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STAR. 20/1/76.

Concessions for Indian wives

Own Correspondent

DURBAN — The Government will allow foreign brides of South African Indians to enter the country in certain cases.

The Minister of Interior, Dr Connie Mulder, agreed to the concession as a result of representations to his department by the executive of the Indian Council

An executive member Mr Amichand Rajbansi, said although the Minister was not in a position to make a general declaration on the issue, "he was prepared to make concessions when it came to old-established cases

"In the case of minority Indian groups, like the Parsees, who are forbidden by custom to marry outside their own group, the Minister has told us that there are certain problems

"He is, however, prepared to have further discussions with the council on this," Said Mr Rajbansi

He said the Department of Interior would also consider applications for entry into South Africa by overseas-born widows of South African Indians

The council is making arrangements for further meetings with Dr Mulder

Gloom for SA's export hopes in the OECD report

Business Mail RDM. 29/12/77.

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Financial Reporter

A SOMBRE warning to South Africa not to expect too much help in its efforts to stage an export-led economic revival has been sounded by the Organisation for Economic Cooperation and Development.

The OECD says in its twice-yearly economic outlook report that the industrialised nations face sky-rocketing unemployment, slow growth and money market upheaval in 1978 unless the United States, Japan and West Germany take speedy action to correct their uneven economies

The OECD reports forecasts a gloomy growth rate of only 3,5% among its 24-member nations The sluggish rate can only be headed off, says the report, if and when the three key countries take quick restorative measures

Growth rates of that order among countries which represent South Africa's major customers for exports of primary products are hardly encouraging for South Africa's prospects and lend weight to the growing belief that any substantial revival in South Africa must come from an internal stimulation of the economy

On a more promising note OECD officials praised Japan's plan to stimulate domestic demand through tax cuts and the United States' plans for stimulating its economy and cutting the American trade deficit by decreasing oil imports.

"The United States trade deficit is not due to a lack of competitive power of United States products but to the lack of energy policy," OECD officials said

"Economic stimulation measures must be taken next year Time is not on our side "

The forecast on existing policy is that unemployment could soar in the industrialised nations to well above the 1975 recession level, reaching 5,6% or 17-million in the second half of 1978 unless the three key nations push through their plans

The OECD said a 4,5% growth rate is needed to keep unemployment from rising in the industrialised nations in North America, Western Europe and Asia

Last June OECD member nations decided on a 5% growth rate for 1978 on the basis that the 1977 rate would be 4% But economic growth in OECD countries rose by only 3,5% in 1977, the report said

"Total OECD growth weakened markedly in the second quarter of 1977 and has since remained sluggish", the report said

"Industrial production has broadly stagnated since April There has been a general slowdown in consumer spending and this is the main reason why 1977 growth has been lower than forecast in the July OECD economic oulook "

In the view of OECD economists, if the right thing is done in 1978, the out turn of the economy will be much better than that which is forecast now.

The OECD said its call for quick action referred mainly to the United States to stimulate its economy and to Japan and West Germany to sop up their bulging trade surpluses by tax cuts and other measures to stimulate domestic demand for goods so these nations will import more items and export fewer — UPI.

FIN 24/6/77

WORLD ECONOMY

Monetarist salvoes

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At this week's annual ministerial meeting of the Organisation for Economic Co-operation and Development (OECD) in Paris, the major industrial countries will probably commit themselves to a higher rate of economic growth in 1978 than is likely this year

Although these countries will not bind themselves to any specific numbers, they are expected to agree to an average target growth rate higher than the 4% forecast for 1977 and closer to the 5,5% they set themselves last year as their annual goal for the years 1976 to 1980.

Such an acceleration in economic growth, intended to curb rising unemployment, would probably involve Germany, Japan and other strong countries adopting more expansionary policies of the kind they have resisted so far.

According to diplomatic sources, the OECD Ministers probably will agree to hold a special meeting later this year to oversee their progress towards faster economic growth.

This week the Ministers are also expected to agree to publish annual targets for the growth of their national money supplies. These targets would be discussed within the OECD.

Many countries, including the US, Germany and Canada, already try to keep monetary growth within prescribed targets. But the decision to adopt this practice uniformly in the OECD is significant.

It shows the increasing influence of monetarist economists in the industrial countries of Europe The monetarists hold that the only way to secure high employment and low inflation is by rigid limits on the amount of new money allowed to enter the economy each year.

But the decision to give a measure of formal endorsement to monetarist policies at this week's OECD meeting is also intended to reassure conservative-minded countries like Germany. For it signifies that the industrial countries do not believe the fight against inflation must be sacrificed in the drive to lower unemployment through faster growth.

World faces oil crunch

Sun Times 31/12/78 (231)

THE WORLD'S major oil companies have no intention — at present — of putting the squeeze on the Republic's oil supplies.

SA unlikely to be isolated, but prices expected to rocket

Senior spokesmen for Shell and British Petroleum in London and Amsterdam said present policy dictated that all consumer countries would be treated equally following the drastic halt in Iran's oil production.

In the last 10 days all Shell customers — including South Africa — have had to take a 10 per cent cut in supplies.

Shell said it had managed to make up for some of the Iranian shortfall by buying oil on the spot market through brokers in Rotterdam.

Cutback

This can be done when oil companies have full tankers not already consigned to a specific purchaser and the cargo then virtually goes to the highest bidder.

BP has notified its customers of a 35 per cent cutback in the first quarter of 1979.

The companies say they do not see any immediate oil problem for South Africa but are reluctant to discuss the long-term situation if Iran fails to go back into full or even "reasonable" production during the next few months.

Oil experts in London told me that petrol price increases throughout the world seemed inevitable in the new year.

Although they refused to be quoted, they admitted "off the record" that South Africans would almost certainly be paying "sky high" prices for petrol if the situation in Iran failed to improve, because of the Arab boycott on oil for South Africa, imposed in 1973.

Since then about 90 per cent of the Republic's crude oil has come from Iran. The Shah has never supported the boycott and in October last year refused to meet an OAU delegation that hoped to persuade him to join the boycott.

However, even if the Shah survives the present revolt in his country, the British and Dutch oil companies, as well as political analysts, say South Africa is not likely to continue to enjoy its "special relationship" with Iran.

The feeling is that the Shah will be more vulnerable to pressure from Opec and the OAU to join the boycott. Anti-West demonstrations have been a major feature of the present demonstrations in Iran, amid calls for the overthrow of "the American Shah".

The question then will be whether the oil companies — and the United States — will supply South Africa in

BY SUZANNE VOS
London

defiance of Opec and thus jeopardise their own supplies.

They said that free market oil would, however, be available in uncertain quantities and at a price. This was where South Africa would have to get supplies if the major companies, for fear of Arab reprisals, refused to openly route Arab oil to the Republic.

Survive

South Africa would then have to rely on brokers — mainly in Rotterdam — to find its spot market oil. Even then, it was almost certain that the oil companies would cover themselves when selling any unattached Arab oil by stipulating that it was not to be sent to South Africa.

The greater the risk, the greater the price that South Africa would obviously have to pay. In the end this would mean the South African public. A Shell representative told me that he could not give an accurate figure but the price for any broker to accept a "premium risk" cargo for South Africa would be "at least 20 per cent or more" above the normal oil price.

"It really depends on the brokers," he said. "They'll either play ball or they won't and, as yet, nobody knows."

In Rotterdam, several brokers laughed when asked if they would help South Africa. "You don't really expect us to answer that," said one.

And whether the United States would be prepared — if the crunch came in Iran — to sell South Africa its own oil and use its Arab imports for home consumption, is a question nobody here can answer.

Analysts in London estimate that the average oil price rise throughout the world in 1979 will be about 15 per cent — not the 8.5 per cent forecast last week by the Organisation for Economic Co-operation and Development (OECD). Already the shortfall in supplies because of the situation in Iran has started to push up the spot price on the free market in Rotterdam.

And to add to these existing problems, the first phase of the Opec price rise takes effect tomorrow.

Dr David Bailey, the British economist who prepared a special report for the United Nations on Rhodesian sanctions busting, said South Africa was in for a "fraught future" if the oil companies decided not to "play ball" following the collapse of supplies from Iran.

Unlikely

He said he agreed with other analysts that whatever happened in Iran, it was unlikely that South Africa could ever again rely on a steady supply from that country.

"South Africa is an embarrassment to the Shah," he said. "Even though he has stated that he will not use oil as a weapon, the decision may well be taken out of his hands even if he survives the revolution and the country goes back into full production."

Dr Bailey said a new regime in Iran could no doubt find another buyer for the small percentage of its production that South Africa bought.

"Economic considerations will hardly enter into the picture," he said. "South Africa buys only five percent of its total oil production and plenty of buyers can be found for that."

Dr Bailey said he felt the oil companies — particularly Shell and BP — would like to help South Africa but that if the situation became too politically sensitive, they would probably have no choice than to cast the country adrift.

This would mean that South Africa would have to deal directly with brokers in Rotterdam. And South Africans, he stressed, should not forget that Holland was "virtually the home of the anti-apartheid movement" and that pressure would no doubt be put on the brokers by the movement as well as by the Dutch Government.

"It's going to be an expensive business whatever way you look at it," he said.

OECD has high hopes for 1979

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LONDON — Prospects for sustained economic recovery by industrialised countries were at last improving because the United States, Japan and West Germany would radically reduce huge imbalances in their balance of payments next year, the Organisation for Economic Cooperation and Development reported

The US deficit and the Japanese surplus might be roughly halved in 1979, and the West German surplus substantially reduced, the OECD forecast in its economic outlook for 1979

But unemployment for the 24 OECD nations, the leading economic powers in the non-communist world, could edge up to 5,5% of the working population, and the rate was likely to remain high for some time

Not before further significant cuts were made in inflation — now 6,75% — throughout the OECD area, would it be possible for governments to trim the numbers of jobless

In contrast to recent surveys, the OECD report was relatively optimistic about the long-term outlook because efforts by member governments to coordinate economic policy were producing results

OECD's chief economist, Mr John Fay, said "I am not saying we will reach the broad sunlit uplands yet, but prospects are very much better than we had any right to expect six months ago"

The survey was completed before Opec decided to raise prices by 14,5% next year, and was based on the assumption that the increase would be only 5%

OECD experts quickly reworked their sums to take account of the unexpectedly steep rise in the area's oil bill

Mr Fay said "The increase is regrettable but not disastrous — we can live with it"

The oil price rise would mean an increase of 0,6% in the OECD's annual rate of inflation, and when fully implemented would add $1 900-million a year to its oil bill, Mr Fay said

But because the Opec countries could expect to buy more from the industrialised countries, the adverse effect on trade balances would be about half that sum

The OECD survey again called on governments to resist pressures to resort to trade protectionism, which it suggested could put the group back to the trade wars of the 1930s

"Unless the trend towards protectionism is reversed, the world could risk slipping back half a century to conditions in which non-inflationary growth is increasingly difficult to achieve, and constructive relationships between the increasingly inter-dependent countries of the north and south are replaced by the more destructive forms of dialogue," the review said

In the immediate future, no improvement was expected in growth of gross national product which over the whole OECD area was likely to be a sluggish 3% in 1979 compared with 3,5% this year

But the report said this masked a potentially encouraging development

In Japan and West Germany, domestic demand and therefore spending on imports was growing strongly and would continue to do so in 1979 At the same time there was a slowdown in domestic demand in the United States

The Japanese and West Germans would be able to make spectacular cuts in their payments surpluses, while the United States would be able to slash its import bill and reduce its huge deficit

The survey said "This combination, backed by the effective appreciation of the yen and depreciation of the dollar is likely to produce a more balanced international pattern of payments position

"With the help of an unexpectedly large terms of trade gain, price increases have been reduced and the OECD area's current account deficit brought virtually into balance"

One particularly encouraging sign was the number of countries where firm stabilisation policies had been rewarded by greatly reduced inflation and external deficits

"With these developments, capped by the recent international financial arrangements to help defend the dollar, many factors seem to be running in favour of less turbulent conditions in exchange markets and better business confidence"

Tables prepared before the Opec price rise showed a reduction from $2 000-million to around $1 200-million in the Japanese surplus and from $6 000-million to $2 250-million for West Germany

The US deficit — one of the main causes of the dollars weakness in 1978 — was expected to fall from $18 250-million to $8 000-million in 1979

By the time the oil price rise had been fully implemented in October next year, the US would be facing an additional annual oil bill of $6 000-million with an extra $3 500-million burden on Japan and $2 000-million for West Germany

Noting these figures, OECD experts stressed that the overall effect on balance of payments would be reduced by half because of increased spending by the oil producers on goods and services by the three most powerful industrial countries — the US, West Germany and Japan — Sapa-Reuter of how projects will work and what would be a good way of using local resources. They can seldom know of those cases where small groups of people are trying to establish economic activities which they know will work, but whic they cannot establish or develop for lack of some capit or technical skills input.

Very often where the external "developers" come to the a where they have chosen to implement their plans, they d know what the real roles of the various groups in the s are, and who they are working with and through. It is v difficult not to fall into the trap of working with the people who are easiest to communicate with, and who are usiastic about the project - who, as I have shown, are generally the richer people in the society.

11 The myth of community.

A mistake that many people involved in development

RDM 1/12/78 231

OECD inflation expected to come down

LONDON — Rates of inflation in Organisation for Economic Cooperation and Development area countries will probably fall to around 7% to 7½% as expressed by consumer prices in 1979 from an expected 8% in 1978, says the National Institute of Economic and Social Research.

Its November economic review forecasts that growth in OECD member countries will be sustained at the current 3½% through 1979 into 1980, as indicated in its May and August reviews

Slower growth in the United States of 3% or less in 1979 will be balanced by a modest acceleration in economic activity in Western Europe, but there are no signs of the sort of expansion which would be needed to make a significant impact on current levels of unemployment, says the institute

One of the more disturbing features of its forecast is that generally, higher public sector spending appears to be failing to check lower rates of expansion in other sectors, it says

However, the successive attempts by Japan and West Germany to stimulate their economies through the public sector seem to be achieving a measure of success

The institute expects British consumer price inflation to rise to 9% to 9½% in 1979 and 1980 from just over 8% this year on the assumption that average earnings will increase at a rate of 12% from now on

The failure to control inflation is worrying because the slight speeding up may itself generate expectations which could lead to a further acceleration in inflation

There is a danger that this winter will see the effects of the continued failure to reform the British wage bargaining system

Because of its nature and organisation, the system of pay negotiation cannot function satisfactorily without some supervision

Incomes policies have not been as successful as might have been hoped, except for limited periods, and there has been a tendency for catching up to occur when the policy is removed, which demonstrates not the futility of incomes policies, but the limitation of using them as temporary expedients — Reuter

...anything other than the ...
good headman or other co-ordinating figure in the area (vide the fact that so often when this person goes, the "progressive" quality of the area dies and the projects go to rack and ruin)[54].

In all the projects I mention there is at least one person, and usually a small group, who really believes in, and supports the project. One generally finds that this small group are involved in all the projects in the area and are on all the committees Most of these people obviously believe that with concerted effort their areas can progress along a Western path of development.

In all areas there is a large number of people (still not the majority however) who consider the ideals cited, when a new project is discussed, as good. They say they would like such a

Big payments surplus in Britain expected

PARIS — Britain's balance of payments will swing into a huge R2 890 million annual surplus next year, the Organisation for Economic Co-operation and Development (OECD) has forecast

The change in Britain's ability to pay its way in the world was explained by growing North Sea oil production and an expected improvement in the terms of trade — the relationship between import and export prices

In its latest economic outlook, the OECD noted that the British current account balance of payments this year was likely to be R595 million in surplus after being R2 125 million in the red in 1976.

Again on the bright side, the review said better demand prospects, relatively low interest rates, improved company liquidity (funds readily available) and a need to replace old equipment could give a strong boost to manufacturing investment

However, the margin of slack in the economy was likely to remain substantial, and recovery moderate. The OECD forecast 11,25 per cent growth in manufacturing investment next year, compared with seven per cent on 1977

Availability of jobs was expected to improve slightly after the first quarter of 1978, and unemployment should level off in the first half of next year at a little less than 6,5 per cent

The review, which assesses prospects for the 24 industrial countries in the OECD, said Britain's Gross Domestic Product was expected to grow by about three per cent in 1978, with only a relatively modest recovery in manufacturing output

On the pay front, the OECD assumed that wages would on average increase by 14 per cent in Britain after the return to free collective bargaining

This would involve agreements limited to the Labour Government's 10 per cent guideline in the public sector, and a departure from it in private industry because of workers' pressure to make up for the decline in spending power over the past two years of voluntary restraints.

The OECD also assumed that 12 month interval between wage rises accepted by the Trades Union Congress would be observed

Real disposable personal income — allowing for taxes and the effects of inflation — was expected to rise roughly 2,25 per cent next year — SAPA

NM 20/3/79 (231)

INFLATION RATE RISES

PARIS — The overall inflation rate in the 24 nations of the Organisation for Economic Co-operation and Development — the leading Western industrial States — rose strongly in January at 0,8 percent, the OECD said

Above the rate individually were Britain, 1,1 percent, and the United States and France, 0,9 percent.

The overall increase compared to 0,5 percent in December and 0,4 percent in November and gave a 12-month rate to end in January of 8,4 percent. — (Sapa-AP)

London

Bright and dull sides of the economic coin

John Cavill

TWO-ARMED economic forecasters are a familiar breed with their characteristic caveat: "On the one hand this may happen, on the other, however . . "

But at the headquarters of the Organisation for Economic Co-operation and Development (OECD) in Paris a new mutant seems to have been spawned.

For such is the fragility and complexity of the Western World's economy, OECD's latest prediciton for the prospects in 1979 for South Africa's most important trading partners may well have been written by a hydra-headed octopod.

To start off, the OECD, which collates the official forecasts of the biggest economies in the West, is reasonably optimistic

While economic growth for the whole OECD area should slow from 3,5 percent to three percent, chiefly because of deflation in the United States reducing growth there from 3,75 percent to two percent, the trading accounts of the industrial nations should come into a healthier balance.

Government stimulation will lift domestic demand in Japan by 7 percent and in Germany by 4,75 percent. But these two countries are expected to increase gross national product by only 4,75 percent in Japan and four percent in Germany.

Thus they will have to import more while the fall in the US demand growth to only 1,5 percent (from 3,75 percent) means America will be exporting more.

In terms of current accounts this **SHOULD** reduce the US payments deficit from 18 000 million dollars to eight million dollars. The rebalancing will also reduce the surpluses of Japan (from 20 000 million dollars to 12 000 million dollars) and Germany (from 6 000 million dollars to 2 500 million dollars).

At the same time, improvements in Britain, France and Italy should lift their combined surplus slightly, from 7 000 million to 8 500 million dollars

This is the basis for the hope that the currency traumas which have rocked trade and investment for two years now will not be repeated.

That said, however, the OECD emphasises that unemployment is likely to increase. The forecast for the whole OECD area is a rise of some 800 000 to 16,5 million in the number of jobless, and if Turkey and Portugal are included, the total rises to 19 million A bleak situation, especially for those countries with political problems.

The OECD sees two main dangers in this

- Some countries may be tempted into taking expansionary measures and will so refuel inflation at a time when it is edging down from an overall average of 6,75 percent to 6,5 percent;
- Others will continue to follow the trend of protectionism to save jobs — a trend which if it continues means "the world could risk slipping back half a century."

The consequences of either would be disastrous. As the OECD points out "these are not new dangers "

And it counsels governments to keep their heads and maintain the slowly moving rates of non-inflationary progress, even if politically unpopular measures are needed

"A primary condition for economic progress, may lie in a further important reduction in the general rate of inflation and the disparities between individual inflation rates," says the OECD.

"This will require, in most OECD countries, that governments and electorates persevere in the counter inflationary efforts on which they are embarked."

One problem has already arisen. The OECD forecast was drawn up before the Organisation of Petroleum Exporting Countries (Opec) decided on its step-by-step 14,5 percent oil price rises.

The OECD had assumed an increase of five percent and had not accounted for the Iranian crisis. And, as it says itself: "Every 10 percent rise in the price of oil adds . . . nearly 0,5 percentage points to the (OECD) area's inflation rate and 12 000 — 14 000-million dollars to (its) oil import bill."

Its forecast, therefore, that the total OECD deficit will amount to only 1 500-million dollars could be serveral billion out by the end of this year.

What the Opec price increase will do to inflation is also open to anxious questioning.

But in warning against the dangers of inflation the OECD forecast added: "In a different but not unrelated field, insufficient progress has been made by most countries in reducing dependence upon imports of oil from traditional suppliers (Opec), and this could constitute an additional discouragement to business initiative and sustainable expansion."

In effect the OECD's highly qualified report seems to come to a conclusion that even though the Western economy has laid the foundations for calmer conditions in the next 12 months, the uncertainties remain as thick as ever.

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U.S. ECONOMY FACES DROP IN G.N.P.

231
Sun. Trib
25/11/79

THE US faces a 1,25 percent decline in gross national product next year, but this will be accompanied by a slight slowdown in inflation and, for the first time for many years, a current account surplus.

This forecast is contained in the latest annual survey of the US economy by the Organisation for Economic Co operation and Development.

The organisation's secretariat forecast of a 1,25 percent decline in GNP next year would compare with the rise of two percent expected for this year.

However, after a sharp fall of three percent at an annual rate in the first half of next year output is then expected to recover and to rise by 0,75 percent in the second half.

The report stresses that, in the present difficult economic circumstances, the US Administration must continue to give top priority to the reduction of inflation. There is little scope at the moment for monetary or fiscal measures to stimulate demand, of the kind adopted during previous periods of recession.

"They would probably be perceived as a reduction in the priority given to curbing inflation, could lead to a weakening of the dollar and might well have adverse effects on confidence and activity," the report adds.

After stressing that, in spite of the acceleration in price rises over the past 12 months, the upward trend in wages had remained surprisingly moderate, the OECD warns that there is a risk that wages will begin to catch up. A major objective of US policy should be to counter this tendency.

If wages do not rise as fast as prices, the OECD expects that, by the second half of next year, the rise in prices could be brought down towards the present underlying rate of inflation of 8,5 to 9 percent. But consumer prices are still forecast to rise by 9,5 percent in the first half of next year, after jumping by 12,25 percent in the second half of this year.

The OECD also emphasises that the tighter monetary policies adopted recently by the US authorities, are essential, both as a counter-inflationary measure and as a means of stabilising the dollar. If some further tightening proves necessary on the same grounds, it would have to be accepted.

The report says that high short-term interest rates coupled with slack economic activity might lead to a further weakening of demand. This, it adds, is a risk which would have to be taken in the interests of the US and world economies.
economies — Financial Times, London

Sun. Tribune 1/7/79

(231)

Opec: Now for the far from good news

THE NEWS flashed from the Geneva Intercontinental Hotel to the ornate, pseudo-Versailles Akasaka Palace in Tokyo was not the worst. But it was far from good.

In spite of a hard fight, the Saudi Arabians had been forced by the other members of the Organisation of Petroleum Exporting Countries (Opec) to agree to yet another compromise. A two-tier oil price under which Saudi Arabia and the United Arab Emirates will hold their market price to 18 dollars a barrel while the rest range around 23.

Opec in effect was giving de jure status to free market forces which have driven crude oil costs up to an average of 18 dollars a barrel this year.

Initial reaction from the Tokyo summit meeting of the seven major industrial nations, plus the European Economic Community, in the Akasaka Palace was relatively muted.

They had already taken the Opec decision into account and the draft final communique had written into it EEC plans to peg oil imports and American commitments to limit their demand levels.

In the financial markets the dollar weakened, but not dramatically, while sterling, with North Sea oil prices now entrenched around 50 percent up on the end-1978 mark, again hit new three-year highs.

And gold stayed quiet. At James Capel and Company, leading London stockbrokers, one gold analyst commented: "It seems it is better to travel hopefully than to arrive. Gold has anticipated something like this and the Opec decision has not added much impetus to the bullion price. It's a bit of an anti-climax really."

So just as the phenomenon of a rising dollar and climbing gold price has been a feature of the first six months of the year, it is now possible that both could subside in tandem — while the northern hemisphere sees out its summer and bullion holders take profits.

While the Opec "agreement" may take some of the heat out of the spot market in crude oil it is far from reassuring on two points.

- The average oil price increase in terms of 1978 levels is now more than 50 percent.

Opec is not re-unified by the Geneva decision and oil prices are still open to "interpretation" by exporters which could put further upward pressure on the market until receding growth rates in the Western economies produce a cutback in demand.

In this situation, the feeling in London is that the dollar must be vulnerable to another run. Not only will Opec countries again be deluged with more dollars than they want but the inflation rates will worsen in the short term.

Mr Emile van Lennep, secretary general of the Organisation for Economic Co-operation and Development, said that when oil prices were 25 percent higher they added more than 0,5 percent to OECD inflation and double this when other energy prices are adjusted upwards.

That 25 percent is now 50 percent so that the industrialised West is looking at the prospect of an average 2,0 or 2,5 percent additional inflation even if Opec prices are frozen for a year.

For South Africans, already paying among the highest prices in the world for their petrol, the immediate impact has now been discounted. They, in fact, have faced the inevitable more quickly than most.

Debate now revolves around the forthcoming global recession. Mr Van Lennep says: "Inadequate energy and economic policies would almost inevitably lead to a new inflationary recession of the kind experienced in 1974-75 . . not on the same scale, but with the same unpleasant characteristics.

"And the starting point would be less favourable. Unemployment is much higher than in 1973. Inflationary expectations are much stronger. And it is harder to create new jobs because we are still suffering from a distorted structure of costs and prices caused by the first oil crisis."

With non-Opec oil discoveries it is estimated that energy supplies could rise by 11 percent over the next five years. Against that, the OECD area as a whole requires four percent annual economic growth to hold unemployment steady.

There is, however, some hope even here because while US energy consumption has been inefficient on an historical basis it is improving. According to President Carter in Tokyo, the US required 1,05 percent more energy for every one percent increase in economic output before 1973. Now, he claimed, that ratio is down to 0,37 percent.

If this can be improved the equation between overall growth and energy needs could balance, providing the OECD keeps a tight rein on demand even if oil supplies move temporarily into surplus in 1980. But there is very little, if any, margin for relaxation.

Taking Stock — **Colin Campbell**

Europe saddled with glut of migrants

DURING the economic boom of the sixties, millions of foreign workers from North Africa, Greece, Portugal, Italy, Spain, Yugoslavia and other poor countries flocked to the wealthier European countries to carry out menial jobs.

While the going was good, labour-hungry Germany, France, Sweden and Switzerland embraced these workers who were prepared to do the dirty jobs.

The motivation of the workers was similar to the men who arrive from the homelands to work in Johannesburg and on the mines They would send cash to their poverty-stricken families living in the villages back home.

But then came the recession of the early seventies and with companies laying off employees, unemployment among the immigrant populace increased.

The governments of the wealthy European countries decided to discourage the migrants from staying

Some governments refused to allow foreigners into the country if they indicated that their stay would be longer than a vacation.

This aggravated the problem because the migrants already employed were worried that if they returned home to visit their families, countries would refuse them re-entry rights

Instead, they sent for their wives and children and the immigrant community grew.

By NEIL BEHRMANN: London

Switzerland was one of the few countries which successfully reversed the flow of these migrant workers. Temporary work permits were refused and life was made so uncomfortable for the migrants that many decided to leave.

A recent survey done by the Organisation for Economic Co-operation and Development (OECD) points out that in countries such as Luxembourg, foreign workers still represent 32 per cent of the labour force, followed by Switzerland 16 per cent, Germany 10 per cent, Belgium 8 per cent, France 7 per cent and Sweden 5 per cent.

The International Herald Tribune describes the situation as a "fast-ticking time bomb" It adds that the growing ghettoes of immigrant workers who have come to stay burden European cities from London to Berlin and from Paris to Stockholm.

The OECD says foreigners represented 15 per cent of the Swiss population in 1977, 12 per cent of the French population, 9 per cent of the Swedish and Belgian populations, 7 per cent of Germany's populace and 5 per cent of the population of Britain.

With the exception of Switzerland, the migrant population has tended to increase rather than decrease.

The OECD says that the unemployment rate among foreigners is higher than the nationals in all countries and the tendency is for this gap to increase

This contrasts with the early seventies when immigration was halted when foreigners were less affected by the unemployment situation than nationals The current situation reflects that the children of the immigrant workers have become vulnerable in economies where it is increasingly difficult to find jobs for the youth.

With the number of immigrants estimated at almost 15-million, this is hardly an insignificant problem.

The OECD survey says that most of these European countries have decided to integrate foreigners who have been resident for a long time, to encourage the learning of languages and provide housing facilities. Migrant conditions are being surveyed and foreigners are being given varying degrees of political rights

The International Herald Tribune, however, reports that there is resentment and friction. A Paris trade union official claimed that French workers were quick to equate 2-million unemployed with "2-million migrant workers"

Immigrants are blamed by many Europeans for rising crime, drug traffic and vandalism, urban decay and the general dearth of jobs.

However, manpower planners appreciate that they need immigrant labour to do the menial chores in factories, sweep the street and help aged people with their domestic chores

Sun. Trib. 15/4/79

(231)

LONDON

Killing sacred cows

JOHN CAVILL

THE speed with which heresy becomes conventional wisdom (and vice versa) is nowhere more bewildering and apparent than in the field of economic policy.

Armed with the hindsight of four decades of unparallelled economic and political development, the zealots of monetarism have, in the last 10 years, consigned to the flames the ideas of Keynes in the name of purging the ultimate economic vice — inflation

The monetarists have undoubtedly proved correct in the battle to quench the runaway inflation that followed from the confluence of the economic booms of the 1960's and the quadrupling of oil prices in 1973

Virtuous economies (Germany, inflation rate two percent) have been rewarded while the foolish and the profligate (Turkey, Italy, Portugal, Britain the United States and so on) have learned their lesson, or so it is hoped.

That lesson says, in essence, that economic growth more jobs and higher standards of living bought at the price of inflation have a short, unhappy life

When the inevitable crunch comes, when money loses value, when real returns on capital collapse, and when governments deflate to counter inflation then economies end up worse off in net terms

And even when the bitter pill of monetary and fiscal restraint has been swallowed the danger of a relapse is ever constant during the convalescence, vide America's return to double figure inflation after a period of economic recovery and Britain's similar plight

The question affects all major industrial economies And looking at the 24 member-nations of the Organisation for Economic Co-operation (OECD) Oppenheim and Development, two British economists, P M Oppenheim of Oxford and M V Posner of Cambridge, have posed a challenge to the school of thought that maintains that rigorous monetarism holds the exclusive key to economic heatlh.

Their view springs from the fact that in spite of the new conservatism in economic policies the world continues to underperform — the recovery from the recession of 1974-76 has not happened

In the latest Midland Bank Review Oppenheim and Posner make the point thus "An OECD economy that limps painfully for five years or more through a sort of monetarist purgatory in order to redeem its inflationary sins of the last two decades may soothe a puritan conscience or two, but it also poses a mountainous threat to world trade and international investment . . ."

They argue that the pendulum of opinion has swung too far in favour to quietism and inaction by governments in the face of slack demand and low output even though previous "activist" policies may have been carried to reckless extremes

The OECD group, which is the Western industrial world, now faces a growth rate of 2,5 percent after 3,5 percent in 1978 But even at this low level of growth, with unemployment still hovering around 16-million, the OECD faces a new period of inflation.

In the less industrialised non-OECD countries, dependent on the richer group for exports of raw materials, the position is worsened because they cannot afford to stand still

Thus Oppenheim and Posner argue "Unless OECD governments, individually and collectively, take additional expansionary action in the months ahead, the growth of output over the next few years is likely to be half the rate achieved in the decade before 1973

(231) FM 18/7/80

OECD

The rich don't get richer

The West's economic downturn as a result of the current rise in energy costs will be less severe than that caused by the 1973 oil crisis This is the most hopeful message emerging from last week's biannual forecast of the Organisation for Economic Co-operation and Development (OECD), representing the world's most prosperous industrial nations

This does not mean that the outlook is rosy The OECD area, as a whole, will achieve a real growth rate of only 1% in 1980 One of the main uncertainties is the nature of the US recession The report predicts a sharp decline of 4% a year in the second half of 1980, compared to the first half, and a zero annual growth rate for the first half of 1981

The UK follows this pattern with an annual fall in GNP of 4,5% Recovery may be slow, with an annual rate of 1% growth in the first half of 1981

The rise in oil prices is expected to result in a doubling of the OECD area's current balance-of-payments deficit between 1979 and 1980 to $81 bn, but this will come down to about $50 bn a year at the beginning of 1981 Some 40% of the shortfall will probably be borne by the two strongest economies, Japan and West Germany

The report says that countries with good credit ratings should not strive to rectify their current deficits Instead, they should encourage capital inflows Free trade policies should be observed, particularly by industrialised countries which should allow access to the products of developing nations

The OECD countries are thought to have done well in their trade with oil-producing nations The exports by the industrialised countries to the Opec nations are thought to have grown by an annual rate of 6% this year, and Opec countries are expected to increase their imports by 20% over the next year The OECD oil bill in 1980 will be up by $90 bn over 1979, but its exports to the oil producers should rise by $50 bn over the same period

Other raw material prices are expected to show "no more than a modest decline" over the next year or so In the previous oil crisis, the fall in the price of these commodities amounted to almost 30%, but inadequate investment in mining and farming during the intervening years, coupled with the higher fuel costs and political uncertainties, have held back production growth

Developing countries (excluding oil producers, who do not count for the purpose of this comparison) have had more rapid growth in their GNP than the OECD members over the past six years This has stimulated world trade, but over-borrowing in the Third World may slow down its growth

Interesting though these forecasts are, they should be taken with a pinch of salt After the 1973 oil crisis, the OECD predicted annual increases in output of 5,5% in the five years leading up to 1980 As it happened, the growth rate was 3,5% a year

But there is mounting evidence that the OECD is accurate in at least one of its main conclusions unemployment among young people will be a serious political and social problem in the immediate future For the area as a whole, the rate of youth unemployment will rise to 13% next year — and that excludes school leavers and adult students

In the US, it will be 16% (mainly blacks and Chicanos) while it will be 16,5% in France In the UK, it is expected to reach 14% in 1981, compared to 10,75% this year and 8% last year — the sharpest increase among OECD members

The OECD report is headed, optimistically, "Towards more balanced growth," and the review has based its predictions on the assumption that consumer confidence can be maintained and that wage settlements will continue to be moderate.

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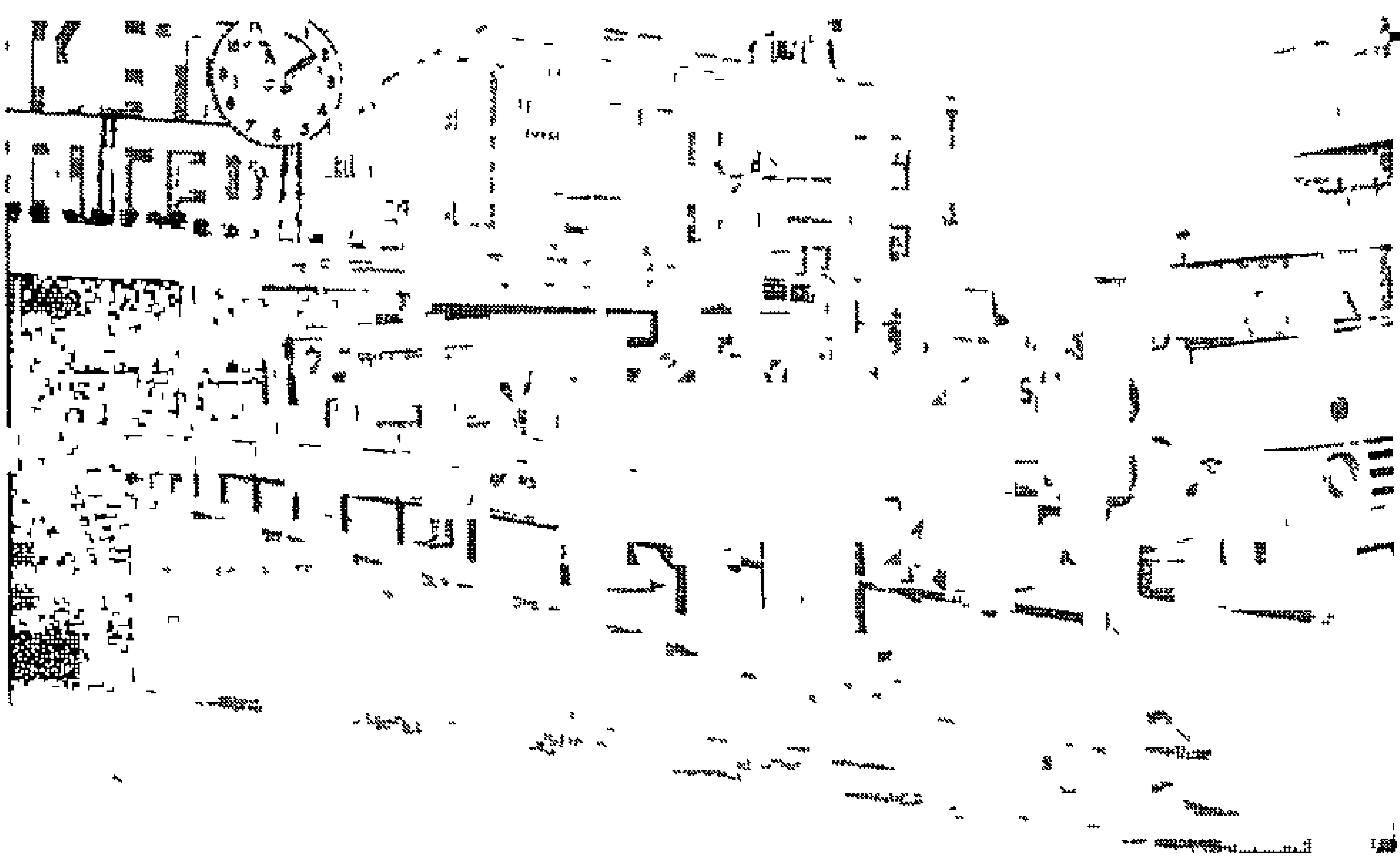

American unemployed their numbers are growing

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24/6/80 ARGUS

Teachers threaten 'work to rule'

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Special Correspondent

GRAAFF-REINET. — Delegates attending the 93rd conference of the South African Teachers' Association (SATA) here today decided in favour of using a withdrawal by teachers from extra-mural activities as a strategy in salary negotiations.

The subject caused much heated debate and the motion was eventually carried by 60 votes to 42.

The full motion asked that conference request the Federal Council of Teachers to use 'a withdrawal by teachers from all extra-mural activities as a strategy in salary negotiations with the Minister of National Education and that they request the Federal Council to advise the Minister of the radical changes the South African schooling system would undergo as a result of such a step.

BLAME

It blamed the Minister and the Cabinet for the totally unacceptable salary structure which had driven teachers to consider such a drastic step and it called on the Federal Council to implement such a withdrawal if progress towards a fair deal was not made.

The proposer of the motion, Mr André de Beer of East London, said previous negotiations with the Government had failed, and it was now time to 'negotiate with a bit of muscle.'

'All we will get if we sit around the table again is a six-month wait for another letdown,' he said.

NOT STRIKE

He said that when one withdrew from something voluntarily it did not constitute strike action. Extra-mural activities by teachers were undertaken on a voluntary basis.

Mr de Beer said it was not the intention to deprive children. The Government had already deprived children by paying teachers 'a peasant's wage.' Teachers were leaving the profession because of inadequate pay, he said.

FM 7/5/82

OECD FORECASTS (231)

Downward revision

The Western industrial world was served up with another dollop of gloomy economic news last week. In Paris, the Organisation for Economic Co-operation and Development (OECD) reported that it is scaling down its 1982 growth forecasts for its 24 Western industrial member countries, as a result of persistent high interest rates throughout the world.

The OECD now expects Western economies to grow by only 0,3% this year, as opposed to the 1,25% growth rate it was forecasting last December This virtual stagnation contrasts with a 1,25% growth rate in 1981 and means that unemployment — now averaging 8% of the OECD's labour force — will creep higher Inflation is also likely to stabilise at about 8%

A very mild recovery is expected to get underway later this year leading to an overall average growth rate of about 2,8% in 1983. But the OECD secretariat describes this upswing as "technical," reflecting mainly the decline in real oil prices.

The OECD is the second international institution recently to revise downwards its growth forecasts as a result of continuing high interest rates. Last month, the Brussels-based Commission of the European Common Market warned that growth in the 10-nation community is likely to average only 0,5% this year, against earlier forecasts of 1,5%.

The OECD secretariat produced its revised forecasts at last week's meeting of its economic policy committee, which brought together top policy officials from member countries for their last private discussions before the organisation's ministerial meeting later this month and the Western economic summit in Versailles in early June

As expected, Mr Murray Weidenbaum, the chairman of President Reagan's council of economic advisors, came under heavy pressure to bring down American interest rates by closing the Federal budget and thus easing the upward pressure on other countries rates as well Unfortunately, the meeting coincided with the apparent breakdown of the talks between the White House and Congress on reducing the deficit, deepening many delegates' exasperation with the course of American economic policy

The Europeans argued that the root cause of high interest rates throughout the world is the US deficit, which has forced up American rates

KDM (231) 21/12/84

Outlook rosy for OECD nations

By NEIL BEHRMANN

LONDON. — The Organisation for Economic Cooperation and Development (OECD) says the economic prospects of major industrial nations are the best since 1973.

It expects non-inflationary growth and "widespread improvement in economic performance".

This OECD emergence from a period of "chronic stagflation" will have a mixed effect on South Africa's own economic prospects

Continuation of low inflation rates of SA's major trading partners is unlikely to generate a boom in precious metals and diamonds exports.

But if South Africa gets its own inflation under control the depreciation of the rand should boost manufacturing and minerals exports

Economic growth of industrial countries should help exporters of base metals and minerals

The 24 members of the Paris-based OECD include North American, European and Australasian nations. South Africa is not a member

"The economies of the OECD are moving into 1985 at a higher level of activity and at brisker pace than was generally foreseen nine or even six months ago," says the OECD's latest economic outlook

But "obvious problems remain .. With the exceptions of the United States and Japan, together with a few smaller countries, high unemployment rates have become entrenched, and show no signs of falling"

The outlook for the US economy is favourable, but the large trade and budget deficits are "possible elements of instability".

On the international scene the debt crisis continues and world trade is subject to protectionism.

But the economic climate has begun to look a lot sunnier recently.

OECD growth in 1984 was a high 4,75%, the fastest since 1976, though it is unevenly spread, with Europe in particular growing modestly

Domestic demand is unlikely to strengthen outside the United States, so OECD growth will weaken slightly from an annual rate of 3,5% in the second half of 1984 to 3% in the first half of 1986

US real growth could fall from 6,75% in 1984 to 3% in 1985, Japan's growth from 5,75% to 5%, West Germany's from 2,5% to 2,75% and Britain's from 2% to 3%, predicts the OECD.

OECD inflation at 5% is the lowest since 1972 and with international commodity and oil markets weak, is likely "to be containable" over the next 18 months

US inflation is predicted at 4% next year, while Japanese and West German rates are forecast around 2%

But the average unemployment rate in the OECD will be 8,5%, with 32-million people out of work

Unemployment in Europe is forecast at 11,75%, representing nearly 20-million people

Youth hardest hit as jobless toll rises

By NEIL BEHRMANN

LONDON. — Unemployment remains the scourge of Western economies even though they have recovered from the worst recession since the 1930s.

A study by the Organisation of Economic Co-operation and Development (OECD) forecasts that the jobless total in its 24-member nations will rise from 31-million his year to nearly 32-million by the end of 1985.

European unemployment of almost 20-million could reach a new record rate of 11,5% next year.

The 24 member nations of the OECD include all the major western industrial nations and Greece, Portugal, Iceland, Turkey , Australia and New Zealand

The OECD concludes that employment growth will remain strong in America , but "there is unlikely to be a significant fall in unemployment outside the US"

Figures issued by the OECD show an unemployment rate of 15,3% in Belgium; 9,1% in France, 8,3% in West Germany; 10,4% in Italy; 13,9% in The Netherlands, 2,8% in Japan, 11,1% in Canada; 7,4% in the US, 3,4% in Greece, 9,1% in Australia; 4,3% in Austria; 3,2% in Norway; and 19,7% in Spain.

The report shows that youth unemployment remains at tragically high levels.

In the US, Japan, major European countries and Australia, Finland, Norway, Spain and Sweden 10,9-million young people were unemployed last year compared to 8-million in 1980.

This year the youth unemployment rate in these countries may decline from 17,7% to 16,75% but there will still be 10,25-million young people out of work.

Unemployment rates this year are 13,5% in the UK; 11% in Canada; more than 10% in France and Italy; 8% in West Germany; 7,75% in the US; and only 2,5% in Japan.

Australia has an unemployment rate of 8,75% and New Zealand 7,25%.

Of the total youth labour force — 15-24 years of age — nearly 43% are unemployed in Spain, 34% in Italy; 25% in France; 24% in Britain; 19% in Canada; 13% in the US; and more than 10% in West Germany.

About 16% of youths are without work in Australia.

The OECD predicts that youth unemployment will fall in several European countries next year but could rise in Italy, Spain and France.

Most unemployed youths find jobs relatively quickly provided they are prepared to accept what they are offered.

The incidence of long-term-unemployed defined as a year or more is highest amongst adults aged more than 50

"It is noticeable in recent years that long-term unemployment is affecting a much higher proportion of unemployed men and women in all age groups.

"The long-term unemployed often have low or outdated skills and more health problems compared to the short-term unemployed.

"Thus, employers are often reluctant to hire significant numbers of the long-term unemployed in the early stages of a recovery.

The OECD estimates that the numbers out of work for a year or more will, as a proportion of total unemployment, approach 45% in France and could exceed 40% in the UK and 30% in West Germany.

The US is the only nation which has been successful in raising employment significantly.

In the 1983 first quarter the unemployment rate was 10,2%. It has since fallen to 7,75% but the OECD predicts that it will remain stable well into next year. Nearly 13-million people were jobless in North America in the first quarter of 1983. There are now 9,75-million without work.

RDM 27/11/84 (231)

HIGHEST-EVER EEC UNEMPLOYMENT LEVELS

LUXEMBOURG. — About 110 000 people joined the dole queues in EEC countries last month, raising unemployment levels to an all-time high of 12,8-million.

The Community's statistic agency, Eurostat, said yesterday that the rise could not be explained by purely seasonal factors, and the underlying trend still appeared to be upwards.

The unemployment rate in member states rose to a record 11,4% of the work force from 11,3% in September.

Seasonally-adjusted figures showed that unemployment in France, after a relatively long period of stability, had begun to rise again, but that the overall picture in West Germany and Holland had improved in the last two months.

During the year to October, the number out of work within the nine countries had increased by 5,6%.

The figures showed that unemployment in France in the year to October climbed by 16%, in Italy by 8%, and in Luxembourg, Ireland and Britain by just over 4%.

Denmark and Holland registered falls of 9% and 3% respectively, while the situation in West Germany and Belgium remained more or less the same. — Sapa-Reuter.

Business Day RDM 1/11/84 (231)

Europeans optimistic over growth outlook

LONDON. — Steady and sustainable is how European governments tend to describe the growth outlook for their economies.

An observer comparing Europe's slow haul out of recession with the vigorous upsurge in activity and jobs in the US, however, might well characterise it instead as feeble and arthritic.

It is perhaps understandable that Europeans, especially the British and West Germans, are allowing themselves a measure of self-congratulation

After the horrors of the post-1979 recession, the prospect of continuing growth — albeit at only around 2,50% a year — combined with a further steady decline in inflation can justly be claimed as a real achievement

To that can be added a reasonably impressive productivity performance, substantial progress by many countries in tackling structural budget deficits and an improving trade outlook

The recovery, which the Organisation for Economic Co-operation and Development (OECD) estimates will generate growth of about 2,25% this year and next, is also showing welcome signs of spreading from consumption into exports and investment

Inflation, which was running at over 10% in 1981, should be down to 4,5% by the end of next year in the ten European Community countries.

Economists also expect a broader diffusion of growth among the larger European economies

Britain, West Germany and Italy will provide the main engine, but France, which tightened its monetary and budgetary policies much later than its neighbours, is also likely to show more buoyant growth in 1985.

The outlook, however, looks less rosy when measured against the scale of the problems still facing European economies.

Growth of between 2% and 3% will be barely sufficient to hold unemployment steady in most European nations

So, while the recovery in the US pushes the jobless rate down towards 7%, the rate in the European Community is likely to climb further next year to nearly 11,5%.

In Western Europe as a whole, nearly 20-million people will be looking for work by the end of 1985, the OECD forecasts.

And though industrial investment is now reviving quite strongly, Europe has inherited the legacy of years of neglect of its capital stock.

The European Commission estimates that usable capital stock in the 10 European Community countries may have actually declined between 1975 and 1983. And, as a share of gross domestic product (GDP), total investment has fallen steadily since 1970.

Growth rates in real investment of between 3% and 4% this year and next can hardly be expected to repair the damage and to erode the lead secured by Japan and the US in high-technology industries

Most European governments — backed by international organisations such as the International Monetary Fund and the OECD — are convinced that the dangers of a renewed inflationary spiral rule out the possibility of reflating their economies to provide faster growth.

Monetary and fiscal policies in virtually all countries are thus destined to remain tight, with many taking an even tougher line on public spending and budget deficits

The IMF has no doubts that this is the only tenable strategy.

"The foremost requirement for consolidation of the recovery is the firm application of monetary and fiscal policies continuously geared to maintenance of an anti-inflationary environment," it says in its annual report.

It is a view shared by the governments of Britain, West Germany, France and Italy and by virtually all of the smaller European states.

With reflation ruled out, governments are pinning their hopes on structural adjustments to their economies to provide the platform for faster growth — further transfers of resources from the public to the private sectors and greater flexibility in labour, goods and financial markets

It is a policy prescription that the OECD, long wedded to the idea of governments giving a mild stimulus to demand, has embraced with vigour

Central to the view is that despite the rapid upsurge in unemployment since 1979, European labour markets remain rigid and workers unwilling to adapt to changing conditions.

Government hopes that the recession would bring a permanent shift in wage behaviour and a more responsive attitude among trade unions have gone largely unfulfilled — witness the recent industrial strife in Britain and West Germany.

What is needed, the OECD believes, are further inroads into entrenched trade union power, slower growth and, if necessary, cuts in real wages and the removal of minimum wage and other restrictive labour legislation

That should be combined with tax and regulatory reforms to provide greater freedom for industrial innovation and vigorous efforts by governments to roll back the tide of protectionism

It is not a strategy, however, which holds out the prospect of a rapid quickening of the recovery. It is against this background that governemnts are showing increasing concern about the prospects for the US economy

The current surge in US imports will probabl, provide more than a third of the increased demand in other industrialised nations this year Growth in countries like West Germany is increasingly dependent on exports.

The danger for Europe is that the pressures generated by growing budget and external deficits and rising interest rates could halt the US economy in its tracks next year.

The worst scenario is one in which a rising budget deficit, combined with buoyant credit demand and tight monetary policy, forces interest rates sharply higher and coincides with a collapse of confidence in the dollar

"What the US recovery is doing for the rest of the world, a US recession could undo just as quickly," says the Bank for International Settlements — Financial Times.

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Dogs disperse crowd at trial

Dispatch Correspondent

CAPE TOWN — Dogs on leashes were used to disperse a crowd of about 150 chanting supporters of a dozen people who appeared before a magistrate here yesterday in connection with charges of high treason and terrorism

One man was bitten on the arm by a leashed alsatian which ripped off his jacket sleeve and tore a bag from his grasp, causing tense moments as the crowd ran for cover and the mood heightened

The alsations were handled by persons who may not be identified in terms of the emergency regulations

The crowd cheered wildly and began chanting and singing freedom songs after seeing the 12 trialists arrive and later when they appeared at the windows of the second-storey temporary courtroom

Sapa reports that Mr W C Viljoen, for the state, told the magistrate, Mr M J Tolken, the men would be charged under the Internal Security Act with a main count of treason and with terrorism and furthering the aims of the ANC

The accused are Mr Cecil Esau, 31, Mr Joseph Malusi Ngoma 28, Mr Quinton Michaels, 27, Mr Mthetho Douglas Myamya, 35, Mr Reed Zwelethu Macozoma, 26, Mr Neville Michael van der Rheede 31 Mr Joseph Susele Mkhuhlwa, 31, Mr Themba Lucas Tshibiku, 33 Mr Sazi Livingston Veldtman, 29, Mr Anderson Ncivata, 34, Mr Lizo Ngqungwana, 26, and Mr Theophilus Thembimkosi Mzukwa 26

Pan-African force postponed again

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ADDIS ABABA — African Foreign Ministers meeting here yesterday postponed a decision on setting up a pan-African defence force after Ethiopia, Nigeria and Kenya opposed the idea, conference sources said

Ethiopian Foreign Minister Mr Goshu Wolde said the proposal, a perennial issue at Organisation of African Unity (OAU) meetings, was premature and would be prohibitively expensive

Mr Goshu cited the case of the pan-African peacekeeping force sent to Chad in 1981, made up of Nigerian, Zairean and Senegalese troops, which withdrew without carrying out its mission and with the participants complaining of the high costs

"Such a force could even backfire and destabilise the very purpose for which it was established," Mr Wolde added

CREDIBILITY

The Nigerian and Kenyan delegates advised the OAU ministerial council, which is preparing for an African summit here next week, not to jeopardise the OAU's credibility by setting up a defence force which would not work

OAU sources said yesterday that African countries would be called on to pay some $15 million (about R37,5 million) in arrears they owe the OAU "Liberation Committee" for insurgents fighting in South Africa and Namibia. — Sapa-Reuter

OAU calls for the cash

ADDIS ABABA — African countries are to be called on to pay up about R37 million in arrears which they owe the Organisation of African Unity (OAU) for insurgents fighting the South African Government in South Africa and Namibia.

OAU sources said the money is unpaid dues to the Liberation Committee in Dar es Salaam, which for the past 15 years has co-ordinated the so-called liberation and anti-colonial struggle in Africa.

A resolution expected to be adopted by Foreign Ministers from the 50 OAU countries meeting this week in Addis Ababa demands settlement of outstanding contributions by the end of the year. — Sapa-Reuter

Glut economy puts the lid on prices around the world

By Neil Behrmann

LONDON — Average inflation in the 24-member nations of the Organisation for Economic Co-operation — the Western industrial leaders — is running at an annual rate little above 1 percent

But the economic scenarios are highly mixed

Around the globe, prices of grain, sugar, metals and steel are depressed Discounts are widely offered on cars, computers, TV sets and a variety of other goods

Among the OECD countries, more than 30 million people are without jobs — 8,5 percent of the workforce

Chronic shortages of the affluent 1960s and 1970s have turned to glut Manufacturers are producing more goods than consumers can buy and a surplus of labour is curbing the power of trade unions

The glut economy has precipitated a dramatic decline in inflation in countries from South America to Australia, but there is no uniformity in price cuts

In Britain and the US, for example, house prices rose in tandem with share markets While financial and real estate markets boomed, prices of other goods declined

INFLATION IN REVERSE

Despite the anomalies, major industrial nations are now reporting regular falls in producer, wholesale and consumer price indices Wholesale prices in the US, France, West Germany and Japan are plunging by 5 to 10 percent a year

Among these countries, inflation has actually turned to deflation on current month-to-month price comparisons Even Britain predicts inflation will be down to almost zero by next year

Nations have been successful in conquering inflation largely because of the way they applied tight monetary policies from the late 1970s to the mid-1980s

The most important contributor to this year's sharp fall in inflation is the collapse of oil prices, which in turn also brought down the cost of coal and the cost of energy in general

RAND-DOLLAR EXCHANGE RATE

While the decline has pulled down oil prices from $40 to only $10 a barrel for the big Western industrial nations, the cuts have reduced prices paid by South Africa no more than from R33 to R25 a barrel because of the tumble of the rand-dollar exchange rate

Also, though devaluation in theory makes rand exports more competitive, South African exporters have encountered resistance from overseas buyers because of the political factor

Conditioned by inflation for several decades, international economists have mixed feelings about the first signs of emerging deflation. Some believe that deflation will be accompanied by a prolonged period of economic expansion Others worry that it will set off a debt crisis and bankruptcies

Says Mr Brendan Brown, chief economist at County Bank "It is premature to assume we are in a deflationary cycle

"The statistics say that prices are falling, but wages are still increasing The decline in oil prices will, like a change in sales tax, have only a once-off effect on prices

"In the past year there have been sharp increases in money growth in the US and in Europe which cannot be deflationary"

(xvii) South African Library,

(xviii) The State Library,

(xix) Grocott & Sherry,

(xx) Seymore & Van Biljon,

(xxi) F, T and R Printers,

(xxii) Heer Printers,

(xxiii) University of Stellenbosch

Post and Telecommunications

1085 Mr P G SOAL asked the Minister of Communications

(a) How many annual reports were produced by the Department of Posts and Telecommunications during the latest specified period of 12 months for which information is available, (b) in respect of what bodies were these reports produced, (c) what was the cost of producing each such report and (d) who did the printing of each report?

The MINISTER OF COMMUNICATIONS:

(a) One, during the 12 months that ended on 31 May 1986

(b) The Annual Report of the Department of Posts and Telecommunications

(c) R21 705

(d) The Department's own printing works

Annual reports

1087 Mr P G SOAL asked the Minister of Education and Development Aid

(a) How many annual reports were produced by the Department of Education and Training during the latest specified period of 12 months for which information is available, (b) in respect of what bodies were these reports produced, (c) what was the cost of producing each such report and (d) who did the printing of each report?

The MINISTER OF EDUCATION AND DEVELOPMENT AID

(a) One

(b) The Department of Education and Training

(c) A final statement has not yet been received from the Government Printer

(d) Cape and Transvaal Printers for the Government Printer, Pretoria

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TUESDAY, 10 JUNE 1986

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†Indicates translated version

For oral reply

General Affairs

†Mr SPEAKER It has come to my notice that Questions Nos 7, 21 and 22 for oral reply today, deal with Crossroads and the KTC squatter camp

As the matter became *sub judice* after the Supreme Court had granted an interdict in respect of the KTC squatter camp, these three questions cannot be put

Mr G B D McINTOSH Mr Speaker, in view of the fact that the interdict has clearly been ignored, both yesterday and today, do you not believe that as a matter of urgent public importance these questions should be answered, particularly taking into account the non-observance of that interdict yesterday, and evidently this morning as well?

Mr SPEAKER: Order! I want to tell the hon member for Pietermaritzburg-North that two wrongs do not make a right We have to abide by the interdict granted by the Supreme Court

Kabokweni magistrate's court

10/6/86 HANSARD

*1 Mr P G SOAL asked the Minister of Law and Order

(1) With reference to his reply to Question No 13 on 6 May 1986, (a) who (i) was the head and (ii) were the other members of the panel investigating the incident at the Kabokweni magistrate's court near White River in the Eastern Transvaal on or about 11 March 1986 and (b) what was the nature of the investigation,

(2) whether this investigation has been completed, if not, when is it anticipated that it will be completed, if so, when,

(3) whether the investigating panel has reported its findings, if not, when is it anticipated that a report will be available, if so, (a) when and (b) what were the (i) findings and (ii) recommendations,

(4) whether any action has been taken as a result of this investigation, if so, what action,

(5) whether he will make a statement on the matter?

†The MINISTER OF LAW AND ORDER:

(1) (a) (i) and (ii) Major General A J Wandrag, the Divisional Commissioner, other commissioned officers and members of the Force

(b) To investigate the events on 11 March 1986 at the Kabokweni magistrate's court and the circumstances leading thereto, with specific reference to the actions of the South African Police

(2) Yes, on 21 April 1986, after which a comprehensive report was prepared, which was submitted to me on 15 May 1986

(3) Yes

(a) 15 May 1986

(b) (i) and (ii) Since the inquest has not been completed yet, I do not deem it in the interest of the administration of justice to make known the findings and recommendations of the investigation

(4) I refer the hon member to my answer in paragraph (3)(b)(i) and (ii)

(5) No

Petrol prices

*2 Mr L F STOFBERG asked the Minister of Mineral and Energy Affairs †

Whether the revenue earned by the Republiek from exports of minerals, fuel, lubricants and related products to member countries of the Organisation for Economic Co-operation and Development was set off at the latest fixing of petrol prices, if so, (a) in what manner and (b) on what date were these petrol prices announced, if not, (i) what total amount did these exports come to over the latest specified period of 12 months for which figures are available and (ii) in what manner did his Department set off this amount?

The MINISTER OF MINERAL AND ENERGY AFFAIRS

No The rest of the question falls away

Exports

HANSARD 231

*3 Mr L F STOFBERG asked the Minister of Mineral and Energy Affairs †

(1) Whether the Republic exported minerals, fuel lubricants and related products to the amount of approximately two milliard dollars to member countries of the Organisation for Economic Co-operation and Development over the past two years, if so,

(2) Whether he will furnish particulars of these exports, if not, why not, if so,

what products do these exports comprise,

(3) whether his Department exercises any control over the export prices of such products, if so, what is the nature of such control, if not, why not?

†The MINISTER OF MINERAL AND ENERGY AFFAIRS

(1) The export value of products to member countries of the Organisation for Economic Co-operation and Development over the past two years amounted to well in excess of two milliard dollars

(2) No At this stage the identification of these commodities is not in the national interest

(3) Prices are not controlled

Code of conduct

*4 Mr L F STOFBERG asked the Minister of Trade and Industry †

(1) Whether he has been informed that member countries of the Organisation for Economic Co-operation and Development have prescribed a code of conduct for multinational undertakings, if so,

(2) whether he has the text of this code of conduct, if so, what is the purport of the main articles of the code of conduct,

(3) whether he will prescribe a similar code of conduct for multinational companies operating in the Republic, if not, why not,

(4) whether he will make a statement on the matter?

The MINISTER OF TRADE AND INDUSTRY·

(1) No The Republic of South Africa is not a member of the Organisation for Economic Co-operation and Development and information on the Organisation's activities is not furnished by it to the South African Government

(2) Falls away

(3) No Multinational companies which operate in South Africa are subject to laws, rules and regulations of the country

(4) ~~No~~

Wynberg Senior Secondary School

*5 Mr R M BURROWS asked the Minister of Law and Order

(1) Whether any members of the South African Police took any action in or in the vicinity of the Wynberg Senior Secondary School on 22 May 1986, if so, (a) how many such members were deployed, (b) what was the nature of the operation in which they were involved, (c) what was the rank of the person who was in charge of such members and (d) what specified equipment did the police have on this occasion,

(2) whether any members of the South African Police were at any stage involved in the alleged whipping of pupils at this high school (a) outside and (b) on school property, if so, (i) why, (ii) what is the rank of the person who gave the order in this regard, (iii) how many pupils were injured as a result and (iv) what was the nature of their injuries,

(3) whether the pupils concerned were given warning to disperse before members of the South African police took action, if not why not, if so, (a) what warning were they given, (b) how was the warning broadcast and (c) what was the response of the pupils to this warning,

(4) Whether any educational personnel attempted to intercede between the police and the pupils, if so, (a) in what manner, (b) what were the circumstances surrounding the intercession and (c) what was the reponse of the police to these attempts,

(5) whether any policemen (a) entered any houses near the school and (b) took any action against any persons present in these houses, if so, (i) what were the circumstances surrounding these incidents in each case, (ii) why, (iii) (aa) in terms of what statutory provision and (bb) on whose instructions did they enter these houses and (iv) (aa) what specified action did they take and (bb) with what result?

†The MINISTER OF LAW AND ORDER

(1) Yes

(a) 65 members

(b) To maintain law and order

(c) A Colonel of the South African Police

(d) A variety of weapons which were adequate to meet the given situation

(2) (a) No

(i) to (iv) Fall away

(b) Yes

(i) To disperse pupils who were holding an illegal gathering and who acted riotously

(ii) A Lieutenant of the South African Police

(iii) and (iv) The South African Police is not aware of any injuries which the pupils sustained

(3) Yes

(a) To leave the schoolgrounds peacefully within 30 minutes, or else the police would act against them

(b) Orally by the headmaster

(c) As the police was at that stage not on the schoolgrounds, it is not known how the pupils reacted to the warning

(4) Yes

(a) The headmaster undertook to warn the pupils himself to disperse

(b) I refer the hon member to my answer in pargraph (3)(c)

(c) The police left the schoolgrounds in order to give the headmaster the opportunity to warn the pupils himself

(5) (a) and (b) No

(i) to (iv) Fall away

Mr R M BURROWS Mr Speaker, arising from the hon the Minister's reply can he inform us as to whether the Police entered the school grounds at the request of the principal?

The MINISTER Mr Speaker, I do not know, I do not have the information readily available

Exports to Soviet Union

*6 Mr E K MOORCROFT asked the Minister of Agricultural Economics:

Whether any requests have been received for the export of any agricultural products from South Africa to the Soviet Union following the recent nuclear power plant disaster at Chernobyl, if so, (a) when, (b) from whom, (c) what products are involved and (d) what was the response thereto?

331 Sowetan 18/9/87

SOWETAN, Friday, September 18, 1987

WHY I CALLED PW A TSOTSI - LEKOTA

Someone who was dishonest

By MONK NKOMO

THE United Democratic Front never intended to negotiate with the Government because they had referred to the State President, Mr P W Botha as a "terrorist", the prosecutor, Mr P Fick submitted in the Pretoria Supreme Court yesterday

Referring to court exhibits, Mr Fick said the audience at the launching of the UDF in August, 1983 had chanted "PW Botha, a terrorist'

Mr Patrick "Terror" Lekota, national publicity secretary of the UDF yesterday confessed that he at one stage called Mr Botha 'a tsotsi", and said the State President could have been labelled "a terrorist" — all in a political context because a tsotsi meant someone who was dishonest, Mr Lekota said

He denied suggestions that they did not want to sit on a negotiating table with Mr Botha

"We wrote a letter requesting him to meet us for discussions but we received no reply," Mr Lekota said

He said Archbishop Desmond Tutu had at one time met the State President "and he was not fired as a patron of the UDF because he had met Mr Botha"

The State President could have been referred to as "a terrorist" because of the Government policies of forced removals and "the smashing of shacks", he said

Cross-examined by Mr Fick, he told the court that blacks in South Africa wanted to share the political power which was presently in the hands of the minority of the people of this country

"Political power is the key to our problems as we will be represented in Parliament to address issues that affect us," said Mr Lekota.

He said certain affiliates of the UDF had addressed themselves to the issue of the General Sales Tax Mr Lekota said revenue from GST was used to maintain whites, the army and the police

Blacks paid GST like their white compatriots but they did not benefit from the tax because blacks were not seen as South Africans

"If we share the burden equally, we must also share the fruits equally " "We are staying in the townships without homes and tarred streets," Mr Lekota said

Mr Lekota and 18 others who include senior officials of the UDF, Azapo, Azanyu and the Vaal Civic Association have pleaded not guilty before Mr Justice van Dijkhorst who is sitting with an assessor to charges of murder, treason, subversion and terrorism

(Proceeding)

HARARE — Zimbabwe

Metals traders rapped for withholding stocks

Star 13/6/88

231

By Neil Behrmann

LONDON — The London Metal Exchange has warned members it will take action if traders squeeze the market by withholding supplies from the market

A meeting with member firms took place last Friday because officials feared that several firms had deliberately withheld metal from the market to drive prices up

Exchange officials were not prepared to make a full statement

PRICE LIMITS

Yet dealers said that if warnings were not heeded, the exchange would impose price limits on daily trading

A shortage of supplies has created such a strong market that exchange officials fear a possible "squeeze" in aluminium, copper, nickel and zinc trading

Such is their consternation that in their bid to scramble for available supplies, dealers have bid cash prices of aluminium to a premium of 43 percent over futures prices

Spot copper quotes are at a 17 percent premium over futures, nickel at 11 percent, zinc at 9 percent and lead at 8 percent

With the exception of nickel, which has seen its cash price slump by 32 percent from its heights of $10,84 a pound at the end of March, all metals are priced at or near their peaks

Cash aluminium prices at $4 190 a ton and zinc at $1 407 a ton are at their highest levels for the year

Spot quotes of individual metals trade at premiums over futures prices from time to time, but this is the first time since the early Seventies that this rare market discrepancy is happening to all metals on the exchange

Metals futures, like other commodities, should normally trade at a premium over cash quotes because of finance, insurance and inventory costs

Several metals traders and analysts, however, contend that the critical shortage will soon end as producers take advantage of higher prices and deliver more metal to the exchange

This is beginning to happen

In the past four weeks, London Metal Exchange copper stocks have risen by 72 percent to around 71 000 tons, lead by 50 percent, aluminium by 31 percent to around 61 000 tons, and zinc by 23 percent to 37 500

SHORT SUPPLY

Even inventories of nickel, a metal that dealers say is in critical short supply, have begun to rise

And in coming weeks, nickel stocks will increase further because Falconbridge, a Canadian producer, has reached a settlement in its dispute with the Dominican Republic Its unit there will be exporting nickel to Europe

Reg Eccles a director of Minerals & Metals Research and Ord Minet fears that there could be a sharp price setback, especially since speculators are jumping onto the bandwagon

But economies are so strong, he says, that demand for metals will underpin the market this year

Even if there is a setback, average prices of metals are likely to remain much higher this year than last, Mr Eccles says

Despite jittery financial markets, the latest bi-annual report of the Organisation for Economic Co-operation and Development (OECD) says that fixed investment in Japan, the US and Europe is rising

When capital goods industries do well, the demand for metals rises sharply The OECD warns, however, that fixed investment will slip in 1989 because of world economic uncertainty and high real interest rates

Although the OECD says it is worried about inflation, its report has had little impact on precious metals markets

World waits to see how $ jumps

(231) Star 13/6/88

LONDON — Investors worldwide worry that Americans still spend too much on imports, and financial analysts say if US trade figures due tomorrow do not show a slowdown in the buying spree, money markets could tumble

The same worries helped set off last October's stockmarket crash

Last week, even as the Organisation for Economic Co-operation and Development (OECD) in Paris said it was surprised at how well the global economy had weathered the crash, it warned against complacency

Multi-billion-dollar imbalances in international money flows are a continuing strain, the OECDsaid

The problem seems to be that the US economy is doing so well

"The persistence of the present strength of US activity would slow the reduction of the current account deficit and would pose a risk of accelerating inflation," the OECD said

If the US payments deficit is high, investors could see it as a signal that Americans are spending more dollars than the rest of the world wants to own, economists say

In a glut, prices fall Too many unwanted dollars means the value of the dollar in foreign currencies could tumble

A key measure of whether there is still a glut will be the US report on its merchandise trade for April, due tomorrow

"This market is not going to go very far until we see the trade figures," says Nigel Green, assistant director for foreign exchange at EBC Amro Bank, London

Last month, the dollar jumped when the US reported a sharp drop in its March trade deficit to $9,75 billion Last Wednesday, the figure was revised to $11,95 billion, taking account of seasonal factors Many traders fear April's number will be still higher

"We have many clients who expect the dollar to be sold on a number of $13 billion to $14 billion," says Toshihide Sudo, a dealer with Nippon Credit Bank, Tokyo

If the dollar falls, share prices in Europe and Asia tend to drop, too

A weak dollar can price foreign goods off the American market — it is, in fact, one way of cutting a big trade deficit It can also give US firms a big pricing advantage overseas Both can mean lost sales for European and Japanese firms

If the dollar softens, US markets also suffer — foreign investors play a major role financing the US government budget deficit and their buying is key to any stock market rally

A big trade deficit could also suggest a spending spree on imports which may signal a rise in inflation

With dealers already afraid dry weather in the US Midwest and Canadian prairie provinces will threaten this year's grain harvest and so push food prices up, inflation has become a major worry

On the stock market, investors fear the US central bank, the Federal Reserve Board, will push up interest rates to dampen inflation Costlier borrowing could also eat into business profits

This weekend, Fed vice-chairman Manuel Johnson told a West German university group the bank was prepared to do so if necessary But maybe not now

"I think the economy is performing quite nicely now The recent data do not indicate an acceleration of inflation," he said

The dollar is just about where it ought to be, US Commerce Secretary William Verity told some Virginia businessmen last week.

"The very magnitude of our trade and current account deficits will help to keep the dollar at a realistic exchange rate," he said

But for business executives outside the US, many of whom have been hoping for a rise in the dollar to ease the pressure on their export sales, Mr Verity had unsettling news

"Overvalued currency debilitated our manufacturing sector and a devalued dollar has produced an export boom and manufacturing revival," he said.

"Since we have paid for the lesson and we better have learned it, we must never again allow our currency to become overvalued," he said — Sapa-Reuter

Untangling complexities of the leading indicators

Star 6/6/88

The slump in America's index of leading indicators in late 1987 triggered fears of recession The index has since rebounded good news for growth, bad news for inflation

In contrast, Britain's index of longer leading indicators has been falling steadily since the middle of last year, suggesting a slowdown in 1988

Financial markets pounce on each indicator the second it is released. While statistics such as industrial output and GDP simply reflect the current state of economic activity — or, more usually, that of several months ago — some indicators have a past record of providing clues about the future

The value of these so-called leading indicators is that they tend to start falling well before the peak of an economic cycle is reached and start rising before the economy bottoms

Many industrial countries publish their own leading economic indicators America's index includes 11 individual series ranging from share prices to stockbuilding The OECD has developed a system of leading indicators for 22 of its member countries

Individual indicators are chosen as follows First, there must be a good economic reason for thinking that a certain indicator might lead the economic cycle a statistical correlation by itself is not good enough Second, the length of time (or "lead") by which an indicator precedes turning-points in output should be fairly constant And third, indicators should be published with minimum delay and be subject to little revision

The indicators the OECD finds to be most often the best predictors of the business cycle are surveys of business expectations and monetary and financial indicators, such as stockmarket prices and interest rates

To combine these diverse series requires some statistical juggling Some series, such as interest rates and stocks, need to be inverted so that they move in the same direction as industrial production

Next the secular trend is stripped from each indicator to reveal purely cyclical movements The OECD then smoothes the series to eliminate erratic monthly movements amd adjust them so that all series have cycles of similar amplitude. This is to ensure that an indicator with a pronounced cycle is not given undue weight Finally, they are combined with equal weights in a composite index

How good is the forecasting record of leading indicators? In a study last year the OECD examined the accuracy of its own indicators in predicting movements in industrial production

Generally, the OECD concludes that its composite leading indicators have performed well

The indicators have rarely failed to signal turning-points. In most countries they lead industrial production by about six months in Britain the lead is as long as 13 months

The snag is that when the leading indicators are first published some of the components are unavailable or are only provisional, so the index may subsequently be revised over the coming months

Despite this close historical fit between leading indicators and industrial production, it is difficult to spot turning-points on the basis of the composite indicators alone because average leads give only a rough guide

The OECD suggests several further measures which may help the six-month change in the index of leading indicators, the ratio of the leading indicator to industrial production and the ratio of the six-month change in the leading indicator to the six-month change in industrial output

Between 1960 and 1983 these derived measures have successfully predicted all cyclical turning-points They have also given a number of false alarms

So when is the next recession? After rising almost continuously since the early 1980s, the OECD's leading indicators have fallen in most of the big economies since mid-1987 — mainly because of the fall in share prices.

Two of the three derived measures also signal that the peak of the cycle is past A slowdown in growth looks likely next year, perhaps — The Economist

OECD in buoyant mood

Star 19/5/88 (231)

PARIS — Western industrial nations yesterday drafted an upbeat assessment of the world economic outlook, but several governments admitted their unease about the risk of higher inflation, particularly in the US

A draft communique prepared ahead of the conclusion in Paris today of the annual ministerial meeting of the Organisation for Economic Co-operation and Development (OECD) notes that economic growth and world trade were strong despite last October's stock markets crash, inflation rates were low and trade imbalances were narrowing gradually

The optimistic mood at day-long talks between finance, foreign and trade ministers of the 24-nation Paris based group of industrial countries was also reinforced by the news on Tuesday of the sharp improvement in the US trade deficit in March.

The reassuring atmosphere was disturbed, however, by warnings from several ministers that a combination of rapid growth in the US domestic economy and booming US exports could trigger inflationary overheating in the country

Mr Nigel Lawson, Britain's Chancellor, acknowledged that concerns over the outlook for inflation had now superseded the fears of too-sluggish growth in the world economy which had characterised the first reactions to the stock markets' fall

He was careful not to advocate an immediate rise in international interest rates, but said that the situation had to be watched carefully There was a risk that uncomfortably fast domestic demand in the US might choke off a further improvement in the trade position

Senior officials said that the general view among governments was that financial markets had exaggerated the risk of accelerating prices, but that some further tightening of monetary policy in the US might be needed.

Mr Beryl Sprinkel, President Ronald Reagan's economic adviser, insisted however, that there were no significant signs of intensifying inflationary pressures. The US Administration is thought to be anxious to avoid any interest rate move which might provide a justification for other industrial nations, particularly West Germany and Japan, to raise their borrowing costs

Most of the debate among trade ministers at yesterday's talks focused on the search for an acceptable compromise on the issue of agricultural subsidies

OECD urges Portugal to restructure economy

(231)

Star 9/5/88

By Paul Betts

PARIS — Structural adjustments in the Portuguese economy have become increasingly urgent as a result of Portugal's entry into the European Community, the Organisation for Economic Cooperation and Development (OECD) says in its annual report on the Portuguese economy

To improve its international competitiveness, the OECD adds that Portugal must work towards bringing down and keeping the country's inflation rate at levels prevailing in other European countries.

Although inflation has fallen from over 25 percent in 1983 and 1984 to 9,5 percent last year, Portugal's inflation rateis still about 5 percentage points higher than the average in Western Europe

Wage moderation must thus remain an essential component of economic policy, even though the OECD acknowledges that this may be more difficult to implement than in the last two years

After rising by 17 per cent in 1986, nominal wages rose by 12 percent last year However, the implementation of an incomes policy was made easier by a substantial growth in real wages and by the payment of wage arrears

The Paris-based agency also encourages Portugal to pursue its more market-orientated policies and adopt a stable longer term stance, rather than the 'stop-go' approach of the past. The Portuguese authorities should not be inhibited to adopt a number of macro-economic policies for fear of their short term impact on prices and costs, it says

Tax reform

The OECD believes tax reform is an urgent priority and that reducing the budget deficit is essential if domestic savings are to be put into more productive use. The agency also urges that investment funds be concentrated in areas where returns are highest.

But the OECD also notes the big improvement which Portugal has achieved in economic performance since 1985 with stronger growth reducing unemployment, the reduction in inflation, and a current external surplus which has enabled some net repayment of external debt. However, it also warns that this improvement is in large measure the result of special factors and policies which cannot be repeated or sustained"

The OECD forecasts GDP growth of 4 percent this year and 3,25 percent next year after growth of 5 percent last year.

Stimulated by tax incentives and EEC transfers, investment is expected to continue to increase at a rate of over 9 per cent this year. Consumer price inflation is forecast to decline from 9,5 percent last year to 6,5 percent this year and 5,75 per cent next year.

The OECD figures also expect the deficit of the trade balance to increase from $3,2 billion last year to $4,5 billion this year and $5,3 billion next year.

After a surplus of $700 million last year, the current balance of payments is expected to show a deficit of $100 million this year rising to $800 million next year. — Financial Times.

World oil supplies boosted in August

(231) Star 7/9/89

LONDON — The International Energy Agency (IEA) this week reported a 500 000-barrels-a-day increase in oil supplies outside the communist world in August, although spot market prices firmed

Most of the rise came in the developed countries, which are members of the Organisation of Economic Co-operation and Development (OECD), the IEA's sponsoring body

UK North Sea production reached 2,2 million barrels per day (BPD) as repair and maintenance programmes ended.

Production rose in Alaska on a month-to-month basis.

Despite the month-to-month increase, OECD member-country production was still slightly below levels of a year ago, largely due to a rapid decrease in US oil production resulting from a faster depletion rate and to low Alaskan oil production.

Oil output by members of Opec rose during the month by 200 000 BPD to 21,6 million

In the developing countries, production rose 100 000 BPD to 9,5 million BPD, due to an increase in Colombian production.

The IEA said that Iraqi export capacity would increase this month with the opening of a new pipeline through Saudi Arabia, which would have a capacity of 1,65 million BPD when fully operational, probably sometime next year.

Iraq's export capacity is expected to reach three million BPD by year-end and could increase significantly next year.

OECD oil consumption rose by just under two percent in the second quarter of the year, led by a six percent increase in the Pacific area.

The IEA expects oil consumption in the OECD to rise by three percent in the third quarter, but by less than two percent for the entire year

Excluding the communist countries, world oil consumption is expected to rise 2,4 percent in 1989 to 52,1 million BPD — Financial Times.

OUTLOOK 90

(231) STOR 22/12/89

Prospects for growth among OECD countries

PARIS — Economic growth in the industrialised world will continue for an eighth straight year at the start of a decade that promises far-reaching if unpredictable changes, says the Organisation for Economic Co-operation and Development (OECD)

The 24-nation think tank said in its semi-annual outlook, released yesterday, that economic reform in Eastern Europe should benefit both East Bloc countries and their trading partners in the West.

"The challenge here is daunting, but the potential benefits are far-reaching, both for the countries concerned and for the world economy," the OECD said.

David Henderson, head of the organisation's economic statistics unit, said at a news conference to launch the report that OECD trade was unlikely to be affected in the next two years by changes in Eastern Europe.

"But that may change... it's very likely that trade flows will increase," he said, noting that West German exporters would probably be the first to benefit from East European reforms.

In a broadly optimistic report, the Paris-based study group stood by the forecasts it made in June that there would be no recession next year.

It predicted the average gross national product (GNP) growth in its area would be near three percent in both 1990 and 1991.

That would be below this year's 3,6 percent growth, but at a level where inflation could be contained, it said.

The OECD expected average price rises of 4,5 percent in the next two years, little changed on this year's 4,3 percent.

That would still be too much and would require that interest rates be kept high, especially with wage demands becoming a potential inflationary threat, it warned.

Slower growth, new technology and more productive workforces were expected to leave unemployment at this year's rate of 6,6 percent in both 1990 and 1991.

But given the OECD's tendency since 1987 to under-estimate growth, the agency acknowledged that economic activity could be faster than it projected

Structural economic reforms to open up markets might already be boosting activity more than OECD economists had calculated

Further changes, notably the creation of the European Community single market, could spur more investment and growth.

But it cautioned· "Sustained, satisfactory economic performance cannot be taken for granted"

Besides inflation, the main risk in the early 1990s would come from huge world trade imbalances, with little sign they could be reduced in the next two years.

Among major nations whose exports would continue to exceed imports, the OECD expected West Germany to overtake Japan in the next two years as the world's biggest trade surplus country

Both nations should record roughly equal trade surpluses of about $85 billion this year, but Germany's exports are then forecast to grow rapidly as its competitiveness improves.

The OECD expected the US trade deficit would remain little changed from this year's $113 billion

While international investors might be willing to fund US shortfalls, the trade gap would require continued international co-operation to keep the dollar down and US goods competitive on world markets, it said

Central banks from the Group of Seven leading industrial nations — the US, Japan, West Germany, France, Britain, Canada and Italy — had made several multi-billion-dollar sorties on foreign exchanges earlier this year to fight the dollar down.

The OECD said their efforts should not be sapped by "battle fatigue" if future co-operation proved tough. — Sapa-Reuter.

231

G10 meet on fiscal policy

PARIS — Deputy finance ministers and central bank governors from 10 leading industrialised nations (G10) agreed this week that now was not the time for governments to relax their monetary policy co-operation.

But the officials, meeting at the Organisation for Economic Co-operation and Development (OECD), were divided over the severity of the problem posed by the large external imbalances of some countries, participants said

They said the current levels of exchange and interest rates and the braking effect of the high US dollar on reducing the US current account deficit were among the topics raised, but no conclusions were reached

The meeting of the OECD's Working Party Three (WP3) on monetary, fiscal and exchange rate policy co-ordination was chaired by Japanese finance ministry senior official Toyoo Gyohten, and gave the officials a chance to harmonise their positions before top-level monetary talks later this month in Washington

Gyohten said after the meeting "Instead of decrying the failure of policy, there was an even stronger determination to maintain strong policy co-ordination among the major countries"

Other officials who attended the WP3 meeting stressed that the talks did not focus on currency issues

There was general agreement there would be a gradual slowdown in the rate of growth of economic activity to a more sustainable level, without any serious rekindling of inflationary pressures

Growing

Gyohten said some delegates expressed concern that the reduction of external imbalances is slowing and that deficits and surpluses may start widening again

According to latest estimates at the IMF the external imbalances of the three largest OECD member countries — the US, Japan and West Germany — will start growing again next year

Gyohten said some delegations reassured the WP3 they were still making headway in reducing their external imbalances

"The sense of urgency over the need to rectify (imbalances) wasn't underestimated," he said

Finance ministers and central bank governors of the G7 countries are expected to meet on September 23 in Washington

Participants at Wednesday's meeting are scheduled to get together again on Thursday at the European headquarters of the IMF in their capacity as deputy governors of the G10

Subjects slated for discussion include the debt strategy, an increase in the IMF's quotas, or member country subscriptions, and repayment arrears of countries that have borrowed from the fund

Officials said that the way things stood at present, they did not expect a decision on the quota increase at the IMF meeting because of foot-dragging by the US and some other countries including Britain — AP-DJ

G-10 gives backing to Brady debt plan

Star 6/6/89

231

BERNE — Major industrial nations gave broad backing at the weekend to a US plan to slash the Third World's $1 300 billion debt but they warned commercial bank lenders not to expect a bail-out by taxpayers

Endorsement by the Group of 10 (G-10) was a welcome boost for US Treasury Secretary Nicholas Brady after strong criticism of Washington's trade and budget policies at the Organisation for Economic Cooperation and Development (OECD) in Paris last week

Further support for Brady's controversial initiative, which aims to spur economic growth in developing countries by persuading banks to forgive part of their loans, is likely at a seven-nation economic summit in Paris this month.

"I think we've made a good start" with the debt plan, Italy's deputy central bank governor, Lamberto Dini, told a news conference

Some officials fear if debt reduction is not handled properly taxpayers in rich countries will end up assuming the burden of debt instead of bankers "Official creditors should not substitute for private lenders," the G-10 said bluntly

Talks in political groupings like the G-10 and the OECD have smoothed the way for the Brady Plan, but it faces its first real test in negotiations now taking place in New York between Mexico and its bank creditors

Progress has been slow with Mexico, the Third World's second biggest borrower with external debts estimated at $107 billion, demanding concessions that the banks have so far refused to make.

But Dini saw a good chance of an agreement before too long, and John Reed, chairman of Citibank, the biggest US bank, said in a French newspaper interview that a deal could be struck within the next two weeks

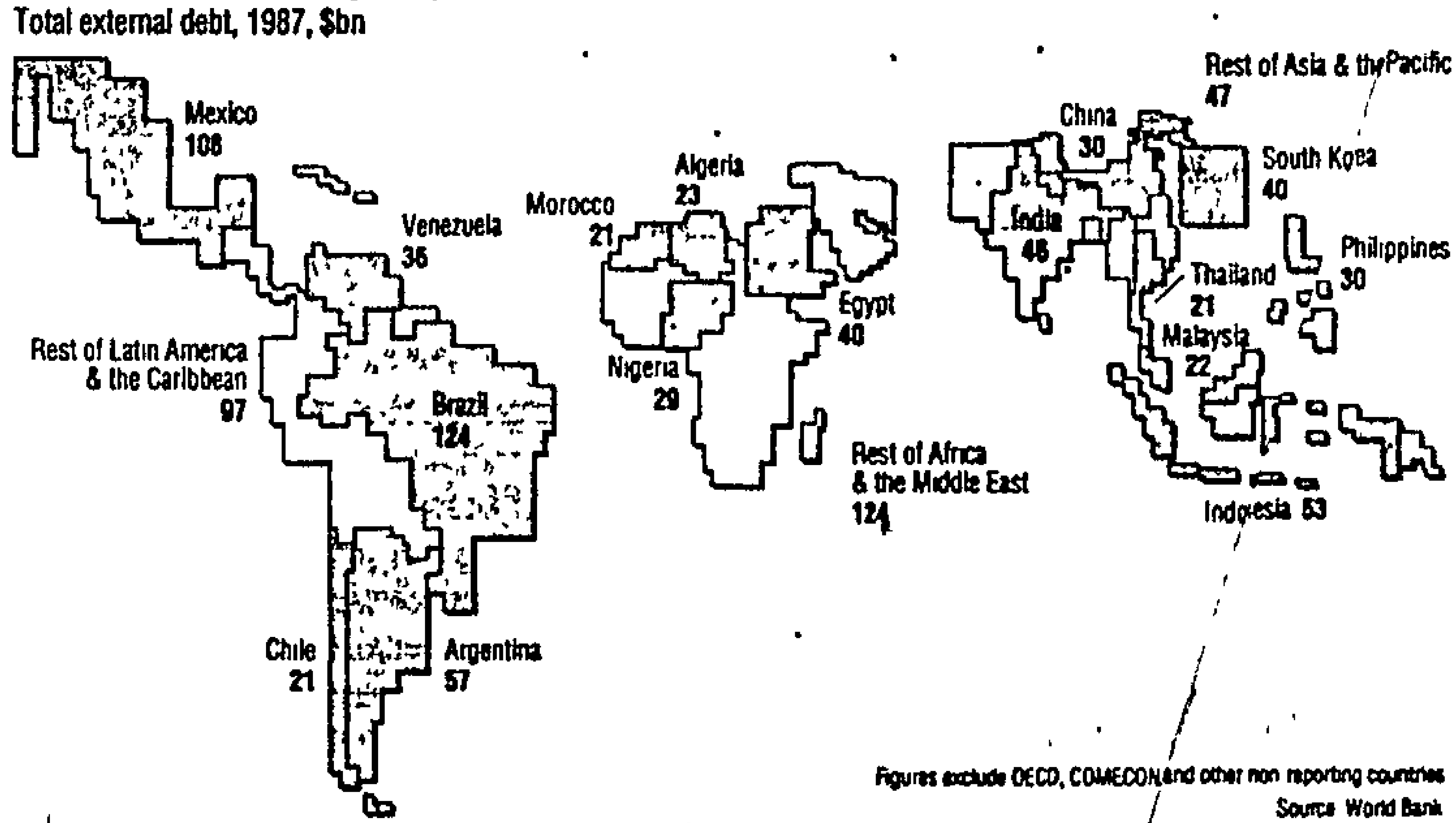
Dini was the author of a report on the debt strategy that was approved here last Friday by finance ministers and central bank governors of G-10 countries

The G-10 in fact comprises 11 countries In addition to the powerful Group of Seven — the United States, Japan, West Germany, Britain, Canada, France and Italy — its members are Belgium, the Netherlands, Sweden and Switzerland

The debt reduction envisaged by the Brady Plan "could make an important contribution by reducing financing needs and the stock of debt to more manageable levels over time and provide a stimulus for stronger growth and sustained reform efforts" the G-10 ministers said in a communique — Sapa-Reuter

The third world in perspective

Total external debt, 1987, $bn



Figures exclude OECD, COMECON and other non reporting countries
Source World Bank

This is how the Third World looks if countries are shown in proportion to the size of their foreign debt. The size of a country's debt, of course, is not necessarily an indicator of a problem· the large South Korean square need cause less worry than the Chinese box next door, which looks comparatively small Many of the countries with the highest debt-to-export ratios have debts of less than $20 billion and are not shown on the map They are concentrated in sub-Saharan Africa, which has a total debt little bigger than Brazil's For bankers, the bigger they are the harder they fall. For Africa even a small debt may be too big

OECD stresses need for open markets

Star 2/6/89.

(231)

PARIS — Ministers from the world's 24 leading industrial countries yesterday papered over their quarrel about US moves identifying Japan, India and Brazil as unfair traders under the Super 301 clauses of last year's trade act

Although the US action had been widely criticised by its major trading partners as a threat to the multilateral trading system, the member states of the OECD agreed on a joint communique committing themselves to the system's further strengthening

In the communique, the ministers said they "firmly reject the tendency towards unilateralism, bilateralism, sectoralism and managed trade which threatens the multilateral system and undermines the Uruguay Round" of trade liberalisation negotiations

They also agreed "to avoid any discriminatory or autonomous actions which undermine the principles of the General Agreement on Tariffs and Trade", the agreement that polices the multilateral trading system

The ministers underlined the need for a successful outcome to the Uruguay Round to strengthen multilateralism in international trade in goods and services and to open markets

After two days of sometimes difficult discussions, the US's trading partners appeared therefore to have accepted Washington's contention that recourse to Super 301 provisions was a move to expand global trade by opening markets rather than restrict it

Mr Jon Sigurdsson, the Icelandic commerce minister who chaired the meeting, told a press conference afterwards that he did not expect the US to modify its Super 301 decisions in the light of the OECD communique But he said he expected the spirit of the OECD statement, which the US accepted, would influence the way in which it dealt with the nations listed as unfair traders under Super 301

The Super 301 clause in the trade act provides for bilateral negotiations between the US and named trading partners and could lead eventually to retaliation by the US for supposedly unfair trading practices Indicative of the fudge that ended the meeting, Mrs Carla Hills, the US trade representative, said afterwards that she would not rule out unilateral action by the US in pursuit of its demands

The row over trade marred a meeting where there was considerable agreement over economic policies to be pursued by the major industrial countries in the 1990's The OECD statement outlined a joint strategy to ensure sustained, job-creating, non-inflationary growth in the years ahead — **Financial Times**

Japan swipes at US

Star 11/6/89

PARIS — Japan yesterday rallied the support of Western nations against the threat of US trade sanctions and accused Washington of undermining confidence in global trade

Japanese Foreign Minister Sosuke Uno, who is to succeed Noboru Takeshita as prime minister, went on the offensive at a two-day meeting of the Organisation for Economic Co-operation and Development (OECD). (231)

The gathering was held against a backdrop of rising concern over the dollar's strength

But the early sessions revealed there was no common approach on how to tackle the problem.

Mr Uno, addressing trade and economy ministers from the 24-nation OECD, said it was imperative to build confidence in world trade, adding in a thinly veiled reference to Washington. "Protectionist pressures, particularly certain moves to seek unilateral measures, could undermine such confidence." — Reuter.

B/Day 18/1/89

Price increases slow down

PARIS — The rate of increase of consumer prices in the Western industrialised nations slowed in November to a monthly rate of 0,2% from 0,5% in October, the Organisation for Economic Co-operation and Development (OECD) said yesterday

(231)

November's increase brought the annual rate of increase over the year to November to 4,3%, compared with 3,7% over the year ended in November 1987.

The OECD commented that energy prices continued to exert a moderating influence on consumer prices in November with a fall of 0,5% recorded following a 0,8% drop in October Over the 12 months to November, energy prices showed a decline of 0,5%.

Food prices exerted upward pressure on consumer prices in the OECD area between July and October, although a 0,1% decline was recorded in November.

Excluding food and energy prices, the underlying rate of consumer price growth in the OECD slowed to 0,3% in November from 0,5% in October Over the 12 months to November, the annual rate of increase in most OECD member countries averaged 3,9%, or 0,2% more than in the 12 months to November 1987. — AP-DJ.

Gold was the worst performing metal of 1988

Star 2/1/89

231

It was the year when base metals were most precious

By Neil Behrmann

LONDON — Those ancient alchemists who claimed that they could turn base metal into gold would have been excellent traders during the past year

Gold, that "marvellous store of value" was the worst performing metal last year, tumbling 13 percent Silver was second worst, sliding by 8 percent

Platinum, after all the massive sales campaigns by Johnson Matthey, managed to rise by a mere 8 percent — on par with short term dollar interest rates

Indeed the base metals looked precious in 1988 with nickel prices surging by 106 percent, zinc by 80 percent, aluminium by 30 percent, copper by 20 percent and lead by 8 percent This is the second year running that they have been top of the league tables

Will the alchemists be proved correct in 1989? The odds are against them, but before we peer into that murky ball, what were our forecasts like last year?

We failed to achieve the perfect fluke But, to borrow a golfing term, we still managed to beat par

Forecast

This is what was written ahead of Christmas 1987

We started with a solid drive by saying

"The prognosis for 1988 is that copper, nickel and aluminium could rise even higher in the first quarter, while lead and zinc will also be firm "

The iron shot, however went right into the rough when we continued "But if forecasts of the OECD and other economic teams turn out to be correct, prices will begin to slip as the world economy slows down "

"The extent of any decline will depend on whether stockmarkets fall further and a downturn becomes a full scale international recession"

Instead of a recession, major world economies continued to boom Base metals prices gyrated wildly, but at the end of the year copper, nickel and zinc in particular remained strong, helped by tight supplies

We got our third shot on to the green when we correctly guessed what was going to happen in the generally unpredictable precious metals markets

"On past performance, precious metals will continue to be erratic They will rise when people expect them to fall and vice versa On current trends , they too could reach their best levels in the first quarter and then slide towards the end of 1988 ," said our article at the end of 1987

"Once the dollar stabilises precious metals will be decidedly vulnerable With supplies well in excess of demand their fundamentals are weak"

Platinum

We missed the putt however because platinum, which fluctuated erratically in the first half, surged in the fourth quarter It only collapsed in December when Ford Motor Company said that it was experimenting with anti-pollution motor car catalyst that did not contain platinum

What does 1989 look like on a grey rainy holiday season in London?

Misty of course

Of the precious metals, GOLD should be the best performer, but if supply problems continue in Peru, there could be a sudden surge in SILVER prices At $6,17 an ounce silver is by far the cheapest precious metal But for several years people have been saying that it is cheap Persistent surpluses don't help

At $540 an ounce, PLATINUM has managed to recover from its recent low of $510 Johnson Matthey, the major distributor and refiner has been at pains to explain that the Ford invention will not dent platinum demand markedly

Yet the company has missed the point In an over enthusiastic sales campaign, Johnson Matthey encouraged investors and speculators in Japan, the United States and elsewhere to buy

Having been burnt in this volatile thinly traded market, investors will only be too anxious to sell whenever the metal rallies

Meanwhile unhappy consumers will be grateful if Ford finds a substitute which is cheaper than platinum

Platinum's premium over gold is 29 percent This price differential compares with a discount to gold in the mid-Eighties

Even though gold could be the best precious metal this year it will find it extremely difficult to break out of the $400 to $460 range

It has been disappointing because of excess and growing production during a period of high real interest rates A huge quantity of gold loans has also depressed the market

Investors would be buyers if gold rose steadily, but the market continually disappoints and since one can receive excellent real returns on currency deposits, there is little incentive to buy gold

Yet the Organisation For Economic Cooperation and Development warns of creeping inflation and if Opec foils market sceptics and oil rises towards $18, gold could recover This revival would take place if the dollar weakened and interest rates fell

The depression in the market could discourage producers from borrowing gold and then dumping it on the market So the supply demand balance could improve during 1989

Unpredictable

Base metals have become as unpredictable as precious metals, now that their prices are much higher

In the first half of the year, however, the supply situation, will dominate metals such as COPPER NICKEL and ZINC

Prices could remain high and boost both ALUMINIUM and LEAD Yet higher interest rates will ultimately reduce residential and office contruction and sales of durable goods ranging from automobiles to refrigerators

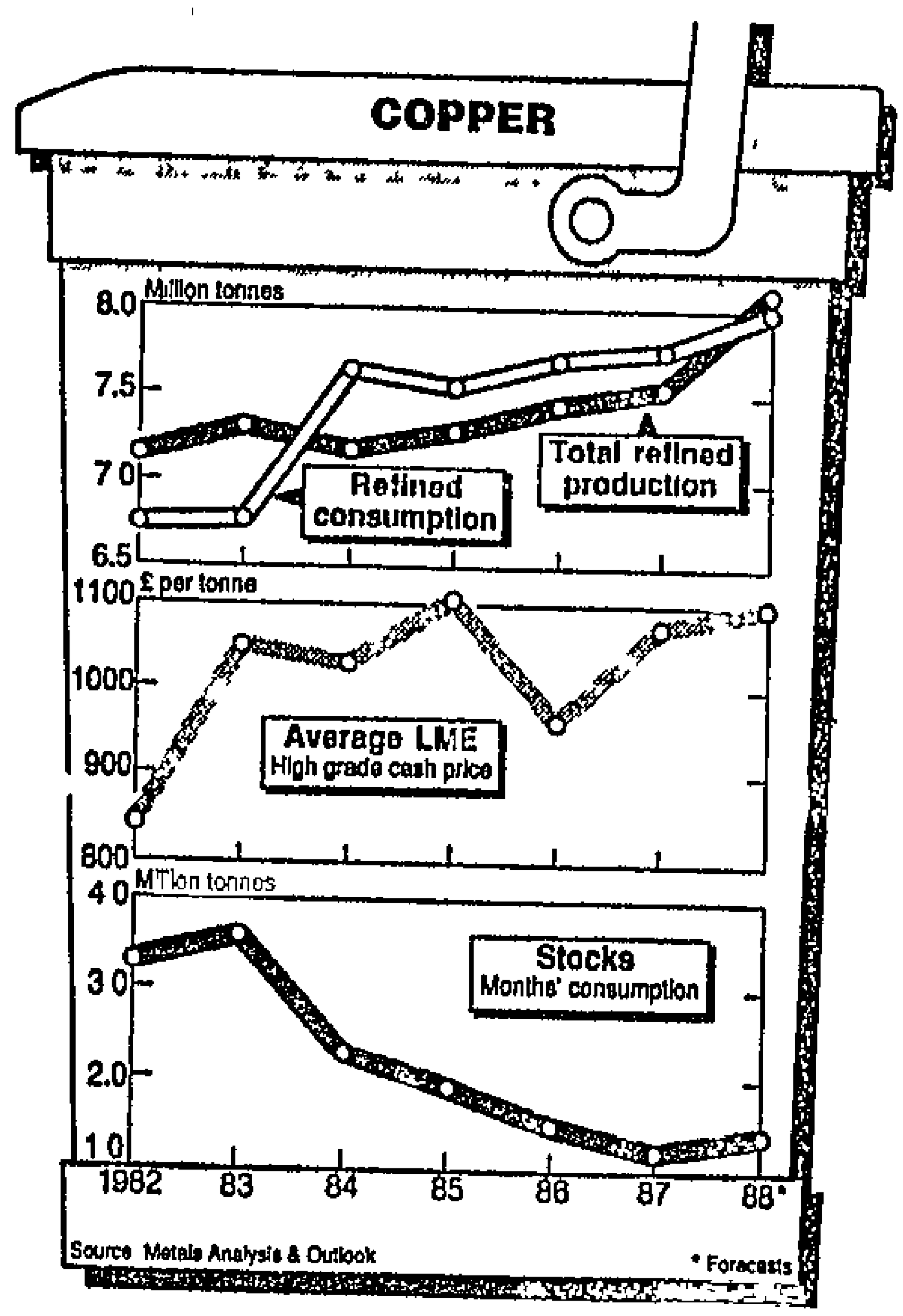
If the OECD s forecast of a slowdown in the second half is indeed correct this time round, this downturn will reduce consumption of metals and other raw materials

There will be a time lag of around six to nine months between any changes in economic activity and metals consumption, particularly since metals inventories are still low Strikes and disruptions in South and North America plus transport problems in Africa could also push prices upwards

Yet speculators have become active in the base metals markets and if there are signs of falling economic activity, they will sell and prices could decline sharply

Still, even if quotes fall in an economic slowdown, base metals prices will remain at much higher prices than levels seen in the mid-Eighties

In general, prices of base and precious metals are likely to trade erratically in a sideways trend GOLD, however, could surprise its sceptics and shuffle from last place to the first three



Copper, along with nickel and zinc was one of the star performers, price-wise, in 1988 due to reduced supplies and greater demand

How the OECD sees Western economic performance in 1991

Star 27/11/90

(231)

PARIS — Following are summaries of the economic forecasts for the leading industrialised countries in the latest half-yearly outlook of the Paris-based Organisation for Economic Co-operation and Development (OECD).

● United States — Chief OECD economist David Henderson says figures in the past month point to recession.

Growth in the second half of 1990 will be zero and the economy will contract in the first half of next year

Although the latest evidence means the figures in the OECD outlook are already out of date, its prediction of an export-led rebound in the second half of 1991 remains valid.

High imported oil prices will leave the 1991 trade deficit at $115 billion, little changed from 1990.

● Japan — Japan's trade surplus will narrow this year to $58 billion, but grow again in 1991 and 1992 GNP growth should reach 6,1 percent in 1990, falling back to 3,7 percent in 1991

● Germany — Interest rates will probably move even higher in 1991, causing economic growth to slow to three percent from 4,3 percent this year and pushing up unemployment in the former West Germany

The OECD sees a further marked contraction in output and employment in 1991 in what was East Germany

● France — Recession in some leading countries will cause French growth to falter, but only temporarily, in 1991.

A rise in inflation due to high oil prices will also be temporary, and less marked than in most other countries, but unemployment will rise in 1991 and 1992

● Britain — Economic activity will stagnate until mid-1991 as credit policy is kept tight to combat inflation, though the OECD does not foresee a recession

Times will be hard for business, with investment cut back and wage settlements remaining high

Those pay pressures will hinder the fight against inflation

● Canada — The economy will experience a short recession, but recover by the middle of next year, and growth over the whole of 1991 should measure 0,9 percent.

Good export potential will help output, but a new seven percent consumption tax from January 1991 and high oil prices will strangle hopes of a strong recovery.

● Italy — Italy will experience slower growth and higher interest rates in 1991 and will probably not manage to cut its budget deficit as much as planned

The country is particularly vulnerable to higher oil prices, but inflation could fall to an average five percent in 1991 from 6,5 percent in November.

The OECD's forecasts are based on an average oil price of $27 a barrel from the second half of 1990 and exchange rates prevailing on November 5.

Its forecasts are also based on the assumption of a non-military solution to the Gulf crisis. — Reuter

WAITING FOR SADDAM

FM 26/10/90 (231)

OIL'S PROJECTED PRICE RANGE IS TOO WIDE FOR CLARITY ON GROWTH

The best-laid plans .

Rehearsing for conflict with Iraq, the US Desert Shield force in Saudi Arabia is finding that the Apache anti-tank helicopter needs repairing after two-and-a-half hours flying The Apache is the balancing factor in countering the numerical superiority of Saddam Hussein's armour — hence there is some consternation, especially as real battle conditions would be much more strenuous.

One- and two-year projections of the path of the global economy are a little more durable But each passing month of the stand-off in the Gulf, plus the unfinished problems caused by the massive erosion of financial assets, requires revision of forecasts The goalposts keep moving

The consensus rule-of-thumb for the 24 main industrialised economies in the Organisation for Economic Co-operation and Development (OECD) — which account for almost 75% of world GDP — is that a *sustained* US$10 a barrel rise in the price of oil generates a half-point fall in aggregate growth and adds 0,75 points to the inflation rate

In June, the OECD's soft-landing scenario posited growth slowing from 3,6% to 2,9% this year and next with inflation running a tenth of a point higher at 4,4% on the basis of $17 a barrel oil — in line with the 1989 average That was shredded on August 2.

The range of oil prices which should now be factored into calculations is wide and the free market's jitters offer no sound basis for rational planning. The benchmark North Sea Brent Blend crude hit $40,90 a barrel (for December delivery) two weeks ago but has been retreating since By Friday it had lost 20% to $32,35 a barrel.

Sir Peter Holmes, chairman of Shell Transport and Trading, recently put the equilibrium price — with most of the loss of Iraq-Kuwait output made up by Saudi Arabia and other Opec members — at around $25 a barrel A return to normality, on Holmes's reckoning, would put it below $20 and ex-Saudi Oil Minister Sheikh Ahmed Zaki Yamani has said oil could drop to $15.

Cambridge Energy Research of the US takes into account the seasonal stock build in the northern hemisphere and comes up with an average of $32, perhaps rising $3 by December. After that, it should subside as inventories are drawn down ahead of spring

Even so, it is not simple. In the case of the US, Britain, Canada and Australia, the oil straw landed on a camel's back which was already creaking.

The slowdown which started last year is proving worse than expected Recession has replaced inflation — even though, excluding oil, the underlying rate is worryingly high — as the priority in the US. The Federal Reserve has indicated it will lower interest rates and risk the effect of a weaker dollar Britain hopped into the Exchange Rate Mechanism with surprising alacrity to enable it to shave a point off base rates and buoy hopes of more to come as the next election looms

Adding to the shadows of uncertainty, is the impact of the slump in equity and property values, especially in the US and Japan, with bearish implications for bank balance sheets and consumer confidence With cheap money no longer available in the equity market, Japanese banks have been forced to shore up their capital ratios through costly subordinated debt; and in the US banks are contracting as property values slump, threatening a crisis which goes far deeper than the Third World debt crisis

While the Third-World crisis mainly affected the big "money centre" banks, the overbuilding in the US has affected all It is estimated that America's 50 000 banks have an average exposure to property equal to 25% of their loan book and provision against this is forcing them to rein in lending to bona fide industrial and business borrowers.

Then there is the loss of wealth effect After the 1987 October Crash, forecasts for the next year pointed to a sharp decline in consumer spending as the equity slump compounded other problems such as the US budget OECD growth for 1988 was projected to fall from 2,8% to 1,8%

Instead, central banks around the world pumped money into the system And, helped by a 17% drop in the price of OECD oil imports, 1988 recorded growth of 4,6%, the best year of expansion in the past decade, without driving up inflation

The chickens of that protective reflation, however, came home to roost· commodity prices rose 21% in terms of Special Drawing Rights with metals 34% up in 1988 and with oil regaining ground, OECD inflation pumped up from 3,5% to 4,3% in 1989. The brakes were applied, with varying degrees of severity and have been felt for most of this year as inflation proved slow to grind down.

There does not seem much chance that governments will repeat what turned out to be an inflationary mistake And, as long as oil supplies remain abnormal, any easing of interest rates in the high inflation economies will be cautious — especially in the US, facing a budget deficit of $270bn which excludes the cost of intervention in the Middle East

A middle-of-the-road projection by the National Westminster Bank, the UK's biggest, is downgrading OECD growth from 2,9% to 2,5% this year and to 2,1% in 1991: Conversely, inflation is projected at 5,1% this year and 5,3% next

Recession — that is falling GDP, in the US, UK, Canada and Australia among the OECD members — will be seen for at least six months, but offset by relatively strong though muted growth in Europe and Japan. Germany, especially, will benefit from reunification investment, though Europe as a whole slows from 3,5% in 1989 to 2,3% next year

The OECD current account could deteriorate from a deficit of $87bn to $117bn and $141bn Opec, naturally, swings the other way, from being $11bn in the red last year to a surplus of $22bn in 1990 and then forging on to $31bn

The basic assumptions are average crude prices of $32 a barrel from August until the year-end, falling to $27 in the first half of 1991 and $23 in the second

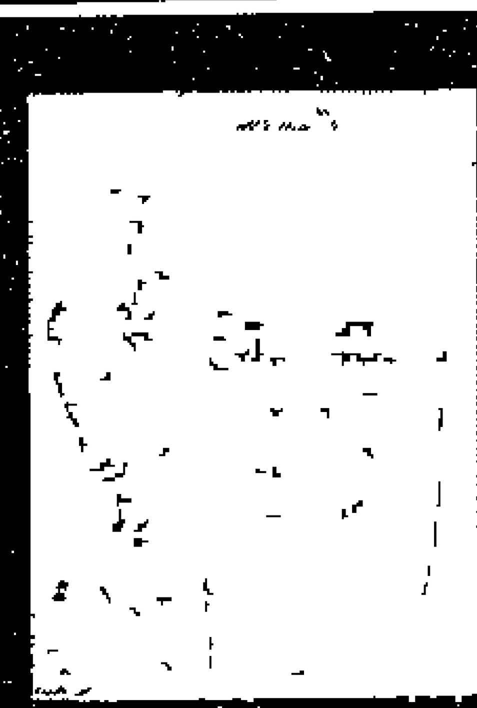
Debate in the US, however, revolves around whether another bout of deflation is on the way Gold has failed to respond to the doubling of oil prices or the weakening dollar and paper assets, silver is at a 14-year low; platinum has been down to 1986 levels and wheat is at its lowest since 1987

De Beers' share price has dropped 38% to $16,50, tracking the Dow Jones Industrial Average fall of 18% from the historic peak in July — indicating sentiment about the outlook for jewellery sales And with investor interest in gold limited, to say the least, bullion offtake will be increasingly reliant on the jewellery market

The Commodity Research Bureau index of 21 commodity markets is down 6,4% since May in spite of oil (which makes up 11% of the index) Excluding energy, *The Economist* SDR index of all commodities shows a fall of 8% from the end of July — and 16,4% over the last 12 months

WHITE FLAG OF MARKET PANIC

St Times 26/8/90



JOHN CAVILL in London

THE hysterical message being shrieked from the world stock markets this week was: The Apocalypse is now!

While the main Western powers, backed by the Soviet Union, girded their loins to roll back President Saddam Hussein of Iraq, the financial markets ran up the white flag.

Once again sophisticated investment institutions exhibited their well-known trait of panicking in unison.

They are discounting little short of all-out war, destruction of the Saudi Arabian oilfields, crude prices of $50 a barrel and a global recession.

Paradoxically, gold's foot-dragging performance also suggests the deflation scenario has wide currency and that a burst of inflation will be followed by a long downturn and high real interest rates.

The facts seem a little different. In 1979, when the second oil shock was breaking, the average landed price paid by members of the Organisation for Economic Co-operation and Development (OECD) — the 24 industrialised nations of the West — was slightly more than $19 a barrel.

REALITY

Had it kept pace with US inflation, oil would now be $32. Crude prices breached $30 this week — up 58% since Iraq invaded Kuwait.

In real terms energy costs have not moved. Exchange-rate movements complicate that reality. At the pre-crisis $19 the rise in the yen since 1979 meant the Japanese were paying 33% less for oil. Even $30 represents an increase in 10 years of only 4%.

The trouble is that economic forecasts are based on money prices. The OECD's latest projections of gently slowing but sustainable growth for the main Western economies were posited on average crude import prices of $17 a barrel as well as the dollar holding about 159 yen and Dm1,69.

Oil is now 76% higher and the dollar has fallen by 8% against both the yen and the mark.

None of this looks good and crude's rise so far represents an annual switch of $300-billion out of the pockets of the world's oil consumers to its producers.

But there is no shortage of oil — which is why it fell to under $16 this year — and energy efficiency has improved dramatically.

The US needs 20% less energy to generate $1 000 of output than in 1979; the reduction in Japan is 23%.

There are wide variations in oil's effect on growth rates. It will be negligible in the strong economies.

German output may be 0,75% less than expected *if* oil stays at $30 between now and 1992. But Germany's growth rate will remain a healthy 3,5% until then. Japan's growth may be clipped by 0,5%.

WORST

But it will worsen a situation which was already looking bleak in the US and Britain. North Sea oil promises to pose problems again for Britain, keeping the pound high, reducing export competitiveness while interest rates — already hobbling the economy — are maintained to hold down inflation.

The US will be worst hit. At $30 a barrel its oil import bill will add $70-billion to the total, more than doubling the trade deficit.

To make matters worse, internal consumption will be blighted by the need to fund a ballooning Federal deficit.

The additional cost of the military build-up in the Gulf is running at an estimated $20-million a day and it will increase. There are real fears that the intervention plus the likelihood that planned defence cuts will be watered down could drive the deficit towards $300-billion as revenue falls with economic growth slowing to nil.

This can only mean higher taxes and if US consumers rein in their spending as well, GNP could actually fall — as it did in 1974-75, by 1,8%.

Outside the big economies the suffering threatens to be even more dire. As commodity prices fall, developing countries plunge into deeper trouble and can no longer borrow. Central and Eastern Europe will find the pain of transition to the free market almost untenable.

Even the Soviet Union, the world's largest crude producer, will not benefit because its oilfields are suffering from years of under-investment and exports are declining.

NOSEDIVE

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All of this derives from one single assumption: that oil stays at $30 a barrel. Nobody expects this to happen.

Even if crude blips up to $40, the consensus is that it will be back to $25 by the yearend and gradually recede to $18-$20 in 1991.

The crisis could be over. But in the short run the loss of wealth in the financial markets' collapse must be considered.

After this week's nosedive in Tokyo, the cumulative drop in the value of shares quoted on the West's equity markets had fallen by as much as $1 300-billion. Add the damage done to bond markets and the total could be nearer $2 000-billion — which is close to 10% of world gross domestic product.

It threatens to wreak havoc on asset values and loan collaterals. In particular, the Japanese banks which have counted 45% of unrealised gains on their equity portfolios as part of their capital base face an anxious time. But it is unlikely the Tokyo government will allow it to develop into a catastrophe.

Even so it is not a new problem and saner investors are standing by for a bounce in the next few weeks.

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Even massive aid no 'quick fix' for East bloc

B/Day 2/7/90

Own Correspondent

LONDON — The economies of Eastern Europe are in such poor shape that even massive infusions of Western aid will not put them right quickly, the Organisation for Economic Cooperation and Development (OECD) says in its biannual economic outlook.

The OECD, comprising the West's 24 leading industrial nations, says of the Eastern bloc "The eventual needs of these countries for foreign resources to facilitate domestic reconstruction is, on the most conservative estimates . well in excess of anything that could be absorbed efficiently or that is likely to be forthcoming over the next several years"

Investors

Key problems are the overhang of debt and the inability to produce goods which will earn foreign exchange.

The OECD believes that, initially at-least, most of the money flowing to Eastern Europe will be provided by official lenders and private investors taking direct stakes in the economies

Official flows are expected to rise sharply The IMF, the World Bank and government donors will, between them, put up roughly $6bn during this year and next

And the newly created European Bank for Reconstruction and Development in London is also likely to become "a substantial supplier of funds"

However, the scale of official aid will fall far short of what is needed, the OECD warns

Eastern Europe is likely to be attracted to foreign private capital because of the technology and managerial knowhow that comes with it. But not all such investment is benign, the OECD warns

It fears that countries desperate for cash could be "vulnerable to asset stripping and transfer-pricing practices", selling off national assets on the cheap

East Germany is in a special position because union with the West "fundamentally alters the basic parameters", says the report.

Other East European regimes will take much longer to make the transition to market-based economies

The OECD paints a grim picture of how far they have fallen behind the West Living standards, even on official definitions, range from one-third of the Western equivalent in Romania to two-thirds in East Germany — but in reality, the OECD believes the gap is far wider

The official figures do not allow for the poor quality of goods and services and for bad living and working conditions, the OECD points out.

Ironically, Eastern economies have spent more on investment than their Western counterparts but the money has been wasted

The OECD believes that economic transformation requires high levels of domestic saving, just when the temptation to spend is likely to increase.

Availability

"Saving has generally been strong in these countries — but in conditions of limited availability .

"In the absence of such constraints, positive incentives to save will need to be stronger"

The loss of heavily subsidised raw materials and energy currently supplied by the Soviet Union will be a major blow, amounting to roughly $5bn a year.

Just replacing this subsidy could absorb all the additional capital flowing in from the West — Daily Telegraph.

FIM 20/7/90 (231)

STEADY AS SHE GOES

Real GNP	1989	1990	1991
% change			
US	3	2,3	2,5
Japan	4,9	4,7	4,0
Germany	4,0	3,9	3,4
OECD Europe	3,5	2,9	2,8
Total OECD	3,6	2,9	2,9
Inflation			
US	4,1	4,2	4,5
Japan	1,5	2,7	2,6
Germany	2,5	3,0	3,4
OECD Europe	5,5	5,4	5,1
Total OECD	4,3	4,4	4,4
World trade	7,3	6,3	6,9
Current a/c		US$bn	
US	−104	−100	−97
Japan	57	49	59
Germany	53	63	62
Total OECD	−84	−77	−67
OPEC	4	3	3
Developing nations*	−4	−7	−9

* Non oil producers

Source OECD Economic Outlook

OECD FIM 20/7/90

Trends set

(231)

With growth running close to the limits of its potential, and inflation stabilising, prospects for the global economy look solid over the next 18 months. The latest OECD assessment, based on data from the 24 main industrialised countries, confirms the trend set in the second half of last year

Oil prices are weak, commodities have slackened and high real interest rates are curbing demand excesses So the OECD should sustain growth in GNP of nearly 3%. Japan and the Continent, led by West Germany, will offset lower-key performances of the US and Britain

Inflation is unlikely to decline, barring a repeat of the 1986 collapse in oil prices, when it fell below 3% Though unemployment remains stubbornly at 6,5% — the problem is structural — shortages of skilled labour keep wage increases above inflation (around 6%).

Gross fixed investment growth is projected to decline from 8% last year to 4,8%, followed by 4,3% in 1991 Japan, down from nearly 17% to 5% over the period, shows the most marked slowdown

This is one aspect that concerns the OECD Tight monetary policies are still needed to counter inflation The situation is finely balanced for "there is virtually no scope for more rapid, sustained expansion of demand unless the supply potential of economies can be improved." Any further rise in interest rates will inhibit increases in capacity and investment to improve productivity

While fiscal balances are improving — the US budget deficit is forecast to fall from 2% of GDP to 0,9% in 1991 — the OECD says more can still be done to take State spending pressures off demand for savings The so-called peace dividend of lower defence budgets will help But the rebuilding of the formerly communist economies of Europe will intensify competition for savings

Some official funds will be available, such as the US$6bn earmarked mainly for Poland and Hungary, from the IMF, World Bank and other sources But this is small in relation to needs and primary requirements for development will come from internal changes and direct foreign investment.

Foreign investment, however, requires the creation of the right economic climate, which is a slower process Indeed, the OECD warns eastern European countries against a wholesale rush to privatise and attract foreign exchange by selling assets

One of the legacies of communism is that information about the real value of these assets is grossly inadequate and makes some countries "vulnerable to asset-stripping and transfer-pricing practices " ■

WORLD ECONOMIES FIM 25/5/90 (231)

The linchpin of growth

Sustained if lower growth in the majors should help global reconstruction

Projections differ by the odd half point here and there but there is a quality of serenity about the main industrialised economies They account for 73% of world GDP and are sailing into the eighth consecutive year of growth This has been the longest period of sustained expansion since World War 2 and is set fair to continue

As Michel Camdessus, MD of the IMF, which is where global economic ills come home to roost, noted recently "So far the industrial countries have been able to steer a safe passage between the Scylla of recession and Charybdis of accelerating inflation, though with uneven success"

With no external threats, such as the oil and commodity price explosions which put the final cap on growth in the last two upswings of the Seventies, inflation is now a domestic problem for the leading economies Co-operation at the level of the Group of Seven (the US, Japan, West Germany, France, Italy, Britain and Canada) has helped to iron out potentially disruptive exchange rate swings

But essentially each is in command of its own destiny which is determined by fiscal and monetary policy at home This explains the unevenness and why the 24 nations in the OECD no longer resemble a convoy moving

FM 25/5/90 (231)

at a pace chiefly dictated by the US

The adage that if the US catches a cold the rest of the world goes down with pneumonia seems to be obsolete Higher interest rates are slowing growth everywhere, most notably — among the majors — in Britain and the US where inflationary pressures are worst and self-generated

Yet the bonus of the German unification factor is not slackening and Japan is still showing the fruits of adjustment towards greater consumption In spite of historically high real rates of interest (nearly 5% in Japan and around 6% in Europe — against under 4% in the US) both consumption and fixed investment are moving along at a healthy clip

The upshot is that while the OECD area's rate of expansion will droop this year the range of projections, from 2,7% to 3% (by the IMF and OECD respectively), are cause for celebration at this stage of the cycle And 1991 looks brighter overall (see **table**) as US and UK disinflationary measures grind through to permit monetary easing and some recovery in growth

Concerns about the current account imbalances — which have pushed US external debt to US$700bn, just over half that of the whole of the Third World — no longer seem to cloud discussions The international financial markets have shown they can cope with the funding of deficits without a crisis So less is heard of protectionism In fact the US has removed Japan from its list of countries deemed to employ undesirable trade policies

At the recent half-yearly meeting of the IMF Interim Committee, US Treasury Secretary Nicholas Brady was emphatic about the success of co-ordination Even though IMF figures show the US deficit widening, and the surpluses of Japan and West Germany moving in the opposite direction, Brady seems convinced the trend is towards improvement and more balanced patterns of growth

German reunification would add to its domestic demand (an imponderable which has not been factored into forecasts) while Japan's restructuring would produce results If anything, Brady suggested, future meetings of the Group of Seven would no longer make big news "We're into the less spectacular part of policy co-ordination making the prescriptions actually turn into results in making the adjustments pass through the system"

A start of convergence also seems to be expected outside the mature industrialised economies The newly industrialised quartet of the Pacific Rim (South Korea, Taiwan, Singapore and Hong Kong) saw their double-digit gallop of 12% a year slow to an enviable trot of just over 6% in 1989 and a projected 5,5% this year

In line with the general rally in 1991, however, they are expected to pick up as export markets improve and could accelerate if their domestic consumption starts to follow the route of Japan

The term "developing economy" now embraces Warsaw Pact countries as they move towards free-market systems and an inevitably painful period of transition

Outside the Soviet Union price inflation in what is now called Central (formerly Eastern) Europe *averaged* 232% last year, nearly three times the 1988 rate It will slow sharply as the once-off effects of ending subsidies are absorbed but little is expected in the way of growth

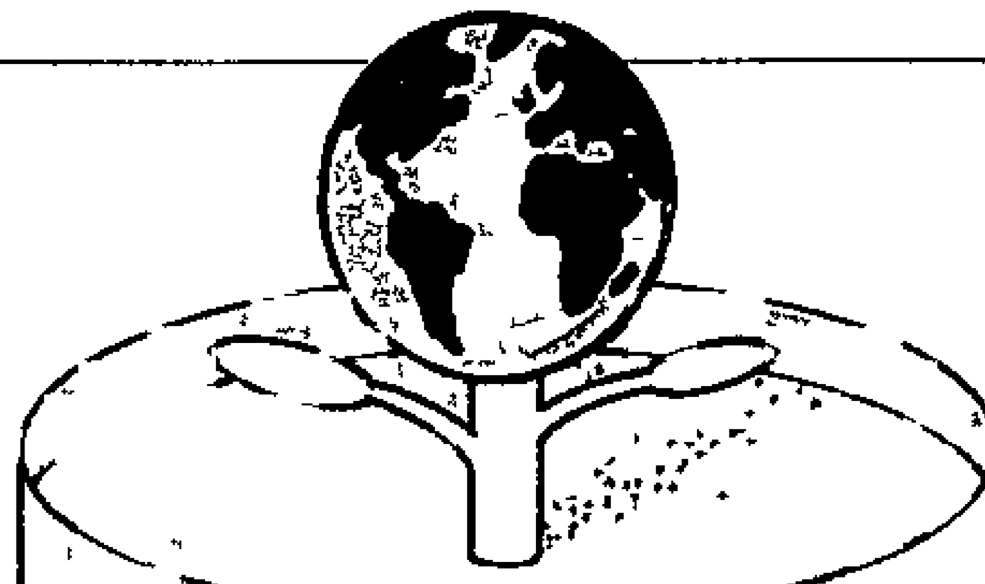
This year they will be lucky to register zero increases in output and for 1991 predictions of an actual decline go as high as 2% Modernisation of these old, centrally planned economies will absorb vast amounts of credit as well as capital goods exports from the OECD — providing, if all goes well, a new platform for growth from a low base in the mid-Nineties Even if their GDP per capita doubled it would still fall well short of the average for the 12-nation EC

The contribution of the rest of the developing world — containing three-quarters of the global population but accounting for less than 15% of its GDP — remains a quandary With Third-World debt at $1,3 trillion, interest rates of 9% plus will hobble expansion and the capacity to import

Commodity price weakness (the *Economist* index shows an overall fall of nearly 14% on 1989 levels with metals 22% lower) will hit hard currency earnings Nonetheless, there is hope on the inflation front as adjustment policies bite, especially in Latin America where prices rose by an average of 350% last year (with Peru at 3 400% and Argentina at 3 080% leading the pack)

This destructive fire shows signs of abating the IMF is projecting 28% in 1991 and real GDP should inch ahead, though not in per capita terms

The IMF, however, finds little reason to be complacent about the relatively smooth waters ahead Camdessus said the experience of the past few years suggested that underlying potential growth rate for the industrialised countries was in the 2,5%-3,5% range



CONVERGING SLOW GROWTH...

	1989	1990	1991
	% change		
REAL GNP			
US	3,0	2,0	2,4
Japan	4,9	4,5	4,2
Germany	4,0	4,0	3,5
France	3,4	3,0	2,5
Italy	3,5	3,0	2,8
UK	2,3	0,9	2,9
Other EC	4,0	3,2	2,8
Other W Europe	3,6	2,4	1,9
OECD	3,5	2,7	2,9
NICs	6,2	5,5	6,4
Developing world	3,0	3,6	4,5
Centrally planned	1,5	0	-1,0

... AND INFLATION (consumer prices)

	1989	1990	1991
US	4,8	4,6	4,2
Japan	2,3	2,3	1,5
Germany	2,8	3,0	3,5
France	3,5	3,4	3,7
Italy	6,4	6,5	5,4
UK	7,8	8,4	5,9
Other EC	5,2	5,6	5,4
Other W Europe	4,5	5,8	5,1
OECD	4,4	4,2	3,6
NICs	5,9	5,3	5,7
Developing world	104,0	71,0	14,0

BUT IMBALANCES GO ON

	1989	1990	1991
	US$bn		
CURRENT ACCOUNT			
US	-106	-113	-130
Japan	57	52	62
Germany	53	59	55
France	- 3	- 4,5	- 4
Italy	- 13	- 15	- 10
UK	- 34	- 25	- 18
Other EC	- 1,4	- 5	- 8
Other W Europe	- 6,4	- 7,4	- 7,2
NICs	21	16	18
Developing world	- 14	- 20	- 23

Sources: **averages of projections by IMF, OECD, and private sector**

Anything faster ran into the limitations of capacity and inflationary labour market pressures, even though unemployment has stayed stubbornly high in the OECD as a whole at 6,6% "We cannot be fully satisfied with the performance of the Eighties," he said " growth has been at rates that were lower than could have been achieved "

His prescription higher national savings to ease pressure on interest rates caused by deficits (such as the US budget) and to "improve the quality of investment" — especially in "human capital" through productivity and flexibility It would also help the Third World which, overall, is losing its own savings via net capital exports to repay debts ■

While nowhere near as wide as the gap prevailing before the October 1987 Crash, it is the highest seen since that troubled time.

Analysts also point out that in Japan equities have not reacted to higher bond yields. Even after the drop the equity earnings-bond yield gulf is five points, against 4,2 points when the Nikkei-Dow peaked in January

Tokyo and New York are the pivotal stock markets and argument about the outlook is mixed

The dollar's 5% weakening against the yen and 3% in D-marks points to a brake on the bond market and inflation-netted long-term yields in the US are still almost a full point lower than Japan's and more than two points below those in Germany and France.

posts in his Department and (b) in respect of what date is this information furnished?

Hansard 22/5/90

B882E

The MINISTER OF EDUCATION

(1)

Year	Enrolment
1985	5 310
1986	6 518
1987	7 826
1988	8 870
1989	9 487

(2) (a) The department is not in possession of this information and is also not in a position to obtain it

(b) Falls away

Pupil/teacher ratio in PWV area

359 Mr A GERBER asked the Minister of Education †

What was the pupil/teacher ratio in (a) all schools under the control of his Department and (b) the PWV area as at the latest specified date for which information is available?

Hansard 22/5/90

B883E

The MINISTER OF EDUCATION

(a) all schools pupil/teacher ratio 38,3/1

(b) the PWV area pupil/teacher ratio 36,8/1

The statistics were compiled on Tuesday 6 March 1990

Venda: guarantees/sureties

402 Mr C W EGLIN asked the Minister of Foreign Affairs Hansard 22/5/90

(1) Whether any guarantees or sureties were given directly or indirectly by the Government or any Department or agency of the Government to any person or organisation for (a) loans granted, (b) lines of credit granted and (c) other specified financial services rendered to (i) the Government of, (ii) any Government Department of, (iii) a development corporation in and (iv) any other specified person or organisation in Venda ~~in the~~ 1989-90 financial year, if so,

(2) (a) what amounts were involved in each case and (b) what was the total amount outstanding in terms of such guarantees or sureties as at the latest specified date for which information is available,

(3) whether foreign currencies are involved in any of these guarantees or sureties, if so, (a) what currencies, (b) how much is involved and (c) who is responsible for bearing the potential cost of exchange rate fluctuations?

Hansard 22/5/90

B949E

The MINISTER OF FOREIGN AFFAIRS

(1) (a) No

(b) Yes, a guarantee in respect of overdraft facilities to the Government of Venda

(c) No

(2) (a) R117,5 million in respect of 1 (b)

(b) Amount utilised not yet known in respect of 1 (b)

(3) No

(a), (b) and (c) fall away

Bophuthatswana: guarantees/sureties

403 Mr C W EGLIN asked the Minister of Foreign Affairs Hansard 22/5/90

(1) Whether any guarantees or sureties were given directly or indirectly by the Government or any Department or agency of the Government to any person or organisation for (a) loans granted, (b) lines of credit granted and (c) other specified financial services rendered to (i) the Government of, (ii) any Government Department of, (iii) a development corporation in and (iv) any other specified person or organisation in Bophuthatswana in the 1989-90 financial year, if so,

(2) (a) what amounts were involved in each case and (b) what was the total amount outstanding in terms of such guarantees or sureties as at the latest specified date for which information is available,

(3) whether foreign currencies are involved in any of these guarantees or sureties, if so, (a) what currencies (b) how much is involved and (c) who is responsible for bearing the potential cost of exchange rate fluctuations?

B950E

The MINISTER OF FOREIGN AFFAIRS

(1) No Hansard 22/5/90

(2) and (3) fall away

SADF: applications from non-Whites

413 Lt-Gen R H D ROGERS asked the Minister of Defence

How many Black, White, Coloured and Indian persons, respectively, (a) applied to join, and (b) were accepted into the Permanent Force as members of the South African (i) Army, (ii) Air Force, (iii) Navy and (iv) Medical Services in 1989?

Hansard 22/5/90

B960E

The MINISTER OF DEFENCE

(a) Separate statistics for race groups are not held in respect of applications to join the SA Defence Force

(b)

(i)	White		1 214
	Coloured		79
	Indian		0
	Black		1 408
(ii)	White		1 452
	Coloured		79
	Indian		17
	Black		0
(iii)	White		324
	Coloured		40
	Indian		49
	Black		1
(iv)	White		623
	Coloured		13
	Indian		0
	Black		15

OECD: hazardous wastes

417 Mr R J LORIMER asked the Minister of Foreign Affairs (231)

(1) Whether there is an international Organisation for Economic Co-operation and Development (OECD) agreement regarding the import, export and/or handling of hazardous wastes, if so, (a) what is the name of this agreement, (b) when was it agreed to and (c) who are its signatories, Hansard 22/5/90

(2) whether South Africa is a signatory to this agreement, if not, why not, if so, when did we sign this agreement,

(3) whether South Africa is complying with the said agreements, if not, (a) why not and (b) in what specified ways are we not complying with it, Hansard 22/5/90

(4) whether his Department has any information on whether South Africa imports any hazardous wastes from any of the signatories to this agreement, if so, from which signatories?

(231)

B964E

The MINISTER OF FOREIGN AFFAIRS

(1) No Organisation for Economic Co-operation and Development (OECD) treaty as such exists The OECD has, however, in three Council decisions of 1 February 1984, 5 June 1986 and 27 May 1988, made recommendations on the internal handling and transboundary movement of hazardous wastes from OECD member states

(a), (b) and (c) fall away

(2) South Africa is not a member of the OECD and recommendations of the OECD are only applicable to member states

(3) In connection with South Africa's compliance with international norms I wish to refer to my reply to the hon member's question no 5 of 24 April 1990 in connection with the Basle Convention which is the most comprehensive international Convention of its kind

(4) The importation of hazardous wastes is a matter for the Department of Environment Affairs

SAAF: resignations

420 Lt-Gen R H D ROGERS asked the Minister of Defence Hansard 22/5/90

(1) How many (a) pilots and (b) technical personnel resigned from the South African Air Force in 1989,

(2) whether any steps are being taken to prevent further resignations, if not, why not, if so, what steps?

B996E

The MINISTER OF DEFENCE

(1) (a) 97

(b) 544

FM 23/2/90 (231)

GLOBALISATION

When sanctions go

When, at some future date, SA is free to rejoin the world community, it will find a strengthening trend towards globalisation Co-ordinated economic policy, deregulated financial markets, growth in world trade and cross-border company alliances — all of these will shape the Nineties

This global economy is being created at several interconnected levels and their interaction will determine the context for business

☐ Economic policy The 1987 Louvre Accord on exchange rate stability has evolved flexibly but leading industrial powers seem likely to maintain their commitment to the sort of policy co-ordination which helped the recovery from the stock market Crash of 1987 The strength of that commitment may be tested by lower growth After 4,1% growth in industrialised countries in 1988, growth in the OECD slowed to 3,5% last year. Both the IMF and OECD expect a further slowing this year to 3%;

☐ Financial markets The questions economic policymakers grapple with — from the volatility of equity markets, exchange rates and interest rates to the Third-World debt crisis — are often transmitted across national borders,

☐ Trade In the past few years world trade has grown more strongly than industrial output, this being a return to the dominant postwar pattern Last year world trade in goods increased by about 7%, more than double the rise in production Its continuation may hinge on whether the Uruguay round of Gatt, due to be completed at the end of the year, prevents a slide into bilateralism and protectionism,

☐ Industrial restructuring The economic growth of the past few years has stimulated a widespread business investment boom, which should maintain productivity growth.

Since 1986 international direct investment has grown about three times as fast as trade in industrial goods within the OECD, reflecting far-reaching changes in patterns of production

International direct investment has risen markedly during the 1980s Outward investment from the top five OECD economies has risen from $244,6bn in the 1970s to $419,3bn between 1981 and 1988 Their inward investment has increased from $79,9bn to $107,5bn

But investment is only one aspect of internationalisation

International companies are now the most global of all institutions Will political systems evolve into an orderly international system to match internationalisation of the economy? ■

ago and, when he died last year, Stals asked her to stay on the day he got the job "They are two different personalities with two different ways of managing the bank Stals is a very relaxed person I don't know if I could have gone the other way around, from Stals to De Kock"

Roy McAlpine, chairman of Liberty Asset Management, and his personal assistant, Debbie Kearns, have worked together for more than 10 years She believes that finding the right combination of personalities makes it "very much like the Dating Game With all the hours, days, years we work together, we have to be close We have a good business relationship"

Though most secretaries will proudly declare that it is they who really run the office, most will also tack on the caveat that they do not run the company The boss is still the boss It has to be that way

"You're nobody yourself," says Conradie, without a trace of rancour "People do not think of Estelle Conradie They think of Estelle Conradie, Chris Stals's secretary You get a little status because your boss has status"

Van Rensburg says she is respected because Ferreira is respected "He creates the thunder and I enjoy it" *Maureen Sullivan*

WORLD ECONOMY

FM 4/1/91

NEW PROBLEMS, OLD HABITS

231

NATIONAL JITTERS ARE POSTPONING PROSPERITY'S RETURN

At the start of the abortive "final week" of the Uruguay round negotiations of the General Agreement on Tariffs & Trade (Gatt) in Brussels this month, the managing director of the International Monetary Fund (IMF), Michel Camdessus, sounded uncharacteristically alarmed

It was not only important that the Gatt talks succeed, he said There should also be an early meeting of the Group of Seven (US, Japan, Germany, France, Italy, UK and Canada) to discuss the world economy as the longest unbroken postwar period of growth threatens to sag into a full-blown recession

Camdessus did not mention the price of oil when he spoke of global "deterioration," adding that the world economy is at a turning point Obviously, the longer the Gulf situation continues, the more fear-driven crude markets will fluctuate So, too, will inflation rates, creating a short-term nightmare for policymakers as they try to smooth the impact of a growth slowdown entering its third year in 1991

But the Gulf crisis, however resolved, is temporary Even after the cumulative loss of 650m barrels of Iraq-Kuwait output, the world is glutted with oil

With the other 11 Opec members pumping flat-out, the cartel's production is up to 22,9m BPD, only 100 000 short of the excess pre-crisis level — and world stocks are about 10% higher than normal

Such is the fear of a collapse in the price of crude to US$15 a barrel or below, when a solution is found to Iraq's President Saddam Hussein, that Opec's meeting of oil ministers was presented with a demand from Iran for reinstatement of the 22,5m BPD quota without waiting

Clearly, it makes a difference if oil is $17 a barrel (the 1989 average), or $21 (Opec's target) or $27 (the current level used in projections by the Organisation for Economic Co-operation and Development) (OECD) The difference between the top and bottom of that range equates to a half point of OECD growth and 0,75 points of its inflation rate — as well as, for example, $16bn in Japan's oil bill, more than 70% of last year's total

The malaise which worried Camdessus runs deeper than a blip in crude prices — which, in any case, are at around $11-$12 a barrel in 1980 dollars now, where the price peaked at $44 during the second oil explosion and precipitated two deep years of recession Other inputs are well down the Reuters Commodity Index is 5% below last year's level and 11% below 1988, the peak year of OECD growth during the decade

Monetary and fiscal policies are being thrown off balance by political and economic developments The US is seeking to limit its recession by relaxing credit as the collapse of the property market forces banks to rein back lending, worsening industry's plight. Fixed investment fell 0,6% this year and is not expected to grow by more than 0,4% next

The US Federal Reserve has eased equity asset ratios and clipped interest rates. At the same time, however, the costs of the Gulf war plus the rescue of the savings and loans industry could push the Federal deficit to $320bn next year, more than doubling to 6,2% of GNP. 1992 may be worse — and the US will become more dependent on foreign savings

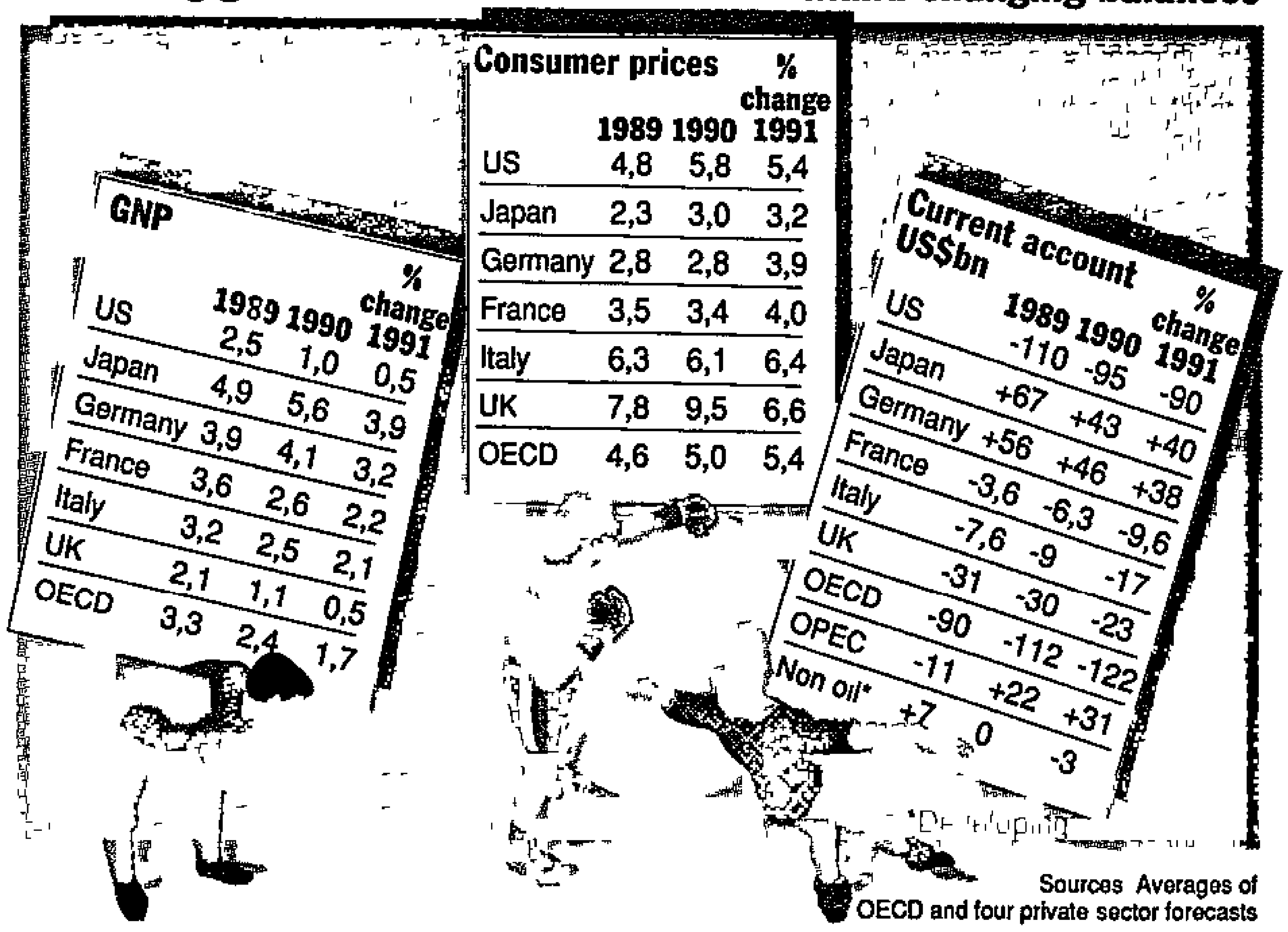
Yet real returns on Euromarket dollar deposits are the lowest in international terms The inflation-adjusted three-month dollar rate offers 2,3% against the Deutschemark's 6,5%, the yen's 5,3% and sterling's 4%

Camdessus specified the present "very special, very rare interest-rate differential between Germany and the US" as cause for G-7 concern

The question arises who is going to fund the US? Conventional wisdom is that this will be a shallow recession with GNP falling by no more than 1,5% between mid-1990 and 1991 and second-half recovery producing some real growth overall — unlike the 16-month declines of 1973-1975 and 1980-1982

But much depends on assumed oil prices, interest rates and the dollar's value Within the average forecast of 0,5% GNP growth next year (see table) lie projections of zero and even minus 0,9% They suggest that the

Stumbling growth ...stubborn inflation ...and changing balances



GNP

	1989	1990	% change 1991
US	2,5	1,0	0,5
Japan	4,9	5,6	3,9
Germany	3,9	4,1	3,2
France	3,6	2,6	2,2
Italy	3,2	2,5	2,1
UK	2,1	1,1	0,5
OECD	3,3	2,4	1,7

Consumer prices

	1989	1990	% change 1991
US	4,8	5,8	5,4
Japan	2,3	3,0	3,2
Germany	2,8	2,8	3,9
France	3,5	3,4	4,0
Italy	6,3	6,1	6,4
UK	7,8	9,5	6,6
OECD	4,6	5,0	5,4

Current account US$bn

	1989	1990	% change 1991
US	-110	-95	-90
Japan	+67	+43	+40
Germany	+56	+46	+38
France	-3,6	-6,3	-9,6
Italy	-7,6	-9	-17
UK	-31	-30	-23
OECD	-90	-112	-122
OPEC	-11	+22	+31
Non oil*	+7	0	-3

*Developing

Sources Averages of OECD and four private sector forecasts

Fed's relaxation of credit could have the effect of Keynes's phrase, "pushing on a piece of string"

The other so-called Anglo-Saxon economies, Britain, Canada and Australia, will find 1991 plainly bleak With the US their downturn is responsible for most of the 1990 decline in OECD growth from 3,3% to 2,4%

Canada could finish this year in the sub-1% club and do little better in 1991 while Australia limps along at less than half 1989's 4% rate.

In Britain, the pegging of the pound to the D-mark and consequent reduction in interest rates is expected to take at least six months to reverse the fall in GNP November's sharp drop in the annual rate of inflation (from 10,9% to 9,7%) should continue and allow an easier monetary policy — providing the Bundesbank does not answer the costs of German reunification with higher interest rates

Consumer spending may respond this year but confidence threatens to be eroded by retrenchment in industry as stocks are run down and unemployment rises to 2,4m Business investment spending is forecast to drop by 8%

The climate, however, should see pay demands dropping and exports improving to chip away at the current account deficit But the economy will be patchy — construction is likely to plunge into depression with commercial building down by 30%

In world terms, however, the chief anxiety is over the powerhouse economies Japan's tight money policy (the discount rate up from 2,5% to 6% since 1989) which is compounding the ills of the stricken property and banking sectors and feeding into industry no longer able to shore up profits through *zaitekku* — making money on the stock exchange

Corporate earnings are dropping rapidly as export markets (US, Australia) weaken and slash the current account surplus with the help of costlier oil Honda recorded a 28% fall for the first half and the top four steel groups were 26% down Business investment is predicted to rise by only 2,5% against 19% in 1990

Germany is feeling the pinch of reunification Looking at rising inflation and the $100bn budget deficit which is being run up to incorporate the old East Germany (its output will fall by up to 10%), the Bundesbank is squeezing credit

Some critics argue the Bundesbank policy is too tough, but that has carried little weight with its president Karl Otto Poehl, though he recently asserted no further interest rises were planned Even so, German inflation is still rising and high real interest rates will continue, flattening the political honeymoon

Growth in German spending on plant and equipment and construction could more than halve to 5% and 3% respectively in 1991 while retail sales, which shot from a rise of 2,2% last year to 7%, cool off Imports, which benefited the European Community trading partners and cut the current account surplus, will still grow, though by 6,5% after 9%

Germany's more pedestrian pace will be reflected in most of its EC partners, whose growth downturn this year was softened by the reunification boost. Nor is any help likely yet to flow from the reforms in the former communist economies of central and eastern Europe.

On top of the pain of restructuring and modernising — which means contraction — they have been among the worst hit by the new Soviet policy of charging world prices and demanding hard currency payments for oil

None of them is energy-efficient, having been shielded from the past two oil price shocks by Soviet crude supplied on a barter basis and Poland, Czechoslovakia, Hungary and Bulgaria are facing devastating current account deficits which will make further calls on stretched international resources, even with the IMF's extra finances

With OECD growth forecasts whittled back to an average of 1,7% (only six months ago 2,9% was projected), developing countries are already suffering. Depreciation of the dollar has protected primary product exporters from the worst, but in terms of Special Drawing Rights commodity prices are showing a 14% decline on last year.

In aggregate, the big five economies of Latin America shrank by up to 1,5% this year as they adjusted and reformed and while some recovery is expected in 1991 it will barely restore them to the 1989 level of GNP And relatively twinkling performances among the dynamic but small Pacific Rim economies of South Korea (7,5%), Taiwan (5%) and Hong Kong (3,5%) will pale beside previous years.

With a looming credit crunch and shortage of liquidity — nobody is talking about Opec recycling its surpluses to Western banks this time — it is clear that expectations raised by the revolution in eastern Europe and the end of the Cold War face short-term disappointment Prosperity could be slow to follow peace, itself put on hold by Iraq ■

231

War's end will do little to help lift Western economies

Star মার্চ 1/3/91

PARIS — The rebound in confidence following the end of the Gulf War won't be enough to lift English-speaking nations out of recession or halt the cyclical downturn now gripping much of Europe, economists say

Some analysts at the Organisation for Economic Cooperation and Development (OECD), which had earlier forecast a recovery in growth for the second half of the year, now believe a broad upturn could be delayed until 1992

"That might get postponed until the first half of next year," one source at the Paris-based economic forum said

Signs of weakness in the industrial world abound

British manufacturers are at their most pessimistic in a decade and French industry is gloomy about the months ahead, according to a new government survey

The OECD's leading indicators also herald a downturn even in Japan

Although the Gulf crisis accentuated the slowdown, OECD analysts put more emphasis on the lagged impact of the tight monetary policy followed by many central banks

They say economic confidence has also been damaged by a brusque realisation that the Soviet Union and Eastern Europe are not about to metamorphose into models of capitalism overnight

Yet economists are wary of dismissing the healing power of a return of consumer and business confidence which is expected to result from the war's end, even if it cannot be relied upon to overcome deep, powerful forces that regulate the business cycle

"There is no fundamental reason for a major recession in continental Europe," an OECD economist added "This could turn out to be a brief, conjunctural downturn followed by a quick, sharp bounceback"

That is certainly how policymakers would like it "With the end of the war, it seems to me in this country business as usual will return," US Treasury Secretary Nicholas Brady said

But in one crucial respect, business is not as usual in the United States Banks, burdened by bad loans made in the heady days of the 1980s, are licking their wounds and are cautious about making new loans despite a sharp drop in interest rates

"The major danger to a near-term recovery is that the erosion in purchasing power and frayed consumer and business confidence stemming from the recession and war could interact with a weakened financial system to produce a further decline in the economy," US Federal Reserve chairman Alan Greenspan said

Nevertheless many analysts see the United States as the major economic beneficiary of the war It is a heavy importer of oil, likely to be cheaper now the fighting has stopped, and its firms seem to have a head start in the race to rebuild Kuwait — a task estimated to cost up to $100 billion

"Lower oil prices, the stimulus of rebuilding Kuwait and patching up the inventories of the allied armies should boost the US economy in the second quarter," Alex Hinder, an economist at Bank Vontobel und Co in Zurich, said

World bond and stock markets, up sharply since the beginning of the year, appear confident that the cost of waging war and of reconstruction can be financed comfortably

But the money must come from somewhere Saudi Arabia's unprecedented decision to borrow $3,5 billion from international banks, may prove to be only the first sign of an upheaval in world capital flows Kuwait may also borrow

"There is probably not enough capital in the world to satisfy all the needs, which will be increased by Gulf reconstruction," Deputy US Treasury Secretary John Robson said, adding that competition for funds would be fierce

B/Day 28/5/91

NEWS IN BRIEF

Income tax return extension

THE income tax return deadline for taxpayers waiting for their IRP5 forms has been extended to July 1 In a statement Commissioner for Inland Revenue Hannes Hattingh said many large employers were experiencing problems in issuing the employees' tax certificates in time The new deadline does not apply to other taxpayers

Ethiopians agree on ceasefire

US ASSISTANT Secretary of State for African Affairs Herman Cohen said in London yesterday a ceasefire had been agreed between the interim Ethiopian government and rebel groups He said the US was recommending that forces of one of the main rebel groups enter Addis Ababa to stabilise the situation

Attorneys look for winning way

A NO-SUCCESS no-fee system may apply to attorneys in certain cases, which has been approved by the Association of Law Societies

In terms of the system, introduced because there was concern that courts were becoming inaccessible as a result of higher litigation costs, clients with claims for damages only have to pay their attorney if the claim is successful

Unemployment on the rise

THE Organisation for Economic Co-operation and Development (OECD) said in Paris last week unemployment in the industrialised countries that are its members rose 0,2% points to 6,8%, the highest level in two years The sharpest increases were in New Zealand, Australia, the US, Ireland and the UK Only Germany and the Netherlands saw a decline Japan's rate showed a tiny rise Preliminary April data point to the first break in the upward trend in unemployment in the US and Canada in the past 10 months

REPORTS Business Day Reporter Sapa-Reuter AP-DJ

231

JCI cites automation for improved mine safety

B/Day 28/5/91

MATTHEW CURTIN

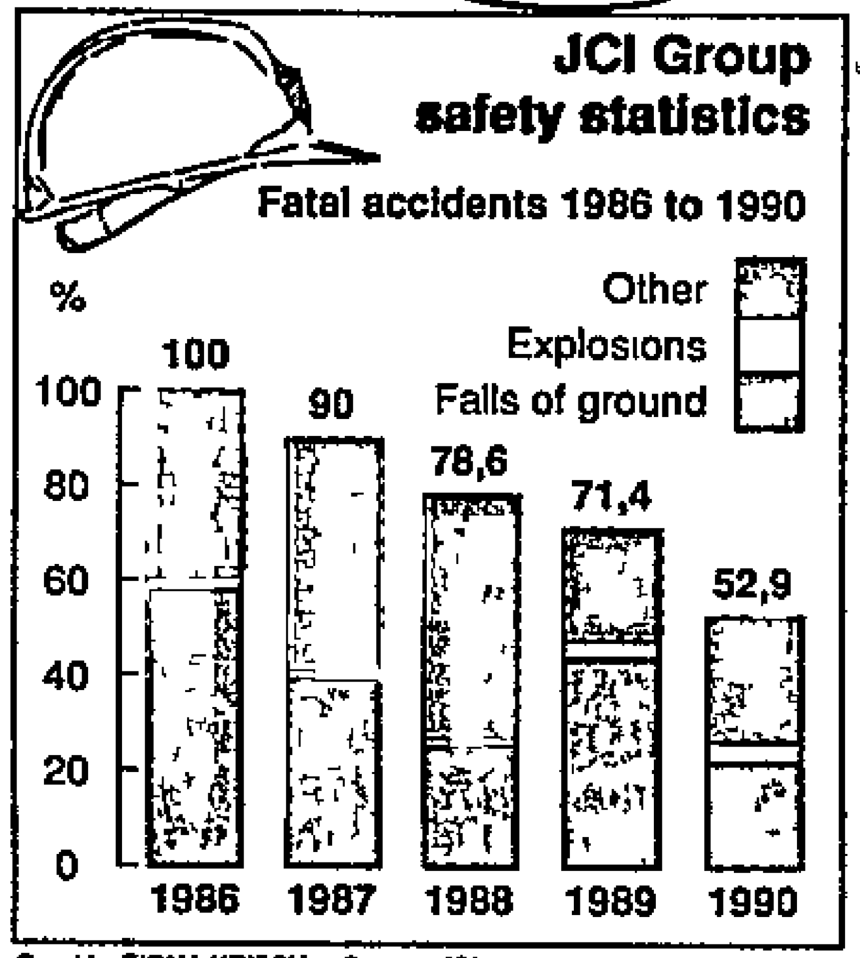
JCI's adoption of automated or trackless mining techniques and more open management systems was responsible for its unprecedented mine safety record in 1990, group technical director Hugh Scott-Russell said at a celebratory lunch yesterday.

Last year was the first time a mining house had won the Chamber of Mines' McLean Shield on its gold, platinum and coal divisions in the same year

Randfontein Estates gold mine, the east section of Rustenburg Platinum, and South Witbank Colliery won McLean shields, awarded to mines which achieved the lowest casualty rate for surface and underground work for three consecutive years

Scott-Russell said falls of ground, the major cause of mine fatalities, were cut on JCI mines by 16% last year, from an average rate of 2,74 for every 1 000 employees, compared with a rate of 3,27 in 1989 Last year was JCI's safest year on record, but fatalities and injuries cost the group R13,5m in payouts

National Union of Mineworkers (NUM) health and safety officer Sazi Jonas said yesterday that the union



Graphic: FIONA KRISCH Source JCI

"had little time" for the chamber's safety ratings After the 1986 Kinross fire, which killed 177 workers underground at the gold mine, the chamber did not downgrade the mine's four-star rating

He said there was no such thing as a safe mine in SA, and trackless mining incurred new injuries as mineworkers were under-trained in the use of the new machinery. Trackless mining had not affected the risks of miners working at the stope-face

In a recent report on the improvement of JCI's safety record, Scott-Russell said "the introduction of trackless mining has contributed significantly to the reduction of accidents, especially in the gold division, as workers are farther removed from the working face which is the main danger point" JCI had the best safety record in the gold industry with a fatality rate of 0,5 cases for every 1 000 employees, against an industry average of 1,2 cases in 1990 About 75% of work at the group's largest gold mine, Randfontein Estates, was undertaken by trackless methods

JCI had also supplemented the International Mine Safety Scheme, applied on SA's mines, with an in-house scheme to make up for the former's drawbacks

The group was committed to "engineering out" the risk in mining, adopting hydrohoisting and backfilling of worked-out areas as well as trackless mining to this end Developing mine H J Joel had reported 18 months of trackless production without a fall of ground accident

Scott-Russell said participative management, through "multiple integrated committees and groups" from Head Office to underground, had improved communication and employees' familiarity with and implementation of safety procedures

Sacob nails the high cost of inputs

SI Times 2/6/91

By CURT VON KEYSERLINCK 231

SOUTH AFRICAN manufacturers are on average at a 15% cost disadvantage to those in Organisation for Economic Co-operation and Development countries.

Their cost disadvantage to manufacturers in newly industrialising countries is even greater

These are the findings of a study by the SA Chamber of Business (Sacob)

The report says SA manufacturers pay more than their foreign counterparts for all but one of their cost items — electricity. But this does not help them much because electricity accounts for only 2,9% of their costs

They get no cost advantage from the mining sector in SA because in most cases they pay world prices for minerals mined here.

Sacob says inputs bought by manufacturers from their SA counterparts have the highest cost-raising effect. This is because import surcharges and high tariffs raise the prices of these goods above international levels.

Reasons

The most important SA-made inputs to the manufacturing sector — fabrics and yarns, chemicals and plastics, fabricated metals and motor vehicles — receive high protection

Iron and steel and paper and pulp have medium levels of protection Only SA-produced non-ferrous metals receive low protection

The report says the cost of capital in SA is another important cost-raising element. There are several reasons, including

- Investors in SA expect a higher rate of return because of the what they see as a high risk element.
- Nominal corporate tax of 50% is among the highest in the world
- Real interest rates and inflation are high
- Debt-equity ratios are high, leading to greater demand for top short-term yields

The cost-raising effect of labour is also high

SA's exports as a percentage of world trade show a large decline in recent years. In 1961, exports, including gold, accounted for 1,7% of the world figure By 1989, they had fallen to 0,5% of world trade

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OECD FM 7\6\91 (231)

WORST STILL TO COME

Backroom number jugglers at the Organisation for Economic Co-operation & Development (OECD) are sticking to the thesis that the US-led recession will have bottomed out during the first six months of 1991 Finance and economic ministers from the 24 leading industrialised nations, meeting at the OECD headquarters in Paris this week, were presented with projections of growth recovery in 1991 almost everywhere except Germany

But their latest figures have had to be considerably revised from those presented in the December 1990 *Economic Outlook*

The US, with negative GNP growth of 0,2% this year, fares considerably worse than the first estimate of a weak but positive 0,9% The OECD as a whole limps along at 1,1% — barely half the rate foreseen then

By the same token, the bounce back will be better than expected, with the US in the vanguard Easier money and falling inflation should rally demand so that an annualised GNP decline of 1,8% in the first half is followed by growth at the rate of 2,7% in the second, and 1992 should be the best year since 1988 with an acceleration to 3,1%

This will be echoed by the OECD as a whole as oil prices weaken and investment confidence returns on the back of lower inflation, though historically high *real* interest rates won't permit anything like a boom

The fly in the OECD's comforting balm is Germany Apart from the slump into current account deficit, the OECD has decided not to project the impact on the German economy of re-unification and the virtual collapse of the former communist East

Its reasons will doubtless be explained in its full assessment later this month But consolidated data for Germany must look worse than the lustreless scenario projected by the OECD, which reflects the drag of higher taxes to pay for upgrading the eastern *laender* and the tight money policy of the Bundesbank to counter inflation and underpin the D-mark

Even so, the OECD puts German inflation for the next 18 months at its highest since 1982 — after the second oil price shock And its optimism about the restoration of Germany's current account surplus next year after the first deficit for a decade is not shared by other forecasters

The London Business School (LBS)'s latest *International Economic Outlook* says the transfer of resources to the East will keep German imports on a rising trend which will be matched by current account deficits through until at least 1995 The LBS reckons Germany will be in the red to the tune of US$8bn next year, climbing to $20bn over the following three and says it will be a net importer of capital in the Nineties

As the *FM* went to press it remains to be seen whether the US will again repeat its familiar exhortations for more active growth policies and lower interest rates among the other leading economies

Both aspects were of keen interest to ministers from Poland, Czechoslovakia and Hungary, attending the meeting as observers for the first time They have also added a new acronym to the OECD's official vocabulary, being designated "partners in transition" — which makes them the Pits ■

Sharp recovery expected in OECD area

Star 7/6/91

(231)

PARIS — A sharp economic recovery in member states of the Organisation for Economic Co-operation and Development is forecast in the second half of this year.

The Paris-based agency's latest economic projections, issued in time for a two-day meeting of OECD ministers here, envisage the industrial world recovering to an annual growth rate of around 2,4 percent in the second half, after virtual stagnation in the first six months. An annual rate of 3,2 percent is expected in the second half of 1992.

OECD economists in particularly pronounced a turnround in the US, where real total domestic demand should grow by around an annual 2,9 percent in the second half of this year after falling at an annual rate of 3,2 percent in the first half

Real gross national product is expected to grow at an annual 2,7 percent in the second half after falling at 1,8 percent in the first. Growth next year should top 3 percent.

Senior OECD officials base their generally upbeat outlook for the world economy on the recovery of business confidence since the Gulf war, the easing of monetary policy this year in the US and Europe and relatively low inflationary pressures.

However, this is unlikely to deter the US delegation from pressing for more active growth policies and possibly lower interest rates from its OECD partners this week.

OECD ministers will this week discuss the issue of immigration flows from the developing world to the industrialised countries The topic has been placed on the agenda for the first time, signalling that immigration is seen as a growing problem in many, if not most, member states

Virtually all OECD countries have now become recipients of immigrants from outside the area. — Financial Times.

Wage regulation likely to reduce output and cut jobs

BDay 1/7/91. 231

Minimum wages have rarely achieved their intended effect, reports PETER NORMAN in London

THE British Labour Party's promise to introduce a national minimum wage has brought back to life an instrument for poverty reduction that had largely fallen from fashion in recent years.

For although minimum wages have a century-old pedigree and are popular, most recent studies suggest they have rarely achieved their goal

In the case of the UK, the National Institute of Economic and Social Research (NIESR) and James Capel & Co, the City investment firm, suggest that Labour's plans to introduce "a national legal minimum hourly wage, starting at a level of 50% of median men's earnings" would add modestly to unemployment and reduce national output.

The effects would be greater if Labour were to achieve its goal of lifting "over time the minimum wage as a proportion of earnings to a point where nobody is paid less than two-thirds of the median male hourly wage" But on any reasonable interpretation, Conservative Party claims that Labour's proposed minimum wage package would cost up to 2-million jobs appear greatly exaggerated.

Although the first minimum wage Acts were passed in Australia and New Zealand nearly a century ago, economists have always had problems assessing the effects of such measures on employment, economic activity and other macro-economic variables

It is uncertain, for example, whether much could be learned about the likely effects of Labour's plans for statutory regulation from Britain's previous experience with minimum wage rules In 1909 Winston Churchill, then president of the board of trade in a Liberal government, introduced wages councils to fix minimum pay in four trades with no collective bargaining and low wages

From this modest attempt to cope with public concern about "sweated labour" there evolved a complex and ineffective system of wage regulation until 1986 when the Conservative government stripped the UK's wages councils of many of their powers.

Researchers have therefore tended to look abroad where statutory minimums, along the lines proposed by Labour, exist in the US, France, Luxembourg, the Netherlands, Portugal and Spain In recent years, most have concluded that poverty can better be alleviated through changes in the tax and benefits structure.

The French experience with the *salaire minimum interprofessionnel de croissance* (Smic) is probably of greatest relevance. The Smic applies to a large number of people — about 2-million, or 12%, of the French workforce — and after rising from just under 40% of net average earnings in the late 1960s has fluctuated around 50% of average earnings since the early 1980s This is roughly equivalent to the criteria defined for stage one of the Labour Party's minimum wage policy.

The 24-nation, Paris-based Organisation for Economic Co-operation and Development (OECD) has its doubts about the system Its latest annual review of the French economy concluded that the national minimum wage was partly responsible for France's relatively high 9% unemployment rate and a rising proportion of long-term jobless, particularly among the more vulnerable — the young, older workers and the unskilled

In a separate study published by the OECD, a lecturer at Kent University, Stephen Bazen, and a senior OECD economist, John Martin, estimated that for every 10% increase in the minimum wage, youth employment in France decreased by between 1% and 2%

Such findings are not unique There has been a consensus among US economists that increases in the US federal minimum wage had small negative effects on teenage unemployment Until recently, however, the US had a policy of allowing the relative value of its minimum wage to fall

In the Netherlands, the government pared the relative value of the gross minimum wage in the 1980s so that it fell from 77% of the average wage in 1978 to 68% in 1987. The 1989 OECD report on the Netherlands said this cut raised the employment of low-productivity workers, with employment among under-25s increasing by 32 000 between 1983 and 1986

In the UK, both James Capel's chief economist, Keith Skeoch, and a senior research officer at the NIESR, Paul Gregg, have concluded independently that the first stage of Labour's plan would add about 60 000 to the total of unemployed over five years and clip 0,5% off economic growth that might be expected over that period

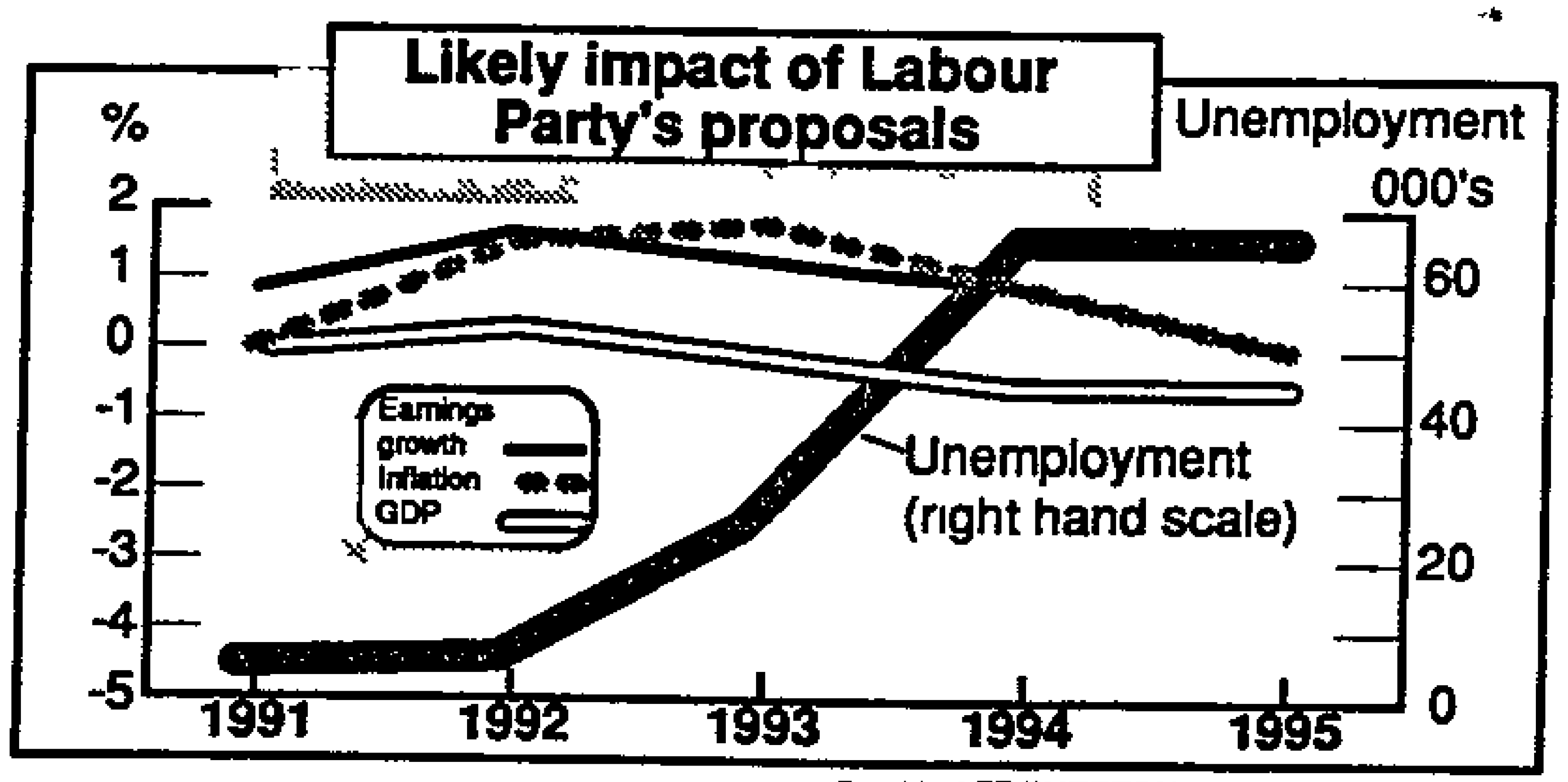
The two differ somewhat over the inflationary implications Skeoch expects the measures would add 1,7% to consumer prices over three years but this inflationary blip would work itself out after five years Gregg forecasts a 3,5% increase in prices over three years

These figures do not suggest that the minimum wage would be a big job killer But neither researcher has examined what would happen if Labour went on to raise the minimum wage to 66% "That would be more problematic," says Skeoch Gregg, however, does not hesitate to brand the Tory party calculation of 2-million job losses arising from Labour's minimum wage plan as "ludicrous"

The impact of the minimum wage could be limited According to Gregg, minimum wages would benefit mainly part-time workers, male and female He estimates 15% of employees, or 3,5-million people, would be affected and their wages would rise by nearly 15% on average on the implementation of the first stage of Labour's package But the UK's total wage bill would rise by only 1% because most workers earn more than the minimum wage

But there would be an additional "knock-on" effect as workers just above the minimum wage succeeded in restoring differentials against those who have just benefited from wage rises The result, says Gregg, could be to boost the UK's overall wage bill by about 1,6%

This relatively modest figure can be little more than a guess The high percentage of part-time workers among the minimum wage beneficiaries argues against a big knock-on effect But the impact of the Labour plan could be much greater if a powerful trade union — in the public sector for example — regarded it as an opportunity to boost members' pay



Graphic LEE EMERTON Source: JAMES CAPEL

How this unknown element in Labour's plan would interact with Britain's membership of the exchange rate mechanism (ERM) of the European Monetary System is a particular worry to some observers

"My concern is that the whole money wages structure will go up," says director-general of the National Economic Development Office, Walter Eltis "As several trade unions have said they do not want differentials to narrow, Britain's competi-

given [illegible]"

Slow upturn in US economy

B Day 4/7/91 231

WASHINGTON — The US economic recovery, still anaemic compared with previous upturns, was unlikely to cause a sudden surge in inflation, the Organisation for Economic Co-operation and Development (OECD) said yesterday

But in its half-yearly report, the OECD said underlying inflation in the US would probably fall only slightly in the next couple of years

"The recovery is projected to be less rapid than has been typical in the US largely because the contraction has been milder than average," the report said

On Japan, the report — written before Monday's half percentage point cut in discount rate — said monetary policy needed to remain firm to hold inflation Any fall in core inflation would be limited by tight labour market conditions and high-capacity utilisation.

Employment

The US economy has been weighed down by an 11-month recession which many analysts, including OECD economists, believe has either ended or is about to

"The recovery is projected to be under way by the second half of 1991 as consumption picks up, firms begin to rebuild stocks and, slightly later, employment grows," the report by the Paris-based economic forum said.

It projected US output would grow by more than 3% in 1992, well below the 5%-6% growth rates that typically occurred in previous upturns

The report generally confirmed what other economists believe is in the pipeline as the US recovery begins to take hold

Exports, which had helped fuel the recovery, should continue to be strong, although moderate growth in the other 23 OECD countries should curb it somewhat, the report said.

The underlying current account, temporarily buoyed by a $40bn inflow of allied payments to help pay for the Gulf war, should show a relatively stable deficit position as the recovery led to increases in imports

It estimated that consumer price inflation would fall from current levels of about 4,5%-5% to about 4% by the end of 1992

"The decline in oil prices and the widening slack in labour and product markets have virtually eliminated concerns about a short-term burst of inflation," the report said.

But the report conceded that if the upturn's momentum increased faster than analysts expected, inflation could still pose a threat, prompting the Federal Reserve to tighten policy to overcome price pressure.

Commercial banks, stung by large numbers of bad real estate loans, have been loath to make new commitments. Their reluctance, which could continue as recovery begins, is thought to have prolonged the recession and could delay the upturn.

Growth in Japan's GNP was likely to slow to 3,5% in real terms this year, the OECD said

The figure compared with a real growth of 5,6% last year

The forum said domestic demand might gradually slow to 3,6% growth in 1991 from an expected rise of 5,8% in 1990

Growth in capital expenditure would be slower than in the past few years, but it should stay at relatively high levels to meet continued consumption growth

Tight monetary policy had caused no overall credit shortage so far as credit restrictions have been concentrated on curbing rises in land prices This left room for private consumption and capital investment to grow, it said.

Japan's fiscal policy could be regarded as broadly neutral in 1991 and 1992, the OECD said.

Japan's current account surplus is likely to widen to $41bn in 1991 from $35,8bn in 1990 and the trade surplus is also likely to rise to $85bn in 1991 from $63,9bn the year before as export markets recover

Pressure

The report sees consumer prices, measured by the GNP implicit price deflator, rising by 2,3% in 1991 after a 1,9% gain in 1990 Higher unit labour costs would not be fully passed on to prices due to severe competition at home and abroad, the OECD added.

Corporate margins, accordingly, were expected to be squeezed in 1991 before recovering, it said

Further upward pressure on domestic interest rates seems unlikely with price and wage rises showing signs of peaking, and land prices falling, during the early months of 1991.

Japan's unemployment rate is likely to remain at its current low levels The report sees the unemployment rate edging up to 2,2% in 1991 from 2,1% in 1990 — Sapa-Reuter

No relief for unemployed in French GDP's recovery

BDay 4/7/91

(231)

PARIS — The French economy should start growing again soon after a marked slowdown since mid-1990, but it will not be enough to stem rising unemployment, the OECD said yesterday.

It said France's gross domestic product (GDP) would grow by 1,4% in 1991, rising to 2,7% in 1992.

But the Paris-based economic think-tank added: "Such an outlook for GDP growth is not sufficient to generate enough employment to prevent the unemployment rate from rising, despite expanded job-creation programmes.

"By 1992 it could reach 9,75% — about one percentage point above the lowest level seen in 1990," it said.

Unemployment in May reached a record 2 688 900, or 9,5% of the workforce, by the Labour Ministry's calculation.

The reverse side of the coin for the OECD was that slack in the labour market would help limit wage rises which, with a cyclical rise in productivity, would help reduce cost pressures in industry. This would also allow a substantial recovery in company profits Investment was also likely to recover by the end of 1991

The 24-nation OECD released a full country report about France only a month ago, and, structural problems in the labour market aside, it generally regards the economy as sound. — Sapa-Reuter.

Eastern Europe's reforms show first signs of success

(231) B Day 4/7/91

PARIS — The first signs have appeared that the tough economic reform programmes adopted by Poland, Hungary and Czechoslovakia are working, the OECD said on Wednesday

But it warned that economic transformation of the former communist countries would take years, and that the region's output would continue to fall this year.

Bulgaria and Romania, which did not adopt reform programmes until much later, have so far experienced only the economic decline caused by the collapse last year of the old command economy, the OECD said in its report

"In central and Eastern European countries, excluding the Soviet Union, the decline of output owing to the cessation of unprofitable production should be increasingly offset by expanding private sector production," it said.

Poland, alone in the region, would show a positive growth rate this year, to be joined by Hungary in 1992, it forecast

But tight monetary and fiscal policies would continue to restrain growth on the demand side in all countries, at least until price adjustments had worked themselves out and inflation had stabilised at tolerable rates

The slump in regional trade, caused by the shift to hard currency pricing in the defunct Comecon system and the collapse of the Soviet market, would be met by a mix of foreign financing and domestic adjustments, it said.

The main risk was that rising unemployment would erode political support for economic stabilisation policies and undermine the consensus on the need for reforms, it said

The private sector in Hungary, Poland and Czechoslovakia grew strongly in 1990 as a result of stabilisation and reform policies, although no precise figures were available

Government subsidies to consumers and state enterprises were cut, reducing pressure on the budget, and exports by Hungary and Poland to OECD countries grew sharply — Sapa-Reuter

EPORT

Confusion reigns over situation in Soviet Union

S/Doan 4/7/91

PARIS — With authorities debating market reforms but reasserting central control over industry and foreign trade, the economic situation in the Soviet Union remained confused, the OECD said yesterday.

In its report it said a "misguided currency reform" — a reference to January's confiscation of 50 and 100 rouble notes — and a series of price rises had failed to correct substantial economic imbalances.

"In the Soviet Union, where no basis has been laid for a turnaround, the slide of output could steepen," it said.

(231)

The Paris-based OECD forecast a drop of 8% in Soviet output this year after 4% in 1990.

"It is not clear at this stage whether the anti-crisis plan which was agreed in April between the union government and nine republics will lay the basis for stemming the decline and prevent hyperinflation."

The Soviet Union would benefit from the switch to hard currencies and world prices in regional trade, enjoying a terms-of-trade gain of about $9bn.

That would be partly offset by a fall in oil exports and in prices for Soviet exports to other countries, it said.

The Soviet current account was likely to show a small surplus this year, after a stronger than expected surplus in 1990 due to higher oil prices and import restraint. — Sapa-Reuter.

Britain passes worst of recession

Bday 4/7/91

(231)

LONDON — Britain should recover gradually from recession in the second half of 1991 as lower inflation and interest rates restore consumer confidence, the OECD said yesterday.

The OECD, citing a recent rise in bond and share prices and a small upturn in retail sales, said the worst of the economic downturn in Britain may be over

But it also warned full recovery could be delayed if households and businesses took more time than expected to stabilise their finances after a bout of heavy borrowing in the late 1980s.

The current downturn, which started in the summer of 1990, is expected to be shorter than the recession of 1980/81, when output fell for more than a year and a half, the Paris-based economic think tank of 24 industrialised countries said.

But the current recession probably will end leaving unemployment at the high level of around 10% of the labour force in 1992. Meanwhile, the growth in real gross domestic product (GDP) is expected to remain below the growth of potential output until the end of next year.

"Such an oulook for output and employment entirely reflects the stubbornness of core inflation," the OECD said

The OECD said Britain's rate of retail price inflation should drop to 4% by the end of the year, in line with the government's own inflation forecast. But it added that total unit labour costs could still be increasing at a rate of 5% to 6% by the year's end.

"Nominal wages are responding relatively slowly to high unemployment," the OECD said. —Sapa-Reuter.

Brakes are on growth in Germany

610 cm
4/7/91

231

FRANKFURT — German economic growth would slow to about 2,5% next year as expansion slowed in the west and output stabilised in the east, the OECD said yesterday.

It said west German GNP would rise 2,8% this year and 2,2% next year, after a rise of 4,6% in 1990.

The fall in east German GNP this year would remain at 1990's level of 15% to 20%. Upward movement could not be expected before early 1992, but the report gave no forecast for eastern German GNP growth next year.

Wages in the region continued to rise too fast and chances of a turnaround in the east's industrial sector appeared remote.

A rise in unit labour costs, the introduction of higher indirect taxes this month, an increase in import prices and tight industrial capacity limits would push up inflation this year.

It expected west German consumer prices to rise 3,3% in the whole of 1991, with a further acceleration to 4% seen in 1992. Prices rose 2,5% in 1990.

The OECD expected no further deterioration in balance of payments despite continued strong growth in imports. It expected German exports to pick up again in the first half of 1992, pushing the trade balance further into surplus after lower surpluses in 1991.

Warning about east German wage developments, the OECD said preliminary estimates showed that between July 1 1990 when German economic, monetary and social union began and the end of last year, unit labour cost in eastern Germany rose 40% to 50%.

The steep increases added to the loss of competitiveness that followed the introduction of the Deutschmark in the east.

The OECD did not expect the growth in east German productivity to equal the growth in wages until 1995.

The high wage cost made it unlikely that unemployment in east Germany, including short-time workers paid by the state, would stay below 2,5-million in the coming 18 months, it said.

But it expected the jobless rate in western Germany to ease to 4,8% this year from 5% in 1990.

In 1992 the rate is seen crawling up to 4,9%, the OECD report said. — Sapa-Reuter.

OECD FM 5/7/91

SICK SISTERS (231)

Germany and Britain are exceptions to the OECD's picture of moderate recovery, starting in the second half of this year and accelerating in 1992, in the 24 leading industrial economies as the US rebounds

Its half-yearly *Economic Outlook* (for the next 18 months) takes a broadly sanguine view Inflationary pressures are receding, oil prices seem to be stabilising and rising unemployment (up from 6,2% to 7,1%) is cooling wage demands and price rises

In addition, while nominal short-term interest rates are retreating, *real* rates are sufficient to curb excessive demand Most Western firms were prepared for the 1990-1991 recession and went into it with leaner inventories Hence "a pick up of final demand should translate quickly into higher output"

Governments are commended for fiscal restraint and "most importantly, the fundamental conditions have not weakened from those which sustained eight years of expan-

sion" up to mid-1990 If anything, macroeconomic conditions for stability and confidence have been reinforced

United Germany, however, presents the OECD with the problem of welding its two unequal halves In its projections — of everything except the fiscal deficit which will hit 5,2% of GDP this year before slipping to 3,8% in 1992 — the OECD has ignored the eastern states Though it does attribute much of the slowing of West German growth to a decline in "exports" to the East

Taking independent German figures, however, it puts the fall in GNP of the former East Germany at 15%-20% (industrial output slumped 50%) last year and a similar figure in 1991.

The unified package, therefore, recorded GNP growth of 2,5%-3% in 1990, against 4,6% in the West And the 1991 figure of 2,8% comes down to a mere 0,5%-1%

The effect on unemployment is equally dramatic with the collapse of the old East German industries leading to a surge from 10% to 25% this year Unemployment in the West of 5% in 1990 thus rises to 6,3% and the 1991 rate of 4,8% jumps to 9,8% for the whole

No attempt is made to blend the rise in consumer prices (3,3% in the West, 10%-15% in the East) and, oddly, in the light of the huge migration across the old dividing line, the OECD sees German business sector

Continue →

unit labour costs up sharply From only 0,4% in 1989 the rate of increase went to 2,6% last year. It is forecast at 4,7% in 1991 and 4,6% in 1992, chiefly because of wage equalisation between the two halves

Britain, hardest hit by recession, with GDP down 1,8% in spite of the boost to North Sea oil prices, will be the weakest sister of the recovery The OECD is looking for only 0,3% growth in the coming six months and a slow improvement to an annual rate of 2,4% in the second half of 1992 to produce a figure of 1,6% for the full year

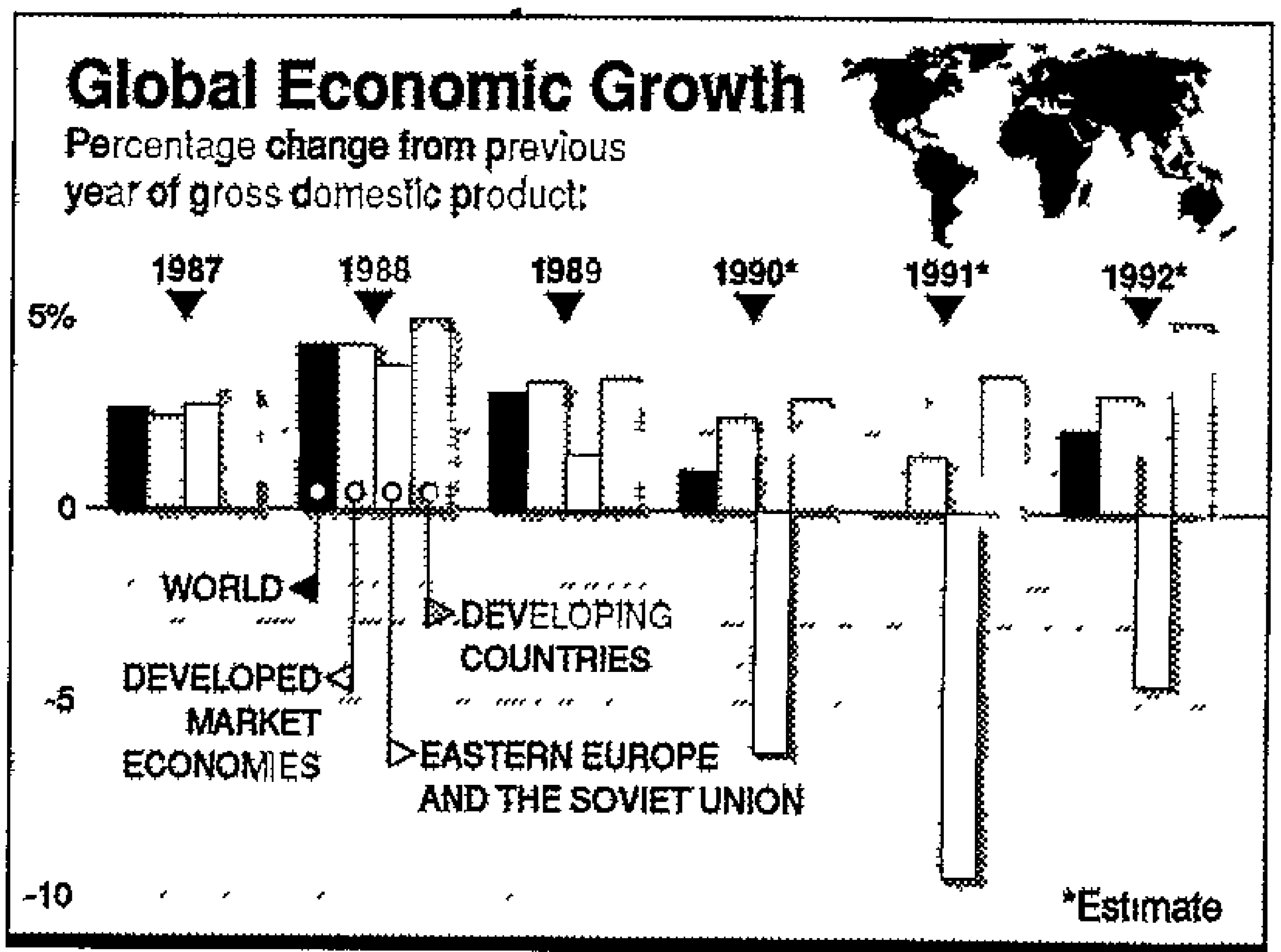
Unemployment, however, will worsen from 5,5% last year to nearly 10% for most of 1992 The OECD is also less hopeful about the underlying rate of inflation than the UK Treasury which is confident that the consumer price index will rise only 4% within the next few months, in time to bolster the Conservatives' chance of a fourth term

The OECD does not foresee that being achieved until the latter half of 1992 ■

Upturn predicted in fourth quarter

(231) Star 8/7/91

By Neil Behrmann



Source United Nations AP/Jeff Magness

LONDON — A moderately optimistic international economic forecast by the Organisation for Co-operation and Development (OECD) points to a revival of the South African economy from the fourth quarter onwards.

The OECD, which represents 25 countries, including the major industrialised countries, says conditions are favourable for a resumption of growth

South Africa is not a member of the OECD, but now that international doors are opening, it could well apply for membership alongside countries such as Australia

The OECD says that after a sharp slowdown in the world's major economies in the past 12 months, which was the weakest performance since 1982, easier monetary conditions, lower interest rates and inflation should boost economies moderately

International corporations have generally managed to keep inventories at a low level

"A pickup of final demand should therefore translate quickly into higher output."

From a South African standpoint, this implies that there should be an increase in demand for metals and minerals when Northern Hemisphere factories build up production after their summer lull

The OECD predicts that average real growth of member countries will rise to 2,4 percent in the second half of this year from only 0,3 percent in the first half Growth will then accelerate to 3,1 percent in 1992

The main motor for recovery will be the US. After 1,8 percent negative growth in the first half of 1991, the US economy will revive sharply to 3,3 percent positive growth in the final six months of the year and will average 3,3 percent in 1992, it says.

Japan's growth will decline slightly from a splendid 4,2 percent in the second half of 1990 to 3,2 percent in the six months to December 1991 and then revive to 3,8 percent by the end of 1992

The European economy, led by Germany, will slow down to 1,4 percent growth in 1991 from 2,6 percent in 1990, but will then recover to 2,9 percent in 1992

"Fundamental conditions have not weakened from those that sustained eight years of expansion through to the middle of last year," says the OECD

Indeed, three important economic conditions for stability and confidence have been reinforced. They are stable monetary policies in the face of inflationary pressures, renewed emphasis on fiscal controls and the narrowing of current account imblances in OECD countries.

While the revival continues, average inflation in OECD countries will decelerate to four percent in 1992 from 4,6 percent in 1991.

This implies that annual inflation will continue to be around 10 percent less than in South Africa

While economies are expected to grow, the number of people out of work will also grow

At the end of 1989, almost 25 million people in OECD countries were without jobs and the annual unemployment rate, which was then 6,4 percent, is expected to be 7,1 percent in the next two years

TEMPTING TAX TREATIES

FM 12/7/91 (231)

Ray Eskinazi is international tax partner at Ernst & Young.

A recent OECD symposium entitled "Taxation and International Capital Flows," concluded that tax incentives are inefficient, ineffective and unimportant in attracting inward investment and are generally undesirable because they add to the overall complexity of the tax system

On the other hand, it was recognised that bilateral double tax treaties encourage international investment flows by creating certainty for investors and reducing the double taxation of profits

So one of the factors a potential foreign investor is likely to take into account is whether his home country has a double taxation treaty with SA South Africa has concluded only 22 treaties — those with Canada and the US are abrogated — and most of them are based on the model convention of the OECD SA should, therefore, extend its treaty network without delay, especially as negotiations are often protracted

The OECD model is based on the assumption that there is a reciprocal flow of investments between two countries and that they are at the same stage of economic development However, where the partners are a developed and a developing country, the flow of income is predominantly from the latter to the former

Some different international institutions and organisations suggest a new framework is needed for this situation both to stimulate inward investment and protect the legitimate fiscal interests of developing countries

The OECD model generally grants to the investor's country of residence the right to tax the most significant forms of income, while granting the country of source the right to tax only certain types of trade income In certain instances treaties provide for a shared right to tax which is, however, limited for the country of source Double taxation is generally prevented by means of a unilateral tax credit in the investor country

It must be remembered that many developing countries, including SA, tax on the basis of territoriality, not on the principle of worldwide income and, consequently, do not tax income from foreign sources

Recommendations made to address the imbalances between developed and developing countries in a treaty include the method of total tax exemption by the country of the investor or the allocation of exclusive and unlimited taxing rights to the country where the source of income is located

In negotiating tax treaties, a developing country should incorporate the advantage of tax sparing, especially where the country is seeking investment from countries that tax on the worldwide basis, but grant taxpayers a credit that can be offset against their own local tax to compensate for the tax paid on the foreign source income

A treaty with tax-sparing provisions would allow the tax, which would have been levied by the developing state in the absence of special tax reliefs, to be offset against the liability of the foreign investor in its home country

Such a provision is clearly of great benefit to both the developing state and the foreign investor, since the investor's home country is effectively subsidising the investment by surrendering its taxing right on income that is already subject to preferential tax treatment in the developing state The conclusion is that, to be effective, investment incentives should at least be accompanied by tax-sparing provisions in a double tax treaty

In granting a tax-sparing credit, developed countries will evaluate its effect on investment and measure this against revenue forgone Japan, which is one of the countries with which SA does not have a double tax treaty but is potentially a large foreign investor, uses the following criteria to determine the kind of tax incentive measures for which to grant tax sparing

They should

- ☐ Not be too broad — they must be characterised as special development measures,
- ☐ Cover manufacturing industries which have close ties with the local economy and not financial or other industries that tend to specialise in external transactions,
- ☐ Be of limited duration, so that a certain ceiling is set on the amount of revenue forgone Otherwise, a limitation on the period of applicability will be placed on the tax-sparing credit itself, and
- ☐ Be simple, so that the amount of the tax-sparing credit can be calculated without much difficulty Such measures include a tax exemption or a reduction in the amount of tax at a certain percentage, while measures such as accelerated depreciation do not usually qualify for tax sparing because of their complicated calculation

THE POST-COMMUNIST WORLD

FM 26/7/91

(231)

Peering out of the ruins

Revival of the East bloc presents massive opportunities and challenges

Even the most cursory inspection of the progress of the former command economies of the Warsaw Pact toward a liberal, free-market system shows why Soviet President Mikhail Gorbachev sought a little help from his friends at the Group of Seven summit in London last week He was accepted a little more closely into the club — but the G7 will need far more concrete proof that a transformation of the Soviet economy to a market-driven one is irreversible before it becomes the G8

The reason is not difficult to find looking at the USSR and its satellites this year, a special Deutschebank study found "The Eastern European economies are in a *desolate state*"

The italics were appropriate Breaking the political mould of communism was easy — requiring only removal of the threat of Soviet tanks from Poland, Czechoslovakia, Hungary, Romania and Bulgaria Matching democratic aspirations with market economies is proving agonising and slow

With subsidies abolished or disappearing and open to competition from Western industrialised nations, the old Eastern bloc economies are being forced to destroy before they can be reborn The official death of the Council for Mutual Economic Assistance recently was more than symbolic and the eulogies at its 46th and final conference in Budapest were marked by contempt

Its demise, however, did contribute to their problems as the USSR and its former satellites switched their trade to a hard currency basis

Yet whether they opt for the shock therapy route — as in Poland — or the gradual step-by-step approach, it will take years for the process of economic transformation to produce the goods

According to the World Bank, simply recovering from the convulsive contractions of 1989-1991 will require five years in Poland, Czechoslovakia and Hungary — the three economies promising enough to be regarded as "partners in transition" by the OECD It is likely to be 2000 before Bulgaria and Romania get back to 1989 incomes

"Reaching the per capita income now prevailing in industrial countries could take decades," said the Bank

That point is underlined by the newly formed European Bank for Reconstruction and Development which cites an estimate that the capital investment needed to achieve parity is Ecu2 000bn (US$2 660bn)

The pace of change is lurchingly uneven Lacking management skills and an entrepreneurial culture — apart from those individuals who had already found an outlet for their talents in the black markets — the Eastern bloc six are relying heavily on importing capitalism

The social price is heavy Gorbachev need only look at the old German Democratic Republic to find inspiration for the nightmare that the Soviet Union is struggling to avoid and which has so far stifled reforms

Reunification with West Germany has meant a full dose of shock therapy East German industrial output halved last year and its GNP fell by 20% despite transfers of DM150bn from the West

Its GNP is forecast to shrink by a further 15% this year Unemployment is up from zero to 18% and expected to double Wages of Ossis (the Easterners) have been brought up to 60% of the Wessis, yet their per capita output is only 25%

Hence, when the one-year ban on job losses in the GDR engineering industry expired this month and the top-up pay granted to 1,9m workers on short time ran out along with the laying off of hundreds of thousands of former communist civil servants, a flight to the West commenced Some 10 000 Ossis each week are moving into the wealthier states of Germany, bringing a host of problems, bloating the federal deficit and forcing increased taxation (up 7,5% on incomes)

Treuhand, the trust charged with privatising 8 000 State-owned East German firms, has so far sold off 2 200 enterprises with investment of DM60bn promised by the new owners — mainly West Germans Even so, half the 2,8m employed are expected to be laid off

The bleak truth about the East German economy is that to match up with the West will require annual increases of 10,5% in investment and 8,5% in labour productivity for the next 15 years

Poland, Czechoslovakia and Hungary are cited with approval by the OECD Their private sectors "appear to have grown strongly during 1990," says the latest OECD *Economic Outlook* All three are under IMF tutelage

As the first to take shock therapy medicine, Poland is forecast to be the first to move into positive growth — 3% this year and 4% in 1992 But the scars of ending subsidies and the 97% devaluation of the zloty means it is largely export-led

Hyperinflation has cooled to merely superinflation and Warsaw shoppers no longer have to queue, but real incomes have fallen by 35% and unemployment has shot from zero to more than 1,3m (7,3%) to slash consumption

Gorbachev votes *reforming communism isn't enough*

Exports are, however, growing rapidly they were 11% up last year and sales to the OECD region rose by 44%, helped by EC trade concessions Exports to the EC jumped 55% and were running 81% higher year-on-year in the fourth quarter of 1990

Some 8 700 firms — but only five large State-owned enterprises — have been privatised and the aim is to halve the official 90% stake in the non-agricultural economy over three years Direct foreign investment had produced 2 480 joint ventures by the end of 1990 but external capital committed was only $400m and there is heavy weighting towards the service sector

Pain but no gain ...yet

[illegible]				
USSR	6	3	4	8
Poland	5	0	-12	3
Romania	0	11	12	8
Czechoslovakia	2	1	-3	-9
Hungary	2	1	5	3
Bulgaria	1	0	-11	-10
[illegible]				
USSR	7	9	10	70
Poland	60	250	600	72
Romania	1	2	20	40
Czechoslovakia	0	1	14	10
Hungary	16	17	29	35
Bulgaria	1	9	50	200
[illegible]				
USSR	1 6	3 8	10 7	1 7
Poland	-0,6	-1,8	1,5	-2,0
Czechoslovakia	0 1	0 3	0 3	2 5
Hungary	-0,8	-1,4	-	-1,3
Bulgaria	0 8	1 3	0 6	2 5

Sources OECD AND DEUTSCHEBANK 'REBUILDING EASTERN EUROPE'

Yet the private sector is the only strong growth area (State industry output dropped 25%) and with industrial wages averaging only $164 a month, Poland is likely to attract more inward investment once concerns about the debt overhang and the coming general elections are resolved

Capitalism is being phased in quickly in both Czechoslovakia and Hungary — the strongest of the East bloc economies relative to the EC — and while the pain of restructuring is being softened neither will achieve real growth in the short term

In Czechoslovakia, privatisation has been dogged by legal problems of the rights of the original owners of assets and property It is moving ahead, however, and with foreigners allowed to buy and repatriate 100% of profits, Czechoslovakia has drawn in Volkswagen at Skoda and Procter & Gamble of the US

The number of cross-border joint ventures has galloped ahead Only 10 were registered in the first quarter of last year but the final three months produced 1 100, to bring the total to 1 600 Foreign capital involved amounts of up to $850m

Investors, however, have to cope with obsolete plant and pollution which is among the worst in Central and Eastern Europe A third of Procter & Gamble's $20m investment will be devoted to making the Czech detergent plant environmentally safer

The speed of growth in small businesses matches foreign investment Tax incentives — two years' exemption if profits are reinvested and rapid depreciation — has seen the number of craft and other small enterprises leap from 15 000 to 300 000 in the past nine months

Hungary's former communist bosses started their own form of *perestroika* in 1968 as a mixture of central planning and autonomy at enterprise level This laid the foundation for the real reforms brought in last year — for example, the Budapest Stock Exchange reopened in June

By 1993, State ownership of enterprise will be cut from an average of 85% to under 50% The State monopoly on foreign trade has also gone, so that 90% of imports are now fully liberalised

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Hungary is second only to Poland in its rate of growth of exports to the OECD area (up 26% last year) and leads the league in the number of joint ventures with foreign investors a total of 5 000, of which 4 400 were set up in 1990, backed by $1,2bn of external capital.

Evidence of change in Bulgaria, Romania and the Soviet Union exists more as intention than implementation In those three, says the OECD, "the old command system largely withered away in 1990 But little was done to lay the foundations for future growth by ensuring macro-economic stability and by advancing with institutional requirements of a market system As a consequence, economic disintegration accelerated "

For Bulgaria, 1990 was a year of paralysis, political upheaval, strikes and severe shortages, which were all worsened by the Gulf War because Iraq was a major trade partner A new coalition government this year, however, did grasp the painful and unpopular nettle by slashing subsidies, except on energy and fuels, with the result that inflation is forecast to average 200% — a figure regarded as optimistic

It is taking the same path as Poland and Czechoslovakia, ~~but~~ so far, free enterprise moves have been small-scale privatisation and, in land reform, by returning expropriated farms to their owners Deutschebank comments "It is to be hoped that these measures will not turn out to be a reformist bonfire — which would make 1991 another lost year "

International perceptions are cautious. 140 foreign joint ventures have been set up, all in 1990, involving $74m

Romania, too, has yet to emerge from the chaos of the Ceausescu regime overthrown at the end of 1989 Deutschebank points out

Continue →

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that because of "systematic fabrication of statistics during the Ceausescu era, it is virtually impossible to establish the actual state of the economy "

Now there is a radical programme under way The bulk of State Industrial firms — 1 300 — are to be gradually weaned away with 30% of their shares reserved for employees and 70% sold through the stock market

Over three years, half of "national property" will be privatised this way To ward off high unemployment risks, enterprises with high debts will be subsidised for a maximum of four years

Foreign joint ventures, which were permitted 20 years ago, had dried up but resumed in the second half of last year when nearly 1 500 were established Romania, however, is the least well endowed among the Warsaw Pact in terms of infrastructure Deutschebank rates it as an underdeveloped country but Romania's debt is the lowest among the reforming economies

Without Gorbachev none of this would have happened Yet the Soviet Union itself is proving the most tardy in implementing the promises of *perestroika* that it enunciated six years ago

It has gone part of the way reducing subsidies, moving towards convertibility of the rouble, shifting trade into competition with the world and nominally decentralising control of industry, so that Western companies trading with the USSR now find themselves confronted with 40 000 operations instead of 40 agencies

Co-operatives have mushroomed There are now 215 000 employing 5,2m people, though that is only an eighth of the State's industrial payroll And there is no shortage of anecdotal proof of the enthusiasm with which Soviet citizens have embraced capitalism within the "shadow economy "

[illegible]	[illegible]	Workforce	Income EC=100
USSR	290	158	35
Poland	38	14	30
Romania	23	11	20
Czechoslovakia	16	8	65
Hungary	11	5	55
Bulgaria	9	4	45
TOTAL	388	205	41
EEC	344	155	100

[illegible]	[illegible]	[illegible]
USSR	51	140
Poland	46	410
Romania	1	38
Czechoslovakia	6	111
Hungary	20	343
Bulgaria	11	468

Source OECD FINANCIAL MARKET TRENDS
Source DEUTSCHEBANK PER CAPITA ESTIMATES BASED ON PURCHASING POWER COMPARISONS AT MARKET RATES OF EXCHANGE THE EASTERN EUROPEAN LAG IS EVEN GREATER

One Soviet newspaper claims there are 150 000 rouble millionaires But as one million roubles is equal to between $25 000 and $50 000 on the free market, their wealth is relative and stems largely from activities on the fringe of legality — commission agents, video pirates, makers of fake denim — which thrive because of the ineptitude in the State sector

Foreign investment in joint ventures, which kicked off in 1987, continues apace 2 000 signed up last year bringing the total to 3 000 involving hard currency input of $4,6bn — 63% of all funds so far committed to the six countries

Yet the OECD complains "The situation in the Soviet Union remains confused While market-orientated reforms are again being debated, central control over production and foreign trade has been reasserted and a misguided currency reform and price adjustments have not corrected the substantial macro-economic imbalances "

Hence the USSR is running into hyperinflation, consequent labour unrest and worsening nationalist tensions The Group of Seven heard Gorbachev out and were highly supportive of his objectives

Five years ago, Gorbachev claimed the West's backing as his policies would open up a market of nearly 400m people That promise is still true and their propensity to consume is enormous if the incomes gap can be closed Central and Eastern Europe could yet be an engine of growth for the rest of the world without parallel — if they get it right before social unrest triggers the restoration of truly bad old ways

John Cavill

'Population growth big challenge facing SA'

ARGT 31/7/91 (237)

Political Staff

HIS appointment as Deputy Minister of National Health and of white health and welfare came as a "great great surprise" to FANUS SCHOEMAN, MP for Sunnyside.

Mr Schoeman said he viewed his appointment as "a very nice challenge as health is one of the very important issues of the future"

A former teacher, Mr Schoeman said he knew Dr Rina Venter and was looking forward to working with her.

Mr Schoeman served as a diplomat in London at the time of Dr Dawie de Villiers and is chairman of the joint committee on Trade and Industry

He feels this experience in this field will also help in determining the economic implications of one of the major problems facing South Africa — population growth

Other challenges facing health at the moment, Mr Schoeman said, were "Aids and making health acceptable to the people"

NOT GOING LIKE CLOCKWORK

FM 20/9/91.

(231)

An announcement that the biggest Swiss trade union will seek full compensation for price rises, in negotiations on 1992 wage levels, was followed by an OECD warning that high wage increases for 1991 already carried a risk of refuelling price inflation in Switzerland

Last year, for the first time in more than a decade, Swiss inflation exceeded the weighted OECD average (excluding Turkey) and has been significantly higher than inflation in Germany, its main trading partner

The latest figure is an annual rate of 6% in August, down from 6,6% in July

By now it is generally accepted that the central bank made a mistake when it eased monetary policy immediately after the stock exchange crash in October 1987. Consumer price inflation accelerated from a trough of 0,6% in 1986 to an average of 5,4% in 1990

In the short term there is no alternative to the restrictive monetary policy of the National Bank, says the OECD For the longer term it recommends

- ☐ A revision of the mechanism which ties housing rents to mortgage rates;
- ☐ Reform of the federal tax system;
- ☐ Further dismantling of domestic cartels, and
- ☐ A cut in subsidies to agriculture

The OECD forecasts a GDP increase of only 1% this year and 1,7% in 1992

However, there are also some underlying strengths and the OECD says industrial output will grow by 2% this year and by 3% next, exports, benefiting from strong demand in Germany, will increase by 3% each year, while growth in imports should pick up from 2,5% this year to 3,2% in 1992

SA is the pivot of African progress

S/Times (Buss) 10/11/91 231

AFRICAN countries must strengthen relations with South Africa.

This country will become Africa's centre of development, says Jean Bonvin, director of the Paris-based Organisation for Economic Co-operation and Development.

He paints a gloomy — but not hopeless — picture of Africa as an economic disaster area.

Mr Bonvin warns African countries with their "inefficient public sectors, overprotected and unstable economies" that they have to "reform to allow freer business activity"

The OECD, a powerful aid agency, represents 24 donor nations

Mr Bonvin spoke at a Cameroon-SA business conference in Yaounde last week

Running

He says African nations should "restructure, liberalise and privatise"

Private money in Africa and Latin America accounts for 60% of investment in those countries with debt

"In the past five years direct private investment in Africa has stagnated. Capital is running away from Africa"

Mr Bonvin says political instability and disastrous economic policies resulted in a $40-billion capital outflow from Africa in 1987 — half of the continent's foreign debt. Latin America, on the other hand, has received a huge inflow of capital since it began liberalising its economies

"The development of the private sector is a priority"

It is a mistake for Africa to rely on outside investors to rescue it

"Foreign investment can bear fruit in three years in Europe, but in Africa it takes far longer"

Nonetheless, Mr Bonvin believes Africa is in a better position to attract foreign investors than Eastern Europe

By CHARLENE SMITH

"Eastern Europe has to start from scratch Their factories are good for the scrapheap, their managers have to learn how to operate in a market economy

"In many ways some African countries would be more attractive if they liberalised their economies and had proper market policies"

It is important for African countries to study the impact of the informal sector on their economies — 30% of economic activity in most developing countries is from the informal sector.

It is also vital to engender trust in banks and to get rural people in particular to take their money from under mattresses and place it in banks

His view is backed by Tetteh Kofi, a Ghanaian professor of economics at the University of San Francisco

Profesor Kofi says development takes place when a nation saves and invests at least 15% of its income annually

Savings in Southern Africa are only about 11% compared to 24% in developed countries

"Africa has a savings gap that can be filled by direct foreign investment But that investment is not only inadequate, it is unevenly distributed The five African countries that account for 90% of direct foreign investment in Africa are all oil producers"

Professor Kofi says "Africa will have to come up with its own initiatives. Foreign investment is too erratic."

Mr Bonvin warns that aid is a fickle friend Public development aid amounted to $15-billion in sub-Saharan Africa in 1989, a minimal rise over the $11-billion the region received nine years before

"Africa receives 30% of the world's development aid, even though it has only 11% of the population of developing countries"

Some poor nations like Mozambique and Guinea-Bissau depend on aid for more than 70% of their income

"If aid was reduced, consumption and development in those countries would crumble This gives power to the donors which can amount to interference."

Mr Bonvin says Africa has the world's highest failure rate for development programmes.

"The World Bank has a 70% success rate for Africa compared to 98% for Asia and 81% for Latin America

"If we want to make aid effective, we should stop putting it in government parastatals which have a high failure rate

"Africa must seek other solutions It will increasingly find difficulty in obtaining external financing It has to rely on its own development and its private sector This has to include streamlining the public sector and reducing external indebtedness"

Reform

External debt is crushing African economies In 1981, Mr Bonvin says, the long-term debt of Africa amounted to 98% of continental gross domestic product

"The ratio between debt service and exports is 26% Sixty percent of interest due is not paid A state which cannot honour its debts does not inspire confidence and will not obtain direct investment

"It also discourages internal investment and prevents economic reform"

Africa's GDP increased by 4,2% between 1965 and 1980, but in the past decade the rate dropped to 2,1% while population soared

"A Swiss Nobel Prize-winning economist said South-East Asian states had no hope of developing rapidly on Western models Fewer than 10 years later South-East Asia has proved him wrong

"Africa has to look within itself for the resources of its development"

Setting the standards with consumer labels

Sowetan 15/11/91

(231)

LONDON. - "Green labels" awarded to consumer goods that meet environmental targets are fast gaining favour in industrialised nations.

They are a way of encouraging environmental awareness through free market forces rather than legislation.

Granted to products that measure up to a set of government-established standards, green labels are currently offered in only nine countries, led by Germany, Canada and Japan.

But labelling programmes could be in place in at least 22 countries by the end of 1992, according to the Organisation for Economic Co-Operation and Development (OECD)

On December 10, European Community environment ministers are widely expected to approve a Community-wide programme to start next year.

EC Environmental Comissioner Carlo Ripa di Meana said the plan represents a new phase of EC policy that will emphasise market forces.

"Up to now we have taken the legislative approach" of establishing mandatory pollution limits, he said when proposing the so-called Eco-label programme. "By using market forces, we will attempt to influence market realities."

"Market forces" is the favoured approach of government officials in several Western countries, led by the United States and Britain. These officials would prefer to foster voluntary environmental compliance by industry rather than impose more legislation.

Green labels are a leading strategy for the free marketeers, because they tap into a rising tide of "green consumerism" and are designed to prevent pollution before it happens. Most legislative approaches penalise a polluter rather than reward prevention efforts.

But the OECD, in a recent survey of labelling programmes around the world, warned that "their role must be viewed as a modest one as a part of a broader environmental policy"

It found that labelling programmes do not run smoothly and multiple trade-offs are involved.

Angel

Germany was the first country to enact a labelling programme - its "Blue Angel" scheme dates from 1978 - but sees it as a soft approach amidst some of the toughest environmental regulations in the world

The German plan demonstrates some of the pitfalls More than 3 600 "Blue Angel" labels have been awarded to products in 64 categories but over half of these fall into only four product categories - low pollutant varnishes, low-emission gas burners, stripping agents for waste water treatment and recycled paper.

Japan reported the same phenomenon of a small group of products accounting for more than half the labels, indicating that many industries largely ignore the label.

"The German experience shows that eco-labelling does not eliminate the need for other regulations, especially in regards to production and disposal," said Franz Joseph Fraundorfer, of Arthur Little management consultants.

The OECD said a rising green consumer movement in the 1990s should spur industry involvement in eco-labelling schemes Most official labelling schemes have a precise set of criteria for each product category and take a "cradle-to-grave" approach -- every aspect of a product's life cycle from production through disposal is considered when awarding a label - *Sapa-Reuter*

'Stable rand' policy not compatible with high inflation

B/Day 20/11/91

SIMON WILLSON

(231)

FALLING inflation among many of SA's major trading partners is widening SA's adverse inflation differential with the main industrial economies and posing questions about the Reserve Bank's management of the rand.

The authorities' "stable rand" policy already means that the rand is stronger against a basket of trading partners' currencies than it would be if the inflation differential was fully reflected in the exchange rate If the authorities continue to pursue trade-weighted rand stability as SA's adverse inflation differential widens further, industry will be put under pressure as higher domestic costs are not offset by a weakening rand

Figures released last week showed continued falls in the US and UK inflation rates The year-on-year rise in the US consumer price index slowed to a four-year low of 2,9% in October, and the annual rate of UK inflation as measured by the retail price index dipped to 3,7%, its lowest in more than three years

Last week's figures underscored the most significant feature of current inflation rates among SA's trading partners they are coming down in unison. In the recent past, average inflation among these same trading partners was higher than it is now because one or two of the countries concerned would always have sharply above-average inflation rates The spendthrift British, French or Italians could always be counted on periodically to stoke up double-digit inflation to wreck the low trading-partner average created by the more abstemious Germans and Japanese

In 1980, for example, when SA inflation averaged 13,8%, average inflation among the seven biggest economies in the OECD — which comprises most of SA's main trading partners — stood at 12,1% All but Japan and Germany of the "big seven" had double-digit inflation, and an adverse inflation differential for SA of less than two percentage points was of little consequence either to exporters or to the exchange rate

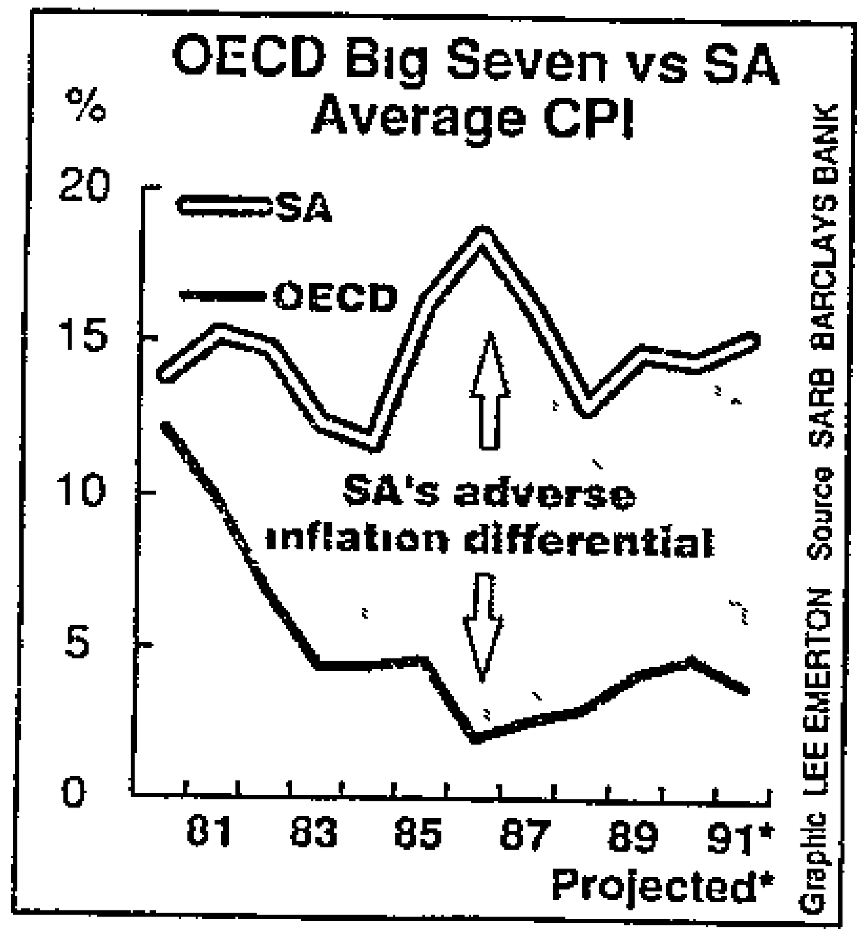
By 1985, when SA inflation averaged 16,3%, the OECD big seven average had fallen to 4,6% The French, British and Italians weighed in with their inflation rates above 5% that year, saving SA's adverse inflation differential from being even wider The differential of more than 11 percentage points was partly reflected in a 27,5% plunge in the trade-weighted rand during the same year SA industry was thus compensated for its sharply rising domestic costs by earning higher rand-denominated export proceeds

Last year, OECD big seven inflation averaged 4,7% against SA's 14,4%, and the adverse differential was about 10 points But because the trade-weighted rand adjusted only 7% downwards during 1990, it failed to reflect fully the inflation differential Exporters were therefore not fully compensated for their higher domestic costs

This year, average inflation among the OECD big seven will decline further while SA's inflation rate rises again The difference now from the situation 10 or even five years ago is that OECD big seven inflation is likely to stay down The era of double-digit inflation rates in the countries that always used to supply them — the UK, France and Italy — is over SA will no longer be able to count on rogue, double-digit inflation rates among some trading partners to haul the partners' inflation average up and contain the adverse inflation differential

The watershed for the UK France and Italy in these countries' own private battles against inflation has been membership of the European monetary system (EMS) Since the EMS is effectively a Deutschmark bloc whose monetary policy is run by the Bundesbank, the German central bank, the system's great attraction is that it offers German-style monetary discipline and the prospect of low, German-style inflation

When France pitched the franc into the EMS at the beginning of the 1980s the country was in the middle of a nightmare stretch of four consecutive years of double-digit inflation averaging 12,5% between 1979 and 1982 EMS membership has so transformed the French inflation profile that in July this year French inflation dropped below the German rate for the first time since 1973



In October last year, as the UK weathered a third consecutive month of inflation above 10%, full EMS membership was conferred upon sterling with the same overall objective to lower inflation and to keep it low With the help of some technical factors, UK inflation has also fallen steeply in the months since the pound joined the EMS The Bundesbank's monetary discipline will probably restrain even UK inflation in the years ahead through the EMS constraints Indeed, before the end of the year, the UK inflation rate is likely to fall below the German rate for the first time since 1965

Italian annual average inflation was in double figures between 1973 and 1984 Italy's perennially high budget deficit (about 10% of GDP) makes Italy one of the most inflation-prone of SA trading partners, but the lira's EMS-related constraints have neutralised even that powerful contributor to inflation

The months prior to sterling joining the EMS at the end of last year are, therefore, likely to be the last in which an aberrant inflation rate among SA's trading partners pulled the partners' inflation average upward and protected SA from either devaluation or swingeing domestic cost-cutting

The past 12 months have shown what lies ahead for SA's inflation differential with major trading partners In October last year, OECD big seven average inflation was 5,6% Last month it is likely to have been barely 3,5% and heading lower — in all likelihood to stay low UK and US inflation more than halved over the 12 months to October, French inflation dipped by more than half a percentage point and the German and Japanese inflation rates were little changed at their traditionally low levels

Meanwhile SA inflation, at 14% in October 1990, is likely to have risen by about two percentage points when last month's CPI figures are released later this week

EMS membership, the breakup of the oil exporters' cartel and the need for the US and Japan to disinflate and remain competitive with the world's largest trading bloc (the EC) form the combination of factors likely to keep inflation low among SA's trading partners for the decade of the 1990s It is possible that average inflation among SA's trading partners will not again exceed 5% before the turn of the century

Under the prevailing management of the rand exchange rate, this has far-reaching implications for local industry The SA authorities are committed to maintaining a strong real trade-weighted rand because it is disinflationary a falling exchange rate is to be avoided because it generates its own inflation by making imports more expensive So even if the adverse inflation differential exceeds 10 percentage points, the exchange rate will not, under current management, be allowed to offset the higher domestic costs squeezing local industry

If the exchange rate does not adjust for a higher inflation differential, then something else must give in order to trim domestic costs to levels that preserve and maintain trade flows Industry will have to retrench, curb pay increases and/or increase productivity Either way, if the rand does not adjust, the domestic inflation rate will fall by hook or by crook SA's trading partners are now securely locked into a low-inflation environment, and this injects added urgency into the Reserve Bank's anti-inflation drive If industry and wage-earners do not co-operate then they, rather than the rand, will take the strain

FINANCIAL MARKETS

FM 22|11|91

Equities: crack or crash?

231

Wall Street's latest mini-crash in equities, echoed in varying degrees around the world, poses two questions Frivolously, it can be asked whether the US institutions will now provide a biennial buying opportunity, by panicking in unison as a fall in the Dow Jones Industrial Average (DJIA) triggers computerised selling programmes? Or was last Friday's 4% collapse and Monday's tepid 1% bounce in the DJIA a belated recognition that, in spite of the lowest discount rate for 18 years, there is a real threat that the US recession will turn out W-shaped after all?

One leading Wall Street commentator calls the 120-point dive in the blue-chip index an outbreak of sanity US equities have been looking uneasy for most of this year After rallying by some 25% from the 1990 low of 2 365 last October, the DJIA has twitched in a narrow range either side of 3 000 — peaking at 3 077 a month ago

Economic data, from unemployment to retail sales, has failed to provide sustenance for equities rated on an average price earnings (p e) multiple of 22 and dividend yield of under 2,7% on Standard & Poor's 500 industrials The US market has been running in anticipation that the Federal Reserve's easy money policy — the discount rate has come down from 6,5% to 4,5% this year — will kick-start consumer confidence

President George Bush has been exhorting voters to buy houses and cars but October retail sales were 0,1% down Ironically, a new artifice in the Senate to encourage credit buying, by capping the interest rates banks charge on credit cards, prompted even more gloom Banks quickly pointed out that, if their profit margins are reduced in this way, they will have to be selective — and restrictive — about who is issued cards The net effect will be a credit crunch on consumers

Already private-sector forecasters are revising predictions of 3% annual growth in fourth-quarter GNP down to 1,5% or less Few rule out the possibility of a downturn in the opening months of 1992 With an expected budget deficit of US$350bn and bank prime lending rates at 7,5%, their lowest for five years, there seems little more Washington can do to stimulate the economy

This background makes this latest correction different to its predecessors in October 1987 and October 1989 In 1987 the Standard & Poor (S&P) average p e was 23 and dividend yield 2,6%, which proved untenable in the face of 30-year Treasury bill yields of 10,3% Investor confidence was rebuilt as 1988 turned out to be the second best year of the Eighties boom for the US — and most economies in the OECD — with GNP growth of 4,5% and a surge in corporate profits.

The 1989 crack derived from the slump of the junk bond market and its implications for take-over activity But with the S&P p e on 14 and dividend yield at 3%, equities were perceived to be fair value and quickly resumed the DJIA's march towards 3 000

This time, while the reverse yield gap of 5,2% compares with 7,7% in 1987, the growth prospects are lacking Hence the doubts about Monday's rally while the high volume (238m shares against 236m during Friday's dive) was encouraging, only 1 019 issues gained in price while 2 161 declined

Reflexive reactions around the world showed no consistency In Japan the Nikkei Dow lost 3% and a further 0,3% when Tuesday's rebound turned negative — in spite of the fact that the Japanese economy, with projected growth of 3,5%-4% in 1992, shines brightest in the OECD

Other markets seemed to treat the dip as a cheap buying opportunity, even though some have outperformed New York in the past year. Falls were limited to under 2% in London (up 25% in the year), Amsterdam (up 25%), Hong Kong (up 42%) and Sydney (up 43%) In Frankfurt the equity index came off 1,1% — having climbed 12%

Paris is an exception To defend the franc's position in the European Monetary System, the Banque du France raised its intervention rate by half a point to 9,25%, which accounted for much of the 3,3% drop in shares

Gold had already moved up $4 to attack $360/oz again on a fresh crop of reports from the Soviet Union, where it was announced that its bullion reserves — reportedly 240 t with another 150 t out against currency swaps — are to be divided up among the republics The turbulent Russian Federation, which accounts for 67% of gold output and 90% of oil production, says it may suspend all exports of crude

Then came a statement from Alexander Orlov, head of the Soviet parliament's audit commission, that "there is no gold at all in the Soviet State bank" While London analysts are now hugely wary of claims from the dismembering Soviet Union, the Orlov story cancelled worries that the Russian oil move may force it to sell more gold — it would lay claim to 80% of central reserves

The Wall Street equity plunge combined with technical factors to underpin bullion at $360,25 before easing back to $359,85 on a small recovery in the dollar as the *FM* went to press Dollar weakness, if the US economy does falter, is expected to hold bullion in its recent trading range But with little on the

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horizon to suggest a refuelling of inflation anywhere, most analysts are cautious about gold before the effect of tightening supply begins to be felt over the next two years

John Cavill

FM 22|11|91

LOBOL

Rationalisation of some smaller lif
surance companies seems inevitable.
main problem may be a shortage of
ors for companies which offer rather
dowries.

The majors, especially those with a large group business, have managed to contain expense ratios, usually below 20% Their results also indicate quality of business written, with lapse ratios below 15% Further down the table of life assurers, both cost and lapse ratios fluctuate considerably Where both are out of line with industry norms, the strain is beginning to show

By those yardsticks, two assurers that now form the Avins (Anglovaal Insurance) stable, AA Life and Crusader, feature prominently The ratios offer reasons for their recent rationalisation *(Economy* November 1)

By the end of 1989, the latest year for which meaningful comparison can be made, AA Life's total expense ratio was 56,6%. Crulife's 37,8%. The industry average was 28,7%. Their lapse rates below the industry average, suggesting was spending heavily but acquiring sound business.

Though ratios are important, they are crude measures and do not necessarily describe an assurer's complete condition Some smaller assurers have carved niche positions — for example, where reliance on direct reponse is heavy and the acquisition costs are correspondingly high.

Industry analysts say, also, that balance sheets can be overridden when it comes to marriage. if a company has, for example, a strong agency division it could be attractive to a partner which does not want the start-up costs associated with such an operation.

Yet with the top six, particularly Old Mutual and Sanlam, dominating the market, a shake-out among smaller players is likely.

Greenpeace campaigners in an inflatable dinghy from their ship M/V Greenpeace ride in front of a Japanese whaling ship in Antarctica yesterday in a protest against Japan's killing of whales. Picture AP

Global commerce set to revive in next two years

BDay 20/12/91 231

PARIS — Global commerce will revive in the next two years as developed economies recover slowly from the current slump, but a GATT trade accord would give the process an added boost, the Organisation for Economic Co-operation and Development (OECD) said yesterday

In its half-yearly outlook, the Paris-based economic think-tank, which groups 24 of the world's richest countries, said an upturn in the OECD area would be supplemented by a revival in imports by former communist countries of eastern Europe after sharp declines since mid-1990.

Imports by what it calls the Dynamic Asian Economies — Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand — would continue to expand rapidly

The OECD said trade balances were not a pressing issue at the moment but trade policies were — a reference to the Uruguay Round of GATT talks to free up world commerce

The volume of merchandise trade is forecast to grow by 5,7% in 1992 and 7,2% in 1993 after an increase of just 3,3% in 1991

Projected rises of 2% to 3% in the prices of traded manufactured goods will still be about one percentage point below the overall OECD inflation rate.

The OECD's main forecasts for the economies of the Group of Seven leading industrialised nations were

☐ US — Recovery from recession might be weak but no renewed downturn was expected In November, OECD economists expected growth next year to be about half a percentage point below the 3,1% projected in June. A 0,5% contraction is expected for this year Unemployment might rise before starting to fall in mid-1992 Inflation could drop to 3,6% next year from 4% and the current account deficit should be much smaller than in the 1980s

☐ Japan — Growth is likely to fall sharply to 2,4% in 1992 from almost twice that rate this year Its trade and balance of payments surpluses are expected to rise

☐ Germany — Western German growth will slow sharply in 1992 as tax rises to pay for unification slash demand Interest rates and inflation will stay high and unemployment will grow Eastern German recovery will be patchy In the West, gross national product growth will slow to 1,8% next year from 3,2%

☐ France — Economic recovery has started, but it will be gradual, and jobless numbers will remain swollen Gross domestic product (GDP) could grow 2,1% in 1992 from 1,4%

☐ Italy — The economy should pick up in 1992 but inflation will remain significantly higher than in its main European partners Economic growth is put at 2% in 1992, up from 1%

☐ Britain — The economy should grow 2,2% in 1992 after shrinking 1,9% this year A modest recovery seems to have begun in the third 1991 quarter Growth will be kept in check next year but demand could exceed industry's ability to produce goods fast enough by early 1993 Economic growth in that year could reach 3,2% Inflation could average 3,7% in 1992 Unemployment is expected to continue rising

☐ Canada — The OECD forecasts 3,1% growth in GDP next year after a contraction of 1,1% this year Average inflation is projected at 2,9% next year — Sapa-Reuter

O. E. C. D - 1992 - 1994

WORLD ECONOMIC OUTLOOK FM 3/1/92 231

That lingering afterburn

Even dim prospects of recovery are clouded by uncertainties

The recession of 1991 turned out to be twice as bad as expected 12 months ago Recovery, a pale echo of previous upturns in the business cycle, will be a year late Even this cheerless prospect is pitted with uncertainties and risks

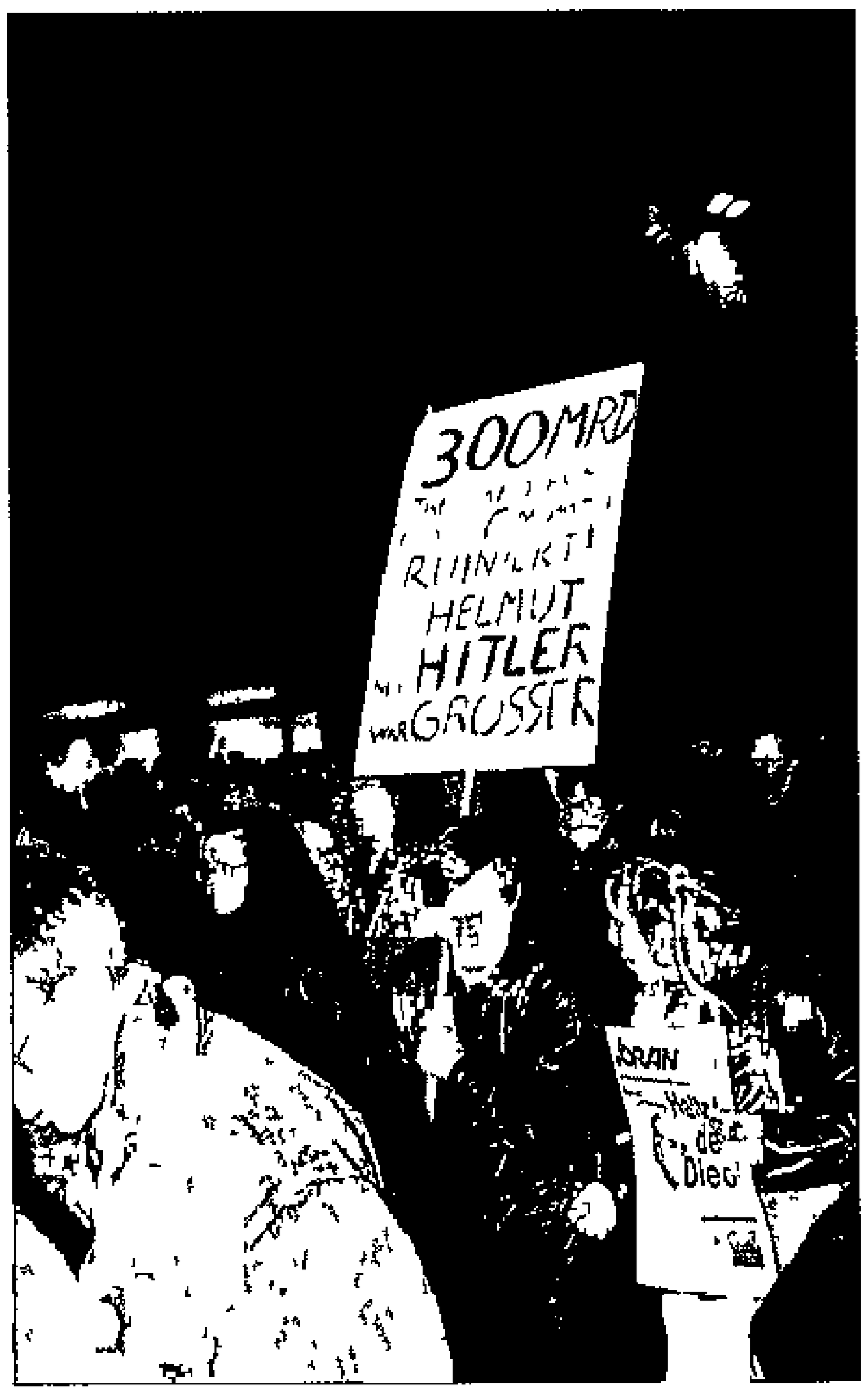
Making economic projections is always a hazardous enterprise and 1991 was an especially difficult vintage for the OECD, the Paris thinktank which monitors the performance of the 24 leading industrialised nations in detail and the rest of the world more broadly The data cut-off date of mid-September proved embarrassingly early for the OECD's survey of the US published in late November

Little over four weeks later the OECD, in its half-yearly *Economic Outlook*, which celebrates its 50th edition, had revised the contraction in US GNP for 1991 up from 0,2% to 0,5% while the projection for growth this year declines from 3,1% to a pedestrian 2,2%

While, thanks to stronger activity in western Germany, the OECD's July estimate of 1,1% growth last year survives, the 1992 number is pared from 2,9% to 2,2% That, however, conceals the impact of the reunification of Germany

The OECD's projections (see table) account for only the free-market economy *laender* of the old Federal Republic However, in its more detailed analysis of Germany, the survey shows non-OECD secretariat figures covering both sectors

With the 20% fall in eastern Germany's GNP as restructuring took its toll, the all-German economy grew by only 2% in 1991 — against an expected 3,2% Conversely, the 13% climb forecast for the east this year will lift all-German growth to 2,5%, a level which the OECD predicts for 1993



Unemployment protest in Leipzig *the honeymoon is over*

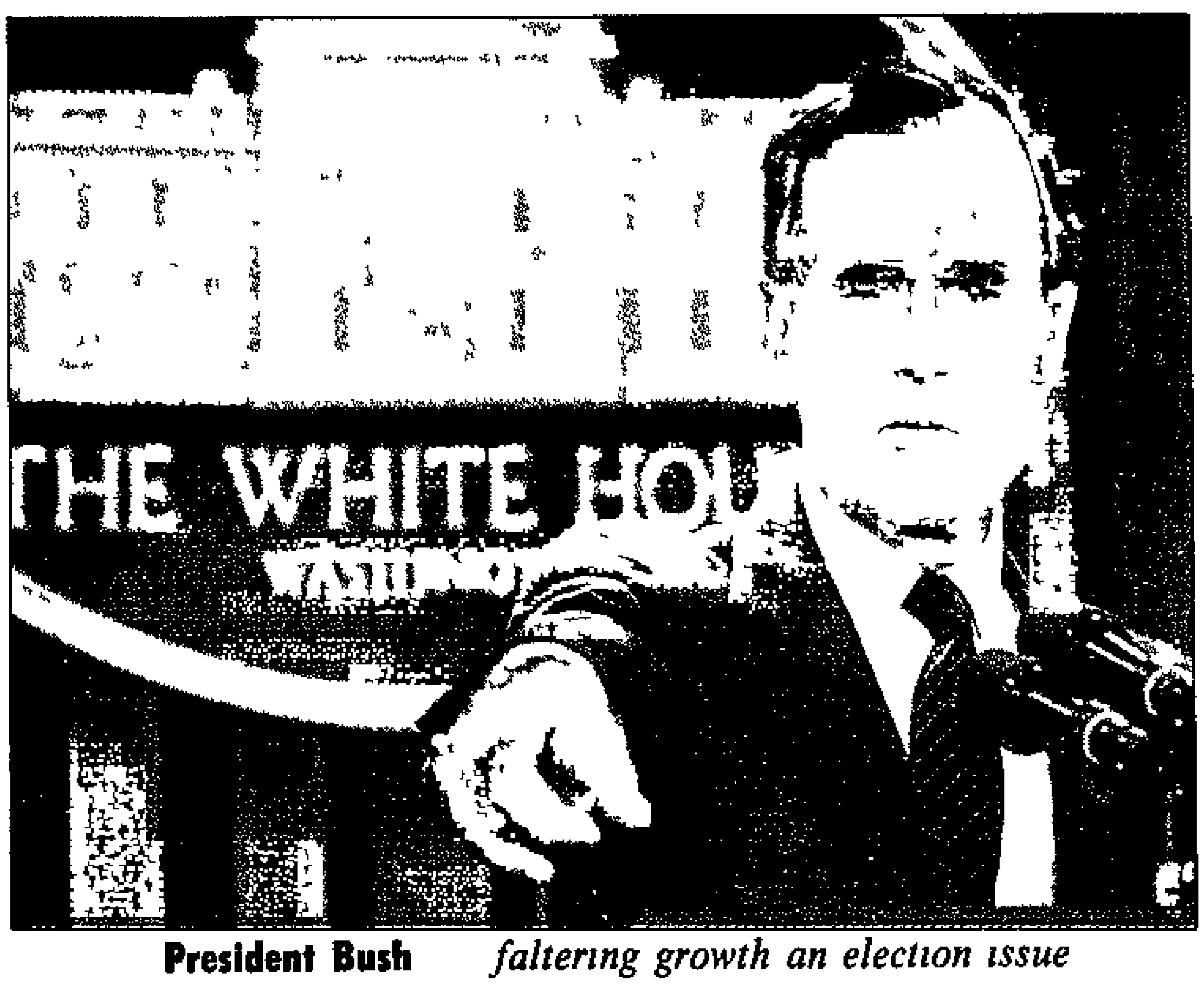
That, however, will leave total German unemployment, with one in five of the eastern work force on the dole, at 8,5% — a level not seen since the end of World War 2

For the OECD bloc overall, the real recovery will not start until the second six months of this year and it will be fully felt in 1993

It will be a more gentle affair than its predecessors expansion of 3,3% compared with 4,6% recorded in both 1976 and 1984 as the world picked up from the first and second oil price shocks

"The fundamental conditions for renewed growth at a moderate pace are in place," said the *Economic Outlook* Slowdown in (western) Germany and Japan should be balanced by gradual improvement in the recessionary Anglo Saxon economies, the US, Britain, Canada and Australia — with the growth gap between the strong and weak closing, especially next year

It *should* happen Interest rates are under downward pressure That applies even in Germany where the inflationary pressures caused by the reunification binge saw the Bundesbank tighten credit and whose president Helmut Schlesinger made the perplexing statement "Economic conditions should not determine monetary policy"



President Bush *faltering growth an election issue*

Consumer demand should respond and, as corporate profits reflect this, investment spending should begin to climb, with the added incentive of the longer-term prospects offered by a bigger, more integrated European market where the barriers come down at the end of the year

While the increase in OECD investment will be hobbled by a quietening in Japan (average growth of 13,7% over the past three years) and Germany (10%), powerful performances are expected from the US, UK, Canada, France, Italy and others where capital formation has declined

From virtually zero last year for the OECD area in total, investment is projected to rise by 3,3% in 1992 and 6% in 1993

However, the OECD has to admit the closing months of 1991 were worrying "Uncertainty attaches to the timing and strength of the recovery of growth, given the recent softness of indicators," it said

The missing, and least tangible, factor is confidence This recovered after the Gulf War but has since levelled and in some economies dipped Consumers and businesses are not reacting with Pavlovian predictability to cheaper money It is inhibiting borrowing while bruised banks, rebuilding their capital ratios in the wake of property disasters in the US, UK and Japan, are increasingly cautious about lending

The hangover from the profligate Eighties has yet to be cured Bank credit growth in the US has slumped from an annualised 8% at the beginning of 1990 to shrinkage of almost 1%, in Japan it is down from 11,5% to 6%, in the UK from over 30% to 7%

Yet the OECD insists that "the main force shaping the outlook is interest rates" Reaction may lag cheaper money but "the experience of the past 40 years is that monetary policy runs a greater risk of overstimulation than of failing to boost activity"

In the US, however, the debate is about whether the US Federal Reserve has simply been pushing on a string with interest rate cuts Some analysts argue that America is now having a balance sheet recession without parallel, with the banks in worse shape than at any time since the Thirties

Empty properties are dubious assets and there is talk of the effects of the baby bust of the Seventies which has reduced the 25-34 age group from 23% of the population to under 20% while the ageing sector increases

And, if unemployment is not as bad as at the end of earlier recessions, much of that is because people have simply dropped out of the job market

Structural forces may be at work which are reducing the speed at which the US could normally hope to grow — a problem for George Bush in the run-up to the presidential election Significant fiscal help is ruled out the Federal deficit is set to rise from US$270bn to $360bn in 1993, or to 6,5% of GDP, which will underpin long-term interest rates and inhibit investment

Confidence is also in short supply in Britain, where pre-election spending increases will push the Budget deficit to 3,5% of GDP

Unemployment is set to keep climbing to 10% (from 6% in 1990) Business failures were up 60% to 52 000 in 1991 and could reach 70 000 this year House repossessions are expected to soar and 10% of all mortgage borrowers are in arrears on payments The commercial property sector, heavily bank-financed, is in ruins because of speculative overbuilding

Deep discounting ensured retail sales volumes were up 1,2% in November, reversing the falls, but early Christmas shopping was expected to be followed by a frost The Confederation of British Industry reported dismal export order books — rubbed in by the fact that Rolls-Royce, the carmaker, has run into heavy losses and may be taken over by Germany's BMW

Prospects in Germany are also blemished by falling exports while the income tax increase to whittle back the costs of modernising the east — which have pushed the federal deficit to 3,5% of GDP — produced a 2% contraction in third-quarter private consumption

The Bundesbank is more concerned about inflation, expected to peak at 4,8% in the (northern) spring, and sees the negative growth reported for two consecutive quarters — the US definition of recession — as no more than a deceleration

The final quarter was expected to show further slippage and Deutschebank warned that, without a surge in exports, "a full-blown recession is just around the corner"

Germany's biggest European trading partners face, at best, a muted year, having sagged in 1991 Interest rate flexibility is limited by their exchange rate ties to the D-mark and the demands of fiscal prudence, notably in Italy, will also operate as constraints

Even so, France, Italy, the UK, Benelux and Spain should produce an average of 2,2% growth this year (after only 1%) and nearly 2,9% next year

In the Far East, Japan again held pole position among the leading economies in 1991 with GNP up by 4,5% But almost all of it was in the first six months A sharp slide in the second six months in investment and exports cut the rate to an annualised 0,8% as output fell for the first time since 1986

Overcapacity combined with a tight money policy — only easing towards the year-end — and problems faced by banks as the fall in equity and property prices put strains on their capital ratios, will keep investment in check In spite of relatively buoyant domestic consumption, Japan faces a brake on growth this year

Ticking over
Recovery - a year late

REAL GNP	1990	1991	1992	1993
US	1,0	-0,5	2,2	3,8
Japan	5,6	4,5	2,4	3,5
Germany (West)	4,5	3,2	1,8	2,5
OECD Europe	2,9	1,2	2,0	2,7
Total OECD	2,6	1,1	2,2	3,3
DOMESTIC DEMAND				
US	0,5	-0,9	2,4	3,9
Japan	5,8	3,3	2,8	3,7
Germany (West)	5,0	3,3	1,8	2,5
OECD Europe	2,9	1,0	1,9	2,7
Total OECD	2,4	0,6	2,3	3,4
World trade	5,2	3,3	5,7	7,2

Inflation in retreat ...

PRICES				
US	4,1	3,8	3,0	2,9
Japan	1,9	2,2	2,1	1,9
Germany (West)	3,4	4,4	4,5	3,9
OECD Europe	5,7	5,8	5,1	4,5
Total OECD	4,3	4,2	3,7	3,3

... but not unemployment

UNEMPLOYMENT Percent of labour force				
US	5,5	6,7	6,7	6,1
Japan	2,1	2,2	2,3	2,3
Germany	5,1	4,6	5,0	5,1
OECD Europe	8,1	8,7	9,3	9,3
Total OECD	6,3	7,1	7,4	7,1

... and imbalances stay

CURRENT ACCOUNT US$bn				
US	-92,1	-4,1	-55,8	-60,6
Japan	35,4	69,8	81,8	80,4
Germany	47,9	-20,6	-14,1	-12,1
Total OECD	-101,6	-15,1	-48,0	-57,4
OPEC	16,7	-42,1	-12,3	-13,3
Non-OPEC LDCs	-17,7	-35,3	-38,1	-29,7

Source OECD ECONOMIC OUTLOOK

Concerns are also resurfacing about the ballooning current account surplus This was helped last year by lower gold imports and a hiccup in the normal flood of Japanese tourists because of the Gulf War plus repatriation of profits from overseas operations to bolster parent companies' liquidity

But even with the low-key recovery foreseen for the US and Europe, Japan's surplus will climb again, raising the ogre of protectionism — even though Japanese funds are an important source of saving for America

In the six dynamic economies of the Pacific Rim — South Korea, Taiwan, Hong Kong, Singapore, Thailand and Malaysia — average real growth is cooling after the third successive year in the 7%-8% range Internal demand, added to sustained exports which were up 8%, has created tight labour markets and inflationary pressures Korea's current account deficit quadrupled to 3% of GNP and measures to rein in demand should moderate its growth rate to 7,5%

China's 30% devaluation against the dollar two years ago continued to help exports, lifting GNP by 6%-7%, it looks sustainable for 1992 But should the current account fall back into the red, the OECD fears a return to stop-go management

Other developing economies — excluding Africa, which the OECD does not mention — offer a mixed picture

In India, the foreign exchange crisis, a budget deficit exceeding 8% of GNP and 13% inflation forced the new government to bring in a series of reforms Subsidies have been cut, the rupee devalued by 20%, taxes increased and a limited privatisation programme instituted These are expected to reduce growth to below 1990's rate of 6%

Latin America witnessed the big economies struggling with debt and inflation with varying degrees of success Brazil, the largest, is in disarray following the failure of its stabilisation plan and inflation was marching upwards to over 500% towards the year-end with the economy contracting — though a trade surplus of $7,2bn was recorded in the first half

Much hangs on Brazil's securing a $2bn standby loan from the IMF and rescheduling $52bn of commercial debt But the OECD fears the friction between its federal and state governments is creating uncertainty which will jeopardise foreign confidence Forecasts of 1,5% growth this year are questionable

Mexico, Chile and Venezuela win plaudits for sustaining their adjustment programmes Their average rate of inflation was down from 35% to 20% and growth was sustained, in spite of weaker oil prices (Venezuela and Mexico) and copper prices (Chile), at between 4,5%-6% Private forecasts expect the same in 1992

Argentina is slowly grinding down price increases — they only doubled last year — while also turning the budget deficit into surplus, liberalising trade by halving import tariffs Full convertibility of the austral and privatisation has brought back flight capital and attracted foreign direct investment Growth could be 4% this year, from 1,5% and two years of falling GNP

The biggest unknown in the world economic equation is the former Soviet Union In 1988 it accounted for 8% of world GDP

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FM 3/1/92 (231)

with the six former allies in the Warsaw Pact adding another 4%

Over the past two years the collapse of trade between them, combined with the introduction of free-market policies and spending cuts, has produced a frightening melange of galloping inflation, falling output and rising unemployment Some of the old East bloc economies — those which started first — are beginning to turn the corner

Poland's rate of inflation — 250% in 1989 and 550% in 1990 — was down to 65% last year and the projection for 1992 is 45% GDP shrinkage should be only 1% this year after 20% over 1990-1991

The change has been better managed in Czechoslovakia where inflation of 55% may change to only 10% this year Reorganising will still produce GDP contraction of 5% (after 12%) but positive growth is expected in 1993

Hungary is expected to move back into growth of 1% this year and 2% next year after a 12% decline since 1989 Inflation, however, is likely to remain at 35%-38%

The Soviet Union embarked half-heartedly down the same road in 1990 and stepped up the pace last year And the price has mounted net material product (approximate to GDP) fell 4%, followed by 12,5%, consumer prices rose 10% in 1990 but 300% last year

What happens now that the last vestiges of centralised government have been swept away defies projection Independent forecasts for the old USSR saw a further GDP fall of 20% this year while inflation moderated to 200%

But the republics are under new national management and the chances of coherent reforms seem remote, even if the commonwealth agreement between them maintains the old intra-Soviet trade flows Economic output, resources and population are heavily weighted towards the Russians, Ukrainians and Byelorussians — but they now have their own domestic political priorities

All that seems certain is a period of acute misery which may last for three years even if investment floods in from the West — and the portents for that are not good ■

THE SWEDISH MODEL REVISITED FM 3/1/92 (231)

Now wait for next year

A leading Swedish observer looks at the economic changes of the past year

All of my gloomy forecasts in the *FM* a year ago on the economic future of the Swedish Model have come true. Stockholm's Bureau of Statistics and the OECD paint a dark picture of a year with 0,9% negative GNP growth and rising unemployment

Modest growth could occur this year, predicts the OECD, but the vital export sector will remain sluggish right into next year

In January 1991, the Swedish Federation of Industry presented a cheerless prognosis for the year — and the latter half of 1990 had proven that the chief economist of the federation, Ola Virin, was totally out of touch with harsh reality

Virin warned that never before in the history of federation forecasts had so many companies been forced to cut production Domestic demand would remain weak and so unable to neutralise this development Accordingly the federation demanded that the so-called investment funds be unleashed — the Swedish economy is full of accumulated funds, from industry itself, for improving working conditions and on to the basis of full-fledged nationalisation

However, the international recession was considered so grave that any domestic step such as freeing US$3bn (from the investment funds pool) was deemed insufficient, though still necessary to coax companies to invest in Sweden at all

In the first quarter of 1991 Swedish GNP decreased by 0,4%, according to the Bureau of Statistics, compared to a year ago Car sales were down 40% while the public sector declined by 3%. However, public consumption rose 0,5% at local level and a whopping 3% for governmental agencies in a country where one-third of all employees are in public service

Investments in general went down 7,5% with a high for machinery of 12% Exports sank 4% but imports decreased even more — 8,5% For hotels and restaurants the downward trend intensified because of Sweden's high rate of value-added tax — currently 25% The decline of this sector amounted to 10%, which in turn hit travel The only choice if one is to travel VAT-free in Sweden is if you have a foreign destination Thus Swedes are more or less enticed by the tax laws to include the nearest foreign destination in their itinerary if they are to beat VAT

This is the background against which the latest OECD *Economic Outlook*'s positive economic trend applies to all industrialised countries in the West — except Sweden They will have at least a small growth of GNP, but Sweden faces a reduction of 0,9% Only Finland is on thinner economic ice Sweden's GNP this year will rise by only 0,4% but inflation won't fall much from 8%

Some national banking forecasts predict a slightly faster turning of Sweden's economic wheels this year but the change into a higher economic gear will be postponed until 1993. The blame for this sluggish performance lies with the former Social Democratic government and its obsession with the construction sector and not with export-orientated businesses

The change after the Social Democratic loss of power in September has prompted a totally altered attitude towards economic growth Every tax-reducing effort must, however, be matched by other means of fiscal or profitable activity by the new coalition government The only possibility of reaching a rapid result, former Finance Minister Kjell-Olof Feldt points out, is by slicing budgets

Ever since World War 2 the flagship of the Swedish economy has been Volvo but, in its 1990 balance sheet, the truck and car maker had a loss of nearly US$65m from a $1bn-plus profit a year earlier At least 5 000 employees have been laid off in Sweden along with thousands more in countries like Holland and Belgium where Volvo also has vehicle plants.

The Elektrolux company has been hit just as hard by recession and plans to lay off about 15 000 workers in the next two years.

A profit collapse hit the SKF bearings company last year Production must now be cut by 20% in Sweden and 2 500 workers will be laid off In US and Brazilian markets, where SKF has invested heavily, profits have plunged

During 1990 a quarter of Swedish investment was made abroad No other country puts such a large percentage of its investment cash into foreign economies The main reason for this outflow is high labour costs at home German workers are the best paid in the world, followed by the Swiss, Swedes, Norwegians and Danes In the US, Japan, the UK and France, employees get much lower wages

Harvard researcher Michael Maccoby complains that Swedish trade and industry lack visionaries Sweden is no longer in a position to strengthen its competitive edge just by cutting costs, motivated people and innovative organisations are missing Swedes are good at technology but bad at generating hi-tech In the US, for example, there is an element of fear of losing your job, but in Sweden this factor has been replaced by total womb-to-tomb security for every citizen The results are all too visible

The light at the end of the Swedish economic tunnel is very faint indeed.

Lars-Erik Nyman

□ *This is the first of two articles on the Swedish economy*

Australian model of pay restraint is ideal to fight SA inflation

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SIMON WILLSON B/Day 23/1/92

RESERVE Bank Governor Chris Stals's call for a social accord to combat inflation will be brought into sharp focus next week by the release of a normally humdrum southern hemisphere statistic.

The figure, scheduled for publication next Wednesday, is the rate of inflation in Australia in the year to the fourth quarter of 1991 (the Australians measure inflation only by the calendar quarter, not month by month)

Until recently, the Australian inflation rate was just one more erratic number from a primary product-based economy going through the throes of restructuring. Suddenly, however, Australian inflation has locked into a pattern. Next Wednesday's figure is likely to be one that astonishes not only comparable, competitor economies such as SA's but also the developed Western industrial economies

Australia is about to announce an annual inflation rate of about 1,5%

This will mean that Australian inflation is lower than Japan's, lower than Switzerland's, lower than Germany's — lower than in all the economies famed for their thrift and abstemiousness For at least the first quarter of this year, Australia's inflation rate is likely to be the lowest of all those reported to the 24-nation Organisation for Economic Co-operation and Development (OECD) — the grouping of advanced Western industrial economies.

Australia with the OECD's lowest inflation rate? How can this be?

Is this the same Australia as the one that has been living way beyond its means for nearly two decades, the country whose sustained import binge has chalked up an unbroken current account deficit since the mid-'70s? Yes

It is the same Australia as the one which has splurged fantastic sums on grandiose domestic projects, in the process ballooning its gross foreign debt from a mere $US15bn in 1980 to more than $120bn last year.

It is the country that, for most of the '80s, has been governed by a trade union-friendly Labor government. Moreover, the Labor prime minister for all but the past two months of this period was previously a hard-drinking, womanising trade union boss It is a nation of instinctively militant organised labour, whose miners and transport workers are famous for their rapid deployment of the strike weapon.

How, it may reasonably be asked, can a free spending, import loving, strike happy, debt ridden economy such as Australia's have an inflation rate that puts to shame other OECD economies of legendary parsimony and self denial?

The answer to this perplexing question provides the link with Stals's social accord prescription for combating inflation The main reason Australia's inflation rate has fallen so consistently and is now so low is that Australia has the industrial world's longest lasting, most successful and least publicised incomes policy

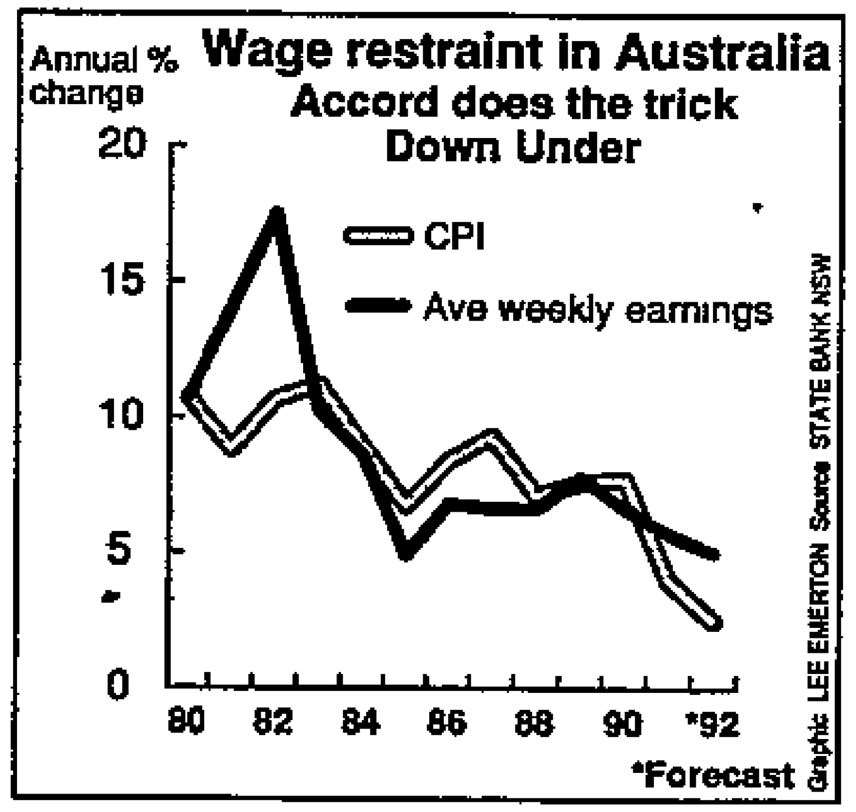
Recession has only helped disinflate the Australian economy since the end of 1990, Australian economic growth tanked ahead during the '80s — at more than 5% in 1985 and by more than 4% in 1987 and 1989 — while inflation was slowing.

The incomes accord between the federal government and the Australian Council of Trade Unions (ACTU) was instituted in 1983 and has been renewed every year since The accord involves government and unions agreeing on a maximum limit for pay increases in the year ahead, and sticking to it.

The government has used the accord to cut real wages — pay levels adjusted for inflation — with the co-operation of national trade union representatives. There have been disagreements, when the government's offer and ACTU's claim were referred to arbitration But, as the chart shows, the results in terms of inflation have been spectacular. There has been an incontrovertible correlation between the decline in inflation rate and pay restraint

How has the Australian government managed to sweep the ACTU militants along with an incomes policy that ostensibly undercuts the trade union function by eroding the real pay levels of ACTU members?

The Labor government did, it is true, start out with an advantage in that it was an avowedly socialist party when it was elected in 1983,



headed by a former ACTU boss in Bob Hawke But the government also needed a carrot to give some incentive to ACTU to go along with the accord, and cannily used tax reform as that carrot.

The government, elected on a platform of restructuring the Australian economy, was planning anyway to follow the Thatcherite/Reaganite formula of cutting direct taxation and loading up indirect taxation as the main federal revenue-generator.

In the early days of the accord, Hawke made personal tax cuts conditional on acceptance of statutory pay limits. His argument, which proved quite persuasive when the nascent accord was at its most vulnerable, was that ACTU members would be no worse off in disposable income terms if they accepted a cut in real wages that was offset by lower direct tax takes from their wage packets.

It worked like a charm. The accord was accepted at the outset and had a chance to operate. Australian real wages began to fall, with all the favourable knock-on effects on export competitiveness and on inflationary expectations. By the time the tax incentive part of the package was delivered, there was real evidence of lower inflation to support the extension of the accord. The Hawke government won four consecutive elections

Australian inflation, which was well into double digits and close to SA levels 10 years ago, is about to become the lowest in the industrialised West Wednesday's figures will show that Australian prices take a year to rise by as much as SA prices often do in a month

Stals's advocacy of a social accord in SA to tackle structural inflation and inflationary expectations is, whether intended as such or not, an endorsement of Hawke's accord model and a recommendation that it be emulated, at least in part, in SA without delay And why not? When there are two large land mass, southern-hemisphere primary product exporters with competitiveness and productivity problems among their militant labour forces, and one has an inflation rate of more than 15% and the other one of less than 2%, there must be something the first can learn from the second

Given the Australian precedent, Stals's point about a social accord attacking structural inflation and inflationary expectations is well made What better time to approach SA organised labour with a plan to start agreeing pay limits for a year or so ahead than when government, business and labour are all sitting around tables anyway?

In forums such as Codesa and gatherings convened by the Consultative Business Movement, collective action in the national interest is already being discussed in the constitutional, political and social fields It is a relatively small step to accommodate pay bargaining among other such weighty topics.

It is not only the SA unions that would have to be persuaded to accept the concept of an accord The government has been unusually proscriptive about regulating national pay levels, as this statement last year by the Finance Minister's special economic adviser Japie Jacobs shows. " . government has no intention of intervening in wage negotiating procedures. Government has no wish to cross swords with organised labour It has no intention of even considering the implementation of an incomes policy"

A figure due out in the early hours, SA time, of next Wednesday morning should change the preconceptions of Jacobs and a great many others

OECD's investment policy a model for SA

STAR 7/4/92 (231)

It is of utmost importance that the future investment policy of South Africa meets international standards and compares favourably with existing policies of competing countries, says the SA-German Chamber of Commerce and Industry chief executive Klaus Schuurman

Mr Schuurman made particular reference to taxation, nationalisation and equal treatment of foreign and domestic companies in a statement at the weekend

He suggested that the Declaration on International Investment and Multinational Enterprises of the OECD countries should serve as an investment policy model for a future SA government

"This means the creation of an environment that is conducive to investment, not only foreign, but also for domestic funds," he said

To create this environmnet Mr Schuurman pointed out that political as well as economic factors would have to be considered

"Political stability is as important as stability in labour relations"

Taxation in SA, he said, had to be favourable for enterprises and with specific guarantees with regard to the repatriation of capital and dividends

He also strongly voiced his opposition to the possibility of nationalisation

Nationalisation

"Nationalisation of whole industries has failed to reach positive results all over the world and this must therefore be a taboo in the New South Africa"

Mr Schuurman said that in return for a favourable investment environment South Africa could expect German companies to take into account the general objectives of the host country.

"They consider South Africa's aims and priorities with regard to the urgently needed economic and social progress, industrial and regional development, the creation of employment and the protection of the environment and consumer interests" — Sapa

Wealth tax can contribute little to sound fiscal policy

BDay 8/4/92

MARIUS VAN BLERCK

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ANC economist Neva Seidman Makgetla has argued in Work in Progress (December) and Business Day (November 22) that the reaction of the "mainstream" Press to suggestions of a wealth tax was unjustifiably hysterical. Cosatu's Neil Coleman expressed similar sentiments in Business Day (March 6).

To the extent that some Press reaction to the suggestion of such a tax was overdone, these authors are quite correct In a climate of political and economic change, it is essential that fiscal issues be examined rationally and objectively rather than emotively The issue of wealth tax is no exception to this maxim.

The first step is to define the subject "Wealth tax" generally includes annual net wealth tax, and capital transfer taxes in the form of gift and death taxes A point immediately apparent is that SA already has the latter two taxes

The next step is to define the ideal objective of fiscal policy Such an objective could be "the creation of a system of taxation which operates efficiently — one which extracts as much revenue as is necessary for the state without adversely affecting economic growth" Such a system does not favour high or low taxation per se It requires the system to be designed in a way which will yield revenues efficiently, taking heed of its effect on economic growth.

Where does wealth tax fit in the taxation armoury? As already stated, we have two forms of wealth tax in SA, and such taxes are not uncommon in successful economies throughout the world However, evidence indicates that there has, in the past few decades, been a trend away from taxes which are not cost-efficient, and that wealth taxes are deemed to fall into this category

For example, in 1965 property tax (which also includes wealth tax and taxes on property transfers) at a general government level (including provincial and local levels) in OECD countries averaged 2% of GDP It had dropped to 1,8% by 1985.

In SA, a similar trend is evident. In 1975 property taxes at a general government level amounted to 1,6% of GDP and by 1985 this had dropped to 1,3%. By 1987 property taxes were again edging up to a little over 1,32% as a consequence of an increase at central government level. An inspection of the makeup of central government property taxes indicates this has come about because of an increase in tax on capital and financial transactions from 0,25% of GDP in 1985 to 0,39% in 1987

A further indication of the decline in the importance of wealth tax is that, in the OECD, this category of tax has declined as a percent of GDP from 0,41% in 1965 to 0,26% in 1985. In SA, gift and death taxes have also declined in importance, from 0,14% of GDP in 1975 to 0,11% in 1985, and still further to 0,08% in 1987.

It is clear that SA is following the OECD trend of reducing reliance on property taxes (including wealth taxes) but it is equally clear that, at a general government level, SA levies less property tax than the OECD average — 1,3% of GDP versus 1,8% of GDP for 1985 respectively. It is thus apparent that as SA's economy continues to develop, there will be some capacity to increase the contribution of property taxes

To supplement the comparison with OECD countries it is essential to compare our position with non-OECD countries, as the OECD is composed exclusively of developed economies, while the SA economy is better classified as a developing economy, and has much in common with the average non-OECD country.

At a central government level, the SA property tax burden is somewhat higher than that in non-OECD countries. Non-OECD countries experienced a burden of 0,36% of GDP in 1975, declining to 0,33% in 1987, SA experienced an increase from 0,40% to 0,47% in the same period

At a general government level the picture is different Less than one-third of the non-OECD countries surveyed for central government statistics provided comprehensive statistics at general government level. It may be safely assumed that most countries not providing such statistics collect minimal taxes at non-central government level

For the countries providing the necessary statistics, property tax averaged 0,71% of GDP in 1975, declining to 0,61% in 1987 Given the assumptions above, statistics embracing the remaining two-thirds of the sample would reduce these averages significantly By contrast, SA property tax at a general government level is more than twice as much as that in the non-OECD countries surveyed, even though it has declined from 1,61% of GDP in 1975 to 1,32% in 1987.

Higher taxation in SA is largely the result of the impact of local authority property taxation which, in 1985, was almost three times as high as the non-OECD average

Does the decline in the importance of property taxes and the trend towards tax efficiency mean wealth taxes should be totally abandoned? The answer is no because, with regard to our existing wealth taxes, an infrastructure to collect the tax already exists for reasons other than tax, namely, the administration of estates, the registration of property transfers and so on These taxes are therefore reasonably efficient by definition, as there is little extra collection cost, and it would be a mistake to abolish them

The same does not necessarily hold true of new wealth taxes, particularly annual net wealth taxes. These have been found to be tax inefficient, in that they absorb far too much administrative effort and cost, and generate disproportionately negative perceptions in relation to the revenues they generate

In a South African economy which is facing severe skills shortages, this is a critical point This point is illustrated in a macro sense by the fact that, as has been mentioned, combined revenues from individual net wealth taxes and capital transfer taxes shrunk from 0,41% of GDP in the OECD in 1965 to 0,26% in 1985, and in a micro sense by the French experience which saw France introduce net wealth tax in 1982 and abandon this tax five years later

One thing is clear from the statistics While property taxes are declining in importance, it is the more highly developed economies which are most successful in using these taxes as a revenue source SA, with an economy positioned between the OECD countries and the average non-OECD country, is not as successful in utilising these taxes as the former and much more successful in this endeavour than the latter

As a consequence, as our economy becomes more developed, we will be in a better position to extract property taxes from it This proposition holds true for all taxes

Returning to the fiscal policy objective defined above, wealth taxes will clearly have a role to play in future fiscal policy, and while there is some scope to increase these taxes, their role will remain a small one

Of far more importance is that we should not allow less important issues such a wealth taxes to generate unnecessarily heated emotional debate and absorb a disproportionate amount of time we should rather direct urgent attention to the major fiscal factors influencing successful economies — simpler tax systems with lower tax rates

Empirical evidence indicates that, because such systems generate economic growth and discourage tax avoidance and evasion, they tend to generate increased government revenues Reform of this nature has been embraced by most industrialised economies and an increasing number of developing economies, of which Tanzania is a significant recent addition

☐ **Van Blerck is chief tax consultant at Anglo American and chairman of the SA Fiscal Think Tank.**

No quick fix for world economy

231

STAR 14/4/92

PARIS — Policy-making officials from 10 leading industrial countries have agreed that the industrial world is headed for economic recovery within the next few months but saw "no real room" for an early general easing of monetary policies

They concluded that government policies would broadly have to "stay the course", a senior European official said.

Meeting in a high-level committee of the Organisation for Economic Co-operation and Development (OECD), the officials said they felt there was "now a well founded hope of a world-wide recovery," although it might not be "a very buoyant one", the panel's chairman, Hans Tietmeyer of Germany, told reporters.

"A lot of people would like to see lower interest rates, but the question is whether this would be appropriate in the current situation", he said.

He stressed that in Germany, there was at present no room for a relaxation of monetary policy, and no changes were in the pipeline.

Interest rates

US Treasury Secretary Nicholas Brady said here earlier he was looking for an easing of interest rates to stimulate growth in the industrial world.

"I have been saying that for over a year," he told reporters after talks with his former French colleague, Pierre Beregovoy, who became premier last week. French officials said they had agreed on the need to accelerate world recovery.

Commenting on the conclusions reached in two-day talks in OECD's exclusive working party number 3 (WP3), Mr Tietmeyer, a senior director of the German Bundesbank, said the group had discussed briefly what could be done to reduce Japan's trade surplus but had not specifically called for a stronger yen.

Questioned on the recent stock market turbulence, he said the impact of market developments would be discussed by the officials at their next meeting.

The focus this time was on growth prospects, and the group noted some signs of recovery in the United States, and improving prospects in Japan and Germany.

The latest US signs were mixed, but on the whole more positive, he said. "One has to be cautious," he added, stressing that "no one can predict precisely what the outcome will be".

Japan

In Japan, he said, there will be a recovery from the second quarter with a further pick-up in the second half following the recent adoption of a fiscal package, after a first quarter that was not positive.

For Germany the expectation was one of positive growth from the first quarter, accelerating throughout the year. Bonn foresaw an average growth rate of two percent this year for Germany as a whole, with the former east Germany growing by 10 percent and the western part by 1,5 percent.

The group welcomed an improved growth performance by developing countries overall as a positive element for the world economy, noting they were expected to grow by four percent this year and next, double this year's projected OECD rate.

The officials agreed that former East bloc countries were still facing a very difficult situation, but Mr Tietmeyer did not elaborate.

He said the panel, comprising deputy ministers and central bank officials of the Group of Seven (G7) countries — Britain, Canada, France, Germany, Italy, Japan and the United States — plus the Netherlands, Sweden and Switzerland, agreed there were "no quick fixes".

The officials saw budgetary consolidation — cutting deficits and reining in on public spending — as probably the best contribution to sustainable growth in the industrial world.

He cited a general understanding that there was no real room for a more stimulative monetary policy, and that structural policies, including cutbacks in subsidies and privatisation, should play a bigger role

Integration

The group also recognized that continued growth in developing countries and the integration of Eastern Europe into the world economy required access to Western markets, and a successful conclusion of the Uruguay Round trade negotiations

Questioned by reporters, he said he had heard no criticism, but a lot of praise in the WP3 for the Bundesbank's firm stance against inflation triggered by German unification. This had forced other European countries to maintain higher interest rates than warranted by domestic factors

But he said the group felt Germany needed to improve the mix between its fiscal and monetary policies, and had welcome Bonn's intention to cut its budget deficit.— Sapa-AFP.

Africa on course to grow poorer, Safto event told

(231)

B|Day 30/4/92

THE West had confidence in SA's future despite the volatile situation, OECD Development Centre director Jean Bonvin said yesterday.

Speaking in Johannesburg at the SA Foreign Trade Organisation (Safto) conference on investment in Africa, Bonvin said, however, all economic indicators pointed to Africa slipping deeper into poverty — when most other regions in the developing world were prospering

More than two thirds of sub-Saharan Africa is classified by the World Bank as low-income — or having a per capita income of below $500 a year

Bonvin said Africa's main burden of the past was its external debt, but conceded this debt was perhaps not as large as that of Latin America In 1990 African long-term external debt amounted to $234bn, equal to its GDP — with $141bn for sub-Saharan countries.

Official Development Assistance now exceeded 15% of GDP for more than half these countries with two thirds of imports being financed by aid.

Bonvin said the results of aid had been less satisfactory in Africa than elsewhere It was clear aid favoured the exaggerated growth of the public sector — without making its expected contribution to growth.

He stressed a complete overhaul of public finance in Africa was essential for any revival of the economy.

Solutions included

- Liberalising economies and bolstering political stability to attract foreign investment,
- Encouraging local investment by mobilising savings, restructuring the financial system and privatisation; and
- Creating an environment for private enterprise

But Bonvin said the prospect of direct foreign investment in the Third World appeared uncertain — due to a looming world shortage of capital in the 90s.

He said there was the danger that Africa would become the forgotten continent since capital was being pumped into the restructuring of eastern Europe and the Middle East. "The fundamental problem is that Africa needs to change its image so that the investor sees it as a politically stable region, safe for his capital."

Bonvin gave the assurance that if this was achieved investment capital would flow into Africa under the same yield conditions as in Asia.

Addressing the conference, Zimbabwean businessman Eddie Cross said transport was a vital ingredient in generating economic growth in southern Africa, and more than 90% of regional trade was carried by rail

Cross, chairman of Cross Holdings and director of the Indian Ocean Export Company, said SA played an important role in the region's transport infrastructure.

"SA has as many as 10 000 wagons and 50 locomotives north of the Limpopo at any one time, and carries 75% of the region's exports and 50% of its imports," he said.

The total rail capacity of the Southern African Development Conference Committee's (SADCC's) member states was half that of SA's, he said.

Angolan ambassador to Namibia Alberto Ribeiro-Kabulu told the conference Angola's infrastructure was in a poor state and there were opportunities for SA businesses to help in Angola's rehabilitation.

Ribeiro-Kabulu outlined transport, energy, telecommunication and urban renewal as the four areas where Angola needed infrastructural aid. — Sapa

OECD expresses faith in SA's future

STAR 30/4/92

By Sven Lunsche

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The powerful Organisation for Economic Co-operation and Development (OECD), an umbrella body for the world's 24 leading industrial nations, has urged Africa to speed up its dialogue with South Africa

"South Africa can be the driving force for development in sub-Saharan Africa by carrying the neighbouring countries in its economic wake," the director of the OECD's Development Centre, Dr Jean Bonvin, said yesterday

Addressing delegates at SAFTO's conference on Investment in Africa, Dr Bonvin said South Africa could play a major role in regional economic groupings, such as SADCC and the PTA

He reiterated that industrialised countries had confidence in South Africa's future despite the volatile situation here, "as the poorest countries in the region can tie their economies to South Africa's"

Dr Bonvin warned that Africa was slipping deeper into poverty at a time when most other regions in the developing world were prospering and taking their place in the emerging global economy

More than two-thirds of sub-Saharan Africa is classified by the World Bank as low-income — or having a per capita income of below $500 a year

The continent's indebtedness was adding to its plight In 1990 African long-term external debt amounted to $234 billion, equal to Africa's gross domestic product

"Whatever adjustment arrangements the 32 low-income sub-Saharan countries have made, they have become highly dependent on foreign aid," Dr Bonvin said adding that half these countries had two-thirds of their imports financed by aid

Dr Bonvin stressed a complete overhaul of public finance in Africa was essential for any revival of the economy on the continent

He said there was the danger that Africa would become the forgotten continent since capital was being pumped into the restructuring of Eastern Europe and the Middle East

"The fundamental problem is that Africa desperately needs to change its image so that the investor sees it as a politically stable region, safe for his capital"

If this was achieved, Dr Bonvin gave the assurance that investment capital would flow — under the same yield conditions as in Asia — reversing the flight of capital estimated at some $40 billion during the period 1977 to 1987

A long, hard road ahead

231 FM 1/5/92.

There is little to shout about in the IMF 1992 forecasts for the world economy Like other macro-economic soothsayers, such as the OECD, IMF forecasters have had a chastening 12 months While there are marginal differences between the OECD and IMF (for example 0,2% of US GNP, about US$11bn), both organisations have had to do the same thing take the pruning fork to previous projections The recession's bite was worse and recovery will be slower and later than expected

The IMF's *World Economic Outlook* posits an even drearier picture than that presented by the OECD only four months earlier It also highlights the reason behind the increase in US pressure on the other leading economies of the Group of Seven (G7) to do more to foster growth when they met in Washington at the weekend

US Treasury Secretary Nicholas Brady earlier told British Chancellor Norman Lamont that "an inordinate preoccupation" with inflation would hold growth below satisfactory levels Japan has already been asked to bring forward more State investment in addition to the recent stimulatory package announced when its discount rate was cut to 3,75% This attitude, however, is at odds with the IMF's main concern over the high level of fiscal deficits in Germany, the US, Britain and Italy in particular, which threaten to underpin long-term interest rates

The IMF looks at the world This gives it a different perspective to the OECD which covers 24 industrialised nations accounting for more than 74% of global GDP The most interesting differences concern the developing countries and transitional economies of the former communist bloc (see table)

It shows how the near collapse of the old centralised economies and negative growth performance of two G7 countries, the US and UK, reduced world GDP by 0,3% No material improvement is on the cards in what was the USSR but the other ex-members of the Warsaw Pact are showing a swift turnround and nearly 4% growth is projected for next year.

The lesson for the 15 members of the Commonwealth of Independent States is that they should emulate the "bold and comprehensive reforms" implemented by the Poles, Czechs, Hungarians and other erstwhile Soviet satellites, says the IMF

The developing world, however, did much better than was foreseen last year by avoiding the worst effects of the industrialised nations' slowdown and weak commodity prices with real GDP up by 3,3% While the 1992 growth figure of 6,7% is distorted — the Middle East's rebound to 15% reflects the return of Kuwait as an oil producer, plus, possibly, its old enemy Iraq — the IMF is optimistic

Africa's growth rate should almost double in spite of drought in the subcontinent Asia is shown as maintaining a fast clip or 5,5% and more Central and South America are expected to produce a surge of 4,2% in 1993

The IMF notes that, while the developing economies remain heavily dependent on activity in the OECD's 24, it has become clear in the past few years that much of their fate lies in their own hands It cites the obvious examples of the tiger economies of the Pacific Rim but also commends those which are following suit with free-market and prudent monetary policies Ghana, Mauritius, Morocco and Tunisia in Africa plus Mexico and Chile in Latin America

Much, of course, is due to the horrors of the debt crisis of the 1980s, the consequent net outflow of capital and destruction wreaked by hyperinflation — now, and hopefully only temporarily, the preserve of ex-communists By next year Third-World inflation should more than halve to SA levels

"The developing world would appear to be at a critical juncture," says the IMF "If reforms take hold and the external environment is favourable, the rest of the decade could see sustainable growth in per capita GDP"

But any backsliding from reform will mean "growth is likely to remain elusive"

The IMF's forecast is liable to prove no more accurate than most others There are imponderables which can wreck even its modest projections Chief among these is the erosion of the capacity of Japan's banks to lend (see Page 25) There is also the course of German inflation over the next few months — though the IMF is looking for a sharp decline from the present 4,7% — and hence the Bundesbank's monetary policy which threatens growth in the rest of Europe

START UP

World economic outlook highlights

	1991	1992	1993
Output (Real GDP)*			
World	−0,3	1,4	3,6
Industrial countries	0,8	1,8	3,3
US	−0,7	1,6	3,5
Japan	4,5	2,2	3,9
Germany	1,2	2,0	3,0
EC	0,8	1,8	2,8
UK	−2,2	0,8	3,1
Developing countries†	3,3	6,7	5,4
Africa	1,4	2,7	3,0
Asia	5 8	5,5	5,7
Middle East	0,4	15,0	7,3
W Hemisphere	2,8	2,7	4,2
E Europe	−16,6	−1,0	3,9
Former USSR	−17,0	−17,5	n/a
Consumer prices*			
Industrial countries	4,4	3,3	3,2
US	4,2	3,1	3,1
Japan	3,3	2,2	2,4
Germany	3,5	3,8	3,7
UK	5,9	3,7	3,1
Developing countries†	41,4	37,6	16,1
E Europe	134,7	95,0	44,0
Former USSR	86 0	1 000,0	n/a
Unemployment rates (%)			
Industrial countries	7,0	7,3	7,0
US	6,8	6,7	6,2
Japan	2,1	2,1	2,2
Germany	6,5	7,6	7,6
EC	9,1	9,7	9,6
UK	8,1	9,7	9,7
Current account ($bn)			
Industrial countries	−24,0	−49,0	−68,0
US	−9,0	−53,0	−69,0
Japan	73,0	93,0	88,0
Germany	−21,0	−14,0	−9,0
UK	−8,0	−15,0	−16,0
Developing countries†	−85,0	−71,0	−72,0
E Europe	−7,07	−7,0	−6,0
Former USSR	−2,0	n/a	n/a
World trade volume*	**3,3**	**5,0**	**6,3**

* Annual percentage change † Excluding eastern Europe and former Soviet Union
Source IMF World Economic Outlook, April 1992

East Europe soaks up foreign aid

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■ MONEY TALK

C Pren. 3/5/92

AFRICA will slip into deeper poverty while the developing world thrives.

This is according to Jean Bonvin, senior official of the Organisation for Economic Co-operation and Development, which groups top Western nations.

Speaking in Johannesburg at a conference on investment in Africa organised by the SA Foreign Trade Organisation, Bonvin said more than half the countries in Africa rely on foreign aid to finance two-thirds of their imports.

Unfortunately Africa has developed a bad name in the investment world as in the past aid has been used to finance the creation of large bureaucracies which contribute little to economic growth.

Any real revival in Africa depends on a new approach which includes a complete overhaul of public finance.

Bonvin said it would be tough to obtain foreign aid for Africa as capital was being pumped into the restructuring of Eastern Europe and the Soviet Union.

Africa needs to boost investor confidence and provide investors with real value for money.

BUSINESS

OECD to zoom in on unemployment

BDay 18/5/92 (231)

PARIS — The burning issues of how to boost world growth and conclude global trade talks are likely to take a back seat to a detached look at the causes and destructive effects of high unemployment, at this week's Organisation for Economic Co-operation and Development (OECD) annual meeting.

Because many countries have little room to juggle monetary and fiscal policy, the OECD wants to refocus attention on what it sees as structural impediments to job growth, officials say.

The OECD, a think tank of 24 rich countries, has long advocated greater emphasis on "active" labour market policies, such as better training and job-matching, rather than passively doling out unemployment benefits.

But the issue has acquired greater urgency because of a rise in the number of people out of work in the OECD's 24 member countries to about 30-million from 25-million two years ago

"There's a feeling that some governments have not done all they can to encourage employment," said a US official involved in the preparations for the meeting, to be held today and tomorrow

If Germany, for instance, had more flexible labour markets, the wage pressures burdening economic and monetary policy might not be so intense, he said

The need for deep-seated reforms is seen as particularly acute in Europe, where the ranks of the long-term unemployed continue to swell In France alone, 900 000 people have been jobless for more than a year

But getting workers in dying industries to retrain and perhaps uproot their families to move to a new job is easier said than done The same is true of instituting more flexible work practices or getting governments to reduce payroll taxes.

Sensational

That is why ministers, unusually, will touch on some of the social consequences of economic change, such as immigration, xenophobia and — an issue that was on the agenda before the recent Los Angeles riots — inner-city decline

For all the concern that the ministers — of finance, trade and foreign affairs — will express, no one is labouring under the illusion that there is a miracle cure waiting to be found

"There won't be any sensational discoveries," said OECD secretary-general Jean-Claude Paye

Underpinning the worry about entrenched unemployment is the acknowledgement that the economy is picking up too slowly to create enough jobs to shorten the dole queues by much if at all

The general theme of structural reform is all well and good, French Finance Minister Michel Sapin said on Tuesday "But it will not, by itself, create growth"

OECD researchers are forecasting growth of about 1,8% this year, a weak step-up from last year's anaemic 0,9% pace, but with an acceleration to 3,2% on average in 1993.

Sapin will press his campaign for a better mix of policies in Europe aimed at creating room for lower interest rates

But officials said the communiqué that emerges from the meeting will not go beyond the recent statement issued by the Group of Seven (G-7) finance ministers, which essentially left it to each country to plough its own furrow as it saw best

"In terms of macroeconomic policy, you shouldn't expect any spectacular change," Paye said

Japan, which largely resisted G-7 pressure last month to boost public spending, will stick to its guns in Paris, a senior foreign ministry official in Tokyo said

Last year, treasury secretary Nicholas Brady, who will again head the US delegation, pressed Europe to go for growth

This year, Washington remains concerned that the pace of economic activity in Europe remains sluggish but seems unwilling to go to the mat over it — not at the OECD at least.

"Policies will be discussed, but I don't think you'll see an outright call by the US or by any other country for a change," said President George Bush's chief economic adviser Michael Boskin

Nor is the gathering likely to see a repeat of the heated exchanges over the Uruguay Round of GATT world trade talks that were a feature of the past two meetings

"The round is at such a serious stage that we're not interested in scoring debating points," a US official said — Sapa-Reuter.

Little optimism for jobless Europeans

B/Day 19/5/92

(23)

PARIS — The pace of economic growth would pick up this year and next but it would not be enough to shorten Europe's dole queues, the Organisation for Economic Co-operation and Development (OECD) said yesterday.

In a series of forecasts released to coincide with the start of its two-day annual ministerial meeting, the think-tank of 24 industrial nations said output in the OECD area was likely to expand by 1,8% this year and by 3% in 1993.

That would be an improvement on 1991's sluggish growth rate of 1,1% and should trim overall OECD unemployment to 7,3% of the work force in 1993 from 7,5% this year

But in Europe, the outlook for long-term unemployment is bleak

The jobless rate in Europe is projected to jump from 8,7% in 1991 to 9,3% this year and to stay at that level on average in 1993 The OECD is even forecasting a deterioration to 9,4% in the first half of next year.

Economy and trade ministers will make the fight against unemployment the centrepiece of this week's get-together.

But preparatory meetings of top officials have yielded a consensus that little can be done in the short term to lower interest rates or boost public spending to create more jobs.

US and Japanese interest rates are already low, he noted, while the cost of money is being kept high throughout Europe by the German central bank's determination to crush inflationary pressures unleashed by unification.

Germany's partners in the European monetary system have been pleading for relief, but the OECD official expressed understanding for Germany's tough anti-inflationary stance

Although they had imported high interest rates from Germany, European countries had also benefited from unification by stepping up exports to Germany.

Being in the same boat has drawbacks as well as advantages," a senior OECD official said

In the absence of ready short-term solutions, the ministers are expected to concentrate on how to overcome deep-seated obstacles to job creation such as poor education and training.

Other so-called structural barriers to stronger growth, ranging from stalled world trade talks to high farm and industrial subsidies, will also be debated

Perhaps because major nations have decided on a low-key agenda, a number of senior ministers will be absent this year.

Other highlights of the OECD's forecasts are

- Growth in the US is likely to accelerate to 3,6% next year from 2,1% in 1992;
- Japan, under pressure from its partners to boost its economy, will grow by no more than 1,8% this year after 4,5% in 1991;
- Inflation in the OECD area is likely to fall to 3,5% this year from 4,1% in 1991 and to ease further next year to 3,2%,
- Inflation in western Germany is probably peaking. It will average 4,5% this year, after 4,6% in 1991, and fall back to 3,8% in 1993 — Reuter

World Bank aid for Africa hurts those it would rather help

BDay 29/5/92. 231

BEN TUROK

SO the new broom at the head of the World Bank is promising to help sweep away poverty in Africa ("World Bank chief's pledge to reduce poverty", Business Day, May 22) Indeed, he invites us to judge the bank's performance by the demanding criterion that its lending will lead to "sustainable poverty reduction"

This is a tough commitment since all the trends of the past decade have been in the reverse direction, increasing poverty amid serious economic malfunction. What are the chances of reversing the trend?

First, we need a reminder that, although there is a welcome emphasis in Lewis Preston's statements, his predecessor Barber Conable was also not short on pro-poor declarations In the authoritative report issued by the Bank of Africa in 1989, From Crisis to Sustainable Development — A Long-term Perspective Study, Conable urged "special measures to alleviate poverty and protect the vulnerable empowering ordinary people, especially women .. and a more bottom-up, less top-down approach to programme design rather than the imposition of blueprints"

Yet the record in Africa since 1989 is no better than in the previous decade, and the condition of the poor probably worse Why?

First, Africa's debt This now stands at $270bn with an annual debt servicing requirement of $25,3bn — a massive drain on Africa's export revenues The IMF and World Bank made a $4,7bn profit from Africa between 1986 and 1990 — much of this in loan repayments

The bleeding of Africa continues In 1990 there was a net repayment to the IMF from Africa of 400-million Special Drawing Rights (or SDR, the reserve currency the IMF uses in settling international transactions and based on a basket on currencies) Between 1983 and 1990 Africa has paid back $180bn in interest repayments Will the World Bank and its sister institution the IMF cancel Africa's "crushing debt burden" (the IMF's own words) in order to achieve poverty reduction?

Second, there is the matter of Structural Adjustment Programmes (SAP) which are imposed by the IMF before lending These programmes entail devaluation, cuts in government spending, removal of price controls including those on basic necessities for the poor, and so on Does the World Bank now intend to dissociate itself from these measures? If not, how can there be any significant poverty alleviation? The SAP is designed specifically to serve as a harsh medicine

In the latest issue of the IMF and World Bank's quarterly publication, IMF head Jean-Michel Camdessus says "Adjustment is an extremely difficult process many countries continue to be buffeted by external shocks, so it is not surprising that some of these efforts were not as successful as had been hoped."

The solution he offers is that since "vulnerable groups suffer during adjustment in the short run we try to identify these groups and target short-term subsidies, for example food supplies" Fine, but the problem is that when the whole country is going through the pains of adjustment, the poor are more likely to suffer than the rest

This has certainly been the case in Ghana, the country in Africa most favoured by the IMF It received $4bn in loans since 1983 only to find, in the words of its finance minister, that the benefits had yet to be seen in improved living standards Indeed, internal investment had not increased either, indicating that the business sector had yet to be convinced that the SAP was a feasible programme of recovery

Doubts about SAPs were earlier expressed by no less than the head of the World Bank for Africa, Edward Jaycox, writing in Africa Update, a World Bank bulletin published in 1989 "Neither the World Bank nor anyone else really has all the answers on what an effective adjustment programme should look like

PRESTON

(and) it is very hard to predict the social impact of a given programme in advance it is incredible how little is known about where and how to manage the social side"

Quite. So why have the bank and the IMF persisted with SAPs, with their resulting increasing poverty? Some argue that it is easy to criticise the IMF and the bank, but Africa has no other options

Well, there are alternatives, as the UN Economic Commission for Africa (ECA) points out

First, before undertaking any further experiments, the IMF and the bank must be pressed to cancel Africa's debts to them and to urge the cancellation of official bilateral debt Without that, their claims to poverty alleviation cannot be taken seriously

Projected 1990 figures show sub-Saharan Africa's total debt to be $162bn, of which official bilateral debts (that is, between governments, in this case mostly with OECD countries) was $65bn, multilateral (World Bank and IMF) debt $43bn and total private lending $55bn Elimination of the first two categories would eliminate about two-thirds of the region's debt and close to that in servicing obligations

Second, they should be pressed to take action about the prices paid for Africa's export commodities These have fallen by 30% in a decade, making a large contribution to the fall in Africa's GNP to $140bn in 1990 from $200bn in 1980 — a 30% decline in per capita income Import duties imposed on primary commodities by OECD countries are high, depress prices and should be lifted Duties on beneficiated commodities are even higher — which is why Kenya, for example, does not have an industry making instant coffee

The OECD governments are interfering with the free market and constraining the free flow of commodities which could help Africa to reduce its burden

Another major element in Africa's recovery is a political and economic restructuring Essentially, we need to see that the present wave of democratisation leads to the curbing of capital flight by the elites, severe pruning of imports, especially luxury items, and massive cuts in military and police spending

The tendency to bureaucratic tyranny in Africa is extremely costly though, one has to say, the tendency has been reinforced by the harsh measures required by the IMF The surge towards democracy must therefore be associated with demands for drastic cuts in government spending and the freeing of resources to stimulate production, not so much for export but for internal consumption

Also, since many countries are too small to be anywhere near self sufficient, regional co-operation is a must, and not simply in trade but in joint ventures, maximising the comparative advantage of climate and location of each

Finally, Africa must take much more seriously than before the notion of bottom-up development involving popular participation in projects on the basis of common decision-making Neither the World Bank nor any other external agency can democratise economic life in Africa, it has to come from within Fortunately, this understanding is taking root, and it holds much promise It reflects the main point of this article — Africa cannot find relief from poverty in the declarations of the World Bank, it has to stand on its own feet

☐ Turok is director of the Institute for African Alternatives.

World recovery on track, says organisation's report

BDay 26/6/92 (231)

PARIS — A recovery in the world economy was finally taking hold after several false dawns, but many risks remained and the pick-up would be too sluggish to make much of a dent in stubbornly high unemployment, the Organisation for Economic Co-operation and Development (OECD) said yesterday

The 24-nation OECD, which has jumped the gun more than once in heralding an end to the global slowdown, said doubts about Japan had grown and Germany's imbalances were greater than expected

Nevertheless, the think-tank's half-yearly Economic Outlook said the forces necessary to bring about a recovery were beginning to be felt, especially in the US

Positive indicators of the US economic situation were now more numerous and confidence in a recovery was spreading, which could alleviate the wait-and-see climate prevailing in the rest of the area, it said

After growth of just 1% in 1991, output in the OECD area accelerated to a 1,6% rate in the first half of 1992 and should pick up further to 2,8% in the second half and 3,1% in the first six months of 1993

The OECD was similarly upbeat in July 1991, announcing that "conditions appear favourable for a resumption of growth"

It attributed the delay in the recovery to an erosion of business confidence in Japan as the speculative bubble of the '80s burst, a further rise in German interest rates to crush inflation and a deeper than expected recession in Britain

Businesses and consumers also had to work off heavy debts

Although the outlook was brightening, the OECD warned of "a number of risks, concerns and uncertainties"

Germany would need to keep interest rates high Firms and consumers in several countries were still burdened by debt

The impasse in world trade talks was contributing to uncertainty Fear of unemployment was also sapping confidence

The OECD area's jobless rate is set to rise to 7,5% in 1992, from 7,1% last year, before easing to 7,3% in 1993

The OECD's new chief economist Kumiharu Shigehara told a news conference that unemployment would remain "intolerably high" in most OECD member states

Although prices in many countries were rising at the slowest pace in 20 years, inflation remained a risk and policy makers could not afford to drop their guard, he said

In North America, central banks had to be alert in case growth and inflation picked up briskly, the Outlook said German monetary policy, too, had to continue to bear down on inflation

Even in Japan, where inflationary pressures were ebbing, sizeable further cuts in interest rates were unlikely

Because many governments were already running big budget deficits, the OECD also saw little leeway for more relaxed fiscal policies if the recovery faltered again

At first sight, only Japan appeared to have room to boost spending

Among other points made in the OECD report were

- Economic strains were growing in Eastern Europe, testing the will of governments to stick to the path of reform,
- The slide in Tokyo shares was dampening Japan's economy but should not have much impact on the rest of the world, and
- Many members of the EC would struggle to meet the conditions set for joining a single EC currency — Sapa-Reuter

Asia's 'Little Dragons' defy sluggish trends

PARIS — Sluggish growth in the world's leading economies has not held back Asia's "Little Dragons", which will record average growth rates of 7% in both 1992 and 1993, the OECD said

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The "Little Dragons", or the Dynamic ~~Asian~~ Economies as the OECD calls them officially, are South Korea, Taiwan, Hong Kong, Singapore, Thailand and Malaysia

BDay 26/6/92

Growth averaged 7,5% in these countries for the third successive year in 1991, powered by buoyant domestic demand and soaring exports

"Growth in the dynamic Asian economies continues largely unaffected by the sluggish performance of the OECD area. The China-Hong Kong-Taiwan triangle is emerging as a major growth area," the OECD said.

But this performance was not without problems in some of the six countries.

South Korean consumer prices rose 9,7% in 1991 after 8,6% inflation in 1990, and inflation of 9% is likely this year. Heavy imports of investment goods led to a record current account deficit in dollar terms in 1991 of $8,8bn.

Monetary policy was tightened as a result and 1992 budget plans aimed to hold spending increases to 6%.

Malaysia posted a trade deficit in 1991 for the first time since 1982, and the current account shortfall reached $4,4bn. Inward investment fell sharply, but was adequate to fund the gap.

In Hong Kong, inflation touched 14% at one point in 1991 before slipping back to 10% at the end of the year

The OECD said exports grew almost 17% in volume terms in 1991.

A major increase in trade with China helped boost Taiwan exports by 13% in value terms in 1991

The OECD noted a labour shortage in Hong Kong and Singapore, encouraging some firms in the latter to shift production elsewhere — Sapa-Reuter

Economic austerity schemes unjustly blamed for poverty

BIDAY 20/7/92 231

FRANCES WILLIAMS in Geneva

ECONOMIC adjustment measures in developing countries, especially under IMF-inspired programmes, are often blamed for increasing poverty, widening inequality and holding back development

A study by the development centre of the Paris-based Organisation for Economic Co-operation and Development (OECD) suggests this reputation may be undeserved Claims that adjustment is a cruel punishment visited on the poor by unfeeling international organisations and greedy bankers miss the point, say Francois Bourguignon and Christian Morrisson, authors of Adjustment and Equity in Developing countries A New Approach (OECD Publications)

Basing their arguments on case studies in seven countries, which included using economic models to test alternative strategies, the authors conclude that adjustment does not necessarily dampen growth or increase poverty

Obviously much depends on the severity of the economic crisis But different measures have different social impacts This is true both for stabilisation policies that cut domestic demand to curb inflation and rein in trade and budget deficits, and for longer-term structural adjustments to improve supply by making the economy more responsive to market signals

Political opposition to adjustment that delays government action worsens the social costs, the study argues The costs of adjusting are lower than the costs of not adjusting, and adjusting before the crisis is better than waiting until the crunch comes and the country can no longer meet its debts or finance its outgoings

The study is interesting partly because it claims to break analytical ground in disentangling and simulating the effects of different adjustment policies, and partly because it is the work of two academics with no particular axe to grind Thus, while the authors see adjustment as essential, they do not necessarily endorse IMF prescriptions

Of the seven countries looked at in detail, Chile, the Ivory Coast, Ecuador and Morocco instituted programmes under IMF supervision Malaysia and Indonesia did so on their own initiative before running into trouble (and so had more choice of policy measures) Ghana is cited as a prime example of an economy ruined by refusal to adjust when crisis hit in the '70s

In Malaysia and Indonesia, where the problems and so the stabilisation measures were less severe, living standards rose during adjustment Poverty also declined in Ghana during adjustment, which got under way in the '80s

In the other countries, adjustments were accompanied by stable or higher farm incomes and employment but urban poverty increased In Chile, where the urban poor predominate, and in Ecuador where peasants rely heavily on non-farm sources of income, poverty rose.

The study attributes these differences to the timing of measures and to the policy mix chosen. Some governments, including Ghana's, ran programmes designed to protect the poor Ecuador made no provision and Chile helped only the poorest.

Adjusting before the crisis meant less drastic cuts in demand, including cuts in public spending. Early adjustment also ensured a continuing flow of foreign capital, bolstering private investment necessary for future growth and cushioning public spending on social services and essential infrastructure

The economic models used by the study also indicate for the first time how countries might have fared without adjustment. The answer is badly. The authors say critics tend to focus on the costs of adjustments (often confusing them with the costs of the crisis) and ignore the costs of non-adjustment

In Ghana's case, non-adjustment meant drying up of funds from abroad and a reduction in imports to the low levels of export earnings This produced falling incomes, output, trade and a "disastrous increase" in poverty Simulations for other economies confirm that this path leds to socially costly "self-centred underdevelopment"

Looking at stabilisation policies the authors suggest that devaluation seems to be a more efficient and equitable way of reducing a trade deficit than cutting public spending or running tight money policies It slows economic activity less and because it usually favours the poorer rural sector, it reduces inequality and poverty

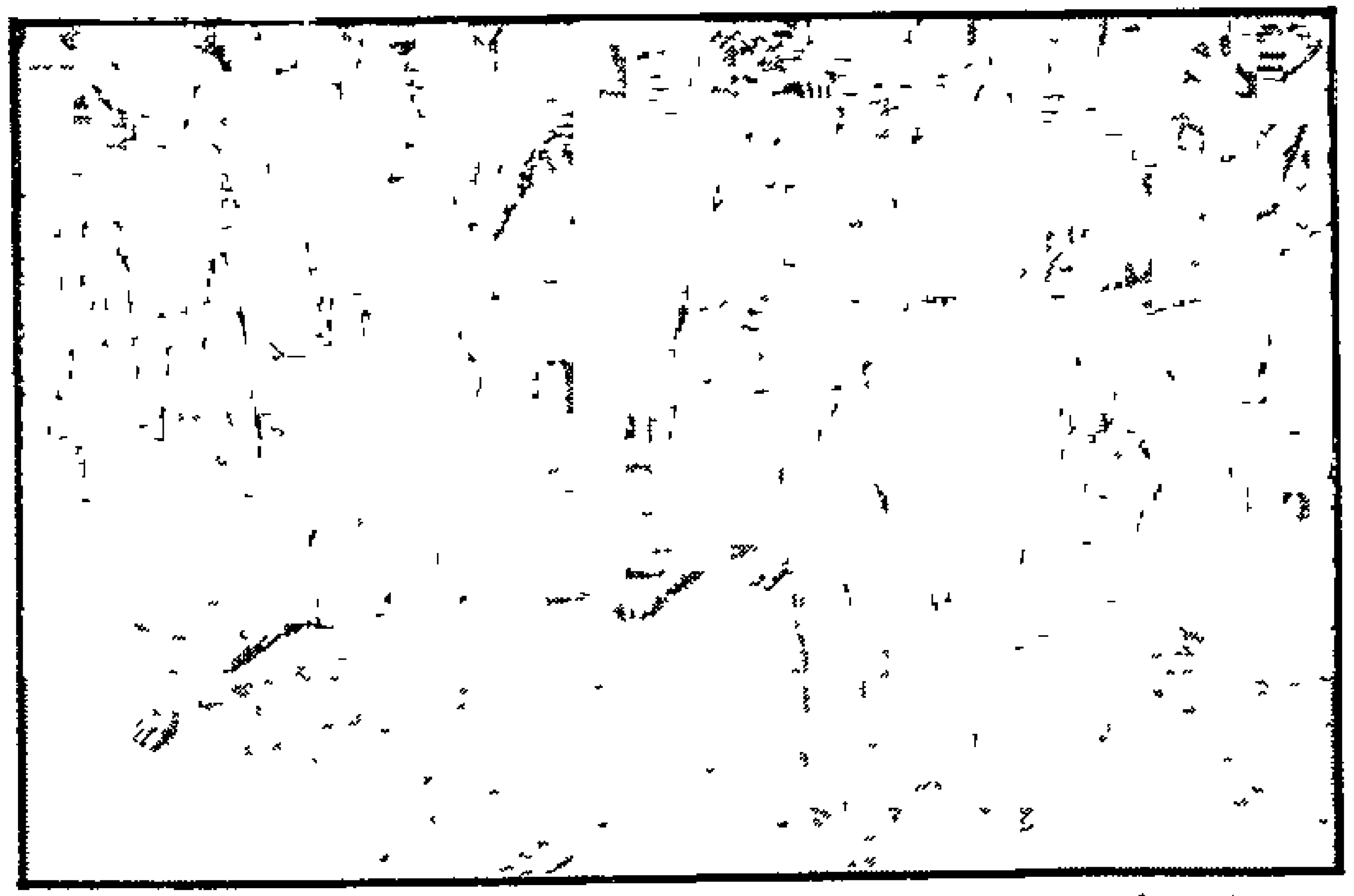
The authors conclude that to minimise social costs the best stabilisation programmes combine devalution, a restrictive monetary policy to keep the lid on inflation (which hurts the poor) and a moderate reduction in public service wages (if they are higher than elsewhere) The worst involve raising the prices of basic goods and laying off public sector workers — recipes for social unrest, but often included in IMF-approved programmes

Cuts in capital spending, if necessary, should not apply to rural investment which helps reduce inequality and poverty, the study says Similarly, cuts in social spending and subsidies should avoid measures that impose disproportionate social costs to the sums saved For instance making the poor pay for medicines effectively deprives them of medical care, even when treatment is free

The study in general praises structural adjustments which it says tend to have postive social effects For instance, price liberalisation usually favours the rural over the urban sector Moreover, increased economic flexibility reduces the costs of stabilisation

However, the authors, again disputing conventional IMF and World Bank wisdom, warn countries not to take drastic measures, like privatisation, to reorganise state enterprises during an austerity programme If attempted, there should be compensation programmes for the unemployed, as in Ghana, and effective longer-term measures to retrain redundant workers and help them find alternative employment

— Financial Times



Economic adjustment programmes for developing nations do not necessarily result in poverty, says a new study

SPOT DESK

Antipodean smirks at the Bureau de Change

BDAY 29/7/92

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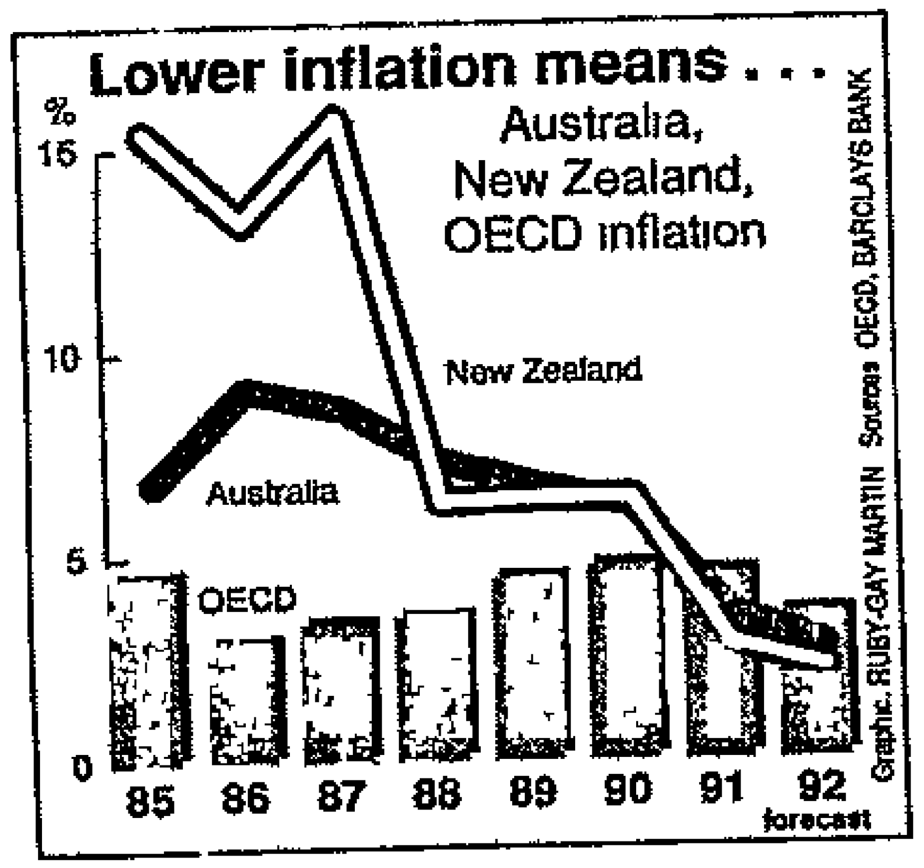
SIMON WILLSON

EARLY today yet another excellent Australian inflation figure will have been released New Zealand's inflation rate is already the lowest in the industrialised world and Australia's will, by now, be close behind

This conjunction of events is particularly galling for South Africans For it comes just as squads of insufferably self-satisfied Antipodean rugby players are arriving on these shores These musclebound *arrivistes* can now not only smirk about being World Cup rugby cham pions (Australia) and Cup semifinalists (New Zealand), but they also have impossibly rosy economic prospects at home

What is more, the currencies of these two Australasian extremities are about to reap the benefits of their home countries' discipline and abstemiousness From being slightly comical and vaguely exotic high-yield tokens good for a quick punt five years ago, the Australian and New Zealand dollars are poised to become respectable members of the foreign exchange market's wide and influential yen bloc This membership carries with it numerous *ex officio* benefits based on the substantial investment flows out of Japan and into decent and promising ventures all around the Pacific Rim And all because the Aussies and the Kiwis learned to tame inflation

The contrast with the SA experience could hardly be greater Like SA, Australia and New Zealand have gone through rigorous and cathartic recessions in an attempt to beat inflation Like SA, these two resource-dependent economies have had to accept historic peaks in unemployment as a means to head off over-ambitious wage demands and thus reduce inflationary expectations Unlike SA, Australia and New Zealand have succeeded

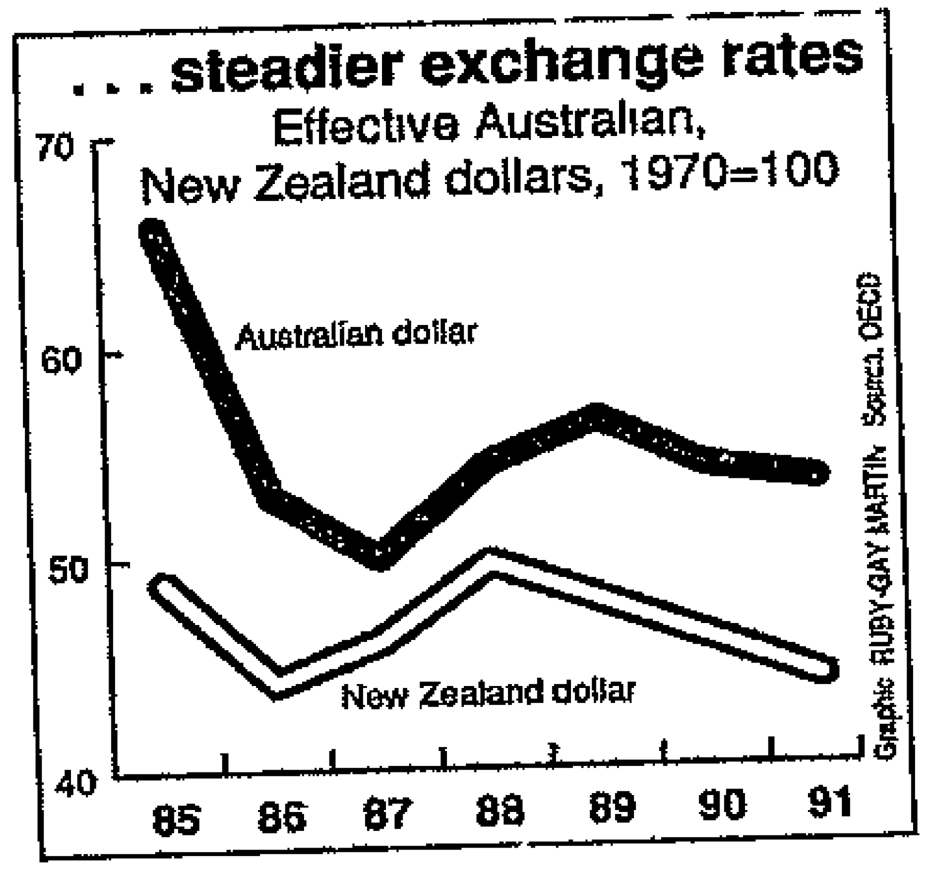


As the first chart shows, after being the private jokes of the industrialised West only seven years ago with their basketball-score inflation rates, the nations for whom the All Blacks and Wallabies are roving ambassadors have stilled the sniggering The two countries' inflation records are now substantially better than the average achieved by the OECD, which groups together the 24 richest countries on earth

This morning's release of the Australian inflation rate for the second quarter is likely, at worst, to have registered zero — that is, no increase in average consumer prices at all from the end of March to the end of June At best, the quarter-on-quarter inflation readout could have been negative — prices could have fallen over the 90-day period This quarterly inflation rate puts Australian year-on-year inflation at 1,3%-1,5%

New Zealand's record is even better Notwithstanding the fact that the Kiwis have a smaller economy and have endured a longer recession since the end of the '80s, New Zealand officially had the OECD's lowest inflation rate in the year to March at 0,8%, and will probably hold on to the title when all the second-quarter figures are in

The benefits to the ordinary Antipodean citizen of this exemplary inflation performance are not so much in the more stable shop shelf prices, although this undoubtedly helps The real, longer-term spin-offs are visible in the effect restrained inflation has on the currency that these Australasians carry in their pockets



As the second chart shows, the steep falls of the mid-'80s in the effective values of the Australian and New Zealand dollars have been arrested The two currencies no longer need to depreciate hand over fist to maintain the competitiveness of their countries' exports Indeed, the inflation rate in each country is now below Japan's 2%, and the yen is the Deutschmark of the Pacific Rim — the key currency against which all others in the region are measured

This means the effective Australian and New Zealand dollars can be expected to flatten out and then even appreciate against those notoriously assertive 'Little Dragon" currencies of the Pacific Rim If a currency can hold its purchasing power against the likes of the yen, the Taiwanese and Hong Kong dollars and the South Korean won, then it is sitting pretty in today's foreign exchange market

A currency at home in the Pacific Rim is certainly a force in sub-Saharan Africa That explains the confident expressions on the faces of those Antipodean rugby teams arriving at Jan Smuts Airport the players are heading across the arrivals hall to the Bureau de Change to buy rands Lots of them

LETTERS

on Saturday, but it was relatively light and scattered At least four civilians, including a six-year-old boy, were killed by shelling, according to reports on Croatian television. -- Sapa-Reuter.

'Reformers will get aid'

PARIS — The bulk of aid to poor countries in the next decade will go to those attempting democratic, free-market reforms, the Organisation for Economic Co-operation and Development (OECD) says in a report.

Both government and private donors would become more discriminating in their foreign aid, the Paris-based OECD said in its annual survey on debt and financing for poor countries. (231)

"To a much greater extent than in the last decade, resource flows are likely to go to those countries making progress on the economic and political fronts," the report said. B/DAY 14/9/92.

The OECD groups the world's 24 largest industrialised democracies.

The report said that with development funds becoming ever tighter in wealthy countries, aid recipients would be scrutinised closely to see if they merited donations or refinancing.

Governments would remain the chief source of aid, it said, but were not likely to increase expenditures much. Private donors would become more important.

The survey said net aid from its members last year totalled $137,5bn, almost the same as in 1990, but represented a 3% decline after adjustment for inflation and exchange rate fluctuations. — Sapa-AP.

Developing world's growth thwarted

B|DAY 21|9|92

231

SIMON WILLSON

WASHINGTON — Income per head in sub-Saharan African countries will fall again this year for the third year in a row, a new World Bank forecast says.

The Bank also predicts 1992 will be a third successive year of falling per capita GDP for the world's developing countries as a whole This would be the developing world's longest fall in living standards since World War Two.

Presenting the forecast at the weekend, bank chief economist Larry Summers acknowledged that special factors had thwarted the efforts of some sub-Saharan economies to adapt and restructure

"Growth in southern Africa continues to lag because the drought in parts of the region has offset the beneficial effects of policy reforms in many countries"

After falling by 1,7% in 1990 and by 1,4% last year, income per head in sub-Saharan African countries is forecast to decline by 0,4% this year before recovering to 0,5% next year

Income per head in all developing countries is expected to fall by 1,4% this year after declines of 0,5% in 1990 and 1,7% last year The bank forecasts a recovery to 1,7% next year

Summers isolated three principal ways in industrial economies affected growth in the developing world The most important was that developing countries' growth was directly associated with their export performance to industrialised markets

A one percentage point increase in average OECD growth would, according to a new World Bank study, mean an extra $20bn a year in export revenues for the developing world

The study indicated a one-point increase in OECD growth would boost sub-Saharan Africa's total exports by $1,5bn a year, and would raise region's exports to the EC by $700m, to North America by $500m and to the rest of the OECD by $200m

A second major link between growth in the industrial and developing worlds was through industrialised countries' trade barriers, the Bank found

A 50% reduction in trade barriers among major OECD countries, of the type sought by the GATT, would boost developing countries' exports to the OECD by $50bn over time More than half of such an increase would be accounted for by higher textile exports to industrial countries

The third way in which the developing world was affected by industrialised economies was in the behaviour of commodity prices, Summers said Higher growth and lower real insterest rates in the industrial world meant stronger commodity prices.

The bank found average commodity prices were set to fall this year for the third consecutive year, and would have fallen by a total of nearly 25% in the '89-'92 period Any resumption in global growth would lead to a strengthening in commodity prices

NEVER FEAR: *Its role in our future revenue harvest likely to be small*

Wealth tax need not be frightening

STAR 3/10/92 231

THE very words 'wealth tax' make local investors twitch, but an expert argues they need not be that anxious, reports LEIGH HASSALL.

WEALTH taxes will have a role to play in future fiscal policy, and while there is some scope to increase these taxes, their role will remain a small one, says Marius van Blerck, chairman of the SA Fiscal Think Tank.

His comments are likely to soothe the frayed nerves of local investors, mainly white, who jump every time the words "wealth taxes" are used.

The term "wealth tax" generally includes the following categories

Gifts, death

Annual net wealth tax, and capital transfer taxes such as gift tax and death tax. South Africa already has the latter two taxes.

Internationally, in the highly developed OECD countries, there is a trend away from wealth taxes because their collection has not proved to be cost-efficient.

Van Blerck cites the example where in 1965 property tax (which includes wealth tax and taxes on property transfers) in OECD countries averaged 2 percent of gross domestic product while this figure had dropped to 1,8 percent by 1985.

He says a similar trend has developed in South Africa. In 1975 property taxes at a general government level amounted to about 1,6 percent of GDP and by 1985 this had dropped to 1,3 percent.

Van Blerck notes that while South Africa is following the trend of reduced reliance on property taxes, South Africa levies less property tax than the OECD average. However, at a central government level, South Africa levies more property tax than the non-OECD countries.

Thus, as South Africa's economy continues to develop, there will be some capacity to increase the contribution of property taxes

Does the decline in the importance of property taxes mean that they should be abandoned? The answer is no, says Van Blerck, because, with regard to the existing wealth taxes, there already exists an infrastructure to collect the tax. These taxes are then reasonably efficient as there is little extra collection cost

However, this does not hold true with the introduction of new wealth taxes, particularly annual net-wealth taxes Such taxes have been found to be inefficient in that they require excessive administration costs and generate disproportionately negative perceptions in relation to the revenue they subsequently generate

Declining

Van Blerck notes that while property taxes are generally declining in importance, it is clear that the more highly developed economies are more successful in using these taxes as a source of revenue than their less developed counterparts.

Accordingly, as the South African economy becomes more developed it will be in a better position to extract property taxes.

GATT: hard political decisions are needed

B/DAY 13/10/92.

(231)

GENEVA — Six years ago in the Uruguayan resort of Punta del Este, ministers from nearly 100 countries agreed to launch a most ambitious effort to liberalise world trade.

When they convened, market economies were booming in Europe, North America and Japan and new players were emerging in Asia.

Now economists say a new GATT could provide the boost needed to end a prolonged global recession.

US and EC trade negotiators met in Brussels on Sunday and yesterday to resolve bitter differences over farm subsidies blocking a GATT deal

The Paris-based OECD says a GATT accord would pump almost $200bn a year into the world economy as freer trade stimulates production to meet mounting demand from a richer world But hard political decisions must be made by key leaders in the face of fierce opposition from EC and US farm lobbies

The September 1986 Punta del Este declaration setting in motion the Uruguay round of talks included sectors such as farm produce, service industries and the trading of intellectual property.

This was largely a trade-off providing developing countries seeking wider and more stable markets for their agricultural produce with the incentive to open up to services mainly based in the developed states.

In December 1988, trade ministers meeting in Montreal set an average target of 30% for tariff reductions. Difficulties on agriculture already loomed as a potential barrier to accord. The EC, with a broad range of farm support, firmly resisted a US proposal to end all state agriculture subsidies within 10 years of the round's conclusion. A year later, what was to have been a triumphant finale to the round ended in near disaster as EC and US ministers found themselves still far apart on farm support.

GATT director-general Arthur Dunkel put the talks back on track, cutting the original 15 negotiating groups to seven. G-7 leaders at a summit in London in July pledged support for an agreement by year-end. But by December 1991 draft texts were not written

Dunkel's version of a final deal, including proposals for compromise on agriculture, was accepted unenthusiastically by Washington and rejected by the EC.

Further months of fruitless bilateral talks followed, and again a G-7 summit called for agreement by the end of 1992 But political pressures on key governments were mounting fast. — Sapa-Reuter

Barlan PT

Protest teachers in court

Staff Reporter ARG 14/10/92 (231)

SEVEN teachers of the South African Democratic Teachers' Union have appeared briefly in the Cape Town Magistrate's Court on a charge of holding an illegal demonstration

The teachers were not asked to plead and the hearing was postponed to November 23

The appearance follows a placard demonstration outside the offices of the Department of Education and Culture

The seven who appeared are Muavia Gallie, 30, Kay Bailey, 26, Anthony Dietrich, 30, Stanley Shuma, 30, Theodore Combrinck, 25, Pearl Whittle, 25 and Granville Whittle

SA seeks new trade status

(231)

BILLY PADDOCK

GOVERNMENT was negotiating with its trading partners and blocs such as the EC to have SA reclassified as a "developing" country, a status which could bring various economic and developmental benefits, Finance Minister Derek Keys said yesterday.

Speaking at a news briefing after meeting German Economic Co-operation Minister Carl-Dieter Spranger, Keys said the reclassification was expected to be completed by February.

Acceptance of SA as a developing country would make it eligible for assistance from the Organisation for Economic Co-operation and Development (OECD). In addition, SA would also be able to obtain political risk guarantees from the Multi-Lateral Investment Guarantee Agency

"It would affect our relationship with foreign investors from any country who wanted to be assured they were covered against the risks of nationalisation, inability to remit currency and political unrest," Keys said.

He added that capital flight had been "nil" during the first quarter of this year, but during the second quarter it had grown drastically to R2bn when Codesa 2 broke down and mass action began.

It is understood government was also trying to convince development agencies and their member countries that SA qualified for "developing country" status.

In a recent document, Trade and Industry director-general Stef Naude said that the successful conclusion of applications to the agencies would depend entirely on the willingness of the developed trading partners to recognise the status granted

However, once SA was given developing status by the OECD, the World Bank and GATT there would be little opposition from the developed world.

Spranger said if SA were classified as a developing country, Germany would have the task of ensuring the country was not left alone with its problems

Keys told visiting German journalists the process of disinvestment had stopped but the process of investment had not yet started.

BD 2/10/92

Signs of US economic recovery appear

BDAY 2/12/92. (231)

PARIS — Economic recovery has begun in the US and will become apparent next year in the rest of the developed world, says OECD secretary-general Jean-Claude Paye

Addressing a French association of financial journalists, Paye said he expected consumer and business confidence to provide the catalyst for growth in coming months

"The American recovery is in the process of showing itself, it's the swallow before the summer," he said All the same, he did not expect any "roaring recovery" in the 24-nation Organisation for Economic Co-operation and Development area

Figures published last week revised US third quarter GDP growth up to 3,9% from 2,7%

Paye said quarterly data should be taken with some scepticism, especially when trying to make longer-term forecasts, but added "There's no doubt that the situation is in the process of getting better"

Paye said Germany was not falling into recession and he expected lower interest rates to aid recovery soon

"Probably, inflationary pressures there ought to subside in the next few months and open up the prospect of lower interest rates in the next few months," he said

One reason for his optimisim was that German officials thought employers and unions would negotiate salary increases compatible with price stability in future years

High German interest rates are often blamed for keeping rates up elsewhere and therefore holding back European growth

Paye said the economic situation throughout the OECD area remained unsure, but conditions for recovery were in place

He conceded that people had heard this before from the OECD and other eminent forecasters, and he had instructed his economists to address the question of why they had been so "obstinately mistaken" over the past 18 months

The economic consequences of financial market deregulation was something they had not fully accounted for and confidence was not easily factored into computer models

The OECD's next formal crack at predicting the recovery will be in its half-yearly economic outlook, due out on December 16 — Sapa-Reuter

Strong signs of recovery in US

LONDON — Further indications of gathering momentum in the US economy emerged as the Organisation for Economic Cooperation and Development predicted the incipient US recovery would spread to the rest of the industrial world next year.

A batch of US economic indicators suggested that signs of economic revival in the third quarter have continued.

There was a decisive increase in the index of manufacturing performance issued by the National Association of Purchasing Managers.

The NAPM November survey showed the index rising to 55 percent from 50,6 percent in October, firmly above the point at which a manufacturing recovery is projected.

The rise in the index was led by production and new orders, which were the highest for six months. Even employment, which remained below the 50 percent mark at which recovery is at risk, was the highest since last May

A similar survey for the Detroit area showed an even more marked recovery in November, regarded as a key month in signalling economic performance in the coming year.

The Detroit Purchasing Management Index of business conditions bounded ahead to 62,1 percent, from 52,9 per cent in October and just 43,2 percent in November last year.

The index was pulled higher by better conditions in the auto market and other parts of the local economy

Construction orders in the US as a whole jumped a much-stronger-than-expected one percent in October while September orders were revised upwards to show a gain of 1,8 percent.

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The US index of leading indicators, a rough guide to short- term future economic trends, rose 0,4 percent in October, after falling in three of the four previous months

The news coincided with a prediction by Jean Claude Paye, OECD secretary-general, that "the US recovery is in the process of showing itself It's the swallow before the summer."

Foreshadowing the forthcoming OECD Economic Outlook, out on December 16, Paye said growth in the US should improve business and consumer confidence elsewhere in the 24 industrial country members of the OECD, although he was careful to rule out a "roaring recovery".

Getting better

The OECD official, who was speaking before the release of the latest US statistics, said the sharp upwards revision in third quarter US gross domestic product to 3,9 percent might not prove an entirely reliable guide to future economic trends But he added "There is no doubt that the situation is getting better."

As a result, despite the uncertain economic outlook throughout the OECD area, recovery could now be confidently predicted — The Independent.

IMF set to cut back its 1993 growth forecasts

LITTLE ROCK — The IMF was set to slash its forecast of world economic growth next year as hopes for solid recoveries in Europe and Japan faded, international monetary sources said on Monday (231)

The sources said currency turmoil and high interest rates were holding back growth in Europe, while Japan's economy was hobbled by declining corporate investment and growing bad debts at Japanese banks

The only bright spot in the world economic outlook was the US, where the long-awaited expansion finally seemed to be taking hold

The new IMF forecast was expected to be discussed by the IMF board later this month.

In September the IMF predicted growth in the industrial world would rise to 2,9% in 1993 from 1,7% this year Since then the outlook had turned more gloomy

The Organisation for Economic Cooperation and Development (OECD), last month lowered its forecast for growth in the industrial world next year from 3% to 2,1%. The IMF's forecasts are usually in line with those of the OECD

The IMF normally only makes a full-scale forecast of the world economy twice a year to coincide with its semi-annual meetings

But it has decided to update its forecast now to take account of the currency turmoil in Europe that took hold as its last outlook was released in September

The Fund then forecast economic growth in the EC would pick up to 2,3% next year Sources said growth in the EC next year now looked more likely to be only about 1% to 1,5%

The picture is not much brighter in Japan The IMF predicted in September the Japanese economy would expand by 3,8% next year, but growth of around 2,5% — in line with the latest OECD forecast — now seems more likely

Only in the US is growth likely to be close to 3% in 1993 — Sapa-Reuter

BUSINESS

IMF now gloomier on world growth prospects

STAR 9/12/92

231

WASHINGTON — The International Monetary Fund is set to slash its forecast of world economic growth next year as hopes for solid recoveries in Europe and Japan fade, international monetary sources say.

The sources say that currency turmoil and high interest rates are holding back growth in Europe, while Japan's economy is hobbled by declining corporate investment and growing bad debts at Japanese banks.

The only bright spot in the world economic outlook is the United States, where the long-awaited expansion finally seems to be taking hold

The new IMF forecast, which is still being worked on by fund economists, is expected to be discussed by the international organisation's board later this month.

Monetary sources say they expect the IMF to try to avoid being overly pessimistic about the outlook out of fear that might further undermine global confidence

In September the IMF predicted growth in the industrial world would rise to 2,9 percent in 1993 from 1,7 percent this year

Since then the outlook has turned more gloomy, as speculative attacks by currency speculators have left the European Monetary System in shreds and Japan's economy has turned in its weakest performance in more than three years

The Organisation for Economic Cooperation and Development (OECD), the Paris-based think-tank for rich countries, last month lowered its forecast for growth in the industrial world next year from three percent to 2,1 percent The IMF's forecasts are usually about in line with those of the OECD

The IMF normally makes a full-scale forecast of the world econony only twice a year, in April and September, to coincide with its semi-annual meetings

But it has decided to update its forecast at this time to take account of the currency turmoil in Europe that began to take hold just as its last outlook was released in September

At that time the fund forecast economic growth in the European Community would pick up to 2,3 percent next year

Monetary sources say growth in the EC next year now looks more likely to be only about one to 1,5 percent

That is what the 12-nation EC itself expects and compares with growth this year of as low as 1,1 percent

Europe's economy is being dragged down by continuing high interest rates in Germany which has fallen into recession

The Bundesbank, Germany's independent central bank, is keeping rates high to combat inflation brought on by a huge increase in the budget deficit to pay for the cost of the unification of east and west Germany

The picture is not much brighter in Japan The IMF predicted in September the Japanese economy would expand by 3,8 percent next year, but growth of around 2,5 percent — in line with the latest OECD forecast — now seems more likely

Japan's gross national product shrank by 0,4 percent in the third quarter, the first decline in that measure of economy since the second quarter of 1989

Only in the United States is there much grounds for optimism Growth there looks likely to be close to three percent in 1993 – Sapa-Reuter

OECD sees slow recovery in major world economies

STAR 17/12/92 (231)

PARIS — The Organisation for Economic Co-operation and Development (OECD) yesterday predicted a slow recovery in the economies of the world's leading industrialised nations after the slump in growth this year

Following are the main forecasts for the economies of the Group of Seven (G7) leading industrialised nations made by the OECD in its half-year outlook issued yesterday:

United States

Growth will pick up slowly as low interest rates and improving consumer confidence boost spending Gross Domestic Product (GDP) will expand by 2,5 percent in 1993 and three percent in 1994 after 1,75 percent in 1992.

Inflation will fall to two percent, the lowest rate in over 25 years.

Japan

The economic slowdown may have bottomed out, but recovery will be long and slow GDP will grow by 2,3 percent in 1993, rising to only three percent in 1994.

Weak tax revenue and the government's package to stimulate growth are expected to result in a budget deficit in 1992 and 1993

Germany

Growth in the whole of Germany will remain low at one percent in 1993, but may rebound vigorously in 1994 as inflation slows and interest rates fall.

Growth in eastern Germany may reach double-digit rates by 1994. Reducing the budget deficit and wage moderation are crucial for growth.

France

Growth will top the European Community average in 1993, but a rise in GDP of 1,6 percent will not prevent unemployment from rising to 10,9 percent in the second half of the year from 10,4 percent now.

Strong exports fuelled growth early this year, but have since fallen off.

Britain

Recession will end as the economy expands by 1,3 percent next year There are already signs that consumer spending is picking up.

Inflation will rise in the near term after sterling's devaluation, but is expected to recede again, given the slack in the economy. — Sapa-Reuter.

US on track for slow recovery, says OECD

B/Day 17/12/92 (231)

WASHINGTON — The US economy would gain momentum slowly over the next two years as low interest rates and improving consumer confidence lifted spending, the Organisation for Economic Co-operation and Development (OECD) said yesterday.

In its half-yearly economic outlook, the OECD said it expected US GDP to expand about 2,5% in 1993 and 3% in 1994.

"With an improvement in confidence which may just now be getting under way, households should be willing to begin to spend more ..."

US government data showing an improving economy persuaded private economists to adjust estimates for growth next year slightly higher to about 3%.

President-elect Bill Clinton has promised to deliver an economic package that is likely to include greater tax breaks.

But the improving economy will have little effect on the unemployment rate, the OECD says. The jobless rate, now at 7,2%, is expected to fall by only three-quarters of a percentage point in the next two years.

Rising economic activity is unlikely to have much impact on wages and prices. US inflation performance is likely to be the best since the mid-60s, dropping from the current 3% to about 2%.

However, the OECD assumes the Federal Reserve will tighten credit policy.

The report expresses concern about the US budget deficit, saying it will widen again by the middle of the decade.

It says Britain's economy, which has gone through its longest recession since the 1930s, will begin a slow recovery in the first half of next year, expanding 1,3%. The official estimate is 1%.

The OECD has already spotted twitches of improvement, with retail sales and consumer credit figures indicating a revival of consumption.

British economic activity has stabilised since the start of 1992, the report says, but recovery has been held back by interest payments on household debts.

Many Britons went on a borrowing binge in the boom of the late 1980s, only to find that they could not keep up with repayments when the government boosted bank interest rates to 15% for more than a year.

But since the pound left the EC's exchange rate mechanism on September 16, the cost of borrowing has fallen to 7%.

Britain's propensity to import more than it exports remains a problem, the report says.

The government is also borrowing heavily, largely to finance the cost of recession.

The OECD expects the government deficit, excluding privatisation receipts, to rise to about 7,5% of GDP in 1993 but to fall to 6,5% in 1994, the same level as in 1992.

On Japan's economy, the OECD says its slowdown may have bottomed out, but recovery will be slow. GDP will grow 2,3% in 1993, rising to only 3% in 1994. Weak tax revenue and the government's package to stimulate growth are expected to result in a budget deficit in 1992 and 1993.

Germany's economic growth will remain low at 1% in 1993, but may rebound vigorously in 1994 as inflation slows and interest rates fall. Growth in eastern Germany may reach double-digit rates by 1995. Reducing the budget deficit and wage moderation are crucial for growth, the report says. — Sapa-Reuter

B10AJ 21/12/92

OECD price rises steady

CONSUMER price growth was steady in October in the main industrialised countries at the 0,3% rate observed in September, the OECD said in Paris last week Prices for the year rose 3,1%, down from 3,2% Excluding food and energy prices, the underlying inflation rate was 0,4% in October, compared with 0,3% in September

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REPORTS Sapa-Reuter-AFP Business Day Reporter, AP-DJ

WORLD ECONOMIC OUTLOOK

FM 25/12/92

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Light on the fringes

Growth predictions are constantly revised as the world battles stagflation

Such bright lights as there are in prospect for the world economy in 1993 flicker clearest on the fringes, like candles around a stagnant pool — in China, the "tigers" of the Pacific Rim and south-east Asia, India, Argentina and Chile

For the rest, accounting for 80% of global GDP, emergence from the quagmire will continue to be a leaden, uneven lurch, notwithstanding drooping inflation Twelve months ago, the Organisation for Economic Co-operation & Development (OECD) revised downwards its projections for the 24 leading industrial nations and postponed real recovery from 1992 to 1993

In July, it again dampened expectations but chirpily maintained that next year would see the OECD economies lift GDP by 3% Now the December issue of the bi-annual *OECD Economic Outlook* warns of "relatively sombre" short-term prospects for the 24 economies as a whole — and something probably worse in the Commonwealth of Independent States (the ex-USSR)

Growth is projected at a feeble 1,9% (see table), a full third slower than foreseen six months earlier, and instead of falling to 6,5%, unemployment will leap to 8,2% — 34m in total

It will stay close to that level even though the revival once scheduled for 1992 *may* arrive in 1994 — for which the OECD has pencilled in growth of 2,9%

The OECD was also quick to admit it could be wrong again America's unexpected third-quarter bounce "might" presage a return of consumer confidence which could add half a point to US GDP next year raising it by nearly 3% instead of 2,4%

Equally, however, the drab overall outlook for the coming year may be worse OECD forecasters were surprised by the sharp declines in Japanese and German output

The *Economic Outlook* had barely been printed when the leading Munich research institute Ifo warned of a full-blown recession

West Germany's economy will contract by 0,5% in 1993 and while the eastern *laender* will show growth of 8%, the total impact will be zero — not the 1,2% formally posited by the OECD which conceded, after publication, that the out-turn could be only 0,7%

The grim prospect is that next year there could be 3,4m Germans looking for jobs, said the Ifo, but added it would be "wrong to get into a panic now"

Stronger language emanated from IBM, Ford, Volkswagen and Daimler Benz, all of which announced substantial retrenchments in Europe VW, slashing capex by DM3bn, forecast a fall of 20% in its domestic market next year after a slump which started "suddenly and dramatically" at the end of September

IBM had a similar tale to accompany its 12% workforce layoff in Europe "Our European business declined precipitously and unexpectedly since the beginning of October," said IBM chairman John Akers Daimler chairman Edzrad Reuter, presiding over 12 500 car job losses at Mercedes, with more to come in 1993, was explicit "The German economy has burst like a soap bubble"

Accounting for 30% of the EC's GDP, Germany is to Europe what the US is to the world — only more so The pan-European growth rate, historically, is identical to Germany's The portents bode ill for the whole continent as it opens up into the great single market from January 1

Leaving aside the chaos in Russia and the other newly independent ex-Soviet States — where output fell 20%, inflation hit 2 000% in 1992 and the OECD will not even hazard a guess about the future — Europe is the sick man of the international economy

Germany's reunification hangover and the Bundesbank's tight monetary policies to counter inflationary pressures caused mayhem in currency markets The break-up of the exchange rate mechanism (ERM) of the European Monetary System followed, with the UK and Italy pulling out while Spain and Portugal devalued within it

Real short-term German rates are 5,3%, keeping up the pressure on economies which stayed linked to the D-mark via the ERM French inflation is the lowest in Europe at 2% yet holding the franc's parity means real short-term rates of 9% The same is true for Spain, despite devaluation, and for temporary outsider Italy

The Irish, with unemployment heading for 20%, are sweating on 14% and even EC aspirant Sweden, which floated the kroner after being forced to give up its attempt to track the D-mark, has to maintain real rates at almost 10%, despite 2% inflation and facing the third year of negative growth

"Escape" from the ERM enabled the British to chop the costs of short-term money to 7% — from 15% a year earlier — and real rates are now down to the 4% mark But sterling's devaluation is already stoking industrial input prices while wages continue to rise faster than inflation — despite the rise in unemployment — which will threaten the competitive edge given to exports

That will also inhibit interest rate cuts and consumer confidence remains battered by job losses, which will lift unemployment to 11%, and the blight of the property slump Even though mortgages are the cheapest for 20 years, private residential investment will drop again next year after a cumulative 35% decline from 1989 levels

But if Germany stumbles, the export performances of the UK and all European economies will struggle Hence the urgings of the OECD, reinforced by the International Monetary Fund, for an early relaxation by the Bundesbank, even if disinflation is not fully under way

Even when it does no dramatic impact is expected The OECD is looking for German rates to notch down by only three points to 6,5% over the next two years as inflation (for the combined country) eases slowly from 5,5% to 3,3%

Fiscal assistance is ruled out for Germany and all other big economies apart from Japan which has already launched its US$86bn spending plan, 2,3% of GDP, in harness with lower short-term interest rates Germany's federal deficit is expected to slip below 3% of GDP but the OECD points out that off-Budget borrowing to fund the eastern states' reconstruction will continue to balloon

Japan has other problems After the bursting of the "asset bubble" has come the sight of the "bicycle economy" — which runs smoothly at speed but wobbles when it slows — and the second consecutive quarterly slip in output, bringing it down by 6%, was the first since the oil crisis recession of the Seventies

In addition, consumer caution has flattened demand even though housing starts picked up and inflation, thanks to the strong yen, was a mere 1% and producer prices fell by 1,3% Apart from property and finance sectors, Japanese industry has a healthy balance sheet but the dash for market share around the world has increased cost gearing from 75% to 88% of sales

The volume downturn of the last three years in export markets has slashed profit margins this year, corporate Japan's profits will fall by another 20%, losses are rising, bankruptcies among manufacturing companies are up 47% on 1991 and the net return on fixed assets has more than halved to little over 5% since 1989

And the cost of capital — negligible when

TAKING A BREAK

This is the final issue of the *FM* for 1992 — our next magazine will be dated January 8 The Editor and staff wish our readers a peaceful festive season and hope, with you all, that 1993 will be prosperous.

P.T.O

G-7 boffins should have drawn on the Asian experience

B/DM 28/12/92. **SAMUEL BRITTAN** (231)

THERE is a big advantage in ploughing through a survey of the world's main industrial countries such as the December Economic Outlook of the Paris-based Organisation for Economic Co-operation and Development (OECD)

Any tendency to attribute misfortunes to the peculiar shortcomings of one's own government is quickly remedied when it is seen that very similar misfortunes affect other countries with governments of a very different hue

Take the boom and bust cycle in the financial markets It has actually been greater in Japan than in the UK, if equities are taken into account. Commercial property values have indeed fallen more in the UK than elsewhere, but the fall in house prices has been greatest in Scandinavian countries, for example, Norway and Finland

In spite of all this interesting information, it is quite hard work to extract a real theme from the OECD report, which is in some ways a step backwards For instance, the growth tables in the main text start in 1992 and go on into 1994, thus putting the main emphasis on crystal gazing One has to extract from the statistical appendix the old standard tables which put the projections in the context of earlier developments, and even they do not go back far enough or indicate trends clearly

If one looks for oneself, there is no mystery about what has happened

Output in the G-7 "summit" countries started to decelerate in the early '90s, partly as a result of counter-inflationary policies and partly as a result of the debt problems of individuals and companies The end product has been a prolonged growth slowdown which the OECD expects to continue into 1993 The silver lining is that the underlying inflation in G-7 countries, which had already been reduced in the '80s, is now declining further and is expected to fall to 2,5% by 1994, the lowest for nearly 35 years If achieved it should provide a platform for sustainable growth later

The recession is not as deep as popularly believed The output shortfall compared with trend is less than it was in the past two recessions in five of the G-7 countries Only in the UK and Canada has it been substantially greater And it is only in these two countries that it has turned out to be the longest post-war recession

On an international scale, we have so far seen only a growth slowdown and not a classical recession. By contrast, in 1975 and 1982 the growth of real GNP came to a complete halt in the G-7 countries taken together

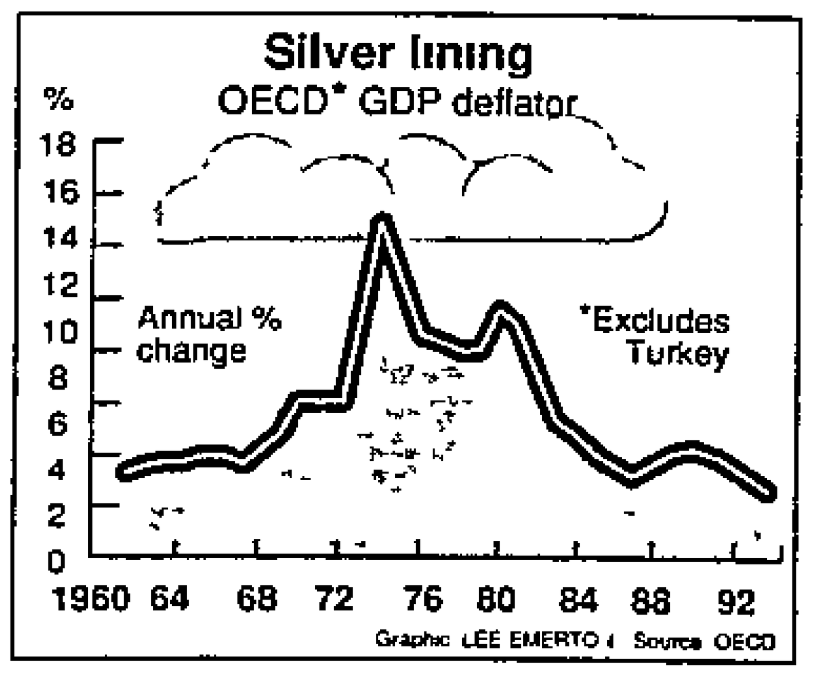
It is true that this time round the US and Canada experienced an absolute drop in output in 1991, as the UK did in both 1991 and 1992

But these were offset by other countries that did not begin their recession until rather later.

Another way of looking at the matter is to track nominal GDP, which is made up of real growth plus underlying inflation This has decelerated from an excessive 8% a year in 1988 to about 4,5% at present. It is expected to rise to only 5,5% by 1994. Moreover, because of the expected drop in inflation, more of this expenditure increase will represent real growth But at no stage in the recent past have the recorded figures shown anything like genuine depression

The OECD is rightly concerned that the relatively weak recovery it now sees in prospect will not be enough to prevent unemployment rising further Exactly the same thing happened in the last cycle in the early '80s when unemployment in the G-7 group continued to rise during the first year of recovery by even more than the OECD expects it to do in 1993 and to a higher level

What obviously worries the OECD economists is not their central projections but the downside risks All their "alternative scenarios" involve lower growth The first of these is "sustained weakening in the US and Japanese private sectors" The main effect here is expected to be reduced growth in these two countries with only modest spillover Developments since the projections were prepared suggest that the countries are not on a par While the US seems at last to have embarked on a real recovery the outlook for Japan has become cloudy indeed



The other two scenarios show higher wages in Germany and slower than expected progress in reducing the German budget deficit. In each case the effect is deleterious to European as well as to German growth, mainly because it will delay the expected drop in German short-term interest rates If all goes well, these are expected to fall from an average of 9,5% in 1992 to below 8% in 1993 and just above 6% in 1994

The OECD looks at the case for fiscal stimulation for countries which still have either low budget deficits or low debt ratios It is clearly not keen on stimulation even for these, and remarks that any such package should be "both temporary and accompanied by a credible commitment to unwind it when the economy picks up"

There is also a lot of emphasis in the outlook on improving the quality of existing public sector spending to obtain better value for money But surely this is something which should be done in any case, there is some muddle here, as there was in the UK autumn statement, between public investment as a long-term supply side measure and as a component of demand

Reading as best one can among the qualifications and the OECD-speak, the basic view seems to be that while there is a modest recovery in prospect which should not be artificially boosted, there is also a downside risk of genuine depressionary forces Of course, governments should be prepared for the latter But the OECD does not tell them how

Its main suggestion on monetary and exchange rate policy is "to provide market participants with more systematic information about underlying trends in relative inflation performance in Germany and elsewhere" The hope is that they would then realise that France and some other countries have "outperformed Germany on the inflation front and are likely to continue doing so for some time", and thus allow these good performers to lower their interest rates without putting their exchange rates in jeopardy It is no crime to argue with the markets in this way the question is whether it would do much good

If one wants to cheer up, the place to look is at the new section of the outlook dealing with the "dynamic Asian economies", excluding Japan Even in these countries output growth "is subsiding to a pace likely to relieve inflationary pressures"

But in the case of the four "tigers" — South Korea, Taiwan, Hong Kong and Singapore — the slowdown is from an average of 7,5% to 6,5%, with an expected recovery to 7% in the next couple of years The star performer is China, where growth is estimated at 11% Even the Indian growth rate is put at 3%, higher than any G-7 member, and is expected to accelerate in 1993 If OECD analysts had reflected more on the Asian experience they would have been better able to draw a moral — Financial Times

Africa loses out to eastern Europe

BDay 30/12/92

KATHRYN STRACHAN

AFRICA was losing annual earnings of more than $130bn as a result of foreign assistance being directed to eastern Europe, Organisation for Economic Co-operation and Development (OECD) development centre president Louis Emmerij said.

In a report in the Development Bank of Southern Africa's latest newsletter, Emmerij said Africa was becoming increasingly cut off from the global economy, largely as a result of political and economic restructuring in eastern Europe.

Foreign direct investment, food aid and commercial credits from the developed countries to Africa had dwindled, said Emmerij The IMF had continued to syphon financial resources away from Africa. This had amounted to $4bn in the past seven years, he said

Although the amount of development assistance to the southern countries was about $55bn annually, the number of export barriers in developing countries, especially for agricultural products, and the trade barriers regulating multifibres,meant these countries had foregone annual earnings of more than $130bn — almost three times the amount of development assistance

The UN Development Programme's report had included other items, such as international migration, bringing the total forgone earnings to $500bn a year.

Africa had been further marginalised by the developed OECD countries of the world because of"disturbing" human and natural tragedies.

In addition a marked failure in economic, social and political management over the past 15 years had resulted in an external debt burden of more than $270bn in 1991 But there was no satisfactory solution in sight, nor did creditors have the political will to take action

"This has led some Africans to believe the debt situation is being used by creditors to control African countries politically and economically, leading to hardly disguised neo-colonialist practices," said Emmerij

Not only were African countries young by comparison to developed nations, but independence came when there were sharp ethnic divisions, little or no education for the majority of the people and virtually no trained African administrators Taken together, the extent to which some African nations had held themselves together after independence had been a major achievement, he said.

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Equity markets take a backseat to bonds

STAR 31/12/92

231

LONDON — The year-end wave of optimism which has propelled the UK equity market to another all-time high — the FTSE-100 index is now up 14 percent this year — is not typical of markets around the world

In fact, another poor year for the global economy in which overall growth of the 24 nations in the Organisation for Economic Co-operation and Development is estimated to have been only 1 5 percent, has formed the backdrop for a generally dreary 12 months for the world's capital markets

In these conditions fixed interest securities have often outperformed equities although rapidly expanding government financial deficits have had the effect of subduing the bond markets too

Only some spectacular events in the currency markets have livened up the year and provide the more speculative investors with some handsome returns at limited risk mainly by courtesy of the European central banks

As the year draws to a close, hopes for a global recovery look little better The OECD has just knocked down its 1993 growth forecast from 3,0 to 1 9 percent.

And although some of the countries early into the recession are now showing signs of an upturn — certainly the US and possibly the UK — Germany and Japan may not yet have seen the worst

Investors are having to grapple with the evidence that this is not just another business cycle but that long-term structural changes are afoot

When leading industrial companies such as IBM are shedding tens of thousands of jobs while the only rapidly growing area of the global economy is in regions such as southern China and parts of Latin America, it is a foolish portfolio manager who continues to extrapolate the long-term charts from the past.

Certainly shareholders had to dabble in stock markets such as Hong Kong and Mexico this year in order to achieve returns that were at all interesting in local currency terms

The best-performing national market in dollar terms has been Malaysia with a gain of 23 percent

Overall however, the World Index is down 7 percent this year in dollar terms and is up just 12 percent for investors who prefer to do their calculations in sterling

On Wall Street it has been an amazingly steady year with year on year improvement of only 4 percent

Moreover 1992 has been the least volatile year for the US stock market in living memory, essentially because the recovery in the economy and therefore incorporate earnings was already discounted in 1991

Since then there has been a flow of money into equities from private individuals fleeing low savings deposit rates and buying large quantities of mutual funds

But, on the other hand there has been a sharp rise in stock issues and a certain amount of selling by foreigners who generally feel that Wall Street is overpriced The net result has been stalemate

As for Tokyo, the well-managed slow motion stock market meltdown has gone a stage further

This year's index fall has been 20 percent (only Denmark has performed worse in local currency terms) and the Japanese equity market now accounts for only 26 percent of world market capitalisation, against about 45 percent at its peak three years ago

The painful return of Japanese property and equity prices to more justifiable levels still poses a severe threat to the country's financial system with the capital bases of the banks undermined.

But Japan is better placed than most other countries in terms of fiscal balance and bond yields Ten-year Japan government bonds (JGBs) now yield only 4,6 percent easily the lowest for any leading country

In the UK the global bond funds have enjoyed a great year and are heading the unit trust performance charts

But it looks very different in the US where the strength of the dollar against many currencies in the past few months has caused many equivalent international fixed income funds showing returns which are meagre and sometimes even negative

Generally speaking bond yields have dropped in 1992, because the impact of the recession and the influence of lower inflation rates has outweighed the increasing flow of government debt as fiscal deficits widen

Average inflation according to the OECD will fall from 3 5 percent in 1992 to 2,5 percent by the end of 1994 But the average budget deficit is running at about 4 percent of gross domestic product this year and next

Brokers James Capel have calculated that new borrowing by the Group of Seven leading industrialised nations next year will total a huge $750 billion

Real interest rates apart from in Japan and Germany (where inflation is still rising) are remarkably high This ought to make bonds very good value as they indeed have been this year But there could still be problems if so much paper is issued that the markets find it indigestible

The UK government for instance is threatening to issue gilt edged securities at the rate of £1 billion a week during the financial year 1993 94

A real bull market in bonds will not happen until investors can see a way in which government deficits can be brought down

The bond investor's calculation must be that real interest rates will have to be brought down through an acceleration of inflation but there are not many countries in which that is going to happen given the surplus of capacity in the industrial farm and labour markets

In the meantime, attention has been focused on currencies

It was hard to make money by trading currencies when they were floating freely in the 1980s but the growth of the semi fixed rate European exchange rate mechanism proved to be a godsend for speculators — Financial Times

World markets: the returns of recession

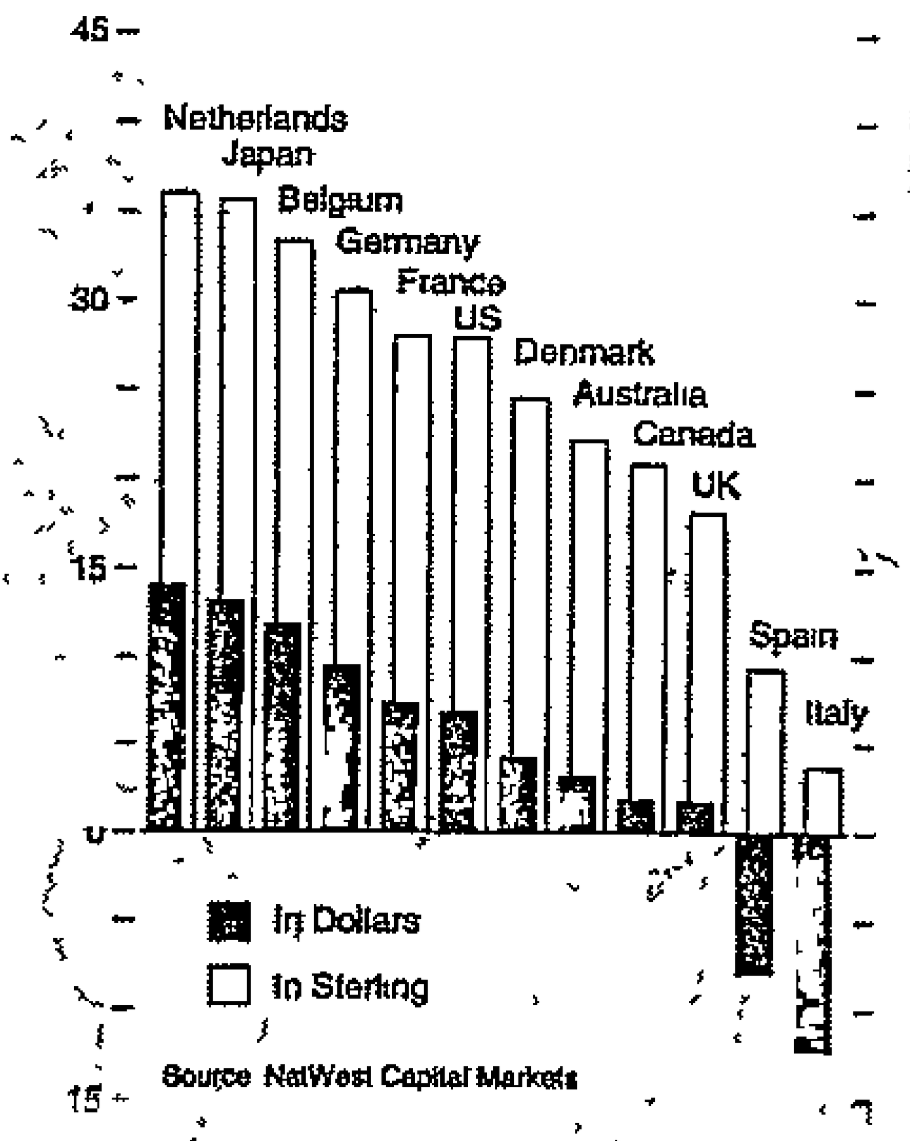
FT-Actuaries World Index

% change ($ terms)

Malaysia	22.92
Hong Kong	21 67
Mexico	15.18
Switzerland	14 04
US	4 62
Netherlands	1 02
France	-4 59
Belgium	-5 90
Singapore	-6 81
UK	-7 03
World	*-7 30*
Finland	-7 41
New Zealand	-10.79
Sweden	-11.68
Germany	-11.85
Ireland	-15.73
Canada	-16 00
Austria	-17.53
Australia	-19 60
Norway	-20 07
Japan	-20 55
Spain	-23 08
Denmark	-25.58
Italy	-29.31
South Africa	-40 69

Government bond returns

Ten year bonds (%)



Source NatWest Capital Markets

All changes and returns calculated from Jan 1 to Dec 21 1992

OECD rethinks growth forecast

STAR 4/1/93. (231)

LONDON — Chastened by the failures of its economic forecasting team over the past few years, the Organisation for Economic Co-operation and Development (OECD) has decided to offer alternative scenarios for growth.

Its baseline forecast suggests a modest world recovery over the coming year, although most of the rise in growth rates is expected to occur outside Europe

But the organisation has also provided gloomier alternatives for the pessimists

Its baseline forecast is hardly optimistic. The US economy is expected to grow by 2,4 percent, a mere 0,6 percentage point higher than last year

Japanese growth is also expected to pick up to 2,3 percent. But Europe is the laggard, with growth of just 1,4 percent.

The main downside risk, according to the OECD, is that the effects of debt deflation, which have undermined the organisation's forecasts over the past year, may persist and even intensify in the short term.

Its baseline projections assume that the recent caution of US and Japanese consumers will taper off this year

But this could well prove too optimistic, particularly in Japan where the adjustment process started later

In the OECD's 'alternative scenario, Japanese domestic demand weakens by 1 percent of gross domestic product (GDP), while US private consumption also falls by 1 percent of GDP, equivalent to a half percentage point rise in the US household savings rate.

The effect on overall growth is assumed to be mitigated by a larger-than-expected fall in short-term interest rates as inflationary pressures remain subdued.

The OECD currently expects US short-term interest rates to fall to 3,1 percent in 1993, from an average 3,4 percent in 1992, before rising to 4 percent in 1994.

But its pessimistic scenario assumes a fall to 2,9 percent in both 1993 and 1994.

The result is to reduce US growth rate by 1,1 percentage points relative to the baseline forecast for 1993, and Japanese growth by 0,9 percentage point

The spillover effects from this sluggish growth are assumed to reduce the German growth rate by 0,2 percentage point and growth in OECD Europe, excluding Germany, by 0,1 percentage point — Financial Times

Metal producers face another tough year

Star 18/1/93.

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LONDON — Metals producers are bracing themselves for another punishing year

Among the metals traded on the London Metal Exchange only copper is priced at a level that gives efficient producers a reasonable return.

For the rest, prices are not high enough for producers to survive in the long term

They are cutting investment, stopping exploration and postponing projects in a way that is storing up trouble for the future

But most analysts believe there will be no substantial rebound in 1993

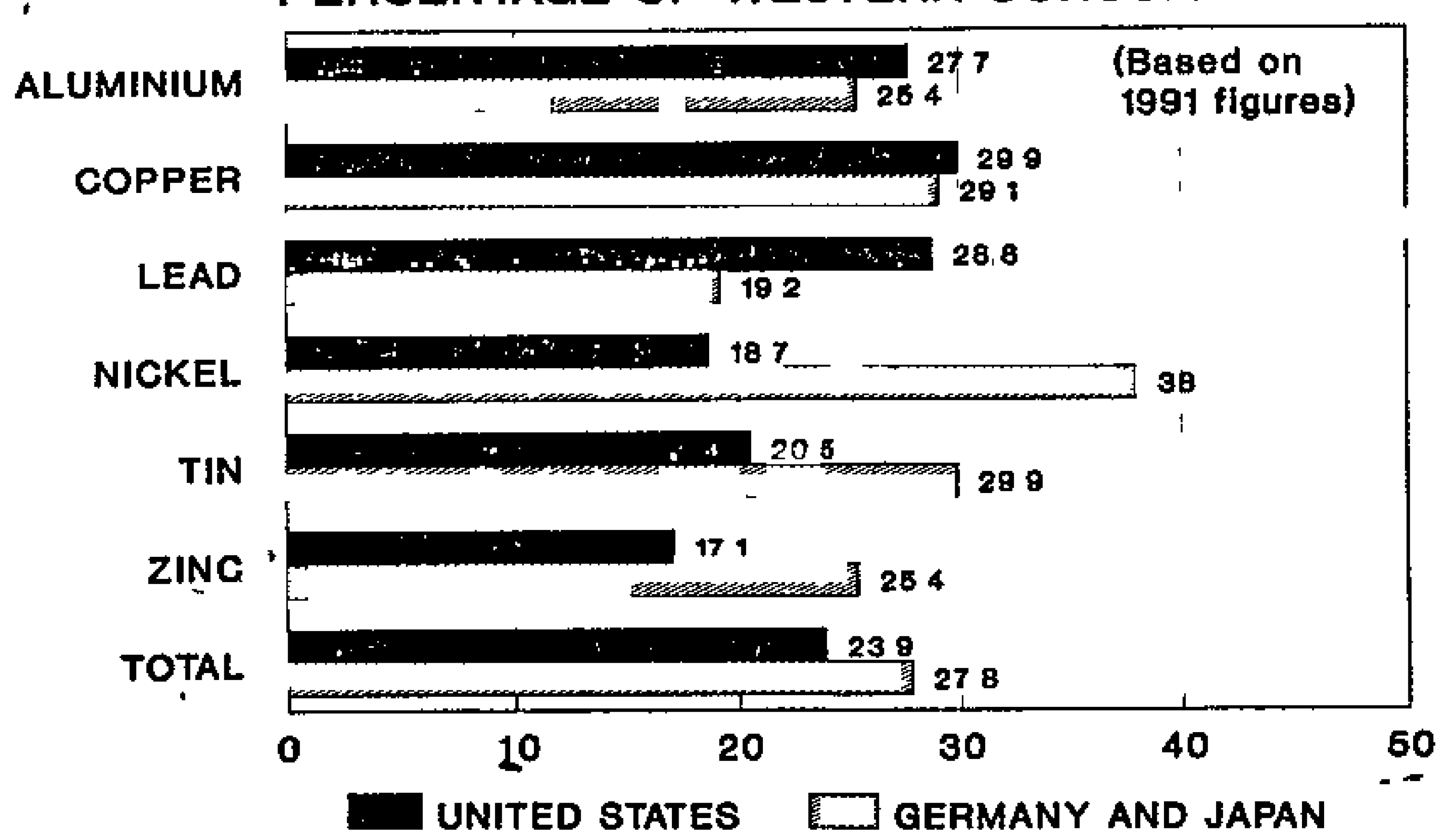
"Prices will remain soggy unless there is a significant upturn in the world economy," says Phillip Crowson, chief economist at RTZ, the world's biggest mining company.

He does not believe base metal prices will fall much further but thinks they will not improve until well into 1993

"In important areas such as construction and automobile production and many capital goods sectors, activity will remain below the peaks of the late 1980s, even as we go into 1994"

More production cuts by aluminium, nickel, lead and zinc producers are needed if prices are to show a short-term recovery, he says

PERCENTAGE OF WESTERN CONSUMPTION



Germany and Japan together have become more important consumers of metals than the US and the slowing of their economies is expected to offset any pick-up in US consumption.

Crowson is not alone in this belief. LME prices have been on a rising trend in the last weeks of 1992 and the first days of the new year but this is not good news for the industry, according to Neil Buxton at the Metal Bulletin Research consultancy organisation

"It means the industry will delay the production cuts needed to reduce stocks and raise prices," he says

Stocks of aluminium, lead, nickel and zinc in LME warehouses are at record levels and those of copper and tin are uncomfortably high.

Demand for metals will not increase enough to cut stocks appreciably, Buxton suggests, and it is also unlikely that the flood of metal from the Commonwealth of Independent States which is creating havoc in Western metals markets, will ease in 1993

These comments are echoed by Thomas Baack, chief economist for Germany's Metallgesellschaft mining and metals group

"The underlying situation of the non-ferrous metals markets hardly changed at all in the course of 1992 and in all probability will not do so in 1993 either," he says

"Production and consumption in the western world are stagnating or growing at an equal rate

"However, the imbalance caused by east-west trade persists and at this moment there are no prospects of improvement in this respect."

Most metals market forecasters subscribe to the view held by the 24-nation Organisation of Economic Co-operation and Development, which is forecasting only a very weak recovery in 1993

The OECD's central projection is that economic growth in 1993 will be about 1,9 percent, a substantially lower figure than the 3 percent it was forecasting six months ago.

Growth last year is estimated to have been a lowly 1,5 percent

When growth is as low as this in the OECD countries, there is a strong chance that growth in manufacturing output will be lower still.

As the Economist Intelligence Unit comments in its latest World Commodity Forecasts "Even allowing for a higher rate of growth among the less developed countries, world manufacturing output may well rise slowly enough to make any increase in world consumption of metals very doubtful"

The only good news in the OECD forecast is that the US economy — the most important in the world for metals consumption — is picking up at a slightly more rapid pace than previously expected.

But this is being offset by the bigger-than-forecast fall in Germany and the slowing of growth in Japan

But this is being offset by the bigger-than-forecast fall in Germany and the slowing of growth in Japan

Euan Worthington, head of the mining team at S G Warburg, points out "Together Germany and Japan are even more important metal consumers than the US"

Most forecasters assume there will be no easing of the pressures arising from the sudden swing in east-west metals trade seen since 1990

Import demand for lead, tin and zinc in the former eastern bloc countries dried up while the region's exports of aluminium, copper and nickel to the west grew at a frightening rate

Much of the extra exported metals were the main factor in the collapse of base metals prices since 1991 — Financial Times

Signs point to slow output growth in UK

BIDay 5/2/93. (231)

LONDON — Britain's output could start to grow modestly in the first half of this year on the back of a slow recovery in consumer spending, the Organisation for Economic Cooperation and Development said yesterday.

In its latest economic assessment the OECD said a more broadly based pick-up might begin as confidence improved

It expected GDP to rise gradually through 1993/94 to perhaps the trend rate of 2,5% in 1994

The British authorities have cut interest rates sharply to 6% since sterling left the European exchange rate mechanism in September in an attempt to drag the economy free from the clutches of a two-year recession.

The rate reduction would help alleviate debt problems but there was still a big overhang from the late '80s credit boom and paying this off might prove protracted, further delaying economic recovery, the OECD said

Also, the cuts meant the risk of Britain losing inflation gains over the medium term was not negligible, now that the exchange rate discipline imposed by the exchange rate mechanism was absent.

One of Chancellor Norman Lamont's biggest headaches is Britain's burgeoning public sector deficit which has hit record levels mainly because the recession has lowered tax receipts and raised unemployment benefit claims

The OECD estimated that 70% of the increase in the budget deficit from 0,8% of GDP in 1990 to 5,5% in 1992 reflected the fact that the economic cycle was at a trough

But it said the British Treasury believed the cyclical downturn was responsible for the rise in public sector debt

It expected that the general government budget deficit, excluding any income from privatisation, could rise to around 7,5% of GDP by calendar 1993 before falling back to 5,5% in 1994, the same level as in 1992

Underlying inflation, which excludes mortgage interest payments, is currently 3,7% and the public sector borrowing requirment stands at £20,2bn ($29,55bn) for the first seven months of the 1992/93 fiscal year

Latest data on growth showed a tiny 0,1% rise in GDP in the third quarter of last year but excluding North Sea oil and gas output it fell 0,2%. — Sapa-Reuter.

Star 8/2/93

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OECD model mooted for southern Africa

A leading South African economist has called for the setting up of a non-executive expert economic forum for the sub-continent run on the lines of the developed world's Organisation for Economic Co-operation and Development.

Nedbank's chief economist Edward Osborn says in the bank's latest quarterly "Guide to the Economy" an Organisation for Southern African Co-operation (OSAC) would be in the best interests of all the countries in the region

His call follows the recent key conferences held by the Preferential Trade Area and Southern African Development Community — both of which ended without reporting significant progress towards better economic flows in the region or the thorny issue of South Africa's membership

Osborn says OSAC, an idea originally put forward by Dr Erich Leistner of the Africa Institute, would be the least likely regional economic body to encounter friction and tensions

This would be ensured as OSAC would have no executive functions or pretensions Its purpose would be to bring to the attention of the countries advice on actions or policies for the benefit of members and the region

South African membership of the PTA or SADC would be likely to generate mistrust because of the country's economic size and strength

Osborn envisages OSAC operating in a similar manner to the OECD and points out the latter body "has no executive functions, and accordingly is not a political body with internal power relationships, all members enjoy equal status, and its work is confined to analysis and recommendation in the interests of members"

Membership of OSAC would be on an equitable basis and would probably be Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe and Zaire

Desperate times for the Red Army as manpower needs are slashed

Turning officers into social workers

STAR 24/2/93

231

SWORDS into ploughshares, tanks into tractors, but ex-Soviet army officers into businessmen, farmers and — don't laugh — social workers?

It is no laughing matter for the more than 200 000 ex-Soviet commissioned officers who have already been pushed out into civvy street over the past two years, or the 250 000 more expecting to be laid off by the end of next year, as part of a plan to cut Russia's armed forces to 1,5 million by 1995.

Finding jobs for redundant officers is an increasingly familiar problem for Western governments, as defence budgets are squeezed to find a "peace dividend" to impress the voters

But Russia's problem is on a grander scale. Although well-educated and highly trained, Russia's growing pool of ex-officers will need help to compete for scarce jobs in an atmopshere of growing unemployment.

Several countries are already in the re-training business. The Westminster Foundation for Democracy recently brought a group of social workers and would-be social workers, including some ex-colonels and ex-majors from the former Soviet army, to Norfolk, in eastern England, to find out how the region runs its social services.

On a grander scale, German taxpayers have long been paying for courses — on everything from computer programming to marketing — for serving Russian officers waiting to be withdrawn from eastern Germany. The hope is that giving them help in finding a new career will reduce the resentment many officers feel about Russia's shrunken authority as a military power.

Back in Russia, the government has places on its own retraining schemes for only 1 000 ex-officers a year. This has prompted the Organisation for Economic Co-operation and Development (OECD) to propose a pilot project, which would assist the Russian government in training trainers — including some ex-officers themselves — who could then impart their knowledge to a much bigger pool of officers.

The OECD report recommends, among other things, that officers leaving the armed forces be given vouchers entitling them to retraining of varying periods, depending on length of service.

Finding useful jobs for ex-officers not only makes good economic sense, it is also good politics. In the early 1960s, similar defence cuts demanded by Khrushchev prematurely ended the careers of some 250 000 officers, many of whom ended up driving taxis or digging potatoes for a living. In 1964 their comrades, angered at this affront to army dignity, helped Khrushchev's political career to an equally unceremonious close. — The Economist □

Few companies willing to increase staff levels

Star 11/3/93

A recent survey by Drake International shows that only six percent of South African companies are expecting to increase their staffing levels in the next six months.

A blow to job hunters is that 13 percent are looking to decrease their employee levels — some by up to 30 percent Around 80 percent have frozen their current staff complements

The results were determined from a survey of more than 800 companies covering a broad spectrum of commercial, financial and industrial enterprises

The survey included manufacturing, construction, engineering, import/export, transport, wholesale, service and retail organisations, as well as insurance, banking and government institutions.

"The survey points to business remaining in a 'holding' pattern, with moves to stimulate the economy — like lower interest rates — not yet influencing hiring intentions," says Mike Coppin, Drake's chief operating officer.

Coppin says the minority of companies planning to increase staff are found mainly in the import/export and insurance/assurance fields

"With the recession expected to continue well into 1993, people should realise that a job is to be valued Employees who do not contribute to a company's viability are in a high risk category."

According to Coppin, the results of the survey represent bad news for the unemployed — particularly in the banking and wholesale fields which have forecast the largest staff decline for the next six months

"These are closely followed by the manufacturing, construction and transport fields, with companies, predicting significant staff cuts."

Coppin says the current economic climate is putting a premium on skills for job hunters, while making the selection of new employees critical for employers

"It is our experience that many companies are turning to flexible staffing strategies and labour outsourcing options to overcome workload peaks while maintaining a streamlined permanent workforce," he says

Ashton planning to become world player

Star Foreign Service

MELBOURNE — Australia's up and coming diamond miner, Ashton, has unveiled plans to become a world player in international markets with a big emphasis on expanding global exploration projects

It said it would move away from its gold mining activities and concentrate instead on its diamond interests

Last year Ashton produced 39 million carats from its operation in the Kimberley district of Western Australia which sold for R530 million, with record profits of R77 million.

Ashton also disclosed that it had just discovered commercial-size diamonds in the Northern Territory with a much higher gem content than the Kimberley field It also had prospects in the United States and Canada which it regarded highly

STAR 11/3/93

Inflation in the West averages 3%

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PARIS — Consumer price inflation in Western industrial countries and Japan, excluding Turkey, stood at an average annual rate of three percent in January despite sharp monthly increases in Germany, the United States and France, the OECD said on Wednesday.

Consumer prices rose by 0,3 percent on average in January, excluding high-inflation Turkey, after remaining flat in December, the 24-nation Organisation for Economic Cooperation and Development (OECD) said in its monthly survey

Prices were down by 0,1 percentage point in Japan to 1,3 percent over 12 months, and by 0,9 percentage point in Britain to 1,7 percent.

Among the other Group of Seven countries, Germany faced a 1,1 percentage point jump lifting its rate over 12 months to 4,4 percent, mainly because of increases in indirect taxes

In the US and France prices were up by 0,5 of a percentage point in January, for a US 12-month rate of 3,3 percent, while France's rate was further down to 2,2 percent. Canada recorded a 0,4 point monthly rise, lifting its annual rate to 2,0 percent — Sapa-AP

Managed markets a cure for national health care systems

B/DAM 15/3/93

JOHN WILLMAN (231)

AS HILLARY Clinton examines strategies for reforming the US's costly and incomplete health care system, and if other countries do the same, they could learn much from the experience of European countries in reforming their health services

A recent Organisation for Economic Co-operation and Development (OECD) report — The Reform of Health Care — on health care reforms in seven European countries concludes that, despite starting with very different health systems, they are converging on the same solution to the problem of escalating costs That solution is what the OECD calls a "managed market" in health care

The details vary from country to country but, in each case, some sort of market mechanism is created, in which doctors and hospitals compete to provide health services paid for or underwritten by the government.

Some countries are further down the road towards managed markets than others — Germany, the Netherlands and Britain are the most advanced. And none of them has all the elements of the model in place Many are still experimenting with or in the middle of implementing reforms

However, all the important components of the model have been successfully tested in one or other of the seven countries, allowing the OECD to describe the managed market approach as "not a high-risk strategy"

All the countries provide health care universally or almost universally — those with limited public provision have widened its scope in the past decade Methods of funding vary, however, with some paying for it out of taxation, others through compulsory insurance contributions paid either to private insurers, public bodies or a mixture of both

All had experienced "unacceptably high" growth rates in health care costs in the '70s, according to the OECD, with the share of GDP swallowed by health rising during the decade by between 29% in Britain and 71% in Ireland The desire of politicians to contain these costs was the main motive behind health care reforms

Universal funding has proved to be the key to containing costs, says the OECD By setting overall budgets, governments can take the lead in controlling expenditure by bearing down on producer interests such as surgeons, hospitals and the pharmaceutical industry Where health costs are demand-led and open-ended — as in privately insured systems — there is no such force for economy and efficiency

Universal cover is also the key to improving the standard of health since it allows basic medical care to be allocated according to need rather than ability to pay Without universal cover, insurers select healthier groups, leaving the less healthy people — often on low incomes or ageing — with little or no protection

An additional argument in favour of universal funding is that it can help reduce the financial burden on middle-income groups With voluntary insured systems such as those in the US, they pay twice their own insurance premiums, and higher taxes to pay for public health services for the low-income groups who are not covered by insurance

But capping the budget is only the first step The seven countries have all experimented with market-type mechanisms for spending the budget more efficiently

The common elements of these mechanisms are:

☐ Decentralised purchasing agencies to buy health services for customers in the light of local needs In the UK, these are the district health authorities, which purchase health services on behalf of most people living in their areas,

☐ Competition among "providers", such as doctors, hospitals and other community health services Payments systems have been restructured to reward those who are more efficient, so that money follows the patient;

☐ A mixture of private-sector and public-sector providers to inject market forces In Britain, the entrepreneurial spirit is provided by the independent, self-governing National Health Service trusts,

☐ Self-regulation on quality assurance — leaving it to professionals and purchasing agencies to regulate the market, rather than heavy-handed interference from above.

Within the managed market, paying for health services through a contract for services is more cost-effective than reimbursement of fees for each service In France, for example, where health care was mostly paid for by reimbursement of fees during the '80s, the share of GDP consumed by health care rose from 7,6% in 1980 to 8,8% in 1990 The share was static in Germany and the Netherlands, which used the contract method throughout this period.

There is evidence that countries that pay doctors fees for services have higher consultation rates, longer consultation times and higher prescribing rates When Ireland switched from fee-for-service to a fixed annual contract for each patient on the doctor's register, doctors' consultation rates fell by a fifth Fixed payments per head remove the incentive to over-treat to earn fees — a big problem in the US

The good news for US reformers — where "socialised medicine" has traditionally been viewed with suspicion — is that none of the seven is moving towards a centralised, command economy-type health service.

The best example is in the UK. Until the recent reforms, the NHS was largely organised on what the OECD describes as a "public integrated system' hospital and community health services were paid for and provided by a centralised, vertically integrated, monolithic organisation.

Now the British health service is held up by the OECD report as one of the two most advanced in its reforms In addition to introducing managed markets for health care providers, Britain has begun to introduce competition in purchasing of health services It is doing this by giving some family doctors, called fund-holders, direct control of the budgets for hospital treatment of their patients

While most patients are treated under block contracts negotiated by district health authorities, fund-holders can shop around for the best deals for their patients The OECD says this has improved the responsiveness of hospital services, though it concedes that it remains to be seen whether the benefits can be extended to all patients

Similar attempts to introduce competition in purchasing are being implemented in the Netherlands, which will allow consumers to choose between competing insurers and sickness funds Membership of a scheme is to be compulsory, and requires a flat-rate premium expected to cover 15% of health costs

The balance of health finance comes from a central health care fund which collects income-related premiums from every consumer This money is distributed to purchasers according to the profile of their customers, so that health care is allocated according to need

Selection and cream-skimming are avoided by a requirement on schemes to accept all applicants

The OECD accepts it is too early to make a final assessment of either the British or Dutch reforms But the creation of managed markets in health care in each of the seven European countries appears to have extended health care to most or all the population at costs much lower than those in the US — Financial Times

WORLD ECONOMIES FM 30/4/93.

The eagle has lifted

231

The US and Britain are recovering better than Europe

The divergence of short-term trends within the international economy widened sharply during the first three months of the year Acceleration in the US has seen the American eagle finally lift off with its close satellites of Canada and Latin America in tow

By comparison with the darkening pall over Europe, the US is flying high Among the leading economies east of the Atlantic seaboard, the only good news comes from Britain, where the green shoots of recovery are now showing real signs of sprouting, more than a year after they were prematurely sighted by a Conservative government seeking re-election

The big picture (see table) is that US economic growth is reckoned to be moving a full point faster than was estimated in December By contrast, the outlook for western Germany and the rest of Europe, which was lacklustre four months ago *(Leaders* December 25), has crumbled into a full-blown recession

Nine of Europe's economic leaders will show negative growth in the current 12 months — with Switzerland and Sweden respectively facing their second and third successive years of GDP shrinkage, according to projections by Salomon Bros and National Westminster Bank The big drag comes from western Germany where GDP is expected to decline by 1,5%-2,3% and the 8% growth rebound in the five eastern states will not be enough to compensate

Japan is the joker in the pack of OECD heavyweights Its 1993 prospects have been downgraded by a full point, notwithstanding the effect of the US$94bn fiscal injection announced in August — raised this month to $115bn

Officially, Japan is sticking to its projection of 3,3% GDP growth in the fiscal year to March 1994, on the basis that the budget boost will add 2,6% to *nominal* economic activity But private-sector economists put the impact at more than 1% (on average) and few have significantly increased estimates for the current calendar year — in spite of the Tokyo equity market's spurt in the past two months, which has increased the paper level of investors' wealth by $395bn

In the US, where optimism had blown hot and cold, most forecasts are positive about the prospects for moderate expansion, albeit slower than the annual rate of 4,7% seen in the fourth quarter of 1992 Total factory orders have risen in four of the last six months, with February's 1,4% gain setting a record

President Bill Clinton, whose $16bn public investment package, aimed at creating 500 000 jobs, remains stalled in Congress, is worried "Jobs just aren't coming through No recovery in my lifetime (47 years) has been as weird as this one," he said recently

The 7% US unemployment rate has remained unchanged since the middle of the recession, despite the 365 000 surge in non-farm employment in February, yet earnings are up by 4% The apparent anomaly is explained by a rise of 2,8% in productivity, the best gain for more than 20 years, and the accompanying down-sizing of workforces which has been the price of the massive restructuring of industry, where investment spending is running 10% ahead of 1992

Some analysts are concerned about a revival of inflation The picture is mixed Wholesale prices are up 3,9%, the biggest increase since early 1990, but commodities are not showing the kind of advance associated with previous recoveries, due to the weakness in other economies and factors such as the dumping of metals by Russia and other former Soviet states That, however, is not expected to last much longer

Meanwhile, the Federal Reserve continues to keep down interest rates and consumption is picking up Consumer debt has risen for six months in a row and shows an annualised increase of 2%

Germany the vortex

Retail sales growth had a setback, after the 5% sprint in the final three months of last year This is partly due to a relapse in consumer confidence but the March decline of 1% was largely the fault of storms and blizzards Early data for April show a recovery — notably in car sales — and consumption is still expected to rise 3,5%

Little help, however, is likely from exports and climbing imports will worsen the trade deficit

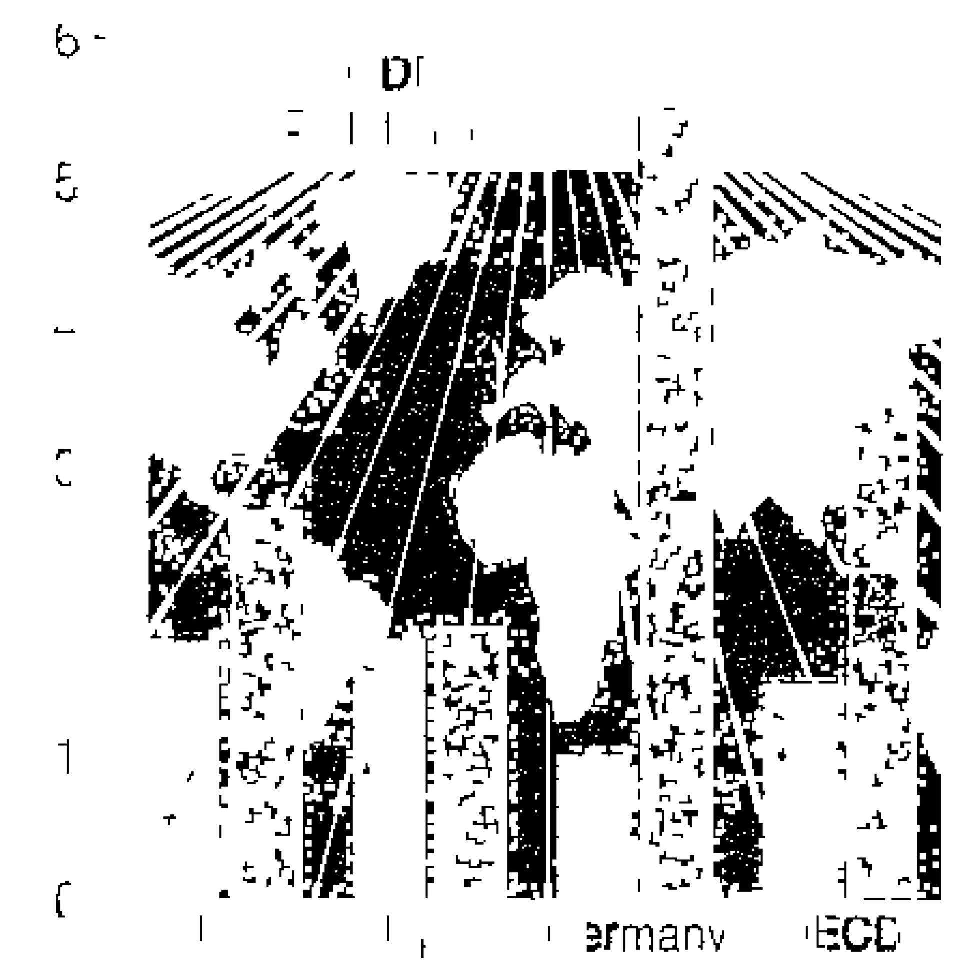
Mainland Europe's woes are multiplying around the vortex of unified Germany, which generates more than 30% of the Continent's GDP The man at its heart, Helmut Schlesinger, president of the Bundesbank, seemed to concede the seriousness of the position last week when interest rates were cut for the third time this year — the discount rate by a quarter point to 7,25% and the Lombard rate by a half point to 8,5

Mood change

How the forecasts were revised

	Dec 1992*	Mar 1993**	Dec 1992*	Mar 1993**
				1994
US	2,4	3,4	3,1	3,3
[illegible]	2,3	1,3	3,1	3,0
[illegible]	1,2	-1,0	2,9	1,0
OECD				

…s/National



Looking back

Annual growth in 1992

Yet a fortnight earlier Schlesinger was insisting it was too early for further cuts in short-term interest rates — pointing out the more significant cost of long-term money, at 6,5%, was historically low At Harvard University Schlesinger listed inflation, stubbornly at 4,2%, and a public sector deficit which will rise above 6% of GDP, as justification None of that has changed

The Bundesbank has recognised that the latest German data makes a catalogue of unmitigated depression unemployment up to 3,4m, car output down 20%, manufacturing off 11% and retail sales plunging 8% in February (after 10% in January, when Vat increases were implemented)

The future holds no early relief Slowing wage hikes (4% against 7% last year) and rising unemployment will reduce aggregate real disposable income by 1,5% in western Germany More will be lost next year as the deal between the federal and state governments on funding the eastern lander comes into effect and will absorb incomes and profits by the equivalent of more than 2% of GDP Levelling the economic playing field — which will go on for the rest of the decade — is producing higher inflation of 9% in the east, while there are concerns that it will take a few more months to lower it in the west Some independent estimates foresee another period of negative growth looming in 1994 for western Germany, which will force mon-

contin

ey costs down further

Last week's action by the Bundesbank has taken some pressure off currencies and economies still linked to the D-mark via the exchange mechanism, and allowed central banks of trading partners to ease monetary policy But it is uncertain how much the move will alleviate the malaise

In descending order of magnitude, contraction is forecast in Sweden (-1,8%, bringing the cumulative decline since 1990 to 5%), Belgium (-0,9%), Holland (-0,8%), Spain and Switzerland (-0,5%), France, Italy and Denmark (-0,4%) — all estimates being averages of the predicted ranges

In France, the new right-centre coalition government has taken the chance of shaving a key short-term interest rate by two percentage points to 10%, still a penalising 8% in real terms

Rising unemployment and political wobbles have produced fiscal action in Spain and Italy In spite of a chronic deficit (10,9% of GDP this year), Italy is spending $4,5bn on public works while Spain, with the worst unemployment in Europe at 20%, is laying out $2,6bn

Britain's contrasting mild springtime — GDP growth of around 1%, but only 0,7% excluding North Sea oil, following two negative years — seems well rooted The index of manufacturing production has risen 3,6% in three months, the moribund housing market is moving with sales gaining 15% on last year's depressed figures and the price trend has turned, car sales are 14,6% higher in the first quarter while the rest of Europe registered a 16% drop

The headline figure for inflation is the lowest since the Sixties, at 1,9%, but shorn of the impact of mortgage interest rate reductions the underlying rate is 3,5% — uncomfortably close to the top end of the government's 1%-4% target range

It could creep nearer Sterling's devaluation and input costs have raised producer prices 8,3%, which will filter through to the retail price index — though the pound's recent recovery should cool pressures Unemployment has yet to peak — indeed it threatens to become a structural problem in the medium term — keeping down wage pressures so that with productivity up by 7,3%, unit labour costs have fallen by 2%

A healthier exchange rate should also give a further fillip to disposable incomes and the house market

The UK will continue to face constraints unemployment, plus the battle to reduce the budget deficit (8,5% of GDP) which was postponed until next year when tax increases will come into play The deficit will continue to be high for the next five years Few economists foresee any resumption of strong growth but the worst is over

The eastern hemisphere is a patchwork quilt of prospects Japan still reels from the bursting of the bubble economy, in spite of some indicators that it has bottomed

Higher orders are flowing into the construction and capital goods sectors as a result of the fiscal action The Bank of Japan has sliced the discount rate to 2,5% and allowed the monetary base (cash in circulation plus commercial bank reserves held with the central bank) to rise 4,3%

However, Bank of Japan governor Yasushi Mieno has warned the ebullient stock market there is unlikely to be anything better than a gradual recovery starting late this year Manufacturing investment, which dropped 14,5% in 1992-1993, is likely to drop by a further 10% as industry streamlines after a decade of over-expansion Industrial output in February was 5,4% below the comparable 1992 level The slump in consumer spending has continued February's 6% drop in sales by department stores was followed by 11% in March, for the 10th successive month of decline

Exports are still growing — thanks to robust growth among Japan's neighbours — but the rate is flattened by the appreciation of the yen and subsidence of European markets Conversely, costs of imports are falling

The upshot is an uncomfortable upswing in the current account surplus

Other OECD members in the Asia-Pacific region, Australia and New Zealand, are both enjoying an extension of the recovery from 1991 recession Forecasts put GDP for each rising at a 3% rate while they are among the leaders in disinflation Australia's retail price index is a mere 0,3% higher than last year with New Zealand registering 1%

The real excitement, however, emanates from the Chinese and south Asian economies While some of the so-called tigers — South Korea and Taiwan — are suffering from currency appreciation and falling export performances, this is more than made up by others in the region

Fuelled by foreign direct investment which has followed the new political dispensation on economic policy, China's 1992 expansion of 12,8% was being matched in the early months of this year And it was causing concern as inflation in the big industrial cities moved towards 15%

After a visit to Beijing, World Bank president Robert Preston reported that Chinese authorities want to dampen activity and slow the rise in GDP to a sustainable 7,5%-8% range, to prevent recurrence of the stop-go cycle and retain investor confidence

Meanwhile star performers such as Malaysia and Thailand — expecting GDP to climb 8% — are joined by Vietnam, with 73m people the second largest in south east Asia, now seen as the last bargain in Asia

International investors have moved in behind the renovation policy, which has transformed Vietnam in the last five years, attracting $4bn in foreign commitments Its human resources are equally alluring — 88% of the population is literate and wages costs are half those in Thailand or Malaysia

Hence there is a race to establish manufacturing footholds for exports but also for a burgeoning domestic market as standards of living rocket Last year foreign investment rose 80%, exports set a new high, the first ever trade surplus was recorded and GNP per capita doubled to $400

Vietnam aims to double GNP by the end of the century with average annual growth of 7% This will be enhanced if the US embargo is lifted when it is reviewed in September — and will give Vietnam access to the resources of the IMF, World Bank and the Asian Development Bank ■

THIRTY-FOUR YEARS ON

Banking reports figured prominently in the *FM* on May 1 1959

☐ Probably the most striking aspect of current banking statistics is the rapid progress made by Volkskas It has grown fastest of any of the Big Four, at the expense of market leaders Barclays and Standard Total liabilities to the public were £50m in 1950, 5,9% of the banking system In only eight years this share doubled Netherlands Bank, up from 4% to 5,9%, also gained ground

Using loans and advances as the yardstick, Standard lost heavily, its share dropping in eight years from 44% to 37% Netherlands marked time with 7%, Barclays increased from 37% to 41% and Volkskas from 9% to 12%,

☐ Trust Bank has also shown remarkable progress, its 1958 pretax profit rising by 54% from £261 000 to £401 000 The balance sheet remains healthy, though the bank does not disclose market (as opposed to book) value of investments, the greater part of its assets; and

☐ In another article with present-day echoes, the *Rhodesian Round-Up* section reports that the Southern Rhodesian parliament has agreed to a motion urging government to "consider some means of closer settlement of land in the European areas, of reducing to an absolute minimum the capital required by suitable applicants for land, and of offering every practicable inducement to such applicants, particularly young Rhodesians"

While half the country is European-owned, only a fifth lies in higher rainfall areas suitable for intensive farming without costly irrigation schemes

Farming MPs agree that many farms are unnecessarily large, with the result that capital is thinly spread, occupied land not fully developed, and new settlement restricted Only one Crown Land farm was allocated to a new settler last year, while seven farmers were granted additional land

Growing call to change SA status

B/DAY 10/5/93

GRETA STEYN

THE ANC and economists aligned to the organisation are emphasising the need to have SA reclassified as a developing country at a time when government has no progress to report in negotiations on the issue.

A Trade and Industry spokesman said at the weekend no formal negotiations on reclassification had been started yet, although informal discussions with interested parties were continuing

He did not wish to elaborate, but it is understood potential problems in achieving reclassification include vested interests in Europe opposed to the move and the need for a more representative government in SA.

ANC president Nelson Mandela asked Britain last week to support SA in persuading the OECD, GATT, the UNDP and similar organisations that SA should be viewed as a developing country

He called on the British government and opposition parties to use their influence to get the EC to enter into a mutually beneficial agreement with the new SA, "as soon as is practicable and feasible."

The ANC-aligned trade policy monitoring project takes up the issue in its Trade Monitor, to be published this week

The Monitor says a new trade pact with Europe is likely to stimulate investment in SA since it would give investors signals about SA's serious commitment to exports

It would also encourage foreign investors to take advantage of SA's duty-free access to the EC under the Lomé convention

The monitor says Lomé status, compared with other available options, could be the most beneficial trade arrangement for SA

The Lomé regime provides for duty and quota-free access of developing countries' manufactured goods and 90% of their agricultural goods to the EC.

2.3T

While the immediate advantages to SA should not be over-estimated — less than 20% of current exports would be affected — a Lomé arrangement would provide scope for future export potential. It could stimulate intra-regional trade and an increase in exports such as clothing, car parts and horticulture.

The Monitor said the impact of gaining preferences for the deciduous fruit industry in SA, which was less important as a foreign exchange earner but a major employer, could be significant.

Lomé status could also imply significant gains for SA manufacturers that proved to be internationally competitive

Delay in govt, Sadtu meeting

JOHANNESBURG. — A meeting between Sadtu and the Department of National Education has been adjourned until tomorrow, Department of Education and Training spokesman Mr Corrie Rademeyer announced last night. (231)

Mr Rademeyer said the adjournment was by "mutual agreement".

The meeting between Sadtu and the government was called to address the education crisis — Sapa CT 27/5/93

Optimism over world trade pact

BIDM 3/6/93 (231)

PARIS, — Leading industrial nations have agreed that a world trade pact could be ready for consideration by their summit in July, European Commission vice-president Leon Brittan said yesterday.

"It is realistic to aim for an outline of an ambitious market-access package by the time of the G-7 (Group of Seven) summit in early July," Brittan said. "This is an important step forward on GATT."

The G-7 summit will take place in Tokyo from July 7-9

Negotiations to liberalise world trade have been going on under the Geneva-based General Agreement on Tariffs and Trade (GATT) for more than six years.

Brittan was summing up so-called quadrilateral talks between the EC, Japan, the US and Canada held yesterday on the sidelines of a ministerial meeting of the Organisation for Economic Co-operation and Development

He said work was still needed on areas of dispute, which would be conducted through bilateral contacts and at a new quadrilateral meeting in Tokyo on June 23 and 24

All sides would have to make hard changes in bargaining positions

Brittan said GATT director-general Arthur Dunkel attended the start of the quadrilateral meeting to underline the fact that any world trade deal had to involve many more countries

Once the G-7 had agreed on an outline package, the debate would shift back to multilateral talks in Geneva, Brittan said.

Earlier French Industry and Foreign Trade Minister Gerard Longuet said a trade pact was possible by the end of the year "if everyone shows some good will".

He told French radio from the town of Beaune during regular Franco-German summit talks that an accord would raise confidence among world investors and help boost an economic recovery

"It will not change the face of the world from one day to the next but at least investors will regain trust," he said.

On Tuesday, French officials in Beaune said French President Francois Mitterrand, Prime Minister Edouard Balladur and German Chancellor Helmut Kohl, and their agriculture ministers meeting separately, had moved closer on agriculture and towards a joint European stance in the trade negotiations.

The two countries were expected to issue a joint statement on the world trade talks, noting progress in EC farm reform and calling for global trade talks that did not single out agriculture.

France's rejection of a US-EC farm trade deal struck last November has been one of the major blocking points in the talks — Sapa-Reuter

Jobless are also stakeholders in the economy

B/Day 18/6/93

JOHN KANE-BERMAN

231

IT CANNOT be much comfort to SA's jobless to know that unemployment is a worldwide problem: the job shortage in the 24 OECD countries could rise next year to 36-million.

In this country, even to stabilise the unemployment rate (never mind reduce it) GDP growth should be double population growth. Instead, the population is growing twice as fast as the economy. One consequence is that, according to the National Health and Population Development Department, 9-million South Africans — nearly one in four — are "surviving without any visible means of livelihood".

Calls for redistribution of wealth and/or state spending are a constant refrain The process is well under way, of course In the past 20 years, real government spending on white education has gone up 54% while spending on black education has risen by 863% While the fact that state expenditure per pupil on white education is four times what it is on black highlights the inequality, the Budget of 20 years ago had a gap of 18 to one, pointing to a steady narrowing of the gap.

Government has, in fact, long since been using the Budget to redirect expenditure from white to black. It has also been redistributing state expenditure from law and order to welfare. The proportion of the Budget going to social spending has increased from 21% 20 years ago to 44% In the past few years security spending has dropped from 22% to 18%. Relative earnings of blacks and whites have also been changing. In the '80s real black wages in manufacturing went up by 29%, while real white wages rose by only 1%

SA is known to have a very high degree of income inequality, and a scenario presentation some years ago claimed there had been little change in its racial distribution. Until 1970 there was indeed little change in personal income distribution. Since then the white share has dropped by 24% while the black share has risen by 67%

Somebody once wrote a book called Politics Who Gets What, When, How? The question left out was· "At whose expense?" Although it is fashionable to talk about "win/win" solutions, in the real world there are usually losers.

SA has shown a capacity to redistribute from white to black, but redistribution has been too narrowly spread across the black population, because low growth and rising unemployment have excluded more and more people from the mainstream economy. One effect of successful black unionisation over the past 20 years has been to redistribute from white to black wage earners Another has been to price people out of the labour market.

Already, I suspect, the old material racial inequality problem has a new configuration The new divide is between urban whites plus urbanised, housed, educated, employed, blacks on the one hand and on the other, an underclass mainly, but not exclusively, black and rural — the subsistence and other farmers of all races hammered by drought, the rural illiterate, the malnourished, and the unemployed in the homelands, and the unemployable "lost generation" in the cities

In this context, a note of caution must be sounded about the National Economic Forum established between organised business and organised labour, with government also a participant

Even though membership of trade unions has grown from 2,1-million to 2,4-million in the past few years, only one in six members of the workforce is a member of a trade union Moreover, the interests of organised business and labour often conflict, not only with each other but also with those of smaller business

A major programme of deregulation designed to encourage small-scale entrepreneurship by exempting small businesses from minimum wage rates is unlikely to find much favour with unions that have fought so hard to push up minimum wages

Business, unions and government are all major stakeholders in the economy We need to remember that the unemployed are also stakeholders, or at least potential stakeholders About 1-million people in SA are engaged in subsistence farming, while another 1-million black people work full time in the informal sector. Add to these, say, 2- to 3-million unemployed people and you end up with a constituency double the size of the membership of registered trade unions

There is every reason why business and labour should routinely discuss matters of common interest, but society needs to be on guard against a corporatist state in which powerful lobbies reach compromises between themselves, and the interests of the less powerful are overlooked, partly because they may not be fully represented

Economic policy formulation needs to take into account the interests of all South Africans, and perhaps especially those who have no access to the mainstream economy at present GDP growth rates

● **Kane-Berman is executive director of the SA Institute of Race Relations.**

Move to alter medicine law

B/Day

JONATHAN DAVIS

PROPOSED changes to the Medicines Control Act could allow pharmacists to prescribe and dispense a range of medicines previously available only through doctors. 29/6/93

Proposed amendments to the Act, which appeared for comment in last week's Government Gazette, would allow pharmacists with approved training to prescribe drugs above schedule II for conditions including influenza, bacterial infections and inflammations.

Pharmaceuticals Society of SA president Gary Kohn said the changes proposed by the National Health Department and the Medicines Control Council were part of an initiative to improve community access to primary, preventative health care.

He said his society welcomed the move, which would increase the role of community pharmacists in treating illness.

SA competitiveness rating falls — report

B/Day 29/6/93

(231)

GRETA STEYN

SA has dropped from eighth to 11th place in the 1993 World Competitiveness Report's survey of 15 non-OECD economies.

SA was featured for the first time last year in the report, a joint venture by the World Economic Forum and a European business school The 730-page publication is not yet available in SA, but a summary of key findings was released yesterday by ISG subsidiary Business Futures Group.

Factors pushing down SA's competitiveness included "harmful" international trade policies, protectionism, state involvement in the economy, "deterrent" taxation, low productivity growth and very low overall skills levels

SA's weak spot remained its human resources. It was at or near the bottom of the non-OECD group in worker attitudes, competitive values, educational structures and availability of skilled labour

Singapore was again the top non-OECD country, winning seven of the report's eight key measurement categories.

It analysed 37 OECD and non-OECD economies in terms of internationalisation, domestic economic strength, role of government, finance, infrastructure, management, people and science and technology

SA scored a lower rating than last year in four of the categories — internationalisation, government, finance and science and technology. It remained stagnant in two (management and people) and registered a slight improvement in two (domestic economic strength and infrastructure)

Singapore's business environment outperformed the others in competitiveness, which was enhanced by socio-political stability, partnerships with foreign firms, education, in-company training, worker attitudes and "competitive values".

Hong Kong was second, followed by Taiwan and Malaysia. Brazil was second-worst and Pakistan last. Japan was the top OECD country, followed by the US

World Competitiveness Project director Stephane Garelli said a key feature of the 1993 study was the increasing levels of structural blue-collar and white-collar unemployment in world economies.

"The prospect that a future economic recovery may not necessarily regenerate employment produces all the ingredients for a formidable social time-bomb," he said in the preface of the report.

New tariff structure 'can reduce costs'

GAVIN DU VENAGE

THE new refuse removal and street sweeping tariff structure could reduce costs to business by as much as 50%, Johannesburg City Council rates and services director Andy van Zyl said yesterday.

B/Day 29/6/93

The council is now charging separate tariffs for street sweeping and bulk waste removal The entry for street sweeping appeared on this month's statement and has drawn criticism from businessmen who feel the additional charge is unfair.

Van Zyl said the new structure was intended to spread the cost of street sweeping more equitably and to reduce waste removal charges.

Previously, council bulk waste disposal charges were used to subsidise street sweeping However, as many businesses used private contractors for waste removal, they were getting the street sweeping service free.

This also meant that businesses using council waste removal services were subsidising the street sweeping services for those using private contractors.

Rent action 'is still on'

B/Day 29/6/93

GAVIN DU VENAGE

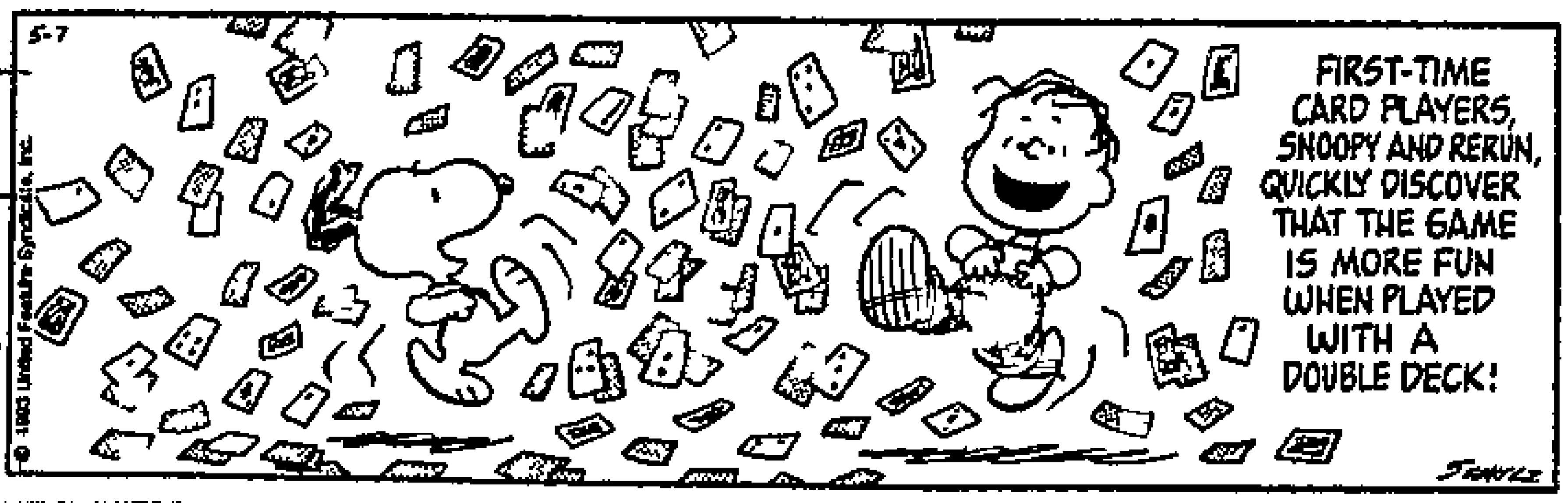
A REPORT that Soweto's rent and service boycott had ended was not true, Soweto Civic Association publicity secretary Pat Lephunya said yesterday

Lephunya was quoted at the weekend as saying the boycott was over, and that Soweto would soon be administered by Roodepoort and Johannesburg.

He said negotiations still taking place were making progress, but agreement had to be reached on tariffs and amalgamation.

The Greater Soweto crisis committee is to meet today, although the ANC will not attend. ANC local government deputy head Matole Motshekga said the organisation had to clarify its position in the chamber.

PEANUTS By Charles Schulz



FM 2/7/93.

SA DOESN'T CUT IT

(231)

SA dropped from eighth to 11th place in the 1993 World Competitiveness Report ranking of 15 non-OECD economies. This is the second time it has featured in the report published annually by the World Economic Forum and the Institute for Management Development, Europe's second-largest business school.

Among the negatives cited as being responsible for the fall were harmful international trade policies, protectionism, State involvement in the economy, high taxation, low productivity gains and low overall skills levels

SA's rating was down in the first four of the eight key areas listed as: internationalisation, government, finance, science & technology, infrastructure, management, domestic economic strength and people.

The quality of its human resources remains its greatest weakness. It ranks near the bottom in worker attitudes, competitive values, educational structures and the availability of skilled labour. On the other end of the spectrum SA headed the list of countries from which well-educated people were emigrating

Once again Singapore was the outright winner in the non-OECD category, followed by Taiwan and Malaysia. Brazil was second from the bottom and Pakistan was last

The significance of the report's findings will be outlined to leading SA business people when Prof Stephane Garelli, director of the World Competitiveness Project, discusses the survey results at two *Global Leadership* business breakfasts hosted by the Business Futures Group and the *FM's* sister publication, *Leadership*.

The breakfasts will be held at the Sandton Sun on July 13 and the Cape Sun on July 14 The cost is R180. For more information contact Sue Trentham or Heather Hayes, telephone (011) 463-4437 or fax (011) 463-3680

OECD reports boom in aid

BDay 8/7/93

PARIS — Financial flows to developing countries rose 23% in 1992 to a record $176bn on an explosion in bank lending, the Organisation for Economic Co-operation and Development said yesterday

With direct investment also rising smartly, private money flows reached $99,8bn and exceeded official aid for the first time since 1983, the OECD's development assistance committee said in its annual report

(231)

The committee welcomed the increase, but cautioned that the boom might not be sustainable and that, in any case, only a few better-off developing countries were benefiting from the sudden interest.

"The ability of the vast number of the poorer developing countries to attract external resources, particularly private flows, is little changed For them, official development finance remains the backbone of resource provision"

Here, too, the picture was encouraging, committee chairman Alexander Love told a news conference Despite budget constraints, the volume of grants and soft loans rose 1,1% in real terms to $60,8bn, which Love described as "a positive response to continuing challenges"

About half of the rich nations that make up the committee boosted their official development assistance in 1992, with Switzerland, Spain, Sweden, Denmark and Italy all reporting big increases. The US was the biggest donor in money terms, providing $11,7bn, followed by Japan with $11,1bn, France with $8,3bn and Germany $7,6bn

But for the 21 committee members as a whole, the volume of aid was unchanged from 1991 at 0,33% of GNP — well short of the target of 0,7% and below the 0,34% average recorded bwtween 1979 and 1988.

Among big donors, Japan cut back by 5,8%, Britain by 4,0% and Germany by 2,1%, the report said.

International bank lending increased to $40bn from $11bn. Short-term lending accounted for over half the rise.

As a result, the total debt burden of developing countries grew 3% in 1992 to $1,53bn. The cost of servicing the debt was unchanged at about $150m.

Love said he was confident there would not be a repeat of the Latin American crisis of the early '80s, when a string of countries burdened by heavy debts were forced to halt repayments — Sapa-Reuter

In Brief

OECD gloom over Europe

Guardian (in Wilmail 9/7-15/7/93)

LAST week's cuts in German interest rates have come too late to head off the deepest German recession in post-war history, according to forecasts prepared by the OECD, and thus to prevent a general fall in output across continental Europe.

(231)

In its latest ~~six-monthly~~ Economic Outlook, the Paris-based economic secretariat of 24 industrialised countries has again revised downward its growth projection for 1993 It now expects growth of just over 1 per cent this year compared with a forecast of 2 per cent six months ago — the "third successive year of unsatisfactory growth performance".

Unemployment in the industrialised countries is projected to rise in the first half of next year to 36 million, the highest absolute figure and highest percentage rate since the war, before declining gently thereafter — while OECD inflation at 1 2 per cent is at the lowest rate in almost three decades.

But the black spot is continental Europe, where output is expected to contract this year by 0 3 per cent. France, Germany and Italy will experience falling output, the OECD says, while Britain — with growth of 1 8 per cent — will be second only to Ireland in the strength of its rebound.

The welfare state begins to fray as costs spiral up

JOHN WILLMAN

BDay 8/12/93

THE welfare state, the glue that binds the social fabric of the world's advanced capitalist economies, is coming unstuck.

The immediate cause is its increasing cost at a time when budget deficits burden most of the 24 member states of the Organisation for Economic Co-operation and Development (OECD)

Rising welfare spending has been a significant factor in the average increase in net state borrowing of three percentage points of GDP across the OECD from 1989 to 1992

In the longer term, there are fears that the cost of the welfare state could become insupportable as populations age over the next 50 years

While short-term measures may ease the immediate budgetary pressures, more fundamental reforms will be needed if the welfare state is not to undermine the economic performance which has underpinned its enormous expansion since the Second World War

Reform of national welfare systems to control costs is now on the political agenda throughout the OECD, as countries struggle to rein in government spending Total government spending in the OECD countries has risen from 28,1% of GDP in 1960 to 43,8% in 1990

The biggest element in this growth has been the cost of pensions, health care, unemployment benefits and family support

Social security payments more than doubled during this period, from 7% of GDP to 15,4% Health expenditure also doubled, from 3,9% to 7,8% The largest single budget item in most welfare states is the cost of publicly provided pensions

The growth is largely attributable to three factors the increase in coverage as pension schemes introduced after the Second World War mature, the rise in the number of elderly people, and improvements in pension benefits

As with pensions, health systems have become more generous in the wake of economic growth including, for example, grafts and transplants, previously regarded as experimental The ageing of the population has also contributed to rising costs, though not as much as for pensions

Rising unemployment has added to the cost of the welfare state in both unemployment benefits and general family support for low-income families

Most OECD countries recognised the need to curb growth in these main areas of welfare spending during the '80s, and have introduced policies to tackle the underlying causes For example, governments have become much less willing to offer improvements in pensions. Moves are afoot in countries such as Germany and Italy to raise the pension age

Health care systems have been reformed to make them more efficient and to bear down on the cost of pharmaceuticals Although there are considerable differences between national health systems, health care reforms in countries such as the UK and the Netherlands are increasingly converging on models that use competition and price incentives to control costs

Many countries have also begun to tighten up on unemployment benefits, with reductions in benefit levels and more rigorous conditions for qualifying

Some countries have succeeded in stabilising their welfare costs by measures such as these. But what most concerns those responsible for public finances is the strength of underlying pressures on welfare spending that will push costs upwards in the future

The most important of these is demography Increases in life expectancy have already increased the number of elderly people collecting pensions The number of over-65s in the OECD member states rose from 61-million in 1960 to more than 100-million in 1990

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The growth is accelerating, with the number projected to rise to more than 115-million in 2000, 131-million in 2010 and 156-million by 2020 Only halfway through the 21st century will the number of over-65s peak, at about 190-million

The strain this will put on the welfare state can best be seen by relating it to expected trends in the number of people of working age.

The standard measure for this is the age dependency ratio, the population over 65 as a percentage of the population aged 15-64.

For the OECD as a whole, the age dependency ratio is predicted to rise from about 19% in 1990 to 28% by 2020 and 37% by 2040.

The most immediate impact of these demographic changes will be on pensions, where costs will in any case rise as pension schemes continue to mature Overall, the OECD estimates that the pension burden could double over the next 50 years Real economic growth rates of up to 1,5% a year would be needed to pay for pensions alone — and that on the assumption that the pensions do not increase in real terms.

The impact of an ageing population on health care costs is less clear-cut. Experts differ on whether increased longevity inevitably means more medical care While more might be required for the very elderly, less might be needed for younger people as chronic diseases become less common

Additional costs of new drugs and advances in medical technology could be at least as important as demography in pushing up health care bills

Added to concerns over demography and social change are fears over the increase in unemployment levels across the OECD. Over the past two decades, unemployment has risen during recessions but not fallen back to the same extent in the following recovery period

Continuing rises in the base level of unemployment would further undermine countries' ability to pay for their welfare states.

Without either tax rises or cuts in welfare budgets, current welfare spending plans could increase debt ratios on average by 90 percentage points over the next 40 years, according to one OECD study It says this is "a situation which most would think unsustainable"

This is why the OECD's half-yearly Economic Outlook repeatedly stresses the importance of controlling welfare spending in improving economic performance The OECD's immediate priorities for reform include charges for the use of some welfare services and greater competition to increase the efficiency of those services

But the OECD has also drawn attention to the need for action to anticipate the funding implications of the rise in the number of elderly people Tackling these longer-term pressures will require more than tinkering with charges and efficiency drives in welfare services

Significant cuts in benefit levels, for example, may be needed, including greater targeting of benefits on the most needy User charges could become increasingly widespread, especially for the better-off And the demands put on the welfare state might be eased by encouraging more private provision of pensions and health care

Measures such as these, however, would fundamentally change the nature of the welfare state From providing support "from the cradle to the grave", it would become a safety net for those who could not afford to provide for themselves

It is increasingly clear that there is no alternative to fundamental reforms if advanced economies are to protect their most vulnerable citizens without imposing unacceptable burdens on economic performance

The welfare state may have effectively bound societies together through the ups and downs of the economic cycle for the past 40 years But a new glue will be needed over the next 50 years if advanced economies are to pass beyond the welfare state — Financial Times

SA's child death rate high

BDay 29/11/93

KATHRYN STRACHAN

SA's child mortality rate was more than double what it should be in terms of the country's GDP, and was one of the worst in sub-Saharan Africa, national health director-general Coen Slabber told business leaders on Friday.

Addressing the Johannesburg Chamber of Commerce and Industry, Slabber said SA ranked 18th out of the 29 countries analysed. In terms of its GDP, SA's child mortality rate should be expected to be 34, but it had reached 72.

The child mortality rating — according to the under-five child mortality rate per 1 000 — was internationally used as an indication of a country's development. It reflected the prevalence of disease and malnutrition, availability of clean water and the efficiency of health care services.

He said the strong link between health and development of communities had made it clear that SA could not afford to ignore the need for a broader health care strategy.

This meant SA would have to improve the efficiency and effectiveness of its health care services.

A recent World Bank report showed that the child mortality rate was a significant predictor of economic performance and, as child mortality rates rose, economic performance decreased.

Slabber said reasons for the poor child mortality record included fragmentation of the health services with 11 autonomous departments of health, and an overemphasis on high technology instead of on preventative health care. (237)

Maldistribution of resources was also a factor. As long as SA spent 47% of its total health expenditure on 23% of the population, and as long as 55% of doctors served only 30% of the population, health services would not improve.

Referring to the cost of health care, Slabber said government, business and individuals were faced with runaway medical inflation, with private and public health care services running out of funds.

"In SA we find a rapid rise in medical aid contributions when compared with the CPI or salary increases, and health inflation exceeds general inflation by 3 to [illegible] percentage points per annum," he said.

He said an investment in health care could be justified on purely economic grounds, as improved health care contributed to economic growth in terms of gains in worker productivity, improved utilisation of natural resources and reduced costs of health care.

Unemployment issue to top OECD agenda

B Day 6/6/94

(231)

LONDON — With 35-million unemployed in the industrial world, it is no surprise that jobs will be topping the agenda of this week's annual ministerial meeting in Paris of the OECD and the economic summit of the G-7 nations in Naples in July.

Underpinning the discussions of ministers of finance, labour, trade and foreign affairs from the 25 OECD member states tomorrow and Wednesday will be an in-depth study by the OECD secretariat, containing 57 recommendations, intended to form the basis of tailor-made policy programmes for member states

Virtually all OECD member states face unemployment problems of some sort, which the OECD believes rest in an insufficient ability to adapt to a fast-changing world economy.

The OECD study, two years in the making and to be published late tomorrow, puts the jobless problem in the context of globalisation and technological change, forces which have undermined many traditional patterns of work and overwhelmed many long-established responses to unemployment

The paper's main recommendations are expected to detail how to

☐ Enhance creativity and diffuse technical know-how The OECD believes in the need to encourage high-wage jobs with high productivity, and that it is more important to diffuse new technologies than create them,

☐ Increase flexibility of working hours The paper will stress that many workers no longer need to work traditional hours in office or factory because new technology allows them to work from home Many households have two earners and not all workers want to work full time But the study will warn against governments imposing work sharing,

☐ Encourage a more entrepreneurial climate The OECD has been struck by the ease with which companies can be set up in the US compared with parts of Europe,

☐ Increase flexibility of wages and labour costs Potentially, this is one of the most contentious areas. The US has created far more jobs than Europe, but at the cost of creating poverty in work for the unskilled,

☐ Focus on non-wage labour costs, such as employers' social security payments, which are very high in many European countries which also have inflexible wages

The OECD believes employment can be created in such countries if non-wage costs are cut and the resulting gap in government finances plugged through other taxes But in the US, where wages are flexible and non-wage costs are low, increased levies, to cover health care, for example, should not hit employment,

☐ Weaken employment protection legislation, which has the perverse effect of discouraging job creation This is a particular problem in some European countries such as Spain, Ireland, France and Italy,

☐ Encourage active labour market policies that link unemployment benefits with seeking a job or training The OECD is convinced paying people for doing nothing is damaging,

☐ Improve the overall competence of labour This extends back to school curricula, and

☐ Overhaul, where necessary, the interaction of the labour market and social benefit systems to ensure help is targeted where it is needed and benefits do not act as a disincentive to job seeking and job creation.

The OECD paper will tell governments to maintain solid macroeconomic policies based on low inflation, sound public finances and sufficient savings to sustain investment. — Financial Times.

Star 8/6/94

Next boom in sight, says OECD in revised projection

231

London — The next boom is in sight, says the Organisation for Economic Co-operation and Development (OECD)

Its projections for world economic growth this year and next — 2,6 and 2,9 percent — are much in line with the consensus forecasts

But they represent a substantial rise from the OECD projections last December and as such should focus minds on the strength of the recovery, rather than its supposed fragility.

The OECD is confirming what bond markets have been saying for four months. that the solidity of the recovery would need to be met with higher interest rates

If the authorities in the main countries were seen to be taking any risks with short-term rates, the bond markets would up long-term ones This they duly did

The interaction between forecasts for the world economy and the behaviour of bond markets raises questions Are the latest forecasts right? If so, what are the consequences for financial markets?

On the first, despite the recent poor forecasting record of economists and the OECD, some confidence is possible

The OECD may have been too optimistic about the depth of the recession and then too pessimistic about the recovery's strength But now its forecasts feel more or less right

We are talking about a solid recovery, but not one which ought to be straining capacity limits

The US, three years into recovery and with 4 percent growth forecast for this year, is the only country where real strain could be expected in the next 12 to 18 months

As for Europe, unemployment is forecast to rise through 1995 to an average of 11,8 percent If, with such spare labour capacity, there should be at least another four years of decent growth ahead. — The Independent

Jobs get top priority

ST Times C[illegible]

In a report published this week, the OECD tells member countries that nothing is too sacred for change in the fight against unemployment, writes **PETER NORMAN**

12/6/94

THE Organisation for Economic Co-operation and Development (OECD) has laboured hard for two years to produce its jobs report.

And the document that was presented to the media and public this week is just the tip of the iceberg of its efforts Fifty pages long, it makes a deliberate attempt to avoid economic jargon Perhaps because of this, it goes some way to making clear just how dangerous and damaging the current high levels of joblessness are in the industrialised nations (231)

The organisation says that 35-million unemployed in the 24 nations covered by the report represents an enormous waste of human resources, reflects an important amount of inefficiency in economic systems and causes a disturbing degree of social distress

Underemployment in the form of involuntary part-time work, short-time working and discouraging of job seekers from looking for new employment could add 40% to 50% to the jobless total

Today's unemployment is causing damage in ways that cannot be measured by the sheer numbers, the report says It brings with it unravelling of the social fabric, including a loss of authority of the democratic system and it risks resulting in the disintegration of the international trading system

Although the report ducks the issue of a link between unemployment and crime, it notes that unemployment is associated with health problems, lowers self-esteem, demotivates and creates insecurity and resistance to organisational and technical change

The central problem, according to the OECD, is an insufficient capacity among the industrialised nations to adapt to change This must be rectified if the OECD member countries are to overcome the jobless problem

The study makes clear that Europe's weak employment growth but high productivity and the US experience of creating large numbers of low skilled, low productivity jobs over the past two decades are two sides of the same coin Neither pattern of job creation is desirable Only Japan has adjusted relatively well to such changes as globalisation and the spread of new technologies but it, too, is now having to deal with substantial problems

The OECD stresses that Europe faces a much more difficult task than the US or Japan It has to deal with rigid labour markets, a failure to encourage entrepreneurship and private sector jobs, and social security systems that in many cases hamper the creation of new jobs

Although Germany and Sweden, along with Japan, are considered leaders in the use of information technologies for advanced manufacturing, most European countries have failed to increase the share of production and exports taken by high tech products On this score, Japan has been well ahead, creating a 4% increase in manufacturing employment in the 1970s and 1980s US manufacturing employment increased 1,5% over the same period while in the European Union countries it fell by a fifth

The importance of adapting to new technologies explains why there is great emphasis on improving skills and learning in the OECD's long list of policy recommendations

The report sets out to slay some misconceptions and the idea that there are any quick fixes There is no evidence that technological change is destroying jobs The idea of jobless growth, popular a couple of years ago, seems wrong It also takes issue with the idea that imports from low wage countries in Asia are responsible for much of today's unemployment In practice, most of the competition in OECD countries comes not from low-wage countries but from the OECD countries themselves

The OECD's message is that change will have to be promoted throughout its member economies and societies to overcome unemployment There can be no taboo areas social security systems and labour markets and some cherished rights will have to come under review — Financial Times