in the third quarter of last year was, ironically, attributed to a good agricultural crop, Osborn said. Implications for economic growth for the remainder of this year had been affected by the drought, and the overall growth rate for 1992 should be zero or even show a decline.

Osborn said the only chance for economic growth this year was in SA's export potential, but improvement would be limited by recovery rates in the international economy. Any benefits from a recovery in the world economy would be felt only in the fourth quarter of this year.

Higher levels of government spending would be inadequate in boosting domestic demand and would not encourage any positive movement in fixed capital formation.

A return to a "normal" agricultural harvest would make some positive contribution to economic growth.

● Comment: Page 10

Economy is slipping deeper into recession

By Sven Lünsche STAR 15/5/92.

(49)

Official statistics released yesterday confirm what recent company results and anecdotal evidence had been suggesting for some time: the economy has sunk deeper into recession over the past few months.

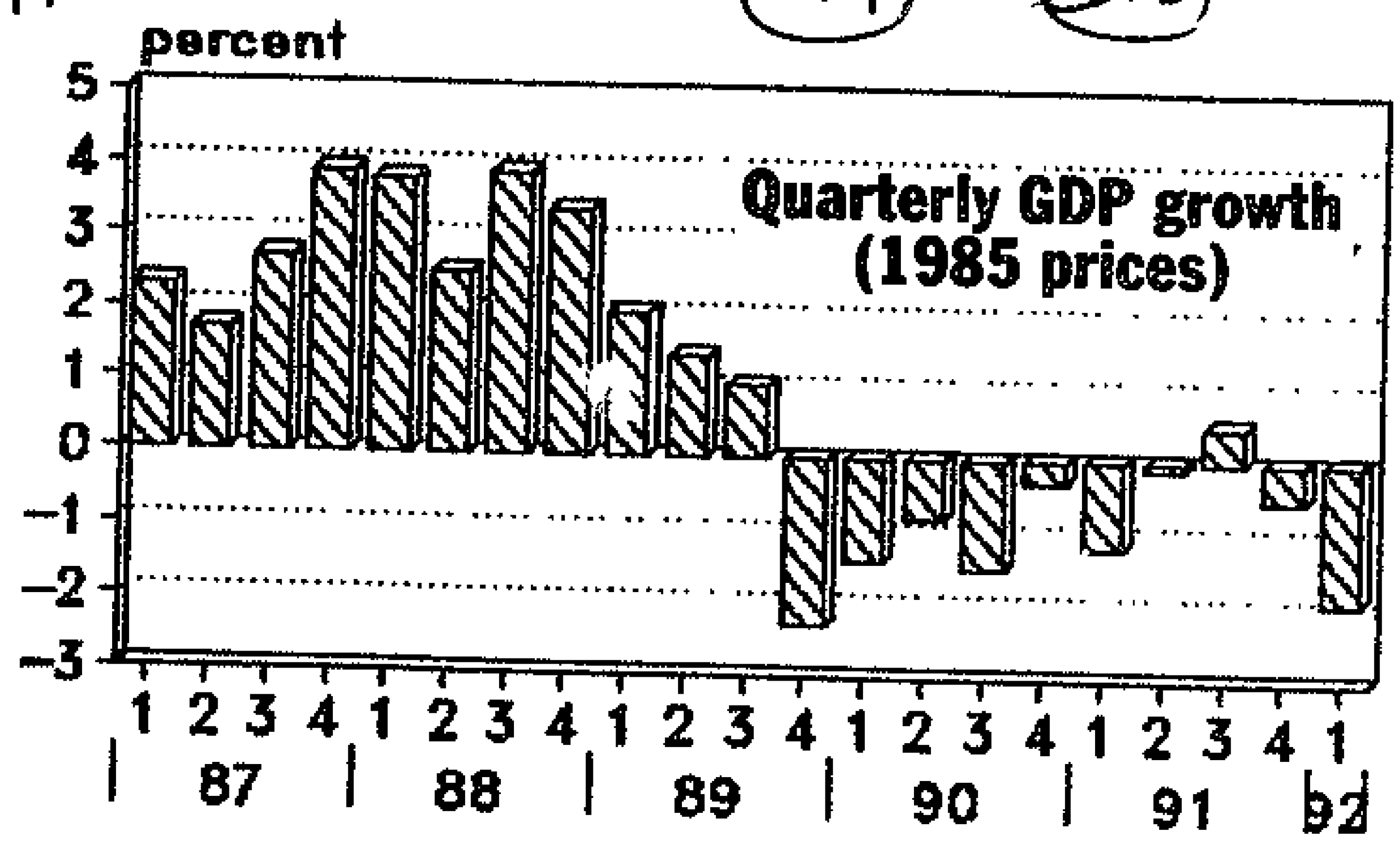
The Central Statistical Service (CSS) reportedthat economic growth, as measured by changes in the Gross Domestic Product (GDP), fell by almost two percent in the first quarter this year.

With the exception of a brief statistical hiccup in the third quarter last year this is the 10th consecutive quarter in which the economy has contracted, making it the longest downturn in the post war years.

The current decline is also matching the very deep recession of 1985/86 in terms of severity — the 1,9 percent GDP decline in the first quarter is the largest quarterly drop recorded in two years.

It was widely expected last year that the economy would start picking up over the first few months of 1992.

Instead it seems that consumer spending, which accounts for over half of the GDP measure, again retreated sharply in the first quarter. This was in evi-



dence in the financial results released recently by the country's leading retailers.

The drought is obviously having a severe impact on the country's overall economic performance: the GDP of the agri cultural sector plunged by 15,8 percent in the first quarter after an increase of 4,5 percent in the December 1991 quarter.

Drought

Undoubtedly the unprecedented severity of the drought has had a marked impact on many sectors of the economy, mainly because of its inflationary implications, but also because of its great social costs.

However, stripping out the agricultural component, still left GDP showing a 0,9 percent decline during the three months as most other sectors in the economy suffered further setbacks.

Real production of the manufacturing sector fell by 3,2 percent, construction by 8,2 percent and trade by 3,2 percent. Of the key sectors only mining bucked the trend with a 1,9 percent growth rate.

Analysing the trends in the economy Standard Bank said recently: "The primary reason for the recession dragging on is not so much due to political uncertainty — business confidence is in fact fair following the March 17 referendum . . .

"Rather, the problem has been the absence of meaningful stimulatory factors to kick-start a recovery.

"The sluggishness in the world economy, the poor gold price and an uncompromising anti-inflationary stance by the monetary authorities are holding back recovery dynamics," Standard Bank commented.

The tight monetary stance has undoubtedly had a severe impact on private consumer spending, which last year accounted for over 57 percent of expenditure on the GDP.

Standard Bank explains that towards the end of last year consumers found it difficult to service their considerable debts which were accumulated in previous years.

As consumer capacity to service debts had been undermined by the long period of high interest rates they had to consolidate their positions by cutting back spending on all but the essentials.

This, coupled with the impact of the drought, is set impact further on economic growth in the months ahead.

The economist at the Board of Executors, Rob Lee, expects a reduction in real GDP in the second quarter on the back of the drought, rising unemployment and the weak retail sector.

However, in line with most other economists he forecasts that the recession will peter out towards mid-year and that "the second half of the year will prove to be the early stages of an economic upswing".

Ghana: a lesson that needs to be learnt for SA

(49)

STAR 16/5/92.

SOUTH Africans will find a welcoming attitude in Africa only if they behave appropriately and modify their expectations, writes BEN TUROK.

SO WHITE South Africans are taking the first tentative steps into Black Africa, as businessmen or tourists This is a welcome development, but if it is to continue they had better adjust their prejudices and their behaviour

Africa is generous and forgetting, as the former colonial masters discovered South Africans will also find a welcoming attitude if they behave appropriately and modify their expectations

Conditions in Africa have deteriorated seriously in the past decade and we need to try to understand the reasons Visitors like Al Venter who went filming in Ghana recently (Saturday Star, May 9) don't help us do so He mainly saw poor hygiene, muddy drinking water, poverty, joblessness and overpopulation

What are the reasons for Africa's decline? First there is state tyranny Venter is right to point a finger at President Rawlings and we could identify many others in Africa But are we right to be indignant about that? What if we compared, not the shanties of Ghana and Alexandra, but the repression of PW's SA with that of Africa and we would not emerge very well And Ghana is moving to democracy, just as haltingly as we are

Second, there is the economy Ghana has remained basically a cocoa producer and exporter even though their terms of trade for Africa as a whole had deteriorated by 30 percent in the past decade.

Which economy in the world could stand up to a fall of 50 percent in one year (1989) of its main export goods? Ghana failed to diversify, partly because of bad foreign advice, and is paying a heavy price

It produces what it cannot consume, and consumes what it does not produce A typical Third World phenomenon (and one that cannot be relieved by depending on gold exports, as Venter recommends)

Third, there is foreign intervention. Although Ghana has been the most favoured country in Africa by the IMF and World Bank, its economy has not improved Most of the social problems to be found in Ghana, unemployment, begging, and so on, are direct products of the structural adjustment programme imposed by the IMF in return for loans to meet balance of payments deficits

Ghana has also faced redundancies, school fees for the first time, food price rises and the rest of the "harsh medicine" brought by the IMF

As one who travels widely in Africa, I am aware of the difficulties visitors have to put up with There are corrupt officials at airports and I am sure Venter's problems were related to that and not a desire to be unpleasant

And there are, indeed, problems with food, hygiene and so on, as there are in any Third World country But Africa has many delights to offer us if we enter it on its own terms This continent, which has been so battered by bad leaders, wrong policies and a hostile world economic system, remains full of charm and interest

The people are warm and friendly, their culture is rich and enthralling, and they have learnt much from their experiences Would that South Africans were willing to learn the lessons of maldevelopment so that we do not go through the same process

Indeed, if white South Africans were willing to go into Black Africa in a spirit of inquiry, and be a little less judgmental, this country could escape many of the errors that we seem to be determined to commit out of blind ignorance

The prime candidate in this country, as it is for Africa, is population control Foreigners always seem too willing to lay down rules for Africans on this fundamental issue Equally, Africans reject this, especially in poverty-stricken areas, on the sensible grounds that children are an asset where production is mainly by manual work, and where children are the only insurance against incapacity in old age

Finally, let intending visitors take account of their responsibility in building a new spirit in human relations in Africa, based on mutual sympathy, understanding and respect We know that white South Africans have much to learn in this area, but we can at least try to enter a new era

● *The author is director of the Institute for African Alternatives (IFAA) and author of "Africa What Can Be Done?"*

Codesa decisions to 'influence' World Bank

South 16/5 - 21/5/92 49

A senior World Bank official warned last week his organisation was watching what decisions were taken in South Africa before granting loans to the country. **Noel Bruyns** reports:

CODESA'S decisions on a future government, and its democratic performance and accountability to all citizens, will influence the World Bank's decision whether to resume granting loans to South Africa.

This warning was given by the World Bank secretary and vice-president, Mr Timothy Thahane, at a business breakfast of the Independent Business Forum in Cape Town last week. He is a Lesotho national based in Washington DC.

"It is important to ask: would you invest your money in a situation in which the rules of the game or the framework are unclear?" he said.

"Our experience with economies in transition is that investment recovery is often preceded by a stable macro-economic framework, which means those who are to invest need to see a predictable environment in which the rules of the game are clear," he said.

The World Bank was studying the South African situation and hoped to be able to assist quickly if the country reached consensus on government.

"But if consensus is not reached on the underlying economic constraints, then there may not be much assistance flowing."

He also warned that international aid would be only complementary, and South Africa would have to look closely at domestic resources. This was because the country would have to compete for funds with Latin America and Asia, while the demand after German unification and from former Soviet economies would be enormous.

'Growth was highest in those countries where the public sector was efficient and limited itself to those functions it performed best'

"Our experience throughout the world indicates the private sector has a very important role in the recovery of investment and growth. Efficiency in the economy requires the government to create incentives to encourage the private sector to invest.

"Growth was highest in those countries where the public sector was efficient and limited itself to those functions it performed best," Thahane said.

The ultimate beneficiary of World Bank assistance was the private sector, although according to its articles of agreement, it had to channel funds to the government with a guarantee of repayment.

However, a government did not have to control the delivery of funds for an approved project.

"The emphasis in our operations is to support the development of the private sector, but our ability to do so is affected by the commitment of the government towards that development," he said.

Thahane said the World Bank would focus on deregulation and entrepreneurial development in South Africa and may organise a workshop to present its international experience.

"We have to consider the possibility of establishing an office to focus initially on technical assistance to small- and medium-scale enterprises in the private sector."

The World Bank could assist in areas such as the development of the urban sector, education and agriculture.

However, many issues needed to be addressed first with the dissolution of apartheid.

Before assisting in education, for instance, the bank would need to know whether South Africa would have a unified educational structure that would provide consistency and permit the participation of the local community.

The disparity in resources, housing and services and in the political process would have to be addressed.

Sustainable development required regarding people as the major resource.

"Looking at the macro-economy and competitiveness of the South African industry, labour-intensive techniques are not used.

"In fact, the production pattern in the manufacturing sector will have to change and focus more on job-creating activities," Thahane advised.

● The Independent Business Forum is an initiative sponsored by SOUTH, Commlife Insurance Brokers and M Brey and Associates, Chartered Accountants.

The forum is open to all, but was created especially to meet the need of disenfranchised business people for assistance in the debate on issues affecting business generally.

National debt interest soaring

(49)
S1 Times (BUSS)
17/5/92

By CIARAN RYAN

SOUTH AFRICA is headed for a public debt trap of "extreme viciousness" as interest payments rise to 16,4% of total government expenditure in the current year, says Nedbank chief economist Edward Osborn.

The comparable figure for 1983 was 11,7%. There is a danger that the interest payments on public debt will restrict flexibility in drawing up the Budget.

"The position is explosive, given the combination of endemic inflation, strident demands on the Exchequer, structural weaknesses in revenue, a high platform of interest costs and the need for maintaining real interest rates," says Mr Osborn in a Nedbank economic report.

The interest burden has grown six times in 10 years.

Warning

Mr Osborn warns against borrowing abroad in particular because the cost is higher than appears at first glance. However, there is a compensating gain through revaluations of foreign currency in the books of the Reserve Bank. But these are swallowed up in the forex loss account, which is ultimately to the Treasury's account.

If the currency depreciates in line with buying power parity of, say, 10% the effective cost of foreign loans is 26,3%. The Government's DM200-million loan of December 1983, which was recently rolled over and extended, cost an effective 56,8% a year in interest payments.

The additional DM200-million borrowed in December 1991 and the 250-million European currency units (ECUs) issue in January this year at 2% above the market rate and costing $5-million in commission were unnecessary because there were enough funds in the SA market to meet requirements, says Mr Osborn.

With regard to the debt standstill problem, the Department of Finance has defended State borrowing abroad on the grounds that it keeps foreign capital markets aware of SA.

Target

Another argument advanced by the State in support of its foreign borrowing is the need to reverse the net outflow of capital. Former Finance Minister Barend du Plessis contended that SA was underborrowed in comparison with other countries.

"There is no such thing as being underborrowed," says Mr Osborn. "The notion of being underborrowed implies an optimum level of borrowing which should be a target objective. The best of all worlds is to have no debt at all.

"In addition to overseas borrowing, and of more importance, is local borrowing for reasons of monetary sta-

● To Page 3

● From Page 1

Debt soars

49

bilisation beyond the straightforward requirements of the Budget. This results in excess borrowings beyond strictly fiscal needs. Recently there has been a tendency by the State to treat excess borrowings as money available for distribution to various government funds."

Rand Merchant Bank economist Rudolf Gouws says bringing public debt under control gets tougher each year while the interest burden grows.

S1 Times (BUSS)

Ruthless

17/5/92

"It also means that the Government has little scope for tax reduction, which limits economic growth possibilities. The way out is a ruthless pruning of expenditure and further privatisation must become a priority."

Old Mutual chief economist David Mohr says the solution to servicing public debt is to get economic growth back on track: "If there is no growth, there is no room for tax cuts, particularly with the pressure on government to raise spending."

The biggest recipient of the State's excess borrowing are the stabilisation account, which received R3,6-billion in the past decade and the forex loss account which got R4,6-billion. A total of R3-billion was transferred to the State Pension Fund.

These transfers increased public debt beyond budgetary requirements and imposed an added burden on the State's finances.

The ratio of public debt to gross domestic product (GDP) will rise to 33% in five years even if expenditure growth is confined to 15%, and the ratio of interest to government expenditure will rise to 17,2%.

Should growth in expenditure exceed revenue growth by only 2% the position will be explosive, the Budget deficit rising to R52-billion in only five years (compared to R14-billion this year).

Banker has big plans for SA

B Day 21/5/92

(49)

DAKAR — Africa's top banker talks openly about what few dared dream until now — a common market stretching from Cape Town to Cairo.

African Development Bank president Babacar Ndiaye believes that eventual integration of a democratic, nonracial SA into the continent's mainstream will bolster its weak economies and give it an effective voice in world affairs.

Once SA recovered from sanctions and recession and tackled substantial housing, education and other apartheid backlogs, it would act as an engine of growth in southern Africa and beyond, he said.

"Then, when Africa takes off, it will have a different voice in international forums. They will listen to us," he told a seminar ahead of the Bank's annual meeting in Dakar this month.

The African Development Bank, the OAU and the UN Economic Commission for Africa, have endorsed proposals for the formation of an African economic community by the year 2025.

Ndiaye did not underestimate challenges lying ahead.

He warned bank members that when SA did join its ranks, it would do so initially as a borrower rather than a contributor of resources despite its mineral and other riches.

Elsewhere in Africa, people are now worse off on average than in the early years of independence, the Bank says.

The continent has been wrought by severe drought, civil war, weak world prices for its mineral and farm exports, and a \$270bn foreign debt bill. Its population growth of 3,1% a year is the highest in the world.

The Bank estimates Africa will need economic growth of 4% annually over the rest of the decade, almost double that posted in the 1980s, just to restore 1980 living standards. Ndiaye believes a recharged South African economy, which accounts for 40% of sub-Saharan output, will make a difference.

Ndiaye has proposed a special fund to provide aid to SA's the Third World sector.

The Bank already is preparing to help SA the moment it becomes eligible for membership — Sapa-Reuter.

Money market is pointing to cut in interest rates soon

STAR 18/5/92

By Derek Tommey (49)

Speculation is growing in the money market that interest rates could be reduced by one or even possibly two percentage points in the next few weeks in a bid to get the economy rolling.

Triggering this speculation is the revelation last week of the country's dismal economic performance in the first quarter of this year, and the sharp drop in the three months' bankers' acceptance rate.

This is a major money market indicator and its latest performance suggests the Reserve Bank has already started easing its tight money policy.

Last week the BA rate fell 0,55 to 14,65 percent — a bigger fall than in the whole of the previous seven weeks.

This indicates a significant increase in the amount of cash to the money market and a change in Reserve Bank policy.

Until now the Reserve Bank has been actively mopping up surplus funds in order to keep rates high. In letting the amount of money in the market increase, as it did last week, it has raised the prospect of a cut in bank rate in the not too distant future.

This would seem an urgent necessity in the light of the figures issued on Friday by Central Statistical Service.

These showed that the economy contracted by a further 1,9 percent at an annual rate in the first quarter of this year — indicating a further deepening in the recession.

It follows declines in economic activity in three of the previous four quarters.

The main reason for the contraction in the economy last quarter was the 15,8 percent annualised drop in agricultural output, mainly a result of the drought.

But poor agricultural conditions in the first quarter together with forecasts that the drought will have further depressing effects on the economy in the current and September quarters, clearly highlight the need for urgent action to stop the recession becoming a depression.

The news of the steep drop in agricultural output also opens the way for the Reserve Bank to cut interest rates without losing face. It now appears that it is not surplus money that is putting up food prices but a shortage of food.

And with farmers, forecasting that potato prices, currently R20 plus a pocket, could rise to R50 a pocket later this year, the CPI can no longer be regarded as a reliable indicator of inflationary pressures in the economy.

Help economy

Lower interest rates would help the economy in a number of ways. They would cut the cost of borrowing money so that those with mortgages and bank overdrafts would pay less interest and have more money to spend on other goods. And those without debt would be encouraged to borrow money and in spending it help stimulate the economy.

The balance of payments is not particularly strong and may not support any significant increase in economic activity.

But it does seem that the time has arrived when South Africa should try to tap the foreign loan market and especially the IMF and World Bank more vigorously for the foreign funds needed to let the economy grow.

● The Bank of Athens is to cut its bond rate by one percentage point from June 1, bringing the new rates to a range of 17,25-18,75 percent. This follows the announcement of a similar drop in the Board of Exectuors' home loan rate to 17 percent.

No magic wands around for that economic miracle

(47)

STAR 18/5/92

THE floodgates to the rest of Africa are opening up rapidly for South Africa. Sanctions are teetering on the brink, and their end is bound to be hastened by the call for their abandonment by the deputy president of the African National Congress, Walter Sisulu.

The visit by President de Klerk to Nigeria has cleared the way for trade and other links between the two African countries with the greatest economic clout. A political seminar held in Cairo, which was attended by South African and Egyptian academics and politicians, also forged new links.

Except for Zimbabwe and, to a lesser extent, Namibia, opportunities for South Africa's trade links now exist with the entire continent.

Apart from the European Community and some of the countries in the Far East, the markets of Africa hold the greatest prospect for South Africa.

However, the great test for Pretoria is likely to be its success in developing economic co-operation within southern Africa.

Superficially seen, an economic grouping would appear to offer great advantages to all 10 countries in the region. But the difficulties of establishing structured institutional relations are formidable.

These difficulties are rigorously examined by the South African economist, Jesmond Blumenfeld, in a study sponsored by the Royal Institute of International Affairs, London.

His central theme is the relationship of dependence and interdependence among countries of greatly varying economic strength and political agendas.

Blumenfeld cites as one reason for caution the, as yet, uncertain future strength and prosperity of the South African economy itself.

A second reason he advances is the uncertain future economic prosperity of the region as a whole, including the scale of cross-border economic relations. These will depend upon the political stability in the region, and upon the domestic economic policies pursued by each of the governments. Future stability remains an open question.

Beyond these reasons, Blumenfeld argues that the conditions for translating the "need" for economic co-operation into effective practice are not matched by evidence of a general desire for reconciliation and rapprochement.

Blumenfeld goes on to say that "effective economic co-operation universally requires politically difficult choices and adjustments, including surrender of some sovereignty.

"The experience of the Southern African Development Co-operation Conference (SADCC) has confirmed that sovereignty is not likely to be surrendered very readily in southern Africa, with or without apartheid."

It would therefore be prudent to discount grandiose ideas about a southern Africa Common Market.

"The belief that in the post-apartheid era, conflict between South Africa, on the one hand, and the neighbouring states, on the other, will evaporate, is too simplistic partly because the nature and duration of the transition to majority rule in South Africa and because the characteristics and strength of the post-apartheid economic system are still too uncertain.

"There is — and will remain — throughout southern Africa a legitimate fear that South Africa, however governed, will always exercise overweening economic power over its neighbours. This fear will need to be addressed before there can be any prospect of creating a prosperous regional order."

Blumenfeld believes that, in practice, the emphasis on regional economic co-operation is likely to remain on more ad hoc and essentially bilateral arrangements.

Blumenfeld discounts the scope for Western policy in the region. His cautious conclusion is that southern Africa may not be capable of the "economic miracles" which Western Europe and the Pacific Rim have achieved.

"There has been too much economic dislocation in southern Africa and there remain too many political imponderables and too many reasons to fear the alternative scenario in which the region would be consigned to increasing despair and decline." □

Economic freedom vital, says Crocker

STAR 18/5/92

(49)

GRAHAMSTOWN — A government that failed to foster economic liberty would produce economic ruin, former United States Assistant Secretary of State for African Affairs Dr Chester Crocker said at the weekend.

It was no accident that all democratic countries were capitalist, he said at a Rhodes University graduation ceremony at which he received an honorary law doctorate.

"The era of struggle is coming to an end. Now at last the regional wars are over and ... that has made it possible for South Africans to accept responsibility for shaping their own future."

Dr Crocker said democracy meant central power must be accountable and must subject itself to periodic scrutiny and, above all, the rule of law.

"That is what happened a few years ago here when a certain top leader fell into the Rubicon," he quipped.

SA was blessed with a rich variety of non-governmental institutions and skilled people who could make a broader, more equal and civil society work, he said,

"Democracy depends upon civic society that is available to all groups and communities so that citizens can have dreams and visions."

Dr Crocker said he saluted South African universities for maintaining links with Western values, technology and culture during times when the country seemed determined to banish itself from the rest of the world.

Encouraging graduates to "engage" meaningfully with life and to build relationships, he said: "You have a lot going for you, but you cannot enjoy the full blessing of your advantages behind alarm systems and barbed wire in East London, any more than you can in Los Angeles."

Urging the graduates not to shun areas of continued failure, Dr Crocker said: "Washing our hands of problems in the metaphorical bad neighbourhoods is bad domestic policy, it is bad foreign policy and it is a lousy code of personal conduct."

Anticipated opposition to the awarding of the degree to Dr Crocker fell flat when only about 15 students picketed the event. — Sapa.

Africa's bank delares war on poverty

Today 18/5/92 (49)

DAKAR — Africa's top development bank has declared war on poverty and one of its key battles will be against population growth which, at 3,2% a year, far outstrips growth in other continents.

The war against poverty is one of four strategies for the next five years adopted by the African Development Bank (AfDB) at its annual meeting which ended in Dakar on Thursday.

In a continent where economies have been ravaged by heavy foreign debt, depressed prices for mineral and farm exports, civil strife and severe drought, people are worse off on average than 30 years ago, it said.

"If the regional growth pattern of the 1980s is repeated in the 1990s, per capita incomes will fall 20% below today's levels," said Peter Freeman of Britain's Overseas Development Administration.

Yet there is no sign of any widespread economic recovery soon in Africa, which must now compete against the former Soviet bloc and eastern Europe for aid.

"The downward trend in the African economy has been aggravated by the rapid rate of population growth. Agricultural production has not kept pace with population growth, with the result that Africa has to depend on food imports," said AfDB president Babacar Ndiaye.

Bank officials say it demands political will and extensive family planning education to change attitudes in African societies which have traditionally valued large families.

Failure will be costly.

"Even if fertility rates were to fall immediately to replacement levels, it would take several decades before the increase in Africa's population growth would be arrested," said AfDB vice-president Ferhat Lounes.

Other strategies in the five-year plan include rebuilding facilities damaged by neglect or war, promoting the private sector and setting up an African common market by the year 2025.

Industrialised countries reassured Africa that official development aid, which accounts for more than 40% of all investment in the continent, will continue to flow.

But they said Africa would also need substantial private investment to recover and it could attract this only if African states developed market economies, upheld the rule of law and made appropriate reforms to tax and other economic legislation.

The World Bank estimates that returns on private investment in Africa have fallen from over 30% in the 1960s to 2,5% in the 1980s. Returns in south Asia average 20% or more, the meeting was told. — Sapa-Reuter.

Keys to lead govt in talks with labour and business

BDay 18/5/92

(49)

LINDA ENSOR

CAPE TOWN — Government would meet labour and business leaders to discuss the proposed Economic Forum, but had not yet decided to take part, Finance and Trade and Industry Minister Derek Keys said during his budget vote in Parliament on Friday.

Our political staff reports a Cosatu delegation and a Cabinet committee are to meet in Cape Town this afternoon.

Cosatu said it was hoping the meeting would be able to resolve any problems government might have and end delays that were beginning to plague the forum initiative.

Keys said he would do everything in his power to encourage and facilitate a healthier relationship between labour and management and make the state accessible to both parties.

He said management had struggled to adapt to labour's more militant mode and this, and general business conditions over the past few years, had resulted in demotivation.

"This has been particularly true in cases where businesses at the forefront of good labour practice have been singled out for disruptive industrial action merely because they were seen as convenient targets in the economic civil war."

Keys said the present disharmony in the workplace had resulted in increased unit costs, poor improvements in productivity, if any; resistance to changes in work practices; reluctance by workers to accept appointment as supervisers; poor penetration of white management cadres by other races; lost production; and a general lack of effective teamwork.

The eight-man Cosatu delegation includes its president, John Gomomo, and general secretary Jay Naidoo, while the Cabinet sub-committee will be led by Keys.

In the Trade and Industry annual report released on Friday, director-general Steph Naude said the lifting of sanctions had led to a steep increase in the number of inquiries filed by importers and exporters. SA's non-traditional trading partners had showed a tremendous interest in trading with SA, he said.

Under the department's Innovation Support for Electronics Programme, five projects aimed at inventing new products were completed during the year under review. A total of 39 projects with a total development cost of about R44m were approved.

At a glance, SA shows Africa the way

STAR 19/5/92.

(49)

DID YOU know that Soweto has more vehicles than many African countries, South Africa generates half the electricity in the entire continent and Mozambique's foreign debt exceeds its total gross national product (GNP)?

These and other statistics on various aspects of life in Africa are contained in a publication, "Africa at a Glance", which is published by the Africa Institute.

One of the problems facing individuals or businessmen venturing into Africa is the lack of detailed and reliable information about a new market and the economic performance of the various countries.

"*Africa at a Glance*" seeks to satisfy this need for readily accessible, concise and affordable data about the rest of the continent. It contains just about anything a stranger or investor would want to know, including political changes as well as economic and social aspects in all 52 independent countries and island states.

A new statistical measure, the human development index (HDI), which is said to be a more realistic gauge of human development than GNP per capita and the various social indicators, has been used to assess the countries.

The HDI combines GNP per capita and indicators such as life expectancy, adult literacy and average years of schooling to present a composite measure of human progress.

For instance, Libya, which has Africa's highest per capita GNP, drops to fourth place among African countries in the HDI. Tanzania, ranking close to the bottom of the GNP per capita ratings, has a significantly improved rating, and South Africa, with the fourth largest per capita GNP on the continent, takes second place, after Mauritius.

There are all sorts of interesting statistics. But the wealth of information once again emphasises the pre-eminence of South Africa in the continent.

For instance, the country, with 6 percent of sub-Saharan Africa's population, accounted for 35 percent of the sub-Saharan and 80 percent of the 10 southern African countries' GNP in 1989.

South Africa is Africa's leading producer of sugar (26 percent of the total volume/mass in 1989), of maize (32 percent), fish (41 percent), meat (16 percent) and milk (19 percent).

In the southern African context, South Africa produced 62 percent of the sugar, 66 percent of the maize, 67 percent of all cereals, 90 percent of all fish, 70 percent of all kinds of meat, 76 percent of the milk and 69 percent of various kinds of fruit.

Of 20 selected minerals produced in Africa in 1990, SA had the continent's largest reserves of 12 and was the leading African producer of 10

Zaire was Africa's leading producer of diamonds, cobalt and tin as well as the world's largest producer of cobalt.

Whereas Namibia was the leading African producer of uranium, Nigeria of petroleum and Zimbabwe of asbestos, Niger had the largest reserves of uranium, Libya of petroleum and South Africa of asbestos.

South Africa generates half the electricity in the entire continent, its railways handle 69 percent of the rail freight in Africa and half the tarred roads south of the Sahara and two-thirds of the tarred roads in southern Africa are in SA. — Star Africa Service. □

Business and labour optimistic

Economic forum gets govt support

B/Day 19/5/92. (49)

BILLY PADDOCK

CAPE TOWN — The first major step towards establishing an economic forum was taken yesterday during top-level talks between government and organised labour and business.

Finance Minister Derek Keys and labour and business agreed on joint consultations to try to reach consensus on restructuring the economy and addressing economic problems.

A joint statement said Keys had reiterated that government wanted to make economic policy in as "transparent" a way as possible.

Keys was accompanied by his special adviser Japie Jacobs, while Labour was represented by Cosatu, Nactu and Fedsal. Business organisations present were Saccola, Sacob, the Afrikaanse Handelsinstituut, Chamber of Mines, Fabcos, the SA Agricultural Union and the SA Federation of Civil Engineering Councils.

Cosatu and business representives left the meeting optimistic.

Cosatu general secretary Jay Naidoo said: "You can see I am smiling. How often do you see me walk out of a meeting with government and smiling? It was good and positive — we did move forward."

The parties decided not to concentrate initially on setting up formal structures but rather to look at the process of starting talks on substantive economic issues.

A subcommittee of government representatives consisting of Deputy Finance Minister Theo Alant, Deputy Trade and Industry Minister David Graaff and Jacobs, together with the business and labour groups which drafted the joint proposals, was set up to chart the next step in the process.

In the statement Keys said the process agreed upon represented "the most rapid route towards making progress" in reaching consensus on economic matters.

It is understood that Keys approved of the joint proposals worked out between organised business and labour on an economic forum.

It is expected the three senior government members assigned to liaise with labour and business will submit proposals for Cabinet approval.

The statement said Keys had given his three representatives "substantial freedom of action in deciding the nature of their participation and the extent to which the resources of government departments can be made available to the process".

The parties said the major reason for optimism was that government, for the first time, accepted that labour and business should have joint responsibility for determining economic direction.

The delegations agreed that the joint labour and business proposals for setting up an economic forum and its agenda were still under discussion and that government would now draft certain other proposals.

It is understood that Cosatu, knowing the lengthy process involved in setting up formal structures, did not want to devote undue attention to this. Government was also wary of becoming locked into a formal structure that would remove final control from its hands.

CT 19/5/92 (49)

Success for economic triangle

By ANTHONY JOHNSON
Political Correspondent

A SIGNIFICANT breakthrough towards establishing an economic Codesa was made in Cape Town yesterday at a top-level meeting between government, business and labour.

The much-vaunted "economic forum" will be geared to establishing a "golden triangle" in which the three key players will strive to reach agreement on economic policy, restructuring and growth.

Sources at the two-hour meeting said last night that it signalled a break with past government thinking in terms of which economic decision-making took place unilaterally rather than on a basis of consultation or consensus.

In a clear indication that government was shifting under Finance Minister Mr Keys's guidance towards joint economic decision-making, it was announced that three high-level representatives would "interact with business and labour representatives" on agenda items for the proposed economic forum.

The three — including two deputy ministers — will report to Mr Keys, who be the conduit to the cabinet.

Labour representatives seemed delighted at the developments. Cosatu general-secretary Mr Jay Naidoo said: "I'm smiling — how often do you see me smiling after a meeting with the government."

A press statement issued by Mr Keys and representatives of organised business and labour said: "The parties agreed that it was desirable to reach the greatest measure of consensus possible on economic issues"

Boost for economic forum as trio work on next phase

STAR 19/5/92

Political Staff (49).

CAPE TOWN — Moves to form an economic forum between the Government, business and labour will shift to a new phase after a meeting yesterday between Finance Minister Derek Keys and representatives of other sectors.

Present were members of the Congress of SA Trade Unions and the National Council of Trade Unions and bodies such as the Afrikaanse Handelsinstituut, the Chamber of Mines, the South African Chamber of Business and the South African Agricultural Union.

The Government yesterday said a top-level three-person team would help formulate the agenda for the next phase in consultations.

Deputy Finance Minister Dr Theo Alant; Deputy Trade and Industry Minister David Graaff; and Dr Japie Jacobs, special adviser to the Finance Minister, are to have "substantial freedom of action in deciding the nature of their participation and the extent to which resources of Government departments should be made available to the process".

In a joint statement issued after a two-hour meeting, the parties and Mr Keys agreed that consultations should continue on agenda items and on the nature of Government interaction in an economic forum.

The parties agreed it was desirable to reach consensus.

Breakthrough talks on economy as Keys meets business, labour leaders

Political Staff (49) ARG 19/5/92

A FORUM to forge an economic strategy for the future has moved a step closer with the creation of a government-business-labour panel.

The panel will also discuss how the government will interact with an economic forum.

This is the upshot of a two-hour meeting yesterday between Finance and Trade and Industry Minister Derek Keys and representatives of organised business and labour.

Describing yesterday's talks as "the next phase in the development of an economic forum", a joint statement said Mr Keys had congratulated organised labour and business groups for the progress their negotiations had already achieved.

The government wanted to make economic policy as transparent as possible, he told them. They endorsed this, the statement said.

"The parties agreed that it was desirable to reach the greatest measure of consensus possible on economic issues," it noted.

The new panel will consist, on the government side, of deputy Finance Minister Mr Theo Alant, deputy Trade and Industry Minister Mr David Graaff and the Finance Minister's special adviser, Dr Japie Jacobs.

"They are to have substantial freedom of action in deciding the nature of their participation and the extent wo which the resources of government departments can be made available to the process," the statement said.

Mr Keys described this step as "the most rapid route towards making progress" in reaching consensus on economic matters.

Labour delgates meeting Mr Keys and Dr Jacobs yesterday included members of Cosatu, Nactu, and Fedsal. Organised business was represented by the Afrikaanse Handelsinstituut, Bifsa, the Chamber of Mines, Saccola, Sacob, Fabcos, the SA Agricultural Union and Safcec.

On April 1 organised business and labour presented Mr Keys with proposals on how to tackle an economic forum. He took those ideas to the cabinet on April 22, adding his own for the approval of his colleagues.

It is understood Mr Keys's proposals were put to his visitors yesterday.

African bankers seek links

B Day 19/5/92 (4) (49)

ABUJA — West African bankers will seek ways of linking national currencies to help boost economic integration and fight poverty at talks which started in Nigeria yesterday.

"Harmonising the currencies is critical to the survival of the subregion," said Tony Nnachetta, a manager with Nigeria's Alpha Merchant Bank.

He said the region's central bank governors and officials from the West African Clearing House and the West African Bankers' Association would discuss the issue at meetings this week.

Senior bankers from the region and representatives of the World Bank, the IMF and the UN economic commission for Africa were also expected to attend.

Nnachetta said it was vital for West African nations to move quickly towards economic integration, especially in the light of an emerging single European market with a common currency.

West African nations were examining regional policies that could cushion their fragile economies from possible adverse effects of a single European market after 1992.

Bankers believe that lack of convertibility of West African currencies hinders trade between economies of the region.

The clearing house, a multilateral payment scheme formed in 1975 to promote regional trade by facilitating use of national currencies, was underused by regional businesses.

The 16-member Economic Community of West African States has also been slow in moving towards a common monetary zone.

Nnachetta said monetary co-operation would be achieved only if the region's dominant currencies took a leading role.

The CFA franc, linking 13 mainly former French colonies in a common currency zone, and the Nigerian naira are well placed to play this role.

The CFA, underwritten by France, is the region's strongest currency, exchanging at 50 to one French franc since 1948

France indicated parity would remain after a common European currency, in spite of pressure from the World Bank and finance institutions to devalue the CFA franc.

The naira, though considerably weakened by a recent 43% devaluation against the dollar, was the currency of West Africa's dominant economy.

Nnachetta said efforts towards currency harmonisation should go beyond the subregion to embrace the whole continent, with the SA rand also playing a key role. — Sapa-Reuter.

African bank set for high-level SA talks

SHARON WOOD (49)

BDay 18/5/92

TWO African Development Bank consultants will meet leading SA officials during the next two weeks to discuss SA's role in regional integration.

The visit is part of a bank study on economic integration in southern Africa, and will address the implications of recent SA developments for the rest of the region.

A copy of the study's objectives shows the consultants will examine the possibility of SA dominating production, investment, trade, monetary and policy areas.

It said SA was bound to heavily influence sub-regional integration "by the sheer size of its current and potential national output and the high level of management capacity in the public and private sectors".

The study will reassess SA's economic relations with other countries in the region, particularly those of the Preferential Trade Area and SA Development Co-ordinating Conference, in order to establish mutually beneficial exchanges.

The two bank consultants are Oxford International Associates MD Martin Meredith and financial adviser Percy Mistry.

Private sector 'will drive economy'

Mandela bids for foreign investment

biday 20/5/92 (49)

TIM COHEN

ANC president Nelson Mandela yesterday edged further away from nationalisation, launching an all-out effort to encourage investment and promising a rosy economic future for SA.

In a speech at an investment seminar in Oslo, Mandela said the ANC envisaged a private sector-driven economy. He urged business leaders to investigate investment opportunities immediately.

Focusing on SA's potential, rather than its current problems, Mandela said: "We have no hesitation to say, with all humility, that our country offers tremendous business and investment opportunities.

"We are determined to create the necessary climate which foreign investors would find attractive. We are also determined that trade and investment sanctions should be lifted as soon as possible, namely once an interim government of national unity is in place."

Mandela stressed the highly uneven levels of wealth in SA, but emphasised that there were no quick fixes, and said the ANC was not bound to any doctrinaire ideological positions.

He invited Norwegian business leaders to explore investment opportunities in SA immediately, "so that you are ready to invest as the opportunity arises in the near future".

SA could prosper under democracy with a dynamic blend of public and private enterprise, in keeping with what the World Bank, in its development report of 1991, saw as "the interaction between governments and markets", he said.

The ANC was seeking a mixed economy which, led by the private sector, would play a central role in ensuring the creation of wealth and jobs.

It envisaged a public sector similar to that of countries in western Europe where the state played an important role in areas such as education, health and welfare and the provision of infrastructure, he said.

A new democratic government would have to initiate detailed discussions to determine whether any of the public assets should be privatised, commercialised, left as they were or whether there should be increased public sector ownership.

"Our decisions will be influenced not by any ideological commitments but by policies that are aimed at growth and equity, and taking into account that we are addressing problems of a society ravaged by war over decades.

"We are acutely conscious of the fact that the rates of economic growth we seek to enable us to achieve our objectives cannot be reached without a significant inflow of foreign capital."

Noting that at least 75% of the shares quoted on the JSE were controlled by four white-owned and white-managed conglomerates, Mandela said this would have to be addressed as part of the process of creating a new SA.

The ANC considered a redistribution of wealth necessary but was convinced that the private sector should and would play the central and decisive role.

SA, endowed with enormous natural re-

☐ To Page 2

ANC calls cops over bomb threat

Sowetan 20/5/92

THE African National Congress has called in the police for protection and advice after a threat to bomb its headquarters was received from alleged former undercover agents of the South African security forces, it was learnt yesterday.

The organisation learnt of the threat in the past two days, a senior official said yesterday. "It was not the usual crank who phones and hangs up quickly. We get lots of those. This time we learnt from reliable sources that this was someone deadly serious, people who know what they are doing."

Asked to confirm a report that the threat came from former agents of an undercover military hit-squad unit, the Civil Co-Operation Bureau, the official replied: "We take threats from the CCB extremely seriously."

Responding to a call from the ANC on Monday, a high-ranking policeman travelled from Pretoria to Johannesburg to discuss the bomb threat with ANC security officers.

A police spokesman confirmed yesterday that such a vist was made but said the details of the discussion were confidential.

Yesterday security arrangements at the ANC building in central Johannesburg were the tightest they have been since the organisation moved into the building last year.

900 in hospital wage strike

Sowetan 20/5/92

THE Transvaal Provincial Administration says voluntary helpers have stepped in to maintain services at the Klerksdorp and nearby Tshepong hospitals, where as many as 900 health workers are on strike.

Workers went on strike on Monday, demanding a minimum monthly wage of R724 and a 15,3 percent across-the-board salary increase for all general assistants, permanent employment status for all general assistants and that retrenchment be stopped.

Talks 'a way forward'

(49) Sowetan 20/5/92

TOP-LEVEL business and trade union leaders who met Finance Minister Mr Derek Keys in Cape Town this week about establishing an economic forum, were optimistic about the talks which they said were "a way forward".

They agreed on joint consultations and to try to reach consensus on restructuring and addressing various problems relating to the economy.

It was also agreed that another meeting be held, possibly in Johannesburg or Cape Town, within two weeks to take decisions on the issues raised.

Some of the points raised on the broad agenda were: the Government's economic policy, future economic investment, trade, retrenchments, provident funds, taxation, housing and education.

The Minister was accompanied by his special adviser Mr Japie Jacobs, while labour was represented by Cosatu and Nactu

Interim rule 'will secure loans for SA'

Sowetan 20/5/92. (49)

By JOSHUA RABOROKO

ALL that South Africa now needs to get loans from the World Bank is an interim government.

The interim government would then guarantee the creation of a stable framework and environment in which the bank will operate.

This was said by the Lesotho-born vice president and secretary of the bank, Mr Timothy "TT" Thahane, during a luncheon with senior executives of the *Sowetan* at our offices.

He was on a brief visit to South Africa last week.

Thahane is also vice-president and secretary of the bank's affiliates, the International Finance Corporation (IFC) and an official of the Multilateral Investment Guarantee Agency (Miga) and the International Development Association (IDA).

The IFC takes equity positions and extends loans to the private sector. It also provides advice on the development of capital markets and on privatisation transactions.

The Miga provides insurance against non-commercial risks and advice on policies that encourage direct foreign investment, while the IDA provides assistance on soft terms to poorer developing members.

He said South Africa, like many countries, faced the challenge of finding creative ways to use its skills, management and entrepreneurship to expand opportunities for the poor and jobless.

"Let us use the brains God gave us to meet these challenges," he said.

He was unwilling to state how much money the bank might grant South Africa, but estimated that it could be billions of rands depending on the country's creditworthiness.

The issue of the transitional government currently being discussed by Codesa was a local matter, he said, adding the bank was concerned with the predictability of a stable environment and violence which could hamper economic investment.

MR TIMOTHY "TT" THAHANE

The bank had discussed these matters with ANC's president Mr Nelson Mandela, Mr Thabo Mbeki and Mr Trevor Manuel, government officials and leaders of extra-parliamentary groups such as the PAC.

"We were open in our discussions with them and gave suitable replies which included eliminating poverty and creating a sustainable economy in the region.

"We aim to target the poor, increase their capacity through education and better health facilities and living conditions," Thahane said.

His advice to South Africa was that after independence most African economies faltered and went into decline.

However, there were a few exceptions.

Sub-Saharan Africa, as a whole, had witnessed almost a decade of falling per capita incomes, increasing hunger and accelerating ecological degradation.

"Overall Africans are almost as poor today as they were 30 years ago. This situation has spurred many governments to undertake far-reaching reforms. More than half have embarked on structural adjustment programmes.

"The countries that have persisted with reforms since the mid-1980s are showing signs of improvement."

The bank group's assistance for privatisation had grown considerably in recent years. The reason was not ideological, but rather was as a result of a bold search for a new balance between the activities of the State and the private sector.

Successful implementation of privatisation required clear government commitment; careful definition of objectives; transparency; careful identification of enterprises to be privatised; specifications of procedures for competitive bidding and criteria for evaluation of bids; and a market-oriented policy environment.

It also required an institutional framework that assigned responsibility for privatisation in one body that was close to top political policy-makers.

Without these prerequisites, public confidence in privatisation might erode quickly, he said.

It was interesting to note that today more than 7 000 businesses have divested to the private sector since the early 1980s.

Some 100 000 small business privatisations have taken place in Eastern Europe.

About 30 percent of big and medium privatisations have been in developing countries, while 17 percent of these were in Sub-Saharan Africa.

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

"State enterprises, far from fulfilling the expectations vested in them, have been inefficient, overstaffed and poorly controlled financially, resulting in a weighty burden on governments and taxpayers.

"Privatisation has seemed a quick fix to some beleaguered governments. They get rid of the loss-making enterprises, mobilise private capital, and receive cash into the bargain."

Privatisation was "not plain sailing". Many problems lie between embarking on divestiture and completing the process.

The first problem is government commitment and political support for economic reform and privatisation.

Another hurdle is creating an environment in which privatisation is part of policy reforms intended to promote efficiency.

Current account

THE vice-president and secretary of the World Bank, Mr Timothy Thahane, was born in Mpharane, in the Leribe district Lesotho, on November 2 1940

He holds a Bachelor of Economics (Honours) and a Bachelor of Commerce and Master of Arts in Economics from the University of Toronto.

He was Lesotho's ambassador in the United States between 1978 and 1980, executive director of the World Bank, representing 17 African countries in Trinidad and Tobago, on the board of the bank between 1976 and 1978 and alternate executive director of the bank between 1974 and 1976.

Key economic crime trials coming up

(49)

CT 20/5/92

Political Staff

SEVERAL trials involving millions of rands are to be held this year following investigations by the Office of Serious Economic Crimes, the government disclosed yesterday.

They include three Cape Town trials, including foreign exchange fraud allegations of about R130m, the Fundstrust case in which R65m is involved, a case against a former Gilbeys employee involving R1,1m, and three Johannesburg trials, involving about R18m.

The government said in a background document that it had taken several steps to counter fraud and corruption since President F W de Klerk had come to office.

This included the amendment of various laws, the appointment of commissions, the appointment of an ombudsman and the establishment of the Serious Economic Crimes Office.

As a result of the investigations by the office, two Zenith Industrial Consultants employees, Nicholaas Greisel, 35, of Welgemoed, and Allan Latham, 43, of Constantia, and the former Retfin Finance MD, Adriaan Prakke, 35, would appear on 62 charges of fraud involving about R130m.

All three, who first appeared in court in May last year, are on R500 000 bail.

When they first appeared, it was reported that a sum of R350m of foreign currency fraud was involved and that this was one of the biggest fraud cases in South Africa's history.

The government said the investigations against Ansie Kamfer and Barend Johannes Engelbrecht in the Fundstrust case, involving R65m, were at "an advanced stage" and it was hoped the case would be completed by the end of the year.

The case against Margaret Harding, formerly of Gilbeys, involving R1,1m, was due to be resumed at the end of the month.

The case of the State versus Blank, involving R10m and 49 charges of fraud, had been placed on the roll in the Johannesburg Supreme Court for October, while that State versus Rheeder, involving R3 to R4m began on April 28 in the Transvaal Provincial Division of the Supreme Court.

Another case, State versus Fouche and Coetzee, involving R4m, would begin during October in the Witwatersrand Local Division of the Supreme Court, the government said.

Bank 'could generate foreign interest'

BDay 2/5/92

SHARON WOOD

(49)

THE Reserve Bank's new intervention policy in the financial rand market could generate new foreign interest in SA quoted bonds and equities, said Bank of Lisbon's latest Economic Focus released yesterday.

Recent volatility in the financial rand market, with movements of about 10% in a single day unexceptional, had reduced the interest of some foreigners in SA equities, particularly when combined with the other hassles facing investors using the financial rand mechanism.

The intervention policy would lead also to an appreciation in the financial rand rate and yield foreign exchange profits for the Reserve Bank, Economic Focus said.

The appreciation in the unit could be exploited by foreign investors who could buy SA shares with financial rands and hold them until the discount narrowed materially, thereby reaping capital gains.

The Reserve Bank's decision pointed to the possible ultimate discarding of this exchange control mechanism and provided the Bank with another monetary policy instrument.

"Such intervention affects domestic liquidity and, therefore, the level of interest rates."

In addition, intervention to narrow the discount would make it easier to discard the debt standstill.

"If the discount narrows, foreign banks with funds inside the net will be given an opportunity to get rid of their standstill loans at a better price." This could facilitate removal of the standstill.

However, Bank of Lisbon warned that this objective might not be fulfilled because the amount of loans converted from the standstill net into financial rands for disinvestment could be limited.

☐ To Page 2

ed at "a reduced load".

Govt eases line on objectors

BILLY PADDOCK

CAPE TOWN — Government introduced legislation yesterday extending the basis for refusing to do military service to include moral and ethical grounds.

Until now, provision for conscientious objection has been on the basis of strict religious universal pacifist conviction.

The new legislation provides for alternative community service.

The Defence Amendment Bill states that those refusing military service must appear before a board under the auspices of the Manpower Department. They will be given community service for three years at military pay scales. The present maximum is six years. BDay 21/5/92

Those refusing to do the alternative service will be jailed for a period equivalent to one-and-a-half times the length of the original military service. Military service, including subsequent camps, currently totals two years.

The Bill also made provision for military conscripts to be seconded to the SA Police without option. Previously consent was necessary.

The classification of conscientious objector will apply to those "who are opposed to all forms of military service", the memorandum to the Bill states.

To avoid the problems of people not registering while at school, the amendment proposes that a new mechanism — referred to as the "call-up" — effect the process and render people liable for service. Provision is also made for increasing penalties for failure to respond to a call-up "in order to adjust to inflation", the memorandum states.

ECC spokesman David Bruce said yesterday said his organisation would reject the amendment. "Conscription still only affects whites — it is part of the apartheid structure. For the government to expect us to take these concessions seriously at this time is simply ludicrous."

He said if government was going to have conscription, the alternative of community service had to be a matter of free choice not a punitive measure.

Tax rate cuts not guaranteed, says Keys

49 BILLY PADDOCK

CAPE TOWN — Government would not automatically reduce individual and company taxes by five percentage points in five years in line with the NP promise in 1989, Finance Minister Derek Keys indicated yesterday. BDay 21/5/92

Speaking during a minidebate in Parliament, he said the ability to reduce taxation rates would depend on foreign capital investment, private sector saving and a reduction in government spending.

Keys said he would propose some options to Cabinet and at least one of them would be based on lower taxation rates.

"It goes without saying that the proposal I recommend to Cabinet will be the one most likely to promote economic growth. That proposal will not necessarily be the one recommending lower taxation rates."

Decisions about taxation rates would be taken only during the preparation of the next national Budget in February and the final decision would be taken by Cabinet.

He referred to the unofficial IMF document titled "Economic policies for a new

☐ To Page 2

Tax cuts

BDay 21/5/92

☐ From Page 1

49

SA" and said its medium-term baseline scenario forecast a real growth rate of 3,5% a year as a result of an investment level amounting to about 24,8% of GDP.

"This level of 24,8% compares with our present 18% to 19% and naturally requires additional savings to finance it," he said.

The three possible sources of additional funding were foreign capital flowing in, more private sector saving or more government saving. Keys said government saving could be achieved only by a reduction in state expenditure or an increase in state revenue, or both.

He assured Parliament that he had made these factors as well as a number of others the subject of intensive studies and would "act to influence them as positively as is possible".

All taxation was carried by individuals in the end, and he would give attention to reducing the burden. But it had to be noted that a number of countries, including Canada, Belgium, Australia, Germany and Sweden, had higher tax rates, Keys said.

SA is on the way to economic recovery

Sowetan 21/5/92 (49)

By JOSHUA RABOROKO

SOUTH Africa was on the way to economic recovery as "negative political factors" were being removed, Mr Rowland Chute, assistant general manager of Old Mutual, said this week.

"With sanctions lifted and renewed access to foreign capital, the authorities are likely to feel comfortable with running a small deficit on the current account for the first time in this year.

"This means we should have a longer period of economic growth. There will be no need to cut short the upswing due to balance of payments restraints," Chute said.

The company's results of he year ended June showed that the assurer had invested some R3-billion in equities and had actually begun buying heavily in the depressed stock market.

The purchases included De Beers, Richemont, Iscor and Absa. By buying while prices were depressed last year, Old Mutual obtained large lines of shares at prices well below current levels.

'T TO ECONOMY:
›tes before growth

Illustration: Andrew Putter

ihe borrowing
1omists warn

16/5- 21/5/92 (49)

;C will avoid unsustainable increas- in the public debt by financing the ˜ :: through borrowing on the capi- market rather than through money ·ation."

'tut this last point has dangers of its ıı and Old Mutual's chief :·omist, Mr David Mohr, says a ·· democratic government should be ·y of continued large deficits.

Mohr says the deficit has been growing over the last two to three years because the econo- . has not been growing, and this has ·:ed revenue growth down. Mean- ıie there has been underlying pres- · on spending. This will continue.

"There is no problem in having a fic:it of four to five percent of GDP .. — when the economy is weak, ·:. with liquidity — because there is big demand excepting stock issues.

"But when the economy starts ::ing again, the deficit must be ·:ed back as tax revenues grow and :re will be scope for borrowing. ·,ping the increase in spending ·:·· the increase in revenue will be greatest challenge."

Mohr says the government is not : only borrower — Eskom was a ·ge borrower in the 1970s because its massive expansion programmes, · it has scaled back now.

The same goes for Transnet while the Development Bank of SA and others have started borrowing as well.

A future government will therefore have to keep track of borrowing for the public sector as a whole, something which has not been done in the past.

This should create caution about creating new state bodies — but the policy guidelines recently released indicate that, particularly in mining, this is still on the cards.

Mohr says that while South Africa will get some official aid from institutions such as the World Bank and the African Development Bank, it is not likely to get a great deal of non-official capital.

"People will not invest in a country where there is political uncertainty. We also have a poor debt rating and that will not disappear in the short-term.

"A lot of people have said they are interested in doing business here, but they are not signing cheques yet."

Mohr thinks it will be important for the Reserve Bank to be independent.

"In a process of political change, it is very dangerous for decisions on monetary policy to be placed into the hands of government — it may be tempted to use it for political reasons," he says.

Neither socialism nor capitalism 'will do the trick'

(49)

South 16/5 - 21/5/92 .

'Generally, in capitalist states, workers' wages have risen, their skills have improved and social services are better. The working class has shrunk and the middle class dominates. The boom/bust cycle that drew Karl Marx's attention is less marked'

WHILE the debate continues about whether old-style socialism will solve South Africa's pressing economic problems, many are doubtful whether old-style capitalism will also do the trick.

No wonder, then, the socialists are talking about social democracy and the capitalists are calling themselves free marketeers these days — and both are making some fairly sweeping claims about how an unfettered market or Swedish/German-style targeted government intervention would benefit one and all.

A thoughtful study by former conscientious objector turned economist, Mr Peter Moll, entitled (appropriately) "The Great Economic Debate", takes a look at all these claims and comes up with some useful suggestions about the way forward.

His main concern is how, in an economy characterised by alienation, poverty and cheap labour, South Africa can maximise the economic welfare of the poorest 40 percent of society over the long-term.

To find some answers, he looks at what happened in both socialist and market economies.

Socialism, he said, provided undoubted initial benefits to the people. Social services and education improved but, because prices were set administratively and not by markets, there were periodic gluts and shortages.

Short-term planning reduced the quality of output, subsidies kept inefficient enterprises afloat, poor incentives for good work lead to shoddy work — and all of these made it even more difficult to respond to often adverse changes in the external environment (growth, interest rates, trade patterns, etc).

And once abject poverty was overcome, workers became increasingly conscious of their relative poverty. They wanted even better lives, possibly even the kind enjoyed in Western countries, but socialist governments could not deliver the goods.

Full employment was achieved at the cost of outdated technology and lower productivity, which fuelled lower economic growth. Innovation was avoided to protect unemployment.

But the state could not subsidise all this forever and restructuring usually led to some shedding of jobs.

African socialism is personified by the Tanzanian example, which aimed at providing primary education, nationalisation and rural development. Success in the first of these was counterbalanced by mistakes in the last two — nationalisation led to the rapid growth of an inefficient public sector, investment dried up and inflation soared.

The exchange rate was overvalued, which affected agricultural output. The emphasis on co-operatives was a failure because cultural/economic issues were not addressed.

In market economies, inequalities were reduced over the decades.

Some say this was done with the help of colonialism, multi-nationals and unequal trade, which Moll questions.

Some of today's wealthy Western countries never had colonies while some developing countries have become developed countries without the help of colonies. In addition, the biggest coloniser, Britain, has not had the fastest growth rate.

Also, while multi-nationals often exploit developing countries, they have contributed to dramatic economic growth in others.

They also mostly tend to invest in other rich countries rather than in poor countries.

Regarding trade, Moll said large countries tend to trade less — here he looks at exports whose prices Western countries tend to manipulate to their own ends — but do not have lower growth.

Generally, in capitalist states, workers' wages have risen, their skills have improved and social services are better. The working class has shrunk and the middle class dominates. The boom/bust cycle that drew Karl Marx's attention is less marked.

But these benefits have all varied from country to country.

Today, Sweden has the most equal income distribution, and the US the most unequal. Generally speaking, the higher state spending on health, education and welfare, the better off the poor.

The growth of inequality is greatest in the US, mainly because of stagnating or decreasing government subsidised benefits for the poor; demographic changes (more women leaving husbands and caring for children on their own), lower wages in services versus manufacturing; decline in the power of unions (which helped secure earlier wage rises) linked to the decline in manufacturing. There has also been a growth in anti-union managerial ideology (which has implications for South Africa).

Also, poor spending on education has led to poorly educated workers at a time when skilled people are most in demand — so the less educated are paid less.

Moll suggested a balance be struck between relatively untrammelled market systems as the fastest means to achieve a durable and growing economy and carefully targeted programmes in education, health and housing.

"While the vocabulary of Marxism-Leninism will probably remain for decades, the economic policies pursued by these organisations (MDM, ANC, PAC, Cosatu, etc) once power is secured would probably be more accommodating of the market.

There is likely to be an urban and somewhat middle-class bias in economic policy, with little benefit to the poorest 40 percent unless there is vigorous lobbying for this.

"The urban unemployed have one advantage: they are visible and easily aroused to violent behaviour. So the governing coalition would have to be seen to be doing something about the urban unemployed, especially the unemployed youth. The other groups of the very poor are less visible and can more easily be forgotten."

For example, minimum wages would benefit the urban and not rural workers. Nationalisation would benefit union members and not rural workers.

It is therefore important, says Moll, to ensure the new government goes for redistribution in fact, and not just in name.

In the New South Africa, a massive one-off injection of money into the economy would quickly create jobs and improve social services. But where would the money come from and how would it be repaid if it was borrowed? Financial journalist **Lynda Loxton** reports in the second of a six part series:

KICK-STA matter of v

What kind of economy will South Africa's first democratically-elected government inherit, and what economic policy options will be open to it?

The answer depends on when and how the new government takes power, and what is happening in the world economy. Will there still be a crippling drought, will mineral and metal prices still be weak?

Presently, the economy is in a mess.

Growth this year is expected to be one percent or less. Experts agree this is "unacceptably low" given a birth rate of 2,3 percent and rising unemployment. Latest statistics indicate a national jobless rate of 19 percent (24,5 percent for Africans).

Some economists expect a slight recovery next year. They are pinning their hopes on the boost provided by the lifting of sanctions, the possible inflow of aid and investment and a gradual easing of inflation, thanks to the Reserve Bank's tight fiscal policies.

Poor economic conditions have adversely affected the standard of living of most people.

More people are becoming bankrupt and homeless. This is coinciding with sweeping political change, not all of which has the approval of whites and most of which is taking place at a much slower pace than anticipated by blacks.

Expectations are not being met and crime rates, white-on-black and black-on-black violence have escalated. There has also been a sharp swing to the right among white voters, despite their recent support of the government's political changes.

The ANC still has the support of the majority of blacks, but some believe it will have to start "delivering" soon if it is to maintain this support.

Against this background, some economists are pushing for a "kick-start" to the economy to get it going again. They are hoping to:

- Create more jobs.
- Improve the standard of living of all South Africans and thus reduce political and criminal violence.
- Create a sense of security and acceptance of change, instead of opposition, specially among marginalised blacks and whites.

This implies a massive, one-off injection of money into the economy to quickly create jobs and improve social services.

This sounds attractive and could be politically popular. But Old Mutual's chief economist Mr David Mohr warns that such a "kick-start" would not be sustainable in the long-run. Where would the money come from? How would it be repaid if it was borrowed? Would nationalisation help, and is that policy feasible today?

'If the political will of South Africa's rulers gets lost in a maze of corruption, or if dreams of quick fixes result in disastrous economic policies even for a few years, then this realistic redistribution option collapses'

South 16/5-21/5/92 (49)

Mr David Mohr, Old Mutual's chief economist

Mohr says Old Mutual scenarios have shown that if South Africa is to have a successful transition to democracy and a tradition of democracy after that, the country needs to reverse its deteriorating economic growth rate. A growth rate of at least three percent, or more than the population growth rate is needed.

It may be best to target one or two areas (such as electrification and housing), pump a lot of money into them and follow this up with policies to stimulate long-term growth, says Mohr.

Economist Mr Peter Moll agrees that there is no quick fix. Massive redistribution of wealth as proposed by some in the ANC will not even move the poor into the middleclass and will not be economically sustainable.

For a more realistic redistribution, Moll suggests that there should be institutional changes that can slowly improve the quality of life of the poorest citizens without excessive expense.

This will not be easy, given a less favourable world economy, slower economic growth, higher population growth rates and labour force growth rates.

"Only with iron commitment to the development of the poor will ... favourable distributional objectives be achieved: the alternatives — wastage and maldistribution — are very easy."

Moll suggests several steps to achieve this:

- The economic growth rate must exceed the population growth rate. If the growth of labour supply exceeds the growth of employment, the result is falling wages and growing unemployment.
- There must be a stable political climate to attract local and foreign investors.
- There should be no subsidies for foreign investors as this discriminates against local investors.
- Monetary and fiscal policy should be relatively predictable.
- Overall tax rates should not be increased as this will scare off local and foreign investors.
- Funds for social programmes should come from reduced military expenditure and through ensuring that budget allocations benefit the poorest 40 percent and not the middle classes.
- Unnecessary government departments should be eliminated and state corporations should be run efficiently. There should be no "jobs-for-votes".
- Minimum wages should not be set as these have to be enforced and will only benefit those in the formal sector. Domestic and agricultural workers will not benefit. They will also lead to mechanisation and therefore job losses.
- Gender-sensitive employment policies should be encouraged as women are the poorest and will gain most from being drawn into the formal sector.
- More should be done to encourage small businesses.
- Unions will have to concentrate on productivity gains as well as wage gains.
- Land policies will have to be changed. The land market must be opened to all, followed by de-racialising state agricultural services. The "homelands" must be included in the marketing system and there must be carefully planned resettlement.
- There should be stronger inheritance of estate and gift taxes and lower VAT.
- Black advancement should be encouraged.
- State-owned forms of potentially competitive industries (not utilities) should be privatised.
- There should be a well thought out employment creation scheme.

Moll has a warning for the country's new leaders:

"If the political will of South Africa's rulers gets lost in a maze of corruption, or if dreams of quick fixes result in disastrous economic policies even for a few years, then this realistic redistribution option collapses."

Beware bug, eco

South

The economic policies of any new government will inevitably be dictated by its revenues — and how much it can, or wants to, borrow to supplement those revenues.

It may be tempted to increase taxes, especially on companies and on the rich, in order to increase revenues for spending on the poor.

But high taxes tend to be a disincentive to investment and productivity — as every worker knows from witnessing the bite taken from his or her salary every month.

Economist Mr Peter Moll believes that government spending and taxation can boost growth. But this does not give governments a blank cheque to spend, tax or borrow without limit, he says. It can also discourage investment and boost inflation.

Moll says the wisest course of action for a new democratically elected government will be not to increase spending or taxation in the first few years. Instead, it should ensure that spending that does take place is more carefully targeted.

Borrowing money is another option, but there are limits to how much a government can borrow without jeopardising the economy as a whole.

Professor Lieb Loots of the University of the Western Cape says it is best to accept that a country has a limited amount of resources. Then one should try to determine how to create the conditions that would best release those resources in a sustainable way and actually add to those resources.

This will increase the pool available for social programmes, he says.

"If that is understood, and if you embark on sustainable deficit financing, borrow at a level at which you do not repay loans or service debts at the expense of expenditure elsewhere, then that is sustainable.

"It is not that there should not be deficit financing, but it is the extent to which you do this.

"The International Monetary Fund says it should be no more than three percent of Gross Domestic Product (GDP). But there is no magic figure — the key is sustainability and a continued commitment to social programmes."

This is reflected in the ANC's latest economic policy guidelines which state that the organisation is "committed to a well co-ordinated fiscal, monetary and exchange rate policy package. This will provide a stable macro-economic framework for sustainable growth and redistributive expenditure on housing, infrastructure, education, health and social welfare.

"Redistributive expenditures will be financed largely through a broadly based and progressive tax structure which will also reflect the need to create incentives for investment and expansion. The complex details of fiscal changes which are necessary will be the subject of a fiscal commission, which the ANC will institute.

"Inflationary deficit financing will be avoided by the democratic state. The

A senior World Bank official warned last week his organisation was watching what decisions were taken in South Africa before granting loans to the country. **Noel Bruyns** reports:

Codesa decisions to 'influence' World Bank

South 16/5/-21/5/92

CODESA'S decisions on a future government, and its democratic performance and accountability to all citizens, will influence the World Bank's decision whether to resume granting loans to South Africa.

This warning was given by the World Bank secretary and vice-president, Mr Timothy Thahane, at a business breakfast of the Independent Business Forum in Cape Town last week. He is a Lesotho national based in Washington DC.

"It is important to ask: would you invest your money in a situation in which the rules of the game or the framework are unclear?" he said.

"Our experience with economies in transition is that investment recovery is often preceded by a stable macro-economic framework, which means those who are to invest need to see a predictable environment in which the rules of the game are clear," he said.

The World Bank was studying the South African situation and hoped to be able to assist quickly if the country reached consensus on government.

"But if consensus is not reached on the underlying economic constraints, then there may not be much assistance flowing."

He also warned that international aid would be only complementary, and South Africa would have to look closely at domestic resources. This was because the country would have to compete for funds with Latin America and Asia, while the demand after German unification and from former Soviet economies would be enormous.

'Growth was highest in those countries where the public sector was efficient and limited itself to those functions it performed best'

"Our experience throughout the world indicates the private sector has a very important role in the recovery of investment and growth. Efficiency in the economy requires the government to create incentives to encourage the private sector to invest.

"Growth was highest in those countries where the public sector was efficient and limited itself to those functions it performed best," Thahane said.

The ultimate beneficiary of World Bank assistance was the private sector, although according to its articles of agreement, it had to channel funds to the government with a guarantee of repayment.

However, a government did not have to control the delivery of funds for an approved project.

"The emphasis in our operations is to support the development of the private sector, but our ability to do so is affected by the commitment of the government towards that development," he said.

Thahane said the World Bank would focus on deregulation and entrepreneurial development in South Africa and may organise a workshop to present its international experience.

"We have to consider the possibility of establishing an office to focus initially on technical assistance to small- and medium-scale enterprises in the private sector."

The World Bank could assist in areas such as the development of the urban sector, education and agriculture.

However, many issues needed to be addressed first with the dissolution of apartheid.

Before assisting in education, for instance, the bank would need to know whether South Africa would have a unified educational structure that would provide consistency and permit the participation of the local community.

The disparity in resources, housing and services and in the political process would have to be addressed.

Sustainable development required regarding people as the major resource.

"Looking at the macro-economy and competitiveness of the South African industry, labour-intensive techniques are not used.

"In fact, the production pattern in the manufacturing sector will have to change and focus more on job-creating activities," Thahane advised.

● The Independent Business Forum is an initiative sponsored by SOUTH, Commlife Insurance Brokers and M Brey and Associates, Chartered Accountants.

The forum is open to all, but was created especially to meet the need of disenfranchised business people for assistance in the debate on issues affecting business generally.

Workers turn ploughshares into JSE shares

South 16/5-21/5/92

IT MAY be a case of turning ploughshares into JSE shares when major trade unions launch their own unit trust fund for workers next month.

JSE-listed companies that are "socially responsible" will be targets of investment for part of workers' pension and provident fund contributions.

The fund — known as the Community Growth Fund (CGF) — is the brainchild of the Cape-based Labour Research Service and will be administered and managed by Syfrets.

Its aim is to invest in companies with strong growth in earnings and capital, but which also satisfy certain union criteria of social responsibility.

These include fair employment practices, job creation, union recognition, safe working conditions, equal opportunity policies, black advancement and protection of the environment.

"The aim of the fund is to marry high returns with socially responsible investment. Members' pension contributions will be carefully protected," said Mr Manoko Nchwe of the National Union of Mineworkers (NUM).

Support for the fund was pledged by former NUM secretary-general Mr Cyril Ramaphosa, who was involved in the initial stages of the fund before moving over to the ANC.

Ramaphosa said: "This is a fund which represents a break with the past. It is the first step into a future where workers are no longer mere spectators, but active participants in shaping their economic destiny.

"The formation of the fund should send a clear message to companies, especially those with bad employment policies, that the silent giant is awakening and will challenge those who have run roughshod over workers' interests."

A number of financial institutions were examined and Syfrets was eventually selected to manage the fund.

A spokesperson for the Labour Research Office, Mr Gordon Young, said: "Syfrets is a reputable institution with an excellent track record in the investment performance of its own unit trusts."

The firm, which is putting R2 million of its own money into the CGF, has accepted the leading role of unions in the project.

Syfrets chief executive Mr John Cragg said: "We are delighted the unions chose Syfrets' expertise in this bold investment venture. Over time it could become one of the largest unit trusts in the country."

The fund is expected to get about 30 percent of the cash flow of union contributions to pensions and provident funds.

As is the case with any other unit trust, individuals as well as trade unions will be able to invest in the fund.

Cosatu affiliates which have endorsed the CGF are the National Union of Mineworkers, Construction and Allied Workers Union, Transport and General Workers Union and the Paper Printing Wood and Allied Workers Union.

The Nactu unions are the National Union of Food, Wine, Spirits and Allied Workers, Transport and Allied Workers Union and the Metal and Electrical Workers Union of SA.

QUENTIN WILSON

health

Hospital crisis: women to march

South 16/5 - 21/5/92

THE lack of hospital facilities in Khayelitsha has prompted the ANC Women's League to stage a protest march on Friday May 15.

Members of the ANCWL will march to the Khayelitsha Day Hospital to hand over memoranda which must be presented to the Minister of Health, the hospital's medical staff and to the maternity unit.

The protest action reflects the dissatisfaction in the community with the service the hospital provides.

Medical staff at the hospital have had several meetings with the Cape Provincial Administration to improve conditions.

However, there have been no tangible changes and the hospital faces a crisis. It is understaffed to the extent that doctors turn away many patients without adequate assessment.

Six doctors at the hospital said they found this situation "totally unacceptable". They said their working conditions were dehumanising for patients and doctors and destroyed the relationship between the medical staff and the community. The doctors cannot be named for professional reasons.

Khayelitsha Day Hospital serves between 500 000 and 700 000 people. It is usually staffed by eight doctors and two primary health care sisters. The turnover rate of doctors is high because of the workload and conditions of service. This has a negative impact on the community.

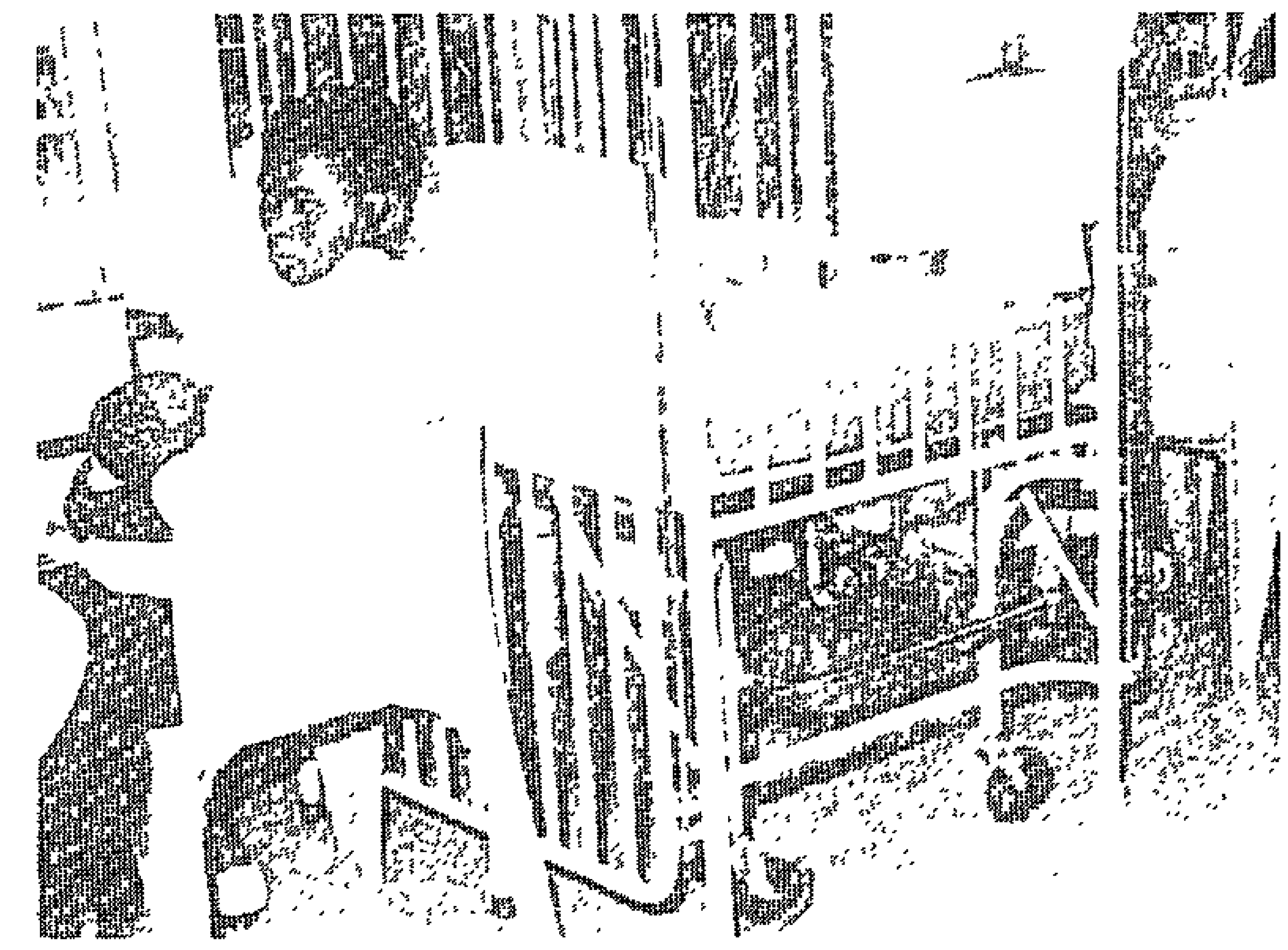
Groote Schuur and Tygerberg hospitals regularly turn patients away from their polyclinics if the patients do not have letters of referral from the day hospitals or general practitioners. This means the bulk of primary health care rests on inadequate facilities that cannot absorb the patient load.

One doctor pointed out that the Khayelitsha hospital daily treated patients from the Transkei and Ciskei. They travel to Cape Town because of the inadequate primary care facilities in their areas.

The doctor said the authorities should take account of this and the rapid growth of Khayelitsha's population.

He said the hospital desperately needed more doctors, nursing staff, primary health care sisters and clerical staff. The emergency facilities and ambulance service also had to be upgraded.

A senior staff member confirmed that the hospital was experiencing the problems mentioned by the doctors. **By Justin Pearce**



DECENT TREATMENT: ANC members in Khayelitsha are demanding better treatment at the day hospital

WHO's Health for all thwarted by poverty

South 16/5 - 21/5/92

WORLD Health Organization (WHO) campaign to guarantee basic health care for everyone by the year 2000 is being thwarted by poverty, an African official said.

Botswana's health minister, Mr Bahiti K Temane, said the target "has become unattainable in many parts of the world — definitely in Africa" because Aids is spreading and the gap between rich and poor countries is widening.

In 1978 member states of WHO, a UN agency, set themselves the goal to promote "Health for All by the Year 2000". It includes ideas like providing safe water, immunization against childhood diseases and enough nutrition for mothers and children.

"There is no way the poverty in Africa can be eliminated in eight years," Temane told WHO's annual assembly recently. "Furthermore, Aids will reverse even the little achievements that had been attained to date."

Future efforts to widen health care "will founder ... as long as the rich nations are getting richer and the poor nations are getting poorer," Temane told a nearly empty meeting hall.

He asked rich countries to provide technology and help market reforms through investments.

WHO delegates are reviewing the global health programme, the framework for much of the agency's current work.

An example of how poverty overrides medical progress is cited in a WHO report to the meeting.

Treatments exist for diarrhoeal diseases like cholera — a major child killer — but little progress can be expected if people return to live in germ-infested conditions, it says.

While people are living longer everywhere, "improvements in life expectancy do not necessarily mean a healthier life," the report says.

Many scourges — cancer, cardiovascular disease, tropical sicknesses and the deadly immune system destroyer Aids - are spreading in the Third World, it says.

It admits "the expectations of health for all by the year 2000 will not be realized in most countries".

Since the end of the Cold War, developing countries have worried that western aid — already tight in an economic recession — will shift to rebuilding eastern Europe and the former Soviet Union.

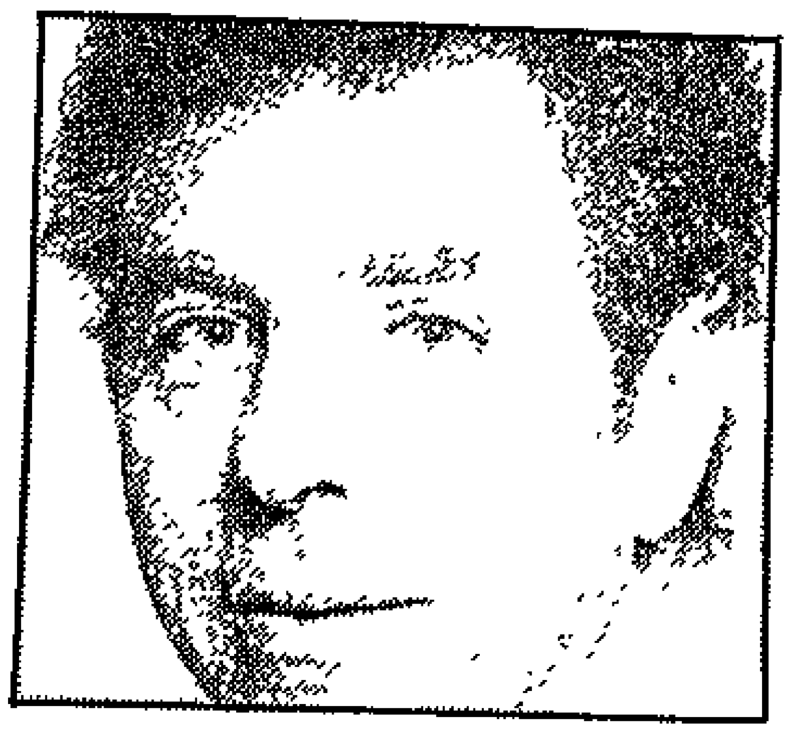
Temane said "euphoria has now cleared" after the wave of democracy in eastern Europe and signs of economic hope for Africa that ended the 1980s.

Botswana, with close economic links to neighboring South Africa, is one of Africa's richer countries. — **Sapa-AP**

Much common ground within economic forum

STAR 21/5/92. (49)

By John Spira



At long last an economic forum encompassing top-level talks among government, labour and business has come to fruition. Hopefully, the result will be economic reform to (albeit belatedly) follow political reform.

Observers have drawn attention to the danger of excessively high expectations. They warn that hopes of a defined blueprint for the South African economy emerging from the forum are likely to be dashed, largely because the philosophies of the participants are too far apart to permit such a clearcut resolution.

But while comments of this sort cannot be ignored, nor can the many ironies that pervade the South African economic debate.

Thus, we have three parties, ostensibly poles apart, which, in reality, are closer to one another (in thought and action) than even they themselves believe.

Government, for example, while having always paid lip service to a system of private enterprise, has for decades been practicing a policy of economic socialism — witness the ballooning public sector, the crowding out of the private sector and the resultant ravenous appetite of the fiscus.

Labour, now that it has come to grips with its responsibilities, as well as the rights it acquired following the legal emergence of trade unionism, is fast reaching a maturity which acknowledges the benefits which its members would enjoy in an unfettered free market climate.

It's an appreciation which is being underlined by Nelson Mandela's discernible shift in stance away from leftist ideologies towards an acceptance of the need to create an economic environment attractive to foreign investors.

Where does that leave business? By and large in a cushy situation in which the status quo will not be seriously disturbed.

At the same time, the platform provided by the forum will no doubt highlight the business sector's contributions towards social responsibility and equal opportunity programmes and, just as importantly, expose its shortcoming in this direction.

Ultimately, much soul-searching, finger pointing and beating of chests will take place behind closed doors, which, when they are opened, might well reveal a measure of concensus that confounds the sceptics.

Stals's independent stand lays ground for foreign investments

STAR 21/5/92

By Neil Behrmann (49)

LONDON — International bankers are impressed that the South African Reserve Bank is maintaining a relatively independent stance, is intent on reducing inflation and is against rand devaluation.

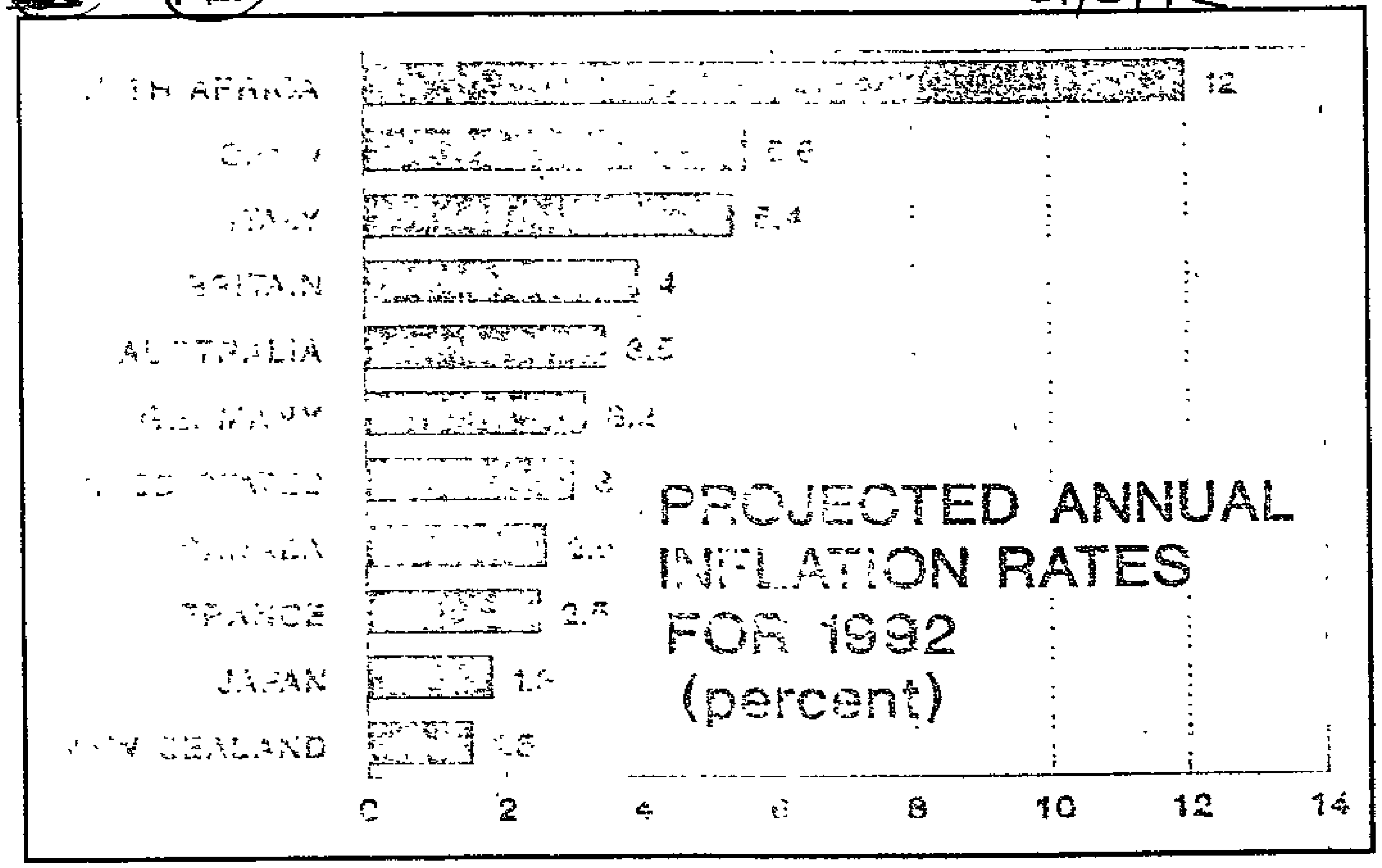
They say that by avoiding the temptation to devalue the currency to improve the revenue of mines, the Reserve Bank's governor Dr Chris Stals is laying the foundation for future foreign investment.

An independent central bank on the lines of Germany's Bundesbank would instill international business confidence in South Africa, particularly during the transition period

The Bundesbank is intent on preserving the value of the mark, despite the enormous costs of unification.

Politicians who have tried to influence the Bundesbank governors have walked away frustrated.

Reserve Bank independence could lead to an end to exchange control in South Africa, bankers say.



An optimistic forecast puts South Africa's inflation rate for 1992 at 12 percent, compared with its present level of 15,7 percent. But that compares poorly with American Express Bank's projected 1992 inflation for other countries, including SA's main trading partners.

Competition

Once exchange controls are lifted and international corporations are confident that monetary and foreign exchange policy are not influenced by the politicians, they will be encouraged to invest in South Africa.

That investment will increase competition in the domestic economy and help reduce inflation.

Britain and Australia, countries which both had exchange controls, are case studies of what can happen. Once exchange controls were abandoned their economies attracted more foreign investment and competition

Their currencies, subject to the normal cyclical fluctuations, were firm and inflation decelerated.

International companies will be reluctant to invest in South Africa if they fear that the capital value of their South African projects will depreciate in terms of their own currencies.

Exchange controls are also a major disincentive.

European countries in particular are intent on maintaining stable exchange rates and reducing inflation. Economic convergence and open economies are the buzz words.

UK, German and other European businessmen are thus not only examining the potential of projects in foreign countries, but are also concerned about the long-term potential of the currency

A project may well turn out to be profitable in South Africa, but a falling rand may offset any earnings or capital benefits for the investor.

Investors have been burnt badly in South Africa and other weak currency countries

Multi-national corporations in Japan, the US and Asia take a similar view, although the rand has not fared as badly against their own currencies.

In essence, South African business is now part of a disinflationary world, now that sanctions have been disbanded and the economy is open. To compete for capital the mixture of economic growth, inflation and currency stability must be right.

Inflation is comparatively low in most countries already and continues to decline.

SA inflation, now at 15,7 percent is expected to fall to 12 percent by the end of the year.

But that compares poorly with American Express Bank's projected 1992 inflation for other countries, including South Arfrica's major trading partners.

Moreover, American Express Bank and most other institutions believe that only a strong economic recovery could prevent further declines in the next two years.

Large-scale international debt, weakened banking systems, low confidence and extensive government borrowing indicate that world economic boom is improbable

Spur prices

So excessive demand is unlikely to spur prices, says American Express

"Moreover, international competition continues to intensify and is restraining inflationary pressures."

The prospects are that developed country inflation in the coming economic upswing will average less than the 3,6 percent rate seen in the 1960s

Central banks, including commodity producers such as New Zealand and Canada, believe inflation should be pushed down to levels of one to two percent

South Africa would be left way behind and the economy would continue to be caught in a vicious circle of devaluation, high inflation and low investment

But in the 1950s and '60s, when the gold price was fixed at $35 an ounce, the mining industry was healthy and inflation was at single digits.

So single-digit inflation is not an impossibility. The key to the success is the breakdown in inflationary expectations of both local businessmen and consumers

It took time in the UK, where inflation was 22 percent in 1979. But the British public is now so price conscious that they expect discounts

STAR 2/5/92

'No democracy without aid'

49

DEMOCRACY in Africa is doomed if Western countries fail to prop up the ailing economies, says former Zambian president Kenneth Kaunda. At a democracy conference in Johannesburg this week, he said the developing world did not have a strong economic base to buoy democracy. "If the developed world does not help the developing world, I see a lot of problems coming." — Sapa.

ECONOMIC POLICY

From pillar to post

(49) FM 22/5/92

Confidence may be the aim, but it's not the result

Finance Minister Derek Keys' enigmatic image, formed in just a few months on the job, shows little sign of going away. One challenging — sometimes contradictory — statement on economic policy follows the other. As with the Cheshire cat in *Alice in Wonderland*, it is not clear what substance is behind the smile.

Anyone taking on the daunting task of simultaneously managing the three major economic portfolios deserves sympathy and support. But businessmen as well as taxpayers and consumers can be forgiven for assuming that they are on some economic switchback ride, with sense of direction lost in the exhilaration.

Following in the footsteps of the redoubtable Wim de Villiers at Economic Co-ordination, Org Marais at Trade & Industry and Barend du Plessis at Finance, Keys appears to want to imbue industrialists with confidence (which is understandable). But he contradicts this with policy switches that appear almost calculated to confuse.

These are some of the statements which have created confusion if not despair.

- SA is not a high-tariff country, compared with others;
- Generally the right way to tackle the problem, of the economic cost of protectionism, is not to take off protective tariffs — "though I'm happy to move in a lower tariff direction;"
- What industry in SA would export more if we were to cut tariffs and open the market? (The clothing industry, to name one. The World Bank found in a recent study that the clothing sector could in fact create an additional 170 000 jobs if SA reduced tariff protection on textiles); and
- This country is not really a highly taxed country (with its 48% company tax rate, steep gradient, fiscal drag and many other indirect imposts. Some accountants have calculated that government has claim on up to 80c in the rand).

Keys might tell these things to IMF economists when he attends its annual meeting in September. They don't hold his view. But the *FM* has been unable to establish in what context this last remark about tax was made; perhaps therein lies the answer.

"Derek Keys' past experience has made him into an economic consultant, rather than a hands-on policy manager, like Kent Durr was," says Democratic Party MP Brian Goodall. "We have had four different Trade &

cont →

Industry Ministers over the last few years — so Keys is into a learning curve. And he has to face the traditional fear of losing jobs. But history has shown that protectionism aimed at saving jobs does not work — in fact, the opposite results as the economy stagnates.

"For example, in the Eighties we grew manufacturing jobs at a rate of only about 0,2% a year, while the sector's contribution to the economy actually declined. And this was at the height of protectionism."

Goodall sees Keys' two great strengths as his good human relations and a willingness to work with others. But his weakness may be a lack of vision on economic policy. "He mainly sees his role as creating a social contract between business, government and labour," Goodall adds.

But as far as taxation and trade and tariff policy are concerned, Keys must face two critical issues that will not easily go away.

"We will all have to face the fact that there must be some pain in the adjustment process," Goodall says. "Therefore SA needs a specific decision on the details and the period of economic restructuring, including tariff reform. Government must spell out where we are going and how we must reduce our high-cost structures. Without reducing the high-cost element in the economy, we cannot become globally competitive."

And, he adds, the "very good" Industrial Development Corp report on tariff reductions must be implemented. "Unless we take speedy action, SA could become another Brazil — a country with a great future that never arrives. We must lose our fear of making mistakes and follow the successful examples of countries like Malaysia. A country is like a company — success depends on the quality of its management."

Keys took over Trade & Industry four months ago from Org Marais, whose nine months at the post were marked by a focus on tariff reform and deregulation. So, what has Keys achieved since January?

The signs are not very good. A return to increased protectionism, and similar moves away from liberal economic reform, characterise events at his department:

□ New anti-dumping legislation now passing through parliament has created such a broad definition of dumping that almost any import into SA could become subject to anti-dumping actions. Introduced under the guise of tariff "liberalisation," it seems a regressive and protectionist move, aimed at keeping the economy noncompetitive and vested interests happy;

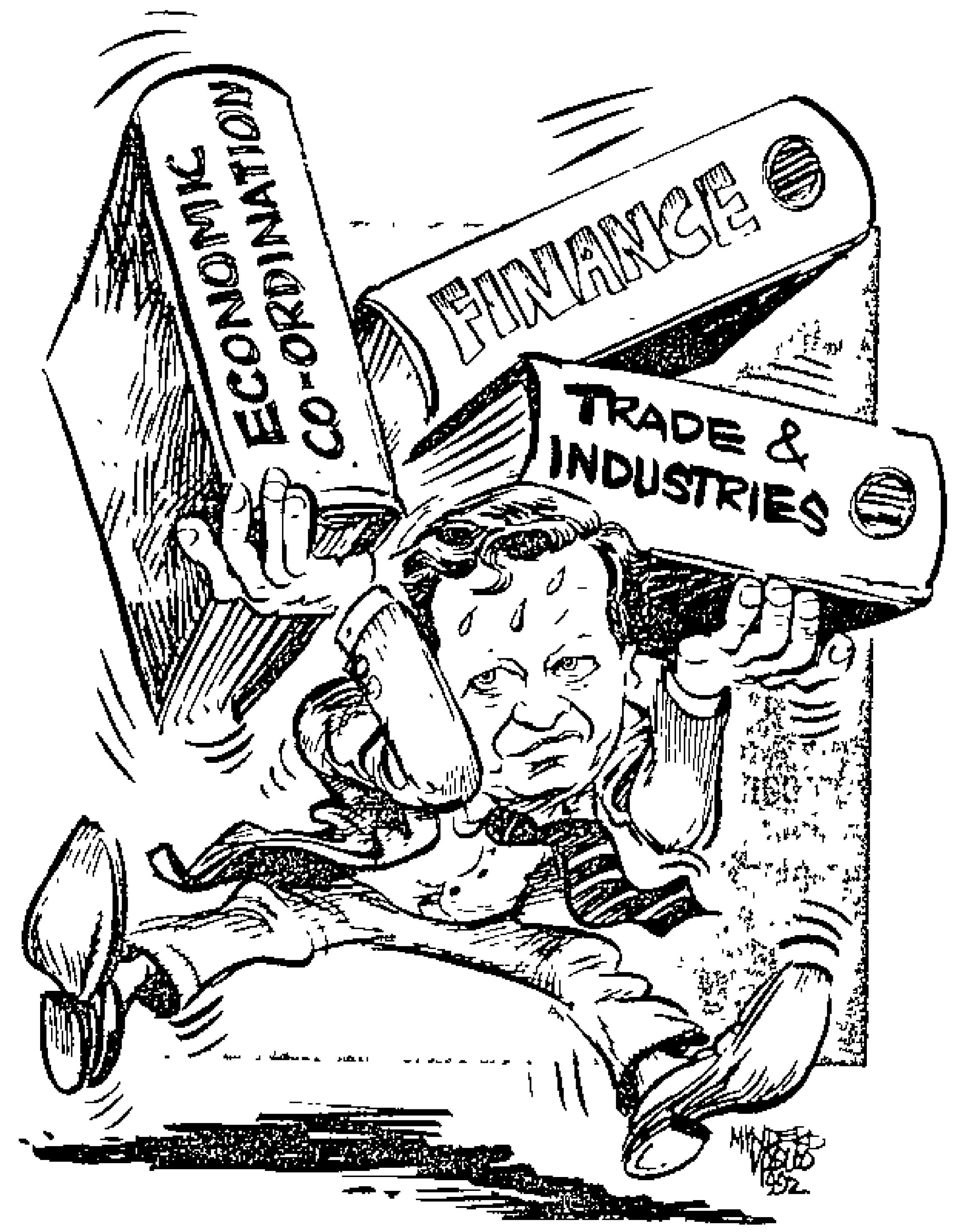
□ The disastrous Hatty Report on the textile and clothing sectors, gazetted retroactively to April 1, looks set to cut a swathe through the low-capital clothing sector, one of SA's most labour-intensive. Keys and his director-general Stef Naudé seem to have decided to sacrifice the clothing sector on the altar of "protecting" the overcapitalised and technologically outdated textile industry;

□ The decision to change yet again the controversial Phase Six of the motor industry's local content programme, flawed as it is, will hardly encourage confidence. It is a sorry tale of economic foolishness and bureaucratic bungling (see *Business*); and

□ In his budget speech last week, Keys hinted that the costly general export incentive scheme might be extended beyond its original five-year period, ending in 1994, to allow industrialists a longer time frame for investment decision-making. This would not only lock future taxpayers into paying costly subsidies to keep noncompetitive exporters (hiding behind tariff walls) smiling, but essential tariff reform would be put off even further.

By promising continuing subsidies to exporters there is no need for them to become more competitive. Simultaneously, reducing SA's excessive 48% company tax rate would be made even more difficult, because taxpayers would be forced to fork out billions more on the export scheme.

According to the department's director of export trade promotion, Gerrie Breyl, total expenditure under the export incentive scheme amounted to R457m in 1991-1992, while a further R1,16bn was budgeted for 1992-1993. And, he adds, the annual amounts for which promissory notes are issued will average about R1,4bn each year from now on. Under the old A & B incentive schemes (now being phased out), an additional R564m was paid out in 1990-1991 and R624m in 1991-1992, while R872m has been budgeted for payment in 1992-1993.



Total export subsidies of R564m, R1,08bn and R2,03bn were therefore debited to taxpayers' accounts during the three tax years in question. In fact, considering the other unquantifiable tax allowances, some economists estimate that export benefits cost taxpayers about R4bn a year.

Nevertheless, the department refuses to disclose who were the beneficiaries of this vast largesse. It says only that category 2, 3 and 4 export incentive payments (which are for semi-processed, processed and manufactured exports) were R66m, R219m and R172m, respectively, in 1991-1992.

"It would jeopardise the interests of exporters if we were to disclose their names," Breyl says. "But the details are available to the auditor-general and to parliament." The department also refuses to disclose a "confidential" report on the administration of the export incentive scheme, recently completed by Deloitte Pim Goldby, on the grounds that "this would jeopardise the further development and adaptation of the export incentive guidelines."

Breyl admits that the department does spot checks to monitor applications. But the disturbing thought arises that non-disclosure has more to do with hiding these vast subsidies from other signatories to the Gatt, than it has with circumventing sanctions.

Goodall says the principle must now be accepted that the use of public funds is a public issue and that the watchdog of taxpayers, parliament, should force a full disclosure.

The sooner trade liberalisation is accepted as public policy and SA gets rid of costly protectionism, the greater the chances of a return to sustainable economic growth. In fact, all that is really asked of Keys is to announce a schedule of trade liberalisation, phasing out tariff protection over a specific period (in terms of the IDC's report of June 1990).

Nobody asks for "overnight" tariff reform — what is needed is an announcement that the reductions will commence and what the duration would be.

But, apart from making some generalised and soothing noises about tariff reform, Keys has shown no commitment to implementing the IDC tariff report. Meanwhile, local consumers bear the brunt of carrying the costly export incentive and tariff protection schemes.

Now, registered category 3 exporters receive a net 6,5% tax-free subsidy, category 4 exporters qualify for a 19% handout, based on the value of proven exports.

Apart from the direct impost on taxpayers, an economist at an employer organisation estimates that the tax cost of the export incentive scheme prevents the reduction of company tax rates by at least 10%.

The supreme contradiction is to believe that the ad hoc use of devices such as tariffs and subsidies, which reduce the general level of economic efficiency, will foster sustainable economic growth. Nor will they encourage a climate of confidence and stability ■

MONEY MARKET FM 22/5/92

Over the edge (49)

When news about the economy is really bad, bulls in the financial markets flex their muscles. A fall in business activity means reduced demand for credit and consequently sliding interest rates. This increases the value of existing financial instruments because their yields will be comparatively higher than those provided by paper newly issued.

No wonder bulls feel good when the economy bleeds.

So it's appropriate that a sharp fall in short-term interest rates coincides with release of official figures which show a continuing decline in GDP (see p42). Driven by a drop in the call rate from 14,5% on May 11 to 14% three days later, most key interest rates declined sharply in the middle of the month. The rate on three-month liquid bankers' acceptances fell below 15% last week to 14,55% on Monday morning while 12-month

cont →

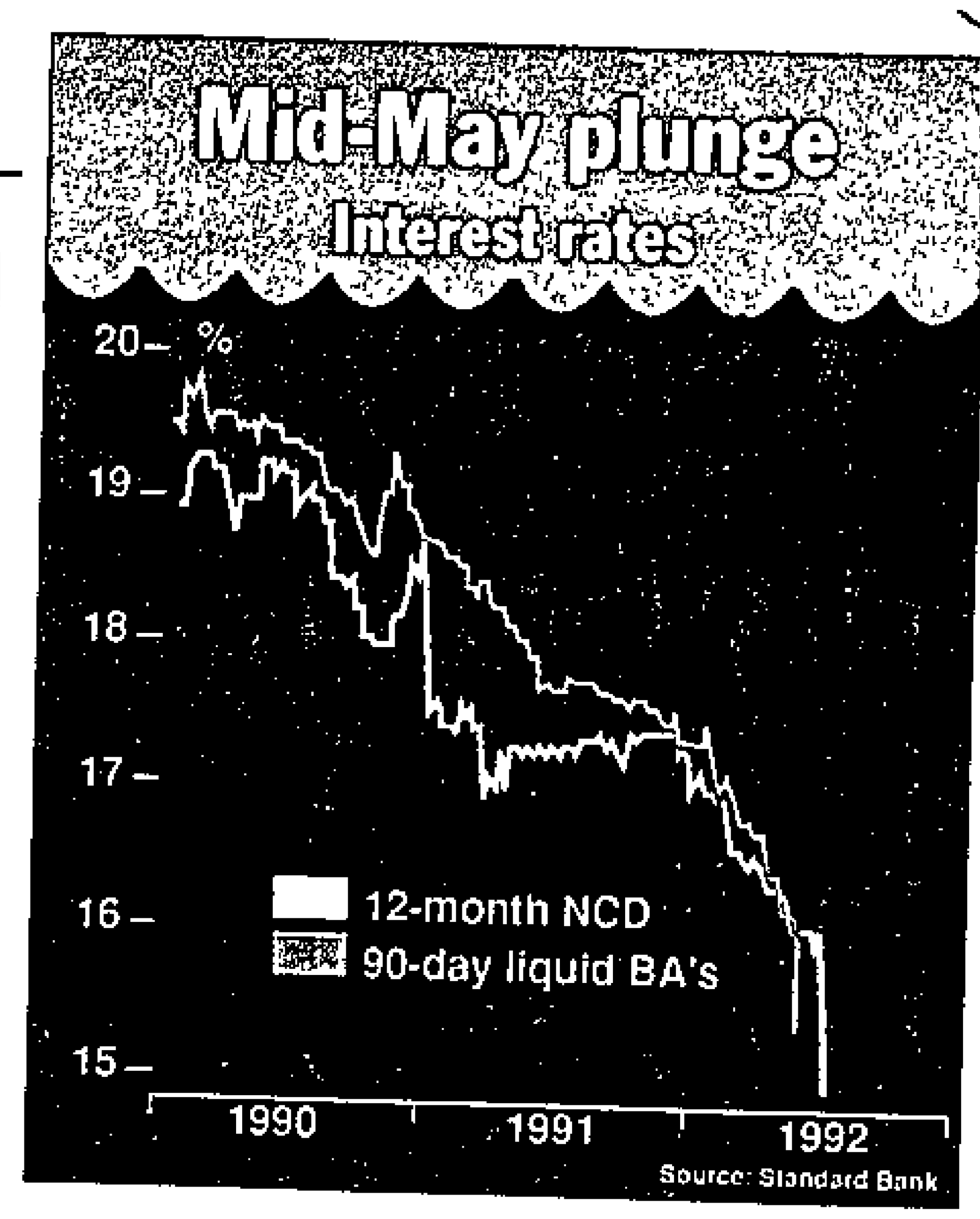
ECONOMY & FINANCE (49)

certificates of deposit fell from 15% on Monday to 14,7%. FM 22/5/92

Market participants attribute this to a number of factors including: restricted business activity which has reduced the supply of trade-based financial instruments; investors' attempts to lock into longer-term assets; and slack demand for credit.

The Reserve Bank, which has kept the market on a short rein for more than two years, has kept a relatively low profile. Though bankers speculated about the extent of dollar swaps, which remove cash from the system, the central bank has offered no recent tenders of special Treasury bills. After taking R600m out of the market on May 5, and R300m on May 6, it had made no further offers by Tuesday afternoon, when the *FM* went to press. Both issues expired by May 7.

Apparently the Bank was satisfied with the size of the shortage which ranged between R1bn-R1,5bn. But there are no serious expectations of an immediate fall in the official Bank rate — though Treasury bills were trading in the market at less than 14,2% on Monday to discount a fall of 1,8 percentage points.



There is too much uncertainty about the path of inflation. ■

Financial Mail

ECONOMIC POLICY

FM 22/5/92

Half a step forward

(49)

The *FM* has complained so often about the way economic policy has been relegated to the back burner during the seemingly interminable process of negotiation that it would be inconsistent to object to the latest development over the participation of government in the Economic Forum (p39).

Indeed, anything that brings government and the ANC (even by trade union proxy) around an economic negotiating table is to be welcomed.

Trouble is, on the economic as well as the political front, the extent to which government is making concessions seems to be largely symbolic. The presence of Japie Jacobs, in particular, can only improve the quality of any economic debate — but at the same time government is making it clear that it is not committing itself to approve or execute any recommendations that the forum may make. Even the Consultative Business Movement still sees the next major step as to "identify agenda items for substantive discussion," and not to get bogged down in details of structure.

This raises the spectre that we will end up with yet another talking shop about the merits of nationalisation vs private enterprise, or the desirable extent of tariff protection for local industries, and all those other worthy but ultimately sterile debates that are all the rage at the moment.

Fact is, there is only one topic worth debating at the moment: how to get the economy moving again and start eating into the daily swelling ranks of the unemployed — now estimated, we were told by a public official this week, at a horrifying 5,4m, up from "only" 2m a decade ago.

No future government, of any political persuasion, can hope to bring peace and stability to SA unless it can bring down unemployment. And while we will always remain to some extent a hostage to the prosperity of the global economy, it's not enough just to shrug our shoulders and sit around waiting for world commodity prices to recover.

Of course jaw-jaw is better than war-war. But it's also an endemic failing of politicians to consider talk a substitute for action. Talk long enough and with luck either a problem will go away or another, even bigger problem will take its place. That won't happen here. No amount of talk will create jobs for the unemployed millions and (a prerequisite) stimulate a revival in domestic saving and investment.

So, while we extend a guarded welcome to the extension of the scope of the Economic Forum, let's not deceive ourselves that it's more than a minor step forward. And even if it brings government to a table, it does nothing to address the other need: of making the ANC also somehow responsible for economic policy, so that it can no longer score easy but empty points by simply belabouring the existing order. ■

Keep out of the public debt trap

W/Mail 22/5 - 28/5/92

By REG RUMNEY

SOUTH AFRICA has to check its growing public debt by keeping a lid on government spending.

(259) (41)

If left to grow as it has steadily since 1983 the public debt could eventually swallow up all state revenue, with the state floating the problem off in a sea of devaluing currency.

We are not about to emulate the Weimar Republic just yet. But Nedbank Economic Unit chief economist Edward Osborn warns against public debt reaching Italian levels — where the public debt equals $20 500 for every Italian man, woman and child.

In the May issue of the *Nedbank Guide to the Economy* Osborn spells out the problem of too big a public debt:

- Most of government revenue from tax has to go to paying the interest on the public debt. So the government ability to shape the Budget as it wants is limited.
- The build-up of public debt narrows the government's scope to stimulate a depressed economy by cutting taxes or increasing spending. The entire burden of steering the economy falls on the monetary authorities (in South Africa, the Reserve Bank).

We haven't hit a public debt crisis yet, but Osborn argues the shape of state finances is cause for concern.

Osborn notes the ratio of public debt to gross domestic product (GDP) dropped from a postwar peak of 68 percent in 1946 to a low of 27 percent in 1983.

This was largely because of a past era of rapid growth and the gold bonanza. Since 1983 that ratio has risen. It was 32 percent in 1991.

The government has also had to set aside an ever greater part of its purse to interest payments.

In 1983 interest payments were 11,7 percent of total government spending. In the 1992/93 Budget this has risen to 16,4 percent. This approaches the levels of Europe, where interest payments account for 18 to 21 percent of total spending in Italy, Belgium, and Greece.

Osborn argues the classical view is that public debt should be used for capital projects, which have a future flow of social returns.

So spending on roads, dams and the like, and even, arguably, educational spending can be justified as capital spending. This is apart from extraordinary contingencies, such as war, but increases in public debt for these reasons should be retired when the emergency is past.

Deficits don't have to be inflationary, Osborn argues, if they are financed from non-banking sources so that no money creation is involved.

More important than the existence of a deficit is the deficit generating process, where the public debt snowballs as mounting interest payments feed back to the debt.

An analysis of the growth in public debt, according to Osborn, shows interest payments have been rising exponentially — some six times in the past 10 years.

Particularly in recent years, he says, excess borrowing — borrowing over and above what is needed to take care of the Budget deficit — has grown steeply.

And particularly in recent years there has been a tendency to treat excess borrowing as funds available for transfer to, for example, the State Pension Fund or the Export Credit Reinsurance Fund.

All these transfers have had no corresponding income-earning asset and so have imposed an added burden on the state's finances.

"The position now arrived at is explosive, given the combination of endemic inflation, strident demands on the exchequer, structural weaknesses in revenue, a high platform of interest costs, and the need for maintaining real interest rates. This constitutes a public debt trap of extreme viciousness."

Osborn warns that even if excess borrowing is stopped and even if the growth in government spending matches the growth in revenue, say at 15 percent, in only five years time the deficit will have grown to around R31-billion, the public debt-GDP ratio to 33 percent and the ratio of interest payments to total spending to 17,2 percent.

If spending continues to outstrip revenue, even by two percentage points with spending at say 16 percent, the budget deficit will grow to R52-billion, the debt ratio 40,6 percent, and the interest ratio 19,2 percent.

Clearly, a lid must be put on public spending.

Revolution losing its pulling power

Sowetan 22/5/92

~~50~~ ~~46~~ ~~125~~ ~~132~~ 49

REVOLUTION is no longer the route to a better South Africa - the country's young people believe they can improve their future through money, education and top jobs.

This is according to the results, released this week, of a research study on South Africans aged between 13 and 24

The research was developed by the Markinor group and Hunt Lascaris TBWA in conjunction with a syndicate comprising Bakers, Cinemark, Edgars, M-Net, Royal Beechnut, the SABC, the SA Communications Services, Stellenbosch Farmers Winery and Times Media

After interviews in some 860 white and black households, it emerged that more than 80 percent of those questioned believed it was important for the future of the country for blacks and whites to make an effort to get along together

A similar percentage said they were proud to be South Africans

Some of the survey's main findings were that material values rather than political ones motivated most young people.

Agenda

Almost all those questioned had high aspirations, often irrespective of current educational attainment

Mr Nick Green, chairman of Markinor, said: "The agenda of South African youth seems to be largely non-political, although they endorse reform.

"Typically, they tend to think it is proceeding a little slowly.

"But personal goal-setting is usually qualification-and career-orientated.

"The young South African living in formal housing is a materialist, not a Marxist.

"And, by and large, he appears hopeful that negotiation and the process of change will deliver the benefits."

Green said only a minority of those included in the survey believed that violence was the only way to achieve change

"But in general we see endorsement of the work ethic, of the idea that a good education is the passport to a fulfilling career and that the trappings of material success are worth striving for." - *Sapa*

	1992-04-30	1992-03-31	Verandering
Laste	R	R	R
Bates			
Goud	5 806 299 987,50	5 912 937 773,32	(106 637 785,82)
Buitelandse bates	3 826 080 300,51	3 049 320 723,45	776 759 577,06
Totaal aan goud en buitelandse bates	**9 632 380 288,01**	**8 962 258 496,77**	**670 121 791,24**
Binnelandse bates:			
Gediskonteerde wissels	1 648 450 000,00	1 374 850 000,00	273 600 000,00
Lenings en voorskotte:			
Regering	—	—	—
Ander	1 247 038 264,11	1 262 092 054,21	(15 053 790,10)
Sekuriteite:			
Regering	420 023 890,86	433 345 416,13	(13 321 525,27)
Ander	1 155 917 966,80	134 985 045,00	1 020 932 921,80
Ander bates	15 038 322 856,15	14 853 947 049,59	184 375 806,56
	R29 142 133 265,93	**27 021 478 061,70**	**2 120 655 204,23**
Rand per fyn ons	870,21	883,16	(12,95)
Goudbesit in fyn onse	6 672 297	6 695 206	(22 909)

Pretoria, 8 Mei 1992.

C. J. SWANEPOEL,
Hoofbestuurder.

NOTICE 457 OF 1992

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 30th day of April 1992 (47)

	1992-04-30	1992-03-31	Change
Liabilities	R	R	R
Share capital	2 000 000,00	2 000 000,00	—
Reserve fund	93 325 064,70	77 831 863,11	15 493 201,59
Notes in circulation	10 716 396 467,00	10 790 818 382,00	(74 421 915,00)
Deposits:			
Government	7 008 477 528,93	6 009 802 947,03	998 674 581,90
Provincial administrations	158 383 182,50	479 276 035,48	(320 892 852,98)
Deposit-taking institutions	1 064 215 648,71	998 436 611,00	65 779 037,71
Other	63 948 170,51	262 298 982,15	(198 350 811,64)
Other liabilities	10 035 387 203,58	8 401 013 240,93	1 634 373 962,65
	R29 142 133 265,93	**27 021 478 061,70**	**2 120 655 204,23**
Assets			
Gold	5 806 299 987,50	5 912 937 773,32	(106 637 785,82)
Foreign assets	3 826 080 300,51	3 049 320 723,45	776 759 577,06
Total gold and foreign assets	**9 632 380 288,01**	**8 962 258 496,77**	**670 121 791,24**
Domestic assets:			
Discounted bills	1 648 450 000,00	1 374 850 000,00	273 600 000,00
Loans and advances:			
Government	—	—	—
Other	1 247 038 264,11	1 262 092 054,21	(15 053 790,10)
Securities:			
Government	420 023 890,86	433 345 416,13	(13 321 525,27)
Other	1 155 917 966,00	134 985 045,00	1 020 932 921,80
Other assets	15 038 322 856,15	14 853 947 049,59	184 375 806,56
	R29 142 133 265,93	**27 021 478 061,70**	**2 120 655 204,23**
Rand per fine ounce	870,21	883,16	(12,95)
Gold holdings in fine ounces	6 672 297	6 695 206	(22 909)

Pretoria, 8 May 1992.

C. J. SWANEPOEL,
General Manager.

(22 Mei 1992)/(22 May 1992)

Business Report

'Our own bootstraps key to SA growth' (#9) CT 22/5/92

By AUDREY D'ANGELO
Business Editor

THERE is an economic upswing on the horizon and SA business can help itself by preparing for it, First National Bank chief economist Cees Bruggemans says in the Rode Report.

But, because business people in this country have grown accustomed to an upswing being heralded by a "windfall" such as a higher gold price or lower interest rates, they do not realise that this time SA must pull itself up by its bootstraps without outside help.

They are trapped in a mindset that there is no evidence yet of a recovery and are waiting for signs.

Bruggemans urges the Minister of Finance, Trade and Industry and Economic Co-ordination, Derek Keys, and Reserve Bank governor Chris Stals "to help us better understand our environment."

The message needs to be spelled out "that we are largely on our own and have to do it by our own bootstraps. Ironically, what applies to organised labour applies even more to company managements."

Bruggemans says the contraction of the private sector which began with the dramatic rise in prime rate from 12% to 21% in 1988 and 1989 — and has resulted in the loss of 350 000 jobs since 1990 — is still in full cry.

Destocking has been maintained at high level and fixed investment plans shelved. The contraction has fed on itself and "become the dominant force in the economy."

Few managements believe an upswing imminent "because they don't see the traditional sinpost that would signal one.

"Many companies indicate that they still have pockets of labour they can efficiently rationalise.

"Many are hampered by falling sales and still-high interest rates. And so many consider themselves overstocked, while seeing no sense at all in new investment.

"Instead, they prefer to degear themselves still further, also raising capital through new issues on the stock exchange."

But, Bruggemans points out, companies cannot keep reducing their workforces forever. "The overtime statistic has been rising ominously for some time.

"At some point one runs out of stocks. And profitability of publicly quoted companies has stabilised, if only because of their degearing and cost cutting

"Normally this would signal a cyclical turn to be imminent, not least because export volumes are still rising despite world economic conditions and because of the expansionary nature of government spending."

In addition to this, says Bruggemans, money supply growth has fallen almost to single-digit figures and is likely to ease further this year.

"Inflation components across the board are showing signs of fatigue (food and health care being key exceptions).

"We are likely to end this year with the consumer price index (CPI) 2% or 3% down on last year (unless the drought and any new VAT surprises cruelly delay progress once more."

He thinks that if present trends continue "the Reserve Bank governor may find reason in his August annual address to reward us once more by following rather than leading with another 1% cut" in the bank rate.

Keys ends state's cold shoulder for unions

49

W/Mail 22/5-28/5/92

By DREW FORREST

THE appointment of pragmatic former business leader Derek Keys to the cabinet is seen as the catalyst for the decisive government shift on demands for a tripartite economic negotiating forum.

His appointment, first to the trade and industry and then the finance portfolio, coupled with the demise of former finance minister Barend du Plessis, is seen to underlie the government's newfound openness to state participation in macro-economic policy negotiations.

On April 22, Keys persuaded fellow cabinet members to initiate exploratory talks with organised labour and business on a forum. Some sources speculate that this setback for Du Plessis — who favoured a "social contract" between labour and business but opposed a direct state role — may have contributed to his downfall.

In Cape Town this week, Keys met the Congress of South African Trade Unions, the National Council of Trade Unions and Fedsal, representing labour, and the South African Chamber of Business, Saccola, the Chamber of Mines, the Afrikaanse Handelsinstituut, Fabcos, the South African Agricultural Union and the South African Federation of Civil Engineering Contractors, representing business, for initial talks.

Joint union-business proposals for a transitional economic negotiating forum were forwarded to government earlier this year, and these envisage direct state participation. Reportedly under Du Plessis' influence, fearing that negotiations would tie its hands and favouring the centralisation of talks under the Convention for a Democratic South Africa, the government took several weeks to respond.

At this week's talks, the government made no commitments. But it did nominate three representatives — Keys' advisor Japie Jacobs, Deputy Finance Minister Theo Alant and Deputy Trade and Industry Minister David Graaff — to sit on a joint sub-committee with unions and business, which will investigate how to expedite the forum process and report to cabinet.

The focus, it has been reported, will be on addressing the immediate economic problems of transition, rather than the creation of formal structures.

The seniority of the government representatives appointed to the committee is a clear sign of a government change of heart. Cosatu men who attended the meeting comment on the positive atmosphere, and for the first time expressed optimism about prospects for a tripartite negotiating structure.

In response to the meeting, labour has hinted at a softer line on threatened mass action around its economic demands, due to be debated at next week's "worker summit" of Cosatu, Nactu and non-aligned worker bodies.

A Cosatu spokesman said the summit would consider how to "enhance" economic negotiations, with the possibility of mass action.

FM 22/5/92 (49)

ECONOMIC FORUM FM 22/5/92

Meeting of minds (49)

The meeting between Finance Minister Derek Keys and representatives of organised business and labour this week set the scene for formal participation by government in the Economic Forum The forum was initiated this year by trade union and employer bodies but, for some time, government was reluctant to join. In March President F W de Klerk said government could not participate because, if it did, it would effectively be handing over its powers.

Since the resignation of Finance Minister Barend du Plessis and the appointment of Derek Keys to this crucial portfolio there has been a rethink. Keys announced that "three high-level government representatives" would be assigned to "interact with business and labour representatives on agenda items and the nature of government interaction with such a forum." They are Deputy Finance Minister Theo Alant, Deputy Trade & Industry Minister David Graaff and special adviser to the Finance Minister Japie Jacobs.

This move does not commit government to anything but delegates see the announcement as a step towards formal participation Sacob director Raymond Parsons describes it as "the beginning of a process of structured dialogue between organised government, business and labour."

The Consultative Business Movement's Debra Marsden says: "The next major step will be to identify agenda items for substantive discussion on economic issues. This will be done in liaison with government representatives. The intention is to discuss substantive issues and not get bogged down in details of structure. Those will evolve from the discussions. Given the evolving political situation, this kind of flexibility is needed."

A second plenary meeting is likely within six weeks "At that stage the finer details of the future structure of the forum won't have been finalised but parties will be in a position to begin discussion on economic issues," says Marsden.

The forum was created to tackle several issues including that of a social accord involving employers, employees and government — the three main players in the economy.

There are risks.

Says Parsons: "It is possible there will be issues on which we cannot reach consensus There is always the danger that the forum might become politicised or deadlocked. That is a calculated risk and anyone is free to withdraw at any time."

Should the forum succeed, it will pave the way to economic restructuring which should set the country on a growth path

However, complete accord is not without its dangers. Business and labour share many agendas and the policies they would like to see in place are not always the most suitable in the long term. They could, for example, put pressure on government to make short-term moves that would undermine monetary and fiscal discipline

Yet Parsons argues that organisations involved in the forum represent a wide range of sectoral interests "which would automatically introduce checks and balances I believe participation will inject realism into decision-making on all sides " ■

GDP FM 22/5/92

Still shrinking

(49)

Tiny pockets of growth in the first quarter occurred in mining, electricity, transport & communications and finance & real estate Preliminary figures from the Central Statistical Service show these sectors grew a quarterly 1,9%, 1,7%, 0,7% and 0,8%. (The figures are at factor incomes — which means stripped of taxes and subsidies — and seasonally adjusted and annualised, as are all other quarterly growth figures below.)

However, agriculture, which contributes about 6% of SA's GDP, declined a massive 15,8% as the drought cut crop production; construction fell 8,2%; and manufacturing shrank 3,2%.

The result is a total decline in GDP of 1,9% at factor incomes and also at market prices. This is the largest fall since the last quarter of 1989 when GDP shrank 2% at market prices and 1,8% at factor incomes. If agriculture is removed from the factor incomes total, the first quarter decline is 0,9%. This is a slight improvement on the previous quarterly decline of 1,2%.

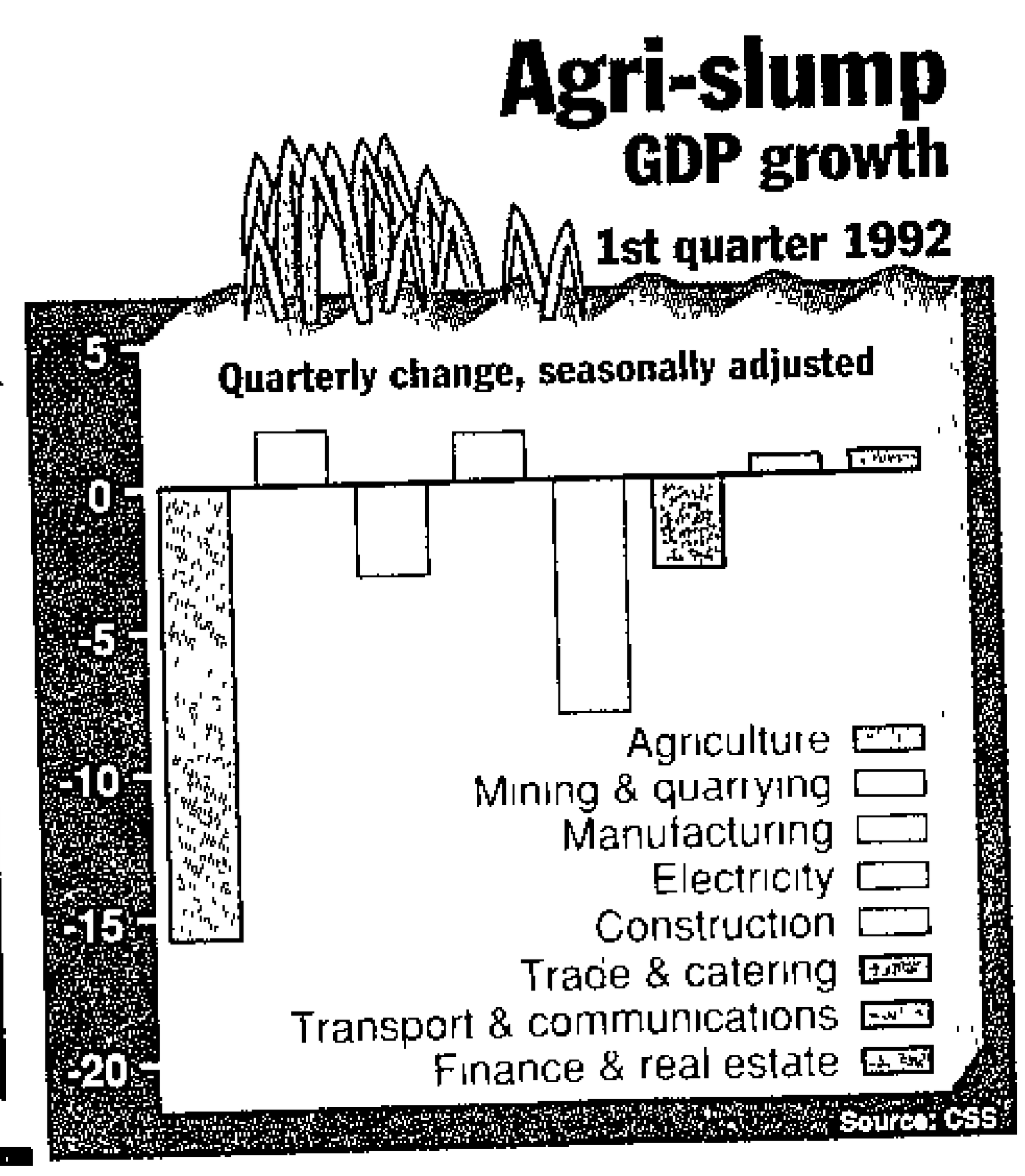
The outlook for agriculture remains poor. SA Agricultural Union economist Johan Pienaar says the drought has prevented farmers in summer rainfall areas from preparing the ground for planting winter crops. So, in addition to imports of 4,5 Mt of maize already on their way to supplement summer crops, wheat imports may take place later in the year.

Mining prospects are marred by the depressed gold price. The average rand price of gold declined from R986,35 in January, R996,87 in February and R992,47 in March to R974,47 in April. No significant increase is expected though the effect may be offset by a rise in gold production over the year, says Chamber of Mines economist Ivor Leibowitz.

With the primary sector facing serious constraints, little immediate relief is expected from manufacturing. SA Chamber of Business economist Keith Lockwood says retail sales in most sectors are depressed and the problems of the farming community are depressing demand further.

CSS's Helène Coetzer points out that, if the 2% decline in quarter one is followed by a 1% fall in the second quarter, the shrinkage in the first half will amount to 1,4%. "If that proves to be the case, then to achieve even a no-growth position for the year, the second half must grow by 3% (at an annual rate) over the first half."

So the outlook is not encouraging and only a strong turnaround in the world economy can pull SA out of the recession that has lasted for more than two-and-a-half years ■



Why not try this road, Codesa?

STAR 22/5/92

(49)

SO A kink in one of the interlocking and superimposed mazes Codesa is trying to traverse has held it up

South Africans now have a better idea of the complexities of interim government and a new constitution.

Maybe it's time for real simplicity.

Our society has to be restructured precisely because its guiding institutions and privileges excluded the majority of the population. But there has been one facet of society we are all "in" willy-nilly — as limited purchasers or giant marketers, labourers or managing directors — and that is the economy.

Doesn't it make sense, as we move towards a new order, to first carry unity and common effort through to new institutions? Can't we thereby avoid division over voting percentages and an upper chamber?

As I move around among businessmen, I find many instinctively understand how a universal poll for an economics parliament could ease our path.

It would transfer huge power to the majority quickly and smoothly, without every nook and cranny of proposed societal change having to be investigated in case it should hold a nasty surprise for someone.

Across the world today, advanced and advancing societies are moulding themselves round their economies rather than time-worn nation-state institutions and so becoming much more businesslike.

In the last century Abraham Lincoln and his like in the United States identified a new and better national core — "government of the people, by the people, for the people".

But we cannot doubt that today they would also be in the Von Hayek-Fukuyama fan club — reaffirming and advancing the link between democracy and free-enterprise economic progress.

From some of our people, of course, we could expect a huge outcry that an economics parliament was a "capitalist con" to preserve privilege for the minority. That would be absolutely untrue.

As the European Parliament gains authority at the expense of 12 national parliaments, democracy is not being diminished but rather enhanced as it gets a different focus.

In this country, an economics parliament would serve and not undermine the paradigm of Lincoln.

Non-interim and functioning with all state-side levers of the economy (including the Budget) in its hands, it could work wonders for the spirit of our people. We could become so much more perceptive about getting out of our other mazes

Codesa should seriously consider changing tack. □

Ron Schurink is a specialist writer on financial affairs

FM 22/5/92 (49)

Industry Ministers over the last few years — so Keys is into a learning curve. And he has to face the traditional fear of losing jobs. But history has shown that protectionism aimed at saving jobs does not work — in fact, the opposite results as the economy stagnates.

"For example, in the Eighties we grew manufacturing jobs at a rate of only about 0,2% a year, while the sector's contribution to the economy actually declined. And this was at the height of protectionism."

Goodall sees Keys' two great strengths as his good human relations and a willingness to work with others. But his weakness may be a lack of vision on economic policy. "He mainly sees his role as creating a social contract between business, government and labour," Goodall adds.

But as far as taxation and trade and tariff policy are concerned, Keys must face two critical issues that will not easily go away.

"We will all have to face the fact that there must be some pain in the adjustment process," Goodall says. "Therefore SA needs a specific decision on the details and the period of economic restructuring, including tariff reform. Government must spell out where we are going and how we must reduce our high-cost structures. Without reducing the high-cost element in the economy, we cannot become globally competitive."

And, he adds, the "very good" Industrial Development Corp report on tariff reductions must be implemented. "Unless we take speedy action, SA could become another Brazil — a country with a great future that never arrives. We must lose our fear of making mistakes and follow the successful examples of countries like Malaysia. A country is like a company — success depends on the quality of its management."

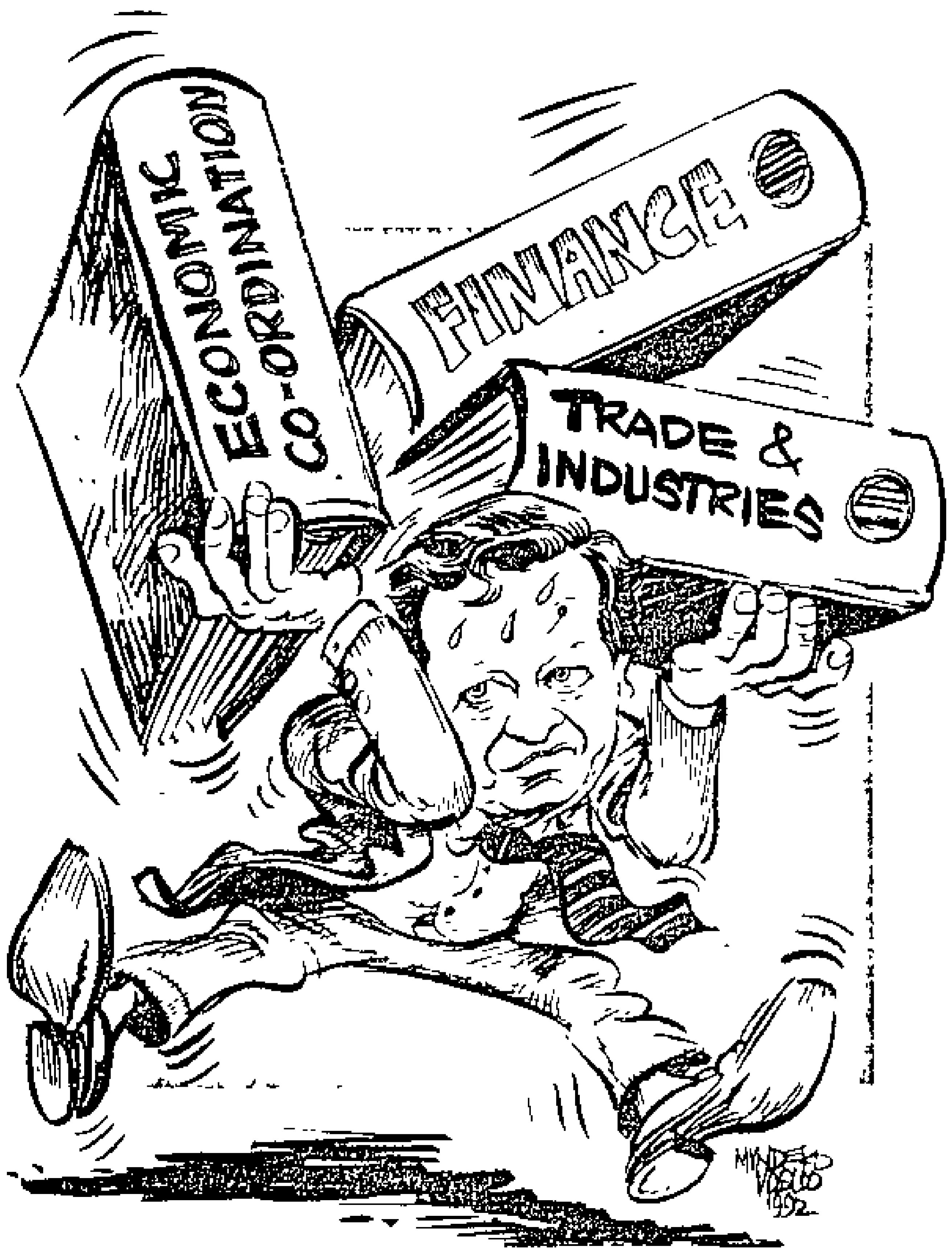
Keys took over Trade & Industry four months ago from Org Marais, whose nine months at the post were marked by a focus on tariff reform and deregulation. So, what has Keys achieved since January?

The signs are not very good. A return to increased protectionism, and similar moves away from liberal economic reform, characterise events at his department:

- New anti-dumping legislation now passing through parliament has created such a broad definition of dumping that almost any import into SA could become subject to anti-dumping actions. Introduced under the guise of tariff "liberalisation," it seems a regressive and protectionist move, aimed at keeping the economy noncompetitive and vested interests happy;
- The disastrous Hatty Report on the textile and clothing sectors, gazetted retroactively to April 1, looks set to cut a swathe through the low-capital clothing sector, one of SA's most labour-intensive. Keys and his director-general Stef Naudé seem to have decided to sacrifice the clothing sector on the altar of "protecting" the overcapitalised and technologically outdated textile industry;
- The decision to change yet again the controversial Phase Six of the motor industry's local content programme, flawed as it is, will hardly encourage confidence. It is a sorry tale of economic foolishness and bureaucratic bungling (see *Business*); and
- In his budget speech last week, Keys hinted that the costly general export incentive scheme might be extended beyond its original five-year period, ending in 1994, to allow industrialists a longer time frame for investment decision-making. This would not only lock future taxpayers into paying costly subsidies to keep noncompetitive exporters (hiding behind tariff walls) smiling, but essential tariff reform would be put off even further.

By promising continuing subsidies to exporters there is no need for them to become more competitive. Simultaneously, reducing SA's excessive 48% company tax rate would be made even more difficult, because taxpayers would be forced to fork out billions more on the export scheme.

According to the department's director of export trade promotion, Gerrie Breyl, total expenditure under the export incentive scheme amounted to R457m in 1991-1992, while a further R1,16bn was budgeted for 1992-1993. And, he adds, the annual amounts for which promissory notes are issued will average about R1,4bn each year from now on. Under the old A & B incentive schemes (now being phased out), an additional R564m was paid out in 1990-1991 and R624m in 1991-1992, while R872m has been budgeted for payment in 1992-1993.



Total export subsidies of R564m, R1,08bn and R2,03bn were therefore debited to taxpayers' accounts during the three tax years in question. In fact, considering the other unquantifiable tax allowances, some economists estimate that export benefits cost taxpayers about R4bn a year.

Nevertheless, the department refuses to disclose who were the beneficiaries of this vast largesse. It says only that category 2, 3 and 4 export incentive payments (which are for semi-processed, processed and manufactured exports) were R66m, R219m and R172m, respectively, in 1991-1992.

"It would jeopardise the interests of exporters if we were to disclose their names," Breyl says. "But the details are available to the auditor-general and to parliament." The department also refuses to disclose a "confidential" report on the administration of the export incentive scheme, recently completed by Deloitte Pim Goldby, on the grounds that "this would jeopardise the further development and adaptation of the export incentive guidelines."

Breyl admits that the department does spot checks to monitor applications. But the disturbing thought arises that non-disclosure has more to do with hiding these vast subsidies from other signatories to the Gatt, than it has with circumventing sanctions.

Goodall says the principle must now be accepted that the use of public funds is a public issue and that the watchdog of taxpayers, parliament, should force a full disclosure.

The sooner trade liberalisation is accepted as public policy and SA gets rid of costly protectionism, the greater the chances of a return to sustainable economic growth. In fact, all that is really asked of Keys is to announce a schedule of trade liberalisation, phasing out tariff protection over a specific period (in terms of the IDC's report of June 1990).

Nobody asks for "overnight" tariff reform — what is needed is an announcement that the reductions will commence and what the duration would be.

But, apart from making some generalised and soothing noises about tariff reform, Keys has shown no commitment to implementing the IDC tariff report. Meanwhile, local consumers bear the brunt of carrying the costly export incentive and tariff protection schemes.

Now, registered category 3 exporters receive a net 6,5% tax-free subsidy; category 4 exporters qualify for a 19% handout, based on the value of proven exports.

Apart from the direct impost on taxpayers, an economist at an employer organisation estimates that the tax cost of the export incentive scheme prevents the reduction of company tax rates by at least 10%.

The supreme contradiction is to believe that the ad hoc use of devices such as tariffs and subsidies, which reduce the general level of economic efficiency, will foster sustainable economic growth. Nor will they encourage a climate of confidence and stability ■

Access to economic information, a free press and a strong trade union movement are some ways to ensure the economic expectations of a broad cross-section of South Africans are fulfilled. Financial journalist **Lynda Loxton** reports in the third of a six-part series:

A r... Wi...

'Any new government should undertake to be more accountable to the public than the present government for what it spends, how, when and where'

— Peter Moll

(49)

South 23/5-27/5/92

THE LIBERATION struggle has built economic expectations among a broad cross-section of South Africans who hope a future government will deliver.

But the reality is that South Africa is not a rich country with endless resources and it is doubtful whether any new government will be able to meet these expectations.

Although wealth has been concentrated in the hands of a few, South Africa cannot, without bankrupting itself, embark on a major campaign to redistribute wealth and land.

This does not mean a future government cannot do anything to ensure some redistribution. It can, but not in the sweeping way liberation movements have tended to talk.

That talk has made business and political leaders nervous, specially as it seems to be based on what are seen as outdated socialist principles. This has resulted in propaganda campaigns by the "free-marketeers", who want to see capitalism flourish and minimal government intervention in a new South Africa.

Realistic

However, recent economic policy documents by the ANC reveal a more realistic assessment.

Socialism, with its flaws, has not been totally rejected, but neither has the free market, with its flaws, been accepted. There is a mix of policies, with some based on the experiences of other African countries who have flirted with socialism and capitalism

The ANC hopes this mix will ensure sustainable growth in the long-term and enable it to meet some of the expectations its own rhetoric has built up.

Whether the rank-and-file membership of the ANC will accept this will be decided at the important policy conference starting on May 28. Whether South Africans accept this policy will be decided at the polls during the first non-racial election.

Democracy

But South Africa's economic future also rests in the hands of the delegates to Codesa and the outcome of their negotiations on a transition to democracy.

ANC economic adviser and UCT lecturer Mr Patrick Ncube has spelt out some scenarios that could occur under a democratic government.

One is that the negotiations are successful, but include restrictions with regard to minorities, affirmative action and redistribution.

Under these conditions, an ANC government could have a mixed economy, with an emphasis on redressing regional and racial imbalances and providing incentives for job creation.

Export incentives would be introduced to ensure a healthy balance of payments.

This sounds reasonable. But Ncube warns that if the present government places too many restrictions on the new government, the latter's ability to deliver would be affected.

For example, compromises made during "constitutional horse-trading" may make it difficult for the new government to allocate enough resources for social upliftment to make a difference — or to help end the spiral of violence arising out of socio-economic conditions in some parts of the country.

Equally, any constraints on strong trade unions could result in continued labour unrest, leading to low productivity and poor economic growth.

The other scenario has two aspects — either the ANC and National Party share power, or there is an outright ANC victory. Both hold the danger of what Ncube calls "macro-populism" — reckless government spending to win votes and power, resulting in inflation, balance of payments problems and unemployment.

Growing needs

"The scenario of macro-populism can been seen in most African countries and some Latin American ones. After gaining independence, there was heavy social spending. To cater for growing needs, more funds were needed for these expenditures.

"Government is forced to resort to deficit spending, very often through money creation. The result is inflation and balance of payments disequilibrium. The International Monetary Fund is brought in and bitter medicine is prescribed," said Ncube.

"A number of economists in the ANC are aware of such a danger. It is for this reason that they insist that indicative planning is a good tool to show the population where one intends to go.

"Through an indicative plan the government can predict how much will be accomplished through the budget this year, next year etc. The population will be satisfied for a while, but will demand concrete results at a future date.

"The absence of such a plan creates a sense of panic in implementing social programmes. It is this kind of panic that leads to macro-populism," Ncube says.

This is accepted by other economists. But they point to the danger of rigidity in indicative planning. Economic and other conditions change so rapidly today that some flexibility is needed. It is not good enough to just stick to the plan.

Professor Lieb Loots of UWC says it is vital that economic policies are robust in the face of difficulties, yet flexible enough to change.

The present government has not been good at that, Loots says. Monetary and fiscal policies often contradicted each other and did not produce any redistribution. What was expected to happen did not, and there were no productive investments.

Secretive

Loots says this occurred because there was no effective democracy and the government was not accountable for its economic policies. It was elected for its racial policies and was never threatened over its economic policies The total onslaught era and the resulting secretive style of public management have been reflected in the budget, with very few changes despite any outcry over certain steps taken

He and economist Mr Peter Moll believe that any new government should undertake to be more accountable to the public than the present government for what it spends, how, when and where.

Loots would like more public debate, as in the US, on the national budget before it is adopted.

He suggests performance audits by the auditor-general to ensure funds are spent in the best possible way.

Information

Moll suggests that a Freedom of Information Act be passed to ensure that everyone can find out how non-security-related government funds are spent.

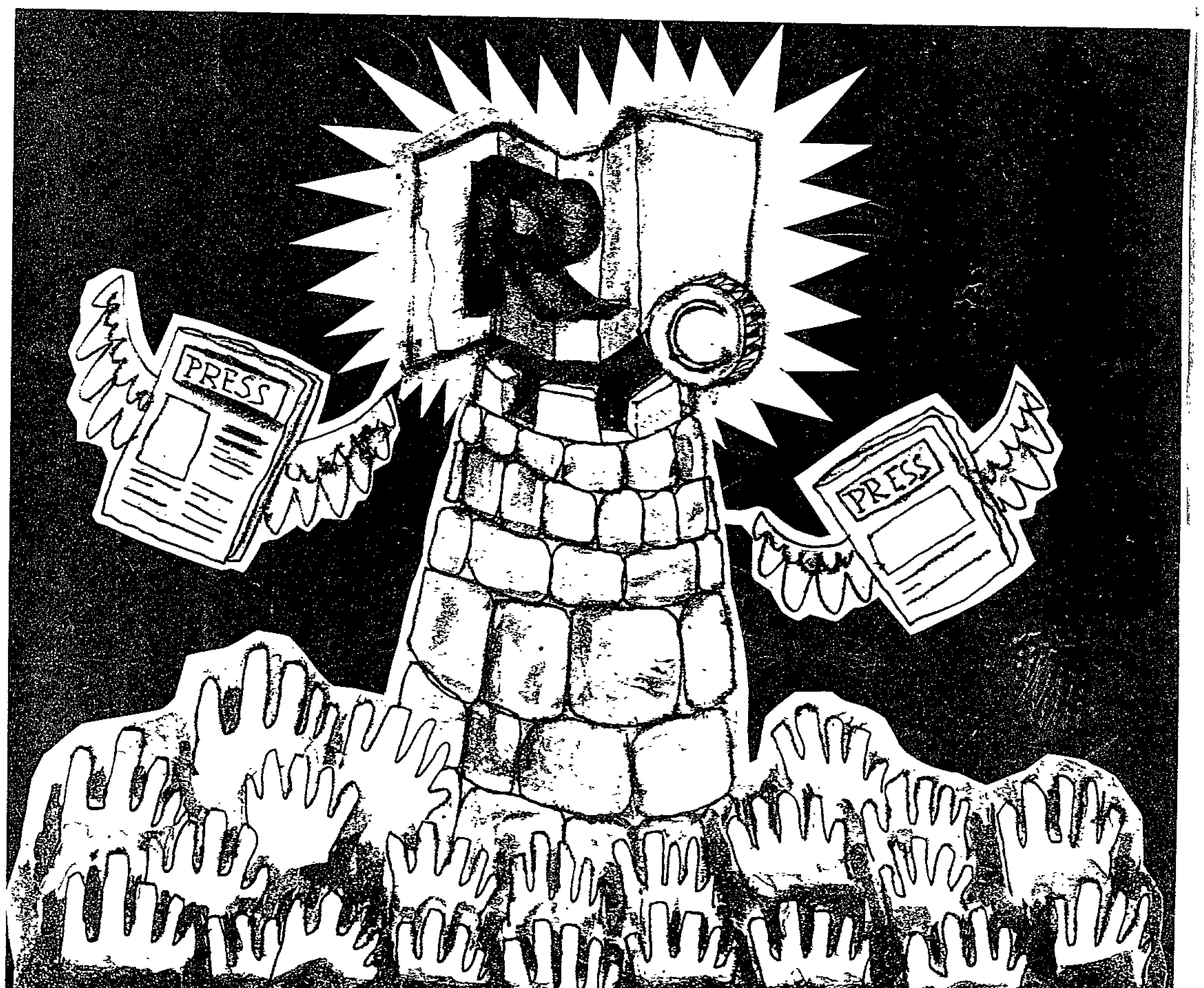
He suggests that an inspector-general keeps an eye out for the misappropriation of funds by government departments.

Moll believes it will be essential to ensure everyone has access to information on the economy to prevent government-private sector collusion and corruption.

There will also have to be a free press and a strong trade union movement to ensure accountability by government and business.

May 23 to May 27 1992

nix to be spiced h world's flavours



'South Africa is not seen as a developing country and so did not qualify for development aid from the west. This will change once democracy has been achieved, although South Africa should not pin its hopes on getting vast amounts of aid.'

— **Winfried Veit**

Milking cow dry before time runs out

(49)

ARG 23/5/92

With all the revelations of financial wrongdoing — whether in the private or public sector — it seems that a culture of corruption pervades South Africa, believes SHAUN JOHNSON.

IF you stand on a street corner in Pretoria late at night, I am sure you can hear the sound of shredders shredding.

Of assets being stripped, or transferred. Of pockets being stuffed.

I have become convinced, without the benefit or burden of proof, that a gigantic fraud is being perpetrated on us — the Family Taxpayer.

It is happening right now, on an ordinary Saturday morning in the twilight days of the old South Africa.

In recent weeks the journalistic rumour mills have been grinding away at bales of conjecture, bags of whispers, and it's got to me. I believe there are two types of South Africans today: Those who are In On The Deal, and those who aren't.

Consider our situation objectively. We have still in power — untrammelled power — a milch cow government and its millions of suckling babes. All are aware that the supply of milk will be cut off in the not-too-distant future.

Their choice is to stock up for all the winters of the rest of their lives, or face going thirsty.

In the last week alone, I have been told, inter alia, the following stories (names and places omitted to protect the innocent, should there be any).

■ Pension funds administered by a government not a million miles from here are being topped up with vast quantities of crisp rands.

Beneficiaries are being allowed to buy backdated policies, ensuring handsome payouts — certainly more handsome than the individuals' stations in life would suggest — on retirement (early retirement?) The Family Taxpayer will foot this bill.

■ Long-term employment contracts are suddenly being signed in government-funded institutions (broadcasting corporations?).

These will ensure that individuals whose services might — in a future age of unsheltered employment — be found not to be entirely essential, will receive bloated retrenchment payouts, courtesy of the Family Taxpayer.

■ Megabucks parastatals ("strategic" industries?) are suddenly going "private" and entering the market with new logos, big assets and big plans. It is not clear to whom these assets — paid for, it goes without saying, by the Family Taxpayer — now belong ~~to~~.

There are many, many other such tales — equally unsubstantiated, but equally persistent and equally plausible. Small wonder that the In On The Deals seem unperturbed by the prospect of the new South Africa.

It is probably too late to stop the bulk of the larder-raiding.

Our transition has been going for two years and shows every sign of having plenty of time to run.

Here, nest eggs can be arranged expertly and at leisure.

Just think about it. If officials of the Department of Development Aid were up to thieving, shamelessly thieving, millions while the going was still good, what do you imagine they would do when it was clear that the game soon would be up?

The snouts-in-troughs analogy has never been more apposite.

If there is an unanswerable, apolitical argument in favour of the immediate installation of a multiparty caretaker government in this country, it is surely that we must do all we can to try and ensure that when the larder door is finally opened, there is more inside than a row of beans.

There is a real danger that it will be bare. This is a nauseating enough prospect for ordinary whites who don't have access to the national autobank, but it must be all but unbearable for blacks who have never had their fair share from the state's coffers.

It is a lot to ask, but what the nation needs now, desperately, is an honest man or woman. Someone who knows what is happening — and, is prepared to say so.

History will treat them kindly.

ANC gets by with a little help from its friends

South 23/5-27/5/92

49

THE ANC is getting a lot of help from its friends to shape economic policies that will work for the benefit of all people.

These days, those friends are mostly liberal or social-democratic western governments such as Germany, Sweden and Canada.

Most of these governments agree that while markets should be the main steering instruments of an economy, this does not mean there should be no government intervention.

To define more closely what balance should be struck between market forces and government intervention, these friends are working closely with the ANC's department of economic policy and the newly formed Macro-Economic Research Group (MERG).

This research group is made up of leading international and local economists advising the ANC on various economic issues.

The South African office of Germany's Friedrich Ebert Foundation has been one of the western aid agencies channelling advice and funds to the ANC to help it shape economic policies.

The director of the Cape Town-based office, Dr Winfried Veit, says the aim is not to impose a model on the ANC, but to help it gain access to other experiences, so it can judge for itself what will, or will not, work in South Africa.

"South Africa needs clear ideas about its future economic policies, because without that it will not be able to secure international loans and aid for development," said Veit

Contradictions.

The Friedrich Ebert Foundation has been close to the democratic movement and the trade unions. It was concerned about the lack of clarity, and often glaring contradictions, in the economic policy statements made by the movement.

It has brought international experts to hold discussions with the ANC, while ANC economists have been sponsored on trips to other countries to share ideas and experiences.

The main benefit has been to demonstrate that South Africa does not have to "re-invent the wheel". Various mixtures of economic policies have been tried, modified and discarded throughout the world and South Africa can learn from those experiences and come up with something best suited to its needs.

Like other donors, the Friedrich Ebert Foundation helps to train the technocrats needed to run the economy in a democratic South Africa. Special attention is, of course, being given to the long-neglected task of training black economists

On the prospect of aid from western governments for a democratic South Africa, Veit says South Africa is not seen as a developing country and so did not qualify for development aid from the west This will change once democracy has been achieved, although South Africa should not pin its hopes on getting vast amounts of aid

The reconstruction needs in eastern Europe, coupled with the slow growth in western economies, means that not much is left for aid programmes for developing countries.

These countries are having to rely more and more on the multilateral institutions such as the International Monetary Fund, World Bank and African Development Bank — and that makes it even more vital for them to have clear and sustainable economic policies, says Veit.

Banker sees SA as Africa's lifeline

C Press 24/5/92

AFRICA's top banker talks openly of what few dared dream until now – a common market stretching from Cape Town to Cairo.

African Development Bank president Babacar Ndiaye believes the eventual integration of SA into the continent's mainstream will bolster its weak economies and give it an effective voice in world affairs.

Once SA recovers from sanctions and the prolonged recession, and tackles substantial housing, education and other backlogs built up under apartheid, it will act as an engine of growth in southern Africa and beyond, he says.

"Then, when Africa takes off, it will have a different voice in international forums. They will listen to us," he told a seminar ahead of the bank's annual meeting in Dakar recently.

The African Development Bank, the Organisation of African Unity and the United Nations Economic Commission for Africa have endorsed proposals for the formation of an African economic community by the year 2025.

Ndiaye says the continent resembles a big tree rooted in the south. "For this tree to be complete, for this organic tree to survive . . . the roots must become an integral part of Africa."

Ndiaye does not underestimate the challenges lying ahead.

He warned bank members that when SA joined its ranks, it would do so initially as a borrower rather than a contributor of resources, despite its mineral and other riches.

Elsewhere in Africa, people are now worse off on average than in the early years of independence, the bank says.

The continent has been wrought by severe drought, civil war, weak world prices for its mineral and farm exports, and a R756-billion foreign debt bill. Its population growth of 3,1 percent a year is the world's highest.

The bank estimates Africa will need economic growth of four percent annually over 10 years, almost double that posted in the 1980s, just to restore 1980 living standards.

Ndiaye believes a recharged SA economy, which accounts for 40 percent of sub-Saharan output, will make a difference especially at a time when the single European market looms.

"We need SA, at that (locomotive) level, to fight against marginalisation in Africa," he said.

The bank is preparing to help SA when the OAU opens its doors to Pretoria.

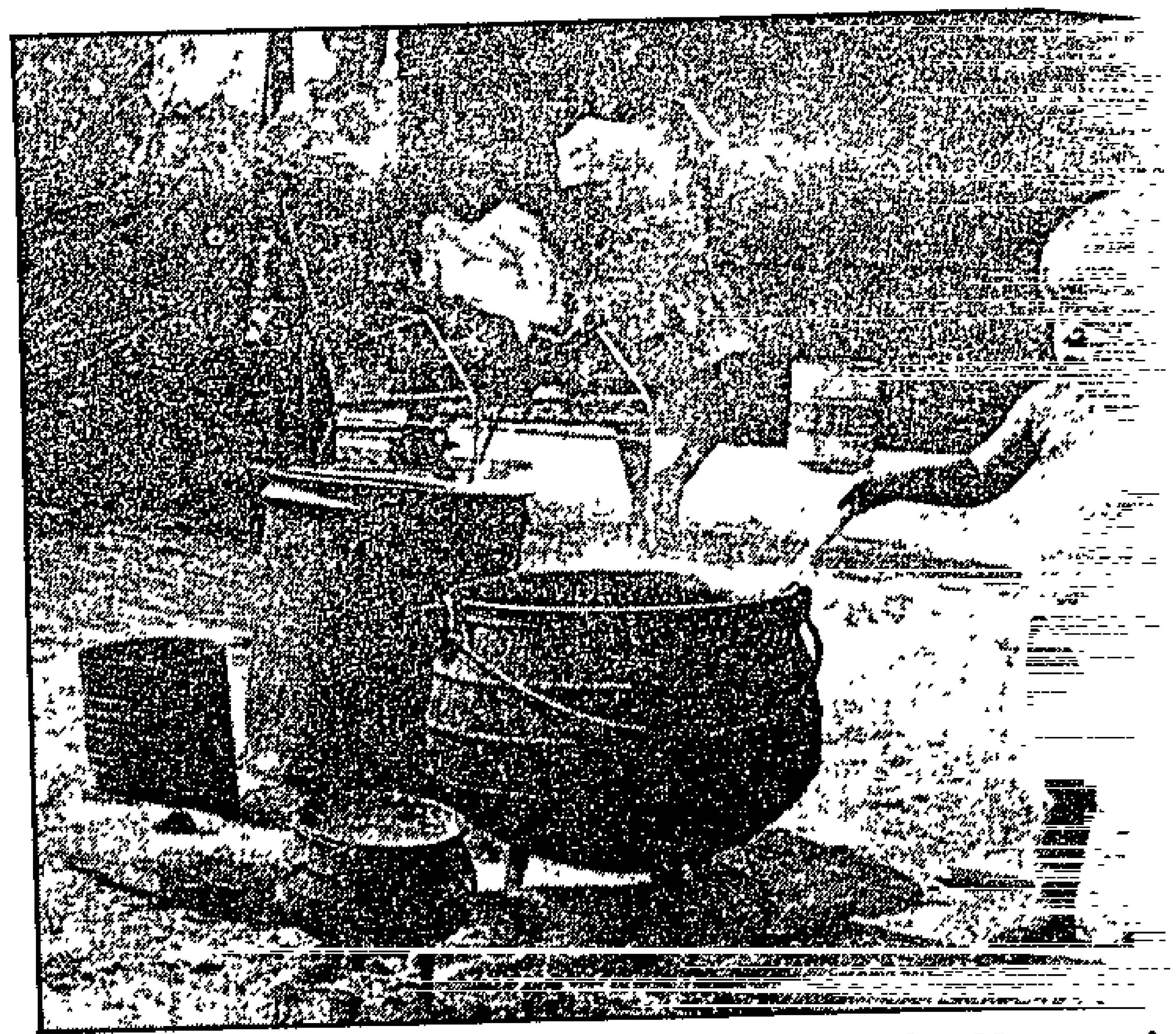
The bank, whose foreign shareholders include the industrialised nations, could help not only with direct loans, but by mobilising resources from other institutions, he says.

Philippe Lietard, of the World Bank's International Finance Corporation's private sector arm, said the size and variety of SA's economy and its creditworthiness, would appeal to firms looking for safe lending opportunities in Africa.

Ndiaye sees SA as a potential buyer for Africa's raw materials, a source of technology, a regional manufacturing base for multinationals and a financial or services hub.

Botswana Finance Minister Ronald Sebego hailed major diamond producer Debswana – which his government owns jointly with the foreign arm of the De Beers group – as a model for co-operation with South African companies or their affiliates.

Some African officials fear economic domination by SA, giving it undue political clout. But ANC president Nelson Mandela insists there is no cause for such concern. – Sapa-Reuter



THE FACE OF AFRICA . . . SA, which accounts for 40 percent Saharan economic output, will help fight poverty in Africa.

Beware the World Bank and its 'gifts'

S/Times (Buss) 24/5/92

BEN TUROK, recently returned from many years in exile, warns against being seduced by offers of easy money from the World Bank (49)

RUMOUR has it that the World Bank is poised to enter the South African scene in a big way.

It is said that the bank is "impatiently awaiting the formation of an interim government" when it will offer a loan of $1-billion to that government.

The bank also seems to have some new ideas on how the loan could be used, making the important distinction between achieving high growth rates and tackling poverty.

It seems to have finally got the message that in a highly skewed economy like ours it is perfectly possible to invest in the existing developed enclave without there being much benefit for the rest of the underdeveloped economy or for the disadvantaged population.

Great

Would that some of our own more simple-minded economists understood this point.

Indeed, one of the World Bank vice-presidents, Timothy Thahane, recently claimed that "our programmes are designed to target the poor, increase productive capacity through education and better health facilities and living conditions. This increases their employment opportunities."

So far so good, just the kind of help needed by an interim government which comes to power amid such great expectations from the black community. What makes the proposal particularly interesting is that the loan will be linked to generating productive capacity among the poor, rather than being used in a splurge of welfare handouts as might be tempting to a new government.

Yet there are serious nagging worries. Those of us who have lived in other parts of Africa and know the Third World have seen it all before. Easy money borrowed from an eager donor, perhaps even on soft terms, is spent without a care and becomes an albatross when it has to be repaid.

The Third World is choking with huge debts derived precisely in this way. Africa owes $270-billion, service charges alone being $25,3-billion a year.

So there are serious worries about borrowing and perhaps Nedbank's Edward Osborn is right to argue that we should rather find the necessary sources in the country.

One of these worries is about what might happen if the post-apartheid economy enters stormy waters, for whatever reason — capital flight, excessive spending, social unrest etc — and we then have to repay a huge loan.

Or, what if the world market in the minerals we sell abroad falls drastically. The collapse of primary commodity prices has been another major reason for Third World inability to repay debts.

Stormy

But there are other major worries too. Should we have pressure on our balance of payments for the above reasons? Will this make us vulnerable to pressure from the International Monetary Fund? Indeed, we should insist on knowing whether the current World Bank offers are in any way tied to IMF conditionalities.

The IMF admits openly that it is not concerned with redistribution in recipient countries, even if the World Bank does want to target the poor. But in the end, once the IMF gets involved, seeking to introduce its infamous structural adjustment programmes (SAP), will not the fund control the bank?

There are solid grounds for this supposition since the bank will not lend unless the fund grants creditworthiness status to a particular country.

As it is, there are advocates enough in this country for an IMF structural adjustment programme. None other than Reserve Bank Governor Chris Stals openly argued for such a package in April this year.

Cuts

The Standard Bank wants us to go for a "precautionary standy-by facility", which necessarily opens the door to structural adjustment programme conditionalities.

Looking again at Third world experience we know that a structural adjustment programme includes:

1 Government spending cuts which lead to large job losses. (This is no doubt justified in our own bloated bureaucracy, but some caution is still warranted because black workers are still easier to fire than white managers who are paid far more)

2 Cost recovery in areas such as education and health which impose severe burdens on the poor — the very people the World bank wants to help.

3 Abolition of any constraints on prices — again imposing harsh increases in the cost of living for the poor.

4 Removal of subsidies in industries and services which supply the poor.

Since there has been such a public outcry against the impoverishment caused by these programmes around the world, the IMF has put in place a "safety net" provision which is supposed to relieve their plight.

Helpful as it may be for those at the very bottom of society, it cannot counterbalance the overwhelming effect of the "harsh medicine" (the IMF term) for the economy as a whole

Taxis

In most Third World countries, once repayment of these loans starts, it is the poor who are squeezed, having a serious effect on workers wages and living standards generally

Devaluation also has the effect of lowering living standards so that a professor at an African university earns a tenth of his American counterpart. This is why so many African academics work abroad, or drive taxis in their spare time or spend more time on chasing foreign consultancies than teaching

Even more disconcerting are the political implications. Throughout the Third World, implementing SAP has required tough government measures associated with authoritarian regimes These regimes have generally negotiated agreements in secret which have only become public once the severe measures are in place

Soft

Is that where we want to head a post-apartheid government? In case this seems mere alarmist talk, we might indicate that the 20 or so World Bank teams who have toured SA in the past two years have scrupulously avoided publicity and tried to bind their contacts to confidentiality Just try to get hold of one of their documents

So World Bank lending is still very problematical. Certainly we need foreign loans, and there can be no objections to this in principle But let us beware of soft talk about easy money. These are not gifts for the poor — they are loans to a future government, which have to be repaid, with interest.

Ben Turok is director of the Institute for African Alternatives (IFAA) and the author of many books and papers on the issues raised in this article

Carbon tax threat to SA coal mines

S/Times (Buss) 24/5/92

By IAN ROBINSON

SOUTH Africa's coal industry faces a major challenge from environmental lobbies in the current decade

The European Economic Community (EEC) proposes to adopt the most ambitious environmental measure ever contemplated — the carbon-energy tax

The EEC Commission has approved a directive — subject to endorsement by the Council of Ministers — to impose the tax The intention is to reduce carbon dioxide (CO_2) emissions Carbon dioxide has been blamed for the greenhouse effect and global warming

The commission's plan stems from an EEC decision two years ago to stabilise CO_2 emissions, which will mean cutting their predicted level in 2000 by 12%

The proposed tax would start at $3 on the equivalent of a barrel of oil in 1993, rising to $10 by 2000. Half of the tax would be levied on the use of energy from non-renewable sources (excluding nuclear) and half on carbon emissions

Weighted

The carbon tax is weighted against coal because it would be imposed at different levels on different primary fuels according to their carbon content. Because of its high carbon content a unit of ener- [...]

world's CO_2 emissions and Japan are hostile to an energy tax The impact of the tax will be watered down by exemptions or reductions granted to important energy-intensive sectors of EEC industry, such as aluminium, steel, glass, paper and others Although loopholes and opposition from other countries may prevent the effective application of the tax for some years, the EEC Commission's directive represents a "strong way" of presenting its position and exerting pressure on trading partners

Signal

Counsellor (mineral and energy) at the South African Embassy in Paris, Arthur Dykes, describes the carbon tax as "potentially a major threat" Even if the proposed tax has no teeth, it has an adverse psychological effect on coal use

The proposal sends a signal to coal users that if they fail to use energy more efficiently, they would be liable to penalties at some time

Randcoal and Amcoal say they are monitoring the tax proposal Randcoal ...

ITED

by 10% in the six months
sed economic conditions
ted results
and tight expense control

quickly when ... improves.
The TOSA seamless-steel tube mill, a venture with ... if it were ... in Dorbyl, Metkor would be in a bad way.

Bleak prospect for living standards

49

SI Times BUSS 24/5/92

By CIARAN RYAN

THE decline in SA's per capita gross domestic product (GDP) began in 1975 and cannot be blamed solely on sanctions, says Old Mutual chairman Mike Levett.

The decline began before sanctions were imposed.

He told the national congress of chartered accountants: "This is not just weak performance, but weak performance by Third World standards."

One of the reasons for the decline in wealth was lower fixed capital formation. To sustain high growth rates a nation needed to invest 25% of GDP — the figure for SA had fallen to about 18%. In high-growth countries, about 30% of GDP was invested.

Other factors contributing to the decline in wealth were a labour force growing by 2,5% a year, swelling the ranks of the unemployed to 5,4-million and an urbanisation rate of 300 000 a year, three times more than in the US in the strife-torn 1960s.

Furthermore, studies showed that SA had the most unequal distribution of income of 57 countries tested.

"On our current course, the optimistic view . . . over the next four years is that we cannot expect more than an average for the period of 3% GDP growth a year. Our living standards will remain stagnant. Given that redistribution towards blacks will continue, this means that the decline in white real incomes of the past decade will continue and perhaps accelerate."

Under the optimistic scenario, about 500 000 jobs would be created and the number of jobless would rise by a million to nearly 7-million.

Money talks 'a way forward'

Sowetan 25/5/92

(49)

By JOSHUA RABOROKO

TOP-level business and trade union leaders who met the Finance Minister, Mr Derek Keys, in Cape Town last week were optimistic about the talks which they said were "a way forward".

They agreed on joint consultations and to try to reach consensus on restructuring and addressing various problems in the economy.

It was also agreed that another meeting be held possibly in Johannesburg or Cape Town within two weeks to take decisions on the issues raised.

Some of the points raised on the broad agenda were: the Government's economic policy; future economic investment; trade; retrenchments; provident funds; taxation; housing and education.

The Minister was accompanied by his special adviser, Mr Japie Jacobs, while labour was represented by Cosatu and Nactu.

Business organisations present were Fabcos, Sacob, Chamber of Mines, Saccola, the SA Agricultural Union, Afrikaanse Handelsinstituut and the SA Federation of Civil Engineering Councils.

Fabcos assistant chief executive Mr Zulile Makaba said the meeting was "positive and we are optimistic that future dealings will help the country's economy".

Makaba said: "This was probably the first major step towards establishing an economic-Codesa that will herald another era in South Africa."

Cosatu's campaign's coordinator Ms Lisa Seftel said that progress had been made in the meeting. Some of the important points they raised were job-creation, retrenchments, unemployment and VAT.

Unite, top banker tells businessmen

(49)

Sowetan 25/5/92

BLACK businessmen should not let petty business differences separate them if they wanted to hasten economic growth.

This was said by Mr Solly Makole, Free State and Lesotho regional manager of the African Bank, at the opening of the 28th conference of the Free State African Chamber of Commerce in Thaba Nchu at the weekend.

Makole said it was important for blacks to take part in all sectors of the economy in order to alleviate problems facing them.

He said blacks should not restrict themselves to businessess such as taverns and informal trading stores.

Also speaking at the conference, the national deputy president of the National African Federated Chambers of Commerce, Mr Archie Nkonyeni, said South Africans should avoid what befell the rest of Africa where political liberation did not go side by side with economic liberation.

He said there was still much needed to be done to redress economic problems. - *Sapa*

Holidays glut 'detrimental to economy'

(49)

Pretoria Bureau

STAR 25/5/92

South Africa has too many holidays, resulting in frequent disruption of normal business and industrial operations, according to the Afrikaanse Handelsinstituut.

The AHI said the situation was detrimental to the economy, currently experiencing its longest post-war recession.

In April and May alone, there are five public holidays and May 30 has also been designated a holiday this year to accommodate the Comrades Marathon.

Home Affairs is adamant, however, that the last weekend of May is not officially a long weekend, despite Republic Day (May 31), Ascension Day (May 28) and the Comrades (May 30) all falling within four days of each other.

Friday, May 29, will be a normal working day, as will Monday, June 1.

April and May cause havoc for the business sector every year, as there is a glut of holidays over this period.

The National Productivity Institute estimates SA loses about R521 million in potential revenue on each public holiday.

However, there will be a slight reprieve for businessmen this year, as a number of the holidays fall over weekends.

The SA Chamber of Business would prefer a better spread of holidays throughout the year.

'SA youths patriotic and materialistic'

BDay 26/5/92

GAVIN DU VENAGE

YOUNG South Africans are likely to be patriotic and materialistic, a Markinor study entitled Tomorrow's Values has found.

The study claims to be applicable to 2-million people aged between 13 to 24 with a total income of R9bn. Seven different segments were identified according life-style, values, activities, interests and self perception, and took into account all racial groups living in SA's major metropolitan areas.

The survey shows national pride could become a sought-after positioning for a product with broad appeal. Eight out of 10 respondents said they were proud to be South African.

"This view flies in the face of conventional wisdom which in the past has been that patriotic posittioning was a double-edged sword in a country with so many adverse, sometimes antagonistic groups," Markinor chairman Nick Green said in a statement.

(49)

He said young people's agenda seemed to endorse reform, but was largely non-political. "But personal goal-setting is usually qualification and career orientated. The young South African living in formal housing is a materialist, not a Marxist."

Other findings were a consensus on the need for the races to work together to build a better future; that almost all had "towering aspirations" often irrespective of current educational levels, and money, education and top jobs rather than revolution were seen as the route to a better future.

Markinor conducted 860 interviews countrywide for the survey, and its research was developed with Hunt Lascaris TBWA.

SA 'has to win world confidence'

B|Day 27|5|92

(49)

MADDEN COLE and LINDA ENSOR

THE need to attract foreign investment was vital for economic growth in SA and this made it imperative for the country to generate foreign confidence, Shell SA executive chairman John Kilroe said in the company's annual report yesterday.

Kilroe said violence and the refusal by some political groups to participate in Codesa was cause for "considerable concern".

"It is quite clear that those leaders on both the left and the right who are co-ordinating terror or threatening violence have scant concern for either this country or its people."

He warned that potential investors looking at SA were seeing what they considered a massive gulf between the major arbiters of future economic policy in the country.

Some policymakers advocated the free market system, but others persisted in talking of nationalisation.

"We have no choice as a country but to get the economic fundamentals right, and we must demonstrate our commitment to an economic system which works and is sustainable over the long term."

Kilroe said while talk of nationalisation and the threat to renege on foreign loans undermined local and foreign business confidence, SA should not lose sight of the immense demands being made to eradicate costly socio-economic backlogs.

Kilroe saw education as one of the most pressing social needs, but cautioned that even under a new government, township schools with all their shortcomings would remain a "harsh reality".

It was necessary to establish a culture of learning among adults and children. This should be preceded by the rapid eradication of obstacles to successful education, such as textbook shortages, underqualified teachers and overcrowding. All schools should be opened to all children.

The report said Shell had spent more than R50m on community programmes over the past five years, with about R11,3m spent last year.

The group had also adopted a strategy to achieve a staff profile which better reflected SA society. It said the number of blacks in management positions had significantly improved as a result. Blacks in managerial jobs had increased from 4,9% in 1986 to 16,2% in 1991 while blacks in supervisory positions and above rose from 7% in 1980 to 30% last year.

● See Page 10

Money supply figures on rise

STAR 27/5/92

(49)

By Sven Lünsche

Growth in money supply in April exceeded the 1992 guidelines set by the Reserve Bank again, after it dropped into the target range for the first time in March.

The Reserve Bank reported yesterday that the broad money supply measure M3 increased by a provisionally estimated 11,05 percent to R190,22 billion from April 1991 to April this year.

The year-on-year increase in March was 9,5 percent and in February 10,58 percent.

The rise in credit extension could dampen hopes of an early interest rate cut by the Bank as it inevitably filters through to higher demand for consumer items.

The Bank will be particularly disappointed with the fact that money supply growth has exceeded its seven to 10 percent guidelines for the year.

From mid-November, which is the base for the guidelines, M3 rose by an annualised seasonally adjusted 12,49 percent in April. The comparative increases for March and February were 7,31 and 15,46 percent respectively.

The more narrowly defined money supply measures M2 and M1 also showed higher rates of increases during April. M2 rose by 11,77 percent to R161,1 billion and M1 by 14,18 percent to R64,19 billion.

Crackdown on State spending

STAR 27/5/92

49

CAPE TOWN — The Government is to introduce steps which will enforce stricter financial discipline and control over State spending.

This was announced yesterday by State Expenditure Minister Amie Venter during his department's first budget vote.

He said the Government had decided that new arrangements were needed to end the decisive role played in the affairs of the office of the Auditor-General by the Executive Authority.

"These (steps) will place the office of the Auditor-General under expert and effective Parliament-related supervision, rather than under the supervision of the Executive Authority."

The legislation which would drastically change the arrangements relating to the affairs of the office of the Auditor-General would be tabled for the approval of Parliament before the end of the present session.

The effect of the new measures would be that the office of the Auditor-General would be able to function essentially as an independent instrument of Parliament.

Appropriate checks and balances would be retained, enabling the office to act with greater, more visible autonomy.

Mr Venter announced that he also intended amending the Auditor-General Act this session.

The amendments would accommodate the relevant references in the legislation to the new Audit Arrangements Act in an "appropriate way".

Provision had been made for annual reports by the Auditor-General which would become available during the parliamentary recess to be brought to the attention of the Joint Committee on Public Accounts. It would not be necessary to wait until Parliament was in session before referring these reports to the committee.

For the first time, the office of the Auditor-General would this year table in Parliament full particulars of the trading account and its financial state and analysis.

Mr Venter undertook to introduce legislation which would correct what he termed "certain shortcomings" in the State's financial management and control.

This would include the Bill on Abolition of Part Appropriation, the Bill on the Report by Public Entities, and the Consolidation Bill on Finance Laws.

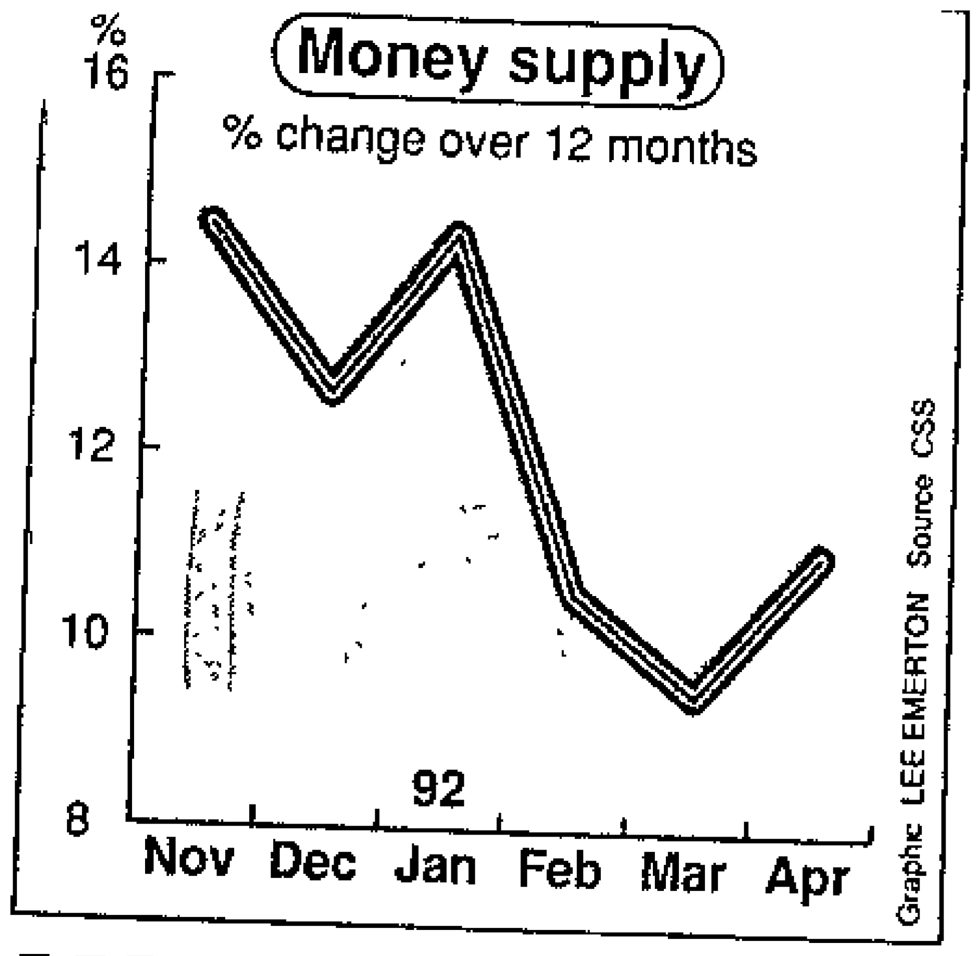
Management plans which would be addressed included the possible scaling down of functions, rationalising of manpower needs, and actions aimed at increasing productivity.

The department was also implementing a system of multi-year planning which would enforce stricter financial discipline and control.

Mr Venter said a concerted effort would be made to reconsider the affordability of objectives and standards of public services in respect of the various functional areas.

The Cabinet had decided that a task group be established to advise the Cabinet on a five-year macro-economic framework in respect of overall expenditure limits, revenue projections and loan funding.

The task group would consist of the departments of State Expenditure and of Finance, the Central Economic Advisory Service and the SA Reserve Bank. — Sapa.



M3 rise dampens hope for rate cuts

BDay 27/5/92 (49)

SHERIDAN CONNOLLY

HOPES for a near-term cut in official interest rates were dashed after April money supply figures, released by the Reserve Bank yesterday, showed higher than expected growth in broad money supply.

Growth in M3, the broad monetary aggregate consisting of cash in circulation and all deposits with banks, accelerated to 11,05% in the year to April. March growth in M3 was revised downwards to 9,5% from a preliminary 10,5%.

The rolling increase in M3 from the base of the current guideline year was 12,49% compared with a revised 7,31% in March — outside the Bank's 7%-10% guideline range for 1992.

Old Mutual chief economist Dave Mohr said M3's overshoot meant a cut in official interest rates would be inconsistent with the Bank's monetary policy stance.

The figures reflected the weak state of the economy. He said, however, the 11,05% growth in M3 in April was substantially below the current consumer inflation rate.

The uptick in money supply growth was not expected to have any effect on the rate of consumer inflation in the short term, Mohr said. As with the revised March M3 figure, this month's figures could show a downward revision in M3 for April to a level within the 7%-10% range.

"When things are trending downwards, there is a tendency for the general view to be optimistic," and the opposite was true, he said.

In the short term he expected growth in money supply to remain subdued. He said the next set of figures could be conducive to lower interest rates in the longer term.

Africa will feel tremors in US

(49)

STAR 28/5/92

FOR reasons which are the source of inconclusive debate, South Africa seems destined to be more acutely affected by the whirlwind of scandal and change now raging through the US Congress than just about any other country.

Four out of the six Democrats on the House of Representatives Africa sub-committee, for instance, have been decimated by its force already, the career of a fifth is in peril, and the whirlwind has yet to spend itself.

Great movers and shakers like Mervyn Dymally, the sub-committee's chairman, and Howard Wolpe, the sanctions activist, have announced that for one reason or another they will not be standing for re-election.

Stephen Solarz, perhaps the most influential force in shaping policy on South Africa in the House, has been exposed by the banking scandal as one of the most tireless and persistent issuers of dud cheques on Capitol Hill. His New York constituents, who normally doze through scandal and mayhem, are said to be indignant but he intends seeking their endorsement yet again.

Who will fill the vacuum left by the men who made South Africa the focus of national attention, who got sanctions enacted over the threatened veto of President Reagan, and who have set the pace on almost all issues involving the country?

There are no obvious successors in sight The drawing of new constituency boundaries, the banking scandal and a rebellion by voters against incumbents, has caused more members of Congress to withdraw from politics than at any time since World War 2

But far right South Africans who might derive satisfaction from seeing old adversaries bowing out, or being booted out, might pause for cold reflection

Whatever faults he may have, Stephen Solarz is one of the few people who today resists a tidal wave of indifference towards Africa, which threatens to engulf Congress and the administration. He is a prime mover behind the Solarz-Dellums Initiative which proposes setting up a multi-billion dollar investment package for South Africa, and there is every reason to wish him well in his quest for re-election.

By contrast the focus on Africa has both dimmed and shifted What interest is still there is shifting from the reconstruction of South Africa to such issues as human rights in the rest of sub-Saharan Africa, and the drought in the region as a whole.

Criticism of the regimes in Kenya, Malawi, Zaire, and the Ivory Coast now transcends the residual criticism of Pretoria, concern about the drought too often includes the dismissive observation that the country best equipped to cope with the disaster is South Africa.

Most recently, the Congressional Black Caucus, which used to keep the spotlight on South Africa, has found its attention wrenched away by the riots in Los Angeles and elsewhere.

Even the ANC reportedly is feeling the cold blast of indifference. Its US fund-raising campaign, under the stewardship of the Reverend Walter Fauntroy, is said to have proved a huge disappointment.

The only forceful new personality to emerge as a possible replacement for the loss of anti-apartheid stalwarts on Capitol Hill is Carol Moseley Braun, who defeated incumbent Senator Alan Dixon in the Illinois Democratic primary and who now stands a better than even chance of becoming the first black US Senator.

For the time being, US policy on South Africa seems destined to be shaped on Capitol Hill by the Senate's surviving South Africa enthusiasts Among them are Senator Paul Simon of Illinois, Senator David Boren of Oklahoma and Senator Nancy Kassebaum of Kansas.

It is they who will have to hold the fort as an era in South Africa's relations with the US comes to an end, and fresh blood in Congress ushers in another. — Star Bureau. □

ANC indaba to focus on economy

STAR 28/5/92

By Esther Waugh
Political Reporter

The ANC is expected to focus on its economic policy at its four-day policy conference, starting at Nasrec today.

The conference, which is scheduled to be attended by more than 700 members, will give ANC members an opportunity to dicuss the organisation's policies.

The policy conference was arranged after the ANC national conference, held in Durban in July, ran out of time before it could discuss the organisation's policies on wide-ranging topics.

Topics under discussion at the conference include constitutional affairs; economy; land and environment; local government and housing; health; social welfare; education; science and technology; arts, culture and media; and police and army.

The ANC formed a special commission on negotiations this week after the failure of Codesa 2 to reach any agreement on transitional arrangements. It is understood that additional members are travelling to Johannesburg from the regions to discuss negotiations.

A heated debate is expected on the ANC's department of social welfare following the suspension of Winnie Mandela as the department's head.

The draft policy document is proposing a mixed economy "to create a strong, dynamic and balanced economy".

The economic policy proposes to elimate poverty and "extreme inequalities generated by the apartheid system", achieve high employment, develop a prosperous regional economy, and improve the lives of the majority.

The ANC envisages that the State will bear the responsibility for health, education, social security and an infrastructure such as roads, telecommunications and transport.

It also envisages a dynamic private sector with special attention being given to small and medium-sized businesses.

Only the opening address by ANC leader Nelson Mandela and the closing address by secretary-general Cyril Ramaphosa will be open to the press.

STATE SPENDING FM 29/5/92

Luxury for spooks

(49)

The estimated cost of a new head office for the National Intelligence Service (NIS), at Rietvlei near Pretoria, has risen R58m to R145m over the past seven years — and construction hasn't even started. A Department of Public Works memorandum tabled in parliament says that in the past year alone the estimated cost of the complex rocketed by R53m.

However, in replies to questions by the *FM*, a spokesman for the Justice Ministry (which is politically responsible for the NIS) says the figure of R91m was "unfortunately" incorrect and should have been R116m, due to the cost of various work that was not included "through an oversight." He adds that further adjustments to the latest estimates are probable "when the corrected building cost indices are known." The spokesman says the original estimate of R58m was made before accommodation requirements were finalised.

Nearly R10m has been spent so far on preliminary work, including the provision of domestic services, civil engineering works and residential, technical and "other ancillary buildings" to serve the main complex.

The provisional tender date for the main complex is February next year and the contract period is 39 months. Due to the "ample space" available on the 311 ha site (assembled between 1979 and 1982 at a total cost of R535 000), the main complex will be spread over a large area with buildings varying between four and six storeys.

The spokesman declines to say how many people will be accommodated in the complex. The NIS head office is now spread over several separate buildings in Pretoria, most of which are leased "at a very high cost."

It's not clear why the NIS needs a head office complex costing at least R145m. The Justice Ministry spokesman was unable to find out by the time the *FM* went to press. NIS director-general Mike Louw was unavailable for comment.

The head office is by far the most costly

Cont —P

(49)

FM 29/5/92

single project listed in this year's Public Works memorandum and accounts for 8,2% of the total estimated cost of the department's capital works programme.

The next most expensive project is the alterations and additions to terminal buildings at Jan Smuts airport at an estimated final cost of R100m (up from R88m last year). This is followed by a new prison at Boksburg — the estimated final cost of which decreased from R110m last year to R93,3m this year ■

SOWETAN BUSINESS

Growth stifled says study

Sowetan 29/5/92 (49)

By JOSHUA RABOROKO

SOUTH Africa's economic growth is limited and its high unemployment rate has worsened through the lack of economic growth, says the 1991/92 Race Relations Survey.

In its overview, the survey quotes a study by Professor Servas van der Berg and Mr Krige Siebrits of the Universit, of Stellenbosch which found that South Africa was a typical middle-income country in the same league as Algeria and Hungary.

"It is indicative of this country's limited economic strength that the output of the whole South African economy is smaller than that of most cities in industrial countries with populations of five million or more," the authors of the study say.

They note that South Africa's resources to solve social problems are limited and that the means available for addressing poverty are not as great as often thought.

The country already spends a relatively large proportion of its income on social services such as education and health.

The authors add: "The problem lies not in the unduly low priority of education and health expenditure but in a misplaced emphasis on the needs of the affluent rather than the poor."

The institute's own analysis of the 1991/92 budget showed that spending on education, health, welfare and housing amounted to 40 percent of total expenditure.

The country's defence budget, previously a major consumer of the budget cake, was cut by nine percent.

Poorest

The Stellenbosch study illustrates that South Africa's per capita income of R6 870 a year "just scraped it into the bottom layer of upper middle-income countries".

Ethiopia, at R630, was the poorest and Japan, at R63 060, the wealthiest country.

Turning to the question of unemployment, the survey quotes Dr Chris Stals, governor of the South African Reserve Bank, as saying that the origin of rising unemployment was to be found in increasing labour costs.

Unit labour costs rose by 17,2 percent in 1989 and 16,3 percent in 1990.

Unemployment was aggravated by the fact that the economy had shown virtually no growth during the year.

Indeed, the Reserve Bank reported in June last year that the economy had been contracting for about 27 months, "which was considerably longer than the average length of 17 months of such cyclical contradictions since the beginning of the 1940s".

Private sector analysis foresaw unionised workers' obtaining wage settlements of between 15 and 15,5 percent during 1992.

Referring to the rise of crime, the survey says the escalation of violent crime such as bank robberies, vehicle hijackings, murder and rape, had seriously increased the risk of large-scale emigration of white skills from South Africa.

It notes that in the six months between April 1 and September 30 1991, there were 146 bank robberies in which more than R12 million was stolen. In one three-month period in Durban alone, 268 vehicles were hijacked, 220 of them at gunpoint.

According to the survey, the Commissioner of the South African Police, General JV van der Merwe, denied claims that the police were unable to curb crime. The rate of the increase in crime in 1991 was lower than the previous year, the police said.

In his report for 1990, published last year, the police said there had been an 8,53 percent increase in serious crime, the highest rise in 10 years.

By the end of December 1991 political violence during that year had claimed 2 672 lives, according to preliminary statistics compiled by the SAIRR.

Record

As a result, the institute said, the death toll for the year had been about 20 percent lower than the record figure of 3 699 the previous year.

The total number of fatalities recorded by the institute in the seven years and four months since violence erupted (in the Vaal Triangle) at the beginning of September 1984 was 11 910.

The survey says more educational institutions desegrated themselves, among them Government schools.

The survey also says the Conservative Party, opposing the repeal of the Group Areas Act, had warned blacks who bought land in white areas that their right of ownership would be taken away from them should the party come to power.

However, two CP members sold their houses on the East Rand to blacks.

During 1991, the National Party was accused of arranging secret deals with the ANC but was also accused of forging an alliance with the Inkatha Freedom Party against the African National Congress, according to the survey.

The Pan Africanist Congress, shortly before a preparatory meeting at the end of November for Codesa, accused the ANC of "being in cahoots with the regime", adding that it had made secret deals with the Government in order to rule the country with the NP by decree for many years.

Nationalisation debate still rages in health circles

BDay 29/5/92 (49)

WHILE protagonists for the nationalisation of the mines and major industries are increasingly less vocal in the ANC and the trade union movement, the same cannot be said for the health sector.

The Progessive Health Unity Forum, which includes the ANC, Cosatu and organisations of medical professionals, takes as its starting point the need for a strong national public health service in a future government.

The debate centres on what kind of public health service is needed and what — if any — the public and private sector mix should be.

The SA Communist Party is focussing its energy on a "triple H" campaign — health, housing and hunger. It believes people are entitled to free health care provided by the state.

The ANC believes the private sector should be involved in a national health insurance scheme paid for by tax revenue and compulsory health insurance for all those in employment.

Contributions to such a scheme would replace current medical aid contributions, and medical aids could only be used to pay for those services the national insurance scheme did not provide for — possibly, specialist dental services and cosmetic surgery.

Many supporters of the ANC-SACP-Cosatu alliance believe the health sector should be nationalised completely by taking over the private hospitals and compelling all doctors to work for the state.

Obstacle

According to the Health Policy Unit at Witwatersrand University, which argues that the private sector as currently constituted is the biggest obstacle to the creation of an equitable, efficient and appropriate health service, full scale nationalisation is not a practical solution and it is "unlikely" to be seriously considered.

"Health personnel, particuarly doctors, would leave the sector and the country in droves and a black market in private care would soon emerge to undermine the public sector."

The unit also says that even if all doctors stayed, it would more than double the the state's already underfunded payroll.

Currently over half of all health expenditure is privately generated and this would disappear with wholesale nationalisation.

The unit favours the ANC's idea of a national health insurance system. "This would bring together into a single pool, controlled by the health authorities, both the public and private finances for health care. The money would then be used to pay for a package of health services for all citizens, provided by a combination of private and public sector providers."

'Stals prolonging pain of recession'

BDay 29/5/92 (49)

LINDA ENSOR

CAPE TOWN — Reserve Bank Governor Chris Stals was unduly prolonging the agony of a damaging recession by refusing to cut the Bank rate, the Board of Executors (BoE) said in its latest Investment Outlook.

BoE senior portfolio manager Rob Lee said: "Dr Stals may hang on for another month or two but another 1% cut is inevitable in the near future with at least one more before year-end."

Lee said an immediate cut in the Bank rate would not undermine the integrity of monetary policy.

He questioned whether the increase in the "real" underlying inflation rate over the past 12 months was as high as 15,7% as producer price inflation was 8% in the year to end-March, underlying money supply growth had been about 10% for more than 12 months and the exchange rate had been stable to rising in real terms for more than two years.

"The economy is extremely weak and the average level of wage settlements is probably closer to 10% than 15%. Taking all these factors together it seems very clear that the underlying inflation rate is probably not more than 12% and is falling," Lee said.

"With the prime overdraft rate at 19,25% this is a "real" prime rate of more than 7% — very high for an economy at the latter stages of a long and increasingly damaging recession."

Prime rate was expected to be 2% lower by year-end with a further reduction likely early in 1993.

Lee said business and consumer confidence had been knocked by the breakdown of Codesa II negotiations, violence and threats of mass action, but this would not act as a brake on short-term economic recovery.

He said increased confidence was not a prerequisite for recovery as the level of economic activity was considerably lower than its potential, especially considering the lifting of trade sanctions and foreign debt repayment constraints.

"Our view that the second half of this year will see the gradual beginning of an economic upswing is based upon expectations of rising government spending, higher exports, a reduced pace of inventory depletion and lower inflation and interest rates," he said.

"Reduced confidence and continued drought will not prevent these factors from having an increasingly positive influence."

Lee said a growth rate of 3% to 4% in 1993 was "quite feasible".

GDP growth might not reach the 1% forecast for 1992, but should still be on a rising trend by year-end, he said.

In 1993 stimulatory factors such as large capital investment projects and an eventual inventory build up would be sufficient to achieve a significant cyclical recovery.

Get off fence first, SA business told

STAR 29/5/92

(49) (68)

SOUTH Africa has not been backward in telling the international community what it expects of it: trade, investment, aid and all the other things that are needed to reconstruct an afflicted country.

But the international community wants something in return, and at the various discussion groups that one attends here in London its spokesmen, increasingly, are spelling out the response they expect from our businessmen.

As the Gallup Poll commissioned by the London office of the South Africa Foundation in February disclosed, there is a worrying level of indifference among the 25 fund managers, 50 MPs and 25 media figures who were polled. "Not only are levels of ignorance about SA surprising," the Foundation remarked, "but when it comes to matters of trade and investment, it is very clear that SA has not come in from the cold."

The Foundation, more than any other organisation, is trying to dispel the ignorance that exists about South Africa, and the hard core of businessmen, fund managers and others who attend its monthly forums here certainly know what they are talking about.

What they are saying is that SA must fight harder for its international share, harder than it expects.

The Foundation's survey looked mainly at problems that fall within the arena of political negotiations, like the endemic violence, but foreign businessmen are looking pointedly at the SA business community itself and are making some uncomfortable observations. Here, for example, are some of the questions that were put at a Foundation forum last week.

First, a merchant banker suggested, the lead in South Africa's rehabilitation will have to come from within SA, not from outside.

Why was all that money chasing so much scrip around the Johannesburg Stock Exchange? Why was it not being invested, say, in manufacturing industry?

Why were South Africans (with exceptions) investing so little in their own country?

"If South Africans have inadequate confidence in their own country," the banker said, "how can they expect outsiders to have confidence? Surely, if anyone has to get off the fence first, it must be the South Africans themselves."

Another criticism is that South African businessmen, with exceptions, are just not taking advantage of opportunities that present themselves, and that will fade before long. "They are not moving and shaking," as one regular visitor to SA put it to me.

South Africans, he maintained, on the whole know very little about Africa, although it is on their doorstep. He mentioned Tanzania as a country worth looking at. They are missing all manner of chances, he believes, both on the continent and elsewhere.

At the discussion sessions here, SA businessmen are being urged to take advantage of the interest that still exists in SA before it dissolves. The time to strike, they are told, is now, not at some leasurely time in the future.

Last week's Foundation forum was addressed by Dr Vic Razis, senior lecturer in the Department of Business Science at UCT. Dr Razis, who has the gift of lucidity, catalogued the main elements of the SA economic-political situation. But the tone of the response was that he was being too starry-eyed, particularly about the extent of funds the IMF and World Bank may provide.

Also, another banker suggested, these institutions might attach conditions that SA will find unacceptable — all cautionary advice to the country not to pitch its expectations at an unrealistic level.

As South Africa's internal and international situation normalises, it is becoming clear normal international criteria will apply to trade and investment. The Republic will no longer be in the "special" category.

Overall, the mood among businessmen here (and in official circles) is of impatience. These businessmen are saying, quite bluntly, that SA is just not getting its act together — that in the final reckoning its own behaviour will determine what place it finds for itself in the international queue. — Star Bureau. □

Jo'burg gives good value for money

(49)

STAR 29/5/92.

NEW YORK — Johannesburg ties with Nairobi for 87th place in an authoritative cost-of-living survey of 99 cities released in New York this week.

The Geneva-based Corporate Research Group monitors the costs of 151 products and services in the cities and compiles an index every six months.

Rated on the basis of New York rating 100, the group gives Johannesburg 78, meaning that for every R100 spent in New York, one would spend R78 in Johannesburg. The same holds true for Nairobi.

There are 41 cities more expensive than New York, topped by Tokyo with a 174 rating — nearly three times the 62 for the least expensive city, Harare.

Some of the world's most expensive cities are in French-speaking Africa. The capital of Gabon, Libreville, and Congo's capital, Brazzaville — rated 136 and 135 respectively — are fourth and fifth from the top.

Abidjan is in 10th place with a 124 rating, and Douala in Cameroon is just a point behind the Ivory Coast capital.

While most of the European centres surveyed rate above 100, Lisbon and Amsterdam appear halfway down the list with 97 each.

The group's criteria include costs of food, clothing and transport, but exclude accommodation. — Sapa.

Military, economic links for SA, Russia

STAR 29/5/92

By Garner Thomson
Star Bureau

LONDON — Economic and military co-operation between Moscow and Pretoria is accelerating, according to the fortnightly political journal, Africa Confidential.

It quotes Rudolph Gruber of the South Africa Foundation in Bonn as confirming strong South African interest in the former Soviet military-industrial complex.

Dr Gruber, who has been promoting trade between Pretoria and the former Eastern Bloc, told Africa Confidential that South African interest is primarily in high-powered lasers to cut gold from rock, and non-cyanide precious metals extracting processes.

South African diplomatic sources and the Russian-South African lobby in Moscow confirm that discussion on this have already taken place, the journal adds.

The report also suggests that South Africa may plan to buy cheap but sophisticated military planes and avionics from Russia when the arms embargo on the Republic is lifted.

A South African and a Russian company have already signed a contract to develop a short take-off and landing transport plane adapted to African conditions

Bad debts on the up and up

(49) ARG 30/5/92

JOHN SPIRA
Business Staff

JUDGMENTS against consumers for defaulting on their debt obligations have doubled in the past year.

High interest rates, severe economic recession, widespread retrenchements and the irresponsible spending binge of the past few years are clearly taking a heavy toll.

The legacy of this bloodletting will continue long after the recession is over, as defaulters find they are unlikely to regain credit facilities for the foreseeable future.

Debt defaults get chalked up against their names in what amounts to a nationwide "bad-risk bible" — and those names remain there until atonement is achieved.

Information Trust Corporation (ITC), South Africa's largest credit bureau, runs a databank which, it claims, contains information on 90percent of people availing themselves of credit of any nature.

Nine million credit records translate into 3million people, because most run several accounts. Of these, estimates ITC's Dave Rosen, 600000 are tainted in various degrees.

ITC's clients are granters of credit — banks, traders, retailers — who access the databank to gauge the risk they assume on each occasion that they sell (money, goods or services) on credit.

"Our object is not to blacklist people," stresses Rosen, "but to inform creditors of the status of their customers, thereby providing them with the information they require to make a credit decision."

ITC's information is gleaned from court records (judgments against defaulters) and from its subscribers, in whose interests it is to provide such data.

"If a consumer has an impeccable record, this will obviously count strongly in his favour when he applies for credit. On the other hand, if there's a black mark against his name he's going to find it difficult to get any form of credit, though this doesn't automatically disqualify him. It depends on the degree of the misdemeanour."

Rosen believes creditors are, by and large, sympathetic to the consumer — especially in the current economic climate in which business is unusually slow.

"They tend to look behind the reason for the default. Some defaulters are habitual non-payers and the creditors will obviously avoid them at all costs.

"But many default for reasons beyond their control. They would dearly love to discharge their debts, but can't. This occurs particularly among people who are retrenched — in which event judgment will, generally, not be sought immediately."

A large percentage of those with black marks over-committed themselves. They can no longer afford to keep up their many and diverse payments.

"They're unlikely to get additional credit," says Rosen, "although they might be given some leeway by those to whom they owe money."

He points out that ITC's role in the economy is to raise the quality of credit granted throughout the country.

"We try to help the merchant to extend better credit and are also available to help the individual solve his credit problems.

"We're even available to advise consumers on the status of their current credit rating and to assist them if there are any negatives attaching to that rating."

Free ar

but wh

A future democratic government which aims to improve on the provision of education, health and other social services may find that the will to do so is strong, but the money is lacking. Financial journalist **Lynda Loxton** reports on this dilemma in the fourth of a six part series:

'In the short term, it will not be possible to raise the quantity and quality of primary and secondary black education to the same level enjoyed by whites' (49)

Peter Moll South 30/5 - 3/6/92

ONE OF THE most daunting challenges that will face a democratic South Africa will be to catch up on the huge education backlog.

Education policy structures are researching the best policies to cater for the needs of a new South Africa.

However, the success of those policies will depend on the new government sustaining economic growth.

The reason is simple — education is expensive. The government set aside R19 billion this year for the education bill and that will still not meet all the needs or ensure equality.

The ANC is vague on how it plans to fund education, but it believes government has the central responsibility to provide education and training.

Inequalities

According to ANC guidelines, "only the state is in a position to ensure that the present inequalities are redressed. More generally, given the importance of education for social and economic development, its provision cannot be left to the vicissitudes of the market as has been the case with industrial training in the past."

But the ANC recognises that the private sector, non-governmental organisations and the community have an important role to play in the provision of education and training.

"In fact, we believe employers have the prime responsibility for the provision of adult basic education for those in their employ. Where non-state agencies do provide education and training, the state should ensure that this is undertaken within the framework of national educational policies and principles," says the ANC.

So far, so good. Even the World Bank would agree with this kind of thinking and has gone on record to say increased investment in education can accelerate growth in several ways.

Productive

For example, educated farmers are more productive, while a mother's education increases the chances of a child's survival.

But to what extent is the state responsible for education?

The ANC says it is committed to:

- The provision of free and compulsory education for all up to junior secondary level, or a minimum of 10 years junior education (seven years of primary and three years of junior secondary education).
- Expanding the provision of education to senior secondary and tertiary levels, if funds are available.
- The development and provision of adult basic education to a level equivalent to 10 years of formal schooling.

However, the World Bank says cost-benefit studies in 16 African countries over the last decade suggest that the social rates of return on investment are 26 percent for primary, 17 percent for secondary and 13 percent for higher education.

Because returns on investment are higher for primary education, developing countries are encouraged to provide this free. They are encouraged to charge fees for more expensive secondary and tertiary education to keep costs under control.

Representatives from developing countries who recently attended an education workshop at the Centre for Adult and Continuing Education at UWC confirmed this was the norm in their countries.

However, Ms Tahera Yasmin of Bangladesh said many children of secondary school-going age were forced to go out and work to supplement family incomes because of the poor economy. It was only the relatively well-off who wanted to send their children to secondary school and could afford the fees.

Freedom

The challenge for a new government will be to shape a growing economy that will allow its people the economic freedom to afford to send their children to school.

Phumzile Ngcuka, who is the director of the World University Service (South Africa) and closely involved with formulating ANC education policy, says a reason for taking free and compulsory education up to Standard 8 is South Africa's huge human resource need.

He says literate and skilled people are in short supply in most areas of the economy. A massive effort will be needed to reach the backlog of people who have had no access to education.

Economist Mr Peter Moll has warned "In the short term, it will not be possible to raise the quantity and quality of primary and secondary black education to the same level enjoyed by whites". So will South Africa's human resource needs be met?

In the long term, as the country grows richer, "it will be possible to emulate some of the rich, industrial countries which have universal free and high-quality education at primary and secondary levels", says Moll.

Resources

The reason boils down to economics again. Moll says rich Western countries spend between five and eight percent of their gross national product (GNP) on education. South Africa could spend about three percent of GNP on education without directing resources away from other sectors or having to borrow much.

This means the education budget will probably have to remain the same as now, but be distributed differently to benefit more people. This will mean an "equalisation down" rather than an "equalisation up", with blacks benefiting most and whites and Asians losing and coloureds staying at the same level, says Moll.

"People who want better quality than this, especially white and black middle-class people, will probably have to resort to the market and bear the full costs," he says.

Professor Lieb Loots of UWC does not believe that there need necessarily be a drastic equalisation down.

He says that even if education spending stayed at 20 percent of the total budget, the result of that spending could be more effective. This would result if there was better management, user charges for people who can afford them, goal setting and performance audits.

Spends

For example, the House of Delegates receives and spends 60 percent of what its white counterpart spends on education — and gets better matric results.

"So, if this is applied across the board, and there is one integrated department, that will make a huge difference. The emphasis now is also on upgrading teachers, but, at a fraction of the cost, government can do more to improve education if it just ensured that schools are functioning, have books, desks etc," says Loots.

The World Bank also argues quality is as important as quantity. To be valuable, the provision of universal primary education should be backed up by relevant educational materials, better teachers, the use of the vernacular and a special emphasis on closing the gender gap in education.

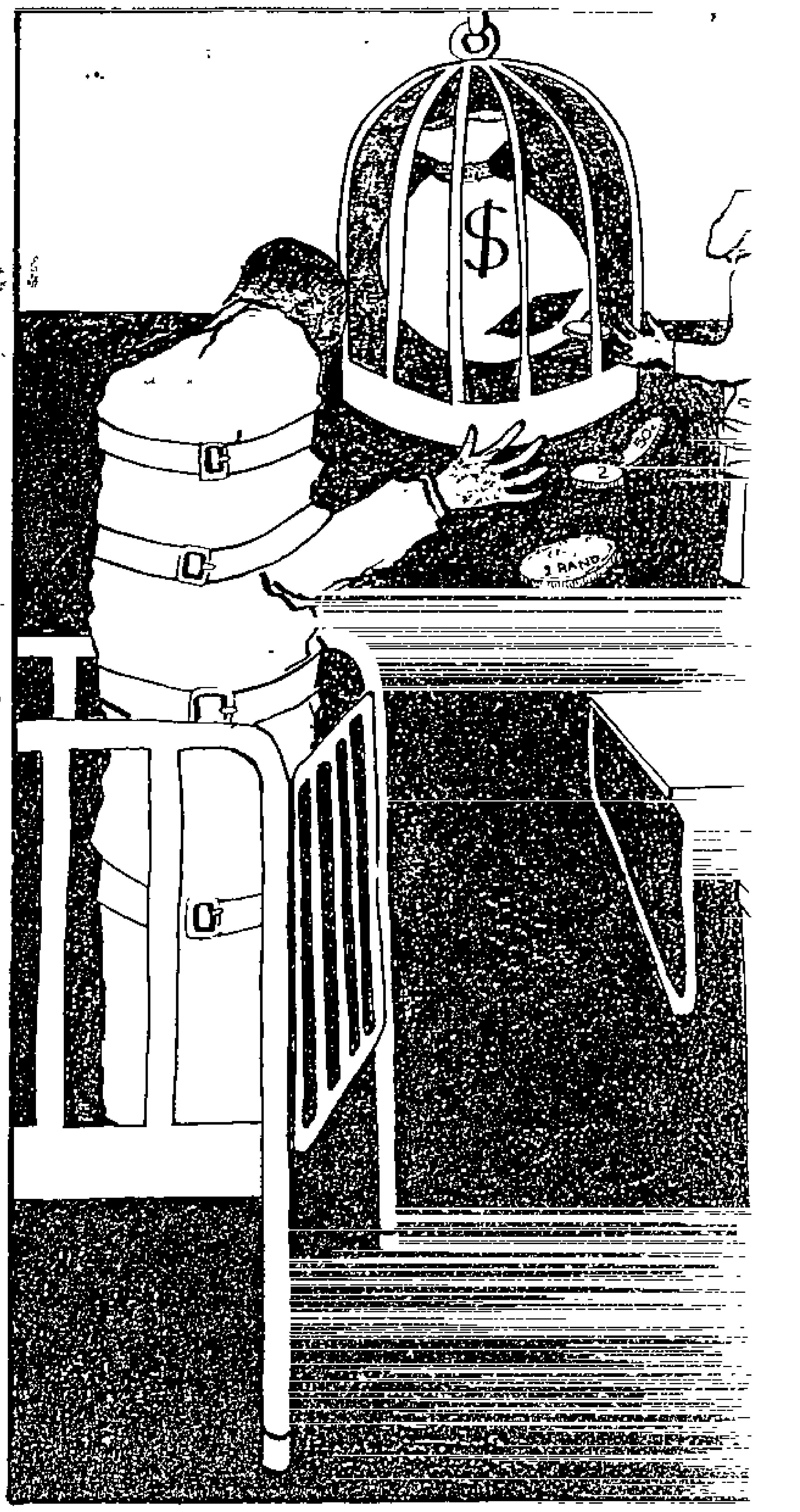
This is because the cost of improved education can only be sustained if there is greater efficiency, there is economic growth (of at least four percent) and substantial community involvement (in the building of schools, sharing costs etc.).

For higher education to benefit a country, the World Bank believes governments have to ensure that the people trained to become doctors, technicians and scientists stay in the country. Many developing countries have experienced a debilitating brain drain because they are unable to pay their professionals well — again a function of weak economies.

The ANC agrees that teacher training and the upgrading of teacher skills needs special attention.

Because the ANC is committed to democratic participation in the development of policy and the management of education, a balance will be struck between the role of the state and regional and local authorities.

The state will finance education, develop national curricula and develop and maintain national standards. Regional and local authorities will manage education from day to day.



This feature has been made possible by the support of

ENGEN

i compulsory — will foot the bill?

of yo
rythi
hospi
e abl
u anc

es

How high can the US eagle fly in Budapest?

City Press 3/5/92

49

Hungary has given socialism the boot, but how ardent is its love affair with capitalism? When SEKOLA SELLO visited Budapest this week he discovered a US fastfood chain doing a roaring trade. But while Hungarians enthusiastically gulp down capitalism's Coca-Cola culture, some are jobless or forced to beg to stay alive.

FOLLOWING the collapse of the Soviet Empire and the retreat of socialism worldwide, conventional wisdom has been that capitalism or the free market system is the route former Eastern bloc countries should take.

Indeed the same thinking holds that the remedy for all the social and economic ills of the Third World countries lies in jettisoning any notions of socialism.

In SA spokesmen for the ruling National Party are fond of reminding their political opponents on the left ranging from the PAC, Cosatu, Azapo and the ANC to stop flirting with such "archaic" ideas.

State President FW de Klerk and Foreign Minister Pik Botha constantly remind these organisations about the naivety of bringing "failed policies" to a future SA.

It's everywhere

They are told that the very crucible of socialism (the former Soviet Union and her satellites states) has abandoned state interventionist economic practices for the free market system.

A recent visit to Hungary shows that the eagle of American imperialism is indeed soaring majestically high. Capitalism is everywhere.

A walk on either side of the Danube River, in Buda or Pest, the twin cities which form the capital of Hungary, shows that the country has made major strides towards embracing things American since the fall of socialism in this country three years ago.

Casinos, some of them with typical American names like Las Vegas, are sprouting all over Budapest.

That Hungary is embracing the American way of life is perhaps best underlined by the presence of that most American of symbols – the Macdonald's fastfood chain. It is popular and very much liked by both young and old.

And as one treads on thin ground (I don't know how Hungary looked before the collapse of socialism), privately owned shops are now full of Western goods, from running shoes and jeans to ghetto blasters, all products reportedly scarce in the recent past.

Consumerism has indeed taken root in Hungary.

All these things bear the trappings of Western influence or what some people, including socialists, refer to rather pejoratively as the "Coca-Cola culture".

Does this new surge in Hungary's economic activity mean that every aspect of the old order is going out?

Put differently, does the collapse of socialism in the former Soviet bloc mean that these erstwhile satellite states are now pursuing full-blown capitalism – meaning less and less state participation in the economy in particular?

Many influential Hungarians our group spoke to point out that there are discernible advantages for the country since opting for the new order. Politically, people have greater civil liberties while the economy, although not robust as yet, is not stagnating as before.

Some of Budapest's beautiful neo-Gothic and Baroque style buildings, which seem to have been neglected for a long time, are also showing signs of the economic revival. They are getting a facelift.

The overall impression of politicians and journalists we spoke to was that they could not have made for a better change. But, they also caution that they are not about to embrace capitalism holus-bolus, particularly the rampant type symbolised by the US.

After visits to the ministries of Foreign Affairs and Finance and also speaking to several journalists, including the editor of the country's leading daily newspaper, the message was the same – a balance has to be struck between the free market and socialism.

This new balance the Hungarians are aiming at – they call it the social market and it is similar to Germany's system – acknowledges the important role the state has to play in some sectors of the economy, even under the free-market system.

Since Hungary opened its markets, our hosts pointed out to us, unemployment is increasing, inflation is running high and various forms of social security are under threat. All these problems are said to be partly the legacy of embracing the new economic order.

Night trade

A stroll along the Danube also shows another typical Western influence that seems to be catching on fast – prostitution. The ladies of the night ply their trade openly near the main hotels along the Danube. "Sex, sex. Very good," they confront visitors in broken English.

It is also no longer unusual to find a beggar or two in Hungary, a new phenomenon which is also blamed on the new order.

Neighbouring Poland and Czechoslovakia are also said to be grappling with the same sort of problems as their former Warsaw Pact ally.

Instant impressions can be misleading. On our chaperoned tour of Budapest we could not find a single communist.

Many foreigners have made whistlestop tours of SA, seen a few areas selected by their hosts and then made profound statements about the country, more often than not very distorted.

Hungary does not start and end along the hotels near the Danube.

But, after a brief glimpse at its social and economic structure, it is clear South African politicians could learn something from that country.

Neither capitalism nor socialism on their own can remedy the legacy of apartheid.

ANC plan for curbs on foreign firms

S Times 31/5/92

By EDYTH BULBRING and BRIAN POTTINGER

THE ANC has proposed that a range of restrictions and conditions be imposed on foreign investments in South Africa under a future government.

An investment code accepted at the organisation's national policy conference yesterday puts affirmative action for both women and blacks high on the agenda when approving foreign investment.

Foreign investors may also be blocked from investing in certain "strategic" areas — land and natural resources, for example — and companies controlled by non-residents could have limits placed on their ability to borrow money locally.

Help

In its economic policy document, the ANC proposes the expansion of the public sector in certain key areas and suggests curbs on monopolies and mergers.

It also says that financial institutions must help oppressed communities to break the cycle of dependency.

A "democratic" government, said the document, would introduce mechanisms to end discrimination in lending against blacks, women and informal producers.

The two documents — the investment code and the broader economic policy guidelines — are the results of many months of discussions within the organisation, partly spurred by recent controversy in the ANC over the question of nationalisation.

Safeguards

ANC economics spokesman Tito Mboweni told a press conference yesterday nationalisation was still considered an option by the organisation.

The investment code, however, guarantees that, in the event of nationalisation, there would be fair compensation in accordance with principles of international law.

The code welcomes foreign investment that contributes to the growth and socio-economic development of the economy, but suggests certain safeguards for the economy would have to be built into the overall policy framework.

The ANC assures foreign investors that, subject to Reserve Bank regulations, foreign inves-

☐ To Page 2

FOREIGN CASH CURBS

☐ From Page 1

tors will have access to foreign exchange for repatriating after-tax profits, repaying interest, buying inputs and remitting the proceeds of the sale of assets.

It also guarantees foreign investors would enjoy the same treatment as domestic investors, but important exceptions could be made. Special advantages and investments offered to "previously disadvantaged groups" may not be extended to foreign investors.

The document makes it clear the factors which would be relevant in approving foreign investment include the extent to which the investment would increase employment, provide for training of South Africans beyond minimum training obligations required by law and promote the spread of high-level technical skills.

Other factors would be the extent to which the investment advanced people who had been "socially, economically or educationally" disadvantaged by past discriminatory laws and made provision for equal opportunities for women.

The impact of the investment on the environment would be also considered.

S Times 31/5/92.

Needs

The document on a growth and development path for a democratic South Africa proposes a national economic strategy based on two components — redistribution programmes to meet the basic needs of South Africans and the restructuring of the economy on the basis of new, comprehensive and sustainable growth and development strategic pop singer Brenda Fassie, President Chiluba said: Zambian

No major changes to ANC policy

49

By SEKOLA SELLO

C/P News 31/5/92

THE ANC's national policy conference ends at the Nasrec showgrounds near Soweto today without making any fundamental policy changes.

By yesterday the organisation had reaffirmed it's commitment to a unitary SA – a position which could cause problems in Codesa where there are still voices calling for federalism.

The organisation also restated its preference for a three-tier government.

Unveiling it's constitutional policy the organisation opted for a bi-cameral system with an elected National Assembly and Senate. The National Assembly will elect a president who will have both executive and ceremonial powers.

The Senate will be made of representatives directly elected from the regions.

Elections to the national assembly will be through proportional representation.

The Senate will be the guardian of the constitution, but will not have the power to veto decisions of the National Assembly.

The conference agreed to adopt policies which will encourage foreign investment.

Although the ANC firmly rejected the idea of federalism, it's spokesman on constitutional matters, Advocate Zola Skweyiya, said the fact the organisation called for a strong regional authority showed its flexibility on devolving powers to the regions.

One of the most important policy positions, that of nationalisation, will be finalised today.

However, insiders say they do not expect any radical shift.

ANC economic spokesman Max Sisulu said the organisation was not dogmatic about nationalisation.

He said nationalisation would be "considered on the balance of evidence available at any time". He added the State should be flexible in its overall economic approach.

It was also agreed that a conference on rural poverty should be held soon.

Reserve Bank gets blame on inflation

(49) SI Times (B4SS) 31/5/92

By CIARAN RYAN

THE consumer price index dropped a mere 0,1 percentage point in April, leading economists to question whether the Reserve Bank is capable of bringing the figure to under 10% after two decades of double-digit inflation

The April figure — released on Friday by Central Statistical Services — shows the index standing at 15,6%.

This is considerably lower than some forecasts, which put it at at more than 16%, but far short of Reserve Bank targets.

The CPI drop nevertheless increases pressure on Reserve Bank Governor Chris Stals to lower bank rate and ease the economy out of one of its most prolonged recessions.

Supply

Dr Stals, however, remains unimpressed by the marginal decline in inflation: "We are taking a medium- to long-term view of the economy."

The bank was criticised for its handling of the economy after failing to follow through on last week's drop in mortgage rates.

Money-supply growth remains a relatively high 10% at a time when the economy is contracting. This points to money creation in the commercial banking sector as a major cause of inflation.

Several economists call for more radical action to kick-start the economy after years of sluggish growth. The compound annual growth in the economy in the 1970s was 3,5%, falling to 1,5% in the 1980s.

In Barend du Plessis' tenure as finance minister from 1984 to 1992, annual growth slowed to 0,8%.

Reserve Bank policies are being challenged on several counts: that positive real interest rates are justified in deep recession, that the link between inflation and money-supply growth is as close as some people believe and that the official CPI figures are correct or appropriate as a measure of inflation.

Board of Executors senior portfolio manager Rob Lee disputes the official inflation figures: "There is some evidence that the CPI is not the appropriate measure of inflation.

"The producer price index, which is just as valid a measure of inflation, is only 8%."

If the CPI is wrong, Dr Stals may be delaying economic recovery based on false information. Taking October 1991 — when VAT was introduced — as a base, inflation is running at 12%, says Mr Lee. The CPI figures are weighted in favour of pre-October 1991 trends.

Dr Stals counters that other estimates of inflation place the figure well above 15,6%.

Nedbank chief economist Edward Osborn says negative real interest rates are justified in recession.

"We need to get capital formation going to stimulate economic growth. The Reserve Bank could reduce its interest rates without fuelling inflation."

Mr Osborn questions the traditional monetarist argument that an increase in money supply produces an automatic rise in prices.

Tony Twine of Econometrix says expansionary government spending is largely responsible for the stubborn inflation rate.

Boards

"High spending increases the Government's claim on the tax base. But the spending is even more than the Government takes in taxes, so it has to borrow.

"Another cause of inflation is the high degree of regulation in the economy, such as control boards and import tariffs, and the concentration of control in the 60% of the economy the State does not own."