Economy — General

1989

Global markets spread growth

It is not demand that is lacking, but savings

The great mystery of the international financial system is the seemingly irrational movement of some currencies — notably the strength of the US dollar in the light of that country's trade deficit — in markets that have access to much more information than in the past and are subject to far fewer restrictions. In theory, this should mean keener prices and greater predictability.

But for the fact that there is a numerical preponderance of deadbeat members of the International Monetary Fund (IMF) these days, it is a subject that logically would have preoccupied minds and dominated discussions at last week's annual meeting in Washington DC. In the event, the self-inflicted plight of the indigent was given the most vocal airing.

But there were some interesting insights in the remarks of Britain's Chancellor Nigel Lawson and considerable corroboration in the IMF's own World Economic Outlook. These are on the importance of balance of payments imbalances and trends in interest rates, that could have widespread implications for economic policy formation in the industrial West in general, but also for developing countries, such as SA.

Indeed, the implications here may be greater, because of the perceived need to run a balance of payments surplus so that international debt can be repaid, regardless of the consequences for growth.

There are implications, too, because of the capital boycott, which cuts us off from meaningful inflows of investment capital and forces us back on to our own savings resources, which, as elsewhere in the West, are dwindling, though for different reasons.

That in turn will place the spotlight on a government that has enriched itself at the cost of discouraging savings by allowing inflation to remain in double digits for 20 years, penalises savers by circumscribing one of their few hedges against inflation (buying equity-linked life assurance) by increasing the taxes life assurers pay and is inhibiting corporate savings by generally raising the tax rates of companies by removing allowances and other concessions.

The implications for interest rates, especially in a country in which they are so politically sensitive and misunderstood, are substantial. Simply, they indicate that the interest rate trend will be generally upwards for the foreseeable future (though there will be fluctuations). Any other view would have to seek justification in the belief that Pretoria's plans to apply AWB and economic policies.

There are, of course, several known reasons for the dollar's strength, despite the US balance of payments deficit, which has its roots in too much fiscal stimulus. One is that inflation differentials between the US and its main trading partners have narrowed. Another is that political uncertainty in some regions tends to make the US appear a safe haven for investment.

But Lawson, who of course has an interest in playing down balance of payments deficits as an indicator of a currency's value, highlighted another factor — greater financial freedom and a global market for savings, which are in short supply worldwide.

He suggests that in markets that have been deregulated and internationalised by technological advances, savings flow quickly in a global market to find the best returns, regardless of national borders. One result is that economic behaviour has become much less predictable, whereas expectations were that in more perfect markets it would be that have them. Britain, of course, does not.

In these circumstances, he argues, it is wrong for governments to expropriate private savings to finance their expenditures. It is also wrong to do anything which discourages savings, even in surplus countries.

Lawson's barbed remarks were no doubt aimed at the US; they apply even more to SA. At least the Americans have got inflation under control. Pretoria hasn't even managed that, let alone the simple task of constraining money supply growth.

Lawson's interpretation is that governments should be preoccupied with an implicit shortage of capital (rather than of demand) and that global markets are redistributing savings from countries where they exceed investment (Germany and Japan) and where the inevitable counterpart is a current account surplus, to those where the reverse is true (the UK and US).

This represents a major change of behaviour from the Sixties and Seventies when, with the prevalence of exchange controls, governments had little option but to respond to current account deficits by tightening fiscal and monetary policy to offset the difference between savings and investment.

Global capital markets are now distributing private-sector savings to the countries with the best opportunities, so that investment in no one country (except SA) is constrained by its own domestic savings.

He pointed out that the raison d'être of the IMF, through the provision of bridging finance, was to assist this process. Hence, as private capital markets increasingly take over this role, there is bound to be a change in emphasis in the Fund's activities.

Lawson concludes that current account imbalances do not necessarily carry any implications for exchange rates and that it would be a mistake to attempt to use the exchange rate to resolve this type of capital shortage. His answer is to revert to the principle of a balanced budget rather than attempt to compensate for private-sector savings and investment shortfalls by increasing public sector savings and investment.

In their World Economic Outlook, IMF economists support Lawson's view:

"The current strength of the dollar might reflect continued portfolio shifts towards dollar-denominated assets by foreign investors, possibly reflecting long-term adjustments in response to the increasing liberalisation and integration of world capital markets; ... it should be recognised that external deficits and surpluses reflect in part the international implications of fundamental differences among countries in the balance between private savings and investment ... and (when) changes in government debt
are not fully offset by changes in private savings, external positions also tend to reflect fiscal imbalances. The current account can be seen as an indicator of inappropriate fiscal policies. Inasmuch as they reflect private saving and investment decisions, external balances should be seen as efficient and self-correcting and policy should be limited to the removal of distortions . . .

The fund does warn, however, that, in the long run, persistent imbalances will result in lower living standards in countries with rapidly ageing populations. Nor should it be forgotten that Lawson's arguments and those of the IMF do not take into consideration that current account balances may also reflect domestic inflationary pressures.

If real interest rates in SA's main trading partners remain high, which it appears they will, then, to keep our balance of payments sweet and continue to import foreign trade credits, domestic interest rates will have to be kept relatively firm.

But that is not the end of the story. Being cut off from international capital and in view of our policy to discourage savings, investment will probably be in protracted decline unless real interest rates are kept rising.

There may be an intellectually respectable argument for the Group of 7 to use substantial market intervention to encourage a more realistic value of sterling and the dollar, until the international market cottons on to the views expressed here of the current account deficits in the countries concerned.

But that logic doesn't apply to the exchange rate of the rand. It may be undervalued in terms of a dwindling current account surplus, but not so far as inflation is concerned or the economic penalty the rest of the world makes us pay for apartheid. Were Pretoria to use our few precious reserves to mount a rand stabilisation drive in the market, the economy will quickly be plunged into serious and probably lengthy depression.

Moreover, what Lawson and the IMF have to say about the extensive shortage of capital suggests that even were the capital boycott lifted, we would still need to do a great deal to boost domestic savings if we are to keep investment growing sufficiently to meet the needs of a rapidly urbanising population. That means eliminating inflation at whatever cost and maintaining positive real interest rates. While the capital boycott remains, that requirement is even more critical.

Nigel Bruce, writing from Washington
all-time high

Export growth has been

merchandising

Imports knock optimism but...
SA at turning-point, says Barlow chief

By Magnus Heystek, Finance Editor

South Africa has moved away from being a bit player on the British and US political stage and is carving out its own niche in the world, says Warren Clewlow, vice-chairman of Barlow Rand.

However, a key variable in the scenario was how the SA economy would develop, he told the Swiss-South Africa Association in Zurich yesterday.

Whether South Africa would be able to play a competitive role in the changing world and whether it would be able to paved the way for internal political change and advancement, depended on the ability of the economy to develop at an adequate pace and perform according to its potential.

"South Africa's economy has done well, but has recently been starved of foreign capital. "It has had to keep the balance of payments in surplus and rely on internal capital sources for development. "Ironically, the country is now under-borrowed," he said.

"The need for foreign funds has meant the Government has had to curb economic growth, interest rates have risen and inflation stands at two to three times that of our trading partners.

"Structurally, the state has too a high share of economic activity and the Government's commitments to privatisation are to be encouraged," he said.

Long-term future

"The commitment of Dr Stals to reducing inflation is very much to be encouraged and supported. "The consequences in the short term will be difficult, but they are necessary to ensure a long-term future," Mr Clewlow said.

He highlighted some of the issues which would be dominant in the way South Africa developed.

"We are witnessing significant changes in the world environment such as the 1992 process in Europe, the Soviet bloc economic revolution, the UK under (Prime Minister) Margaret Thatcher, the awakening of China as an economic power and the growth of the Pacific Rim countries.

"A key variable in the success of President de Klerk to reform in a meaningful way will be how the economy develops.

"There are two crucial questions. "The first is whether South Africa will be able to play a competitive part in the changing world, and the second is whether we will be able to pave the way for internal political change and advancement, neither of which can happen if the economic economy is not developing at an adequate pace and performing to its potential," he said.
Creation of wealth 'could be reformer'

THE creation of wealth — if not fatally impeded by financial sanctions — may well prove to have been one of the most effectively subversive activities in modern SA, concludes SA Foundation director Gavin Lewis.

In an article to be published in November's SA International, Lewis says the economy, not government, is the real engine of change in SA.

Major reforms of recent years were driven by a combination of black resistance on the ground and by the labour demands of a growing economy.

Lewis says that at the time of ex-State President P W Botha's Rubicon speech many business leaders spoke out with unprecedented bluntness.

Today, however, "the protest politics approach of that time is seen in most business circles as having been counter-productive in terms of achieving state policy changes".

Lewis lists the emergence of the black trade union movement, the burgeoning black consumer movement and informal sector, the collapse of influx control and steady erosion of residential segregation as some of the symptoms of an economically-driven liberation.

Although there remains room for business to do more for blacks in the formal economy, business cannot be the decisive factor in SA, he says.

In SA, unlike in the West, the government is not beholden to business for its continued existence.

Government is influenced by other powerful lobbies, not least conservative white labour and state bureaucracy, who have more votes than business has. In a sense the state employs its own electorate — about 40% of the white workforce are state employees, says Lewis.
The economic news of the day highlights the importance of economic policy and its impact on the market. The government's new economic strategy aims to stimulate growth and reduce unemployment. This is achieved through a combination of fiscal and monetary policy measures. The economic data released today shows a modest increase in inflation, which is a concern for policymakers.

Raymond Parsons, chief executive of Ascom, states that the company is committed to continuing as an agent for change. "We are dedicated to innovation and adapting to the ever-changing business landscape. Our strategy is focused on providing our customers with the best possible solutions and services."
OFF BALANCE [4-9]

Time lags create booby traps for policymakers. Their variability and unpredictability undermine the effectiveness of monetary instruments — and lend support to those who argue against intervention in the markets. Statistics in the latest Reserve Bank Quarterly Bulletin show that in the second quarter SA was trapped between the intermediate target and ultimate goal of monetary policy.

Measures designed to hold down economic growth, curb demand for imports and thereby protect the surplus on the current account of the balance of payments, achieved the first but not the second. So, despite a deceleration in GDP growth to 0.5% (see "Rooting for rain"), the surplus on current account dipped under R2bn, in seasonally adjusted annualised terms, from R2.7bn in the first quarter (see graph).

It seems the traditional lag was reinforced by a number of factors: the gold price was low and dropping — from US$412/oz at the start of 1989 below $360 in late May; imports were high and growing (see graph); and outflows of net service and transfer payments were sharply up on the first quarter. All of which countered the "exceptional strengthening" in merchandise exports.

Specifically, at seasonally adjusted annualised rates:
- Merchandise exports rose R9.7bn to R44.3bn;
- Net gold exports fell R820m to R18.2bn;
- Merchandise imports were up R7.4bn to R49.6bn; and
- Net service and transfer payments were up R2.3bn to R10.9bn.

"The 28% increase in value of merchandise exports from the first to the second quarter of 1989 consisted of a 20% increase in volumes and a 7% rise in average prices." Performance improved in all categories, with particularly large increases in manufactured goods and mineral products.

The 7% rise in prices was due to a 4.8% decline in the average effective exchange value of the rand and commodity price increases in some international markets.

At the same time, the dollar price of gold fell from an average of SUS394/oz in the first quarter to $374 in the second, while the weakening of the SA unit allowed the rand price to recover from R970 to R998. However, a shrinkage of physical production caused the 4% decline in rand value of exports.

The unexpected 17.5% rise in value of merchandise imports was mainly due to a 10% increase in volumes. The bulletin attributes this to pre-emptive buying ahead of possible further exchange rate depreciation, higher world oil prices or further measures for the curbing of imports, as well as firms rebuilding inventories. The rise in prices was due to the rand exchange rate, higher crude oil prices and some acceleration of inflation in our trading partners.

The strong rise in net service and transfer payments "by a seasonably adjusted but unannualised 26%... was mainly a reflection of higher freight and merchandise insurance payments on the markedly higher rand value of merchandise imports, higher SA interest payments to foreigners and increased SA travel expenditure abroad."

All of which adds up to a discouraging performance on the current account.

Fortunately the outflow of capital not related to reserves "shrunk significantly from its relatively high level around R1.9bn in the first quarter of 1989 to R1.1bn" — despite an increase in long-term outflows from R400m in quarter one to R700m in quarter two, mainly because of foreign debt repayments in June.

The reduction came in short-term outflows, which apparently fell as a result of "an abatement and partial reversal of earlier unfavourable leads and lags in international payments and receipts in the second half of June 1989 in particular." In addition, R185m short-term capital was attracted by public corporations.

Bottom line is the level of gold and foreign reserves, which grew by R462m in the quarter to R7.4bn at the end of June — "largely because of reserve-related borrowing." This brought the rise in reserves in the first half of the year to R698m.

The gain in the rand, however, converts into a $157m loss. Subsequently there has been some improvement with a gain of $100m in July and $59m in August.

However, the slender margins and volatility of flows are bound to renew concern about the balance of payments. In August the Bank's Annual Economic Report pointed out: "By early third quarter of 1989, doubts could still be entertained as to whether the landing in prospect might not turn out to be too soft or too long drawn out from the point of view of a comfortable handling of the balance of payments and foreign reserves."

We now await reaction to this new proof that margins are too close for comfort.
in summer rainfall areas." According to a Central Statistical Service analysis, agricultural production increased at a seasonally adjusted annual rate of 17.5% in the second quarter, up from 16.5% in the first. Thus agricultural activity helped boost GDP growth to a seasonally adjusted annualised half-percentage-point that quarter, says the latest Reserve Bank Quarterly Bulletin.

Another thriving sector was transport, storage and communication, which grew 4.5% — largely because of sharply higher volumes of both exports and imports. Despite international sanctions, trade grew sensationally in the quarter. After contracting at an annualised 15% and 4% in the first quarter, "real exports and imports of goods and non-factor services . . . expanded at remarkable annualised rates of over 50%" each.

However, while "total real domestic production in the first half of 1989 was still more than 2% higher than in the first half of 1988," it was down from seasonally adjusted annualised growth of 1.5% in quarter one and more than 3% in calendar 1988.

Mining was the most disappointing performer, with a "substantial decline — at an annualised rate of nearly 8% — of real value added." This was despite substantial rises in the volume of mineral exports.

The problem was that real value added by gold mining was hit by the drift in the dollar price of gold, "the declining grade of ore milled by a number of mines, the rising costs of mining operations and the fact that virtually no increase at all was recorded, on balance, in the average rand price of gold from the second quarter of 1988 to the second quarter of 1989." This "more than fully offset" the achievements of non-gold mining.

Fortunately, "the share of net gold exports in total export earnings shrank from 44.5% in 1980 to only 28% in the first half of 1989" — or the damage would have been worse. However, "even at this reduced relative importance, movements in the dollar price of gold continued to have large and pervasive effects on the economy in recent months."

Manufacturing performance was mediocre.

At a seasonally adjusted annual rate, real value added by this sector fell 2%, after a half-percentage-point decline in quarter one. And a "slackening of real growth rates was also apparent in almost all other sectors."

However, says the bulletin: "Given good prospects for agricultural production in the rest of 1989, aggregate activity in the first two quarters may well turn out to be consistent with earlier projections of growth of approximately 2% for the year."

So, with achievements in other sectors considerably less promising, there's a lot riding on rainfall this summer.
On demand

Households are spending more cautiously—while "volatile" government spending subsided in the second quarter. The latest Reserve Bank Quarterly Bulletin shows that, as a result, second-quarter GDE was down a seasonally adjusted annualized 2%. This provisional estimate puts GDE 2% lower than in the second quarter of 1988.

Real domestic final demand, which excludes inventories but includes private and government consumption expenditure and real gross domestic fixed investment (GDFI), declined at an annualised 1.5%.

Growth in real private consumption expenditure, which was 5% in 1988 and slowed to about 2% annualised in the first quarter, was down to 1% in the second—due to declines in purchases of durables and decelerations in purchases of semi-durables, non-durables and services.

Real consumption expenditure by general government, up a massive annualised 40% in the first quarter, fell an annualised 11.5% in the second quarter. However, it was still 3% more than in the second quarter of 1988.

"The increase in government's real consumption outlays in the past four quarters, therefore, significantly exceeded the 2% rise in real GDP over this period."

Real GDFI, up 6.5% in 1988 and an annualised 5% in quarter one, slowed to 3% in quarter two, mainly because of "cutbacks in real fixed capital spending by public authorities and renewed reduction in real fixed capital formation by public corporations."

Private-sector GDFI, however, re-accelerated to an annualised 9% in the second quarter, from an annualised 7.5% in the first, after growth of 16% in 1988.

In line with the trend in total spending, credit extension by monetary institutions was down. The quarter-to-quarter increase in claims on the private sector, 24.8% in the first quarter, eased to 13.1% in the second. This "fell short of concurrent rates of growth in GDP and GDE at current prices. It also occurred in the face of continued increases in real private-sector fixed investment activity, unusually large second-quarter increases in volume and value of merchandise imports and exports, and increases in industrial and commercial inventories."

"This suggests a significant decline in incremental credit demands of households and individuals as an offset to rising credit needs of companies and 'other' borrowers."
Inflation psyche dominating SA business

By AUDREY D’ANGELO
Financial Editor

SA society is so dominated by "the inflation psyche" that both management and workers think putting up the price of their product is one of the best ways to increase profit, surveys carried out by Project Free Enterprise have shown.

Describing this as "horrendous", the research team say in their report: "Management, its workforce and the consumer have grown so used to the reality of inflation in the national economy that by far the easiest route to guaranteeing further wealth is perceived to be increasing the price of products and services.

"The implications of this mindset and its impact on the economy are horrendous. It requires the most urgent attention from policymakers in both the public and private sectors.

"This disease must be eradicated from the system if the economy is to survive with any semblance of real growth,"

Project Free Enterprise, backed by more than 90 of SA’s leading companies, was started in 1984. Its statement of intent says that it identifies itself "with the creation of a South African society in which stability, wealth creation and economic freedom are realised for all its citizens."

It has carried out three surveys since 1984. Its latest report, on Strategies for Economic Freedom and Growth in the '90s, says that there is now more common ground between management and workers than many people suppose.

It finds the labour force better informed than in 1984 — when a majority of unskilled workers believed that managers' salaries were the main expense of running a business.

But it believes there is a need for business education for everyone, to increase understanding of how labour and management are interdependent and how the economy works.

It stresses the importance of participative manage-
Support for holidays on Mondays and Fridays

'Long weekend' may cost R500-m

By Karen Stander

The "long" weekend — including today and tomorrow — will probably cost the South African economy about R500 million.

Economists estimate that each public holiday costs about R340 million — but business leaders say that when one falls on a Tuesday — like Kruger Day does tomorrow — or a Thursday, "hidden" costs push the loss up by another one-and-a-half days of production time.

Mr Gerrie Bezuidenhout, labour adviser to the Federated Chambers of Industry (FCI), said there was a tendency for absenteeism to be higher on the days between a weekend and a holiday.

"I have heard people referring to this weekend as a long weekend, which of course it is not. But they turn it into a long weekend, anyway."

FCI executive director Mr Ron Haywood said having a holiday midweek meant a "negative multiplier effect".

"Take tomorrow's holiday. Those who do come to work today are unlikely to do a full day's work. They will probably leave early and their production will be down."

"And on Wednesday, when everyone comes back, they will sit round and chat about the weekend for an hour or so before they get down to work."

"What this means is that we lose one-and-a-half days' production, not just one."

"This is also true to some extent when a public holiday adds on to a weekend, but the effect is particularly bad when the holiday is midweek."

Mr Jan-de Jager, economic adviser to the National Productivity Institute, said the actual cost of public holidays which fell midweek was difficult to determine.

The most conservative estimate of the cost of a holiday was R270 million, with the highest put at about R400 million.

The true figure was probably somewhere in between — about R340 million.

President's Council

Mr de Jager said the President's Council report on public holidays had recommended that they should fall on a Monday or Friday wherever possible.

Mr Bill Lacy of Assocom said "responsible" members of the public would support public holidays being on a Monday or Friday.

Minister of Manpower Mr Eli Louw has announced that from next year Worker's Day will fall on May 1 instead of on the first Monday of the month.

In 1984 — the 60th anniversary of the first local May Day celebration — workers took up a campaign to have Worker's Day declared a public holiday.

The demand also began to appear in wage negotiations.

In 1986, more than 1.5 million workers throughout South Africa marked May Day with a stayaway.

It was one of the most extensive national general strikes in the country's history.

In 1987, workers won a partial victory when the Government declared the first Friday in May a public holiday.

The Government decided on this because May 1 was to fall on a Sunday in 1988, and midweek in the following years. Having it on a Friday ensured that employees celebrated on a working day.
Period of Consolidation
Share market entering

The industrial index has been strongly climbing this year.

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And now, the era of quick-reaction standoff

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**Notes:**
- Issue: Publication issue number
- Count: Total copies distributed
- Date: Issuance date

**Summary:**
- The publication has been issued every month since January 1968, with a significant increase in circulation from 1000 to 10,000 by the end of the year.
- The high circulation suggests a growing interest in the content or topic covered in the publication.

**Additional Observations:**
- The higher counts in later months indicate a potential increase in demand or a successful marketing strategy.
- The publication seems to have reached a steady state by 1968-10-01, suggesting it may have found its niche audience.

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**Graphical Representation:**

[Chart showing the monthly trend of issue count from 1968-01-01 to 1968-10-01]

**Legend:***
- Issue: Date
- Count: Number of copies distributed

This chart illustrates the growth in publication circulation over the first ten months of 1968, highlighting the period of rapid expansion from January to October.
Slowdown

Higher interest rates can cause initial increased credit demand due to “distress borrowing,” says the Standard Bank’s latest Economic Review, with higher interest rates affecting individuals rather than corporate buyers who are in a position to finance spending from internal cash flows.

It predicts economic growth will slow— but erratically rather than consistently. “Signs of weakness immediately followed by apparent strength are not unusual during the early stages of a gradual economic slowdown.”

Whether further interest rate increases are needed, it says, depends on the price of gold and the extent of government spending.

If commodity prices remain steady and government spending is kept under control, existing interest rates “should prove adequate” to slow the economy sufficiently to achieve the necessary surplus on the current account of the balance of payments.

Already furniture and appliance sales have deteriorated and private buyers of vehicles have virtually disappeared as personal disposable incomes are eroded by “higher effective tax levels because of fiscal drag, by successive hikes in the petrol price and by the increase in GST.”
Nine challenges for SA's economic success in the 1990s

RUDOLF GOUWS

The economic challenge to SA in the 1990s is to turn around the progressive deterioration in economic growth, living standards, job creation and inflation, and the relative deterioration in per capita incomes.

The abolition of apartheid is a necessary, but not a sufficient condition for bringing the turnaround about. With apartheid, SA will remain unstable, out of bounds to foreign bankers and investors and unable to run the current account deficits that are the typical corollary of rapid growth.

If we move towards a generally acceptable democratic government, and if economic policy challenges were tackled with resolve, the economic energies of the entire population would be released. The door of international loan capital and eventually of renewed private foreign investment would at least be unlocked, if not thrown open.

The first economic policy issue is the challenge to halt, and then reverse, the share of the government in the economy.

1. Reduce the state's claim on the economy's resources.

In the early 1980s the worldwide trend towards rising government spending and tax revenue in relation to GDP led to the size of the economy was halved or reversed by policy changes in most countries.

In SA, however, government's consumption and current spending not only rose in relation to GDP, but at a faster pace. Sharply rising government spending necessitated sharply rising government revenue.

The rising tax burden was felt particularly by private households. Lower disposable (after tax) income contributed to a collapse of net personal saving and slower growth in real consumer spending. Households did not stop saving to spend more, but to pay more tax.

SA has one of the world's highest marginal tax rates of direct personal tax and a low threshold at which the maximum marginal rate takes effect. Our 50% (plus 10% loan levy) company tax rate is also one of the highest.

Government's intention to lower, over five years, the maximum marginal tax rate on individuals and the company tax rate to 40%, is encouraging. But even at 40% we will only just (and in important cases not even) match those countries with which we shall be competing.

2. Reverse the impact of government finance on the balance of payments (Bop).

The rise in current government spending, especially during the 1980s, was such that even the sharply rising tax burden could not keep pace. From 1982 government started financing a portion of its current spending with borrowings.

Instead of contributing to the total pool of savings (gross domestic savings), it absorbed savings or "dis-saved", contributing directly to the Bop problem. The difference between gross domestic savings and gross domestic investment is equal to the country's external current account balance.

To become a net saver again, the government would have to run a deficit smaller than its target of 3% of GDP. But to return to earlier levels of government saving, the government would have to strive to towards a balanced Budget within three or four years.

The repair of its own saving position is the most important contribution the government can make to relieving the shortage of domestic savings, and to the fundamental improvement of the country's Bop.

3. Establish a firm framework for policy decisions.

A disappointment of economic policy conduct has been the apparent lack of a sufficiently strong framework within which decisions are taken. Examples are the two conflicting announcements on salary adjustments for public servants last year, the 10 different announcements on tax issues during the latter part of the last fiscal year and the introduction, only six weeks after the budget, of a loan levy on company tax.

4. Orientate policy to the long term and shun "fine tuning".

The interventionist approach of influencing the economy by accelerating or slowing down government spending, lowering or raising tax rates and increasing or decreasing the size of budget deficits has been jettisoned almost everywhere.

Other countries have seen the light regarding fine tuning. SA needs to strive for consistently conservative fiscal and monetary policies which do not aim to steer the economy in one or other direction.

5. Reduce reliance on monetary policy.

Because fiscal policy so often had an expansionary impact on domestic demand, monetary policy has had to carry a disproportionate burden. The "true" blame for the 1984/85 experience, when the prime overdraft rate reached 25%, does not lie with the Reserve Bank, but to an important extent with the conduct of government finances from 1983 to 1985.

In late 1983, when the gold price was falling sharply, and domestic demand and imports were rising rapidly, government granted large salary increases for public servants, helping to push the 1984/85 borrowing requirement to 2.5 times the budgeted figure. The consequent drain on liquidity through the BoP, and burgeoning credit demand, left the monetary authorities no option but to allow interest rates to rise.

The sharp rise in interest rates during 1984 and up to the middle of this year was also to an important extent the counterpart of a too expansionary fiscal policy. Had the government stuck to its February 1984 intentions on public servants' remuneration, the two prime rate increases early this year could possibly have been avoided.

6. Conduct consistently conservative monetary policy.

The most important reason for SA's inflation since 1970 has been interference with the level of interest rates. This led to excessive rises in credit demand, which immediately translated into an excessive rise in the money supply and so to inflation.

The new Governor of the Reserve Bank, Dr Chris Stals, has taken a strong stand against inflation, and for consistently positive real interest rates. The implied longer-term orientation should ensure that inflation is slowly ground down without sharp recessionary consequences.

If it is backed by a longer-term orientation in fiscal policy, the government can look forward to a less volatile business cycle, improved average growth in the 1990s, and a return to single-digit inflation by say mid-1991.

7. Work towards the abolition of exchange controls.

Continued exchange control over residents and the reintroduction of exchange control over non-residents in 1985 are an admission that government has not created an economic and political environment within which South Africans and foreigners feel comfortable leaving their financial assets.

Exchange controls address the symptoms and not the causes of the downward pressure on the rand's exchange rate. A major challenge to government in the 1980s is to create economic and political conditions for the abolition of exchange control.

8. Accelerate privatisation and deregulation.

The thrust for further deregulation should continue, but as long as it does not include the abolition of the Group Areas Act, we will not get the full economic benefits of deregulation because this law interferes with labour and business mobility. Without the abolition of this law, scepticism of large parts of the black population about the government's motives with deregulation will continue.

9. Tread carefully with industrial policy.

Virtually worldwide, governments are moving away from interventionist approaches and embracing "structural policies" which are really nothing more than the removal of rigidities and impediments which the governments imposed on their economies in the first place.

To the extent that government feels it should encourage outcomes which the market might not have brought about, or brought about quickly enough, efforts should be directed at encouraging exports, and not at protecting local manufacturers against imports.

I sense that the need for these nettle to be grasped has been accepted in the government. The corporate sector is, to my mind, in far better shape than for a long time to tackle new economic challenges.

If the political and economic policy challenges are adequately met, the SA economy can still surprise us all in the 1990s.

Bouws is group economist of Rand Merchant Bank Ltd. This is a synopsis of his address to the Hollardis Forum yesterday.
Economically, the first year of the final decade of the 20th Century is likely to be one of contrasts. Having learnt the great lesson of the Eighties, that inflation leads to destruction, the monetary brakes gradually applied over the last year to dampen pressures of demand — most notably in the US and Britain — will slow overall growth of the main industrialised nations of the West to 2.6%.

This deceleration, accompanied by lower price rises, will be uneven (see table) and gentle, with the main exception of the UK where a sharp contraction is expected in the 11th year of Thatcherism. Growth will remain strong in the virtuous, low-inflation economies such as Japan, Germany and other continental Europeans, while Asia and the Pacific Rim will slow marginally to an advance of 5%. In spite of forebodings about continued trade imbalances, the problem of recession is discounted.

Overall, 1990 will still be the eighth consecutive year of expansion for a global economy which has a calmer look to it after the achievements and crises of the past. Thanks largely to the second oil price shock of 1979-1980 which sent inflation to a recession-inducing rate of 13%, the industrial world shares a common cause — whatever the political colour of governments in power. And Opec no longer has the power or desire to disrupt.

Noting the diverging performances of North America and Britain compared to most of the rest of the developed world, Arthur Dunkel, director-general of the General Agreement on Tariffs & Trade (GATT), said in his annual report: "With the major countries in different phases of the business cycle, the world economy is expected to avoid the wide swings in economic activity that occur when all (of them) are contracting or expanding at the same time."

The problem legacies of the Eighties are proving slow to remove. Third World debt has reached US$1.29 trillion and, while creditor banks have written off between 50% and 80% of their exposure without the once-feared financial collapse, the net decline in capital for developing countries (World Bank relief dropped $3bn to $14bn) is hobbling economies which account for 28% of world imports.

The US Federal Budget deficit, helped by the recessionary effect of East-West conflict, is expected to drop to $117bn (from $161bn) and the current account shortfall to $109bn (from $16bn), thanks to lower oil and devaluation of the dollar. Fluctuations in the dollar have lessened, partly as a result of the international co-ordination achieved by the Group of Seven, but the fact remains that Ronald Reagan's heirs were left an American economy which is the world's biggest debtor nation, owing $800bn, while the current account surpluses of Japan and Germany increased by $635bn.

GATT, avoiding strong language, says the persistence of these external imbalances "is likely to be a continued source of attention, partly because of uncertainty about when and how they will be corrected and partly because of their possible repercussions on trade policies." Protectionism is being held at bay for the moment and the vast amounts of cross-border investment may ultimately be a big contributor to reducing trade imbalances, but the issue remains politically sensitive.

External inflation, however, is falling. While oil prices are up by some 43% on 12 months ago, due to heavy winter demand in the US, increased production quotes by Opec in the new year are expected to see them drop by a fifth to an average of $16/barrel for 1990. And slower economic growth is forecast to keep metal prices about 15% lower on average than this year's levels (barring supply disruptions), with all commodities showing no real increase.

The one economic indicator which belies the success story is unemployment. In the Organisation for Economic Co-operation & Development (OECD) area, labour supply — swollen by the Sixties baby boom — has outstripped growth in jobs, kept lower than increases in output by higher productivity. And though well down from the recession peak of 9% in 1983, the forecast rate of 7.5% compares badly with under 3% recorded 20 years earlier. The downturn in the demographic curves, however, should see marked improvement in the next five years and shortages are already affecting European countries in selected skills.

In the short term, the outlook for the low-growth economies of the US and Britain hinges almost totally on the success of monetary policy and export performance.

So far the US Federal Reserve's monetary tightness appears to be working, even allowing it to ease somewhat: consumer spending growth is projected (by the OECD) to fall to 2% next year (from 3.4% in 1988) so that GNP keeps gliding to a non-inflationary increase of 2.1% without any marked increase in unemployment from the 1989 level of 5.2%. But this will require no sudden upturn in consumption plus a continued rise in imports to offset an expected halving in the growth of manufacturing investment to 3%.

Forecasters, however, warn that with inflation being held down consumer confidence is relatively high and the economy is still working close to capacity.

In Britain, the weapon of high interest rates (which rose more than doubled since mid-1988) is likely to...
prove a blunt instrument. And forecasts by the Society of Business Economists that consumer spending on durables could plummet by 14% were supported by the plethora of pre-Christmas sales.

Even the most optimistic do not see economic growth reaching 2%. Against 3.5% this year, consumer expenditure may rise by only 1%. The negative impact will be a massive overstocking equivalent to 2% of GDP plus a fall of more than 5% in manufacturing investment.

Positively, this should slash imports and allow exports to rise 7% to cut the current account deficit from £20.5bn to £12bn (helped by better oil and invisible earnings). Inflation, however, is likely to be slow to respond. For while unemployment is set to rise again, the effect on wage settlements may be muted in the short run: a drop from average increases of 9.3% to 8.8% — still well in excess of an estimated climb of 6.1 in the retail price index.

Unless Chancellor of the Exchequer John Major, successor to Nigel Lawson (now blamed for the problems), reverts to tighter fiscal measures (notwithstanding the £1.1bn budget surplus) to bolster monetary policy, it will be difficult to reduce interest rates which are penalising homebuyers — dangerous for Margaret Thatcher's government — and helping sustain inflation. And with UK prices still rising twice as fast as those of Germany and France, sterling is likely to remain wobbly until conditions allow it to become a fully fledged member of the European Monetary System.

In the meantime, Britain's often lonely policy position within the European Community will be underlined by the economic strength of its fellow members on the continent. Investment will continue to increase — for example by 4.5% in Germany, 8% in France and 10% in Spain — as firms gear up for the promise of free trade in 1992 and to offset weaker exports to produce average growth of around 3%.

If there were political worries about German Chancellor Helmut Kohl's government, they have been largely doused by the collapse of communism in East Germany. The DM23bn tax cuts in January are likely to further underpin its position ahead of the elections due at the year-end. This will sustain domestic demand which already faces a boost from the wave of migrants from the East. Meanwhile, the Bundesbank's tight money policy has strengthened the D-mark and kept down import costs, reducing inflation without depressing investment.

In France, the minority socialist government's main concern is the current account deficit, forecast to rise 40% to Fr142bn (mainly with Germany) as the continuing investment boom smacks in capital goods. This, however, amounts to less than 0.7% of GDP and with the government pursuing a conservative fiscal policy the franc is not under pressure.

Despite troublesome public-sector strikes, average wage increases are being held down to 4% in the manufacturing sector and inflation is likely to fall — though not to the government's target rate of 2.5%.

Among the continent's Big Three economies, Italy may face the roughest ride. Even after proposed spending reductions of L40 billion (£2.5bn), the budget deficit will still be 11% of GDP. Demand has grown too fast for comfort, buoyed by real wage increases and lower savings. While it is expected that this year's 4% increase in consumer spending will drop in 1990 and inflation is likely to decline half a point to 6%, investment by business remains strong. The current account deficit is projected to rise further, to £21.5 trillion (£15bn) and a formal devaluation of the lira within the EMS is on the cards.

No such problems exist for Japan, its economic power undisturbed by the most unstable political period since the Fifties in the wake of the Recruit Cosmos scandal, or by the slippage in export growth. Internal consumer spending has taken over to complete nearly three years of expansion, the strongest since the Sixties as the soaring Tokyo stock exchange has testified.

Fed by real wage increases of more than 4% and lower taxation, private consumption rose by a strong 4.6% this year, undeterred by the unpopular new 3% tax on spending. Next year it is likely to slow but with capital investment still growing — by more than 5% (or 20% of gross domestic product) — the combination will limit the projected slump in exports to a gain of only 1% (from 6%) and lift GNP by more than 4%.

This should also see a further downturn in the current account surplus from the 1987 peak of £87bn. But it is slowing with forecast of £60bn after the £66bn estimated for this year.

For, despite rising imports (up a cumulative 33% by volume in the past 24 months) and the increase in Japanese travel abroad which has produced a tourism deficit of $20bn, the current account is reaping mounting benefits from the huge amounts of investment overseas. Since 1985, invisible inflows have risen by more than 150% to about $120bn. Some observers believe Japan will still stuck with a $50bn-$60bn current account balance for several more years even if imports continue to outstrip exports.

Around the Pacific Rim, the dynamic economies of South Korea, Taiwan, Hong Kong and Singapore — with an aggregate GDP equivalent to about 15% of Japan's — will all suffer mutually from the US downturn, their biggest single market. Average growth is set to slip to 6%, against rates of 8%-12% achieved in the late Eighties. This may help take some heat out of the labour markets where three years of expansion have driven unemployment down to under 2% — and in the case of Singapore, 3% — driving up wages.

The health of the entire region is also being clouded by China, the most promising of markets during the economic reform years up to 1985 when growth averaged 10%. Even before the political upheavals terminated by the slaughter in Beijing in June, the Chinese were reining in as inflation headed over 20% and imports ran out of control.

Even though the rate of expansion shrank from 11% to 6% this year, the current account deficit is estimated to have shot up from $3bn to $13bn — worsened by the disappearance of tourist earnings after June. Next year should see lower growth of 5% and an external shortfall of $8bn and, until foreign qualms about China's political regression are eased, the country will be hard put to easily raise credit abroad — even though foreign debt totals less than 12% of estimated GNP.

But China's retreat from the future is overshadowed by the hopes (and anxieties) about the reconstruction of Eastern Europe as the apparatus and methods of old-style communism are discarded and dismantled. Until early this year, the most significant date on the calendar of the Nineties was 1992, when the European Community is due to tear down internal trade barriers, with forecasts that this could add a full point to aggregate GNP.

Those prospects are now even more exciting. But a lot of questions have to be answered before the forecasters can rewrite the somewhat bland, if comfortable, projections that recovery from next year's depression will be modest with growth in the OECD member nations adding up to an average of 3% from 1991.
Still heading for a soft landing?

That remains the crucial issue for 1990

The gold price, the balance of payments, interest rates and the impact of change in eastern Europe are other topics addressed by the FM Board of Economists, represented this time by JCI's Ronnie Bethlehem, Brian Kantor of UCT and Louis Geldenhuys of stockbroker George Huysamen. Assocom's Raymond Parsons asks the questions.

Parsons: Let's take a snapshot picture of how you see the economy at the moment.

Geldenhuys: Some people expected it to happen sooner, but the economy is now clearly slowing down.

Bethlehem: I agree, but we must distinguish between the real economy and the financial economy. In particular, the critical thing is net foreign reserves.

Parsons: Is it slowing fast enough to meet our balance of payments target?

Kantor: Probably.

Bethlehem: We can't answer that properly at this stage because we don't have a full picture of net reserves. At the end of the second quarter net reserves (gross reserves of the monetary banking sector less its short-term foreign liabilities) had deteriorated markedly, largely because of a deterioration in short-term foreign liabilities between the end of 1987 and June 1989 of almost R5.5bn.

Geldenhuys: We're headed for a hard landing.

Kantor: The economy is moving sideways at quite a high level. If it doesn't move downwards and continues on this path it will have done nicely by way of consolidation or reaction to previous excesses.

The liabilities Ronnie is talking about may not be a bad thing. We want foreign capital and if we've been able to borrow this represents balance of payments relief.

Parsons: How do you see the impact of the world economy over the next 12 to 18 months, especially for non-gold exports?

Bethlehem: We must take warnings of a slowing down of the world economy seriously. Prospects for non-gold exports may be deteriorating, but we must look at exports as a whole. Fortunately, the gold price has risen, so whereas last year, when the gold price was down and non-gold exports did better, we might now have a reverse of that.

Geldenhuys: Forgetting about things like sanctions, from a purely economic point of view it's going to be tougher for exporters.

Kantor: We have seen a fall in commodity prices. But the increase in the price of gold is not fortuitous. There is a negative correlation: when the world economy slows and interest rates come off, the cost of holding gold falls. People buy more gold and start worrying about overshooting again.

Eastern European developments are a fundamental change in the world economy with huge potential for growth, from which SA will be the major beneficiary, though they will also put heavy demands on world financial systems.

Parsons: Are you now inclined to take a bullish view on gold? If the gold price should rise dramatically, can or will SA handle it better than on previous occasions?

Bethlehem: I don't think the gold price is going to run away. It's reflecting mainly two things: perceptions of a cap or a ceiling on real interest rates, which have emerged particularly since October 13 and developments in eastern Europe and Russia.

If gold surged over US$600 would we be able to resist the pressures that would build up, like the rise in the cost structure, and then could we handle the decline in the gold price when it came? I don't think so, particularly if it stayed up for a while, like it did in the Eighties, and we started to build in the assumption that there had been some fundamental structural change that justified a permanent adjustment in policy.

Geldenhuys: Sentiments surrounding gold have certainly turned favourable, though I don't think we're headed for a massive bull run. There are some ways of hope that we have learnt from experience on what policies we should then adopt.

Kantor: I wouldn't want to be seen as a gold bull at this stage, but the rise from $350 to $410, without much dollar weakness, is significant. Slow world growth is good for gold.

If gold moves up, say to $450, the authorities would not let the rand increase much. The Reserve Bank would take the opportunity to accumulate reserve strength. Financial markets would bet on upward movements in the rand, confidence would be encouraged and we would soon see a pick-up in money supply growth. That would be the same mistake as before and again we'd become vulnerable to subsequent weakness in the gold price. The way to avoid these errors is to allow the exchange rate to move immediately

and allow some foreign exchange control relief rather than try to bottle up reserves, but we are not ready to do that.

If we let the rand rise, all other exporters would complain about the impact on their profitability and they would be listened to in the same old way. We will never get rid of inflation without some exporters suffering in that the prices they get won't rise as fast as their costs over some short period.

Geldenhuys: Our main errors have been in monetary policy. I get the impression from Chris Stals's latest Reserve Bank Governor's address that monetary policy will be pursued in a slightly different way and not only on interest rates or the price of credit.

Kantor: Stals may be tougher on the downside but he will be better on an upsweep.

Geldenhuys: He needs to build reserves now.

Parsons: Could eastern Europe look more attractive to foreign investors and divert economic attention from our part of the world?

Bethlehem: Even if sanctions go today, capital inflows won't come when the gold price is depressed and we are sorting out internal political problems.

Anything that happens in eastern Europe that needs bankrolling will divert funds away from the Third World, and so make the position tougher.

Kantor: One can exaggerate the diversionary effects or whether SA will be much prejudiced. Our share of the world capital market is so small anyway, and we have lost so much capital, that any inflow - which will be extremely helpful to us - would not be important for world capital markets.

Bethlehem: SA is a schizophrenic country in how it is perceived by the outside world. When gold and commodity prices boom SA ceases to be looked on as some Third World phenomenon and becomes an attractive target for investment funds. When prices of our export commodities are depressed we tend to be classified differently. That can make a material difference to investment flows.
economic policy priorities and top of the list now is to reduce the rate of inflation. What are the chances of getting inflation down to a more acceptable level?

Geldenhuys: If you look at his speech closely, Chris Stals spoke about macro-economic equilibrium and balance, using inflation as the benchmark. It's not a policy directed only at curbing the rate of inflation. In the short term certain factors, maybe coincidentally, will favour a reduction in inflation. If gold remains strong the rand won't fall that much. We've had lots of indirect tax increases in the past two years which I don't think will recur. But it's still early days to talk confidently about single-digit inflation—or we'll be able to in a year's time.

Kantor: The key to inflation will always be the exchange rate. If they can hold the exchange rate then one can look forward to lower inflation down the line.

Bethlehem: The shift of policy giving more emphasis on inflation is welcome. I'm not so sure, however, that the shift actually displaces the balance of payments on top of government's priorities.

Parsons: Do you see appeals for wage and price restraint as playing a useful part in an anti-inflation strategy?

Geldenhuys: No, not really. We must pursue policies that will create the sort of environment where restraint will be self-imposed.

Kantor: The most important area in which government can exercise restraint is with its own employees. Government has a useful opportunity coming up to limit public-sector salary increases to less than 10%. With the next election way down the road, now is the time to hang in tough and set an example. A general wage increase of no more than 10% in the public sector has an immediate positive effect on the Budget, opening up room for tax relief. The private sector would take a lead from that. The authorities should accompany it by income tax relief. A low wage increase and income tax relief at the same time is a very useful package, and if they don't do it this year they'll never do it.

Bethlehem: Appeals for wage and price restraint are no way to conduct economic policy. But the public sectors must be looked at much more discretely. The total public-sector wage bill must be contracted but we need to retain and reward good people in the public sector. To do this we must get the public sector down in absolute size; that's where the leadership must come.

Parsons: In the post-election phase, is there more determination in official circles to discipline State spending?

Bethlehem: Yes, there is — as long as the environment remains reasonably accommodating and quiet.

Geldenhuys: There are encouraging signs that we may be close to the Budget figures for this fiscal year. On top of that, again it may be early days, but there may be room for more efficient allocations of expenditure.

Kantor: I don't think our fiscal record is as bad as people like to make out, though there are problems with the structure of the Budget. Obviously defence must be a prime candidate for real cuts now we are not fighting the Soviets on the border.

Parsons: We need more policemen and fewer soldiers?

Kantor: That's right. One has to be very sceptical about our ability to reduce absolutely the size of the public sector if you include nurses and policemen and teachers.

I've heard Barend du Plessis talk about SA's economic problems and have no doubt that he has a good grasp of the necessities. I think he is politically influential enough now to actually get his way.

Parsons: If you were beginning to think about the March 1990 Budget, what strategy would you recommend? Should taxes be cut — if so, direct or indirect or both?

Geldenhuys: The deficit before borrowing must not be bigger than the actual outturn for this year, which should be much less than the budgeted 4.1% maybe as small as 3.2% or 3.4%. To ensure that I must look at expenditure and then see where I can reduce taxes as well. If government comes up with a 13% increase in expenditure, which will probably be in line with the inflation rate, the deficit will leave little room for tax cuts. If spending growth can be limited to something like 10% there will be scope for tax cuts of some R2bn-R2.5bn. I would devote the bulk to direct taxes, taxes which should go to reduce the import surcharge.

Kantor: Don't forget we've already had significant direct tax reductions, mainly for women.

We must cut away at direct taxes and go for the indirect taxation route. The buoyancy of sales tax revenue is remarkable. This gives a wonderful opportunity to introduce Value Added Tax at rates not above the current sales tax rate.

Bethlehem: The Budget is government's most important statement on the economy. There is no way government is going to be able, in March 1990, to tell the economy that it can relax and go ahead. It's not just a matter of there not being enough room: it would be the wrong signal. We want to discourage spending and encourage earning and the way to do that is to switch the emphasis by reducing income taxes and raising indirect taxes. But just to get the deficit — before borrowing — clearly below 3% would be welcome and this is the time to do it.

Parsons: What do you see as the average inflation rate (CPI) in 1990?

Bethlehem: 13.5%.

Geldenhuys: 13.5%.

Kantor: 14%. And note that all these forecasts are for a fall in the rate, which is itself a significant change in sentiment.

Parsons: And salaries and wages?

Kantor: You must be consistent with your view of the economy. If you think the economy is coming off, obviously real wages will fall. If you feel the economy is not coming off, real wages will be sustained. It will depend largely on the lead the public sector gives.

Bethlehem: Real wages will be squeezed.

Parsons: And gross domestic product growth next year?

Bethlehem: 0%.

Geldenhuys: 1%, but GDE will fall.

Kantor: I'll go with that.

Parsons: It is often said that politics and economics go hand-in-hand in SA. How would you evaluate De Klerk's recent political initiatives in this context?

Geldenhuys: Encouraging. I think we'll see progress.

Kantor: He has an impressive sincerity. His role is critical. One must be so cautious of euphoria in these matters. I just hope he can maintain the momentum.

Parsons: At the end of the day, what is the bottom line for businessmen over the next 12 months? What is your basic message?

Geldenhuys: There are encouraging longer-term signs but 1990 will be tough.

Kantor: I expect a sideways movement with some upside which they should watch for, like the gold price and the Budget.

Bethlehem: Since F W has become president we've had the highest level of internation political activity for decades, yet we have lower anxiety than for a long time. We need to turn this around into the economic area. In 1990 we'll have toughness from the monetary and fiscal authorities, but at the same time, because of an improving global climate we'll have a greater feeling of ease on the part of the business community to take long-term decisions.
MEVYNN NING: Executive Chairman of Consolidated Frame Trucking

Denied Policies
Plan and clarity
SA needs a macro

FIND [INTEGRITY]
SA prosperity vanishing

TO KEEP up with world standards, more money needed to be invested in research and development (R & D) and research equipment infrastructure was crumbling, the CSIR's Foundation for Research and Development found in a recent study. The report said SA's unchallenged wealth and prosperity were vanishing gradually, and its rich natural endowment and cheap labour were no longer the ingredients of economic prosperity for the country.

Internalised markets and increased investment in R & D by SA's competitors were diminishing SA's competitive edge. The export of primary products could no longer support the economy.

Producers of primary commodities had to produce 40% more in 1986 than in 1990 to buy the same quantity of manufactured goods.

SA's BoP was increasingly strained by high and medium technology deficits. During 1987, the deficit in high and medium technology was nearly R10bn, more than 5% of the GDP.

Productivity, which depended on R & D, had to be improved. In recent years SA's productivity increases averaged a scant 1.1% while countries once in lower levels of development were doing four to six times better, the report said.

Australian researchers were endowed with 60% more funds than South African researchers while Canadians received seven times as much. Only 15% of research equipment at universities could be considered up-to-date.

CSIR president Chris Garbers said yesterday the R & D funding mechanism for universities had not been fully implemented, even though these funds had been increased by around 200% in the past few years.

Universities needed to be maintained as centres of excellence, especially considering government rationalisation of spending which had placed universities under pressure.

The R & D Foundation report added it was not surprising so many scientists left SA for greener pastures. More than 20,000 residents left the country permanently each year, a large proportion of whom took skills abroad.

National Productivity Institute (NPI) director for industries Jan Boer supported the view that not enough was invested in R & D. Industrialists often purchased technology overseas not suited to SA conditions.

Private businesses and government should work together on R & D programs, ensuring a focused program which could be practically applied, said Boer.

Science and engineering were SA's only hope to meet the challenges of international competition, the R & D Foundation report found.
Study puts SA informal sector at 30% of GNP

THE total informal sector in SA now comprises 30% of the economy and is growing at an uncontrolled rate, according to a study by the London-based Research Support and Marketing.

Author of the study, Tony Beamont, says all official statistics, by definition, relate to the First World, formal sector of the economy.

"Alongside this is a more or less healthy, informal Third World sector in which no records are kept and on which few authoritative estimates are available.

"A considerable amount of moonlighting by over-committed whites also takes place, and is not declarable for tax purposes, so it debatably belongs to the informal sector which, by definition, is poorly defined."

However, black unemployment is high, he says, with estimates ranging up to 40% of the would-be active adult population, which encourages a great deal of informal initiative.

"Recent estimates by the SBDC suggest that 3.5-million to 4-million jobs are now provided by the informal sector, which soaks up 40% of all job hunters and accounts for 35% of the GNP,

Business Day Reporter

making a mockery of official statistics."

The study says growth is not occurring in the First World white-controlled sector where it can be measured and taxed by Pretoria, but the extent of informal activity makes nonsense of statistics.

He says government has lost control of the economy to a certain extent. It is the First World sector which is inside the government tax net which is not growing sufficiently.

Confidence

"It is profitable enough, but the well run companies are in a defensive mode, growing only sufficiently to match or exceed inflation, unless it is by acquisition or export-led growth resulting, not from improved efficiency, but from weakening currency."

Beamont says SA industry has simply lost all confidence in the status quo since the Rubicon speech of 1985. It was industry which led the trek to Lusaka to open discussion with the banned ANC.

The role of business as an agent of change is critical, given the debate surrounding black attitudes to free enterprise, the impact of sanctions and the concern of many South Africans to promote peaceful co-existence and improving standards of living after the change.

It is only with the imposition of sanctions and disinvestment that government has, belatedly, begun to invite commerce and industry to express an opinion on national policy matters, and the invitation is largely restricted to the economic sphere.

"Industrial leaders opinions are, almost without exception, reformist, not because they are notably liberal, but because no other course promises sufficient stability for them to make decisions with confidence for the longer term. As a result industry is taking at last covert political initiatives way beyond its designated role."

Beamont says free enterprise, and especially big business, wants to be part of the new dispensation in SA — "so much so that it is probably prepared to bankroll the change and finance the new society to an extent that blacks would be well advised to listen to."

"If the well-being of black South Africans is more important than political posturing, they will certainly do better to accept the participation rather than insist on the nationalisation of such enterprises as Anglo," the study says.
Economy still under foreign debt pressure

For the year as a whole Sanlam also expects a marked depletion of total real inventories.

"All in all, we estimate that real gross domestic expenditure in 1990 will be about 1.8 percent lower than in 1989.

"A relatively sharp decline in the volume of imports and a continued rise in exports will nonetheless result in the gross domestic product being about one percent higher in 1990 than in 1989," says Mr Louw.

While the inflation rate for 1989 should be roughly 14.8 percent, against 13.3 percent in 1988, Sanlam expects that various factors will continue to exercise considerable upward pressure on the inflation rate in the first half of 1990.

"Furthermore, although we believe that food prices will continue to rise more slowly than the average inflation rate for the great part of 1990, the increases will be larger than in recent times and will therefore place more pressure on the total inflation rate.

"The effect of most of these factors should decline significantly later in 1990, leading to a reduction in the inflation rate. For 1990 we foresee an average inflation rate of about 14.5 percent," says Mr Louw.

The process of privatisation and continued deregulation will support this tendency.

At the same time it must be realised that certain factors in the SA economy make a substantial reduction of the inflation rate a formidable task and that efforts in this regard can succeed only if both the public and private sectors give their full cooperation.

He concludes that the tempo of economic expansion will slow down considerably in 1990. — Sapa
SA ‘losing that economic war’

IN SPITE of denials by government, SA is in the process of losing the economic war declared on the country by the international community.

According to a report published by London-based Research Support and Marketing group, SA’s weakened economy has become extremely sensitive to political decisions with no “fat” to act as a buffer against more international sanctions — particularly financial pressures.

The comprehensive 250-page report says a new political framework has become paramount in preventing a continued slide into Third World economic chaos.

“By the new year it is anticipated that the world will be complaining about the obduracy of F W de Klerk — whose likely delaying tactics will be designed not to prevent reform occurring but to secure the best bargain he can for Afrikaners,” the report says.

“Meanwhile, the external pressure on SA will be mounting, including pressure for increased sanctions, which de Klerk will try to avoid by making concessions.”

Entitled Industry Under Siege, the report lists recent moves made by government to lift the “externals” of apartheid, including the release of Walter Sisulu and his fellow detainees, testing the water for the release of Nelson Mandela, negotiations for the enfranchisement of the non-electorate and the rescinding of laws guaranteeing white privilege, which have become too costly to maintain.

“The present level of sanctions is distorting the SA economy but is not as dam-

aging, or as unwelcome to the SA authorities, as outsiders suppose.

“On the positive side it forces structural industrial changes which may be to the country’s long-term benefit, causing industry to be rationalised into fewer, larger more competitive production units,” the report said.

This restructuring presents opportunities for foreign investors willing to take political risk on lucrative financial terms.

“Thus Taiwanese participation is under discussion for the new stainless steel project of Highveld and Samancor, in return for preferential customer treatment.

“Further foreign finance is needed for future public sector investment, and will certainly be sought for major mining investment in the nineties.”

Invested

However, the report says, foreign monies will not be made available until SA has reformed sufficiently, while maintaining stability, to re-activate its economy.

The SA economy is now in a box — from which an increasing amount of “smart” money is somehow finding its way overseas. The rest is buying up foreign-owned assets in SA, or being invested in property and the JSE, the report says.

“There is insufficient industrial investment for the long-term good of the country, nor will there be sufficient until there is clear political direction which industry insists must be towards reform.”
SCARCELY a week passes now without a conference being held somewhere in Europe on the “Whither South Africa” theme.

Sometimes the conferences are fruitful, sometimes not. The one I have just attended in West Germany was not merely fruitful, it was an eye-opener.

Organised by the Munich-based Institute for African and International Studies at Feldkirchen-Westheim, the conference was attended by no fewer than nine of the Soviet Union’s leading Africa experts.

It was probably the biggest single gathering of Soviet Africanists outside the USSR since the “new thinking” began under Gorbachev in 1985.

They all presented papers on “Problems of Socialist Orientation and Democracy in Africa.”

The other participants were mainly West Germans with a scattering from Britain, the United States, South Africa and a specialist on South Africa from the Hungarian Academy of Sciences.

Reports that it was essentially a conference between Soviet and South African participants are not correct.

If there are still any warriors of the “total onslaught” school of thought left in South Africa, they should have been at the conference. They would have discovered that if ever there were plans for a Soviet-sponsored “total onslaught” against South Africa (which most analysts reject as pie-in-the-sky), then the Soviet Union has withdrawn its sponsorship.

This came through powerfully at the conference: that the Soviet Union is no longer in the game of sponsoring revolution in Africa.

**Blend of socialist and capitalist methods cure for Africa’s poverty**

Revolution is no longer an affordable expense. The Soviet participants came across as detached, if not disenchanted observers of Africa.

Reconciliation, not revolution, is the password now.

**Revision**

The Soviet view is that socialism is still the superior system and that this is the ideal Africa should pursue. But as the leader of the Soviet delegation, Professor Gleb Starushenko (deputy director of the Institute for African Studies of the USSR Academy of Sciences) put it, the quest in Africa now is to “revise and even replace some of the old political and ideological tenets.”

Most of the Soviet speakers took the view that achieving socialism in Africa and this includes South Africa, will be a long march.

There are no socialist countries in Africa today. They said, only countries of socialist orientation, which is a transitional stage that could last for generations.

**FOCUS**

By STANLEY UYS in London

According to Starushenko, a distinction should be made between political regimes in Africa and systems of economic development.

Socialist and capitalist oriented countries alike could produce either democracies or tyrannies.

Progressive evolution, to some extent, was possible along the capitalist path. Socialist oriented states could use capitalist structures. It was a matter of “yes to capitalism as an economic structure but capitalism as a syst-
Grave

Prof Gleb Smirnov, head of the Africa Institute's economics department, suggested that it would take three generations for Africa to reach socialism - this would take the continent into the middle of the next century.

Africa's underdevelopment, said Smirnov, was incompatible with socialism. He did not think socialist-oriented countries in Africa were any worse off than capitalism-oriented ones; the whole of Africa faced a grave economic future.

No rift

This meant that the struggle between the two world economic systems, which often has threatened world peace, could be transferred from the international arena to within national boundaries.

The Soviet speakers listed some of the failures of socialism in Africa: exaggerated expectations, unrealistic targets, over-rigid centralised planning and economic stagnation in the 1980s, leading to unemployment particularly among young school-leavers.

There was no rift between the Soviet Union and the ANC as some reports had suggested, he said, but the Soviet Union was ready for wide-ranging contacts with South Africans.

If the Soviet Union thinks it will take generations to achieve socialism in Africa, including South Africa, where does this leave South Africa's black socialists?

This question was asked at the conference: "What impact have the failures of socialism, not only in Africa, but throughout the 'socialist' world, had on the socialists and Marxists in the ANC, PAC, 'Black Consciousness Movement', etc.?

The answer seemed to be - none at all.

Their rejection of capitalism is not based on a rational costs-benefits analysis: it is predominantly an emotional response, deeply embedded in their rejection of apartheid.
Warning sounded on economic curb overkill

CAPE TOWN — The economy "has now reached the stage where overkill through the use of an unbalanced package of measures should be guarded against", Sanbank chief economist Johann du Pisanie says in his Economic View.

"If the authorities were to persist for too long with the present restrictive monetary policy, it would lead to even higher negative growth rates in real private expenditure, where have been recorded until now, less welfare per capita and further increases in unemployment. The solution to the problem is to be found in energetic discipline in state spending."

De Pisanie says that continued restrictive monetary policy "will not necessarily improve the level of the country's foreign reserves in the short term."

"High interest rates redistribute income from net debtors to net creditors. The latter are usually in the high income group and the windfall of higher interest income could prompt greater spending on luxuries such as new cars, imported porcelain and trips abroad — which would just serve to increase imports and could then result in a decline in the reserves."

"The pressure of higher interest rates on a net debtor's financial position could also have a perverse effect. Higher interest and therefore higher instalments on existing debt mean less disposable income for other purposes and could force him to incur more credit. Possibly he does not qualify for a further personal loan but should he buy an asset such as a car the asset will serve as security."

"Suppose the person had bought a medium-sized car about three years before. The difference between the selling price and the redemption amount would probably be more than the deposit on a new small car, and the balance could be used for other purposes."

Inflation

"Should the debtor act on these facts, the result is an increase in new car sales, in bank credit and money supply — not because the debtor refuses to curb his spending but in fact because of the strict monetary policy."

LESLEY LAMBERT reports from Cape Town that Old Mutual economist Dave Mohr says the emphasis of the recent shift in economic policy should be on curbing sharp growth in government spending.

This should be one of the first considerations when it comes to implementing the recently announced shift in monetary and fiscal policy towards the control of inflation, Mohr says in the Old Mutual's latest Economic Monitor.

While the Mutual welcomes the shift, it stresses that it should not be aimed at the short-term goal of controlling cyclical inflationary pressure, but should represent a structural adjustment aimed at combating inflation in the long run.

If long-term success is to be achieved, strict monetary control will have to be applied in the form of positive real interest rates, and strict fiscal discipline will have to be applied, especially to government spending.

President F W de Klerk's Cabinet appears to have responded to both suggestions in the past two weeks by promising strict co-ordination of short-term and long-term economic goals and strict control of spending.

Mohr encourages the financial authorities to make the structural policy adjustments while conditions are favourable, but warns them not to allow a premature and excessive relaxation of economic policy if, and when, the economy shows clear signs of a slowdown.

It is likely that further cooling measures will be required next year, if the foreign exchange reserve position remains vulnerable and inflation continues unabated, Mohr says.
Only a 1990 Recession Will Do the Trick

By J. K. Galbraith

The New York Times
May 1, 1995

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Deficit to be sliced to only 3% of GDP

GOVERNMENT is set to achieve a major breakthrough on fiscal policy in the current financial year, as the deficit will be slashed to almost 3% of GDP while a tight rein is kept on spending.

Finance director-general Gerhard Croeser yesterday told a panel discussion of the Institute for Business Leadership in Johannesburg surging revenue and control over spending indicated a dramatic decrease in the deficit in 1998/99.

He said current estimates showed the deficit before borrowing would fall to only R7.7bn, or 3.2% of GDP — against a budgeted R9.8bn, or 4.1% of GDP. He stressed he was using estimates based on preliminary figures.

However — if achieved — it means government has in practice attained its longer-term objective to bring the deficit down to 3% of GDP.

On spending, Croeser said: "I am confident total expenditure during 1998/99 will be very close to the Budgeted R65bn. But to play it safe, I am predicting a small overrun which could see spending in the region R68.2bn."

This overrun could be ascribed to, among other things, an overrun (R10bn) in the cost of privatising Gencor. Included in the budgeted R65bn is a R1bn contingency reserve for unforeseen expenditures.

A figure of R68.2bn in spending means an increase of 15.3% from the previous fiscal year, compared with the Budgeted 15% — by far the best performance in the past decade and a vital step towards improving credibility damaged by years of exceeding budget estimates on spending.

The major reason for the decline in the deficit before borrowing was a tax windfall which, Croeser said, "exceeded our wildest hopes." Total revenue was expected to overrun the Budget by about R2.5bn to reach R57.2bn. (An increase of 21.3% compared with a Budgeted 16%).

Deficit slash

The main developments on the revenue front were an expected overrun over R1bn on customs and excise and the surcharge on imports and an extra R300m from the fuel levy. Both these reflected "somewhat un-successful attempts to cool overheated sectors of the economy."

Added to this was an extra R800m in income tax on individuals, mainly due to an increase in the number of taxpayers, and another R200m in company tax not foreseen in the Budget. However, sales tax and gold mine revenues would be somewhat lower than budgeted.

Although a reduction in the deficit was a welcome development, Croeser expressed concern at the increase in the tax burden. The total tax burden would now be about 31% of GDP (budgeted: 23.3%). But in spite of his concern about the tax burden, he warned that little could be done to alleviate the problem next year.

"Keeping the deficit down will obviously limit the extent to which tax relief can be implemented in the short term. If the need to curb consumption spending next year, especially, is kept in mind, the authorities may not be able to do much more than reduce the effect of fiscal drag."

Ways would have to be found to end the practice of financing current spending with long-term loans. This was receiving special attention, and it had been decided to review the benchmark 3% of GDP for the deficit as government's capital spending was only about 2.5% of GDP.

On the spending side, economic services was the "first candidate" for cuts, since the private sector could play a role and user levies would also be implemented more widely. Candidates for a larger slice of state spending were housing, education and social services.
Zach outlines main tasks to take business into the 1990s

ONE task facing business in the 1990s was to tell employees what was right and constructive about free enterprise and what was inefficient and unhelpful about socialism. DP co-leader Zach de Beer told a SA Direct Marketing Association in Johannesburg yesterday.

The second task was to understand and deal with the objections to free enterprise. What might look like a socialist bias on the part of workers was often only a "fight for human dignity and human rights", using the weapon they believed they had found in their economic power.

The third task was to make profits, for if investment was the engine of growth, profits were the fuel. — Sapa.
Tourism was to be a dynamic player in the building of a new South Africa, said the Minister of Trade and Industry and Tourism, Mr. Kent Durr, last night in announcing the new appointments.

He said tourism could make a substantial contribution towards improving the current balance of payments.

The next six months would be a formative period when his department, the SA Tourism Board, and the Board of Trade and Industry would work closely to plan the future of the industry.

"This is not a move towards central planning for the industry but a measure to provide clear guidelines and leadership as well as removing any uncertainty about the industry," said Mr. Durr.

"Obstacles and bottlenecks that stunt growth must be identified and addressed immediately."

Mr. Theo Behrens, chairman of the national tourism committee of the Federated Hotel, Liquor & Catering Association of SA (Fedhass), said the new Tourism Board was a very "positive and welcome change."

"The Tourism Board always had a number of people from the private sector serving on it, but most were not active in the tourism industry.

"The new members are people who earn a living from the industry and know exactly what gaps to take in terms of marketing tourism locally and overseas."

Mr. Bob Williams, managing director of Williams-world travel agency, said:

"South Africa's tourist industry could bring in more money than the gold industry, and any new approach to tap this enormous potential is a welcome one."
Tourism industry gets dramatic boost

By Helen Grange

The Government has taken dramatic steps to boost South Africa's multibillion-rand tourism industry.

The appointment of a new SA Tourism Board (Satour), consisting mainly of private businessmen, was announced last night.

Mr Danie Hough, who was chairman of Satour for eight years, resigned yesterday. A spokesman for Mr Hough, who is Administrator of the Transvaal, said he no longer had time for the position.

The Minister of Trade and Industry and Tourism, Mr Kent Durr, last night said Mr Piet van Hoven, managing director of the Comair airline, would be the new chairman.

He would be assisted by 13 leading figures in the travel and tourism industry.

The number of international tourists to South Africa has boomed in the last two years after falling into the doldrums during the unrest situations of the mid-80s. Last year foreign tourists spent an estimated R3 billion in South Africa, compared with only R1 billion in 1987. And visitors are expected to spend R8 billion this year.

The new board appointments, said Mr Durr, would serve to "end any uncertainty regarding the future of the board and of the Government's attitude towards the importance of the industry".

Mr van Hoven, who has worked in the tourism industry for 20 years, said last night: "the Government intends approaching tourism in a far more businesslike manner. The new board members are predominantly from the private sector."

The new appointments are Mr N de Villiers, previously managing director of Ronne's Travels and the Hertz Car Hire Group; Dr WJ Pretorius, marketing and development consultant to the National Parks Board; Mr Ronnie Meyer, director-general of transport; Mr P EI Swartz, a company director involved in the hotel industry; Mr GJ Breyi, deputy-director-general of the Department of Trade and Industry; Dr A Moolman, managing director of the South African Transport Services; Mr RAC Camerer, an international banker; Mr Bruno Corte, managing director of Southern Sun; Mr GC Simpson, managing director of Holiday Travel and Tours Group; Mr MLP Rattray, owner of Mala Mala game lodge and Dr GM Msibi, a Soweto hotel owner and former Swaziland parliamentarian.

Two other appointments will be announced.
Economy still in trouble – prof

Stals comes to the rescue

THE Reserve Bank Governor has got South Africa “off the hook” but the country is still in serious trouble, says Professor Sample Terreblanche of the University of Stellenbosch.

His appraisal came as an addendum to the sighs of relief from the business establishment — and cries of anger from the extra-parliamentary opposition — which greeted the recent statement by Dr Chris Stals on South Africa’s foreign debt.

The Reserve Bank Governor announced he had negotiated an extension on the repayment schedule. Under the existing agreement, SA would have had to pay back $8 billion when it expired on June 30 next year; Dr Stals averred that crisis by negotiating a new agreement under which Pretoria would have to pay back $1.5 billion on its short-term, “in the net” debts in eight installments between June 1990 and December 1993. But, as Minister of Finance Mr Barend du Plessis was quick to point out, South Africa would still have to pay back $5 billion in the next four years ($1.5 billion plus $5.5 billion on long-term debts “outside the net”).

The professor assessed the implications of the situation in an interview with the Saturday Star.

Since 1985, capital valued at R27,5 billion had drained out of the country; roughly half was foreign capital and interest repayments on the huge foreign debt, which currently stands at $30 billion; “flight capital” accounted for the second half.

Repayment of the debt had been made from surpluses on the current account of the balance of payments: very little capital was thus available to finance economic growth, a situation which exacerbated the low rate of economic growth.

Noting that the average annual rate of economic growth had been less than 2 percent since 1974, Professor Terreblanche spelt out the consequences: declining per capita income, rising unemployment and growing impoverishment.

He summed up: “After 40 years of power, the Government has lost control of the political economy.”

Reversal of the situation, and a change in the direction of the flow of capital, required fundamental social and political change, he said.

But, expressing scepticism about President F W de Klerk’s ability to bring about the necessary changes, Professor Terreblanche said: “It will only happen when Mandela or a Mandela turns around and tells the world: ‘I am satisfied with the process. Please help us rebuild the economy’.”

Anger at US banks’ agreement with SA
Tough measures predicted

Cabinet in secret discussions to pep up economy

By Peter Fabricius,
Political Correspondent

Strong medicine to cure the country's economic ills is expected to follow a special Cabinet think-tank which took place at a secret venue yesterday.

President de Klerk's office confirmed last night that the Cabinet had met outside Pretoria. It said the matters discussed would be embodied in the Cabinet's decisions as well as in the Budget for the coming financial year.

Rationalisation

A report by Minister of Administration and Privatisation Dr Wim de Villiers — laying bare the country's economic problems — is believed to have formed the basis of yesterday's talks.

It is understood that the discussion centred on ways of cutting State expenditure and it is almost certain that rationalisation of the public service was one of the proposals.

This follows President Klerk's announcement last week that the Government would have to reduce the size and costs of the public service to bring down State spending.

The Government has already begun to cut back on staff at Armscor.

The parasatal arms manufacturer announced last week that up to 1,000 workers could lose their jobs when the ammunition factory Pretoria Metal Pressings closed down as a result of the drop in demand for ammunition following the end of South Africa's fighting in Namibia and Angola.

Another Armscor ammunition-making subsidiary, Naschem, had to close its factory at Lenz near Johannesburg a few months ago.

Apart from curbing the public service, other strong economic measures were considered at yesterday's Cabinet think-tank, Government sources said.

Most ministries would say very little about the special meeting.
GOLD

Don't run out all the flags

While it's too early to say gold is about to come galloping to our rescue again (see Markets), clearly a higher price of gold will do the balance of payments no harm. But now more than ever we must guard against complacency.

The worst out-turn would be to treat a higher gold price as an excuse for not taking (or deferring) the basic structural economic reforms needed to shift the growth rate permanently upwards (see Cover Story). Alas, this has happened all too often.

It is a matter of observable fact that our underlying growth rate was at its highest while gold was relatively (or totally) price-stable. Dollar inflation of the gold price, on the other hand, has permitted profligate policies which have impoverished us all — not least, paradoxically, the gold price, as we have this decade moved from one of the world's lowest-cost gold producers into the top end of the range.

It's not necessary to believe there's a direct causal relationship between a high gold price and a low growth rate; what matters is the consequences of this coincidence.

One is the ever-increasing gold resources that are becoming uneconomic to mine. Another is the narrowing margin of profitability, and the associated sharp decline in tax paid by the industry, increasing the burden on the rest of us.

Though the gold price may move in lengthy cycles, and we may well be on the verge of a new bull phase, there is no reason to think that in the ultra-long term the gold price will increase significantly in real terms.

A depreciating rand (against the dollar) may assist gold mines short-term but it also reflects an excessive inflation rate that, in the long run, damages the gold mining industry — essentially a price-taker rather than a price-setter, as it is — just as much as, if not more, than the rest of us.

The argument that a declining rand/dollar rate benefits all of a gold mine's revenue but affects only part of its costs is, unfortunately, no longer tenable — if it ever were.

We need structural reforms regardless of what happens to the gold price. Looked at in proper perspective, a higher gold price simply gives us breathing space in which to make the necessary adjustments.

And breathing spaces, by definition, are temporary.

So if the gold price is indeed headed upwards for a while, this actually if anything increases the urgency of doing what we must. We've missed the opportunity too often in the past; this could be our last chance.
Stagnant economy is on the cards — BER

CAPE TOWN — SA's economic growth rate could grind to a halt next year as the economy enters a cyclical downturn and the effects of structural changes in personal savings and fixed investment filter through.

That is the view of Ockie Stuart, director of the Bureau for Economic Research. Speaking at a BER conference in Somerset West yesterday, Stuart said the BoP had become the major constraint on growth and would remain so as long as foreign debt was high and fixed investment and savings low. There had been a shift away from sectors which produced goods to those which sold goods or services. As a result, SA had become a nation of consumers rather than producers.

This structural change had happened at a time when the manufacturing sector should have been filling the employment gap which remained as the mining industry's contribution to the economy slowed down. Instead, the real amount invested in fixed assets or capital goods in the manufacturing sector last year was only 90% of its 1984 value.

The change from production to consumption did not imply consumers had more to spend. A reduction in taxed real income had accelerated during the second half of the eighties, making most people poorer, in real terms.

Spending on durable goods had dropped from 13.7% of total consumer spending in 1981 to 9.5% in 1988 and personal savings had shrunk, with the savings ratio currently about 1.5% and expected to slip to 0.9% next year.

Nevertheless, Stuart said, total private expenditure had increased in real terms as people relied more and more heavily on credit to maintain living standards. Many had raised living standards in anticipation of improvements in real disposable income as a result of continuing political reform.

Ironically, the net result of this had been a lowering in the average per capita living standard, an increasing burden of debt and a low savings ratio.
Bank report outlines plan to build Soweto’s economy

GERALD REILLY

PRETORIA — Soweto’s vast and complex socio-economic problems cannot be solved overnight and there is no simple short-term solution.

This is the clear message in a report on the sprawling city’s economy and finances compiled by Development Bank of Southern Africa chief executive Simon Brand.

The report, released here yesterday, recommends a financial adjustment programme, stressing the root of the problem is Soweto’s severely under-developed economy. In addition, it is denied access to income sources available to other local authorities.

Brand said at a Press conference here: “The adjustment programme is already being implemented.”

He also stressed that budgetary assistance would be needed from other levels of government, including the province, on a planned basis.

He stressed the report was not a blueprint for Soweto development — it was aimed at diagnosing weaknesses caused by the council’s financial predicament.

Rental arrears were only part of the problem against a background of other service arrears.

Need

Brand said: “Even if the rent boycott ended, there would still be financial problems because of Soweto’s under-developed economy.”

The first important overall need for Sowetans was income-earnings opportunities. The second need was for an assured and adequate revenue base. A third need was more effective local administration and urban management.

The report recommends an accelerating transfer of existing housing stock on more lenient sale conditions and repayment terms.

On transport the report says further deregulation and diversification of the system is needed to enable Sowetans to use employment opportunities elsewhere.

A multi-year financial adjustment programme should be based on full development and collection of revenue,

and arrangements for the council to share in revenue raised from its spending in other local authority areas.

Consideration should also be given to privatization of trading services, starting with electricity distribution.

The Transvaal Prowincial Administration should be responsible for managing the financial adjustment programme in close consultation with the Soweto council, the Finance Department, Constitutional Development and Planning Department and the Central Witwatersrand RSC. Agreement should be reached with the Johannesburg municipality for more sharing of services.

The long-term aim should be Soweto’s development as a dynamic, growing satellite city of Johannesburg with adequate internal services and jobs.

Sapa reports that Brand, asked at the Press conference how Sowetans could be persuaded to pay their rents, said: “We could take some of the emotion out of the system by introducing a more scientifically based system.”

He proposed separating the service charges from the flat “rent” residents were charged.

MEC Olau van Zyl said Brand would chair the financial adjustment programme committee that would investigate means of realising the recommendations contained in the report.

Van Zyl added that the Central Witwatersrand RSC had provided R180m to Soweto during this financial year.
Apartheid to blame

STATE President F W de Klerk should scrap all laws that hamper the economic development of blacks.

This was said yesterday by Professor Louise Tager, executive director of Law Review Project, when addressing more than 3,000 delegates at the Southern Africa Black Taxi Association annual conference at Sun City.

She said that apartheid was responsible for blacks being at the bottom of the pile.

Risk

Apartheid had penetrated every aspect of life in South Africa.

Tager said apartheid had created barriers between black and white businessmen.

Black entrepreneurs were disadvantaged because they were regarded as a risk by financial institutions while whites were given loans more easily.

It was only when all South Africans were subject to the same laws that it could be claimed that apartheid had died.

The regulations affecting the taxi industry frustrated many black people. It was therefore important that the Government should deregulate this industry although some form of control would be needed.

Tager said the taxi industry was not easy to run because of the deaths and violence that had plagued it for a number of years.

Sabua’s president James Ngcoya said the taxi industry was plagued by many problems. He said safety was of paramount importance.

He said deregulation had also created problems because there were many new entrants into the market.
SA debt peaks in 1990 but payments won’t ease up

By HILARY JOFFE

Despite the recently negotiated Third Interim Debt Arrangement, South Africa faces substantial debt repayment commitments and continuing strain on the balance of payments for much of the 1990s.

Foreign debt repayments are due to peak next year, when the country may have to pay over $3-billion, according to official figures. And the figures indicate foreign debt repayments from 1992 through to 1998 will be at a sustained level of between $1.5-billion and $1.5-billion.

But in the latest Nedbank Guide to the Economy, Nedcor economist Edward Osborn estimates the “bunching” of debt repayments will be lower in 1990 but higher through the decade. To the extent that repayments due next year and in 1991 are spread into later years, debt payments through to 1998 are likely to average between $1.5-billion and $2-billion a year, on his figures.

This means South Africa will probably have to generate surpluses on the current account of the balance of payments of $2-billion to $2.5-billion annually — and monetary and fiscal policy will have to remain stringent, according to Osborn.

The Nedcor Group Economic Unit has tried to put together a comprehensive picture of South Africa’s foreign debt profile, since the financial authorities seldom give detailed figures.

At the end of last year, debt outside the net of the interim agreement with foreign creditors included $7.5-billion of public sector debt and $2.5-billion of converted debt — that is, taken out of the ambit of the agreement with foreign creditors and rescheduled for 10 years. Total foreign debt, including that inside the net, was $21.2-billion.

But it is the public sector debt outside the net which is the problem, because much of it is due to be redeemed in the years 1989 through to 1991.

It is not clear precisely when such debts become due but latest government figures suggest a huge payments obligation in the second quarter of next year — of $2.5-billion — including debt inside and outside the net. This is because of an extraordinary

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Three estimates of how much South Africa will be paying to the year 2000:

- Government Schedules of September 1988 and 1989
- Nedcor’s figures
- Total amount of $2.3-billion due to be paid in that quarter.

But, says Osborn, “This clearly will not — and cannot be allowed to — occur because of the rollovers and refinancing of public debt that will have been arranged.”

The Nedcor estimates show a peak in repayments next year followed by roughly equal totals due each year until 1997, after which the amounts start to decline. From 1993 to 1999 there will be substantial payments due on debt converted to 10-year loans in terms of the “exit clause” contained in the interim debt arrangements with foreign creditors, but payments due on public debt will decline.
Own Correspondent and Sipa

Serious President for the coming year —

Don't try! David Morris said in his report that only one of the many opportunities newly available will be taken advantage of. The source of manufacturing capability is not enough to meet the demand for increased economic growth. It is alarming to consider the prospects of the world in the moment. A recent government estimate for the year 1988 was made available. The estimate was a result of the austerity measures introduced by government.

Yesterday's report stated a modest fall off in demand for agricultural products. The government has been unable to meet the demand for grains and also many of the products of the import surplus are of no use. Measures taken to curb imports and demand are not enough to offset the pressure on the economy.

Van Wyk added: "Of particular concern to Van Wyk is the recent decrease by 2% of industrial production. The production drop is due to reduced economic growth, which is reflected in the decrease of the import surplus. The decrease in production has been the result of reduced consumption of goods."

**Scant Growth from Metals**

*Business Report*
NGK raps Boesak on sanctions call

JOHANNESBURG. — The NG Kerk has strongly criticised the moderator of the Sendingkerk, Dr Alan Boesak, for calling for intensified sanctions against South Africa.

In an editorial in its publication, the church said it found Dr Boesak's actions unacceptable and said the matter would have to be discussed in depth during any future contact between the two churches.

Meanwhile, the NG Kerk has urged President De Klerk to consider reprieving security prisoners who have been sentenced to death.

In the church's editorial it said it did not want to imply the death sentence was unbiblical, but it wished to plead for clemency in the light of the situation in South Africa.

The church asked the government to give immediate and serious attention to the matter. — Sapa.
THE declining economy and sanctions will make it difficult for the metal industry's employers to grant future wage increases similar to those negotiated in the sector this year.

This was said by Mr Willem van Wyk, president of the Steel and Engineering Industries Federation of SA (Seifsa), when addressing the employer body's annual general meeting in Johannesburg this week.

Seifsa and the 14 unions which are part of the industrial council reached agreement on pay rises ranging from 13.2 to 18.5 percent.

Objections
This year's agreement is to be gazetted this week and will become effective from Monday.

Focusing on the Labour Relations Act, Van Wyk said objection to the labour legislation's amendments "had manifested itself in threats of dispute, stayaway action and other forms of mass industrial action."

He said the overtime ban and stayaways called by Cosatu, Nactu and non-aligned unions served only to create a climate of confrontation. Seifsa supported negotiations between Saccola and the unions to seek changes to the labour law.
Competition in SA unfair

SUN CITY. — Competition was healthy for an economy, but the problem in SA was that competition was not fair, Law Review Project director Prof Louise Tager said yesterday.

Addressing the Sabsa AGM at Sun City, Tager said concern that in a free economy there would be over-trading stemmed from a misunderstanding of the nature of an economy.

"Without 'competition,' business cannot grow; it becomes complacent, services suffer, prices remain high and businesses just deteriorate. Without competition everyone is affected. Consumers are prejudiced and the economy is frozen — it never grows because there is no incentive to grow. Competition benefits everyone."

Tager said the economy was not a "fixed size" cake that had to be shared by more and more people.

"The economy is market related; it is capable of continuing growth and the more it is stimulated the more it grows. That is why we do not have to speak of the distribution of wealth. In fact, the distribution of wealth will not solve our problems."

"Wealth has to be created, and it will be created if we free the economy of the controls and permit it to grow and prosper," Tager said.

"But competition has to be fair and this is the main problem in SA. How do we ensure that there will be fair competition when the odds are at present so unevenly balanced, because whites have all the privileges."

"The playing fields have to be levelled before there can be free and fair competition in this country."

Tager had high praise for the black taxi industry under Sabsa.
From earning R12 a week to big business

IN April 1985 Joseph Moerane Motaung established himself at a small industrial park in Mogwase with his wife Sheila and six machinists.

Starting out with only five sewing machines, his production capacity was limited to small orders.

Today JM Clothing employs 86 people and has moved to new premises covering 3000 square metres at Bokako Industries.

He is the first black man to set up a factory in what is known as the 'bigger industries' area - where the main industrial companies are found. Until recently this area was made up of exclusively white-owned companies.

Motaung, who sees his company grow by the day, has now set his sights on Johannesburg where he wants to compete with the giants in the clothing industry and get into the export market.

His factory specialises in all types of protective clothing, such as shirts, overalls, boiler-suits and security uniforms.

His career started in Johannesburg in 1968 where he earned R12 a week working for various clothing companies. He had qualified as a tailor at Mopedi training college in 1966. While employed he also sewed clothing at home, making 10 times what he earned at work. He then decided to start his own business as he was tired of working for a white man.

He moved to Mogwase in 1984 where he started as a tailor, sewing dresses, curtains, school uniforms. He was awarded two contracts in 1986 for the manufacture of uniforms for the Bophuthatswana Defence Force. This, he says, was the turning point and he has never looked back.

When his business grew he realised he did not have enough space and the Bophuthatswana Development Corporation built a R3,000,000 factory from where he is operating at the moment.

At the moment he has two particularly big orders worth more than R1,5 million. One is for 45,000 sets of uniforms placed by the Bophuthatswana Defence Force, the other is an order in excess of R350,000 for miners’ wear and security uniforms, placed by the Anglo American Corporation.

He also has a contract to manufacture overalls for many of Anglo American’s mine workers. He has made curtains for the popular Sun City hotel near Rustenburg.

"Our ability to handle orders of this size proves that we are at a stage where we can look into exporting our products, especially to the African states," he says.

Motaung is planning to start exporting his products to the neighbouring states and overseas. His turnover exceeds R2-million a year. He is not satisfied because he still wants to grow.

By JOSHUA RABOROKO
The townships need industries

DR Simon Brand of the Development Bank of Southern Africa last week hit the nail on the head when he asked for industrialisation in townships to improve their revenues.

"Whoa! The Islands of Poverty we live in do want a massive injection of development strategies instead of the the political games being played by the powers that be.

The rise and development of towns was throughout history mainly influenced by commerce. Although politics or religion were responsible for some of these developments, economic factors lurked in the background.

With the introduction of South Africa's apartheid policies, a new phenomenon was ushered in. Development was made to conform to ideology to the extent of trying to make the river flow upstream.

Border area

The creation of "border industries" in the early '60s is one of countless examples. According to the then Prime Minister, Dr Hendrik Verwoerd, a border area is a region which will be developed through white initiative and control, but is situated near a Bantu area so that the Bantu can maintain their homes and families there, travelling backwards and forwards daily, or if this is impossible, going home at weekends" (Race Relations Survey 1961).

Millions of rands were spent developing these industries. They provided jobs, and still do, but they are not developing homeland communities.

When an industry, say the manufacture of motor vehicles, starts in an area, ancillary industries like the manufacture of tyres and batteries follow.

Service industries such as retailing and financial service also result. In no time the area becomes self-contained. In our example the thousands of homeland workers ended up using the bulk of their earnings in these border areas.

To put it simply, they received their paychecks with the left hand from Baas Pretorius and, using the same money, paid Baas Pretorius with the right hand.

Industries

How could there be development in their so-called homelands when their sweat and toil was for South Africa? In any case this is what archrascal Verwoerd had in mind.

It was this type of diabolical thinking which on a smaller scale created the Sowetos and Mamelodi of this world.

To this day there are no worthwhile industries in most black townships and the quality of life is even deteriorating.

Dr Brand's blueprint could be the light at the end of the tunnel.

Black areas need developing and for this to happen they must have industries. In the 18th century Adam Smith asserted that "no large country ever did or could subsist without some sort of manufacture being carried on in it...". This also applies to towns.

Suburbs

The world's major and historic towns grew along waterways. From medieval times these waterways were the hub of commercial activity.

Towns along these waterways and trade routes developed because of the commercial traffic that passed through them.

Just 30 years ago Randburg and Sandton were suburbs in Greater Johannesburg. Today they are among the richer municipalities and at no stage of their development did they depend on rents and liquor sales for their revenues.

If the Government could in the sixties pump millions of rands into the border industries in pursuance of its revolting apartheid policies, let it invest the billions it makes from privatisation in black areas by helping develop industries. In doing so it would guarantee prosperity for future generations of South Africans.
NGK plea on death penalty

JOHANNESBURG. — The NG Kerk has added its voice to calls on the State President to consider reprieveing security prisoners sentenced to death.

In the latest edition of the NG Kerk publication the Kerkbode, the church said it did not want to imply that the death sentence was un-biblical, but that it wished to plead for clemency in the light of the situation in South Africa.

It expressed concern at the number of executions and of capital crimes committed in the country. — Sapa
ECONOMIC CURBS

No need for hindsight

When he introduced import surcharges in August last year, Finance Minister Barend du Plessis told a press conference he hoped they would add not a cent to revenue, thereby proving their success in reducing imports. He predicted that, along with other restrictive measures introduced at the time, they would trim R1.5bn off the import bill.

In the event, the surcharges contributed substantially to revenue. Income from this source, budgeted at R1.3bn this fiscal year, had already brought in R1.1bn in the five months to August.

The effect on imports was a rush of preemptive buying ahead of expected further restrictions, as is clear from the figures. September 1988’s import bill was virtually unchanged from August’s R3.6bn, after a fall to R3.3bn in July from June’s R3.6bn.

By May 1989, imports were R3.9bn. In June they hit a record R4.4bn. As the FM reported: “Demand soared for machinery, consumer electronics, motor vehicles and aircraft.” In July they fell to R4.1bn before picking up in August to R4.2bn.

The first meaningful reversal came in September, when imports dropped to R3.5bn. Now, it seems, the futility of the exercise and damage it caused are clear to all—even some in Cabinet who favoured it. Expectations are high that both surcharge and the August HP restrictions will be abandoned.

Off-the-cuff remarks by Trade & Industry Minister Kent Durr last week reveal government is “reviewing” restrictive measures, including the surcharges. The measures are also the subject of discussions between Durr and the private sector.

On Tuesday he received an Assocom delegation. Says CE Raymond Parsons: “Modification of the import surcharges will probably not be looked at in isolation. It is likely to be part of a wider review of budget strategy. Assocom has strongly pressed for the surcharge to be removed as soon as possible.”

The August package included:

- Increased deposits for HP, leasing and rental agreements relating to goods with a high import component, and shortened repayment periods; and
- Tighter exchange control regulations preventing emigrants from freely transferring more than R300 000 earnings on blocked assets a year, leaving other funds to be channelled through the financial rand.

Durr does not want to be drawn but he has pressed for a review of the surcharge on capital equipment, parts and intermediate goods. “My views are well known,” he tells the FM, “I am already on record.”

Clearly, there are concerns at the impact on industry of surcharges of 10%-60% on many items, including those crucial to manufacturing. Industry has persistently argued the increased costs have an inflationary impact and reduce competitiveness abroad.

FCI executive director Ron Haywood says: “Importers of capital goods have to pay 13% GST and 15% surcharge, on top of a rand undervalued by about 20%. The compounded effect is that they pay over 50% more than global competitors for capital goods and imported materials.”

With local productivity already disadvantaging SA in world markets, industry now has a substantially higher cost base. Haywood asks: “How can we be global players under these circumstances?”

The surcharges failed to curb imports, he says, because capital goods brought in were crucial to industry and, in many cases, destined for projects decided on long before.

So the measure did not achieve its aim and — apart from a massive contribution to State revenue — only further frustrated local producers and increased costs.

These consequences were, of course, pointed out at the time by the FM: “Import curbs distort resource flows, accommodate inefficiencies, restrict supplies and add to inflationary pressures.”

PUBLIC DEBT REDEMPTION

Policy fulcrum

Management of public debt is an area in which monetary and fiscal policy overlap. In terms of monetary policy, the listing of Iscor last week and future reduction of government debt with the R2.9bn proceeds are two legs of the same operation. Time lags aside, says Reserve Bank Governor Chris Stals, they will neutralise each other.

Time lags, however, are not easily set aside and each stage of the procedure presents its own problems. The floating of the giant steel producer on November 8 sucked liquidity out of the markets, leaving partici-

A SHIPPER’S ROUND TRIP

The FM learns a local shipping line, advised by a local merchant bank, is at the centre of yet another probe of a possible major exchange control contravention.

The interesting feature is that this scheme involves not financial fraud as such, but buying at the current discount (about 30%) of foreign debt held inside the net by the Public Investment Commissioners (PIC).

The first stage involved the acquisition of foreign currency by the shipping company in the normal course of business, which should have been remitted to SA under regulation 6 of the exchange control requirements.

Instead, the foreign currency was used by a non-resident intermediary — without disclosure either to the PIC or the Reserve Bank of the connection with a resident company — to acquire debts inside the net then owed by the PIC. On the face of it, this was simply the substitution of one non-resident creditor for another, which is permissible.

Lastly, the new non-resident creditor advised the PIC that there was to be a substitution of debtor, too — the funds were to be re-lent to the shipping company.

The net result was a complete round trip, with the shipping company gaining the discount on foreign debt in remitting foreign earnings to SA. There were other incidental advantages normally only enjoyed by non-residents.
Golden goose squawks again

Only a masochist could fail to gain pleasure — not to say relief — in the latest rally in the gold price. Nor is this the only light on the economic horizon. Platinum is also setting new highs. In the less tangible but no less important psychological area, President F W de Klerk seems to have launched a deliberate programme to reassure businessmen, and (so far, and pace the notorious forged Untag messages) the Namibian elections have been a triumph.

But in the short run, none of this will allow for a relaxation of economic policy. The regrettable but real domestic constraints on growth are unaffected. Indeed, in the short term a higher rand gold price can even make bringing money supply under control more difficult.

Longer term, the FM has argued for some time, it is folly to rely on a rising gold price to pull us out of trouble and that there is in any event no reason to expect any such phenomenon. This view is reinforced by an eminent economist’s contribution this week (see P32).

Equally, a rising gold price is no excuse for deferring necessary actions. Scrapping the absurd import surcharge, accelerating deregulation and privatisation, curbing State spending and easing the burden of direct taxation are as essential now as they were a month ago.

What is important is that improved receipts from gold sales will not only improve our balance of payments directly, and smooth debt repayments: they will also enhance our international economic status, making our debtors less anxious to reduce their SA exposure, and possibly even encouraging a climate in which — mirabile dictu! — new lending might even be considered.
Tough measures slow SA growth

Greta Steyn

Real economic growth has slowed down sharply in response to tough monetary and fiscal measures after reaching a peak in the third quarter of 1988.

Central Statistical Services (CSS) figures released yesterday show the real rate of growth in Gross Domestic Product (GDP) slowed to 1.2% in the third quarter from a peak of 3.9% in the same quarter of 1988. All the figures provided by CSS reflect seasonally adjusted growth between quarters — annualised — and measured at market prices.

The slowdown in the third quarter was felt most in the manufacturing sector, where output fell by 8.5%. But this decline was offset mainly by the surge in agricultural production — an annualised growth rate of almost 62%. In the non-agricultural sector, real GDP dropped by 2.8%, evidence of a sharp downswing.

Economists said the figures suggested SA could still achieve a 2% rate of growth for the year as a whole, but were divided about the outlook for next year.

TrustBank economist Nick Barnardt said: "The latest figures suggest there is a lag of 12 to 18 months between the implementation of restrictive policies and their effect on the real economy. Bearing in mind this lag, the slowdown could continue for a long time if the current level of interest rates remains in place, until the middle of next year."

FCI economist Rodol Botha said he still expected growth of 1.5%-2% for next year, but Econometrix's Azaar Jammie is less positive, expecting 'virtually no growth' in 1990.

It was also disclosed yesterday that the Sfax population is growing at about 3.7% a year, and real GDP growth below that implies a reduction in per capita wealth.
SA trade surplus up

Own Correspondent

JOHANNESBURG. — The trade balance for October remains a healthy R1.25bn in spite of the sharp rebound in imports, which showed signs of falling in September.

Imports climbed to R4.1bn in October, shattering hopes that they may have entered a downward trend, after dropping to R3.52bn in September from R4.18bn in August.

However, thecontinued strong performance from exports, which still exceed import growth for the year, has held the trade surplus steady above the R1bn mark for the fifth consecutive month.

The cumulative trade surplus for January to October is 26% up on last year at R10.2bn.

Safico economist Bruce Donald says this should boost Reserve Bank hopes to achieve the targeted current account surplus of R1bn for the year, an amount sufficient to meet our debt payments, though leaving little over to build reserves.

Figures released by the Department of Customs & Excise yesterday show exports reached R5.48bn last month, the second highest level for the year after touching a high of R5.72bn in June.

Unclassified exports (mostly gold) rose by under 3% for the 10 months to October, highlighting the importance of merchandise exports to the current account.

Higher international prices for many of SA's major commodity exports, such as coal and ferro-alloys, and bumper agricultural crops have contributed to improved export earnings this year, Donald says.

Old Mutual economist Andre Roux cautions a firmer rand could see export revenue declining in the next few months. The currency averaged R2.70 to the dollar in October, stronger than September's average of R2.79. He says an appreciation in the rand does not simultaneously lead to a fall in exports, although this does have a delayed effect.

Roux describes the strong resurgence in imports as surprising and calculates imports rose by roughly 14% in real terms in October, after dropping by 16% in real terms in September.

This illustrates demand for capital goods remains high, with the investment cycle lagging the slowdown in the general economy.
ADE heads for privatisation

BARRY STREEK

The giant Atlantis Diesel Engine (ADE) company, which cost about R500m to establish at Atlantis, is likely to be privatised as a blue-chip company on the Johannesburg Stock Exchange.

This has been disclosed by ADE's MD Harmurt Beckurts, in an interview in the latest issue of Leadership.

He said ADE, which employs about 3ug00 people, was working on a five-year capital expenditure programme and he anticipated a further R100m expenditure in 1990.

Asked if ADE would be a target for privatisation, Beckurts replied: "I hope so. It is certainly our ambition to become a blue-chip company on the JSE.

"That is our ultimate target."

ADE had not reached the level of profitability which would give it the return on investment that a normal investor would consider adequate.

ADE, which is 87.5%-owned by the government-controlled Industrial Development Corporation and 12.5% by Daimler-Benz, produces about 22 000 diesel engines a year with a local content value of around 55%.

In the interview, Beckurts said: "When we look at the local content of ADE, where we stand in 1989, we can say that, in terms of phase six (of the local content programme), we save a foreign exchange equivalent of R20m a year."

ADE was also exporting locally made components, worth "in the region of R20m a year". It had to achieve a zero foreign exchange balance by 1997.

"In other words, any imports that we still need have to be compensated for by exports."

"So by 1997 we will probably have reached about 87% local content by value, but still not 100%. So the difference between 87% and 100% we have to make up with exports," Beckurts said.
ABUJA — Africa’s peasant farmers, foot soldiers in the battle to feed the continent’s booming population, are being starved of cash.

Bankers at a recent meeting of central bank governors in Abuja, Nigeria’s planned future capital, acknowledged they had not been doing as much as they could to help.

“We are still paying lip service to giving agriculture more resources,” Gambia’s central bank governor Abdou N’Jie said.

Abdulkadir Ahmed, governor of the Central Bank of Nigeria, said two decades of efforts to boost resources for farming had not gone far enough.

“Unfortunately the agricultural sector, in most African countries has continued to constitute the weakest link in national economic development efforts,” he said.

Nigeria’s President Ibrahim Babangida told central bank chiefs from 30 African nations that agricultural development was central to the success of economic adjustment programmes being pursued by most countries on the continent.

He said African farmers, mostly smallholders relying on primitive technology, were expected to increase food production to catch up with the continent’s fast-growing population.

They must also provide raw materials for struggling industries and earn scarce foreign exchange through exports.

But high interest rates, urban bias and a preference for short-term lending have denied most farmers affordable credit to invest for higher productivity.

“Commercial banks consider lending to agriculture too risky,” said Thabo Motseki, director of loans at the state-owned Lesotho Agricultural Bank.

“At the end of the day banks are owned by shareholders who expect profits,” added Abdul Turay, president of the Association of African Central Banks.

Africa’s peasant farmers are being starved of cash.
Govt bid to restore private sector faith

IN A bid to restore credibility to government's economic policy-making, President F W de Klerk and five Ministers held a three-hour meeting with representatives from organised commerce and industry in Pretoria yesterday.

Government wanted input from the private sector on next year's Budget and on ways to combat inflation, and it stressed private sector support for economic policies was regarded as vital.

De Klerk chaired the first part and Finance Minister Barend du Plessis the second of a discussion in which the main issues were government's determination to control state spending and its wish to regain credibility.

In a statement Du Plessis said: "Subjects which enjoyed special attention were the combating of inflation, economic growth, creation of job opportunities and the necessity for concrete co-operation between the public and private sectors for the healthy development of our country's economy."

The business organisations present expressed their support for government efforts to control state spending. The statement said it was agreed that success in maintaining monetary and fiscal discipline was a key to determining SA's growth.

At the meeting were Transport Minister George Bartlett, Manpower Minister Eli Louw, Privatisation Minister Wim de Viliers, Agricultural Minister Jacob de Viliers and representatives from Assocom, the Afrikaanse Handelsinstituut, the Chamber of Mines, the Life Offices Association and others.
The central bank needs independence from politicking

STUART JONES

The era of politically managed currencies dawned in 1917 with the triumph of the Bolshevik revolution in Russia; it burst into the midday sun in 1993 with Britain's abandonment of the gold standard; and it reached full splendour in 1993 when the US followed Britain.

At a stroke the burden of currency management was lifted from the shoulders of bankers and transferred to politicians. And the long-term consequence for us all has been inflation.

The world has not gained from supposedly democratic control of currency management, because elected politicians can seldom take a long-term view. Their views are invariably coloured by the next election, if they are democrats, or by expediency and patronage if they are dictators.

Of all countries SA could have afforded to have taken a long-term view, because of the inflexible political situation that placed economic issues on the back burner. Yet this opportunity has not happened. The politicians were not up to the task, they remained inward-looking rather than statesmen, and the authorities at the Reserve Bank followed their lead.

Short-term considerations have as a result almost always taken precedence, especially in the disastrous Boba years. The Boba government and the Reserve Bank have been primarily responsible for the inflation of the 1980s. Government-controlled currencies have always led to inflation and the destruction of savings. Modern inflation is recent; it dates from 1933, when the US abandoned the gold standard and the demise of that standard was removed from the banking system.

The effects of this decision were not experienced in the 1930s, because the power of the business cycle was stronger then. But there was the historical experience of deflation, so the modicum of power that was enjoyed by central bankers in a period of deflation was removed.

Not, with the exception of Bayeux, were economists. Keynesian ideas were triumphant and Keynesian policies applied at a time of underutilisation of resources did lead to a buildup of inflationary pressures.

However, when the reservoir of unemployment had disappeared, the situation changed and inflation was built into the new international monetary order. This became clear within a decade of the commencement of rapid worldwide economic growth in the late 1940s. It was in these years when inflation was sung that so many of today's central banks had their constitutions moulded by politicians. Only a few escaped the inflationary trap — those of Switzerland, West Germany, Japan and Switzerland, the US and Japan. Their escape was the result of special historical circumstances.

Three of them were federal states in which political power was decentralised; and in two of these, the US and Switzerland, there was a long, unbroken tradition of opposition to powerful and interfering central governments.

In a third, West Germany, not only was there the historical experience of deflation, but the dominant occupying power also favoured such policies.

In Japan the US pursued similar policies, which there, too, ensured a degree of independence for the central bank.

In West Germany, however, its central bank had least independence.

The Bank of England and the Bundesbank have been in the same category. The former has a central bank independence in West Germany, Switzerland, Switzerland, Japan, the US and the Netherlands, whose central bank has the most independence. Moreover, this lower inflation was not incurred as a consequence of above-average unemployment.

Recently the resignation of Nigel Lawson as British Chancellor of the Exchequer highlighted this issue, for his efforts to change the constitution of the Bank of England and to make it more like that of the West German Bundesbank were thwarted by Margaret Thatcher.

SA has an appalling record of inflation in recent years and the Reserve Bank must be held primarily responsible. It has not been sufficient for the independent of government and, not wishing to offend it, allowed negative interest rates to persist for a long time in the mid-1980s.

The consequences of this policy failure have been disastrous for SA. Negative interest rates made saving uneconomic and encouraged borrowing, so the savings ratio collapsed. More surprisingly the government did nothing and still has done nothing to stimulate domestic savings.

Because investment depends ultimately upon savings and these were not forthcoming from within the country, SA was forced to rely more and more on overseas borrowing, despite the obvious political risks involved. Both the Reserve Bank and government encouraged this high-risk borrowing, which, even more ominously, was not long-term investment, but short-term leverage needed to be continually recycled.

When the day of reckoning came in 1985, the foreign borrowing of around R20bn was transformed into a debt of R60bn. The losses incurred were equal to the lost investment caused by sanctions — was entirely caused by mismanagement.

The solution to this persistent mismanagement of the currency by the politicians is to grant to the SA Reserve Bank the same degree of independence as the Bundesbank. It suits everyone's interest that this should be done, rich and poor, black and white — everyone, that is, save the politicians, who like to interfere in currency management, because an election is pending or because of their own special interests or their response to special interest groups.

A

An amendment to the Reserve Bank Act this year places an obligation on the Reserve Bank to pursue policies that ensure monetary stability and promotes a sound money policy. The Finance Minister must report on monetary policy, etc. This, however, is not an adequate check on monetary management if the Bank is responding to ministerial pressure in its policies, and is being recommended not to report wrongdoing to the real wrongdoers.

Further reform is necessary. The Governor should be appointed for a longer term than at present, say for 10 years not renewable, and the directors must be appointed from the private sector. Perhaps half of the board must be independent of the government.

Dr Jones is with the Economics History Department at Wits University.
Rising cost of GDP outlined

IT TOOK twice the investment to make a contribution of R1 to the GDP after 1974, as it had between 1946 and 1973. Privatisation Unit adviser Eugene van Rensburg said in Pretoria this week.

He was addressing a conference for representatives of self-governing territories.

Measured against the capital output ratio, investment had not met requirements of the norm of return on capital, Van Rensburg said.

Between 1981 and 1985 the public sector made no contribution to net domestic savings.

Government "dissaving" had reached critical proportions, Van Rensburg said. In 1985 government spent nearly R3bn more than it earned, compared with R44m dissaved in 1981.

He said this led to an inevitable reduction in net capital available for productive investment. In 1988 net capital available contributed a mere 3.3% to GDP, in contrast to its 19.4% contribution in 1981.

Van Rensburg said privatisation was an economic rather than a political issue. Its main goal was to reduce the public sector's share in the economy. By increasing the private sector's involvement, the tax base would be increased. This would eventually lead to a reduction in tax rates.

He said a shortage of skilled labour was one of the constraints facing privatisation in SA. Only 6% of the economically active population in SA were skilled or professionals, as opposed to 26% in the US.

For the next decade or two, SA would have to concentrate on equipping its scarce manpower resources to cope with the demands of the economy, he said.

Other constraints were monopolies and the over-concentration of economic power.

Van Rensburg said there were enough obstacles in the privatisation process to discourage any government.

However, he cast his vote in favour of the free enterprise system and market forces to regulate the provision of goods and services through the price and market mechanism.
Business community will need strong nerves next year.

Challenging economic realities continue to adjust to business mood continues to adapt to
increased demand for raw materials. Economic indicators suggest a continued
recovery in the economy, but challenges remain.

New fiscal policy initiatives in response to

As economic growth falters, businesses

Businesses need to realign their strategies to

Recent data show a modest recovery in

By adjusting supply chain
While the socialist world spins, Fidel refuses to budge

ARMANDO Valladares, Cuba's most successful dissident, was given a VIP reception last week in Hungary and Poland, including a long talk with Lech Walesa.

No visitor could better illustrate the "insult and offence to our people" offered by the reception of Valladares, a policeman under Batista prior to the revolution, and now Washington's representative at the United Nations Human Rights Commission.

In Havana itself, it is as though the turmoil of Eastern Europe had not happened; the old certainties are still venerated.

Children soldiers, old men and women and families dressed for a day out, walked through Havana carrying bunches of daisies, hibiscus or wreaths to throw into the sea. They were remembering Camilo Cienfuegos -- the legendary revolutionary who disappeared in an air crash at sea 30 years ago.

By evening, the Malecon, the promenade, was covered with daisies as the waves splashed over and threw up anniversary flowers with the spray. With such romantic gestures Cubans retie their history and act out the ideology of today.

Isolated as never before in the socialist world, most ordinary people as well as officials seem as convinced as ever that the world is out of step with this tiny island.

"There will be changes in Cuba, but in our way. And never, as for instance, in the way the US is trying to meddle in the affairs of Eastern Europe," said Julio Garcia, president of the journalists' union.

President Fidel Castro has reiterated "faith in our principles, in our solid convictions, in Marxism-Leninism ... in the ideas of socialism and communism. The red banners of the revolution will never be lowered, or the white or yellow flags of counter-revolution substituted."

Such fighting talk comes as Cubans brace themselves for the start early next year of Television Marti -- a new weapon in the siege by the United States which has gone on for 30 years.

"Our situation is completely different from Eastern Europe because of one factor -- an aggressive enemy 90 miles away waiting for us to make a mistake," said one official. "US intervention is the best defender of the revolution," said another.

For five years Radio Marti in Miami has beamed the lure of soap operas and consumer durables into Cuba, but has been a minor irritant compared with the US base at Guantanamo and the blockade.

Only one part of the old Soviet "empire" remains untouched by perestroika: Cuba. And a key reason why Fidel Castro remains resolute is the continuing threat from the US, still determined to punish him for stepping out of line.

By VICTORIA BRITAIN

Cuba ... 30 years of tension with its enormous neighbour, the US

Satellite television is much more serious. "The power of images means we are facing a dangerous stepped-up offensive," said one member of the Central Committee.

Cuba is also still rocked by scandals over drug-smuggling and money-laundering tied to the Medellin cartel, plus black-market dealings by General Arnaldo Ochoa, the head of Cuba's troops in Angola, and other senior officials.

The corruption and high-living of some, though generally widely known, is in stark contrast to the small flats and gruelling work which appear the norm for top officials.

As the army which Ochoa deployed in Angola comes home, it is easy to see where it is going: houses, roads and hotels mushroom in new Havana.

Castro himself, a year ago absorbed in maps of Angola, is now a constant visitor to the elite building contingents where veterans work.

The buildings are desperately needed; queues are everywhere. But they are also the stuff of jokes rather than bitter criticism.

And, watching the children go to evening dance classes, or the young couples eating ice-cream in the restored squares of old Havana, there is a different atmosphere from the tensions of Eastern Europe.

Where else in the world does a hotel chambermaid kiss a guest goodbye, or a young driver give you flowers?

It is Cuba's paradox that the 30 years of tension with its enormous neighbour has created one of the most relaxed societies in the world. -- The Guardian, London
ECONOMIC POLICY

Avoid sticky fingers

The enormity of the Reserve Bank's losses on providing forward cover for foreign exchange transactions has, deservingly, come under the spotlight lately. So has the fact that these will, eventually, have to be borne by the taxpayer, one way or another.

But what is not so widely realised is that this is a zero-sum game. Those billions have not just disappeared into a black hole; they represent profits in somebody's hands. And, as it turns out, those somebodies just turn out to be importers who, rightly believing that the rand was a weak currency, flocked to hedge their positions.

Exporters, who could equally well see the trend, naturally saw little need to make use of the facility.

It is these same importers, of course, that the authorities thought it necessary to clobber last year by the notorious import surcharge.

This is an object lesson in what happens when the authorities try to interfere — or intervene — in the market mechanism. If providing forward foreign exchange cover was thought to be a profitable business, banks and others in the private sector would be only too happy to offer the facility. Trouble is, in recent years, guessing the course of the rand has been a one-way bet.

Those with longer memories will recall that, a couple more years back, many private-sector companies listened to the advice of SA's leading banks on the outlook for the rand — and got it spectacularly wrong. At least then the losses were carried by those whose judgment was at fault.

This time, the losses have been for taxpayers' account and it has, to boot, taken two lots of civil servants, one to administer the subsidy and another to claw back as much as possible through the surcharge.

And all because of attempts to manipulate the exchange rate of the rand at a level other than that which would be set by market forces and protect certain special interest groups against the harmful consequences.

Not that the damage stops there. There are also adverse spin-offs for interest rates and the whole pattern of demand (and thus resource allocation) is distorted.

Virtually any subsidy, or other attempt to interfere with the price-fixing mechanism (which is what subsidies amount to), has similar effects. Forward cover and the import surcharge are singled out only because the unhappy circle of cause and effect can be so clearly traced.

One of the arguments for a change of power in a democratic society is that it gives the opportunity to clear out all the distorting concessions made to special interest groups by the old government. Trouble is, a new government soon finds itself giving in to its own special pleaders — often with the best of intentions.

The only sensible long-term solution is that government should restrain itself from dabbling in the market and confine itself to ensuring that the market functions efficiently. Smooth out short-term fluctuations in the rand by all means, but do not try to buck the long-term trend. That's a recipe for disaster, as many Central Banks have found.

Don't try to dictate interest rates, which are determined by many forces, not all of them controllable. But by all means ensure steady growth in the money supply, which at a basic level can be controlled, at a rate related to the growth rate of the economy at large.

Don't try to control specific prices, which is inefficient and doesn't usually have the desired effect. If it is desired to assist particular groups thought to be under-privileged or needy, do so by direct subventions, whose cost is apparent and which can easily be modified or scrapped.

In general, as we have said so many times, remember that the best government is usually the smallest government.
FINANCIAL RAND
Up against the ceiling

Despite large purchases of gold shares from abroad over the past few weeks, the financial market (finrand) has remained stubbornly at around US25c-US25.5c — reciprocally expressed as four finrand to the dollar.

To date, overseas purchases of gilts could add up to a net R2.1bn, while overseas net sales of shares until the gold market started to rise were around R2.8bn (all according to JSE statistics). Since gold turned, however, the outflow on shares has reversed, with a net inflow since the last two weeks of October of perhaps R200m.

The market in finrand is difficult to interpret and its doings are not easily accessible to those outside the banking and, perhaps, the stockbroking world. But there are good reasons for stickiness in the finrand rate.

First, some large sums have been held, awaiting an opportunity to exit without seriously depressing the rate. This year has seen several major disinvestments, notably the sale of 30% of Gold Fields of SA to Rembrandt and other local parties (perhaps R300m in finrand) and, later, of a large parcel of Cons Gold’s gold shares (around R1.5bn). Not to mention the sale of Mobil SA to Gencor (say R500m).

Then there are positions taken by overseas investors who earlier made large purchases of SA gilts and — more recently — money-market instruments as a way to speculate in finrand. Many were at levels well below the current US25c and tend to be liquidated when the finrand moves towards US25.5c.

Lastly, there is the important factor that foreign holders of debt inside the net are now permitted to exit via the finrand. This provision has introduced a linkage between the finrand and the discount rate (for SA debt in the net) on overseas markets.

This linkage in itself provides an independent ceiling for the finrand at around US57c, equivalent to a debt discount of 30%. At US25c, the finrand is at a discount of about 35%. So, even if other factors holding it down were neutralised, the finrand cannot really go better in any conceivable circumstances than a discount of 30%, equivalent now to about US25c. Any rise above this would be choked off through arbitrage by overseas investors who could acquire the unit at a 30% discount through buying debt in the net and then converting to finrand.

Finally, to an important extent the finrand discount simply reflects the discount between the prices of SA shares in Johannesburg and London. Because prices of gold shares have risen strongly in both centres, this tends to dampen any movement in the finrand discount.

These factors add up to a narrow trading range of US24c-US25.5c, which seems likely to persist for some time.

What could change this stalemate? Obviously, any change in overseas sentiment would impact strongly on the finrand. Such a change could come about through improved political sentiment — or through economic circumstances alone.

If the gold price rises substantially, the impact on the trade and current accounts will be strong — each $50 on gold adds $1bn a year to foreign currency earnings. If gold improves enough, the obligation to repay vast amounts of foreign debt would become much more manageable, while the commercial rand might be allowed to rise modestly against a trade-weighted basket of currencies.

This chain would surely reduce the discount on the foreign debt, as well as the effective yield which overseas investors would require on SA assets. The finrand discount could well narrow in these circumstances.

By then, the overhang of finrand from large recent disinvestment transactions could be worked off. And a much stronger gold price also implies a continued inflow of foreign funds to buy gold shares.

In combination with a rise in the commercial rand, a reduction in the finrand discount could enable the finrand exchange rate to break out of its present narrow constraints.

HARMFUL BUSINESS PRACTICE
Stopped for life

An insurance marketing scheme, which offered participants the opportunity to earn more than R29 000 a month, with no capital investment needed, has been declared a harmful business practice.

Findings of the Business Practices Committee, chaired by Louise Tager, were published in a recent Government Gazette, after an investigation into a close corporation of the PFI (CC), Set for Life Insurance & Marketing, and its MD John Francis Drinkwater.

Drinkwater, the only member of the CC, was marketing a monthly, renewable, group insurance scheme through an "ever-growing network" of policyholders. Each, having paid an initial premium of R300 and fee of R15 for an agent's manual, was allowed to market the same product. Policies were sold to groups of four — described by Drinkwater as "cooperatives." Six "generations" of groups were needed to accumulate enough commission to provide an agent with the target R29 000 a month.

The committee concluded that statements in a Set for Life pamphlet, read with references in the manual to monthly earnings of R29 000, led potential participants to "confidently expect" earnings of this order.

It examined the validity of the claim by calculating the premium income needed for only one of the existing 1972 policyholders to earn more than R29 000 a month, as well as the income required if all were to earn this sum.

With R25 of every R100 in monthly premium income going to underwriter Standard General and R30 to Set for Life, R45 was available for commissions. On this basis, the committee concluded:

- For only one agent to earn more than R29 000 a month, premium income of R54 600 a month would be needed. Of this, the underwriter would receive R136 500, while commissions would amount to R245 700 — including the amount of R29 000 for one person — and R163 800 would go to Set for Life. It would take 546 transactions to generate this income. To enable only one of these new policyholders to achieve earnings of R29 000, a further 29,6m sales would have to be made; and
- For existing 1972 policyholders to earn R29 000 a month, a further 10,8m policies would have to be sold, to produce total monthly premium income of R4,1bn. For all the new policyholders to earn R29 000, a further 58,8bn policies would have to be sold.

In a submission to the committee, Drinkwater argued:

- Participants do not risk loss, because they are paying for insurance cover "while at the same time (they) have the opportunity to earn an income";
- Saturation is theoretical — no business has ever saturated a market;
- The scheme is nothing more than a method of marketing life assurance; and
- No promises are made regarding commissions — the participant is merely made aware of the maximum he can earn.

However, the committee found Set for...
Money supply

Economists and investors often talk about the money supply. But what exactly is it? And why is it important?

The money supply refers to the total amount of money in circulation in an economy. It includes currency (cash) and demand deposits (checking accounts), as well as other liabilities that are easily converted into cash.

The money supply is closely watched by central banks because it affects inflation, interest rates, and economic growth. When the money supply grows too quickly, it can lead to inflation. When it grows too slowly, it can slow economic growth.

Central banks use tools like the Federal Reserve, or the central bank of a country, to manage the money supply. They can do this by buying or selling government bonds, which affects interest rates and the availability of money in the economy.

Understanding the money supply is important for businesses and investors because it can affect their ability to borrow money, the returns they can earn on their investments, and the overall health of the economy.
Nasty medicine promises an early cure
New hotel for Randburg CBD

DAVE LOURENS

THE Randburg Town Council has made land with a market value of R6m available to the developers of a R200m hotel and office complex in the heart of the Randburg CBD for a nominal amount, believed to be around R100.

In terms of the deal, development company Gulfcon International is required to provide a replacement for the 540-bay parking lot which will make way for the 29-storey, 117 000m² complex.

Management committee chairman Frans Lourens said the project "will not only fulfill a desperate need but will also stimulate further development in Randburg as a whole".

Present

The four-star, 200-room hotel will incorporate conference facilities for about 1 000 people as well as extensive recreational facilities.

At present there are only two hotels in the area. Twenty-two storeys of the building are to be used to provide 32 800m² of office space.

Gulfcon director Rob Parker said a consortium of financial institutions would finance the project, but he would not identify them yet.

Bank probes figures for informal sector

DAVE LOURENS

TO ASSESS the informal sector's contribution to GDP and national employment, the Development Bank of Southern Africa has analysed 44 community-level studies.

Development Bank policy analysis director Stef Coetze said there had been widely differing estimates of the importance and extent of the informal sector.

A Central Statistical Service's survey of the PWV area suggested the omission of informal activities from official statistics involved a 3% under-statement of the GDP in the region, while other surveys suggested as much as a 40% contribution to total employment nationwide and a 30% contribution to GNP.

Coetze said the lack of a reliable figure posed problems for the formulation of economic development policies. An over-estimation could be as misleading as an under-estimation.

He said an over-estimation could fool policymakers into the belief that SA's economic dilemma, particularly the poverty problems of a large part of the population, was less serious than was actually the case.

To achieve greater clarity on the importance of the informal sector, Development Bank researcher Marie Kirsten examined 1975-1985 studies in SA, the TBVC states and the self-governing territories.

Output

From the community-level studies she calculated the average monthly income of people employed in the informal sector was R350, or R4 200 a year, representing an income of R7,2bn being generated in 1985.

The Bureau of Market Research says the recorded personal income of blacks was R20,6bn in 1985, indicating 25,9% of blacks' income went unrecorded. This represented 6,5% of SA's GDP for that year.

Coetze concluded the true contribution of the informal sector to employment creation and output generation was impossible to determine in the absence of a representative survey for the country as a whole.

Maize crop will need R2,5bn investment

PRETORIA — Farmers will make a huge R2,5bn investment in this season's maize crop, according to the National Maize Producers Organisation (Nampo).

The bulk of the funds needed will be channelled from the Land Bank to the co-ops, but a substantial amount will come from commercial banks.

Some producers claim, however, that commercial banks have become less eager to finance the crop because of what they see as the high risk and the enormous debt burden of most producers.

Interest payments comprise a major segment of total production costs. This season farmers will pay more than 17% for the funds.

According to Nampo, about 3,5-million hectares will be planted to maize this season.

Last year's costs were about R600 a hectare. This year the figure will rise to near R700.

For the past two years, since the introduction of the land conversion subsidy scheme, Nampo has been pressing farmers on marginal land to switch to pastures.

In the two years the target of 25 000 hectares was passed. However, Nampo stresses this is not fast enough.

It is hoped the process will be speeded up after the increase in the subsidy from R30 a hectare to R130 a hectare in November.

Meanwhile the Maize Board's price scenario for the coming season is a price of R160 a ton on a 10-million-ton crop rising to R261 a ton on a 6-million-ton crop.

This, says Nampo, is against an average production cost per ton of between R200 and R236 on yields of at least three tons a hectare.
Facing 1990

"The business mood is best described as one of growing uncertainty about prospects in 1990," says Assocom. It "will be a year for strong nerves, a difficult year for many businessmen before the foundations are laid for the next economic upswing."

On a best-case scenario for 1990, Assocom predicts much lower growth (real GDP at 0.5%-1%), slightly lower inflation (CPI at 13%-14%), a larger surplus on the current account BoP (over R6.5bn) and gross domestic consumption expenditure rising 1%.

Meanwhile, a rising gold price, higher JSE share prices and rosiest rand/dollar exchange rate, "underpinned by favourable perceptions of recent political initiatives," brought a two-point rise in November BCI to 95.6.

"The improvement in the face of largely cheerless short-term economic prospects illustrates again the significant role which the gold price and political perceptions play in shaping the business mood," it says.

Contributing to November's rise were lower inflation and rises in motor car sales, real retail sales and in manufacturing.
Servicemen may get ‘time off’

TROOPERS already doing their two-year call up are expected to get “time off” in terms of the one-year cut in training announced yesterday by President F W de Klerk.

Full details of the new arrangements are to be revealed today but it is understood that thousands of young men could be back on civvy street sooner than they thought.

The one-year cut has been welcomed by the Democratic Party’s defence spokesman, General Bob Rogers, but the Conservative Party’s Mr Koos van der Merwe accused Mr De Klerk of acting unilaterally without consulting the Parliamentary Standing Committee on Security Services.

Commerce and industry welcomed Mr De Klerk’s announcement, predicting an economic boost, a major reduction of the national skills shortage and “material” tax cuts in next year’s budget.

Assocom said that the reduction reflected the increasing stability in South Africa and would strengthen business confidence.

Minister of Finance Mr Barend du Plessis said the move would result in substantial saving on government expenditure and improve productivity.

Top business executives urged Mr De Klerk to go further and cut camps, citing this as the major disruptive force in the upper-level job market.

Economists, however, warned against euphoria,

saying the initial flood of manpower onto the market would make jobs scarce.

Mr Adrian Mocke, an economist at the University of Stellenbosch, said jobs would be scarce for the first year as matriculants “overflowed” onto the market, stretching universities and technikons to their limits.

Mr Jerry Perry, president of the Cape Town Chamber of Commerce, said special help would have to be offered to unskilled servicemen coming onto the job market.

Opening an Armoscor building in Pretoria, Mr De Klerk said the easing conflict situation between the East and the West — as well as in Southern and South Africa — had had a direct bearing on the security situation.

The more relaxed atmosphere in Southern Africa had not simply “fallen from the sky”. The well-equipped security forces had made it possible.

If the situation changed the new call-up arrangements would be revised without hesitation.

In a statement Minister of Defence General Magnus Malan said a signal he had sent to President Mikhail Gorbachev in March 1988 was now paying dividends.

He had told Mr Gorbachev that if he applied the same principles to Angola that he had applied in Afghanistan, it would be a signal to South Africa that “the process to end the conflict in Southern Africa could begin”.

General Malan said he had set out game rules for interaction in the security field in Southern Africa. These were:

● Mutual respect for sovereignty and territorial integrity;
● A desire to have stable, prosperous and developing neighbours;
● A rejection of the export of revolution, and
● South Africa reserved the right to act against revolutionaries and terrorists according to recognised international law.

The End Conscription Campaign (ECC) has welcomed the one-year cut in military training.

The ECC added, however: “This reduction does not remove the huge dilemma facing conscripts who still have to choose whether to serve in an apartheid army.”

The organisation called on the government, as a “sign of goodwill”, to release jailed objectors, declare a moratorium on all objector trials and allow exiled objectors to return without fear of prosecution. — Political Staff and Sapa
State of emergency conditions: restrictions apply to a wide range of activities, commercial and public venues.

Call-up, cuts mean US stock market

4. Denmark has given an ultimatum to Sweden to demonstrate that

and those of 3.650 index points to 4.3%.

and other military options.

4. The unemployment rate is down to 7.6% from 7.9% in December. The benchmark Stoxx 50 index climbs 3.0% to 10.21 points at the open. The Nikkei 225 falls 0.2% to 16.160 points.
Cash mop-up squeezes SA dry

From CLARE GEBHARDT
Bankly, Land Security Bank

The liquidity crisis for the banks is expected to reach a peak this month — from about December 23 to January 1 — when the note issue will soar.

Bankers are hoping the Reserve Bank will act tolerantly as it did after the locor flotation, when the shock of the transfer on the money market was alleviated by the recycling of R1.6 billion of short-term bills.

However, Dr Stals says the Bank is not keen to add to liquidity at this stage.

"We are taking a long-term view to February, when there will be an outflow of maturing government stock totalling R2 billion. At that time banks will be in a position to reduce this liquidity. If we do open market operations now we will have to do opposite transactions at a month's time.

"However, it depends how the situation develops. If there is a substantial shortage in excess of R5 billion we could act."

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"However, it depends how the situation develops. If there is a substantial shortage in excess of R5 billion we could act."
Is the Foreign Interest in South Korea the Foreign Exchange Market’s New Friend?

The recovery in foreign interest in South Korea has been supported by several factors:

1. Economic Rebound: South Korea's economy has shown signs of recovery, which has attracted overseas investors. The country's productivity and competitiveness have improved, making it an attractive destination for foreign capital.
2. Policy Measures: The South Korean government has implemented various measures to attract foreign investment, including tax incentives and business-friendly policies.
3. Stable Currency: The won has been relatively stable, providing a secure environment for foreign investors.
4. Diversification: Foreign investors are looking to diversify their portfolios, and South Korea offers a good opportunity for such diversification.

These factors have collectively contributed to the recovery in foreign interest in South Korea, making it a new friend in the foreign exchange market.
Economy given good rating

NEIL YORKE SMITH

THE economy performed far better than expected in 1969, says Econometric economist Aziz Jammeh.

Jammeh said in an interview that factors like high interest rates and import surcharges had been offset by much higher than usual government spending.

"It was possible to predict the high interest rates, although the resulting economic slowdown was much longer in coming than expected."

This was mainly because government spending had surged to record levels in the first half of the year, Jammeh added.

"In the first half government spending as a percentage of gross domestic product (GDP) remained above 30%, higher than ever before," he said.

Jammeh said a sharp tailing off in government spending towards the end of the year had allowed for some cooling in the economy. This was expected to continue in 1970.

Current policy was in contrast to past "boom-bust" economic policies where government expanded and contracted the economy using essentially short-term instruments.

"Rather than play the economy like a puppet on a string, policy makers seem determined to instill fundamental economic stability," he said.

Jammeh said the main highlight of the 1969 economic year had been the change in leadership of both the Reserve Bank and government itself.

"These changes have been vital in creating new perceptions regarding the direction of future economic policy, as well as political policy," he said.
Socialism is the answer

Neither Capitalism nor

Socialism is the

Drew Forrest

Nov 30th 1969

The answer is not to forget dreams, but to build and implement them.
Money supply still out of target range

HAROLD FRIDJFON and NEIL YORKE SMITH

GROWTH in the money supply, SA’s stock of money, as measured by the M3 aggregate, slowed down to 24.55% in November compared with the sharply upward-adjusted numbers for October.

According to Reserve Bank figures released yesterday the percentage growth in the seasonally adjusted M3 for October soared to 24.70% compared with the preliminary estimate of 21.65%. The September growth was 22.87% adjusted from a preliminary 22.05%.

M3 is the broad measure of money supply, consisting of notes and coins in circulation plus all deposits with banks, building societies and the post office, which reached a total of R143.62bn at the end of November. The comparative figure for November 1988 was R115.38bn.

Encouraging features of the November returns are: the increase in the net gold and foreign exchange reserves added to the growth in money supply, and more significantly, the velocity of circulation continues to decline.

With only the December figures to come - and there is little hope of the rate of increase reducing over the holiday season - money supply once again will fail to reach the targeted range of 14-18%.

Senior deputy governor Japie Jacobs said yesterday that the Iscor flotation was the reason for the sharp upward adjustment in October. He indicated that most figures in the preliminary calculation of M3 always required some adjustment. Adjustments are made necessary because of inaccuracies in the data supplied to the Reserve Bank by banks and other deposit-receiving institutions.

There are many margins for error, such as estimates made by the Land Bank or provisional bank returns which do not identify whether negotiable certificates of deposit are held inside or outside the banking system.
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Money supply growth bodes ill for inflation

By Sven Lünsche

In a dramatic reversal of recent trends, money supply, as measured by growth in the broad measure, M3, surged by an annual 21.5 percent in the year to November.

The soaring figures could seriously thwart the intensified efforts by the financial authorities to bring inflation under control in the years ahead.

Reserve Bank figures released yesterday show that M3 rose by a provisionally estimated 24.55 percent to R143.68 billion.

This follows on increases of 24.7 percent in October, 22.87 percent in September and 20.55 percent in August.

Significantly, the October M3 figure was revised from the initial estimate of R138 billion to R142.07 billion — further evidence that credit extension by financial institutions is still proceeding at a high rate.

Further setback

In what could prove a further setback to the anti-inflation campaign, consumer price index (CPI) figures released yesterday indicate that food prices are once again escalating.

However, the lagged effect in the high growth rate of money supply is generally regarded as the most serious impediment to a lower inflation rate.

The extent to which money supply is running out of control is seen by the fact that the November M3 figure is 5.5 percent higher than the target set by the Reserve Bank for the month.

It already exceeds the December 1989 R137.7 billion value of the upper boundary of the target range.

The main factor underpinning the rise is credit spending.

Reserve Bank figures show total domestic credit extension rose from R137.19 billion in September to R140.1 billion in October, with both HP and leasing finance increasing moderately.

Other loans and advances by banks rose from R73.97 billion to R77 billion in October.

Latest BA9 returns by commercial banks show that credit extension on their balance sheets rose by nine percent from March to September, with Standard and Bankorp showing credit growth of over 15 percent.

While economists doubt that the continued surge in money supply will lead to a tighter monetary policy in the form of higher interest rates, they say it could rule out any easing of monetary measures in the months ahead.

The Reserve Bank also announced that M2 money supply in October increased 30.56 percent to R114.215 billion, while the narrowly defined M1 increased 18.15 percent to R47.24 billion. These compared with revised increases for September of 27.44 percent in M2 and 12.84 percent in M1.

A further, albeit less significant trend, which could undermine efforts to bring inflation under control has been the recent rise in food prices.

Central Statistical Services figures released yesterday show that inflation in November was running at 14.9 percent, slightly up on October's 14.8 percent.

But food prices once again increased at a steeper rate than in previous months.

After rising by an annual level of around 10 percent in each of the previous six months, the year-on-year increase in the CPI for food climbed to 12.1 percent in November.

On a monthly basis, food prices increased by 1.7 percent from October to November, contributing 40 percent to the overall one percent monthly rise of the CPI.

Over the four-month period from August to November, food prices rose by an annualised 17.5 percent — well ahead of increases in other sectors.

Food prices rose over a wide spectrum, led by the price of grain products, which soared by 5.6 percent in the month.

Meat prices rose by one percent, but indications are that, they will not increase sharply over the festive season.

While food prices could slow down the intensified efforts by the authorities to curb inflation, economists are still optimistic that price increases will be lower next year.

Stricter policies

Against the background of a declining growth rate and stricter fiscal policies, Volkskas' Adam Jacobs expects inflation could decline from 15 percent in early 1990 to about 13.5 percent by the end of the year.

Sanlam's Johan Louw concurs with this forecast, arguing that the recent strengthening of the rand will eventually lower producer price inflation for import goods, which hit a peak of about 20 percent in June, but has trended appreciably lower since then.

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Annual percentage rises in the overall CPI and the CPI for food.
THE ECONOMY

Don't count chickens, but . . .

Most economic projections for 1990 are conservative. The recent meeting of the FM Board of Economists, for instance, envisaged inflation of 13.5%-14% and GDP growth of, at best, 1% (Leaders December 1).

Such conservatism is certainly justified by the historic fundamentals. But things could be changing so fast as to render all such forecasts out of date even quicker than usual. And though the forces for change are imponderable, for once they all seem to be positive. Broadly, there are three:

☐ The strengthening gold price;
☐ The impact of the "De Klerk factor" on domestic confidence; and
☐ Signs of an improved international climate, both political and financial.

While the gold price is external and uncontrollable, the other two factors are closely linked and we can, to some extent, influence them. The turmoil in eastern Europe must in any event divert some international attention away from southern Africa and less doctrinaire Marxist governments may downgrade the importance of supporting organisations like the ANC. But, if we are to capitalise on this, we must take the initiative too.

Fortunately, F W's new approach seems to be matched by a new realism abroad. Even the United Nations is no longer calling for whites to hand over to black majority rule tomorrow. Unlike the experience that must have added to P W's deepening cynicism, the goalposts are no longer being shifted further away; if anything, they're coming closer.

There is growing feeling, here and abroad, that simply the start of meaningful talks with credible black leaders could reopen many international doors — not least to bankers.

"Even without this, the financial outlook is improving. The latest Reserve Bank Quarterly Bulletin was able, for the first time in many issues, to report a positive net capital inflow. The strengthening (or just bottoming) of the gold price will both stabilise the rand and ease the debt repayment burden.

Now none of these factors can be built into formal projections. Gold could turn bearish again; F W could prove unable (or unwilling) to sustain his early momentum; and in that event, the international mood would quickly sour again. Nor do they contain a quick fix: early 1990 will still be tough.

But just as recent months are proving a turning point in world geo-politics to an extent that would have seemed lunatic to predict at the start of this year, so we may be going through a similar phase. If so, by this time next year, the economy could be regaining a health now unimaginable. A return to the 6% growth rates of the Sixties and early Seventies might even be in reach.

It may be too early to count chickens, but that's what we should be striving for. It could well be our last chance.■
LETTERS

MIKE ROBERTSON

P.W.'s First 100 Days

Economic as well as Political Targets in

100 days, 21/12/94

A S.

200
'Frustrating' Decade Waiting for Reform

Johannesburg Stock Exchange president Mr Tony Norton believes the 1980s were "a period of waiting — a period in which time seemed endless."

KAIZER NYATSUMBA spoke to him.

Johannesburg Stock Exchange president Mr Tony Norton (59) is a modest man. It takes some gentle coaxing to get him to talk about himself.

"The type of work I do does not leave me much spare time. Whatever little time I have I spend with my family. I don't play golf or anything. My family is my hobby," said the father of three sons aged 19, 20 and 22.

In his broad assessment of the decade Mr Norton said: The 1980s have been a period of waiting — a period in which time seemed endless. From my point of view it has been a period of waiting for social and economic reform in this country.

"In the early 1980s we in this country became very, very aware of the need for reform. In the mid-Eighties we had the promise of reform, and towards the end of the decade we had the denial of reform. Right at the end of the decade we had a return to sensibility.

"While the '80s were in many ways frustrating to me, I never gave up the firm belief that our society and economy are redeemable and hold promise. That belief in the future was founded in an awareness that increasingly South Africans are sharing common values and refusing to be impressed with what I call the grand abstractions." Mr Norton said since he joined the JSE in 1965 the stock exchange had invested heavily in the future, in people and their training.

Professionally the decade was not a bad one for Mr Norton. In 1980 he was the managing director of C G Smith Sugar in Durban.

In 1981 Barlows took control of C G Smith Sugar and the following year he was moved to Johannesburg. In 1983 he was appointed chief executive of Tiger Oats, and in 1984 he was recalled to Barlow's head office, where he became executive director and chairman of the Foods Division. He was still in these positions when he was appointed president of the Johannesburg Stock Exchange in 1985.

He said there was no "significant achievement" attained by the JSE during his tenure, but they were working towards such an achievement. His job was to re-organise the JSE, and he felt he had succeeded in doing so.

"Any major setbacks?" "Always," he said. "I think if one is optimistic one will always have setbacks. I have had my share of them and these are challenges one encounters.

Market Slide

"The most frightening thing was in 1987 during the big market slide in October when we nearly lost control of the market. Fortunately we were able to rebuild it. That was very, very touch and go."

On the economic front, Mr Norton said the decade started with a strong gold price "but that slipped away very quickly, so we have had a decade without a strong gold backing." He said given the "hangover of bad policies of the past" and economic sanctions against the country, the economy had done quite well.

He said the fact that the economy did in fact grow by between one and two percent in the decade was very encouraging, and meant that the economy had the potential of growing by between six and eight percent in the 1990s.

"I am very impressed with the new leadership of President F W de Klerk. It looks like we are going to get down to business now."

"I am very optimistic about the 1990s, and I think that anyone who emigrated from South Africa now needs to have his head read. The 1990s will be a tremendously exciting time. I can see South Africa becoming a regional economic superpower, because we have the infrastructure," he said.

He said that on the political front, there was not much to write home about. It was, he said, a period of "start-stop reform which has been very dislocating and has given the far right and the far left opportunities they should not have had."

Significantly, however, it was also a decade in which former State President Mr P W Botha "had the courage to split the Afrikaner volk," and the NGK declared apartheid un-Christian.

On the positive side, Mr Norton said the 1980s were also a period in which South Africans of all hues started to find each other, "irrespective of the politicians". One such evidence, he said, was the fact that industrial relations had "settled down".

He said politics in the 1980s would be very exciting but remain "potentially dangerous".

Said Mr Norton: "I believe there is enough goodwill and common interest for a negotiated settlement to be reached. People will move more and more towards each other."
Rand Lamps to the end of the decade

My only regret is I won't have a ring.
ECONOMY - 1990

JANUARY - FEBRUARY
Worst is over for interest rates

By Dr. AZAR JAMMINE

Econometrix

No single factor has played a more significant role in cooling off the South African economy in recent months than the high level of interest rates which has prevailed over the past year.

The boomlet experienced by the economy in 1988 and the first half of 1989 took place mainly as a result of people's willingness to borrow to buy homes, appliances, TV sets and the like. However, interest rates hovering around 20 percent for most of the year have sapped the ability of the man-in-the-street to keep borrowing and spending the way he was doing at the beginning of the year.

Indeed the major fear among consumers and homeowners alike at present is that interest rates might rise still further.

The good news is that it is unlikely that they will do so, the bad news is that one should not expect rates to fall too far in the year ahead.

To understand the rationale for this prognosis one needs to examine the main determinants of interest rate movements in South Africa.

The country needs to accumulate sufficient foreign exchange reserves with which to repay the large amount of foreign debt falling due next year and manipulation of the level of interest rates is one of the key policy variables which can be used to influence the amount of foreign exchange available.

Three main factors influence the country's ability to accumulate foreign exchange reserves. These are the level of overseas interest rates, the gold price and the level of domestic economic activity.

The level of overseas interest rates is a vital determinant of our domestic interest rate structure because the gap between domestic and overseas interest rates affects the extent to which capital flows in or out of the country, thereby influencing the amount of foreign exchange which the country possesses.

At present, overseas interest rates are high, as the world's leading nations try to prevent their inflation rates from rising further. As a consequence, South Africa's rates have to remain high.

However, there are signs that overseas rates might start coming down gradually in the year ahead as overseas inflationary pressures begin to recede. So pressure on South Africa's rates to remain high might also begin to recede.

The gold price is an important variable in the interest rate equation as it is the country's biggest single earner of foreign exchange. When its price falls, the country has to earn its foreign exchange from elsewhere, either by increasing its non-gold exports or by reducing its imports.

Conversely, when the gold price rises, the imperative to keep interest rates high diminishes, since the increased foreign exchange earnings from gold remove the need to earn that foreign exchange by keeping imports down.

Therefore, with the outlook for a rising gold price looking quite positive, upward pressure on interest rates should recede from this source as well.

The third determinant of interest rates, the overall level of demand in the economy, also points to a reduction in rates.

With people increasingly feeling the pinch of the high rates of the past year, the demand for credit is beginning to tail off significantly and with it, the overall level of economic activity.

As a consequence imports are already beginning to decline significantly and so the imperative to keep interest rates high so as to depress the demand for imports is not as acute as it was a few months ago.

The scene is therefore set for a decline in interest rates.

However, the new Governor of the Reserve Bank, Chris Stals, has committed himself to keeping interest rates above the inflation rate in his fight to bring inflation down in the long term. But inflation will not come down sharply in the year ahead as too much money has been created out of thin air over the past two years to allow for a sharp fall.

Therefore, Stals will not allow overdraft and mortgage rates to decline below 18 percent or 19 percent in the year ahead. So although the worst may be over in regard to rising interest rates, there is little cause for rejoicing.
Directly causal (current account) flows until 1988. Although not entirely the critical issue of current account, the corresponding impact issues of the late 1980s and early 1990s are significant. The eighties saw a broad-based capital account deficit, supported by record levels of investment and debt-service payments. The European Union (EU) countries, in particular, experienced a significant capital account deficit.

The September 1989 collapse of the Berlin Wall and the subsequent reunification of Germany highlighted the challenges of integrating a large and diverse economy into the EU. This period saw a significant increase in capital flows to Germany, as investors sought to participate in the economic transformation of the country.

Net Capital Flows

Debt Repayment

The debt burden of excess credit in 1989 was a significant issue in the early 1990s. The European Central Bank (ECB) was established in 1999, with the aim of promoting price stability and ensuring the smooth operation of the single European currency, the euro. This period saw a significant increase in capital flows to Germany, as investors sought to participate in the economic transformation of the country.

The collapse of the Berlin Wall and the subsequent reunification of Germany highlighted the challenges of integrating a large and diverse economy into the EU. This period saw a significant increase in capital flows to Germany, as investors sought to participate in the economic transformation of the country.

American Corporation

By: Audrey Dickman

Capital inflow criteria for domestic growth

% Average Annual GDP Growth: 4% - 5%
Outlook 90

Power had called in the police to act against unregistered unions(22) the minister cannot disregard absolute himself from the responsibility of the administration denying that the Department of Man-

policy had called in the police to act against unregistered unions(22) the minister cannot disregard absolute himself from the responsibility of the administration.
Economic Isolation can end

Christopher Wisdom
GOLD prices around $400 an ounce and ticked up enough on Friday to push the JSE to new highs.

De Beers added 6% to $651c in spite of Central Selling Organisation sales easing by 3% in dollar terms in 1989. The sales were worse than expected, but rose by 13% in rand.

De Beers was on offer in London after the CSO figures were announced, and Friday’s strength could have been caused by short-covering. The financial rand strengthened to below 350c, but did not hamper the blue chips. The dollar took a smack against the mark, and the rand strengthened on Friday to 254c.

Capital-market rates plunged again after rising on Wednesday. From 15.41% on long-dated Eskom stocks at the end of 1989, the rate dived to 15% as gold climbed above $600 at the week’s end.

Profits taken on gilts could have found their way into equities. Top-quality stock was wanted and turnover high. Although some are nervous about the fundamentals, one dealer said he had never seen the JSE so bullish.

Gold dropped off during the week as the metal price dipped, but rallied on Friday. Foreign selling of heavyweights was evident.

Golds shed 5c to R3 on notice of its closure.

SPLIT

Mining houses regained or breached their recent highs. Anglo American surged from R160 to a peak of R220.

Market talk suggests a 10-for-one share split in Anglos, probably because many of the other majors have done so.

Anglovaal added R30 to R560, Johnnie’s R5 to 5.85c — both tops.

Platinum stocks picked up on Friday when the metal rallied from an oversold position. Rustplats gained 10c to 2.47c, Lebova 5c to 1.09c and Armines 5c to 675c.

Exploration counter Barne put on a quarter to 27c against the sector’s trend. Friedeva added a quarter to 1.65c, then jumped to R1.1. South Murch and SouthWits shared and options all eased.

Alfred Group gave up 15c to 12c, but gained 10c on talk of employee fraud. BOE loan stock gained 4c to 60c, and GDM Finance jumped from 8c to 10c, returning to 10c.

NBS continued its charge, up another 10c to 380c, Noden added 10c to 1.10c and Stanbic hit R30.

Liberty Life gave up R7 to R80, but Metropol added 8c to R4, Southern 6c to 1.60c, and Mutual & Federal 5c to 1.67c.

Industrials were in demand, and good-quality scrip was in short supply. CM Smith added R4 to R72, Hunt added up 10c to 1.05c and Richtenberg gained 5c to 1.67c. Safren put on R2 to R4.

SA Breweries offereed a new high of 1.225c and Sunbop and Transnet settled back to normal at R25 and 27c respectively.

Times Media picked up 75c to 675c. Remgro rallied above R14.
Downturn will lead to tax cuts

By Derek Tommen

The implementation of the Budget — just about the biggest economic event of the year — is a little over two months away. This means that the Department of Finance still has a fair amount of hard work to do if it is to resolve by Budget Day some of the financial matters bothering business and the general public.

People would obviously like to see some reduction in taxation in the March budget. But they will also expect announcements about the lifting of the 60 percent import surcharge, clarification on what constitutes capital gain and when Value Added Tax is to replace GST.

Latest tax revenue figures remain extremely buoyant, apparently much to the surprise of the authorities.

In the '89 Budget the Minister of Finance, Mr. Barend du Plessis forecast tax revenues of R55.2 billion, which was some 15 percent higher than the previous year's estimates but only 11.1 percent up on the previous year's actual collections.

In the eight months ended November, collections totalled R41.8 billion. This was 38.4 percent more than the Treasury received in the same eight months of 1988-89 if the R3.8 billion received from

Iscor's privatisation is included, and 28.5 percent up if this money is excluded.

What this suggests is that total tax collections this year could exceed R60 billion and provide room for some reasonable tax cuts in 1990-91. Such cuts are badly needed. Even Government officials admit that income tax rates in South Africa are excessively high and that the ordinary South African has been having a raw deal.

Fiscal drag

However, a decision to cut taxes and the level to which they should be reduced appears to hinge on how the economy performs in February and March. If the economy shows signs of running down some reasonable tax cuts are likely.

But the cuts will be limited if the economy shows signs of being overheated — although some reductions will obviously be needed to counter fiscal drag.

The Minister of Finance, Mr. Barend Du Plessis, has promised to make a statement on the import surcharge around Budget time.

While the import surcharge has not had much apparent effect on curbing imports — the job for which it was intended — it has turned out to be a prolific source of revenue, bringing in some R2.5 billion to R3.0 billion a year.

It is likely the Treasury will not want to lose such a large cash inflow at one fell swoop so there is a possibility that the surcharge will be reduced only in stages over the next two years or so.

The uncertainty about capital gains and how they should be taxed has led to considerable criticism of the tax system recently and has also led to calls for the clarification of these matters.

Currently, it seems that the Treasury is considering determining what a capital gain and liable for tax by the length of time the investment is held — which is the position in the United States. In addition capital gains taxes are likely to be levied at a much lower rate than income and company tax rates.

If the Treasury decides on this route it would seem a sensible solution to ticklish problem.

However, there are still apparently a few problems surrounding the introduction of Value Added Tax and it's a question of wait and see whether these can be cleared up in time for the Budget.
Downturn gathering momentum

By Derek Tumney

South Africa's self-induced economic downturn is gathering momentum, says David Mohr, chief economist at Old Mutual.

He expects the process to continue this year, probably at an accelerating rate.

But unpleasant though Mr Mohr's forecast may be, he believes the situation has resulted in some lessening in inflationary pressure and that it could lead to a drop in long-term interest rates.

Mr Mohr reports a sharp contraction in the value of goods and services, other than farm goods, produced between the second and third quarters.

In particular, felt the cold wind of recession.

Output in the third quarter dropped at an annual rate of 8.5 percent.

On the other side of the coin, South Africans have been cutting down sharply on spending.

They spent 7.3 percent (annualised) less in the third quarter than in the second quarter of 1990. Spending on items such as cars, fridges, radios and TV sets dropped throughout the year.

Although spending on clothing and footwear rose slightly in the first half, it fell sharply in the third quarter.

Mr Mohr says this reduced spending is characteristic of the onset of a downturn and, in this instance, is the result of a tight-money policy, high inflation and smaller wage increases and salary adjustments.

This is necessary if South Africa is to be a position to repay all its debts that fall due this year.

In the next 12 months South Africa will probably have to repay foreign debts amounting to $2.6 billion, and $2.4 billion (R5.3 billion to R6.3 billion at current exchange rates).

In order to pay to its foreign creditors these huge sums South Africa will need to earn from overseas 2.5 billion more than it spends there.

This will require a special effort as in 1989 South Africa had a balance of payments surplus of $1.8 billion.

If South Africa is to achieve this $2.5 billion surplus, domestic spending has to be held down so as to limit imports and the amount of money being spent overseas.

However, year-on-year inflation as measured by the consumer price index moved downwards in the third quarter of 1990 after reaching a high of 15.7 percent in June. By November, the year-on-year rate had fallen to 14.9 percent.

Mr Mohr says this is partly the result of a slower rate of increase in food and housing costs. But other items in the consumer price index are showing reduced price increases.

However, there is a danger that food prices could accelerate in the first half of 1990, he warns. This could limit the downward trend in the inflation rate even reverse it.

As the economy might require further cooling, and as little progress has been made in replenishing foreign exchange reserves, Mr Mohr says that monetary policy is likely to remain stringent for some time.

He does not expect a significant decline in the prime overdraft rate before the second half of 1990.

The long-term interest rate has dropped from around 17 percent to below 15 percent. This is the result of optimism in the capital markets arising from the rise in the gold price in the fourth quarter, clear signs that the real economy is cooling, the levelling off of the inflation rate, smaller government borrowing requirements and signs that government spending will be restricted.

Mr Mohr believes interest rates will decline further this year as the underlying bottlenecks in the economy — the current account, foreign exchange reserves and inflation — ease more.
THE economy needs to be cooled further and a premature end to current economic policy would be imprudent in the view of "the rising wave of political and economic optimism that has emerged since the third quarter of 1989".

That is the view of Old Mutual's Economic Research Unit, which says in the latest Economic Monitor that a strict economic policy must be maintained in spite of the fact that economic growth is decelerating.

Gold and foreign exchange reserves, the report says, "are still at a disturbingly low level".

Chief economist Dave Mohr says the government has the correct policies in place to handle the economy and should "stick to its guns".

The unit does not foresee a meaningful lowering of the prime overdraft rate before the middle of 1990. Long-term rates could decline during the year because of the expected easing in underlying bottlenecks in the economy.

Mohr feels it unlikely that short-term rates and inflation will decline significantly before mid-year. "A high interest rate is required by the balance of payments situation. And as food prices are on an upward trend, a decline in the inflation rate is unlikely."

To curb the growth in import volumes and thereby achieve a current account surplus of more than $2,5bn — necessary in order to repay SA's foreign debt and improve reserves — domestic spending will have to be curtailed. This will be even more crucial in view of the fact that exports are likely to be weaker in 1990.

Pressure on consumers' real disposable incomes will result in a decline in private consumption expenditure, most significantly on durables. The fall in gross domestic fixed investment will be contained to some extent by public sector investment.

The effect of government's tightening of policy in 1989, says Mohr, was clearly demonstrated by the real decline in non-agricultural gross domestic product during the middle two quarters of 1989 by an annualised 6.3% and 2.8% respectively (see graph). Indicators point to a continuation of the slowdown in the fourth quarter.

Gross domestic expenditure, which fell by an annualised 2.7% in the first three quarters of 1989, is expected to decline further in 1990. Mohr suggests a figure of 0.5% for growth in gross domestic product.

Prospects for the industrialised nations this year are for a lower, but still positive growth, which will mean weaker, but still good exports for SA.

As regards gold, the report states that the gold price should remain above the $400 level on the back of a weaker dollar.
Letters

have suffered the interruption and
disturbance of their normal
course. The Government has
decided to take immediate
measures to alleviate the situation.

In the meantime, we urge all our
readers to be patient and
cooperative. We believe that
these measures will bring
relief.

The Government has also
announced that it will hold
special meetings with all
interested parties to discuss
the situation and work out
solutions.

We appreciate your understanding
and support during this time.

Free market liberals
challenge to SA's
socialism's collapse

Ken Owen

At the heart of the argument for free market liberalism is the belief that markets, when left to operate freely,
are able to allocate resources more efficiently than governments
or central planners. This belief is rooted in the idea that
individuals, acting on their own self-interest, will make
decisions that are collectively beneficial.

In the case of socialism, the Government
controls the means of production and
allocates resources according to its
decision, rather than allowing the
market to do so. This results in inefficiencies
and shortages.

The collapse of socialism in various
countries has shown that the market system
is capable of providing a better standard of
living and a higher level of economic
growth.

The challenge for free market
liberals is to ensure that the benefits of
the market system are not
excluded from all people.

In the words of George
Kennedy: "There is no
such thing as a free
market in a free society."

The economic system
must be designed to
include everyone.

Ken Owen
SA's debt position is improving

Finance Staff

South Africa's foreign debt position has shown a dramatic improvement over the last few months, Reserve Bank Governor Dr Chris Stals said last night.

Speaking at a meeting of the Pretoria Afrikaanse Sakekamer, Dr Stals indicated that the country's debt payments this year could well fall short of the official published figure of R7 billion.

In his address, which was reported in a Johannesburg business daily newspaper this morning, Dr Stals said that as much as R3 billion of this debt could be rolled over, as 70 percent of this year's debt repayments consisted of maturing bearer bonds and trade credits.

He added that the country would also have less difficulties in repaying the debt, as the current account of the balance of payments could show a surplus of up to R7 billion during 1990.

This follows on an expected levelling off in gross domestic expenditure, which already showed no substantial growth last year, and estimates that the trade balance would continue showing a substantial surplus in the year ahead.

At the same time, Dr Stals said capital outflows would continue their sharp downturn, which started this year.

In the first quarter of 1989 total capital outflows were R1.9 billion.

In the following two quarters this figure fell to R1.1 billion and R2.45 billion respectively, as foreign perceptions about South Africa's political future improved dramatically and non-residents emerged as net buyers of gilts on the local capital market.

The balance of payments position had improved to such an extent that the Reserve Bank has boosted the country's reserves by R1.5 billion since the beginning of the year by buying dollars in the foreign exchange markets, Dr Stals said.
Govt to bring in ‘sweeping’ measures

By MIKE ROBERTSON

THE government is set to introduce sweeping deregulatory measures affecting all areas of commerce and industry, Trade and Industry Minister Mr Kent Durr said yesterday.

"There is nothing that we will not deregulate," Mr Durr said in an interview yesterday.

He declined to give details of actions that the government will undertake, but promised "a few dramatic announcements" in coming weeks.

Mr Durr said his entire department was undergoing major restructuring, while the activities of bodies like the Board of Trade would undergo rationalisation.

Plans were being drawn up to computerise the Companies Office to make it more efficient.

Detailed investigations into the activities of the various boards and statutory bodies falling under the department were under way to identify and eliminate areas of double jurisdiction and duplication. Mr Durr said.

He said the underlying philosophy behind the envisaged changes was that the government wanted to promote economic growth through a process of cooperation rather than by regulation and intimidation.

Mr Durr said that while he was not yet in a position to give accurate figures, the one major deregulatory measure he had already announced — the scrapping of the Travel Agents Board — had saved "an enormous amount of money".

Mr Durr said the entire decentralisation policy, which his department took over in December, was under review.

"There are large amounts of money involved and when one spends public money you want to do so thoughtfully and efficiently. It is appropriate that we take a hard and critical look at what we are doing."

Mr Durr said South African exporters had sought and found new markets in Asia, Africa, Eastern Europe and South America.

Exports to African countries were rising particularly rapidly.

On South Africa's growing trade with Eastern Europe, the minister said: "We want to develop markets and assist them to our mutual advantage just as we are doing in Africa already."

Asked about the possibility of establishing new South African trade missions abroad, Mr Durr said: "We are in the process of opening them. There is a great degree of normalisation taking place."

Mr Durr said South Africa's export growth path and profile of what it was exporting was very encouraging.

"An export culture is taking root. The great opportunities for industrial growth now lie in the export field."

He added that while in the past the government might not have pursued policies that were conducive to promoting exports, there was now extremely close cooperation between the Board of Trade, the Reserve Bank and his department. "Exports are central to our thinking."
Managing our future

Karl Hofer

Managers in the 1990s

Managing your business abroad and at home...
The Reserve Bank's massive forward cover loss is starting to dwindle. The cumulative loss peaked at R17.5bn in October before falling to R16.7bn in November, the first monthly drop since March 1988. In December the loss receded again, to R15bn.

The reason is, fairly obviously, the improving rand. It has gained almost 9% against the dollar since June.

But the Bank is still deeply mired in the forward cover mess and has no clear plan on how to extricate itself, despite repeated promises to do so. It also has no clear plan on how to cover the loss, which would equal 23% of the entire Budget if it had to be repaid in one year.

The Bank seems willing to sit tight and hope tough monetary and fiscal policies will lead to higher real interest rates — through lower inflation — and a further strengthening of the rand.

The Bank doesn’t believe the time has come to withdraw from the forward market and let commercial banks hold full responsibility for forward cover, says Deputy Governor Jan Lombard. For that to happen, real interest rates would need to be still higher, compared with our major trading partners.

This strategy has support from local economists. Azar Jammie, of Econometric, does not expect much exchange rate volatility in the immediate future and thinks the Bank can afford to wait for the effects of the anti-inflation drive.

United's Hans Falkena agrees that the Bank can await foreign and local economic developments before it decides how to withdraw from the market. For example, a cooling down of the US economy should lead to a decline in US interest rates. Slightly higher US inflation also could push real interest rates more in line with ours.

The Bank, however, says it will not simply "sit back and wait for better days" but take "very firm action" to ensure that commercial banks take over its role in the forward market. But the Bank won’t say what kind of action it’s contemplating. It’s ruled out raising interest rates, largely for fear of sending the fragile economy into a recession.

The Bank got into this mess because for years interest rates were set at artificially low, politically expedient levels. When the rand was stable and capital inflows strong, the forward cover loss was minimal. At the end of 1983 it totalled R910m but in 1985, when international concern at the unrest in the townships sent the rand plunging, backing up the commercial banks on forward cover became a very expensive business.

The business became more expensive in December 1988 when the Bank began offering a preferential forward rate for businesses that secured offshore loans. The Bank feared that excessive local borrowing would put upward pressure on local interest rates and hurt efforts to bring in capital from abroad to rebuild foreign reserves.

The preferential rate encouraged foreign borrowing but also subsidised imports at a time when SA was trying to increase the surplus on the current account. (Since October, when the forward cover loss began to decline, the Bank has no longer subsidised imports.)

The loss doubled in 1988 — last February it topped R16bn — and forward cover was suddenly a controversial topic.

Falkena says that given government’s refusal to raise interest rates, the Bank had to back forward cover or importers would have had to pay cash on the nail, putting unbearable pressure on depleted foreign reserves.

The question is whether the interest rate policy was valid. Jammie believes it was not. Interest rates should have been allowed to rise and then the Bank could have stayed out of forward cover.

Even if favourable economic conditions limit the loss in future, the Bank will be left with an enormous bill on Treasury’s behalf.

Nedbank's Edward Osborn believes the entire amount could be written off. Or, he says, past appropriations and the Bank’s accumulated profits — even privatisation proceeds — could be used to reduce the amount.

He argues that the taxpayer should not be forced to suffer the deflationary effects of paying off the loss. Even were government to borrow the necessary funds over a number of years, shifting the obligation to the national debt, higher debt servicing costs would still be passed to the taxpayer.

"This prolongs the agony for no apparent purpose," he says. "The real price has already been paid in the greatly increased money supply and resulting inflation."

INTEREST RATES FIM 19/11/90

Pulling in the reins

The Reserve Bank has indicated that it won’t let banks raise prime. But banks are meeting the possibility of raising lending rates to customers who borrow at prime or below. They are being forced to look at this option by the extreme and unabating money market illiquidity that has persisted all month.

Banks say it’s difficult to raise some lending rates without raising prime because of intense competition. Some say that if liquidity cases soon they could set it out and accommodate prime clients.

But the squeeze could continue for a while — maybe into March. In the face of longer-term tightness, banks might reassess the interest charged on new and existing loans, especially overdrafts and HP agreements. "But it’s unlikely we’d raise rates on home loans," one banker says.

The Bank has used market illiquidity as an opportunity to follow up its pleas for banks to curb credit by letting the tight liquidity continue. The window shortage, the amount the market owes the Bank, was still as high as R4.3bn this Monday.

Part of that represents overnight loans. Because of a shortage of rediscountable bills, banks borrow overnight against long-term RSAs and Eskom stock at penalty rates of 22.75% — 1.75% points above prime. So with the liquidity squeeze, banks find they are often lending at rates lower than those they are paying the Bank.

Another example of how banks are being squeezed is the rates paid for repurchase agreement tenders, a form of direct Bank aid to the market provided at rates determined by the demand from banks. The Bank has been lending at rates exceeding the 21% prime rate. On Friday banks paid 21.46% — 0.5 percentage points above prime. On Monday the rate fell slightly to 21.43%.

Bank Senior Deputy Governor Japie Jacobs argues that policy is aimed not only at curbing demand for credit, which is determined by lending rates, but also at curbing the supply of credit by banks. "It is unacceptable for banks to continue to expand

A sigh of relief

Cumulative forward cover losses incurred by the Reserve Bank

<table>
<thead>
<tr>
<th>Year</th>
<th>Losses 1988</th>
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Source: Reserve Bank
Cautious Optimism Over SARS Balance of Payments

The economic impact of the SARS outbreak has been significant, particularly in the tourism and hospitality sectors. Despite efforts to contain the spread of the virus, the impact on businesses has been severe. However, there are signs of recovery, with some businesses adapting to new normal conditions.

The graph depicts the trend in the balance of payments, showing a decrease in imports and an increase in exports over the past year. This suggests a potential recovery in the economy, with a shift towards a trade surplus.

The government is implementing various measures to support businesses and stimulate economic growth. These include tax relief, grants, and investment incentives. The success of these measures will be crucial in determining the future of the economy.

In conclusion, while the impact of SARS has been challenging, there are reasons for optimism. The key will be the ability to adapt and innovate in the face of adversity.
new Budget
real cuts in
Bargain plans
No tax Relief Likely this Year

□ from Page 1
DEPARTEMENT VAN FINANSIES

No. 77 19 Januarie 1990
Hiermee word bekendgemaak dat die oordragboeke van ondergenoemde Plaaslike/Binnelandse Geregisteerde Effekte van 1 Februarie 1990 tot en met 1 Maart 1990 gesluit sal wees en dat die rente betaalbaar op 1 Maart 1990 aan die effektebesitters wat op die datum van sluiting van die oordragboeke geregistreër is, betaal sal word:


No. 78 19 Januarie 1990
Hiermee word bekendgemaak dat die oordragboeke van ondergenoemde Plaaslike/Binnelandse Geregisteerde Effekte van 31 Januarie 1990 tot en met 28 Februarie 1990 gesluit sal wees en dat die rente betaalbaar op 28 Februarie 1990 aan die effektebesitters wat op die datum van sluiting van die oordragboeke geregistreër is, betaal sal word:

Binnelandse Geregistreerde Effekte, 12,00 Persent, 2004/5/6.
Binnelandse Geregistreerde Effekte, 13,00 Persent, 2009/10/11.
Binnelandse Geregistreerde Effekte, 14,00 Persent, 1994.
Binnelandse Geregistreerde Effekte, 14,00 Persent, 1996.

DEPARTMENT OF FINANCE

No. 77 19 January 1990
Notice is hereby given that the transfer books of the undermentioned Local/Internal Registered Stocks will be closed from 1 February 1990 to 1 March 1990, both days inclusive, and that the interest due on 1 March 1990, will be paid to the stockholders registered at the date of the closing of the transfer books:

Local Registered Stock, 7,75 Per Cent, 1995.
Internal Registered Stock, 12,50 Per Cent, 2003.

No. 78 19 January 1990
Notice is hereby given that the transfer books of the undermentioned Local/Internal Registered Stocks will be closed from 31 January 1990 to 28 February 1990, both days inclusive, and that the interest due on 28 February 1990, will be paid to the stockholders registered at the date of the closing of the transfer books:

Internal Registered Stock, 10,50 Per Cent, 1991.
Internal Registered Stock, 12,00 Per Cent, 2004/5/6.
Internal Registered Stock, 13,00 Per Cent, 2009/10/11.
Internal Registered Stock, 14,00 Per Cent, 1994.
Internal Registered Stock, 14,00 Per Cent, 1996.
FUTURE FOCUS

Economy

The political will to pursue economic reforms is not enough. It must be backed by the understanding and support of the public. This is a key challenge in South Africa today.

The country faces a growing threat of financial instability, which could have serious consequences for the economy and society as a whole. The government must take bold steps to address these challenges, including by implementing structural reforms and strengthening its economic policies.

Set to continue in new decade

people. Recent housing, health and education remain the priorities of a school teacher.

The reform strategy of the state and capital means that 5% of the economy, the industrialisation of rural areas, and the redistribution of education and wealth.

Cassie and its major allies are deeply engaged in ongoing research into the economy. This research is likely to have a profound influence on the policy of the economic labour movement in the future.

Militancy

The current predominance of capital on the political front is likely to have profound implications both in terms of local militancy and union policy.

It is the interests of organised labour to strengthen not only its own structures but that of the SACP as a whole to hasten the end of the apartheid state. At the same time it should ensure that a resistant unexploited and unemployable labour force is not merely an obstacle to the development of other interests and that working class interests are advanced.

The Cassie congress in July identified the need to prepare for the post-apartheid society. Such preparations must include discussions on the constitutional guidelines.

A special conference of the unions and political parties in the state is the call of the Cassie congress for an economic dialogue about a Workers' Charter which will guarantee the basic rights of labour in the post-apartheid society.

Following this discussion, the labour movement intends to make a special effort to draw up such a charter.

It is still unclear how this will dovetail with the call by the Workers' Movement for workers to draw up their own Labour Act.

More broadly, a major challenge for the social democrats and community organisations is to work together to form political connections which could ensure that the transformation of South African society continues after apartheid has ended.

These economic reforms with a superior implementation of the social democratic policies and understanding and support of the public are key to their success.

Our future will be important to see the full extent of the benefits that can be achieved.

This is not to abandon analysis of the real reform challenges.

However, we have to be clear what is the difference and in what areas there will be most gains.

We must affect a rapid shift in economic and social policies.

This may cause tensions and difficulties for the Workers' Charter.
M3 confirms a slowdown

CLEAR signs of a slowing down in the economy are apparent from the preliminary money supply aggregates for December 1988 and from the banks' advances to the private sector.

Preliminary figures for total money supply (M3) for December were R144.8bn, an increase of 1.7% on November, but 21.8% on December 1988.

On a year-on-year comparison, the December figures look good. The year-on-year growth in November was 23.4%, in October 24.5% and in September 22.5%. The peak growth was in February when the M3 grew to a peak 27.4% compared with the previous year.

On the month-on-month comparison, August's M3 growth was 3.4% higher than September's 1.4%, October's 2.7% and November's increase was negligible. The October figures were distorted by the Issor flotation which carried through into No-

Slowdown

The seasonally adjusted year-on-year growth rate had declined from 25.35% in August to 22.7% in December.

Perhaps the slowdown in the economy can best be read from total bank advances to the private sector. In November these were a mere 0.5% higher than the distorted October's R139bn. A more normal comparision in September's 2% rise to R135,3bn from R132,5bn in August.

Rand Merchant Bank economist Rudolf Gouws is encouraged by the last Reserve Bank figures, but he warns that one must not look at a single month's aggregate, but at the longer term trend, which looks hopeful.
Govt deficit R4bn less than feared

GOVERNMENT is set to end the current fiscal year with its deficit almost R4bn below the budgeted R9,9bn, as latest figures indicate previous estimates of R7bn were too conservative.

Finance Director-General Gerhard Groenewald yesterday said the actual turn-out for fiscal 1989/90 was likely to be even better than thought last year.

"Revenue is still going strong, and expenditure is under control. We were deliberately conservative in our earlier projections, and now it seems a deficit of between R6bn to R6,5bn is more likely."

At that level the deficit—the difference between spending and revenue—will be comfortably below the IMF's 3% of GDP benchmark and far below the budgeted 4.1%.

However, Standard Bank economist Nico Cypionka, who believes the deficit could be even lower at R5.5bn, yesterday cautioned against making a "song and dance" about the dramatic reduction.

"It has occurred for all the wrong reasons," he said. "Government has milked the economy with excessive taxes instead of cutting spending."

The main reason for the dramatic reduction is a revenue boom, running at an increase of 35% after nine months of the fiscal year. The budgeted figure for the full year is 16%.

In spite of the dramatic reduction in the deficit, significant tax relief in this year's Budget has been ruled out. Government will also not reduce its borrowings as the sale of government stock is a monetary policy weapon.

Reserve Bank Governor Chris Stals yesterday confirmed the sale of government stock was part of the strategy to fight inflation.

"Excess borrowings represent money withdrawn from the market and placed on deposit with the Reserve Bank. As long as this money is not spent again by Government, it represents sterilised funds withdrawn effectively from the private sector." He added that more than R1bn had been placed in the Treasury's stabilisation account created to keep "sterilised" funds—money taken from the economy specifically to reduce liquidity during periods of overheating demand.

Apart from the transfer to the stabilisation fund, government has paid R1bn to the Reserve Bank to reduce its debt on forward cover losses; an effective "destruction" of money taken from the private sector.

Croeser said this restrictive monetary policy stance should be mirrored by tight fiscal policy, which explained why taxes could not be materially reduced in the next fiscal year.
A |

The American author Walter E. Williams, who is against capitalism and war against South Africa's borders, writes in a book on S.A.'s empire, that capitalist and constitutional protections of the American author. The article is not about the proposed war against South Africa's borders, but it discusses the historical context and the role of capitalism.
Preconceptions must go to provide for innovation

TO CONFRONT and overcome the massive structural problems of our economy will require that we break out of our comfortable preconceptions and develop innovative policies.

Our solutions lie neither in free-market capitalism nor in centrally planned command economy socialism.

Cosatu has a socialist conception of the economic policy programmes which will be necessary to solve our economic problems. However, it is important to define economic and social programmes which must develop and benefit our whole society. This means there must be particular, but not exclusive, development for the working class majority in our society.

Secondly, central to our thinking is the development of a democratic political process that will engage mass participation and involvement in the formulation and implementation of economic policy.

Mass poverty

In these broad dimensions, we are unashamedly socialists. But our challenge is to develop inclusive programmes that will build a productive, prosperous, ecologically stable and culturally vibrant society where each and every citizen benefits in meaningful measure.

We have to open the agenda of debate beyond ideological clichés if we are to avoid a future economy where mass poverty exists side by side with minority affluence. Such a society cannot be democratic and must collapse into renewed oppression and conflict.

There are three important areas of policy which help pave the way for a more informed interaction between us. The first is to understand the nature of the strong opposition of Cosatu to present economic policies of capital and the state. At the centre of such policies is a belief in a free market, which, it is held, entails privatisation and deregulation.

Shed obligations

In our view, the free market solution to all our economic problems, which is systematically pumped through our media, is providing a cover for very much narrower concerns and interests of capital and state.

In short, the concern of capital is to cut costs to retain profitability and that of the state is to shed its obligations to solve its fiscal problems. There is no coherent thinking about the effects of implementing such policies in the wider society.

The effect is that such policies constitute a systematic attack on the working class in particular because they have manifest impacts on wages and employment with no gains made elsewhere. There are also other long-term costs of present policy which are not being considered. These policies, therefore, are going to increase conflict, particularly bearing in mind the Labour Relations Act and attacks on industrial councils, undercutting negotiation forums.

Narrow interests

If we could attain a more considered approach based on negotiation within creditable forums, then certain potentials within privatisation and deregulation could be developed. There is a component of privatisation which is important and that is the question of management accountability for its actions. If deficits are met by state subsidy, then this must have an effect on managerial style when compared to a situation of a self-financing enterprise.

Equally with deregulation, if it is applied to removing protection of narrow interests, then important changes could be affected. These issues are more complex and more fruitful to the wider society. However, at present these potential positive measures will not emerge.

We will have to accept that, while the present economic policies of capital and the state, along with the extreme concentration of economic power within a handful of conglomerates, will be the starting points of capital, they will be unacceptable end points for workers and the broader liberation movement.

The second task is to confront the issue of whether an inflow of foreign aid and foreign capital will be a solution within our post-apartheid economy. Particularly around the issue of sanctions a popular wisdom has developed that our problems are caused by disinvestment and sanctions and that our problems will, therefore, be solved by a future influx of foreign aid and capital. There is a lot of talk about Marshall Aid-type plans.

Such a growth path expectation is dangerous. It is dangerous because it is unlikely to happen on the scale envisaged by its proponents. This will only serve to delay the vital restructuring required in our domestic economy. For the structural reasons outlined in other papers here and identified by our own research work, the South African economy, even without apartheid, will not attract massive or sustained capital or aid inflows. We face a much more serious problem of a capital outflow.

We should also not underestimate the long-term implications of events in the USSR and Eastern Europe. These economies — with a superior infrastructure and vastly more skilled manpower — will offer very attractive investment prospects to Western capital.

We must start now on the work of restructuring and developing our economy rather than delaying in the expectation of a foreign aid.

☐ A concluding extract will be published tomorrow.
Govt expects dramatic cut in deficit

From GRETA STEYN
Own Correspondent

JOHANNESBURG — Government is set to end the current fiscal year with its deficit almost R4bn below the budgeted R9,6bn as latest figures indicate previous estimates of R7bn were too conservative.

Finance Director General Gerhard Croser yesterday confirmed the actual turnout for fiscal 1989/90 is likely to be even better than thought last year.

"Revenue is still going strong and expenditure is under control. We were deliberately conservative in our earlier projections, and now it seems a deficit of between R6bn-R6,5bn is more likely."

At that level, the deficit — the difference between spending and revenue — will be comfortably below the International Monetary Fund's 3% of GDP benchmark and far below the budgeted 4,1%.

However, Standard Bank economist Nico Szpionka, who believes the deficit could be even lower at R5,5bn, yesterday cautioned against making a song and dance about the dramatic reduction.

"It has occurred for all the wrong reasons. Government has milked the economy with excessive taxes instead of cutting spending."

The main reason for the dramatic reduction is a revenue boom, running at an increase of 35% after nine months of the fiscal year. The budgeted figure for the full year is 16%.

In spite of the dramatic reduction in the deficit, significant tax relief in this year's Budget has been ruled out.

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He added amore than R1bn had been placed in Treasury's stabilisation account.

The account was created to keep "sterilised" funds — money taken from the economy specifically to reduce liquidity during periods of overheating demand.

Apart from the transfer to the stabilisation fund, government has paid R1bn to the Reserve Bank to reduce its debt on forward cover losses — an effective "destruction" of money taken from the private sector.

This restrictive monetary policy stance should be mirrored by tight fiscal policy, said Croser, which explained why taxes could not be materially reduced in the next fiscal year.
Brian Kantor is professor of economics at the University of Cape Town.

If money supply is anything to go by, the economic slowdown is over and the economy has entered another phase of accelerating growth.

December was a very big trading month. Money supply, as shown by notes issued by the Reserve Bank, grew strongly enough to reverse the declining trend in economic growth. If this continues, corporate earnings will begin growing even more rapidly because note issues consistently and reliably predicts corporate earnings (see graph).

This development has not gone unnoticed by Finance Minister Barend du Plessis and he is right to hold the Reserve Bank accountable. Earlier this month he said: "There is indeed a danger that the Bank will, through liberal assistance to the (money) market, facilitate further excessive increases in money supply: this will certainly not be in line with government's economic policy."

On the other hand, Du Plessis is unwise to admonish private bankers for doing what comes naturally to them — to lend more money when it's profitable. He is wrong to believe that excess demand for bank credit can be eliminated without higher interest rates. Neither moral suasion nor direct controls have anything to recommend themselves as options.

The fundamental problem for Du Plessis and the Bank is simply that government's economic strategy is being undermined by its political success. Political developments have clearly been boosts to confidence and, therefore, to spending. The strategy, however, is aimed at restricting domestic spending to generate greater trade surpluses, which are assumed to be necessary to pay foreign debt and rebuild foreign exchange reserves.

The trade balance has recovered well and inflation has moderated but an earlier-than-expected recovery for the economy, presaged by the spurt in money supply, might reverse these developments.

Foreigners have begun to share this confidence. Not only are they more willing to buy SA equities, they are also willing to hold more SA debt. This greater availability of foreign capital means that government policies were designed for an economy in a very different state than it is now.

What can be done to inhibit inflation? Higher interest rates may do little to dampen the greater enthusiasm of households and businesses to invest. And to offer foreigners higher returns, when they seem determined to drive down returns with their growing demand, also does not seem appropriate.

So it would be naive to hope for too much from money supply in these circumstances. But faster money-supply growth represents a longer-term, rather than an immediate, threat of higher inflation. More important to inflation in the short run is the price of imports, which is influenced by the exchange rate and import duties. The capital inflows, or a declining rate of outflow, resulting from more confidence in the economy, can be very good for the rand. A stronger rand helps to reduce inflation and is also consistent with higher interest rates.

Strong government revenues present another opportunity to cut inflation and defuse inflationary expectations, which is essential if inflation is to be reduced with minimum pain. Higher revenues can also mean immediate direct tax relief if government spending is restrained. Critical here will be public-sector pay increases. Holding these to no more than 10% this year opens a huge window of anti-inflationary opportunity by cuts in direct tax rates. So, if inflation is to be tamed, it's up to the authorities to act.

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**Notes and earnings**

The trend in corporate earnings follows the trend in notes issued by the Reserve Bank, so the recent growth in notes issued may mean the economy has bottomed out and a new growth phase has begun.

Source: University of Cape Town, School of Economics.
Brighter outlook for inflation rate

By Sven Linsche

The government's tight monetary and fiscal policy will continue over the next few months and interest rates are only likely to decline by between one and two percent towards the second half of this year.

However, a major positive result of the restrictive policy will be a lower rate of inflation — in the region of 13 percent by year-end — say two leading economists.

Tougher times

Southern Life's Mike Daly and Dr Hans Falkena of the UBS argue in their group's respective publications that the restrictive government policy of the last two years will not be eased appreciably over the next few months.

However, the adjustment process in the economy will be easier this time around and they expect some easing in policy towards the end of the year.

"The real economy has yet to feel any pain as we enter 1990," Mr Daly writes in Southern's latest Economic Comment. "However, the cumulative effect of tight monetary and fiscal policy over the past 18 months will result in tougher times as the year unfolds."

He forecasts a small decline in real gross domestic expenditure this year, while only a further improvement in exports will keep GDP growing at about one percent.

"The policy of high real short-term interest rates will be maintained until the second quarter, during which the first official cut in the Bank rate from its current level of 18 percent can be expected."

However, the tight monetary policy is sending signals about the authorities' determination to reduce inflation, which Mr Daly estimates could average 13.3 percent this year compared with 14.7 percent in 1989.

"Inflation may peak at the 15 percent level in the first quarter, but consumer price increases will drop to below the 13 percent level by the end of this year."

"It is also possible that the bottom of the inflation cycle, which will be within a year or two, will be below the previous bottom, reached at the 12.5 percent level in late 1988," Mr Daly comments.

Tax outlook

UBS economist Dr Hans Falkena largely echoes Southern's sentiments.

"Provided the lid is kept firmly on government expenditure, no additional tax increases seem necessary, and interest rates ought to start decreasing gently from the middle of the year. By the end of this year, the Bank rate should be back to the 17 percent level."

"Another positive influence of restrictive policy will be a lower rate of inflation, maybe around 13 percent at year-end, which will also serve to stabilise the exchange rate," Dr Falkena states.

He adds, however, that much more emphasis will be placed on the government's fiscal policy in order to achieve these goals.

Budget deficit

Providing a conservative estimate of the current fiscal year's budget deficit, Dr Falkena says that the significant revenue windfall received could result in a deficit of R17.7 billion for the 1989/90 year (3.2 percent of GDP), well below the budgeted R20.6 billion (4.1 percent of GDP).

"An improvement of such magnitude is unlikely to be achieved again in the 1990/91 fiscal year, although the deficit will still fall as a percentage of GDP."

"With a 16 percent growth in revenue, and a 13 percent growth in expenditure, the budget deficit is likely to be in the region of R8 billion, or around 2.9 percent of GDP."

Ideally, Dr Falkena notes, the budget deficit should be much lower, preferably around 2 percent of GDP.

"Still, with monetary and fiscal policy stances simultaneously restrictive, the policy mix in South Africa will be in a far better shape than during 1988 and 1989."
How to cut high rates

CAPE TOWN — Short-term interest rates and inflation would decline in the second half of the year, provided excessive growth in credit and the money supply was addressed, Southern Life economist Mike Daly said yesterday.

Daly, who projected in October last year that a lower dollar value would relieve the balance of payments (BoP), boost the value of the rand and reduce interest rates, confirmed the trend in his latest monthly Economic Comment.

Changes

He said that if the international value of the dollar remained low and the gold price maintained its current strength, the net gold and foreign reserves would begin to fill up again.

This and a number of other vital economic changes like a slower rate of growth in the money supply and a lower inflation rate would all place downward pressure on short-term interest rates.

If excessive growth in credit extended and the money supply were addressed during the first half of the year, it was possible that prime could shed two percentage points to 19% before the end of the year, he said.

Daly projected an average year-on-year consumer price inflation rate of 13.3% this year, down from around 14.7% last year.

Inflation rates recorded over the past few months had left earlier forecasts looking too pessimistic, he said. While inflation could still peak in this quarter, it would do so at 15% rather than the expected 16% to 17% range, as the recent strength of the rand exchange rate took effect.

However, he cautioned that the real economy would begin to feel the cumulative effect of a tough monetary and fiscal policy as the year unfolded.

“The fact that private expenditure on durable consumer goods declined during the course of 1990 at an accelerating pace, reaching a fall of 9.5% in the third quarter, indicates that pressure on the consumer is starting to be felt,” Daly believed.

He said real gross domestic expenditure was likely to show a small negative growth in 1990, after a small positive growth last year.

Only a further strong improvement in net exports in 1990 would keep real gross domestic product growing by a possible 1%.
Mandela rebuts policy change

ANC firm on state control of business

THE nationalisation of mines, banks and monopoly industries was still the policy of the ANC, organisation leader Nelson Mandela said in a statement yesterday.

A change or modification of this view was "inconceivable", he said in the statement which was issued through the UDF.

UDF publicity secretary Terror Lekota said Mandela asked on January 15 for the statement to be issued to rebut innuendo in the media that he had revised his position on a policy formulated nearly 32 years ago and contained in the ANC's Freedom Charter.

Businessman Richard Maponya, who was unavailable for comment last night, said after a meeting with Mandela two weeks ago that Mandela had changed his views on nationalisation.

Lekota said Mandela's statement was a restatement of policy and did not represent a hardening of the ANC's or Mandela's position.

A future ANC government would seek as far as possible to "implement the policy without alienating anyone".

Mandela's full statement said: "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 inconceivable.

"Black economic empowerment is a goal we fully support and encourage, but in our situation state control of certain sectors of the economy is unavoidable."

Lekota said the word "inconceivable" was important as it "shows how strongly we feel on the matter. But, he said, businessmen need not be alarmed by this development."

The question is not simply to say we will nationalise. The crucial question is how this process will be carried out," Lekota said.

"We want to correct social ills without, as far as possible, alienating sections of the population. The movement will try to win them over," he added. He did not elaborate on how this would be done.

Lekota said the positive reaction of the business sector to meetings with the ANC in the past indicated the former's appreciation of the movement's attitude.

In a document published yesterday by Cape-based newspaper, South, Mandela said government needed to compromise on its opposition to majority rule, and the ANC would have to take into account white fears of black domination if there was going to be reconciliation in SA.

Sapa reported a Justice Ministry statement as saying the department had no record of anything "bearing resemblance to the document published by South. It is therefore not possible to vouch for its authenticity."

In the paper, Mandela said the key to peace in SA was negotiated settlement. A meeting between the ANC and government would be the first major step towards achieving lasting peace.

"Two political issues will have to be addressed at such a meeting: firstly, the demand for majority rule in a unitary state."

"Secondly, the concern of white SA over this demand, as well as the insulation of whites on structural guarantees that majority rule will not mean domination of the white minority by blacks."

"The most crucial task which will face
Budget date is March 14

By Peter Fabricius, Political Correspondent

CAPE TOWN - Finance Minister Mr Barend du Plessis will deliver his Budget speech in Parliament on Wednesday, March 14.

The part appropriation (mini-budget) speech will be on February 12. This provides for money to tide over the country's finances until the main Budget becomes law later in the year.

The additional appropriation will be presented on February 19 when the government will ask for more funds that were budgeted for last year to balance the books for the 1989/1990 financial year.

The SA Transport Services additional appropriation will be presented on February 16.

This will be the last Sats budget. As Sats is to be privatised this year there will be no budgets for the 1990/1991 financial year.

The Post Office additional appropriation will be presented on February 15 and the main budget on February 26.

Parliament's Easter recess will start on April 6 and end on April 17.
Bank warns of hard times

THAT 1989 passed without major casualties does not mean that the worst is now over, and 1990 will "almost certainly" be a difficult year, the Standard Bank warns.

It says in its latest monthly review that 1990 will be characterised by debt repayments possibly as high as $2,4bn, while gold and foreign exchange reserves are "totally inadequate" to meet anticipated capital outflows.

As a result, the continued generation of substantial surpluses on the current account of the balance of payments will be "crucial".

"But this must be achieved at a time of somewhat slower world economic growth and weaker global commodity prices: non-gold exports are therefore unlikely to maintain the upward momentum recorded in 1989."

"In the absence of a further substantial jump in the gold price, import volumes must fall still further. This can be achieved only if domestic spending is kept under a tight rein and the current slowing of domestic activity is sustained," it says.

It says there are also good domestic reasons for continuing to restrict growth in domestic demand, with last year's continued rapid growth of credit demand and money supply being cause for "considerable" concern.

While the Reserve Bank is determined to bring these problems under control, the consistent maintenance of positive real interest rates is vital if this is to be achieved. This implies that interest rates will remain high.

It says the burden of high mortgage rates will continue to be felt.

However, the medium-term prospects of lower inflation and sustainable improved economic growth will be also "greatly enhanced".

Standard says long-term economic growth performance will also be "significantly improved" if political and economic dynamics, which have recently emerged, continue to move in a positive direction.
Cosatu calls for low cost/high wage growth path

OUR present economy can be characterised as a high cost/lower wage manufacturing economy. The present economic policies of both capital and the state will perpetuate such a growth path or, more likely and realistically, a non-growth path.

The challenge Cosatu is addressing is to turn this direction around and restructure the existing economy to a low cost/high wage growth path. Such a link hinges on an increase in productivity.

However, in achieving an increase in productivity, the objectives would be to lower relative prices of manufactured goods to expand production of basic social infrastructure and consumer goods to meet mass needs. This must raise incomes through rising wages and increased wage employment.

Need for planning

Such an economic turnaround or restructuring requires a coherent strategic plan and conception in key areas. The key areas are:

- A manpower programme which integrates our skill needs and which is related to education.
- Health and welfare.
- Environment.
- Recreation and tourism.

The stress here is the need for such planning to be coherent and integrated and not piecemeal. This planning process will have to be directed from planning experiences in both socialist and capitalist mixed economies.

Centrally planned economic policies are not appropriate to either the political situation or the economic resource base of the economy. We are researching and discussing parametric planning that will effect a restructuring of the economy.

This raises the central question of nationalisation. The socialist and capitalist experiences of nationalisation require us to go into a very much more detailed and disaggregated approach to this problem.

In directing production, the judicial control of assets by the state is not the complete answer to this problem. Neither is the unfettered ownership of free market capitalism nor the bureaucratic control arising from the state’s judicial ownership.

New policies

There will have to be social control over production effected through a range of ownership forms and where the market plays critically important roles. We are going to have to forge new policies.

The conclusion I wish to make is of central importance. The processes of planning that will restructure and develop our economic future must be effected by democratic structures which exist not only at a national level but at regional and local levels, but, more important, both within the institutions of the wider civil society and within all processes of production.
Mandela: Stand on industry the same

Johannesburg—It was inconceivable that the ANC would change its policy on the nationalisation of industry, famed ANC leader Mr Nelson Mandela said in a statement issued through the UDF yesterday.

UDF publicity secretary Mr Terror Lekota said Mr Mandela's statement was not to be issued to rebuff innuendo in the media that he had revised his position on the policy formulated nearly 35 years ago and contained in the Freedom Charter.

Businessman Mr Richard Maponya, who was unavailable for comment last night, said after a meeting with Mr Mandela two weeks ago that Mr Mandela had changed his views on nationalisation.

Mr Lekota said the statement was a restatement of policy and did not represent a hardening of the ANC's, or Mr Mandela's position.

But, he said, businessmen need not be alarmed by this development. "The question is not simply to say we will nationalise. The crucial question is how this process will be carried out. "We want to correct social ills without, as far as possible, alienating sections of the population. The movement will try win them over," he said. He did not elaborate on how this would be done.
Businessmen confused over ANC stance

By ALAN FINE

BUSINESS has responded to Nelson Mandela's reaffirmation of his and the ANC's commitment to the nationalisation of mines, banks and monopoly industries with discomfort and confusion.

SA Chamber of Business president Leslie Boyd said the statement would have an extremely negative impact on the perceptions of skilled and professional people in SA.

"If such policies are implemented in a future SA it would lead to a massive brain drain the likes of which have never before been seen," he said.

He said many in SA were prepared to accept the total removal of racial discrimination and "heavy" black involvement in government, provided the economy was run on a free enterprise basis.

"If the statement is authentic I am very disappointed. It would appear Nelson Mandela and the ANC are out of touch with reality and totally ignore the very significant events that have taken place in Eastern Europe in recent months," said Boyd.

Another prominent businessman, who had met ANC representatives more than once, said it was impossible to have a sensible debate until the political process had been freed up.

Declining to be named, he said nationalisation was a vague term and a rhetorical device.

"It is possible to speculate that the ANC wishes to firm up its apparently softening policy so it has an appropriate opening position at the bargaining table. It also has to reassure its restless troops on the ground who believe it is going soft," he said.

He noted that the ANC, like most political organisations, had many agendas directed at a wide range of constituencies. Without open debate it was difficult to assess what various statements meant.

Chamber of Mines president Ken Maxwell said at the weekend Mandela's reported statement was a contradiction of the process required for black economic empowerment.

It also appeared to contradict some of the reassuring noises made by ANC leaders recently, Maxwell said.

Maxwell said these discussions had led to expectations that the ANC had begun to adopt a more realistic approach more in keeping with developments elsewhere in the world where nationalisation was being abandoned "at every turn".
Complete tax separation expected

GOVERNMENT is expected to implement complete separate taxation of married couples in the coming Budget — a move which would inhibit growth in tax revenue in the current fiscal year, the UBS says in its latest Economic Perspective.

Other factors mitigating against a repeat of the tax windfalls of the past two fiscal years were the expected revision of import surcharges, lower growth in personal and company tax due to the slowdown in the economy and the fact that the minimum tax on companies and the loan levy were "once-offs".

Bracket creep would continue to be a factor in the 1990/91 fiscal year, but "government has promised some relief from the insidious effects of inflation", the UBS says. As a result of these factors, the revenue growth rate of 16% is seen for the next fiscal year.

On the spending side, "a number of positive as well as negative influences are emerging". Positive factors included lower defence spending, and the end of budgetary aid to Namibia.

"In addition, high-level private sector consultants in government may make a difference to the current expenditure structure and succeed in limiting expenditure in the medium run. A final positive influence is saving opportunities provided by privatisation and deregulation, for instance limiting administrative costs."

However, spending growth would be undermined by long overdue salary increases for essential public servants, such as nurses, and the rest of the public sector was likely to demand higher incomes as well. Forward cover losses would have to be addressed, and it was unlikely government would succeed in cutting the growth rate in expenditure.

Another year of spending growth of 15% was therefore predicted.

These spending and revenue scenarios implied a budget deficit of about R1bn — or about 2.5% of GDP.

"The government has expressed the wish to limit the budget deficit to 2.5% of GDP. As this will imply that the government will finance little or no current expenditure with loan finance, achieving this target will be significant. However, for government not to extend its share in the economy indefinitely, the budget deficit rate should be equal to the potential growth rate of the economy, which is nearer to 2%.

On the fiscal and monetary policy mix, the UBS said the stance would have a beneficial effect on the economy as a whole and would go a long way towards allowing government to attain its macro-economic goals in 1990."
Economy could slow further
London

Some value cannot easily be had in
everything multiplies down to six
will not number about 12%, rendering the
slight change of 3, the year.

Although the economic squeeze will

Many industrial products will be

Squeeze

For years pound tests of 55% annually for the last
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A narrow margin, a recession in is in London.

several

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will be short term in the exchange.

It is well-measured commitments.

PETER KRAFFT in the Daily Telegraph

SA will again become an acceptable place to invest in, says

After the white, nations become

SA

6/109/30/113019
Reserve Bank to curb money supply growth

By Sven Länsche

In line with its efforts to reduce inflation, the Reserve Bank is to set lower targets for growth in the money supply this year.

Reserve Bank Governor Dr Chris Stals says monetary policy will remain tight for some time and that the targets for growth in the broad measure of money supply, M3, are likely to reflect this policy.

"Given our efforts to bring inflation under control, it is reasonable to assume that the targets will be lower than last year's 14 to 18 percent level," Dr Stals said yesterday.

"Dr Stals has kept interest rates high and liquidity in the market tight, despite the improvement in the balance of payments," TrustBank economist Nick Barnardt said yesterday.

"However, persistent growth in bank credit and money stock are forcing him to maintain a tight policy and I expect a target of 11 to 15 percent for 1999," he said.

Another bank economist predicted an even lower range of 10 to 14 percent, "as combating inflation involves breaking inflationary expectations, which a lower target would do".

However, a lower target itself creates numerous problems, not least the task of overcoming them.

Over the last few years growth in M3 has substantially exceeded targeted figures.

Upper limit R45bn

From the fourth quarter of 1998 to last year's fourth quarter M3 rose by 25 percent to R143.1 billion, against a targeted upper limit of R135,13 billion.

The Reserve Bank will release its target figures by the end of February, when the commercial banks have submitted their BA9 figures.

But Dr Stals said the target was reached with flexibility and that there was no acceptance of a rigid and overriding "money rule".

"If we do not achieve the targets it is a good indication to us and the general public that we are still growing too strongly, as was the case last year.

"However, we are receiving evidence that the economy is headed for a soft landing if the current level of interest rates is maintained for a while and no further adjustment in rates is necessary," Dr Stals said.

The target usually comprises the Bank's forecast for inflation plus economic growth as measured by gross domestic product (GDP).

While it is generally expected that GDP growth will not exceed 1.5 percent this year, the difficulty arises when predicting the inflation rate for the year.

Dr Stals said: "Monetary and fiscal policy are making their contributions to lower price increases and will continue to do so, but whether inflation will fall further in the year ahead will depend largely on the level of wage increases.

"If wage increases fall in line with stricter monetary policy, the major impact of lower economic demand will be on prices.

"But if wages continue to rise at the high levels experienced over recent years, then not only will inflation decelerate at a much slower pace, but unemployment will increase," he said.

Many economists agree with him that economic demand is already slowing down credit demand, and hence money supply.

"While corporate demand for credit is taking longer to taper off than consumer demand, the growth in money supply should fall well within an 11 to 15 percent target range by the second half of this year," Mr Barnardt said.

Nedfin MD Ron Rundle said: "Corporate credit demand held up exceptionally well last year, but should decline as interest rates for corporate customers remain high and have even been raised over the last few weeks."
Stale sets tough rules for economy

By Sean slime

Finance

The graph, compiled by the Economic Division of the Bank of Canada, shows the real gold price since 1970. The real gold price has fluctuated, with a general trend of decline since 1970. The real gold price is estimated to be in the range of 0.08 to 0.12, with a high of 0.13 and a low of 0.05. The real gold price has declined since 1970, with noticeable fluctuations in 1970, 1973, 1974, 1976, and 1978. The real gold price has been influenced by changes in the economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy. The real gold price has been influenced by changes in the real economy, including changes in the real estate market, the stock market, and the real economy.
Democracy: will Africa learn?

NEWS FOCUS

Herman Nicker
PUBLIC ACCOUNTS

Clashing signals

A few weeks ahead of the Budget, a remarkably buoyant picture of State revenue and expenditure has emerged.

An unprecedented rise in government balances in the last half of 1989. (See table right) is being partly sterilised, for instance by paying R1.1bn to the Reserve Bank towards forward cover losses. And — unusually for recent years — government has been able to transfer about R1.3bn to the stabilisation account. Yet the positive balance ballooned to over R2.5bn by the end of the year.

One windfall item has been R3bn for the privatisation of Iscor. But regular items of revenue have grown too.

Analysis of figures is hampered by ad hoc taxes. And strong aggregate figures for income tax (nearly R1bn over-Budget) conceal specific issues. Income tax receipts for companies for 1989 will have been reduced by replacement of the 50:30:20 capital allowance formula, by a limited straight-line 20% a year rule.

So the ending of the minimum tax on companies will be counteracted by higher receipts from individuals. As for individual income tax receipts, these will have been pulled up by fiscal drag. Customs surcharge, points out Nedcor chief economist Edward Osborn, is also running over-Budget — to the tune of some R900m.

But, at this stage of the financial year, there have been many individual departmental overruns: House of Assembly (R320m); Health (R132m); Police (R121m); Development Planning (R304m); and interest payments (R337m). Savings against Budget have been achieved in Defence (R454m); Trade & Industry (R334m); and Transport (R128m).

Voices have been raised against undue optimism, even though government has indicated a further R1.1bn will come off the Defence vote. Vastly more needs to be spent in three key areas — police, health and education. Breakdown threatens in all three with black education a key zone of underfinancing.

A sensitive area is that of income tax on the middle-income group, which has experienced a sharp drop in real after-tax income in recent years, through inflation and the progressive income tax scale (which has remained unadjusted for some time now). This is politically sensitive for government as economically dissatisfied middle-income voters are a key part of the catchment area for recruitment to the CP.

This area has also become an administrative quagmire for Inland Revenue. The Site system has produced as many difficulties as it solved.

One way to cut through many of these problems at a stroke would be to tax 'earned incomes separately from their husbands'. This reform could be the dark horse in the Budget speech. There has also been speculation there could be a substantial re-education in the deduction (R1 000) on taxable interest and building society dividends as an incentive to save.

There is hope too that the 50% standard income tax rate for companies could be reduced.

Another area where revenue could be sacrificed is reform of the sliding scale for mining taxation. But this is a complex issue, as mines now benefit from the 100% write-off of capital expenditure.

Whatever government decides, it has far greater freedom of action than in the past, as the gold mining take is a smaller proportion of total revenue.

It would be reckless to forecast a generous Budget and the FM's past guess is there will be big shifts in relative advantage between middle-income individuals and companies.

Osborn argues we could see a Budget which holds the deficit before borrowing for 1990/1991 to a relatively modest R7bn/R8bn, which would reflect a ratio of deficit to GDP of 2.6%. This compares favourably with a probable 3% for 1989/1990 — an outcome which is likely to reduce long-term interest rates because of reduced public-sector borrowing requirements.
As the First World moves on, we’re too late to jump aboard

By ALAN HIRSCH

The Dusseldorf electronics giant

Business rushes in as Europe’s barriers tumble

By ALAN HIRSCH

The European conglomerates are helping propel western
contacts with Eastern Europe, reports EDWARD COOPER

by quoting the French writer Paul Valery. “The future isn’t what it used to be.”

In an apparent attempt to shake the continent’s present directors, Jacques Delors, president of the European Commission, the EC’s administrative body, has stated at the same time that the Community is conducting an economic reform and that the first half of the 12-month EC council has pledged only about 3.5 billion dollars a year for the next three years.

Philip, a British electronics company, is preparing 19 stock exchanges and ranked 22nd in the Fortune 500, the company’s attempt to abolish European barriers by 1993 and Eastern Europe’s effort to shake off communism and exploit commercial relations with the rest of the continent.

Executives here like to recall how, when the East German government decided to open borders, the Western European electronics industry was caught unprepared.

The EC president also suggests that if the EC were to open itself to the rest of the world, there is a possibility of attracting new investment.

As for Eastern Europe, if the EU’s European Community regulations were to be further liberalized, the company forecasts a doubling of its exports to East Germany.

The EC counts on more than $5 billion in new investment, but this is unlikely to happen.

In the meantime, the EC has taken steps to open its markets to Eastern Europe, such as the recent agreement with Hungary.

The EC president, Jacques Delors, has been a vocal proponent of closer ties with Eastern Europe, and his latest move is a clear indication of the EC’s growing interest in the region.

As for the rest of the world, the EC’s efforts to liberalize its markets have been met with resistance, particularly from the United States, which has been reluctant to open its own markets to European products.

The EC is not alone in its efforts to liberalize trade with Eastern Europe. The United States has also been engaging in similar discussions with the region. However, the pace of these negotiations has been slow, and there is still much work to be done before any significant progress can be achieved.

The EC’s efforts to liberalize trade with Eastern Europe are not only about economic benefits. They are also aimed at promoting stability and democracy in the region. The EC believes that by fostering economic ties with Eastern Europe, it can help to bring about political changes that will ultimately lead to a more peaceful and prosperous region.

In conclusion, while there is still much work to be done, the EC’s efforts to liberalize trade with Eastern Europe are an important step in the right direction. As the world moves on, it is important that we do not leave behind those who are left behind. The EC’s efforts are a reminder that we must continue to work towards a more just and equitable global economy.
Only half-awful, says the guy

RESERVE Bank Governor Chris

WEEKLY MAIL, February 2, 1990
Stahl Speaks on Economic Reform for Tomorrow

EVEN IF its policies are...
Govt finance control inadequate, says SACB

FINANCIAL management systems in government were "conspicuously inadequate", particularly in regard to record-keeping and performance measurement, SA Chamber of Business (SACB) researchers said in a report presented to Cabinet this week.

According to the SACB, it had become a matter of urgency that confidence be restored in the handling of SA's fiscal affairs.

"In particular, it is suggested government uses all the tools at its disposal to force a tough annual reassessment of national priorities and to put all spending programmes in the context of total expenditures and the need for revenues," it said.

The report, titled "Budgetary Procedure and Government Expenditure Trends in SA", is the result of a six-month study last year by the Afrikaanse Handelsinstituut (AHI), the now-defunct Associated Chambers of Commerce and Industry (Assocom) and the SA Federated Chamber of Industries (FCl).

The SACB said in a statement yesterday it was designed to make a positive contribution to the debate surrounding the proper role of government in economic affairs and the question of optimisation of SA's resources.

Among the report's findings was that "a variety of practices which served to undermine effective control over public expenditure and the credibility of the annual Budget estimates existed in the institutional budgetary process."

Duplication

It also found unabated growth in government expenditure had steadily shrunk the relative contribution to GDP of private sector economic activity, and had been inversely correlated to SA's real economic growth trend, especially since the last decade.

In addition, constitutional development policies designed to eventually create 10 independent black national states had resulted in "a large degree of administrative duplication", the cost of which was borne largely by the SA taxpayer.

SA fiscal policy had at times also been conducted "at a tangent" with other economic policy measures, particularly monetary policy, and had served to largely defeat the objects of economic strategy.

Ministers who received the document in the SACB's first official meetings with parliamentarians included Finance Minister Baradé du Plessis, Trade and Industry Minister Kent Durr and Administration and Privatisation Minister Wim de Villiers.

Edward West reports in the Witwatersrand Chamber of Commerce & Industry (WCCI) announced yesterday it had changed its name to the Johannesburg Chamber of Commerce & Industry (JCCI).

CE Marius de Jager said in a statement the name change arose as a result of the creation of the SA Chamber of Business and the existence of the chamber's internal reassessment and development plan, Project 100.

The project plans to improve the level of operating efficiency and the flow of information to members.
Govt may achieve budget surplus

Government expenditure was thoroughly under control and it appeared the year would close with a budget surplus, the State President said today.

Outlining the Government's economic plans, he also said fiscal and mone-

tary policy would be co-ordinated in the coming year to allow a continued easing of the tax burden, especially on individuals; the generation of surpluses on the current account of the balance of payments; and reconstruction of gold and foreign reserves. — Sapa—
SACB urges spending controls

By Swan Linsche
The South African Chamber of Business has recommended a thorough overhaul of SA's public finances.

In an important document which has been handed to leading cabinet ministers, the SACB urges that direct restraints be imposed on the key departments and handling their expenditure.

"The Government should use all the tools at its disposal to force a tough annual reassessment of national priorities and to put all spending programmes in the context of total expenditures and the need for revenues," the report says. It was undertaken by Assocom, FCI and the AHL.

Other findings include:

- The current Budgetary process undermines effective control of expenditure and the credibility of annual Budget estimates.
- The unabated growth in expenditure has undermined the contribution to GDP by the private sector.
- Fiscal policy has been conducted at a tangent with monetary policy and has served largely to defeat the objectives of economic strategy.
STATE PRESIDENT FW de Klerk's historic speech has greatly improved prospects for the South African economy, Reserve Bank Governor Dr Chris Stals said yesterday.

And economists added that Mr de Klerk's policy statements will go some way in alleviating the country's international economic isolation.

"Most foreign banks will take their lead from their country's politicians, but short-term trade credits will be more easily accessible," Dr Stals said.

"However, longer term loans from the international community and the International Monetary Fund will take much longer to achieve," he said in an interview with the Saturday Star's political staff.

Nevertheless, some stockbrokers and economists expect more immediate benefits in the form of reduced sanctions.

Stockmarket dealers in London said one effect of Mr de Klerk's moves may be that economic sanctions against South Africa will be eased, resulting in improved trading prospects for South African companies.

However, more immediate benefit will certainly be experienced on the debt front.

The country's debt repayments this year total R7 billion. Much of this debt will mature this year, but the latest moves will help local debtors in converting it in terms of the 10-year loan option.

Dr Stals indicated that as much as R3 billion of the debt could be rolled over, as 70 percent of this year's debt consisted of maturing bearer bonds and trade credits.

He also expects that there will be a significant slowdown in the outflow of capital, while local financial markets could benefit from a renewed surge in foreign investments.

"The improved outlook will enable us to accumulate some foreign reserves and bolster the gold and foreign exchange reserves.

"We are looking at a situation in 1990 where we can cover the capital outflows with the surplus on the current account and will accumulate the foreign reserves we need so desperately," Dr Stals said.

Commenting on the State President's statement that South African would report a surplus on the Budget in the 1989/90 fiscal year, Dr Stals explained that this meant that after borrowing the fiscus will end the year with a surplus of cash.

"We borrowed more than we required which allowed us to contribute about R1 billion into the stabilization fund and complement the present monetary and fiscal policy," he said.

Most economists are expecting a deficit before borrowings of between R5 billion and R7.5 billion for the current financial year, compared with the originally budgeted R9.9 billion.
ANC govt budget spending surplus predicted for 4 years

Government spending is expected to receive a new spotlight.

The government has announced a spending plan for the next four years, with a focus on economic development and social welfare. The plan includes investments in education, healthcare, and infrastructure, aiming to create jobs and stimulate economic growth. The budget is expected to be balanced, with a focus on reducing debt and improving fiscal sustainability. The government has also pledged to increase public sector salaries and improve the quality of public services. Overall, the plan is expected to provide a significant boost to the economy and improve living standards for South Africans.
on the high road

De Klerk puts SA
Your turn to draft the Budget

WHAT would you do if you were Barend du Plessis and drafting the Budget?

Business Times has six magnum of sparkling wine for the best, wittiest and most original replies from readers.

You have no more than 200 words to express your ideas. Post your suggestions to: If I Were Barend, Business Times, Box 1090, Johannesburg, 2000.

We have popped the question to readers — and to professional economists — because never has this minister had a cleaner slate and more discretion to make changes to his Budget.

This year Mr Du Plessis is nobody's stooge — and he has the unqualified support of President de Klerk in his attempt to reduce the State's role in the economy.

He also has Wim de Villiers on his side in the battle to contain State spending. Already big cuts have been effected in defence, security and strategic spending. Reserve Bank Governor Chris Stals completes a team of new disciplinarians.
Why SA must opt for free enterprise

GROUPS that hate each other often transact peacefully in the marketplace, but erupt into violence when their conflicting interests are at stake in political decisions.

Thomas Sowell: The Economics of Politics and Race (William Morrow 1968)

It is a great irony that the thinking of black intellectuals in South Africa today shares so much with that of the Afrikaner nationalists who came to power in 1948. These Afrikaners, bent on revenge for the slights, both real and imagined, visited on them by the hated capitalists, vowed to nationalise the mines. They were socialists who believed in strong central control by the State. They vastly expanded the apparatus of the State by providing sheltered employment for growing numbers of their people.

by Stephen Mulholland

The Afrikaner has always been suspicious of the marketplace. Outbreaks of violence - such as the 1921 rail workers' strike - flowed from resentment at having to compete freely with black labourers who were prepared to work for far lower wages.

Threats of violence and the industrial wage concept - to deny job opportunities to blacks who, in a free market, would have been readily employed.

Surprising

In employment, those blacks would, in a free labour market, have, as all men do, tried in general to improve their lot, to better educate their children and pursue self-betterment, as men do when left alone in a free market to shape their own destinies.

Blacks were denied the benefits of the free market, and, therefore, by definition a free market did not exist. How could there be a free market when the bulk of the people were denied participation in it? It is a contradiction in terms to call apartheid South Africa a free market.

A free enterprise system is the enemy of prejudice and the friend of integration. Support for this view came in July 1989 from the surprising source: Piet Mey er, then Rector of the Rand Afrikaans University and former chairman of both the Broederbond and the SABC.

In an address to the Federation of Afrikaner Cultural Organisations, Dr Meyer fiercely attacked free market concepts. He said: "The free enterprise system does not differentiate on the basis of different national groups. It forms one integrated economic whole."

"An integrated economic system tends inevitably to ward off an integrated society at all levels - political, educational, church, and, eventually, cultural and social spheres."

"May the Afrikaners never allow themselves to adapt to the tendencies and demands of the free enterprise system..." he concluded. "The question before us is: Will it turn out that the challenges of the free enterprise system in our country will be too great for us and our culture?"

Patrick "Terror" Lokota - the nickname derives from his ferocity in the boxing ring - is a leader of the UDF. He became alarmed at recent indications that Mr Nelson Mandela was softening on the issue of the nationalisation of what collectivists fondly call "the commanding heights of the economy."

Irrational

Mr Lokota promptly produced a letter from Mr Mandela which stated that any change in the policy of nationalisation of the mines, banks and monopoly industries was "unconceivable". Perhaps this is a negotiating position which Mr Mandela sought to restore following reports of a shift in his thinking.

Let us hope so, because if it is not, and the leadership of the ANC is determined on this approach, then we are witnessing the behaviour of men who refuse to act rationally on the evidence of history.

Comrades Lokota and Mandela should ponder the words of Vaclav Havel, the new President of Czechoslovakia, a country now struggling to throw off the crushing yoke of communism, nationalised industries and all the deleterious effects of collectivism.

"My dear fellow citizens," said Havel in his first address to the Czech people, "for 40 years you heard from my predecessors on this day different variations of the same theme."

"How our country flourished, how millions and millions of steel we produced; how happy we all were; how we trusted our government and what bright perspectives were unfolding in front of us."

"I assume you did not propose for this office so that I, too, would lie to you."

Exploitation

"Our country is not flourishing. The economic creative and spiritual potential of our nation is not used sensibly."

"Entire branches of industry are producing goods which are of no interest to anyone while we are lacking the things that we need. A State which calls itself a workers' State humiliates and exploits workers."

And a MORI poll in Poland for The Economist and the Los Angeles Times on January 19-32 revealed that the Polish Communist Party would get one percent of the vote in a general election.

Mr Lokota says nationalisation in SA is necessary "in order to achieve the upliftment of the exploited". This is not the place to conduct a technical argument on that concept. It is sufficient, I believe, to ask Messrs Lokota and Mandela to look no further than the experience of their black brothers to the north and to the restless millions of Eastern Europe.

It is sufficient, I believe, to ask the question: are ordinary men better off in the market economies of Western Europe or in the nationalised models of the East? And the descent of Tanzania and Zambia from the status of reasonable self-sufficient... to that of international beggars must surely carry a message.

The truth is that South Africa has never enjoyed free enterprise. There can be no free enterprise when there are artificial barriers to entry, when there is not freedom of association, of speech and of movement. Individual freedom and free enterprise go together to bring men closer to each other, to form, as Piet Meyer correctly feared, "an integrated society at all levels."

Mr Lokota is right. Vast resources are needed to uplift our workers and sisters. But these resources have to be created and re-created - unless what is sought is a one-off orgy of confiscation which will leave our country devastated.

Mr Mulholland, I implore black leaders merely to look around the world. They can see quite clearly for themselves the contrast between, for example, the dynamism of Japan and the backwardness of China, the vigour of South Korea and the inertia of the north, the prosperity of Thailand and the deprivations of Vietnam.

Choice

Or they can ask our own black commuters what they prefer: the chaos of free enterprise or the nationalised transport of the State? Or they can ask the workers of South Africa, or Azania, or whatever we call it, cast its lot? With the failed, shattered rags of collectivism - or with the straining, vigorous dynamism of free enterprise.

As Santayana warned: "Those who cannot remember the past are condemned to repeat it."

Mr Mulholland is managing director of Times Media Ltd. A former financial journalist (founder editor of Business Times, editor of the Pinetown Mail), he has been one of South Africa's most consistent and energetic proponents of free enterprise.
Nationalisation remains ANC ‘commitment’

STOCKHOLM — The ANC remains committed to nationalisation, but an ANC government in South Africa would seek negotiation with big business, its secretary-general said.

"The nationalisation of key elements is necessary to get the resources for the democratic government to carry out its programmes," Mr Alfred Nzo said. "We have stated in public documents we are for a mixed economy," said Mr Nzo, who has joined veteran ANC leaders in Sweden for a reunion and informal talks following South Africa's removal of a ban on the movement last Friday.

"There is the question of nationalisation that people are so worried about. A democratic government still needs to have resources to deal with problems in the interests of the people," he said.

Mr Nzo was asked what role could be played by South African business leaders such as Mr Gavin Reilly, chairman of Anglo American Corporation.

"When the time comes, people say we are going to be reckless, you know, nationalise everything," Mr Nzo said.

"Seeking resources"

"We will still be seeking resources but you cannot get them from nationalising the poor shop at the street corner."

Mr Nzo confirmed that an ANC government would negotiate with big business over its economic plans, but said a democratic government could not allow its plans to be thwarted by lack of resources.

"If Mr Gavin Reilly owns an establishment that controls the economy of the country and he owns it alone and it exists only to feed Mr Gavin Reilly, you cannot as a democratic government satisfy the conditions of the people," he said.

Last month ANC leader Mr Nelson Mandela said in a statement from prison that nationalisation of South Africa's mines, banks and monopoly industries was ANC policy, and any modification of this view was inconceivable.

South African businessmen expressed disappointment at Mr Mandela's statement, which was issued to disprove a report from a black entrepreneur who said the ANC leader now favoured free enterprise. — Sapa-Reuters
Jesse Jackson calls for Marshall Plan for SA

London. — The Rev Jesse Jackson, who will arrive in South Africa this week, called yesterday at St James's Church in Piccadilly for "a new Marshall Plan of investment for a free South Africa".

Mr Jackson, who will meet Mrs Margaret Thatcher today before he flies to Zambia to meet President Kenneth Kaunda and then going on to Johannesburg, said President F W de Klerk's speech on Friday heralded a new era of hope for South Africa.

But he said the changes still fell far short of his hopes — and he urged Mr de Klerk to move without hesitation for the creation of a democratic, free and non-racial South Africa.

But he said that, when freedom came, aid, on a gigantic scale, to match the reconstruction in Europe after the World War II, was needed to enable South Africa to take its rightful place in the world.
End to isolation now in sight — foreign bankers

By Neil Behrmann
LONDON — The end to South Africa's economic and financial isolation is now well within sight, say foreign bankers, businessmen and brokers.

Yet medium- and long-term direct investment and foreign capital will not begin pouring in until the Government's negotiations with its black opposition are well under way.

As expected, the foreign financial and business community's response to President FW de Klerk's remarkable address was overwhelmingly positive.

They do believe, however, that the Group Areas Act should be removed.

Idea of nationalism

Black politicians should also abandon their ideas of nationalisation, they say.

South African shares boomed in London.

Gold shares jumped by 5 percent on Friday, and brokers were receiving orders for leading industrial counters.

Inquiries for industrial shares have been high throughout the year and the interest in these shares illustrates the significant change in sentiment about South Africa.

It has been many years since foreigners were remotely interested in SA industrials.

"South African shares are being re-rated," says Albert Loveless, of Smith New Court.

"Although the gold shares seem overvalued from an historic point of view, purchases will continue, particularly if the gold price continues to firm."

On the day's trade, the financial management jumped to a peak of 39.2 US cents on Thursday's close of 29.50c and closed at around 30c.

The discount on the commercial rand market, having opened at 30 percent over the period, while receding slightly at 19 percent.

"Forging ahead," bought at 24 billion in 1986 to $19 billion or about 25 percent of gross domestic product.

"Of more importance to the South African economy, however, is the movement of long-term funds."

"Swiss and London bankers say that trade finance has been freely available, but that, while the foreign debt remains in place, bankers will not lend medium- and long-term finance to South Africa."

"President de Klerk's measures far exceeded my expectations," says a Swiss banker.

"There is no doubt that the path is set towards a better South Africa, yet don't expect a stampede of bankers anxious to lend to South Africa."

A London banker says: "US and UK bankers will be more inhibited than their Swiss and West German counterparts."

But the road to a democratic South Africa is now open and the trickle of funds will eventually broaden into a stream."

Bankers are clearly impressed with the manner in which the South African economy has managed to grow, despite a relatively low gold price and the outflow of foreign capital.

"South Africa has reduced its foreign debt from around $24 billion in 1986 to $19 billion or about 25 percent of gross domestic product."

"This compares with Australia's foreign debt of $83 billion or equivalent to 32 percent of GDP."

"Bankers in London say that South Africa pays its debt on the spot."

"As a result, provisions against this debt are a mere 5 percent, compared with provisions of 50 to 60 percent on South American debt."

"But South Africa needs direct foreign investment rather than loan capital, they say."

"I believe that it is better for South Africa to rely less on bankers and reduce its foreign borrowings below $10 billion," says a London banker.

"The country will then be in an exceedingly strong position. Direct investment from foreign companies will be far more beneficial," he maintains.

There is little doubt that overseas companies will take advantage of the Southern African market, given the growth potential, the banker says.

Italian businessmen, for example, have already expressed interest.

Focus of attention

Involvement by West Germany is likely to be less marked, says Rudolf Gruber of the South African Foundation in Bonn. Its focus of attention is now investment in East Germany, he says.

South African trade with the UK remained buoyant last year, says Tim Bird, deputy director of the UK SA Trade Association.

Imports from South Africa rose to £835 million from £234 million in 1988, while British exports to SA dipped three percent to £1.04 billion.

"Everything that we could have hoped for has been announced," he says.

"We are now looking to negotiations which will lead to a non-racial democratic future."

"The country will then be in an exceedingly strong position. Direct investment from foreign companies will be far more benefi-"
NO OWN COLUMN

Sapna Mulholland

Riding the tide

If you look beyond the usual fare of economic data or political rhetoric, you will find a more nuanced picture of the South African economy. The recent upturn in economic activity is not just a result of traditional factors like inflation and exchange rates, but also of new trends and initiatives that are shaping the future of the country.

One area that has been particularly promising is the creative and cultural sector. The government has recognized the potential of this sector to drive economic growth and has implemented policies to support its development. As a result, there has been a significant increase in the number of start-ups and emerging businesses in the creative and cultural industries.

Another area of growth is in the digital space. With the rise of e-commerce and online platforms, South Africa has become a hub for innovation and technology. This has not only created new jobs and opportunities for local businesses, but has also attracted international investors looking to tap into the country's growing market.

In addition to these developments, there is also a growing emphasis on sustainability and environmental responsibility. Companies are now looking to incorporate green practices into their operations, and the government is supporting these efforts through the implementation of policies that encourage the use of renewable energy and other sustainable practices.

Overall, the South African economy is showing signs of resilience and growth, driven by a combination of traditional and new trends. While there are still challenges to be addressed, the country is well-positioned to emerge from the current economic downturn and to continue its development into the future.
‘Cuts, but services no longer free’

By BARRY STREEK
Political Staff

THE new budget would see the beginning of real cuts in government expenditure, but consumers would now have to pay for some services that were free or heavily subsidised, according to Minister of Finance Mr Barend du Plessis.

He also hoped individual taxpayers would be happier with this year’s budget. However, the government did not have the scope to bring in all the anticipated tax reductions in one year.

Mr Du Plessis said in an interview, which was published yesterday in The Executive: “When you seek structurally to reduce expenditure pressure, and you put into place new machinery, a new style and new procedures to do it, then the real effect can only materialise over a number of years.

“What we will see in this budget is the beginning of a process aimed at real cuts, and some expenditure votes will be affected in the next budget.”

He was confident his cabinet colleagues would co-operate in keeping expenditure to the levels that the budget required, as they shared a common determination to do that.

“I think there is a much better understanding among colleagues of what the long-term damage to the economy is if we don’t stick to our figures.

“But most important is how we go about structurally reducing our expenditure pattern. In this respect, the appointment of Dr Willem (Wim) de Villiers and the penetrating questions he asks, and actions he suggests, from the vantage of his private-sector experience, is an advantage we never had before.

The government was approaching tax reductions on a longer-term basis.

“When we are dealing with say Defence cuts, once plans are curtailed or cut, the real benefit can only materialise after a certain delay.

“So when we talk about honouring our commitment to the taxpayer, we would like to make a significant beginning, then follow it through in subsequent budgets as additional scope is created by expenditure reduction.

“There is another most important point: In the process of cutting state expenditure, the public will have to adjust to accepting responsibility on a user-charge basis, to pay for certain services which in the past came for free or were heavily subsidised.

The government was committed to paying off public debt. For every R1 billion debt that was repaid, at least R160 million in interest was saved and it could be spent on important matters such as education.

The government’s second priority was certain infrastructure, such as schools and housing, while the third item on the priority list was to support small business and industrial development, Mr Du Plessis said.
Sanctions restrict growth, says govt

CAPE TOWN — SA could increase its economic growth rate three to four times if sanctions were dropped, Administration and Privatisation Minister Wim de Villiers said yesterday.

Addressing a briefing for parliamentary and foreign journalists, De Villiers said sanctions had reduced the growth of employment opportunities in the industrial sector to just 1% a year.

If sanctions were removed, he said, SA could achieve growth rates of three to four times those which had been talked about in the past.

De Villiers said most of the utilities which government had earmarked for privatisation would have to go through a period of commercialisation first.

However, there would be an announcement in the budget on a privatisation issue scheduled for this year.

SA, he said, could no longer afford inefficiency in its parastatals.

Rather than investing in parastatals there should be investment in private sector industrial organisations which needed less capital in order to create more employment opportunities.

"We have enough infrastructure in this country. We have to get economic growth in those areas where we can create the most work with the least amount of money," he said.

Government, he said, was giving attention to measures designed to create employment opportunities in the industrial, agricultural, mining and construction sectors. An announcement on this could be expected in the budget.

Eskom, De Villiers said, had made great progress towards restructuring its operations which in future would be run on a return on capital basis.

Eskom and other utilities would have to compete in the capital market in future and not rely on loans.

The first target was to make Eskom a taxpayer which could happen in 1991/92. Only then would a decision be made on whether to transfer ownership of the utility to the private sector.

The process of commercialising the operations of SATS and the Post Office would take between two and three years, he said.
An estimated R21 billion is required in order to attain parity between white and black education, according to a paper compiled by the EPU.

It would require an increase of between two and three times the present total education budget, which, in 1988/9, was R9 billion for primary, secondary and tertiary education (black and white). This showed a nominal increase of 15.5 percent from the previous year.

During 1988/9, more than R4.06 million was spent on black, R3.727 million on white, R1.13 million on coloured and R404 million on Indian education.

These figures show an increase in total expenditure on black education over the years. In 1969, R46.9 million was spent on black education, compared to R31.4 million on white education.

The per capita expenditure for blacks of R12 in 1969/7 compared to R385 in 1987/8, and for whites R158 and R2396 respectively.

The increase in per capita expenditure for black education in the Eighties signals a certain intent on the part of the State to boost expenditure on black education, the study says. Nevertheless, the disparity between black and white spending is decreasing minimally: from 5.8 times as much for whites in 1980/81, to 4.7 times as much in 1987/88.

Although steps have been taken to improve the level of education for black students in the past decade, a paper compiled by the Education Policy Unit (EPU) at the University of the Witwatersrand reveals the Government has not gone far enough, Education reporter JANET HEARD reports.

The pupil teacher ratios for black children in 1968 was 1:40, compared to whites, which had 1:16. In homeland primary schools in 1983, the ratio was 1:45.

Comparatively, in 1980, there were 49 pupils per teacher at black schools, and in white schools there were 25.

The authors point out that the white pupil-teacher ratio was decreasing because of decreasing white enrolments.

The authors warned that if the declining trend of white pupil enrolment continued, about a quarter of all white Johannesburg schools would be at risk of closure within five years.

Since 1979, at least 203 white schools closed due to low white enrolment, and in 1988 there were 270 000 vacancies in white schools across the country.

In Johannesburg last year, there were 13 150 vacancies in white schools. This figure was growing by about 1 600 vacancies each year, says the report.
Education for blacks a priority

Stoffel

CAPE TOWN — Black education was one of the highest priorities of the Government and would receive extra money as it became available, the Minister of Education and of Development Aid, Dr Stoffel van der Merwe, said yesterday.

Addressing a press briefing at Parliament, Dr van der Merwe pointed out that the budget for black education had risen from R1 43 million in 1978 to R1 932 million in 1989.

In 1978 there were 10 000 black pupils in matric, while in 1988 there were 132 000.

In the same years the number of Std 1 pupils had increased from 460 000 to 560 000.

In 1976 the number of school-leaving certificates issued were: whites 25 000, blacks 2 000, coloureds 1 000 and Indians 2 000. In 1988 the figures were: whites 77 000, blacks 13 000, coloureds 14 000 and Indians 13 000.

SHIFT IN EMPHASIS

The budget increase for black education over the past few years "was not as dramatic as one would have liked to see, because the economy could not afford it."

Dr van der Merwe pointed out that the Government had shifted its emphasis from defence spending to social spending, but "this would take a little time to be reflected."

Dr Wim de Villiers, Minister of Administration and Privatisation, said South Africa had to create employment opportunities for the rapidly expanding population in industry, agriculture, mining and construction.

Announcements about this would be made in the Budget.

EQUAL OPPORTUNITIES

At the same time, equal economic opportunity for all had to be created.

Dr de Villiers said sanctions had the effect of not allowing the country to create employment opportunities.

If sanctions were removed, the growth rate would be three to four times the average 1.4 percent growth since 1981.

Dr de Villiers saw privatisation as a way of allowing free market forces to operate and create employment opportunities.

He said 63.7 percent of the fixed investment in the past 15 years had come from the Government.

The first step in privatising parastatals was commercialising them, Dr de Villiers said, meaning that they had to become used to working on a return-on-capital, profit-and-loss basis.
Institutional investors sound a warning note

By Ann Cotty

The hectic overseas interest in JSE blue-chip industrials evident on Friday and yesterday seems to be making local institutional investors quite nervous and could precipitate major changes in their investment strategies.

For a few weeks before last Friday's address by President FW de Klerk there had been indications of some international buying as sentiment towards SA showed signs of thawing, but nothing like the demand that sent the overall index shooting up from Thursday night's close of 3184 to yesterday's close of 3319 points.

The impact on the industrial index was similar; it shot up 212 to last night's close of 3145 points.

But the major local players do not appear to be too happy about these developments.

They see it as sharply disruptive of share valuations and believe it could make the JSE extremely volatile.

Feeling among some of the major institutions is that at this stage political developments are far too uncertain to assure a steady and reliable international presence in the local market.

As one investment-manager said yesterday: "Overseas investors have over-reacted to Friday's good news...just as they tend to over-react to any bad news."

"At the first sign of a hiccup in political developments, they will become sellers at almost any price, just as today and on Friday they were buyers at almost any price."

Assuming that are many setbacks on the road ahead, then overseas perceptions seem destined to go through regular swings.

These swings will be matched by foreign investors moving in and out of the JSE and share prices shooting up and then falling down.

Although this may be an unpleasant prospect for the institutions, it could be good news for the smaller investor who is able to move in and out of the market with more agility.

Over the past few trading days the large institutions have done little but sit on the sidelines — unwilling to follow prices to unfamiliarly high P/E levels (which they believe are not currently appropriate to SA conditions) and unwilling to be sellers of good-quality industrial shares.

But some of the smaller institutions and private investors have been tempted by the relatively high prices overseas investors are, prepared to pay to get into the SA market.

In a few months or weeks, these international investors might become disillusioned with SA and be prepared to offload the shares for considerably less than they paid for them.

For the institutions, another possible consequence of the appearance of foreign investors on the local scene is that they might have to extend their industrial equity selection beyond the 20 or so that have tended to dominate portfolios.

It looks as though foreigners are piling into the shares that make up the index and are ignoring the good-quality "non-index" equities.

If local institutions are reluctant to match the prices foreigners are prepared to pay (average P/Es are relatively low by international standards), they will have to turn to the second-liners to make up the equity short-fall in their portfolios.

In the process the general liquidity of the market should be lifted.
Overseas buyers send indices soaring

By Derek Tomney

South African industrial shares which have been shunned for several years by the world's investors have at last come in from the cold.

Since President de Klerk made his watershed speech on Friday, foreign investors have been heavy buyers of top class South African industrials with listings on the London (now International) Stock Exchange.

Since Friday morning the London price of Barlows has risen 28 percent from R13.10 to R15.77. The price of SA Breweries has risen also by 28 percent, from R9.57 to R12.26. Remgro's shares have risen 24.7 percent from R8.92 to R11.44 and Sasol shares have risen 20.5 percent from R3.71 to R4.71.

These price increases are larger than has been the case on the Johannesburg Stock Exchange where the strengthening financial rand has depressed prices.

In the two trading days since Thursday the financial rand has strengthened more than six percent rising from R3.43 to the dollar to R3.22 to the dollar, following heavy foreign buying. But for the foreign investment interest, this would have resulted in local share prices dipping by six percent.

Stockbrokers in Johannesburg said that foreign investors were buying large quantities of shares of companies with London listings, with an established track record and whose shares were freely available.

"The shares have to be liquid," said John Clemmow of George Huyssamer and Partners. "Foreign investors are not interested in buying a mere 10,000 shares - they are making inquiries for millions."

Apart from these four shares foreign investors are also showing interest in OK Bazaars and Iscor. But they are not receiving the attention they should as OK Bazaars shares are not freely available and Iscor does not have a London listing.

At present, foreign investors are buying South African shares listed in London at prices equal to 12 times their earnings. But Mr Clemmow believes that foreign investors could eventually pay a price equal to 16 times earnings which is the same as they are paying for their own blue chips.

However, because of the distortions caused by the financial rand, a P/E of 12 in London is equal to one of 16 in Johannesburg and this is disturbing local investors.

SA Breweries, in spite of the jump in its share price in the London market in the past two days, is still standing on a P/E of 12.

But in Johannesburg its P/E has reached 15.5, resulting in a claim that the share is now overpriced. Sasol's P/E in London is 13.1, in Johannesburg it is 16.7. Barlows has a P/E of 6.7 in London and 8.5 in Johannesburg. Remgro's is 10.3 here and 8.1 in London.

The financial rand discount is also resulting in foreign investors getting better yields than local investors. Barlows is yielding 3.15 percent in Johannesburg and 3.30 percent in London. SA Breweries is yielding 2.8 percent here and 3.5 percent overseas. Sasol 4.6 percent here and paying out 5.75 percent to investors abroad while Remgro is yielding 1.75 percent here and 2.24 percent in London.

These lower price-earnings ratios and higher dividend yields make South African shares attractive to foreign investors in spite of the remaining political risks.

In the light of this foreign interest the immediate outlook for prices of shares listed on the JSE is somewhat uncertain. Further sustained foreign buying may not lead to an increase in share prices in the local market but to a firmer financial rand and lower prices.

A firmer financial rand could also lead to weaker share prices, especially of those whose price is determined by foreign buyers.

But the outlook is not all gloom. With foreigners showing more confidence in South Africa and the prospect that sanctions could be lifted, company earnings here could accelerate sharply and offset the eroding effects of the improvement in the exchange rates.
The Case for Social Democracy in SA

Opinion

The economy of South Africa is facing a crisis, with high unemployment rates and low economic growth. The government needs to implement social democratic policies to address these issues.

The recent elections have shown that the country is not satisfied with the current economic policies. The DA has warned that the country is on the brink of a crisis, and if action is not taken soon, the situation will worsen.

There are two futures possible for South Africa: one with social democratic policies and another without them. The DA has proposed a social democratic framework to address the country's economic challenges.

The country needs a framework that prioritizes the needs of its people. Social democratic policies such as a minimum wage, universal health care, and affordable education are necessary to ensure a better future for South Africa.

The government should take action now to implement these policies and secure a brighter future for all South Africans.
Has modern socialism failed?

JOE SLOVO

In the aftermath of the wide-ranging political changes that swept through Eastern Europe and the former Soviet Union towards the end of the 20th century, there was much speculation and debate about the failure or success of socialist systems. This article examines the impact of these changes on socialism and considers whether modern socialism has failed.

Socialism was a political and economic system that was developed in the late 19th century and gained prominence in the 20th century. It was based on the idea of a classless society where the means of production are owned and controlled by the collective, and the state manages these resources for the benefit of all members of society. The ultimate goal of socialism was to create a classless society where the state would cease to exist and the people would govern themselves directly.

The history of socialism is marked by periods of expansion and contraction. The early 20th century saw the development of the Russian Revolution, which established the first communist government in the country. This was followed by the establishment of communist governments in other Eastern European countries. However, these governments faced significant challenges and setbacks, leading to periods of repression and conflict.

The fall of the Berlin Wall in 1989 marked a significant moment in the history of socialism. This event signaled the end of the Cold War and the collapse of the communist systems in Eastern Europe. The former communist states began to transition to capitalist systems, and the process of reform and transition was characterized by political instability, economic turmoil, and social unrest.

The period following the fall of the Berlin Wall was marked by a variety of challenges, including the need to establish new political, economic, and social systems. This period also saw a resurgence of nationalism and anti-communist sentiment in many of the former communist countries. The transition to capitalism was not without its problems, and many of the former communist countries have struggled to develop stable and prosperous societies.

In conclusion, the history of socialism is marked by periods of expansion and contraction. The fall of the Berlin Wall marked a significant moment in the history of socialism, and the former communist states have been tested by the transition to capitalism. The period following the fall of the Berlin Wall has been characterized by political instability, economic turmoil, and social unrest. The challenges facing the former communist states as they transition to capitalism will continue to be a significant topic of discussion and debate for years to come.
Riot loss: R28,3-m for bus operators

By MICHAEL MORRIS, Political Correspondent.

SUBSIDIES totalling R28,3 million were paid to bus operators for damage and loss of income caused by riots during the last financial year.

This is one of the points in the Auditor-General's 390-page report on the Appropriation and Miscellaneous Accounts for General Affairs for 1988-89, published yesterday.

Other points of interest are:

- R14 million was spent on recovering the Helderberg flight recorders and wreckage and on the investigation, bringing the total spent up to March last year to R22.8 million.

- The police paid compensation of R2.6 million in 490 cases, including unlawful arrest and injuries and damage, resulting from police action in riots and normal duties. The Department of Justice paid compensation of R18,660 to four claimants for unlawful arrest and detention.

- The Department of Foreign Affairs wrote off R26,244 for medical and other expenses on behalf of Mozambique after Samora Machel died in an air crash. The money was not recovered from Mozambique.

- Farmers owed R198,9 million on Land Bank loans. R133,3 million of this had been overdue for more than a year.

- Defence force losses totalling R65.3 million during the last financial year included R53.4 million for an aircraft which crashed. An air force inquiry found the crash was "a serious and avoidable accident due to the fact that the pilot's judgment — because of a low stress threshold and too little continuous flight training — had deteriorated to such an extent that he did not identify a potentially dangerous situation correctly".

- Altogether 7251 police vehicles were involved in collisions during the year, representing a loss of R3.5 million.

FAN MAIL GALORE. Mrs Lania Coetzee sorts through some of the hundreds of congratulatory telegrams and letters that flooded the State President's Office after Mr F.W. de Klerk's steps to normalise South African politics. Responses poured in from all population groups — individuals and companies — and many from overseas, including the United States and West Germany.
It's time to start moving, chaps

AFTER FW de Klerk's stimulating speech last Friday, one is once more forced to ask: as we are now definitely headed for change, how is black business poised for a stake in the country's future economy?

For the record, that speech caught everybody flat-footed - even the ANC and PAC.

But I was stunned. I never thought the man would have the gumption to go that far.

The bottom line is that De Klerk has set the country on the road to negotiation. The real work to create a non-racial South Africa must now start. While everybody is pinning their hopes on negotiation, it must be pointed out that what will be negotiated is the political future and the broad outlines of the economy.

The real economy, the business itself, remains the responsibility of industrialists, black and white. They must see that it caters for the needs of the country as a whole and not for the minority. For this to happen it must be controlled by South Africans, and not white South Africans as in the past. This is the challenge facing our entrepreneurs.

Enterprises

Since last week there has been much speculation on the future economy. Most black organisations are calling for nationalisation. White South Africa on the other hand wants the economy freed from any form of state control, save normal laws to protect markets.

While the debate on the -isms is not at this stage for the likes of me, I do know that running those enterprises, nationalised or not, will be the responsibility of businessmen.

To illustrate my point, one of the common denominators between a planned and a free market economy are economic units. These may be called collectives, businesses, or co-operatives etc. If their function is the production or provision of goods and services, they can only operate on the accepted golden rule - output must exceed input. Only business minds have the skills to ensure that output does outpace input. God forbid that politicians ever be entrusted with such a responsibility.

The collapse of economies worldwide, capitalist and socialist, is testimony to the ineptitude these nice gentlemen and gentle ladies have in reconciling their idealism and strong sense of righteousness with hard economic realities, the facts of life.

Some of them are so involved in bettering mankind that they sometimes "by mistake" roll national wealth into their pockets. But that is another story.

Knowledge

Looking at the Government's opening of white central business districts to black entrepreneurs, it is now history that through no fault of their own, very few of our entrepreneurs could survive competition from their white competitors. Even deregulation has seen whites get into the previously all-black taxi industry.

Superior white know-how and resources have put paid to many black hopes, and this is still going to feature in our lives. Liberation is not going to create a corps of black businessmen able to stand their ground against white competitors.

That is why I fear for the future of the black entrepreneur. It should now be more evident that black economic empowerment, still in the realm of the metaphysical and the surreal, must be made a reality.

Last year Sowetan Business organised big business to subsidise advertising by black entrepreneurs by 50 percent, a programme which started on September 28. Companies such as Barlow Rand, South African Breweries, Anglo American, Genmin, Sasol, AECI, Anglovaal, Hoechst and many others - for instance SAB today - were involved.

Although the response from our entrepreneurs was heartening, it was not as it should be and we came across some strange reactions. Said one entrepreneur: "That R50 is needed for stock". Said another: "the subsidy must be 100 percent".

Tragic! What the first was telling us was that he is prepared to keep on buying stock even if he does not tell buyers of his wares. The second was saying he is not prepared to invest his money on advertising his business, and somebody else must risk his money for him to make a profit.

This is the type of thinking that makes one weep, it allows whites to run roughshod over us in the marketplace.

We still want to fight their superior resources with picks and shovels.

Now that the country could well be on the way to a non-racial South Africa, I can only hope our businesses will realise that the situation is grave. The country's economy will continue to stay in white hands, this time not because of colour, but skills. If we want to control this economy, or part of it, it is time we developed the skills that will ensure this. Let us leave the politicians to do what they enjoy most - talking about kings and cabbages. There is a nobler call - creating wealth. In that pursuit is man's independence, innovation, integrity and dignity enshrined. The way to go about this is to make black economic empowerment a consciousness transcending political divisions.
For his new look

Just how does FV expect to pay

By Hilary Joffe

FV's make-over has finally arrived — a new face, a new look. The company, known for its innovative products and commitment to sustainability, has undergone a significant transformation. Gone are the days of the old, outdated design. Now, FV is modern, sleek, and ready to take on the world.

The change has been long overdue. Customers have been eager for something new, fresh, and exciting. FV's management team has listened to their feedback and worked tirelessly to deliver exactly that.

What began as a modest update has turned into a complete overhaul. FV's product line now features a range of designs that cater to different tastes. From contemporary to classic, there's something for everyone.

One of the most noticeable changes is the new logo. It's bold and dynamic, capturing the essence of the brand. The colors are vibrant and eye-catching, reflecting the energy and creativity that defines FV.

The website has also received a facelift. It's now more user-friendly, with easy navigation and improved search functionality. The new design ensures a seamless experience, regardless of the device used.

But it's not just the visuals that have been updated. FV has also invested in new technologies to enhance the customer experience. The company has introduced a mobile app that allows users to track their purchases and receive personalized recommendations.

With this refresh, FV aims to solidify its position in the market. The company is confident that its renewed look and feel will attract new customers and retain existing ones.

"We're excited to unveil our new image," says CEO Jane Doe. "We've worked hard to bring something new to the table, and we believe that our efforts will pay off. We're looking forward to seeing how our customers respond to our updated brand."
Since the start of the Eighties the trend has generally been down. However, there was a huge decline after the introduction of credit sanctions in 1985. Recent research by Trust Bank economist Nick Barnardt gives some indication of the impact of capital outflows on GDFI in those years.

He analyses the relationship between corporate profits and GDFI, and how it was seriously distorted between 1985–1987 (see graph). "While many factors affect GDFI," he says, "the closest correlation is with corporate profits. Statistics from 1971 show they move in tandem. But, from the start of 1984 to the end of 1987, they diverged sharply, GDFI declining at a far steeper rate than cumulative corporate profits."

Since then the gap has narrowed, with a recovery in GDFI. But, by the end of 1989, it was still wider than at any other time since the three years after the 1976 Soweto riots. "The downward bulge," says Barnardt, "could be ascribed to the additional effects of capital outflows." A return of capital flows could induce a bulge in the other direction and give the chance to recover some of SA's lost productive potential.

Estimates of potential GDP growth, in a speech by the late Governor Gerhard de Kock in May, were:

- With a net outflow of capital equal to about 4% of GDP during the next 10 years, as in the past four years, average GDP growth would be limited to about 2%;
- With no net inflow or outflow, 3%;
- With a net inflow of about 4%, 4%-5%.

So anything more than 5% remains in the realms of our wildest dreams.

The most important consequence of renewed capital inflows will be to stimulate real capital investment (or GDFI), which generates wealth. This is desperately needed after more than four years of exclusion from world credit markets and large-scale withdrawal of foreign capital.

The decline in GDFI preceded sanctions.
REFORM AND THE ECONOMY

Waiting for the response

The debate around nationalisation will be a key to the ANC's credibility.

Only a few months ago, the extent of any reforms announced by a Nat State President would have been judged by the depth of chagrin on the Right. However, after President F W de Klerk's profound and far-reaching statements on Friday, what Andries Treurnicht had to say in parliament this week appeared both predictable and irrelevant.

De Klerk has freed the National Party — if not the whole Afrikaner tribe — from the confines of its own ideology. He has no such emancipated the unenfranchised blacks and prepared the way for his own people to use their considerable skills, talents and resources for the benefit of the whole region.

The response that matters, and is still substantially being awaited as the FM goes to press, is the considered view of the ANC and what it plans to do now. For it, too, if it chooses to be magnanimous, could only be an opportunity to lift the whole southern African region on to a plateau of peaceful prosperity which would have seemed an impossible dream only a short time ago.

Southern Africa has abundant natural resources, the exploitation of which requires technical skills and capital. SA has the industrial and financial infrastructure that could enhance this exploitation to the substantial benefit of people of all races and cultural backgrounds in the region.

There has been economic decay, partly as a result of Nat policies here and the collectivist ideals of the liberation governments to the north. But there has been nothing like the economic devastation that 70 years of communism brought to Soviet Russia and, since World War 2, to eastern Europe. Simply put, a peaceful southern Africa stripped of its political fantasies could offer private foreign investors some opportunities far more lucrative and secure than much that might be found in eastern Europe.

Indeed, it might well be argued that while the ANC may be capable of disrupting and delaying prosperity, it is unlikely to be able — even if it were so inclined — to thwart the process entirely.

For the ANC, slow and unimaginative as it has shown itself to be, is losing — and could lose faster — its credibility and support in the developed world. If it adheres to violence and scorches the opportunity to seek democratic justification openly and peacefully, it will nurture the seeds of its own destruction.

Its weapons supplies and tactical support systems are already in jeopardy as a result of the explosion of the Marxist myth of equality and plentitude through collectivism in eastern Europe and Russia. The Nordic countries, which have given support naively and unstintingly, have some economic problems of their own to face and have already shown some impatience at African political intransigence.

But the country with the wild cards could be the US, for it is capable of turning the threat of removing sanctions into a powerful inducement to the ANC and other black bodies to negotiate seriously with Pretoria.

Conversely, the developed world has little else with which to belabour SA, even if it wished to. The real sting to this economy's prospects is that they no longer regard the extent of their charity to the Third World as a measure of virtue. Those who have been instruments of their own impoverishment are not popular in the West.

The ANC has more than the eyes of anxious SA whites on its policy utterances. It has developed to the developed world as well as to the European, whose own experience belies the economic sense of much of what the ANC has been saying about a post-apartheid society.

Take, for instance, what Comrade Alfred Noz, ANC secretary-general, has to say about nationalisation: "The nationalisation of key elements is necessary to get resources for the democratic government to carry out its programmes. (1) could not allow its plans to be thwarted by lack of resources."

The truth is that nationalisation deprives government of the resources it requires.

Noz, who clearly has no grasp of elementary economies, has only to look at the shortages of food and other basic commodities and sad queues of disappointed customers in eastern Europe to see the manifest deprivation of nationalisation. As British Liberal Prime Minister W E Gladstone found by chance in the last century, rising government revenues come from lower taxes and excises that encourage private commercial and industrial endeavours.

Moreover, if the mines, banks and what the ANC calls monopoly industries here were nationalised, more than 60% of the companies quoted on the JSE would be owned by government, which would have to resource them. If that were to happen, foreign investment capital and technical skills would simply not flow in our direction. The press would be effectively nationalised and the flow of commercial information frustrated and distorted.

Scarce economic resources would, in consequence, be wasted through misallocation by a pricing system that received the wrong signals. Price controls, hyperinflation and a concentration of wealth into fewer hands would be the inevitable outcome.

Economic history has shown repeatedly that a rising level of prosperity comes from governments that foster private initiatives and aim for the fastest possible economic growth rate that is capable of being sustained. Those that sacrifice growth to income or asset distribution inevitably end up with a poorer populace, offering fewer jobs and declining real incomes.

No matter how sound these economic arguments, we suspect the ANC will require some form of heroic economic gesture from government and business before it leaves the negotiating table — regardless of what poli-
Falling short

Rates, declining since mid-December, should fall further as a stock becomes scarce. "This will perpetuate the inverse yield curve for long- and short-term interest rates," says an economist. "Rates on the long end could fall to around 14% while on the short end they could fall to 18% by the end of the year."

Technically, an inverse yield curve heralds a decline in inflation.

The stock shortage is expected for several reasons.

Foreign buyers are likely to hold investments made last year while local issuers have indicated they will borrow less than in 1989.

Government will start the 1990/1991 fiscal year with a large cash surplus — at the end of December it was about R7,4bn. Moreover, it is cutting expenditure. So Treasury, the major capital market issuer, may raise only about R2bn on the open market, compared to R4bn budgeted in 1989/1990.

No official figure for government borrowing requirements will be available until the Budget on March 14. But a possible indication comes from Finance DG Gerhard Croeser, who suggested in October that government should make a contribution to savings by further reducing the deficit target for 1990/1991, to less than 3% of GDP.

Based on GDP of say R380bn, this would mean a deficit before borrowing of at most R8,4bn — an improvement on the 1989-1990 budgeted R10bn, which was 4,1% of GDP. (The actual figure, of course, could be considerably lower, at only R6bn. By end-December the deficit before borrowing was R4,4bn against a pro rata R6,7bn.)

A major part of the deficit before borrowing is taken by the Public Investment Commissioners, which previously invested all its funds in gilts and semi-gilts. It is one of the main sources of Exchequer financing. In 1989/1990, it was budgeted to contribute
Economic pledges look for real this time
Business confidence index takes a turn for the better

The South African Chamber of Business (SACB) and Seifs say the volume of orders expected in January will exceed those recorded in December.

The latest survey of confidence levels in the manufacturing sector show that the index rose from 98 in November to 118 last month.

The organisations say that 100 is the base line and that figures below that level reflect decreasing confidence.

Those above reflect increasing confidence.

However, the two organisations say: "It should be noted that because of the lower level of activity in December, there will be a fairly strong seasonal impact in January, so the latest figures cannot yet be interpreted as representing a change in the trend of the level of general activity, which has been declining since February 1979."

The survey says the index of expected sales volumes for the next 12 months rose to 128 in the January survey, compared with 118 in November.

It says: "The reasons for the increase can be chiefly ascribed to political developments, which have been interpreted favourably by industrialists, since there has been little change in the economic fundamentals to support the higher level of optimism.

"There are nevertheless clear signs that the manufacturing sector expects to show positive real growth in 1990, despite the economic slowdown that is clearly under way."

The survey says that the outlook in Pietermaritzburg and East London is marginally better than in the Durban, Cape Town and Port Elizabeth regions.

It says the reason for Pietermaritzburg's attitude is governed by the favourable outlook of the engineering industries in the region.

This suggests that the prospects for fixed investment this year could be better than expected. —Sapa.
Land situation ‘has to be addressed’

Nationalisation no holy cow – Slovo

The Star’s Africa News Service

South African Communist Party leader Mr Joe Slovo says the question of nationalisation of sectors of the South African economy is something to be negotiated and discussed by all parties.

And, in a surprise statement, he said although economic imbalances would have to be redressed he did not believe nationalisation necessarily changed anything.

Mr Slovo’s statements were made two weeks after Mr Nelson Mandela said in a statement from jail that key sectors of the economy would have to be nationalised.

Mr Slovo, also a leading member of the ANC, said in a long BBC interview, monitored in Johannesburg, that the exiled leadership would not accept any kind of future based on group political rights but indicated that minority rights could be negotiated.

Majority rule

“Our bottom line when we get to that table is that there must be an acceptance of the principle of moving towards majority rule and moving quickly. Apart from that there’s lots of things that can be tossed about.

“The question of constitutionally guaranteeing language rights, cultural rights, religious rights, guaranteeing the exittance of a multi-party system, are things that can be discussed and are up for negotiation,” he said.

“What isn’t up for negotiation is entrenching community group political rights and giving each group a veto over what can be done in the future, Mr Slovo added.

He said the land situation in South Africa had to be addressed as blacks were only allowed to own 13 percent of the land in South Africa.

“This does not mean necessarily that every piece of land that a white man owns will be confiscated or that there will be no compensation if the process of redistribution takes place.

“These are issues that have to be worked out, but there is no way where people will move towards a situation where all they have is a right to put a cross in a ballot paper every five years,”

Thus, Mr Slovo said, the whole question of redistribution of land and industry was something that eventually would have to be attended to, although this did not necessarily mean sectors of the economy would have to be nationalised.

“In South Africa for a long time you had State ownership of basic sectors of the economy and that did not mean advantage for the people or socialism.

“So the whole question of how we move towards generating resources so that injustices of the past are addressed is something that has to be worked out.

“The pace and approach on this question is something which can be discussed.”
International markets react to ANC plan

International markets signalled thumbs down to the African National Congress' nationalisation stance by dumping the financial rand and South African shares.

Euphoria has changed to caution as foreign investors who bid shares up to extreme heights on the Johannesburg Stock Exchange last week once again reflect on political risk.

Unless the gold price moves to much higher ground, fickle foreign money will leave South Africa for a new play in the global financial casino.

The financial rand reflected the more cautious approach. The investment currency slumped to 27 US cents from 30,50c before reviving to 28,50c.

Gold shares tumbled by five to 10 percent on the JSE.

See Page 16.
Barend asks joint sitting for R20,8-bn to tide State over

The Minister of Finance, Mr Barend du Plessis, presented a R20,8 billion part appropriation budget to a joint sitting of Parliament yesterday.

The mini-budget is to tide over State financing from April 1 until the main Budget comes into operation about July. The R20,8 billion was broken down as follows: Central Government (including Administration for Own Affairs) R17,3 billion; Transvaal Provincial Administration R1,4 billion; Cape R1,05 billion; Natal R700 million; and Free State R350 million.

Mr du Plessis said the amount for central Government and administrations for Own Affairs exceeded last year's part appropriation by R2,1 billion (13,8 percent). The total amount for the provinces had risen by about 12,9 percent.

Mr du Plessis said the part appropriation budget was merely an interim measure to provide for State spending in the first months of the new financial year.

It furnished no basis on which to forecast the possible course of the main Budget.

A full review of the present state of the economy and the prospects for the coming year would be given when the main Budget was delivered to Parliament (in March).

Mr du Plessis said, in terms of Section 4 of the Exchequer Act of 1975, funds voted in the Part Appropriation Bill had to be used only for services for which expenditure during the previous financial year was authorised by an Appropriation Act or Act of Parliament. — Sapa.

A new phase of history

The strengthening of SA's reserves and the good performances on the Stock Exchange during the last few weeks could only, to a limited extent, be attributed to economic reasons, Dr Zach de Beer, Parliamentary leader of the Democratic Party, said yesterday.

Speaking in debate in the Part Appropriation Bill, he said it was due to political factors and the impression gained by investors that SA was eventually on the road to normalising its political rules and structures.

Thirty years ago, after the Sharpeville tragedy, Dr Paul Sauer said the South African history books should be closed and a new one started. It did not happen, but today things are different.

"I believe that yesterday's release of Mr Nelson Mandela has closed one phase of our history and we have started with another."

"During the past years, the Government retained all the initiative and other players occupied minor roles. Yesterday this came to an end.

"Whether we like it or not, Mr Mandela is the symbol of a new dispensation. From now on, the Government will not be able to act unilaterally and dictate the passage of events."

SPECIAL EFFORT

"Although the formal power and control will still rest with the Government, the wellbeing of the country will be determined by the interplay between the Government and extra-Parliamentary organisations.

"I plead that everyone who takes part in negotiations must make a special effort to understand the other person's problems, and everyone must understand our mutual interdependence. We are, irrevocably, one nation with one future." — Sapa.
Spotlight swings to ANC economic policy

Negative reaction to Mandela statement

By AUDREY D'ANGELO
Financial Editor

HOPES that foreign bankers would now be more willing to roll over SA debt receded — at least for the time being — yesterday. The Johannesburg Stock Exchange fell, and the financial rand weakened, following a statement by Nelson Mandela that the ANC would nationalise banks and mines.

Economists and stockbrokers said that any hint of nationalisation made foreign bankers nervous and would discourage them from giving SA more time to pay. But some considered that Mandela's statement yesterday, and his call on Sunday to continue the struggle and for sanctions to remain, were "posturing" for the benefit of his supporters and in preparation for negotiations.

The financial rand fluctuated wildly yesterday before closing at R3.58 to the dollar compared with R3.53 on Friday, indicating a loss of confidence by foreign investors.

A lower gold price also helped to depress the JSE. The overall index fell to a preliminary close of 3,271 from 3,341 on Friday. The industrial index was 28 points lower at 3,159 from 3,178.

And the all-gold index fell 80 points to 2,001 as the gold price fell to $415.25 before recovering slightly to an afternoon fix of $418.55.

Trust Bank chief economist Nick Barnardt said: "The attitude of foreign bankers and their willingness to reschedule loans will depend very much on the statements Mandela makes."

"The spotlight has swung from apartheid to the ANC's economic policy. The more there is talk of nationalisation the more negative the reaction will be."

"We all understand that there are certain subtleties in the internal dynamics of the ANC position. People cannot lose their constituencies and make themselves irrelevant."

"But these statements of intention to nationalise undermine SA's chances of attracting investment from overseas for economic growth."

"I believe they are only posturing. As I see it, the government will put the remaining vestiges of apartheid on the table and the ANC will put its economic policy on the table and that will form the crux of negotiations."

Glenn Moore of Personal Trust said: "The fall in the financial rand does not indicate positive foreign reaction. I believe there has been movement out of mining houses and banks."

"As long as nationalisation remains a cornerstone of ANC policy, it will be frightening for shareholders."

Moore said the reaction by SA shareholders "does not indicate a wholesale sell-off. But there is probably quite a bit of apprehension."

Sanlam chief economist Johan Louw said he thought statements about nationalisation should not be taken too seriously. "Once it gets to the negotiating table it will probably be traded off."

"But, as far as the outside world is concerned, such statements are unfortunate at this stage. They have created uncertainty and stopped the inflow of foreign investment. Hopes of rolling over SA's foreign debt have certainly receded."

Louw said he thought uncertainty would cause prices on the JSE to decline even further. He thought SA institutions would step in and buy — but not until prices had fallen more, to a level that offered good value.

"I think we are entering a period when the stock market will be much more volatile."

Manly Pohl of the stockbroking firm Davix, Borkum, Hare said he thought the falling market offered a buying opportunity.

"Only very naive people thought that change would come quickly and without trouble. Overseas investors are fickle. They rush in and when prices fall they are rushing out again."

However, Pohl said two callers from New York yesterday asked him to send research material of SA shares after he had given his view of the situation.

He pointed out that, in Namibia, Sam Nujoma had talked of nationalisation but Swapo had agreed to a constitution "which pleasantly surprised us. When the ANC goes to the negotiating table, sanity will prevail."

Stockbroker Frank Brewer of Frankel, Kruzer, Vinderine said he was "still bullish on gold."

He thought the industrial sector was still a bit high, judged purely on fundamentals. But he thought gold mining shares and mining financials offered a buying opportunity.

Matt Brenzel, head of research at Syntex Managed Assets, said Mandela's speech on Sunday "must have had a dampening effect as people realised there was still a long way to go."

He thought it might result in a 15% or 20% correction in the stock market. However, with the weight of institutional funds on the sidelines — including money being invested for the SA Transport Services (Sats) pension fund — a steep fall might be avoided.

"It might ratchet down slowly." And he thought gold, which was,"" was "dead for a bit of a breather", would dominate the share market.

The market would, however, be "very volatile."
"I still believe in nationalisation."

CAPE TOWN — Nelson Mandela said yesterday he fully supported the ANC's policy of nationalising the mines and other sectors of the economy.

But, in an interview with the BBC at the weekend, SAPU general secretary Joe Slovo called for a wholesale issue of nationalisation to be the subject of negotiations as he believed it was not necessarily the answer to redressing economic imbalances in SA.

Mandela was asked at a Press conference whether he had in any way modified his views on the redistribution of wealth. He said: "No. My views are identical to those of the ANC. The question of the nationalisation of the mines and similar sectors of the community is a fundamental policy of the ANC and I believe that the ANC is quite correct in this attitude and that we should support it."

Later, challenged to justify his claim that the SA economy "lies in ruins", Mandela said full employment, productivity and social responsibility had to be considered when discussing a country's economy.

He said he felt SA's economy was not performing well in these aspects.

Slovo, indicating that the whole question of the ANC's economic policy was being re-examined, said that while any democratic government would have to address the whole issue of redistribution, this did not necessarily mean that sectors of the economy would have to be nationalised.

Slovo said in SA there had been State ownership of basic sectors of the economy for some time, but this did not mean advantage for the people or socialism.

He added that the approach towards generating resources to address injustices of the past would have to be negotiated.

Slovo said that if redistribution of land took place this would not mean that all land owned by whites would be confiscated or that there would be no compensation.
Du Plessis unveils R20bn mini-Budget

CAPE TOWN — Finance Minister Barend du Plessis presented a R20.8bn Part Appropriation budget to a joint sitting of Parliament yesterday.

The mini-Budget is to tide over government financing from April 1 until the main budget comes into operation about July.

The R20.8bn he proposed was broken down as follows: central government (including Administration for Own Affairs) — R17.3bn; Transvaal Provincial Administration — R1.4bn; Cape — R1.05bn; Natal — R700m; Free State — R300m.

Du Plessis said the amount for central government and Administration for Own Affairs exceeded last year's Part Appropriation by R2.1bn (13.3%).

The amount for the provinces was up by about 12.5%.

He reminded members that the Part Appropriation was merely an interim measure to provide for government spending in the first few months of the new financial year.

It furnished no basis for a meaningful calculation of percentage changes on which to forecast the possible course of the main budget.

A full review of the present state of the economy and the prospects for the coming year would be given when the main budget was delivered to Parliament (in March).

Du Plessis said that in terms of Section 4 of the Exchequer Act of 1976, funds voted in the Part Appropriation Bill had to be used only for services for which expenditure during the immediately preceding financial year was authorised by an Appropriation Act or in some other way by Act of Parliament.

Speaking in the debate on the mini-Budget, DP parliamentary leader Zach de Beer said the strengthening of SA's reserves and the good performances on the stock exchange during the last few weeks could only, to a limited extent, be attributed to economic reasons.

He said the improvement was due to political factors and the impression gained by investors that SA was eventually on the road to normalising its political rules and structures.

"Thirty years ago, after the Sharpeville tragedy, Dr Paul Sauer said the SA history books should be closed and a new one started. It did not happen, but today things are different. "I believe the release of Nelson Mandela has closed one phase of our history and we have started with another. "During the past years, the government retained all the initiative and other players occupied minor roles. Yesterday this came to an end. "Whether we like it or not, Mandela is the symbol of a new dispensation. From now on, the government will be able to act unilaterally and dictate the passage of events. "I plead that everyone who takes part in negotiation must make a special effort to understand the other person's problems and that everyone must understand our mutual interdependence. We are, irrevocably, one nation with one future." — Sapa.
Slovo: Only democracy can work

Slovo: Only democracy can work

Mandela supports policy of nationalising mines

Political Staff

MR Nelson Mandela said yesterday that he fully supported the ANC’s policy of nationalising the mines and other sectors of the economy.

But in an interview with the BBC at the weekend, SA Communist Party general secretary Mr Joe Slovo called for the whole issue of nationalisation to be the subject of negotiations as he believed it was not necessarily the answer to redressing economic imbalances in South Africa.

Mr Mandela, asked at a press conference whether he had modified his views on the redistribution of wealth, said: “No. My views are identical to those of the ANC. The question of the nationalisation of the mines and similar sectors of the community is a fundamental policy of the ANC and I believe that the ANC is quite correct in this attitude and that we should support it.”

Indicating that the whole question of the ANC’s economic policy was undergoing re-examination, Mr Slovo said that while any democratic government would have to address the whole issue of redistribution, this did not necessarily mean that sectors of the economy would have to be nationalised.

He said that in SA there had been state ownership of basic sectors of the economy for some time, but this did not mean advantage for the people or socialism.

The approach towards generating resources to address injustices of the past would have to be negotiated.

If redistribution of land took place this would not mean that all land owned by whites would be confiscated or that there would be no compensation, said Mr Slovo.
To encourage savings, I would remove tax on interest income. Funds should be devoted to a national campaign for numeracy and literacy and to a road and write campaign. We should give financial incentives to limit family size. We should devote funds to a national electrification campaign.

To head off political and social unrest at this delicate stage, there should be cheap but effective job creation programmes.

Inducements for savings

JOHAN LOUW, Sanlam

I WOULD present my proposals so that the Budget was moderately restrictive on the whole because the economy has not yet cooled sufficiently.

I would certainly not rely on any sharp rise in the gold price.

In conjunction with this:

- I would cut Government expenditure to reduce the deficit by 15% as possible – say R7 billion, which would be 22% of GDP – and finance it in a non-inflationary way.

- I would strive to bring about a reversal in dispersing by the Government. I would keep the deficit before borrowing as low as possible – say R7 billion, which would be 22% of GDP – and finance it in a non-inflationary way.

- I would lower the surcharge on imports since this measure has not really proved to be effective in limiting imports and also because they are starting to fall in conjunction with a slower growth rate in the economy. A reduction in the surcharge would also have a positive effect on the inflation rate.

- I would announce guidelines regarding the taxability of capital gains and I would also try to reduce the burden of individuals by adjusting the tax scales to allow for the effect of bracket creep.

- Another important goal would be to stem the acute deterioration in our personal saving. I would therefore:
  - Increase the amount in interest income exempt from tax from R1 600 to at least R1 800; and
  - Sharply increase the maximum contributions to retirement annuity funds which are deductible from income.

Readers have until Wednesday to submit their Budget suggestions. The deadline will be noon on the 14th of September. The winning will receive a R1 500 cash prize for runners-up of 1/3 and 1/4.

Vain hopes for tax cuts

JAN SADIE, BER, Stellenbosch University

I SINCERELY regret that, as a result of the pre-election promises and, more recently, the announcements about the restructuring of the Defence Force, the public was led to believe, and hopes were raised, that there would be significant tax relief in the offing.

Anybody who is conversant with the economic realities and the economic demography of this country would know that this is an impossibility in the long run. Whatever the taxpaying public might make on the swings the roundabouts. For it the prospect there are three sons.

First, for many years has not been paying the taxes... since 1984, the Government is... enough to keep the country in the process.

When we tried to reduce was capital projects... which it is... nothing to the reduction.

It must, therefore, be... international debt is witted, its first priority... the rot and, at best, to... fiscal activity... 70% and... capital formation. The... recipe... anti-cyclical policy, not... Second, the Government... mechanism which consists of savings over investment... the balance of payments... desired level, had to be... most undesirable policy... thrashing the economy... shows some reasonable... The latter had to be... only policy tool... also one of the worst... rate to dizzy heights.

Politically, a rise in... does sound better... of taxes; but it reduces power of households... with a... to the rate of inflation.

Third, the most... South Africa is that the numbers and due to future for an... expenditure on... housing and social... some 31% of personal... contribution of appro...
Brakes to be kept on

DAVID MOHR
Old Mutual

ON cyclical considerations, mainly driven by the capital account of the balance of payments and inflation at this stage, the Budget has to fall into the neutral to restrictive category - domestic demand should not receive a fiscal stimulus, directly or indirectly.

To begin with, I would use any surplus from the previous fiscal year to reduce the State's outstanding debt to the Reserve Bank. I would also adhere religiously to the three goals of fiscal policy, namely:

- No real growth in Government spending (preferably a decline in current spending).
- No dissaving (in other words, equate current spending to current revenue).
- A Budget deficit of less than 3% of GDP. This will naturally follow from the abovementioned goal because at present the capital spending Budget is less than 3% of GDP.
- On a longer-term structural basis, I would address the educational and training needs of the economy, bearing in mind that these are not only solved by increasing teachers' salaries.

In addition, I would look at an urbanisation-type investment, such as housing. I would limit the increases in the total salary bill below the expected increase in nominal GDP, if at all, and instead concentrate on differentiation.

Scope for increased spending in certain areas should originate from increased spending cuts in others, such as defence. Without this framework, an attempt to increase the sales tax base and a spending increase of 10% the Government deficit should be less than 3% of GDP.

Such a scenario would leave limited room for tax cuts. The first priority should be to provide some relief from the recent budget deficit. Furthermore, the twin goals of a sound balance of payments and lower inflation must be addressed.

Tax on interest income should receive attention (either a low source-based tax or a financial institution tax). The Financial Institution Tax should be high directly from the individual, or significantly increased in respect of interest income earned.

Lastly, any further scope (if it exists) should be used to reduce import surcharges very preferably to zero. But if this is not possible, then at least a lower uniform rate.

The finance of a deficit lower than 3% of GDP would not be difficult.

Disciplined — and bold

DENNIS DYKES, UAL Merchant Bank

FOLLOWING the bold political moves by President De Klerk it would be refreshing to see a bold Budget.

The Minister of Finance's first step should be to neutralise the large Government cash surplus which has resulted from higher-than-expected revenue receipts in 1989-90 (and not, unfortunately, from lower spending).

Paying off some of the foreign-exchange losses would be an effective way of removing the temptation of spending the money later in the year.

The main task on the revenue side should be to start simplifying and reducing direct personal taxation. The import surcharge is in danger of becoming institutionalised and should be removed. The SA's longer-term competitiveness.

Clarification should also be sought about issues such as capital gains tax and the question of taxation on savings.

Any tax reductions would have to be matched by spending cuts — otherwise the deficit would be too expansive. Total expenditure must be curbed in real terms, defence taking the brunt, but education, police and health gaining an increasing share of the pie.

The Budget should send a clear message to the market that the policy will be maintained. However, the overall impact should not be too contractionary, given the soured political climate and the possibility of a recession developing later in the year if any of the currently fashionable assumptions — higher gold prices, reduced foreign debt commitments — prove too optimistic.
Foreign selling depresses JSE

By Sven Linsche

Shares continued to slide on the JSE yesterday, as Nelson Mandela's call for the nationalisation of key industries, including mines, reversed the recent wave of foreign investor interest.

Ignoring a slightly weaker financial rand and firmer precious metal prices, foreign selling pushed down the overall index a further 59 points to 3214, following Wednesday's 69 point plunge.

Mining shares have been at the core of the selling wave. Following Wednesday's 82 point slide the all gold index yesterday shed a further 61 points at 2923.

Gold share prices have tumbled on average by 6.5 percent in rand terms this week, but the drop in dollar terms is much greater because the financial rand has weakened by about 10 percent over the same period — the finnrand yesterday closed at R3.45 to the US dollar.

The overall effect is that in dollar terms local gold shares have lost over 15 percent of their value and analysts fear that the slide could continue.

"Many foreigners have taken fright after Mandela's call for the continuation of the armed struggle and the nationalisation of key industries and are selling golds," one dealer said.

The sluggish performance of gold shares has also been ascribed to the failure of the gold price to breach the crucial $420 to $425 levels.

Bullion yesterday rose to about $421 in early London trading, ironically on fears that ANC nationalisation of the mines would disrupt supply of the metal, but it failed to hold that level and fell to an afternoon fix of $418.25.

The setback occurred as analysts took the view that Mr Mandela and the ANC were positioning themselves ahead of future negotiating talks and would in the end abandon the idea of nationalisation.

Neil Behrmann reports from London that uncertainty about the coming negotiations and reaction to Mr Mandela are just excuses for gold's setback.

Far East and Middle Eastern demand has sagged, whilst South American central banks, notably Brazil and possibly Colombia have stepped up sales of bullion. The South African Reserve Bank and the USSR have also been active sellers at higher prices, say dealers.
Govt advisers want more land for black farmers

Two top Government advisers yesterday called for blacks to be allowed to enter the farming industry on a larger scale than at present.

Mr Warren Clewlow, chairman of the State President's Economic Advisory Council, and Dr Simon Brand, chairman of the Development Bank of Southern Africa, both told the Agricultural Outlook Conference of the need for agricultural land to be made available.

Dr Brand questioned agriculture's contribution to the economy from an equity point of view, particularly distribution of "welfare or prosperity" between different groups.

"Agriculture appears to have played a constructive role in economic development in ways specifically related to local economic circumstances. Questions do arise, however, about the nature of the past contribution and its sustainability in the future."

He said one of the inequalities existing in agriculture at present "has been the access to land as determined by the Land Act, the Subdivision of Land Act, and other legislation restricting free access to agricultural land in South Africa."

"Without going into the political or social aspects of the matter, it must clearly be expected that this question of the distribution of access to land between different groups will increasingly become a burning issue in respect of the rural areas, as it has already become in respect of urban areas."

Dr Brand said the issue could become "emotional... especially when linked to radical proposals for land reform."

He added that if restrictions were relaxed "it need not necessarily have a negative effect on production and the efficiency of resource use in agriculture as a whole."

It could even enhance the industry, particularly is access to farm support services were provided — something which is only supplied in limited form at present.

"Such a pattern of development is also likely to have a positive impact on employment generation in agriculture," Dr Brand said.

Mr Clewlow told the conference, attended by 300 top agricultural experts and marketing executives, that "as political reforms continue, black people will gain ownership of agricultural land, possibly legally. There will be a huge demand for many black small farmers to be accommodated."

Existing land currently deemed to be "unproductive" could be handed over to "peasant farmers" who would be able to make use of modern biotechnology.
SA's economic policy makers have been concerned with the "correct" mix of capital and labour to produce SA's GDP for some time now, which partly reflects worry about unemployment. They are keen to remove distortions in the relative prices of the two factors of production. The preoccupation with the use of capital relative to labour was recently highlighted in the tightening of the tax write-offs against depreciation of capital assets. Deputy Finance Minister Org Marais said capital was too cheap in relation to labour — and a stricter depreciation allowance was a move to a "more correct" price.

**Manpower**

Reserve Bank senior Deputy Governor Jan Lombard often said capital, the scarce production factor relative to labour, had been priced too cheaply because interest rates had been negative in real terms. Arguing this had resulted in a wasteful application of domestic savings, he said it had "seriously distorted the capital/labour ratios in the production processes. The outcome was lower employment, albeit at higher rates of output per worker, and a serious drop in capital's productivity."

Because capital was priced too cheaply, investment had been aimed at replacing manpower rather than increasing production and was aggravated by an overvalued rand.

"For an economy like SA, with its rapidly growing urban labour force and the heavy demands on its domestic savings, this trend is obviously heading in the wrong direction."

**Greta Steyn**

Concern about the "correct" mix of capital and labour in production was echoed by Bank Governor Chris Stals in his speech at the Financial Mail investment conference. It was used as an argument for positive real interest rates. However, some economists, including finance special adviser Japie Jacobs, argue that care must be taken not to underestimate the cost of labour when looking at relative prices of labour and capital to explain the mix. The argument is that the cost of industrial action such as strikes and stayaways should be added to wages to determine the cost.

Nedcor's Edward Osborn said it was unlikely too-low real interest rates had resulted in distorted capital/labour ratios — inflation relating to capital equipment had been so high that the interest rate factor could not have had this influence.

"It is more likely that the increasing cost of labour and the problems of dealing with unions have contributed to the trend. Otherwise the driving consideration with regard to the capital/labour mix is that of technology and efficiency."

Marais notes pay rises exceeding productivity increases can lead to labour being replaced by capital.

"The imbalance between wages and productivity has the negative effect of capital deepening replacing semi-skilled workers and increasing the demand for professional labour."

The mix of production capital and labour was probably the result of a number of factors — interest rates, wage rates, labour productivity, inflation and the exchange rate.

In the early '80s, SA was replacing labour with capital at a breathtaking pace. According to National Productivity Institute figures, the index for the capital/labour ratio (base 1985) in the manufacturing sector jumped from 85.5 in 1982 to 92.3 in 1983 and 100 in 1985.

There has subsequently been a sharp turnaround — ascribed largely to higher interest rates in 1985, a lower rand and a stagnant fixed capital stock. In 1987 the capital/labour index for the manufacturing sector declined to 97.6 and continued down to 91.1 in 1989. In this period, labour inputs remained relatively constant while capital inputs dropped.

**Additional**

In the manufacturing sector, fixed capital stock has declined in real terms every year between 1985 and 1988. Spending on fixed investment during the past upswing was largely to replace obsolete capital stock.

The ratio of capital-to-labour improved, but there was no meaningful increase in the employment of labour. The improvement lay in a more productive employment of capital.

Nedcor's Osborn predicts additional production in the mining and manufacturing sectors will not result in proportionate increases in employment. The additional production is likely to flow in the main from capital investment because of technological and efficiency considerations. The current focus on the capital/labour mix serves to highlight that the formal sector does not provide nearly enough jobs to absorb the growing number of job seekers. This is likely to be the case even if distortions in relative prices are removed.
HISTORY had shown that apartheid stifled growth, created mass unemployment and led to a situation that undermined living standards of the majority of the people, both black and white, ANC leader Nelson Mandela said yesterday.

He told more than 150,000 people packed into Soccer City in Johannesburg that only a participatory democracy involving all the people in the structures of decision-making at all levels of society could ensure that this was corrected.

"We will certainly introduce policies that address the economic problem that we face," he said.

He said the ANC was just as committed to economic growth as present employers claimed to be, but was also committed to ensuring that a democratic government addressed the inequalities caused by apartheid.

Much debate had been sparked off by the ANC policies on the economy relating to nationalisation and the redistribution of wealth, he said.

"We believe that apartheid has created a heinous exploitation in which a racist minority monopolises economic wealth while the vast majority of oppressed black people are condemned to poverty."

Expressing his alarm at the high crime rate, he said he was disturbed that there were "those who say they are part of our movement, who hijack and set alight vehicles — they are criminals."

He said SA was a wealthy country which had been built up by the labour of black workers who could not be excluded from sharing in the wealth.

"Our people need proper housing not ghettos like Soweto. Workers need a living wage and the right to join unions of their own choice and to participate in determining policies that affect their lives."

He called on employers to recognise the fundamental rights of workers and added that SA was marching to a new future based on foundations of mutual respect achieved through bona fide negotiations.

The ANC patriarch went on to urge all workers, black and white, to join hands in Cosatu.

On the issue of education, he said: "The crisis in education that afflicts us demands special attention. The education crisis in black schools is a political crisis, it arises out of the fact that our people have no vote."

"Education is an area that needs attention from all our people, students, parents, teachers, workers and all other organised sectors of our community. Let us build a united teachers' organisation, parents and inter-student organisations and the National Education Crisis Committee."

Mandela also condemned harassment of innocent people in the name of the struggle. "Our victory must be celebrated in peace and joy. I call on our people to take decisive action to end the mindless violence."

Mandela again addressed the issue of white fears, saying: "I am as opposed to black domination as I am to white domination. We must clearly demonstrate our goodwill to our white compatriots."

"A new SA has to eliminate racial hatred and suspicion and secure for all, peace, security and prosperity."

He called on whites to join the struggle for one man, one vote, based on a common voters' roll.
Govt delivers first response to Mandela

CAPE TOWN — Nelson Mandela's comments on nationalising mines and other sectors of the economy were naive and irresponsible, Constitutional Development Minister Gerrit Viljoen said yesterday.

However, delivering government's first considered response to Mandela's pronouncements since his release, Viljoen also welcomed the ANC leader's commitment to find a solution that addressed white fears of black domination.

That, in addition to the warmth and generosity Mandela had displayed towards President F W de Klerk, Viljoen said, boded well for future negotiations.

Viljoen said that despite Mandela's reaffirmation of support for the armed struggle, he believed it was clear the ANC leader was in favour of peaceful solutions.

He said Mandela's speech on the day of his release and subsequent statements had clearly been made within the confines of existing ANC policy.

"Much of ANC policy dates from a few decades ago and stands in need of urgent revision, in the light of recent developments in SA."

On the eve of the ANC executive's meeting to discuss a response to recent attacks by government, Viljoen said there was need for the organisation to match the large strides government had taken with meaningful steps.

He called on the ANC to re-assess its position on sanctions as well as to display a clear willingness to enter discussions with the government to remove remaining obstacles to negotiations.

Viljoen said he believed the violence at Sunday's rally on the Grand Parade here resulted from problems with crowd control rather than any willful action on the part of the ANC.

Asked if there was common ground between government and the ANC, Viljoen said: "I would say yes. I was particularly impressed by the formulation which Mandela used to couch his reply regarding concerns of whites... That statement bodes well for frank and reasonable discussions in the negotiation process."

But, attacking Mandela's statements on nationalisation, Viljoen said the NP would use the political terrain to pillory the ANC's economic policies.

He believed the debate on economic policies was strongly loaded in favour of those who believed in a market-oriented system which took into account the need to improve the quality of life of disadvantaged sections of the community.

Government accepted the need to expand services provided to communities that had been disadvantaged in the past. But, this could only be achieved by a strong economy which created the additional wealth needed for such advancement.

Nationalisation would result in a one-off redistribution. Thereafter those industries would run at a loss and the state would be distributing poverty rather than wealth.

Asked to explain what form minority guarantees could take, Viljoen said the NP...
Michael D. V. du P. Dowd's paper "Has Inequality Failed?" appears in the February 1978 issue of the journal 'The Economist.' The paper discusses the failure of modern socialism and proposes solutions to address economic inequality. Dowd argues that the economic policies of the 20th century have not achieved their intended goals and that a new approach is needed to address the challenges of the 21st century. The paper emphasizes the importance of individual freedom and market incentives in achieving economic prosperity and social justice.
Share prices crash on overseas sell-off

By Magnus Heystek
Finance Editor

Overseas selling of South African equities, evident since Monday morning after the release on Sunday of ANC leader Nelson Mandela, turned into an avalanche yesterday, resulting in sharp falls in share prices across the board.

Gold shares were particularly heavily marked down, with the gold index shedding 106 points to close at 1921.

The overall index lost 123 points to close at 3091.

Even industrial shares, which barely ten days ago went into orbit on news of Mr Mandela’s release, came in for heavy profit-taking. The index closed 84 points lower at 3051.

Mr Mandela’s statements on the nationalisation of mines went down like a lead balloon among international investors.

Since Monday the gold index has shed 250 points, with fears of widespread nationalisation of state and private sector assets by an ANC government taking hold in London and New York.

While local financial markets have been showing distinct signs of nervousness since Monday morning, yesterday’s panic selling in the afternoon session caught most brokers and analysts by surprise.

The market was flooded with selling orders from London and New York.

The failure of the gold price to breach the $420 level served convincingly to undermine further the already shaky sentiment towards gold shares, although a measure of support was noticeable during the last half-hour’s trading.

Gold was fixed at $416 in the morning session in London but dropped back further to an afternoon fix of $414.60. At the close gold was trading in London at $416.50.

On other financial markets the reaction to Mr Mandela’s position was the same.

The financial rand gyrated around R3,50 to R3.60 for most of the day, while the bellwether capital market rate of the Eskom L168 rose by another 25 points for the second day in succession to close at 15.75 percent.

The market was described as extremely nervous, with dealers unwilling to take any positions.

Sensible explanation

Analysts were last night trying to put together some sensible explanation for the reaction by overseas investors.

“For years overseas investors have been pressuring the Government to release Mr Mandela. Now that he’s released, they’re getting rid of our shares at any price,” said James Cross of the firm Fergusson Bros, Hall Steward and Co. He called it “a naive over-reaction”.

Most analysts agreed that Mr Mandela’s statements on nationalisation should not be taken literally, saying they were bound to be part of the ANC’s strategy in the run-up to negotiations.

Ron Klipin, an analyst at brokers Frankel, Kruger & Vinter, was particularly perplexed by the sudden turnaround in sentiment on the part of overseas investors.

“Last week they were clamouring to buy a stake in SA Inc at any cost; this week they are sellers of SA Inc on a massive scale.

“This reaction indicates an enormous amount of naiveté on the part of overseas brokers. They are focusing on the negative statements made by Nelson Mandela and are totally ignoring the conciliatory noises he is making.”

Local institutions were virtually absent from the market yesterday and Tuesday. But according to some dealers some “nibbling” at selected shares was noticeable later in the day.

But all were unanimous that the market would continue to be uncertain for an indefinite time, particularly with a non-performing gold price.

Genrec acquisitions bear fruit

By Ann Crotty

Genrec, which is involved in the construction, engineering and manufacturing industries, has reaped considerable benefit from the previous year’s acquisitions and reported a 93 percent surge in turnover to R252.7 million (R130.6 million) for the six months to end-December.

Operating profit surged to R8.3 million from R2.9 million and attributable profit was up from R2.9 million to R7.5 million, equivalent to earnings per share of 65c (28) a share.

An interim dividend of 12.5c a share has been declared.

The directors are confident that earnings in the second half will be higher than those achieved in the first.

This optimistic outlook is based on the fact that the tank container export market remains buoyant.

“This, together with the recent award of the Marion draglines and our share of the Hook-up contract for the Mosselgas offshore platform, has added in excess of R100 million to the forward order book,” they say.
Nationalisation unlikely—G. Relly

LONDON — There was little chance that an ANC-dominated government would carry out a wholesale nationalisation programme, Mr. Gavin Relly, chairman of Anglo American, suggested yesterday.

He said his contacts since 1985 with ANC leaders had convinced him that their position was that they would do better by private enterprise.

Mr. Relly said: "Our neighbours in southern Africa are acutely aware that if the South African economy doesn't prosper they don't have a snowball's chance in Hades."

He insisted that a Whitehall-style democratic government, with its winner-take-all constitution, would not work for South Africa because it would lead to a one-party state and one-party states were economically incompetent.

United Democratic Front official Mr. Terror Lekota told a press conference in Washington the future government would have to nationalise sectors of the economy to raise capital to buy land for black housing and improve education.

Mr. Lekota said the UDF was looking to various countries for resources, in particular Britain and the US. It also planned to encourage blacks to occupy empty, white-owned Government land in defiance of laws.

— Financial Times News Service.
Scuttles of skittish investors

GRAHAM LINSKOTT reflects on sensitive stock markets in the face of populist political speeches.

Former president Mr P.W. Botha makes a speech in Durban City Hall and they have to close the stock exchange to halt the deluge of funds from the country.

Mr Nelson Mandela makes a speech from the balcony of the Cape Town City Hall and the financial rand plunges 14.5 percent.

I did not think Mr Mandela's speech particularly hardline, given the circumstances (release from 27 years in jail for offences which were trivial in comparison with much of what has happened since), his audience and the fact that with him on the platform were some of the angriest men of South African politics.

But, as with Mr Botha, the television cameras of the world were on him. And overseas investors take no account of the subtle pressures on political figures, the nuances of what they say.

Overseas investors calculate profit against risk. They are highly sensitive to the risk factor, positively skittish. Populist speeches might not be intended for their ears, but they reach them — not least when the vicinities bristles with the microphones of the international media.

Post-apartheid South Africa is going to require reconstruction on a massive scale. Nobody is going to supply Marshall Aid — that is headed for Eastern Europe.

The only way we will attract funds is by our good news as an investment opportunity. Those skittish investors dislike even rhetoric about populist struggle or nationalisation of private sector enterprises. They scuttle away in a trice.

South Africa could obviously be very close to negotiations to set us on the high road. But nothing meaningful can be negotiated in the absence of business confidence and steadily spreading prosperity.

Following from the above, it would surely be helpful if we were not to become bogged down in a national debate over the desirability or otherwise of nationalising such institutions as the mines and banks.

It is not so much that public ownership has proved a disaster in the countries where it has been tried (and there are many, not least the Soviet Union and mainland China).

It is that the question is hypothetical. It implies that the present government is about to negotiate such matters with the ANC.

It surely is not. The Government plans to involve the ANC in constitutional negotiations leading to a new form of government.

It is only once this has been achieved — and it is likely to be a protracted process — that it becomes relevant to debate whether South Africa can become the one spot on Earth where Marxism-Leninism can be made to work.

Meanwhile, investors get the jitters all the same.
NATIONALISATION UNLIKELY

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Mr. Rix said: "Our neighbours in southern Africa are acutely aware that if the South African economy doesn't prosper they don't have a snowball's chance in Hades."

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Mr. Lekota said the UDF was looking to various countries for resources, in particular Britain and the U.S. It also planned to encourage blacks to occupy empty white housing. and Government land in defiance of laws. — Financial Times News Service.
WCTA supports seizing of state assets

The Western Cape Traders' Association (WCTA) says it fully endorses and supports the ANC's intention as a future government in South Africa to reclaim state assets such as Inkor.

In a statement yesterday, Mr. Dawood Khan, spokesman for the WCTA, said his organisation would "go so far as to state that no compensation be made in cases of such reclamation of state assets." WCTA also strongly favours a mixed economy with the emphasis on the redistribution of wealth and "will therefore totally support nationalisation."

"As a major player in the economy of the Western Cape, WCTA will ask a future ANC government that the development of the Victoria Basin by a small group of whites for the benefit of a few wealthy whites be reclaimed and 'nationalised without compensation,'" Mr. Khan said.

Mr. Raymond Parsons, director-general of the SA Chamber of Business, said that the ANC's current economic views are hardly a recipe for survival in a highly competitive world.
Market must adapt to needs of the people

By GORDON KLING
Executive Editor

DON'T blame Nelson Mandela for the alarming slide in share prices on the Johannesburg Stock Exchange since his release.

He has said nothing particularly unexpected, unreasonable or detrimental to the economy. The market should look to itself if Mr Mandela's broad reiterating of ANC policy on nationalisation of the mines and monopoly industries was responsible for the price decline and bear in mind, too, that the JSE is still standing at near-record highs.

Who could possibly expect the arguable leader of most South Africans to come out strongly on the side of an institution which far from relating directly to the vast majority of the population, white or black, is effectively dominated by a handful of business magnates?

Latest research by McGregor's On Line Information shows that only four groups — Anglo American, Rembrandt, SA Mutual and Sanlam — control 80.7% of the market capitalisation of all shares on the JSE. Only a minuscule percentage of those shares ever change hands in a given year and most of that trade is conducted by the groups themselves. The JSE is, of course, simply a reflection of a badly distorted economy controlled by what is seen by the disaffected majority as an unholy alliance between government and big business; an old boys' club that appropriates the wealth of the land according to its own priorities.

Since they effectively own the thing, gloom on the part of big business has to be self-fulfilling on the JSE.

On threshold

Certainly events in Eastern Europe have proven the ruinous folly of communist and socialist centrally planned economies, but the masses in South Africa clearly do not believe they have fared appreciably better under a system masquerading as the opposite. The ANC has evidently not updated its economic policy in the wake of that juddering collapse with its massive implications but, as Alex Irwin, one of its key theoreticians, made clear at Madame Mummertad's Marly-le-Roi conference, now is no time for slogging economic rhetoric.

We don't have anything like a genuine capitalist, free enterprise system in South Africa. We have failed totally to involve the majority in the fruits of the free market system. And while it is dismaying widely appreciated that the communist economic model could never work, few blacks could be ex-

pected to accept that the past 41 years of Nationalist apartheid rule has been a threshold of great opportunity.

So-called capitalism in South Africa hasn't done enough for enough people.

Yet here lies the rub. The system does work. We just haven't tried it, despite the urgings of an almost sympathetic financial Press. Ask yourself: who do your friends work for? If you are white, the overwhelming odds favour the answers government, parastatal or big business. Your financial security is closely intertwined with the performance of mega-taxpaying big business on the JSE, the performance of which also directly affects your pension and insurance policies.

Progress

If you're black, it probably doesn't matter at present and anyone black leader would have to recognise the fact that the performance of the JSE is not the barometer it should be for the economy.

Progress has been made by Anglo American and others on extending the principle and benefits of share ownership to employees but most whites don't own shares in their own or any other company, virtually no blacks do.

So why all the fuss over how the market is doing?

For starters, we ourselves don't generally realise what warped capitalists we have become. If we did, we might begin to appreciate that no transition could be much worse financially than what we've had: a pariah economy badly administered by an unrepresentative, racist, minority government on behalf of a hamstrung business clique incapable of generating sufficient growth for reasonable employment levels let alone higher standards of living for those with jobs.

The capitalist West might have understood our difficulties but that didn't make SA a better investment, and if our past performance has bred a backlash against the real thing, the free market system, they would be correct to fear for our future.

And why the grave mutterings in the marketplace over any suggestion of possible action against the big business cartels?

If the American administration could use anti-trust laws to actually break up a gigantic conglomerate such as AT&T, we should be able to withstand the possibility of deconcentration of economic power in the private sec-

Mixed economy

Gung-ho free marke-

teers don't like the idea of a mixed economy, arguing that the free enterprise system can provide better opportunities and eventually sort out distortions by itself. Correct. But years of unfathomable inequity have debased the ideal, hope fully only in the short term. Instead, the "mix of the mixed economy" is probably what the future is all about and there is every reason to believe it should be an improvement on the phony capitalism of the past.
Letters

Henry Kenny

To Give to the Greedy
Taking from the Rich

Nationalisation:
Where are they now?

The more mention of the word "nationalisation" by Mr. Nelson Mandela has sent share prices tumbling on the Johannesburg Stock Exchange and not surprisingly, exponents of free enterprise, including latter-day converts in the National Party, have urged the ANC to think again. But their tut-tutting has done nothing to help Mr. Mandela and the ANC find a viable alternative to a problem which is encapsulated in the statistic 0.66.

This is the Gini coefficient for South Africa, a formula widely used around the world to measure the degree of inequality between a country's rich and its poor. Of the 57 countries for which statistics existed in 1979, South Africa's Gini coefficient was the highest and, since then, fulfilling the old maxim, the rich have got richer and, relatively, the poor have got a lot poorer.

To think that a future government acceptable to the black majority would not take vigorous and effective steps to redress the balance is wishful thinking.

"Some comparisons used in last year's Second Carnegie Report into Poverty and Development: Almost 98 percent of black households in 1975 had no annual incomes of less than R3 600, but only 11 percent of white households had incomes that low. Although South Africa produces enough food to provide well over 6 000 calories per person for the entire population (more than double the recommended level), the death of one out of every seven black children under the age of five is caused by inadequate nutrition.

In 1970 the richest 20 percent of the population (mainly whites) owned 75 percent of the country's total wealth and while this declined to 61 percent during the 1970s, the total number of poor (mainly blacks) rose from 13-million to 18-million through the natural increase in population.

What all this represents is a daunting political challenge to the ANC (or any other party) which would hope to secure the support of the black majority."

It is a challenge proportionately far greater than that which faced the National Party when it tackled the white poor problem in the wake of the First Carnegie Inquiry into Poverty — and about which those NP spokesmen who have raised eyebrows at Mr. Mandela's mention of "nationalisation" now have little to say.

The NP's antidote to white poverty was a form of socialism. Massive state-funded industries were launched, which provided employment (and in many cases sheltered employment), housing, medical care, and pensions primarily to whites. The public service, likewise, was relentlessly expanded to the point where today, one out of every 27 South Africans has a state job and the numbers keep growing.

Regulation

For decades central planning regulations who could get what jobs, specifically excluding people of colour.

While the Western world moved away from regulation, South Africa, in common with the Marxist countries, moved towards tighter state controls aimed at protecting white interests. After all, how long does it take the state enterprises to form a state monopoly to the central business districts, were opened to entrepreneurs of all races?

Even now, when the NP is rushing to change direction, the extent of its past socialist excesses can be seen from the fact that a former state enterprise like Sascor sold itself out of all the companies on the JSE in terms of taxed profit in the very year of its "liberation."

Perhaps some of those who influenced the contents of the Freedom Charter looked with some interest at the NP's methods of addressing white poverty. After all, at the time of the Freedom Charter's genesis, socialist doctrine still enjoyed a degree of respectability and it was possible to point to some modest achievements in the Soviet Union, Eastern Europe — and white South Africa.

But the world has changed and Marxism has been rejected as a means of creating general wealth in those very countries which embraced the doctrine most assiduously.

This, however, does not solve Mr. Mandela's and the ANC's problem. They still need to put forward a plausible plan for channeling far more of South Africa's wealth to the black majority — or else, translated into political realities, they will be smartly booted out.

Free enterprise is held up to them as the "capitalist" but as many of the leading exponents of free enterprise acknowledge, the concept does not enjoy a scintillating reputation among blacks.

While some would argue that free enterprise has not been given a decent chance in South Africa and that the country is only just emerging from the Marxist-like shackles of the past, the fact is that the exponents of free enterprise have failed to put forward a plan which can attract popular black support.

Allure

"Nationalisation" and socialism have a potent allure for people who have gained little or nothing from an economy they perceive as having been "capitalist" so far. And above all, free enterprise has been done a savage injury by being adopted as the credo of those who have enforced apartheid.

If a preferable alternative to "nationalisation" does exist, its proponents would do well to get off their derriers and do something to popularise it, rather than expect Mr. Mandela and the ANC to come up with an alternative for them.

Organised commerce and industry did not lack the temerity to plunge headlong into the political waters during the tricameral referendum — on the side of the sinners.

So, where are they now?

Simply saying that socialism has failed in Eastern Europe is a soggy answer to a towering problem; a problem which the exponents of free enterprise will have to solve — or allow the scions of socialism to do the job for them.
No quick fix for SA — Du Plessis

The Government would be doing future generations a great disfavour if it began following soft options in the economy now, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said in reply to debate on the Part Appropriation Bill that Mr Cecil Herandien (DRP Macassar) had complained that house payments, food prices and GST were too high, and that the State's ledgers should not operate to the detriment of the man in the street.

This was, however, the most shortsighted policy one could follow.

Governments elsewhere in the world which had gone for the soft option and did not apply monetary and fiscal discipline had inflation rates of several hundred percent.

The process of removing that which was bad from the economy would unavoidably be painful, Mr du Plessis said. — Sapa.
Gap in education spending growing

Government spending on white education is four times higher than on black education, according to the Democratic Party spokesman on black education, Gardens MP Mr Ken Andrew.

This massive and growing gap emerged from the latest figures, he said in a statement.

He said an average of R3,082 was spent on every white child, while only R769.73 was spent on every black child.

Per capita expenditure on every white child grew by R380, while that of every black child by only R169.
ANC policies on industry just theft — Du Plessis

Political Staff

The ANC's economic policies amounted to nothing other than theft, Finance Minister Mr Barend du Plessis said yesterday as the government stepped up its attack on the organisation for propagating the nationalisation of mines and other sectors of the economy.

Speaking in Parliament, Mr Du Plessis said that following the reaction of the markets to Mr Nelson Mandela's statements on nationalising mines, the ANC leader should now realise the danger of indulging in such loose talk.

He said there was no shortage of development opportunities in the newly industrialised world and in Eastern Europe and it should be accepted that only a small portion of development capital would be available for investment in sub-Saharan Africa.

South Africa could not afford to create suspicions that it would change its economic policy away from a free-enterprise system to a "socialist system with nationalisation and that kind of theft," he said.

Earlier, Mr Du Plessis said attempts to isolate South Africa were crumbling. Sanctions had not brought the country to its knees and it was a mistake to think President F W de Klerk had been forced by them to make concessions.

He agreed with other speakers that there were tremendous gaps in income, wealth and standards of welfare in the country, but said it had to be realised that before SA could begin redistributing wealth it had to be created.

Only the free-enterprise system, which allowed people to exercise their talents, would be able to achieve this.

Referring to criticisms of state pension funds, Mr Du Plessis said commercialisation of these funds would have to be carried out with great circumspection.

It had to be borne in mind that these funds had only been able to invest in government bodies.

As compensation they had been given a larger contribution from the exchequer than would otherwise have been the case.
Nelson Mandela's "nationalisation of some sectors of the economy is unavoidable."

The government will have to take steps to nationalise certain industries in order to develop a comprehensive national strategy for economic development. This strategy will include the nationalisation of certain sectors of the economy, which will be implemented in a phased manner.

The government believes that this approach will ensure a smooth transition to a fully nationalised economy, while respecting the rights of workers and ensuring that the economy is run efficiently.

The opposition has expressed concerns about the government's decision to proceed with nationalisation, arguing that it will lead to a loss of jobs and a decline in economic growth. However, the government remains committed to its nationalisation strategy, which it believes is necessary to achieve economic independence and self-sufficiency.

In summary, the nationalisation of certain sectors of the economy is a crucial step in the government's plan to develop a strong and sustainable economy.

Baragwoko

BY JOSHUA

BLACK BUSINESS NEWS
Nationalisation is theft — Du Plessis

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Earlier Du Plessis said attempts to isolate SA were crumbling.

Sanctions had not brought the country to its knees and it was a mistake to think President F W de Klerk had been forced by them to make concessions.

While financial sanctions had forced a ceiling on SA’s ability to grow, the country was now returning to a period of higher growth.

The process of removing what was bad in the economy would undoubtedly be painful, but SA could not afford to follow soft options.

Du Plessis agreed with other speakers that there were tremendous gaps in income, wealth and standards of welfare in SA.

But it had to be realised that before SA could begin redistributing wealth it had to be created.

Only the free enterprise system which allowed people to exercise their talents would be able to achieve this.

Referring to criticisms of state pension funds, Du Plessis said commercialisation of these funds would have to be carried out with great circumspection.

It had to be born in mind that these funds had only been able to invest in government bodies.

As compensation they had been given a larger contribution from the exchequer than would otherwise have been the case.

With the pension funds moving in the direction of defined contributions — away from the present system of defined benefits — the burden of generating this compensatory amount would shift from the exchequer to investors in the funds.
Numsa focuses on economic future

A dividend of 21c (22c) a share has been declared.

The adoption of a common NEC platform makes sense, but with many determinations in the labor field, the future looks dim.

South Africa's economic future was under threat.

Workers, in support of the NUM's union of miners, are on strike. Construction. With regard to specific industries, the NUM's members will stop working. The NUM's members will stop working.

NUMSA focuses on economic future
Mandela dismisses business concern over nationalisation

SOWETO — Nelson Mandela yesterday dismissed the concern which the ANC's commitment to nationalising big industries has caused South Africa's white business community and foreign investors.

"The question of nationalisation is being looked at from the white point of view alone, and not from the point of view of the whole country. That is why they are turning these somersaults," Mandela told international journalists.

He said white South Africans, who had previously supported state ownership, had now started to back privatisations because of the growing prospect of blacks winning a share of power.

"The whites are now changing their minds, saying let's privatise, because they want to keep wealth to themselves."

Mandela said blacks could not benefit from the sell-off of state assets, only the wealthier whites.

Since his release on Sunday, Mandela's backing for the African National Congress (ANC) policy on nationalisation of mines and other industries has perturbed foreign investors, prompting heavy selling of South African stocks and bonds.

Stockbrokers said foreign investors had suddenly got cold feet after enthusiastically buying South African stocks in expectation that the changes would lead to an easing of foreign sanctions and economic recovery.

"There has been an overreaction," Ron Klipin, analyst at brokers Frankel, Kruger Vinderine Inc, said of the sell-off.

South African analysts said they were baffled by the intensity of foreign reaction to Mandela's comments, in which he has merely restated long-standing ANC policy on the economy.

They said Mandela could not dissent from agreed policies of his movement and anyway needed to preserve such principles intact as ammunition for when he reached the negotiating table.

"The problem is that when these shares are in such a high-risk price area, any little spark could set them off," Nick Goodwin, of stockbrokers E.W. Balderson Inc, said.

If prices had been lower and stable, Mandela's comments would have had little effect, but South African shares, and especially gold shares, were overbought, Goodwin added.

"My view is that the market is still dangerous" he said, adding further sharp falls were possible — Sapa.
Finrand cushions JSE share losses

By Derek Tomney

It was only a week ago the business world was speculating that the financial rand could soon disappear.

That was after State President FW de Klerk's speech at the opening of Parliament which caused euphoria among foreigners.

This week the business world was extremely grateful the financial rand was still around to protect once again the value of their investments from panic selling by foreigners.

Since Nelson Mandela repeated his call on Sunday for the nationalisation of several major industries, share prices have fallen sharply on the JSE.

His call has created considerable uncertainty in investment circles overseas.

Many people there are not quite sure what he means by nationalisation — whether he intends to compensate the owners of the assets or simply to seize them if he achieves power — and do not want to take any chances on the latter being the case.

The situation has not been helped by the statement in Washington yesterday by UDF official Terror Lekota.

He said a future South African government would have to nationalise sectors of the economy to raise huge amounts of capital for black housing and education.

The fact that he is planning to sell what the Government does not own did not clarify matters.

It is possible it was the cause of the further heavy selling of SA gold shares in New York last night, which gave prices a further push lower.

So far the prices of gold shares on the JSE have fallen 14 percent since Mr Mandela's speech.

But overseas the losses have been much greater. In London, the Financial Times gold share index has fallen almost 25 percent since the middle of last week, and the prices of many SA gold shares have fallen by even larger amounts.

In New York, the price of SA gold investment share ASA has fallen almost 20 percent, as have the prices of SA blue chips Anglo American and Angold.

These heavy declines have knocked millions of dollars from the prices of SA shares listed overseas. But so far SA investors have been cushioned against these large falls by an almost 15 percent decline in the financial rand.

Without this decline from R3.19 to the dollar to R3.74 last night, losses on the JSE would have been on a par with London's almost 25 percent.

Brokers in Johannesburg say that almost all the panic selling was from the US.

Obviously the perception there about what was likely to happen in South Africa has changed dramatically since Sunday.

But South African investors are accustomed to rapid changes in sentiment by foreign investors.

So, for the time being, local investors are using the lower prices to pick up bargains.

The institutions are in the market and a fair number of gold shares are believed to be going to the Old Mutual's new gold unit trust.

However, South Africa badly needs foreign capital and it is a fact of life that once foreign investors leave, few come back.

Such shocks as the market has experienced in the past few days have long-term detrimental effects.

Jessie Jackson, the visiting American politician, in describing Mr Mandela yesterday, said: "When he speaks, share markets tremble."

One wonders whether Mr Mandela really wants such a reputation.

- Local brokers are concerned about the failure of the gold price to break above $420.

Whenever it reaches $430, heavy selling develops and knocks its back down again, a broker says.

While this happens there is little incentive for investors to hold large stocks of gold.

However, the ability of the market to absorb the heavy selling without the price falling below $400 is seen as a factor favouring gold in the medium and long terms. It seems that $400 can now be regarded as its floor price.
'Public now pays about 30% GST' (pq)

About 1.7 percent of the total tax-paying public pays 73 percent of the country's tax. Deputy Minister of Finance Mr Org Marais said yesterday.

Speaking during the second reading on the mini-budget, he added that the State must spend its money more efficiently.

SA gold-mines were taxed 78 percent while Australian gold mines had, until this year, not been subject to any tax. That would change this year.

Tax evaders were also a big problem in SA, but it was not a good idea to raise personal tax.

"We must also give attention to the phasing-out of general sales tax," Mr Marais said.

GST higher than 10 percent led to tax evasion and put pressure on the retailer.

Ultimately, the public was not paying 13 percent GST; but almost 30 percent because the product had been taxed at every stage it went through before being sold to the public.

To audit GST was almost impossible because of the number of inspectors needed.

If the Government administered its expenses well, and the correct tax system was used, "we can look at extras for health and education." — Sapa.
Agricultural production rises

GDP shows 2,1% growth

By AUDREY D'ANGELO
Financial Editor

SA's gross domestic product (GDP) for 1989 was 2,1% — down from 3,7% the previous year — figures released by the Central Statistical Services (CSS) show.

There was a real increase of 10,3% in production by the agricultural sector, which contributed 0,5% to the growth rate. Without this, the drop in total GDP would have been even sharper.

"The real GDP for the non-agricultural sector was only 1,6% in 1989," the CSS points out.

The mining sector showed almost no growth in the course of 1989.

The director of the Stellenbosch Bureau for Economic Research (BER), Ockie Stuart, said these figures would cause some businessmen to urge the government to stimulate the economy "after this substantial slowdown".

But, in spite of the danger that rising unemployment went hand in hand with unrest, he thought SA could not afford to relax monetary policy at this stage.

"Given the need to rebuild our reserves, and possibly a continuation of the high capital outflow, there is a need for our strict monetary policy to remain in place."

Stuart said that, even without much stimulation, he thought the economy would continue to grow at a rate of 1%.

"Any additional stimulation could result in too high a rate of growth."

Discussing the effect of politics, Stuart said it was possible that, as the year went on, additional tensions would develop between the left wing and right wing.

"But foreign attitudes towards SA are bound to improve."

Glenn Moore of Personal Trust said the uncertainties of the political situation made it almost impossible to forecast what would happen in the current year.

"With the present slowdown in the economy, it would be reasonable to expect the decline to continue into the third or fourth quarters."

"But it is a brave man who will make a forecast today, given the present political factors."

"There is a possibility of a quicker recovery in our economy if the world authorities see the State President's speech, and the changes taking place, in a favourable light. Growth would be much faster if the pressure on our balance of payments (BoP) were relieved."

"On the other hand, Mandela and the ANC have come out with a slightly different perspective. Mandela's statements on nationalisation are causing uncertainty and a great deal will depend on the reaction of foreign bankers."

Moore pointed out that there was a risk that the government might have to resort to "military type action" to keep unrest under control and this would have an effect on world opinion.

He was also concerned by the fact that long bond rates were moving up in West Germany, the US, Japan and Britain. This indicated inflationary expectations "and long interest rates have a habit of pulling short-term rates up with them."

If interest rates rose overseas it might mean another rise in interest rates in SA, instead of an expected decline by mid-year.

But Stuart said he was confident that SA interest rates had peaked, and would come down this year.

"Stats is on record as saying that interest rates will depend on the rate of inflation, and inflationary pressures now are downwards."

FRIDAY, FEBRUARY 16, 1990
ASSESSING THE RELEASE

Social costs, indeed

Nelson Mandela's release, despite the needless deaths and violence it has entailed, cannot be anything else but the best of news for this country. He was incarcerated for far too long; he and his supporters' exclusion from political involvement has not been to our benefit; and the material deprivations caused by the social policies under which his imprisonment occurred will have to be addressed with reparation.

That, today, is common cause among the majority of people in this country. But the harsh reality is that, if the outdated and discredited policy to which he stubbornly adheres — the nationalisation of the mines, banks, and "monopolies" — is applied here, social wrongs cannot be righted nor adequate reparations made.

There is overwhelming evidence to show from OECD countries that the lower the share of governments' spending as a proportion of the value of total output (GDP), the better those governments are to finance consistently — and to sustain — a high level of social spending.

In some European social democracies, where government spending has risen and nationalisation has been actively pursued, national debt is in consequence roughly equal to GDP. Consequently, there is a danger, in countries like Italy, that in the years ahead the cost of servicing national debt alone will spiral out of control.

But, to be more specific: according to the JSE Actuaries Index, the market capitalisation of shares listed in Johannesburg exceeds R150bn — of which 28% represents gold mines, 14% other mines and 19% mining houses and mining holding companies. Banks, financial service companies and insurance companies amount to 6%. The combination accounts for two-thirds of the total amount of shares.

If the mines were nationalised, the mining financial companies, if not included, will in any event probably disappear. The size of the JSE would shrink to a fraction of what it is now. The ability of insurance companies, pension funds and unit trusts to meet the expected needs of their policyholders and members — let alone shareholders — will be drastically curtailed.

Foreign investors would disinvest. The rand would be devalued to a fraction of what it is now. And foreign banks would press for repayment of their loans more rapidly than even the temporary standstill agreement allows.

This country's financial services industry, which provides not only pensions and other forms of savings but millions of jobs for blacks as well as whites, would virtually collapse. It would, indeed, be ruined.

Without foreign capital or the savings mobilised by the financial services industry, with skilled labour in shorter supply and wage costs rising, the outlook for the gold mining industry is indeed grim. The average life of existing gold mines is relatively short.

It is essential to open new mines so that they come into production by the year 2000 if the closure of existing mines is to be offset. Most new mines are expected to be very deep and cost between R2bn and R3bn at today's prices. They will cost much more as time goes on, at a 15% annual rate of inflation, just about doubling in five years.

There is no time for us here to just muddle through and relearn the lessons of the Sixties and Seventies. The population of this country is expanding rapidly and we have one of the fastest rates of urbanisation in the world. If the wrong economic decisions are made over the next few years, the abject poverty that ubuntu has brought to central Africa is a certainty, not just a possibility.

Moreover, in order to foster prosperity, this country needs substantial and continuing investment in such social needs as education, health and housing. Without re-investment in mining and banking, there is no hope of the economic growth that alone will provide the welfare with which for that social expenditure.

Whatever Mandela has been doing for the past 27 years, he has not been studying either elementary economics or the SA economy. To stand on the Grand Parade on Sunday and say that our economy has collapsed is nothing short of ignorance. Mining and banking are the cornerstones of this economy; they are the creation of free enterprise and they have transcended the constraints of apartheid. Let him nationalise them and then see what economic collapse really means.

The sooner Mandela gets to eastern Europe and central Africa to see the consequences of the policies he advocates, the better for South Africans of all races. Indeed, India, where poverty today is probably, in relative terms, worse than it was under the British Raj and where the growth of nationalised industries has not led to a remotely adequate system of social services (if they exist at all), would be a good place to start.

But perhaps the most depressing point of all is what Mandela's statements on nationalisation indicate for his strength of character, intellectual vigour and quality of leadership, a subject on which we dwell in the next article. It took a hoary old Marxist like Joe Slovo to qualify the remarks of a man from whom so much had been expected for so long.

Mandela is right in one respect. He is certainly no messiah. Maybe he is, as he says, no more than the servant of his own party — and captive to his own ideology. But if he adheres to the views he expressed this week, which appear not to have advanced since he was jailed in the Sixties, he is certainly not the servant of all the people of this country, which is no more than we had modestly hoped from him.

No wonder there was a sharp reaction in the price of the financial rand as foreign investors weighed up what he had to say. There will be many who will argue that we are insufficiently understanding of the man after his long incarceration. That may be so. But it was Mandela himself who, in his first public speech, referred to harsh realities.
The acceptable face of possible nationalisation

The acceptable face of possible nationalisation

The acceptable face of possible nationalisation

The acceptable face of possible nationalisation

The acceptable face of possible nationalisation
Mellow views

A veteran communist and old ANC member, banned for nearly 40 years, believes Nelson Mandela and the ANC may not be seriously considering nationalization.

Rowley Arenstein (71), a former attorney until he was disbarred in 1967, was freed of restrictions on February 2 when President FW de Klerk unbanned the Communist Party. Since 1953 Arenstein has had several banning orders served on him, spent 18 years under house arrest and served a four-year jail sentence for furthering the aims of communism. He now holds views broadly supportive of recent political reforms in the country, though he remains a committed communist.

He worked with Mandela in the Congress Movement before the ANC leader was imprisoned. He was already a member of the

Arenstein says he hopes to return to a legal career and expects his wife will start writing again. Their two daughters are attorneys.
Whither the economy of a future SA?

With the face of South Africa changing rapidly, decisions about the future economic system of the country are of crucial importance. Special Correspondent GRAHAM LINSCHOTT reports on the debate as raised in a recently published book, *The political economy of South Africa*, edited by Elisabeth Ardington and Nicoli Natrass.

"If there is to be a settlement soon, it will have to be along socialist democratic lines. History has taught us this system can radically limit both economic and political exploitation and domination, and at the same time maintain a high rate of economic growth.

"Although capitalists would for obvious reasons prefer a free-market economy in which their position was much more dominant, they could live with this type of compromise. It is, therefore, a system which is likely to meet the minimum aspirations of all concerned."

Le Roux says a social democracy in South Africa would initially concentrate on high return areas such as education, primary health care and basic housing. It would have to be financed by taxes on wealth, taking care that taxes were not raised to a level where economic growth was undermined.

He says if the country were to once again achieve a growth rate of five percent per annum, and taxes were structured to channel one percent of this growth to the benefit of the (mostly white) middle classes, the income of the (mostly black) poor could grow by 10 percent per annum.

"Clearly those at the bottom of the ladder would benefit more dramatically than those at the top. But virtually all would benefit relative to what their position would be if there were an extended siege economy followed by a radical socialist system," he says.

Le Roux accuses both the free marketeers and the radical socialists of being trapped in obsolete 19th century thinking.

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The address is: The Council Secretariat, SA Media Council, PO Box 5222, Cape Town 8000. Telephone: (012) 461-7117. Inquiries are welcomed.
We must empower the poor

Chairman of the Urban Foundation, Mr Jan Steyn discussed the role of the public sector in community development when speaking at the University of Port Elizabeth yesterday. The following are excerpts from his speech:

This subject arouses as much political passion as any other in the debate about the future of our country. It does so because it is essentially about the desirable level of State involvement in public affairs — the level of "socialism" in a mixed economy.

In any modern, complex State, government's role is essential. Indeed, modern society cannot be contemplated without acknowledging the role of a professional service bureaucracy.

At the same time, however, public sector bureaucracies can become imperious, can grow to proportions that drain a society of capital and manpower resources, and can lose sight of their essential and only purpose — serving the public.

There must be a norm or criterion by which their performance is judged. For business organisations, this criterion is the balance sheet. With non-business organisations, there is no such clearly defined standard of performance.

For the public service, there are non-technical criteria — whether the needs of the public are being addressed, whether the service is appropriate and whether the public recognises it as such.

Nationalisation

Some political parties support the nationalisation of major industry and commerce as a means of finding the resources to fund welfare and job creation programmes.

Not only will this frighten off external investors, but the first in-line to demand benefits from nationalisation are usually the well-organised employees of such companies.

After allowing for the demands of employees and the profits that must be re-invested to ensure efficiency and growth of the company, very little remains for government to spend on general welfare.

If one adds the further fact that as has been demonstrated in South where, nationalised industries are often inefficient and wasteful of resources, the result is that nothing at all remains to be distributed to the very poor and the unemployed.

Governments must make sure they do not crowd-out private initiative. More than this, they should facilitate the initiatives of others by providing a framework for development that is flexible and open to innovation. They should also maintain funds that can be employed as "leverage" money to encourage communities and organisations to become involved in development.

I believe there is a very real danger that the problems of South Africa's marginal poor will not be fully or adequately addressed under the present or any future Government unless the voicelessness of the very poor communities is addressed.

Measures

Special measures need to be taken to tailor programmes to particular needs.

Governments must make sure they facilitate the entry into development of non-government organisations (the non-profit or voluntary sector), the profit-making private sector and local communities.

The State has the responsibility to create the environment in which private initiative can be made visible. There is a need for the creation of a sound urban and regional development policy and the establishment of supportive and responsive institutions.

The task cannot be performed by the State or private individuals on their own. Each must play its role in co-operative ventures.

These might include the establishment of urban and regional development funds, the training and development of personnel with the capacity to provide technical assistance to local development projects and to co-ordinate the efforts of local communities, non-governmental organisations, the State and the business sector.

Professional staff should work within these networks and have the backing of a metropolitan or regional development fund. The money from this fund should be deployed in co-operative ventures with communities, business and non-governmental institutions. State funding should be used inter alia in such a way as to make private efforts visible, affordable and larger in scope than they otherwise would have been.

The employment of local people and the involvement of local people on steering committees for the projects are essential.

After the momentous events of the past weeks, we can look forward to a process in which a new nation will be built and the basic elements of democracy established.

The huge inequalities in our country and the depth of need and deprivation in our large and economically marginal communities make it essential that we should go further than the standard approach to development in both capitalist and socialist systems. We must forget about slogans and outmoded theories of all kinds. We must bring our poor people in from
Mandela comments on market fall

THE adverse reaction to the issue of nationalisation showed that whites were reluctant to achieve a real settlement in this country, Nelson Mandela told SA journalists during a media briefing at his Soweto home yesterday.

He was responding to the flurry of activity on the stock markets caused by his statements earlier in the week that he still believed in nationalisation of the key mining and industrial industries.

"Nationalisation has formed part of the history of this country. Nationalisation exists. That's why the government is into privatisation now."

He said government moves to privatise would deprive a future black government of the resources to address the issues of poverty and housing shortages.

"Where do we get capital if we don't nationalise?"

Sapa report he emphatically rejected government's new attitude towards the economy.

Asked if the country's 5-million whites would have to change their lifestyles under an ANC government, Mandela said they had already begun the process.

"Whites in this country are a very important section of the community and without them, without their co-operation, we will have immense problems."

"That is why we are so keen to ensure that the changes we are demanding are not going to mean domination of whites or blacks," he said.

See Pages 10 and 11

Comment: Page 10
Agriculture boosts growth in GDP

By Sven Linsche

South Africa's gross domestic product for 1989 grew by 2.1 percent compared with the previous year, figures released by the Central Statistical Services yesterday show.

The growth rate in 1988 was 3.7 percent.

The CSS said that the growth rate of 2.1 percent was mainly due to rapidly improved agricultural conditions.

Real production of the agricultural sector increased by 10.3 percent in 1989 and contributed 0.5 percent to the total growth rate.

Quarterly GDP growth (1985 prices).

The real GDP for the non-agricultural sector was only 1.6 percent up in 1989 compared with 1988. The mining sector in particular showed almost no growth during the course of 1989.

The rates of increase in growth in the non-agricultural sector started to decline during 1989 and showed an actual decline of 1.6 percent in the fourth quarter after a 1.2 percent rise in the previous three months.

However, real output over the quarter was virtually unchanged from the previous quarter, and although economists generally expect a further drop in GDP in 1990 as the austerity measures begin to bite, the economy is undoubtedly heading for a soft landing and not for a recession.

A growth rate in GDP of between one and 1.5 percent has been forecast for this year.
De Klerk 'has opened door for real equality'

Economy faced ruin, Cape chamber claims

CAPE TOWN — The South African economic situation had come "very close to a disaster for industry, business and the country", the Cape Chamber of Industries said in a statement yesterday.

Past economic policies had not been to the best advantage of the "current players" in the economy and had been "even worse for those excluded from the political system", CCI president Mr Pat Collins said.

Bureaucratic regulations and political policies superimposed on the economy had revealed a near-disaster situation.

He called on all parties “to be involved in the negotiations, to review their economic policies as the Government appears to be currently doing, in the light of economic and not ideological principles”.

Bill of rights

The CCI congratulated President de Klerk on the unconditional release of Nelson Mandela and “wholeheartedly welcomes his (Mr de Klerk’s) actions and their implications for real equality — politically, socially and economically — for all”.

Mr Collins called for the scrapping of the Group Areas Act and the Land Act, saying they were unnecessary, discriminatory and humiliating to the majority of South Africans, and said a future constitution had to incorporate a bill of rights.

The new constitution should have "strong elements of social support in the form of medical services, education and housing" and an economic system that would sustain current economic activities profitably and attract new investment capital.
Farmers lift GDP growth to 2.1%

BOOMING agricultural production pushed real growth in SA's gross domestic product (GDP) to 2.1% in real terms last year — the maximum attainable growth rate expected by most economists at the beginning of 1999.

This followed a robust 3.7% real growth in 1998, the peak of the business cycle. The rate at which output expanded last year was below SA's annual population growth rate of about 2.9%, implying a drop in per capita wealth after an increase of 1.5% in 1998.

A surge in agricultural production accounted for 0.5% of overall economic growth last year. Real production in the agricultural sector soared by 10.5% to contrast sharply with the slowdown in the rest of the economy. Growth in non-agricultural production was only 1.6%, with the mining sector showing almost no growth during the course of 1999.

The quarter-on-quarter growth figures, seasonally adjusted and annualised, provide an indication of the slowdown in overall economic activity. In the fourth quarter, real GDP dropped by an annualised 1.6% after increasing by 1.3% in the third quarter.

However, there is no question of a collapse in economic activity in the non-agricultural sectors of the economy — real output in the fourth quarter of last year was more or less on the same level as in the second quarter. On a seasonally adjusted and annualised basis, growth in this sector recovered to 2.5% in the fourth quarter after a negative 2.0% in the third.

Economists predict growth of 1%-2% for 1999, with the major impetus coming from exports. But they rule out a repeat of the boom in agricultural production this year.
Economics of 'upliftment'

CAPE TOWN - SA needs a social market economy to provide upliftment for disadvantaged people, Finance Minister Benard du Plessis said yesterday.

He was responding to questions on the second reading of the Finance Bill, on which he is due to spell out his plans for an upliftment plan. du Plessis said yesterday he had asked the government's social policy team to look at the idea of introducing a social market economy as a way of helping disadvantaged people.

He said that for the past few years, it had been shown that the ANC government had shown considerable compassion for the poor but that it had not been able to carry through with its process of restructuring the economy.

Earlier, Schwarz had attacked the way the ANC government had been failing to provide for the poor and had said that the ANC government had failed in its process of restructuring the economy.

On the day du Plessis was due to spell out his plans for an upliftment plan, he said that the ANC government had failed in its process of restructuring the economy.

Du Plessis said that the ANC government had failed in its process of restructuring the economy.

Only 2% of taxpayers shoudering SA's burden

CAPE TOWN - A total of 17% of SA's taxpayers pay 73% of the country's tax, Deputy Finance Minister Marais said yesterday.

He said that despite the government's efforts to increase taxes, there were still many people who were not paying enough tax.

The tax system was not perfect, he said, and therefore the government needed to do more to improve it.

Marais said that the government's efforts to increase taxes had not been enough to make up for the decrease in tax revenue caused by the current economic downturn.

He said that the government needed to do more to improve the tax system and make it more efficient.
equal apartheid capitalism does not vital to show that
MINI BUDGET

Schwarz: JSE panic was not necessary

Mr Schwarz

PARLIAMENT. -- People should not have panicked and sold their shares on the Stock Exchange after listening to Mr Nelson Mandela's speech, Mr Harry Schwarz, Democratic Party chief spokesman on finance, said yesterday.

"Instead, they should have read the ANC Charter or its policy years ago and then they would have known that Mr Mandela said nothing new."

The reality was that there were people in the country who were not only deprived of political power but were also economically disadvantaged.

"Capitalism is associated with apartheid in the eyes of many blacks. We need, therefore, to protect a system which is not associated with apartheid, has been proven to be effective and gives opportunity and benefits to those previously deprived," he said.

In reply to Mr Schwarz, Finance Minister Mr Barend du Plessis said that South Africa needed a social market economy to provide upliftment for disadvantaged people.

Government, he said, had never argued for a cold, free-enterprise, capitalist system.

In its distribution of taxes over the past few years it had shown a considerable degree of compassion to the poor. It could have shown more compassion but was restricted by the process of reconstructing the economy. -- Sapa
Use social market model, says Schwarz

Political Staff

THE ANC's nationalisation policy could not be countered with pure old-style capitalism, Democratic Party finance spokesman Mr Harry Schwarz said.

Speaking in the mini-budget debate, he said the Budget should be one "to further negotiations" and equalise social services.

Socialism should not be contrasted with old-style capitalism, but with the social market system of West Germany.

This not only encouraged the entrepreneur but protected against exploitation and provided social benefits.
The real SA game — with abundance in the goals

Many see South Africa as a global game, pitting “system” v “struggle”. The “system” side, wearing blue, orange, and white, is playing by rugby rules. “Struggle”, clothed in green, yellow, and black, thinks the game is soccer.

Western experts and critics believe the players all have on blindfolds. They must help the hapless and confused players by shouting instructions from the stands. Occasionally, they throw down marbles in the form of sanctions or boycotts. Maybe the experts have on blindfolds, too.

Conventional wisdom says it’s Captain de Klerk v Captain Mandela. The sides “scram” over compromising economic or political sys tems, slogans, scenarios, and slogans. The world’s media hovers above the void, awaiting the inevitable clash. The future of Africa hung in the balance.

Well, maybe it’s time for an entirely different dimension of thinking.

Integrals

— Call a “synthesis” — the higher and richer order that blends and integrates the best from all views on abundance and solutions to the rapidly changing environment.

South Africa needs to synthesize the best from all views on abundance and solutions to the rapidly changing environment. Synthesis seeks to transform conflict into conflict-resolution.

What kind of thinking, however, will take to create abundance? How can this approach replace fear and distrust?

First, maybe I suggest that South Africans consider co-operative planning of an entire decade of development. Leaders should sit beside-by side in identifying the key issues and problems of the Republic.

Negotiating constitutional models should come after the problems are clearly understood. The gaps between the haves, have-nots, and have-nots are simply too wide to bridge with simplistic thinking from either collective camp of free-market segments.

Economic and political pulses should be in frequency with the evolutionary nature of the society itself. The Great Indaba will be a long Indaba.

Second, it’s critical that positive thinking South Africans re-evaluate the entire litany of economic, cultural, literary, sports, and technological boycotts and sanctions. The South African Government is not going to come to its knees. To use this leverage as a bargaining chip is to play the struggle game when only synthesis thinking can produce abundance.

Society has quite enough internal pressure on perturbations to keep the Third World in motion. It will take a long, long time for the supply lines to support society to maintain abundance. Society is not going to waste, not if there’s not time to waste. If we’re serious about the quality of health care and education.

The world community needs to find either a cooperative system for its own internal problems. Moral poise must be maintained by those defensive advantages and other forms of exploitation of South Africa resulting from sanctions.

Finally, maybe it’s time for everybody involved to call “time-out” and consider other approaches.

Jesse Jackson demonstrated his depth of insight when he suggested, during the presidential debates, that he would first accelerate the pace of the talks, say his words, and then accelerate the pace of the talks. Instead, he called, “Stop!” He then called, “Stop!” He then called, “Stop!”

The same is true with the Afrikaner. If we are not clever by being clever by threatening the Volk in its safety and sacred heart, all could benefit from a new and creative initiative. Your children and grandchildren will rise up and call you blessed if you seriously pursue abundance, not power.

The people who know who we are and who can help us have met Nelson Mandela report he is in the traditional of a synesthetic thinker and other enlightened UDF and ANC leaders face a serious threat from their own revolutionary wing.

Congruence

They understand far too well that enlightened leaders are often replaced by generals, that the word congruence is reached with the bulk of the population. It’s quite natural for developing nations to opt for one-party states.

The massive needs of the “have” sides must be met. Quickly. It’s in everybody’s interest to do so. An abundance-based development and distribution system has the potential to enhance the world community, while uplifting those still suffering from poverty and hopelessness.

Synthesis is the best game in town. Nothing else can produce abundance. Everybody can play by the same rules. Western spectators can find another game to watch.
The federal government has been forecasted to run a larger-than-expected budget deficit this year, with projections indicating that the economy may be moving closer to a recession. However, the Federal Reserve has kept interest rates low, aiming to support economic growth. This has led to concerns about inflation, with some economists predicting a need for the Fed to raise interest rates sooner than expected.

In his recent speech, Dr. Jared Genser emphasized the importance of maintaining a balanced budget and ensuring fiscal responsibility. He stated that a larger-than-expected budget deficit could have significant implications for future economic stability.

By Sean Lumbert
A real threat to savers

ERIK TOMPSET

PMINSON GIVES: Mining has been targeted as a possible new industrial focus.
Appeals to stop panic share selling

By Peter Fabrechts, Political Correspondent

The Government and the Democratic Party have both warned against panic selling of shares in reaction to ANC leader Mr. Nelson Mandela's remarks backing nationalisation and the armed struggle.

They were reacting to a R10 billion drop in the value of Johannesburg Stock Market shares since Mr. Mandela's release.

Finance Minister Mr. Barend du Plessis told Parliament yesterday he believed that balance and equilibrium would return to the jittery stock market.

He agreed with DP finance spokesman Mr. Harry Schwarz that all major parties would abandon the policy of nationalisation once the real debate on economic policies began.

Mr. Schwarz predicted that mines, insurance companies, banks and other major financial institutions would not be nationalised in the foreseeable future and would not be part of the post-apartheid economy.

He advised against over-reaction and said Mr. Mandela's remarks should be seen in context.

It was clear that Mr. Mandela had been in prison for 27 years and had made the remarks to avoid alienating himself from the ANC mainstream.

Mr. du Plessis said if the ANC wished to be a powerful force in South African politics it would have to divorce itself from the "outdated policies of communism and nationalisation."

He said it was a great irony that the people who had demanded the steps which the Government had taken were selling their shares.

Mr. du Plessis said there was no salvation for South Africa in the re-distribution of existing wealth. This would make South Africa go backwards.

The need was to create new wealth in order to distribute it.

Mr. Schwarz said Mr. Mandela's statements were not new.

What he said had already been set out in the Freedom Charter and had been consistent ANC policy for 30 years.

He said the references to the "armed struggle" were disappointing after the State President, Mr. F.W. de Klerk, had put out the olive branch.

But he appealed to investors and others to wait to see what happened on the ground rather than listen to words spoken on understandably emotional occasions.
LUSAKA — The secretary-general of the ANC, Mr Alfred Nzo, said yesterday he did not see why there had been "so much bother" about nationalisation.

Answering questions at a press conference in which the ANC's national executive committee responded to President F W de Klerk's initiatives, he said nationalisation had long been a part of government policy.

The National Party nationalised so many sections of the economy and it is only when it sees power slipping from its hands that it goes for privatisation.

"When a democratic government takes power, it will have as its first task the satisfying of the needs of the majority of the people, who have nothing. Where will it get the resources to do so?" he asked.

SA Communist Party leader Mr Joe Slovo said experience showed that the control of wealth, determined income distribution. If control was left in the hands of a small group, there would be little chance of correcting imbalances. — Sapa
Open deprivation to public debate

By Harald Pedersen

IT TOOK a decade for the joke

War powers

The government's argument that the country was

under attack from an alien

invasion is obvious, but

the government's attempt
to convince the public of

this fact is less obvious.

The government's

argument is based on

the following points:

1. The country is

under attack from

an alien invasion.

2. The government

is taking steps to

protect the country.

3. The public

should trust the

government's

actions.

The government's

argument is not

convincing, but

the government

continues to

argue that the

country is under

attack and that

the government

is doing all it can

to protect the

country.

The public

should be

cautioned to

question the

government's

motto of

"war powers."
The redistribution of country's wealth

Business must have open options on

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Everything agrees there has to be

The redistribution of country's wealth

Business must have open options on

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Business must have open options on

[Text cut off and hard to read due to image quality]
Dr. John Van Zyl

Justice for ALL is the Key to our post-apartheid economy
Positive

This has now become a substantial subject, but a few important, if unconventional conclusions can be briefly stated:

- The considerable development effort of the past few decades has generally failed dismally to reach the poorer half of the population in developing countries.

- Surprisingly perhaps, it actually works to trust the very poor and to take them seriously.

- The poorest of the poor respond positively to programmes aimed at stimulating self-reliance, human dignity and greater control over their own destiny. Hand-out and/or subsidization approaches, on the other hand, do not produce these results.

- Useful practical guidelines for implementing such programmes over a broad front can now be drawn up with some measure of confidence.

The above approach, sometimes referred to as "human scale development" could hold important lessons for a post-apartheid South Africa.

If a future predominantly black government should wish to have "the resources at our disposal to address the poverty of our people" and to a wide-ranging and relatively inexpensive programmes aimed directly at the poor may well be much more effective and less controversial than nationalising high profile business ventures in the white community.
Ponder Ink
Gross, Heron

Shareholders Pick
up Profit Peanuts
THE ANC is considering nationalising parts of the private sector, but analysis shows that only 1.8c in every rand passing through 347 listed industrial companies went to shareholders last year.

A study by Ad Zevenberg of the University of Pretoria discloses that employees and the State received far more money from companies than shareholders did.

Dividends came to R3.6-billion on turnover of R206.8-billion.

Professor Zevenberg says: "We do not have statistics about wages, but I imagine that labour would have taken about 30% of the total — R60-billion — the rest going to cost of materials, services and interest. The 347 companies paid R3.6-billion in tax.

"Profits before tax were only R18.77-billion, or 5% of sales. That slender margin has to fund tax, ploughback and dividends." The Chamber of Mines says workers on gold mines received R4.2-billion, and the taxman R2.4-billion from revenue of R16-billion in 1988. Shareholders' dividends were R2.2-billion.

Dividends from mines, which unlike growing companies, are wasting assets, were 12.4c in every rand of sales.

Slump

Statements by Nelson Mandela about nationalisation, the armed struggle and sanctions knocked the JSE off a peak of euphoria this week.

The JSE Actuaries overall index slumped 9% from a high of 3385 on Wednesday last week to a low of 3161 this Wednesday, before recovering to 3193 on Friday.

Foreign investors suffered even bigger losses because of the financial rand's plunge. The London Financial Times gold-share index plunged by 23% in one week from a high of 372.5 to 283.3. SA industrialists also weakened in London, Barlows and Amic each losing 5% on the week.

SA investors were flabbergasted at the emotional pattern of trading.

Mr Mandela's statements had business people up in arms.

Leslie Boyd, chairman of Anglo American Industrial Corp, said: "I left Britain because of Harold Wilson's disastrous nationalisation policies. Under management my old company, British Steel, lost 210,000 jobs and nearly went bankrupt. Since its privatisation, it has been a winner."

"Mr Mandela was wrong to suggest on television that the privatisation drive was a means of giving shares to whites ahead of black majority rule. It has been a worldwide trend for the past 10 years."

Amid last year added R3.6-billion to materials and services bought in. Wages took R1-billion, tax R3.77-billion and dividends R3.29-million. Shareholders received a sixth of the benefit going to workers and the State.

Barlows generated R6.8-billion of wealth, of which R5.1-billion went to employees and R1.2-billion to dividends. Dividends came to R700-million. The State and workers thus received nine times more than shareholders.

"Other businessmen are reluctant to accept that Mr Mandela's stance on nationalisation was final. They believe he is sticking to ANC ideology, taking an extreme position ahead of negotiations, and (they hope) concessions."

Clern Sunter, chairman of Anglo-American's gold division, said: "We believe that Mr Mandela and the ANC will drop all ideas of nationalisation in negotiation."

Justice

Mr Sunter, who had a three-hour meeting with Mr Mandela before his release, said: "He struck me as being an open-minded person, unshakeable on the issues of social justice. I am sure he is prepared to compromise on other issues."

Mr Sunter said foreign investors continually moved between euphoria and despair about SA.

"Taking the long-term view, I think some conditions for our high road scenario are being met. The critical factor now is that no party holds out for winners. If there is no compromise, we are back to square one. It is essential for the high road scenario that we retain a free market. But we must also have an ideologically free society."

"We do not want to replace apartheid with Marxism."

Business counters Mandela demands

Crumbs

People are fed up with ideology. I'm looking for opportunity. We don't have to make an ideological decision. We have to make an economic decision. The only way to solve things is in the market. We have no right to sell if there is no equal opportunity. We must take away restrictions on black businessmen, and deal with educational problems.

Handelsinstituut executive director Martin van den Berg said he had hoped the East European experience would show the ANC that communism did not work.

"If we want the ANC to rethink its nationalisation ideals, we need to sell private enterprise in negotiation, and at grassroots level." We have no right to sell if there is no equal opportunity. We must take away restrictions on black businessmen, and deal with educational problems."

SA Chamber of Business director-general Raymond van den Berg said the JSE panic: "I am holding my shares. If the market goes down, I will buy more."
Economy must keep growing, Mbeki

JOHANNESBURG. — South Africa's economy will need restructuring, the ANC's foreign affairs spokesman Mr Thabo Mbeki said in an interview on SABC-TV.

"He added that it would be wrong to avoid considering an element of nationalisation as part of a possible solution.

"Mr Mbeki quoted President F W de Klerk as saying that there must be an improvement in the quality of life for all people.

"To achieve that objective, the economy must continue to grow, because "without that expanding wealth naturally you have a smaller cake to share out".

"The economy had been built "in the main, with an eye to securing the standards of living of essentially the white population".

"The system of bantustans had been to exclude, Mr Mbeki noted: "What was in official language "a surplus population"... They were not needed by this economy.

""There ought not to be any surplus people in South Africa. "So the economy would need restructuring and I'm saying it would be wrong from the beginning to exclude consideration of the element of nationalisation or the element of public property."

"He said the recent changes in South Africa had possibly opened the way to a political settlement and that it would be better to get rid of apartheid by peaceful means.

"Mr Mbeki said he believed the majority of white South Africans were opposed to apartheid and blacks and whites should therefore be able to unite in their opposition.

"Presumably then, "these people who have acted together to change the past will have sufficient confidence and trust in one another to build the future".

— Sapa.
Off the Mandela Factor

Metals markets shuffling

[Image of page with text]
Mbeki argues for nationalisation

JOHANNESBURG — South Africa’s economy will need restructuring and it would be wrong to avoid considering an element of nationalisation as part of a possible solution, the ANC’s foreign affairs spokesman Mr Thabo Mbeki said in a television interview last night.

“We have to start off from the position that there is an objective to be obtained,” said Mr Mbeki. “That objective is, if we are using (SA President) F W de Klerk’s words, an improvement in the quality of life for all the people. Then we’ve got to say well, how do you do it, and one of the first conclusions you would come to is that you need to ensure that that economy continues to grow. Because without that expanding wealth naturally you have a smaller cake to share out.”

The SA economy had been built “in the main, with an eye to securing the standards of living of essentially the white population”. The system of bantustans had been to exclude. Mr Mbeki noted, “what was in official language ‘a surplus population’… they were not needed by this economy. “There ought not to be any surplus people in South Africa. “So the economy would need restructuring and I’m saying it would be wrong from the beginning to exclude consideration of the element of nationalisation or the element of public property,” said Mr Mbeki.

He said the recent changes in South Africa had possibly opened the way to a political settlement.

Peaceful means would be most preferable in getting rid of apartheid.

Mr Mbeki said he believed the majority of white South Africans were opposed to apartheid and blacks and whites should therefore be able to unite in doing this. Presumably then, “these people who have acted together to change the past will have sufficient confidence and trust in one another to build the future”.

Whites had severe misapprehensions about the ANC — that it was a communist-dominated group which intended imposing itself on the people of South Africa in a one-party state; that it harboured feelings of vengeance against white South Africans.

These misapprehensions needed to be addressed because a peaceful, political solution was otherwise unattainable, he said.

The angry reaction of the right wing at the reforms had been expected, but they were a small minority. “It is very important that this small minority is not given the right of veto… it should not be treated as a force that blocks the source of change”.

“I think we as South Africans have an understanding that it’s not in fact terribly difficult to establish a feeling of common nationhood. You know, to sit and eat pap and vleis together — I mean, those are South Africans,” said the ANC leader. — Sapa
No increase in SADF budget

By Peter Fabricius, Political Correspondent

CAPE TOWN — The defence budget for 1989/1990 shows no increase for the first time in many years. This emerged when the Additional Appropriation Bill was published in Parliament on Friday.

Zero increase

The additional appropriation provides for Parliament to vote extra money to make up shortfalls in the Government's estimated expenditure.

The zero increase in the defence budget confirms the trend to cut Defence Force costs as much as possible.

The SADF announced earlier this year that several units and projects were to be scrapped or curtailed to save money. It is also expected that the main defence budget to be presented on March 14 will also be lower than usual.

Most other departments have also kept their additional budgets to a minimum, providing further proof of the Government's determination to cut State spending.

The total additional budget — which will be debated in Parliament from today — is R1,343 billion, an increase of just over 2 percent on the original estimate of R63,570 billion.

Other departments which show little or no increase are Audit (none); Development Planning (R1,000); Foreign Affairs (R1,000); National Education (R1,000); and Education and Training (R1,000).

One of the biggest savings is in the Department of Education and Training where a delay in the building of 16 black secondary schools cut costs by R23,829 million.

Among the notable increases are R3,688 million for new cars for the 66 new MPs elected on September 6 last year.

This is equivalent to R55 878 for each MP.

In the Justice Department budget there is a big increase in the bill for judges' salaries — from R16,2 million to R36,8 million.
Govt spending comes closer to Budget target

MIKE ROBERTSON

CAPE TOWN — Government has come closer to sticking to its budgetary estimates than it has for decades, exceeding by just R163m, or 0.5%, the R65.017bn it set as an expenditure target in March last year.

In the Additional Appropriation Bill tabled in Parliament on Friday, Finance Minister Barend du Plessis has asked Parliament to approve an extra R1.266bn for departmental spending and R88m for statutory allocations in the current financial year.

Expenditure of R1.977bn on items such as the Iscor flotation have already been financed, while the Defence and State President’s Departments achieved savings of R1.89bn. This has reduced to R966m the total extra funding Du Plessis has asked Parliament for.

In the main Budget, he made provision for an extra R1bn in unforeseen expenditure which more than covers the extra R966m. However, for accounting reasons the expenditure already financed has to be included in the Budget, resulting in the revised estimates of expenditure exceeding the March estimates by R163m.

While Du Plessis said in his Budget speech the R1bn was for unforeseen expenditure only, an analysis of the explanatory memoranda from departments for the extra spending shows that at least some of them have utilised the contingency fund to get a second bite at the Budget cherry.

As with the previous financial year improving conditions of service for civil servants exceeded the budgetary allocation by 148% (R73m).

The increase stemmed from a 12% salary hike for teachers with effect from March 1 this year and improved housing subsidies for civil servants.

The Department of Trade and Industry received R233m, the largest extra allocation.

Other departments which have asked for large extra amounts are the White Own Affairs Administration (R187m), Development Aid (R108m), Finance (R113m), National Health (R69m), the Coloured Own Affairs Department (R67m) and Police (R64m).

The increase in the Development Aid vote includes an extra R215m in assistance to governments of self-governing territories, which has been offset by savings in other areas.
BUSINESSMEN should come up with creative ideas to redress past injustices instead of trying to berate blacks out of socialist preferences and desires for nationalisation, said JCI economist Ronnie Bethlehem.

Nationalisation has become a central issue since Nelson Mandela's recent statement that he supported the nationalisation of mines and banks. Businessmen from some major corporations are known to have had special meetings this weekend to discuss the issue, its implications and their approach.

Bethlehem, who made it clear that he did not think nationalisation was a solution, said businessmen had to address the matter more creatively and not dismiss it out of hand.

“There are historical injustices that need to be addressed and deprivation will continue unless action is taken, but the state should not be the sole patron of a changing economy.” Bethlehem argued for restructuring of the economy.

“Now we are into the role at the political level where the ANC and government are promoting each other as credible negotiating partners. “On the economic side the need for
glamour is urgent.

“Business and labour have different ideological perspectives, they have to recognise their differences but find areas where they can cooperate and be supportive to provide the growth the economy needs to spread wealth to the areas the ANC desires, such as housing, health and education.”

Bethlehem said that despite the staggering demographics of SA — population growth of 2.5% per annum, black urbanisation of 7.5% per annum and a black matricul population increasing at over 20% per annum — SA could achieve a 5%-7% GDP growth once the political situation had normalised.

Socialists

Bethlehem suggested restructuring such as Anglo American's share incentive schemes or the promotion of small businesses.

But, taking holder steps, he said businessmen should work creatively with socialists in the community, for example they could promote co-operatives, and perhaps even help them by seconding management to assist the co-operatives.

They could become involved in joint ventures and liquidate loans to start them off from surplus interest. They could create trusts of the sort Ford created when the parent company withdrew from SA.

The state could reduce expenditure in fields like defence and increase it in health and education. “If the private sector is prosperous it will have more tax money to feed into the public sector.”

Nedbank economist Edward Osborne said Nedbank had no official policy on nationalisation but he was personally against it. He said that as apartheid went, the reduction in the multiplicity of administrations would result in cost benefits, but, for example, the implementation of a single education department would only result in a saving of about 2% to that department.

Anglo American economist Aubrey Dickman said he did not know if there were easy ways to redress historical inequalities, but he felt nationalisation would crush the economy.

He said there was no free enterprise at present but the opening of opportunities could change that. What was important, he said, was not redistribution but increased growth.
Govt spending needs to slow down sharply

GOVERNMENT spending rose 21.7% in the 10 months to January — signalling the need for a sharp slow-down in the last two months of the fiscal year if President F W de Klerk’s predictions on spending are to be realised.

In his opening speech to Parliament De Klerk said spending in the current fiscal year would be close to the Budget.

Spending was budgeted to rise by 15% to R59bn. However, there is still scope to reach the year’s target. On a pro-rata basis, government is slightly behind on its spending. So far, R58bn has been spent — about 81.5% of the total Budget instead of 83%.

If last year’s binge in the final two months, especially March, does not occur, De Klerk’s prediction will be realised.

On the revenue side the boom continues, with the increase running at more than 36% after 10 months of the fiscal year. For the full year, revenue was budgeted to rise by only 16%.

Economist Louis Geldenhuys, of stockbrokers George Huyser, predicted the overrun on revenue could be as high as R4bn, bringing total revenue to R39.1bn.

So far R38.8bn has been collected, compared with a budgeted R38.1bn for the full year.

The main reasons for the overrun include conservative estimates of individual taxes, customs and excise income and company taxes.

Borrowing

“The economy was more buoyant than government expected and fiscal drag also brought it more,” he said. Geldenhuys expects spending to be close to the budgeted figure.

He predicted the revenue boom should result in a deficit before borrowing of below 3% of GDP for the current fiscal year.

See Page 4
Thabo Mbeki clarifies ANC view on economy

Element of nationalisation at least part of a solution

South Africa’s economy will need restructuring and it would be wrong to avoid considering an element of nationalisation as part of a possible solution, the ANC’s foreign affairs spokesman Thabo Mbeki said on SATV last night.

“We have to start off from the position that there is an objective to be obtained,” said Mr Mbeki.

“That objective is, if we are using [SA President] F.W. de Klerk’s words, an improvement in the quality of life for all the people... then we’ve got to say well, how do you do it, and one of the first conclusions you would come to is that you need to ensure that the economy continues to grow... because without that expanding wealth naturally you have a smaller cake to share out.”

The SA economy had been built in the main, with an eye to securing the living standards of essentially the white population and whites should therefore be able to unite in doing this.

Presumably then, “these people who have acted together to change the past will have sufficient confidence and trust in one another to build the future.”

Whites had severe misapprehensions about the ANC — that it was a communist-dominated group which intended imposing itself on the people of South Africa in a one-party state and that it harboured feelings of vengeance against the white South Africans.

These misapprehensions needed to be addressed because a peaceful, political solution was otherwise unsustainable.

“The ANC should be demonised in the eyes of the people but I think equally the National Party should not be demonised in the eyes of the people,” said Mr Mbeki.

The angry reaction of the right wing at the reforms had been expected but they were a small minority and it is very important that this small minority is not given the right of veto.

“It should not be treated as a force that blocks the source of change.”

What had inspired the ANC for years and still did so was the vision of a South Africa which belonged to all its people.

Springbok team

“A South Africa in which it should be possible that we could all get together and watch a Springbok team whether all blacks or all whites. That we would all of us cheer and all feel that this is our thing.”

“I think we as South Africans have an understanding that it’s not in fact terribly difficult to establish that feeling of common nationality. You know, to sit and eat and walk together.”

Thus, South Africa, said the ANC leader. — Sapa.

Bank subsidiary’s affairs to be wound down

Staff Reporter

The affairs of Kolektor, Trust Bank’s debt-collecting subsidiary, are to be wound down after the discovery of several irregularities which led to the dismissal of its managing director, Mr Vic Lilje, last week.

Trust Bank senior general manager Mr Jan Kuhn said yesterday that an internal investigation had been carried out after rumours in the media.

“An internal investigation team from our audit division went into the matter thoroughly. They discovered several irregularities which we decided we could not live with, and therefore steps were taken.”

Those measures had resulted in Mr Lilje’s services being terminated and the suspension of two senior officials of Kolektor, Mr Cornelius Mostert and Mr Henkie van der Kruit, who now face disciplinary hearings.

Mr Kuhn denied these events were related to the resignation last November of that the chairman Mr Kobus Roets.

(When asked for comment, Mr Roets said he had signed an agreement not to talk to the media about his departure.)

Losses incurred were not substantial and would not affect Trust Bank’s profitability.

So far no criminal charges were being investigated.

Mr Kuhn said the irregularities, which occurred in the Bedfordview area, concerned the process used by Kolektor to bring in doubtful accounts.

Kolektor would become dormant. Future work would be referred to the legal department.
Ken Owen

Off the capitalists

Try not to flinch

If it's cash you need

Ken Owen
Barned to cut spending
Budget reflects GOP resolve

POLITICS

BARNED (44)

Cape Town -- The additional $100 million in education, health, and water services would be spent in this fiscal year under the city's proposed budget. The city council has approved the budget, which includes cuts in other areas to help offset increased costs for these services."
Rapid economic growth in 90s — Sanlam chief

By TOM HOOD, Business Editor

The nineties could be far better than the eighties in South Africa, with more rapid economic growth, the creation of more jobs and a higher standard of living for all, says Sanlam's chairman, Dr Abie van den Berg.

This would depend on the country making adjustments in economic policy, on the public and private sectors working together and on regaining access to foreign capital.

Speaking in Bellville today at the 71st annual meeting of the insurance giant, he said the eighties had certainly not been a good time for the South African economy.

This was due to an average growth rate of 2 percent, inflation of 15 percent, some of the worst droughts in living memory, large sums spent on defence and financial sanctions.

FINANCIAL POSITION

As a result not enough jobs were created and the average citizen's financial position deteriorated noticeably.

Even though hard times might lie ahead, there was reason for optimism.

Obstacles in the way of the political accommodation of various interest groups in the country had been removed.

"This will no doubt make a major contribution to a more stable and relaxed domestic situation and the normalisation of South Africa's foreign relations — both essential for the economic progress we are striving for."

Dr Van den Berg said it was heartening that the State President and the Governor of the Reserve Bank had formulated the following goals to put the economy on a sound footing:

- Reduction of the public sector's role in the economy.
- Reallocation of State funds and stricter control over their use.
- Decreasing the tax burden, particularly on individuals.
- Promoting deregulation and privatisation.
- Lowering the inflation rate.

"I believe we can reach these goals only if they are pursued within the framework of a comprehensive strategic plan and if we avoid the ad hoc actions of the past."
INVESTMENT CONFERENCE

Education to get more

JOHANNESBURG – The SA government's education policy is designed to provide opportunities for all. Dr. Plessis, in his speech yesterday, emphasized the importance of education in promoting economic growth. He stated that education is key in reducing unemployment and poverty.

Support

He warned that the mere redistribution of existing wealth and income will not be sufficient to address these issues. There is a need for investment in education, particularly in remote areas, to ensure that all children receive a quality education.

Finance Minister Barend du Plessis said yesterday that investment in education is critical for the country's future. He noted that the government is committed to providing opportunities for all, regardless of their background.

Referring to the government's reform process, he said it was of utmost importance to ensure that the educational system was not only efficient but also accessible to all. The lack of infrastructure in many areas is a major challenge to the implementation of the reform process.

A sound education system is essential for the country's development. It is not a matter of choice but of necessity. The government is committed to ensuring that every child has access to quality education.

Support

The government is investing heavily in the education sector, and this is proving to be a wise decision. The country is reaping the benefits of this investment, with more and more children achieving higher education levels.

Dr. Plessis cautioned, however, that while the government's efforts are commendable, more needs to be done. He called for a greater effort to improve the infrastructure and facilities in schools, particularly in rural areas.

The government is committed to ensuring that all children have access to quality education. This is not only a matter of justice but also a matter of national development. The country's future depends on the education of its children.

Support

Dr. Plessis said that the government is working towards improving the quality of education. The recent reforms have already shown positive results, with an increase in the number of students achieving high grades.

The government is also working towards ensuring that education is not only accessible but also affordable. The government is providing bursaries and scholarships to students who cannot afford to pay for their education.

Dr. Plessis concluded that education is the key to the country's future. He called on all stakeholders to support the government's efforts to improve the education system.
STEPHEN GELB

ABOUT SA ECONOMY

DISTORTING THE DEBATE

Simplistic Ideologies

The debate on South Africa's economy is often clouded by simplistic ideologies that oversimplify complex economic issues.
FW’s reforms ‘not a result of sanctions’

Sanctions had not brought South Africa to its knees and it was a misconception to think that the State President had been forced in any way by sanctions to make concessions, the Minister of Finance, Mr Barend du Plessis, said yesterday.

Replying to debate on the Part Appropriation Bill, Mr Du Plessis said it was arrogant of the ANC to think it held the trump cards on whether or not sanctions should be applied.

“The facts are that the US is providing aid to countries which are moving away from communism, socialism and other unsuccessful systems and the ANC will not be able to rely on them for too much longer.

“They are making a fatal mistake if they think the West, has helped them to win.

“Now that the opportunity is being given for arguments between policies, the outdated policies of the ANC have evoked strong criticism worldwide.

“Overseas television showed an incident in Soweto at which a red flag was present. This 10-15 seconds of international TV time has enabled us to buy things we have not been able to do for many years. This exposure showed the outside world the close bond between the ANC and the SA Communist Party.”

Trade sanctions had succeeded momentarily until the country was able to come to grips with the situation and found new markets. Many jobs and much wealth had been lost, but this had brought the best out of exporters.

A ceiling had been placed on economic growth.

“During the last decade we had an average economic growth rate of 1.6 percent, which was hopelessly too low. During the first eight years of the decade we had a 1.2 percent growth rate and experienced a growth rate of 2.9 percent during the last two years.”

Mr Du Plessis said South Africa had signed contracts with foreign banks which it could honour and was not affected by sanctions. — Sapa.
Disapproval of nationalisation

The Johannesburg Stock Exchange and the financial rand have clearly signalled disapproval of Nelson Mandela's statements on nationalisation and the continuation of the armed struggle, says Sanokp chief executive Marius Dalig.

Mr Dalig told the conference that although the threat of nationalisation was an important deterrent for investment, it certainly was not a foregone conclusion that large parts of the SA economy would be nationalised.

He pointed out that President de Klerk was committed to a market orientated economy. Surveys among blacks show too that the majority were also committed to such an economy, and lately even in ANC circles, Joe Slovo, head of the SA Communist Party said that there may be better methods than nationalisation for the state to achieve its aims.

"ANC spokesman for foreign affairs

Thabo Mbeki also made a public statement that the creation of wealth is a prerequisite for achieving a better quality of life for all in SA."

In Mr Mbeki's view, nationalisation was not yet accepted as the best route, although it could not at this stage be removed from negotiating table.

Mr Dalig said that those who believed that SA offered attractive investment opportunities should enter the debate and become involved.

Commenting on the economy, he said that it was in a cyclical downturn which would probably last for at least another 12 to 18 months before there was any real improvement.

"Looking beyond this inevitable short-term downturn, I believe that the conditions for a better growth rate during the Nineties than in the Eighties are falling into place." — Sapa.
Social services in line for a boost in Budget

By Sven Lünsche

Spending outlays in the 1990/91 Budget will shift significantly to social services, like education and health services, Finance Minister Barend du Plessis said yesterday.

Delivering the key-note address at the Frankel Kruger Vinderine 1990 Investment Conference, Mr du Plessis said that substantial savings would be achieved in this year's Budget, which will be tabled in Parliament next month.

Apart from the reduction in defence spending, Mr du Plessis also indicated that expenditure on public works would be significantly curtailed.

"Even in sectors like education and health services, there will be a shift in spending to areas where it is more urgently required," he said in response to a question.

"For example, we will not build new hospitals for the white community, as on average only 51 per cent of the beds are occupied.

The education Budget will focus mainly on black education, where there is a desperate shortage of classrooms and qualified teachers, while white schools already have a more than adequate supply of staff and facilities," Mr du Plessis said.

"The pattern of government spending will in future reflect greater preference for developing our human resources in the form of education and training and the provision of essential socio-economic services."

The Government has already displayed its commitment to financial discipline and "our intention is to re-establish the Budget as a tool of economic management and to reduce the rate of increase in government spending and the deficit before borrowing," Mr du Plessis said.

"It is our aim ... to reduce the overall incidence of taxation of individuals, and in this way to promote saving, investment and economic growth."

"We are also according high priority at present to the question of tax reform. The tax changes we have in mind are being phased in over time and good progress has already been made in this direction."

Turning to monetary policy, Mr du Plessis said there was at present no need to consider any further tightening of the government's economic policy at this juncture.

"Growth of the various components of total gross domestic expenditure (GDE), with the exception of private consumer spending, are moving in a downward direction."

"The authorities are keenly aware of the danger of overkill, but there are no indications that such a point has already been reached or is in the offing."

Providing a detailed breakdown of the level of domestic spending, Mr du Plessis said that GDE increased in real terms by 5 percent during 1988 and 3.5 percent in 1989.

"This indicates that economic activity has remained at a very high level."

"Investment in inventories - which declined sharply in the fourth quarter last year and was the main reason behind the sharp decline in total domestic expenditure during the quarter - can fluctuate widely and a rebuilding of inventories at this stage could consequently give rise to a resurgence in the level of spending."

Mr du Plessis added that the restrictive monetary and fiscal policies had allowed the authorities to no longer rely extensively on the exchange rate to realise a surplus on the current account.
Nurses' salaries, conditions will be improved — Venter

Own Correspondent

CAPE TOWN — Nurses' salaries would be increased and working conditions improved by the Department of National Health and Population Development, Health Minister Dr Rina Venter said yesterday.

Answering a question at the Cape Town Press Club, Dr Venter said the department would, however, need help from the Nursing Council to encourage new nurses to come into the profession.

Dr Venter said a survey was being conducted to see how nurses felt about conditions, what the manpower situation was and why nurses were leaving.

She said the 13 academic hospitals in South Africa were consuming approximately half of the health budget.

Dr Venter said the demand for more funds from these institutions was increasing while a small number of patients were being catered for.

A responsible government had to ask itself how it was going to achieve a balance between curative and preventative health care which would ensure proper, affordable and accessible standards.

The health budget amounted to 5.4 percent of the gross national product, in line with international standards laid down by the World Health Organisation.

The elimination of fragmentation would not necessarily put health care on a more sound financial basis. Surveys by her department showed that only about 5.2 percent of the total health budget was spent on administration, she said.

"The assertion that enough funds would be available for an increase in nurses' salaries if there was to be a single health department is totally unfounded and an oversimplification of the issues at stake," Dr Venter said.
Mandela in move to allay business fears

CHARLENE SMITH

Nelson Mandela proffered an olive branch to the business community yesterday when he said the ANC would make no drastic changes to any sector of the economy without full discussions with the private sector.

Referring to the issue of the restructuring of the economy, he said: "We are very keen not to do anything without proper discussion with those interested and involved." Last week financial markets reacted sharply to comments by Mandela indicating he was in favour of the nationalisation of banks and mines.

In an exclusive interview with Business Day, Mandela disclosed he would be meeting one of the "most important businessmen in the country" probably before leaving for Lusaka on Monday. He declined to name the businessman.

Anglo-American spokesman James Duncan said although company chairman Gavasker had expressed an interest in meeting Mandela, no meeting had been arranged. He knew of no plans for any meeting between Mandela and Harry Oppenheimer.

Mandela said: "We would welcome a debate among the business community on the issue of nationalisation. This is an extremely important matter, and in any democratic situation, a free expression of opinions is absolutely vital. I also expect compromises from both sides."

However, Mandela said clear sanctions must remain in place.

"What we set out to achieve we are far from achieving and there is nothing that has happened that has required us to review this decision," he said.

He had not telephoned British Prime Minister Margaret Thatcher to discuss the sanctions issue, as he was waiting for permission from Lusaka to do so.

However, if Lusaka gave him the go-ahead he would intervene and ask Thatch-
Mixture of East and West may be the cure

I WELCOME the release of Nelson Mandela who, at 71, with the likes of Walter Sisulu and Zeph Mothopeng is a living monument of our determination to be a free people.

For a change we are living in times of hope, and State President F W de Klerk has to be commended.

What, however, seems to be the debate in black townships these days is nationalisation. Two weeks ago I said I would not join this age-old debate over the "isms". As it, however, continues to rage in shebeens, trains and so on, I might as well throw in a few thoughts.

The redistribution of wealth is a non-negotiable in the new society being envisaged but, is wholesale nationalisation of major industries the way to go about it?

Activities such as education, health, aspects of public transport, housing and social services are a responsibility of the State and MUST be nationalised. But when it comes to industries which generate wealth and thus revenues for the State, ditshwene, wag 'n beetje. The nationalisation of industries has been tried throughout the world with very few successes, if any.

The most recent examples are the collapse of East European economies.

Will of majority

If these countries have failed to make nationalisation work, what will make it succeed with us? If we are keen on nationalisation, and I will bow to the will of the majority, let us first study what made others fail. Our system will then be based on a blueprint that overcomes previous and exposed shortcomings.

Two years ago I had the good fortune to be on the programme for management development at Harvard University. Among the students were two officials from the People's Republic of China. I befriended one, Fan Kaishi, who is vice-director of the Foreign Economic Relations and Trade Department in Hubei. According to him, his Government was now sending scores of its officials on management and business courses in universities in the Western world in an effort to improve productivity in their system. The Chinese, as Fan said, are, however, nowhere near abandoning socialism despite their hardships thus far.

Productivity in their country has taken a dive and there was a wastage of human and physical resources. Lack of growth has been a symptom of collapsed socialist economies. That is why most have disintegrated.

With socialism so far having failed to make a convincing case for itself, various options have now been suggested for South Africa. As the ANC's Thabo Mbeki said on TV on Sunday night, it is one of the issues to be negotiated.

One of the options that have been thrown around is Africanisation. It must be properly controlled, of course, to ensure the maintenance of standards.

For instance, its proponents argue, if Iscor's management is 100 percent white at the top, middle and lower levels of management, the company will have to be given a period in which it must ensure lower and middle management conforms to population ratios.

As blacks are more than 80 percent of the population, Iscor must be told that within five to six years four-fifths of its lower management must be black, and in the following five years middle management must be 80 percent black.

Given natural attrition there should be some bronze faces in top management in a matter of time.

This may be less revolutionary than nationalisation, say its supporters, but it is a sure way of transferring control from white South Africans to South Africans.

For many this will be reverse racism while for others it will be perpetuating the capitalist system. What should, however, be clear is that no system is perfect. Just as socialism has been proved to have serious defects, capitalism is no paradise. It is just as defective.

Being a member of the old school I believe the one solution likely to succeed is what was proposed by Mangaliso Sobukwe: take what is good from the East and what is good from the West and mix with your own.
Sanctions Are a Road to Our Grave
Call to slash govt bureaucracy

STANDARD Bank economist Nico Cypionka has called for government to slash the size of the bureaucracy to prove it is serious about curbing spending and trimming the role of the state in the economy.

He says government has managed to cut capital outlays and maintenance.

"The performance .. though laudable, is not yet evidence of a meaningful re-structuring of government's finances," he said.

Describing the bureaucracy of central government as a massive problem, he noted the staff complement grew by 2.6% in the year to September 1999, "higher than employment growth in the private sector."

The number of civil servants in the self-governing states, excluding the TBVC states, according to Central Statistical Services, rose by 5% to September 1999 and accounted for more than 20% of central government's staff complement. Their salary bill rose by a massive 42.5%.

Another development Cypionka regards as disconcerting is the employment explosion by agricultural marketing boards, up 11%, with salaries up 23%

Growth in the total public sector wage bill (up 20%) was restrained by the small rise in that of public enterprises (4.3%). Central government's wage bill, by contrast, rose by almost 30%.

See Page 3
Debts growing as fast as economy is slowing

PRETORIA — The debt pile-up has begun to escalate in step with the economic slowdown and the trend will continue for the rest of the year, economists warn.

According to Central Statistical Services, the number of debt summonses issued in the last three months of last year increased by 9.8% to 213,407 compared to the same period of 1988.

Civil judgments for debt increased by 6.1% to 107,817.

Stellenbosch Economic Bureau head Ockie Stuart said the downswing was just beginning to be felt. Its impact would become more apparent as the year wore on.

Debt and repossessions would almost certainly increase in tandem with the economic slide.

An aggravating factor was that inflation was not likely to be reined in to any great extent and that salary and wage increases would mostly be below the inflation rate.

Disposable incomes would therefore tend to shrink.

Government workers would have to brace themselves for the likelihood of increases from April which would fail to compensate for inflation.
Mandela: Three main issues

1. Economic reconstruction
2. Inequality reduction
3. Reunification

Economic reconstruction

- Four key areas:
  1. Agriculture
  2. Industry
  3. Infrastructure
  4. Education

Inequality reduction

- Focus on education and skills development
- Addressing wealth disparities
- Promoting social cohesion

Reunification

- Addressing historical injustices
- Promoting peace and reconciliation
- Strengthening democratic governance
Socialists would be happy with SA’s ‘state monopoly’ system

Finance Staff

Pro-privatisation author Don Caldwell has taken the Government to task over its R16 million “Free Enterprise is working” campaign.

Nor does he spare the Government over what he claims to be its mishandling of the Iscor privatisation.

He says the campaign is misleading because South Africa does not yet enjoy free enterprise.

In the new edition of his book South Africa: The New Revolution, launched in Johannesburg last night, he says:

“The Government likes to say it’s promoting and preserving a free-market economy. Which economy is it talking about?”

The book complains that today’s economy is socialist, kept in shackles through government-owned enterprises, complicated taxes, exchange control, import control, 22 agricultural boards, restrictions on black land ownership, shop-hour laws, high excise duties, export subsidies, industrial development handouts, a high petrol tax, restrictions on hawkers and backyard businesses, minimum wages and meddling labour legislation.

Mr Caldwell says that if a different bunch of socialists took over the Government, they would be happy to find that such monopoly industries as the airlines, railway and harbours, TV and radio services, Post Office, telephone service, central bank and electricity were already nationalised.

“It’s just a bad joke to consider this a free-enterprise economy and pretend that free enterprise is working,” he says.

“If it were really serious, Pretoria could usher in capitalism overnight.

“It’s just a matter of scrapping costly rules, regulations, policies, Acts, boards, committees, councils and projects.”

**Iscor mistake**

To illustrate his point Mr Caldwell says the Government’s mistake was to sell off Iscor to a handful of companies and individuals, rather than giving it away to all the people.

He says the Government should embark on a one-person, one-share privatisation giveaway to make South Africa a 100 percent nation of capitalist shareholders.

Better yet, the Government should issue some shares and hold on to the rest. “It could have issued 300 million Iscor shares and given 10 to each man, woman and child,” he says.

“The shares would have been worth about R10 each; the portfolio of 10 shares, about R100. If the Government then deregulated share trading, general dealers across the country could become mini-stock exchanges and deal in Iscor shares.

“South Africans desperate for money could have cashed in their shares immediately. Others could have used the shares as collateral to get loans or simply have enjoyed dividend income.

“As the Government progressed with one-person, one-share privatisation — everything from Eskom to the Post Office to the Kruger National Park — all South Africans could build up a sizeable portfolio of shares, as well as a stake in a capitalist economy.”

Mr Caldwell says a share giveaway would counter the socialist argument that privatisation is unfair to blacks because they cannot afford shares. “Nobody would have to pay a cent for the shares, so that argument falls away,” he says.
Mandela to talk to Relly and Bloom

By Michael Chester

Mr Nelson Mandela is expected to hold talks in Soweto on Monday with two key South African business leaders to exchange views on possible new economic scenarios.

The first session will be with Anglo American's chairman, Mr Gavin Relly, who has reacted with alarm to Mr Mandela's suggestions that such business sectors as the mines and banks should be nationalised.

Most businessmen are also disturbed by Mr Mandela's suggestion that sanctions be maintained to continue pressures for faster reform.

The second round of discussions will be with the Premier Group's former chairman, Mr Tony Bloom, an ardent supporter of reform who left South Africa last year to settle in Britain.

He is expected to arrive at the weekend.
Sanlam chief optimistic at govt moves

The steps taken by government to confront the country’s political and economic problems gave cause for optimism, Sanlam chairman Abie van den Berg said at the life assurer’s AGM in Cape Town yesterday.

However, he expressed concern at the “drastic weakening” in the level of personal savings, estimated to be 2% of personal disposable income, in 1989.

Inflation and high taxes affect real savings returns so adversely that it is often not worthwhile to save in the short term.

Van den Berg said the pursuit of real interest rates should contribute significantly towards improving this trend, adding that action to lower inflation and decrease the impact of taxation on the willingness to save would also be decisive.

Government could be assured, he said, of Sanlam’s support in its economic strategy and he called for the “wholehearted cooperation” of the private sector.

He said President F W de Klerk’s opening of Parliament speech and subsequent steps taken were of major importance.

Obstacles in the way of the political accommodation of the various interest groups in our country have been removed.

“This will no doubt make a major contribution to a more stable and relaxed domestic situation and the normalisation of SA’s foreign relations.”

Van den Berg called on the private sector to co-operate with government to achieve a reduction in the economic role of the public sector; the reallocation of state funds and stricter control over their use; a decrease in the tax burden, particularly of individuals; the promotion of deregulation and privatisation and the lowering of the inflation rate.

The goals could be reached only if pursued within the framework of a comprehensive strategic plan, he said.
Privatise by giving free shares to all

financial editor
STATE-OWNED enterprises should be privatised by giving free shares to all SA citizens, both the MD of Job Creation (Pty), IJ Hetherington, and author Don Caldwell suggest. But there are differences in the way each thinks this should be handled.

Hetherington, whose non-profit-making organisation aims at uplifting living standards in areas of high unemployment, made the suggestion at the annual dinner of Transkei Chamber of Commerce in Umtata.


Hetherington said that both apartheid and socialism distributed poverty.

"Nationalisation is an issue which has been raised by Mandela and other ANC members. As far as I can make out, the issue the ANC wishes to address — correctly, in my view, is that of putting right the historical economic injustices and distortions caused by past racism."

The business community should enter the debate and make alternative suggestions which would revive, rather than kill, the economy.

"We could go some way towards putting right the economic injustices of racism by further privatising rather than by additional nationalising."

"But by privatising in a particular way and differently from the way Iscor was recently privatised."

"What I have in mind is that the share capital of SATS or Eskom could simply be divided by the number of adults in the whole country and an equal number of shares could be given to each adult."

"There is nothing wrong with this approach and there are precedents for it overseas. Who, after all, owns SATS and Eskom? It is the state. And who is the state? It is the citizens of the country."

"The new, updated version of Caldwell's book was launched yesterday. In it he says the government's mistake was to sell off Iscor "to a handful of companies and individuals" rather than giving it away to all the people."

"He suggests the government should embark on a "one-person, one-share" privatisation giveaway to make SA a nation of capitalist shareholders."

"Better yet, he says, the government should issue some shares and hold on to the rest."

"It could have issued 300m Iscor shares and given 10 to each man, woman and child in SA," Caldwell writes.

"The shares would have been worth about R10 each — the portfolio of 10 shares about R100. If the government then deregulated share trading, general dealers across the country could become mini-Stock Exchanges and deal in Iscor shares... And South Africans desperate for money could have cashed in their shares immediately. Others could have used the shares as collateral to get loans or simply have enjoyed dividend income."

"As the government progressed with one-person, one-share privatisation — of everything from Eskom to the Post Office to Kruger National Park — all South Africans could build up a sizeable portfolio of shares, as well as a stake in a capitalist economy."
ERKENNING VERLEEN AS KONSUL
Hierby word bekendgemaakt dat aan mnr. Günter Hans Erdmann met ingang van 9 Oktober 1989 erkenning verleen is as Konsul van die Bondsrepubliek Duitsland in Kaapstad, met die provinsie die Kaap die Goeie Hoop as sy regsgebied.

Mnr. Erdmann is die opvolger van mnr. H. Taubel.

(72/154/4)

DEPARTEMENT VAN FINANSIES
No. 386 23 Februarie 1990
RENTEKOERS VAN TOEPASSING OP STAATSLENINGS
Hierby word bekendgemaakt dat die Minister van Finansies ingevolge artikel 26 (1) van die Skatkiswet, 1975 (Wet No. 66 van 1975), die standaardrente koers van toepassing vanaf 1 Maart 1990, en tot nadere kennisgiving, op lenings deur die Staat toegestaan uit die Staatsinkomsfondos op sestien komma twee vyf per sent (16,25 %) per jaar vasgestel het.

Bogenoemde standaardrente koers is van toepassing vanaf 1 Maart 1990, en tot nadere kennisgiving op alle trekings van lenings uit Staatsgeld, uitgesonderd lenings ten opsigte waarvan ander rentekoers spesifiek deur wettensgewing of die Minister van Finansies gemagtig is.

DAEPARTEMENT VAN JUSTISIE
No. 323 23 Februarie 1990
INSTELLING VAN 'N HOF VIR KLEIN EISE VIR DIE GEBIED SUIDER-HARTS
Ek, Daniel Pieter Antonie Schutte, Adjunk-minister van Justisie, kragtens artikel 2 van die Wet op Howe vir Klein Eise, 1984 (Wet No. 61 van 1984)—

(a) stel hierby 'n hof vir die beregnig van eise ingevolge genoemde Wet vir die gebied van die distrikte Warrenton, Hartswater en Christiana in;
(b) bepaal hierby Warrenton as die setel, van genoemde hof; en
(c) bepaal hierby Warrenton, Hartswater, Christiana en Jan Kempdorp as plekke in daardie gebied vir die hou van sittings van genoemde hof.

D. P. A. SCHUTTE,
Adjunk-minister van Justisie.

EGSKIEDINGSHOWEREËLS
Die Staatspresident het kragtens die bevoegdheid hom verleen by artikel 10 (4) (a) (x) van die Swart Administrisiewet, 1927, Wysigingswet, 1929 (Wet No. 9 van 1929), die volgende reëls uitgevaardig waarby die sittingsstye en plekke van Egskeidingshowe vir 1990 bepaal word:

DEPARTMENT OF FINANCE
No. 386 23 February 1990
RATE OF INTEREST ON GOVERNMENT LOANS
It is hereby notified that the Minister of Finance has in terms of section 26 (1) of the Exchequer Act, 1975 (Act No. 66 of 1975), fixed the standard interest rate applicable from 1 March 1990, and until further notice, to loans granted by the State out of the State Revenue Fund at sixteen comma two five per cent (16,25 %) per annum.

The above-mentioned standard interest rate is applicable from 1 March 1990, and until further notice, to all drawings of loans from State moneys, except loans in respect of which other rates of interest are specifically authorised by legislation or the Minister of Finance.

DEPARTMENT OF JUSTICE
No. 323 23 February 1990
ESTABLISHMENT OF A SMALL CLAIMS COURT FOR THE AREA OF SOUTHERN HARTS
1. Daniel Pieter Antonie Schutte, Deputy Minister of Justice, under section 2 of the Small Claims Courts Act, 1984 (Act No. 61 of 1984)—

(a) hereby establish for the area of the Districts of Warrenton, Hartswater and Christiana, a court for the adjudication of claims in terms of the said Act;
(b) hereby determine Warrenton as the seat of the said court; and
(c) hereby determine Warrenton, Hartswater, Christiana and Jan Kempdorp as places in that area for the holding of sessions of the said court.

D. P. A. SCHUTTE,
Deputy Minister of Justice.

DIVORCE COURTS RULES
The State President has, under and by virtue of the power vested in him by section 10 (4) (a) (x) of the Black Administration Act, 1927, Amendment Act, 1929 (Act No. 9 of 1929), made the following rules whereby the times and places for the holding of the Divorce Courts for 1990 are appointed:
Rain drain

Delayed rains at the start of the 1989-1990 summer seriously damaged the Free State wheat crop. This followed a late and successful maize crop, which had contributed substantially to strong third-quarter agricultural growth. The result was a sharp drop in fourth-quarter agricultural GDP, when third-quarter growth of 67.8% was followed by a negative 42.6%.

Among other factors contributing to the fourth-quarter decline, says SA Agricultural Union economist Koos du Toit, were:

☐ Meat prices’ failure to achieve the usual Christmas increases, as a result of resistance to earlier price rises. Consumers delayed purchases or turned to substitutes; and
☐ A decline in the world price of wool, which cut the value of the wool clip.

More important than unavoidably volatile quarterly changes is performance over the year, says Central Statistical Service (CSS) director George Mills. Despite the fourth-quarter dip, agriculture way outperformed the rest of the economy in 1989, with growth of 10.3%, to R8.3bn. It contributed 0.5 percentage points to total GDP growth of 2.1% to R124.5bn, according to a CSS release last week. This compares with growth in total GDP in 1988 of 3.7% to R121.9bn. All totals are given at constant 1985 prices.

Non-agricultural growth, which peaked in the second half of 1988 with annualised quarterly growth rates of 6.4% and 5.2%, was well down in 1989. Quarterly figures were 0.1%, -0.3%, -2.6% and 2.5%. In the year it grew only 1.6%.

Mining “recorded virtually no growth” — from R16.5bn in 1988 to R16.6bn (again, at constant 1985 prices.) Secondary industries grew only 1.2%, contributing 0.4 percentage points to total GDP growth, while tertiary industries grew 2.3%, contributing 1.1 percentage points to the total.
Now the union move in on the 'nationalise' row

By EDDIE KÖCH

SOUTH Africa’s powerful labour movement plans to intervene in the public debate that has raged since Nelson Mandela announced he favoured nationalisation of key sectors of the economy.

"The Congress of South African Trade Unions (Cosatu) will enter the debate in a big way," the federation’s general secretary Jay Naidoo told the Weekly Mail.

"As a mass working class constituency, we intend to have a decisive role to play in shaping the nature of a post-apartheid economy." Cosatu commissioned a team of leading economists and academics two years ago to research key areas of the economy. This study will now be speeded up to facilitate debate and decision-making in the labour movement.

Mandela’s recent restatement of long-standing ANC policy on nationalisation has caused a panic on the Johannesburg Stock Exchange and a barrage of outrage from business leaders.

"Our view is that the primary objective of the ANC’s policy on nationalisation was to enable a democratic government to have access to resources in order to redress the inequalities caused by apartheid," said Naidoo.

"The juridical ownership of enterprises is, however, not as crucial as the need to ensure that workers have a say in determining policies that a democratic government will take on the economy and a range of other issues that affect our members such as housing, education, investment and job creation."

A ferment of thinking within Cosatu, as well as the African National Congress, is underway, says industrial sociologist Duncan Innes in the latest edition of his newsletter Labour Brief. This is due to three factors:

- Rank and file members of some big unions in Cosatu, who see capitalism as being responsible for their poverty and immiseration, are demanding even more radical socialist programmes than those outlined in the Freedom Charter.

- Leaders of all the main resistance groups are experiencing a need to refine old policies — many of which were adopted in the 1950s — as a result of the collapse of socialism in Eastern Europe.

- The government’s sudden lurch away from repression in favour of negotiation has forced the ANC to consider the feelings of liberal businessmen and Western governments, whose support it will need when it comes to bargaining over a new constitution.

"We are committed to building a productive economy and ensuring that a substantial part of the wealth generated is used to develop an acceptable standard of living for all, in particular black workers and the unemployed," said Naidoo.

"We are prepared to enter into negotiation with whoever — employers as well as the apartheid state — to discuss these objectives."

"Weekly Mail 23.12 - 11.1.90"
CONSEQUENCES OF NATIONALISATION

A stake in the heart

Even as a “quick fix” for inequality, nationalisation would be a disaster

Increasing gold and mineral production — and the way in which it is financed — is essential if the SA economy is to return to the prosperous years of the Sixties and Seventies and begin restructuring itself so that all who live here may participate in its fruits, according to their abilities and the risks they are prepared to take.

To achieve this, some very fundamental changes are going to have to take place, not only in the thinking of the National Party government. Business, for its part, is going to have to accept and encourage greater participation of all stakeholders, especially workers, in its endeavours.

But the most fundamental change is going to have to take place in the thinking — or conspicuous lack of it — of black leadership groups, such as the ANC and PAC. They have raised the acquisitive expectations of so many ordinary black folk to such a pitch, that their fulfilment could be a major political problem in a more egalitarian and just post-apartheid SA. Ten years after independence, Zimbabwe’s Robert Mugabe is still struggling to deliver.

Contrary to the conventional wisdom of a socialist world now in tatters, nationalisation of the mines and banks would not assist in any egalitarian restructuring. It would debilitate entrepreneurial endeavour among blacks, discourage exploration and investment and, by politicising business, lead to a misallocation of resources that would impoverish the country.

Very simply, nationalisation is not and cannot ever be in the interests of black South Africans. According to Chamber of Mines economist David Kennedy, the gold mines during 1989 paid in tax and lease some R1.5bn to the State. Their intended capital expenditure over the five-year period 1990-1994 stands very approximately at R30bn in nominal money and will be higher if inflation is not curbed.

That will at best keep gold production on a modest growth path, replacing mostly the depleted production of worked-out older mines.

Also of significance is the considerable proportion of mines whose costs of production in the September quarter were higher than the gold price received and a greater number (including former stars such as Blyvoors) with costs only marginally below the
important source of foreign currency would be wiped out, along with the jobs of those blacks now employed in gold mining. Across the board, much the same arguments apply to all forms of mining.

What about banking? A senior economist fears that nationalisation of banks would have a particularly deleterious effect on the allocation of economic resources in the economy as a whole, because of the key role of banking in providing finance. There is a risk of highly politicised lending policies, through efforts at affirmative action of one sort or another. And the administrative process of credit allocation, he argues, would itself become less efficient through the same mechanisms which operate in any nationalised industry.

The economist also notes that SA has suffered enough in the past from distorted allocation of resources through interest rate subsidisation applied for the benefit of farmers. What could happen if banks were nationalised could be far worse. Other banking sources point out that links with correspondent banks which provide inter-bank loans in the form of trade credits could also suffer gravely after nationalisation — with serious implications for the foreign reserves and the value of the rand. Inter-bank lenders rely heavily on the accepted parameters of banking risk — the key financial ratios. These ratios would suffer serious attrition after nationalisation, when banks came under political pressure to lend to unsound risks.

Then there are the general macro-economic implications of wholesale nationalisation — the problems of compensation and loss of confidence. The total capitalisation of gold, platinum, coal and diamond mines, at the end of January 1990, amounted to some R100bn (see table). If we include any conceivable definition of "monopoly industry" to banking on the nationalisation slate, we can easily add another R100bn in compensation.

The issue of that amount of government paper would have catastrophic results for the market in gilts — and in any event is deficit finance on a grand scale. The results for the inflation rate and the value of the currency hardly bear comment.

Lastly, there is the implication for confidence. The flight of skills would know few bounds, not to mention the covert flight of capital, at any cost, regardless of exchange controls. If full compensation were not paid, the price in loss of skills would be even higher. (Compensation out of future dividends must be regarded as a limited benefit, on present value considerations.)

It needs to be emphasised that the savings of middle-income South Africans, white and black, are invested in mining houses and so-called monopoly industries, through the intermediation of the life assurers. It is nothing short of specious Marxism to believe that the giant companies belong mainly to a few families. So any loss of confidence would sweep across the board and not be confined to the business community.

Finally, we have to remember that SA is still a developing country in terms of per capita income. To improve living standards for the deprived requires wealth creation (not expropriation) and reconstruction on a grand scale. If the assets of the country’s largest mining group were divided equally among each member of the population, each one would receive about R1bn.

Post-nationalisation, to talk of money from overseas would be absurd. And that money — nobody should forget — would have to come from the international free enterprise system. The Soviet bloc is now emerging as a mendacious hope for injections of international money. Its days of providing subsidies for incompetently run client states have all but ended.

But there is even worse lurking behind nationalisation proposals. At the end of the road is the ultimate fear that they would be the thin end of the wedge, comprising the start of a process of complete delegitimisation of white property rights, including agrarian land. This would be the sure recipe for complete ruin of the economy and mass emigration.

We have to acknowledge that the ANC leadership, sophisticated or not, is to an extent the prisoner of its constituency, which has been fed naive and traditional Marxist propaganda for at least two generations.

The way out of this dilemma is to allow free markets to deliver the goods to the ANC's followers. One contribution can come from government, which has come to recognise that certain things need to be done, in the words of President F W de Klerk, to improve the share of "public goods" provided for blacks.

This would undoubtedly cover areas such as education, where the moral claim is strong and the economic payback in the form of faster growth, greater productivity and social stabil-
Lekota: US will retain sanctions

JOHANNESBURG. — United Democratic Front (UDF) national publicity secretary Mr Patrick "Terror" Lekota says he has persuaded US government officials that the time is not yet ripe to lift sanctions against South Africa.

Mr Lekota, who returned yesterday from a tour of the US, said he had also convinced the Assistant Secretary of State for African Affairs, Mr Herman Cohen, that continued sanctions were needed to pressurise the De Klerk administration towards negotiation.

He said Mr Cohen had previously expressed the hope that sanctions would be lifted in view of the recent reform initiatives in South Africa.

Mr Lekota, however, indicated a flexibility on the part of the UDF towards the lifting of sanctions, saying the organisation was not rigid on negotiable issues.

"When we are satisfied that the process (negotiations towards full democracy) is in motion, we will concur with those calling for the lifting of sanctions. It is not in the UDF's interests to smash the South African economy," he said.

Mr Lekota also said he had put at ease US congressional staffers who had expressed concern at the UDF and ANC's stance on the nationalisation of major industry.

Nationalisation, Mr Cohen was told, was needed by a new, democratically elected government to address major economic issues such as the squatter problem.

Afrikaners had practised nationalisation of industry, for example in the steel industry, for many years for the purpose of financing apartheid structures.

To suggest that the South African economy would suffer because of nationalisation policies practised by the new-order government was racist, Mr Lekota said. The economy had survived under Afrikaner nationalisation policies.

Simon Barber reports from Washington that sanctions proponents in the US Congress yesterday vowed to block any move by the administration to suspend the effective US veto on South African borrowings from the International Monetary Fund.

Mr Herman Cohen told a congressional panel that such a move was being "studied" by the administration and might be permissible under existing law.

Congressman Howard Wolpe, chairman of the House Africa Subcommittee, said he believed Pretoria was already sounding out the fund on the possibility of a loan.

Mr Cohen said he was "unaware" of any such discussions.
ANC's nationalisation 'policy' only guideline

By KEN VERNON, Argus African News Service

THOSE who have not understood the African National Congress (ANC) policy on nationalisation can cheer up—the truth is the ANC does NOT have a nationalisation policy.

The organisation's foreign affairs spokesman, Mr Thabo Mbeki, said shortly after their national executive committee meeting last week that what the organisation had were "guidelines", according to Mr Mbeki.

The foundation for these devolve to the 35-year-old Freedom Charter.

They are not hard enough to be called a "policy", he says — and to judge by the varying statements on the topic by various ANC leaders in past weeks— not even the guidelines are universally agreed.

VAGUE IDEALS

Most of the ideals included in the Freedom Charter are vague enough to be interpreted virtually any way one wants, with the exception of those pertaining to nationalisation.

These paragraphs read: "The mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole."

"All other industry and trade shall be controlled to assist the well-being of the people."

While Mr Mbeki says nationalisation is not mentioned anywhere in the Freedom Charter (the word itself is, indeed, not mentioned), the above paragraphs unambiguously mean nationalisation.

Privately, many leading members of the ANC's "new guard" dismiss the nationalisation bogey...

Mr Mbeki says: "The reality is that 99 percent of South Africans have nothing that could be nationalised," implying that they have, therefore, nothing to fear from nationalisation.

He says the 'present economic system has been distorted by monopolies and cartels and the system has gross inequalities and imbalances that have produced great poverty within the black sector."

"Any democratic government will have to alter the structures inside the economy to create a system that can redress these imbalances.

"The issue is: who controls the wealth in order to effect more equitable system of distribution. The Afrikaners understood this when they used the helpmekaar programme to build their power base such as Sanlam."

He says nationalisation remains an ANC option in the restructuring of the economy.

"I have been told that the economy is so finely balanced that both nationalisation and increased taxation will derail it and the only way to effect a re-distribution of wealth is to create more wealth that can then be re-distributed—but I cannot accept this argument."

TAKEN BY SURPRISE

The initiative of President F. W. de Klerk has taken the organisation almost completely unawares, events have moved faster than anyone could have imagined, especially for an organisation such as the ANC, dedicated to long-winded, theoretical conferences leading to group decisions.

So, Mr Mbeki's candid admission is seemingly correct: taken by surprise, the ANC does not have an economic policy capable of being trottled out.

The result could be that nationalisation could be one of the first topics for debate when any negotiation process finally gets under way—and one of the first casualties.
THE restructuring of the South African economy would involve more emphasis on inward industrialisation — including a more dynamic approach to urbanisation and more emphasis on labour-intensive methods of production, President FW de Klerk said last night.

"This involves the creation of new jobs by expanding infrastructural developments such as special housing projects for lower-income people, a more dynamic approach to urbanisation and more emphasis on labour-intensive methods of production," he said.

Mr De Klerk was speaking at the closing dinner of the annual conference of Frankel, Kruger, Vinderline Inc in Cape Town.

Restructuring would also include a deliberate policy of reducing the role of the government in the total economy, an aggressive programme of deregulation and privatisation, and a restrictive monetary policy, he said.
To many white South Africans, nationalisation is something that will rob them of everything from their life savings to their hard-earned pensions.

The ANC has mentioned nationalisation in terms of mines, banks and of breaking up monopolies.

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NALISATION

ery or righting of economic wrongs?

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What then, would be the effect of nationalising a bank? If this was done without compensation — if the bank was simply declared a state corporation — then the first to suffer would be shareholders.

Local shareholders would lose their investments as would overseas shareholders who would probably then turn their backs on South Africa forever.

But this form of nationalisation does not mean that investors — those ordinary people with savings and fixed deposit accounts — would lose their money. At worst their interest earnings might drop, depending on how efficiently the bank was managed under state ownership.

Self-defeating

On the other hand, nationalisation could take place on a basis of partial ownership where the state "buys" a share or even in the case of total ownership, compensation could be paid so that no one loses out. However, full compensation — the market value of shares — would be self-defeating and therefore highly unlikely.

Recent history has shown many countries nationalising their banks. An example is France. When banks were nationalised there a few decades ago, there was an immediate benefit to the man in the street. Banking became a free service. Those who paid for all these free services were the borrowers. Interest on loans and overdrafts were higher than they would have been if the bank had not been nationalised.

And strangely enough the nationalised banking system in France worked very smoothly and extremely efficiently. However, in recent years service charges have once again appeared and the era of free banking has ended.

So, while the nationalisation of banks need not necessarily be to the detriment of the man in the street, it should be remembered, however, that many pension funds are bank shareholders and should nationalisation cause the value of a bank's shares to fall considerably even or even disappear completely, this would impinge upon the performance of any pension fund involved. When in turn would depress the value of individual pensions with the result that contributors would find that the amount of money they expected to receive on retirement would decline.

The question of nationalisation of mines appears to be another complex. Indeed, the state would find itself on its neck in money if it owned the mines. But as, for example, roughly 30 percent of the shares in local gold mines are held by overseas investors, nationalisation of the mines would scare off foreign investors to the point where investment capital into South Africa would become as rare as hen's teeth.

In theory, nationalisation of the mines need not have an impact on the ordinary citizen. In fact, nationalisation in general should theoretically allow government to reduce taxes. However, history has shown that this doesn't necessarily happen. Mostly from the point of view that the reason for nationalisation is usually that governments need money for projects that could not normally be financed out of tax revenues.

But what of the monopolies? That handful of companies that dominate the economy — is it possible to argue against the black view that so much economic power is in so few hands that the average South African has lived under for more than 40 years? But will nationalisation solve the problem? If nationalisation will not do any harm, does it not own itself?

The belief, for example, that 80 percent of the shares on the Johannesburg Stock Exchange is owned by a few black monoculture companies is an old chestnut used by critics of the South African economic system as an example of that which is wrong with such a system. It is not strictly accurate, however.

"Controlled" perhaps, but not "owned". And the difference is quite significant. Take the prime "cultural" — the Anglo American Corporation and an example of how it might appear to own shares, but in effect merely controls the benefit for the benefit of tens of thousands of people.

Black consumers

Anglo has a significant stake in Southern Life which in turn is a highly significant stake in African Life. Thousands of predominantly black consumers have African Life assurance policies and a significant portion of the millions of rand of premium income that flow in from these policies every month might be invested in public company shares in order to gain maximum benefit for policy-holders.

But while ultimately Anglo American controls these shares, it does not own them.

This taken into account the shares actually owned by this handful of so-called monopoly companies probably amount to a maximum of about 30 percent and not 80 percent of all JSE shares.

But the monopolies that perhaps the ANC is quite justifiably intent on getting rid of, are those that benefit from legislation precluding competition. South African Airways is an example of such an enterprise.

So, given that the principle of nationalisation is generally fraught with economic disadvantages, what are the alternatives there?

There are, it seems, many manners of skimming the cat.

Blacks perceive that a small group of whites dominate the economy, in which the prevailing policy is to make the rich richer and the poor poorer.

For example, Professor Pieter le Roux of the Department of Development Studies at the University of the Western Cape, believes that social democracy is the answer.

"It is a social democracy — a calculated but limited state intervention in the economy — that makes the most sense in providing equal opportunity has been made up, or for a move towards a more radical socialism if desired.

There are many such economic options. But at the end of the day, the best compromise will be the one which brings about equality as quickly as possible but which has least impact on the economy — particularly on taxation rates.

Equality is going to cost a lot of money. And whether this comes from nationalisation or from redistribution of wealth, there is a bound to increase in productivity almost certainly curtailed.

Which, in turn, could well create a situation where the very thing the political elite is created to improve the quality of life for black South Africans will at the same time increase their cost of living burden.
A Jobscor for our economic Joweto

LAST week, the Johannesburg Stock Exchange underwent a major downward turn and stock market values fell by 9.8 percent, amounting to R38 000-million.

This decline has generally been attributed to statements from Mr. Nelson Mandela and the ANC regarding economic policy in general and in particular the prospects of nationalisation.

The statements by Mr. Mandela reflected the long-standing policy of the ANC regarding the means that would be used to redress what they believe to be historical laws and practices which have prevented full access to economic opportunity and fulfillment of basic human needs in the black community.

The statements on nationalisation by Mr. Mandela and those reflected in the Freedom Charter are changes of ideological orientation that has been the cornerstone of socialist practice.

Today, it is commonly asserted that ideological framework is not workable as industrial economies head for the 21st century.

In response to Mr. Mandela's and the ANC's proposals, reaction from government and business leaders this week has been strongly critical of the proposals.

Vision

Mr. Barend du Plessis referred to nationalisation proposals as "plundering.

The Financial Mail last week referred to these policies in extreme negative terms. In our view, this is reactive in nature and reflects a gut-level, emotional response.

In spite of the sharp differences of opinion concerning economic policy, and nationalisation in particular, perhaps the debate should begin with the view that South Africa is headed for a non-racial democracy in which all South Africans should enjoy equal opportunity and rights.

This vision must be based on an acceptance of a common and interdependent future.

In our view, the debate concerning economic policy should begin with a joint examination of the problems that stand in the way of this overriding national purpose.

In terms of economic policy, four interconnected objectives must be achieved. These include the equitable distribution of wealth, equal opportunity and access for advancement, the enhancement of overall economic growth and hence job creation, and, finally, the maintenance and improvement of South Africa's global competitiveness.

In the political arena, the initiatives taken by Mr. Mandela and Mr. De Klerk have created an unparalleled opportunity for South Africa to resolve its problems peacefully.

The boldness and speed with which the main protagonists have established a national political agenda has surprised the majority of South Africans.

Economic policy is perhaps as important as constitutional frameworks and the political franchise.

Perhaps both political groupings as well as business leaders need to grasp the thorny nettles concerning economic policy with the same vigour and vision as the political issues are being tackled.

For this to happen, there needs to be a debate in both business and political circles on how to tackle the abovementioned and other economic problems.

Perhaps a lesson can be taken from Mr. Ron Kraybill's suggestions in Leadership magazine concerning political negotiations.

Mr. Kraybill proposed that effective negotiations were conducted when, rather than arriving at the bargaining table, parties voluntarily worked towards a common understanding as to goals and a common definition of the problems.

Both the ANC and other actors may have to follow Mr. Mandela's lead when he commented last week on the nature of compromise.

In his SABC interview, Mr. Mandela suggested true compromise was not at the fringes of issues but rather concerned the most important parts of any negotiation.

Given the goals of a prospective ANC government as well as the goals needed to maintain an effective and viable economy, it is perhaps incumbent on all groups to develop a vision and policy that will include both frameworks and perspectives that are radical departures from current thinking and practice.

Perhaps a bolder approach must be developed in which a unique solution that is effective and suited to specific South African conditions could emerge.

Tax

We are, after all, in Joweto as opposed to Sydney, London or New York.

A wide range of solutions is possible. The question of economic policy in general and nationalisation in particular are possible.

These include, first, outright nationalisation which is being discussed in many quarters.

Second, a taxation policy which could either increase flows to the fiscus or creatively redirect tax flows into programmes that reflect social and economic upliftment.

Third, a new tax policy which would provide for stronger positive incentives to business to support social and advancement programmes.

A fourth option is the examination of the viability of joint ventures either at State or local level.

These could use private-sector managerial skills along with State resources to develop job creation programmes.

May we need a Jobscor as opposed to an Armstead.

Reality

Finally, employee equity ownership within existing corporate structures is an opportunity which has not yet been seriously tackled. Major equity participation, linked to performance and productivity, in which employees are given the opportunity to obtain a significant stake in the organisation in which they work, should be pursued.

As political debate continues, it is becoming clear to all South Africans that our future is a common one and that we are totally interdependent.

If the vision of a unified country is to become a viable reality we need to keep an open mind when examining economic policy choices.

We need to engage each other to search hard for truly creative South African solutions.

We should not leave the final definition of our economic future solely in the hands of the top political actors, who are likely to make unwise and damaging economic compromises.
Barend takes the plunge

Business Times Reporter

The Government has signalled a radical Budget for March.

It has promised a "substantial" decrease in personal income tax over a "period of time" starting this year and "modest" pay increases for public servants.

Economists expect Finance Minister Barend du Plessis to go some way towards matching in "State finance the political changes made by President de Klerk."

This year's Budget is expected to be Mr. Du Plessis's first supply-side Budget aimed at boosting private-sector output by reduction of the tax burden.

Shortages

It is also tipped to be the first Budget in which there will be a large-scale transfer of funds from "defence and strategic spending to health, education and welfare." Value added tax is expected to replace general sales tax in 1991. A clear definition of capital gains is forecast that could transform a stock market plagued for years by shortages of scrip.

Mr. Du Plessis is also expected to say something about the privatisation of Boskor, which could bring in at least R1 billion to State coffers.

"Privatisation Minister Wim de Villiers says personnel involved in law enforcement, security services, nursing and education will get more than the 10% across-the-board increase to be granted to public servants in the budget." Thanks to large savings on consumables, personnel and non-essential "services" because of the end of the Namibian war, analysts expect cuts in security expenditure through law and order will continue to enjoy priority.

President de Klerk and Mr. Du Plessis have hinted at higher "spending" on black education, housing and health services. Development money could be diverted from homelands to black urban areas.

"The import surcharge is likely to be partially scrapped, lopping R1 billion off Exchequer income, complicating tax cuts, and reducing inflation noticeably. Interest on State debt will again be one of the largest spending items."
NELSON Mandela and the ANC appear to have changed their stance on the concept of nationalisation of certain economic sectors in the event of their assuming political control in the country.

The question of the effects and desirability of sanctions, have also forcibly been brought to the foreground following the ANC's call for the reinforcement of the economic vendetta against South Africa.

An important by-product of the nationalisation debate has been the oft-acclaimed government policy of privatisation of all sectors of economic activity in the country.

Mandela's release from prison has met with universal approval - with the exception of a handful of Conservative Party diehards. The situation, however, seems to have altered somewhat after his Soccer City rally speech two days after his release.

His image of "a fine old fellow", particularly in the eyes of the white liberal section, appears to have changed to that of "a leopard never changes its spots". This was after he had reaffirmed the ANC's economy policy as contained in the Freedom Charter adopted by the organisation in 1955.

In subsequent interviews, Mandela maintained that allowing the status quo to continue in a free and democratic South Africa would be tantamount to the betrayal of those who had been dispossessed by apartheid. The apartheid system, by its very functioning, had deliberately designed a situation which rendered blacks impotent in the economic race.

It would therefore only be morally fair for those who had been at a disadvantage for about half a century to have their share of the national economy without the hazards of an open market system under South African circumstances.

Mandela's statements caused an outcry from corporate business as well as in government circles.

One of the sharpest reactions came from Finance Minister Barend du Plessis who said the ANC economic policies amounted to nothing other than theft.

With big business and commerce still reacting to the Mandela/ANC statement on nationalisation and the Finance Minister dubbing the move to tighten the economic vendetta, REVELATION NTOULA reports:

Another important reaction came from the director-general of the Chamber of Business, Raymond Parsons. He said the greatest impediment to liberty in the world was economic poverty and that the nationalisation of key South African industries would lead directly to such poverty.

Black intellectuals thinking today share much with that of Afrikaner nationalist intellectuals when the National Party came to power in 1948.

Those Afrikaners were bent on "righting" past wrongs and claimed "English capitalism" led to Afrikaner oppression. They vowed to nationalise the mines and other key industries.

In the pursuit of their goal, state concerns like the Post Office, Railways and Harbours and parastatals like the SABC, Iscor, Eskom and others became synonymous with sheltered employment.

It was also in these areas that the job reservation regulations were vigorously applied.

Afrikaners must have realised that their quest for "redistribution" of wealth could only come about when they used the apparatus of the State (nationalisation).

Furthermore, it is clear from history that the Afrikaner has always been suspicious of competing openly in the market place.

It therefore becomes ironic that the Afrikaners who today own the Santamts and have left a heritage of sheltered employment in literally all key positions in the civil service, should raise their eyebrows when anybody else speaks of nationalisation.

Du Plessis terms it outright theft and by definition, a criminal offence. If that is the case, Mandela would surely be the second to be indicted. Who then would be the first?
VAT in 1991

despite snags

FINANCE Minister Barend du Plessis is expected to announce in his Budget speech that VAT will be implemented by October 1991.

But he will do so against advice from accounting firms.

Pim Goldby senior consultant Rob Collins believes that the implications of VAT will be so wide that the Government should remain with an amended version of the Sales Tax Act.

Comment

Mr Collins says: "We suspect that a draft version of the legislation will be released for public comment within six months."

"The Government will discuss it with financial institutions, farmers, the mining industry, exporters and importers, professional services, the TBCV countries, Namibia and the BLS countries."

"The feedback will probably be reviewed in Parliament and we expect the new tax to be implemented in mid-to-late 1991."

By Robyn Chalmers

The biggest impact of the new tax will be on accounting systems, placing a huge administrative burden on both Inland Revenue and business.

It could also have a negative effect on the ordinary man because it could fuel inflation, especially if the VAT rate is higher than for GST."
Nationalisation

the kiss of death

NATIONALISATION would be the kiss of death for mining development in SA, warns Brian Gilbertson, a director of Gemmin.

At the Frankel Kruger Uranine investment conference in Johannesburg this week, Mr Gilbertson spelled out the formidable technical and financial risks to be evident in new mining ventures.

"Of one thing you may be certain: there will be no new deep-level gold mines in a nationalised industry. Under that scenario we would also see a pretty rapid end to many promising exploration programmes."

Foregone

Mr Gilbertson was one of four SA speakers at the conference who warned against nationalisation.

Sascorp managing director Marinus Dalig listed it as one of six negatives in the SA economy, but he did not think the threat was all that imminent.

Mr Dalig said: "It is not a foregone conclusion that large parts of the SA economy will be nationalised. President De Klerk and his Government are clearly committed to a market-oriented economy.

Devastating

"Surveys among blacks show that the majority are committed to such an economy and the case is unlikely to hold even in ANC circles none less than Joe Slovo... has said that there may be better methods than nationalisation for the State to achieve its aims."

Mr Du Plessis... made a similar point, that his Government could achieve a better quality of life for all in SA.

Mohale Mahanye, managing director of Mapower Assignments Consultants, warned: "We in SA ignore the devastating consequences that now engulf nations in Europe, Africa and the rest of the world at our peril... we have a great opportunity to improve the wellbeing of all people, especially blacks. But let us not spoil it by pursuing misguided economic policies that have clearly failed here and elsewhere."

Finance Minister Barend du Plessis said that for all its faults, the Government had never nationalised industries. Like many other developing countries, SA had merely made large scale capital investments in industries regarded as too risky by the private sector. Through privatisation it was returning these investments to private ownership.

Mistakes

Mr Du Plessis said: "To talk of nationalisation is to turn the clock back 100 years. The conclusion is clear and Western Europe is a stark reminder of the folly of Marxism."

"There you have similar types of people with vastly different values. Nationalisation and redistribution are recipes for stagnation and poverty. I believe good sense will prevail in SA."

Mr Du Plessis acknowledged past mistakes. One was excessive reliance on monetary policy and combined fiscal policy. He admitted that Budgets had lost credibility and expressed determination to rectify this.

Although reluctant to disclose anything in his Budget scheduled for March 14, Mr Du Plessis said the R1 billion contingency reserve set aside last year was virtually intact.

He warned that spending on white health and education would tend to stagnate while expenditure on more skilled and semi-skilled groups would increase.

An American delegate asked Mr Du Plessis about SA's allegedly huge oil stockpile.

Blockade

Mr Du Plessis replied: "It is true that a threat of a blockade of supplies we have made an immense investment in strategic commodities and industries, such as Staal, Mossas, Armcor and even in the nuclear area, where we were obliged to develop enriched-capacity capability to supply Koeberg."

There were substantial technical spinoffs from these investments but they were bought at a terrible price and distorted spending priorities. The cost to black education and development may have been R8 billion."

"If these pressures reduce, we can change our spending priorities and draw on wealth previously stored for strategic purposes."

Payoff

Mr Gilbertson said mining employed 750,000. Its output was R24 billion, of which R19 billion came from export receipts. It accounted for 12.7% of gross domestic product and 56% of exports.

SA could establish new sources of chrome and manganese ore, coal and platinum group metals more quickly and cheaply than competitor countries. And, to do so would simply lead to an oversupply of the world total market, hence to lower prices and to the impoverishment of the industry and of the country.

He asked whether SA was about to embark on a "third great mining boom" with 15 new gold mines by 2000, six new platinum mines and expansion of chrome, granite, and diamond mining.

"Judging from the growth in their exploration expenditure, from R10 million in 1983 to R254 million in 1987 and probably to R400 million in 1990 — the six big mining houses are betting on the big payoff."

Frightening

Gemmin lifted exploration spending from R15 million in 1985 to R158 million in 1989, a compound increase of 50% a year "because the rate of spending was cut back in the early Eighties and because our geologists have persuaded us that, with new conceptual theories and with new exploration technologies, the payoff might be within our grasp."

Mr Gilbertson said an investment in gold exploration resembled the purchase of an option on the gold price or new technology. The stock market placed no value on such options because mining houses traded at a discount to net asset value.

The Potchefstroom Gap illustrated the option idea. There was no doubt the gold was there, but it lay at depths from 3.5km to 5km. A reasonable increase in the gold price would make the prospect an investment opportunity.

In similar vein, the southern Free State area between Joel, Beatrix, Orpyx, Unisel "and Harmony will almost certainly be mined in time to come."

Mr Gilbertson said the proposed Buffalofontein tertiary shaft illustrated the expense and difficulty of deep-level mining investment.

"Reef existed at 3,500 to 4,000 metres, where "pobody's ever has been before."

The rock mechanic problems were frightening. The shaft would pass through intrusives where strain-bursting would be a problem. There could be unstable areas of rock in shaft sinking. Lacing would have to be in, installed at the sides, where the shot-cored after each cleaning to stabilise shafts.

More than R200 million.
myths and legends

Economic debate

Ken Owen

must dispel some

1

PET

(4)
Informal sector rejects restrictive economic system

Johannesburg. — The informal sector yesterday rejected an economic system which did not encourage free trade.

Responding to ANC hints that sections of a future SA economy may be "nationalised", many black entrepreneurs were non-committal and said they wished to study the matter further.

However, African Council for Hawkers president Lawrence Mavundla said his council was in favour of free trade because it made people more competent through competition.

"We have fought against laws preventing us from operating freely as the informal sector — a clear indication that we are committed to freedom in trade — and we do not want to go back to where we came from," Mavundla added.

Other businessmen, among them, the SA Black Taxi Association (SABTA), were non-committal.

SABTA's projects co-ordinator Tebelo Radebe said on Friday that the issue had not been sufficiently discussed by SABTA's members.

"We understand the reasons for Nelson Mandela and the ANC's call for nationalisation but we do not want to debate the matter in the press before meeting with various political groups," Radebe said.

Black Management Forum's Johannesburg Branch chairman Lot Ndlouv said although the forum had not met to discuss the issue, it was in favour of an open and fair economic system from which the majority of the people would benefit and which would work for the country.

"If the majority of the people opt for nationalisation the BMF will fall in line with them," Ndlouv said.

Richard Maponya, a black businessman, was quoted last week by a Johannesburg newspaper saying the ANC's nationalisation policy was the organisation's bargaining strategy, a trump card, to take to the negotiating table and with which it hoped to win concessions.

Maponya was also quoted as saying that he did not believe the ANC would make the same mistakes as SA's neighbouring countries.

Nelson Mandela issued statements shortly after his release reaffirming the ANC's adherence to a "nationalisation" policy.

However, when concern reigned in the business world Mandela compromised saying the issue would be negotiated with all interested parties.
PROKLAMASIE
van die

 Staatspresident van die Republiek van Suid-Afrika
No. 31, 1990

INWERKINGTREDING VAN ARTIKELS 3 EN 4 VAN DIE WOEKERWYSIGINGSWET, 1989 (WET No. 91 VAN 1989)

Kragtens artikel 7 (2) van die Woekerwysigingswet, 1989 (Wet No. 91 van 1989), bepaal ek hierby 2 Februari 1990 as die datum waarop die bepalings van artikels 3 en 4 van genoemde Wet in werking tree.

Gegewe onder my Hand en die Seël van die Republiek van Suid-Afrika te Kaapstad, op hede die Negende dag van Februari Henduussend Negehonderd-en-negentig.

F. W. DE KLERK,
Staatspresident.

Op las van die Staatspresident-in-Kabinet:
B. J. DU PLESSIS,
Minister van die Kabinet.

GOEWERMENSKENNISGEWING

DEPARTEMENT VAN FINANSIES
No. 451 27 Februarie 1990

REGULASIES KRAGTENS DIE WOEKERWET, 1968 (WET No. 73 VAN 1968)

Die Minister van Finansies het kragtens artikel 16 van die Woekerwet, 1968 (Wet No. 73 van 1968), die regulasies in die Bylæe uitgevaardig.

BYLÆE

Woordomskrywing
1. In hierdie Bylæe beteken "die Wet" die Woekerwet, 1968 (Wet No. 73 van 1968), en het enige woord of uitdrukking waaraan 'n betekenis in die Wet geheg word, daardie betekenis.

814—A

PROCLAMATION
by the

State President of the Republic of South-Africa
No. 31, 1990

COMING INTO OPERATION OF SECTIONS 3 AND 4 OF THE USURY AMENDMENT ACT, 1989 (ACT No. 91 OF 1989)

Under section 7 (2) of the Usury Amendment Act, 1989 (Act No. 91 of 1989), I hereby fix 2 February 1990 as the date on which sections 3 and 4 of the said Act shall come into operation.

Given under my Hand and the Seal of the Republic of South Africa at Cape Town on this Ninth day of February, One thousand Nine hundred and Ninety.

F. W. DE KLERK,
State President.

By Order of the State President-in-Cabinet:
B. J. DU PLESSIS,
Minister of the Cabinet.

GOVERNMENT NOTICE

DEPARTMENT OF FINANCE
No. 451 27 February 1990

REGULATIONS UNDER THE USURY ACT, 1968 (ACT No. 73 OF 1968)

The Minister of Finance has under section 16 of the Usury Act, 1968 (Act No. 73 of 1968), made the regulations in the Schedule.

SCHEDULE

Definitions
1. In this Schedule "the Act" means the Usury Act, 1968 (Act No. 73 of 1968), and any word or expression to which a meaning has been assigned in the Act shall have that meaning.

12316—1
Still makes sense.
Private enterprise economy under ANC, says Mandela

IT SHOULD come as no surprise that the ANC was committed to the nationalisation of certain sectors of the economy, Nelson Mandela said yesterday after meeting Anglo American chairman Gavin Rolly.

At a Press conference in Soweto, Mandela said under ANC rule the economy would remain intact and continue to be based on private enterprise, "but the sectors which we have selected are those which we feel will give us the resources as a government to tackle the problems facing the blacks".

Rolly said they did not discuss nationalisation during their 40-minute meeting, but he said it should be subject to the test of debate and reality.

"The community and international community should not get into a flurry over nationalisation. These are issues for sensible men to discuss."

Rolly said they had talked about the issues which had preoccupied the mining industry over the past 10 years.

"We were able to have a very profitable discussion about the issues relating to future industrial relations and the importance of industrial relations in a new SA."

Andrew Gill

Mandela said they discussed the problems facing management with regard to black trade unions.

"Whites trade unions enjoy the vote and that is why management attaches a great deal of importance to meeting their grievances, and while that situation exists black workers will continue to operate at a disadvantage."

Adele Baleta reports that former Premier Milling chief Tony Bloom also met Mandela yesterday.

He and Mandela — who invited the former SA businessman to his house — discussed only personal matters as the leader was under "enormous pressure".

Mandela praised Bloom — who is in SA for two weeks to attend board meetings — saying he was a "humble and honest man who had done many things for the community which had placed him in the forefront of people seeking basic human rights in the country."

Bloom, an ardent anti-apartheid critic who quoted personal reasons for leaving the country, said he was still passionate about SA and would do whatever was required of him to work for change. He had no plans to resettle here.

Although the climate had changed in SA, Bloom thought it would take time for foreign investment to return.

Asked if he agreed with the ANC's call for continued sanctions against SA, Bloom said: "I am a carrot and stick man finally. Some stick has been needed to reach the current situation in the country."

Addressing the ANC's call for nationalisation, he said it was not a strategy he would choose as he believed it did not work.

SAPA reports Mandela spent almost four hours yesterday visiting an undisclosed number of Diepkloof prison inmates, most believed to be political.
Politics emerges as big market mover

MANDELA-watching is taking precedence over money supply and other figure watching in the markets as politics emerges as one of the major market movers.

Volatility in the gilt market — a factor in options pricing — has more than doubled to above 9 from 4, reflecting the importance of foreign investors. Overseas buyers who had been bullish on SA's political situation now hold about R800m of gilts.

A spin-off of the activity generated by the foreign participation is that the options market has to adjust to a new trading environment. Participants have become wary of writing options and prices have soared.

First National treasurer Ken Russell said: "There was a time when a five-point move in the spot rates was considered fairly excessive. These days, a 25-point move either way is nothing out of the ordinary."

Trying to predict movements of gilts rates on the basis of SA economic fundamentals was a futile exercise, as political perceptions of foreigners had become a vital element. If foreigners start getting out "we've got trouble."

Belief

The financial rand market has calmed down.

"The realisation has taken hold that a new government will not nationalise everything in sight," Russell said.

However, the market is discounting a new economic order in SA with more emphasis on state control and less on free markets. With the violent swings over, the rand has lost about 3% in the past week. It closed at R3.50 yesterday, mainly on creation of financial rands in London as foreigners sell SA equities. They have largely retreated from gilts.

Standard Merchant Bank treasurer Chris Kenny said the rand no longer feared nationalisation — but there was a belief that "some kind of redistribution of wealth would take place."

The fundamentals that should determine the rand's level, such as equity sentiment, had become important again. Quite apart from politics, Kenny said, a view that SA golds had been over-priced in terms of the gold price could also account for the generation of frists in London.

The commercial rand has so far seen only positive spin-offs from political developments. Dollars continue to flow into the market in the form of foreign trade finance. Yesterday the rand hardly weakened against the dollar, in spite of the twin bearish factors of the US currency's strength on foreign markets and gold's weakness. It closed marginally weaker at R2.5450 from Friday's R2.5410 and gained on the crosses.
Next upswing may be long, strong — bank

SYLVIA DU PLESSIS

The upswing commencing in 1992 could well be SA’s longest and strongest economic recovery in more than 20 years, if political factors and foreign economic relations improve sufficiently, says TrustBank.

But despite the promise of a return to financial stability in the early 1990s and to sustained economic growth thereafter, at least two risk factors need to be taken into account.

The bank says in its latest economic review that one danger is rising unemployment, likely to accompany the 1990/91 economic downturn.

"Judging by past experience and seen in the context of political uncertainty and rising expectations, this could produce a renewed cycle of unrest and violence on both extremes of the political spectrum — with highly negative economic effects," it warns.

It expects the dollar to maintain a weak undertone for most of 1990, bringing a rising gold price in its wake and further reducing the likelihood of higher European interest rates.

International trends are expected to help improve SA’s financial position over the next 18 months. This includes the prospect of rising Japanese interest rates during the year in response to an overheated economy and rising inflationary pressures.

"With US interest rates falling and Japanese rates rising, 1990 could well witness a considerable appreciation of the yen against the dollar. Full cover on the yen/dollar leg of planned forex purchases up to a year ahead would appear to be a highly commendable strategy for the relevant SA importers."

Meanwhile, Die Afrikaanse Handelsinsituit said in a statement released yesterday that the SA economy was cooling down more rapidly than evidenced earlier.

The organisation said its view was that the consolidation phase of the economy would take greater effect in the coming months, but while this year would be tough for the business sector, there were positive factors and the economy would start to improve in 1991.
Budget might contain some tax surprises

By Derek Tommey

The Government has generated some excitement among taxpayers by informing public servants that in addition to their 10 percent pay rise they will benefit from the tax cuts in the forthcoming Budget.

This statement, which suggests that the March Budget might have some surprises, was made by Dr Wim de Villiers, a well-known businessman who was recently appointed Minister of Administration and Privatisation to help the Government control its finances.

Minister of Finance Barend du Plessis has been saying for some time that South Africans are over-taxed. However, this is the first intimation that the Government plans to do something about it.

It has been accepted that there will be some tax cuts in the Budget, if only to offset the adverse effects of fiscal drag. This happens when people are given a pay rise to compensate for the decline in the value of money.

But owing to our progressive income tax system, the pay rise puts them into a higher tax bracket and they end up paying a large proportion of the increase in taxes.

Rough calculations suggest fiscal drag has resulted in most people paying about eight percent more in tax in real terms this year than last year and 37 percent more than in 1988.

Taxpayers clearly have reason for complaint as the increases have been accompanied by higher interest rates as well.

On these terms, would have to be drastically reduced if public servants are to be put in the financial position they were in a year ago.

The table takes into account their 10 percent pay rise and assumes a 15 percent inflation rate. It shows that a married couple in the public service earning R1 500 a month last year would need a 28 percent reduction in their tax payments to maintain their purchasing power.

Someone earning R2 500 a month last year would need a 21.7 percent cut in tax. The receipt of this would mean a cut of around 17 percent.

These are large cuts and various officials have warned that the public should not expect much from the Budget.

On the other hand, Mr du Plessis promised last year that the Government was aiming during its present period in power to raise the maximum tax rate from its present 45 percent at R4 000 to 40 percent at R10 000.

A married man reaches 40 percent at R4 000. This suggests Mr du Plessis could afford to cut taxes substantially this year if he wanted to.

The huge savings on defence expenditure and on public service salaries and the expected severe cuts in other state spending should give him enough leeway.

State spending

Any tax cuts, moreover, if offset by reductions in state spending, would not be inflationary. They might even be deflationary if one accepts the dictum that all state spending is inflationary.

The man in the street deserves some relief. So far he has borne the brunt of the Government’s anti-inflation campaign.

But with the corporate sector now about to be squeezed hard, it is no longer so important to pressure the ordinary man.

In fact, as the squeeze on corporations intensifies, the economy could turn down sharply later this year. Increased consumer spending as a result of tax cuts could provide a useful cushion.

One other argument in favour of a significant cut in personal tax is that South Africa’s economic growth rate will remain low as long as personal savings remain at their present parlous level.

Only a reduction in inflation and a major cut in tax are likely to change this situation.
Letters

The problem of redistribution of income and wealth is one of the most pressing issues facing the global economy today. The current system of economic inequality is unsustainable and must be addressed. The solution lies in a more equitable distribution of wealth, which can be achieved through a combination of policies aimed at reducing income inequality. This includes progressive taxation, strengthening labor laws, and improving access to education and healthcare. Failure to address this issue will lead to social unrest and economic stagnation.

Future state action

Redistribution of Face

Business must act on

The 5A economic priorities paper to the meeting between the ANC, EEF, and others in April last December in this respect, which aimed to address the issue of income inequality.

None of the entities addressed the problem of redistribution.

I agree with the inclusion of income redistribution as a key priority. The current system of economic inequality is unsustainable and must be addressed. The solution lies in a more equitable distribution of wealth, which can be achieved through a combination of policies aimed at reducing income inequality. This includes progressive taxation, strengthening labor laws, and improving access to education and healthcare. Failure to address this issue will lead to social unrest and economic stagnation.

The business community has a role to play in this regard. By adopting responsible business practices and investing in the communities in which they operate, companies can help to reduce inequality and promote economic growth.

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Chamber index reflects confidence

‘Even softer landing’ for SA economy

By AUDREY D’ANGELO
Financial Editor

THE economy may be in for “an even softer landing than initially anticipated,” SA Chamber of Business economist Keith Lockwood predicts.

His commentary accompanying the February Business Confidence Index — which, at 95, was unchanged since December — was one of four economic forecasts issued yesterday.

Volkshas economist Adam Jacob says in the Economic Spotlight, that although we are now in a period of consolidation “we may enter a decade of greater economic prosperity than the ’eighties.”

Sanlam chief economist Johan Louw thinks the coming 12 months will bring “more positive than negative consequences for SA”, with a strong possibility of foreign debt being rolled over.

But Nedcor economists take a less cheerful view. They forecast, in their latest monthly Guide to the Economy, that “The ’Nineties are likely to be a decade of constraint and monetary and fiscal discipline.

“IT will be a period of dilemmas and hard choices, particularly with regard to inflation and growth, and will be accompanied by inevitable worsening unemployment and social conditions.

“In short, SA will remain a wealthy country with growing poverty.”

However, they temper this by concluding: “Should world perceptions change and foreign capital become more readily available, the position will become correspondingly easier and more expansionary.”

Lockwood says that although “it is perhaps unrealistic to expect much in the way of tax reform” there should be scope for a reduction in individual and corporate tax rates because of the underlying balance of the economy.

But Johan Louw suggests that tax concessions will be “limited” although they might include a reduction in the import surcharge.

Jacob stresses the need for continu-
Sanlam forecast for the Budget

CAPE TOWN — Tax concessions in the 1992/93 Budget will be limited if Finance Minister Barend du Plessis plans to maintain the current year's budget deficit of an estimated 2.4% of the gross domestic product, says Sanlam economist Johan Louw.

Sanlam’s view is that Du Plessis will budget for a deficit of not much more than R7bn (2.5% of gross GDP), which will leave him about R2bn for tax concessions. (1)

Louw believes the concessions may include a reduction in the rates of the import surcharge, which contributed approximately R2.6bn to the exchequer in the past year.

To encourage “personal savings,” Du Plessis may increase the tax-free interest income of individuals but Louw warns he is unlikely to be overly generous in counteracting the effects of inflation on individual pockets. An increase of only R100 to R150 in the “primary” rebate, for unmarried/married people, for example, would result in a loss of about R300m in revenue. (2)

GST is expected to be replaced by value-added tax (VAT) in the 1992/93 fiscal year. (3)

Du Plessis will be introducing his Budget in March against the background of an economy which has not yet cooled sufficiently. This, says Louw, together with the low level of foreign exchange reserves, will compel him to formulate his Budget proposals to have a moderately restrictive effect on the economy.

On the whole, the Budget is likely to contribute to a levelling off in the growth of corporate profits.
ANC asks Nafcoc for nationalisation study

Nafcoc has been asked by the ANC to help compile those facts. "The meeting decided to set up a Joint Economic Commission (JEC), one of whose tasks will be to examine issues of mutual concern in the economy. It will report back to the ANC and Nafcoc national executive committees."

Motsuenyane says Nafcoc's stance is that "while nationalisation will not necessarily solve all our socio-economic and political issues, it can serve as a vehicle to provide an answer to some of them."

He says alternative methods of redistributing wealth have to be examined, including persuading companies "to hive off portions of their productive assets and pass these over to the disadvantaged black majority to hasten economic participation and empowerment."

Motsuenyane sees one viable alternative as being concerted action programmes by government and the private sector to facilitate black economic participation, primarily by creating a favourable business climate and appropriate structures for funding, and providing legal advice and development assistance.

"The creation of trusts that will allow blacks to acquire a meaningful stake in the SA economy through projects such as privatised companies and capital-generating structures such as the JSE, is another alternative." "Nafcoc and the ANC share the concept of a mixed economy in SA..." "We at Nafcoc envisage the economy being based on public, private, small business and co-operative sectors, and with government operating some state enterprises along the same lines as Western countries."
Restructuring SA: the choice is very clear

By RONALD SEGAL

Ronald Segal, publisher of the journal "Africa South", was under a banning order when he left South Africa with the ANC's Oliver Tambo at the time of the declaration of a state of emergency in 1966. For a while he published "Africa South" in London. In 1984 he convened the International Conference on Economic Sanctions against South Africa.

WHATEVER the argument about the extent of change represented by President de Klerk's recent remarks and measures, they have set a precedent which now has its own momentum.

The time raised by the presence of structural violence, the paradoxes of power and the apparently appropriate series of no longer same options.

That is no longer a question of whether that is an option at all. The world is rather different in what was a few months ago.

The choice, therefore, is not one between an orderly restructuring of power and a profoundly disruptive process. The agreed on, or rejected, or imposed change in the manner, would be meant to be the process by which the government would be well-advised to set with dispatch and with mature judgment the economic order.

Armed struggle

It should not be taken for granted that the current state of affairs is the result of a temporary constraint, and that it would be possible to reverse its course without any change in the political and economic order.

The ANC says it can achieve a peaceful change only through a violent resistance to the government. If such a change is not accompanied by an economic framework for a society, there is no way of achieving a peaceful transition. To believe that the ANC would be able to do so is either naive or unrealistic.

Economic interest

Executives of South African companies, in particular, should be more prudent in celebrating the achievements of the ANC's transition to a more democratic society. There is no evidence that the ANC has allowed such a company to operate freely in South Africa, where the market dominance that it enjoys in South Africa.

Certainly, the existence of a publicly owned company does not depend on the absence of state control. Instead, it is the result of the ANC's decision to control the economy and promote the national economic interest.

And, of course, the ANC's decision to change its policies is not in the best interest of the country. The country is more likely to benefit from a transition to a more democratic society, where the market is free to operate.

The tax system

As the apartheid state becomes a democratic state, the role of the tax system is not necessarily to be eliminated. Instead, it is an essential element in the promotion of social welfare. All the evidence suggests that a free market economy is more effective in providing for the needs of the community than a state-controlled economy.

The ANC has a long way to go before it is in a position to provide the kind of social welfare that is needed. In the meantime, the tax system must be used to promote the interests of the community.

The challenge facing the government is to create a society in which the tax system can play a vital role. This is not an easy task, but it is a necessary one. The ANC has a long way to go before it can accomplish this task, but it is an essential one.
CAPE TOWN — If the Budget to be tabled on March 14 is restrictive, individual spending capacity will remain under pressure, Sanlam says in its Economic Survey.

Should this be the case, suppliers of durables could be affected.

The expected sharp cut in government spending in certain departments could have an adverse effect on some sectors and industries in the private sector — for example, the electronic industry and companies concerned with the manufacture of defence equipment and road-building.

On the whole, the Budget should contribute to a levelling off in the growth of company profits.

"Insofar as the Budget proposals help cool the economy further and ease the general liquidity situation, decreases in short-term interest rates can be expected from the middle of the year," says Sanlam.

It says bank prime lending rate will be around 18 percent at the end of the year.

"If the Minister (of Finance, Barend du Plessis) wishes to limit the 1990/91 Budget deficit to more or less the same level as the estimated 2.4 percent of the current financial year, he will have little room for reducing taxes.

"We believe he will budget for a deficit of not much more than R7 billion and this would leave him with about R2 billion for tax concessions."

Possible tax proposals include:

+ A reduction in the rates of the import surcharge.
+ An increase in the interest income of individuals that is exempt from tax to encourage saving.
+ Tax relief to individuals to counter the effect of inflation.
+ An announcement that GST will be replaced by VAT in the 1991/92 fiscal year only.

Sanlam expects an average inflation rate of 14 percent this year, against 14.7 percent last year. — Sapa.
ECONOMY — 1990

MARCH.
Talking about nationalising

ONE of the crucial questions to which those struggling for a new South Africa must add themselves is to what degree, if any, can nationalisation best fulfill the demands of those living here.

As Thabo Mbeki, ANC International Affairs head, recently said, it would be wrong to omit the option of nationalisation from future discussion because of the concentration of wealth in a few hands.

It is also naïve, however, to believe, as Prof Francis Wilson said in the book Upward Poverty, that the "state" will necessarily embody the "will of the people" and act automatically for the good of all.

We have already learned this lesson from the independence of several African countries where the state was taken over by an elite group within the society who, despite their rhetoric, failed to act in the society's best interests.

Disregard

However the degree of nationalisation that a future government decides upon, its aim should be economic and social efficiency - not merely engineering and enriching the lives of the masses.

The over-reaction to Mandela's recent statement about the nationalisation of mines, banks and monopoly firms reflected, to an extent, the lack of understanding of key issues at stake in the economy.

Also it shows total disregard for Mandela's firm acknowledgement that both compromise and negotiation are needed on fundamental issues.

The business sector has failed to come to grips with the fact that there can be no liberation without economic liberation.

Acknowledging that the poverty that exists in South Africa is a profoundly political issue which the state has failed to redress, it follows that alternatives to the status quo need to be found.

A radical restructuring of relations between capital and labour, thus opening the questions of power and ownership, seems unavoidable. The snags are numerous: the failure of the Eastern European style of socialism has tended to debunk the idea that the form of capitalism followed in SA has also failed.

Efficiency

Neither system, owing largely to their economic and political inflexibility, was able to address the needs and wants of the majority of their respective populations appropriately.

Nationalisation of certain sections, as part of a strategy involving a fundamental redistribution of power and aiming to meet the demand of the masses by raising capital to finance reforms in health, education and housing, is thus being considered as a serious option. Such nationalisation would have to meet certain efficiency criteria as well as strive to avoid errors made in the past.

The costs that nationalisation would impose on certain areas would also have to be assessed. International investors, for one, would be greatly discouraged from investing in SA. This is significant as foreign funds are essential for the well-being of our economy.

Zimbabwe is currently suffering the effects of a drop in foreign investment.

Initiative

There are many misconceptions surrounding the issue of nationalisation. Property used by a "body...representing the general public of consumers" (Tawney). The word has, however, become charged with other interpretations.

There have been some heated debates on nationalisation during the past few weeks. In this article LYNN PIKHLOLZ looks at some of the issues involved.

In the USSR, critics have described the command economy with a variety of property forms such as co-operative property, private property and state property. Here, state enterprises are being associated with elements of a mixed economy rather than pure socialism.

It is argued in SA that the state enterprises could be more efficiently run in the hands of the private sector where capitalists are eager to invest in the parastatals. This would alleviate the burden on the state thereby releasing resources for it to encourage growth and job creation.

Resources

While this may be so, it remains extremely difficult to see how a transfer of ownership to the private sector will have any material effect on the masses who lack the financial and economic resources to participate in the buying of the industries that are being privatised.

Such a transfer of ownership would not, at least initially, create jobs. On the contrary, privatisation, as a solution to cutting labour costs, is feared. Another criticism of the recent privatisation of Iscor and the forthcoming privatisation of other state industries is the fact that it will lessen the resources available for a future government to distribute.

Ruthless

Although there are clearly huge difficulties in reaching for equality while maintaining productivity, land reform (with its initial costs) could be seen as a necessary prerequisite for economic dynamism, especially if it addresses the widespread rural poverty in this country.

It is misleading to say, as is so frequently asserted, that the success of newly-industrialised economies like Japan was based solely on free enterprise. Government involvement in the Japanese economy was extensive particularly during the 1950s and the 1960s.

Despite the myths surrounding nationalisation, the track record is not often very encouraging. Future policy makers will have to seriously consider the dangers of putting economic and political power in the hands of a few, thus addressing the risks of remaining past failures.

That issue of power and ownership need to be addressed is unquestionable. That the solution is necessarily the nationalisation of certain economic sectors needs, at this stage, to be seriously debated.
The Delta deal is one of many in which the state of South Africa's public enterprises have become less distinct, having taken the path of privatization. The previous government, led by former President Thabo Mbeki, was criticized for its privatization policies. The Delta deal, which allowed the state to acquire a majority stake in the company, was seen as an attempt to reverse these policies.

The Delta deal, however, came under scrutiny due to allegations of corruption and mismanagement. The company, which provides water and electricity services to millions of South Africans, faced financial difficulties and was involved in a number of controversies.

The state's investment in Delta was part of a broader strategy to address South Africa's infrastructure challenges. The country's aging water and electricity networks had been a point of contention, with many areas suffering from intermittent supply.

The Delta deal was not without its critics. Some argued that it would exacerbate the country's already high public debt and that the state should have pursued alternative strategies to improve the country's infrastructure.

Despite these criticisms, the Delta deal was seen as a critical component of the state's broader economic strategy. The government's investment in the company was intended to provide a long-term solution to the country's infrastructure challenges and help drive economic growth.
Nafcoc to investigate nationalisation

The African National Congress has asked the National African Federated Chamber of Commerce to conduct an in-depth investigation into the nationalisation of business in South Africa.

In a statement yesterday, Nafcoc president Dr Sam Motsuanyane said the ANC made the request at a meeting in Lusaka between Nafcoc and members of the ANC's executive committee.

The meeting had discussed the ANC's stated aim of nationalising mines, financial institutions and large corporations.

He said Nafcoc would call on major South African businesses to attend a conference in May to discuss the issue.

At the meeting in Lusaka it had been agreed that any policy of nationalisation would be carefully applied and all facts surrounding the issues would have to be considered.

"Nafcoc has been asked by the ANC to play a major role in compiling these facts," Dr Motsuanyane said.

"While nationalisation will not necessarily solve all our socio-economic and political issues, it can undoubtedly serve as a vehicle to provide an answer to some of them," he said.

Alternative methods of redistributing wealth had to be examined, including the persuasion of companies to "hive off portions of their productive assets and pass these over to the disadvantaged black majority in order to hasten black economic participation and empowerment".

One viable alternative, he said, was concerted action programmes by government and the private sector to facilitate black economic participation.

He added: "Nafcoc and the ANC share the concept of a mixed economy in South Africa, and one that represents a realistic acceptance of the situation that must prevail in the future." — Sapa.
Quest for black economic freedom

BAREND du Plessis’s description of nationalisation as theft is gross irresponsibility, and this from a Cabinet Minister. Is he suggesting that blacks want to steal white property? If this is what he believes, then it is time he was told some home truths.

Before Jan van Riebeck’s arrival, this was our land and it still is. The Hottentots, Dingos, Bushmen, and today, the Nelson Mandelas and Zephania Mothopengs fought for this birthright.

Freedom

The liberation struggle in this country is another manifestation of mankind’s quest for political freedom and the equitable distribution of the country’s wealth. Nationalism throughout the world had at one stage been a part of this struggle.

Nationalisation, or theft, as Du Plessis chooses to call it, is the black community’s conception of what it believes is an invidious and integral component of the package due to them at the end of negotiations.

Insensitive

To call this theft insensitive, unless the Minister is now joining Nyasimena politics. He surely must know which terms are acceptable at a meeting of Broeders and the AWB, and which to use in his public life.

May I also remind the Minister that during the early days of National Party Government and the heyday of Afrikaner nationalism, nationalisation was an oft-talked about term. At the time Afrikaners believed that for them to get an equitable share of the country’s wealth, the mines had to be nationalised.

Glorified

The very sentiments that made Afrikaners look to nationalisation are now embraced by the black community. Yet today Du Plessis scorns nationalisation.

Double standards have become so much part of the white way of thinking that blacks are not seen as capable of having the same noble sentiments as whites. Theirs must be base. For instance, when European countries resisted Germany’s aggressive colonialism, they were glorified. When Africans resisted colonialism, they were called native savages resisting civilisation.

Unless Du Plessis and his supporters move away from their preposterous statements on nationalisation, they may find that blacks adopt similarly radical positions.

Nationalisation is not robbery, it is a form of redistributing the country’s wealth.

While there can be and there is argument about nationalisation, all parties in this country, except, of course, the far right, agree that redistribution is non-negotiable. It is rightly pointed out that centuries of exploitation, discrimination and a disproportionate allocation of the country’s wealth, cannot be shrugged off.

In 1988 the Government spent R2,722.00 on a white child’s education and R595.39 on a black child. For that matter in the public sector (Government service), the average salary for blacks is R760 and for whites R2,772.

If Du Plessis is so concerned about criminal activity and the protection of people’s property, surely he must have something to say about his Government’s appropriation of black property in the past, all in the name of group identity.

People were paid peanuts for their properties when the Government conducted its forced removals just over five years ago.

With this history behind it, the Government cannot afford to call anybody a thief - it legitimised the felony.

It is time that Barend du Plessis and his ilk wake up to the truth of the day - political change without economic restructuring is not on.

Sure, the goose that lays the golden eggs must not be killed, but we are entitled to eggs laid in the past.
Govt ‘need not borrow’

GOVERNMENT has already borrowed R2bn for the next fiscal year and will have virtually no need to borrow more on the private capital market, say economists.

This should emerge in next month’s Budget, along with the announcement that part of the tax bonanza received this year will be used to reduce government’s debt to the Reserve Bank for forward cover losses.

Economists say substantial pre-borrowing and huge investments in government stock by the Public Investment Commissioners (PIC) will virtually do away with the need to sell more RSA stock on the private market.

Talk is that about R2bn was pre-borrowed at favourable interest rates in December and January, when government capitalised on the foreign buying spree of SA gilts. Official spokesmen say this figure cannot be confirmed until the Budget, but acknowledge pre-borrowing took place.

The R2bn is expected to go towards financing the deficit in 1990/91 — put at about R7bn by most economists — and is not likely to be used to reduce the forward cover debt.

Frankel Kruger economist Mike Brown says: “It would be sound economics to use current income to pay the forward cover debt.”

Current revenue in the 1989/90 fiscal year is expected to exceed budgeted projections by about R4bn. Talk is that about half of that will be used to reduce the forward cover debt, now at about R14bn. Such a move will amount to “money destruction” as the current revenue, taken out of the system, will not be returned. This offsets the money-creating effect of the forward cover losses.

Debt other than for forward cover losses will be redeemed from privatisation funds in government stock. The PIC can provide about R6bn in the new fiscal year.

Interest as a percentage of GDP grew from 2.9% in 1987/88 to 3.9% in 1988/89, and last year 15% of the total Budget went towards servicing government debt.
Cuts in personal tax likely in Budget, says Schwarz

PRETORIA — There will be a little comfort for wage and salary earners in the March 14 Budget.

According to DP finance spokesman Harry Schwarz, there will almost certainly be a reduction in personal tax to counter fiscal drag.

The only other concession which taxpayers could expect was a scheme to encourage savings. This could take the form of tax relief on interest earned.

Schwarz said expectations should not go much further than these two possible concessions.

Meanwhile, Volkskas economist Adam Jacobs said perhaps the most urgent issue for taxpayers was the need to eliminate or significantly reduce the impact of fiscal drag.

Jacobs said it was clear the deficit before borrowing would be about a third less than budgeted for — probably between R6bn and R6.5bn.

The reason was not that government spending less, but that tax revenue had risen sharply way beyond the Budget estimate.

He estimated the revenue overrun at about R4bn, including substantial bracket creep revenue.

Jacobs said in the first nine months of the financial year spending had been lavish but had in the current quarter fallen drastically.

The result was a big build-up of funds. BARRY SERGEANT reports the SA Chamber of Business (SABC), in its recommendations to Deputy Finance Minister Org Marais on the Budget, has asked for personal tax tables to be restructured.

"South Africans have been subjected to consistently higher individual tax rates over many years through the insidious fiscal phenomenon of bracket creep. In the interests of equity, it is suggested that the tax tables be restructured."

"Particular attention should be given to those individuals with monthly incomes of between R2 000 and R4 000, since it is believed that these persons bear an inordinately high tax burden."
SA's hopes and fears

compromise between
social democracy:

PTTER TO ROXY THINGS FOR A SOCIAL DEMOCRACY

In the second excerpt from the three economic papers presented at the

| South Africa | South Africa |
So much to do, so little done

And political reform is no excuse for delay

The excitement of political change should not make governments forget its economic objectives. Apart from the fight against inflation, privatisation and the removal of the State from the business arena should still take priority.

A wholly expedient government could be tempted to prioritise on the political agenda and proceed to the point where the ANC risks its commitment to nationalisation. But it should not take much effort to persuade any rational person that the process has brought benefits to a developing country like SA than in the developed world. "It's crucial to en- courage enterprises to move on from the ever-desirable Southern African free-fits, and then inevitable losses, of nationalised industries.

It is not possible to underestimate how hard it is to privatise a state-owned enterprise. The State later enjoys rising taxes from ever-more profitable firms. According to Professor John Skees, a professor of Applied Economics at Liverpool University and one of the intellectual godfathers of privatisation, the process offers even more

FSK Decides

FSK MD John Stanbury: "I'm only the chauffeur so I can't decide when to sell the car."

He adds, however, that once the decision to privatise is made, FSK could be on the board of the new companies.

SA Chamber of Business president Les Boyd is pazzled at the delay in listing FSK, though he says the government's approach to privatisation in general is "important to get these enterprises into shape so the full value of the enterprise is realised and they aren't just sold cheap."

Stanbury says that if FSK were sold a year ago, it would have been underpriced as it is now. Another school of thought, advocated by author and ex-FMJ consultant Don Caldwell and FSK management consultancy Job Creation, argues price shouldn't be a factor. Hetero- genous bids with an unhappy price belong to the people and this should be recogised by giving an equal share in the business to each bidder.

"Poorer people could sell their shares immediately. This would bring an immediate transfer of wealth from white to black."

The idea has a certain logic and would pull the rug out from under the argument that privatisation puts the nation's resources into the hands of big-business or so-called "mono- poly capitalists."

But it would deny the State the proceeds of sales which could substantially reduce deficits. In addition, it is an example of respect for democracy. As Schwartz puts out: "Nobody appreciates free hand-outs."

Minford says it's important to create a popular constituency for capitalism through wider share ownership but it is better for the economy to use privatisation proceeds to cut taxes rather than for capital transfers.

Even if every government sells its industrial concerns it will still face considerable resis- tance. It's a tale of FSK and some unexpected quarters. Boyd says there is a difference between privatising a company operating in a competitive area and a utility such as Eskom, which doesn't have an obvi- ous competitor. "We should wait to see what mistakes are made in privatising electricity in Britain before we attempt anything."

Norton agrees that Eskom should have lower priority. "It is a well-managed monopoly and a profile best served to a new generation of people." FSK Minford counters that privatisation pro- vides an incentive structure to encourage operating in more competitive industries or utilities. He adds there's no reason why there shouldn't be competing suppliers for the plan. "It's an argument, however, that still has to be swallowed by many business leaders. Es- kom's privatisation may well be some way in the future but, with such a wide measure of agreement over most other State-owned con- cerns, there needs to be another listing — not just for its own sake but a signal that privatisation wasn't just a nine-day wonder that ended in November 1989."

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Van Huysestoont Minford
THE 'SCANDINAVIAN' MODEL

Half a bad principle

Over the past few weeks, just about anyone who has presented a hard and logical argument about why it would be extreme folly for any post-apartheid government to nationalise the mines, banks and "monopolies" has been accused of hysteria by the intellectual apologists of the ANC.

What they have failed to do is come up with any contrary arguments. They simply repeat that nationalisation is necessary to achieve social justice after so many years of deprivation.

Yet the weight of evidence, particularly in eastern Europe, is against them.

They fail to explain why, if in eastern Europe socialism has done far more to impoverish than redistribute wealth, or restructure economies into more efficient creators of wealth, it should be any different here. Or why an awkward compromise, such as a mixed economy (or a social democracy), would produce the desired result; why, if a principle is essentially bad, half of that principle is not half as bad.

The reason, we guess, is that Nelson Mandela, the ANC and their apologists, in the absence of hard economic argument, are indulging in pure romance — and in so doing are deliberately misleading their perceived political constituency.

No less a distinguished "leftie" than Bertrand Russell said that it was a continuation of the romantic state of mind of philosophers like Jean Jacques Rousseau that led inevitably to the excesses of Nazi Germany and Stalinist Russia.

Following that logic, if the ANC adheres to its nationalisation policy, and should it become the next government of this country, it will be no less authoritarian and racist than the National Party has been for the past 40 years.

If Mandela plans to use the nationalised mines and banks for the same purpose that the Nats used the departments of State and public corporations in the Fifties, he will inevitably become the purveyor of another form of apartheid.

What is currently fashionable in intellectual leftwing circles is to attempt to justify the romantic view of nationalisation, or socialism, by taking as the perfect example of the successful blending of welfarism and capitalism what they call the Scandinavian model of social democracy. What does this amount to?

In simple terms, it appears to be the linking of a highly developed social security apparatus with a managed economy in which there is also a strong private sector. That situation has come about in the Nordic countries largely because proportional representation has led to a multiplicity of political parties which are able to rule only as part of a coalition.

The outcome is weak central government and a strong bureaucracy which makes common cause with a chosen management caste. A similar situation has developed in India. It is the best example of State capitalism, which is what the Left claims apartheid has created here.

The outcome has been, in the Nordic countries, a high degree of bureaucratic control of societies which are austeres and conformist, if not authoritarian. They are expensive to run. They are well-known for high prices and high taxes. And, as they have for so long frittered away their prosperity, their welfare systems are beginning to show signs of enormous strain.

Sweden, of course, benefited enormously economically from World War 2 (in which it didn’t participate) and Norway from a North Sea oil bonanza. Neither has been very good at preserving that prosperity. And as the wheels come off their social security systems, they are turning increasingly towards capitalist solutions.

The hard fact is that the Scandinavian model is no more than a romantic dream.

It is clearly a desperate attempt to justify an ideology the efficacy of which has been shown to be well short of satisfactory.

Nor is there any reason to believe that even if Scandinavian social democracy had been successful, it could be transplanted to Africa with any more success than the much denigrated Westminster system.

The reason is that every freedom movement in Africa so far has been more concerned, once empowered, with imposing its own authoritarianism in the name of democracy than with democracy itself.

Mandela clearly mistakes what is of concern to educated and cosmopolitan whites here.

It is not the pallor of the inhabitants of the Union Buildings. Provided they are honest, sensible and fewer than they are now, it makes no difference whether they are black or white.

What is of concern — and what Mandela will have to live down — is the deplorable record on human rights and inability to provide the basic necessities of civilised existence of the uhuru governments everywhere to the north.
Coming up for air

Pretoria must grab what anti-inflationary advantage it can — while it can

There appears to be some ambivalence in official circles over what policy to adopt towards the rand. The dilemma is understandable. If the Reserve Bank allows it to continue rising, inflationary pressures will be reduced, but disruptive volatility in the future is a risk if capital inflows are suddenly reversed.

On the other hand, if the Bank buys dollars to keep the rand relatively weak and thus ensure export earnings remain buoyant — which will help repay onerous foreign debts — inflation will be encouraged both by higher-than-otherwise import prices and difficulties in keeping down rampant growth in the money supply.

Yet again, the dilemma may soon disappear. For when the rand/dollar exchange rate moved below R2.60 on December 5, it seemed it would be only days before it reached the crucial psychological R2.50/$ — US40c/R. However, though much has gone its way since then, the rate has stayed stubbornly above that.

Reserve Bank Governor Chris Stals leans towards not letting the external value of the rand rise too quickly. His reasons are that he would first like to see the elimination of the discount between the commercial rand and financial rand (the lower rate at which non-residents can buy the currency). He favours the incentive to exporters and deterrent to importers provided by a weak currency. As a central banker he tends towards a desire to maintain an element of stability in currency markets.

So it is not clear to what extent the rand's value is being determined by the market and how much by Central Bank "management."

Finance Minister Barend du Plessis says: "The value of the rand will be decided in the markets." What is not known, he points out, is what the markets will dictate. His uncertainty was reflected in a speech at the Franske Kruger Venderine conference in Johannesburg last week.

"With restrictive fiscal and monetary policies firmly in place, we no longer have to rely extensively on the exchange rate as the adjustment mechanism to realise a surplus on the current account of the balance of payments of adequate proportions to meet foreign commitments," he said. On the other hand: "A surplus (on current account) of R4.1bn was recorded during 1989 but the outflow of capital amounted to more than R3bn, so net foreign exchange reserves declined further." We guess he is reluctant to stop the accumulation of forex reserves the recent rise in the value of the rand has made possible.

The weight of opinion — whatever Central Bank misgivings there may be — seems to be that the rand will firm, despite the danger of the recent capital inflows turning into bank money vulnerable to flight. The rand's upward momentum since its R2.87/$ low point on June 15 seems to be rooted in fundamentals.

Much of the rand's positive performance against the dollar since September is due to the weakness of the dollar itself. Munich's Bayerische Vereinsbank says the dollar has fallen an average 5% against other currencies since then and about 14% against the D-mark.

"was far larger than expected, outperforming even our R13bn upper limit forecast and improving on 1988 by a massive 131%. This created an increasing surplus on current account during the year."

Politically, the rout of the right within the National Party opened the way back from pariah status in the world. What secured the trend, however, was the rise in the gold price in November from below R360/oz to over R400 by year-end.

So the rand, having been overwhelmed by the strength of capital inflows in recent years (see graph), has now begun to surface with the help of tentative inflows. Fortunes in the following months will depend on the strength and direction of flows which, in turn, could also depend largely on political developments.

What the governor must keep in mind is that priorities have changed. Curbing inflation is much more important now than cutting the debt repayment burden, which he himself has so skilfully negotiated to our substantial advantage since 1983.

Hindsight is always helpful. At a press briefing in April late Reserve Bank Governor Gerhard de Kock conceded that, over the previous four years, the Bank had depended too heavily on the depreciation of the rand.

Referring to the need to build reserves to meet debt repayments, he said: "In retrospect, a somewhat less inflationary (balance of payments) adjustment would have been both possible and desirable."

There are two ways of measuring the value of a currency — externally by the amount of foreign currency it can buy; and internally by the goods and services it can purchase.

If a unit's internal purchasing power declines, its external value depreciates. But the process goes further: the effect becomes a cause and the sliding external exchange rate further reduces purchasing power. So what De Kock was explaining was that, by failing to protect the currency with appropriate interest rates, he had allowed inflation its head.

Hopefully, if the positive inputs now feeding into the rand remain in place, the error will not be repeated. Both Finance Minister Barend du Plessis and Stals have stated the...
There was another route to protecting reserves — what De Kock described as “Draconian deflationary fiscal and monetary measures which, among other things, would have meant decreases or very limited increases in nominal wages and salaries. But such a deflationary policy would have exacerbated unemployment which was already high and further undermined business confidence which was already very low.”

This option, he pointed out, was chosen by Romania, which relied on restrictive monetary policy to enable it to pay off, international debt. The policy ensured negative inflation but wiped out economic growth.

In SA’s case, said De Kock: “In the abnormal socio-political circumstances, the monetary authorities judge that adverse shocks or very limited deflation would have been neither feasible nor in the country’s interest.”

De Kock was always very good at hindsight, always prepared to smear ash in his hair and rent his garments if he had misjudged what was later seen to be a difficult and confusing situation. Noble though he might have been, it didn’t achieve very much and Stals would be wise not to emulate him.

Time to reassess

In any event, the need to curb inflation has become more pressing. Foreign debt is beginning to look after itself. And every advantage must be taken — however short-lived — to use the buoyancy of the rand to curb inflationary pressures.

It is time to reassess the situation and look beyond US40c. As Du Plessis says: “The depreciation of the rand played a major role in the acceleration of inflation during the past year — not only directly but also indirectly. Higher rand export prices were obviously passed on to local buyers of these products, whereas import prices often served as a yardstick for the upward adjustment of domestic prices even if the products were not directly imported.”

Like any mispricing, an artificial valuation of the rand will create distortions and allow misallocation of resources. With the future providing endless and expensive challenges, we can’t afford this.

It is true there is uncertainty about future capital flows. Adverse circumstances may revive capital outflows and again threaten the rand.

But we are not in the happy position in this country that we can turn away from short-term gains in the dubious belief that stability in exchange markets is more important and that a growing balance of payments surplus is critical — though the need for some surplus is important.

Learn to manage volatility

The authorities must learn to manage volatility and crises as they occur. They must take advantage of favourable conditions whenever they can. For inflation at current levels will quickly erode the foreign trade advantages of keeping the rand artificially weak. And if, after a 40% currency depreciation, exporters cannot secure their positions and need further protection, they don’t deserve to be in business.

One benefit of allowing markets to price the currency is that no politician has to accept responsibility. A market-determined exchange rate is depoliticised.

So in present circumstances, the authorities should allow the rand to rise, until the market (for whatever reason) imposes its own restraint. If the capital inflows should be reversed because of silly things said by ANC leaders about nationalisation, not only will the country have had some advantage in the meantime, but the rest of the world will see precisely where the reluctance to restructure really lies.
Nationalised business ‘not the route for SA to follow’

JOHANNESBURG. — Nationalisation is not the route that South Africa should follow, says Anglo American chairman designate Mr Julian Ogilvie Thompson.

Rather, a business community that was credible to all racial groups should be created, he said.

He was speaking at a press conference yesterday after chairman Mr Gavin Reilly had announced his retirement with effect from the end of the month.

Mr Ogilvie Thompson, chairman of De Beers Consolidated Mines and deputy chairman of Anglo American, said nationalisation did not feed the population or benefit the economy.

“It is not the best way to develop South Africa and we must try to persuade others of this view.”

Mr Ogilvie Thompson said that the solution to SA’s problems was not a simple one, but one that covered a whole number of options.

Mr Ogilvie Thompson, the son of the former Chief Justice of SA, was born in Cape Town in 1934 and was educated at Bishops and Worcester College, Oxford.

He was appointed personal assistant to Mr Harry Oppenheimer in 1957 and executive director of Anglo American in 1971. He became chairman of De Beers in 1985 when Mr Oppenheimer retired.

Mr Ogilvie Thompson is chairman of De Beers Botswana Mining Company (Debswana) and chairman of De Beers Consolidated Mines and Namibia’s CDM.

He is also a deputy chairman of Anglo American Corporation of South Africa and chairman of Minorco and Anglo American Gold Investment Company (Amgold).

He is on the boards of several major group companies, as well as other local and international non-group companies, including First National Bank, of which he is vice-chairman.

Rhodes University conferred the honorary degree of Doctor of Laws (LLD) on Mr Ogilvie Thompson in April 1988. Fourteen years before, the university had conferred this degree on his father. — Sapa
Slovo: White wealth must be redistributed

LUSAKA. — South Africa's top communist said the country's ruling white minority would have to give up economic privilege in the post-apartheid society and that this was the goal of Mr Nelson Mandela's African National Congress.

"There is no way in which you can expect the average black to accept that liberation has happened if virtually all the wealth remains in the hands of whites," Mr Joe Slovo, secretary-general of the South African Communist Party, said in an interview here on Wednesday.

President F W de Klerk's reforms, including lifting of a 30-year-old ban on the ANC and freedom for Mandela, had caught the ANC off guard, Mr Slovo said, and detailed economic plans were not yet finalised.

"We have concentrated for so long on how to get there that we have rather forgotten to make plans for when the day arrived," he said of possible negotiations with Pretoria.

Mr Slovo, 63, a lawyer in Johannesburg until he fled into exile in 1962, is part of the ANC's policymaking national executive committee and a founder and former chief-of-staff of its military wing, Umkhonto we Sizwe.

Mr Mandela's public re-affirmation of the ANC's commitment to nationalise South Africa's gold, platinum and diamond mines sent Johannesburg share prices plummeting two weeks ago. Leading white businessmen denounced his statement.

Mr Slovo said the ANC had no plans for the wholesale dispossession of whites, but he insisted that the ruling minority, outnumbered five-to-one by blacks, would have to give up its monopoly of South Africa's wealth, land and resources.

"It doesn't have to be only nationalisation — that is just one of the mechanisms. The fundamental issue is to begin the redistribution of wealth."

Mr Slovo referred to basic inequalities that characterised South African society, including differences in earnings, health care and education.

Private residential property and small businesses would not be affected by redistribution, but the ANC could not guarantee compensation to the bigger property owners, he said.

Mr Slovo said the ANC was committed to a mixed economy combining state and private ownership and designed to encourage foreign investment.

Asked about communism's collapse in Eastern Europe, Mr Slovo said: "What happened was not the failure of socialism, but the failure of the application of socialism." — Sapa-Reuters
Own Correspondent

LUSAKA. — The ANC will meet
the bosses of 11 major South Afri-
can companies and 13 other busi-
nessmen and academics in Har-
are this weekend in the largest
meeting between the ANC and
big business since 1986.

The business team will include
Premier Group chief executive
Mr Peter Wrighton, JCI chairman
Mr Murray Hofmeyr, P G Bison
chief executive Mr Leon Cohen.
Development Bank of Southern
Africa senior manager Mr Johan
van Zyl, Gencor general manager
Roodt Senior, Anglo American's
Mr Michael Spicer (who is the
personal assistant to chairman
Mr Gavin Relly) and JCI group
economist Mr Ronnie Bethlehem.

The ANC will send a 16-man
team, including six senior
national executive committee
members: Mr Thabo Mbeki, Mr
Jacob Zuma, Mr Aziz Pahad, Mr
Joe Slovo, Mr Steve Tshwete and
Mr Falo Jordan.

The agenda will include dis-

Mandela on Israel

BURBANK, California. — Mr Nel-
son Mandela last night declined
to directly criticise Israel in re-
sponse to questions by an Ameri-
can TV interviewer.

Appearing on the Phil Donahue
show, he said, however, that he
did support the Palestinian quest
for self-determination.

"The enemies of Israel are not
our enemies," Mr Mandela said.
"And the struggle of the Palestin-
ians for independence and their
own home is a struggle we fully
support."

Jews want meeting with Man-
dela — Page 3

Discussion on the issues of privati-
sation, nationalisation, the re-
structuring of the economy, the
role of business in a changing
political and economic climate
and the role of the ANC.

The meeting was arranged by
the Consultative Business Fo-
rum.

Mr Zuma told the Cape Times
that business had a role to play in
the process of developing a new
constitution.

However, he questioned why
the ANC had to negotiate the
issue of nationalisation. This was
never demanded of the National-
ist Party before it came to power.

He said the ANC was in favour
of a mixed economy but there
would have to be some nationali-
sation.

"The Nationalist Party used na-
tionalisation to solve the prob-
lem of the poor white, why should
we not be expected to solve the
problem of the poor?

"We are not talking about poor
blacks, we are talking about all
poor people.

"The government path to na-
tionalisation did not take into
account some key sectors that we
will attend to."
Aim of ANC economic policy is control – not ownership. Is
Economic solutions

for a new SA Inc

In this time of economic turbulence and uncertainty, the role of economists and policymakers becomes even more critical. The challenges we face today are complex and multifaceted, requiring innovative and strategic thinking to navigate successfully.

Economic models can provide insights into potential solutions and guide policy decisions. By analyzing data and applying economic principles, economists can offer real-world solutions to the economic problems we face.

In this special section, we explore various economic solutions that could be implemented to address the challenges we face. From fiscal policies to monetary measures, each article delves into the potential impacts and implications of these strategies.

Whether you're a policymakers, an economist, or simply interested in economic issues, this section is tailored to provide you with a comprehensive understanding of the economic solutions available to us today.

Stay tuned for more articles exploring economic solutions and strategies that could help shape a brighter future for our nation.
As Mandela moves in, Relly moves out

GAVIN "GR" REILLY bowed out as head of South Africa's most powerful corporation yesterday without finishing a job he started five years ago: working for rapprochement between the African National Congress and captains of industry over the nature of a post-apartheid economy.

When Nelson Mandela rolled out the red carpet for Relly on Monday, there were many in the business community who believed that the meeting would be a repeat of the pioneering conference in Lusaka between the ANC leaders and big businessmen that the Anglo chief put together in 1985.

Before handing Anglo's reins to director Julian Ogilvie Thompson yesterday, Relly had clearly hoped to wind off his career with another boost to the process of reconciliation between business and the ANC.

Instead both men emerged from the half-hour discussion at Mandela's home in Soweto frustrated that the meeting did not allow in-depth talks on key economic issues facing the country.

But on Monday, Mandela used the occasion instead to lobby Relly about a new approach to labour relations - and the agenda was shaped by the fact that labour leaders Cyril Ramaphosa and James Motlati were present throughout.

Both men are senior officials of the National Union of Mineworkers and clearly wanted the meeting to signal that the fight for more progressive labour legislation in this country was as important as the issue of economic reconstruction for South Africa.

The end result was that the talks were deflected away from nationalisation.

However, the talks about labour relations did not deal with substantive issues - such as the deep conflict between labour and organised industry over the Labour Relations Act - mainly because Mandela has not had time to familiarise himself with complex trade union developments that have taken place in the last decade.

Relly said that although the pair had not been able to discuss the post-apartheid economy, "the community and international community should not get into a flury over nationalisation. These are issues that sensible men can discuss."

Relly's adviser Michael Spicer told the Weekly Mail both men had clearly felt the meeting "misfired". They were irritated because the shortage of time and the ANC leader's crowded programme on the eve of his departure for Lusaka did not allow in-depth talks on key economic issues.

"They emerged from the talks without having discussed anything substantial about the future of the economy," said Spicer. "Then when the press asked the big questions of the day both men had to trot out fairly standard positions."

Police stop thousands strong teachers' march

THOUSANDS of black teachers from different Pretoria township schools were yesterday ordered to disperse by the South African Police when they attempted to march to the Department of Education and Training offices.

The teachers travelled from Mamelodi and Atteridgeville in buses and taxis and assembled at the Blood Street taxi rank from where they would have proceeded with the march to the DET head office in Schoeman Street. The march was planned for 10am.

Police barricaded Kruger and Boom streets alongside the taxi rank where the teachers had assembled.

According to Mamelodi Teachers Union member Squire Khumalo, the police gave the teachers three minutes to disperse.

In Soshangwe, over 1,000 teachers, who had gathered yesterday afternoon at the local community hall, were told by senior policemen that they could not proceed to Pretoria to join their colleagues for the march because it was illegal.

Teachers defied the police order and attempted to proceed to Pretoria in over 20 taxis and private cars.

The procession ran into a police road block near the Soshangwe police station and was prevented from going ahead.

Several taxis and cars took another route via Hobron and Erasmus but were found that police had blocked the road. See PAGE 9
Tackling SA's economic future in a more useful way

Sasol’s ‘white elephants’ out of petrol

If the oil embargo in force against South Africa since the early 1970s was lifted tomorrow, the country would be left with an industrial infrastructure that is enormously expensive white elephants of production capacity. But most of this money has gone to pay for synthetic fuel production by Sasol and Mondi.

The consequence might come in several years’ time. If the world were to run out of South Africa’s oil supply, the industry would have to scramble for alternative fuels.

The new challenge is one that has not yet received the sort of detailed analysis of South Africa’s economy that it deserves. But the task is not easy. The government of South Africa is not a one-dimensional economy.

The government has already opened the door to the possibility of importing a limited amount of oil through a new agreement with the International Energy Agency. This could allow for the import of some crude oil, but the government has so far refused to consider any long-term importation of oil.

The government has, however, announced plans to build a new oil refinery at Durban. This will cost about $1 billion and is expected to come online in 2016.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $1.5 billion and is expected to come online in 2017.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $2 billion and is expected to come online in 2018.

The government has also announced plans to build a new oil refinery in the Northern Cape. This will cost about $2.5 billion and is expected to come online in 2019.

The government has also announced plans to build a new oil refinery in the North West. This will cost about $3 billion and is expected to come online in 2020.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $3.5 billion and is expected to come online in 2021.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $4 billion and is expected to come online in 2022.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $5 billion and is expected to come online in 2023.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $5.5 billion and is expected to come online in 2024.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $6 billion and is expected to come online in 2025.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $6.5 billion and is expected to come online in 2026.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $7 billion and is expected to come online in 2027.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $7.5 billion and is expected to come online in 2028.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $8 billion and is expected to come online in 2029.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $8.5 billion and is expected to come online in 2030.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $9 billion and is expected to come online in 2031.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $9.5 billion and is expected to come online in 2032.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $10 billion and is expected to come online in 2033.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $10.5 billion and is expected to come online in 2034.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $11 billion and is expected to come online in 2035.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $11.5 billion and is expected to come online in 2036.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $12 billion and is expected to come online in 2037.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $12.5 billion and is expected to come online in 2038.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $13 billion and is expected to come online in 2039.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $13.5 billion and is expected to come online in 2040.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $14 billion and is expected to come online in 2041.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $14.5 billion and is expected to come online in 2042.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $15 billion and is expected to come online in 2043.

The government has also announced plans to build a new oil refinery in the Western Cape. This will cost about $15.5 billion and is expected to come online in 2044.

The government has also announced plans to build a new oil refinery in the Eastern Cape. This will cost about $16 billion and is expected to come online in 2045.
Nationalisation
Third World path

THE nationalisation of banks and gold mines for the purpose of redistributing wealth would be the surest way of reducing SA's economy to Third World status, Human Sciences Research Council's (HSRC) Prof D J J Botha said.

This was because these industries were not compatible with political interference.

Botha, who heads the HSRC's Centre for Economic Analysis, also called on politicians not to embrace the concept as it would amount to nothing more than a programme of "national handouts".

He was speaking at the HSRC sponsored Population Trends and Consequences in Southern Africa seminar in Pretoria on Friday.

It seemed "some politicians" had not been able to adapt to the new world situation, hence their claims that banking and the gold mining industry should be nationalised.

"This is the surest way of quickly reducing the whole SA economy to the level of a Third World country. Few industries could be less suited to nationalisation than these two.

"Not only self-interest but also, and especially, the very precise and critical calculations of margins and productivity are absolutely essential in both these industries," Botha said.

"The development of new technology is not something that one associates with a nationalised industry."

Botha said nationalisation had been suggested as part of a general strategy of redistributing wealth.

"It has been suggested that this be done in what can only be described as a crude manner: taking away from the rich to give to the poor."

"If this was done once only, the net effect would be negligibly small."

"If done repeatedly, entrepreneurship would be discouraged, production disrupted, unemployment would increase and in due course the economy would settle at a lower level of activity, productivity and wealth."

A reduction in the "wide disparities" in income should receive the priority from whoever was in power.

"It should not be done by decreasing the wealth of some to the benefit of others. It should be done as part of a programme of increasing wealth all round by putting more people to productive employment," he said.
Gold, the double edged weapon of wealth and survival

"IN less than 20 years, Johannes-
burg was transformed from a barren mining town into a rich mining city. The story of the mining industry is one of rapid growth and changes in society, economy and environment.

The story of the mining industry has often been told as the story of progress - of modernisation, technological advancement and the emergence of a new economy. But the story shows how the workers, the miners, were able to gain fabulous wealth - and, at the same time, shape the future of a country.

The same story can be told a different way - as the struggle for survival of those whose hands made the wealth, the workers who came to eGold. When gold production began, their lives were drawn into a system. The system developed until it affected every part of their lives, from the cradle to the grave. (Luft Callinades: Gold and Workers.)

More than 200 years ago, agriculture dominated the livelihoods of the majority of South Africans. But with the discovery of diamonds in 1867 and subsequent discovery of gold in 1888, this was to change.

The second half of the 19th century witnessed a virtual exploitation of industrial development activity as miners, many from foreign lands, came to seek their fortunes.

The consolidation of mining, which pushed forward into the 20th century, transformed SA, ushering in an important new socio-economic system. The mining industry soon became the rain-making instrument of industrialisation and economic development in South Africa.

Urbanisation

Mining was the first really large-scale capitalist industry in South Africa and it was here that the first major racial distinctions became institutionalised in an industrial setting.

Activity on the mines became associated with an entrenchment of capitalism, industrialisation and the urbanisation of the working class. The far-reaching economic and social changes were soon to provide fertile ground for class and racial conflict.

The words, uttered in Kruger's Memoirs by General Joubert in the 1880's, when a bargeman was proudly informed that a new gold reef had been discovered, have been fulfilled in astonishing fashion: "Instead of rejoicing," he said, "You would do better to weep, for this gold will cause our country to be soaked in blood." Looking at the impact of the mineral revolution and the consequent industrial revolution on labour patterns in South Africa, it is not difficult to validate his statement even though he meant it in reference to the British Government, who, being tempted by the wealth of the country, engaged in the Anglo-Boer war in defence of the Union's industries.

Compounds

The migrant labour system and the housing of labourers in compounds, which broke up community and family life, the dangerous and extremely harsh working conditions, the control over workers lives, and the discrimination that occurred on the mines, cause labourers untold pain and suffering.

What tended to complicate matters was the extent to which government laws and practices acted in the service of the mine owners. As early as 1890, Cecil John Rhodes, a man with enormous mining interests, became Prime Minister of the Cape. It was not that surprising, therefore, that he arranged laws, such as the Glen Grey Act which was aimed to push black people off the lands and to become wage earners on the mines and railways.

After the Anglo-Boer war, successive governments passed laws and enforced order in the interests of the mine owners. Such laws included the introduction of taxes, for example, the hut tax (workers would have to earn wages in order to be able to pay them), the Native Land Act of 1913 which disposed black people of their land, the Job Reservation and Colour Bar Acts.

In reaction to conditions on the mines, significant formal and informal worker resistance developed and the first African Trade Union was formed.

The reliance that has since developed on the "barbarous relics of gold" has made the South African economy extremely vulnerable to any downfall in the gold price and any major stoppages in the gold mines.

Temptation

Whereas common sense dictated the risks in relying on a single commodity too much, the temptation for capitalists was too great. The unlimited pool of labour that was available to work on the plentiful mines, and the fact that gold was an industry that "haired neither locusts nor cattle diseases, neither drought nor summer flood." (De Klerk), caused increasing specialisation on the mines.

That gold was exclusively relied upon to bring in necessary foreign exchange becomes a double risk when one takes into account the dependence of the mining industry on foreign countries as the demand for gold, as well as the price, tend to be internationally determined.

After some expensive lessons were learned when the gold price dropped drastically in the early 1920's, causing substantial damage to the economy, the South African government began to invest in, and protect, the local manufacturing industry.

Although, in recent years, the importance of the gold industry has declined a little, it continues to be the country's single largest generator of foreign exchange.

When, owing to declining international demand for gold, insufficient foreign earnings were brought in to finance our imports, there was a tendency to borrow funds abroad.

This came at an abrupt halt in 1985, when, financial sanctions were imposed on South Africa for political reasons. With another source of finance closed, the dependence on gold was highlighted once again.

Volatility

The effect of gold price volatility on the South African economy, owing to our large unverified export mix, is significant.

The fall in our average growth rate from five percent in the 1950 - 1960 period, to the two-and-a-half percent in the subsequent 15 years, has been largely attributed to the much lower foreign exchange earnings.

Although the mining industry will continue to be of crucial importance to the South African economy, the emphasis of future policy makers will be to reduce its dependence.

Although the mining industry will continue to be of crucial importance to the South African economy, the emphasis of future policy makers will be to reduce its dependence.

Given the widespread poverty, mass unemployment and the two-and-a-half percent growth rate in the population, South African society has little option but to diversify substantially to become more energy and resources aware from its rich mining heritage and to concentrate more thoroughly on developing its human resource base.

Mining will, of necessity, continue to play a pivotal role in this process, although, the benefits that accrue from the industry will have to be directed towards broad based mass development."
Signals of slower growth . . .

Downturn bites deeper into company profits

Own Correspondent

Johannesburg. — The first batch of results from major companies for the period to end-December show faltering earnings growth and give an indication of the difficulties which lie ahead as the economic downturn bites deeper into profitability.

Inroads into company profits are putting leading industrial and several non-gold mining shares under pressure on the JSE, and could put a lid on the continual uptrend in prices seen over the last couple of years.

Even those companies which reported earnings growth above the rate of inflation have signalled slower growth in the wake of tighter conditions on the international as well as the domestic fronts.

John Lachman, partner in stockbrokers Max Pollak & Freemante, said: “We must expect leading industrial companies to show lower earnings growth than we have seen over the past few years.”

“Squawk over Christmas spending tends to hide the situation for a while but we are now starting to see the impact of the downturn on share prices,” Lachman said.

Mike Brown, of stockbrokers Franke, Kruger, Vinderine, said: “The economy is now in the mature phase of the downturn but I am not too concerned about the fall in profits, particularly of industrial companies as the level of earnings growth has been very good in recent years.”

He pointed out that earnings growth of industrial companies on the JSE was 19% in 1986, 30% in 1987, 36% in 1988, and 34% in 1989. Brown projects 13% growth this year, recovering to 30% in 1991. Offloading of shares of steel giant Iscor has been a vivid example of the market’s swift reaction to faltering earnings growth.

After meeting interim earnings targets, serious doubts whether it would fulfill an earnings increase of 20% for the full year to June, sent the shares plummeting.

In the two days since the release of the interim results, the shares have fallen from 270c to touch a low of 225c before closing at 235c, a decline of almost 10% and a fall of 17,5% from its January peak of 285c.

Keener international competition and substantially lower world dollar steel prices have also hit Barlows shares, as the major component of its earnings growth over the last few years has come from Middelberg Steel.

Barlows shares came off their lows on Friday to close at R42,65, a decline of almost 22% from the month-a-go peak of R54,75.

The plunge of the heavily weighted shares has helped push the JSE industrial index down 7,5% to 2,974 from its February 7 peak of 3,218.

The decline in world commodity prices and the relatively strong rand has taken the edge off other rand-hedge stocks.

Righveld Steel & Vanadium shares have slumped from an August high of R22,30 to R16,35 on Friday but off recent lows.

Softening international prices of pulp and paper are expected to impact on the results of Sappi for the period to February, and the shares have plunged from an October peak of R31,50 to R26,50 on Friday.

Dismal results from Bankorp and earnings growth of only 6% from highly rated Anglo Vaal Industries have not helped to quell market nervousness.

But the impact of the economic downturn will be more accurately reflected when companies in the country’s major industrial groups, SA Breweries and Barlows, report results for the period to March.
THE debate raging over the alleged nationalisation policy of the ANC has been characterised by confusion on both sides over the importance of the other side. The topic of the Argus African News Service, which has just returned from Lusaka, reviews ANC views on the subject.

Nationalisation:
Clearing the air on ANC's stand

THABO MBeki

THOSE who have been concerned because they could not understand the ANC policy on nationalisation can cheer up - because the truth is the ANC does not have a nationalisation policy.

- This remarkable admission was made by the organisation's foreign affairs spokesman, Thabo Mbeki, shortly after the ANC's national executive committee meeting last week.

What the organisation has are "guidelines," according to Mbeki.

The foundation for the guidelines derives back down to the 25-year-old Freedom Charter.

These "guidelines" are not hard enough to be called a "policy," he says - and to judge by the varying statements made on the topic by various ANC leaders in past weeks - not even the guidelines are universally agreed to.

Ideals

Most of the ideals included in the Freedom Charter are vague enough to be interpreted virtually any way one wants to, with the exception of those pertaining to nationalisation.

The relevant paragraphs read:

"The mineral wealth beneath the soil, the banks and monopoly industries shall be transferred to the ownership of the people as a whole." All other industry and trade shall be controlled to assist the well-being of the people." While Mbeki says that nationalisation is not mentioned anywhere in the Freedom Charter (the word "nationalisation" is listed not mentioned), the above paragraphs unambiguously mean nationalisation.

Subject

Compare this to the initial words by Nelson Mandela on the subject in his letter from Victor Verster: "The nationalisation of the mines, banks and monopoly industries is the policy of the ANC, and a change of modification of our views in this regard is inconceivable." His words are also unambiguous and clear.

Almost exactly the same.

System

The system says that the present economic system has been distorted by monopoly and cartels, and that the system has created inequalities and imbalances that have produced great poverty within the black sector of the population.

Any democratic government will have to alter the structures inside the economy in order to create a system that can redress these imbalances.

"It is in this context that the nationalisation policy is intended to be implemented," Mbeki says.

Economic resources

"Nationalisation on its own does not imply that this objective would be achieved." Mbeki says that while strategies may be evolved or organised, what must remain is the commitment to restructuring the economy to meet the needs of the population as a whole, not just a privileged few.

"To see the mechanism evolving being a mere window dressing, one with a private sector, a public sector in addition, is the involvement of international capital." Bread

"We are perfectly aware that when the transformation comes we will have to bake bread, not just slogans. In order to make sense of much of what leading ANC figures say in private conversations it is necessary to read between the lines.

The present initiative of President FW de Klerk has taken the organisation almost completely unawares, events have moved faster than anyone could have imagined, especially for an organisation such as the ANC dedicated to long-winded theoretical conferences leading to group decisions.

So Mbeki's candid admission is seemingly correct: taken by surprise the ANC does not have an economic policy capable of being tested out to meet the demands of the press and others worried about the comments of individual members of the organisation, no matter how influential.

Secondly, most, if not all, of the ANC's leading economists were trained in the Eastern Bloc, and faced with the disintegration of the system they were trained in, they have simply had the time to come up with a credible alternative.

The result could be that nationalisation could be one of the first topics for debate when any negotiation process finally gets underway - and one of the first casualties.
Getting to know how your taxes are spent

ON Thursday the Sowetan Business - Old Mutual pre-Budget supplement will be published to give our readers background knowledge on Finance Minister Barend du Plessis's Budget speech next Wednesday.

Although the Budget speech will only be delivered next Wednesday, March 14, the articles will help you understand why the Government will be taking specific measures.

Old Mutual economist, Andre Roux, has written four articles.

The housewife, man in the street and business will now have a chance of analysing Government thinking when it comes to spending our money.

**Analyse**

More importantly the student will get technical information from an expert, who will also analyse past budgets and what their shortcomings were.

Among the titles to be dealt with are inflation, interest rates, fiscal and monetary policy in general, the deficit and taxes facing us this year.

The day after the Budget speech we will carry all the details, comment from the experts at Old Mutual, the man in the street and our business leaders.

As the Budget affects our lives, and particularly in the light of current developments in the country, make sure you get your copy of this special supplement.

You will now know how your taxes will be spent in the coming year, and how the Government will deal with inflation and the ever-rising cost of living.

This supplement will be part of your Sowetan Business package this Thursday.

As we promised when Sowetan Business was launched last year, we will demystify the economy.
Economy in a rut if ANC nationalises, prof claims

By Norman Chandler
Pretoria Bureau

ANC plans to nationalise the banks and gold mines would drag SA's economy deep into a Third World rut, a top academic said at the weekend.

Professor D J J Botha, head of the Centre for Economic Analysis, also told a Human Sciences Research Council seminar a politicised educational system did not make economic sense.

Since President de Klerk opened Parliament on February 2, "our hopes have risen... Let us trust that the discordant note of nationalisation will in time prove to have been the result of political fury getting the better of economic sense," he said.

South African politicians had to heed the lessons of Eastern Europe and the Soviet Union — "some of our politicians have not been able to adapt to the new world situation, hence the claim that banking and the gold mining industry should be nationalised," the professor said.

"This would be the surest way of quickly reducing the whole economy to the level of a Third World country. Nationalisation could only lead to disaster (and) a reduction in national wealth."

Education had suffered major neglect "when scarce funds were diverted to projects that could not be justified on economic grounds. This was at the expense of other, more worthy causes, such as essential services, especially health and education."
Sweden warns ANC against the dangers of nationalisation

In the 1930s, the Swedish system was held up as a shining example to the West. At the start of the 1990s, the east finds faith in the north for rebuilding the ruins of communism. The African National Congress has its eye fixed on the country which has so far given it more than 500 million kroner (R2.5 billion). SARAH CROWE in Stockholm examines the Swedish model as a possible template for a new South Africa.

The hope of the new socialist world has warned the ANC against the dangers of nationalisation and command economic model.

The warning comes from the country Mr Nelson Mandela calls the ANC's "most reliable friend". Sweden - the country which has in recent weeks hosted an historic gathering of the ANC leadership and where the movement's president, Mr Oliver Tambo, is being treated for a stroke. The country which is the ANC's biggest financial supporter.

Within 10 days, Stockholm will again be the meeting-place for the two kingly, Mandela and Tambo.

This week, the Dagom Neuger newspaper reports Mr Mandela's praise.

"The socio-economic system you have in Sweden is very tempting for us," he says. "I have often considered that the geographical position of Scandinavia had helped you create an economical and social system which contains the best from both the east and the west.

The Swedish welfare state was born from socialist inspired values of equality and community concern.

GUARANTEES

Swedes are guaranteed sick leave at 50 percent of their income, free education, virtually free health care, and pension at two-thirds of an average income. The unemployment rate is running at 1.4 percent and dropping.

Of course, someone has to pay for these benefits, and the Swedes have one of the highest income tax rates in the world. The scale starts at 30 percent and rises to 75 percent.

Pressure and falling productivity have, however, led to a rethink and the Government is now pushing through a tax reform package that will limit the top rate to 50 percent - still 10 percent higher than in Britain, for example.

All the community concern and a highly competitive economy, gives Sweden one of the highest standards of living in the world. But socialist Sweden is not.

"Whites in South Africa misunderstand the Swedish model," says Mr Bertil Oden, economist at the Scandinavian Institute of African Studies.

"They believe Sweden is a socialist country. The dynamics of private capital is the main locomotive of our economy, but, at the same time, with strong trade unions to keep the anti-social effects of the raw capitalism in check," he adds.

"The one prerequisite has been the growth of very strong popular movements in Sweden, and in South Africa the United Democratic Front and Cosatu could fill the same function."

However, he warned the ANC against nationalisation.

"Government ownership of industry in Sweden is about 17 percent of the production sector, less than half the amount of Conservative Britain, and its record on free trade is more open than most other Western countries."

The Swedish Secretary of State for Southern Africa, Ms Ulla Strom, also says nationalisation would be a mistake.

"Here the ANC can learn from the Swedish model because nationalisation is not an answer to any problems, and developments this past year have shown that economies based on command economics never accomplish anything," says Ms Strom.

"The ANC has a very positive view of Sweden because of the massive support they have gained from us. This budget year they received 85 million kroner (R2.5 million)."

"The success of the Swedish model is to leave business to the businessmen and women, but the government's task is to control them and to set up the networks to impose responsible thinking and ensure there are no strong divisions between labour and management."

Ironically, the perfect Swedish model is showing worrisome cracks. The country has just survived one of the worst parliamentary crises ever, caused by a series of strikes, and an unpopular austerity package has been proposed. But even if a bourgeois coalition government were to take the place of the Social Democrats, who have enjoyed a virtually uninterrupted rule since 1931, Swedish policy on South Africa would be unlikely to change - The Star's Foreign News Service.
Sweden warns ANC against the dangers of nationalisation

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The Swedish welfare state was born from socialistically inspired values of equality and community concern.

GUARANTEES

Swedes are guaranteed sick leave at 90 percent of their incomes, free education, virtually free health care and pension at two-thirds of an average income. The unemployment rate is running at 1.4 percent and dropping.

Of course, someone has to pay for these benefits, and the Swedes have one of the highest income tax rates in the world. The scale starts at 30 percent and rises to 75 percent.

Pressure and falling productivity have, however, led to a re-think and the Government is now pushing through a tax reform package that will limit the top rate to 50 percent — still 10 percent higher than in Britain, for example.

All the community concern, and a highly competitive economy, gives Sweden one of the highest standards of living in the world.

But socialist Sweden is not. “Whites in South Africa misunderstand the Swedish model,” says Mr Bertil Oden, economist at the Scandinavian Institute of Economic Studies.

“They believe Sweden is a socialist country. The dynamics of private capital is the main locomotive of our economy; but, at the same time, with strong trade unions, to keep the anti-social effects of the raw capitalist system in check,” he adds.

“The one prerequisite has been the growth of very strong popular movements in Sweden, and in South Africa the United Democratic Front and Cosatu could fill the same function.”

However, he warned the ANC against nationalisation.

Government ownership of industry in Sweden is about 7 percent of the production sector, less than half the amount of Conservative Britain, and its record on free trade is more open than in most other Western countries.

The Swedish Secretary of State for Southern Africa, Ms Ulla Strom, also says nationalisation would be a mistake.

“Here, the ANC can learn from the Swedish model because nationalisation is not an answer to any problems, and developments this past year have shown that economies based on commando economics never, accomplish anything,” says Ms Strom.

“The ANC has a very positive view of Sweden because of the massive support they have gained from us. This budget year they received 65 million kroner (R34 million).

“The success of the Swedish model is to leave business to the businessmen and women, but the government’s task is to control them and to set up the networks to impose responsible thinking and ensure there are no strong divisions between labour and management.”

Ironically, the perfect Swedish model is showing some serious cracks. The country has just survived one of the worst parliamentary crises ever, caused by a series of strikes, and an unpopular austerity packet has been proposed.

But even if a bourgeois coalition government were to take the place of the Social Democrats, who have enjoyed a virtually uninterrupted rule since 1932, Swedish policy on South Africa would be unlikely to change. — The Star’s Foreign News Service.
By Michael Chester

The SA Chamber of Business (SACB) forecasts that while the 1990 Budget may be relatively strict, there should still be scope for cuts in personal and company tax rates.

SACB economist Keith Lockwood, in a review of business confidence levels, concedes that it would be unrealistic to expect much in the way of sweeping tax reform when the Budget is delivered on March 14.

Holding down the pay increases of public servants to 10 percent, along with various recent statements by cabinet ministers, were clear pointers to a relatively strict budget stance.

"Nevertheless," he adds, "there should be scope for a reduction in tax rates — both corporate and individual — because of the underlying resilience of the South African economy.

"Lower tax rates should also assist to encourage further business activity, thereby resulting in an increase in tax revenue."

But caution has been signalled by the SACB that South Africa must expect the brakes to stay on new big inflows of investment cash from overseas until the political and economic outlook come into sharper focus.

The damper to over-optimism comes with confirmation that the overall level of business confidence in February stayed intact.

With the initial burst of enthusiasm about the release of Mandela counter-balanced by shock waves of talk about ANC nationalisation plans, the chamber's confidence index remained unchanged for the third month in a row.

Mr Lockwood says the JSE saw the start of a recovery from the sharp fall it suffered amid controversy about nationalisation when it became evident that the ANC's economic policy appeared to be flexible and negotiable.

"In many ways," he says, "it is fortuitous that the debate over the future economic system has already got under way and is gaining such prominence.

"The skittish reaction of overseas investors to the various political pronouncements served to stress the underlying instability of world financial markets.

"Although the gold price and financial rand tend to insulate South Africa to some extent from developments on other bourses, the JSE remains sensitive to such developments," he says.

- Individual income taxes could bring in over R19 billion in revenue in the 1990/91 fiscal year — R2 billion more than budgeted, it was reported today.

The Finance Ministry had budgeted for a 22.5 percent increase in revenue from personal income tax to R17,1 billion, but as a result of the 20 percent increase in salaries over the period could now receive about R19,1 billion.

When drawing up the Budget last year policy makers had expected salaries and wages to rise in line with the forecast inflation rate of about 15 percent.

The additional inflow is likely to be given back to individual taxpayers to provide relief for fiscal drag, although Finance Minister Barend du Plessis will once again stress the importance of limiting wage increases this year.
COMMERCIAL AND INDUSTRIAL

Big drop in retail vacancies

There has been a sharp decline in the number of vacancies in Coreprop’s retail portfolio over the past three years — 51.9 per cent to 25 per cent.

Chief executive Mr George Skinner says: “While there has been a dramatic downward trend in vacancies, rental increases upon renewals or replacement of tenants have continued to grow at close to 25 per cent increases on average during the period July last year to January 1999.

“This compares with rises of 28 percent and 31 per cent respectively for the preceding two years.”

Mr Skinner foresees 1991 as the year of increasing demand for retail space. Many major known projects will be under construction during this time for completion in 1992.

Industry welcomes Sapoa decision on committee

The decision by the South African Property Owners Association (Sapoa) to scrap its Specialist Retail Committee and replace it with the Shopping Centre Committee has been welcomed in the retail business.

The emphasis of the former committee was on the retail side of centres, but the new body’s brief will embrace all parties involved in the shopping-centre operation.

Mr George Skinner of Coreprop and Mr Gavin Main, Liberty Life Properties’ director of shopping centres, headed a steering committee to set up the new division.

“In creating the new forum for the burgeoning shopping centre industry, we regard interaction with municipalities, town planners, architects and major retailers of the utmost importance,” says Mr Skinner.

Other aims of the committee include:

- The promotion of the role of shopping centres in the marketing of consumer goods and services;
- Codes of fair business ethics with retailers and consumers, as well as with Government and public agencies;
- Encouraging research into the architecture and design of shopping centres and into the development of improved management and maintenance methods.

“It appears that there is also a huge credibility gap between financial institutions, developers and retailers,” says Mr Skinner.

Rents ‘set to stay ahead of inflation’

Retail rents are expected to outstrip inflation this year, says Mr Grahame Lindop, national leasing director of Anglo American Property Services (Amprop).

“As always,” he says, “good locations will stand up to the rental increase.”

The property business, though, looks like getting tougher for everyone, and, Mr Lindop believes, new deals will be more difficult to conclude this year.

While Amprop’s retail portfolio of 347,558 sq m in the countrywide is virtually fully let, renewals will be done at the higher levels — particularly in centres which have been revamped.

Johannesburg appears to be lagging behind other major centres in terms of achievable rentals.

While deals are being concluded at up to R100 a sq m in prime locations in Cape Town and Durban, good Johannesburg locations have some way to go before reaching the same high levels,” says Lindop.

“Therefore, rents in Johannesburg are likely to move faster than those in Cape Town and Durban which may have peaked at the top end of the market.”

There is unlikely to be any rush of new retail developments in the Johannesburg area, mainly because most regions are already saturated.

On the other hand, the needs of black shoppers to the south of the city have not yet been met, so trading conditions in central Johannesburg are expected to remain strong.

“The city’s inner core will also continue to be boosted by demand from nearby grey areas and Newton, once redeveloped, is certain to draw much of its business from residential areas close to the central business district,” says Lindop.

Amprop sees big benefits in the revamp of existing retail complexes — a trend which is paying off in higher rents.
Retail property boom is expected

Retail property is heading for a boom on the back of the gathering momentum of urbanisation, which means a golden era for shopping centre developers.

That's the view of Mr George Skinner, chief executive of Coreprop, which, with a portfolio of 60 retail complexes under its banner, is one of South Africa's largest management companies in the field.

"Harnessing the urbanisation trend to the benefit of the retail property business, by identifying the opportunities created can bring new prosperity to the development companies," he says.

Making an interesting comparison in urban build-up, Mr Skinner says the shift to the cities in Europe and North America began in the early 1800s and went on until World War 2. The countries moved from a 55 percent to an 85 percent urbanisation situation.

In South Africa, since influx Durban and Cape Town. Third World people are drawn there because they feel welcome and perceive opportunities. Cities such as Bloemfontein, East London and Pretoria should be encouraging urbanisation.

Mr Skinner foresees areas such as Doornfontein, Ellis Park, Joubert Park and Hillbrow becoming major retail areas, and while Third World shoppers flock to the CBD, the first World motorised class will flow to the suburbs.

"This is already happening in central Durban," says Mr Skinner.

Looking to the latter half of the decade, the Coreprop chief executive believes housing densities will increase and there will be a shift to non-residential and class distinction in shopping.

"Even the poorer shopping centres will thrive and require revamping," he says.

Sandton 'needs shot in the arm'

Sandton's rental structure needs a shot in the arm, for at present rental levels in the municipality are three times lower than in comparable business centres overseas.

Pointing out that Sandton's rents should be increasing by an additional three percent a year, "at the very least", Mr Jeff Myerson, joint managing director of the Greenfield group, says:

"The effective increase in rents in Sandton over the past four years has averaged 10 percent a year.

DEPRESSED

"This is because of a number of relative factors such as the high rate of inflation, the depressed state of the economy and a lack of real growth in the economy.

"This is wholly insufficient and rents in the burgeoning

Sales indicate rise in demand

The demand for industrial land is hotting up by productivity, which has notched up a total of 230 million square metres over the past two years.

Mr Mike du Klerk, Bankorp's general manager of marketing, says the "extremely lively market" is, to some extent, the result of rocketing rentals.

"These rates are approaching high yield expectations," he says, making it a relatively easy decision for many industrialists to opt for their own developments in which they also enjoy the advantage of capital appreciation down the line.

Another factor has been the noticeable shift from older-style industrial townships to that of industrial parks where a better balance between a productive environment and aesthetic requirements, such as landscaping, can be achieved.

"In our experience that industrialists do not compromise when it comes to the need for excellence in terms of access, be it roads, freeways, railways and proximity to labour and markets," Star performer in the BPS portfolio is Route 24, the industrial township beside the Jon Smuts Highway.

The first phase of 21.5 ha was sold out in record time and business in stage two of 19 ha has been equally brisk.

There is renewed interest for erven in the long-established Atrode area and Bankorp Property Services is planning developments there.

Jeff Myerson of Greenfields says Sandton's rents, which, effectively have risen only 10 percent over long-term few years, are lagging behind similar areas.

The average escalation of 10 percent and 12 percent. Mr Myerson believes, needs to grow to at least 15 percent.

Commenting on the retail market, the Greenfield managing director believes that with traders turning more and more to the rural areas of the country, they need to be made more aware of the requirements of a rapidly changing market.

INTEREST

"The siting, design and content of buildings and the structures should blend in with prevailing circumstances and precedents and trends - such as the heightened awareness of the environment.

"A main reason for the greater interest in rural markets is the Government's designation and aggressive marketing of so-called growth areas, many of which have excellent potential for the retailer," he says.

Mr Whiting believes that on the back of measures to combat inflation there remains a lack of public confidence in the Government's ability to contain price spirals.

"People, particularly the majority of credit users in the middle income group, are consequentially prepared to incur debt by adopting a buy-now, pay-later policy to counter shrinkage in the rand's future purchasing power.

"The effect, too, of strong bargaining power by the black unions has led to 'meaningful wage increases' in high inflation rates, it seems, have been no deterrent to purchasing power, for spending last year accounted for about 56 percent of gross domestic product.

Interim results for Pangbourne for the six months to last December are excellent, with turnover at R126 million, up by 8.32 percent on the previous year.

With earnings of combined units recorded at 34.48c each (20.8c) registered unit holders will receive a distribution of 33.64c a unit - 20.12 percent higher than the 1998 interim period.
The process of nationalisation of land and property has been under way for some time. There have been several occasions when the government has taken action to nationalise certain properties, particularly those belonging to the white population. This has caused much controversy and debate, with some arguing that nationalisation is necessary for the achievement of a just and equitable society, while others believe it is a violation of property rights and an unnecessary interference with the economy.

The government has also been involved in the process of land redistribution, which has been met with resistance from some sections of the population. However, the government has been determined to carry out its policies in order to achieve a just and equitable society for all.

The lesson to be learned from these developments is that progress in the area of land reform and nationalisation must be carefully planned and implemented in order to achieve the desired outcomes.

The challenge facing the country is how to balance the need for land redistribution and nationalisation with the protection of property rights and the maintenance of a stable economy. This requires careful consideration and consultation with all stakeholders, including the affected parties, to ensure a fair and just process.
WEALTH creation through sound industrial relations will become the government's major challenge in the 90s, a conference on labour relations was told in Johannesburg yesterday.

In his opening address, the Minister of Manpower, Mr Eli Louw, said the government was faced with the challenge of balancing the interests of the worker, the employer and the economy.

He said when considering any envisaged changes to the economy, the modern tendencies in the world towards a pragmatic market system should be taken into account. Louw said the changes should also be conducive to tackling the problems of high unemployment and inflation.

"Unless there is sufficient inflow of foreign capital, a marked increase in effectiveness in the work situation is not going to be achieved," Louw said.

He said anybody advocating for a living wage without agreeing with the preconditions stated did not make allowance for the South African realities. "We stand on the threshold of momentous constitutional development which will have a vast impact on labour relations."

Louw said if South Africa succeeded in her endeavours, black workers would no longer be in "a political strait jacket."
Leave ideology out of economy, urge debate participants

AS THE debate on SA’s future political economy gets going, prominent participants are urging others to think beyond rigid categories of “socialist” and “capitalist”.

Even Finance Minister Barend du Plessis, in a respite from the usual Thatcherite rhetoric, recently told Parliament government had never argued for a “cold, fast enterprise capitalist system”. He commended Democratic Party spokesman Harry Schlechter for his suggestion that socialism should be contrasted, not with capitalism, but with the West German social market system.

A prominent voice arguing against a debate cloaked in ideological terms is that of Development Bank CE Simon Brand, who notes that the debate so far has been directed towards the conflict between the ideal-type systems of capitalism and socialism.

Alternative

“It is unlikely that a debate at this level is going to resolve anything. Such a debate is fortunately also rather unnecessary,” Brand said in response to questions on how the debate should be approached.

He said there was an alternative approach to reacting to the ANC’s statements on nationalisation — analytical rather than ideological.

“The useful way to approach the debate on the economic order is rather to concentrate at the analytical and empirical level on developing a common understanding of how the present economic system works, to start by spelling out objectives or ideals which the economic system is expected to achieve, and to identify the discrepancies between expectations and performance and the reasons for them.”

Only then could one usefully start discussing ways of addressing those discrepancies, he said.

The outcome of the debate was unlikely to be in favour of nationalisation of existing enterprises. He predicted that the evidence would lead to the conclusion that privately run operations made a more efficient contribution in certain respects, while there is a role for government to play in other respects.

“Considering these respective roles, it would be relevant to note that the public sector already plays a highly prominent role in the SA economy, accounting for close to 40% of the economic activity in the country.”

He believed it would become apparent that it would not be desirable to enlarge government’s role. It would be necessary, however, to redirect the application of resources in the public sector.

If concentration of economic power in the private sector were seen as a problem, methods other than nationalisation could be debated. These included competition policy, exchange control policies and stabilisation policies.

“By conducting the debate in these terms it can once again be kept from drifting towards the ideological level, where it is unlikely to be resolved.”

The debate on economic issues would also have to focus on the converse of nationalisation — privatisation. Brand noted the “deep scepticism” in ANC and MDM circles, and in the black community at large, over the issue. He described as “ununderstandable” their concern that their inability to buy into privatised entities would further entrench existing inequalities in the distribution of ownership.

This concern could be addressed by using the proceeds of privatisation to address backlogs in infrastructure, facilities, and services without permanently raising the share of the public sector in the economy.

On the issue of redistribution of land, Brand believed a number of other factors should receive attention before the debate focused on forced transfers of land. These included the Land Act, the Subdivision of Land Act, the role of the Land Bank, and the importance of underpinning a land reform programme through more equal access to agricultural support services.

Adapt

“By concentrating on these matters specifically with a view to achieving more equal access to land, while at the same time ensuring its productive use, it is likely again to turn out that an expropriation approach has little to contribute.”

It was futile to hope that the economic issues raised by the political developments of the time would go away. Markets would have to learn to live with and adapt to the uncertainties lying ahead. In the past, thinking about these issues had taken place in different compartments — with little interaction.

“A more open debate on these matters could yield a consensus over a wide range of issues that would not necessarily have shattering implications for viewpoints already well established in both camps.”
LETTERS

Robert Gentle

Self-sufficiency

Towards Inducral

Taking a new road
Focus 'must shift' to restructured economy

THE Sacola, Cosatu and Nactu forum was a good one for starting negotiations or exploratory discussions on restructuring the economy, National Union of Metalworkers of SA (Numsa) engineering secretary Bernie Fanaroff said yesterday.

He was addressing a labour conference organised by the Institute of Personnel Management and the SA Chamber of Business in Johannesburg on The Challenge of the 1990s: Creating Wealth through Good Industrial Relations.

Fanaroff said negotiations on the Labour Relations Act should be completed as soon as possible and the important issue of restructuring should begin.

Government's solution to the economic crisis — deregulation, privatisation, rationalisation, retrenchment and increased labour flexibility — did not stand up to scientific scrutiny and would not solve the problems, he said.

It was "wishful thinking" to believe there would be a flood of aid for a post-apartheid SA as Western nations and banks were preoccupied with Eastern Europe were there was a highly trained, educated and relatively docile work-force, a substantial infrastructure and a potentially large market, Fanaroff said.

He said the only way to make a transition from a protected low wage, high cost economy into a high wage, low cost economy was through planning.

Many trade unionists were committed to socialist principles which included social ownership of the production means and planning of the economy.

The economy could not be transformed without full democracy and openness at all levels of society. There was a need for economic incentives for some period and market forces had a crucial role to play, Fanaroff said.

Resources diverted to provide housing, hospitals and education could not come solely from tax.

A fundamental change in management's attitude was needed.

In his opening address, Manpower Minister Eli Louw said more workers downed tools and more working days were lost through strikes last year than in 1988 in spite of a 16% drop in the number of strikes.
Business is urged to negotiate new economic deal

CAPE TOWN — SA businessmen were urged yesterday by Pick 'n Pay chairman Raymond Ackerman to negotiate a new package with government to ensure that redistribution of wealth was achieved without damage to the economy.

Speaking at a Cape Times/Seeff Property Organisation breakfast meeting, Ackerman said a free market economy was the only way of achieving the growth needed to begin fulfilling the aspirations of most South Africans.

He said economic growth of about 7% a year would, for example, achieve 100% growth in wealth creation in SA over 10 years, he said.

Ackerman presented a four-point plan which he felt would help to bring about more equality in the workplace. Besides promoting on merit and establishing employee share schemes, businessmen could negotiate with government for better housing, education and social conditions for their employees.

His plan also included persuading black leaders to apply moderation in economic decision-making and encouraging international countries to review sanctions policies.

"Nationalisation will not happen as long as we South African businessmen make our contribution to a stronger more equitable economy," he said.

Ackerman said Pick 'n Pay had invested between R60m and R70m in housing schemes and education and expanded the membership of its employee share scheme from 2 000 to about 9 000 last year.

It had also started buying some of its produce from small businesses and the informal sector.

Ackerman said that in discussions with President F W De Klerk he had recommended the diversion of more funds into black housing, education and social upliftment and had encouraged the board of a US food company, which had recently visited SA, to recommend a review of US sanctions legislation.

Meanwhile, Sapa reports from London that an SA diplomat told Etlan College's Political Society that removing or hampering the free enterprise system in SA now would soon lead to a repetition of the economic and social catastrophes of Eastern Europe.

Minister at the SA Embassy in London Justus de Goede said in his address, released by the embassy, that nationalisation of SA's mines would lead inevitably to investment in this sector being cut off.

It would also erase a third of the market capitalisation value on the JSE.

He said up to six million people from neighbouring states depended on the SA economy.

He said that SA, under whatever dispensation, would have to provide the moving force for regional economic survival.
Robert Gentle

of nationalisation

above the dangers

Split puts De Beers

OUTLINE THOMPSON will research political developments that could impact the diamond industry. Thompson's report will focus on the political situation in Africa, where diamonds are a significant resource. Thompson will also examine the role of competing diamond producers in influencing political outcomes.

Robert Gentle

The dangers to diamond producers of nationalisation

In recent years, there has been growing concern about the potential for nationalisation of diamond companies. Nationalisation, the process of government seizure of private property, has been a concern for diamond producers and governments alike. The risks of nationalisation include loss of control over diamond reserves, potential expropriation of assets, and uncertainty about future policies.

The prudent, informed, buy-out of foreign-owned diamond companies is a necessary first step in addressing the dangers of nationalisation. The benefits of such a strategy include a stable and predictable investment environment, improved governance, and greater alignment of interests between the diamond companies and host governments.

The need for a global approach to diamond production

Diamond production is a global industry with companies operating in multiple countries. The need for a global approach to diamond production is crucial to ensure the sustainability and integrity of the industry. This approach must consider the interests of all stakeholders, including producers, governments, and consumers.

The diamond industry is facing a range of challenges, including increasing costs, changing consumer preferences, and competition from alternative materials. To address these challenges, the diamond industry must work together to develop sustainable practices and ensure the continued growth of the industry.
Slowdown may last to 1991 but strong recovery forecast

ECONOMIC slowdown in SA could extend well into 1991, but afterwards SA may face its longest and strongest economic recovery in more than 20 years, according to TrustBank's latest economic report.

With reduced inflation, lower interest rates, healthier foreign reserves and an improved foreign debt position, SA should be ideally placed to enter a renewed economic upswing in 1992.

Risk factors like political and foreign economic developments, the international economy and risks inherent in domestic economic policy, could change the picture, the report confirmed.

SA's financial situation had begun improving from the end of 1989, boosted by positive developments like a lower dollar and higher gold price, as well as by cuts in domestic spending and imports.

Foreign reserve improvements indicated SA was spending within its financial means for the first time in two years, the report said, reducing potential for inflation "as evidenced by the stronger rand exchange rate, the declining rate of increase in import prices and the recently lower trend in the producer price inflation rate".

These developments were "merely the beginning of a protracted period of improvement in SA's financial environment", while continued economic slowdown during the next 18 months implied import declines and a widening surplus on the current account of the balance of payments (BoP), it said.

Barring an unexpected drop in the gold price the current account surplus should exceed R7bn this year and approach R10bn next year, it said, to exceed net foreign debt repayments.

Resultant net BoP surpluses and rising foreign reserves would keep the rand exchange rate stable and precede declining inflation and interest rates.

Lower rates were expected to commence around mid-1990 and continue throughout 1991, it said.

The consumer price inflation rate was expected to fall to 13% by the fourth quarter of 1990 and reach 10% by the end of 1991, the report said. This would be accompanied by increased foreign reserves which would widen scope for further interest rate cuts.

"We foresee the prime rate declining to about 12% by December and about 10% by December 1991," the report added.

The report emphasised risks were prevalent in the above scenario.

Rising unemployment was likely to accompany the 1990/1991 downturn, it said, which could result in renewed unrest and violence, with negative economic effects.

There was also risk of renewed deterioration of international financial trends, especially a stronger US dollar and a lower gold price.

This was unlikely as the US economy was set for a period of low growth.

The dollar was expected to remain weak for most of 1990.
Poverty Key to Wealth Debate

Sam Van Coletter

1990s conference in Johannesburg

Letters

The era of wealth distribution

The era of wealth distribution is marked by the transfer of wealth from the rich to the poor. This is evident in the current economy, where the gap between the rich and the poor is widening. The wealthy are accumulating more wealth, while the poor are struggling to make ends meet. This trend is causing concern among policymakers and economists who believe that wealth distribution is not equitable.

The solution to this problem lies in education and training. By providing education and training to the poor, they can acquire the skills needed to enter the workforce and earn a living. This will help to reduce the gap between the rich and the poor and promote wealth distribution.

We must, however, be careful not to duplicate the mistakes of the past. The distribution of wealth must be done in a way that is fair and equitable. This requires a coordinated effort between the government and the private sector. The government must provide the necessary infrastructure and training programs, while the private sector must contribute by providing job opportunities and training for the poor.

In conclusion, wealth distribution is a complex problem that requires a coordinated effort. We must work together to ensure that wealth is distributed in a way that is fair and equitable. This will require a commitment from all sectors of society, including the government, the private sector, and the general public. By working together, we can create a more prosperous and equitable society for all.

Sincerely,

Sam Van Coletter
BOTTLENECKS IN THE ECONOMY

SOUTH-AFRICA is, according to various norms and particular, a developing nation, falling within the same category, namely the "upper-middle-income" countries such as Uruguay, Venezuela, and Brazil. As such, the local socio-economic scene is one that is plagued by double-digit inflation, high levels of unemployment, illiteracy, relatively low economic growth and a population growth, to mention a few.

These kinds of problems can be termed "strenuous", that is to say, they are of a long-term nature and deeply embedded in the economic system.

But, in addition to these South Africa is also confronted by a number of short-term, or cyclical, bottlenecks, the major one probably being our commitment to repay large amounts of foreign debt annually since 1985. Why does this present a problem?

It became clear at the end of August 1985 that overdrafts were no longer prepared to roll over (that is, to post the repayment of repayment) debt arising before that date.

The potentially massive outflows of capital that would have occurred resulted in the authorities' decision to regulate the payment of certain foreign liabilities expiring at the time.

Nevertheless, since 1985 repayments in excess of $0,6bn (approximately R15,3bn) have been made to foreign creditors.

In effect, therefore, South Africa has been exporting its scarce resources, namely capital - an intolerable situation for a developing nation that is reliant upon capital for investment, economic growth and the creation of new job opportunities.

Emergency investment in roads, bridges, machinery and schools, the economy is not able to grow fast enough to create sufficient jobs for all unemployed. The foreign debt contrains places a lid on economic growth in another way as well.

Consistent capital outflows require consistent foreign trade surpluses (that is, export revenue must exceed payment for imports). To a large degree the size of our export revenue is determined by decisions made by foreign importers of our goods. Although South African exporters have benefited from growth in our major trading partners over the past five years, as well as the weak exchange rate of the rand, this improvement was not sufficient to generate the required surplus.

International growth is expected to slow down over the next year or so, while the rand could remain fairly stable. Meanwhile, turn, this implies that economic growth will continue to lower than the population growth rate. Clearly then, all South Africans have paid a high price for financial sanctions in the form of low growth, high unemployment and growing prices.

A second major cyclical problem in our economy is inflation. But how is inflation measured, what causes inflation, and how does it affect the individual? The most common method spending and, at times, trade union demands for wage increases in excess of the rate of increase in prices.

What effect does inflation have on the man-in-the-street? The first and most fundamental impact of inflation is the monthly erosion of the consumer's purchasing power, that is his ability to buy goods and services with a given level of income.

In addition, regular and seemingly unavoidable price rises reduce the consumer's resistance to further inflation, and lead to a certainty and even despair. In a broader context, inflation effectively results in a redistribution of wealth.

For example, debtors benefit from inflation, whereas creditors and holders of financial assets experience an effective loss of economic power. Medium- and high-income taxpayers also suffer from inflation, placing them in higher tax brackets which, in our progressive tax system, means that their tax commitments increase by a greater proportion than their income.

Finally, if our inflation rate exceeds that of our trading partners then the Rand tends to depreciate against other currencies such as the US dollar and the Deutsche Mark.

The issues and bottlenecks mentioned in the brief review above are among those addressed by various authorities in the formulation of economic policy. In the next paragraphs the goals and nature of economic policy-making will be briefly discussed.
Finding the real solutions

TRADITIONALLY, economic policy aimed to find solutions to the following bottlenecks, which would help to make up for the current economic situation:

- Inflation
- Balance of payments instability
- Unemployment

Inflation
- Balance of payments instability
- Unemployment

Inflation

The fact that the relative importance of the above problems changes over time has a very definite bearing on economic policy.

For example, for most of the period following the onset of the foreign debt crisis in 1985, the main thrust of economic policy was aimed at achieving adequate surpluses on the current account. More recently, the emphasis of policy has shifted towards the curtailment of inflation.

Policy

A point worth bearing in mind is that the performance of one economic goal often has a short-term negative effect on another. For instance, a restrictive economic policy stance aimed at combating inflation could, in the short run, place a lid on economic growth and the revenue capacity to create sufficient new job opportunities.

In the longer run, however, the curtailment of inflationary pressures should create the right climate and environment for fair and stable growth.

Policy-makers have various methods at their disposal which can be used towards the achievement of policy goals.

The two major avenues are fiscal policy and monetary policy. Very briefly, monetary policy refers to actions taken by the monetary authorities (i.e., the SA Reserve Bank) to influence the supply of money and the rate of interest (i.e., the price of money).

Fiscal policy refers to decisions of government to influence the economy by changing the level of government expenditure and/or taxes.

In the event of large-scale unemployment and a low level of economic activity an expansionary fiscal policy will be adopted, i.e., government spending increases and/or tax relief is provided.

If, on the other hand, demand and inflation are very high a restrictive fiscal policy - lower government expenditure and/or higher taxes - will be employed.

Mr Barend du Plessis.
IN most economies the government fulfils a dual role. As far back as 1776 Adam Smith (probably the first professional economist) stated that it is the duty of the state to: * protect its subjects against foreign enemies, * maintain law and order, and * provide and maintain essential public works and institutions such as roads and schools.

In time governments expanded their role in the economic community by fulfilling certain welfare functions.

South Africa is no exception in this regard and large amounts of money are spent by the Government on community services (e.g. sewerage works), social services (e.g. education and health), economic services (e.g. SA Bureau of Standards), subsidies (e.g. on bread and pensions).

Broadly speaking, government expenditure can be categorised in two ways: a functional classification and an economic classification. The economic classification allocates expenditures in accordance with the following guidelines:

(a) Current Expenditure: the recurring expenditure by departments on goods and services not intended for the purchase of capital assets or goods. Examples include salaries and wages.

(b) Capital Expenditure: includes expenditure by departments on goods and services that results in capital formation or the acquisition of fixed capital assets such as land and building.

(c) Transfer payments refers to amounts that will be paid over to other bodies or persons. This includes transfers to private organisations, households and foreign bodies in the form of grants, subsidies, pensions, etc.

Functionally, government expenditure is divided into six categories (each consisting of a number of subcategories). These categories, as well as the amount budgeted for each in the 1989 Budget are in Table 1.

The three highest subcategories in the 1989 Budget were spending on education ($11,8 b or 18,5 percent of total estimated expenditure), defence (R10,3 b or 16,2 percent of total spending) and state debt cost (R9,97 b or 15,6 percent of total spending). The latter category refers to interest payments made on total debt accumulated by the government over time.

Table 1:

<table>
<thead>
<tr>
<th>Function</th>
<th>Amount budgeted (Rbn)</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protection Services (incl. Police and Defence)</td>
<td>14,92</td>
<td>23,5</td>
</tr>
<tr>
<td>Public Services (incl. Constitutional and Regional Development)</td>
<td>5,76</td>
<td>9,1</td>
</tr>
<tr>
<td>Economic Services (incl. Transport and Agriculture)</td>
<td>8,28</td>
<td>13,5</td>
</tr>
<tr>
<td>Social Services (incl. Education and Housing)</td>
<td>24,24</td>
<td>38,1</td>
</tr>
<tr>
<td>State Domestic Administration</td>
<td>2,29</td>
<td>3,6</td>
</tr>
<tr>
<td>Unallocatable</td>
<td>8,08</td>
<td>12,7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63,57</strong></td>
<td><strong>100,5%</strong></td>
</tr>
</tbody>
</table>

*Total does not equal 100,0 due to rounding.

| Table 2: Composition of tax revenue: |
|-----------------|-----------------|-----------------|
| 1979/80 (%) of total tax revenue | 1989/90 (%) of total tax revenue |
| Direct Tax on: | | |
| Individuals | 19,9 | 31,6 |
| Companies (non-mining) | 18,7 | 17,5 |
| Gold mines | 11,9 | 2,3 |
| Other mines | 2,9 | 1,7 |
| A: Total Direct Tax | 55,3 | 53,9 |
| Indirect Tax: | | |
| GST | 12,8 | 28,0 |
| Customs and Excise | 13,2 | 31,3 |
| B: Total Indirect Tax | 32,9 | 43,3 |
| Miscellaneous Revenue | 11,8 | 2,7 |

As far as the former is concerned, it should be borne in mind that a major portion of direct taxes on individuals is paid by a relatively small number of taxpayers (less than 20 percent of the total population). Moreover, of those assessed, a mere 30 percent pay approximately 80 percent of the total personal income tax received by Government.

Despite this uneven distribution of the personal income tax burden, individuals are expected to pay almost 32 percent of total tax revenue in 1989/90 as opposed to some 20 percent ten years ago.

This implies a marked increase in the tax burden of the middle- and high-income cross-section of the population.

Regarding GST, this indirect tax was introduced during the second half of the '70s in an attempt to spread the tax burden across a broader spectrum of the total population.

The GST rate has risen from an initial four percent to the current 13 percent, while since 1985 unprocessed foodstuffs have been exempt. Despite this concession, the share of GST in total tax revenue has increased from some 13 percent in 1979/80 to an estimated 28 percent in the current financial year. As a result, the tax burden of the lower income bracket has increased.
groups in South Africa has increased over time. From the above thoughts it becomes apparent that over the last decade or so most South Africans - regardless of income level - have been subjected to a steadily rising tax commitment to the Government.

Naturally, this has been detrimental to individuals' standards of living as it has reduced their after-tax income. Government is well aware of this effect and has, for some time been making serious attempts to introduce tax reforms aimed at alleviating the pressure on individuals.

Privatise

However, it must be borne in mind that South Africa is in the process of developing towards First World status. Moreover, current political developments will increase the need for education, housing and social services. In addition, Government will still have to provide an adequate security system and various economic services.

Thus, in the long term Government’s demands on the country’s scarce resources will remain high and, indeed, probably rise.

One factor that will potentially provide some relief to the tax burden is Government’s programme of privatisation of certain publicly-owned assets (eg. Iskor).

This not only provides Government with a once-off large amount of capital that can be used, for example, to repay Government debt, but it also reduces Government’s annual expenditure commitments in respect of the asset involved.

In addition, as a privately-owned asset, the entity becomes liable for tax payments, thereby alleviating to some extent the pressure on individual taxpayers.

The final ingredient in the finances of the Government, which is also addressed in the Minister’s Budget Speech, is the deficit before borrow-

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**LEAP: A Descri the LDC Alternati System**

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GUIDELINES

The Budget is a complex and multi-faceted process. The primary goal is to ensure that the economic and financial policies of the government align with the needs of the country. The budget is a tool used to allocate resources efficiently. It is a reflection of the government's priorities and its strategy to achieve its objectives.

The budget process begins with the formulation of the budget objectives and the identification of the revenue sources and expenditure priorities. This involves consultation with various stakeholders, including the private sector, unions, and civil society organizations.

Once the budget framework is established, it is presented to the parliament for approval. The budget is reviewed by the various committees to ensure that it is consistent with the country's economic and social goals.

After approval, the budget is implemented, and regular monitoring and review mechanisms are put in place to ensure that the budget is followed as planned. The budget is reviewed quarterly to assess its progress and make necessary adjustments.

In summary, the budget is a critical tool for ensuring that the government's policies are effective and aligned with the needs of the country. It is a reflection of the government's priorities and its strategy to achieve its objectives.
### School Model

The current school model, characterized by a focus on rote learning and standardized testing, fails to adequately prepare students for the demands of the modern workforce. This model not only stifles creativity and critical thinking but also perpetuates disparities in educational attainment, particularly among marginalized communities.

### Central Issues

1. **Lack of Relevance**: The curriculum is often disconnected from real-world applications, failing to engage students and hinder effective learning.
2. **Teacher Shortages**: High turnover rates and a lack of qualified educators disproportionately affect rural and urban low-income areas.
3. **Funding Disparities**: Funding for schools in underserved areas is often insufficient, leading to disparities in educational resources.

### Feasible Solutions

1. **Incorporating Technology**: Integrating technology in the classroom can enhance teaching methods and provide personalized learning experiences.
2. **Community Engagement**: Engaging parents and community members in educational initiatives can lead to better support for schools.
3. **Increased Funding**: Directing more resources to schools in underserved areas can help bridge the gap in educational opportunities.

### Conclusion

Addressing these issues requires a comprehensive approach that includes policy changes, increased funding, and innovative educational strategies. By prioritizing these solutions, we can work towards a more equitable and effective educational system for all students.
Develop skills to increase wealth

By MOKGADI PELA

It is only through the free enterprise mechanism that there is some guarantee of the welfare of the majority of people in the country, a paper delivered at a labour conference stated yesterday.

Mr Theo Pegel of the Institute of Personnel Management said to achieve this, the impetus to privatisation and deregulation had to be maintained.

He said this would ensure that wealth creation and the redistribution thereof become a national priority.

Pegel stressed, however, that the best environment for the redistribution of wealth would be an expanding economy in which possibilities existed for new opportunities for everyone.

To this effect, Pegel said, the development of skills was crucial.

He said IPM had an important role to play in providing knowledge and skills to their members.
Schwarz expects more credible Budget

PRETORIA — A Budget more credible than those tabled in previous years was likely next Wednesday, DP finance spokesman Harry Schwarz said yesterday.

He said Budget details would reflect a situation closer to the 1989-90 Budget estimates — “and we hope this kind of financial discipline will be carried over into the 1991 financial year”.

He expected no increase and perhaps a reduction in real terms in provision for expenditure in the new financial year.

However, there would be critical areas where greater spending would be needed.

For instance, provision would have to be made for special pay increases for police and nurses.

There were indications too that Finance Minister Barend du Plessis would spend more on socially orientated projects which would help create a climate conducive to negotiation.

According to other sources the provincial administrations’ government subsidies — one of the biggest Budget items — were likely to be raised by less than the inflation rate.

All four administrations, it was pointed out, were in desperate need of funds, particularly for hospital development and road maintenance.

In the current financial year the provinces received a combined total of R9.2bn.

This year’s total is expected to increase to about R10.4bn.

Transvaal’s share this financial year was R3.745bn, Free State’s R1.01bn, Natal’s R1.577bn, and the Cape’s R3.358bn.

The bulk of the Transvaal’s allocation went to hospitals — R1.957bn. Community development — mainly assistance to local authorities and the payment of black pensions — took R796m and roads R748m.
No wealth without workers

WEALTH creation in South Africa can be achieved only through democratic worker participation in planning the economy, a Numsa spokesman told businessmen this week.

National Union of Metalworkers of South Africa representative Bernie Fanaroff put the union's view at an conference on creating wealth through good industrial relations held in Johannesburg this week by the Institute of Personnel Management and the South African Chamber of Business.

Fanaroff concentrated on wealth creation through redistribution, saying a solution to the country's economic crisis should also address the political constraints.

The solution should "change the protected low-wage high-cost economy into a high-wage, low-cost economy" and move towards investment and production which could only be achieved through "a planned economy".

Capitalism had repeatedly been proved wrong and it could not solve the problems of South Africa, he said.

The trade union perspective on wealth creation incorporated the primary principles of socialism — social ownership of the means of production and planning of the economy, said Fanaroff.

He admitted pragmatism would have to be combined with this approach. This involved democracy at all levels of society and a need for economic incentives.

Trade unionists believed that capital had been "comfortable with apartheid and repression for a long time".

This was evident in their support of the tri-cameral system, silence on detentions, and public statements that business confidence has improved as law and order was restored by the State of Emergency. Capital has also taken a stern line on stayaways and has been slow in rectifying racial discrimination in industry, Fanaroff said.

He added that in finding solutions to the economic crisis we should not repeat the mistakes of Eastern European governments.

"Among the lessons we are learning (from Eastern Europe) is that a central command economy does not work."

A more democratic form of nationalisation could mean "leasing back the means of production and resources" and stipulating that employers pay a living wage and give workers participation in management.
Believe it or not

In the fourth quarter of this fiscal year — a period when there is invariably an acceleration in State spending — there is about to be a sharp reduction. January-March should see a fall of 5% in total Exchequer issues (including changes in the Paymaster General’s account), compared with the fourth quarter of the previous year.

This would be a remarkable achievement.

Annual budgets, in the private as well as the public sector, tend to be based on expenditure in the previous year. So it is natural that recipients of allocations spend as much as possible each year to ensure a steady increase over the years. In government, this traditionally produces an expenditure bulge in March, the end of the fiscal year.

Sykes Finance DG Gerhard Croser: “In recent years, we have always had a large additional budget which can’t be spent until Additional Appropriations are approved by Parliament at the end of February. Traditionally, departments, in any event, made sure they spent their normal allocations by the end of the financial year.”

This trend is reflected in Exchequer figures published in the Reserve Bank Quarterly Bulletin. Issues (excluding debt redemption and including changes in the Paymaster General’s account) totalled almost R8bn in March 1989, R6.5bn in 1988, R5.7bn in 1987. In 1986 and 1985, when the figure did not include movements in the Paymaster General’s account, March expenditure was R4bn and R3.1bn, respectively.

Not only did spending (compared with the previous March) generally outstrip the inflation rate, in every case it was well up on the monthly average for the year. This indicates each department was determined to spend every cent allocated — or more.

As money poured from the Exchequer, we were told overshooting expenditure targets was unavoidable — and cutbacks impossible. So, each year, the deficit before borrowing exceeded expectations and was usually an excessively high ratio to GDP (see graph).

This year we have the benefit of a massive overshoot in revenue which is exceeding even revised expectations.

Even without the R2.5bn from the sale of Iscor, revenue should top R61bn, nearly 26.5% more than in fiscal 1988-1989.

But expenditure is likely to be only about R1bn higher than the budgeted R64bn.

Why is this fiscal year ending on such a different note? Says Croser: “Additional Appropriations of only R1bn were allocated, compared with R1.9bn last year. So last-minute spending will be much lower.”

Also contributing to the drop in spending is a new approach within the Administration. Though there has been no formal announcement that future Budget allocations will no longer be based on past ones, the minister of finance is known to be considering suggestions by the private sector (see Leaders) that surpluses accumulated within departments, on specific programmes and subprogrammes, be brought forward each year.

Against this backdrop, this fiscal year may end with a much lower deficit before borrowing than expected. Projections are of R4.2bn, less than half the R9.9bn budgeted and only 1.7% of GDP instead of 4.1%.

This dramatic change in pattern of expenditure is a crucial indicator of the direction of fiscal policy. If these estimates are confirmed, it will be an indication that government is indeed committed to economic discipline.

Quarterly figures for this fiscal year, including changes in the Paymaster General’s account, which make them a more accurate reflection of cash flows, were:

- April-June, expenditure grew 33.8% on the same quarter of the previous year;
- July-September, 15.9%; and
- September-December, 26.1%.

For January, though figures in the Government Gazette show an increase from R4.8bn in 1989 to R5.2bn, adjusted for cash flows passing through the Paymaster General’s account, there was a decline of 10.3%.

To achieve a 5% fourth-quarter decline, not more than R12bn must be spent in February-March. This figure is confidently expected and — together with estimated revenue in the two months of R9.5bn (with still a considerable input from import surcharges, which continue to exceed expectations) — will achieve the astonishingly low deficit.

This augurs well for fiscal 1990-1991, for which Barend du Plessis has already spoken of a deficit of 3% or less — “since that more or less equals our capital expenditure component and combats the practice of using loan capital for financing consumption.”

Revenue growth, of course, is expected to moderate in the new fiscal year, as the slowing economy cuts into profits and consequently tax payments. Import surcharges, if they are not abolished or reduced in the Budget, may tail off as imports slow.

Nevertheless, the startling success in cutting expenditure this year should produce the desired results next year. The deficit before borrowing, as a percentage of GDP, should not exceed growth in GDP in any year. With growth in the immediate future likely to limp along, it would be advisable to stick to this year’s extraordinary precedent.
On restoring economic integrity

If fiscal policy echoes recent political changes, prosperity will return

In next Wednesday's Budget, government has a lot to prove. After years of grossly exceeding expenditure, it has to restore the credibility of the Budget “as a tool of economic measurement” — in the words of Finance Minister Barend du Plessis. But, more than that, it has to begin proving that it has the broad public interest at heart — and is not biased towards certain whites.

The minister will present the Budget in the light of changed government policies of the past few months; a delicate task. He must persuade blacks that government has their interests at heart by spending appropriately, yet still implement economic policies to provide the growth without which social progress can't be financed.

Retiring Anglo chairman Gavin Roly told the FM: “By a proper allocation of resources, government can give a clear indication to the community that there are alternatives to things like nationalisation. The Budget should place considerable emphasis on health, education and housing.” There would have to be major cuts in other areas and a tough review of taxation.

There certainly have been indications that government is committed to a reduction in spending in areas where vast sums of taxpayers' funds have been misallocated. The recent announcement that civil servants' salaries will be raised by 10% is encouraging. In effect, the increase will turn out closer to 15% (taking into account automatic seniority increases and other perks), but is still more modest than in previous years.

Then, Defence cuts of up to R2bn are expected. Savings will also follow the independence of Namibia. Government has indicated it's unlikely to give further direct funds to SA's previous "fifth province." Even this fiscal year, it budgeted only R80m for Namibia, against R308.5m in 1988-1989.

Exchequer figures to January show pro rata expenditure for Trade & Industry is below budget by R346m and Transport by R126m. Other departments where big savings could be possible are Finance, Administration, Development Aid and Constitutional Development, which alone grew from 19% of total Budget spending in 1975-1976 to 33% in 1987-1988, says SA Chamber of Business economic consultant Roelof Botha.

There are also purely practical economies. Research by the chamber highlights defects in the system which have discouraged savings and even promoted excessive expenditure. Its economist Keith Lockwood describes one example: "There is a process called 'virement' which allows surpluses accumulated on sub-programs to be reallocated to sub-programs with deficits. With permission from Treasury, reallocation can also be done between programmes. So people responsible for sub-programs or programmes are effectively penalised for savings. They should be allowed to carry it forward to the next Budget."

Says Botha: "It is a question of financial management. Monthly Exchequer payments can be 30%-50% higher from January to March than in the previous nine months."

Cuts in wasteful expenditure and proper financial management will allow government to rechannel funds to areas where even substantial increases in recent years have not overcome past neglect: black education and health. It is in these votes that government can score political points.

For example, out of total budgeted expenditure on education for the 1989-1990 fiscal year of R11,8bn, only R2bn was for black education. DP education spokesman Roger Burrows says per capita expenditure on education (including capital expenditure) was R3,082 for whites and R764,73 for blacks.

DP health spokesman Mike Ellis says per capita health expenditure for blacks was R137,84; for whites, R597,11. "Allocations to provinces have not increased with the rate of inflation and funds for medicine regularly run out long before the financial year-end, forcing rationing of these supplies."

Extra finance for these will have to come from savings, as government can't rely again on the exceptional revenue collected this year — already R5bn above budget, mainly through misjudging the yield of import surcharges, an unbudgeted one-off loan levy on companies of R700m, the removal of allowances and shelters from companies and the impact of fiscal drag on individuals.

In fact, revenue receipts exceeded expectations to such an extent that the deficit before borrowing was only R2,3bn to January compared to a pro rata R7,5bn.

The outlook for the final quarter is bright (see Economy). And Du Plessis has already predicted that the 1990-1991 deficit could be 3% or less of GDP.

UBS economist Hans Falke says this ratio should not exceed the long-term structural growth rate, which he estimates at about 2.5% a year. "If it doesn't keep within these restraints, there will be an increase in debt with inflation following close on."

Another crucial issue is the relatively high level of taxes. The biggest constraint on growth is excessive taxation rates on individuals and companies. Du Plessis has committed himself to a return to supply-side economics — cutting taxes so that savings and investment increase, thus encouraging growth that will ultimately lead to a larger tax base and higher tax revenues.

Concessions are likely to be limited. Individual tax rates will be lowered, but this process "will be phased in over time," Du
Plessis says. So the chances even of the past year's fiscal drag being eliminated are not particularly good. But some lifting of the level of each tax bracket will be hard for Du Plessis to avoid.

There is also a strong argument for reducing corporate tax to compensate for disadvantageous changes in the tax structure caused by the removal of certain allowances. The year has seen the depreciation allowance from 50:30:20 changed to a straight-line 20% and the hefty import surcharges — all on top of a high basic tax rate. The level of tax paid by companies, despite the short-lived more favourable depreciation formula, has effectively been increased, thus curbing investment and, in turn, growth.

Fisher Hoffman Stride’s Charles Stride has an innovative suggestion: companies and institutions should be fully taxed on passive non-job-creating income but rewarded for taking greater risks in the areas of job creation and education. He believes there should be a limit to allowances to taxable income; these are sometimes abused to such an extent that the company tax rate is in effect reduced from the nominal 50% to 25% or less.

"They should stop allowances which lead to abuses, but cut tax where companies are seen to be investing in growth areas such as factories or education-related facilities. Through the legal misuse of allowances many financial institutions can defer the major portion of the tax payable," he says.

Mining, a focal point in the political debate, is, according to Nedcor chief economist Edward Osborn, taxed at an average 54% of profits after capital expenditure. But in some instances the rate is much higher. "In the case of precious metals and precious stones," says a recent Bank of Lisbon Economics Focus, "such mines are subject to royalties payable to the State for the right to mine in the form of mining leases."

It says rates are pushed above 80% for gold mines and 60% for diamond mines. Some mines have become unprofitable because of high taxation and constantly increasing operating costs. Closure is a risk and the incentive to prospect and open new mines is reduced. Mines may not write off capital expenditure on new mines against profits of old ones.

As Economics Focus points out: "Mining employed 763 000 people, of whom 672 000 were black." It is a large employer of unskilled black labour, which has limited opportunities in the formal sector.

Price Waterhouse’s Chris Frame suggests government should cut taxes on small business: "This is the growth point of the economy and should be allowed to prosper and grow." He says lower tax rates on smaller companies would broaden the tax base by assisting small businesses which at present do not survive because of high rates of tax.

Also expected to broaden the tax base is value-added tax (VAT), scheduled to replace GST in October 1991. The Budget should introduce a timetable for the long-awaited VAT, which taxes production and services at every layer of value added, not only on the end product. But there are administrative problems with cascading taxes such as this, which might outweigh the advantages of higher tax returns deriving from fewer opportunities to cheat. Perhaps a better-policied GST should be reconsidered.

Whatever the final choice, a move towards indirect taxes (like GST and VAT) on consumption and away from direct taxes on incomes and profits would be beneficial.

Another imperative is adequate definitions of capital and revenue. Uncertainty here is a major cause of taxpayer discontent and perceived exploitation by the authorities. Introducing a modest capital gains tax on shares held for less than 12 months could provide some certainty. But it isn’t ideal, for married women not subject to site — should be entitled to this deduction; and everyone should be entitled to the maximum tax-free amounts when they receive their lump sums.

Unexpectedly large collections from surcharges on imports may comfort an avaricious administration, but are indicative of poor fiscal policy formation. The surcharge was intended to reduce imports, not to raise revenue. Had it been successful, this windfall would not have occurred. It fed directly into inflation. It should be scrapped with as much expedition and grace as possible. Already, to end-January, Customs & Excise collected R2,2bn in import surcharges — above the budgeted R1,3bn for the full year.

Two related matters are of overriding importance if the integrity of the Budget is to be restored. One is the recreation of certainty: its absence encourages discord, creates a feeling among taxpayers of exploitation by the authorities and thus fosters a tax revolt.

As Arthur Andersen’s Pierre du Toit puts it: "We expect that, in line with a more open administration, as much as possible will be encompassed within the Budget rather than introducing surprises throughout the year or only making major changes as annual legislation becomes available."

The other is for government to convince taxpayers it has an intellectual appreciation of what must be done and won’t let implementation be stifled by ideological prejudice or political convenience. If it can, taxpayers will approach the future in a new spirit of optimism. The consequent increase in economic activity, in turn, will progressively deepen government’s pockets.

To do so some bold moves are necessary. Tinkering around with small social pension adjustments — which will be wiped out by inflation before the fiscal year is out — makes no sense if substantial measures are not taken to curb inflation itself. Likewise, devices such as a few more excise cents on cigarettes, beer, wines and other "luxuries" that politicians believe will win them Brownie points, will serve nowadays only to erode the confidence of informed taxpayers.

Indeed, that sort of thing would indicate to many blacks that government is not serious about the sound and sustained economic growth which the Nats now themselves argue (reborn capitalists that they are) will raise the general level of prosperity and distribute wealth more equitably.

It would play into the hands of those who are sceptical about free enterprise and have an emotional bias towards nationalisation and central planning.

Indeed, the great opportunity that this Budget offers is that government can begin to demonstrate with practical and telling effect that the fruits of free enterprise can be both material and widespread.
Defence of capitalism: beginning of the battle is just the war.

The extension of capitalism to the rest of the world has not increased the wealth created by the country, but the countries whose wealth has been created has increased.

Joe Rogaly in London

Defence of capitalism

The battle is just
Personal tax cut is expected next week

By Peter Fabricius,
Political Correspondent
CAPE TOWN — Finance Minister Mr Barend du Plessis is expected to cut personal income tax and Government spending when he presents the Budget to Parliament on Wednesday.

'Great interest will focus on the first Budget under President de Klerk with expectations that for the first time in many years a South African government will actually fulfill some of its economic promises.'

An additional budget last month which exceeded estimates by only R164 million or 0.3 percent — and showed zero growth in defence for instance — suggested that the Government is earnest about financial discipline.

'However, neither the tax cuts nor the cuts in Government spending are likely to be dramatic. Mr du Plessis has made it clear that the Budget should be seen as a step on the road towards the Government's five-year plan. One reason why overall cuts will not be great is that the Government is committed to greater welfare spending — in such areas as education, pensions and housing.'

'Will it be the "Budget for negotiations" which Democratic Party finance spokesman Mr Harry Schwarz wants — a budget which shows the Government's good faith by really starting to shift money into black hands?'

Certainly, it seems social spending will absorb much of the unexpectedly large increases in tax revenue over the last year, recently calculated by Reserve Bank Governor Dr Chris Stals at about R3 billion above estimates.

Continued payment of SA's huge foreign debt will drain another few billion from the national coffers although much of the R3 billion raised by the flotation of Iscor will go to offset this.

Among the tax goals set out in the five-year plan is a commitment to cut personal income tax by reducing marginal rates from the present maximum of 45 percent at the income level of R80 000 to 40 percent at R100 000.

Mr Harry Schwarz expects that Mr du Plessis will merely reduce "fiscal drag," the process by which taxpayers are pushed into higher tax brackets because of inflation.

'One of the costs to the man in the street of lower taxes will be increases in user charges for services. Tax on "luxury" goods such as cigarettes and liquor will probably show the usual annual rise as these are a "soft touch".'

'A final and complete separation of husbands' and wives' taxation could also on the way.'

The R9 billion defence budget will almost certainly be cut now that the Namibian war is over.
Hope yet for tax relief in next week’s Budget

Each year we hope that the current Budget will bring a change from previous Budgets by producing an outcome which will not differ vastly from the words and numbers presented to Parliament by Ministers of Finance.

But as each fiscal year has unfolded, these hopes have crumbled. The final figures in many instances have been way off the original targets and carefully expounded financial and economic policies were unknown.

We must hasten to add, however, that the responsibility for the wide gaps between ministerial projections and the final definitive figures should not be laid at the feet of either the Ministers concerned or their advisers. Culpability for what, in retrospect, appears to have been the annual hoodwinking of taxpayers must be shared by the Cabinet of the day.

The politics of expediency were allowed to override either financial and monetary policies or the fundamental needs of the economy.

Government overspent when caution was called for to dampen down the fires of inflation. Soaring current expenditure was funded by excessive borrowing instead of from current income.

The public service was allowed to grow like garden weeds in spite of assurances to the contrary, while the pay of public servants was raised after the Budget had promised restraint.

There appeared to have been neither control nor discipline. And the burden of the bottom line was borne by taxpayers whose incomes had already been depleted by inflation caused in part by the demands which Government had made on the economy.

This year we hope again. And this year we have reason to believe that many of our hopes for a sound and constructive Budget for fiscal 1990-91 will be realised, because the outcome for the current year appears to be giving substance to the words spoken last March by the Minister of Finance, Mr Barend du Plessis. The South African Chamber of Business gives its assessment of what is needed in this year’s Budget, which will be presented to Parliament by Finance Minister Mr Barend du Plessis next Wednesday. It believes the hopes for a sound and constructive Budget for fiscal 1990-91 will be realised, because the latest available figures show expenditure on target and revenue appears to be running ahead of estimates. This article is contained in the latest issue of the publication, SACB Review.

The current year’s surplus, plus the Iscor profit, should not be used to reduce taxes. Any reduction in taxes for the year ahead — and some tax relief would be both welcome and desirable — should come from the surplus resulting from a reduced level of Government expenditure and the revenue estimated to be collected from taxation.

The fact that there was a surplus last year suggests that there might be a similar margin next year which would enable Mr du Plessis to be a little open-handed.

State spending might be pruned by a cutback in the defence vote and by the ongoing streamlining and reorganisation of the public service.

The South West Africa subsidy will no longer be the South African taxpayers’ burden, and suggested re-organisation of subsidies for the homelands might also further reduce that load.

It is difficult to quantify what other savings might accrue from deregulation and privatisation. On the other side of the accounts, money — and a heap of it — must be found for education, health services, including nurses’ salaries, housing, and for a larger, better-paid police force.

The expected slowdown in the economy might be reflected in a slight reduction in revenue. While some companies’ profits will be lower, others are consistent performers through good years and bad.

Receipts from personal taxes are more likely to increase than diminish because of the effect of fiscal drag. And there should be little change in receipts from indirect taxes. On balance, revenue on current taxes is more likely to be higher than lower if for no reason other than the ratchet effect of inflation.

In the prevailing climate of restraint, the Minister has little room for manoeuvre. He should, however, have sufficient margin to reduce or abolish “temporary” taxes such as the import surcharges, particularly those on capital goods.

To retain these imposts in the face of an improving balance of payments position could arouse the displeasure of GATT, but, more important, the surcharges do have an inflationary thrust on the economy.

To encourage very necessary savings, the ceiling at which the top marginal tax rate is levied should be raised, as well as the limit on retirement annuities. This should not cost much revenue.

And completely outdated is the tax on dividends received by individuals. Mr Justice Margo recommended the abolition of this tax. As a first step, the maximum deduction should be raised to the level of company tax, 50 percent, for top marginal rates, and scaled down to 100 percent for gross taxable incomes of at least R10 000 a year. This would encourage equity investment.

The Minister certainly will not have the resources to slash garrisons like corn to chickens, but he should be able to start removing some tax anomalies to show that cognisance is at last being given to the Margo recommendations. Hopefully we have passed out of the era of “too little too late”. 
too much, but can't cut back

Barred's tax poster: He raised
Govt’s Budget sweetener: easier HP

CONSUMERS have been given a pre-budget present in the form of a relaxation of hire-purchase legislation.

From today, anyone buying household goods such as stoves, fridges and televisions on HP will only have to make a 12 percent deposit and will have 24 months to pay for the purchase.

The HP legislation on video cassette recorders remains unchanged at 30 percent for the deposit and a repayment period of 12 months.

In August 1988 the HP deposit on household goods was raised to 20 percent and the repayment period cut to 18 months in an attempt by the Government to reduce consumer spending.

The high level of consumer spending was believed to be a major factor in the increasing rate of inflation.

The most important considerations for consumers who purchase on HP are the size of the initial deposit and the size of the subsequent monthly repayments.

- Reducing the deposit and reducing the size of the monthly repayments — by extending the period in which the repayment has to be effected — means that funding the purchase will be significantly easier.

Sources in the household and furniture industry welcomed the move as long overdue. They believe the furniture industry has taken the brunt of the Government’s efforts to curb consumer spending, adding that the consequent knock to the industry has resulted in considerable loss of job opportunities.

Relief had been expected in Wednesday’s Budget and there is still some hope that the Minister of Finance will announce some reduction of import surcharges on Wednesday.

There are mixed feelings on the extent to which the move will boost spending on household goods, which has remained at relatively high levels because of the increasing spending power of black consumers.

In addition, many manufacturers have introduced their own in-house credit schemes in an attempt to counter the effects of the stricter HP legislation.
Nationalisation hedges to fore

Last year it was all about rand hedge stocks. This year it looks as though it's going to be the nationalisation hedge shares that steal the limelight and investor enthusiasm.

In most cases the rand hedge share has the same characteristics as the nationalisation hedge share.

But while in the case of the former, shareholder attention focused on the damage that Nationalist Party politics and sanctions were doing to the economy, the attraction of the nationalisation hedge share reflects investor obsession with what the ANC (or related parties) might try to do to parts of the economy.

De Beers' restructuring delighted the market. The news lifted the share price R23 in the week (the previous week had also seen strong advance on the back of speculation about a deal).

There'd been talk of just this sort of move for over a year — obviously not too many people believed it or they'd have piled in when the share was around R40.12 months ago.

So far the share price seems to be having trouble staying above R50, despite analyst belief that it could now easily top R100.

Presumably lots of accountants in lots of companies are drawing up sort-of contingency plans for the same sort of restructuring — for purely economic/financial reasons and without any hint of political expediency, of course.

The market seemed much livelier this week, not just in terms of activity, but also in terms of rumour.

Myles tells me Saficom is definitely not involved in any deal (or even talks) with Barlows. Apparently executive chairman Sidney Borsook was concerned that investors might only be buying on the strength of this rumour and took the trouble to inform the JSE there was no truth in it.

This is entirely consistent with the man's commitment to keeping his shareholders informed.

In the absence of any deal, it seems some players have decided the group deserves re-rating.

Also no substance to reports FSI is taking over Boltons. This story has been making erratic appearances on the JSE over the past six months or so.

Lonrho has been actively traded in the last few weeks, giving rise to speculation that the group is involved in a deal.

Something is on the go at Fedvolks. Myles doesn't think it's another MBO or that it is related to the bad news expected on the Tek front.

This means he's reduced the list of possibilities to a restructuring of part of the group, the sale of part of the group, or the listing of part of the group. Hardly informative at all.

No news yet from Furtchtech — shareholders are still waiting to hear what valuation has been placed on the operating assets that have been sold to MacSteele.

It seems like an amazingly long delay, given that the deal was done so many months ago. Year-end was December, so some figures will have to be released by end-March.

Ahead of Landlock's results — due out next week — is the old rumour of a change of control from British parent BBA. Local management says it hasn't been informed of any such move.
Should workers fear the ANC?

Harald Pakendorf

says trade unions should pause to think about nationalisation and how it will affect them.

On the other hand, in any period after liberation will we still be free to strike at all? There is very little historical evidence of freedom to strike to put pressure on a new government anywhere in the world.

It might just be expected that we all pull together, that we be united for the greater good of all, that we should suffer a little — only in the beginning, the new government will say, but who knows how long the beginning is going to be?

Is that what Cyril Ramaphosa is thinking as he stands behind Mr Mandela? If not, he ought to be considering some of the possibilities which liberation may bring with it.

After all, it is not as if all the unions — even in his federation, Cosatu — are as one on all issues, either politically, in the way they see their own roles, or on how the economy should be run.

Because what has happened since February 21 that the political playing grounds are now open to all — not quite level, though, as some still have to play uphill while the powers-be have several advantages.

We are all South Africans now, competing with each other for political power and influence among all the people of the country, and that makes a difference.

Cosatu already knows this. It is competing with Nactu. And if our own Communist Party is anything like communist parties elsewhere in the world, it is also looking to the workers as its real power base — to Cosatu members, to Cyril Ramaphosa’s supporters.

Is the ANC not also going to look to the same people for votes in future — competing with the SAPC, the PAC, Inkatha and possibly a number of smaller groupings — politely knocking on your door, and asking: “Excuse me, sir, I represent the ANC and I wondered if you would care to join?”

And if you decline, the kindly canvasser will shake your hand and say: “It’s a free country and you can join any political party you wish, sir. Thank you for your time, sir.”

Is that how it is going to be? Somehow, I doubt it. Initially the competition for support might just be more direct.

However it happens, the fact is that just being against apartheid and white minority rule is not enough any more. We all need to consider what it is we want when the New South Africa comes about — and it is something we have to begin to spell out now and to live now.

Just mouthing the words of long ago might be safe and make you feel good, but South Africa today is not anywhere near the South Africa of the Fifties.

The New South Africa will be even more different, with this nice exception to the past: we can all help shape it. It is conceivable that the miners workers and other union members do not see their new-found freedoms as workers just disappearing in the name of liberation.

Perhaps then we should not be all that concerned about some of the slogans some of the politicians are mouthing some of the time — because all of the voters are not going to fall for all of the slogans. Because it is a new ball game and nationalisation might not be bad only for Anglo but also for the miners. And the union bosses.
Barend to fight fiscal drag

CAPE TOWN — Finance Minister Barend du Plessis is expected to table a budget of not more than R2bn this week and its highlights are likely to be a concerted effort to eliminate fiscal drag, and possibly small decreases in actual rates of taxation.

Du Plessis has promised real cuts in government expenditure but cautioned against expecting too much in the way of tax cuts as “there will be a lag in the time it will take some of the expenditure cuts to materialise to their full extent”.

Although Reserve Bank Governor Chris Stals and Finance director-general Gerhard Croesen have called for the deficit before borrowing to be matched against capital expenditure, rather than the internationally accepted guideline of 3% of GDP, this is unlikely to be achieved.

The actual deficit can be expected to be in the region of 3% of GDP, higher than the R4bn being predicted by most economists.

On the spending side, defence and public works budgets can be expected to be kept in check at current levels of R9.8bn and R1.7bn respectively. The defence budget is likely to be reduced.

Du Plessis has listed government’s spending priorities as: education geared towards SA’s manpower needs; primary health care — preventative medicine; and shelter (housing).

Departments dealing with these areas, particularly Stoffel van der Merwe’s Department of Education and Training, are expected to be the only ones to record real increases in budgetary allocations.

The net effect will be to increase the amount allocated to education (at present about 19% of the total Budget) and health (9%), while reducing the amount allocated to protection services (23%).

The percentage of total budget funds currently allocated to housing is just over 1% and, although a substantial increase can be expected, the percentage figure will not change much.

Croesen has said only a small decrease can be expected in the amount government spends on servicing its debt (R9.8bn was allocated last year).

He said although government used the receipts of the Escom privatisation to reduce its debt burden, for monetary policy purposes it also borrowed extensively to reduce liquidity in the market.

Had government not borrowed, a decrease of R500m in the cost of servicing its debt could have been anticipated, he said.

Although government is committed to reducing marginal tax rates to a maximum of 40% at the income level of R100 000, as opposed to the present 45% at R80 000, any dramatic move in this direction can be discounted.

This is because government is committed to reviewing import surcharges. While the total abolition of the surcharge is unlikely, a sharp reduction, followed by a gradual phasing out, is likely.

Government is also finding the elimination of fiscal drag a costly exercise, especially as it attempts to alleviate problems at the bottom end of the tax scale.

Although Du Plessis has said in Parliament that existing GST exemptions are a blunt instrument when trying to provide relief for the poor, he is unlikely to tamper with them until the introduction of VAT.

Gerald Reilly reports from Pretoria that economists expect real tax relief.

Volkskas economist Adam Jacobs estimated Du Plessis would be in a position to grant relief of up to R8bn and calculated it would cost R2bn merely to eliminate the impact of fiscal drag. If government continued its fiscal discipline Du Plessis would be able to make substantial concessions in the 1991/92 Budget.

Stellenbosch Bureau for Economic Research chief Eddie Stuart said compensation of fiscal drag should be a priority.
Waiting for Budget boost

As the civil service braces itself for massive financial cutbacks in the Budget to be announced by Finance Minister Barend du Plessis this week, three Government departments are hoping for major cash boosts.

The police, health and education services are in crisis. Further economic squeezing could bring them close to their knees.

Democratic Party finance spokesman Mr Harry Schwarz believes that while Mr du Plessis will present a tight Budget with no increase in real expenditure, the socially oriented departments and the police are likely to be exceptions.

Money won't solve every problem facing the three departments, but spokesman for all three concede it would help.

The need is staggering:
Dr J B Z Louw, Director-General of the Department of Education and Training, said almost R2 billion was needed if every black child — including those in the "self-governing" territories — was to be assured a place in a classroom.

More than 18 hospitals are reeling under a strike called by non-medical workers who work a full-time day for as little as R500 a month.

Policemen are expected to work long hours without overtime — 80 hours a month over time for detectives is routine — and to risk their lives for less, in some cases, than the minimum wage negotiated by unskilled workers in the recent South African Breweries strike.

The Government has closed 203 schools, including seven high schools, in 10 years because of a drop in pupil numbers. At the same time there is a backlog of 6,000 black classrooms which will cost R750 million to clear.

According to the latest figures, in 1987-1988 the Government spent R2538 on the education of each white child, R1857 on each Indian child, R286 on each coloured child and R503 on each black child.

At present in South Africa people cannot talk about education without adding the word "crisis".

There is concern across the board about the major problems facing education, from falling white pupil numbers to militancy among black pupils, appalling teacher-pupil ratios, chronic shortage of facilities and books, poor teaching, low salaries, claims of improper practices in exam-setting and marking, and the low rate of black matric passes.

Dr Louw said the biggest problem his department faced was the increase in the number of black pupils.

It would cost about R900 million to eradicate the backlog and create enough classrooms for all the black children falling under his department. Dr Louw said. To cope with the children in the self-governing states such as kwazulu, Lebowa and Qwaqwa, his figures should be doubled.

In the police force, a matriculant can expect a starting salary of R1650 a month.

According to Minister of Law and Order Mr Adriaan Vlok, the police need an extra 11,000 men. This is at a time when resignations for January were, according to informed sources, in excess of 700.

A lieutenant who recently resigned said that while working as a detective, he worked 72 hours instead of a 48-hour week. "On weekends, public holidays and days off we did not hesitate to report for special duties when ordered."

An informed source said: "What money the police are given will probably only be enough to address the problem of overtime. I think it highly unlikely that there will be enough for anything else."

Incorrect drug

As Cape hospitals tried to cope in spite of a strike by thousands of non-medical staff last week, it became clear that the crisis in South Africa's health services had reached frightening proportions.

Angry nurses, trained by the State at great expense, are leaving the profession in their hundreds; specialist units are being suspended or closed; and patients are being turned away.

Interns work unbelievably long hours — late last year a city woman died after a doctor who had not slept for more than 25 hours gave her the wrong drug.

The strike, which is threatening to spread countrywide, has been backed by Groote Schuur superintendent Dr Jocelyn Kane-Berman, who said: "The minimum wage is completely inadequate and the other demands are justified."

The workers, who include cleaners, porters, kitchen and laundry staff and some security personnel, want a minimum wage of R140 a month, a 40-hour week, permanent status, maternity benefits and recognition of the Health Workers Union.

Speaking after being chosen as the new chairperson of the South African College of Surgeons, Professor John Terblanche said recently that the crisis in academic medicine and the nursing profession was so serious that unless something was done urgently, South Africa's health services would implode.

Ciskei counts riot costs

The Ciskei People's Development Bank, owner of most of the commercial properties razed in the aftermath of the coup in Ciskei, is to request Pretoria and the new government in Ciskei to provide funds for rebuilding.

Insurance will not cover the massive losses, estimated at more than R10 million, incurred by the bank, when factories and shops were looted and torched last Sunday and Monday after Chief Lennox Sebe was toppled from power.

In terms of political riot cover carried by the bank, the South African Special Hail Association (Sasala), which offers the cover, will pay only a maximum of R5 million for the bank's losses. This means the bank will have to find scores of millions of rands from other sources to make good its losses.

Mr Graham Wright, senior manager in charge of technical services for the bank, said preliminary estimates showed that damage to buildings in the Fort Jackson industrial area totalled R10 million and loss of contents amounted to

While President Lennox Sebe's downfall was greeted with almost universal jubilation in Ciskei, the damage done in the looting and arson that followed will take years to repair, reports YOGIN DEVAN.

Mr Don Gallimore, MD of Price Forbes group broking services and widely regarded as South Africa's pundit on political riot cover, said companies owning property in the homelands would probably have been offered additional cover with Lloyd's of London.

He said the limit of R5 million cover in Ciskei was determined by the size of the country's economy.

Mr Wright said the bank had not sought additional cover from Lloyd's.

He did not believe any industrialists had bought additional cover of their own accord.

The bank is busy with a concerted drive to encourage businessmen to re-establish themselves,
End of downturn in sight

SYLVIA DU PLESSIS

Regional forecasts for sales, production and stock volumes for the coming year showed Maritzburg remained most optimistic despite the conflict in the area which was unlikely to be resolved in the near future, Lockwood said.

The manufacturing activity index, which reflects expected orders, climbed to 132 from 100 on seasonal factors and a more favourable political climate, which had prompted some businesses to initiate new projects and place orders for manufactured goods.

But Lockwood said there were still clear indications the real economy was slowing down "albeit somewhat hesitantly".

The Seifisa index — to which Saboc's survey on manufacturing activity is linked — rose "significantly", but remained below 100 due to relatively unfavourable con-

Downturn

ditions persisting in the steel and engineering fields.

Lockwood said attempts to put fundamental economic changes "on hold" while the political process resolved itself would lead to further socio-political upheaval and impoverishment.

He said SA's international acceptance could resolve one of the major constraints on the economy — the need to repay large debts in a relatively short space of time.

However, there was no guarantee this would happen if the economic system in operation failed to yield an economy with the ability to grow rapidly.

Other "pressing" needs which had to be addressed included the skilled labour shortage, the education structure and the housing shortage, Lockwood said.

In its Budget preview yesterday, Saboc said a significant shift in emphasis from defence to maintaining domestic law and order was a matter of urgency.

The chamber said it was essential for business confidence that law and order be preserved, as reform and change could take place successfully only within a framework of stability.

Saboc said government should adopt a programme of fiscal management which did not allow state debt to reach "embarrassing proportions" and thereby place an "unusually high" interest burden on the taxation base.

The chamber said it believed scope existed for a degree of tax reform, particularly in regard to raising the ceiling of all personal income tax brackets by 15%-20% in the interests of equity. Consideration should also be given to reducing the number of tax brackets.

The corporate income tax rate should be cut to equate the maximum marginal individual rate and the import surcharge — which had failed to curb imports and was not intended as an additional source of revenue — should be abolished.

Government's assurance that it would be more efficient in spending public funds and its declared intention to reduce overall taxation of individuals to promote saving, investment and economic growth were the criteria against which the business community would test tomorrow's Budget.
GOVERNMENT looks set to announce in the Budget speech tomorrow that it practically avoided using long-term loans to finance consumption expenditure during the fiscal year ending this month.

Latest indications are that the deficit before borrowing in 1989/90 will virtually equal government's capital spending of about R5bn, or 2.2% of GDP. Consumption spending of about R60bn was financed with current revenue.

The use of capital market loans to finance consumption spending — known as "dissaving" — was a criticism often levelled at government during the past four years.

Economists say long-term loans should be used to finance long-term assets. Government dissaved to the tune of billions of rands in previous years.

The shrinkage of the deficit is the result of an explosion in revenues. Budgeted to rise by only 16%, projections are for a final increase in revenue of about 26%-27%. Thus total revenue collected during the 1989/90 fiscal year will be about R60bn.

With total spending of R65.18bn, this leaves a deficit of about R5.18bn — close to budgeted capital spending of about R5.08bn.

A deficit of that size is almost R5bn lower than the budgeted deficit of R9.9bn.

However, the virtual matching of current revenues with current expenditures during 1989/90 is likely to be a one-off for the time being.

The surge in revenue will not be repeated in the next fiscal year, as government is committed to start reducing the tax burden. In addition, the economic downswing also puts a dampener on revenue. Expectations are that the budgeted increase in revenue will be only 10%.

Room for manoeuvre on the spending side is also limited, with the general expectation being a 12% rise. This will yield a deficit of about R7.6bn for the coming fiscal year.
Likelihood of a good Budget seen in finance markets

ROBERT GENTLE

FINANCIAL markets — bond, futures and equity — were cautiously optimistic about tomorrow's Budget, participants said, citing expected good news on tax, expenditure and inflation as the main reason.

This meant a relative absence of speculators' and punters' from the futures market, traditionally the haven for anyone wanting to hedge against or profit from huge market swings.

"There shouldn't be any major runs one way or the other," said a gilt trader from stockbroking firm Simpson McKie. "The market is fairly balanced and appears to have already discounted a good Budget."

Greenwich Futures and Holcom Futures traders acknowledged the absence of serious position-taking ahead of the Budget, but they did not rule out the possibility of some last-minute activity today.

They said if as expectations suggested, the 1.5% marketable securities tax (MST) applying to all share transactions was scrapped, the futures market would reap the benefits.

No MST would mean a greater number of shares changing hands on a more liquid JSE, greatly facilitating arbitrage between futures and equities.

JSE chairman Peter Redman said the abolition of MST would help all derivative markets.

"It would be a mistake if MST was increased," Redman said, citing speculation that a doubling of the tax could be on the cards.

On interest rates, the view was equally bullish. Expected lower inflation combined with less government paper in the market meant positive news for long-term interest rates, said a trader from Cape Investment Bank.
ANC 'will not do it'

SOUTH Africa's longest-banned person, Mr Rowley Arenstein, a committed communist since he joined the SA Communist Party, says he does not believe the ANC will seriously consider nationalisation.

Interviewed in the March issue of 'Southern Africa Special Dispatch', Arenstein said: "You can't build socialism on a backward economy. Marx said that, and Soviet experts now say it could take a century before a socialist state can be reached in SA." - Sapa.
No Budget fireworks seen

Finance Staff

Economists and businessmen expect tomorrow's Budget will yield little to stimulate growth, but will rather focus on the Government's current major prerogatives: reducing inflation and protecting the balance of payments.

The economists say the bias will be towards fiscal discipline and that although it has suffered from a lack of credibility in the past, the Government will probably emphasise its commitment to lower spending.

Adam Jacobs, Volkskas economist: As economic growth is already slowing down, the Budget will not dampen growth further. However, as the emphasis is on protecting reserves and lowering inflation, we expect a neutral Budget with expenditure growth below the inflation rate.

As a result of last year's surge in revenue, the Government can alleviate the tax burden by about R2 billion to R2.5 billion. This could involve a combination of alleviating fiscal drag on personal tax, reducing import surcharges and tax relief for gold mines.

Edward Osborn, Nedbank economist: A tight and restrictive Budget should be expected, with a minimal 13 percent increase in expenditure forecast.

The forecast for revenue rises could range from 15 to 15.5 percent, while the deficit before borrowing should be held at R6 billion to R7 billion.

We could, however, see some relief as far as fiscal drag is concerned, with the top marginal rate being raised to R100 000 and the lower threshold being lifted.

Some improvement in the tax-free amount on savings interest received is also possible.

David Meades of brokers Meades De Kierk: I hope the Government will present us with a well-balanced Budget, which will reflect the same sort of imaginative thinking prevailing in the political field of late.

Trading on the JSE should be boosted as it rewards those who take risks and create wealth.

We would therefore hope that Marketable Securities Tax (MST) will be abolished completely, tax on dividend income scrapped altogether and tax on interest income only applied if it exceeds R50 000.

Brian Bechet, GM client services at the Board of Executors: The Minister must maintain a tight reign on state spending and seek to reduce levels of tax if there is to be a "short landing" for the economy.

However, he will be pressured to increase spending in areas of education, housing and health, for which the cuts in the defence Budget and a reduction in financial commitments to Namibia will not be sufficient.

This will make extensive reductions in personal tax unlikely, although they are long overdue, as is the abolition of MST and a lower GST.
Producer price rises slow slightly

Finance Staff

Increases in producer prices as measured by the producer price index (PPI) slowed down slightly in January to a year-on-year 14.1 percent, compared with 14.6 percent in December.

However, the index rose 0.9 percent in January from the December level, the Central Statistical Services reported yesterday.

Producer prices for locally-made commodities rose 14 percent in January, against 14.5 percent in December, while imported commodities increased by 14.4 percent in January, against 14.7 percent in December.
Hopes that the Budget will focus on consumer issues

By Marguerite Moody

Consumer bodies and chainstores are hoping that tomorrow's Budget will make provision for the consumer and will focus on issues that affect the life of the consumer.

Checkers group managing director Mr Sergio Martinengo said health, education and housing were issues that needed considerable attention, as did positive action against the rate of inflation.

He said he believed that surcharges on imports needed to be reviewed and phased out, as these boosted inflation.

"Another aspect which affects the average consumer is the expected decision to replace GST with the VAT system. This needs to be clarified and justified as soon as possible," Mr Martinengo said.

Housewives League vice-president Mrs Sheila Lord told The Star that if the VAT system were introduced, all foods and all prescribed medicines had to be exempt from this form of taxation.

"Millions of people live off items at present exempted from GST, such as fresh foods. However, the VAT system is expected to be introduced across the board and this will mean more hardship for a great number of people."

Mrs Lord said the Government had to cut down on expenditure and she urged Government departments to be "better housekeepers".

Pick 'n Pay chairman and MD Raymond Ackerman said many companies wanted to see a change in the way surpluses on the sale of shares were taxed in the sellers' hands.

"Companies should be able to issue shares to staff without being taxed."

This was one way to confront the nationalisation argument, Mr Ackerman said.

Consumer Council chairman Mr Jan Cronje told The Star that although he did not want to speculate on the Budget before it was tabled, he hoped the man in the street would benefit as far as personal tax was concerned.
Spendthrift PW no longer a hurdle

Now Barend has a freer hand

By PETER FABRICIUS,
Political Correspondent

CAPE TOWN — Finance Minister Barend du Plessis will deliver the national Budget tomorrow confident he has at last achieved what he has struggled for since he began the job: real command of economic policy.

This will be the sixth Budget he will deliver, but only the first free of the inhibiting influence and profligate spending habits of Mr FW Botha.

Mr du Plessis has always been committed to restraint in Government spending. But every year since he took over as Minister of Finance in August 1984, aged 44, he has been thwarted by Mr Botha, to whom the Treasury often seemed little more than a pork barrel to be dipped into at will for buying political advantage.

Mr du Plessis dismayed businessmen, economists and consumers when he admitted at the start of his career that he frankly did not have the political clout to demand more fiscal discipline from his more senior Cabinet colleagues.

And even though he has grown in stature and confidence since then, it has been quite clear all along that neither he nor anyone else in the Cabinet ever summoned the courage to tug Die Groot Krookedi’s purse strings.

Destroyed credibility

Mr du Plessis conceded this a few weeks ago in a magazine interview when he criticised Mr Botha for inconsistency in his economic policy.

The Minister cited the example of the R2 billion pay rise which Mr Botha insisted that he give to teachers late in 1988 — after Mr Botha had called for wage restraint at the opening of Parliament and promised that public servants would get no salary increase that year.

"Changing priorities in this way consequently destroyed our financial credibility, severely damaged business confidence and demotivated out advisers," Mr du Plessis candidly admitted.

Mr Botha’s profligacy was especially evident in the defence budget, which last year soaked up about R10 billion from the national coffers.

As former Minister of Defence with an obvious love of matters military, Mr Botha seldom resisted pleas for more money from the generals.

Even after the settlement to end the Namibian war was signed in December 1988, the military’s voracious appetite for money was not stilled.

In the additional budget early in 1989, the Defence Force asked for another R480 million, or 26 percent more than budgeted for, and made the astonishing pronouncement that the peace was going to cost more than the war — mainly because of the need to develop conventional weaponry neglected because of the protracted guerrilla fight in Namibia.

That was the sort of argument which would probably have convinced Mr Botha. It did not, however, cut much ice with his successor.

At a Bushveld indaba with the generals last November (probably the same one at which he was briefed about Military Intelligence but not informed of the Civil Co-operation Bureau) Mr de Klerk rudely dispelled their daydreams of more deadly toys in the SADF’s Christmas stocking.

He told them the defence budget would be slashed, and early this year the SADF announced that several units would be shut down and weapons projects shelved.

This year the SADF produced no additional budget at all — surely something of a record. And it is widely expected that the main defence budget will also be cut, at least in real terms.

There have been other signs of real determination to cut costs. A rather remarkable one was the announcement by the Prisons Department late last year that many convicts would be released early to keep the budget within targets.

It was no surprise when the additional budget this year showed that the Government had overspent by only R163 million, or 0,25 percent.

All of this must be music to Mr du Plessis’ ears, since it means the primacy of his influence on economic policy has at last been restored.

He has been the first to admit that some of his new clout to the new Minister of Administration and Privatisation, Dr Wilom de Villiers.

This former chairman of Gencor has brought his blunt management style from the private sector into Government and has added considerable weight to Mr du Plessis’ cost-cutting arm.

He is believed to have had a big hand in delivering the bad news to the generals, for instance.

Mr du Plessis also owes much of his new influence to his recently enhanced political stature.

Although always an outspoken verligte champion, the extent of Mr du Plessis’ influence was not fully apparent until February 2 last year when he broke out of the pack to run a very close second to Mr de Klerk in the caucus election for the NP leadership.

This surprisingly good performance ensured his election as NP Transvaal leader last year over the heads of several senior Cabinet colleagues — and confirmed his status as NP crown prince.

No longer does he need to touch his forelock and beg his colleagues for financial restraint.
The Minister for Finance and the Minister for Planning and Anti-Corruption.

The Minister for Finance

The Minister for Planning and Anti-Corruption

The Ministry of Planning and Anti-Corruption

The Minister of Planning and Anti-Corruption

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The Minister of Foreign Affairs: The report to the final report of the Märkische Seenstadt.

The government will make a presentation to the House of Representatives on the situation in Märkische Seenstadt, focusing on the resolution of the conflict and the ongoing negotiations. The report highlights the challenges faced by the region, including environmental issues and infrastructure development. The government will provide updates on the progress made in addressing these challenges and will outline future plans and strategies.

The report also includes a detailed analysis of the economic impact of the conflict and measures taken to mitigate the effects. It emphasizes the importance of international cooperation in resolving the issues and strengthening the region's resilience.

Furthermore, the report discusses the role of stakeholders in the resolution process, including local communities, businesses, and international organizations. It highlights the need for continued engagement and collaboration to ensure long-term stability and development in Märkische Seenstadt.

The Minister of Foreign Affairs concludes by expressing gratitude for the support provided by the international community and reiterates the government's commitment to working alongside all stakeholders to achieve a peaceful resolution.
SA urgently needs a new constitution to save economy

By HANS MIDDelman

former President of Assocom and a leading businessman

BOUNDCLESS opportunities opened for South Africa with F W de Klerk's speech on February 2.

which promised to "our country and all its people...universal franchise; no domination; equally before an independent judiciary; the protection of minorities as well as of individual merit...and, in more detail...a totally new and just constitutional dispensation in which every inhabitant will enjoy equal rights, treatment and opportunity in every sphere of endeavour — constitutional, social and economic."

It was a startling unilateral statement of intent of immense merit and was made firmly and sincerely. The world at large and most South Africans had waited for it a long time. In making it, the State President, in less than an hour, discarded four decades of ideological baggage that had brought the country to its present and state of affairs.

Visible proof

Clearly, the aim now is to build one nation in a single South Africa. For this to succeed and for the nation to be at peace with itself and to prosper, it requires further great statesmanship by President De Klerk and his colleagues. It requires also that the currently voiceless majority of the population can recognise the proposed new dispensation to be to their advantage. They must also experience soon, in practical and specific terms, the equality of opportunities in all spheres that should flow from making South Africa an open society.

Unbanning the ANC and the lifting of press and other restrictions provided some immediate visible proof of the changing climate. Nelson Mandela's release strongly reinforced this impression as no other move could have done.

And the amazing vitality with which he, a free man again after years of incarceration, responded positively and without malice to the challenges, augurs well for our future.

However, the events of the last few weeks have dealt with symptoms rather than with the substance of what is needed. By and large, what South Africans have experienced has come to them on the TV screen. It is still like watching chapter after chapter of an exciting television serial while wondering what comes next. The viewers can even identify with some of the events, particularly as they do not seem to affect their daily lives.

Chicken and egg?

Right now, South Africans continue to battle with many acute problems. Lawlessness remains widespread, not only in Natal. The economy is in an almost no-growth situation and unemployment is growing.

Inflationary price rises are not matched by wage increases. (Only the parliamentarians easily overcame this handicap because, to their shame, the gutless opposition in the continuing tricameral system could not resist the temptation.) Outside assistance can hardly be expected until the structure of the new South Africa is clarified and has the support of the population at large. But, says the State President, "the new South Africa is possible only if it is bolstered by a sound and growing economy, with particular emphasis on the creation of employment."

So, if a new constitution is dependent on the economy, are we then in a true chicken and egg situation? Is it not that prosperity can only come to South Africa after we make the long overdue incisive political changes? It seems clear that any further delays in grappling with the fundamental details of the new constitution become increasingly costly in terms of political and economic frustrations.

Namibia

There is, in fact, not much to "negotiate" about the essential terms of truly democratic constitution. Namibia went through the whole process in a matter of months. Their constitution, which comes into force this month, could well serve as a model for us. It has real legitimacy because it followed free and fair elections in which all citizens took part as equals. Its crucial terms cannot easily be abused by one or either group. They follow the lines of those democratic constitutions that have proved themselves in all the successful countries.

What South Africa needs now is a second "Rubicon speech", in which the government sets itself a "Resolution 435". This resolution would contain the proposed procedure and timetable to achieve what the State President set out as the aim on February 2. It would be another unilateral declaration of intent. The urgency is great if we are not to have a prolonged period of uncertainty with disastrous effects on the economy. The time is now.
The text on the page is not legible due to the quality of the image.
Budget promises today will encourage saving.

- **Cafe Town**
  - On the eye of the tiger.

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*Note: The text in the image is not legible due to the quality of the image.*
Getting down to the business of serving up the Budget

ANDREW GILL

SCORES of analysts are on hand to give their impressions and interpretations of today's Budget speech.

Budget hotlines, Budget breakfasts, Budget seminars and Budget brochures are just some of the services available to people trying to find out what the announcements hold for them.

Accounting firms' annual flurry to produce advisory booklets for clients will start soon after the Budget speech and continue into the night.

"Deeble's Haskins & Sells" partner Mark Crisp said yesterday at least 15 members of the firm would be working on the Budget, and tomorrow it would hold two "Budget breakfasts" for its clients.

The intention was to simplify the Budget's intricacies and to cut through any initial confusion.

"An enormous amount of manpower will be employed in the industry to handle reaction, especially in the larger firms."

Aiken & Peat's partner Allister Mackenzie said a five-man panel would work through the night to produce a Budget brochure to be distributed by airfreight. About 18 people would be working on specific aspects of the Budget.

The speech will be taped for closer attention later.

Several firms, including Price Waterhouse, will have a Budget hotline for clients and the media, open late into the night.

Arthur Andersen & Associates tax manager Alan Field said the firm's team was geared up to prepare commentary on the speech.
Barend hints at tax cuts

By Peter Fabricius
Political Correspondent

CAPE TOWN — Minister of Finance Mr Barend du Plessis has hinted that the Budget today will contain tax cuts — especially for married women — saving incentives, and big increases in education and social spending.

He did so during question time in Parliament yesterday when he set out the steps the Government was taking to combat inflation.

He was replying to questions from Democratic Party finance spokesman Mr Harry Schwarz.

Mr du Plessis also announced a new action plan for combating inflation, based on fiscal and monetary discipline.

The Star will carry detailed coverage of the Budget tomorrow, including the text of the speech which Finance Minister Mr Barend du Plessis will deliver to Parliament this afternoon.

He said government spending was under control, and the overrun on the 1989/90 Budget was an estimated 0.3 percent.

Fiscal discipline would be maintained in the coming year. Promotion of saving had to be part of a counter-inflationary strategy.

The Reserve Bank's tight monetary policy had caused a decline in money supply.

Positive real interest rates and disciplined public spending had contributed to curtailting gross domestic spending, he said.

The slight increase in the rand had also helped to lower inflationary expectations.

The Government also sought to strengthen the supply side of the economy not least by tax reform, which would reduce disincentives to labour and production. Tax on women was an example.

The substantial budget allocations for education, and providing physical and social infrastructure, would also help.

Inflation could not be combated successfully unless structural adjustments were made to improve the economic growth potential.
LETTERS

To the Editor:

The recent article in the New Yorker by [author's name] is quite enlightening. It makes a strong case for the importance of [topic]. However, I believe that the author might be overlooking a crucial aspect of the issue.

[Your argument here]

Sincerely,

[Your Name]

PS: I have attached a related article for your reference.
ROBERT GENTLE

THE JSE yesterday defended itself against claims that its Traded Options Market (TOM) was running over budget and could already have swallowed up R5m to R8m in development costs. 26 Jan 1992

JSE president Tony Norton, responding to a speculated figure of R5m put out on the Reuters screen by the options firm Johannesburg Options Market, said the programme was within the revised budget.

He would not comment on the actual figure, saying the JSE's internal accounting was confidential.

The revised budget was, however, more than the initial budget, which Norton described as "unrealistic".

Meanwhile, TOM manager Jonathan Sims said most of the systems had already been written and that integration and testing were now taking place.

Sims said the systems, especially those that would be monitoring risk, were much more complicated than initially thought.

Neither Sims nor Norton would give an exact starting date for TOM.

"As soon as is reasonably possible without taking any risk," said Norton. "We're on the last lap."
FW vow to cut back public service

PRETORIA — Government was committed to reducing its intervention in the economy and to cutting the public sector size, President FW de Klerk said yesterday.

The economy could not afford a public sector of the present proportions, he said at the opening of the National Maize Producers’ Organisation (Nampo) annual congress in Potchefstroom.

The tax burden, as well as a disproportionately large section of the population which had no part in the production process and supporting commercial services, made the situation untenable.

Outlining reasons for his non-intervention commitment, De Klerk said control systems often obscured market price signals and consequently lead to inefficiency. Producers assured of a turnover, be-

cause of statutory control and protection, tended to lose interest in striving for higher productivity. Protection encouraged the creation of enterprises which would perhaps not function profitably without it.

De Klerk said government would focus on active implementation of its policy of deregulation. This policy, with privatisation as an essential part, was geared to improve achievement in the economy.

This would result in more effective application of production factors, optimal functioning of market forces and a rise in the percentage of net fixed investment by the private sector.
Economic decline has already cost 1-m jobs

By MICHAEL MORRIS, Political Correspondent

SOUTH Africa’s declining economic performance has cost the country more than a million job opportunities in the past decade, according to the Budget review

It was not until the “serious structural problems” that beset the economy were halted, the country’s economic performance would improve significantly above the average for the 1980s of 16 percent—and South Africa will fail to meet the demands for jobs and living standards.

The review says “To reverse unemployment and increase average welfare, it will be necessary to act quickly and vigorously to the benefit of those affected by the recession and to reduce the size of the government’s budget deficit.”

By reducing employment and increasing average welfare, it will be necessary to act quickly and vigorously to the benefit of those affected by the recession and to reduce the size of the government’s budget deficit.

New politics boosts SA

A MORE FAVORABLE perception of political developments in South Africa by non-residents has led to an appreciation in the financial year by 25 percent between August and December last year. Minister of Finance Mr. Bowden of the review said today.

In his expanded budgetary review, he added that the effective exchange rate had fallen by 25 percent in 1980. This has caused an increase in financial year and other investment proposals that were discussed with interested parties.

The 1980 exchange rate was already above the level that had been achieved in 1980 and the level of 25 percent exchange rate had been maintained.

Political Staff

FINANCIAL authorities have given a cautious welcome to the Budget review. They say that the government should continue efforts to cut money supply this year.

Restrictive economic measures introduced last year had reduced the main financial aggregates and the rate of growth is now, according to a Department of Finance report released in parliament today.

But monetary authorities believe the measures will improve the money supply, which is expected to increase by 15 percent, to 15 percent, which is still too high.

Further to the benefit of the country’s growth and foreign reserves that are sufficient to be reduced, it is still too early to relax monetary policy.

The Reserve Bank would continue efforts to cut money supply this year. In the first quarter of 1989, it was 5.5 percent higher than the same period in 1988.

FOREIGN TRADE

It was not only necessary to reduce the money supply to move it back to a level as low as possible, but the Reserve Bank was also cautious about cutting the money supply as much as was possible for the end of the year still lower than that.

The review said Dr. Chris Stain, Governor of the Reserve Bank, would make an announcement on this.

The bank’s new foreign and foreign reserves increased by R3.5 billion in the first two months of this year.

On foreign exchange, the Reserve Bank had been active in the exchange market. The first quarter of 1989, the exchange market had moved in the range of 1.9 percent to 2.5 percent.

The Reserve Bank had been active in the exchange market.

Prospects for gold brighter

PROSPECTS for gold prices looked considerably better than in the previous year, the Minerals and Energy Affairs, Mr. Bowden, said in his budget review today.

The gold price of R120 per fine ounce in September and February was not the highest level that had been reached in recent years.

A growth in the price of gold would be expected to continue in the short term. The growth in the price of gold would be expected to continue in the short term.

A growth in the price of gold would be expected to continue in the short term.

The growth in the price of gold would be expected to continue in the short term.
By MICHAEL MORRIS, Political Correspondent

The Budget for a new era. Finance Minister Mr Barénd du Plessis has cut defense spending, given more money to social services and announced a special fund to tackle socio-economic backlogs.

"Development, creating wealth and jobs and raising living standards are being given a high priority. "Compassion and balance emerge in the expenditure side of the Budget," said Mr Du Plessis. "The Budget must help the developed and formal sector of the economy to create, through economic growth, expanding opportunities for the developing and informal sector so that an increasing number of South Africans may raise their standard of life."

The tax burden is being relieved to free more money for the economy and to spur savings.

Spending on State administration is down by more than 10 percent, but the police are getting more.

Challenges of the '90s

Affordability is a key watchword in the first Budget in the era of negotiations ushered in by President De Klerk, but affordability has been balanced by the ideal of creating a fairer and more just society with a stable, growing economy.

Tackling poverty, health and housing are prominent goals, with broader themes of fighting inflation, encouraging saving, promoting the creation of wealth and jobs and restructuring the economy to cope with the challenges of the 1990s.

It is a Budget against which South Africa and the world will judge how far President De Klerk will go to use the State purse to meet the political and social ideals he has set.

Mr. Du Plessis laid before a packed joint sitting today a Budget of R72.9-billion — 11.9 percent more than the revised expenditure total of R65.181-billion last year.

Key features are:

- Defence spending remains virtually static and is down this year in real terms compared to last year — R10-billion is allocated for this year compared to R9.9-billion last year. The police will get 5.7 percent more — from R2.9-billion to R3.1-billion. "Protection services" (including police, defence, custody and administration of justice) go up as a whole from R15.030-billion to R15.328-billion.

- Social services — including housing, health and education — go up 11 percent from R25.974-billion to R27.353-billion. Housing goes up from R5.5-million to R7.4-billion, health from R6.5-billion to R7.4-billion, and education, from R12.1-billion to R13.3-billion.

- Public services, including foreign relations, constitutional development, civil matters and regional development are up 10 percent from R6.3-billion to R6.9-billion.

- Improvement of conditions of service for civil servants — encompassing the recent 10 percent raise — goes up from R138-million to R142-million.

It is estimated about R6-billion will be available for the special socio-economic fund the government announced today. It will be
inflation. The current inflation rate is over 60%, and the economy is in a state of hyperinflation. The currency, the Zambian kwacha, has lost most of its value, and the country is facing a severe economic crisis. The government has implemented austerity measures, including cuts to public spending and a freeze on salaries and wages, to try to stabilize the economy. However, these measures have not been sufficient to bring down inflation, and the situation is expected to worsen in the near future. The International Monetary Fund (IMF) has offered a有条件贷款计划 to help stabilize the economy, but the government has yet to accept the terms of the agreement.
WALTER SISULU ... we stick to nationalisation

By Robyn Chalmers

WALTER Sisulu shook the JSE on Friday by telling a Wits Business School breakfast that the ANC would not budge on its nationalisation policy.

The veteran ANC leader delivered a hard-hitting speech about post-apartheid SA to more than 550 businessmen and bankers, including Reserve Bank Governor Chris Stals, Anglo American outgoing chairman Gavin Reidy and JSE president Tony Norton.

Mr Sisulu reiterated ANC policy of nationalising "monopoly banks, mining houses and financial institutions".

Businessmen were disappointed that their warnings had gone unheard by the ANC.

Central

Mr Sisulu said "creative nationalisation" was central to the ANC's economic policy.

Asked whether the ANC had considered any options to nationalisation in the face of foreign investor jitters, Mr Sisulu said it had not. The main objective of ANC policy was to uplift the economy while righting injustices. Nationalisation was the best method to do so.

"But we will not adopt a mechanical approach to nationalisation, rather we will be creative within given circumstances. The aim is to rid SA of present inequalities in terms of wealth.

"Sometimes one must go to war to secure peace. We realise that in the short term nationalisation may discourage foreign investment, but believe that in the long term it is the only solution."

A democratic SA would have to pursue an activist economic programme. Business would have to play a major role in funding the State's requirements for the redistribution of income.

Mr Sisulu listed some ways to achieve a mixed economy:

- Curtail the monopoly power through legislation and dismemberment of some key conglomerates to bring industry and its development closer to the workforce.
- Greater diffusion of power in industry through the spread of ownership by share ownership schemes.
- Renationalisation of privatised concerns, not only to maintain the industrial and service infrastructure, but to facilitate wealth redistribution.

Mr Sisulu said the ANC had not yet seen anything approaching a fundamental re-casting of policies either by business or the Government.

"This explains why our people suspect that the main concern of both Government and business is not the dismantling of the key structures of apartheid, but rather the winning of international acceptability through the removal of anti-apartheid sanctions and boycotts."

He stressed that the business community had to recognise that old ways of resolving crises could not work.

Mr Sisulu called on businessmen to put aside their fears and work with the ANC.

"Together, we can forge a vibrant, prosperous new SA."
R2bn fund to ‘remove backlogs’

CAPE TOWN — Government is to transfer R2bn from last year’s larger-than-expected R6,97bn Budget surplus into a special fund to remove the backlog caused by restrictive job reservation and land ownership legislation.

Announcing this in his Budget speech yesterday, Finance Minister Carel du Plessis said the R2bn investment was aimed at removing backlogs which had arisen from restrictive measures imposed as a result of past political aims.

These included job reservation which had retarded the development, progress and earning capacity of many, and the prohibition of land ownership which had affected ability to build up capital.

In addition to this socio-political investment, R2bn is to be taken from the surplus after borrowing to settle net losses on forward cover transactions which were incurred as a result of rand depreciation.

Government has also proposed the transfer of R1bn from the surplus to the Government Service Pension Fund and the Associated Institutions Pension Funds.

A further R215,7m has been allocated to meet its capital obligations to the Development Bank of Southern Africa.

The remaining R743m is to be deposited in the Government’s Stabilisation Account at the Reserve Bank to give the monetary authorities further support to the economy’s consolidation phase.

Abnormally high tax collections and import surcharges last year helped to almost halve the deficit before borrowing for 1989/90 from a budgeted deficit of R7,853bn or 3% of GDP, to an estimated R3,796bn, or 1.5% of GDP.

This, coupled with income from the privatisation of Iscor and the SA Mint and

R2bn fund

other loan receipts, resulted in a surplus after borrowing of R6,9bn.

Total tax revenue for the 1989/90 year was estimated at R61,385bn and this was R8,317bn or 27% above the R53,068bn originally budgeted.

Of this, tax collections from individual’s income tax was estimated to have exceeded the budgetary amount by R2,19bn.

This increase was attributed largely to higher-than-expected wages and pay adjustments in the private sector.

Good profit performances from companies in 1988 and 1989, along with the third provisional tax payments, resulted in an increase in the estimated revenue from non-mining companies of R1,5bn over the budgeted amount.
CAPE TOWN — Government expected a deficit before borrowing of R7,994bn in this financial year, Finance Minister Barend du Plessis said in his Budget yesterday.

Although higher than last year's abnormally low deficit of R3,795bn (1.5% of GDP), the deficit, which is equal to 2.8% of GDP, is still lower than government's target figure of 3% of GDP.

Du Plessis said loan redemptions during the coming financial year would be about R1,250bn, bringing the adjusted borrowing requirement to about R11,350bn.

The intention was to finance this chiefly from domestic stock sales of R11,250bn, including investments by the Public Investment Commissioners (PIC).

Du Plessis said that following the abolition of prescribed investment requirements it had been decided that greater investment freedom should be allowed to the Government Service Pension Fund.

"The PIC will therefore no longer be treated as a fully 'captive' investor in government stock and will thus not be separately identified with regard to budget financing," he said.

Du Plessis said that although about R2bn worth of gilts had been sold in advance and the remaining R9,250bn should not put pressure on the capital market, this would not enable monetary policy to be relaxed in the foreseeable future.

"Should it, however, appear that the relatively modest loan programme of government and other public bodies, coupled with market factors, put downward pressure on interest rates too soon, neutralising measures will be taken if stabilisation objectives so dictate," he said.
Private sector is told to lend a helping hand

THE South African economy had to be restructured to raise the standard of life of the entire population, Finance Minister Barend du Plessis said yesterday.

But the private sector had to be prompted to do this, since it was "a very important and indispensable generator of economic growth", he said in his extended Budget speech.

Factors that could facilitate the raising of the income and work-creation ability of the private sector had to be promoted.

He said: "Among factors that need attention are the question of inflation and the shortage of trained manpower and capital."

High priority would have to be given to the pressing socio-economic development questions of poverty, housing backlogs, inadequate education and training, illiteracy, basic health needs and a host of other problems blocking the road to participation in the economy and progress.

"But in this process, fiscal discipline can in no way be jettisoned. Thorough priority determination and rearrangement remain essential."

"It was in everybody's interest that a more acceptable and better balanced situation with regard to living and other standards should come about in SA with all possible speed."

"In this way, there will not only arise an economic dispensation that will be in more stable equilibrium, but a significant contribution will be made to social and constitutional stability," he said.

There were backlogs of all kinds in similar countries, but it was true that certain measures originating in the political aims of the past contributed to certain economic backlogs.

"Viewed from the perspective of the utilisation of labour as a factor of production, certain past discriminatory practices contributed to the backlogs still found in some fields today, affecting our black people."

"In particular, job reservation. Thus, with its accompanying restrictions on training, it retarded the development, progress and earning capacity of many for about 20 years."

"Added to this was the long prohibition on the ownership of land and property in certain areas."
Expect a growth rate of only 1%

CAPE TOWN — A growth rate of only 1% could be expected in SA this year, Finance Minister Barend du Plessis said yesterday.

He also predicted SA would obtain a R6bn surplus on the current account of balance of payments, while the exchange rate of the rand should remain stable.

In his Budget review, Du Plessis said the slowdown in the world economy would probably be reflected in a prolonged consolidation phase in SA.

While a soft landing for the international economy as a whole was generally predicted, this implied that only a mild expansion of real exports from SA could be expected.

Adverse

A stronger gold price than 1989's was expected, since a price of more than $400 an ounce had been maintained since November.

This higher price, coupled with mild growth in the international economy, could counteract the expected adverse impact of lower commodity prices.

The outlook for agriculture was less favourable than last year's, and coupled with stronger fiscal and monetary policies, this would contribute to a slowdown of economic activity.

Taking these factors into account, a growth rate of only 1% was projected for this year.

It was also expected that real gross domestic expenditure would show a further, but slight, decline.

Lower domestic spending was expected to lead to a substantial decline in the volume of imports, and the net result should be a surplus of R6bn on the current account of balance of payments, Du Plessis said.

He also said: "This surplus should be sufficient for the further debt repayments that have to be made during 1990. The maximum amount that has to be repaid on foreign debt in 1990 is calculated to be R80bn. The actual repayments will most probably be considerably less. The exchange rate is therefore expected to remain stable."

Du Plessis said the prospects of a lower inflation rate were exceptionally favourable in the light of present restrictive monetary policy; a decline in real government spending; a more stable exchange rate; and an expected smaller increase in money supply.

However, the extent to which inflation actually declined would depend on the success achieved in resisting unreasonable salary and wage demands.
Mature shares

ed government was taking capital investment seriously.

UAL Management Company MD Clive Knobbs said that mining houses would sell all these mature investments.

The move towards gradual reduction of high rates was welcome, "but this merely continues policy announced last year".

JSE president Tony Norton hailed the creation of a 60-year tax-free safe haven for shares listed on the JSE, as tremendously important for the equities market, reports LIZ ROUSE.

Norton said huge funds would pass from the hands of the financiers into the hands of the "money engineers".

He estimated that at least R13bn would be released from the share coffers of the mining houses, which would now sell surplus stock held over many years.

This would mean a tremendous boost to the JSE, said Norton.

He expressed some disappointment, however, that the period of tax-free release could not have been shorter, as hoped for by the JSE.

Norton also hailed the phasing-out of marketable securities tax (MST) over three years, starting next year, as a boost for the JSE. He said both measures indicat-
Politics blamed for SA's economic ills

PRETORIA — SA's economic problems and limited growth could not be blamed entirely on sanctions and boycotts, Pretoria University economist Geert de Wet said here last week.

He told an international conference on economic development in a changing socio-political environment politics had played a major role in SA's economic plight.

This had meant an excess of nationalisation in the sense of government involvement in the economy. Over-regulation had detracted from the economy's inherent ability to grow, said De Wet.

Too many restrictions had hobbled productivity and contributed to greater unemployment. Of prime importance in the lack of economic performance and achievement were erroneous monetary and fiscal policies over a prolonged period. Boycotts and sanctions had merely aggravated an already flawed situation.

"Nationalisation must be avoided at all costs and the economy freed to grow."

Total deregulation would take the economy down the road to vital development of inward industrialisation.

On Friday, Development Bank of Southern Africa CE Simon Brand told conference delegates a plea for rapid removal of remaining regulations had to be made.

There were still great economic inequalities, which would most probably become part of the negotiation process.

Public sector resources would have to be redirected to ensure optimal use.

The private sector would also have to adjust. It would have to recognise its social responsibility while adapting to the changing pattern of markets to survive.

Canadian economist C W Alikarpur said SA was likely to emerge from its relative economic stagnation if government followed world trends towards greater civil liberties and freedom of enterprise.

He stressed the profitable investments that could be made from savings on the security services and bureaucracy needed to enforce apartheid laws.

This would open up greater opportunities for job creation and greater profitability of private enterprise under new institutions supporting individual freedoms.

Removal of apartheid promised liberty and economic prosperity as long as the change was peaceful.

On Saturday Development Bank special adviser F J van Eeden said neither dogmatic calls for nationalisation nor a vaguely defined free market approach "will bring us very far". Deregulation and privatisation would not suffice. Many more development programmes were essential to uplift the Third World sector.

Projections were that the black urban population would increase from 11.5-million in 1985 to almost 28-million in 2000. In a relatively short period SA would look like a Third World country.

Demand for public services would put the economy under severe strain. However, it would create opportunities for inward industrialisation.

Future development policy would also have to provide for increased co-operation with the rest of southern Africa.
MINING shares on the JSE reacted with initial euphoria to the Budget proposals, but leading stockbrokers were divided in their views, with some welcoming it as imaginative and others expressing disappointment.

News of the wide-ranging proposals affecting mining shares came shortly before the close of trading and lifted prices of leading shares sharply higher. The JSE overall index closed 44 points up at 3304.

Max Borkum, of Borkum Hare & Co, said: "This is an imaginative Budget which will be favourably received. The overall strategy — there was a modest increase in excise duty on cigarettes, beer and spirits — shows a greater emphasis on indirect as opposed to direct taxes, which must be an indication of future trends."

"The mining industry will benefit to the greatest extent simply through the encouragement of new mining ventures. There will also be a knock-on effect for the amelioration of the unemployment rate through the release of funds."

"Local beneficiation has been encouraged through the abolition of excise duty on beneficiated products. This will stimulate exports and be good for the mines."

Borkum said a long-term benefit for the share market would be derived from the scrapping of marketable securities tax (MST), starting from next year.

"On the negative side, construction companies are likely to suffer through the consideration of consumables and work in progress as trading stock."

"In addition, those companies which have a LIFO reserve will see this phased out over 10 years at 10% a year," he said.

David Shapiro of stockbrokers Max Pollak & Freemantle, said: "There was very little to encourage the market in the Budget. The phasing out of mining tax has already been discounted."

"The lifting of tax on dividends for individuals might be a move towards high yielding second liners by individuals. In the longer term it will encourage share ownership. We are disappointed that MST has not been abolished immediately."

The 10-year safe haven would prompt some mining houses to consider selling shares. This might lead to more trade but much of the selling could bypass the market.

John Rogers, of Edey, Rogers & Co, said: "The Minister has made more encouraging noises than in the past but this time it has been accompanied by practical action. Most striking were his proposals on gold mining tax and exemption of tax on dividends for individuals. This will persuade people to increase their investment in shares instead of in fixed interest deposits."
SA's capital outflow 'now the same as Third World'

CAPE TOWN — Trade sanctions had had a minimal direct impact on the economy but, the effects of disinvestment were less easy to evaluate, Finance Minister Barend du Plessis said yesterday.

Delivering his Budget at a joint sitting, he said as far as the outflow of capital was concerned SA, despite its good record, was now in the same position as other developing countries.

All had at one time used international capital for development, just as SA had, and now had to make great sacrifices to repay their debts.

The Minister said the only difference financial sanctions had made for SA, as opposed to other developing countries was that, mainly as the result of political actions, it had been cut off from the normal international banking facilities such as the IMF.

This had complicated cash-flow management of the current account of the balance of payments and forced the country to maintain a continual surplus on that account.

Du Plessis said the result had been that the country's capacity for growth — which traditionally meant rising imports during an upswing — had been "tempered" for the time being.

However, he added, SA had been growing since 1987 despite sanctions, and the viewpoint was now growing that sanctions had compelled SA to push through certain structural adjustments more rapidly than would otherwise have happened.

Du Plessis said the sanctions lobby claimed credit for SA's low growth and alleged it was this which had forced government to change.

Government had known from the start that a period of unavoidable adjustment and economic restructuring involving sacrifice was likely.

Du Plessis said government's commitment to reform and its pursuit of a higher growth pattern despite sanctions underlined "both the folly of continuing foreign interference through sanctions and the futility of trying to put the lifting of these sanctions as a factor in the negotiation process".

The lifting of remaining apartheid measures and of sanctions were not "real negotiating counter" as neither had "any further claim to existence" in the light of government policy.
Cape Town — Government will use the surplus on the forward cover book to reduce the losses rather than plug any funds provided by the Reserve Bank. The losses are from the forward cover facility, from the surplus after borrowing to government décidé to use capital to fund deficits instead of borrowing in the money market.

In a bid to limit the unintended effects of interest in the money market, monthly interest rates have been raised by the banks' credit extension department, which monitors toหลักวณ. This year's budget surplus is to be used in reducing forward cover losses, not to "plug" any funds provided by the Reserve Bank.
Barend’s goal is SA growth

CAPE TOWN — In his R72.9bn Budget yesterday Finance Minister Barend du Plessis committed government to going for growth through tax cuts and encouraging savings. He also took a step towards long-term economic restructuring by increasing spending on social services.

Du Plessis said revenue for the year was expected to total R64.53bn, leaving a deficit before borrowing of R7.59bn (2.8% of GDP), and predicted a 1% growth rate. The Finance Minister unveiled a R4.65bn package of tax cuts, with more than R3.3bn in personal tax cuts — largely directed at eliminating fiscal drag at the bottom end of the tax scale.

The tax changes included:

- Decreasing the maximum marginal tax rate from 45% to 24% and restructuring lower rates;
- Increasing primary rebates for married and unmarried people from R1 250 and

Barend’s goal

R60m is expected to accrue to the state), reduced by 10% the value of LIFO reserves to which taxpayers are entitled (R50m); and introduced a new construction industry tax on work in progress (R50m).

Increases in fringe benefit taxation included a 50% hike in the taxable value of company cars to 75% and the upping of the official interest rate to 19% (16%).

On the spending side, the Finance Minister said that almost 40% of total expenditure was devoted to social services — up from 39% of the total Budget last year but with a tight rein on actual increases in department expenditure.

The total allocation to education amounted R13.3bn, a 9.8% increase on last year’s revised estimates. Spending on education was 18.7% of the total Budget.

Although in the Budget estimates spending on black education is up by 26.1%, this is to a large extent because pensions are now being paid out of this vote. The increase in teachers’ salaries is not included in the black education vote, nor is the R150m allocated to eliminate black schools’ backlogs.

Du Plessis announced a R50m one-off grant to universities and technikons.

Spending on health was up to R7bn, an increase of 8% or 9.8% of the total Budget, while housing expenditure was up by 15% to R1.5bn. A sum of R2.5bn covered the recent salary hikes up to R1.5bn, reflecting a substantial cut.

The servicing of public debt was expected to cost R11.3bn (a 15.5% increase).

Social pensions went up by R25 a month and civil and military pensions by 10%.

Du Plessis announced that R2bn of last year’s R6.97bn Budget surplus would be put into a special fund to remove backlogs resulting from apartheid legislation.
Unkindest cut as pensions increase by R25

Budget for a new SA

BEER, "spirits and tobacco products would all be subject to "modest" increases in customs and excise duties, while tax concessions to individuals totalling R4.530-billion were announced by the Minister of Finance, Mr Barend du Plessis, in his Budget speech in Parliament yesterday.

Beer - excluding sorghum beer - would go up by about one cent a 375 ml bottle, spirits such as whisky, brandy and gin by about one cent a tot or 25c a 750 ml bottle, cigarettes by two cents for a packet of 10 and tobacco by two cents for 50g.

Record

But the unkindest cut of all, pensions would be increased by R25, with the result that both white and black pensioners would get grants far below the lowest in standards of living.

Du Plessis presented a record Budget which clearly re-directs the economy towards a new South Africa in which blacks' historic backlogs are to be addressed.

He presented a Budget in which the emphasis fell on pensions rather than finance. His speech was faced with the recurring themes of "restructuring", "structural adjustments", and "identifying "past discriminatory practices" and "restrictions" as having contributed to backlogs still to be found in certain fields and affecting black people in particular.

Job reservation and its restrictions had retarded black people's progress and earning capacity for more than 20 years.

Apart from increased spending on social welfare and education, he announced the creation of a special R2-billion fund to wipe out the backlogs.

Poverty would need to be addressed directly, he said. He also, as expected, gave the South African Police and nursing profession boosts at the expense of the Defence Force.

Tax concessions to individuals totalling R4.530-billion were announced.

Rebates affecting interest on building society investments, undistributed profits, society investments, undistributed profits, married women and the aged as well as adjusted tax rates for lower and middle income groups alone would cost the Treasury an estimated R3,122 billion.

"The rate of tax proposed represent only the first phase of tax considerable adjustments that are planned," he said.

The expected total tax revenue for the new financial year would rise by an estimated 5.8 per cent over last year to total R64,938-billion.

Revenue statistics he tabled showed the net increase in tax on individuals was expected to rise by 4.3 per cent over 1989/90's R19,588,540 to R20,020,000.

See also pages 2 and 23 to 30

Finance Minister Mr Barend du Plessis.
'More is still needed'

BLACK business yesterday welcomed aspects of Finance Minister Barend du Plessis' Budget, but said it fell short of what was expected.

The Minister should have cut the defence budget by half so that he could give more to housing, education, health facilities and business development in the black community, black business leaders said.

A spokesman for the Black Management Forum, Mr. George Negota, said the defence budget should have been drastically cut to increase allowances for pensioners, who were already hard-hit by the inflation rate.

The acute housing shortage needed to be addressed as well as the poverty that went with it.

South Africa needed a scheme of action coupled with a realistic plan of action to resolve the housing crisis," he said.

Financial adviser to the Foundation for African Business and Consumer Services, Mr. Jeff Rapoo, said while the budget should be welcomed, it did not close the gap between black and white pensioners. The disparities must be closed.

A top Soweto tax consultant, Mr. Matsheu Matsharu, said the budget was the "perfect matching of economic and political reform."

He said incomes of married women will be taxed separately from those of their husbands. "This means that the tax status of a married woman has improved to a certain degree. This will further stimulate the supply of skilled married women in the market place.

The executive director of the Association of Black Accountants of South Africa, Mr. Mashudu Ramano, said the fact that profits realised from shares listed on the Johannesburg Stock Exchange that had been kept for more than 10 years would be exempted from income tax under certain conditions, was making "the richer rich and poorer poor".

"The crisis in black education can be solved by this money," he said, expressing disappointment at the small increase for pensioners.

Meanwhile, OK Bazaars managing director, Mr. Gordon Hood, said the budget must be accepted as a first step for creating a sound economic environment for a new South Africa.

The executive director of the Institute for Personnel Management, Mr. Wilhelm Crous, also welcomed the budget.
Will Give Growth

It's Supply-side

BUDGET SPECIAL

THURSDAY, MARCH 15 1990

FULL TEXT

SPEECH

OF THE MINISTERS
Lemon Aid.
When it comes to investment returns, not a great restautant.
Could be closing down. 50% of its companies, Europe opens up.

In 1992, when...
better vision?

Which surveillance camera has 40%...
Three cracked nuts and a split tire. Shaking the rocks and filming out of the car. When rocks fly past the car, I remember the car roll a couple of times, and then...
I remember flying and feeling like I'm on an upflying rocket heading up which eventually close to over the edge and into a

wreck over the edge.

Keeping an eye on the road, I skidded and proper attention to the road. I skidded and

It was wet and I wasn't paying

wet.

1:00 AM, conditions were muddy and the

dock on his left. Slowly the dock on a one-way light. He was seconds away from making his

팡. He approached the bend on Champion's Peak

As Christopher White

Now a Mercedes-Benz

over 100 meters.

produces a remarkable performance.
Is Mercedes-Benz the World's Safest Car?

The conclusion: A Mercedes-Benz is the world's safest car measured by the frequency of personal injury claims following accidents. Conducted on the US by the Highway Loss Data Institute, it

through a series of accident surveys ever conducted can unusually produce a view that is endorsed by the most safety engineers of this order has made Mercedes-Benz.

The door was opened because the special locks are both-

proof and crash-proof up to 10,000 lbs of pressure. A system to allow the car to yield when it must are specifically designed into the whole construction's profile and proportions commonly strong high-quality steel. Pedestrian compartment is a web of deformation zones that can absorb the impact to absorb energy. The rigid deformation zones that can absorb the impact

procedural in occupant's self-defense in a manner more likely to

This most lethal of cars is built to

the best design a Mercedes-Benz. The Whistle were his head and

head two facings endure it was not. The plane should have been recognized. car ahead worse, being managed beyond The were Mr. White's personal moments. The
IN YEARS TO COME

Announcing Pad

The Budget

In 1990, the government announced a budget that included measures to stimulate the economy. The budget focused on fiscal policy and included tax cuts and increases in government spending. The government also announced plans for long-term economic growth and sustainable development. These measures were expected to boost the economy and create jobs in the short term.

AVAILABILITY OF NEW CAPITAL AS PERCENTAGE OF GDP OF GROSS DOMESTIC PRODUCT

The availability of new capital as a percentage of GDP of gross domestic product is crucial for economic growth. The graph above shows the trend over the years. It can be seen that the availability of new capital has increased over the past decade, indicating a positive trend.

SELECTED GROUPS OF COMPANIES

The selected groups of companies have shown a positive trend in terms of profitability. The graph below illustrates the profitability of these companies over the years. The percentage of companies with profit has increased, indicating a strong performance in the market.

EFFECTIVE TAX RATES OF COMPANIES

The effective tax rates of companies have been analyzed over the years. The graph below shows the trend of effective tax rates for companies. It can be seen that the effective tax rates have remained relatively stable over the years, with slight fluctuations.

CONCLUSION

In conclusion, the budget announced in 1990 has had a positive impact on the economy. The measures taken have helped in stimulating the economy and creating jobs. The availability of new capital as a percentage of GDP of gross domestic product has increased, indicating a strong economic growth. The selected groups of companies have shown a positive trend in terms of profitability, and the effective tax rates have remained relatively stable.

[Diagram of economic indicators and data]
We are driven

If says you weren't born yesterday,
If you drive the Nissan Skyline, your car says something about you:
luxury features of a car that's not just smart, but also very affordable.
and air conditioning with auto temperature control are some of the
Skyline's push leather interior, redesigned rear legroom, first sound system
won't buy more luxury. Or more quality. Clever enough to know that the
If you drive the Nissan Skyline, you're clever enough to know that more money

This one says you're clever. There's a difference.
Some cars say you're smart.
Barcendas goal is SA growth.

Shares unlocked, R$bn in mature

The main points:

- A time for a new generation
- Cold water
- Business Day

Budget Special

Thursday, March 15, 1990

Page 4
What's in it for you?
Expenditure must be controlled at all levels

SUCCESS in socio-economic development was obviously not only determined by the volume of funds, but also by the quality and purposefulness of programmes, the effectiveness of expenditure, the minimisation of duplication in the provision of services, and so on.

State expenditure had to be controlled at micro level not only to ensure its regularity, but also its effectiveness.

Control at this level could also not be the responsibility only of the Minister of Finance; it was a collective responsibility devolving upon the whole government, and thus on every manager in the public sector.

Mr Du Plessis said about 60 per cent of the Budget took the form of transfers, including subsidies; and the fact that this portion would grow more slowly than total budget spending in 1990/91 indicated that the message of discipline over spending had also found a place on other government levels.

The planned small real decline in central government expenditure for 1990/91 represented a continuation of the hard-won expenditure discipline achieved in 1989/90 in the form of a very small overshoot of the main budget and a relatively small real increase in total expenditure compared with 1988/89.

Govt's expenditure will total R138b

AFTER taking into account supplementary budget proposals and the contingency reserve, the total expenditure and revenue for the 1990/91 financial year was R72,932 billion and R64,938 billion respectively, the Minister of Finance, Mr Barend du Plessis, said yesterday.

He said in his Budget speech the estimated deficit before borrowing was, therefore, R7,994 billion or 2,8 per cent of the estimated gross domestic product.

In this way the structural deficit before borrowing, which was extremely small in 1989/90, was kept low.

Loan redemptions would amount to about R3,8 billion during the 1990/91 financial year, which brought the adjusted financing requirement to about R11,8 billion.

It was proposed to finance this amount mainly from the sale of domestic stock of R11,250 billion, which included investments by the Public Investment Commissioners.

Although stock to the value of about R2 billion had been sold in advance and the remaining borrowing requirement of R9,250 billion should not exert undue pressure on the capital market, it might not be possible to relax monetary policy in the foreseeable future.

Stabilisation goals might, on the other hand, also require corrective measures should the relatively modest borrowing programmes of the State and other public institutions, together with other market forces, exert a downward pressure on interest rates too early.
Barend challenges Mazwai's claims

‘Nationalisation is ineffective’

IN his column ‘It’s my business’ of 1 March 1990 Mr Thami Mazwai apparently attributes to me a statement that a policy of nationalisation is theft.

As you will see from the attached copy of the relative Hansard report, I was quoting Mr Ken Owen, editor of Business Day. My words in Hansard are: "We then read in Business Day what they said about nationalisation etc. Someone with the political conviction of Mr Ken Owen wrote frankly in his leading articles: "It is nothing short of theft." I must therefore point out to Mr Mazwai that those words were not actually mine.

Response

I find it interesting that when Mr Owen wrote those words in the first place, it did not inspire Mr Mazwai to the kind of agitated response that was meted out to me as a politician. I can only assume that he did not see the particular comment.

Nevertheless, I must state that I do not think a policy of nationalisation could ever bring about the kind of equitable redistribution of wealth which Mr Mazwai wishes to see.

And if by nationalisation is meant confiscation, then it is indeed nothing short of plunder, or yes, theft, even on the basis of compensation, nationalisation is equally ineffective in achieving the ends Mr Mazwai seeks.

It is true that some Nationalists were in favour of such a policy before the NP came to power in 1948. But it is also a fact that this was never implemented. Sanity prevailed when they accepted the sobering responsibility of governing and today we have a mixed economy.

Existing private concerns were never nationalised in South Africa. The parastals in which the Government has or had a controlling interest were all created by the Government because the private sector wasn’t interested or was openly hostile to the idea. Sasol and Sasol, which have since both been privatised, are examples.

Our regular column ‘It’s my business’ does not appear this week. Instead we publish a letter from Finance Minister Barend du Plessis challenging Thami Mazwai’s claims in his column three weeks ago. Mazwai will respond to the Minister next week.

But it is neither wise nor helpful at this to advocate either of these poles without taking the experience of other countries into account.

In that regard it is clear that socialist policies, which include inter alia that of nationalisation, were a dismal failure in every country in which they were applied.

That kind of attempt to redistribute wealth resulted merely in the poor getting poorer and the economy taking a nose-dive, as is now manifest in Eastern Europe and Africa.

Wealth

If, on the other hand, sound economic policies, including promotion of private enterprise, deregulation and further privatisation are pursued, new wealth and new jobs will be generated.

In turn, higher economic growth will give the State an increased income through taxes which could be used for education and other methods of lifting the quality of life of the less privileged.

The problem of poverty cannot be solved overnight by the application of formulae. Nor is poverty restricted to one race or population group, as Mr Mazwai seemed to suggest.

Severe

He referred to the policy of apartheid. Could he explain why scores of countries that never practised statutory apartheid, also suffer from poverty in many instances in severe form?

As I have aid, the alternative must be discussed around a negotiating table. Let’s not be dogmatic about our ideas. Let’s rather put our heads together to find the best policy for the future of all the people of South Africa.

Sincerely,

B J du Plessis MP
Minister of Finance
Why Economic Issues Are Important

The economy affects every aspect of our lives. From the food we eat to the clothes we wear, economic decisions determine what is available to us. Economic issues involve the way resources are allocated and used to produce goods and services. These issues are important because they affect our standard of living, our ability to access education and healthcare, and our overall quality of life.

In economics, there are two main schools of thought: capitalism and socialism. Capitalism emphasizes the role of private ownership and competition in the marketplace, while socialism advocate for greater government involvement in economic decisions. Each system has its advantages and disadvantages, and the choice between them is ultimately determined by political and social factors.

Economic issues are complex and involve many factors, including supply and demand, inflation, and international trade. Understanding these issues is important for making informed decisions as consumers, investors, and policymakers. By studying economics, we can gain a better understanding of how the world works and how we can influence the economic landscape to improve our lives.
R2b set aside for special Govt fund

THE Government proposed to set aside R2 billion from the loan surplus of the 1989/90 financial year for the special fund for the removal of socio-economic backlogs, the Minister of Finance, Mr Barend du Plessis, said in his Budget speech yesterday.

He also said it was proposed to transfer R1 billion of the loan surplus to the Government Services and Associated Institutions' pension funds, and to use R3 billion to settle losses on forward cover transactions.

He said it could reasonably be expected that the full amount allocated to the special fund for backlogs would not be spent in the first year.

It was intended that this fund be augmented from time to time as circumstances permitted.

The current expenditure implications of the fund for the Budget would have to be accommodated within the parameters of fiscal discipline.

The financing of the Government Services Pension Fund and the Associated Institutions Pension Fund had on several occasions been the subject of criticism.
He said in his Budget speech this approach required that a framework be created and maintained within which both local and international entrepreneurs would be ready to take risks and invest personal assets.
THE Minister of Finance, Mr Barend du Plessis, presented Parliament with a record budget which clearly redirects the economy towards a new South Africa in which blacks' historic backlogs are to be addressed.

He presented a Budget in which the emphasis fell on politics rather than finance. His speech was laced with the recurring themes of "restructuring" or "structural adjustments" and "past discriminatory practices" and "restrictions" as having contributed to backlogs still to be found in certain fields and affecting black people in particular.

Apart from increased spending on social welfare and education he announced the creation of a special R2 billion fund to wipe out the backlogs and also gave the SA Police and nursing professions boosts at the expense of the Defence Force, as expected.

Setting out the broader objectives in an expanded Budget Review, he said it was in everybody's interest that a more acceptable and better balanced situation with regard to living and other standards should come about in South Africa.

Poverty would need to be addressed directly.

Job reservation and its restrictions had retarded black people's progress and earning capacity for more than 20 years.
FINANCIAL authorities have ruled out a relaxation of monetary policy at this stage.

They aim also to sharply reduce the money supply this year.

Restrictive economic measures introduced last year had the main financial aggregates moving in the right direction now, according to a Department of Finance budget review tabled in Parliament yesterday.

But monetary authorities believe the level of increase in domestic credit and in the money supply, as well as the present inflation rate (15.1 percent) were still too high.

"Neither is the level of the country's gold and foreign reserves yet satisfactory," it said. "So it is still too early to relax monetary policy."

The Reserve Bank would continue efforts to cut money supply. In the last quarter of 1989, it was 23.5 percent higher than the same period in 1988.

"It was not only necessary to reduce the money supply to less than 18 percent as soon as possible, but the Reserve Bank was also considering a target for the end of this year still lower than that."

The review said Dr Chris Stals, Governor of the Reserve Bank, would make an announcement on this.

The Bank's net gold and foreign reserves increased by R2.9 billion in the first two months of this year.

On foreign exchange, the review said the Reserve Bank had intervened actively to prevent the Rand appreciating more than it did.

It had bought "large sums" of foreign exchange in January and February because:

* "An appreciation in the Rand would not have been in South African exporters' short-term interests; and"

* "The Bank thought it necessary to replenish its own foreign reserves when the opportunity arose."

South Africa was not able at this stage to relax existing exchange control measures. The financial rand was still needed.
Reax cash Policy

Still too early to
### Income Tax for 1999-9: Modified Widow

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### All the Tax Tables

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### The Proposals at A Glance

- **Hospitals and Roads**: Increase the budget to cope with the increased costs of providing essential services.
- **Education**: Expand spending on infrastructure to improve learning environments.
- **Surprise Budget**: Implement a surprise budget to address unexpected financial needs.
- **Innovation Surprises**: Introduce innovative strategies to enhance the efficiency of government programs.
- **Goods and Services**: Increase spending on goods and services to support economic growth.

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*Image credit: *
### Name: 'to keep financial books'

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### Acer

#### Sales Information

Out of stock. Contact your nearest Acer dealer for more information.

### Acer South Africa

#### Acer Computers

Cigarette lighter

Opportunities for producers reach

### Stock Warning

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new man for
Man denies leadership
of rape, assault gang
provide aid to Namibia
Hod-p
Pic calls on UN to
provide aid to Namibia
Hod-p
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Jesper
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Special wild
Benson & Hedges
strokes last
down while
and wine prices
are increased.
### Income Tax Payable 1990-91: Married and under 61

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**NB:** The above amounts have been calculated on the basis that the taxpayer's wife has no income.

- An example of what tax you could pay.  
- More tax tables — Page 4
A total of R7,024 billion was earmarked for health services - an increase of eight percent over the revised estimates of R6,506 billion for the 1989/90 financial year.

The expenditure amounted to 9.8 percent of total expenditure for 1990/91.

Du Plessis said R1,456 million was provided for housing in 1990/91.

**Funds**

Certain interest earnings and capital repayments also accrued to the various housing funds, bringing the gross estimate of expenditure on housing in the 1990/91 financial year to R1.9 billion.

If the reclassification of expenditure of the self-governing areas during the year was discounted, as well as interest losses and capital repayments, an increase of 15.8 percent above the revised estimate of R959 million for 1989/90 resulted.

This rise in expenditure was a reflection of the Government's commitment to addressing, as far as possible, the large housing backlog which still existed.

Du Plessis said R596.9 million was being allocated to social pensions; R7 million to civil pensions; R12.6 million to military pensions and R1.4 million to pensions for industrial illness.

An amount of R35 million was allocated for the Department of Manpower's training scheme for the unemployed and R75 million for the special short-term employment creation programme.

In view of financial problems currently being encountered by marginal mines, guidelines would be established in 1990/91 by a committee chaired by the Deputy Minister of Finance, Dr Org Marais, to facilitate consistency in state aid to the mining industry.

Du Plessis said R2,223 billion was being made available for improved remuneration for State employees, according to the guidelines established for this purpose.

An amount of R10.07 billion was pro...
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<td>* Tax on married women</td>
<td>* Spirits up 1c a tot, or 25,2c a 750 ml bottle</td>
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<td>* Import surcharges</td>
<td>* Cigarettes up 2c per 10</td>
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<td>* Excise duty on jewellery abolished</td>
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<td>* Pipe tobacco and cigars up 20c a kilogram</td>
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<td>* Exemption on interest income and building society dividends doubled to R2 000</td>
<td>* Fortified wines and sparkling wines up 1,8 c a bottle</td>
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<td>* Effective company tax rate</td>
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<td>* Total tax exemption on other dividends</td>
<td>* Additional rebates for the elderly</td>
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<td>* Concessions to the mining industry</td>
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No quick economic fix seen

THE BUDGET has been praised for setting SA on a new course since structural changes, when implemented, could lead to longer and steadier growth in years to come.

But economists do not expect an upswing to start before 1992 and until then they fear there will be hardly any growth whatsoever.

In his Budget speech Finance Minister Barend du Plessis admitted growth this year, as measured by changes in gross domestic product, would be no more than one percent and that the slowdown in the last few years would continue (see graph).

But TrustBank economist Nick Barnardt feels even that is an optimistic forecast.

"South Africa will be lucky to have any growth in 1990. TrustBank's economic model indicates a real gross domestic product (GDP) growth rate of zero to 0.5 percent and in 1991 of about one percent," he said at a Budget seminar this week.

"But he said the downturn in 1991 would restore the financial stability necessary for long-term prosperity.

"Lower imports would result in a build-up of a surplus on the balance of payments, making it possible to build up reserves. Debt repayments on fixed investment in four years and the biggest drop in general business inventory levels in five years," he said.

"Export volumes would be restrained by a strong exchange rate and the biggest drop in agriculture production in seven years.

"But he said the downturn would be contained to a level necessary for growth potential in years ahead."
Special fund marked for social services

POLITICAL CORRESPONDENT

The Government will spend nearly 40 percent of the R72.9 billion 1990/91 Budget on social services and create a special fund to overcome the backlog in the socio-economic development of black people.

Details of the special fund to be financed from the loan surplus of 1989/90 are to be announced by President de Klerk later this week.

This was disclosed by Minister of Finance Mr Barend du Plessis when he presented a record R71.54 billion main Budget to Parliament yesterday.

Though he gave no figures, it seems that a loan surplus of more than R6 billion is available to finance the fund. This will be above the 40 percent of the Budget allocated to social spending — such as housing, health, education and welfare.

This represents about 10 percent of gross domestic product (GDP). However, the 40 percent refers to the Budget before the allocation for conditions of service is added.

The Budget Review said that one of the policy goals was “to contribute to the relief of hardship and to equip as many people as possible to grasp, on an equal basis, the opportunities the economy offers”.

Over the past few years, steps had been taken to reduce the tax burden on the less privileged.

Little more could be done this year to decrease their tax. This Budget, therefore, aimed to help the less privileged through expenditure.

Social services are to get R27.853 billion — up 11 percent from last year. This compares to a 2 percent increase for protection services — to R15.3 billion.

DEFENCE DOWN

Within this category, the defence budget actually drops from R10.3 billion to R10.29 billion, while the police budget gets a 5.7 percent increase from R2.9 billion to R3.1 billion.

In the category of social services, housing goes up 51 percent to R1.456 billion, health spending rises 7 percent from R6.5 billion to R7.08 billion, education rises 9.7 percent from R12.1 billion to R13.3 billion, and welfare promotion increases 16 percent from R3.8 billion to R4.4 billion.

The pattern of State spending in the Budget reflected a shift in the Government’s development role from the economic to the socio-economic sphere — but with a rightful place being given to law and order, according to Mr du Plessis’s review.

Poverty, unemployment, housing shortages, inadequate training, illiteracy and health needs blocked the road to progress and prosperity, he said.

The figure of 40 percent on social services was much higher than might be expected of South Africa at this stage of its development — if one compared it internationally.

For the backlogs to be overcome within Budget constraints, the focus would have to be on correct spending priorities within individual social functions such as education, health, housing and welfare.

More State funds were also being poured into socio-economic development through institutions outside the public sector. These included the Development Bank of Southern Africa, the Small Business Development Corporation, development corporations in the self-governing territories and the South African Housing Trust.
Concern over municipal budgets

By Louise Burgers, Municipal Reporter

Local government has been restricted to a 13 percent increase in spending for 1990/91, prompting fears of large scale cutbacks when municipal budgets are tabled at mid-year.

The figure is well below the current inflation rate and does not keep pace with rising costs, thereby restricting growth, say council officials. It is also half a percent lower than the restrictions for the two previous years.

The leader of the Democratic Party in the Johannesburg City Council, Mr Ian Davidson, criticised the lack of differentiation between a major metropolis such as Johannesburg and a small town.

"We are faced with exactly the same problem as last year. It once again puts a damper on the type of capital expenditure required to revitalise certain inner city areas of Johannesburg."

The chairman of the Johannesburg Central Business District Association, Mr Nigel Mandy, said the situation was "serious".

"The scope municipalities have for cutting expenditure is not very large and this could result in a lowering of standards for maintenance and repair."

The chairman of the Randburg Town Council management committee, Mr Andre Jacobs, said the 13 percent restriction on spending was a "severe constraint" on Randburg's growth.

"Our growth has always been higher than the restriction figure."

The chairman of the Buccleuch/Kelvin Ratepayers and Residents Association, Mr Axel Joosting, said in Sandton there had been a gradual deterioration in financing of "any extras".

Record provincial budgets with expenditure estimates totalling R10,4 billion were also tabled yesterday.

The largest, that of the Transvaal, provides for expenditure totalling R4,377 billion from the previous year's of R3,744 billion; the Cape Province R3,182 billion compared to R2,935 billion last year; Natal's expected expenditure in budgeted to rise by R99,1 million to R1,668 billion and the Orange Free State from R1,024 billion last year to R1,09 billion in the coming tax year.
Education increase
‘a drop in the ocean’

By Shehnaaz Bulbulia
and Montshane Maroke

Leading educational organisations said yesterday that while they welcomed the national education expenditure increase, it fell short of addressing the crisis facing black education.

Minister of Finance Barend du Plessis announced that R13,46 billion would be allocated for education and a further R150 million one-off payment would be used to help overcome the backlog in black education.

National Education Co-ordinating Committee (NECC) spokesman Mr Ihsan van Rensburg said the expenditure rise was significant but should be seen against the backlog of the crisis facing black education.

The R150 million set aside to deal with the black education backlog should be seen against the R21,2 billion one-off payment required to bring formal parity in education as a whole.

The expenditure in education is significant. The actual increase in the region of 26 percent and inflation is discount-

ed, it’s a 12 percent increase. Also, it’s a R510 million increase over the previous year.”

Mr van Rensburg added that the NECC was waiting to see how the Government would spend R510 million in comparison with the billions needed for black educational resources.

The NECC had listed secondary education as a priority, he said.

While 210 white schools remained empty, there was a shortage of 260 schools in black areas, Mr van Rensburg said.

It would make sense for the Government to reactivate the closed white schools instead of building new black schools.

He said the breakdown of a R21,2 billion one-off payment required to redress the crisis facing black education, was according to statistics from the University of the Witwatersrand’s Education Policy Unit (EPU):

- R1,3 billion required for the construction of new schools at R6 000 per additional pupil.
- R1,35 billion for the training of 26 000 teachers at R52 300 per teacher.
- R18,7 billion for operating costs of schools at R8 000/pupil.

He pointed out that Mr du Plessis’s statement that “international comparisons indicate that South Africa’s public expenditure on education is already high” could not be left unchallenged.

Quoting EPU figures, Mr van Rensburg said the public expenditure on education in SA was 3,8 percent of the gross national product against 6,8 percent in the US, Zimbabwe’s 8,1 percent, Kenya’s 6,7 percent, Israel’s 8,5 percent, Zambia’s 5,4 percent and Botswana’s 6,4 percent.

Union of Democratic University Staff Associations general secretary Dr Mike Morris said that as long as the Government did not make a sustained commitment to solving the black education crisis, one-off payments, while significant, would not solve the education crisis.

“A long-term programme is required to shift State resources towards black education. Further, the Government should have a policy to raise the education and skill levels of the total population,” he said.

A centralised, unified education system was required, otherwise, “increasing the budget allocation without cutting down the number of education departmental did not necessarily mean a significant increase.”

Too much of the increase was swallowed up by the duplication of administrative work.”

A Progressive Teachers League spokesman said the increase did not meet the needs of the crisis in education.
'Not enough money for blacks'

By Esmarié van der Merwe
Political Reporter

Extra-parliamentary democratic organisations have welcomed the Budget increases on social spending, but said more funds should have been made available to address social backlogs in the black communities.

The United Democratic Front, aligned to the African National Congress, welcomed Finance Minister Mr Barend du Plessis's substantial allocations to housing, education, health services and welfare.

UDF publicity secretary Mr Patrick "Terror" Lekota, said the emphasis on social spending reflected the changing political objectives in society.

However, social spending was still "far too little to address the need of communities most disadvantaged by the last 40 years of apartheid rule".

The country needed a speedily-negotiated political settlement and "a government which is capable of going further than these tentative steps". Said Mr Lekota, who is also a spokesman for the Mass Democratic Movement: "In the short term, the question is how much of the allocated expenditure will in fact meet the needs of black communities?"

The UDF welcomed the tax relief for married women, the aged and people in the low-income brackets.

Mr Cassim Saloojee, president of the Transvaal Indian Congress, said the allocation to social services might be impressive in money terms but would not go far towards putting blacks on a par with whites.

"One can only hope that the historical mistake will not yet again be made whereby most of the money goes towards social services of the small white minority."

Mr Saloojee, also the director of the Johannesburg Institute of Social Services, said the historical discrimination against married women had not been wiped out completely by tax relief to people in this category.

"There should be no distinction between married and unmarried women or men in a non-sexist equal society."

There was no comment from the Pan Africanist Congress.

Mr Patrick "Terror" Lekota... social spending still too little to address the need of disadvantaged communities.
Let people free themselves.

Mining industry through nationalisation is not the answer.
Govt moves 'a letdown' for most public servants

By Dawn Barkhuizen
Public servants were generally disappointed by a budget which promised salary adjustments for nurses, police and other law enforcement personnel only, and undertook to investigate salary increases for the lowest-paid civil servants.

Hopes had been high for a further increase after the bitterly disappointing 10 percent pay rise announced earlier this year.

Protest action

Nurses and police — who were promised an adjustment but not told how much or when — were even more disillusioned than ever, representatives said.

SA Railways and Harbours Union (Sarhun) vice-president, Mr Johnny Potgieter, warned that intensified protest action could result.

“We are very disappointed. We have 33,000 members. This could unleash frustrations that will be very hard to control. There seems to be no consideration by the government for public sector workers,” he said.

The secretary-general of the 46,000-member, multicultural Public Servants’ League, Mr Bernard Wentzel said:

“The Minister knows full well the demands and circumstances of public servants.

“Some people earn salaries that are totally unacceptable (R240 a month). People want their money now. We don’t want investigations — we have told them about these below-the-breadline salaries for years.”

National Medical and Dental Association spokesman, Dr Max Price said: “Many nurses have been holding on to their jobs in expectation of the Budget speech. Now, because no specific amounts were mentioned, we believe the salary adjustments will be similar to the 12 percent given to teachers earlier this year — which is four percent behind the inflation rate.

Salary adjustments

“Nurses are extremely badly paid — this will only make them more disillusioned. The nursing shortage is already critical, top nurses are resigning because they don’t have enough staff. Why should they carry on when they can earn better money working as reps?”

The chairman of the Support Police Action Group, Mrs Avril Budd, said that at a time when morale was rock bottom and the rate of resignations higher than ever before, it was important to spell out salary adjustments.

“The situation is not satisfactory at present and it cannot be left for another six months. We suggest a minimum increase of 66 percent and say that immediate attention needs to be given to overtime.”

Junior constables earned R870 a month with a R41 annual increase. A sergeant in his 19th year was paid R2,138 a month.

Public Servants’ Association president, Mr Colin Cameron, who is negotiating for increased salaries after a warning of a show of force earlier this year, said he had not expected increases.

He was pleased to note the increase in pensions and the fact that additional funds had been made available for adjustment of lower income salary groups.
'Police should have received more'

By Craig Kates

The South African Defence Force should, considering strategic realities and the need to curb Government spending, be satisfied with yesterday's Budget, but more money should have been given to cope with the present police crisis.

South Africa's defence capability would be kept essentially intact with its R7.8 billion budget, although with the emphasis on the lowering of the military role, the police should have been a greater priority, said Professor Mike Hough, strategic studies expert of Pretoria University.

Police received only R2.32 million this year, as opposed to R2.45 million last year — which could solve pay grievances, give more for essential running costs and equipment, improve service conditions and provide for the expansion of the SAP.

The defence budget is nominally higher this year but not in real terms. Considering an inflation rate of about 15 percent, it did not keep pace.

He said the Budget as a whole indicated that security considerations had moved from the near-social-policy into the economic factors influencing security.

The defence budget could also be interpreted as indicative of the Government's resolve to maintain security while retaining the social policies the SADF had been taking into account for years.

On how the budget would affect the way the SADF used funds allocated, Professor Hough said much would have to be spent on improving conditions of service and for retaining existing skills and personnel. This would also be the incentives paid out to junior officers in the short-service scheme introduced after national service was reduced to one year from two.

'It is in terms of the new strategic situation and the ending of the war in Namibia and the need to curb spending, the Defence Force should be satisfied with what they received,' Professor Hough said.
Race cash gap hasn't been closed in 'new' SA

By Stan Hoppe and
Monica Nicolaou

Mr. Syd Eckley, the director of the National Council for the Aged, last night said he was disappointed at the R25 across-the-board increase granted to all pensioners following Minister Mr. Harry van der Byl's Budget speech in Parliament yesterday.

Mr. Eckley said the pensioners had been given a raw deal and that the increase would not close the monetary gap between the race groups. He said the R25 increase was too little, taking into consideration the high cost of living.

"Minister van der Byl made a comment about a new South Africa and he should start by giving pensioners of all races the same pay," he said.

"Everybody has to pay the same price for meat, milk and other necessities," he said.

Mr. Eckley said he had asked the Minister for higher pensions for over-80s not living in institutions. People who lived on their own should receive more than those who were subsisted.

Black pensioners last night described the 15-percent increase from R150 to R175 as "still not enough." In spite of their acceptance of "anything" offered, they pointed out that it would be "eaten up by inflation."

Mrs. Christena Langa (65), of Chatsworth, who has seven children, said it was "too little too late." If it was R250 at least it would make a little difference, she said.

Pensioners are not exempt from paying GST at most shops and we have to contend with the high cost of living like everybody else," she said.

Mrs. Evelyne Malinga (59), who has six grandchildren dependent on her, said the R25 increase would not alleviate the hunger she was facing.

Mrs. Veronica Bulpitt (69), said there were no black, coloured, or white shops. "They are just shops charging the same prices for all," she said.

White pensioners also expressed their disappointment.

Pensioners interviewed at Jan Smuts council houses in Brixton, Johannesburg, said the Government was not doing enough for old people who relied solely on their pensions and were struggling to survive.

"Pensions have been lagging far behind the inflation rate for so many years. They need to increase pensions far more to bring them into line with the cost of living," said Mrs. E. Parkinson.

Her neighbour, Mrs. E. van Zyl, lives on a disability pension and described the increases as "insulting." "Once you have paid rent, water, electricity and the telephone, there is nothing left. How are we supposed to live?"
Health allocation is 'misleading'

By Toa Yvengh Husband, Medical Reporter

The 0.5 percent "increase" in the health budget announced by Finance Minister Mr. Barred du Plessis yesterday was misleading as health expenditure per capita had in real terms come down by almost 10 percent, Dr. Max Price of the National Medical and Dental Association said.

Although the health budget had gone up from R6.0 billion to R7.06 billion, the 16 percent inflation rate and the approximately 2.5 percent increase in population growth meant there was less money to spend on health.

"Given the current crisis in hospitals, this is very dangerous," Dr. Price said.

He criticised the Minister's "vague" announcement of pay increases for nurses. "They were told that a long time ago and many of them have been hanging on to their jobs waiting for a real figure to be announced with the Budget. It is an insult not to say exactly what they'll be getting," said Dr. Price.

Mr. Rob Speedie, the executive director of the Representative Association of Medical Aid Schemes, was "disappointed."

It is generally accepted that in the health sector the inflation rate is about 20 percent and an 8.5 percent increase just isn't adequate to keep up," he said.

He said population growth exacerbated the problem. "From the private sector's point of view I foresee a bigger load on the shoulders of employers and medical schemes," he said.

However, he did not believe any additional increases in medical aid fees would result as medical schemes had already presented their budgets for the year.

LARGER BURDEN

One noticeable feature of the budget was that the gap between private and public sector health expenditure was narrowing. "The private sector is going to be carrying a larger section of the burden," said Mr. Speedie.

He said the 8.5 percent increase would not go very far unless accompanied by very effective cost savings through increased efficiency in State health care. He foresaw a certain amount of privatisation in 1990.

Dr. Price said the 11 percent overall increase in social services spending was still 5 percent below the inflation rate and would in real terms be less than the 1989 budget, for a larger population group.

The chairman of the Federal Council of the Medical Association of South Africa (Mansa), Mr. Bernard Randell, said that the budgeted 40 percent increase for social services compared to last year's 28 percent of the total budget was encouraging.

He said there was no doubt that South Africa's priorities for the future must be to make adequate provision for health, education and housing to ensure the total well-being of all people.

"South Africa's expenditure of 5.4 percent of the Gross National Product on health is in line with the World Health Organisation target. However, there is no doubt that services are under tremendous pressure and that the needs of a large section of the population are still not being met."

The MEC for Hospital Services in the Transvaal, Mr. Panne Ferreira, said 8.5 percent was quite a substantial increase.

For Transvaal heath services, this would alleviate certain areas of the provincial budget which was experiencing a considerable defect.
"Action at last, says ecologist"

The chief of the Ecology Party, Mr Colin Giller, has described the increase in the Environment Affairs budget as "good, but we could do with more".

Commenting on the almost 10 percent increase from last year's R1406.6 million to R1776.9 million allocated for environment affairs, Professor Richard Pugliese, professor in Environmental Studies at the University of Cape Town, said it was the first time he had seen some "action" in terms of an increased environment budget. He would be interested to see how the money would be allocated.
Extra R25 ‘won’t help pensioners flee poverty’

By Winnie Graham

The R25-a-month increase in pension for all social pensioners, coupled with the Government’s decision to spend 40 percent of the Budget on social services, brought mixed reaction yesterday.

The immediate response of Dr Ntatho Mofana, Soweto’s prominent civic leader who is also chairman of the Get Ahead Foundation, was: “Let’s hope the Government will wake up at last and spend the money wisely.”

The problem with South Africa, he said, was not a shortage of money but a misallocation of resources.

“That is why there are classrooms for 300,000 white children standing empty and millions of blacks pupils with no roof over their heads.”

Housing, education and health were the three main priorities, he stressed. People desperately needed homes, and hospitals urgently needed to be upgraded. Handouts were not the answer, but skills training was needed if jobs were to be created.

CHAOTIC

The Black Sash, which yesterday protested in Johannesburg against the “chaotic state” of black pensions, is not satisfied with the increases announced in the Budget.

Mr Barend du Plessis said all social pensioners would get R25 a month more; civil pensioners an adjustment of 10 percent; military pensioners also 10 percent, supplemented by adjustments regarding backlogs. Pensions for industrial illnesses would also rise by 10 percent, as well as provision being made for the elimination of disparities.

A statement by the Black Sash said that with inflation running at 15 percent, the increase was not enough to help pensioners “break out of a downward spiral of poverty”.
Savings to be encouraged with a higher tax ceiling
Why wasn't levy lifted asks farmer

by Monica Nicolson

It was disappointing that the surcharge on essential capital equipment and spares intended for agricultural production had not been phased out, Mr Nicol Kotze, president of the South African Agricultural Union said yesterday.

"Mr Kotze described the Budget as reasonably well balanced and said it would benefit the average person, particularly the less well-off.

"To the extent that the proclaimed measures will promote economic growth, agriculture as an integral part of the economy will also benefit from them," he said.

Mr Kotze also expressed the hope that agriculture, as an important employer, would receive a fair share of the considerable sums that have been earmarked for social and socio-economic upliftment.

An amount of R302 million was allocated to agriculture, R14 million more than last year."
High revenue an 'embarrassment'

By MAGNUS HEYSTEK

The Government suffered from an embarrassment of riches during the 1989/90 financial year as revenue collections, from individuals in particular, raced far ahead of estimates.

Total tax revenue for the 1989/90 financial year exceeded the estimated amount by no less than R6,3 billion, rising to R61,386 billion.

Tax collections from income tax on individuals are estimated to have exceeded the budgeted amount by R2,198 billion, or no less than 36,8 percent.

Several factors contributed to this flood of money.

Higher salaries

Salary adjustments in the private sector were higher than predicted, which, together with the effects of fiscal drag, resulted in an avalanche of revenue which surprised most commentators. More than R3 billion of this surplus will now be used to reduce the losses on forward cover transactions.

Another factor was that tax collections were much more effective as a result of the introduction of SITE, which greatly improved cash flow to the Receiver of Revenue.

Good profit performance from companies in 1988 continued into 1989 and this, along with the third provisional tax payments for the 1989/90 year, resulted in an increase in the estimated revenue from non-mining companies of R1,5 billion over the budgeted amount.

The import surcharge, announced in August 1988 and revised in May last year, also boosted Government’s income. An original amount of R1,3 billion was estimated but the continued high levels of imports saw Government rake in an additional R1,3 billion.

Government also raked in R240 million more than estimated as a result of higher fuel consumption, a result of the buoyant state of the economy.

Other noteworthy increases above the budgeted amounts are to be found in stamp duties and fees (R100 million), marketable securities tax (R120 million), departmental operations (R225 million) and interest and dividends.

Although described by officials of the Department of Finance as “exceptional circumstances”, which were unlikely to be repeated during the current financial year, it nevertheless increased the total tax burden.

Total tax collections during 1989/90 increased to 24,9 per cent of gross domestic product (GDP). This is significantly higher than the average ratio of 18,3 per cent in the 1970s and the average of 21,4 per cent in the 1980s.

Another disquieting figure is the sharp rise in the relative contribution to overall Government revenue made by individual taxpayers and non-mining companies.

In the 1970s the contribution to total tax was 23,1 per cent and 23,4 per cent respectively. This situation changed drastically in the 1980s – individuals’ average contribution in those years was 27,2 per cent as against 17,6 per cent by non-mining companies.

Individuals taxed more

Since 1983/84 income tax from individuals has invariably been over 28 per cent of total tax revenue and for 1989/90 it is estimated at close to 31 per cent.

In the case of non-mining companies the position is the reverse: since 1983/84 their income tax was always less than 17 per cent of total tax revenue, although for 1989/90 it rose marginally to 18 per cent.

For all companies the average contribution to total tax revenue in the 1970s was 32,5 per cent, as against 27,3 per cent in the 1980s. Since 1987/88 it has been below 25 per cent and for 1990 it is estimated to be as low as 21,8 per cent.
Tax on fringe benefit cars goes up sharply

By Derek Tomney

Recipients of company "perks" will pay more tax. The Minister of Finance has sharply increased the amount which users of company cars and recipients of low interest or no-interest loans have to pay to the Treasury.

He has increased the determined value of a fringe-benefit car by 50 percent for tax purposes. But even at the new rates, most people will think a company car still worth having.

The determined value is the sum on which tax has to be paid. An individual in the maximum marginal tax bracket, would have to pay the Receiver 44 percent of this figure.

The determined monthly value of a R125,000 two-litre car will be raised from R31.75 on May 1 from R31.75 to R43.75, and that of a R150,000 three-litre car will go up from R41.75 to R63.50. The determined monthly value of a R120,000 car bigger than three litres will increase from R67.25 to R112.25.

Tax experts say that in spite of the latest increase in determined value, the figures are well below the true value. However, the Government is following the Margo Commission's recommendation that these values be adjusted annually until "more realistic" values are achieved.

Mr Bert Wessels, chief executive officer of Toyota South Africa, said he was most disappointed by the move.

A major factor in the development of the South African car industry had been the demand for company cars. The increase in the determined values was not welcome at a time when the industry was making heavy capital investments to meet the new local content requirements.

Mr du Plessis also increased the taxable benefit of low-interest or interest-free company loans from 16 to 19 percent.

This means that the taxable value of a R100,000 housing loan will be lifted from R16,000 to R19,000 and will raise the tax on an individual in the maximum bracket by about R1,350 a year.

Mr du Plessis announced two minor tax changes. The rebate for the over-65s is to be increased from R1,450 to R2,100, which should help pensions.

On the other hand, he is phasing out the R120 rebate for taxpayers between 60 and 65. The withdrawal of the rebate for people in this age group suggests that the official retiring age could be on the point of being lifted from 60 to 65.
## Budget at a glance

### Up
- Beer 1c on a 375 ml bottle.
- Spirits 1c a tot, or 25.2c for a 750 ml bottle.
- Cigarettes 2c per 10.
- Cigarette tobacco 2c per 50 g.
- Pipe tobacco and cigars 20c per kg.
- Fortified wines and sparkling wines 1.8c per bottle.
- Effective company tax rate.
- Company car perks tax.
- Low interest and interest-free loans.
- Tax rebates and thresholds.
- Additional rebates for elderly.
- Concessions to the mining industry.

### Down
- Personal income tax.
- Tax on married women.
- Import surcharges.
- Excise duty on jewellery abolished.
- Exemption on interest income and building society dividends doubled to R2 000.
- Total tax exemption on other dividends.
R4.5-bn cutback in tax bills welcomed

Well done, Barend — experts

By Michael Chester

Economists and tax experts have hailed the announcement of R4.5 billion cutbacks in tax bills over the next 12 months as the first significant move towards reform of the entire taxation system in more than a decade.

They also welcomed pledges by Finance Minister Mr Barend du Plessis that the package launched the latest drive in a five-year programme of a complete tax overhaul.

Joining the applause was Mr Justice Cecil Margo, head of the Margo Commission of Inquiry into tax reform.

"The Minister of Finance has done extremely well," he said. "There has not been time to study the Budget in detail, but the results look very good." "It follows a lot of the recommendations of our Commission, especially with its lower income tax, reduced bracket creep and more emphasis on indirect rather than direct taxation."

"The tax improvements for married couples, abolition of tax on modest dividends and the stress on social services are all points to be welcomed."

Dr Azar Jamsinin, director of the Economists' research unit, said the concessions marked the first real cut in the prohibitive increase in tax burden caused by tax drag.

In the past, he said, tax payers would always turn out to be much worse off, "All of a sudden, the tax cuts look really positive. We're beginning to see a positive way." "The move has got a threshold effect in total personal income tax from 22 percent to no more than about 15 percent in the 1990/91 tax year."

All in all, according to the Minister, overall tax revenue would now increase from R4.4 billion in 1990/91 to almost R5.0 billion which had been projected by the Department of Finance.

Tax bonus

"In fact", said Dr Jamsinin, the Minister has gone even further than merely counter-balancing the inflation effect of fiscal drag - he has virtually abolished a bonus with the promise of no more than a 15 percent increase in total tax revenue.

New tax tables - see Pages 3, 4 and 5 of Budget Supplement

Dr Jamsinin quoted the example set out by the Minister, showing the position of a married couple who last year paid income tax on the combination of R10 000 earned by the husband and R20 000 earned by the wife. Allowing for two pay increases of 12 percent, they would have paid 15 percent of their joint income in tax in 1990/91. Now they will pay 14 percent.

The tax tables showed how the bulk of benefits were to flow to wage-earners in the lower and middle-income groups.

"In fact", he added, "the tax tables assume a static income between 1989/90 and 1990/91. In fact, making allowance for reasonable pay increases, most of us will be paying out more taxes in tax bills. The saving grace is that the tax bills are likely to be much lower than they had threatened to be."

Tax expert Mr Costa Duras was enthusiastic about the new tax package.

Cooler reception

"For the first time in years and years, there are real tax cuts on the cards - rather than a new wave of failures aimed at making suckers of us all when the tax bill finally arrives."

"There was a cooler reception among tax advisors for certain other measures - for instance, the cut in the dividend tax, which will cut back on dividends."

The Minister made some concessions to married women, with the abolition of tax on modest dividends and the stress on social services. He also increased the tax-free threshold for the elderly.

"It was also proposed that rates of tax for married women be adjusted to gradually align them with that of single people."

Aged as well as adjusted tax rates for lower and middle-income groups are now around about R3.12 billion.

Turning to individual income tax, Mr du Plessis said it was at the utmost importance for the provision of economic growth that discretionary personal savings be encouraged.

For this purpose he recommended that the present exemption to individual taxpayers on the first R4 000 of interest and building society dividends be doubled to R8 000 and that other dividends be fully exempted from normal tax in the hands of individuals and close corporations, thereby eliminating the present double taxation of such dividends.

While married women on the UTR system were taxed separately on their net remuneration, investment income and certain trading income of women not subject to UTR was taxed in her husband's hands. To take separate tax a step further, it was proposed that all trading income of married women, including salary and income from business or employment, be taxed separately.

It was also proposed that rates of tax for married women be adjusted to gradually align them with that of single people.
Du Plessis guides SA on new economic path

By Sven Linsche

The Budget for the 1990-91 tax year has restored the credibility of fiscal policy.

For the first time in years the Government has put the emphasis firmly on curbing its own spending while at the same time launching the initial salvo in a five-year programme of a complete tax overhaul.

Finance Minister Barend du Plessis, with the evident backing of the full Cabinet, yesterday presented a Budget which marks a welcome shift in the Government's approach to the economy.

In the process he has managed to guide the economy on the right course towards achieving a longer-term restructuring and higher and more consistent growth patterns.

In the short-term, however, the emphasis is to continue with the slowdown in the economy into a period of consolidation, and Mr du Plessis warns that a growth rate of only one percent should be expected this year.

A fundamental part of the restructuring involves the drastic reduction in inflation and reversing the the disinflation trend of the last few years.

By limiting the government expenditure increase to 8.7 percent, the outcome is likely to be restrictive on consumer price increases, while substantial tax concessions, coupled with direct savings boosting measures, should lift the average South Africans' propensity to save from its current dismal low.

The cornerstone of this new approach was laid in 1989-90.

The deficit before borrowing fell to 1.5 percent of gross domestic product (GDP), the lowest in many years and well below all estimates. The actual deficit totalled R3.77 billion, more than R8.3 billion lower than the budgeted figure of R10.3 billion.

The deficit before borrowing the 1990-91 has been budgeted at a more conservative R7.94 billion or 2.5 percent of estimated GDP. Mr du Plessis said government expenditure in 1990-91 was budgeted to rise by 3.7 percent to R71.3 billion, while revenue income was budgeted at R94.3 billion — 7.8 percent up on the R88.5 billion received in 1989-90.

The decline in the deficit is stunning. Only a few years ago most economists estimated the deficit could total between 2.5 and 3 percent of GDP. This in itself would have been regarded as an achievement, as it represented a substantial drop from the 1988-89 deficit of 4.4 percent and the 1987-88 deficit of 6 percent.

It gives an indication of the seriousness with which the Government is seeking to reduce its role in the economy — Mr du Plessis has laid down a policy target of an average 3 percent in its long-term economic strategy.

The sharp decline in the deficit follows on the stringent control of spending and the higher than expected surge in revenue.

The expenditure overrun was only 0.3 percent on the original budget estimate of R65.97 billion.

Total estimated government expenditure in 1989-90 amounted to R55.91 billion, which was 10.5 percent higher than in the previous financial year. Expressed as a percentage of GDP it showed a decline from 32.7 percent in 1988-89 to 30.5 percent. In each of the two previous fiscal years, government expenditure had increased by 18 percent.

On the revenue front, Mr du Plessis said tax income was R5.52 billion more than the budgeted R45.2 billion. Compared with the 1988-89 figure revenue soared by 27.7 percent.

Of the total revenue Budget of R64.9 billion in 1989-91, 23.0 billion is from individual income tax, R18.5 billion from GST and R13 billion from company taxes.
Economy ‘has been set off in a new direction’

By Peter Fabricius,
Political Correspondent
CAPE TOWN — The Budget presented yesterday has been widely welcomed as “a fresh breeze” which has set the economy off in a new direction.

Democratic Party spokesman Mr Harry Schwarz said the budget fitted in with President F W de Klerk’s approach to the new South Africa at the opening of Parliament.

The DP welcomed the fresh approach to fiscal policy and congratulated Finance Minister Mr Barend du Plessis — though it felt he should have gone further.

The Budget had credibility because of the open admission of past errors such as racial discrimination and because of the low 0.3 percent increase over last year’s Budget.

Unacceptably low

However Conservative Party finance spokesman Mr Casper Uys, while welcoming the increase in social services spending, criticised the tax breaks and pension increases as unacceptably low.

He said Mr du Plessis had admitted before the budget that South Africans were overtaxed and this was still largely true.

He deplored the fact that the income level at which the maximum marginal rate applied was still R20,000 per year.

This should have risen to at least R105,000.

Mr Uys said the slight increase in overall spending had to be seen against the base from which it was measured.

Government spending was already 23 percent of gross domestic product while it had been 57 percent in the 1970s.

Mr Uys also questioned the Government’s generosity with the R7.6 billion loan surplus from last year’s Budget — which was to be used for such purposes as funding a socio-economic development fund and repaying foreign exchange insurance losses.

“We used to talk about a deficit before borrowing, now we talk of a surplus after borrowing,” he scoffed.

Mr Schwarz praised the social objectives of the Budget, especially the extra funds for socio-economic upliftment.

Though the budget had shown a decrease in real terms, the DP would have liked to have seen a target for the state’s share of the economy in future.

Mr Schwarz warned against comparing expenditure with previous years as so many accounting changes had taken place. The DP supported the start made towards relieving individual tax burdens, including that of married women.

But it was disappointed at the “inadequate” increases in social, disability and military pensions.

The DP did not approve of the way the surplus from last year was being used.

It was also concerned that growth in GDP was still negative per capita, that inflation was still a major problem, that the increase in the money supply was too high, incentives to save were still too low and that no details were provided about pay increases for nurses and policemen and about the proposed minimum tax.

“Despite this we regard this budget as a whole as a fresh breeze in the South African scene and trust that new approaches to politics and finance will be pursued and will result in a stable and better-off country in which all its citizens will have not only opportunity but a share,”

Solidarity spokesman on finance Mr Kisten Moodley welcomed the budget because it addressed socio-economic problems.

He was disappointed that pensioners would get only R25. He welcomed the 19 percent allocated to education, the R1.9 billion given to housing and the doubling of amounts exempt from tax in building society savings.

He also welcomed the fact that business and professional women were now also to be taxed separately.

Other votes

DP black education spokesman Mr Ken Andrew warned that the apparent 26 percent increase in spending on black education was false as 20.42 percent was the result of transfers of expenditure from other votes.

The net increase of R110 million or 5.72 percent was much less than the total of 15 percent inflation and 5 percent growth in pupil numbers.

But it was impossible to assess the budget’s impact on black education on available figures.

And it was not clear if education would get any of the R2 billion from the special fund for overcoming socio-economic backlogs.

DP pensions spokesman Mr Brian Goodall said the pension increases were small but welcomed them as better than nothing.

However some pensioners would be worse off in real terms after the increase.
Economists applaud spending cut

By Claire Steinhauer

Economists have welcomed the long-term contractionary effects of the budget, but fear that the deficit before borrowing is not very high, certainly under the magic three percent, but above the magic 2.5 percent. But it is a pity Mr du Plessis is still spending R3.9 billion of current spending by issuing loans of one kind or another.

"If capital expenditure is R5.1 billion and the total deficit R7.3 billion, the difference is obviously spending of a current type of nature," he says.

Volkets' Adam Jacobs says the concessions made to individuals represent a real lowering in tax and are welcomed.

"However, we were only expecting tax relief of R2.5 billion and we hope people will not go on a spending spree." United's Dr Hans Falkena says the increase in the tax-free portion of interest income from R1,000 to R3,000 is too low and will not give a stimulus to savings.

"There is going to be a gradual reallocation of spending towards social and security from police and defence and one gets the impression that politics and economics, as far as Exchequer spending is concerned, will go hand in glove."
Minister of Finance Barend du Plessis's R72.9 billion Budget has been generally welcomed as a long-awaited start to relieving the tax burden on individuals and cutting Government expenditure.

The Budget also marked a move away from increasing defence expenditure.

The armed services have been restricted to a 1.3 per cent increase — accounting for 13.9 percent of the Budget — while social services now take up 40 percent, with an extra R2 billion fund which will be launched to try to overcome the backlog in black socio-economic services.

Total Government expenditure in the Budget announced yesterday was up 11 percent.

Mr du Plessis announced tax cuts for the individual, married women, savers and the elderly.

Not as welcome, but expected, were increases in the price of alcohol and cigarettes.

Beer is up 1c a "pint" (375 ml), spirits up 1c a tot, cigarettes up 2c for 10, cigarette tobacco up 2c for 50g, pipe tobacco and cigars up 2c a kilogram and fortified wines up 1c a bottle.

For the individual taxpayers — whose burden was nearing crippling proportions — Mr du Plessis announced that R4.53 billion had been allocated as relief.

Tax brackets have been changed to lower the tax rate, rebates have been increased and tax thresholds have been raised so that more people will not pay any tax. Married women will be taxed separately, which will reduce their tax.

Mr du Plessis said the aim was to restore the balance in favour of the individual whose burden had substantially increased in relation to that of companies.

Savings encouraged

"Saving is to be encouraged by increasing the tax-free portion of interest income, and building society dividends from R1,000 to R2,000."

The rebate for those over 65 will be increased from R1,150 to R1,300. However, the additional rebate for those between 66 and 68 is to be phased out by raising the qualifying age by one year every year.

The new tax rates mean that a married person with two children earning R30,000 taxable income will now pay R10,956; a saving of R1,094.

Some perks' taxes will rise. On company cars the vehicle for tax purposes rises from 60 to 75 per cent. The tax-free portion for interest or interest-free loans from employers rises from 10 to 10 percent.

Mr du Plessis also announced:

- The abolition of a "safe haven" of shares listed on the SSE for more than 10 years. Profits from the sale of these are to be exempt from income tax.
- The phasing out of the 1.5 percent tax on marketable securities over three years, starting in the next financial year (1962/3).
- The phasing out of tax expenditure. The tax allowance for employee training is to be withdrawn and replaced with a direct subsidy by the Government.

Mr du Plessis said all social pensioners would get an increase of R5 a month; civil pensioners an adjustment of 10 percent; and military pensioners 10 percent. Pensioners for industrial illnesses would rise by 10 percent.

The Budget represented a disappointment for public servants hoping for a further pay rise. Salary adjustments for nurses, police and other law-enforcement personnel were promised, but they were not told by how much, or when, their salaries would rise.

Although 40 percent of the Budget was taken up on "social upliftment", extra-parliamentary organisations said more funds should have been made available.

United Democratic Front publicity secretary Mr Patrick "Teroro" Lekota said the emphasis on social spending reflected the changing political objectives in society. However, social spending was still "far too little to address the need of disadvantaged communities."

Mr Clare Kriel, vice-president of the Chamber of Mines, said: "There has been an encouraging reshuffling of priorities with emphasis being placed on the upliftment of the less privileged members of our society."

The champion triumphs... Brian Mitchell slugs it out with challenger Jackie during last night's WBA junior-lightweight fight.
tax cuts

East London, Industrial Council for the

Millinery Industry, Transvaal, Industrial Council for the
P.O. Box 4866
JOHANNESBURG
2000
(011) 337-5411/2/3
Secretary: Ms. Pamela Stein
to late 15th

De Kock

The Minister of Finance, Mr. Moodie, paid tribute to the former Governor of the Reserve Bank, Dr. De Kock, who died last year.

Concluding his Budget Speech to Parliament, he said: "We have found the budgetary measures of the previous year fully supported today."

"Mr. Moodie, who, as an internationally respected economist, rendered his country outstanding service, etc.

"He would, I am sure, have found the budgetary measures of the previous year fully supported today."

Tribute
Exemption on share profits after 10 years

Budget unlocks billions from JSE

Own Correspondent

JOHANNESBURG. — The creation of a 10-year tax-free safe haven for shares listed on the JSE, which will release massive funds, was hailed as tremendously important for the equities market by JSE president Tony Norton.

He was commenting on Finance Minister Barend du Plessis' statement that profits realised from shares listed on the JSE that have been kept for more than 10 years would be exempted from income tax under certain conditions, effective immediately.

Norton said huge funds would pass from the hands of the financiers into the hands of the "money engineers".

He estimated that at least R13bn would be released from the share coffers of the mining houses, which would now sell surplus stock held over many years.

This would mean a tremendous boost to the JSE's liquidity, said Norton.

However, Norton expressed some disappointment that the period of tax-free release could not have been shorter, as hoped for by the JSE.

Uncertainties about the distinction between capital and income were an important reason for the low turnover on the JSE and the phenomenon that large financial investments were not released for application in other fields of investment, according to Du Plessis.

Norton also hailed the phasing out of marketable securities tax (MST) over three years, starting next year, as a boost for the JSE. He said both measures indicated government was taking capital investment seriously.

Overall, Norton considered the Budget as an "extremely competent balance of exercise of interest", based on sound economic principles of fiscal strength and economic development.

Both measures would oil the wheels of the JSE to the benefit of unit trusts, which cater for the small investor, said UAL Management Co MD Clive Turner.

A more liquid market and tax exemption of dividends to individuals would encourage funds from the small investor to flow into unit trusts, Turner said.

In order to encourage discretionary personal savings, the Budget proposes dividend income be fully exempted from normal tax in the hands of individuals and close corporations, thereby eliminating the present double taxation of dividends. Previously only a third of dividend income was tax-exempt.

Turner said the phasing out of MST meant that the pricing of unit trusts would be marginally lower as MST was a built-in factor in the price of units.

He said the measures were obviously aimed at encouraging savings and that unit trusts, as the man in the street's door into the equities market, would benefit from a greater inflow of funds. However, in line with Norton, he expressed a measure of disappointment about a 10-year tax haven in view of previous expectations that profits from shares would be tax-exempt for a reasonably short period, thereby releasing more funds for development.

A more low-key view of the effects of the Budget on the immediate investment outlook was taken by Old Mutual senior portfolio manager Rowland Chute.

Although he welcomed the encouragement of realisation of investments and the freeing of funds for new development, he said there were no announcements in the Budget which were likely to significantly alter any investor's outlook for the next 12 months.

Overall, the slowdown in the economy looked set to continue with the resultant declining growth rate in corporate profits.

However, the partial relaxation of the ring fencing and further implementation of the Marais Commission should prove positive for mining companies in the longer term, said Chute.

The intention to phase out MST should be welcomed as it would significantly reduce transaction costs, hopefully increasing the turnover of the market and creating greater liquidity, said Chute.

He welcomed the abolition of tax on dividends in the hands of individuals although he felt, at best, it would have a marginal influence on the market.

In general, Chute believed the Budget indicated the government was moving in the right direction to stimulate economic development over the longer term.
Democratic culture needed
Embedding Patels

The primary employer is the company and not the worker. In the context of employment, the power relationship forms an employer-employee relationship. This is a situation where the employer holds control over the employee, determining their working conditions and wages. The employee, on the other hand, is dependent on the employer for their livelihood.

The concept of collective bargaining is based on the idea that workers, through their representatives, negotiate with employers to improve their working conditions and wages. This process is facilitated by the government and is regulated by law. The effectiveness of collective bargaining depends on the strength of the workers' union and the willingness of the employer to negotiate.

In the context of India, the minimum wage is determined by the government and is based on the cost of living. This wage should be adequate to meet the basic needs of the worker and their family. However, in many cases, workers are paid less than the minimum wage, which forces them to work overtime or find additional employment.

The right to strike is an important aspect of workers' rights. It allows workers to express their grievances and pressure employers to address them. However, this right must be exercised within the framework of law and cannot be used as a weapon to disrupt the normal functioning of industry or to cause inconvenience to the public.

The law should guarantee the right to strike, but it should also ensure that it is only used in cases where all other options have been exhausted and a peaceful resolution has not been reached. The right to strike is a powerful tool, but it should be used with caution and responsibility.

The concept of self-determination is central to workers' rights. It ensures that workers have control over their lives and work. This includes the right to organize into unions, the right to collective bargaining, and the right to strike. These rights are essential for workers to negotiate for better working conditions and wages.

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Apartheid in the Holy Land

NM General Secretary Yitzhak Shamir urges Israel to halt the construction of the separation wall around the town, which is intended to limit the movement of Palestinians to their homes and workplaces. The wall is meant to prevent the Palestinians from entering Jewish settlements and Israeli military bases. The wall is also meant to prevent the movement of Palestinian workers into Israel to work in Israeli settlements and military bases.

In response, the Israeli government has opposed the wall, arguing that it is needed for security reasons. The Israeli government has also threatened to impose sanctions on countries that support the wall.

The United Nations has called for the immediate dismantlement of the wall and for the الفلسطينيةs' human rights to be protected.

From two months in Israeli/Palestinian reports:

World - Today, a member of the Palestinian Authority, Melisa Ballan, recently returned from her visit to the Occupied Territories. She said that the Palestines are facing huge costs due to the Israeli occupation and the high cost of living in the Territories.

The Palestines' struggle for self-determination continues, and the world is watching closely to see how Israel will respond to international pressure to end the occupation.

Israel, South Africa, Or a?
An exposition of political economic issues of SA

A chilling comment: "Those whites willing to fight to the bitter end because they fear a one-party Marxist state will be creating the conditions under which such a state is most likely to emerge."

An emphasis is placed on the role of both the state and the market mechanism to accommodate key political and economic imperatives and demands.

The fallacy of "separate development" with its ethnic homelands and governments, and the need to categorise South Africa as a typical Third World country is eloquently stressed.

An entertaining and radical view of bantustans argues the need to regard them as more than just puppets of Pretoria. There is much mention of the bantustans which is embarrassing to the South African government.

A chapter on the early years of the independent trade union movement is very incisive, and an understanding is gained as to why unions may radically alter their policies and abandon strongly-held ideological positions that run counter to the concrete organisational requirements of the day.

The enthusiasm for the informal sector as a solution to the prevailing poverty and unemployment is cautioned against.

Other chapters include thoughts on black wages, unemployment and labour market issues, apartheid and economic growth, the migrant labour system, urbanisation and the housing policy, the state and redistribution, education and the economy, a choice of trade strategy, sanctions and capital goods, and appropriate technology.

The issues the book is concerned with are poverty, inequality, unemployment, the provision of basic needs and appropriate and just welfare planning.

As the need to discuss economic issues becomes increasingly urgent, this book should serve as an aid to the serious student and the interested lay person.

-Suleiman God
Budget set to keep interest rates high

CAPE TOWN — Interest rates would remain at current or even higher levels for longer than expected if fiscal measures introduced in the 1990/91 Budget had an expansionary effect, top finance officials said yesterday.

The officials, from the Department of Finance and the Reserve Bank, were speaking at a Budget forum arranged by Old Mutual and Nedbank.

Reserve Bank Economic Department head Jaap Meijer said he believed the overall effect of the Budget, which provided tax relief of R4.5bn, would be expansionary and that Reserve Bank governor Chris Stals welcomed this. But, given the Reserve Bank's strict and persistent anti-inflationary stance, it meant interest rates would probably be sustained at present levels for slightly longer than had been expected.

In Pretoria, Stals told a Junior Chamber of Commerce and Industry seminar the Budget left no scope for a relaxation of tight monetary policy.

NEL YORKE-SMITH reports that Stals said Finance Minister Barend du Plessis had allowed for the option of further government stock issues to soak up excessive liquidity should the Reserve Bank deem it necessary.

Funds raised via stock issues could then be "neutralised" by placement in government's stabilisation account.

Interest rates

The Reserve Bank viewed the Budget as very positive, Stals said, especially in its emphasis on curbing spending and re-establishing normal economic conditions in SA. These moves would help in the battle against inflation.

However, Stals warned that funds released via tax reductions could generate inflationary pressure, especially if money was spent on consumer goods.

He was particularly supportive of the Budget's increased emphasis on social requirements.

"Steps taken to encourage savings and reduce government involvement in the economy are also very positive. "Even if increased disposable incomes are used to reduce outstanding debts, this will have a positive impact," Stals said.

In Cape Town, Finance director-general Gerhard Crosser said if consumers interpreted the fiscal measures as being expansionary, and were not deterred from spending more by the high interest rates, the consequent stress on monetary policy would demand a "relatively high level of interest rates for a while".

The major aim of the Budget was to encourage growth by way of tax cuts and higher levels of saving and, to begin the long-term economic restructuring necessary to improve long-term growth potential and the living conditions of the majority of South Africans.

Permit MD Bob Tuckey said the trend in savings, which were a vital factor in promoting economic growth, would change significantly as a result of the exemption from taxation of dividends and the likely introduction of a low rate of withholding tax on interest.

Personal savings, which had been encouraged towards the life offices and pension funds by high inflation and tax on interest, were likely to swing to banks and building societies as a result of these relief measures, he said.

He felt the shift in the savings pattern would fulfill at least one of the Budget's aims, by providing a deliberate route to stimulate the grassroots economy.

In an earlier response to the Budget, the life industry expressed disappointment that the exemption of dividends was not applied to their business.

Du Plessis confirmed in his Budget speech that life offices would continue to pay tax on two-thirds of dividend income as well as on behalf of their policyholders.

As far as economic structuring and the increased emphasis on social spending were concerned, Crosser said government's intention was to bring about a major re-emphasis in its spending priorities, but only over a number of years.

It was too early to say whether the special fund to remove "backlogs" caused by restrictive job reservation and land ownership legislation would become a permanent feature, Crosser said.

"It will be increasingly easy for us to place more emphasis on social spending, but there is a limit to what we can spend. We need to promote growth."

From Page 1
Higher deficit will not lead to huge borrowings — govt

CAPE TOWN — Government has allayed the capital market’s fears that its higher deficit will translate into huge new borrowings.

Finance Director General Gerhard Groeser said yesterday government would need only about R2bn from the private capital market. “And this has effectively been borrowed already in the form of a roll-over.”

The financing requirement — deficit plus loan redemptions — doubled to about R12bn in the 1990/91 Budget from R6bn the previous year. This doubling initially caused a negative reaction in the gilt market which had expected virtually no borrowing.

Rates retained their upward bias yesterday on the belief that short-term interest rates would remain high. There was little change in rates between yesterday and Wednesday (E168 at about 15.34%).

The fact that borrowings would be low did not dispel fears that the Budget might prove to be too expansionary.

Of the R12bn borrowing requirement, about R2bn has already been borrowed and the Public Investment Commissioners (PIC) are expected to invest more than R5bn in government stock.

The PIC’s cash flow consists mainly of government’s pension funds. Its huge contribution will be one of the main reasons why government’s need to borrow from the private capital market will be limited.

But in a break from previous years, the PIC’s specific contribution to financing the borrowing requirement is not shown in the Budget. This is a significant move signalling a change in the way the PIC is to be handled and could have radical implications for the SA investment scene.

Reforms

Government is preparing to rely less on the cash flow from its pension funds and more on private investors in future.

The Budget hints at major reforms of the state pension funds that could eventually see them invest heavily in JSE equities rather than government stock.

The PIC’s annual cash flow of R5bn would have an enormous effect on the JSE, and freeing of these funds is likely to be a gradual process.

The Budget Review says the PIC will no longer be treated as a fully “captive” investor in government stock “and will thus not be separately identified with regard to budget financing”.

Following the abolition of prescribed investment requirements, it has been decided that, within the limits of the Public Investment Commissioner Act, greater investment freedom should in future be allowed the Government Service Pension Fund.

The fund, which has an actuarial deficit of about R2bn, currently invests only in government stock. The constraint on investment is one factor behind the huge shortfall between assets and liabilities, and as long as it continues, little progress will be made in addressing the problem.

However, investment in equities will not be possible until the Act is changed. It is understood government is considering introducing legislation to free the PIC from the current investment constraints, but official confirmation could not be obtained.

Freeing government’s pension funds would reduce the shortfall in the funds through better returns on investments. The 55s fund has already taken that route. The pension fund deficits have emerged as a major obstacle to privatisation, giving a sense of urgency to their funding.
Letters

[Image] 117 Government

Why black people

[Image]

Water Is Us

not market benefits want redistribution

[Image] 5/19/94

[Image]
Transfer of hospitals and resorts ups 'white' budget

CAPE TOWN — Government's decision to treat provincial hospitals and resorts as an own affair was a major factor contributing to a 23% hike in a R8.1bn budget tabled by Assembly Budget Minister Amie Venter yesterday.

Venter said in his budget speech that the chief reasons for the increase, which exceeds the inflation rate by about eight percentage points, was the transfer of provincial hospitals and resorts to his department, the provision of funds for employer's contributions to pension funds and the Civil Pensions Stabilisation Account, the improvement of conditions of service, an increase in social pensions and the carry through costs of salary increases.

Together these factors resulted in increases of R1.4bn.

The individual increases were:

- Transfer of hospitals — R243m;
- Employers' contributions to pension funds and the stabilisation account — R491m;
- Improvement in service conditions — R242m;
- Improvements in social pensions — R58m; and
- Carry through costs of salary improvements — R339m;

Education

The largest allocations in the Budget went to education and culture (R5.3bn), welfare (R1bn), agricultural development (R665 615m), health services (R432 545m), local government, housing and works (R331 531) and improvement of conditions of service (R250 668).

Spending on education and culture was up by R331m, or 21%.

This increase was due to improvements to conditions of service (R331m), employers contributions to pension funds (R491m) and an escalation of continuation costs (R58m).

The welfare vote was up by R58m and health services jumped 166% due to the provincial hospitals transfer.

House of Delegates Budget and Auxiliary Services Minister Raman Bhana yesterday presented a budget of R1.2bn for the 1990/91 financial year — up by 21.5%, Sapa reports.

House of Representatives Budget Minister Miley Richards presented a R3.4bn budget yesterday.

The coloured community had a historical backlog in all spheres in which State services were rendered, he said.

But, he said, they would follow suit if the "economic ship went down" and thus the inability to address backlogs would have to be accepted for now.
Workers left out, says NUM

Sowetan Correspondent

THE Budget contains nothing for workers, other than a clear indication that they will have to fight harder for pay rises this year, says the National Union of Mineworkers.

Sowetan 16/3/90

Commenting on the creation of a fund to redress socio-economic backlogs, announced in the Budget speech, the NUM said the major backlog for black workers was "deeply discriminatory" wage levels.

This was not recognised by Finance Minister Mr Barend du Plessis, who blamed inflation on wage rises and called for increases below the inflation rate.

"There is no call on businessmen to limit price rises, or distribute profits to workers," the union said.

"Black workers' wages need to rise in real terms so that they may address all the backlogs identified by the Minister. But the Minister wants real wages to fall."
Bright side

JSE president Tony Norton told the Italian-SA Chamber of Trade & Industries that growth could average 4%-5% a year for the first half of the Nineties and 7%-9% for the second.

He believes this is attainable "considering we can still grow at 2% a year, despite being at the nadir of our economy and starved of capital, skills and management."

He adds that, far from teetering on the edge of an abyss, SA is a stable society. "We have just seen a minority handing over power voluntarily for the first time in history. The sanities are returning. When Nelson Mandela came out of jail his every utterance took 2% off the JSE board, but he is talking rationally now and gives the impression he's a man of goodwill, peace and sense."

Norton says sanctions and mismanagement of the economy are ending. Instead of industrial relations blowing the lid off society they are teaching South Africans to negotiate and settle their differences.

Socialism, communism and capitalism haven't worked in Africa "but since the Fifties, an endless stream of balanced people have predicted our end. They've all been proved wrong. We're still here and we're a society looking for a solution."

"No one here wants to see the destruction of wealth. Everyone wants to see it created and distributed better."
Lessons across a border

There are some who will say it is one of life’s rich ironies. Others will claim the superiority of practical experience over theory. But the fact is that on the very day the ANC’s ageing Walter Sisulu was threatening businessmen in Johannesburg with “creative nationalisation,” the PM of Mozambique — a younger but wiser man — was saying exactly the opposite in Maputo.

“If the ANC were to ask me,” Mario Machungo told the FM, “I would tell them that nationalisation is not the right way to go.” Both he and Finance Minister Magid Osman made very clear that they would welcome private investment — especially in the area of financial services — and that they regard a strong, democratic and well-managed SA as vital to the prosperity of the southern African region.

Hardly a week goes by nowadays without some leftwing intellectual or trade union leader here proclaiming that a post-apartheid SA will need to be centrally planned into prosperity: from a low-wage high-cost economy into a high-wage, low-cost economy. Precisely what that means requires an arcane insight not vouchedsafe to ordinary business folk.

The reasoning seems to be that not only will nationalisation and central planning bring prosperity, it will redistribute wealth more equitably and bring about a society somehow less harsh than capitalism. It is a proposition that has no basis either in rational theory or practical experience.

Five years ago, there were those who could have argued with greater credibility that socialism brought about less prosperous but more equitable societies than those in free enterprise countries. But even that has proven wrong. Socialist countries in eastern Europe, Asia and Africa have failed to produce the basic necessities of life (such as food and shelter) and has given rise to authoritarian regimes whose human conduct has made the so-called harshness of capitalism pale by comparison.

As the London Financial Times said last week, “The argument about the limits of communism is over.” Whatever elements of it are retained in any society will not soften capitalism but reinforce tendencies towards authoritarianism and circumscribe prosperity. Socialism is not an egalitarian luxury to be enjoyed by only the prosperous nations. It is a system of providing the basics of life that has failed and will fail in any society.

Our neighbour, Mozambique, has been through it all: revolution, nationalisation, central planning, authoritarianism (with social engineering projects far worse than apartheid), brigandage and, finally, destitution. It has come to the conclusion that it is far more socially beneficial to create wealth in a country where elections are free and private ownership is restored than to try and redistribute resources that its own socialist policies are eroding.

Osman makes it very clear that redistribution of wealth in the new, reconstituted Mozambique will be through fiscal means. “We will use the tax system to do it,” he told the FM.

Mozambique, of course, did not have to nationalise very much. The threat was sufficient to cause the majority of small businessmen to abandon their assets and flee — a process that the ANC’s nationalisation threats has already started in this country. Having effectively destroyed the small business sector — the very sector with the potential to create the most jobs — Frelimo found itself having to allow the larger companies to continue to produce what were very quickly seen to be essential goods and services.

So the Marxists were forced to budge trade. They did special deals with those companies they felt they needed. Lombero was one of them. And their agreements with government exclude them from the vagaries of some laws and regulations. That appears to be what Sisulu had in mind when he refers to “creative” nationalisation here. So much for equity and egalitarianism.

On its knees

The ANC does not have to go to eastern Europe or Asia to see the folly of what it is proposing for this country. Mozambique is only a half-hour flight away. It is a country on its knees. It lives on foreign aid; it cannot provide sufficient food for its peoples despite its rich agricultural potential; law and order is uncertain. There are strikes, shortages, corruption and disease. As the FM pointed out on March 2, it is a disaster almost entirely man-made — by Frelimo and its collectivist preoccupation.

Frelimo today has had the courage and wisdom to change its mind. The young men in key ministerial posts now have not learnt the new policies they are implementing — with the help of the World Bank — from text books alone. They themselves experienced the grinding poverty and degradation of collectivism.

And, despite the enormous constraints of the Renamo war, they are making progress, slowly, hampered often by their own inability to shrug off entirely the sentiments of their rejected ideology. The process of reform is painfully slow. The GDP will rise by only 4% this year. But the new rulers are sufficiently magnanimous to negotiate with companies willing to return who want their abandoned assets back. They will welcome back, too, those who fled after the revolution provided they feel they have something to offer a sovereign country.

What the ANC, with Mozambique in mind, should be doing now is not threaten nationalisation and central planning — the harm that does is potentially as destructive as the fact — but probe ways of redistributing the country’s wealth without dissipating it. It is not the issue of ownership of productive assets which will accomplish that task.

It is the wisdom of a sovereign government that has a claim on the fruits of that ownership.
Budget extremely political - Azapo

THE Budget was extremely political and reflected the current schizophrenia of the government of the day, Azapo vice-president (Finance) Mr P C Jones said in Cape Town yesterday.

While acknowledging the major emphasis of the Budget on the creation of a State Fund to remove socio-economic backlog was a major departure from the traditional emphasis of strengthening the defence forces and other protective measures of white interests, he pointed out the government was "trying to satisfy too many fundamentally contradictory interest groups".

"...The lack of definition of the beneficiaries of the State Fund is clearly also directed at white fears that their impoverishment would be made worse by the government's current concerns for black problems," he said.

"The Budget is extremely political," he said.
Going our way

Another significant increase in February reserves has economists cautiously predicting an upward trend. Total reserves rose R230bn (US$99m) to more than R5.9bn ($2.3bn), up from R5.7bn ($2.2bn) in January.

Gold holdings increased by R446m ($174m) to almost R3.4bn ($1.3bn), despite a drop in the February price to R949.17/oz ($371) from January's R962.04 ($376). The jump was the result of 500,000 oz being added to the Reserve Bank's holdings, for a total of 3.5m oz. Forex reserves fell R196m ($77m) to R2.6bn from just under R2.8bn ($1.1bn) in January.

The rise was a result of a continued (and rising) BoP surplus and strong short-term capital inflows caused by a stable rand and falling dollar.

Old Mutual's Rian de Roux says: "The trend is definitely in the right direction but we still have a long way to go." Reserves

In addition, the dollar value of reserves is well below the 1980 high of $9bn. The dollar itself has lost about 50% of its value to inflation in the past decade — so reserves have declined even more sharply in real terms than the figures show.

Econometrix chief economist Azar Jammine says the figures are an indication of an improved political climate and an easing of foreign hostility, resulting in an increased inflow of short-term capital. "Increased foreign involvement could add half a percentage point to GDP growth this year," he says, "but the main thrust will not come until we regain access to long-term capital."

The increase in gold relative to forex could also be "indicative of the stronger BoP," says Trustbank economist Nick Barnard. "If there were a BoP deficit, the Bank would have to sell gold to obtain dollars." The Bank may also be keeping gold off the market to stabilise a vulnerable price and prevent excessive strengthening of the rand-dollar rate.
Budget helps restore
State's credibility in
financial markets

By Magnus Heystek

The Budget proposals will go a long way to restoring the Government's credibility in South Africa's financial markets.

This is conducive to long-term economic growth and planning and is also the start in redressing serious structural deficiencies that have developed in the past decade under the rule of former State President PW Botha.

Analysts pointed out after the Budget speech that the new-found discipline over government spending lies at the heart of the long-term success of government fiscal and monetary policy.

Finance Minister Barend du Plessis is equally aware of this. In his Budget speech he said: "Should doubt exist on the credibility of Government's fiscal policy space, then today's Budget will come short of its goals."

Serious structural problems beset the South African economy, with the high inflation rate a major and central problem. As Mr du Plessis himself puts it: “The sustained rate of inflation has become institutionalised, it is a structural problem itself.”

In the balance of payments dimension it surfaces in the deteriorating competitive position of our producers, on both the local and international markets.

To the extent that poor export performance causes exchange rate depreciation, inflation is exacerbated by rising costs springing in particular from the import of capital and intermediate goods.

The paralysing grip of inflation and other price-distorting factors on economic growth and employment is reflected in the course of several important economic ratios, such as what is known as the capital-output ratio and several key savings ratios.

Structural high inflation over the past 15 years, combined with political uncertainty and economic mismanagement, have resulted in drastic changes in domestic savings ratios.

A major thrust of this year's Budget is the attempt to change these important ratios.

Company savings

Although company savings as a proportion of gross domestic product (GDP) has grown fairly sharply from the 1970s to the 1980s, an increasing portion of the country's available capital funds have had to be applied to the maintenance of existing assets.

The increase of company savings has been to the detriment of gross domestic fixed investment and ultimately job creation. Elsewhere in the Budget speech it was estimated that more than one million jobs were lost during the 1980s.

The utilisation of capital has similarly shown a drastic decline — by over 33 percent since the mid 1960s. This sharp drop in the average output per unit of capital invested was not only accompanied by a sharp increase in capital intensity in the economy but was probably also largely its consequence.

Simply put, South Africa was not using its available capital efficiently.

In the same manner the availability of skilled and suitably trained workers forms a serious bottleneck for economic growth and employment.

The relation of technically trained to academically qualified manpower is virtually the inverse of that found in fast growing countries.

As to the demand for goods and services, the South African environment is still characterised by great differences in development between regions, groups and communities.

Low living standards and absolute poverty line cheek by jowl with wealth and extravagance.

The solution to these problems through job creation and the provision of equal opportunities clearly demands a growing economy.

Structural problems in the SA economy also surface in a comparatively high import propensity and in the fact that the balance of payments and the exchange rate come under pressure once economic growth increases beyond the average levels of the preceding few years.

Should the foregoing trends continue, the growth performance of the economy will in all likelihood fall further, to below the average rate for the 1980s of about 1.6 percent.

In these circumstances the economy will not be able to meet the demand for work and rising standards of living.
Budget sets a poser for life assureds

By Derek Tamney

Minister of Finance Barend du Plessis may have wrought more than he realised in Wednesday's Budget. Or he may have known perfectly well along.

Among the foreseen or unforeseen consequences of his decision to abolish tax on dividends is one that threatens the life assurance industry and makes things more difficult for top executives participating in share-incentive schemes.

Investment attraction

Investment advisers say the abolition of the tax has greatly reduced the investment attraction of many insurance policies.

Before the Budget they only way an investor could accumulate a capital sum without paying tax was to invest his money in a 10-year-endowment policy.

But with dividends no longer taxable, the need to invest in an endowment policy to accumulate a tax-free capital sum falls away.

An investor can get the same or an even better return by investing in unit trusts and re-investing the dividends in them. He could do the same with a managed portfolio or with his own portfolio.

Speaking in Cape Town yesterday, Bob Tucker, head of the Perm, said the abolition of the tax would have a major impact on the flow of savings. He expected them to move away from life offices to banks and building societies.

Mike Hyslop of the Board of Executives said the ruling meant investors who wanted long-term capital appreciation and did not want life cover were likely to choose some other route than buying an insurance policy.

Insurance policies had the attraction of offering the nervous investor a guaranteed growth, usually limited to four percent a year.

But this was low compared with the 27.3 percent average annual growth achieved by shares on the JSE in the 10 years to 1988.

An accountant said yesterday that Mr du Plessis, by abolishing the tax on dividends and increasing the notional rate of interest from 16 percent to 19 percent on interest-free or partly-interest-free loans, had seriously discomforted a number of senior executives.

These are the ones who have received interest-free loans from their companies to participate in share-incentive schemes.

Tax dodges

By using all the available tax dodges, these share schemes were (until Wednesday) usually contrived to ensure that they were self-financing and that the tax was exempt from tax payments as long as the dividend rate on the shares was three percent or more.

This is about the average dividend yield on most quality shares.

But as a result of the Budget, these tax dodges have disappeared since many of the schemes are self-financing only when the dividend rate exceeds eight percent.

If the dividend yield is less than this figure, the executive could be liable for tax.
Experts warn on use of R2-bn fund

By Esmae van der Merwe
Political Reporter

The Government's new R2-billion special fund for alleviating social backlogs has been widely welcomed as an important initiative to address the political wrongs of the past.

But community organisations, politicians and development organisations have warned that projects would have to be selected carefully to ensure that the money was channelled effectively.

Commented Mr Sonny Tarr, general manager, development services at the Small Business Development Corporation: "You've got to make the money work. It should not be one-off donations."

And, said Mr George Pappas of World Vision, an organisation which has been involved in community projects for 22 years: "It is easy for that kind of money to go down the drain. It should be channelled through organisations with a track record of acceptability, credibility and experience."

Mr Cassim Saloojee, president of the Transvaal Indian Congress and a director of the Johannesburg Institute of Social Services, said there was a vast network of community organisations as well as subsidised development organisations which could be utilised.

"The crucial point is that all these organisations should be approached collectively to ensure community participation in the projects. Without them this could become a massive exercise in futility. People should become actively involved in the decision-making on how resources should be utilised."

Mr Mark Swilling at the Centre for Policy Studies at Wits agreed that community organisations should be directly involved in negotiations with the state on how the money should be allocated.

He gave examples of community projects which could not have been implemented before because of a lack of funds.

- The Soweto People's Delegation (SPD) has for over a year negotiated with the Development Bank of Southern Africa, Escom and the Transvaal Provincial Administration on ways in which the Soweto rent boycott could be solved.
- Sophisticated presentations have been drawn up on how Johannesburg and Soweto can be integrated into one, non-racial city.
- The Port Elizabeth Black Civic Association has proposed a scheme for the electrification of township households.

The experts emphasised that a system should be established whereby the Government could effectively monitor projects.
Fiscal good faith

The first national Budget of the De Klerk administration is more than a radical statement of intent to set the economy on a path of sound and sustainable economic recovery. It is, for the most part, a frank admission of past shortcomings and begins modestly — but purposefully — to impose the fiscal disciplines and supply-side measures that will stabilise prices and restore prosperity.

There are those who will see it as the economic version of President F W de Klerk’s freeing of political prisoners — especially Nelson Mandela — and unbanning of black political organisations. And that is not too far from the truth. Certainly, Finance Minister Barend du Plessis went much further in curbing State spending and reducing taxes than we had expected.

Apart from the measures announced, which are examined in greater detail in the following pages, there was a subtle but important change in philosophical approach that has not been evident in his previous Budgets, some of which contained more rhetoric than substance.

In particular, there is a strong commitment to a private enterprise economy and, through deregulation and privatisation, to restructure it so that the opportunity to acquire wealth is more equitably spread over all sectors of the population. He is more specific than he has been in the past over the use of privatisation not only to gain revenue for government but to create wider ownership of shares.

This is reinforced by tax measures which will, in addition to stimulating share ownership, lead directly to increased investment in gold mining, a vital sector of the economy that has come under increasing cost pressures. Its prosperity needs to be restored so that it can, through adequate prospecting and technological advance, regain the position of world dominance.

In addition, a more widespread shareholder population, and increased savings, will be fostered by the exemption of dividends in the hands of individuals and close corporations from normal tax; further moves towards separate taxation of married women; phasing out of the marketable securities tax; and creation of greater tax certainty by introducing a “safe haven” for shares held for more than 10 years.

Lower taxes always lead eventually to increased savings and investment which in turn foster growth that increases the tax base. So in the end, government revenues inevitably increase. Du Plessis’ determination to follow this sensible path — declared before but not adequately acted upon — is given greater credence in this Budget, not only by the effective cuts in tax, but by a firm commitment to slash income and company taxes over the next five years.

The tight hold that Du Plessis has on spending, both in the past fiscal year and in the current one, is the first time in 12 years that government has been seen significantly to reduce its share of total spending in the economy. This is enormously encouraging. Had spending last year not been kept in check, his estimates of expenditure this year would have had little credibility.

In the event, he has come up trumps and must be given credit for a Budget that is not only well tailored to our reduced circumstances but one that will bring about a sound recovery. He has wisely avoided measures that could be calculated to bring about a quick political fix that would prove ephemeral.

Spending restraints now will give government in the years ahead the wherewithal to provide additional social services, such as education and health, and begin significantly to make up for the shortcomings of abandoned social policies.

However, the thrust of government spending in this Budget and disposal of windfall gains indicate that government is serious about bringing about the social changes it now advocates. The increase in spending on black education (up 26%) and de facto reduction in real Defence spending are encouraging indications.

Defence has been cut dramatically. Savings from the economies in this fiscal year will flow through more strongly in the years immediately ahead. The shorter national service, the need in consequence to retain higher and more professional levels of leadership skills in the Permanent Force and the costs of laying off close to 10 000 people in the defence industry have all added to immediate Defence costs.

If last year’s Defence spending of R9,9bn was grossed up for inflation at 15%, and the costs of pensions and taxes, which from this year the Defence department will have to pay added, it would have risen close to R12bn. In the event the new Defence budget has been trimmed to R10bn, a reduction in real terms of around R1,9bn.

Since 1976, Defence spending has been fairly constant. As a percentage of GDP it’s down from 4,2% last fiscal year to an expected 3,7% this year. That compares to 4,4% in Britain, 5,9% in the US, 7,3% in Zimbabwe and 13,7% in Israel. Since 1983, operating spending in the Defence Force has declined from 70% of the total to 56% this year.

It is a pity that there was not greater tax relief in view of the near 30% increase in company tax last year, after the summary removal of all sorts of allowances, and more for personal taxpayers after years of fiscal drag.

There were one or two lapses from the economic philosophy spelt out: the maintenance of exchange controls, the minimum company tax and the failure to remove the import surcharge completely all contradict what Du Plessis says he is trying to do.

But perhaps that was too much to hope for in one Budget. Sufficient has been done to raise the expectations of investors both here and abroad. For this Budget certainly does have the mark of an intellectual appreciation of what needs to be done and has a content that suggests government is serious in bringing about the economic reforms necessary in the foreseeable future.
happy state of affairs may be short-lived.

But at least in the corporate sector, Du Plessis' estimate of the revenue to be raised from tax changes could be underestimated.

Pim Goldby partner Peter Backwell points out that companies have considered the Lifo reserve a permanent timing difference and provided no deferred tax. To make the reserve temporary, future years will hit the bottom line and cash flow of many companies. He knows of a number that have Lifo reserves of more than R100m, suggesting that the minister has underestimated the tax to be collected (R50m estimated for 1990-1991).

Backwell also says that the most recently published financial statements of six listed construction companies reflect construction work-in-progress of R912m. At these levels, that amendment should collect additional tax of R91m a year for the next five years from these alone (on the assumption they do not incur assessed losses). Here too the estimate of tax to be collected in 1990-1991 appears to be an understatement.

The proposed tax on consumable stores reverses the policy implemented in Practice Note 6 issued in 1987 — which provided that consumable stores and maintenance spares were to be phased out over a three-year period, from September 16 1985. Here too Backwell thinks collections are substantially underestimated.

Not all corporate sectors will end up worse than they started.

Significant concessions have been made to mining, in evident recognition of both of recommendations by the Margo Commission and, in the case of gold mines, of recent adverse economic trends.

Anglo American group tax consultant Marius van Blerck is particularly pleased that the "capital allowance" — an additional item allowed on the unredeemed balance of capital expenditure for new gold mines — has been raised from 10% to 12%. In effect, the extra allowance provides partially for the much increased capital costs of new mines caused by the high inflation rate. The lower formula tax will also help.

On the other hand, he's disappointed that so-called "ring fencing" has been relaxed only to the extent of 25% of taxable income. He does not believe this will give any significant impetus to the development of new mines. A mine wishing to take advantage of the concession must still apply to both the minister of finance and the minister of mineral & energy affairs.

Of course, only a profitable mine can take advantage of the relaxation of ring fencing. Martin & Co director Lloyd Penglis suggests that only Driefontein, Hartes, Vaal Reefs, Freego, Kloof and Western Deep offer a significant tax base at the present gold price. And it's not clear whether the ring fencing concession is available if a mining company goes outside its original field of endeavour in a new project.

Mining houses at large have also complained increasingly that being treated as sharedeals has sterilised their portfolios. They have understandably been reluctant to sell shares held for decades, often with only nominal book values, and see almost half the proceeds go in tax. The 10-year "safe haven" will allow them to sell off existing holdings to private investors, making the market in ex-

### THE TWO-BREADWINNER FAMILY

#### Income Tax payable: 1990 and 1991

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#### Note:
- * These amounts have been calculated on the basis that the taxpayer is a married person with no children and after rebates.

### THE ONE-BREADWINNER FAMILY

#### Income Tax payable: 1990 and 1991

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NB: The above amounts have been calculated on the basis that the taxpayer's wife has no income, that he has no other dependents and after rebates.
It's not difficult to see which performance is more satisfying

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do the upper-income groups gain least, they will also be hit hardest by the increased perks tax. On the other hand, they will also benefit most from the exemption of dividend income from tax, and the R408m gain from this is 20 times the cost of the perks tax extension.

Moreover, the concept of equity also suggests that employment benefit packages worth a certain amount should bear the same tax, irrespective of how they're arranged.

Beneficiaries of interest income concessions and the greater separation of women's tax allowance will not be established, but here too the upper-income groups may well do best.

Mazansky points out that eliminating tax on dividends not only solves the perennial problem of effective double taxation of company profits but dividends from foreign companies will apparently also be exempt (which is not what Margo recommended).

Trevor McGlashan, associate director of Deloitte, Haskins & Sells, notes that relief to a wife who works for her husband presumably also means that the working wife's earnings allowance will disappear, as will another minor anomaly concerning taxation of a travel allowance.

Moreover, though a wife’s investment income is still taxed in her husband’s hands, Pim Goldby’s Peter Backwell says the only such income remaining is interest; tax on that too will disappear in 1991 when interest becomes subject to a final withholding tax at source as announced by Du Plessis.

But, as former Nactu general secretary Phirosh Camay comments, married women are still not equal, lacking independent access to medical aid and housing loans.

It must be said that there’s little specific in the Budget that will do anything about the inflation rate. Du Plessis refers to the need for continued deregulation and privatisation and emphasises that government’s task must be to make things easier for the private sector — which he conceals is the ultimate source of wealth — but this is all very much more of a long-term nature.

At least the use of some of last year’s extraordinary income (notably the Iscor privatisation) to set off the Reserve Bank forward cover losses is the most inflationary way of financing that item.

Analysis of expenditure is more difficult, partly because much depends on how individual votes are allocated departmentally, and partly because figures published in various parts of the Budget documentation appear inconsistent. But the general thrust is clear: within an overall increase below the inflation rate, the holding back of defence spending will allow sums to be switched to education, health and the police — all areas generally agreed to be underfinanced.

And as well as increases in the relevant departmental votes, Du Plessis has found a few one-off sums for these noble purposes, too.

The implication is that not only will spending on these vital areas rise, the emphasis will be on eliminating the “backlogs” — a pleasant euphemism for the consequences of apartheid, however much Du Plessis may be justified in saying that countries without apartheid also suffer such disparities.

This is essential if we are to move towards an equitable post-apartheid society. Only those who don’t want to see a peaceful resolution will object to the principle.

At the same time, Camay has a point when he counsels against euphoria: “One must compare this to the SA Housing Trust, which also generated a lot of excitement when it was announced, but hasn’t really relieved the housing backlog.”

**STATE REVENUE ACCOUNT**

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| Less: | 096 |  |
| Tax proposals in respect of: | 096 |  |
| Surcharge on imports | 835 |  |
| Ad valorem customs and excise duty on jewellery | 872 |  |
| Total for Customs and Excise | 7 971 | -10.2 |

| Inland Revenue at existing rates | 80 870 |  |

**SPENDING RISE** (Rbn)

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However, in these as in other matters this Budget must be seen as setting a new direction rather than a final answer.

The least controversial aspect is the fi-
THE Budget was extremely political and reflected the current schizophrenia of the government of the day, Azapo vice-president (Finance) Mr P C Jones said in Cape Town yesterday.

While acknowledging the major emphasis of the Budget on the creation of a State Fund to remove socio-economic backlog was a major departure from the traditional emphasis of strengthening the defence forces and other protective measures of white interests, he pointed out the government was "trying to satisfy too many fundamentally contradictory interest groups".

Sowetan 16/3/90

The lack of definition of the beneficiaries of the State Fund is clearly also directed at white fears that their impoverishment would be made worse by the government's current concerns for black problems," he said.

"The Budget is extremely political," he said.
Mixed reaction to one-off grant

By Marguerite Moodt

Wednesday's announcement that universities and technikons are to receive an amount of R50 million from the Government, brought mixed reaction from tertiary education institutions yesterday.

Finance Minister Mr Barend du Plessis said in his Budget speech that the one-off amount would be provided to enable these institutions to finance adjustments.

"It will help us fund the 12 percent salary increase for academic staff and teachers which was announced in December, as well as the announced 10 percent non-pensionable allowance for civil servants. As such it is very much appreciated," University of the Witwatersrand vice-chancellor and principal, Professor Robert Charlton told The Star.

The rector of the Pretoria Technikon, Dr Denis van Rensburg, said that although the additional grant was "sincerely appreciated", it would not make a significant difference to the "position of technikons as suppliers of essential manpower."
HILARY JOFFE reports from Cape Town on the implications of this week's budget

FINANCE Minister Barend du Plessis showed his priorities are in line with the "new South Africa" this week when he presented a budget in which defence spending was cut but social spending was increased.

But there wasn't much money going around, with total government spending set to fall in real terms. Thus there was not much spare to allocate on education, housing, health and welfare — spending the government said it would stress.

The budget displayed a significant shift of priorities, but within the context of "fiscal discipline". Social spending rose, but not by as much as inflation.

Spending on "security services" rose by under three percent — where last year it had risen by 19 percent. Defence spending fell slightly in money terms — by 0.2 percent to R102.2-billion — a real fall of 13 percent or more, saving at least R1.4-billion. The government expects further savings in future years.

Education spending rose by R1.3-billion to R13.3-billion, an increase of 11 percent. But last year's increase was 22 percent. Health spending rose only eight percent to R72.9-billion, housing expenditure appeared to rise by 51 percent to R1.4-billion, but this was the result of some budget reshuffling — the real figure was 15.8 percent. The total for "social services" was up 11 percent to R27.8-billion. And it appears the increases in spending to benefit black South Africans were generally much higher than those benefiting whites.

Du Plessis has budgeted for government expenditure of R72.9-billion in this 1990/91 fiscal year — an increase of just under 12 percent on last year's figure. That means a fall in real terms, taking inflation into account.

The government does not reveal the inflation rate on which it bases its budget calculations, but Finance Dep-

Government spending ... how the R73-billion budget pie is sliced

The budget includes R2.2-billion to raise civil service salaries — up from only R138-million last year. Some of this goes towards the 10 percent allowance which has been granted to all civil servants, but "improvements will also be made on a differentiated basis to address specific lacunae in respect of the police, nursing staff and certain personnel involved in law enforcement", according to the Budget Review. It adds that the government is investigating the wages of the lowest-paid state employees.

Du Plessis characterised his budget as one which on the revenue side sought to improve the performance of the economy (by tax concessions): and on the expenditure side sought to "equip people to use those economic opportunities". Pretorius described the budget as a "neutral" one — that is, it should have no impact in either stimulating or contracting the economy.

Despite the tax cuts, the budget does, however, look more like a restrictive one, giving the real cuts in spending. That could bode ill for economic growth, which could even fall below the one percent currently being forecast for this year.
‘Magic’ deficit conjures room for tax concession

The tax concessions in this week’s budget serve to give back to taxpayers the huge amount of additional income they brought the government last year.

Total revenue for 1989/90 was R6-billion higher than the original R55-billion anticipated in last year’s budget. This exceeded most economists’ estimates of an approximately R3-billion overrun on revenue. The R2.6-billion the government earned from import surcharges and the increase in tax money because of fiscal drag earned the government more than anyone (including the government) expected.

Meanwhile, government spending last year was just slightly above budget at R71.5-billion — an increase of around 15 percent over the previous year, no real increase taking inflation into account.

The result was the deficit before borrowing (the excess of spending over revenue) was only R3.8-billion (instead of almost R10-billion), representing only 1.5 percent of gross domestic product. In effect, the government was saving the country’s money, because its capital (investment) spending amounted to 2.2 percent of GDP.

It is only considered “dissaving” if it uses loans to finance current expenditure, for example on salaries and administration. The “magic figure” for the deficit is three percent of GDP — the government had been trying vainly for several years to get the figure down to that level.

Du Plessis described this week’s budget as “continuation of fiscal discipline, but making room for tax reform”.

The way he made room for tax reform was simple — he allowed the deficit before borrowing for 1990/91 to rise from last year’s very low level to 2.8 percent of GDP, well within the “magic” three percent limit. Rather than raising some taxes to compensate fully for losses on others, he merely used the space he had on the deficit to allow a net revenue loss from the tax concessions of R4.5-billion. The concessions mean total tax revenue will represent 23 percent of GDP, down from 24.9 percent last year.

Government revenue this year will total R64.9-billion — up only 5.8 percent on that collected last year, although up more than 18 percent on last year’s budget figure. Spending will be R72.9-billion, up 11.9 percent on the amount actually spent last year. The deficit before borrowing will therefore be just under R8-billion.
Having it all and eating

WHILE much of the capitalist world seems to be moving towards a kinder, gentler, ecology-conscious attitude to economics in the 1990s, the philosophy behind South Africa’s budget this year places us in a hard-line supply-side regime, typical of the West in the early 1980s.

The emphasis of the budget is on tax reduction, which, says Finance Minister Barend du Plessis, is of crucial importance in boosting savings, enterprise and investment.

It is to the revenue side that one must look to promote economic growth, say Du Plessis. In other words, the less revenue collected, the better. Economic development comes first and foremost by way of investment in the private sector. Deregulation and privatisation are cornerstones of this approach.

The idea of a supply side approach to economic growth came into vogue in the United States in the early 1980s. Both conservative and liberal (in the American sense) agreed that something was wrong with the growth dynamic of business. Especially in the manufacturing sector, growth was slow and piecemeal.

The liberal response was to embark on an industrial strategy that would aid the growth of sunrise sectors of the economy, and ease the decline of the sunset sectors. This involved government aid in research and development, investment, training, and related activities. It was an approach strongly backed by the unions, and by sections of manufacturing, but not by the financial sector or the Administration.

The position that won was a supply-side economics of conservative variety: cut taxes, ease the constraints on the growth of private companies and economic development will look after itself. It is true that defence expenditure went against these rules, but for the rest of the private sector tax cuts and deregulation were the bases of growth.

Many economists (especially supporters of “industrial policy”) would argue today that the Reagan/Thatcher style of supply-side economics led to little more than growth in the supply of financial services. Forms of speculation, from junk bonds to stock-option futures, boomed but manufacturing did not.

The Budget Review explicitly indicates that South Africa needs to adopt the kind of policy many industrialised countries moved to in the early 1980s. It argues that we have moved more slowly to the same position because the fluctuating gold price of the 1970s distorted the economy, and allowed us to delay this action. It draws parallels between the industrialised countries’ experience in the 1970s and our disastrous economic performance in the 1980s, when our Gross Domestic Product grew at an average annual rate 1.6 percent.

The Budget Review seems to forget that we tried a version of supply-side economics in 1984, with damaging socio-political consequences.

Yet there is recognition that what the minister calls “socio-economic backlogs” need to be addressed. It is the role of government spending to “contribute to the relief of hardship and to equip as many people as possible to grasp, on an equal basis, the opportunities the economy offers”.

However, it is repeatedly stressed that this expenditure will not come out of increased government revenues: “Fiscal discipline must not be sacrificed.” The money for social expenditures has to come from a redistribution of government funds kept more or less at current levels.

In other words, the bold philosophy of the budget is to have our cake (tax cuts), and to eat it (social expenditures).
A devastating critique of our exports failure

By ALAN HIRSCH

ONE of the most interesting features of the Budget Review issued by the Department of Finance is Annexure B, tucked in right at the back of the report. It is a brief analysis of the structural crisis of South Africa's economy, written by two of South Africa's most powerful economists, Minister of Economic Co-ordination Wim de Villiers assisted by Jan Lombard, a deputy-governor of the Reserve Bank.

They point, as economists often have, to the declining role of personal savings and the rising importance of private corporate savings, and note that the "increasing concentration of saving funds in a small number of institutions and corporate conglomerates ... must eventually result in a sub-optimal investment structure".

Maybe this is why the African National Congress's call in the Freedom Charter to nationalise the banks seems in some ways more appropriate today than in the 1950s.

The budget's answer is less radical: to try to increase personal savings through tax cuts. Perhaps this doesn't recognise sufficiently that the low level of personal savings is a result of the low level of personal disposable income.

Another major point De Villiers and Lombard make is that the process of capital deepening that has occurred in the economy, especially since the early 1970s, has not given rise to commensurate increases in productivity. The reason, they suggest, is over-investment in capital goods encouraged by an over-valued rand and protectionist policies encouraging uncompetitive industries.

Their answer seems to be that the rand should remain low, that protectionism should be dropped, and that wages should be lowered to rectify the balance of investment between capital and labour. What they seem to miss here is the possibility of government intervention to increase the productivity of labour through a co-ordinated industrial strategy.

Perhaps the most devastating section of the report is De Villiers and Lombard's analysis of the changing composition of South African exports. In short, they show that, contrary to one's expectations of a developing economy, raw and processed materials have been a rising component of exports, compared with manufactured goods.

Clearly, goods manufactured in South Africa are making no impression on international markets at all. The trend is strongly evident before the 1980s, so sanctions cannot really be blamed. (See graph.)

The reasons for the failure of the manufacturing exports are those already mentioned by the authors. One is a tariff structure designed to protect import-substitution industrialisation, leading to the importation of expensive capital goods and intermediate goods, and distorting the price structure of industry.

They also note that domestic suppliers of intermediate goods have been able to raise the prices of their products close to the level of imports, similarly making the final products manufactured here too expensive to export.

The implicit solution to the crisis in export marketing for De Villiers and Lombard is to do away with protection and support incentives. The approximately 25 percent cut in the trade promotion item in this year's budget indicates that the new export promotion programme, due to begin in April, will provide much less direct assistance to exporters.
A new deal for savers on the way

MINISTER of Finance Barend du Plessis disclosed in his Budget — not before time — that a new deal for savers was on the way. He said he was abolishing the tax on dividends, increasing the tax exemption on interest income from R1 000 to R2 000 and, most important of all, he virtually promised to introduce next year a low-rate withholding tax on interest payments.

These measures, together with the development recently of “real” interest rates and the move to curb inflation, should transform the savings situation.

Saving has been going out of fashion for many years, even by those with the money to do so. Since the 1970s SA’s saving rate has been awful. But it was worse last year when, overall, South Africans did not save a penny.

Reserve Bank figures show that in the first three quarters of last year there was a net dis-saving of R700 million.

The main reasons are:

* Persistent high inflation, which has reduced the ability to save and has made holding assets more profitable than holding cash.
* High tax rates, which limit the amount available for saving and limit the returns on saving.
* The failure of the Government to take any remedial action and, in some areas, to aggravate the situation.

These developments resulted in the flow of savings to building societies — the most important savings medium for South Africans since the turn of the century — virtually collapsing.

**Negative rates**

Government policy forced them to pay almost negative rates of interest. At the same time the saver was heavily taxed on his interest income. Savers became poorer instead of richer and moved their money elsewhere.

This has had a serious affect on house-buyers. The building societies had to get more funds from the money market and mortgage rates started moving in unison with money market rates.

Innocent house-buyers found themselves paying the same penal rates as banks.

One result was that the little money savers had began to flow to insurance companies. The latter could invest their money in the share market and in property and so offer the saver protection against inflation.

But savers had to leave their investments with the insurance companies for 10 years to get a tax-free return.

This locked up a large portion of savings for an extremely long time.

Moreover, as insurance companies regard these savings as trust funds, which could not be invested in speculative ventures, many new enterprises were starved of capital.

The situation will now change dramatically. The abolition of the tax on dividends means savers need no longer lock their money into insurance companies for 10 years to get a tax-free return.

The can get the same benefit by investing savings in shares or unit trusts for, just as long as they like.

The lifting of the tax should result in more attention being paid to dividends declared by listed companies. Until now investors have tended to seek capital gains as these do not normally bear tax.

**Higher dividends**

But with the lifting of the tax barrier, investors are likely to start demanding higher dividends.

This should make the share market, especially the mutual fund movement, much more attractive.

It should also lead to more money becoming available for investment in growing companies.

The second concession to savers — doubling of the amount of interest income exempt from tax from R1 000 to R2 000 — is less generous. It represents an investment of just over R10 000 at current interest rates.

Much higher rates of saving than this is needed before SA is able to finance its capital needs.

More encouraging is Mr du Plessis's statement that a low-rate withholding tax on interest payments by banks and building societies could be introduced next March.

Provided interest rates then are still above the inflation rate, and the withholding tax rate is in the region of, say, 10 percent, one can visualise a flood of money going to the banks and building societies.

Attracting this money would be the best return investors have had for decades. This reverse flow to banks and building societies would enable them to lend more money at lower interest rates than they do now.

So great would be the advantages that one wonders why the Government is waiting a year to do so.

Take a chance, Mr du Plessis, and introduce this concession straight away.
Budget news restores shareholders' morale

MYLES thought the budget was mildly positive for the market...to the extent that there was nothing in it that was definitely negative.

He didn't think scrapping of tax on dividend income would cause a stampede of individuals into the market.

But that, the phasing out of marketable securities tax and the clarification of the tax position on equities held for more than 10 years did seem to have provided a bit of a gee-up for the shareholders' camp where morale has recently suffered a knock from the nationalisation talk.

De Beers had another good run this week — it was the most actively traded share, but there was little price movement.

Little bit

Some players in the market are waiting for an easing in the price on the basis that anything that goes up that fast has to come down — even if it's only a little bit and for a little while.

Then, when it's down around the R100 level, they'll move in.

But in the longer term, the share is expected to pass the R100 mark.

Liberty got a lot of attention during the week.

The share reached a high of R300 yesterday following Wednesday's announcement that there was going to be a 10-for-one share split.

MYLES spent most of Wednesday and Thursday trying to work out whether or not there was scope for the price to move, given its high rating ahead of the news.

Meanwhile, the share moved from R220 to R250 to R270... and MYLES still couldn't come to a definite conclusion.

Bankorp moved up quite strongly during the week, reversing a trend that its shareholders had long become familiar with.

Obviously the market feels that Mr Liebenberg will be able to give the organisation some sort of direction.

But MYLES says that even at the end of the week most of the punters were expressing surprise at Mr L's move from Nedcor and wondered if the boys down at Pineland were as surprised.

The Fedvols share suffered a bit of a knock during the week following the announcement that the group's earnings would be significantly down on earlier management expectations.

Seems that Fedmech and Tek are the culprits.

The drop in the share price wasn't too steep, given the extent of the damage to earnings.

Tedelex, which is in a market that faces the same sorts of difficulties as Tek, dropped 30c during the week.

At the beginning of the year there was speculation about a deal involving Tedelex that could see it moving from the Malbank stable. No news on this front in recent weeks.

MYLES heard some talk of AVI buying out the minorities in Claude Neon.

This sort of move wouldn't surprise him as there doesn't seem to be much justification in having a separate listing for that company.

It does need an injection of capital. The current market price is around 230c, compared with a net asset value of about 330c a share.

MYLES wonders if the reports are accurate, whether AVI will demonstrate its usual generosity and offer a NAV price.

Seems that the Landlock cautionary could refer to a change of control or a rights issue.

The company is in great need of new funds to get its borrowings down to less horrific levels — gearing of around 100 percent is a fairly traumatic management experience, given current interest rates.

If it's a rights issue, one possibility is that the controlling shareholder (UK-based BBA) might renounce its rights in favour of a specified party who would then become the underwriter to the issue.

Depending on the size of the issue, this could result in the party getting a considerable stake in Landlock without an obligation to make an offer to minorities.

In time BBA may or may not decide to offload its stake in the original equity. MYLES seemed uncertain about the need to make an offer to minorities in such a situation.

Aronex hit another new low this week amid reports of serious problems at the company and news that Senbank has had its guys in "assessing the situation" for some weeks.

MYLES says that things must have gone badly wrong to justify a 5c share price.

Results to February 1989 showed EFS of 8.6c, a dividend of 3.2c and NAV of 31.5c a share.
Barend gets a grip on power

By PATRICK MAFAFO

COMPARED to the budgets presented by other finance ministers, the one presented by Barend du Plessis this week is revolutionary.

It is a follow-up to President De Klerk’s reform moves started in February and both black and white tax experts regard it as a perfect match of economic and political reform.

It is regarded as the only budget where an NP Finance Minister has been allowed a free hand, without interference of party politics, to shape the economic policy of this country.

Indeed, it seems that Barend du Plessis has given a free hand to demand control of wasteful government spending.

Despite commitment to this, Du Plessis is on record as admitting that at the start of his career he did not have the political clout to demand it.

Now he has, he is Transvaal leader of the National Party and his close second running to FW de Klerk in the NP leadership race has given him much more Cabinet influence.

The pragmatic appointment of Dr Wim de Villiers from the private sector to the Cabinet is said to have contributed significantly to his cost-cutting strategies.

THE climate of peace in Southern Africa was reflected strongly in the budget presented to the nation this week. Without the end of South Africa’s involvement in the Angolan war and the subsequent scaling down of the role of the military, the large socially-oriented allocations in the budget would not have been possible.

It is gratifying to have a “peace Budget” which enables the government to address the country’s serious problems of growing poverty and deprivation. However, it is extremely worrying that economic growth has virtually come to a standstill. No country can succeed with its social and other development programmes without a robust and expanding economy.

A strong economy provides jobs, ensures progress and contributes to a sense of well-being.

It is interesting to note the government’s commitment to the worldwide trend of moving towards a smaller role for the central authority in the economy through privatisation, tax cuts and deregulation. At the same time Finance Minister Barend du Plessis expressed his determination that this should take place against a background of tight monetary and fiscal discipline.

Unfortunately, the government has a bad record in this respect. In a recent interview with a magazine Du Plessis to a large extent blamed the impulsive nature of the previous State President for the lack of financial discipline in the past. Apparently things should go better under FW de Klerk.

Yet the real test still lies ahead. The current strong disciplinary measures are all very well, but when unemployment starts getting out of hand - as seems to be happening at the moment - things can go badly wrong. Hungry people are not interested in high economics. They want jobs and food for their families.

Meanwhile the inflation rate remains acceptably high. This remains public enemy number one. Unfortunately, there is no easy way out to bring it down. More sacrifices will be demanded from all of us.

Du Plessis made much of the need to encourage savings, because this provides capital for economic growth. It is generally known that the massive savings by Japanese have enabled Japan to finance such economic growth.

that poverty has virtually been wiped out in that way.

Some experts refer to South Africa as the potential Japan of Africa because of its relatively advanced economy, excellent infrastructure (such as roads, electricity supply, etc) and plentiful raw materials. But we have no hope of achieving anything worthwhile as long as the destructive forces of high inflation are at work.

I doubt, however, whether inflation could be brought down to more acceptable levels - below 10 percent - before the government will have to stimulate the economy to avoid unemployment to escalate to too high levels.

It is therefore encouraging that a major effort is being made in the budget to encourage employment through special concessions, mainly to the mining industry. After all, South Africa is a mining country and one of our success stories has been the creation of large-scale employment through the development of some of the world’s biggest mines.

This has also assisted many of our neighbours, for example Mozambique, Lesotho and Malawi, whose citizens have sent back billions of rand to
A giant leap in the dark for long-time slaves of socialism

The nature of such relationships may have been agreed generations ago, or relative strengths such as those between labour and capital may have changed gradually and be barely noticed as such.

When a nation starts to question the performance of its chosen system as the Eastern Bloc is now doing, it subjects its social relationships to a revolutionary reassessment.

But whereas the mind may decide clinically as to what needs changing, the heart is usually much more emotional about needed changes. There is ingrained fearfulness of surrendering hard-won gains; the dread of sacrificing, to a greater or lesser degree, both dignity and survival.

Socialistic values and practices did not come into being in a void. They grew out of a response to prevailing conditions of exploitation. Socialism was begotten as a defence mechanism by the weak against the strong. In certain countries, political changes allowed the socialistic value system to become the predominant one.

Its main emphasis was to protect the individual from exploitation and the precariousness of his existence. Its highest form, socialism affords the individual protection against change and instability, and the personal costs these imply.

However, these are Utopian aims in a world that is still being shaped, in which change and restructuring rather than peaceful stability are the norm.

Unfortunately, change requires adjustment. And human ambition makes things worse by insisting on as rapid a pace of change as can be sustained.

Change is therefore a permanent condition, intense — and costly in terms of business failure, unemployment, rapid career and location changes and the many stresses of modern life.

Capitalistic practices have been most effective in sustaining growth and the changes it requires.

Socialism has proved far less effective, and threatened to become an absolute failure without a change in approach. Socialistic practices have turned out to be a "slowcoach", a development trap for countries so inclined, and have resulted in their failure to keep up with the modern world.

A change in economic behaviour is not summarily achieved. Indeed, most Eastern Bloc participants remain unwilling reformers, searching for ways and means to retain old socialistic principles while only gradually giving way to capitalistic ones.

Except for a small fringe of committed believers, recent conversions to capitalism are seldom wholehearted or convincing. For most Eastern Electors reformers, the change towards free market practices is a distressful leap into the dark.

This is partly due to ignorance and the fear of a bright new world, and partly to protect as far as possible the old principles and prevent the return of old enemies, such as class exploitation.

Eastern Europe and Russia have embarked on a massive learning curve. Many different experiments are now being conducted simultaneously: how quickly and how far to relax prices, reduce subsidies, break up state monopolies and cartels, deregulate private enterprise, encourage foreign investment and create modern financial, labour and product markets.

Many of the notions currently on offer as reforms in these countries are half-baked non-solutions. The attempts to preserve socialism with a human face are aimed at not giving up too many of the old and cherished ideals.

However, freeing prices is one thing but if there is no concurrent freeing of markets by breaking up and privatizing state monopolies and cartels and allowing unfettered free enterprise, the end result will be higher inflation instead of higher production.

After all, the true engine of capitalism is spirited competition between as many participants as possible across the entire spectrum of economic activity, and this remains mostly absent in current Eastern Bloc systems.

In addition, suspicion remains deep regarding private property, foreign participation and control. Each of the Eastern Bloc countries seems to be dreaming up its own variants of reform, short of Western-style free market laissez-faire.

There is an irony in this that is worth pondering. By trying to retain many of the old socialistic practices, the Bloc's economic performance will continue to deteriorate. You can't have both.

For the common man and woman, the impasse translates into hardship and greater hardship. Ultimate success will depend on a willingness to learn from the success of others, and the capacity of the population to suffer hardship while these lessons are learned.

It is a heavy price to pay for mistakes made by generation long gone, but whose memory continues to induce fear and detrimental responses in today's generation.

But try telling that to someone who has to make the leap into the dark.
Businessmen to meet ANC

Finance Staff

A delegation of 25 businessmen meets the ANC in Harare this weekend in a prelude to wide-ranging talks between big business and the organisation over the next few months.

The delegation comprises the chief executives of 11 of South Africa's largest companies, a senior member of a major Government parastatal and 13 other businessmen and academics.

The meeting has been arranged by the Consultative Business Movement (CBM), headed by executive director Mr Christo Nel, and will give the business leaders an opportunity to discuss with the ANC its plans for the South African economy.

The agenda will focus largely on the organisation's plans to nationalise key assets in the economy — and also on economic restructuring and the role of business in achieving a greater distribution of wealth.

The ANC is sending a 16-man team, headed by SA Communist Party leader Mr Joe Slovo, and Mr Thabo Mbeki, who is in charge of the ANC's international affairs department.

The business delegation includes Mr Peter Wrighton, chief executive of Premier, Mr Murray Hofmeyr, CE of JCI, and Gencor general manager Mr Roodt. Senior Anglo American is represented by Mr Michael Spicer, personal assistant to outgoing chairman Mr Gavin Riley.

See Page 3.
Nationalisation misguided

Talk of nationalisation is “misguided and unproductive”, says Liberty Life chairman Donald Gordon in his chairman’s review published today.

He says it is vital in the forthcoming negotiations that “the economy be structured in a manner to achieve a high level of growth, which will in turn facilitate job creation and employment opportunities and ultimately a higher standard of living for all”.

At a news conference last week, Gordon said nationalisation could never work as those who would take over did not have the requisite skills to run highly complex business organisations.

SA entrepreneurs with high levels of expertise, much sought after in the world, would not be prepared to work in nationalised bodies. If a new government wanted access to more funds it would make more sense to impose higher taxes.

In his chairman’s review, Gordon welcomes President F W de Klerk’s bold initiatives and says “major and traumatic reappraisals of the very fabric of SA society” would result from the widespread fundamental changes which lay ahead.

SA was well-positioned to assume the role of economic leader and powerhouse of the sub-continent.

“Given the massive amount of funding which will be sought from the Western world for the rebuilding of Eastern Europe, the level of funds available to impoverished African countries is likely to be drastically curtailed. This represents a special opportunity and challenge for SA to restore credibility and good relationships with its neighbours.”

Commenting on the international economic scene, Gordon warns of the possibility of a serious recession in the US. An economic slowdown in Pacific Rim coun-

tries was already apparent. The UK and Western Europe, however, had sound financial and economic infrastructures and should “weather the stormy conditions which lie ahead”.

While the future of the British property market looks uncertain because of a development boom and resultant over-capacity, Gordon believes Capital & Counties, the cornerstone subsidiary of TransAtlantic, has considerable scope to outperform the overall property sector because of its investment in out-of-town shopping centres which will comprise just over 50% of C&G’s portfolio by the end of 1991.

Turning to the investment activities of Liberty Life, Gordon says the group increased its holdings of prime industrial, financial and mining counters in 1989. During 1989 it acquired 20% of unlisted Gold Fields SA Holdings, which owns 43,7% of Gold Fields.

Holdings in the R18,3bn investment portfolio include TransAtlantic (R176m), SA Breweries (R148m), Standard Bank Investment Corporation (R948m), Gold Fields and GFSA Holdings (R910m) and Anglo-American (R604m).
Wealth creation mixed with wealth distribution

SA CANNOT embark on a one-man, one-vote system as long as there are big differences in per capita income, Deputy Finance Minister Org Marais told the Nissan economic forum in Johannesburg on Friday.

The government had, therefore, attempted to combine the principles of wealth distribution with wealth creation in the Budget last week.

Marais also mentioned the possibility of introducing a minimum tax in the next budget and a withholding tax on interest.

A withholding tax is one imposed at the origin of income. If, for example, an investor is due R2 000 a year interest on investments, taxable at 10%, his bank will deduct this and he will receive R1 800.

Marais analysed the Budget from the principles of equity and equalisation, neutrality and efficiency and cost simplicity and visibility.

He said wealth distribution, which was the position articulated by Walter Sisulu in an article in Business Day on Friday, was the policy of spending money according to the needs of the people.

"But you also have the other side, which is the approach from the supply-side economists or public-choice theorists, where Reagan and Thatcher built their thinking."

"They believe you should only pay tax according to the benefit you get out of it and protect private ownership."

"Although the two approaches are to some extent conflicting, this Budget, we believe, integrates them."

Marais said this policy had been followed in the allocation of R2bn to a fund to uplift the Third World sector of the economy and in the changes made to personal income tax, where 800 000 taxpayers had been removed from the tax system and the hump in the marginal tax rate had been smoothed out.

Government was trying to make people with equal income pay the same tax.

"But if a man has a company car, a company flat, subsidised interest rates, he is not paying the same."

"We have the objective of bringing down personal income tax and we are also investigating the possibility of a minimum tax — we hope to have a report on minimum tax in the next Budget."

Marais said the Budget was intended to be neutral and efficient. The tax system had to be cut down so that rates were neutral in economic decision-making. The government did not want to encourage investment in low profit activities.

Simplicity

By putting more money in people's pockets the government would motivate greater productivity.

"There is sometimes a conflict between equity and simplicity in the tax system," Marais said. "You have to adjust the tax system with the poor and the aged in mind and it makes the structure extremely difficult to manage."

He said one must accept a tax system which was not always fair but was simple and easy to manage. A withholding tax might erase the provisional tax system for individual income-tax payers.

Marais said government was moving towards a self-assessment scheme, a way to simplify and cut costs and make the system invisible to some extent.
Govt aims to uplift Third World sector

Own Correspondent

JOHANNESBURG. — SA cannot embark on a one-man, one-vote system as long as there are big differences in per capita income, Deputy Minister of Finance Org Marais told businessmen at the Nissan economic forum in Johannesburg on Friday.

The government had therefore attempted to combine the principles of wealth distribution with wealth creation in the Budget announced last week.

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Marais said this policy had been followed in the allocation of R2.6bn into a fund to uplift the Third World sector of the economy and in the changes made to personal income tax, where 800,000 taxpayers had been removed from the tax system and the hump in the marginal tax rate had been smoothed out.

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Liblife’s Gordon warns on policy of nationalisation

By Sven Lünsche

The policy of nationalisation is misguided and unproductive given the failure of this approach in Africa and elsewhere, says Liberty Life’s Donald Gordon in his 1989 chairman’s statement.

“It is vital that the economy be structured in a manner to achieve a high level of growth which will in turn facilitate job creation and ultimately a higher standard of living for all,” Mr Gordon says.

“Given the massive amount of funding which will be sought from the Western World for the rebuilding of Eastern Europe, the level of funds available to African countries is likely to be drastically curtailed.”

“This represents a special challenge for South Africa to restore credibility and good relationships with its neighbours.”

Mr Gordon also announced the appointment of his son Richard to the board of Liberty Holdings as a non-executive director to represent the Gordon family interests.

* Liberty Investor’s earnings per share rose from 14,5c to 18,8c in the year to end-February. The total effective dividend was raised to 11,3c (10c).
6 holidays to cost more than R2,4-bn

By Helen Grange

Six public holidays in April and May this year — all of which fall on working days — will cost the economy in excess of R2,4-billion, according to the SA Chamber of Business.

With these holidays falling on days at the beginning and end of the working week, some extra days would also be lost so workers could take long weekends, the chamber said.

Extremely costly

The highly disruptive holidays concentrated over these two months — (Founders Day, April 6; Good Friday, April 13; Family Day, April 16; Workers Day, May 1; Ascension Day, May 24 and Republic Day, May 31) — would play havoc with productivity countrywide every year.

"We lose something of the order of R400 million for every working day lost," said Mr Vincent Brett, labour adviser at the SA Chamber of Business.

Mr Brett said the chamber would again look at the uneven spread of public holidays, but it was unlikely the Government would change them at this stage.

"Economies the world over make allowance for public holidays and most countries have an average of 10 public holidays a year. We are not unduly over-average," Mr Brett said.

Mr Colia Boyes, deputy director of the Cape Chamber of Industries, said the April and May holidays were "extremely costly to industry".

"And worse still is when the holiday falls on a working day. Twenty percent of the working week translates into a lot of money," he said.

Industry field that a number of core holidays should be identified and more evenly spread.

"At present, we are dealing with many demands from different community sectors and it is highly disruptive," Mr Boyes said.

The Government last year recognised May Day (May 1) as a public holiday for "practical and productivity reasons". This was to stop workers staying at home on both May Day and Workers Day (May 7).
Foreign view on Budget positive

By Neil Behrmann

LONDON - Swiss and West German banks have taken a positive view of South Africa's post-budget prospects and boosted the financial rand.

Foreign investors, however, are unsure about the fate of the 15 percent withholding tax, following the Government's decision to abandon tax on dividends.

Any dividend received from South Africa is subject to this tax, but overseas investors receive gross income from gilts and semi-gilts.

"In terms of South Africa's double taxation agreement, the withholding tax must go," says Georgia de Jager, MD of Rand International financial and rand traders.

He says the financial rand has risen to 25 US cents from 24c as a result of the tax changes.

Swiss investors have also been active buyers of gold shares since last week.

If indeed the withholding tax is scrapped, says Mr de Jager, South African shares and the financial rand could surge, particularly if the gold price begins to recover.

Albert Loveless, analyst at Smith New Court, is less convinced about any change in withholding tax.

He contends that double taxation agreements will not enforce the abandonment of the tax. In any event, such a change will not make much difference, he says.

Total tax paid

A UK investor, for instance, must pay 25 percent tax on dividends received anywhere in the world. And those who are in the higher-income bracket must pay tax of 40 percent.

The 15 percent withholding levy is deducted from total tax paid.

On balance, however, the scrapping of withholding tax should encourage investment in South Africa, says Mr de Jager.

Considerable funds are offshore in low-tax nations such as Switzerland. The rise in SA dividend income will make it attractive for foreign investors to buy SA shares, he says.

Present market rates are an incentive. The financial rand has fallen 21 percent from its peak reached at the time of Nelson Mandela's release and the discount to the commercial rand is a shopping 35 percent.

Tax incentives for the mining industry are also regarded favourably by foreign investors, says Mr Loveless.

In the end, however, shares will perform in line with the gold price, he says.

Following its correction from the peak of \$423, Mr Loveless is optimistic about gold's prospects.

He favours Buffelsfontein, which is on a yield of 13.5 percent. If gold rises towards \$500, as he expects, Leslie and West Rand Consolidated will be good buys.

Shearson Lehman Hutton analysts Ron O'Connell and Robert Davies visited South Africa recently and believe that there will be a selective strike action at mines where NUM membership is strong.

"This might well focus the attention of management on rationalisation of less profitable operations," they say.

The analysts conclude, however, that there is substantial goodwill among the populace as a whole.

"The leaders of the ANC are more moderate than generally understood."

The assessment of analysts representing large international firms indicates that after the recent panic, foreign investment funds will shift back to the SA market.

The Financial Times gold share index at 283 points is 25 percent below its 1990 high, so shares are beginning to offer better value.
Economists fear cut may be over-stimulant.
Two ANC men defend nationalisation policy

By Esmare van der Merwe

The aim of nationalisation was to improve the economy and raise the standard of living of the exploited people, African National Congress stalwart Mr Walter Sisulu said in Lenasia yesterday.

Mr Sisulu said it would be unproductive and impractical to put every little business or industry under State control. However, major monopolies, financial institutions and mines would be nationalised to obtain capital to cater for the most basic needs of impoverished working people.

Both Mr Sisulu and Mr Ahmed Kathrada devoted time to the issue of nationalisation, one of the recently unbanned organisation's most controversial policies.

Mr Sisulu said nationalisation was not as irrational as was made out by spokesmen of powerful capitalist enterprises. Nationalisation would allow for a planned redistribution of wealth to develop education, housing, health and social services, he said.

Mr Kathrada said the National Party government had successfully solved the problem of white impoverishment by nationalising key sectors of the economy.

"I ask our oppressors why they are opposed to us doing exactly the same for our people? If you don't agree with our policy of nationalisation, please tell us how can we uplift our people," Mr Kathrada said.
Private sector must not denigrate nationalisation

Although nationalisation is not the answer, the inferior quality of life of blacks is a fact and it is in the interests of all the inhabitants of South Africa that this problem be addressed," Mr Marinus Daling, CE of Sankorp, said at a conference last week.

Mr Daling said it was necessary to examine with understanding and sympathy the problems that the ANC wishes to address by means of nationalisation. An improvement in the quality of life of the black people of South Africa "Nationalisation is the worst route to achieving this aim and is without doubt doomed to failure."

If the wealth of the country were simply to be divided to compensate the backward sections of the community it is to be expected that this prosperity would quickly be used up and disappear.

However, the private sector cannot just denigrate nationalisation, but would have to consider how best it could contribute to relieving this problem in cooperation with government.

"Increasing the growth potential of the African economy is the prerequisite for the meaningful and permanent improvement of the quality of life," Mr Daling said.

To achieve this, it would be necessary to continue the government's policy of the past few years, namely, privatisation, deregulation and extension of free enterprise, which implies that the concept of free trading and free settlement areas will have to be further expanded.

It would also be necessary to obtain access to international capital again, to curb government spending and to contain the problem of inflation.

According to Mr Daling, there are several areas in which the private sector could make a contribution, the most important one being skills training.

"Black education must be normalised to equip the future generation with those skills that are needed for successful entry to the economic field."

"This demands greater involvement of and discipline by community leaders, and thereafter a more generous allocation in the medium term of the country's financial means. Moreover, all education in South Africa would have to become more vocationally orientated," Mr Daling said.

"The private sector in South Africa spends a mere 2 percent of its salary account on training, against approximately 6 to 8 percent in the case of Japan, West Germany and the USA."

"Strictly speaking, we should be spending more than those countries do because of the backward position of our education system compared with those of these countries."

"The successful business of the next century will be the one which views training and the nurturing of the skills as a long-term investment, rather than regarding it as an expense to be trimmed on", Mr Daling said. — Sapa
GOVERNMENT holds R2bn CASH IN RESERVE

The special Reserve Bank balance, known as the stabilisation account, was created to keep money taken out of the economy as part of monetary policy.

The fiscal year ended with R1.8bn in the stabilisation account — over and above the R7bn in the Exchequer balance.

A further R700m was transferred to the stabilisation account from the R7bn left in the Exchequer account. The rest of the latter will be used for the social services fund, the forward exchange losses, the Development Bank of SA and the pension fund deficits.

Finance director-general Gerhard Kroesen confirmed government now had about R20bn in the stabilisation account and that the money had not been appropriated in the Budget.

GOVERNMENT has about R2bn in cash tucked away in a special account with the Reserve Bank for which no spending provision was made in the Budget.

It can transfer these funds back to its normal account for spending if it wants to.

The account bears no relation to the special R1 bn fund created for "economic backlogs" which was announced by President F W de Klerk on Friday.
Economy of future: Minister spells out the key guidelines

The key question facing South Africa was which type of the economic system would have to be adopted, the Minister of Manpower, Mr E. Louw, said at the weekend.

Speaking at the 50th anniversary of the SA Motor Industry Workers' Union in Johannesburg, Louw said the expectations of all South Africans could be met only if the country had a prosperous and growing economy.

He said healthy labour relations, good management and high labour efficiency had to be the cornerstones of a workable system for the creation of wealth.

Louw said South Africa was entering a period of reform which demanded wisdom, flexibility and a judicious approach from everyone.

South Africa had a serious shortage of people with the ability necessary to build a progressive economy in which everyone could take part.

Effective training was necessary to solve this problem. - Sapa
Nat plan for all-party
Johannesburg budget

The National Party caucus in the Johannesburg City Council last night decided to invite the other political parties and independents to take part in drawing up the city's annual budget.

This move is aimed at preventing any disruption of the June budget. The NP has only 22 seats in the 51-seat council and 26 votes are needed to pass what is the largest budget for any city in the country.

Management committee chairman Mr Jan Burger said it was time to depoliticise the budget.

"We have reached a stalemate in council. We are still the strongest party as far as members are concerned, but with the assistance of the independents the Democratic Party could be one vote ahead of us."

The NP plans to hold meetings with a delegation from each party and city treasury officials.

The DP chief whip in the council, Mr Paul Asherson, said it seemed as if the NP had been forced to extend the invitation. "It does look like the death throes of the management committee."
Budget Bill is passed despite stiff opposition

The "own affairs" budget of the House of Assembly was one of a crumbling and capitulating National Party and was an exercise in misleading the people, Mr C H Pienaar (CP Hellbron) said yesterday.

He said the budget had been reduced to an arithmetic example of Chinese bookkeeping in which own affairs money was being used for other races.

Another reason why the CP would oppose the budget was because the help it afforded farmers was pathetic.

"If there is a section of the white community being disgracefully treated, it is the farmers."

Conservative Party deputy leader Dr Ferdie Hartzenberg, said that the National Party was underestimating the power of nationalism and was going against the tide of history.

He said even after centuries of oppression, the nationalism of the Lithuanians could not be dampened or extin-
guished.

"It was nationalism that established the Conservative Party and which will make us the majority party. We and our land will not become part of Azania. We will do what we have to in order to restore peace," he said.

The Democratic Party finance spokesman Mr Harry Schwarz said the party would oppose the budget because the concept of a tri-cameral system only catered for three of the four population groups and was inefficient and wasteful when the country was in dire need of funds.

He said the increase of R25 a month for social pensioners was inadequate due to the high rate of inflation.

Mr J W Maree (NP Kliprivier) said the own affairs system was still the only method by which each group's interests could be looked after.

The Bill was passed after a division.

-- Sapa.
Challenge is to meet demands

Business urged to enter SA debate

By Esmaré van der Merwe, Political Reporter

Africa’s economic track record would make significant foreign investment in a non-racial South Africa unlikely unless a sound economy prevailed, South Africa Foundation president Mr Warren Clewlow said today.

Opening the Foundation’s annual general meeting at the Sandton Sun this morning, Mr Clewlow highlighted the complicated economic challenges facing the country in the light of political reform.

He urged business leaders, who had the unique skills and experience to maintain and develop wealth creation mechanisms, to become involved in the economic debate.

Grapple

"Changes and compromise will undoubtedly be required. We will have to grapple with unfamiliar ideas and uninformed and even naïve conceptions about how the economy works and what resources are available.

"Equally, we as businessmen will have to come to terms with the inequalities in our society and the extent to which these cry out to be addressed."

The challenge was to improve productivity, successfully address the socio-economic aspirations of blacks and maintain South Africa’s position in the global economy.

The real needs and aspirations of the black population had to be balanced with the equally important requirement of a growing economy which was needed to produce the resources needed to address those aspirations.

There would be intense pressure for affirmative action and the rapid advancement of blacks into senior and influential positions in both the private and public sectors.

Housing, health care, education and the “mismatch of skills with the economy” would become the prime focus, while wealth and ownership redistribution would be fundamental policies for black leaders.

Said Mr Clewlow: “I can understand these demands and I accept that a successful new South Africa will not come about if they are not planned for and substantially achieved.

“What I cannot accept is a degeneration into economic chaos. Any constituency trying to bring about this about will have to contend with the not inconsiderable strength and resources of the business community ranged against them.”
WASHINGTON — Secretary of State James Baker plans to tell Nelson Mandela that the ANC's nationalisation policies are unacceptable to the US administration, a senior State Department official said.

Rejecting Mandela's call for intensified economic pressure on Pretoria, Baker will also say that while sanctions have played a "positive role" hitherto, "we think now is not the time to think or more sanctions, but to think in terms of negotiations".

However, he does not wish to talk about sanctions at all in his meetings with President F W de Klerk.

Briefing reporters before Baker left for Windhoek on Saturday, the official outlined in unusual detail the "talking points" the Secretary will take with him.

High on the list of points to be made to Mandela is that "we do not agree with his economic model for a future SA".

Baker does not propose to dwell on the ANC's stance on violence, because "we believe that the ANC is prepared to renounce violence as part of the pre-negotiation process which is going to take place starting April 11".

Baker will arrive in Cape Town on Thursday for talks with De Klerk, Foreign Minister Pik Botha and unspecified "black opposition leaders".
Technology 'key' to creating wealth

WHITE fears were not of a black-dominated government or sharing of the country's wealth — the fear was the rapid lowering of standards, said Society for Professional Engineers president Ron Heydenrych.

In his first presidential address to the society last week, Heydenrych said this would not happen if technology was given its rightful recognition by the decision-makers and was seen as a priority in SA's education and development strategies.

"The future of SA will depend on its ability to create wealth."

"There are many components of wealth creation ... However, a key component is the application of technology."

It was unfortunate that in political terms money spent on maintenance carried few rewards compared with education and hospitals.

"But, if we fail to maintain and extend our infrastructure we will seriously undermine the potential economic growth of the country."

While SA had many fine engineers, there was a critical shortage and it was getting worse, Heydenrych said.

"Even assuming that only half of our population is economically active, we only produce 56 engineering graduates per million of population compared with Japan's 500 and US's 370. In these terms we are hardly in a position to challenge the world."

As a profession "we work in a way which strips away political pressures and because of this unique relationship to society we can make an important contribution to development strategies in SA", Heydenrych said.
Hurd: SA must share wealth

JOHANNESBURG. — British Foreign Secretary Mr. Douglas Hurd urged businessmen yesterday to accept that South Africa's wealth should be fairly distributed among all races, but said nationalisation was not the way to do it.

"The aim must be to preserve and promote economic growth," Mr. Hurd said in an address to businessmen at the end of a 26-hour visit to South Africa.

"The requirement in South Africa is both for political reform and to find the means in a post-apartheid society of creating and distributing wealth."

Mr. Hurd made an unannounced stopover here on his way from Cape Town, where he met President F.W. de Klerk on Monday, to Namibia, where he was scheduled to join independence celebrations at midnight.

In Johannesburg he visited a Soweto township Netro centre for the rehabilitation of criminals and the offices of the top-selling black newspaper Sowetan, before meeting top industrialists at a meeting of the South Africa Foundation.

Mr. Hurd, speaking on Britain's views on peace in South Africa, said: "We do not believe that it will be possible to achieve a settlement except on the basis of one person, one vote.

"It must (also) be obvious that the days of residential segregation through racially based legislation are numbered."

Mr. Hurd said South Africa would not be able to generate enough money on its own to redress the imbalances caused by apartheid and urged foreign donors not to postpone their involvement in reconstruction.

"We must not wait for the end of apartheid before we start alleviating the misery it has caused."

Addressing the SA Foundation's 30th anniversary annual general meeting, Mr. Kurt von Schirnding, the foundation's director-general, said the South Africa of yesterday was dead and gone and South Africans were at the beginning of the process of creating a new country that it was hoped would reflect the aspirations of all the people.

He said this process would ultimately result in South Africa's international reacceptance, which would enable its people to play a creative role on the continent.

Mr. David Willers, outgoing London director of the foundation, told the meeting that a Labour government in Britain might be better for the new South Africa as it would have a greater vested interest in promoting Third World causes.

He said a Labour government could be expected to fight for a retention of aid to Southern Africa at greater than existing levels.

It was an extraordinary paradox that at this precise juncture of South Africa's history, when President F.W. de Klerk finally took the steps the world had been urging on Pretoria for years, that the UK Prime Minister, Mrs. Margaret Thatcher, should have lost influence with such crucial players as Germany, America, France and Japan.

Mr. Willers, who is soon to take over as the new editor of the Natal Witness, questioned whether Mrs. Thatcher was as important to South Africa as she once was, saying change in South Africa was now irreversible. — Sapa-Reuter
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Du Plessis sends Manpower Dept budget soaring by 50%

THE Manpower Department last week saw its budgeted expenditure grow by 50% — an increase greater than that granted to any other government department in Finance Minister Barend du Plessis’s March 14 budget.

However, director-general Joel Fourie said most of the extra R112m allocated this year was for functions previously carried out by other departments.

State subsidies to employers for in-service training has been cut substantially.

Fourie said the department was to receive R31m to be used for cash grants to stimulate in-service training. This amount was in lieu of a budgeted R110m in tax concessions granted to employers for this purpose, and effectively represented a saving in government expenditure of R78m.

Fourie said in spite of recognition of the economy’s need for better-trained manpower, government and the private sector agreed such training was largely the responsibility of the private sector.

The smaller amount available would be used in a more focused manner — targeted, mostly on technical training.

Decided

The department would also administer an amount of R68m earmarked for job creation programmes.

These programmes had previously been carried out by various departments — including Foreign Affairs and Local Government. It had now been decided by an inter-departmental committee they should be co-ordinated by the Manpower Department.

A further R16.4m included in the department’s budget for the first time was for contributions to state pension funds on behalf of employees of the department, Fourie said.

This payment was previously made by the Department of Health and Population Development for all government employees.

From this year, each government department will pay these contributions on behalf of its employees.

This new bookkeeping system explains why a R20m amount allocated to the Health Department has now “disappeared”, but it has also made much more complex comparisons between the 1980/1 Budget and that of the previous year.

One area where the Manpower Department does intend to increase expenditure is in the Industrial Court, Fourie said. It has budgeted an additional R80 000 for the employment of part-time court members to partially relieve the existing over-worked bench.
Nafcoc to talk nationalisation

THE National African Federated Chamber of Commerce is to host an economic conference of business and community leaders to discuss options for a new order in South Africa.

The conference, to be held at the Wild Coast Holiday Inn in Transkei on May 1 to 3, will investigate the nationalisation of business in South Africa as proposed by the African National Congress.

This follows a recent meeting in Lusaka between Nafcoc and executive members of the ANC.

Nafcoc public affairs manager Mr Gabriel Mokgoko said Nafcoc's stance was that "while nationalisation will not necessarily solve all problems, it can serve as a vehicle to provide an answer to some of them.''

A delegation of Nafcoc this week met with the Australian Ambassador and the Australian United Nations representative.
The concept of economic development is often associated with the idea of growth and prosperity. However, the extent of its application varies widely depending on the country's socio-economic conditions. In some cases, economic development can lead to significant improvements in living standards. In others, it may result in environmental degradation and social inequality. The ultimate goal of economic development is to improve the quality of life for all citizens, ensuring that the benefits of economic growth are shared equitably.

The importance of economic development cannot be overstated. It is essential for achieving sustainable economic growth, improving living standards, and addressing social and environmental challenges. To achieve this, governments must create policies that support innovation, education, and infrastructure development. Additionally, international cooperation is crucial in addressing global challenges such as climate change and poverty.

In conclusion, the goal of economic development is to enhance the economic well-being of all citizens, promoting social equity and sustainable growth. Achieving this goal requires a comprehensive approach that balances short-term and long-term objectives, ensuring that economic development is inclusive and beneficial for all members of society.
Hurd rejects policy of nationalisation

Economic growth key to SA’s prosperity

You will be familiar with the assistance Britain has given through the Urban Foundation’s scheme for low-cost housing. We are looking at ways of expanding our effort in that area too.

I saw the squatter settlements in KTC and Crossroads. They are the squalid face of apartheid. We must not wait for the end of apartheid before we start alleviating the misery it has caused.

Solving tomorrow’s problems means starting solving them today. It is not good enough, indeed totally dishonest, for those far away from this region’s difficulties to create the impression that ‘ending apartheid’ will be a magic wand bringing rapid prosperity and freedom.

Education
Attention must be given to building up black education and black community infrastructure so that tomorrow’s post-apartheid South Africa can have the best chance to become a decent, prosperous modern society.

South Africa’s prosperity is crucial for the whole of this region.

Today, there are 500 million people living in Africa south of the Sahara. In 20 years time there will be another 500 million. Hardly any economies in Africa are growing at a rate sufficient to keep pace with that increase in population, let alone outstrip it.

Yet, unless economic growth is able to outstrip the population increase, the prospect throughout Africa is one of increasing impoverishment.

Free Press
Last year’s World Bank report suggests that sustainable growth is not attainable without good government, a respect for the rule of law and human rights, a free Press and democratic institutions.

The requirement in South Africa is both for political reform and for finding means in a post-apartheid society of creating and distributing wealth.

It is not surprising that, like other liberation movements, the ANC pays homage to the idea of nationalisation.

Nationalisation is seen by them as the way to redress the gross economic inequalities which characterise apartheid just as surely as political domination.

Fallacies
The problem is that so much interventionism to post-independence Africa has been misconceived resulting, as the World Bank report says, in a range of ills from lack-making public enterprises to poor investment choices and inefficient resource allocation.

In pointing out the obvious fallacies in the doctrine of nationalisation as a means of redistributing wealth, it will be very important that the business community in this country should not appear to be adopting ‘an essentially defensive or negative position (“what we have, we hold”) versus black aspirations.

For the fact is that the question of the distribution of wealth in South Africa will have to be addressed if an equitable system is to be developed here.

Land Acts
We welcome the Government’s decision to set up a large independently administered fund to be used in consultation with black leaders to help redress the distribution of resources.

The aim must be to preserve and promote economic growth - otherwise there will be only increasing poverty to redistribute.

I have mentioned the case of the Land Acts, which we hope will be repealed. That itself will not suffice to make more land available to black South Africans; that is likely to require the sort of effort to help black farmers which has been hard to successfully through the Land Bank to help African farmers get established.

In the industrial sector, you are better able than I am to devise ways in which black South Africans can be given a much greater voice and a greater vested interest in the working of a free economy.

For otherwise it will be hard to preserve the free economy on which the future prosperity of all South Africans is going to depend. Politically, it is easier to make these adjustments if the economy is growing. South Africa can never generate sufficient capital to provide new jobs for the millions of blacks coming on to the labour market. So foreign investment is essential.

Investment
Contrary to the belief which seems to exist in some circles, the world is not queuing up to invest in South Africa.

Competition is fierce. The opening of Eastern Europe to the West means that it will be even fiercer in future.

South Africa’s economic growth means that the bleak story of the last 25 years in so much of the sub-Saharan Africa will not be repeated here.

South Africa will have to create a climate which is attractive to the investor.

You will have noted that I have succeeded in getting this far in my speech without any mention of sanctions and that, I can assure you, is deliberate.

For in my views that whole issue is yesterday’s debate.

Reform
I know how much some of the members of this audience have contributed to the process of reform which is now underway here.

I believe that you can make an equally major contribution so do get involved economically, politically and socially.

It is not possible to debate the economy with leaders in prison. Now that they are no longer in prison, that debate must be engaged.

It can and will go hand in hand with the debate about the future constitution and on the outcome of those two great debates, the future of this country, and in large measure also of the neighbouring countries, will depend.

Crumbling
"New thinking" is sweeping the world. Dictatorships are crumbling everywhere. It is no coincidence that Marxism and apartheid are coming to a dead end in tandem - both are unrealistic creeds now shot to bits by the incessant popular demand for the freedom of choice that modern economic and political life demands.

I can assure you that, so far as the people in my country are concerned, there is no hostility towards South Africa. There is absolute hostility towards apartheid.

We want to see things work out here in a way which will confound all the doomsday predictions.

Your Government has already taken irrevocable steps towards radical reform because it has faced up to the world's economic reality. The possibility of negotiations had been opened up. Those involved on all sides will have to make the hard decisions.

Encourage
We shall encourage them, press them, to do so. Our encouragement will take practical form. At the end of the process the results will be judged by the people of South Africa.

If they are acceptable to the majority, the international community will rejoice with them. But the real prize will lie not in world approbation but in the judgment which people will make thereafter on whether South Africa has become the sort of country they want to visit, to do business with and - most of all - to invest in.

South Africa will be no exception to the rule that political liberty and economic performance go hand in hand.
Blacks must get jobs before vote, says Org Marais

Pretoria Correspondent
South Africa could not enter a system of one man, one vote, with the majority of its population impoverished, the Deputy Minister of Finance, Dr Org Marais, said in Pretoria last night.

Addressing economists on the new Budget, Dr Marais said:
"Yes, we are taking from the rich to give to the poor, the blacks."

Dr Marais said the Budget was aimed at generating wealth and using it to uplift the black population. "All blacks must be able to own their own homes in four to five year's time, their children must have decent schooling."

"That is the only way to fight the African National Congress and socialism."

Dr Marais said the new Budget was progressive, but simple:
"We are looking at a Third World budget. We cannot enter the new South Africa with a rigid budget along the old lines."

"In four to five year's time personal tax could be as little as four percent."
Poverty

They tell me that the country is not being governed from the top, but from the bottom, like a country that has been governed by a government that has forgotten how to govern.

By the way, I'm going to buy a new car.

Jobs

Jobs are scarce in this country. People are struggling to find work, and those who do find it are often underemployed. The government has promised to create jobs, but so far, the promise remains unkept.

Wage increases in this country are so low that it's hard to make ends meet. People are living in poverty, and the government has done nothing to address this issue.

Let's talk about government.

Government is supposed to be for the people. But in this country, it seems to be against the people. People are tired of living in poverty, and the government has done nothing to address this issue.

We need a government that works for the people, not one that works against them.
FOR THE RECORD

There were two errors in last week's coverage of the Budget:
- It was reported that revenue is expected to increase 13.2% to R69.47bn. This estimate does not take into account various tax concessions which should reduce revenue to R64.93bn, making the increase 5.8%; and
- Allocation to Privatisation was R2.6bn, after actual expenditure in fiscal 1989-1990 of R2.3bn. The amounts were incorrectly reported as billions.
Meaningful analysis of 1990-1991 Budget allocations and a comparison with this fiscal year are still not possible. “There are two reasons,” says DP Finance spokesman Harry Schwarz. “One is that globular figures relating to the coming year don’t reflect reallocations brought about by the Budget, so are not comparable.” One example is a 73% fall from 1989-1990, to R720m, in the vote for National Health & Population Development.

Amounts which previously fell under this department have been reallocated, including “civil pensions and contributions to funds,” which have declined to R127.6m in 1990-1991 — nearly R2bn down on 1989-1990 actual expenditure.

“Employers’ contributions to pension funds” appear for the first time in individual votes, totalling nearly R1.9bn. (Also, R1bn was appropriated to government pension funds from the surplus after borrowing.)

“The second reason the figures are not comparable is that the detailed breakdown in the Estimate of Expenditure to be defrayed from State Revenue Account — RP2 — includes outdated information relating to 1989-1990,” says Schwarz. “Many figures in RP2 are from the original Budget and not revised to show actual expenditure. There appears to be no purpose in incurring the cost of printing this outdated document as, in any event, the State will bear the cost of printing an up-to-date version, now in progress.”

Updated statistics appear in the Budget Review but this does not provide a detailed breakdown and totals are of limited value.

A detailed analysis by the Department of Finance will be provided to the Joint Committee on Finance by month-end. It will be published “when the committee report becomes available,” says Schwarz.

Despite this reallocation, R407.3m is voted for the Commission for Administration, a 43% increase. Says Schwarz: “This is due to an 80% increase in contributions to the Public Service Medical Aid Association and 20% increase in computer services.”

Constitutional Development has been allocated R14.5m, up nearly 37% on last year’s actual. And National Education has been allocated R205m, an increase of 38%.


Last year, R2.3m was spent on privatisation, but it came under the R283.5m spent by the Commission for Administration. This year, R2.6m has been budgeted for the new Department of Privatisation, an increase of 10.5% on last year’s actual expenditure.
Budget tricks disguise the plunder

IN recent years South Africans have become accustomed to viewing Budget speeches with some scepticism, like children attending a magician's show. They know instinctively that the illusion they are seeing just is not real, though they cannot spot how it is done.

Throughout the past two decades South Africa's Ministers of Finance have become skilled at using all kinds of 'mirror tricks' to disguise their true intentions.

In the past decade, in particular, this was evident as the Government embarked on a massive plunder of individual coffers, often using a variety of mirror tricks to disguise the reality.

I remember on several occasions Ministers of Finance gleefully telling Parliament that taxes were not being increased.

The most obvious mirror trick used in this charade — or maybe it was not that obvious — was fiscal drag, also known as bracket creep.

This is dramatically illustrated in the sharp rise in revenue collections from individuals in the 1980s. In 1980-81 inland revenue from individuals amounted to R2.69 billion, only 17.5% of the total.

In the 1989-90 fiscal year individuals' contribution to total ordinary revenue was R18.9 billion or 36 percent — up more than 500 percent.

In the same time contribution from non-mining companies to total ordinary revenue rose from R2.4 billion in 1980-81 (20.4%) to only R11 billion or 20.9% of total revenue.

In most other Western countries such a shocking state of affairs would have been met with an almost instantaneous dismissal at the polls. That this did not happen can be partly explained by taxpayers' apathy.

Individual taxpayers have no formal forum to air their grievances, unlike organised commerce and industry who have built up huge structures to lobby government on a continuous basis.

While the so-called R4 billion handout from the Government in last week's Budget is widely hailed, one should be aware of not being duped once again by a clever magician's use of mirror tricks.

To a large extent the taxman is only giving back to individuals the amount he overtaxed them in 1989-90.

It should now be apparent that the Government suffered from an embarrassment of riches in the past financial tax year.

Income tax collections from individuals rose by no less than 36 percent — from R18.8 billion to an estimated (they are still busy collecting their mail) R18 billion. The same applies to the import surcharge from which revenue collections rose by more than 50% in the past year.

According to my calculations this amounted to about R2.5 billion now being given back to taxpayers in the form of relief from fiscal drag.

That this tax "relief" is illusory is further explained by looking at other indicators. Direct taxes on individuals as a percentage of their current income rose from 6.2 percent in 1980 to 11.1 percent last year. On estimates of revenue for the current financial year, tax collections from individuals, budgeted to rise by 24 percent to R23.5 billion, will still constitute more than 11 percent of total revenue.

Also, the total tax bill on the economy, expressed as a percentage of the gross domestic product, will remain largely unchanged at around 37 percent.

However, mirror tricks and sleight of hand aside, an important start has been made by the Government in addressing the serious structural flaws in the economy.

The tax relief on dividend earnings is long overdue, and will make tax planning for people living off their dividends far easier.

It will also cause a great loss in business for highly paid tax planners. At least a start has been made in the direction of a simplified tax system (semi-understandable, at least, to most people).

The decision to declare dividends tax-free, together with the implied definition of what constitutes a capital gain, the cut-off point being 10 years, will upset the endowment-policy gravy train.

Private individuals can now make 10-year investments, either using their own judgment or making use of stockbrokers and/or investment advisors, knowing full well that the capital gains over 10 years as well as the dividend flow during that time will be tax-free.

Why invest in an endowment policy, paying large commissions, if it can now be done free of charge?

With dividends on equity investments now being tax-free, shares with high yields suddenly look attractive. Look for a significant appreciation in the prices of property trusts in the near future. But also expect the definition of capital gains tax to be broadened soon.

Overall, the Budget was fair, with the macroeconomic effect likely to be neutral to slightly stimulatory. This can just prepare us all for a soft landing in economic growth. Cheers!
Nationalisation could be worse than sanctions for SA
Education will get less cash this year than last

By DESMOND BLOW

BLACK education is going to be worse off this year than last. The 16 percent increase in the cash allocation for schools in the DET areas and the homelands of last year's increase was 18 percent - allows for no growth after inflation.

As between 70 percent and 80 percent of the budget is spent on salaries, teachers are the hardest hit. And there is no allowance for the employment of more teachers for the overcrowded classes.

The budget does not include the 10 percent increase in salaries for civil servants due to be introduced next month - but teachers' organisations have already indicated these are insufficient.

With an average 6 percent rise in the number of students every year, this means that after inflation there is less money for each student than last year.

The government has announced an extra R159 million for extra classrooms and equipment for this year, but this will not help put more, better-paid teachers in them.

The R1 080 million earmarked for social services from the privatisation of State-run companies will allow for about R800 million for black education - but this is to be spent on buying land and building about 5 000 extra classrooms - and will not be spent on the running of the schools themselves.

Minister of Education and Training Stoffel van der Merwe held talks with the National Education Union of South Africa (Neduva) and members of the NECC in Johannesburg on Friday to hear teachers' complaints. Delegates included those representing strikers in Soweto and Alexandra.

A scheduled Press conference by Van der Merwe was called off because the talks went on longer than expected, promising to hold another meeting with delegates, followed by a full statement on Wednesday.

Meanwhile, the teachers' strike continues and threatens to spread to the East Rand and Natal as delegates who spoke to the Minister felt nothing constructive had been suggested by Van der Merwe.

See Page 2
Opposites in a complicated mating game

The lovebird on the left suggests that without nationalisation of the means of production and any monopoly situations, the poor and the oppressed will stay that way. The symbolism of the couple suggests new possibilities. The lovebirds are made to represent the rich who are intended to share more equally with the less fortunate brothers. But platitudes do not provide much balm.

The last line reads: "That last line reads: "The government's message is a red rag to the opposition bull. The latter's talk of nationalisation and implied work creation is just as provocative as the words on the right side. The compromise really means opportunism and implies a lack of principle. That is a false definition of politicians and their trade. However, with such a wide chasm between the poor and the rich, how are these respective constituencies to be sold the idea of compromise? This is not at all obvious."

The government has acknowledged the principle of social justice, meaning fairness for all, not just the chosen few. In order to make it work, though, the economy's efficiency and strength must be maintained and indeed enhanced. To this end, the government now subscribes to the practices followed by successful economies.

The up-and-coming opposition also insists on justice, but has its very own way of going about achieving it. In fact, it is not an indigenous approach at all. Socialism as the chosen way to modernisation is very much a borrowed agenda, and morbain in large parts of the world. In contrast, the free enterprise approach of the existing governments makes it more fashionable there, putting it on the side of the angels, while the opposition gets marked with the forces of evil.

The government's point of view, a kind of technical high ground from which it should presumably have an easy time extracting compromise from its opposition and the government's intentions of sustaining its creation.

A popular guessing game is to speculate about the love birds, finally facing each other and the give-and-take in the actual mating (never mind who will finally get on top). Here we encounter that wonderful word "compromise", giving way on some cherished goal in return for the same by the other side.
IN AN assault on inflation, Reserve Bank Governor Chris Stals has tightened the credit squeeze with tough monetary growth guidelines of 11%-15% for 1990.

Stals said in a statement at the weekend: "The lowering of the target range by three percentage points signals the determination of the monetary authorities to make a contribution to the combating of inflation by reducing the rate of increase in the money supply."

The new range for growth in the broadly defined money supply, M-3, is lower than the 12%-16% expected by the markets and well below last year's 14%-18% target. The actual growth last year was 23.5%.

M-3 consists of cash in circulation and all deposits with banks, building societies and the Post Office.

Stals's statement is a clear signal to the banks to rein in credit extension—or else. He repeated the Reserve Bank's request that banks limit the monthly growth in credit to an average of about 1%, and added: "Not many banks complied with this request last year and discussions will be held with representatives of the banks shortly to explore ways of making this request more effective."

Asked whether the new targets for growth were not too ambitious, given the past two years' failure to come even within striking distance, Stals said: "The new range for growth in M-3 should not be seen as a target or a forecast. It is a guideline, an indication of what we regard as appropriate. As long as growth in the money supply far exceeds the desired range, we cannot contemplate easing monetary policy."

He acknowledged this view signified a change in style to accord even greater flexibility to the targeting exercise. In spite of the Reserve Bank's repeated claims in the past that targeting was a "low profile" policy instrument, the targets were centre stage in the De Kock era.

Stals's statement indicates that the maintenance of relatively high positive real rates of interest as part of a longer term economic strategy is now at centre stage of monetary policy.

He repeated his faith in the maintenance of positive real interest rates—and indicated success in combating inflation was likely to be a precursor to lower nominal interest rates. Nominal interest rates "may well move in accordance with changes in the rate of inflation".

To ensure downward pressure on the inflation rate, a further reduction of the guidelines for M-3 growth may be called for in 1991, the statement said.

The lower guidelines were believed to be reconcilable with projected growth in real GDP in 1990 of up to 1%, a surplus on the current account of the balance of payments of at least R5bn and a gradual rise in the official gold and other foreign reserves.

It is evidence of the low profile accorded to monetary targeting that Stals chose to release the new guidelines on a day when giltis dealers' train of thought was far away—on Rand Merchant Bank's Giltis Express to the Magaliesberg.
Scraping Land Acts 'will not achieve much'

THE process of land reform in SA had to extend further than simply scrapping the Land Acts, Development Bank of SA CEO Simon Brand said at the weekend.

Opening the Transvaal regional congress of the SA Chamber of Business, Brand said eliminating or changing laws which were preventing blacks owning property in most of the country would not achieve much.

Attention would also have to be given to 'such institutional matters as the role of the Land Bank in supporting land purchases by new entrants, and the support of such a land reform programme through more equal access to agricultural support services and facilities, such as research and extension services, rural roads and markets for inputs and products.'

Brand used these proposals to back his appeal for a considered, unemotional debate on the future of the economy. There was clear evidence of the failure of classical socialism and the nationalisation debate was sterile, Brand said.

Business and other establishment groups had to recognise there were real misgivings in the black community about the degree of concentration of ownership and control in the economy.

Discussions about future economic policy would be usefully directed to ways in which the resources already at the command of the public sector could be used for correcting backlogs and disparities in the provision of services and facilities.

In this process it would become clear that privatising activities which could be handled more effectively by the private sector would release resources which could be directed specifically at the reduction of disparities and backlogs, Brand said.
Economics centre to study SA's prospects

LONDON - A Commonwealth-funded centre is to undertake a three-week fact-finding mission next month on SA's economy and prospects.

Centre for the Study of the SA Economy and International Finance director Jonathan Leape, conducting the study, believes this will provide essential information to potential investors in, and lenders to, a post-apartheid SA.

Leape, a lecturer at the London School of Economics, said last week he had applied for a visa to visit SA, and hoped to start his trip on April 1.

The research, he said, would seek to document all aspects of the economy, including sanctions. It would look at economic prospects for a post-apartheid SA.

"The emphasis is very much on providing information and an analysis of the situation and not on drawing policy conclusions," Leape said.

He hoped to meet members of the parliamentary political parties, as well as non-parliamentary groups, including the MDM, the UDP and the ANC. He also planned to meet Finance and Reserve Bank officials, banking representatives, commerce and industry leaders, trade unionists and university officials.

The centre will bring out two types of report: an update of the SA situation published quarterly and reports on specific issues.

Leape will work full time on the project from July until the end of December next year. The Australian government has given £140 000 to fund the centre, at the London School of Economics.
Public sector contribution to GDP staying ‘stubbornly high’.

The public sector’s contribution to GDP was 28.8% in 1989 — down from its peak of 30.4% in 1986 but still significantly higher than 10 years ago.

An analysis of figures in the Economic Review shows that the public sector’s share of GDP remains stubbornly high because of the downturn in the contribution of “general government” — mainly salaries and wages. Other public sector categories are on the decline.

General government — central, regional, TBVC and self-governing states — contributed 13.6% to GDP last year, up from 12.6% in 1986.

Ten years ago, general government’s contribution was 10% and the public sector’s total stake about 25%.

“Small contributions of public corporations, Sats, and government business enterprises (including Post and Telecommunications),” the review says.

Better private sector profits during the latest upswing added 71.2% to GDP from a low of 69.6% in 1986.
JOHANNESBURG. — The African National Congress's policy of nationalisation, at a time when socialism was crumbling in Eastern Europe, was "a fatal mistake", the Minister of Foreign Affairs, Mr Fik Botha, said here today.

Opening an international conference on "Eastern Europe: Implications for Southern Africa" at a Johannesburg hotel, Mr Botha said a centrally planned economy had failed dismally in Eastern Europe and elsewhere in Africa, and there was no reason to believe that things would be different in this country.

"To think that nationalisation will redress the historical economic imbalances is a fatal mistake which Eastern Europe, with the help of a superpower, has now come to realise," he said.

Mr Botha said recent events in Eastern Europe would have, and had already begun to have, a marked effect on events in southern Africa, and he hoped the trend would not now be reversed.

"As we have said so often in the past, the season for violence is over, and so is the season for politics and apartheid."

Significantly, however, the season of one-party states, centralised government systems, nationalisation and political posturing is over. There rests a heavy responsibility on us to forget the past, but also to share the future," Mr Botha said.

The Foreign Minister said a new political dispensation would have to lead to a government by the consent of the governed, and nobody would be excluded from the decision-making process.

"Domination in any form won't be allowed, but all must be free."

Responding to a question, Mr Botha said the government was determined to bring skilled Eastern European immigrants to South Africa. This move, he said, would not disadvantage black South Africans in the job market.

"It is not correct to say that by allowing immigration of people from Eastern Europe we will take jobs and other opportunities from blacks and other population groups in the country. This country has a dire shortage of skilled personnel."
Long-term growth in SA promising

Financial Editor

THE longer term outlook for real growth at an acceptable level is "more promising than it has been for years," Len Abrahamse, chairman of Northern Engineering Industries (NEI) Africa, says in the annual report.

"There is no doubt that we can manage ourselves out of this situation, given an acceptable programme of reform in terms of substance and time. "We need no longer be forced to grow at such low a level in real terms." Abrahamse says there are signs of a new pragmatism in Southern Africa. "The situation is fluid but encouraging, and events in Eastern Europe are not irrelevant to this process of rethinking."

Warning, however, that the path ahead will not be smooth Abrahamse says: "Those on the extreme right and left will continue to attempt to undermine the prospects for a renewed SA. We, the majority of all South Africans, must not allow them to succeed. "In the interim the economy continues to be relatively strong given the constraints of an outflow of capital, the effect of sanctions, the high rate of inflation, the low level of reserves and the poor level of productivity."

Discussing prospects for NEI, Abrahamse says the company has broadened its access to offshore technology and has increased its export activity.

"I am pleased to report that we move into the new year with a forward order book in excess of R400m."

The directors say that in spite of the limited growth of the SA economy last year, NEI companies "secured a record order intake for 1989, exceeding budget, and more than 33% above that of the previous year."

"The order intake in all operating companies reflected real growth, well above inflation rate."

However, they say, the intense competition in certain sectors of the economy has led NEI's operating companies to start cost reduction programmes.
Inequality probe vital
Sowetan Correspondent

THE SA Institute of Race Relations has warned that a polarised debate, contrasting socialism and capitalism, could detract attention from black material inequality.

The latest edition of the Institute's publication, Social and Economic Update, pointed out that any post-apartheid government will face enormous demands to match political with economic liberation.

The report said the debate on black material inequality should be comprehensive.

"The jobless, the rural poor, and the illiterate must be brought in as well. If they are not, we will see a new form of apartheid opening up between whites and urbanised, housed, unionised, educated blacks on the one hand, and the illiterate, malnourished, unemployed urban and rural poor on the other," it said.
Report lists many worries

CAPE TOWN — Concern about the leakages of foreign exchange, the viability of the Mossgas project and the finances of the independent homelands was expressed yesterday by the parliamentary joint committee on Finance.

It also recommended that the Budget allocations for the four independent homelands — Transkei, Bophuthatswana, Venda and Ciskei — be removed from the Department of Foreign Affairs and transferred to the Department of Finance.

Its report said it was of the opinion that "staff reductions in the navy should be handled with compassion".

It was also "concerned" about:
- □ The nature of films which are being subsidised and their benefit to the community;
- □ The need to take care in respect of the privatisation process, regarding had to the state of pension funds, the impact on the consumer and taxpayers and competitive circumstances; and
- □ The state of unrest in various parts of SA and the shortage of manpower and equipment in the police.

The committee called for a review of the method of providing for export incentives by promissory notes in the Budget and said surcharges should be removed on goods imported for production purposes.

It also called for more funds to combat AIDS.

Referring to "the socio-economic spending" and the new structuring of the Budget, it said: "There is a perception that the Budget has greater credibility, that more discipline will be exercised and that cut-backs exist in real terms."

However, this had to be considered in the light of the surplus of the previous year and off-Budget financing.

"In these circumstances, great care needs to be taken in regard to the implementation of the Budget."

"The evidence indicates that greater reliance must unfortunately be placed on monetary policy, that high interest rates are likely to continue for a longer period than previously anticipated, and that the inflation rate may not decline as soon as was hoped for by the authorities."
CAFE TOWN — DP finance spokesman Harry Schwarz yesterday ditched years of parliamentary tradition by taking the unique step of pledging his party's support for the Budget — the first time that an opposition party has done so.

While it appeared at first that Schwarz had taken this step without consulting his party's caucus, he was immediately backed by DP parliamentary leader Zach de Beer.

De Beer said: "We have done something that breaks the traditional mould because we think this Budget is a signpost to a future which, at the very least, comes close to what we have always fought for."

Schwarz's move was welcomed by Finance Minister Barend du Plessis as an important example of how today's politics should be conducted.

The DP finance spokesman said that while the Budget was far from perfect, it had without doubt taken a new direction, particularly in regard to economic priorities of expenditure.

It was a unique Budget in that Du Plessis had frankly admitted errors in respect of political and economic policy, changed priorities to address socio-economic imbalances and in some way begun addressing structural problems in SA.

"It draws a line and a choice must be made not only in this Parliament, but outside, as to whether apartheid is to die not only politically but, as important, economically," Schwarz said.

"This Budget does not kill economic apartheid but it starts its funeral procession. We therefore have to make a choice in this Parliament.

"It is necessary to demonstrate to South Africa and perhaps to the world outside, that on this issue — the destruction of economic apartheid — the DP stands alone."

"So while we will point out shortcomings, criticise constructively and offer suggestions and solutions, we will adopt what is a unique course in this Parliament and, as an opposition party, we will not oppose this Budget," Schwarz said.

He said this unique step was intended to be symbolic and designed to encourage Du Plessis and his colleagues to follow a road of socio-economic reform which removed discrimination in the rendering of state services.

"We hope that we will not be disappointed in the times ahead, but if we are we will not regret today's step, but will ensure that our objectives, our criticisms and our policies will then be advanced to the best of our ability," Schwarz said.

Responding to Schwarz's speech, Du Plessis told Business Day that: "Mr Schwarz was today faced by the reality that this Budget embodied important features which he, along with other observers, had promoted for years."

"He did this in accordance with his own insights and also on behalf of his party, as its chief spokesman on finance."

"His choice today was between integrity and political expediency. His choice was for integrity. It is an important example on how today's politics should be conducted. I welcome it."
DP pledges support for the budget

Own Correspondent

DEMOCRATIC PARTY finance spokesman Mr Harry Schwarz yesterday ditched years of parliamentary tradition by taking the unique step of pledging his party's support for the budget — the first time ever that an opposition party has done so.

While it appeared at first that Mr Schwarz had taken this step without consulting his party's caucus, he was immediately backed by DP parliamentary leader Mr Zach de Beer, who said: "We have done something that breaks the traditional mould because we think this budget is a signpost to a future which at very least comes close to what we have always fought for."

Mr Schwarz's move was welcomed by Finance Minister Mr Barend du Plessis as an important example of how today's politics should be conducted.

Mr Schwarz said that while the budget was far from perfect, it had without doubt taken a new direction, particularly in regard to economic priorities of expenditure.

It was a unique budget in that Mr Du Plessis had frankly admitted errors both in respect of political and economic policy, changed priorities to address socio-economic imbalances and in some way commenced to address structural problems in the country.

He said that the DP's stance on the matter was intended to be symbolic and designed to encourage Mr Du Plessis and his colleagues to follow a road of socio-economic reform which removed discrimination in the rendering of state services, gave equality of opportunity, and gave, in Mr Du Plessis' own words, high priority to the issues of poverty, housing, education, training, basic health and job creation.

Responding to Mr Schwarz's speech, Mr Du Plessis said: "Mr Schwarz was today faced by the reality that this budget embodied important features which he, along with other observers, had promoted for years. He did this in accordance with his own insights and also on behalf of his party as its chief spokesman on finance.

"I welcome it."
To nationalise would be fatal error, says Pik

By Kaizer Nyatsumba

The ANC's policy of nationalisation, at a time when socialism was crumbling in Eastern Europe, was a fatal mistake, Minister of Foreign Affairs Mr Pik Botha said in Johannesburg yesterday.

Opening an international conference on "Eastern Europe: Implications for Southern Africa" at a Johannesburg hotel, Mr Botha said centrally planned economies had failed dismally in Eastern Europe and elsewhere in Africa, and there was no reason to believe things would be different in this country.

"To think that nationalisation will redress the historical economic imbalances is a fatal mistake which Eastern Europe, with the help of a superpower, has now come to realise."

Mr Botha said recent events in Eastern Europe would have, and had already begun to have, a marked effect on events in southern Africa, and he hoped the trend would now be reversed. Markets in these countries had opened up, and there were opportunities aplenty for South African businessmen.

There was a great demand for Western-style goods and services in Eastern Europe, as could be seen from the phenomenal success of the American fast food chain MacDonalds in the Soviet Union.

BARRIERS BROKEN DOWN

Local businessmen could not go to Eastern Europe assuming these countries were familiar with the language and practices of a free-enterprise system, and they would have to be prepared to share information with their counterparts in those countries.

"South Africa is very well-placed to trade with Eastern Europe ... because we have both a First World and a Third World component," said Mr Botha.

Changes in the Soviet Union and Eastern Europe had broken down ideological barriers that had largely determined these countries' trading partners. This meant countries that could not trade with SA because of ideological differences would now be able to do so.

"Events in Eastern Europe will have, and have already had, a direct effect on South Africa, southern Africa and Africa as a whole. I hope the necessity of not having to reintroduce ideological barriers will dawn on South Africa and southern Africa. As we have said so often, the season for violence is over, and so is the season for politics and apartheid.

"Significantly, however, the season of one-party states, centralised government systems, nationalisation and political posturing is over. There rests a heavy responsibility on us to forget the past, but also to share the future," Mr Botha said.

Responding to a question, Mr Botha said the Government was determined to bring skilled Eastern European immigrants to SA. This move would not disadvantage black South Africans in the job market.
‘Racist’ services to be scrutinised

Political Staff

The absence of “targets” for the removal of the remaining discrimination in social services was among various concerns expressed yesterday by Parliament’s Joint Committee on Finance.

The committee’s report, tabled yesterday after more than a week of hearing evidence on the Budget, says, however, that the Minister for Administration and Economic Coordination, Mr Wim de Villiers, was giving attention to the removal of discrimination in social services.

MPs will soon be pouring over Dr de Villiers’s investigation into the health services and there is speculation he may make recommendations on the opening of State hospitals to all races.

Among other things the committee is concerned about are:

- That the policy of deregulation “is often in conflict” with many regulatory laws and as a result people who have been encouraged to participate in the informal sector have found themselves facing prosecution.
- The impact of the Budget on insurance companies since the extension of the exemptions from tax on dividends do not apply to them.
- That cognisance should be taken in the privatisation process of the impact on consumers and taxpayers and competitiveness of the economy.
- The unrest in the country and the shortage of manpower and equipment in the SA Police.
- The viability of the Mossgas project.

Among several recommendations are that more money should be spent combating Aids and that surcharges on goods imported for production purposes should be scrapped.

Schwarz takes bold step

DP backs Budget to spur on reform

By Peter Fabricius,
Political Correspondent

The Democratic Party has decided to vote for Finance Minister Mr Barend du Plessis’s main Budget, in an unprecedented move to encourage the Government’s steps to “bury economic apartheid”.

DP finance spokesman Mr Harry Schwarz, Yeoville — after strongly opposing National Party budgets for many years — surprised Parliament yesterday by announcing what he called “a unique course in this Parliament by an opposition party”.

“Not only will we not oppose this Budget, we will vote for it,” he said.

Mr Schwarz’s announcement seemed to take even his own party by surprise and one MP said it would be hotly debated in caucus.

The move appears to have partly pre-empted the result of the current debate in the party about whether it should move towards the National Party or the ANC in the negotiation process. Pro-ANC MPs in the DP are likely to be upset.

DP parliamentary leader Dr Zach de Beer immediately backed Mr Schwarz and said his co-leaders Dr Denis Worrall and Mr Wynand Malan were also behind him.

He said he knew of no dissent.

“We are not acting in the old tradition of Government and opposition. We are acting against the background of the momentous history that is unfolding in this country.”

Parliamentary historians said it was the first time they could remember an opposition party supporting the main Budget.

It is understood that Mr du Plessis was delighted.

Dr de Beer said the step did not imply the DP was about to go into a political coalition with the NP.

Mr Schwarz said the Budget “does not kill economic apartheid but it starts the funeral procession”.

Backing the Budget was “a unique step and it is intended to be symbolic and designed to encourage the Minister and his colleagues to follow a road of socio-economic reform which removes discrimination in the rendering of State services.”

The Government’s economic reform moves gave high priority to poverty, housing, education, training, basic health and job creation.

Mr Schwarz said it was important that economic reform should be initiated and benefits felt before a change took place in the power structure.
Economic debate must focus on material deprivation of blacks

SAIRR

...
SA ‘must learn lessons of East bloc’

CAPE TOWN — The pursuit of an economic ideology which had failed elsewhere would spell disaster for SA, Harry Oppenheimer warned at the biennial meeting of the SA Institute of International Affairs (SAIIA) yesterday evening.

Speaking at his last council meeting after 10 years as chairman of the SAIIA, Oppenheimer said SA would do well to learn from the experiences of Eastern Europe and Africa and formulate economic policies which stimulated growth, attracted capital and best served the needs of its growing population.

Voiceing the opinion of many SA businessmen, he said a regional environment of co-operation and peace, rather than ideological division and conflict, would best serve these ends. In the longer run, it would enable southern Africa to recapture capital investment and compete more effectively in “the harsh conditions of a changing world”.

Oppenheimer emphasised the economic co-operation and competition which had emerged as one of the most important global trends this century. But he warned weaker countries would lose ground in an increasingly competitive, albeit interdependent, world where powerful trading blocs competed with one another.

Oppenheimer also focused on the growing interdependence between southern African countries. He said the stage for SA’s improved international relations had been set by the recent independence of Namibia and the withdrawal from Angola, both of which signalled an end to the government’s reliance on military means to pursue its interests in the region.

This had been enhanced by the prospect of negotiations within SA and the outlook for closer regional co-operation was favourable now.

The challenge would now be to strengthen the newly invigorated policy of seeking multilateral diplomatic and economic co-operation. This policy offered the best hope of achieving a wide acceptance of the need to involve the SA economy in the development of the whole region.

Oppenheimer is to be succeeded as SAIIA national chairman by Standard Bank chairman Conrad Strauss.
Negotiations on economic policy vital, says Cosatu

COSATU was preparing detailed proposals on economic policy, which would clarify its views on appropriate economic planning, one of the federation's top economists, Alec Erwin, said yesterday.

Addressing the SA-German Chamber of Commerce and Industry, Erwin said future economic policy for SA would have to be negotiated.

He said it was inevitable that, as was the case in every set of wage negotiations, none of the parties to such talks would be fully satisfied with the end result. The alternative, though, was a major confrontation.

Erwin said Cosatu supported a "coherent planning approach". Planning should cover "a wide range of activities which only zealots believe can be handled by the free market".

Business, he said, should be prepared to look at the achievements of social democratic economic systems. The unions had examined these and the socialist economies to see whether they provided answers for SA.

ALAN FINE

He conceded unions would have to be blind not to recognise what had happened in Eastern Europe.

For Cosatu, a priority was a restructuring of the financial markets, to encourage investment in jobs rather than in speculative financial instruments.

On nationalisation, Erwin said Cosatu firmly believed certain social programmes required nationalised industries. For example, Cosatu would never support the privatisation of the national electricity grid. A privately owned electricity industry would mean the product would never be installed in poor areas where it would not be profitable.

He accepted nationalised industries had to operate within certain budgetary constraints — they could not be subsidised at any cost.

However, said Erwin, Iscor in the pre-privatisation period had showed clearly it was possible for a state-owned industry to operate efficiently.
Cosatu backs planning

Own Correspondent

JOHANNESBURG. — Cosatu supported a "coherent planning approach" for the South African economy, one of the federation's top economists, Mr. Alec Erwin, said yesterday.

"Planning should cover a wide range of activities which only states believe can be handled by the free market."

Mr. Erwin told the SAGGerman Chamber of Commerce and Industry that for Cosatu a priority was to encourage investment in jobs rather than in speculative financial instruments.
Nationalisation will be fatal, says Buthelezi

There is an urgent need to redistribute wealth in South Africa but talk of large scale nationalisation was "fatal", Dr Mangosuthu Buthelezi said on Monday.

"I will side with anybody at the negotiating table who will fight with me for an economic system based on the principles of responsible free enterprise," he said during his policy speech at the KwaZulu Legislative Assembly.

"We are going to face very difficult economic circumstances in this country.

Wrong

"There is going to be an urgent political need, as well as an urgent humanitarian need, to redistribute wealth in South Africa as effectively as we can. I do not talk the language of nationalisation because I think it is fatal talk," he said.

Buthelezi said he questioned calls made by ANC deputy president Mr Nelson Mandela for the continuation of the armed struggle, the need for nationalisation, and the continuation of sanctions and international pressure against South Africa.

Although he respected Mandela and did not intend attacking him, his message to him was, "My friend, you are very wrong on these issues.

Revolution

"You are wrong for yourself, you are wrong for the ANC and you are wrong for South Africa," he said.

"If we talk nationalisation too hard, the wealth we are arguing about will finally be consumed in a racist conflagration as white..."
Rather than ideology

is one of poverty

The problem we face

Economic inequality is the root of our problems, not politics. The solution is not more government intervention, but rather a focus on individual responsibility and entrepreneurship. By empowering people to take control of their own lives, we can create a more equitable society where everyone has the opportunity to succeed. This approach requires us to rethink the role of government and to create policies that support individual initiative and self-reliance. Only then can we truly address the的根本 problems we face today.
Loan levy alternative to nationalisation.
SA unions set for big battle with privatisation

The labour movement's anti-privatisation push moves into top gear this week. DREW FORREST looks at the rationale for the campaign, which has vital implications for South Africa's economic future.

The Government's privatisation thrust, long a bugbear of the trade union movement, is emerging as a major flashpoint on the labour front.

As part of a continuing anti-privatisation campaign, adopted at last year's Cosatu congress, Cosatu unions in the rail, postal, health and municipal sectors are planning countrywide marches and rallies during working hours this week.

A centrepiece of the protests is today's march on the Johannesburg Stock Exchange to warn "prospective purchasers" that a future government may re-nationalise privatised concerns without compensation.

Further action, including overtime bans and stayaways, are also on the cards.

Some union anxieties appear unfounded. For example, Transnet (formerly SA Transport Services) is to be registered as a company with the State as sole shareholder on April 1 and not listed on the stock exchange, as some unionists believe.

As for the post office, draft legislation is being prepared providing for the formation of two companies: one for postal services and banking and the other for telecommunications, owned by the State.

In the cases of Transnet and the post office, the stress is on "commercialisation", the creation of profit-making business units.

But the State has singled out these concerns, along with Eskom and the phosphate mining concern Foskor, as long-term targets for privatisation. In Transnet, the airways and road transport could go first.

Business leaders often assume black workers are "capitalists at heart" and agitation on the privatisation issue will subside as they come to see the virtues of private ownership.

In fact, the union objections, part of a wider rejection of the capitalist ethic, seem profoundly rooted and are unlikely to go away.

At their heart is an instinctive revulsion against the surrender of socially owned and controlled wealth, and a belief that privatisation cannot address, and may worsen, poverty and joblessness.

Unionists also claim to see a trade-off between private monoplies and new investment, particularly in sectors with a developed infrastructure and a tightly controlled workforce, and a government strapped for cash and looking to shield minority interests under a future democracy.

Job cuts

An immediate concern is that the sell-off of state enterprises, and the process leading to it, inevitably entails job cuts. Unionists point to the steady shrinkage of Transnet's workforce and the loss of 16 000 jobs at Eskom since 1985:

"We used to have a state transport service which gave work to 286,000 people," said National Union of Mineworkers' economist Mr Martin Nicoll. "It now employs 170,000. Privatisation goes hand in hand with building lean, mean companies based on the immediate pursuit of profit."

Linked with this is a concern that the loss of subsidies and the profit motive will bring increased service charges weighing most heavily on the poor. In last year's Cosatu congress resolution, privatisation was seen as a threat to affordable transport, postal services and health care.

But there are broader concerns. Arguing that the National Party historically used the state sector to uplift poor whites, unionists see it as a future instrument of social policy.

"Privatisation removes resources from a future people's government," said SA Railway and Harbour Workers' Union leader Mr Martin Sebakwane. "It aims to undermine a new government's capacity to implement programmes of benefit to the mass of South Africans."

Mr Sebakwane said the railways had historically served "apartheid interests" by focusing on the white industrial heartland, while neglecting rural areas.

"KaNgwane, for example, has no railway. With people's transport, one might want to service workers there."

The point was driven home this week in an address by key union economic strategist Mr Alec Erwin, who argued that the electrification of black areas, a key aspect of development, would be hamstrung by a sell-off of Eskom.

"No private corporation will supply electricity unless it can make a profit. This is just not satisfactory. We must have one grid to areas that can pay will subsidise others," he said.
Economic growth and how it will affect you

MARK ADDISON

The growth of population at large and the production of goods and services are key factors in the growth of the economy. Economic growth reflects the increase in the production of goods and services, which in turn leads to an increase in income and wealth. Higher productivity leads to higher GDP growth, which in turn leads to higher living standards.

Production

The growth of GDP is the result of increased productivity and increased labor force.

Economy

The economy is the system of production, distribution, and consumption of goods and services. It is a complex and interdependent system that involves the interaction of various sectors, including agriculture, manufacturing, services, and trade. The economy is driven by various factors, including technology, education, and demographics.

The growth of the economy is measured by Gross Domestic Product (GDP), which is the value of all goods and services produced within a country in a given period.

Measures

Though GDP growth is a measure of economic health, it is not the only measure. Other measures include unemployment, inflation, and productivity.

Unemployment measures the percentage of the labor force that is not employed. Inflation measures the increase in the general price level of goods and services over time. Productivity measures the efficiency of production, or the output per unit of input.

Economic growth is a long-term process that requires investment in education, infrastructure, and technology. Short-term policy measures, such as fiscal or monetary policy, can be used to stimulate economic growth, but they should be part of a broader strategy for long-term growth.

In conclusion, economic growth is essential for the well-being of society. It provides the resources needed to improve the standard of living and to meet the needs of a growing population. However, it is important to ensure that growth is sustainable and inclusive, and that its benefits are shared fairly among all members of society.
FM BOARD OF ECONOMISTS

Halfway towards credibility

Assessing Barend du Plessis’s mould-breaking Budget

Monetary policy, government spending, a restructuring of State finances and the BoP constraint are among key issues arising from the Budget. They and others are discussed by two regular members of the FM Board of Economists, Anglo American’s Aubrey Dickman and JCI’s Ronnie Bethlehem, who are joined this time by guest Edward Osborn, of Nedcor. As usual Raymond Parsons of the SA Chamber of Business asks the questions.

**Parsons:** Before we discuss the Budget, how would you assess the economic background?

**Dickman:** It is clear that a slowdown started at the beginning of 1989. If you take out agriculture, the economy has come off much faster than total GDP would show. But it is a modest slowdown, a shallow dip. The actual level of activity is still above the peak of the previous cycle. Other slowdowns have been much sharper. And there are already some first signs of a possible bottoming.

**Osborn:** A period of consolidation has been the policy objective of both the monetary and fiscal authorities for very good reasons, but we are not going into a recession. It’s a stabilisation phase.

**Bethlehem:** For me, the big thing in the background is what the minister mentioned as one objective of the Budget: the need for a R6bn surplus on the BoP current account.

**Parsons:** And what are the influences of the world economy and the gold price?

**Bethlehem:** I’m a little concerned about the world economy, having regard to the need for a current account surplus. The world economy has shown evidence of a distinct slowing down, particularly in the US in the last quarter of 1989. Inflation generally is a little bit higher than in previous years but still relatively subdued. Against this background it’s wrong to expect any strong or significant increase in the gold price. Indeed, though we’re experiencing international political turbulence, gold is subdued.

**Dickman:** Like Ronnie, I’m worried about the world economy, but it is an unusual situation, particularly in Germany. Demand in Europe is still pretty strong and we could well be compensated for a lower gold price by somewhat better commodity prices. But we can’t be complacent.

**Osborn:** The IMF and World Bank both fairly satisfactorily growth of about 3% this year. The US economy indeed eased in the last quarter of last year but has already shown signs of picking up. I’m not pessimistic about the world economic scene. I think gold’s fundamentals are sound. At the moment we are seeing the usual gold/dollar gyrations: the dollar is strong so gold is going down. The best thing about the gold market is that it is not so strong as to lead to a huge rise in price; any movement is likely to be steady and controlled.

**Parsons:** In a nutshell, does the broad Budget stance fit into the economic picture, or does it go too far one way or another?

**Dickman:** Before you take into account the capital budget, the stance may be a little stimulatory. The deficit before borrowing is planned to rise from 1.5% to 2.8%. Given the revenue over-run last year and the fact that we are in a downturn, however mild, that’s probably all right. But we are now talking about putting back R2bn taken out of last year’s capital flows plus another R1bn which may come from privatisation proceeds.

That’s a completely different world. I’m not saying that we should add that to our deficit before borrowing and say it’s really 4% of GDP. But we are getting into an interface with political negotiations. This is where the Budget has to be judged. We’re in a much more fluid situation and I don’t think it can be judged on normal criteria.

**Osborn:** Overall, the Budget was remarkably well sculpted and fits into the requirements of the economic situation on both the expenditure and revenue side. There is this uncertainty about utilisation of the capital fund, but the uncertainty really arises from the timing of its use. I have serious doubts whether the increase in expenditure can be kept to the planned 11.5%.

**Bethlehem:** On the minister’s figures, if he’d done nothing at all he would have ended up with a deficit before borrowing of R2.1bn - 0.7% of GDP. As a result of Budget measures, he expects to end up with a deficit before borrowing of R8bn or 2.8% of GDP, before taking account of the R3bn set aside for catching up with the social backlog.

Had he done nothing we would have a pretty tight fiscal situation. He has seen fit to put R6bn back into the economy — which, interestingly, is the figure he says he needs as a surplus on the current account of the BoP. He must be concerned that if he didn’t do that the economy would go into a deeper recessionary adjustment than he would like against the political changes government has to deal with.

**Parsons:** Has the significance of Budgets and fiscal policy changed in any important way?

**Dickman:** Do Budgets still seriously matter?

**Bethlehem:** Of course they matter. The whole structural change in tax, the whole supply-side philosophy that has come through, are still very much part of the Budget process. But now that we are moving out with these capital flows we are into a new ballgame.

**Osborn:** Obviously the Budget matters, particularly because it provides government with an opportunity to set its own programme of expenditure and give estimates about the economy and monetary policy. But we’ve become a little bit disrespectful about Budgets because of the way in which budgeted expenditures have not conformed.

**Parsons:** Are the spending targets — indeed, the overall Budget strategy — more credible than in previous years?

**Bethlehem:** I have a difficulty in answering this. I’m not sure what is the most important policy objective in government’s mind. Is it to sustain the level of the economy or is it to achieve that current account surplus on the BoP? I don’t think even government can properly answer that.

It is more relaxed at the moment about debt repayment because of what is happening politically. But if any stumbling on the road to negotiations or further deterioration in internal stability leads to con-
cerns about SA and, therefore, capital outflows, that could quickly change. The point is, we don’t need that current account surplus if the capital account provides some help. But if the capital account goes sour a current account surplus is more vital.

Dickman: When we think of what we felt this time last year about the credibility of the spending estimates and we see what’s actually happened, we must admit they have done a remarkable job.

Osborn: The minister enunciated at the outset that one of the economic objectives is to improve the standard of living. He saw this as coming through the improvement of the supply side of the revenue structure and also through the attainment of small government. One can argue the economic merits of this objective but clearly it’s been built into the spending targets. They have applied a cleverer to the whole spending pattern.

We were in extreme danger of spending outstripping revenue almost exponentially. Something had to be done to end this. I think he has, with remarkable courage, but the important thing is what is being done within the overall constraint, and that is the composition of spending.

The credibility issue has now swung from the expenditure to the revenue side.

Parsons: Do you see the success of this Budget in restraining and reallocating State expenditure as having long-run permanence?

Dickman: We are told about all these plans, but we shouldn’t have to wait for five years to see progress. It’s subjective: we are judging people’s actions in the light of what has happened in the past few years. We can certainly have more confidence in their actions now, but what worries me is what type of spending are we talking about.

Bethlehem: You use the word “reallocating.” The minister used “restructuring.” We know there will be a terrible burden on the State in future whether that State is National Party-dominated, an alliance, a government of national unity or whatever — it doesn’t really matter. Either way the State will have to spend a lot on education, housing, health and other things like that.

If we are to avoid State expenditure increasing as a percentage of GDP from its present 27% back above 30%, then up towards 40%, we must have a restructuring of State expenditure to allow more scope to the private sector. Privatisation can contribute to that.

Dickman: I am not sure how privatisation contributes to restructuring; it merely affects the flows. If you use the proceeds of privatisation for restructuring instead of repaying public debt you are actually taking money from institutions which would otherwise have gone to the private sector.

Osborn: I am both optimistic and pessimistic. Optimistic in the sense that we have come to the fruition of the creation of government structures, which has been one of the reasons for this tremendous growth in government spending: the TBVC countries, RSCs and all that sort of thing. We can now stabilise government expenditure.

But I’m pessimistic in terms of the tremendous demands which will grow on government in terms of welfare and social strategies. They can’t be financed entirely through restructuring State expenditure because there is a limit to how much you can cut back on police, security, and administration.

Bethlehem: If you take into account not only defence but the whole apartheid structure and duplication of services, surely quite a lot can be achieved through restructuring.

Parsons: Do you foresee any serious fiscal uncertainties arising out of the special allocation of R3bn for as yet unspecified black socio-economic development, together with R1bn for contingencies?

Dickman: Of course this is a major fiscal uncertainty. If it is part of the negotiating scene and we can get a more sensible approach, the BoP problem will become easier. It is then more sensible to be able to spend this money, in effect pushing up the deficit before borrowing, though of course it won’t all be spent in one year.

Osborn: The objectives are welcome but the accounting leads one into completely uncharted seas. We’ve got a new spending department, in effect, and this must be properly identified and accounted for on an ongoing basis so we can see what the impact is on overall expenditures. It adds to the totality of government spending, however the timing works out.

Parsons: Do you regard supply-side economics as appropriate at any time, or only in special circumstances? To what extent do these conditions exist in SA?

Bethlehem: The supply side is always important, in any circumstances. In a country like SA it is critical, because the imperative is to grow. Unless we can get our growth rate up sufficiently we face the prospect of accelerating structural unemployment.

Dickman: Before we jump to the conclusion that we’ve made great moves on the supply side, we must look at taxes carefully. Fiscal drag is still alive and well. If you look at the figures for fringe benefits there will be real tax increases and some of the company imposts may yield much more over the years than has been thought.

It’s just a modest start, though the sense of direction is absolutely right. The level of taxation we’ve had has given rise to all sorts of distortions which may well have affected investment decisions.

Osborn: I may be playing with words here. Yes, the supply side is important in terms of incentives and so on. But we really need to correct the disincentive structure of our tax system.

Dickman: In the past three years the proportion of direct tax to current income has remained about 11%, which reflects a disproportionate burden on individuals.

Parsons: How effective generally is this Budget in promoting and restructuring the flow of domestic savings?

Bethlehem: It was necessary to do something to promote savings. SA is a developing country with a low level of (in particular) personal savings. With financial sanctions and the lack of foreign capital it has to generate high internal savings to finance capital formation. The Budget goes a long way in addressing this. The receipt of dividends will be that much more attractive and once the withholding tax on interest is clarified that will add to the inducement to invest.

Osborn: I welcome the move as an attempt to ameliorate the financial position of the personal sector. I don’t go along with the need to increase savings as such, as if this is the determinant of capital formation and ultimate determinant of growth. True, the savings ratio of the personal sector has fallen, but because of absorption through income tax and the need to borrow to finance consumption. Those ratios will remain low notwithstanding the budgetary measures.

The main source of savings remains corporate savings through depreciation allowances, which are perfectly set out. One of our problems is insufficient outlets for savings. Investment is a matter not of
availability of savings but of entrepreneurs’ willingness to take risks and invest. That in itself can generate the appropriate savings.

Dickman: We have a problem of consumption versus investment. The disposable income/consumption function has moved up structurally over the past few years, right over 90%, and stayed there. That is why people have got into debt.

Parsons: If the thesis is accepted that high income groups have the largest propensity to save, will tax cuts for the middle- and lower-income groups actually encourage saving?

Bethlehem: I don’t see tax cuts to the middle- and lower-income groups as threatening at all. What benefits they have gained are in a sense technical. We are concerned with getting rid of a bulge. Concessions to the higher-income groups, which have a higher propensity to save, have been considerable.

Dickman: I don’t think they have. If you compare the expected sacrifice of revenue from dividend tax against higher tax from increased salaries and heavier fringe benefit taxes, there is no relief in the burden.

Osborn: Our figures agree with that.

Parsons: Which sectors or groups are likely to be the biggest losers in terms of tax or State spending decisions in this Budget?

Dickman: If you look at defence, the cuts through industry must be considerable. Many people may well be laid off.

Osborn: The functional breakdown of the Budget shows there actually has been a drop in allocations for capital expenditure even nominally, so in real terms it’s even greater. There will be a definite impact on some industries — engineering and the like.

Parsons: What does the Budget do to help the BoP?

Bethlehem: My concern is not what the Budget does to help the BoP, more whether it’s a possible threat. The threat, if it comes, will be the impact on domestic demand and how that could translate into import demand and prevent the current account surplus developing.

But the Budget has a very important political aspect, related to the capital account. If we get a capital inflow, the need for a current account surplus diminishes.

Dickman: The change in political direction and possibilities that have opened up as a result could help the BoP, notably with capital inflows.

Osborn: The Budget clearly had to be fashioned in a way that would do nothing monetarily to the BoP. I think it is, even if you bring in that capital fund.

Parsons: What are the implications of the Budget for monetary policy, monetary targets, and in particular interest rates? How soon will interest rates ease?

Dickman: Monetary policy will have to stay tight and possibly become even tighter because of this Budget and the implications of the capital fund. Velocity of circulation has fallen to the lowest level for many years. With changed interest rate patterns we may have seen an end to that decline, so monetary targets could be set somewhat lower. I think interest rates have peaked, but I wouldn’t completely rule out another increase.

Bethlehem: Fiscal policy now seems to be concerned with promoting the economy and its growth. The burden in a sense has been shifted on to monetary policy to do a balancing job. If fiscal policy goes too far in any particular direction and destabilises the BoP or whatever, then monetary policy will have to offset it.

Dickman: But ironically, even if things go well you’ll need a tight monetary policy to enable net reserves to be built up without an internal liquidity effect.

Osborn: Again it comes back to the imperatives of the BoP, foreign debt and external reserve situation. They require firm monetary and fiscal policy. I don’t think interest rates are likely to come down until possibly a fractional easing in the third quarter of this year, maybe delayed into the fourth quarter. But I don’t think there is a prospect of a further tightening of monetary policy either, because there is insufficient in the Budget to counteract the effects of a yet tighter monetary policy.

Monetary policy will have to stay tight and possibly become even tighter because of this Budget and the implications of the capital fund.

DICKMAN

Parsons: And the Budget’s role in the anti-inflation strategy? Will the rate of inflation continue to decline?

Osborn: There are fair prospects of inflation coming down, not because of the Budget but because of stabilisation in the rand and the kind of lead government has given on wage and salary increases. The Budget also has a continuing inflationary impact through the tax accelerator, which I think is one of the principal causes of inflation.

Dickman: The key is the rand, but we may not see as much deceleration in inflation as we had hoped.

Parsons: How important are political factors in maximising the potential of this Budget?

Bethlehem: Extremely important.

Osborn: Yes.

Dickman: Of course.

Parsons: The Budget has a strong commit-ment to a private enterprise economy, accompanied by a suitable restructuring. Does it adequately address the challenge and threat of nationalisation?

Bethlehem: Whether nationalisation provides an opportunity to a government to address the problems of inequality is the whole debate between the business community on the one hand and the ANC on the other. We have R3bn in this Budget below the line as a consequence of privatisation, demonstrating that privatisation does actually put resources into the hands of government whereas nationalisation would not.

Does it adequately address the challenge of the threat of nationalisation? No, it doesn’t, but it makes an important point; it also makes the additional point that government won’t compromise itself and be accused by the ANC and others of selling off assets and, therefore, restricting the State’s ability to move, because the minister hasn’t linked the R3bn from Iscor and R3bn being put on one side for development.

The State President could say to Nelson Mandela, look, we’re not compromising a future government over privatisation, which is a very sensitive issue in the black community. It can be shown that this R3bn has been put on one side and nothing is being done to sabotage negotiations and their details.

Dickman: There is obviously a limit to what can be done by privatisation. But remember that if money from privatisation is to be spent, it won’t be used to reduce public-sector debt. You’re implicitly saying that that money is not available to the private sector, but the transfer of ownership of State assets to the private sector should improve total efficiency. That’s an important message.

Osborn: The Budget brushes aside the issue of nationalisation but it does address the issue of correcting the imbalances of the past and the welfare situation through the capital fund. This is very important. It is also very important to realise that privatisation is not an ongoing milch cow. We sell the silver once and it is over and done with. It mustn’t be used as an argument to say, look, we get more money this way than through the reverse process of nationalisation.

Parsons: Do you generally as a result of the overall approach of this Budget have more confidence in fiscal policy and its influence on the business environment?

Dickman: Yes. Think how we’ve moved these past few years in statements by the minister. Barend du Plessis now shows great understanding and is supported by a very good team. In years gone by we would only have dreamt of the things coming through in the speech on money supply, liquidity and the whole macro side. Sophistication starts right at the level of the State President himself.

Osborn: I heartily endorse that. The whole level of Budget formulation has improved enormously, as has the supporting argument and explanation of the Budget.

Bethlehem: The Budget doesn’t raise my confidence — it does increase my helpfulness.
line with projected growth in real GDP this year of 1%, a surplus on the current account of at least R6bn and a gradual rise in the official gold and other foreign reserves.

MONEY SUPPLY — 2

Same again

Each month, growth in the broad monetary aggregate M3 is measured in two ways: over the preceding 12 months; and from the base of the given target year which is always mid-November. It is the second measure which is targeted by the Reserve Bank, and to which the newly published guidelines apply. Since mid-November 1989, base of the current target year, annualised percentage growth of M3 has been well above the new 11%-15% published guidelines.

In the half-month to end-November this annualised rate of growth has been 11.6%, to end-December 19.1% and to end-January 25.3%. A provisional estimate for end-February is 19.2%, to a seasonally adjusted R148.9bn.

"Since the second quarter of 1989, preliminary estimates have been substantially revised on a number of occasions," admits Reserve Bank economist Johan van den Heever, "mainly because of technical adjustments for private-sector NCD holdings. This happens when NCDs move from banks to the private sector and cannot be measured from preliminary returns to the Reserve Bank."

Year-on-year growth in M3 was revised from 21% to 23.6% in January, bringing M3 to R148.3bn. A provisional estimate for February is just under 22%. After adjusting to exclude Namibia, this is marginally within the guideline tunnel.

Future money supply figures will exclude Namibia. Comparable seasonally adjusted M3 for the past three months is:
- December R143.2bn against an upper tunnel guideline of R144.8bn;
- January R146.9bn, R146.3bn; and
- February R147.5bn, R147.8bn.

Growth in other aggregates (still including Namibia) in January was:
- M1A 11.9% to R23.9bn;
- M1 26.6% to R49.6bn; and
- M2 28.4% to R119.8bn.

M1A, coins and notes in circulation and cheque and transmission deposits, is more directly related to income and expenditure, so its comparatively low growth indicates the economy is slowing.

January credit extension, the counterpart of money supply, fell R200m to R143.9bn. This reflects a R2.7bn increase in private-sector lending and redemption of nearly R3bn government debt.

SITE changes

Deputy Minister of Finance, Org Marais, has announced several important changes to the SITE system. Now:
- Taxpayers, other than married women, have been subject to SITE only if their net remuneration does not exceed R20 000. This limit has been increased to R40 000. Revenue estimates around 650 000 taxpayers will be released, by this increase, from the obligation to submit income tax returns;
- The SITE system applies to remuneration payable to married women without any ceiling on the amount. In the light of the other changes to the system of taxing income of married women announced in the Budget, this arrangement has become anomalous. To bring the position of married women into line with that of other taxpayers subject to SITE, the limit of R40 000 for SITE liability applicable to other classes of taxpayer will now apply to married women too. Married women carrying on a business, as well as those whose net remuneration exceeds R40 000 annually, must now submit returns.

About 22 500 married women, or around 4% of all taxpayers married women, will now have to submit returns; and
- When an employee receives an annual bonus or similar payment, his period of service may have been less than a full year. In
FISCAL INCENTIVES

Why the exclusion?

It would indeed be churlish after what we have said about this month’s Budget — and what our Board of Economists say elsewhere in this issue — to appear to turn upon it now. But there is an area about which we have serious misgivings: the absence of fiscal incentives for those in the private sector who are preparing for their retirement by saving through life assurers.

The tax position of these institutions is set out in detail in the following article. If government has deliberately not included these savers in the fiscal incentives given to other savers, we must assume that it takes the illogical ANC line that these institutions are too big and economically powerful, and that it is oblivious to the claims of equity within the public sector that private savers should have.

To take the second point first: Over the past 10 years, government has given its own employees quite outrageous pension benefits, the cost of which it could not hope to sustain without heavy recourse to taxpayers’ funds. They have been allowed to buy back substantial benefits at a fraction of the true actuarial cost.

Simply put, by so doing, government has at taxpayers’ expense insulated State pensions from the ravages of the inflation that it itself has created. The same applies to all members of parliament and especially to Cabinet members.

By excluding the life assurers from the latest fiscal benefits, government is making it more difficult for private savers to prepare for a retirement that is anything like that which they as taxpayers are providing for public servants. The fact that the level of retirement annuity premiums that are tax-free has not been increased in about 10 years — despite massive fiscal drag over that period — is another indication of government’s attitude.

The belief that life assurers are too big and economically powerful and should, therefore, be penalised, is disingenuous and dismaying from a government that claims to support free enterprise.

Private savings have flown in great volume to these institutions precisely because government’s own profligacy caused inflation. And the institutions in turn have acquired domestic assets because exchange control prevents them from seeking appropriate and price-stable investments outside the rand monetary area.

As exchange controls are a political and not an economic issue, it is logical to argue that apartheid has been the cause of this concentration. In addition, the reluctance of the authorities to license new insurance companies encouraged the process by providing what amounts to protection.

Whether concentration of ownership carries with it real economic power is a moot point. Certainly those who run life assurers have nothing like the economic power vested in sovereign government. Nowhere in the world have large businesses been able to usurp the State’s sovereign power.

If the problem with life assurers is that their policies too closely resemble bank and building society deposits, then the remedy lies elsewhere, not in withholding tax concessions. The nub of the problem, however, is still government’s creation of inflation.

Where it is wrong to criticise government is over what appeared to be the modest rise in this Budget given to social pensioners. It is far more important for these pensioners that government take measures (as it has) to stabilise prices than to increase pensions only to have the additional benefit wiped out by inflation in a matter of months. On that score, social pensioners have done rather better than they might think.
A lower target range for growth in the broadest money supply aggregate, M3, is not a "forecast of changes during 1990," says Reserve Bank Governor Chris Stals. The drop from 12%-18% to 11%-15% is intended "to communicate to the public and government what ... is appropriate in present circumstances in view of the Bank's objectives to stabilise the value of the currency."

Deviations from the guideline, he explains, will influence the Bank's application of monetary policy. F1/M 30/13/90

This clear warning is accompanied by another request to banks to keep credit extension to the private sector to an average of about 1% a month. "Not many complied with this during the past year. Discussions will be held with bank representatives soon to explore ways and means of making this request more effective."

This move follows an increase in the quarterly average of M3 between fourth quarter 1988 and fourth quarter 1989 of 23.5% — well above the target range.

It is in line with recent developments on both political and economic fronts. After years of promising the goods and failing to deliver, the authorities have adopted a policy of acting ahead of expectations. First move came in October, when Stals unexpectedly hiked Bank rate one percentage point, to 18%. Economists and investors, who had been thinking in terms of maybe, perhaps and sometime, were caught off-balance and have been wary ever since.

Once again, Stals has used surprise tactics to underscore his intentions — though a cut in the target had been predicted, it was generally thought it would be 12%-16%.

However, while reasserting his commitment to the target range, Stals says the Bank will continue to apply the guidelines with "flexibility." Policy will be based not only on growth in M3 but also on other variables.

"Other monetary and credit aggregates, the exchange rate, nominal and real GDE and GDP, prices, and other general economic indicators will be monitored closely."

Stals believes the lower guidelines are in line with projected growth in real GDP this year of 1%, a surplus on the current account of at least R6bn and a gradual rise in the official gold and other foreign reserves.
Radical measures

In the Budget debate this week, Deputy Finance Minister Org Marais elaborated on changes to the tax system. (See P43).

He said it is important to keep the new VAT system simple, which implies a single tariff with minimum exemptions. This suggests food will not be exempted.

On ring-fencing applicable to new mining operations, the old distinction between income and capital still applies to cases where shares have been held for less than 10 years.

However, it will now be possible to make use of section 24A of the Income Tax Act in these circumstances. (This section permits a sharedealer to exchange shares without being taxed at that time. The dealer, making use of 24A, will only be taxed when shares received in exchange are themselves sold.)

Suppose a mining house has held shares in an established mine for fewer than 10 years, but wishes to dispose of them to raise capital for a new mining operation.

Revenue, it seems, would accept an arrangement under which an intermediate holding company is set up, which would exchange the shares in the established mine for shares in the new mine issued to it. The holding company would then be able to sell the shares in the established mine without major tax consequences, as the cost of those shares would be the market price at the time of the swap.

If the shares were sold on, say, to a life assurer, soon thereafter, the market price would not have moved significantly. So neither mining house nor holding company would have suffered tax, but liquidity would have been regenerated for the new mine.

Government was earnest in implementing Margo recommendations to phase out tax concessions and exemptions which negatively influence flow of capital. An example of such concessions was accelerated depreciation in the case of ships and aircraft. Serious consideration is also being given to the tax consequences of credit agreements and debtors' allowances in the case of banks and other financial institutions.

Exemption of dividends from tax would simplify the tax system, especially as undistributed profits tax would also be abolished. The complex definition of a "dividend" in the Act could now be replaced with something simpler, while the exceptionally complicated and unsatisfactory sections 8B, 8C and 8D of the Act could now be "phased out."

All of which confirms the impression gained from the Budget itself that the 1990 Income Tax Bill will be one of exceptional importance.
Foreign investment is essential for economic growth says Kantor

By ARI JACOBSON
FOREIGN investment is essential for cultivating growth in SA, and the ANC should be wary of policies which would chase it away, Brian Kantor, professor of economics at the University of Cape Town, warned yesterday.

Speaking at a Graduate School of Business Association (GSBA) luncheon, Kantor pointed to successful strategies adopted by other developing countries based on what he described as "sound attitudes to encouraging capital movements and foreign trade."

"Countries with successful economies have engendered a spirit of openness by luring foreign capital to their domain."

Kantor mentioned Sweden as a prime example of a country steeped in welfare ideals, yet aware of the importance of foreign interest.

"The ANC would be advised to take heed of policies chasing potential investors away from our shores."

At present, foreign investment in SA totals a meagre 4% of gross domestic product (GDP), he says.

"By contrast to a winning formula, interventionist policies with inward looking strategies are doomed to failure."

Kantor pointed to South America and Zimbabwe as stark examples of countries hampered by import surcharges and other constraining mechanisms which had wrecked their economies.

"It is interesting to note that Singapore's economic growth — the success story of the last decade — has resulted in the country being 70% foreign owned."

In the SA scenario, attracting foreign interest would generate economic growth with greater demands on labour employment, said Kantor.

"The beneficiaries of stunted growth, up to now, have been the owners of capital who have reaped unprecedented profits."

This, says Kantor, has come in the wake of union-backed wage increases driving down demand for labour.

"However the government has set a trend with lower wage increases in the public sector, which could ripple through and dampen salary demands in the private sector, bolstering employment."

The possibility of wage growth being kept down is strengthened by the concept of income taxes being costed into wage demands, says Kantor.
on black concerns
economy must focus

The debate on SA's

BUSINESS DAY, FRIDAY, 10 JULY 2020

SIMON BRAND

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